

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Fiscal Years Ended June 30, 2016 and 2015**

## **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)

**AUDITED FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

**Prepared by:**

**Orange Water and Sewer Authority**

**ORANGE WATER AND SEWER AUTHORITY**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

**TABLE OF CONTENTS**

		<u>Page</u>
<b>INTRODUCTORY SECTION</b>		
	Letter of Transmittal	i-vii
	GFOA Certificate of Achievement	viii
	Organizational Chart	ix
	List of Appointed Officials	x-xi
<b>FINANCIAL SECTION</b>		
	Independent Auditor's Report	1-3
	Management's Discussion and Analysis	4-9
<b><u>Exhibit</u></b>	<b>Basic Financial Statements:</b>	
A	Statements of Net Position - Proprietary Fund	10-11
B	Statements of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	12-13
C	Statements of Cash Flows - Proprietary Fund	14-15
	Notes to the Basic Financial Statements	16-39
<b><u>Schedule</u></b>	<b>Required Supplementary Information:</b>	
A-1	Other Post-Employment Benefits (OPEB) Plan	40
A-2	Local Governmental Employees' Retirement System Proportionate Share of Net Pension Liability (Asset) Last Three Fiscal Years	41
A-3	Local Governmental Employees' Retirement System Contributions Last Three Fiscal Years	42

**ORANGE WATER AND SEWER AUTHORITY**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

**TABLE OF CONTENTS**

<u>Schedule</u>		<u>Page</u>
	<b>Supplementary Schedules:</b>	
1	Enterprise Fund - Water - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	43-46
2	Project Funds - Schedule of Revenues and Expenditures	47-50

**STATISTICAL SECTION**

<u>Table</u>		
1	Net Position by Components - Last Ten Fiscal Years	51
2	Changes in Net Position - Last Ten Fiscal Years	52
3	Water Processed and Wastewater Treated - Last Ten Fiscal Years	53
4	Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer - Last Ten Fiscal Years	54
5	Principal Water and Sewer Customers	55
6	Town of Chapel Hill NC, Property Tax Levies and Collections - Last Ten Fiscal Years	56
7	Town of Chapel Hill NC, Assessed Value and Actual Value of Taxable Property - Last Ten Fiscal Years	57
8	Town of Chapel Hill NC, Direct and Overlapping Property Tax Rates (Per \$100 of Assessed Value) - Last Ten Fiscal Years	58
9	Town of Chapel Hill NC, Demographic and Economic Statistics - Last Ten Fiscal Years	59

**ORANGE WATER AND SEWER AUTHORITY**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

**TABLE OF CONTENTS**

<u><b>Table</b></u>		<u><b>Page</b></u>
	<b>STATISTICAL SECTION (continued)</b>	
10	Miscellaneous Statistical Data	60
11	Full-Time Equivalents - Last Ten Fiscal Years	61
	<b>COMPLIANCE SECTION</b>	
	Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	62-63
	Schedule of Findings and Responses	64
	Schedule of Prior Year's Audit Findings	65
	Bond Covenants: Independent Auditor's Report On Compliance with Bond Covenants	66



# ORANGE WATER AND SEWER AUTHORITY

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

September 13, 2016

## **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, 2015 and ending June 30, 2016 (FY 2016). 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 2016, 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 6.0 million gallons per day (MGD) of drinking water sold in FY 2016 was less than the projection of 6.2 MGD. OWASA ended the year with a modified accrual based net income less debt service of about \$9.7 million which was 20% percent over budget. The resulting increase in financial reserves will be used for future capital improvements needs.

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 2016.

### **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 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 83,000 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.



*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.



*Administrative Offices*

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 400 miles of raw water, finished water, and water interconnection lines.



## **Wastewater System**

We operate and maintain 341 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-drinking 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 600,000 gallons per day during FY 2016.

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 2016 the unemployment rate in Orange County was 4.6 percent compared to the North Carolina and US average of 4.9 percent (Source: NC Department of Commerce). The estimated population of Orange County increased by 13 percent from 2000 to 2010.

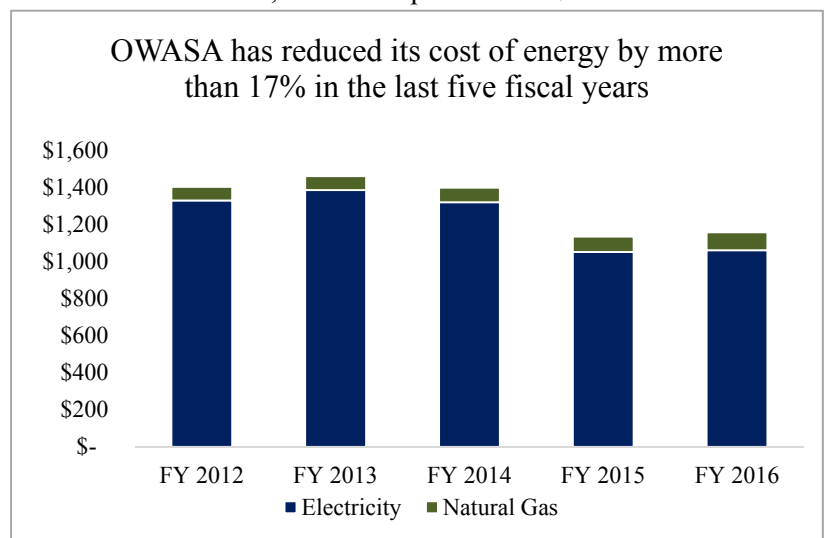
The relative stability of the Carrboro-Chapel Hill economy is supported by the size and strength of UNC and UNC Healthcare which continue to actively plan and develop new facilities and infrastructure.



*The “Old Well” on the UNC Campus*

**Initiatives and Accomplishments**

**Energy management** – Treating and moving drinking water and wastewater requires a great deal of energy and comes at a cost financially and to the environment. In FY 2016, OWASA spent almost \$1.1 million on electricity and natural gas. The use of energy at our facilities impacts land, water, and air resources, and our use of fossil fuel contributes to increased greenhouse gas emissions, which have been linked to increasing climate variability. Last year, the OWASA Board of Directors set goals for reducing our use of electricity by 35%, and natural gas by 5% by 2020 from 2010 levels, and for exploring the development of cost-effective renewable energy. We are well on the way to achieving these goals due in part to investments in our system and a culture of energy awareness throughout the organization.



**No Increase in Monthly Water and Sewer Rates** – For the fifth 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. Fees for establishing a new connection to OWASA’s system (Service Availability Fees) also remain unchanged from the previous year. 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.

### **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.

### **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 Basic 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 2016 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 16<sup>th</sup> Distinguished Budget Presentation Award from the GFOA for our FY 2016 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 2017 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

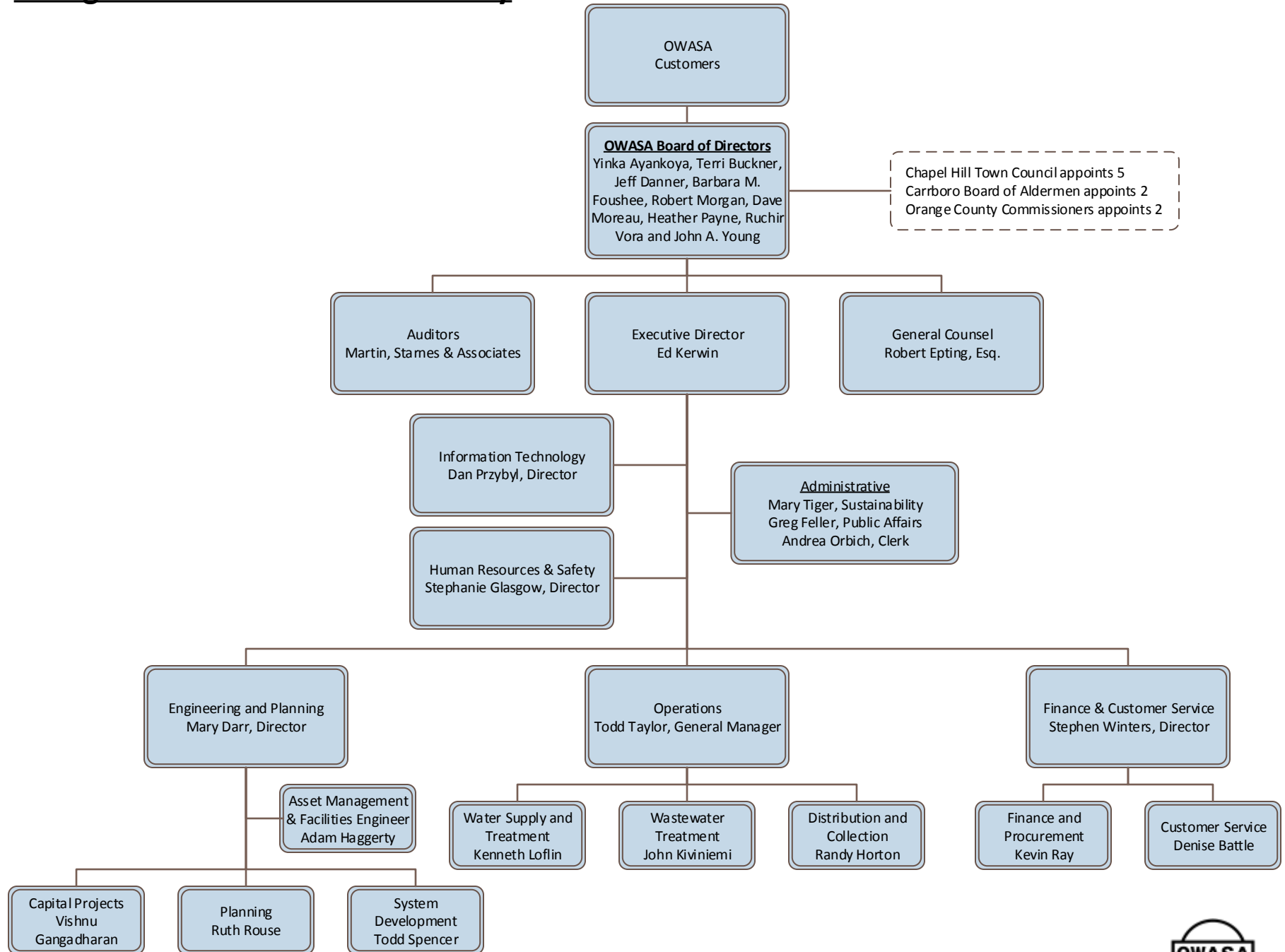
**Orange Water and Sewer Authority**  
**North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# Orange Water and Sewer Authority



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

**CHAIR**

John Young  
124 Meadowmont Village Circle  
Chapel Hill, NC 27517  
Appointed by Chapel Hill; Term Expires 6/30/19

**VICE CHAIR**

Jeff Danner  
423 New Parkside Drive  
Chapel Hill, NC 27516  
Appointed by Chapel Hill; Term Expires 6/30/18

**SECRETARY**

Barbara Middleton-Foushee  
100 Williams Street  
Carrboro, NC 27510  
Appointed by Orange County; Term Expires 6/30/18

**MEMBERS**

Yinka Ayankoya  
200 Gary Road  
Carrboro, NC 27510  
Appointed by Carrboro; Term Expires 6/30/19

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

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

Robert Morgan  
2019 Hunt Drive  
Carrboro, NC 27510  
Appointed by Carrboro; Term Expires 6/30/18

Heather Payne  
1300 Mason Farm Road  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/19

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

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

Denise Battle, Customer Service Manager  
Mary Darr, P.E., Director of Engineering and Planning  
Greg Feller, Public Affairs Administrator  
Vishnu Gangadharan, P.E., Engineering Manager (Capital Projects)  
Stephanie Glasgow, M.E.S.H., P.H.R., Director of Human Resources and Safety  
Randy Horton, 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, 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  
Mary Tiger, Sustainability Manager  
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

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Orange Water and Sewer Authority (A Component Unit of the Town of Chapel Hill, North Carolina), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange Water and Sewer Authority's basic financial statements. The introductory information, budgetary schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 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 13, 2016 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 13, 2016

## 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, 2016 and 2015. 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, 2016, OWASA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$255 million.
- OWASA's total net position increased by \$9 million, primarily resulting from income realized from operating activities.
- Due to the condition and capacity of OWASA's system, over 83% of the organization's \$7.5 million capital expenditures for Fiscal Year (FY) 2016 were invested in replacing and rehabilitating existing infrastructure.
- Non-current liabilities decreased by about \$5.1 million due to principal payments on long-term debt.
- OWASA's credit ratings from Standard and Poor's and Fitch of AA+, and Aa1 from Moody's, remain unchanged.

### Overview of the Financial Statements

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

As a stand-alone enterprise fund, OWASA's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position* and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short- and long-term financial information about OWASA's financial position. Presentations of two-year and three-year comparative data in these schedules are intended to enhance the reader's ability to gauge OWASA's fiscal strength and provide useful trend information. *Notes to the Financial Statements* and a *Schedule of Revenues and Expenditures – Budget and Actual* appear immediately following the basic financial statements. In addition, other 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>				
<b>(\$ millions)</b>				
	<b><u>Fiscal Year Ended</u></b>			<b><u>Percentage of Change (2015 to 2016)</u></b>
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	
Current assets	\$40.9	\$38.6	\$30.1	6.0%
Capital and other long-term assets	<u>301.2</u>	<u>300.9</u>	<u>299.9</u>	0.1
<b>Total assets</b>	342.1	339.5	330.0	0.8
Total deferred outflows of resources	2.5	3.1	2.3	(19.4)
Current liabilities	11.5	12.1	11.4	(5.0)
Non-current liabilities	<u>78.2</u>	<u>83.3</u>	<u>82.5</u>	(6.1)
<b>Total liabilities</b>	89.7	95.4	93.9	(6.0)
Total deferred inflows of resources	0.3	1.7	0.0	(82.4)
Net position				
Net investment in capital assets	225.0	218.4	219.5	3.0
Restricted	0.3	0.2	0.2	50.0
Unrestricted	<u>29.3</u>	<u>26.9</u>	<u>18.7</u>	8.9
<b>Total net position</b>	<u>\$254.6</u>	<u>\$245.5</u>	<u>\$238.4</u>	3.7

OWASA's assets exceeded liabilities by \$255 million at June 30, 2016, compared to \$246 million and \$238 million at June 30, 2015 and 2014, respectively. OWASA's overall financial position strengthened between FY 2014 and 2016 as net position increased by \$16.1 million. Total assets increased during the same period by \$12.1 million. These trends indicate that a significant portion of recent infrastructure improvements has been funded through cash rather than debt.

Net capital assets comprised about 88% of total assets for the comparative years of 2014 through 2016. 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, 2016, these other unrestricted resources totaled \$29.3 million and may be used for any lawful purpose.

Non-current liabilities decreased by approximately 5.2% or \$4.3 million during the same period reflecting decreases from 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 (2015 to 2016)</u></b>
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	
<b>Operating revenues</b>				
Water, wastewater, reclaimed water	\$34.9	\$35.4	\$34.5	(1.4%)
Other	<u>1.5</u>	<u>1.5</u>	<u>1.3</u>	0.0
Total operating revenues	36.4	36.9	35.8	(1.4)
Operating expenses	<u>29.0</u>	<u>28.8</u>	<u>29.0</u>	0.7
<b>Operating income</b>	7.4	8.1	6.8	(8.6)
Non-operating revenues (expenses)	<u>(0.2)</u>	<u>(1.5)</u>	<u>(1.4)</u>	(86.7)
<b>Income before contributions</b>	7.2	6.6	5.4	9.1
Capital contributions	<u>1.8</u>	<u>1.4</u>	<u>0.9</u>	28.6
<b>Increase (decrease) in net position</b>	9.0	8.0	6.3	12.5
Net position, July 1	245.5	238.4	232.1	3.0
Change in accounting principles / restatement (see Note 7)	<u>0.0</u>	<u>(0.9)</u>	<u>0.0</u>	
Net position, June 30	<u>\$254.5</u>	<u>\$245.5</u>	<u>\$238.4</u>	3.7

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

In FY 2016, drinking water volume sales were 6.0 average million gallons per day; in FY 2015 and FY 2014, drinking water volume sales were 6.2, each year. Drinking water demand remains much lower than historical trends and 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 single-family residential and commercial customers, respectively, and the use of reclaimed water by the University. With no rate increase during the year and slightly lower water volume sales, Operating revenues for FY 2016 were about 1.4% lower than the previous year or \$36.4 million.

- **Operating Expenses:** Operating expenses were \$29 million or about 0.7% more than FY 2015 and approximately the same as FY 2014. The lack of an increase in costs from FY 2014 to FY 2016 reflects OWASA's ongoing efforts to streamline processes and improve efficiencies. OWASA's department managers expended about 4.7% or \$967,000 less than the amount budgeted for FY 2016. Operating expenses includes an \$8.9 million charge for depreciation and a \$467,000 charge for post-employment benefits. OWASA's ability to meet operating expenses and adequately cover debt service remained positive.
- **Non-Operating Revenues (Expenses):** Non-operating revenues are comprised primarily of customer (service availability) fees, interest earnings, and gains (or losses) from the sale of surplus property. Customer fees are calculated to recover from new customers a share of the cost of system capacity when a new connection is made to the system. Non-operating expenditures are made up primarily of interest expense on debt and amortization of bond expenses.

Customer fees of \$1.4 million represented no change from FY 2015 and a 27% increase from FY 2014. Interest earnings remained low in FY 2016 totaling about \$21,000. Investments remained in safe and liquid secured deposits.

- **Capital Contributions:** Capital contributions totaled approximately \$1.8 million for the year and were comprised of construction costs of developer dedicated facilities. Contributions in aid of construction in the form of dedicated service lines are classified as contributions after net income. Although OWASA receives such contributions annually, these transactions are not cash or cash equivalents and are not included in the budget under the modified accrual method.

## Capital Assets

Each year, OWASA expands or places into service new and renewed capital assets. Capital assets net of depreciation increased by about 0.1% in FY 2016. The net increase consisted of additions totaling \$9.2 million and a reduction due to depreciation of \$8.9 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 is 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.

<b>Orange Water and Sewer Authority</b>				
<b>Capital Assets</b>				
<b>(\$ Millions)</b>				
	<b><u>Fiscal Year Ended</u></b>			<b><u>Percentage of Change</u></b> <b><u>(2015 to 2016)</u></b>
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	
Land	\$17.6	\$17.6	\$17.6	0.0%
Construction in progress	32.5	26.0	25.2	25.0
Water treatment and distribution	101.4	103.7	102.2	(2.2)
Sewer collection and treatment	138.0	140.7	142.5	(1.9)
Fixtures and equipment	<u>11.4</u>	<u>12.0</u>	<u>12.2</u>	(5.0)
Total	<u>\$300.9</u>	<u>\$300.0</u>	<u>\$299.7</u>	0.3

**Debt Administration**

OWASA policy stipulates that at least 30% of annual capital improvements projects be funded with cash from operations. At June 30, 2016, 2015 and 2014, OWASA’s outstanding debt totaled \$73.6 million, \$79.1 million, and \$78.7 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of an interest-free loan from the state of North Carolina, and water and sewer system revenue and refunding bonds issued in fiscal years 2003, 2004, 2005, 2006, 2010, 2014 and 2015. At year end, OWASA owed an accrued debt service liability of approximately \$6.3 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2016.

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 21% of total drinking water sales.
- The Carrboro-Chapel Hill economy benefits from the size and strength of UNC and UNC Healthcare: public entities that serve the entire state. The University continues to actively plan and develop new facilities and infrastructure.
- There are no major industries in the service area that are subject to significant changes in economic conditions.
- Orange County’s unemployment rate has historically been better than the State and National average.



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 2017 Budget Highlights**

For the fifth 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 2017 budget for Operating expenses is about 1% greater than the FY 2016 budget. Capital improvement expenditures are budgeted to be approximately \$13.6 million.

### **Requests for Information**

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

## ORANGE WATER AND SEWER AUTHORITY

### STATEMENTS OF NET POSITION PROPRIETARY FUND JUNE 30, 2016 AND 2015

	2016	2015
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 26,578,064	\$ 24,421,987
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately \$85,000 for 2016 and 2015)	3,560,101	4,263,327
Other	1,298,055	959,285
Inventory, materials, and supplies	892,145	902,288
Prepaid expenses	298,684	18,422
Restricted cash and cash equivalents:		
Cash and cash equivalents	1,294,633	1,545,726
Cash and cash equivalents, trustee	6,932,067	6,528,297
Total current assets	40,853,749	38,639,332
Non-current assets:		
Restricted cash and cash equivalents	260,978	222,470
Net pension asset	-	709,819
Capital assets:		
Non-depreciable	50,206,880	43,620,491
Depreciable	250,756,206	256,383,976
Total capital assets, net of accumulated depreciation	300,963,086	300,004,467
Total non-current assets, net	301,224,064	300,936,756
Total assets	342,077,813	339,576,088
<b>Deferred Outflows of Resources:</b>		
Contributions to pension plan in current fiscal year	510,262	519,888
Pension deferrals	55,837	47,246
Deferred charge on refunding	1,902,066	2,496,464
Total deferred outflows of resources	2,468,165	3,063,598

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

**ORANGE WATER AND SEWER AUTHORITY**

**STATEMENTS OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2016 AND 2015**

	2016	2015
<b>Liabilities:</b>		
Current liabilities:		
Payable from current assets:		
Trade and construction contracts payable	1,752,268	1,309,877
Accrued expenses	378,751	441,201
Payable from restricted cash and cash equivalents:		
Accrued interest	1,007,975	1,643,914
Customer deposits and advances	1,294,633	1,545,726
Current maturity of note payable	328,000	328,000
Current maturities of bonds payable	6,266,841	6,396,696
Current portion of compensated absences	500,000	420,000
Total current liabilities	11,528,468	12,085,414
Non-current liabilities:		
Note payable	5,576,000	5,904,000
Bonds payable	65,724,727	71,450,479
Compensated absences	44,683	96,863
Net pension liability	538,330	-
OPEB liability	6,295,768	5,829,195
Total non-current liabilities	78,179,508	83,280,537
Total liabilities	89,707,976	95,365,951
<b>Deferred Inflows of Resources:</b>		
Pension deferrals	279,798	1,730,002
Total deferred inflows of resources	279,798	1,730,002
<b>Net Position:</b>		
Invested in capital assets, net of related debt	224,969,584	218,421,756
Restricted for capital reserve	260,978	222,470
Unrestricted	29,327,642	26,899,507
Total net position	\$ 254,558,204	\$ 245,543,733

*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 - PROPRIETARY FUND  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues:</b>		
Water	\$ 17,894,907	\$ 18,291,453
Sewer	16,514,394	16,739,718
Service initiation fees	169,660	167,410
Reclaimed water	442,785	411,122
Other	1,347,624	1,351,139
Total operating revenues	36,369,370	36,960,842
<b>Operating Expenses:</b>		
Water supply and treatment	4,692,599	4,553,491
Water distribution	2,781,136	2,782,489
Sewer treatment	4,561,981	4,457,289
Sewer collections	1,185,549	1,254,390
General and administrative	6,403,637	5,951,983
Depreciation and amortization	8,919,124	9,384,310
Other post-employment benefits	466,573	372,993
Total operating expenses	29,010,599	28,756,945
Operating income (loss)	7,358,771	8,203,897
<b>Non-Operating Revenues (Expenses):</b>		
Customer fees	1,397,652	1,429,244
Investment income, net of fair value of investments adjustment	20,663	15,133
Interest expense	(1,729,871)	(2,637,681)
Amortization of bond and lease expense	120,781	(177,021)
Gain (Loss) on disposal of capital assets	-	(145,273)
Total non-operating revenues (expenses)	(190,775)	(1,515,598)

*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 - PROPRIETARY FUND  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
Income (loss) before capital contributions	7,167,996	6,688,299
<b>Capital Contributions:</b>		
Capital grants and contributions	18,170	2,320
Contributions in aid of construction	1,828,305	1,372,391
Total capital contributions	1,846,475	1,374,711
Change in net position	9,014,471	8,063,010
<b>Net Position:</b>		
Beginning of year - July 1	245,543,733	238,397,316
Restatement	-	(916,593)
Beginning of year, restated	245,543,733	237,480,723
End of year - June 30	\$ 254,558,204	\$ 245,543,733

*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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 35,386,202	\$ 34,966,034
Payments to suppliers	(8,233,889)	(9,702,242)
Payments to employees	(11,525,600)	(10,542,020)
Other receipts	<u>1,096,531</u>	<u>1,475,726</u>
Net cash provided (used) by operating activities	<u>16,723,244</u>	<u>16,197,498</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(8,049,438)	(8,494,433)
Proceeds from sale of property, plant, and equipment	-	8,690
Principal paid on bond maturities and other long-term debt	(14,513,000)	(21,788,000)
Interest paid on bond maturities and other long-term debt	(2,365,810)	(3,467,706)
Customer fees received	1,518,433	1,252,223
Proceeds from issuance of debt	8,995,000	24,312,864
Capital grants and contributions	<u>18,170</u>	<u>2,320</u>
Net cash provided (used) by capital and related financing activities	<u>(14,396,645)</u>	<u>(8,174,042)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest and dividends on investments	<u>20,663</u>	<u>15,133</u>
Net increase (decrease) in cash and cash equivalents	2,347,262	8,038,589
<b>Cash and Cash Equivalents:</b>		
Beginning of year - July 1	<u>32,718,480</u>	<u>24,679,891</u>
End of year - June 30	<u>\$ 35,065,742</u>	<u>\$ 32,718,480</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ 7,358,771	\$ 8,203,897
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	8,919,124	9,384,310
Pension (benefit) expense	-	56,343
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	703,226	(311,822)
(Increase) decrease in other receivables	(338,770)	(331,847)
(Increase) decrease in net pension asset	709,819	-
(Increase) decrease in deferred outflows	(8,591)	-
(Increase) decrease in inventory	10,143	67,163
(Increase) decrease in prepaid expenses	(280,262)	63,226
(Increase) decrease in deferred outflows of resources for pensions	(1,450,204)	-
(Increase) decrease in deferred outflows of resources for deferred refunding costs	(71,209)	-
Increase (decrease) in trade and construction contracts payable	442,391	(979,314)
Increase (decrease) in customer deposits	(251,093)	124,587
Increase (decrease) accrued expenses	(62,450)	42,718
Increase (decrease) compensated absences	27,820	25,132
Increase (decrease) in net pension liability	538,330	-
Increase (decrease) in deferred inflows of resources for pensions	9,626	(519,888)
Increase (decrease) in other post-employment benefits	466,573	372,993
	<u>\$ 16,723,244</u>	<u>\$ 16,197,498</u>
<b>Non-Cash Capital and Related Financing Activities:</b>		
Property, plant, and equipment contributed by private developers	<u>\$ 1,828,305</u>	<u>\$ 1,372,391</u>

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

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

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

#### B. Basis of Presentation

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

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

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



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### **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, 2016.

### **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 YEARS ENDED JUNE 30, 2016 AND 2015**

### **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").

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-registered (2a7) external investment pool, is measured at amortized cost, 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.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### Restricted Assets

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the Authority before any services were supplied are restricted to the service for which the deposits were collected. Capital reserve amounts are restricted for future maintenance and repairs.

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

##### **Business-Type Activities:**

Bond service	\$ 6,932,067
Capital reserve	260,978
Customer deposits	<u>1,294,633</u>
Total business-type activities	<u>\$ 8,487,678</u>

### Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade receivables are determined to be uncollectible based on 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, 2016 and June 30, 2015.

### 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 received

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

prior to June 15, 2015 are recorded at their estimated fair market value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

	<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/Inflows of Resources**

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

### **Compensated Absences**

It is the Authority's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements. At June 30, 2016 and 2015, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$544,683 and \$516,863, respectively.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### 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 invested in capital assets, net of related debt; 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 invested in capital assets, net of related debt, 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 “invested in capital assets, net of related debt.”

### 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 YEARS ENDED JUNE 30, 2016 AND 2015

### H. Defined Benefit Pension Plans

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

### 2. Detail Notes On All Funds

#### Assets

#### Deposits

All of the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by their agents in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority, or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority, under the Pooling Method, the potential exists for 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, 2016, the Authority's deposits had a carrying amount of \$28,078,156 and a bank balance of \$18,406,716. Of the bank balance, \$2,284,237 was covered by federal depository insurance, and \$16,122,479 in deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of \$2,700 at June 30, 2016.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

### Cash Equivalents

At June 30, 2016 and 2015, the Authority's cash equivalents balances were as follows:

	<u>2016</u>	<u>2015</u>
The North Carolina Capital Management Trust, cash portfolio	<u>\$ 6,984,886</u>	<u>\$ 6,574,593</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.

*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, 2016 and 2015.

### Receivables

Receivables, net of allowances for uncollectible accounts, at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Utility accounts receivable	\$ 3,560,101	\$ 4,263,327
Other receivable	<u>1,298,055</u>	<u>959,285</u>
Total receivables, net	<u>\$ 4,858,156</u>	<u>\$ 5,222,612</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### Capital Assets

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Non-Depreciable Assets:</b>					
Land	\$ 17,605,354	\$ -	\$ -	\$ -	\$ 17,605,354
Construction in progress	<u>26,015,137</u>	<u>8,366,893</u>	<u>-</u>	<u>(1,780,504)</u>	<u>32,601,526</u>
Total non-depreciable assets	<u>43,620,491</u>	<u>8,366,893</u>	<u>-</u>	<u>(1,780,504)</u>	<u>50,206,880</u>
<b>Depreciable Assets:</b>					
Water treatment and distribution	160,751,096	707,678	-	746,231	162,205,005
Sewer collection and treatment	200,258,937	470,920	-	896,507	201,626,364
Fixtures and equipment	<u>43,088,587</u>	<u>332,252</u>	<u>-</u>	<u>137,766</u>	<u>43,558,605</u>
Total depreciable assets	<u>404,098,620</u>	<u>1,510,850</u>	<u>-</u>	<u>1,780,504</u>	<u>407,389,974</u>
<b>Less Accumulated Depreciation:</b>					
Water treatment and distribution	57,084,167	3,690,035	-	-	60,774,202
Sewer collection and treatment	59,570,208	4,061,746	-	-	63,631,954
Fixtures and equipment	<u>31,060,269</u>	<u>1,167,343</u>	<u>-</u>	<u>-</u>	<u>32,227,612</u>
Total accumulated depreciation	<u>147,714,644</u>	<u>\$ 8,919,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>156,633,768</u>
Total depreciable assets	<u>256,383,976</u>				<u>250,756,206</u>
Capital assets, net	<u>\$ 300,004,467</u>				<u>\$ 300,963,086</u>



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

### Invested in capital assets, net of related debt

The total invested in capital assets, net of related debt is composed of the following elements:

	<b>2016</b>	<b>2015</b>
Capital assets	\$ 300,963,086	\$ 300,004,467
Total debt, gross	(77,895,568)	(84,079,175)
Deferred charge related to debt	<u>1,902,066</u>	<u>2,496,464</u>
Invested in capital assets, net of related debt	<u>\$ 224,969,584</u>	<u>\$ 218,421,756</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### Long-Term Debt

Long-term debt as of June 30, 2016 and 2015 consists of the following:

	2016	2015
<b>Revenue Bonds:</b>		
Revenue bonds payable, Series 2015 Refunding Revenue Serial Bonds, in the amount of \$8,995,000, issued July 1, 2015, with a coupon rate of 4.5%, final maturity July 2031, net of deferred refunding loss of \$55,037 at June 30, 2016	\$ 8,995,000	\$ -
Revenue bonds payable, Series 2014 Refunding Revenue Serial Bonds, in the amount of \$15,695,000, issued December 18, 2014, with coupon rates of 3.0% and 5.0%, final maturity July 2031, net of unamortized premium of \$1,402,739 at June 30, 2016	15,695,000	15,695,000
Revenue bonds payable, Series 2010 Refunding Revenue Serial Bonds, in the amount of \$21,645,000, issued September 30, 2010, with coupon rates of 3.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$1,021,800 at June 30, 2016	18,745,000	20,195,000
Revenue bonds payable, Series 2006 Revenue Serial Bonds, in the amount of \$15,500,000, issued October 26, 2006, with coupon rates of 4.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$417,587 at June 30, 2015; revenue bonds payable, Series 2006 Revenue Term Bonds, in the amount of \$6,785,000, issued October 26, 2006, with an interest rate of 5.0%, due in full July 2031	755,000	1,485,000
Revenue and revenue refunding bonds payable, Series 2005, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity in July 2020	2,275,000	13,335,000

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<b>2016</b>	<b>2015</b>
<b>Revenue Bonds (continued):</b>		
Revenue bonds payable, Series 2004A Revenue Bonds, in the amount of \$21,265,000, issued June 1, 2004, with coupon rates of 3.0% and 5.25%, final maturity July 2021; revenue bonds payable, Series 2004B Revenue Bonds, in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (0.37% at June 30, 2016), final maturity July 1, 2029	20,000,000	20,000,000
Revenue and revenue refunding bonds payable, Series 2003, issued April 9, 2003, with coupon rates of 2.5% to 5.0%, final maturity in July 2016	<u>1,255,000</u>	<u>2,200,000</u>
	<u>\$ 67,720,000</u>	<u>\$ 72,910,000</u>
<b>Note Payable:</b>		
Note payable to NCDENR in the amount of \$6,560,000 issued October 4, 2014, interest at 0%, Federal Revolving Loan, beginning May 2015, payable in annual installments of \$328,000, with a final payment due in May 2034	<u>\$ 5,904,000</u>	<u>\$ 6,232,000</u>

Bond payable maturities are as follows:

<b>Year Ending June 30</b>	<b>Maturities</b>	<b>Amortization of Premiums and Deferred Refunding Losses</b>	<b>Total</b>	<b>Interest</b>
2017	\$ 5,885,000	\$ 190,222	\$ 6,075,222	\$ 7,148,093
2018	4,785,000	190,222	4,975,222	7,629,241
2019	4,940,000	190,222	5,130,222	7,371,002
2020	5,130,000	190,221	5,320,221	7,111,487
2021	4,105,000	203,981	4,308,981	6,846,285
2022-2026	23,465,000	937,055	24,402,055	26,705,960
2027-2031	18,025,000	467,579	18,492,579	8,472,060
2032	<u>1,385,000</u>	<u>-</u>	<u>1,385,000</u>	<u>64,950</u>
Total	<u>\$ 67,720,000</u>	<u>\$ 2,369,502</u>	<u>\$ 70,089,502</u>	<u>\$ 71,349,078</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Note payable maturities are as follows:

<b>Year Ending</b>			
<b>June 30</b>	<b>Maturities</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 328,000	\$ -	\$ 328,000
2018	328,000	-	328,000
2019	328,000	-	328,000
2020	328,000	-	328,000
2021	328,000	-	328,000
2022-2026	1,640,000	-	1,640,000
2027-2031	1,640,000	-	1,640,000
2032-2034	984,000	-	984,000
Total	<u>\$5,904,000</u>	<u>\$ -</u>	<u>\$ 5,904,000</u>

### Advance Refunding

On December 18, 2014, the Authority issued \$15,695,000 of Series 2014 revenue bonds to provide resources that were placed in an irrevocable trust to be used for all future debt service payments of \$16,430,000 of Series 2006 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$561,010. This amount is being amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next 17 years by \$1,984,121 and resulted in an economic gain of \$1,596,310. On June 30, 2016, \$16,430,000 of bonds outstanding are considered defeased.

### Direct Purchase Forward Refunding

On July 1, 2015, the Authority issued \$8,995,000 of Series 2015 revenue bonds to provide resources that were placed in an irrevocable trust to be used for all future debt service payments of \$8,930,000 of Series 2005 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$65,000. This amount is being amortized over the life of the new debt issued, which is shorter than the life of the refunded debt. This direct purchase forward refunding was undertaken to reduce total debt service payments over the next 5 years by \$613,660 and resulted in an economic gain of \$584,285. On June 30, 2016, \$8,930,000 of bonds outstanding is considered defeased.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Long-term liability activity for the years ended June 30, 2016 and 2015 is as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>July 1, 2015</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2016</b>	<b>One Year</b>
<b>Notes Payable</b>	\$ 6,232,000	\$ -	\$ 328,000	\$ 5,904,000	\$ 328,000
<b>Bonds Payable:</b>					
Revenue bonds	72,910,000	8,995,000	14,185,000	67,720,000	5,885,000
For issuance premiums	4,937,175	-	665,607	4,271,568	381,841
Compensated absences	516,863	537,023	509,203	544,683	500,000
Net Pension Liability (LGERS)	-	538,330	-	538,330	-
OPEB	5,829,195	739,324	272,751	6,295,768	-
<b>Total</b>	<b>\$ 90,425,233</b>	<b>\$ 10,809,677</b>	<b>\$ 15,960,561</b>	<b>\$ 85,274,349</b>	<b>\$ 7,094,841</b>

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

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$67,720,000 in revenue bonds issued in 2003, 2004A, 2005, 2006, 2010, 2014, and 2015. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Annual principal and interest payments are expected to require less than 23% of net revenues. Principal and interest on the bonds are payable through 2032, solely from the water and sewer customer net revenues. The total principal and interest remaining to be paid on the bonds is \$139,069,078. Principal and interest paid in the years ended June 30, 2016 and 2015 were \$7,312,093 and \$6,920,946, respectively and total customer net revenues for the years ended June 30, 2016 and 2015 were \$36,369,370 and \$36,960,842, 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 2003, 2004A, 2005, 2006, 2010, 2014, and 2015. 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 YEARS ENDED JUNE 30, 2016 AND 2015

The debt service coverage ratio calculation for the year ended June 30, 2016, is as follows:

Operating revenues and charges for services	\$ 37,787,685
Operating expenses*	<u>19,624,902</u>
Income available for debt service	<u>\$ 18,162,783</u>
Debt service, principal and interest paid	<u>\$ 7,662,664</u>
Debt service coverage ratio for parity debt	<u>237.03%</u>

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

The above debt service amount for principal and interest paid excludes partial refunding in the current year. At June 30, 2016, the Authority was in compliance with the bond covenants described above.

### 3. Pension Plan Obligations

#### Local Governmental Employees' Retirement System

*Plan Description.* The Authority is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The 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, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2016, was 7.31% of compensation for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$510,262, for the year ended June 30, 2016.

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

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

At June 30, 2016, the Authority reported a liability of \$538,330 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Authority's proportion was .11995%, which was a decrease of .0004% from its proportion measured as of June 30, 2014.

## ORANGE WATER AND SEWER AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

For the year ended June 30, 2016, the Authority recognized pension expense of \$309,242. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 126,538
Net difference between projected and actual earnings on pension plan investments	-	153,260
Changes in proportion and differences between employer contributions and proportionate share of contributions	55,837	-
Employer contributions subsequent to the measurement date	<u>510,262</u>	<u>-</u>
Total	<u>\$ 566,099</u>	<u>\$ 279,798</u>

\$510,262 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ (161,385)
2018	(161,385)
2019	(161,310)
2020	<u>260,119</u>
Total	<u>\$ (223,961)</u>



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100%</u>	

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LRS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
Authority's proportionate share of the net pension liability (asset)	\$ 3,753,836	\$ 538,330	\$ (2,170,666)

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

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### Other Post-Employment Benefits (OPEB)

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

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

<u>Members</u>	
Inactive	31
Active	<u>126</u>
Total	<u><u>157</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 \$272,751 or 3.8% and \$221,252 or 3.1% of the annual covered payroll during the years ending June 30, 2016 and 2015, respectively.

The current annual required contribution (ARC) rate is 10.1% of annual covered payroll. For the current year, the Authority contributed \$272,751 or 3.8% of annual covered payroll. The Authority obtains healthcare coverage through private insurers. There were no contributions made by employees. The Authority's obligation to contribute to the Plan is established and may be amended by the Board of Directors.

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

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### 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>2016</b>	<b>2015</b>
Employer annual required contribution	\$ 728,904	\$ 584,492
Interest paid on OPEB obligation	233,168	218,248
Adjustment to annual required contribution	(222,748)	(208,495)
Annual OPEB cost	739,324	594,245
Employer contributions made for current fiscal year	272,751	221,252
Increase in net OPEB obligation	466,573	372,993
Net OPEB obligation:		
Beginning of year - July 1	5,829,195	5,456,202
End of year - June 30	\$ 6,295,768	\$ 5,829,195

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 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>
2014	\$ 1,168,533	11.55%	\$ 4,443,670
2015	594,245	37.23%	5,829,195
2016	739,324	36.89%	6,295,768

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

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

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

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

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### 4. Deferred Outflows and Inflows of Resources

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

**Deferred Outflows:**

Contributions to pension plan in current fiscal year	\$ 510,262
Pension deferrals	55,837
Charge on refunding	<u>1,902,066</u>
Total	<u>\$ 2,468,165</u>

**Deferred Inflows:**

Pension deferrals	<u>\$ 279,798</u>
-------------------	-------------------

### 5. Risk Management and Commitments

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

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

*Commitments.* The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately \$2,692,105 at June 30, 2016.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

### 6. Net Position

At June 30, 2016 and 2015, the Board of Directors had approved the use of the unrestricted net position for the following purposes:

	<u>2016</u>	<u>2015</u>
Operating reserve	\$ 11,070,735	\$ 8,642,600
Other reserves	4,550,000	3,900,000
Capital projects	<u>13,706,907</u>	<u>14,356,907</u>
Total	<u>\$ 29,327,642</u>	<u>\$ 26,899,507</u>

### 7. Summary Disclosure of Significant Contingencies

#### Federal and State-Assisted Programs

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

## ORANGE WATER AND SEWER AUTHORITY

### OTHER POST-EMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

#### Schedule of Funding Progress

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

#### Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
	06/30/2011	\$ 944,000
06/30/2012	1,124,000	17.00%
06/30/2013	1,163,000	11.00%
06/30/2014	1,163,000	11.60%
06/30/2015	584,492	37.85%
06/30/2016	728,904	37.42%

#### Notes to the Required Schedules:

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

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



**ORANGE WATER AND SEWER AUTHORITY****PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARS \*****LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset) (%)	0.11995%	0.12040%	11.89000%
Authority's proportion of the net pension liability (asset) (\$)	\$ 538,330	\$ (709,819)	\$ 1,433,202
Authority's covered-employee payroll	\$ 7,352,374	\$ 7,297,821	\$ 6,909,854
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.32%	( 9.73%)	20.74%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

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

**ORANGE WATER AND SEWER AUTHORITY****CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARS****LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 510,262	\$ 519,888	\$ 516,608
Contributions in relation to the contractually required contribution	<u>510,262</u>	<u>519,888</u>	<u>516,608</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 6,980,328	\$ 7,352,374	\$ 7,297,821
Contributions as a percentage of covered-employee payroll	7.31%	7.07%	7.08%

**ORANGE WATER AND SEWER AUTHORITY**

**ENTERPRISE FUND - WATER  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Water	\$ 17,990,169	\$ 17,894,907	\$ (95,262)
Sewer	16,794,115	16,514,394	(279,721)
Reclaimed water	452,250	442,785	(9,465)
Service initiation fees	158,421	169,660	11,239
Other	816,280	1,347,624	531,344
Total operating revenues	<u>36,211,235</u>	<u>36,369,370</u>	<u>158,135</u>
Non-operating revenues:			
Interest income	34,571	20,663	(13,908)
Customer fees	959,582	1,397,652	438,070
Grants and contributions	-	18,170	18,170
Total non-operating revenues	<u>994,153</u>	<u>1,436,485</u>	<u>442,332</u>
Total revenues	<u>37,205,388</u>	<u>37,805,855</u>	<u>600,467</u>
<b>Expenditures:</b>			
Water supply and treatment:			
Salaries and wages	1,342,008	1,619,215	(277,207)
Fringe benefits	590,778	449,488	141,290
Materials and supplies	119,860	168,009	(48,149)
Chemicals	1,057,465	1,080,393	(22,928)
Utilities	340,923	344,797	(3,874)
Maintenance	1,029,664	995,980	33,684
Professional services	186,306	119,458	66,848
Insurance	-	82,438	(82,438)
Communication	4,000	2,401	1,599
Education and development	16,000	22,403	(6,403)
Miscellaneous	14,590	9,037	5,553
Total water supply and treatment	<u>4,701,594</u>	<u>4,893,619</u>	<u>(192,025)</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, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Water distribution:			
Salaries and wages	1,384,219	1,402,127	(17,908)
Fringe benefits	713,699	722,808	(9,109)
Materials and supplies	91,173	70,975	20,198
Utilities	178,500	181,755	(3,255)
Maintenance	504,280	509,689	(5,409)
Professional services	10,707	-	10,707
Insurance	-	7,124	(7,124)
Communication	1,500	2,377	(877)
Printing and reproduction	1,000	1,233	(233)
Education and development	12,070	8,834	3,236
Miscellaneous	4,100	1,927	2,173
Total water distribution	<u>2,901,248</u>	<u>2,908,849</u>	<u>(7,601)</u>
Construction credits	<u>(53,000)</u>	<u>(127,713)</u>	<u>74,713</u>
Wastewater treatment:			
Salaries and wages	1,236,640	1,332,897	(96,257)
Fringe benefits	570,748	557,331	13,417
Materials and supplies	246,529	172,079	74,450
Chemicals	670,558	637,637	32,921
Utilities	1,163,621	993,034	170,587
Maintenance	886,134	687,815	198,319
Professional services	273,140	17,999	255,141
Insurance	-	101,214	(101,214)
Communication	7,655	7,114	541
Education and development	18,500	20,062	(1,562)
Miscellaneous	32,600	34,799	(2,199)
Total wastewater treatment	<u>5,106,125</u>	<u>4,561,981</u>	<u>544,144</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, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Sewer collections:			
Salaries and wages	486,689	454,610	32,079
Fringe benefits	257,631	222,552	35,079
Materials and supplies	51,686	41,952	9,734
Chemicals	200,000	200,130	(130)
Utilities	129,309	150,609	(21,300)
Maintenance	177,500	112,563	64,937
Professional services	8,800	-	8,800
Insurance	-	6,228	(6,228)
Communication	700	606	94
Printing and distribution	500	743	(243)
Education and development	10,240	6,665	3,575
Miscellaneous	4,000	2,167	1,833
Total sewer collections	<u>1,327,055</u>	<u>1,198,825</u>	<u>128,230</u>
Construction credits	<u>-</u>	<u>(13,276)</u>	<u>13,276</u>
General and administrative:			
Salaries and wages	3,079,797	3,140,699	(60,902)
Fringe benefits	1,373,327	1,388,223	(14,896)
Materials and supplies	138,340	115,802	22,538
Utilities	192,660	193,048	(388)
Maintenance	310,370	239,834	70,536
Professional services	1,347,559	1,025,130	322,429
Insurance	-	35,401	(35,401)
Communication	145,145	157,591	(12,446)
Printing and reproduction	30,190	5,317	24,873
Education and development	57,585	47,577	10,008
Miscellaneous	172,120	174,467	(2,347)
Total general and administrative	<u>6,847,093</u>	<u>6,523,089</u>	<u>324,004</u>
Construction credits	<u>(41,658)</u>	<u>(91,632)</u>	<u>49,974</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, 2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Debt Service:</b>			
Principal		6,248,607	
Interest		<u>1,414,057</u>	
Total debt service	<u>8,316,327</u>	<u>7,662,664</u>	<u>653,663</u>
Capital outlay	<u>11,490,000</u>	<u>7,729,313</u>	<u>3,760,687</u>
Total expenditures	<u>40,594,784</u>	<u>35,245,719</u>	<u>5,349,065</u>
Revenues over (under) expenditures	<u>(3,389,396)</u>	<u>2,560,136</u>	<u>5,949,532</u>
<b>Other Financing Sources (Uses):</b>			
Refunding bonds issued	8,995,000	8,995,000	-
Payment to bondholders-retired debt	(8,930,000)	(8,930,000)	-
Appropriated fund balance	<u>3,324,396</u>	<u>-</u>	<u>3,324,396</u>
Total other financing sources (uses)	<u>3,389,396</u>	<u>65,000</u>	<u>3,324,396</u>
Net change in fund balance	<u>\$ -</u>	<u>2,625,136</u>	<u>\$ 2,625,136</u>

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

Principal payments debt	6,248,607
Refunding bonds issued	(8,995,000)
Payment to bondholders - retired debt	8,930,000
Capital interest	320,125
Change in interest accrual for bonded debt	(635,939)
Depreciation and amortization	(8,919,124)
Change in net pension asset	(709,819)
Change in deferred outflows of resources - pensions	(1,035)
Change in net pension liability	(538,330)
Change in deferred inflows of resources - pensions	1,450,204
Change in compensated absences	27,820
Other post-employment benefits	(466,573)
Amortization of bond expense and patent	120,781
Capital outlay	7,729,313
Capital contributions	<u>1,828,305</u>
Change in net position	<u>\$ 9,014,471</u>

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2016**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2016</u>	<u>Unexpended Balance as of June 30, 2016</u>
<b>Raw Water Supply Sources:</b>			
<b>Revenues:</b>			
General Fund	\$ 828,103	\$ 660,715	\$ 167,388
<b>Expenditures:</b>			
Jordan Lake raw water supply intake and pumping facility	\$ 322,558	\$ 329,304	\$ (6,746)
Stone quarry acquisition	336,545	117,588	218,957
Raw water permanganate study	151,000	202,974	(51,974)
Cane Creek Reservoir office HVAC replacement	<u>18,000</u>	<u>10,849</u>	<u>7,151</u>
Total expenditures	<u>\$ 828,103</u>	<u>\$ 660,715</u>	<u>\$ 167,388</u>
<b>Water Treatment:</b>			
<b>Revenues:</b>			
General Fund	\$ 929,500	\$ 981,665	\$ (52,165)
<b>Expenditures:</b>			
Water treatment plant rehabilitation projects	\$ 635,500	\$ 857,794	\$ (222,294)
Jones Ferry Road security improvements	-	14,256	(14,256)
OWASA facilities pavement improvements	89,000	-	89,000
Water treatment plant secondary containment	127,000	53,787	73,213
Water treatment plant pulsator controls electrical upgrade	70,000	49,716	20,284
Water treatment plant generator building louver replacement	<u>8,000</u>	<u>6,112</u>	<u>1,888</u>
Total expenditures	<u>\$ 929,500</u>	<u>\$ 981,665</u>	<u>\$ (52,165)</u>
<b>Drinking Water Storage:</b>			
<b>Revenues:</b>			
General Fund	\$ 58,000	\$ 14,340	\$ 43,660
<b>Expenditures:</b>			
Nunn Mountain pump station evaluation	\$ 58,000	\$ 14,340	\$ 43,660
Total expenditures	<u>\$ 58,000</u>	<u>\$ 14,340</u>	<u>\$ 43,660</u>
<b>Water Transmission and Distribution:</b>			
<b>Revenues:</b>			
General Fund	\$ 8,063,547	\$ 5,775,868	\$ 2,287,679

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2016**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2016</u>	<u>Unexpended Balance as of June 30, 2016</u>
<b>Expenditures:</b>			
FA water line rehabilitation	\$ -	\$ 371,377	\$ (371,377)
Water main - road improvement projects	250,000	102,294	147,706
Water line rehabilitation, replacement projects	4,885,547	3,927,976	957,571
Dobbins Drive - Erwin to Estes water main	66,000	68,689	(2,689)
Cameron Avenue water line replacement	984,000	723,600	260,400
Rosemary, Henderson, Hillsborough Streets water mains	-	430,843	(430,843)
Distribution system pressure monitoring	32,000	4,226	27,774
Advanced meter infrastructure	1,425,000	143,987	1,281,013
Galvanized water main replacement	387,000	2,876	384,124
Barnes Street valve evaluation	34,000	-	34,000
Total expenditures	<u>\$ 8,063,547</u>	<u>\$ 5,775,868</u>	<u>\$ 2,287,679</u>
<b>Wastewater Collection Lines:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 11,113,000</u>	<u>\$ 7,016,885</u>	<u>\$ 4,096,115</u>
<b>Expenditures:</b>			
Sanitary sewer condition evaluation	\$ 1,620,000	\$ 1,333,077	\$ 286,923
Service Area sewer line rehabilitation and replacement projects	4,843,000	4,051,024	791,976
Bolinwood Drive interceptor	304,000	10,355	293,645
Little Creek interceptor	1,957,000	640,590	1,316,410
Tom's Creek/Morgan Creek aerial crossings	1,609,000	721,749	887,251
Gravity Sewer Creek Crossings	551,000	113,392	437,608
Rogers Road sanitary sewer	500,000	557,559	(57,559)
Credit (Orange County reimbursement) Rogers Road sewer	(370,000)	(452,336)	82,336
Easement Acquisition Program	99,000	41,475	57,525
Total expenditures	<u>\$ 11,113,000</u>	<u>\$ 7,016,885</u>	<u>\$ 4,096,115</u>
<b>Wastewater Pumping Stations and Force Mains:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 2,884,000</u>	<u>\$ 1,572,973</u>	<u>\$ 1,311,027</u>



ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2016

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2016</u>	<u>Unexpended Balance as of June 30, 2016</u>
<b>Expenditures:</b>			
Pump station improvements	\$ 312,000	\$ 248,481	\$ 63,519
Force main condition evaluation	1,102,000	436,339	665,661
Eastowne pump station rehabilitation	32,000	32,190	(190)
Oaks 3 and Tinkerbell pump station	719,000	635,547	83,453
Rogerson Drive Pump Station rehabilitation	444,000	90,639	353,361
Piney Mountain pump station rehabilitation	105,000	109,067	(4,067)
Manning Drive pump station rehabilitation	139,000	20,710	118,290
Heritage Hills and Eubanks pump station rehabilitation	31,000	-	31,000
	<u>\$ 2,884,000</u>	<u>\$ 1,572,973</u>	<u>\$ 1,311,027</u>
Total expenditures			
<b>Wastewater Treatment and Disposal:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 7,057,030</u>	<u>\$ 5,836,224</u>	<u>\$ 1,220,806</u>
<b>Expenditures:</b>			
Mason Farm wastewater treatment plant rehabilitation and improvement project	\$ 1,597,000	\$ 1,859,426	\$ (262,426)
Mason Farm wastewater treatment plant Comprehensive Coatings Program	300,000	943,510	(643,510)
Mason Farm wastewater treatment plant digesters #1 and #2	2,519,000	1,892,023	626,977
Mason Farm wastewater treatment plant IPS rehabilitation and replacement	140,000	99,408	40,592
Mason Farm stormwater pump station electrical rehabilitation	501,000	77,734	423,266
Mason Farm Comprehensive Coatings program	429,000	660,462	(231,462)
Mason Farm wastewater treatment plant biosolids and recycling	250,000	107,086	142,914
Mason Farm wastewater treatment plant polymer feed/gravity belt thickener	230,000	41,225	188,775
Mason Farm wastewater treatment plant nondrinking water pump replacement	109,000	5,159	103,841
Mason Farm wastewater treatment plant pump station LED upgrades	74,000	70,767	3,233
Mason Farm wastewater treatment plant pavement improvements	113,000	-	113,000
Mason Farm wastewater treatment plant administration building improvements	13,030	-	13,030

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2016**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2016</u>	<u>Unexpended Balance as of June 30, 2016</u>
Mason Farm wastewater treatment plant secondary clarifier algae sweep upgrade	70,000	50,212	19,788
Mason Farm wastewater treatment plant solids handling biofilter rehabilitation	70,000	14,413	55,587
Mason Farm wastewater treatment plant hyper-pitch mixer blades	58,000	-	58,000
Mason Farm wastewater treatment plant piping heat tracing and insulation	35,000	-	35,000
Mason Farm wastewater treatment plant roof replacement	264,000	14,799	249,201
Mason Farm wastewater treatment plant biosolids conveyance and loading	91,000	-	91,000
Mason Farm wastewater treatment plant filtrate side stream treatment	<u>194,000</u>	<u>-</u>	<u>194,000</u>
Total expenditures	<u>\$ 7,057,030</u>	<u>\$ 5,836,224</u>	<u>\$ 1,220,806</u>
<b>Facility Improvements:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 519,000</u>	<u>\$ 232,603</u>	<u>\$ 286,397</u>
<b>Expenditures:</b>			
Information Services	\$ -	\$ 22,998	\$ (22,998)
Administration building chiller replacement	169,000	55,640	113,360
Asset management development	<u>350,000</u>	<u>153,965</u>	<u>196,035</u>
Total expenditures	<u>\$ 519,000</u>	<u>\$ 232,603</u>	<u>\$ 286,397</u>

**ORANGE WATER AND SEWER AUTHORITY**

**Table 1**

**Net Position by Components**

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

	<b>Fiscal Year</b>									
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net investment in capital assets	\$ 224,969,584	\$ 218,421,756	\$ 219,522,714	\$ 206,109,733	\$ 200,603,988	\$ 190,756,445	\$ 188,106,716	\$ 184,466,042	\$ 177,287,377	\$ 161,812,115
Restricted for capital reserve	260,978	222,470	187,910	151,600	125,721	98,616	1,252,498	1,226,604	1,168,081	1,127,192
Restricted for future capital projects	-	-	-	14,116,382	-	-	-	-	-	-
Restricted for debt service	-	-	-	-	-	-	1,116	6,114	154,388	185,258
Unrestricted	29,327,642	26,899,507	18,686,692	11,759,800	26,082,644	26,865,314	21,113,133	15,140,975	5,993,719	14,546,839
<b>Total</b>	<b>\$ 254,558,204</b>	<b>\$ 245,543,733</b>	<b>\$ 238,397,316</b>	<b>\$ 232,137,515</b>	<b>\$ 226,812,353</b>	<b>\$ 217,720,375</b>	<b>\$ 210,473,463</b>	<b>\$ 200,839,735</b>	<b>\$ 184,603,565</b>	<b>\$ 177,671,404</b>

## ORANGE WATER AND SEWER AUTHORITY

### Changes in Net Position

Last Ten Fiscal Years  
(Accrual Basis of Accounting)  
(Unaudited)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Operating Revenues:</b>										
Water	\$ 17,894,907	\$ 18,291,453	\$ 17,969,519	\$ 17,819,790	\$ 18,556,754	\$ 18,534,150	\$ 16,943,596	\$ 15,364,026	\$ 16,378,833	\$ 14,218,387
Sewer	16,514,394	16,739,718	16,589,072	16,313,731	16,550,596	15,962,181	14,848,339	12,798,394	11,046,437	10,272,920
Service initiation fees	169,660	167,410	167,615	161,015	170,270	147,015	148,750	141,355	169,603	142,086
Other	1,790,409	1,762,261	1,116,826	1,163,077	1,211,529	1,360,484	1,618,087	1,233,515	1,199,220	780,178
<b>Total operating revenues</b>	<u>36,369,370</u>	<u>36,960,842</u>	<u>35,843,032</u>	<u>35,457,613</u>	<u>36,489,149</u>	<u>36,003,830</u>	<u>33,558,772</u>	<u>29,537,290</u>	<u>28,794,093</u>	<u>25,413,571</u>
<b>Operating Expenses:</b>										
Water supply and treatment	4,692,599	4,553,491	4,267,802	4,587,852	4,326,429	4,075,074	2,619,340	2,665,629	2,441,028	2,261,394
Water distribution	2,781,136	2,782,489	2,720,838	2,323,295	2,296,726	2,507,512	2,217,957	2,160,231	2,275,756	1,962,980
Sewer treatment	4,561,981	4,457,289	4,721,294	4,763,520	4,946,090	4,768,788	3,050,834	3,487,838	2,981,891	2,865,782
Sewer collections	1,185,549	1,254,390	1,224,941	1,352,127	1,434,619	1,313,106	1,129,237	1,035,025	1,134,682	1,539,591
General and administrative	6,403,637	5,951,983	5,662,788	5,754,629	5,709,219	5,172,326	4,230,197	4,567,519	4,467,944	4,428,491
Customer relations	-	-	-	-	-	-	540,582	598,092	672,147	707,614
Maintenance	-	-	-	-	-	-	2,128,731	2,135,038	1,881,395	1,979,957
Lab	-	-	-	-	-	-	732,563	837,770	788,628	890,108
Depreciation and amortization	8,919,124	9,384,310	9,393,739	9,514,909	9,539,846	9,310,159	9,053,691	8,765,924	7,215,175	6,950,774
Other post-employment benefits	466,573	372,993	1,012,532	1,033,149	1,038,521	750,503	883,497	738,000	-	-
<b>Total operating expenses</b>	<u>29,010,599</u>	<u>28,756,945</u>	<u>29,003,934</u>	<u>29,329,481</u>	<u>29,291,450</u>	<u>27,897,468</u>	<u>26,586,629</u>	<u>26,991,066</u>	<u>23,858,646</u>	<u>23,586,691</u>
<b>Operating income (loss)</b>	<u>7,358,771</u>	<u>8,203,897</u>	<u>6,839,098</u>	<u>6,128,132</u>	<u>7,197,699</u>	<u>8,106,362</u>	<u>6,972,143</u>	<u>2,546,224</u>	<u>4,935,447</u>	<u>1,826,880</u>
<b>Non-Operating Revenues (Expenses):</b>										
Customer fees	1,397,652	1,429,244	1,069,551	1,769,883	1,899,056	1,713,417	1,436,564	2,498,459	1,995,415	2,514,450
Investment adjustment	20,663	15,133	14,755	15,664	17,964	29,261	29,169	80,343	584,031	995,354
Interest expense	(1,729,871)	(2,637,681)	(2,644,155)	(2,334,944)	(2,274,113)	(2,623,208)	(2,702,687)	(3,305,193)	(3,832,320)	(4,361,911)
Amortization of bond expense and patent	120,781	(177,021)	107,636	111,529	19,139	71,676	(73,283)	(83,338)	(69,940)	(96,898)
Other	-	(145,273)	23,591	4,228	(235,552)	(1,320,156)	(92,613)	5,687	2,865	16,431
<b>Income (loss) before contributions</b>	<u>7,167,996</u>	<u>6,688,299</u>	<u>5,410,476</u>	<u>5,694,492</u>	<u>6,624,193</u>	<u>5,977,352</u>	<u>5,569,293</u>	<u>1,742,182</u>	<u>3,615,498</u>	<u>894,306</u>
<b>Capital Contributions:</b>										
Capital grants and contributions	18,170	2,320	-	-	142,329	14,354	101,451	1,577,049	926,504	650,097
Contributions in aid of construction	1,828,305	1,372,391	849,325	420,251	2,325,456	1,255,206	3,962,984	12,916,939	2,390,159	6,775,689
<b>Total capital contributions</b>	<u>1,846,475</u>	<u>1,374,711</u>	<u>849,325</u>	<u>420,251</u>	<u>2,467,785</u>	<u>1,269,560</u>	<u>4,064,435</u>	<u>14,493,988</u>	<u>3,316,663</u>	<u>7,425,786</u>
<b>Increase in net position</b>	<u>9,014,471</u>	<u>8,063,010</u>	<u>6,259,801</u>	<u>6,114,743</u>	<u>9,091,978</u>	<u>7,246,912</u>	<u>9,633,728</u>	<u>16,236,170</u>	<u>6,932,161</u>	<u>8,320,092</u>
<b>Net Position:</b>										
Beginning of year, previously reported - July 1	245,543,733	238,397,316	232,137,515	226,812,353	217,720,375	210,473,463	200,839,735	184,603,565	177,671,404	169,351,312
Restatement	-	(916,593)	-	(789,581)	-	-	-	-	-	-
Beginning of year, restated	<u>245,543,733</u>	<u>237,480,723</u>	<u>232,137,515</u>	<u>226,022,772</u>	<u>217,720,375</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>
End of year - June 30	<u>\$ 254,558,204</u>	<u>\$ 245,543,733</u>	<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>	<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>	<u>\$ 177,671,404</u>

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

(Thousands of Gallons)

Last Ten Fiscal Years

(Unaudited)

---

<b>Fiscal Year Ended June 30</b>	<b>Water Processed and Pumped to System</b>	<b>Wastewater Treated</b>
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
2015	2,521,096	2,954,345
2016	2,440,937	2,956,000

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>
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
2015	21,239	19,405,577	8,542,276	72,910,000	2.27	3,432.84
2016	21,385	18,162,783	7,662,664	67,720,000	2.37	3,166.71

## ORANGE WATER AND SEWER AUTHORITY

### Principal Water and Sewer Customers

Year Ended June 30, 2016 and 2007

(Unaudited)

---

	<b>Percent of Water Sales</b>	<b>Percent of Water Sales</b>
	<b><u>2016</u></b>	<b><u>2007</u></b>
University of North Carolina at Chapel Hill	21%	25%
Chapel Hill - Carrboro City Schools	2%	1%
Town of Chapel Hill	<1%	<1%
University Mall	<1%	<1%
Triangle Communities (Apartments)	<1%	<1%
Carol Woods Retirement Community	<1%	<1%
Kingswood Apartments	<1%	<1%
The Villages Apartments	<1%	<1%
Aspen Square Apartments	<1%	<1%
Estes Park Apartments	<1%	<1%

Source: Orange Water and Sewer Authority's Records

**ORANGE WATER AND SEWER AUTHORITY**

**Table 6**

**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	Total Collections to Date		Outstanding Delinquent Taxes
		Amount	Percent of Original Levy		Amount	Percentage of Adjusted Levy	
2007	\$ 28,558,565	\$ 28,409,166	99.48%	\$ 111,769	\$ 28,520,935	99.87%	*
2008	30,412,485	30,240,782	99.44%	145,619	30,386,401	99.91% (1)	\$ 115,177
2009	33,972,050	33,779,684	99.43%	139,190	33,918,874	99.84%	53,716
2010	35,119,150	34,836,717	99.20%	254,454	35,091,171	99.92%	27,979
2011	35,604,158	35,284,111	99.10%	258,936	35,543,047	99.83%	61,111
2012	35,887,926	35,604,067	99.21%	-	35,604,067	99.21%	283,859
2013	36,084,217	35,809,148	99.24%	-	35,809,148	99.24%	275,069
2014	38,361,125	38,115,148	99.36%	-	38,115,148	99.36%	245,977
2015	39,009,200	38,849,950	99.59%	-	38,849,950	99.59%	159,250
2016	39,789,825	39,638,269	99.62%	-	39,638,269	99.62%	151,556

\*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.



**ORANGE WATER AND SEWER AUTHORITY**

**Table 7**

**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>	<b>Public Service Companies (3)</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate (4)</b>	<b>Estimated Actual Taxable Value (5)</b>	<b>Ratio of Assessed Value to Estimated Actual Value (6)</b>
2007	\$ 3,640,445,489	\$ 1,249,997,134	\$ 4,890,442,623	\$ 520,961,320	\$ 61,554,945	\$ 5,472,958,888	\$ 0.522	\$ 6,582,822,815	83.14%
2008	3,825,506,198	1,313,540,280	5,139,046,478	460,567,284	60,142,623	5,659,756,385	0.522	6,807,501,064	83.14%
2009	3,945,477,182	1,354,733,971	5,300,211,153	471,708,077	63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%
2010	(1) 4,855,643,567	1,667,252,143	6,522,895,710	455,030,840	67,647,776	7,045,574,326	0.494	7,141,991,207	98.65%
2011	5,133,443,183	1,762,638,471	6,896,081,654	452,486,487	62,491,249	7,411,059,390	0.494	7,477,610,120	99.11%
2012	*	*	6,730,528,993	471,001,413	63,232,013	7,264,762,419	0.494	7,200,106,033	99.11%
2013	*	*	6,701,285,738	536,958,587	66,253,143	7,304,497,468	0.494	7,583,529,271	103.82%
2014	*	*	6,823,181,920	573,309,679	66,762,306	7,463,253,905	0.514	7,188,606,161	96.32%
2015	*	*	6,862,387,124	519,383,543	65,246,662	7,447,017,329	0.524	7,290,629,965	97.90%
2016	*	*	6,893,114,610	541,047,846	85,443,691	7,519,606,147	0.524	7,594,665,291	99.01%

\*The Breakdown between residential and commercial property is not available for fiscal years 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) Per \$100 of value. Includes taxes for General Fund, Debt Service Fund, and Transit Fund.
- (5) 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.
- (6) Source is the Property Tax Division of the North Carolina Department of Revenue.

**ORANGE WATER AND SEWER AUTHORITY**

**Table 8**

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

Last Ten Fiscal Years

(Unaudited)

	<b>Years Taxes Payable</b>									
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Chapel Hill within Orange County:</b>				*						
Town direct rates:										
General Fund	\$ 0.474	\$ 0.474	\$ 0.423	\$ 0.360	\$ 0.360	\$ 0.378	\$ 0.378	\$ 0.388	\$ 0.388	\$ 0.388
Transportation	0.048	0.048	0.048	0.041	0.041	0.041	0.041	0.051	0.051	0.051
Debt Service**	-	-	0.110	0.093	0.093	0.075	0.075	0.075	0.085	0.085
Downtown Service District	0.090	0.090	0.071	0.071	0.071	0.071	0.071	0.071	0.071	0.071
Overlapping rates:										
Orange County	0.903	0.950	0.998	0.858	0.858	0.858	0.858	0.858	0.878	0.878
Chapel Hill - Carrboro School District	0.189	0.204	0.230	0.188	0.188	0.188	0.188	0.208	0.208	0.208
<b>Total</b>	<b>1.704</b>	<b>1.766</b>	<b>1.880</b>	<b>1.611</b>	<b>1.611</b>	<b>1.611</b>	<b>1.611</b>	<b>1.651</b>	<b>1.681</b>	<b>1.681</b>
<b>Chapel Hill within Durham County:</b>										
Town direct rates:										
General Fund	0.474	0.474	0.423	0.360	0.360	0.378	0.378	0.388	0.388	0.388
Transportation	0.048	0.048	0.048	0.041	0.041	0.041	0.041	0.051	0.051	0.051
Debt Service	-	-	0.110	0.093	0.093	0.075	0.075	0.075	0.085	0.085
Overlapping rates:										
Durham County	0.809	0.834	0.708	0.690	0.746	0.746	0.744	0.744	0.744	0.793
<b>Total</b>	<b>1.331</b>	<b>1.356</b>	<b>1.289</b>	<b>1.184</b>	<b>1.240</b>	<b>1.240</b>	<b>1.238</b>	<b>1.258</b>	<b>1.268</b>	<b>1.317</b>

\*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

**ORANGE WATER AND SEWER AUTHORITY**

**Table 9**

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

Last Ten Fiscal Years

(Unaudited)

<u>Year</u>	<u>Population (1)</u>	<u>Personal Income (in thousands)(2)</u>	<u>Per Capita Personal Income (2)</u>	<u>Median Age (3)</u>	<u>Education Level in Years of Schooling (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate % (5)</u>
2007	53,416	\$ 5,060,894	\$ 41,435	24.2	15.82	38,718	2.9
2008	54,903	5,060,894	41,435	24.2	15.82	39,864	3.1
2009	55,616	5,450,187	43,844	24.2	15.82	40,316	4.5
2010	56,778	5,976,341	47,063	25.6	15.82	39,428	5.6
2011	57,233	6,186,352	47,925	25.6	15.82	41,139	5.4
2012	57,757	6,268,886	46,713	25.6	15.82	41,059	5.6
2013	58,424	6,608,945	48,683	25.6	15.82	41,402	5.6
2014	59,271	7,131,776	51,702	25.3	15.82	41,242	4.4
2015	59,653	7,345,876	52,339	25.3	15.82	41,176	4.9
2016	59,753	7,440,708	52,989	25.8	15.82	41,490	5.2

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.

## ORANGE WATER AND SEWER AUTHORITY

### Miscellaneous Statistical Data

Year Ended June 30, 2016

(Unaudited)

---

<b>Year Founded and Incorporated</b>	1975
<b>Size of Service Area:</b>	
Square miles	31
Miles of water pipe	400
Miles of wastewater collection pipe	341
Customer accounts	21,385
<b>Budgeted Employee Positions</b>	127.5
<b>Water Treatment Plant Capacity (in MGD):</b>	
Capacity	20
Production average, FY 2015	6.7
Production peak, FY 2015	8.4
<b>Wastewater Treatment Plant Capacity (in MGD):</b>	
Capacity	14.5
Average daily flow, FY 2015	8.1
<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**

**Table 11**

**Full-Time Equivalent**

Last Ten Fiscal Years

(Unaudited)

<b>Department</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>General and Administrative:</b>										
Office of the Executive Director	5.50	5.50	6.50	7.00	6.00	7.00	7.00	7.00	9.00	9.00
Engineering	14.00	14.00	13.00	13.00	14.00	14.00	14.00	13.50	15.00	15.00
Human Resources	3.00	3.00	2.50	2.50	3.00	2.00	3.00	3.50	6.00	6.00
Finance	6.00	6.00	7.50	7.50	7.00	9.00	8.00	6.34	7.00	7.00
Purchasing	-	-	-	-	-	-	-	1.33	2.00	2.00
Information Technology	4.00	4.00	4.00	4.00	4.00	5.00	5.00	4.00	4.00	4.00
<b>Operations:</b>										
Customer Service	9.00	9.00	7.50	7.50	6.50	7.00	7.00	7.33	8.00	8.00
Water Supply and Treatment	25.50	25.50	26.50	25.00	25.00	24.00	24.00	13.50	13.00	13.00
Water Distribution	32.00	32.00	32.00	30.00	32.00	32.00	32.00	32.00	32.00	32.00
Plants Maintenance	-	-	-	-	-	-	-	13.00	14.00	15.00
Laboratory	-	-	-	-	-	-	-	8.00	10.00	10.00
Wastewater Treatment	22.50	22.50	21.50	23.00	23.00	24.00	24.00	13.50	15.00	14.00
Sewer Collection	14.00	14.00	14.00	16.00	15.00	15.00	15.00	15.00	15.00	15.00
Totals	<u>135.50</u>	<u>135.50</u>	<u>135.00</u>	<u>135.50</u>	<u>135.50</u>	<u>139.00</u>	<u>139.00</u>	<u>138.00</u>	<u>150.00</u>	<u>150.00</u>

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

# 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 accompanying financial statements of the business-type activities of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the years ended June 30, 2016 and 2015 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 13, 2016.

### **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 13, 2016

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2016**

**1. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?                    \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified?                \_\_\_\_\_ 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



**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

None reported

# 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

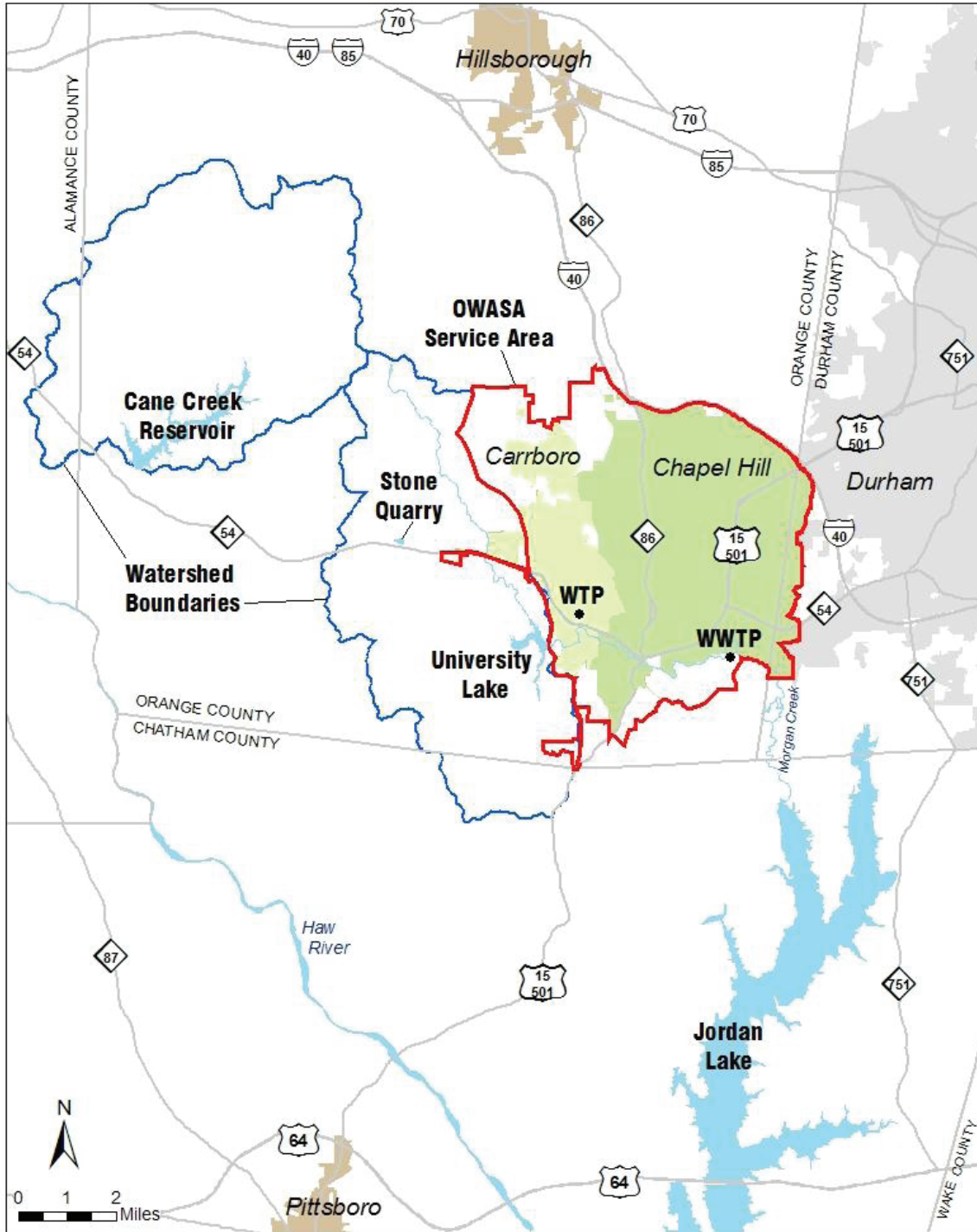
We have audited, in accordance with auditing standards generally accepted in the United States of America, the statements of net position of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, 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 13, 2016.

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 they 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 13, 2016



# Orange Water and Sewer Authority

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