

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Fiscal Years Ended June 30, 2014 and 2013**

## **Orange Water and Sewer Authority**

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

**Carrboro - Chapel Hill, North Carolina**



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

**ORANGE WATER AND SEWER AUTHORITY**  
(A COMPONENT UNIT OF THE TOWN OF CHAPEL HILL, NORTH CAROLINA)

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

**Prepared by:**

**Orange Water and Sewer Authority**

**ORANGE WATER AND SEWER AUTHORITY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

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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.*

September 22, 2014

## **To our Customers, Bondholders and the Orange Water and Sewer Authority Board of Directors:**

We are pleased to present our Comprehensive Annual Financial Report for the Fiscal Year beginning July 1, 2013 and ending June 30, 2014 (FY 2014). This report conforms to the reporting and accounting standards of the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the Government Finance Officers Association's (GFOA's) *Governmental Accounting, Auditing and Financial Reporting* document. Orange Water and Sewer Authority (OWASA) is responsible for the accuracy, completeness and fairness of the information presented including all disclosures.

### **Highlights**

In FY 2014, OWASA served the Carrboro-Chapel Hill community in full compliance with Federal and State standards for drinking water, treated wastewater, and reclaimed water quality.

OWASA's financial position improved during the year. The annual average of 6.2 million gallons per day (MGD) of drinking water sold in FY 2014 was equal to the amount projected. However, FY 2014 water sales was about 25% less than was sold in our peak sales year, FY 2002. This decrease in water sales occurred despite an increase of about 16% in the number of customer accounts served. OWASA ended the year with a modified accrual based net income that was just over \$10.5 million or seven percent over budget. The resulting increase in financial reserves will be used for future needs including capital improvements.

Please refer to the Management's Discussion and Analysis and the audited general purpose financial statements for additional information on OWASA's financial performance during FY 2014.

### **Scope and Organization of this Report**

- The Introductory Section (unaudited) contains this letter of transmittal and information about OWASA's organizational structure, principal officers, major initiatives, accomplishments, and future projects.
- The Financial Section includes the independent auditor's report; OWASA management's discussion and analysis of the year; the general purpose financial statements; and supplementary schedules. The general purpose financial statements can be issued separately for securities offerings or other purposes.
- The Statistical Section (unaudited) presents fiscal and other data to provide a more complete understanding of OWASA, the community we serve and the local economy.
- The Compliance Section presents the independent auditor's report on compliance with various internal control and other requirements related to certain forms of financial assistance.

As a single-purpose governmental entity, OWASA's financial activities are reported as a sole enterprise fund through which is captured and disclosed the inflow and outflow of total economic resources under the full accrual method of accounting. For financial reporting purposes under the GASB Statement 14, OWASA is considered a component unit of the Town of Chapel Hill because the Town Council appoints a majority of OWASA's Board Members and may remove them without cause. The Comprehensive Annual Financial Report (CAFR) of the Town of Chapel Hill therefore includes OWASA's financial data and OWASA's CAFR includes statistical data about the Town.

## **Background**

A special purpose local governmental entity organized under State law, OWASA is a public non-profit agency providing water, wastewater and reclaimed water services to the Carrboro-Chapel Hill community. We serve about 82,000 people.



## **Creation of OWASA**

Before OWASA was established, the University of North Carolina at Chapel Hill (UNC) and the Towns of Chapel Hill and Carrboro provided public water and sewer services to the Carrboro-Chapel Hill community.

Following recommendations of a Utilities Study Commission created in 1971, on August 9, 1976, the State approved conveyance of the University's water and wastewater utilities to OWASA in accord with *Agreements of Sale and Purchase* among the University, the Towns and OWASA. The Town of Carrboro, the Town of Chapel Hill and Orange County governing boards incorporated OWASA under Chapter 162A of State law. OWASA began serving the community on February 16, 1977 upon transfer of the municipal and University systems to OWASA.

## **Governance**

A nine-member Board of Directors governs OWASA. The Chapel Hill Town Council appoints five, and the Carrboro Board of Aldermen and the Orange County Board of Commissioners each appoints two Board Members. The OWASA Board adopts the annual budget; sets rates, fees, and charges based on cost-of-service principles; makes policy decisions; approves issuance of revenue bonds or other debt instruments; and appoints the Executive Director, General Counsel and Independent Auditor.

## **Water System**

Our water comes from Cane Creek Reservoir, a three billion gallon supply eight miles west of Carrboro; University Lake, a 450 million gallon reservoir on the west side of Carrboro; and the 200 million gallon Quarry Reservoir three miles west of Carrboro.



*Fishing Dock at Cane Creek Reservoir*

OWASA has a State allocation of water supply storage capacity in Jordan Lake equivalent to about five million gallons of water per day. OWASA does not currently receive water from Jordan Lake to meet the daily needs of its service area nor does it own facilities to do so. However, through mutual aid agreements, OWASA can obtain drinking water from Jordan Lake from the Town of Cary through OWASA's system connection with the City of Durham. OWASA also maintains emergency water system connections with the Town of Hillsborough and Chatham County public drinking water systems.



*Jones Ferry Road Water Treatment Plant*



Our Jones Ferry Road Water Treatment Plant (WTP) has a capacity of 20 MGD. Our drinking water storage capacity is eight million gallons and we maintain about 420 miles of raw water, finished water, and water interconnection lines.

### **Wastewater System**

We operate and maintain 338 miles of sanitary sewer and force main lines, and 21 pump stations to carry wastewater to the Mason Farm Wastewater Treatment Plant (WWTP), which has a peak treatment capacity of 14.5 MGD (daily average for a calendar month).



*Mason Farm Wastewater Treatment Plant*

Highly treated wastewater is recycled to the natural environment at Morgan Creek on the southeast side of Chapel Hill or provided as reclaimed water for non-potable uses as described below. Morgan Creek is a tributary of Jordan Lake, a water source for several communities in the region.

### **Reclaimed Water System**

OWASA operates a reclaimed water (RCW) system at the Mason Farm WWTP. Federal and State grants funded about 10% of the project to build the system with UNC, OWASA's primary RCW customer, providing funds for the balance of the construction costs.

The RCW system is financially self-supporting. OWASA recovers all operating, maintenance, management, and overhead costs through rates and fees. Financial responsibilities, including rate decisions by OWASA and other technical matters are specified in a contract between OWASA and UNC. The University uses RCW for make-up water in cooling towers at chiller plants, toilet flushing and irrigation. UNC's RCW use averaged about 0.6 MGD during FY 2014 and is expected to increase to 0.8 MGD in FY 2015.

By decreasing the amount of drinking water used for non-drinking purposes, the RCW system helps reduce the community's risks in future droughts and other water shortages. The system also enables OWASA to defer the need for expansion of water supply and treatment capacity.

## Economic Conditions

In June 2014 the unemployment rate in Orange County was 4.8 percent compared to the North Carolina average of 6.4 (Source: NC Department of Commerce). The US average was 6.1 percent (Source: US Bureau of Labor Statistics data). The estimated population of Orange County increased by 13 percent from 2000 to 2010. The estimated value of permitted construction in Orange County in FY 2014 totaled \$XX million; \$X million commercial and \$XX million residential. Taxable retail sales in Orange County in FY 2014 totaled \$X billion.

The relative stability of the Carrboro-Chapel Hill economy is supported by the size and strength of UNC and UNC Healthcare which continue to actively plan and develop new facilities and infrastructure.



*UNC Hospital Facilities in Chapel Hill*

## Initiatives and Accomplishments

**No Increase in Monthly Water and Sewer Rates** – For the third consecutive year, OWASA’s Board of Directors approved a new Schedule of Rates and Fees that does not include an increase in monthly water and sewer rates nor an increase in the fees for establishing a new connection to OWASA’s system (Service Availability Fees). Based on our long-range financial planning, we estimate that rate increases for monthly water and sewer charges for the next several years will be at or near the rate of inflation.

**Strategic Plan** – In March 2014, OWASA’s Board of Directors adopted an updated Strategic Plan for the organization. Development of the plan was informed by information from customers and other stakeholders including recent survey regarding customer satisfaction. The plan includes seven key initiatives that are scheduled to be addressed over the next three to five years.

**Project to Improve Treatment Efficiency at Mason Farm Wastewater Treatment Plant** – Work to install energy-efficient equipment was substantially completed in the summer of 2014. As a result of the project, operating expenses at the plant are expected to be reduced by approximately \$200,000 per year. Due to the anticipated gain in energy efficiency, the State of North Carolina granted OWASA an interest-free loan in the amount of \$6.6 million towards funding the project.





*Work to install energy and chemical efficient equipment in the aeration basins at OWASA's Mason Farm Wastewater Treatment Plant*

### **Financial Information**

The annual budget is an integral part of OWASA's financial operations. Appropriations are set at the departmental level. The annual budget and capital project ordinances are adopted by the OWASA Board of Directors creating a legal limit on annual spending. Multi-year project ordinances are adopted for capital projects. OWASA's operations are accounted for, and reported as, an enterprise fund because our services are primarily funded with user fees.

OWASA's management is responsible for the accounting system and for establishing and maintaining internal financial controls. The internal control system is designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes that OWASA's internal accounting controls adequately protect assets and provide reasonable assurance of the proper recording of financial transactions.

OWASA is required by law to use cost-of-service rates. We set our rates, fees and charges to cover the cost for each of our services. We use increasing block water rates to encourage conservation by individually-metered residential customers. OWASA uses seasonal water rates to encourage conservation by non-residential customers during peak demand periods. Non-residential customers pay a higher commodity rate (charge per thousand gallons) during the peak demand months of May through September, and a lower rate in the remaining months. Irrigation-only water customers pay a year-round water rate which reflects the higher system capacity necessary to serve them. When development creates new connections to OWASA's system, fees are charged to ensure that the appropriate portion of the capital costs of providing system capacity is paid for by the parties that tap into and benefit from that capacity. Annual adjustment of water and sewer rates, charges and fees normally occurs on October 1.

### **Cash Management**

OWASA's cash management policy is part of our *Financial Management Policy*. This policy is designed to ensure efficient use of interest rates and maximization of fund performance balanced against investment risk and cash flow needs.

All cash deposits are made in Board-designated official depositories and are insured or collateralized as required by State law. OWASA may designate, as an official depository, any bank or savings association whose principal office is in North Carolina. At June 30, 2014, OWASA's cash was invested in the North Carolina Capital Management Trust, Treasury Securities or public fund money market accounts.

To facilitate operational efficiency, customer satisfaction, and to reduce costs, OWASA provides customers with various options for making payments. In addition to mail and walk-in service, customers may make payments through automatic bank drafts, and credit and debit cards. Credit and debit card transactions can be initiated through OWASA's website, over the phone, or at our cashier's window.

## **Risk Management**

OWASA employs a combination of traditional insurance coverage and an active safety program to manage risk. OWASA maintains insurance coverage for property damage, general liability (including liability for OWASA vehicles and public officials), and workers' compensation. To consolidate coverage and to take advantage of the benefits of a state-wide insurance risk pool, OWASA participates in the North Carolina League of Municipalities' Interlocal Risk Financing Fund for property damage, general liability and workers' compensation insurance. A commercial insurer provides employee health and accident coverage.

OWASA's Employee Safety Committee and Senior Safety Committee actively engage in reducing risks in the workplace. An employee from each department is appointed by the department head to represent his or her respective department for a term of two years. The Employee Safety Committee meets once a month to review all accidents and discuss safety issues. The Senior Safety Committee also reviews safety policies and makes recommendations for revisions or additions. All employees are required to attend safety training related to their jobs. In addition, regularly scheduled safety-training sessions utilizing video programs provide safety and health training to all employees.

To help mitigate the risk of insufficient cash flow, OWASA utilizes two unrestricted reserve funds:

- The Capital Improvements Reserve Fund helps OWASA to be better prepared for major unplanned increases in capital project costs. The fund is an unrestricted reserve intended to ensure more sustainable funding for rehabilitation and replacement of OWASA's water and sewer systems and capital equipment; pay for previously unplanned capital needs; and provide funding flexibility needed in the Annual Budget to compensate for capital improvement project adjustments.
- The Rate/Revenue Stabilization Fund is intended to help offset the need for rate increases and budgetary cuts during extended periods when expenditures are higher and/or revenues are lower than budgeted.

To minimize risk during a water supply emergency, OWASA has established drinking water system interconnections with the City of Durham, Town of Hillsborough, and Chatham County. According to water purchase agreements with these municipalities, OWASA can obtain about 9 MGD of drinking water to meet our customer's needs.

To help offset the financial, water supply, and treatment processing impacts of draughts, OWASA may temporarily increase water commodity charges during periods of declared water shortages and mandatory water use restrictions.

## **Independent Audit**

OWASA is required by State law to undergo an annual independent financial audit. OWASA's auditor, Martin, Starnes & Associates, CPAs, P.A., was retained following an open, competitive, qualifications-based selection process. The independent auditor's report on the General Purpose Financial Statements is included in the Financial Section of this report.

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

OWASA has received the GFOA Certificate of Achievement for Excellence in Financial Reporting each year since 2000. To receive a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and legal requirements.

The Certificate of Achievement is valid for a period of one year. We believe that our comprehensive annual financial report for FY 2014 continues to meet the Certificate of Achievement Program requirements and we will submit it to the GFOA to determine its eligibility for another award.

## **Distinguished Budget Presentation Award**

OWASA received its 14<sup>th</sup> Distinguished Budget Presentation Award from the GFOA for our FY 2014 budget. This award program recognizes governments that prepare high quality budget documents to meet the needs of decision-makers and citizens. We believe that our budget report for FY 2014 continues to meet the Distinguished Budget Presentation Program requirements and we have submitted it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgements**

We express our appreciation to the independent certified public accountants, Martin, Starnes & Associates, CPAs, P.A., who assisted and significantly contributed to this report.

Preparation of this report could not have been accomplished without the efficient and dedicated work of the OWASA team.

We thank the OWASA Board of Directors for their responsible policy guidance in financial management.

Respectfully submitted,



Ed Kerwin  
Executive Director



Stephen Winters, CPA  
Director of Finance and Customer Service



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

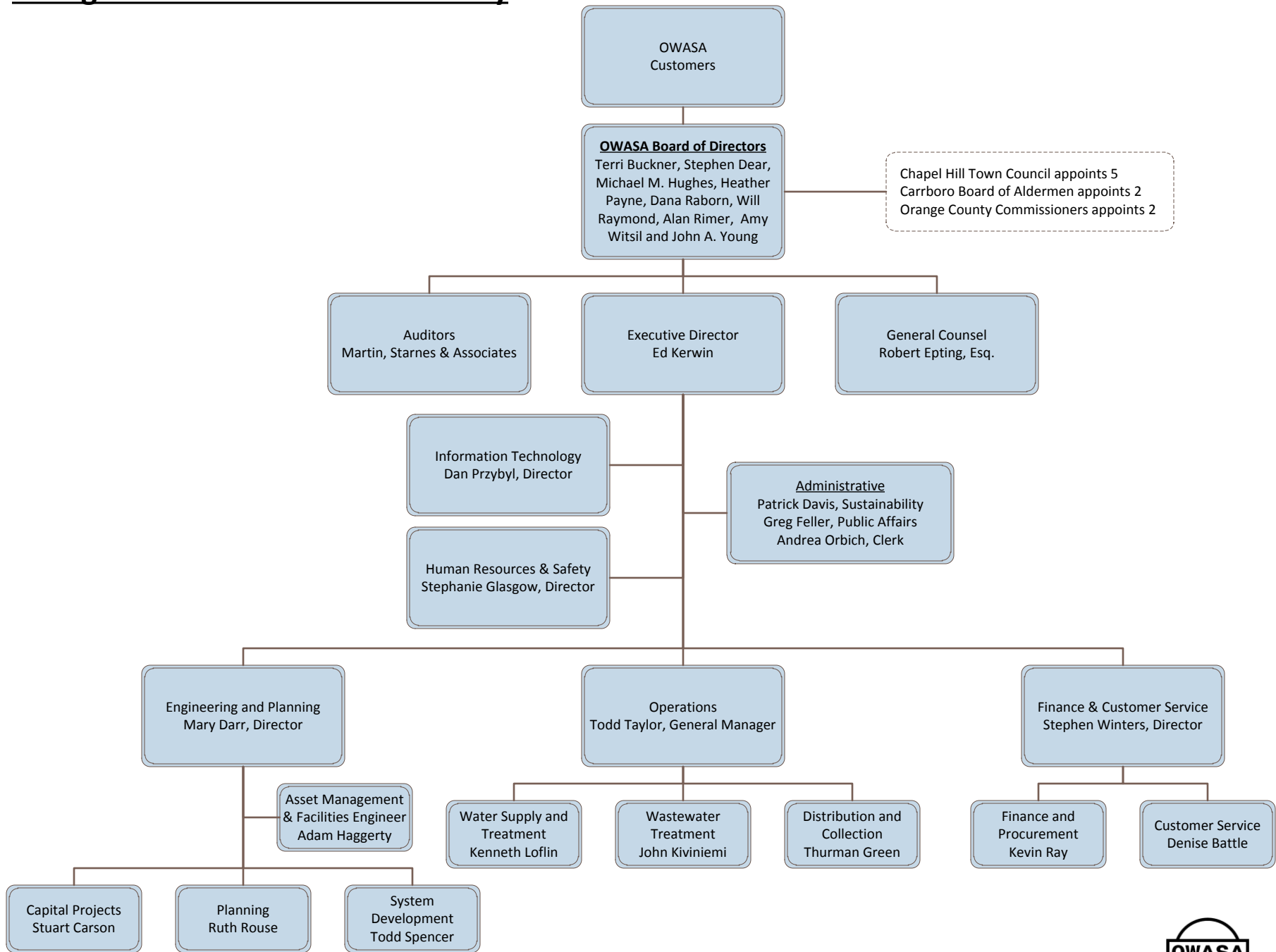
**Orange Water and Sewer Authority**  
**North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

# Orange Water and Sewer Authority



x



**ORANGE WATER AND SEWER AUTHORITY**  
**BOARD OF DIRECTORS**

**CHAIR**

John Young  
204 W Barbee Chapel Road  
Chapel Hill, NC 27517  
Appointed by Chapel Hill; Term Expires 6/30/16

**VICE CHAIR**

Michael Hughes, P.E.  
8112 Orange Grove Road  
Chapel Hill, NC 27516  
Appointed by Orange County; Term Expires 6/30/15

**SECRETARY**

Heather Payne  
1300 Mason Farm Road  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/16

**MEMBERS**

Terri Buckner  
306 Yorktown Drive  
Chapel Hill, NC 27516  
Appointed by Orange County; Term Expires 6/30/17

Stephen Dear  
207 Wyndham Drive  
Chapel Hill, NC 27516  
Appointed by Carrboro; Term Expires 6/30/15

Quinton Harper  
501 Jones Ferry Road #U7  
Carrboro, NC 27510  
Appointed by Carrboro; Term Expires 6/30/16

Dave Moreau  
16 Kendall Drive  
Chapel Hill, NC 27517  
Appointed by Chapel Hill; Term Expires 6/30/17

Ruchir Vora  
522 Dogwood Drive  
Chapel Hill, NC 27516  
Appointed by Chapel Hill; Term Expires 6/30/17

Amy Witsil  
115 Woodshire Lane  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/15



**ORANGE WATER AND SEWER AUTHORITY**  
**MANAGEMENT TEAM**

Denise Battle, Customer Service Manager  
Stuart Carson, P.E., Engineering Manager (Capital Projects)  
Mary Darr, P.E., Director of Engineering and Planning  
Patrick K. Davis, Sustainability Manager  
Greg Feller, Public Affairs Administrator  
Stephanie Glasgow, M.E.S.H., P.H.R., Director of Human Resources and Safety  
Thurman Green, Water Distribution and Wastewater Collection Systems Manager  
Ed Kerwin, Executive Director  
John Kiviniemi, Wastewater Treatment and Biosolids Recycling Manager  
Kenneth Loflin, Water Supply and Treatment Manager  
Andrea Orbich, Clerk to the Board/Executive Assistant  
Dan Przybyl, Director of Information Technology  
Kevin M. Ray, Finance and Procurement Manager  
Ruth Rouse, A.I.C.P., Planning and Development Manager  
Todd Spencer, P.E., Engineering Manager (System Development)  
Todd Taylor, P.E., General Manager of Operations  
Stephen Winters, CPA, Director of Finance and Customer Service

**GENERAL COUNSEL**

Robert Epting, Esquire  
Epting and Hackney, Attorneys at Law

# 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 year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise 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 *Governmental Auditing Standards*, issued by the Comptroller 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 presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Orange Water and Sewer Authority as of June 30, 2014, 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 and the Other Post-Employment Benefit's and Employer 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 introductory information, individual fund financial statements, budgetary schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014 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 22, 2014

## 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, 2014 and 2013. 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, 2014, OWASA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$238 million.
- OWASA's total net position increased by \$6.3 million, primarily resulting from income realized from operating activities.
- Due to the condition and capacity of OWASA's system, about three-quarters of the organization's \$16 million capital expenditures for Fiscal Year (FY) 2014 were invested in replacing and rehabilitating existing infrastructure.
- Non-current liabilities decreased by about \$4.9 million as a result of 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 required 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*.

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

<b>Orange Water and Sewer Authority</b>				
<b>Schedule of Net Position</b>				
(\$ millions)				
	<b>Fiscal Year Ended</b>			<b>Percentage of Change (2013 to 2014)</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>	
Current assets	\$30.1	\$38.3	\$34.4	(21.4)%
Capital and other long-term assets	<u>299.9</u>	<u>291.7</u>	<u>292.7</u>	2.8
<b>Total assets</b>	330.0	330.0	327.1	0.0
Total deferred outflows of resources	2.3	2.6	2.9	(11.5)
Current liabilities	11.4	13.5	11.5	(13.0)
Non-current liabilities	<u>82.5</u>	<u>87.0</u>	<u>91.7</u>	(5.6)
<b>Total liabilities</b>	93.9	100.5	103.1	(6.6)
Net position				
Invested in capital assets, net of related debt	219.5	206.1	200.6	6.5
Restricted	0.2	0.1	0.1	100.0
Unrestricted	<u>18.7</u>	<u>25.9</u>	<u>26.2</u>	(27.8)
<b>Total net position</b>	<u>\$238.4</u>	<u>\$232.1</u>	<u>\$226.9</u>	2.7

OWASA's assets exceeded liabilities by \$238 million at June 30, 2014, compared to \$232 million and \$227 million at June 30, 2013 and 2012, respectively. OWASA's overall financial position strengthened between FY 2012 and 2014 as net position increased by \$11.5 million. Total assets increased during the same period by \$3.8 million. These trends indicate that a significant portion of recent infrastructure improvements have been funded through cash rather than debt.

Net capital assets comprised about 90% of total assets for the comparative years of 2012 through 2014. 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, 2014, these other unrestricted resources totaled \$18.7 million and may be used for any lawful purpose.

Non-current liabilities decreased by approximately 5.6% or \$4.5 million during the same period reflecting principal payments on long-term debt.

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

<b>Orange Water and Sewer Authority</b>				
<b>Revenues, Expenses and Change in Net Position</b>				
<b>(\$ Millions)</b>				
	<b><u>Fiscal Year Ended</u></b>			<b><u>Percentage of Change (2013 to 2014)</u></b>
	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	
<b>Operating revenues</b>				
Water, wastewater, reclaimed water	\$34.8	\$34.3	\$35.3	1.5%
Other	<u>1.0</u>	<u>1.2</u>	<u>1.2</u>	(16.7)
Total operating revenues	35.8	35.5	36.5	0.8
Operating expenses	<u>29.0</u>	<u>29.3</u>	<u>29.3</u>	(1.0)
<b>Operating income</b>	6.8	6.2	7.2	9.7
Non-operating revenues (expenses)	<u>(1.4)</u>	<u>(0.5)</u>	<u>(0.5)</u>	180.0
<b>Income before contributions</b>	5.4	5.7	6.7	(5.3)
Capital contributions	<u>0.9</u>	<u>0.4</u>	<u>2.5</u>	125.0
<b>Increase (decrease) in net position</b>	6.3	6.0	9.2	3.3
Net position, July 1	232.1	226.9	217.7	2.7
Change in accounting principles / restatement (see Note 7)		<u>(0.9)</u>	<u>0.0</u>	
Net position, June 30	<u>\$238.4</u>	<u>\$232.1</u>	<u>\$226.9</u>	2.7

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.

Potable water sales volume has declined each year from FY 2003 through FY 2013. In FY 2014, potable water volume sales leveled off at 6.2 average million gallons per day, the same as FY 2013. 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 2014 were only 0.8% higher than the previous year or \$35.8 million.

- **Operating Expenses:** Operating expenses were \$29 million or about 1% less than both FY 2013 and FY 2012. The lack of an increase in costs from FY 2012 to FY 2014 reflects OWASA's ongoing efforts to streamline processes and improve efficiencies. OWASA's department managers expended about 2.6% or \$494,000 less than the amount budgeted for FY 2014. Operating expenses includes a \$9.4 million charge for depreciation and a \$1 million 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 \$1.1 million represented a 40% decrease from FY 2013 and a 44% decrease from FY 2012. Interest earnings remained low in FY 2014 totaling less than \$15,000. Investments remained in safe and liquid secured deposits.

- **Capital Contributions:** Capital contributions totaled approximately \$850,000 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 increased by about 2.8% in FY 2014. The net increase consisted of additions totaling \$17.6 million and a reduction due to depreciation 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.



**Orange Water and Sewer Authority**  
**Capital Assets**  
(\$ Millions)

	<u>Fiscal Year Ended</u>			<b>Percentage of Change (2013 to 2014)</b>
	<u>2014</u>	<u>2013</u>	<u>2012</u>	
Land	\$17.6	\$17.6	\$17.5	0.0%
Construction in progress	25.2	13.1	7.4	92.4
Water treatment and distribution	102.2	104.0	105.1	(1.7)
Sewer collection and treatment	142.5	143.4	146.5	(0.6)
Fixtures and equipment	<u>12.2</u>	<u>13.5</u>	<u>15.2</u>	(9.6)
Total	<u>\$299.7</u>	<u>\$291.6</u>	<u>\$291.7</u>	2.8

**Debt Administration**

OWASA policy stipulates that at least 30% of annual capital improvements projects be funded with cash from operations. At June 30, 2014, 2013 and 2012, OWASA’s outstanding debt totaled \$78.7 million, \$83.8 million, and \$89.2 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of water and sewer system revenue and refunding bonds issued in 2001, 2003, 2004, 2005, 2006 and 2010. At year end, OWASA owed an accrued debt service liability of approximately \$6.4 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2014.

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 23% 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 considerably better than the State and National average.

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 2015 Budget Highlights**

For the third 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 2015 budget for Operating expenses is about four percent greater than the FY 2014 budget. Capital improvement expenditures are budgeted to be approximately \$10.8 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.

**ORANGE WATER AND SEWER AUTHORITY**

**STATEMENTS OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 18,077,284	\$ 25,543,965
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately \$85,000 for 2014 and 2013)	3,951,505	4,390,388
Other	627,438	528,241
Inventory, materials, and supplies	969,451	926,224
Prepaid expenses	81,647	268,837
Restricted cash and cash equivalents:		
Cash and cash equivalents, trustee	<u>6,414,697</u>	<u>6,662,395</u>
Total current assets	<u>30,122,022</u>	<u>38,320,050</u>
Non-current assets:		
Restricted cash and cash equivalents	<u>187,910</u>	<u>151,600</u>
Capital assets:		
Non-depreciable	42,757,047	30,660,723
Depreciable	<u>256,918,869</u>	<u>260,879,851</u>
Total capital assets, net of accumulated depreciation	<u>299,675,916</u>	<u>291,540,574</u>
Total non-current assets, net	<u>299,863,826</u>	<u>291,692,174</u>
Total assets	<u>329,985,848</u>	<u>330,012,224</u>
<b>Deferred Outflows of Resources:</b>		
Deferred charge on refunding	<u>2,254,961</u>	<u>2,575,068</u>
Total deferred outflows of resources	<u>2,254,961</u>	<u>2,575,068</u>

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

**ORANGE WATER AND SEWER AUTHORITY**

**STATEMENTS OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Liabilities:</b>		
Current liabilities:		
Payable from current assets:		
Trade and construction contracts payable	2,289,191	4,281,785
Accrued expenses	398,483	256,418
Payable from restricted cash and cash equivalents:		
Accrued interest	1,378,584	1,483,839
Customer deposits and advances	1,421,139	1,496,953
Current maturities of bonds payable	5,416,696	5,597,745
Current portion of compensated absences	450,000	345,000
Total current liabilities	11,354,093	13,461,740
Non-current liabilities:		
Bonds payable	76,991,467	82,408,164
Compensated absences	41,731	136,203
OPEB liability	5,456,202	4,443,670
Total non-current liabilities	82,489,400	86,988,037
Total liabilities	93,843,493	100,449,777
<b>Net Position:</b>		
Net investment in capital assets	219,522,714	206,109,733
Restricted for capital reserve	187,910	151,600
Unrestricted	18,686,692	25,876,182
Total net position	\$ 238,397,316	\$ 232,137,515

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

**ORANGE WATER AND SEWER AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues:</b>		
Water	\$ 17,533,580	\$ 17,389,601
Sewer	16,589,072	16,313,731
Service initiation fees	167,615	161,015
Reclaimed water	435,939	430,189
Other	1,116,826	1,163,077
Total operating revenues	35,843,032	35,457,613
<b>Operating Expenses:</b>		
Water supply and treatment	4,267,802	4,587,852
Water distribution	2,720,838	2,323,295
Sewer treatment	4,721,294	4,763,520
Sewer collections	1,224,941	1,352,127
General and administrative	5,662,788	5,754,629
Depreciation and amortization	9,393,739	9,514,909
Other post-employment benefits	1,012,532	1,033,149
Total operating expenses	29,003,934	29,329,481
Operating income (loss)	6,839,098	6,128,132
<b>Non-Operating Revenues (Expenses):</b>		
Customer fees	1,069,551	1,769,883
Investment income, net of fair value of investments adjustment	14,755	15,664
Interest expense	(2,644,155)	(2,334,944)
Amortization of bond and lease expense	107,636	111,529
Gain (Loss) on disposal of capital assets	23,591	4,228
Total non-operating revenues (expenses)	(1,428,622)	(433,640)

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

**ORANGE WATER AND SEWER AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Income (loss) before capital contributions	<u>5,410,476</u>	<u>5,694,492</u>
<b>Capital Contributions:</b>		
Contributions in aid of construction	<u>849,325</u>	<u>420,251</u>
Total capital contributions	<u>849,325</u>	<u>420,251</u>
Change in net position	<u>6,259,801</u>	<u>6,114,743</u>
<b>Net Position:</b>		
Beginning of year, previously reported - July 1	232,137,515	226,812,353
Restatement	<u>-</u>	<u>(789,581)</u>
Beginning of year, restated	<u>232,137,515</u>	<u>226,022,772</u>
End of year - June 30	<u>\$ 238,397,316</u>	<u>\$ 232,137,515</u>

*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, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 35,065,892	\$ 34,097,068
Payments to suppliers	(10,103,627)	(6,791,005)
Payments to employees	(10,200,602)	(10,153,529)
Other receipts	<u>1,041,012</u>	<u>1,391,166</u>
Net cash provided (used) by operating activities	<u>15,802,675</u>	<u>18,543,700</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(16,728,673)	(8,933,044)
Proceeds from sale of property, plant, and equipment	72,508	4,228
Principal paid on bond maturities and other long-term debt	(5,597,746)	(5,996,375)
Interest paid on bond maturities and other long-term debt	(2,418,775)	(2,883,201)
Customer fees received	<u>1,177,187</u>	<u>2,670,993</u>
Net cash provided (used) by capital and related financing activities	<u>(23,495,499)</u>	<u>(15,137,399)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest and dividends on investments	<u>14,755</u>	<u>15,664</u>
Net increase (decrease) in cash and cash equivalents	(7,678,069)	3,421,965
<b>Cash and Cash Equivalents:</b>		
Beginning of year - July 1	<u>32,357,960</u>	<u>28,935,995</u>
End of year - June 30	<u>\$ 24,679,891</u>	<u>\$ 32,357,960</u>

*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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ 6,839,098	\$ 6,128,132
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	9,393,739	9,514,909
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	438,883	(455,832)
(Increase) decrease in other receivables	(99,197)	258,364
(Increase) decrease in inventory	(43,227)	(112,613)
(Increase) decrease in prepaid expenses	187,190	(252,168)
Increase (decrease) in trade and construction contracts payable	(1,992,594)	2,198,492
Increase (decrease) in customer deposits	(75,814)	228,089
Increase (decrease) accrued expenses	142,065	3,178
Increase (decrease) in other post-employment benefits	<u>1,012,532</u>	<u>1,033,149</u>
 Net cash provided (used) by operating activities	 <u>\$ 15,802,675</u>	 <u>\$ 18,543,700</u>
 <b>Non-Cash Capital and Related Financing Activities:</b>		
Property, plant, and equipment contributed by private developers	\$ 849,325	\$ 420,251
Total non-cash capital and related financing activities	<u>\$ 849,325</u>	<u>\$ 420,251</u>

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



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### **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, 2014.

### **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.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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.

#### 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.

#### Orange Water and Sewer Authority Restricted Cash:

##### Business-Type Activities:

Bond service	<u>\$ 6,414,697</u>
Total business-type activities	<u>\$ 6,414,697</u>

# **ORANGE WATER AND SEWER AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014**

### **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, 2014 and June 30, 2013.

### **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.

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.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

	<u>Years</u>
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 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 one item that meets this criterion, an unamortized loss on bond defeasance for Water and Sewer Refunding bonds. 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 no items that meet this criterion in the current year.

### **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, 2014 and 2013, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$491,731 and \$481,203, respectively.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### **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.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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 undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority has no policy regarding custodial credit risk for deposits 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, 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 deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of \$2,590 at June 30, 2014.

At June 30, 2013, the Authority's deposits had a carrying amount of \$25,663,977 and a bank balance of \$25,953,486. Of the bank balance, \$2,272,655 was covered by federal depository insurance, and \$23,680,831 in interest-bearing deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of \$1,190 at June 30, 2013.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Cash Equivalents

At June 30, 2014 and 2013, the Authority's cash equivalents balances at fair value were as follows:

	<u>2014</u>	<u>2013</u>
The North Carolina Capital Management Trust, a mutual fund	<u>\$ 6,456,188</u>	<u>\$ 6,692,793</u>

*Interest Rate Risk.* The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The NCCMT had a weighted-average maturity of 36 days or less as of June 30, 2014 and 2013.

*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, 2014 and 2013.

### Receivables

Receivables, net of allowances for uncollectible accounts, at June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Utility accounts receivable	\$ 3,951,505	\$ 4,390,388
Other receivable	<u>627,438</u>	<u>528,241</u>
Total receivables, net	<u>\$ 4,578,943</u>	<u>\$ 4,918,629</u>



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Capital Assets

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Non-Depreciable Assets:</b>					
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	<u>30,660,723</u>	<u>16,621,228</u>	<u>-</u>	<u>(4,524,904)</u>	<u>42,757,047</u>
<b>Depreciable Assets:</b>					
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	<u>390,062,376</u>	<u>956,770</u>	<u>(76,930)</u>	<u>4,524,904</u>	<u>395,467,120</u>
<b>Less Accumulated Depreciation:</b>					
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	<u>129,182,525</u>	<u>\$ 9,393,739</u>	<u>\$ (28,013)</u>	<u>\$ -</u>	<u>138,548,251</u>
Total depreciable assets	<u>260,879,851</u>				<u>256,918,869</u>
Capital assets, net	<u>\$ 291,540,574</u>				<u>\$ 299,675,916</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

	<b>Balance July 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance June 30, 2013</b>
<b>Non-Depreciable Assets:</b>					
Land	\$ 17,529,092	\$ 58,749	\$ -	\$ -	\$ 17,587,841
Construction in progress	<u>7,448,426</u>	<u>8,609,348</u>	<u>-</u>	<u>(2,984,892)</u>	<u>13,072,882</u>
Total non-depreciable assets	<u>24,977,518</u>	<u>8,668,097</u>	<u>-</u>	<u>(2,984,892)</u>	<u>30,660,723</u>
<b>Depreciable Assets:</b>					
Water treatment and distribution	151,796,260	273,123	-	2,121,296	154,190,679
Sewer collection and treatment	193,312,286	220,961	-	836,604	194,369,851
Fixtures and equipment	<u>41,289,904</u>	<u>191,114</u>	<u>(6,164)</u>	<u>26,992</u>	<u>41,501,846</u>
Total depreciable assets	<u>386,398,450</u>	<u>685,198</u>	<u>(6,164)</u>	<u>2,984,892</u>	<u>390,062,376</u>
<b>Less Accumulated Depreciation:</b>					
Water treatment and distribution	46,704,505	3,493,819	-	-	50,198,324
Sewer collection and treatment	46,751,527	4,235,435	-	-	50,986,962
Fixtures and equipment	<u>26,217,748</u>	<u>1,785,655</u>	<u>(6,164)</u>	<u>-</u>	<u>27,997,239</u>
Total accumulated depreciation	<u>119,673,780</u>	<u>\$ 9,514,909</u>	<u>\$ (6,164)</u>	<u>\$ -</u>	<u>129,182,525</u>
 Total depreciable assets	 <u>266,724,670</u>				 <u>260,879,851</u>
 Capital assets, net	 <u>\$ 291,702,188</u>				 <u>\$ 291,540,574</u>

### Net Investment in Capital Assets

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

	<b>2014</b>	<b>2013</b>
Capital assets	\$ 299,675,916	\$ 291,540,574
Total debt, gross	(82,408,163)	(88,005,909)
Deferred charge related to debt	<u>2,254,961</u>	<u>2,575,068</u>
 Net investment in capital assets	 <u>\$ 219,522,714</u>	 <u>\$ 206,109,733</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Deferred Outflows of Resources

Deferred outflows of resources is the deferred amount for loss on defeasance of debt.

### Long-Term Debt

Long-term debt as of June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
<b>Revenue Bonds:</b>		
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 \$1,242,729 at June 30, 2014	\$ 21,437,728	\$ 22,113,194
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 \$443,154 at June 30, 2014; 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	19,058,154	19,758,721
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 net of unamortized premium and deferred refunding loss of \$103,195 at June 30, 2014	15,256,805	16,114,606
Revenue bonds payable, Series 2004A Revenue Bonds, in the amount of \$21,265,000, issued June 1, 2004, with coupon rates of 3.0% and 5.25%, final maturity July 2021, net of unamortized premium of \$0 at June 30, 2014; 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	21,395,000	22,776,048

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
<b>Revenue Bonds (continued):</b>		
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 \$104,486 at June 30, 2014	3,005,514	3,833,272
Revenue and revenue refunding bonds payable, Series 2001, issued September 13, 2001, with coupon rates of 3.5% to 5.0%, final maturity July 2026, net of unamortized premium and deferred refunding of \$0 at June 30, 2012	-	835,000
	\$ 80,153,201	\$ 85,430,841

Bond payable maturities are as follows:

Year Ending June 30	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2015	\$ 5,030,000	\$ 66,589	\$ 5,096,589	\$ 3,555,325
2016	5,255,000	66,589	5,321,589	3,333,875
2017	5,805,000	118,832	5,923,832	3,087,875
2018	4,745,000	118,832	4,863,832	2,805,175
2019	4,965,000	118,832	5,083,832	2,585,613
2020-2024	22,990,000	662,958	23,652,958	9,764,207
2025-2029	22,990,000	265,914	23,255,914	4,470,882
2030-2032	6,895,000	59,655	6,954,655	538,450
Total	\$ 78,675,000	\$ 1,478,201	\$ 80,153,201	\$ 30,141,402

### Advance Refunding

In 2010, the Authority defeased Series 2001 and Series 2004A Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On June 30, 2014, \$10,430,000 of bonds outstanding is considered defeased.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Long-term liability activity for the years ended June 30, 2014 and 2013 is as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
<b>Bonds Payable:</b>					
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
Capital lease	-	-	-	-	-
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	<u>\$ 92,930,782</u>	<u>\$ 1,624,206</u>	<u>\$ 6,198,892</u>	<u>\$ 88,356,096</u>	<u>\$ 5,866,696</u>

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Note payable	\$ 142,329	\$ -	\$ 142,329	\$ -	\$ -
<b>Bonds Payable:</b>					
Revenue bonds	89,245,000	-	5,400,000	83,845,000	5,170,000
For issuance premiums	4,601,458	-	440,549	4,160,909	427,745
Capital lease	13,497	-	13,497	-	-
Compensated absences	464,782	441,122	424,701	481,203	345,000
OPEB	3,410,521	1,168,108	134,959	4,443,670	-
Total	<u>\$ 97,877,587</u>	<u>\$ 1,609,230</u>	<u>\$ 6,556,035</u>	<u>\$ 92,930,782</u>	<u>\$ 5,942,745</u>

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$80,153,201 in revenue bonds issued in 2001, 2003, 2004, 2005, 2006, and 2010. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. 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 \$110,294,603. Principal and interest paid in the years ended June 30, 2014 and 2013 were \$7,814,155 and \$7,898,190, 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, and 2010. The Bond Order requires the debt service coverage ratio to be no less than 120% of the debt service requirements for parity indebtedness.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The debt service coverage ratio calculation for the year ended June 30, 2014, is as follows:

Operating revenues	\$ 36,927,338
Operating expenses*	<u>18,597,663</u>
Income available for debt service	<u>\$ 18,329,675</u>
Debt service, principal and interest paid	<u>\$ 8,815,426</u>
Debt service coverage ratio for parity debt	<u>2.08</u>

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

At June 30, 2014, the Authority was in compliance with the bond covenants described above.

### 3. Pension Plan Obligations

#### Local Governmental Employees' Retirement System

*Plan Description.* The Authority contributes to the state-wide Local Governmental Employees' Retirement System ("LGERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS 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, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 6.74% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$516,608, \$489,014, and \$487,997, respectively. The contributions made by the Authority equaled the required contributions for each year.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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, 2011, the plan membership consisted of:

<u>Members</u>	
Inactive	21
Active	<u>132</u>
Total	<u><u>153</u></u>

*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 \$157,124 or 2.2% and \$134,959 or 1.9% of the annual covered payroll during the years ending June 30, 2014 and 2013, respectively.

The current annual required contribution (ARC) rate is 16.4% of annual covered payroll. For the current year, the Authority contributed \$157,124 or 2.2% 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.

*Basis of Accounting.* 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.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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:

	<b>2014</b>	<b>2013</b>
Employer annual required contribution	\$ 1,163,000	\$ 1,163,000
Interest paid on OPEB obligation	199,965	153,473
Adjustment to annual required contribution	(193,309)	(148,365)
Annual OPEB cost	1,169,656	1,168,108
Employer contributions made		
for current fiscal year	157,124	134,959
Increase in net OPEB obligation	1,012,532	1,033,149
Net OPEB obligation:		
Beginning of year - July 1	4,443,670	3,410,521
End of year - June 30	\$ 5,456,202	\$ 4,443,670

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

<b>Year Ended June 30</b>	<b>Annual Plan Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net OPEB Obligation End of Year</b>
2012	\$ 1,166,553	10.98%	\$ 3,410,521
2013	1,168,108	11.55%	4,443,670
2014	1,169,656	13.43%	5,456,202

*Funded Status and Funding Progress.* As of December 31, 2011, 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 \$6,741,739 as of June 30, 2014. The covered payroll (annual payroll of active employees covered by the plan) was \$7,074,967, and the ratio of UAAL to the covered payroll was 95.3 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.



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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, 2011 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 9.5% 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 effects 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, 2011 was 29 years.

#### **4. 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 \$4,464,105 at June 30, 2014.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 5. Net Position

At June 30, 2014 and 2013, the Board of Directors had approved the use of the unrestricted net position for the following purposes:

	<u>2014</u>	<u>2013</u>
Operating reserve	\$ 8,642,600	\$ 8,509,800
Other reserves	3,900,000	3,250,000
Capital projects	<u>6,144,092</u>	<u>14,116,382</u>
Total	<u>\$ 18,686,692</u>	<u>\$ 25,876,182</u>

### 6. 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.

### 7. Change in Accounting Principles/Restatement

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with the GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources. Bond issuance costs, which were previously deferred and amortized, must be included in current expenditures. Previously deferred bond issuance costs totaling \$789,581 were recognized as an expenditure in fiscal year 2013. As a result, beginning net position for 2013 decreased.

## ORANGE WATER AND SEWER AUTHORITY

OTHER POST-EMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014

## 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%

## 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	13.51%

## 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	12/31/2011	
Actuarial cost method	Projected unit credit	
Amortization method	Level percentage of pay, open	
Remaining amortization period	29 years	
Asset valuation method	Market value	
Actuarial assumptions:		
Investment rate of return *	4.00%	* Includes inflation at 3%
Medical cost trend rate	9.50-5.00%	
Year of Ultimate trend rate	2018	

**ORANGE WATER AND SEWER AUTHORITY**

**ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Water	\$ 17,859,444	\$ 17,533,580	\$ (325,864)
Sewer	16,637,114	16,589,072	(48,042)
Reclaimed water	458,816	435,939	(22,877)
Service initiation fees	166,269	167,615	1,346
Other	<u>1,028,089</u>	<u>1,116,826</u>	<u>88,737</u>
Total operating revenues	<u>36,149,732</u>	<u>35,843,032</u>	<u>(306,700)</u>
Non-operating revenues:			
Interest income	13,763	14,755	992
Customer fees	<u>653,117</u>	<u>1,069,551</u>	<u>416,434</u>
Total non-operating revenues	<u>666,880</u>	<u>1,084,306</u>	<u>417,426</u>
Total revenues	<u>36,816,612</u>	<u>36,927,338</u>	<u>110,726</u>
<b>Expenditures:</b>			
Water supply and treatment:			
Salaries and wages	1,182,018	1,261,551	(79,533)
Fringe benefits	495,881	509,410	(13,529)
Materials and supplies	155,417	136,539	18,878
Chemicals	947,296	840,695	106,601
Utilities	383,369	328,067	55,302
Maintenance	915,366	999,302	(83,936)
Professional services	80,100	85,494	(5,394)
Insurance	91,650	75,027	16,623
Communication	5,000	782	4,218
Education and development	12,190	13,134	(944)
Miscellaneous	<u>15,500</u>	<u>17,801</u>	<u>(2,301)</u>
Total water supply and treatment	<u>4,283,787</u>	<u>4,267,802</u>	<u>15,985</u>

**ORANGE WATER AND SEWER AUTHORITY**

**ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Water distribution:			
Salaries and wages	1,304,814	1,351,061	(46,247)
Fringe benefits	604,259	602,596	1,663
Materials and supplies	82,997	92,509	(9,512)
Utilities	230,959	177,655	53,304
Maintenance	601,940	671,571	(69,631)
Insurance	9,400	9,827	(427)
Communication	500	1,439	(939)
Printing and reproduction	1,300	1,154	146
Education and development	10,650	12,376	(1,726)
Miscellaneous	3,600	2,758	842
Total water distribution	<u>2,850,419</u>	<u>2,922,946</u>	<u>(72,527)</u>
Construction credits	<u>(128,750)</u>	<u>(202,108)</u>	<u>73,358</u>
Wastewater treatment:			
Salaries and wages	1,229,375	1,298,543	(69,168)
Fringe benefits	511,055	525,072	(14,017)
Materials and supplies	296,850	235,088	61,762
Chemicals	708,934	668,146	40,788
Utilities	1,004,139	997,480	6,659
Maintenance	795,301	761,885	33,416
Professional services	107,500	104,785	2,715
Insurance	110,450	94,221	16,229
Communication	9,100	7,663	1,437
Printing and reproduction	500	-	500
Education and development	20,000	11,220	8,780
Miscellaneous	30,550	17,191	13,359
Total wastewater treatment	<u>4,823,754</u>	<u>4,721,294</u>	<u>102,460</u>

**ORANGE WATER AND SEWER AUTHORITY**

**ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Sewer collections:			
Salaries and wages	396,465	462,450	(65,985)
Fringe benefits	204,230	224,702	(20,472)
Materials and supplies	53,929	52,344	1,585
Chemicals	200,000	199,977	23
Utilities	129,311	134,389	(5,078)
Maintenance	215,122	143,224	71,898
Insurance	9,400	7,668	1,732
Communication	700	930	(230)
Printing and distribution	500	-	500
Education and development	11,800	8,834	2,966
Miscellaneous	3,900	2,563	1,337
Total sewer collections	<u>1,225,357</u>	<u>1,237,081</u>	<u>(11,724)</u>
Construction credits	<u>-</u>	<u>(12,140)</u>	<u>12,140</u>
General and administrative:			
Salaries and wages	2,997,631	2,891,057	106,574
Fringe benefits	1,236,105	1,216,225	19,880
Materials and supplies	184,869	165,056	19,813
Utilities	174,652	168,656	5,996
Maintenance	298,600	272,668	25,932
Professional services	856,124	738,247	117,877
Insurance	39,100	33,471	5,629
Communication	141,881	141,363	518
Printing and reproduction	7,175	3,830	3,345
Education and development	77,060	72,013	5,047
Miscellaneous	124,589	133,471	(8,882)
Total general and administrative	<u>6,137,786</u>	<u>5,836,057</u>	<u>301,729</u>
Construction credits	<u>(101,198)</u>	<u>(162,741)</u>	<u>61,543</u>

**ORANGE WATER AND SEWER AUTHORITY**

**ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Debt Service:</b>			
Principal	-	5,597,746	-
Interest	-	3,217,680	-
Total debt service	<u>7,885,325</u>	<u>8,815,426</u>	<u>(930,101)</u>
Capital outlay	<u>16,515,000</u>	<u>16,049,893</u>	<u>465,107</u>
Total expenditures	<u>43,491,480</u>	<u>43,473,510</u>	<u>17,970</u>
Revenues over (under) expenditures	<u>(6,674,868)</u>	<u>(6,546,172)</u>	<u>128,696</u>
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>6,674,868</u>	-	<u>6,674,868</u>
Total other financing sources (uses)	<u>6,674,868</u>	-	<u>6,674,868</u>
Net change in fund balance	<u>\$ -</u>	<u>(6,546,172)</u>	<u>\$ (6,546,172)</u>

**Reconciliation from Budgetary Basis (Modified Accrual)  
to Full Accrual Basis:**

Principal payments debt	5,597,746
Capital interest	678,780
Change in interest accrual for bonded debt	(105,255)
Depreciation and amortization	(9,393,739)
Change in compensated absences	10,528
Other post-employment benefits	(1,012,532)
Amortization of bond expense and patent	107,636
Capital outlay	16,049,893
Gain on disposal of capital asset	23,591
Capital contributions	<u>849,325</u>
Change in net position	<u>\$ 6,259,801</u>

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2014**

	<b>Project Budget</b>	<b>Cumulative Total to June 30, 2014</b>	<b>Unexpended Balance as of June 30, 2014</b>
<b>Raw Water Supply Sources:</b>			
<b>Revenues:</b>			
General Fund	\$ 2,805,741	\$ 2,200,817	\$ 604,924
<b>Expenditures:</b>			
Jordan Lake raw water supply intake and pumping facility	\$ 312,558	\$ 320,934	\$ (8,376)
Stone quarry acquisition	306,545	85,797	220,748
Cane Creek dock improvements	135,000	4,560	130,440
Cane Creek dam repairs	2,051,638	1,742,822	308,816
Raw water permanganate study	-	46,704	(46,704)
Total expenditures	<u>\$ 2,805,741</u>	<u>\$ 2,200,817</u>	<u>\$ 604,924</u>
<b>Water Treatment:</b>			
<b>Revenues:</b>			
General Fund	\$ 1,420,500	\$ 1,383,842	\$ 36,658
<b>Expenditures:</b>			
Water treatment plant rehabilitation projects	\$ 240,000	\$ 294,700	\$ (54,700)
Switchgear auto transfer cap. eval	-	25,959	(25,959)
HVAC unit replacement	29,000	31,557	(2,557)
Finished water iso. valve and recycle flow meter	52,000	82,924	(30,924)
Generator installation	215,500	233,181	(17,681)
Facilities outside lighting	59,000	8,070	50,930
Water treatment plant superpulsator	647,000	644,319	2,681
Water treatment plant secondary containment	178,000	63,132	114,868
Total expenditures	<u>\$ 1,420,500</u>	<u>\$ 1,383,842</u>	<u>\$ 36,658</u>
<b>Finished Water Pumping:</b>			
<b>Revenues:</b>			
General Fund	\$ 481,000	\$ 480,128	\$ 872
<b>Expenditures:</b>			
Calvander pump station improvements	\$ 481,000	\$ 480,128	\$ 872



ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2014

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2014</u>	<u>Unexpended Balance as of June 30, 2014</u>
<b>Finished Water Storage:</b>			
<b>Revenues:</b>			
General Fund	\$ 24,900	\$ 24,900	\$ -
<b>Expenditures:</b>			
Nunn Mt. Anchor Bolts	\$ 24,900	\$ 24,900	\$ -
<b>Water Transmission and Distribution:</b>			
<b>Revenues:</b>			
General Fund	\$ 5,172,547	\$ 4,525,572	\$ 646,975
<b>Expenditures:</b>			
FA water line rehabilitation	\$ -	\$ 706,135	\$ (706,135)
Water main - road improvement projects	47,000	1,072	45,928
Water line rehabilitation, replacement projects	3,087,547	1,697,795	1,389,752
Unnamed water rehab project	-	1,255	(1,255)
Cameron Avenue water line replacement	984,000	1,289,676	(305,676)
South Estes and Willow Water Line	879,000	685,428	193,572
Rosemary Henderson Hillsborough Wtr Main	143,000	144,211	(1,211)
Distribution system pressure monitoring	32,000	-	32,000
Total expenditures	\$ 5,172,547	\$ 4,525,572	\$ 646,975
<b>Wastewater Collection Lines:</b>			
<b>Revenues:</b>			
General Fund	\$ 9,085,044	\$ 5,225,318	\$ 3,859,726
<b>Expenditures:</b>			
Sanitary sewer condition evaluation	\$ 1,513,000	\$ 1,084,864	\$ 428,136
Service Area sewer line rehabilitation and replacement projects	2,269,000	852,417	1,416,583
Sanitary sewer service area study	772,044	994,323	(222,279)
Friday Center interceptor	3,770,000	1,862,659	1,907,341
Bolinwood Drive interceptor	114,000	368	113,632
Little Creek interceptor	68,000	135,991	(67,991)
Tom's Creek/Morgan Creek aerial crossings	579,000	294,588	284,412
Rogers Road sanitary sewer	-	108	(108)
Total expenditures	\$ 9,085,044	\$ 5,225,318	\$ 3,859,726

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2014**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2014</u>	<u>Unexpended Balance as of June 30, 2014</u>
<b>Wastewater Pumping Stations and Force Mains:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 5,051,132</u>	<u>\$ 3,368,501</u>	<u>\$ 1,682,631</u>
<b>Expenditures:</b>			
Pump station improvements	\$ 312,000	\$ 248,462	\$ 63,538
Heritage Hills pump station and force main replacement	3,015,132	2,026,567	988,565
Force Main Condition Evaluation	936,000	386,484	549,516
Forest Creek Pump Station	69,000	79,884	(10,884)
Oaks 3 and tinkerbell pump station	<u>719,000</u>	<u>627,104</u>	<u>91,896</u>
Total expenditures	<u>\$ 5,051,132</u>	<u>\$ 3,368,501</u>	<u>\$ 1,682,631</u>
<b>Wastewater Treatment and Disposal:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 13,368,886</u>	<u>\$ 12,643,688</u>	<u>\$ 725,198</u>
<b>Expenditures:</b>			
Mason Farm wastewater treatment plant flood protection enhancement	\$ 785,000	\$ 440,819	\$ 344,181
Mason Farm wastewater treatment plant rehabilitation and improvement project	979,000	1,058,353	(79,353)
Mason Farm wastewater treatment plant phosphorous removal	329,886	250,422	79,464
Mason Farm wastewater treatment plant odor control and aeration	10,452,000	10,810,437	(358,437)
Mason Farm wastewater treatment plant digesters #1 and #2	290,000	15,369	274,631
Mason Farm comprehensive coatings program	139,000	116	138,884
Mason Farm wastewater treatment plant digester transfer pump	70,000	-	70,000
Mason Farm wastewater treatment plant biosolids and recycling	150,000	68,172	81,828
Mason Farm wastewater treatment plant polymer feed/gravity belt thickener	<u>174,000</u>	<u>-</u>	<u>174,000</u>
Total expenditures	<u>\$ 13,368,886</u>	<u>\$ 12,643,688</u>	<u>\$ 725,198</u>

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2014**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2014</u>	<u>Unexpended Balance as of June 30, 2014</u>
<b>Facility Improvements:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 336,000</u>	<u>\$ 116,600</u>	<u>\$ 219,400</u>
<b>Expenditures:</b>			
Administration building HVAC controls	\$ 36,000	\$ -	\$ 36,000
Asset management development	<u>300,000</u>	<u>116,600</u>	<u>183,400</u>
Total expenditures	<u>\$ 336,000</u>	<u>\$ 116,600</u>	<u>\$ 219,400</u>

# ORANGE WATER AND SEWER AUTHORITY

## Net Position by Components

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

					<b>Fiscal</b>
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net investment in capital assets	\$ 219,522,714	\$ 206,109,733	\$ 200,603,988	\$ 190,756,445	\$ 188,106,716
Restricted for capital reserve	187,910	151,600	125,721	98,616	1,252,498
Restricted for future capital projects	-	14,116,382	-	-	-
Restricted for debt service	-	-	-	-	1,116
Unrestricted	<u>18,686,692</u>	<u>11,759,800</u>	<u>26,082,644</u>	<u>26,865,314</u>	<u>21,113,133</u>
Total	<u>\$ 238,397,316</u>	<u>\$ 232,137,515</u>	<u>\$ 226,812,353</u>	<u>\$ 217,720,375</u>	<u>\$ 210,473,463</u>

**Table 1**

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<b>Year</b>				
<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ 184,466,042	\$ 177,287,377	\$ 161,812,115	\$ 160,813,755	\$ 137,441,321
1,226,604	1,168,081	1,127,192	1,894,497	2,320,261
-	-	-	-	16,794,642
6,114	154,388	185,258	31,088	-
<u>15,140,975</u>	<u>5,993,719</u>	<u>14,546,839</u>	<u>6,611,972</u>	<u>7,373,853</u>
<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>	<u>\$ 177,671,404</u>	<u>\$ 169,351,312</u>	<u>\$ 163,930,077</u>

## ORANGE WATER AND SEWER AUTHORITY

### Changes in Net Position

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Operating Revenues:</b>				
Water	\$ 17,969,519	\$ 17,819,790	\$ 18,556,754	\$ 18,534,150
Sewer	16,589,072	16,313,731	16,550,596	15,962,181
Service initiation fees	167,615	161,015	170,270	147,015
Other	1,116,826	1,163,077	1,211,529	1,360,484
<b>Total operating revenues</b>	<u>35,843,032</u>	<u>35,457,613</u>	<u>36,489,149</u>	<u>36,003,830</u>
<b>Operating Expenses:</b>				
Water supply and treatment	4,267,802	4,587,852	4,326,429	4,075,074
Water distribution	2,720,838	2,323,295	2,296,726	2,507,512
Sewer treatment	4,721,294	4,763,520	4,946,090	4,768,788
Sewer collections	1,224,941	1,352,127	1,434,619	1,313,106
General and administrative	5,662,788	5,754,629	5,709,219	5,172,326
Customer relations	-	-	-	-
Maintenance	-	-	-	-
Lab	-	-	-	-
Depreciation and amortization	9,393,739	9,514,909	9,539,846	9,310,159
Other post-employment benefits	1,012,532	1,033,149	1,038,521	750,503
<b>Total operating expenses</b>	<u>29,003,934</u>	<u>29,329,481</u>	<u>29,291,450</u>	<u>27,897,468</u>
<b>Operating income (loss)</b>	6,839,098	6,128,132	7,197,699	8,106,362
<b>Non-Operating Revenues (Expenses):</b>				
Customer fees	1,069,551	1,769,883	1,899,056	1,713,417
Investment adjustment	14,755	15,664	17,964	29,261
Interest expense	(2,644,155)	(2,334,944)	(2,274,113)	(2,623,208)
Amortization of bond expense and patent	107,636	111,529	19,139	71,676
Other	23,591	4,228	(235,552)	(1,320,156)
<b>Income (loss) before contributions</b>	<u>5,410,476</u>	<u>5,694,492</u>	<u>6,624,193</u>	<u>5,977,352</u>
<b>Capital Contributions:</b>				
Capital grants and contributions	-	-	142,329	14,354
Contributions in aid of construction	849,325	420,251	2,325,456	1,255,206
<b>Total capital contributions</b>	<u>849,325</u>	<u>420,251</u>	<u>2,467,785</u>	<u>1,269,560</u>
<b>Increase in net position</b>	<u>6,259,801</u>	<u>6,114,743</u>	<u>9,091,978</u>	<u>7,246,912</u>
<b>Net Position:</b>				
Beginning of year, previously reported - July 1	232,137,515	226,812,353	217,720,375	210,473,463
Restatement	-	(789,581)	-	-
Beginning of year, restated	<u>232,137,515</u>	<u>226,022,772</u>	<u>217,720,375</u>	<u>210,473,463</u>
End of year - June 30	<u>\$ 238,397,316</u>	<u>\$ 232,137,515</u>	<u>\$ 226,812,353</u>	<u>\$ 217,720,375</u>

Table 2

<b>Fiscal Year</b>						
<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	
\$ 16,943,596	\$ 15,364,026	\$ 16,378,833	\$ 14,218,387	\$ 13,946,421	\$ 12,489,800	
14,848,339	12,798,394	11,046,437	10,272,920	9,682,210	8,563,004	
148,750	141,355	169,603	142,086	153,670	134,958	
1,618,087	1,233,515	1,199,220	780,178	649,081	703,905	
<u>33,558,772</u>	<u>29,537,290</u>	<u>28,794,093</u>	<u>25,413,571</u>	<u>24,431,382</u>	<u>21,891,667</u>	
2,619,340	2,665,629	2,441,028	2,261,394	2,159,244	1,935,704	
2,217,957	2,160,231	2,275,756	1,962,980	1,710,117	1,917,141	
3,050,834	3,487,838	2,981,891	2,865,782	3,042,830	2,080,670	
1,129,237	1,035,025	1,134,682	1,539,591	1,352,661	1,342,978	
4,230,197	4,567,519	4,467,944	4,428,491	3,809,200	3,689,846	
540,582	598,092	672,147	707,614	966,972	961,862	
2,128,731	2,135,038	1,881,395	1,979,957	1,860,938	1,600,231	
732,563	837,770	788,628	890,108	821,955	780,707	
9,053,691	8,765,924	7,215,175	6,950,774	6,871,350	6,538,782	
883,497	738,000	-	-	-	-	
<u>26,586,629</u>	<u>26,991,066</u>	<u>23,858,646</u>	<u>23,586,691</u>	<u>22,595,267</u>	<u>20,847,921</u>	
6,972,143	2,546,224	4,935,447	1,826,880	1,836,115	1,043,746	
1,436,564	2,498,459	1,995,415	2,514,450	2,308,651	1,872,820	
29,169	80,343	584,031	995,354	742,010	821,194	
(2,702,687)	(3,305,193)	(3,832,320)	(4,361,911)	(2,724,951)	(3,140,164)	
(73,283)	(83,338)	(69,940)	(96,898)	(141,579)	(115,063)	
(92,613)	5,687	2,865	16,431	(58,846)	(39,569)	
<u>5,569,293</u>	<u>1,742,182</u>	<u>3,615,498</u>	<u>894,306</u>	<u>1,961,400</u>	<u>442,964</u>	
101,451	1,577,049	926,504	650,097	153,232	336,404	
<u>3,962,984</u>	<u>12,916,939</u>	<u>2,390,159</u>	<u>6,775,689</u>	<u>3,306,603</u>	<u>2,229,725</u>	
4,064,435	14,493,988	3,316,663	7,425,786	3,459,835	2,566,129	
<u>9,633,728</u>	<u>16,236,170</u>	<u>6,932,161</u>	<u>8,320,092</u>	<u>5,421,235</u>	<u>3,009,093</u>	
200,839,735	184,603,565	177,671,404	169,351,312	163,930,077	160,920,984	
-	-	-	-	-	-	
<u>200,839,735</u>	<u>184,603,565</u>	<u>177,671,404</u>	<u>169,351,312</u>	<u>163,930,077</u>	<u>160,920,984</u>	
<u>\$ 210,473,463</u>	<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>	<u>\$ 177,671,404</u>	<u>\$ 169,351,312</u>	<u>\$ 163,930,077</u>	

**ORANGE WATER AND SEWER AUTHORITY****Water Processed and Wastewater Treated**

(Thousands of Gallons)

Last Ten Fiscal Years

(Unaudited)

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<b>Fiscal Year Ended June 30</b>	<b>Water Processed and Pumped to System</b>	<b>Wastewater Treated</b>
2005	3,053,404	2,982,831
2006	3,142,494	2,721,662
2007	3,126,917	2,854,787
2008	3,002,669	2,701,000
2009	2,915,405	2,889,705
2010	2,863,425	2,933,870
2011	2,741,182	2,673,448
2012	2,515,000	2,784,000
2013	2,413,000	2,942,000
2014	2,477,000	3,028,000

Source: Orange Water and Sewer Authority's records



## ORANGE WATER AND SEWER AUTHORITY

### Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer

Last Ten Fiscal Years

(Unaudited)

<b>Fiscal Year Ended June 30</b>	<b>Customer Estimate</b>	<b>Net Operating Revenues</b>	<b>Debt Service Requirements</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net Revenues to Debt Service Requirements</b>	<b>Net Bonded Debt Per Customer</b>
2005	19,467	10,236,973	7,317,151	81,075,000	1.40	4,164.74
2006	19,687	11,758,126	8,073,572	76,740,000	1.46	3,898.00
2007	19,554	12,287,458	8,268,245	114,685,000	1.49	5,865.04
2008	19,998	14,732,933	9,535,182	110,880,000	1.55	5,545.00
2009	20,137	13,813,299	9,027,729	106,040,000	1.53	5,266.00
2010	20,241	17,325,671	9,034,556	101,205,000	1.92	5,000.00
2011	20,453	19,910,110	8,938,298	94,695,000	2.23	4,630.00
2012	20,916	19,693,086	8,550,976	89,245,000	2.30	4,266.83
2013	21,043	18,461,737	7,898,190	83,845,000	2.34	3,984.46
2014	21,105	18,329,675	7,814,155	78,675,000	2.35	3,727.79

## ORANGE WATER AND SEWER AUTHORITY

### Principal Water and Sewer Customers

Year Ended June 30, 2014

(Unaudited)

	<b>Percent of Water Sales 2014</b>
University of North Carolina at Chapel Hill	23%
Chapel Hill - Carrboro City Schools	1%
Triangle Communities (Apartments)	<1%
Carol Woods Retirement Community	<1%
Town of Chapel Hill	<1%
Kingswood Apartments	<1%
University Mall	<1%
Couch Oxford Associates	<1%
The Villages Apartments	<1%
Aspen Square Apartments	<1%

Source: Orange Water and Sewer Authority's Records

# ORANGE WATER AND SEWER AUTHORITY

## Town of Chapel Hill NC, Property Tax Levies and Collections

Last Ten Fiscal Years

(Unaudited)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years
		Amount	Percent of Original Levy	
2005	25,615,621	25,480,324	99.47%	110,800
2006	27,718,753	27,578,410	99.49%	124,143
2007	28,558,565	28,409,166	99.48%	111,769
2008	30,412,485	30,240,782	99.44%	145,619
2009	33,972,050	33,779,684	99.43%	139,190
2010	35,119,150	34,836,717	99.20%	254,454
2011	35,604,158	35,284,111	99.10%	258,936
2012	35,887,926	35,604,067	99.21%	-
2013	36,084,217	35,809,148	99.24%	-
2014	38,361,125	38,115,148	99.36%	-

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

Notes:

(1) This represents the total delinquent taxes for years 2008 and prior.

**Table 6**

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<b>Total Collections to Date</b>		<b>Outstanding Delinquent Taxes</b>
<b>Amount</b>	<b>Percentage of Adjusted Levy</b>	
25,591,124	99.90%	*
27,702,553	99.94%	*
28,520,935	99.87%	*
30,386,401	99.91% (1) \$	115,177
33,918,874	99.84%	53,716
35,091,171	99.92%	27,979
35,543,047	99.83%	61,111
35,604,067	99.21%	283,859
35,809,148	99.24%	275,069
38,115,148	99.36%	245,977

# ORANGE WATER AND SEWER AUTHORITY

## Town of Chapel Hill, NC Assessed Value and Actual Value of Taxable Property

Last Ten Fiscal Years

(Unaudited)

<b>Fiscal Year Ended June 30</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Combined Real Property</b>	<b>Personal Property</b>
2005	*	*	3,918,233,860	482,128,300
2006	(1) \$ 3,956,681,069	\$ 783,355,893	4,740,036,962	498,524,879
2007	3,640,445,489	1,249,997,134	4,890,442,623	520,961,320
2008	3,825,506,198	1,313,540,280	5,139,046,478	460,567,284
2009	3,945,477,182	1,354,733,971	5,300,211,153	471,708,077
2010	(1) 4,855,643,567	1,667,252,143	6,522,895,710	455,030,840
2011	5,133,443,183	1,762,638,471	6,896,081,654	452,486,487
2012	*	*	6,730,528,993	471,001,413
2013	*	*	6,701,285,738	536,958,587
2014	*	*	6,823,181,920	573,309,679

\*The Breakdown between residential and commercial property is not available for fiscal years prior to 2006 or after 2011.

Notes:

- (1) Revaluation year.
- (2) Increase due to revaluation and the addition of \$200 million from a major annexation.
- (3) Public service companies valuations are provided by the North Carolina Department of Revenue. These amounts include both real and personal property.
- (4) Source is the North Carolina Department of Revenue final report of assessed valuations of NC Municipalities for the 2010/2011 fiscal year
- (5) Per \$100 of value. Includes taxes for General Fund, Debt Service Fund, and Transit Fund.
- (6) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the North Carolina Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (7) Source is the Property Tax Division of the North Carolina Department of Revenue.

Table 7

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<b>Public Service Companies (3)</b>	<b>Total Assessed Value (4)</b>	<b>Total Direct Tax Rate (5)</b>	<b>Estimated Actual Taxable Value (6)</b>	<b>Ratio of Assessed Value to Estimated Actual Value (7)</b>
57,774,008	4,458,136,168	0.575	4,664,298,146	95.58%
60,840,533	5,299,402,374	0.522	5,905,284,571	89.74%
61,554,945	5,472,958,888	0.522	6,582,822,815	83.14%
60,142,623	5,659,756,385	0.522	6,807,501,064	83.14%
63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%
67,647,776	7,045,574,326	0.494	7,141,991,207	98.65%
62,491,249	7,411,059,390	0.494	7,477,610,120	99.11%
63,232,013	7,264,762,419	0.494	7,200,106,033	99.11%
66,253,143	7,304,497,468	0.494	7,583,529,271	103.82%
66,762,306	7,463,253,905	0.514	7,188,606,161	96.32%

# ORANGE WATER AND SEWER AUTHORITY

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

Last Ten Fiscal Years

(Unaudited)

	Years				
	2005	2006	2007	2008	2009
<b>Chapel Hill within Orange County:</b>					
Town direct rates:					
General Fund	\$ 0.516	\$ 0.474	\$ 0.474	\$ 0.474	\$ 0.423
Transportation	0.059	0.048	0.048	0.048	0.048
Debt Service**	-	-	-	-	0.110
Downtown Service District	0.062	0.053	0.090	0.090	0.071
Overlapping rates:					
Orange County	0.880	0.843	0.903	0.950	0.998
Chapel Hill - Carrboro School District	0.200	0.183	0.189	0.204	0.230
Total	1.717	1.601	1.704	1.766	1.880
<b>Chapel Hill within Durham County:</b>					
Town direct rates:					
General Fund	0.516	0.474	0.474	0.474	0.423
Transportation	0.059	0.048	0.048	0.048	0.048
Debt Service	-	-	-	-	0.110
Overlapping rates:					
Durham County	0.790	0.809	0.809	0.834	0.708
Total	1.365	1.331	1.331	1.356	1.289

\*Revaluation Year

\*\* For fiscal years 2007/2008 and prior, property tax revenues were allocated between the General Fund and the Transit Fund. Beginning with the 2008/2009 fiscal year, the allocation was changed to include an allocation to the Debt Service Fund.

Source: North Carolina State Department of Revenue

**Table 8**

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**Taxes Payable**

---

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 0.360	\$ 0.360	\$ 0.378	\$ 0.378	\$ 0.388
0.041	0.041	0.041	0.041	0.051
0.093	0.093	0.075	0.075	0.075
0.071	0.071	0.071	0.071	0.071
0.858	0.858	0.858	0.858	0.858
0.188	0.188	0.188	0.188	0.208
1.611	1.611	1.611	1.611	1.651
0.360	0.360	0.378	0.378	0.388
0.041	0.041	0.041	0.041	0.051
0.093	0.093	0.075	0.075	0.075
0.690	0.746	0.746	0.744	0.744
1.184	1.240	1.240	1.238	1.258



# ORANGE WATER AND SEWER AUTHORITY

## Town of Chapel Hill, NC Demographic and Economic Statistics

Last Ten Fiscal Years

(Unaudited)

<b>Year</b>	<b>Population (1)</b>	<b>Personal Income (in thousands)(2)</b>	<b>Per Capita Personal Income (2)</b>	<b>Median Age (3)</b>
2005	51,519	4,384,443	37,121	24.2
2006	52,397	4,631,572	38,629	24.2
2007	53,416	5,060,894	41,435	24.2
2008	54,903	5,060,894	41,435	24.2
2009	55,616	5,450,187	43,844	24.2
2010	56,778	5,976,341	47,063	25.6
2011	57,233	6,186,352	47,925	25.6
2012	57,757	6,268,886	46,713	25.6
2013	58,424	6,608,945	48,683	25.6
2014	59,271	7,131,776	51,702	25.3

Notes:

(1) Town of Chapel Hill Department of Planning, Office of State Budget and Management

(2) U.S. Department of Commerce, Bureau of Economic Analysis. Data available for Orange County only.  
Most recent available census data.

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

(4) Chapel Hill-Carrboro City Schools and The University of North Carolina at Chapel Hill.

(5) N.C. Employment Security Commission, Local Area Unemployment Statistics.

**Table 9**

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<b>Education Level in Years of Schooling (3)</b>	<b>School Enrollment (4)</b>	<b>Unemployment Rate % (5)</b>
15.82	37,308	3.4
15.82	35,260	3.0
15.82	38,718	2.9
15.82	39,864	3.1
15.82	40,316	4.5
15.82	39,428	5.6
15.82	41,139	5.4
15.82	41,059	5.6
15.82	41,402	5.6
15.82	41,242	4.4

## ORANGE WATER AND SEWER AUTHORITY

### Miscellaneous Statistical Data

Year Ended June 30, 2014

(Unaudited)

---

<b>Year Founded and Incorporated</b>	1975
<b>Size of Service Area:</b>	
Square miles	31
Miles of water pipe	399
Miles of wastewater collection pipe	338
Customer accounts	21,105
<b>Budgeted Employee Positions</b>	130
<b>Water Treatment Plant Capacity (in MGD):</b>	
Capacity	20
Production average, FY 2014	6.7
Production peak, FY 2014	8.3
<b>Wastewater Treatment Plant Capacity (in MGD):</b>	
Capacity	14.5
Average daily flow, FY 2014	8.4
<b>Number of Water Supply Resources</b>	4
<b>Total Capacity of Water Supply Resources (millions of gallons):</b>	
Cane Creek Reservoir	3,000
University Lake	450
Quarry Reservoir	200
Jordan Lake Level II Allocation	5 MGD

Source: Orange Water and Sewer Authority's Records

## ORANGE WATER AND SEWER AUTHORITY

### Full-Time Equivalent

Last Ten Fiscal Years

(Unaudited)

<u>Department</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>General and Administrative:</b>					
Office of the Executive Director	6.50	7.00	6.00	7.00	7.00
Engineering	13.00	13.00	14.00	14.00	14.00
Human Resources	2.50	2.50	3.00	2.00	3.00
Finance	7.50	7.50	7.00	9.00	8.00
Purchasing	-	-	-	-	-
Information Technology	4.00	4.00	4.00	5.00	5.00
<b>Operations:</b>					
Customer Service	7.50	7.50	6.50	7.00	7.00
Water Supply and Treatment	26.50	25.00	25.00	24.00	24.00
Water Distribution	32.00	30.00	32.00	32.00	32.00
Plants Maintenance	-	-	-	-	-
Laboratory	-	-	-	-	-
Wastewater Treatment	21.50	23.00	23.00	24.00	24.00
Sewer Collection	<u>14.00</u>	<u>16.00</u>	<u>15.00</u>	<u>15.00</u>	<u>15.00</u>
Totals	<u>135.00</u>	<u>135.50</u>	<u>135.50</u>	<u>139.00</u>	<u>139.00</u>

Source: Orange Water and Sewer Authority's Human Resource Department

**Table 11**

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<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
7.00	9.00	9.00	9.00	9.00
13.50	15.00	15.00	15.00	15.00
3.50	6.00	6.00	6.00	6.00
6.34	7.00	7.00	7.00	7.00
1.33	2.00	2.00	2.00	2.00
4.00	4.00	4.00	4.00	4.00
7.33	8.00	8.00	13.00	13.00
13.50	13.00	13.00	13.00	13.00
32.00	32.00	32.00	27.00	27.00
13.00	14.00	15.00	15.00	15.00
8.00	10.00	10.00	10.00	10.00
13.50	15.00	14.00	14.00	14.00
<u>15.00</u>	<u>15.00</u>	<u>15.00</u>	<u>15.00</u>	<u>15.00</u>
<u>138.00</u>	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>

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

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

## **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 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, 2014 and 2013 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 22, 2014.

### **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.

## **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 22, 2014

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2014**

**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

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

None reported



**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

None.

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

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

## REPORT OF INDEPENDENT AUDITORS ON REVENUE BOND COVENANT COMPLIANCE

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

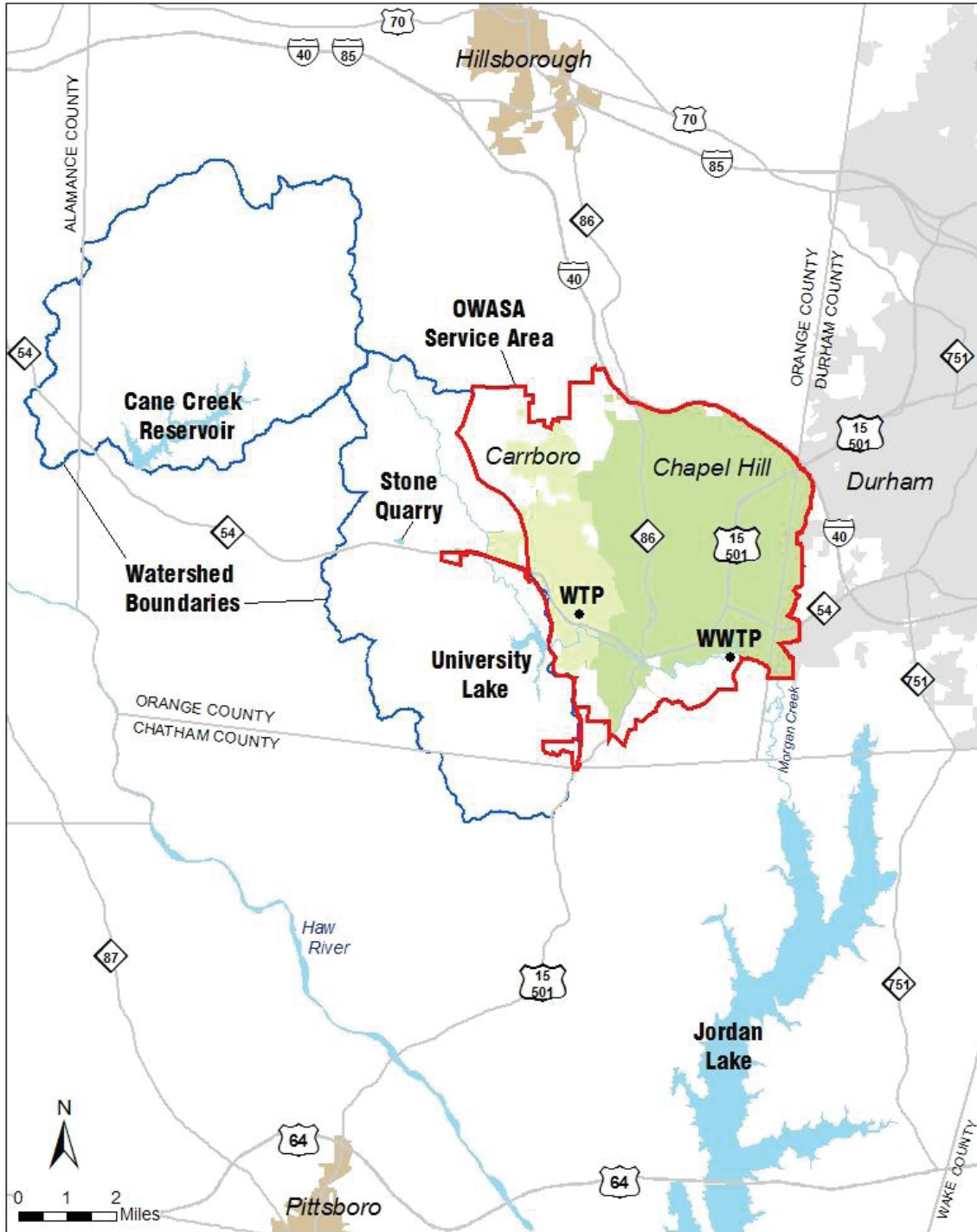
We have audited, in accordance with auditing standards generally accepted in the United States of America, the statements of net position of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2014 and 2013, and the related 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 22, 2014.

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 22, 2014



# Orange Water and Sewer Authority

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