Orange Water and Sewer Authority
OWASA is Carrboro-Chapel Hill's not-for-profit public service agency delivering high quality water, wastewater, and reclaimed water services.

Agenda
Annual Meeting of the OWASA Board of Directors
Thursday, September 23, 2021, 6:00 P.M.

Due to COVID-19 public health concerns, the Orange Water and Sewer Authority (OWASA) Board of Directors is conducting this meeting virtually utilizing Microsoft Teams software. Board Members, General Counsel and staff will be participating in the meeting remotely.

The Board of Directors appreciates and invites the public to attend and observe its virtual meetings online. Public comment is invited via written materials, ideally submitted at least two days in advance of the meeting to the Board of Directors by sending an email to board_and_leadership@owasa.org or via US Postal Service (Clerk to the Board, 400 Jones Ferry Road, Carrboro, NC 27510). Public comments are also invited during the Board Meeting via telephone, and members of the public will need to be available to call-in during the meeting. Please contact the Clerk to the Board at aorbich@owasa.org or 919-537-4217 to make arrangements by 3:00 p.m. the day of the meeting.

Public speakers are encouraged to organize their remarks for delivery within a four-minute time frame allowed each speaker, unless otherwise determined by the Board of Directors. The Board may take action on any item on the agenda.

The Board may take action on any item on the agenda. In compliance with the "Americans with Disabilities Act," interpreter services for non-English speakers and for individuals who are deaf or hard of hearing are available with five days prior notice. If you need this assistance, please contact the Clerk to the Board at 919-537-4217 or aorbich@owasa.org.

Announcements

1. Announcements by the Chair
   A. Any Board Member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time.
   B. Update on the September 23, 2021 Meeting Between Members of the Orange County Board of County Commissioners and Orange County Appointees to the OWASA Board
2. Announcements by Board Members
3. Announcements by Staff
4. Additional Comments, Suggestions, and Information Items by Board Members (Jody Eimers)

Petitions and Requests

1. Public
2. Board
3. Staff

Presentation of Annual Report

1. A. Staff Comments
   B. Martin Starnes & Associates, CPAs, P.A.'s Comments

Consent Agenda

Information and Reports

2. 12 Month Board Meeting Schedule (Todd Taylor)

Action

3. Minutes of the August 26, 2021 Board of Directors Meeting (Andrea Orbich)
4. Minutes of the September 9, 2021 Closed Session of the Board of Directors for the Purpose of Discussing a Personnel Matter (Ray DuBose)

Regular Agenda

Discussion and Action

5. Information Regarding a PFAS Cost Recovery Program (Todd Taylor/Hank Naughton and Sam Wade of Napoli Law)
6. Resolution Reappointing the Firm of Epting and Hackney as General Counsel to the Orange Water and Sewer Authority (Ray DuBose)

Information and Reports

7. Forest Management Program Update (Johnny Riley)

Summary of Work Session Items

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

PRESENTATION OF ANNUAL REPORT

Staff Comments ..... Stephen Winters, CPA

Martin, Starnes & Associates ..... Elsa Watts, CPA

September 23, 2021

Orange Water and Sewer Authority
OWASA is Carrboro-Chapel Hill's not-for-profit public service agency
delivering high quality water, wastewater, and reclaimed water services.

MEMORANDUM

TO: Board of Directors

THROUGH: Todd Taylor, P.E.

FROM: Stephen Winters, CPA

DATE: September 17, 2021

SUBJECT: Draft of Orange Water and Sewer Authority Annual Financial Report for the year ended June 30, 2021.

A draft of OWASA's Annual Financial Report (AFR) for the year ended June 30, 2021, is presented for the Board's review. Martin, Starnes & Associates has completed its audit and has issued an unmodified opinion.

Unmodified Opinion Explained

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

Draft Version of AFR

The report is in draft form as we are still compiling supplemental information that will be included in the report. As a component unit of the Town of Chapel Hill for reporting purposes, we are required to include information from the Town's AFR that is not yet available. We will provide the final version to the Board of Directors in October after a mandatory review by the North Carolina Local Government Commission.

Stephen Winters, CPA
Director of Finance and Customer Service

ORANGE WATER AND SEWER AUTHORITY

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

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

DRAFT

Prepared by:

Orange Water and Sewer Authority

This page left blank intentionally.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

TABLE OF CONTENTS

		Page
	INTRODUCTORY SECTION	
	Letter of Transmittal	i-vi
	GFOA Certificate of Achievement	vii
	Organizational Chart	viii
	List of Appointed Officials	ix-x
	FINANCIAL SECTION	
	Independent Auditor's Report	1-3
	Management's Discussion and Analysis	4-9
Exhibit		
	Basic Financial Statements:	
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
Schedule		
	Required Supplementary Information:	
A-1	Other Post-Employment Benefits (OPEB) Plan - Schedule of Changes in the Total OPEB Liability and Related Ratios - Last Four Fiscal Years	40
A-2	Local Government Employees' Retirement System - Proportionate Share of Net Pension Liability (Asset) Last Eight Fiscal Years	41-42
A-3	Local Government Employees' Retirement System - Contributions Last Eight Fiscal Years	43-44

DRAFT

ORANGE WATER AND SEWER AUTHORITY

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

TABLE OF CONTENTS

Schedule		Page
	Supplementary Schedules:	
1	Enterprise Fund - Water - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)	45-48
2	Project Funds - Schedule of Revenues and Expenditures	49-52
	COMPLIANCE SECTION	
	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*	53-54
	Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; in Accordance with Uniform Guidance; and the State Single Audit Implementation Act	55-56
	Schedule of Findings, Responses and Questioned Costs	57-58
	Schedule of Prior Year Audit Findings	59
	Schedule of Expenditures of Federal and State Awards	60
	Bond Covenants: Report of Independent Auditors on Revenue Bond Covenant Compliance	61

DRAFT

September 7, 2021

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

We are pleased to present our Annual Comprehensive Financial Report for the Fiscal Year beginning July 1, 2020 and ending June 30, 2021 (FY 2021). 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 2021, 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. OWASA ended the year with a modified accrual based net income less debt service of about $7.9 million. The resulting increase in financial reserves will be used for future capital improvement 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 2021.

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,

DRAFT

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 Annual Comprehensive Financial Report (ACFR) of the Town of Chapel Hill therefore includes OWASA's financial data and OWASA's ACFR 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 85,000 people.



University of North Carolina Campus

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.



Cane Creek Reservoir

Governance

A nine-member Board of Directors governs OWASA. The Chapel Hill Town Council appoints five, and the Carrboro Town Council 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.



University Lake

DRAFT

OWASA has a state allocation of water supply storage capacity in Jordan Lake equivalent to about five million gallons of water per day (MGD). 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.

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.

OWASA met or surpassed all federal and state standards for drinking water quality in 2021.

Wastewater System

We operate and maintain about 340 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.

OWASA's treated wastewater was in full compliance with regulatory standards in 2021.

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 670,000 gallons per day during FY 2021.
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 and reduces energy use and costs.

Economic Conditions

In March 2020, the COVID-19 pandemic began impacting the economy of OWASA's service area. UNC essentially closed its campus and conducted classes online for the rest of the semester. Many businesses closed or significantly reduced operations. Drinking water demand for UNC and businesses decreased substantially while water use by residences increased. The pandemic continued to impact the service area in FY 2021 resulting in about a 10% decrease in customer water demand as compared to the average use in recent years.

In June 2021, the unemployment rate in Orange County was 6% compared to the North Carolina average of 3.7 percent and US average of 5.9 percent (Source: US Bureau of Labor Statistics). According to the most recent census, the estimated population of Orange County increased by 13 percent from 2000 to 2010. The estimated population for Orange County as of December 2020 was 148,972.



Mural in Downtown Chapel Hill

DRAFT

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 of each of our services. We use increasing block water rates for individually metered residential customers and a year-round water rate for multi-family master metered customers. OWASA uses seasonal water rates for non-residential customers; non-residential customers pay a higher water rate 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 due to the higher system capacity needed to serve them. When development creates new connections to OWASA's system, fees are charged to ensure that the appropriate portion of the costs of providing system capacity is paid for by the parties that tap into and benefit from that capacity. Annual adjustments of rates, fees and charges 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 General-Purpose Financial Statements is included in the Financial Section of this report.

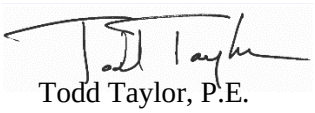
Acknowledgements

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,



Todd Taylor, P.E.
Executive Director



Stephen Winters, CPA
Director of Finance and Customer Service

DRAFT

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

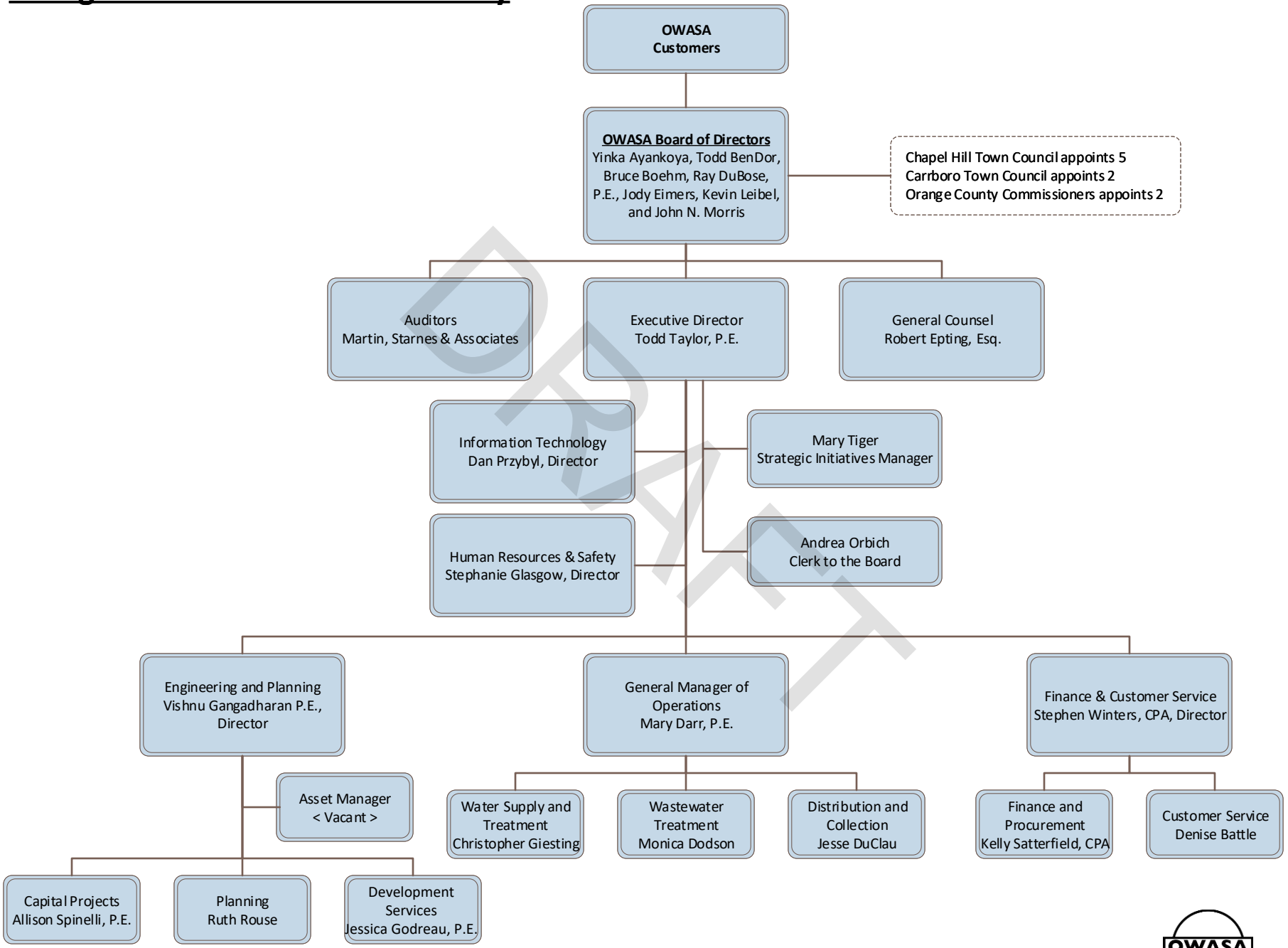
June 30, 2020

Christopher P. Morrill

Executive Director/CEO

DRAFT

Orange Water and Sewer Authority



DRAFT

OWASA

7-10-2021

ORANGE WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS

CHAIR

Jody Eimers
3120 Landeau Drive
Hillsborough, NC 27278
Appointed by Orange County; Term Expires on 6/30/2024

VICE CHAIR

Yinka Ayankoya
200 Gary Road
Carrboro, NC 27510
Appointed by Carrboro; Term Expires on 6/30/2022

SECRETARY

John N. Morris
614 Beechtree Court
Chapel Hill, NC 27514
Appointed by Chapel Hill; Term Expires on 6/30/2023

MEMBERS

Todd BenDor
904 Coker Drive
Chapel Hill, NC 27517
Appointed by Chapel Hill; Term Expires on 6/30/2024

Bruce Boehm
1921 South Lakeshore Drive
Chapel Hill, NC 27514
Appointed by Chapel Hill; Term Expires on 6/30/2022

Raymond (Ray) DuBose, P.E.
103 Easy Street
Chapel Hill, NC 27516
Appointed by Orange County; Term Expires on 6/30/2023

Kevin M. Leibel
105 Saint Andrews Place
Chapel Hill, NC 27517
Appointed by Chapel Hill; Term Expires on 6/30/2023

Vacant Carrboro Seat

Vacant Chapel Hill Seat

DRAFT

Orange Water and Sewer Authority

Management Team

Denise Battle, Customer Service Manager
Mary Darr, P.E., General Manager of Operations
Monica Dodson, Wastewater Treatment and Biosolids Recycling Manager
Jesse DuClau, Distribution and Collections Systems Manager
Vishnu Gangadharan, P.E., Director of Engineering and Planning
Christopher Giesting, Water Supply and Treatment Manager
Stephanie Glasgow, M.E.S.H., P.H.R., Director of Human Resources and Safety
Jessica Godreau, P.E., Engineering Manager (Development Services)
Andrea Orbich, Clerk to the Board/Executive Assistant
Dan Przybyl, Director of Information Technology
Ruth Rouse, Planning and Development Manager
Kelly Satterfield, CPA, Finance and Procurement Manager
Allison Spinelli, P.E., Engineering Manager (Project Management)
Todd Taylor, P.E., Executive Director
Mary Tiger, Strategic Initiatives Manager
Stephen Winters, CPA, Director of Finance and Customer Service

General Counsel

Robert Epting, Esquire
Epting and Hackney, Attorneys at Law

DRAFT

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 (the "Authority") (a component unit of the Town of Chapel Hill, North Carolina), as of and for the years ended June 30, 2021 and 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

DRAFT

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, 2021 and 2020, and the respective changes in financial position and cash flows, thereof, 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 the Management's Discussion and Analysis, the Other Post-Employment Benefits Schedules of Changes in the Total OPEB Liability and Related Ratios, 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 consisted 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, the statistical section, as well as the Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

DRAFT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Orange Water and Sewer Authority's 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 the Authority's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 7, 2021

DRAFT

This page left blank intentionally.

DRAFT

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, 2021 and 2020. 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–vi.

Financial Highlights

- At June 30, 2021, OWASA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $279.5 million.
- OWASA's total net position increased by $3.3 million, primarily resulting from income realized from operating activities.
- Due to the condition and capacity of OWASA's system, about 71% of the organization's $15.8 million capital expenditures for Fiscal Year (FY) 2021 was invested in replacing and rehabilitating existing infrastructure.
- Non-current liabilities increased by about $21.9 million as a result of securing low-interest loans from the state of North Carolina, issuing the Series 2021 revenue bonds, and making principal payments on long-term debt.
- OWASA's credit ratings of AA+ from Fitch, Aa1 from Moody's, and AAA from Standard & Poor's remain unchanged.

Overview of the Financial Statements

OWASA's primary mission is to provide water, wastewater, 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, wastewater, 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 *Statements of Net Position*, a *Statements of Revenues, Expenses and Changes in Net Position* and a *Statements 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 *Statements 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 *Statements 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 *Statements of Net Position.*

DRAFT

The *Statements 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 *Statements 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 *Statements of Cash Flows* includes reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States, a reconciliation of cash and cash equivalents is also presented in this statement.

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

Financial Analysis

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

	Fiscal Year Ended			Percentage of Change (2020 to 2021)
	2021	2020	2019	
Current assets	$38.1	$29.5	$29.5	29.2%
Capital and other long-term assets	358.1	350.0	331.5	2.3
Total assets	396.2	379.5	361.0	4.4
Total deferred outflows of resources	6.0	2.7	4.0	122.2
Current liabilities	11.0	15.8	15.1	(30.4)
Non-current liabilities	110.3	88.4	75.9	24.8
Total liabilities	121.3	104.2	91.0	16.4
Total deferred inflows of resources	1.4	1.8	1.6	(22.2)
Net position				
Net investment in capital assets	263.6	270.0	266.1	(2.4)
Restricted	0.3	0.3	0.2	0.0
Unrestricted	15.6	5.9	6.1	164.4
Total net position	$279.5	$276.2	$272.4	1.2

DRAFT

OWASA's assets exceeded liabilities by $279.5 million at June 30, 2021, compared to $276.2 million and $272.4 million at June 30, 2020 and 2019, respectively. OWASA's overall financial position strengthened between FY 2019 and 2021 as net position increased by $7.1 million. Total assets increased during the same period by $35.2 million. These trends reflect investments in infrastructure improvements funded through a combination of cash and debt.

Net capital assets comprised about 91% of total assets for the comparative years of 2019 through 2021. These capital assets are essential in providing water and wastewater 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, 2021, these other unrestricted resources totaled $15.6 million and may be used for any lawful purpose.

Non-current liabilities increased by approximately 45.3% or $34.4 million during the same period reflecting increases in low-interest loans from the state of North Carolina and outstanding revenue bonds, net of 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.

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

	Fiscal Year Ended			Percentage of Change (2020 to 2021)
	2021	2020	2019	
Operating revenues				
Water, wastewater, reclaimed water	$34.7	$35.3	$35.2	(1.7%)
Other	0.8	1.0	1.0	(20.0)
Total operating revenues	35.5	36.3	36.2	(2.2)
Operating expenses	33.4	33.6	32.5	(0.6)
Operating income	2.1	2.7	3.7	(22.2)
Non-operating revenues (expenses)	(0.2)	(0.9)	(0.1)	(77.8)
Income before contributions	1.9	1.8	3.6	5.6
Capital contributions	1.4	2.0	4.0	(30.0)
Increase (decrease) in net position	3.3	3.8	7.6	(13.2)
Net position, July 1	276.2	272.4	264.8	1.4
Net position, June 30	$279.5	$276.2	$272.4	1.2

DRAFT

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, wastewater, 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, wastewater, 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 wastewater commodity charge is measured based on water consumption. However, for single-family residential customers, the wastewater commodity charge incorporates the assumption that not all water consumed is returned to the wastewater system. Wastewater 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 2021, drinking water volume sales averaged 5.6 million gallons per day (mgd); the averages for 2020 and 2019, were 5.8 and 6.0 mgd, respectively. The decline in drinking water demand in FY 2021 and 2020 was largely attributable to the impact that the COVID-19 pandemic on the local economy.

Drinking water demand remains much lower than long-term 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 nonresidential customers, respectively, and the use of reclaimed water by the University of North Carolina. Operating revenues for FY 2021 were about 2.2% less than the previous year or $35.5 million.

- **Operating Expenses**: Operating expenses were $33.4 million or about 0.6% less than FY 2020 and approximately 2.8% greater than FY 2019. OWASA's department managers expended about 6% less than the original amount budgeted for FY 2021. Operating expenses includes a $10.5 million charge for depreciation and a $987,000 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 development services fees, interest earnings, and gains (or losses) from the sale of surplus property. Development service 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.

  Development service fee revenue was approximately $1.9 million in FY 2021: about 17% more than FY 2019. For FY 2020 and 2019, development service fee revenue was about $1.4 million and $1.6 million, respectively. Interest earned in FY 2021 totaled about $1,300. Investments remained in safe and liquid secured deposits.

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

Capital Assets

Each year, OWASA expands or places into service new and renewed capital assets. Capital assets net of depreciation as of the end of FY 2021 was about $357.8 million, an increase of approximately $8.1 million from FY 2020. The net increase consisted of additions totaling $18.3 million and a reduction due to deprecation of $10.5 million. The asset additions included the rehabilitation or replacement of various water and wastewater 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 23 for additional information on capital assets.

DRAFT

Orange Water and Sewer Authority Capital Assets ($ Millions)				
	Fiscal Year Ended			Percentage of Change (2020 to 2021)
	2021	2020	2019	
Land	$17.6	$17.6	$17.6	0.0%
Construction in progress	57.9	58.6	50.1	(1.2)
Water treatment and distribution	106.5	105.9	104.0	0.6
Wastewater collection and treatment	154.1	151.6	145.8	1.7
Fixtures and equipment	21.7	16.0	13.7	35.6
Total	$357.8	$349.7	$331.2	2.3

Debt Administration

OWASA policy stipulates that at least 30% of capital improvements projects be funded with cash from operations. At June 30, 2021, 2020 and 2019, OWASA's outstanding bond and loan debt totaled $94.2 million, $80.0 million, and $66.5 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of a low-interest and interest-free loans from the state of North Carolina, and water and wastewater system revenue refunding bonds issued in fiscal years 2014, 2018, 2019, 2020, and 2021. At year end, OWASA owed an accrued debt service liability of approximately $2.9 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2021.

OWASA's credit ratings for its bonds are AAA by Standard & Poor's, Aa1 by the Moody's, AA+ by Fitch Ratings. These 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 25 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 19% 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.

DRAFT

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 2022 Budget Highlights

OWASA's Board of Directors approved a budget that includes a 5% increase in the rates charged for monthly water and sewer services. The FY 2022 budget for Operating expenses is about 2.1% greater than the original FY 2021 budget. Capital improvement expenditures are budgeted to be approximately $17.6 million.

Projected operating revenues for FY 2022 assumes little to no impact of the COVID-19 pandemic on water demand in OWASA's service area; water demand for FY 2022 is expected to return to pre-pandemic levels.

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.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2021 AND 2020

	2021	2020
Assets:		
Current assets:		
Cash and cash equivalents	$ 7,176,478	$ 10,251,654
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately $140,000 for 2021 and $85,000 for 2020)	4,493,011	3,920,289
Other	767,934	772,973
Inventory, materials, and supplies	1,429,256	1,334,873
Prepaid expenses	61,360	223,725
Restricted cash and cash equivalents:		
Cash and cash equivalents	1,230,921	1,187,201
Cash and cash equivalents, trustee	22,968,338	11,785,167
Total current assets	38,127,298	29,475,882
Non-current assets:		
Restricted cash and cash equivalents	310,538	276,217
Capital assets:		
Non-depreciable	75,529,532	76,207,750
Depreciable	282,277,088	273,476,388
Total capital assets, net of accumulated depreciation	357,806,620	349,684,138
Total non-current assets, net	358,117,158	349,960,355
Total assets	396,244,456	379,436,237
Deferred Outflows of Resources:		
Contributions to pension plan in current fiscal year	963,041	790,230
Pension deferrals	1,612,516	1,198,644
Contributions to OPEB plan in current fiscal year	295,482	295,137
OPEB deferrals	2,788,077	22,066
Deferred charge on refunding	351,007	386,106
Total deferred outflows of resources	6,010,123	2,692,183

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

DRAFT

ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2021 AND 2020

	2021	2020
Liabilities:		
Current liabilities:		
Payable from current assets:		
Trade and construction contracts payable	2,071,223	4,410,571
Accrued expenses	368,285	309,370
Payable from restricted cash and cash equivalents:		
Accrued interest	819,247	1,107,055
Customer deposits and advances	1,541,459	1,463,418
Current maturity of note payable	797,745	775,655
Current maturities of bonds payable	4,880,080	7,234,478
Current portion of compensated absences	543,784	525,644
Current maturity of capital lease	25,540	-
Total current liabilities	11,047,363	15,826,191
Non-current liabilities:		
Note payable	13,517,981	12,624,847
Bonds payable	74,962,553	59,391,026
Compensated absences	181,261	175,214
Net pension liability	4,542,897	3,324,897
Capital lease	419,534	-
Total OPEB liability	16,637,731	12,876,052
Total non-current liabilities	110,261,957	88,392,036
Total liabilities	121,309,320	104,218,227
Deferred Inflows of Resources:		
Pension deferrals	28,625	39,806
OPEB deferrals	1,406,247	1,710,345
Total deferred inflows of resources	1,434,872	1,750,151
Net Position:		
Net investment in capital assets	263,554,194	270,044,238
Restricted for capital reserve	310,538	276,217
Unrestricted	15,645,655	5,839,587
Total net position	$ 279,510,387	$ 276,160,042

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

DRAFT

ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating Revenues:		
Water	$ 17,608,186	$ 17,893,981
Sewer	16,620,662	16,948,606
Service initiation fees	15,810	24,680
Reclaimed water	454,180	480,547
Other	815,983	958,380
Total operating revenues	35,514,821	36,306,194
Operating Expenses:		
Water supply and treatment	4,526,700	4,883,456
Water distribution	4,364,507	4,734,237
Sewer treatment	4,905,226	5,081,371
Sewer collections	1,228,687	1,265,359
General and administrative	6,833,838	7,244,321
Depreciation and amortization	10,476,244	9,780,753
Other post-employment benefits	986,707	602,645
Total operating expenses	33,321,909	33,592,142
Operating income (loss)	2,192,912	2,714,052
Non-Operating Revenues (Expenses):		
Development serive fees	1,860,926	1,393,871
Investment income, net of fair value of investments adjustment	1,291	63,207
Interest expense	(2,708,475)	(2,565,779)
Amortization of bond and lease expense	946,570	611,927
Gain (Loss) on disposal of capital assets	58,639	56,978
FEMA reimbursement	731	55,042
Costs of issuance	(367,393)	(531,701)
Total non-operating revenues (expenses)	(207,711)	(916,455)

DRAFT

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, 2021 AND 2020

	2021	2020
Income (loss) before capital contributions	1,985,201	1,797,597
Capital Contributions:		
Contributions in aid of construction	1,365,144	1,992,762
Change in net position	3,350,345	3,790,359
Net Position:		
Beginning of year - July 1	276,160,042	272,369,683
End of year - June 30	$ 279,510,387	$ 276,160,042

DRAFT

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, 2021 AND 2020

	2021	2020
Cash Flows from Operating Activities:		
Receipts from customers	$ 34,131,155	$ 35,017,913
Payments to suppliers	(12,750,976)	(12,688,855)
Payments to employees	(11,918,164)	(11,635,507)
Other receipts	894,024	1,059,005
Net cash provided (used) by operating activities	10,356,039	11,752,556
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(17,253,574)	(26,283,821)
Proceeds from sale of property, plant, and equipment	58,639	56,978
Costs of issuance	(367,393)	(531,701)
Principal paid on bond maturities and other long-term debt	(7,329,500)	(16,177,407)
Interest paid on bond maturities and other long-term debt	(2,976,291)	(2,495,639)
Customer fees received	2,807,496	2,005,798
Proceeds from issuance of debt	22,888,598	31,256,235
Capital grants and contributions	731	55,042
Net cash provided (used) by capital and related financing activities	(2,171,294)	(12,114,515)
Cash Flows from Investing Activities:		
Interest and dividends on investments	1,291	63,207
Net increase (decrease) in cash and cash equivalents	8,186,036	(298,752)
Cash and Cash Equivalents:		
Beginning of year - July 1	23,500,239	23,798,991
End of year - June 30	$ 31,686,275	$ 23,500,239

DRAFT

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, 2021 AND 2020

	2021	2020
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	$ 2,192,912	$ 2,714,052
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	10,476,244	9,780,753
Pension (benefit) expense	(172,811)	(134,779)
(Increase) decrease in trade accounts receivable	(572,724)	(508,908)
(Increase) decrease in other receivables	5,039	179,007
(Increase) decrease in inventory	(94,383)	61,313
(Increase) decrease in prepaid expenses	162,365	(40,831)
(Increase) decrease in deferred outflows of resources for OPEB	(2,766,356)	(6,686)
(Increase) decrease in deferred outflows of resources for pensions	(413,872)	480,428
(Increase) decrease in deferred outflows of resources for deferred refunding costs	(946,570)	(611,925)
Increase (decrease) in trade and construction contracts payable	(2,339,348)	(1,104,406)
Increase (decrease) in customer deposits	78,041	100,625
Increase (decrease) accrued expenses	58,915	75,992
Increase (decrease) compensated absences	24,187	102,021
Increase (decrease) in net pension liability	1,218,000	342,390
Increase (decrease) in deferred inflows of resources for pensions	(11,181)	9,316
Increase (decrease) in deferred inflows of resources for OPEB	(304,098)	148,706
Increase (decrease) in other post-employment benefits	3,761,679	165,488
Net cash provided (used) by operating activities	$ 10,356,039	$ 11,752,556
Non-Cash Capital and Related Financing Activities:		
Property, plant, and equipment contributed by private developers	$ 1,365,144	$ 1,992,762

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

DRAFT

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 Annual Comprehensive 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.

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, 2021.

DRAFT

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 department level.

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 deposit.

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 non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT").

DRAFT

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 Government Portfolio's securities, an SEC-registered 2a-7 government money market fund, is measured at fair market value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

Cash and Cash Equivalents

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

Restricted Assets

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

Orange Water and Sewer Authority Restricted Cash

Business-Type Activities:	**2021**	**2020**
Bond service	$ 22,968,338	$ 11,785,167
Capital reserve	310,538	276,217
Customer deposits	1,230,921	1,187,201
Total business-type activities	$ 24,509,797	$ 13,248,585

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 $140,000 at June 30, 2021 and $85,000 at June 30, 2020.

DRAFT

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 prior to June 30, 2015 are recorded at their estimated fair market value at the date of donation. Donated capital assets received after June 30, 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:

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of 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 these criteria, an unamortized loss on bond defeasance for water and sewer refunding bonds, pension related deferrals, contributions made to the pension plan in the current fiscal year, contributions made to the OPEB plan in the current fiscal year, and OPEB related deferrals. In

DRAFT

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 two items that meets these criteria in the current year – pension related deferrals and OPEB 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, 2021 and 2020, the Authority had recorded a liability for accrued vacation and the salary-related payments of $725,045 and $700,858, respectively.

Long-Term Debt

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

Net Position

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

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for Capital Reserve – represents a portion of net position that is restricted by revenue source for future maintenance and capital.

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

F. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations, which is the sale of water and treatment of wastewater for its customers. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expense for the Authority includes the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

DRAFT

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.

H. Defined Benefit Cost-Sharing 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.

DRAFT

At June 30, 2021, the Authority's deposits had a carrying amount of $8,642,924 and a bank balance of $9,108,348. Of the bank balance, $250,000 was covered by federal depository insurance, and $8,851,348 in deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of $1,700 at June 30, 2021.

At June 30, 2020, the Authority's deposits had a carrying amount of $11,641,882 and a bank balance of $11,533,492. Of the bank balance, $250,000 was covered by federal depository insurance, and $11,283,492 in interest-bearing deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of $2,700 at June 30, 2020.

Cash Equivalents

At June 30, 2021 and 2020, the Authority's cash equivalents balances were as follows:

	2021	2020
The North Carolina Capital Management Trust, government portfolio	$23,041,651	$11,855,657

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's policy regarding credit risk is that funds shall not be exposed to undue or unreasonable 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 government portfolio carried a credit rating of AAAm by Standard & Poor's and AAA-mf by Moody's Investors Service as of June 30, 2021.

Receivables

Receivables, net of allowances for uncollectible accounts, at June 30, 2021 and 2020 were as follows:

	2021	2020
Utility accounts receivable	$ 4,493,011	$ 3,920,289
Other receivable	767,934	772,973
Total receivables, net	$ 5,260,945	$ 4,693,262

DRAFT

Capital Assets

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

	Balance July 1, 2020	Increases	Decreases	Transfers	Balance June 30, 2021
Non-Depreciable Assets:					
Land	$ 17,605,354	$ -	$ -	$ -	$ 17,605,354
Construction in progress	58,602,396	15,929,960	-	(16,608,178)	57,924,178
Total non-depreciable assets	76,207,750	15,929,960	-	(16,608,178)	75,529,532
Depreciable Assets:					
Water treatment and distribution	181,395,980	1,237,249	-	3,181,020	185,814,249
Sewer collection and treatment	232,692,633	381,921	-	6,927,604	240,002,158
Fixtures and equipment	52,687,128	1,069,588	(329,522)	6,499,554	59,926,748
Total depreciable assets	466,775,741	2,688,758	(329,522)	16,608,178	485,743,155
Less Accumulated Depreciation:					
Water treatment and distribution	75,453,234	3,855,479	-	-	79,308,713
Sewer collection and treatment	81,140,834	4,809,815	-	-	85,950,649
Fixtures and equipment	36,705,285	1,810,950	(309,530)	-	38,206,705
Total accumulated depreciation	193,299,353	$ 10,476,244	$ (309,530)	$ -	203,466,067
Total depreciable assets	273,476,388				282,277,088
Capital assets, net	$ 349,684,138				$ 357,806,620

DRAFT

	Balance July 1, 2019	Increases	Decreases	Transfers	Balance June 30, 2020
Non-Depreciable Assets:					
Land	$ 17,605,354	$ -	$ -	$ -	$ 17,605,354
Construction in progress	50,113,475	25,676,779	(563)	(17,187,295)	58,602,396
Total non-depreciable assets	67,718,829	25,676,779	(563)	(17,187,295)	76,207,750
Depreciable Assets:					
Water treatment and distribution	175,747,356	1,348,663	-	4,299,961	181,395,980
Sewer collection and treatment	222,398,717	699,342	-	9,594,574	232,692,633
Fixtures and equipment	48,961,413	551,799	(118,844)	3,292,760	52,687,128
Total depreciable assets	447,107,486	2,599,804	(118,844)	17,187,295	466,775,741
Less Accumulated Depreciation:					
Water treatment and distribution	71,714,344	3,738,890	-	-	75,453,234
Sewer collection and treatment	76,576,633	4,564,201	-	-	81,140,834
Fixtures and equipment	35,302,006	1,477,662	(74,383)	-	36,705,285
Total accumulated depreciation	183,592,983	$ 9,780,753	$ (74,383)	$ -	193,299,353
Total depreciable assets	263,514,503				273,476,388
Capital assets, net	$ 331,233,332				$ 349,684,138

Net Investment in Capital Assets

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

	2021	2020
Capital assets	$ 357,806,620	$ 349,684,138
Total debt, gross	(94,603,433)	(80,026,006)
Deferred charge related to debt	351,007	386,106
Net investment in capital assets	$ 263,554,194	$ 270,044,238

DRAFT

Long-Term Debt

Long-term debt as of June 30, 2021 and 2020 consists of the following:

	2021	2020
Revenue Bonds:		
Revenue bonds payable, Series 2020 Revenue Bonds, in the amount of $9,500,000, issued April 7, 2020, with coupon rates of 5.0%, final maturity June 2026; net of unamortized premium of $821,835 at June 30, 2021	$ 7,720,000	$ 9,500,000
Revenue bonds payable, Series 2019 Revenue Bonds, in the amount of $16,640,000, issued November 15, 2019, with coupon rates of 3.0% and 5.0%, final maturity June 2044; net of unamortized premium of $1,877,575 at June 30, 2021	16,250,000	16,640,000
Revenue bonds payable, Series 2018 Refunding Revenue Serial bonds, in the amount of $18,075,000, issued April 10, 2018, with a coupon rate of 2.3%, final maturity July 2029, net of unamortized premium of $1,309,010 at June 30, 2021	18,075,000	18,075,000
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.	-	1,420,000
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 $812,604 at June 30, 2021	12,525,000	13,375,000
Revenue bonds payable, Series 2021 Water and Sewer System Revenue Bonds, in the amount of $18,840,000, issued April 8, 2021, with coupon rates of 5.0%, final maturity June 2046; net of unamortized premium of $1,611,608 at June 30, 2021	18,840,000	-
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.	-	1,835,000
	$ 73,410,000	$ 60,845,000

The revenue bonds are secured by pledged water and sewer customer revenues, net of specified operating expenses to repay revenue bonds. In the event of a default, the Authority agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the Authority under the related agreements.

DRAFT

	2021	2020
Note Payable Direct Borrowing:		
Note payable to NCDEQ 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	$ 4,264,000	$ 4,592,000
Note payable to NCDEQ in the amount of $1,056,000 issued July 28, 2018, interest at 1.53%, DWSRF loan, beginning May 2019, payable in annual installments of $52,800, with a final payment due in May 2038	840,275	889,703
Note payable to NCDEQ in the amount of $3,028,700 issued June 17th, 2019, interest at 1.53%, DWSRF loan, beginning November 2020, due in annual installments,varying, with a final payment due in May 2040	1,926,566	2,078,001
Note payable to NCDEQ in the amount of $1,658,000 issued September 12, 2017, interest at 1.53%, State Reserve Loan, beginning May 2021, due in annual installments, varying, with a final payment due in May 2040	274,559	-
Note payable to NCDEQ in the amount of $1,525,000 issued August 1, 2017, interest at 1.53%, State Reserve Loan, beginning November 2020, due in annual installments, varying, with a final payment due in May 2040	829,436	-
Note payable to NCDEQ in the amount of $670,156 issued April 7, 2020, interest at 1.42%, DWSRF loan, beginning May 2021, due in annual installments, varying, with a final payment due in May 2040	636,648	-
Note payable to NCDEQ in the amount of $6,132,000 issued June 3, 2019, interest at 1.53%, Federal Revolving loan, beginning May 2020, payable in annual installments of $266,429, with a final payment due in May 2039	4,795,727	5,062,157
Note payable to NCDEQ in the amount of $1,071,000 issued July 27, 2019, interest at 1.53%, Federal Revolving loan, beginning May 2020, payable in annual installments of $53,550, with a final payment due in May 2039	748,515	778,641
	$ 14,315,726	$ 13,400,502

DRAFT

The Authority's outstanding notes from direct borrowings related to business-type activities is not secured by a pledge of the faith and credit of the State of North Carolina or of the Authority but is payable solely from the revenues of the project or benefited systems, or other available funds. The note contains provisions that an event of default would result in (1) any other monies due to the Authority from the state may be withheld by the state and applied to the payment of the outstanding note.

Bonds payable maturities are as follows:

Year Ending June 30	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2022	$ 3,775,000	$ 1,069,979	$ 4,844,979	$ 2,881,257
2023	5,005,000	939,784	5,944,784	2,663,512
2024	5,320,000	812,507	6,132,507	2,408,513
2025	5,645,000	673,572	6,318,572	2,137,638
2026	5,980,000	522,601	6,502,601	1,850,512
2027-2031	21,775,000	1,396,735	23,171,735	6,016,539
2032-2036	9,090,000	429,962	9,519,962	2,851,887
2037-2041	8,900,000	176,900	9,076,900	1,632,388
2042-2045	7,920,000	59,589	7,979,589	492,080
Total	$ 73,410,000	$ 6,081,629	$79,491,629	$22,934,326

Notes payable – direct borrowing maturities are as follows:

Year Ending June 30	Maturities	Interest	Total
2022	$ 797,745	$ 160,261	$ 958,006
2023	848,649	160,907	1,009,556
2024	851,761	152,231	1,003,992
2025	854,921	143,495	998,416
2026	858,128	134,696	992,824
2027-2031	4,340,496	539,255	4,879,751
2032-2036	3,772,326	309,466	4,081,792
2037-2040	1,991,700	77,366	2,069,066
Total	$ 14,315,726	$ 1,677,677	$ 15,993,403

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

DRAFT

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, 2021, $13,075,000 of bonds outstanding are considered defeased.

Advance Refunding

On April 7, 2020, the Authority issued $9,500,000 of Series 2020 revenue bonds to provide resources that were placed in an irrevocable trust to be used for all future debt service payments of $10,350,000 of Series 2010 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. This advanced refunding was undertaken to reduce total debt service payments over the next 6 years by $1,091,381 and resulted in an economic gain of $1,024,076. On June 30, 2021, $10,350,000 of bonds outstanding are considered defeased.

Capital Leases

The Authority has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

Class of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	$ 458,074	$ 6,919	$ 451,155

For the Authority, the future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021 were as follows:

Year Ending June 30	Business-Type Activities
2022	$ 25,540
2023	25,540
2024	25,540
2025	25,540
2026	25,540
Thereafter	497,800
Total minimum lease payments	625,500
Less amount representing interest	180,426
Present value of the minimum lease payments	$ 445,074

DRAFT

Long-term liability activity for the years ended June 30, 2021 and 2020 is as follows:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Due Within One Year
Direct borrowings	$ 13,400,502	$ 1,956,724	$ 1,041,500	$ 14,315,726	$ 797,745
Bonds Payable:					
Revenue bonds	60,845,000	18,840,000	6,275,000	73,410,000	3,775,000
For issuance premiums	5,780,504	1,633,800	981,671	6,432,633	1,105,080
Capitalized leases	-	458,074	13,000	445,074	25,540
Compensated absences	700,858	423,947	399,760	725,045	543,784
Net pension liability (LGERS)	3,324,897	1,218,000	-	4,542,897	-
Total OPEB liability	12,876,052	3,761,679	-	16,637,731	-
Total	$ 96,927,813	$ 28,292,224	$ 8,710,931	$ 116,509,106	$ 6,247,149

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Due Within One Year
Direct borrowings	$ 12,244,218	$ 1,853,691	$ 697,407	$ 13,400,502	$ 775,655
Bonds Payable:					
Revenue bonds	50,185,000	26,140,000	15,480,000	60,845,000	6,275,000
For issuance premiums	4,070,989	3,262,544	1,553,029	5,780,504	959,478
Compensated absences	598,837	544,642	442,621	700,858	525,644
Net pension liability (LGERS)	2,982,507	342,390	-	3,324,897	-
Total OPEB liability	12,710,564	165,488	-	12,876,052	-
Total	$ 82,792,115	$ 32,308,755	$ 18,173,057	$ 96,927,813	$ 8,535,777

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay $73,410,000 in revenue bonds issued in 2010, 2014, 2015, 2018, 2019, 2020 and 2021. 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 2046, solely from the water and sewer customer net revenues. The total principal and interest remaining to be paid on the bonds is $96,344,326. Principal and interest paid in the years ended June 30, 2021 and 2020 were $9,119,242 and $7,566,596, respectively, and total customer net revenues for the years ended June 30, 2021 and 2020 were $35,514,821 and $36,306,194, respectively. There is no unused line of credit.

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 2010, 2014, 2015, 2018, 2019, and 2020. The bond order requires the debt service coverage ratio to be no less than 120% of the debt service requirements for parity indebtedness.

DRAFT

The debt service coverage ratio calculation for the year ended June 30, 2021 is as follows:

Operating revenues and charges for services	$ 35,514,821
Operating expenses*	21,858,958
Income available for debt service	$ 13,655,863
Debt service, principal and interest paid	$ 9,119,242
Debt service coverage ratio for parity debt	150%

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

3. Pension Plan Obligations

Local Governmental Employees' Retirement System

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

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

DRAFT

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, 2021, was 10.19% 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 $963,041, for the year ended June 30, 2021.

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, 2021, the Authority reported a liability of $4,542,897 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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, 2021, the Authority's proportion was 0.12713% (measured as of June 30, 2020), which was an increase of 0.00538% from its proportion as of June 30, 2020 (measured as of June 30, 2019).

DRAFT

For the year ended June 30, 2021, the Authority recognized pension expense of $1,583,177. At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 573,688	$ -
Changes of assumptions	338,081	-
Net difference between projected and actual earnings on pension plan investments	639,291	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	61,456	28,625
Employer contributions subsequent to the measurement date	963,041	-
Total	$ 2,575,557	$ 28,625

$963,041 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 ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2022	$ 446,892
2023	592,554
2024	355,246
2025	189,199
Total	$ 1,583,891

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

DRAFT

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, 2019 valuation were based on the results of an actuarial experience study as of December 31, 2014.

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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. 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

DRAFT

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 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the net pension liability (asset)	$ 9,217,042	$ 4,542,897	$ 658,353

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

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. The Authority has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75.

Benefits Provided. If hired prior to September 1, 2019, 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.

If hired after September 1, 2019, employees are required to contribute to a Retirement Health Savings (RHS) account. Employees will contribute 2% each pay period up to $1,000 per plan year. The Authority will contribute $35 per pay period up to $910 per year. The employer contribution and the employee $1,000 per plan year will increase annually by the Board approved Cost of Labor Adjustment.

DRAFT

All active full-time employees are eligible for membership. At June 30, 2020, the plan membership consisted of:

Members	
Retirees and dependents receiving benefits	43
Active members	121
Total	164

Total OPEB Liability

The Authority's total OPEB liability of $16,637,731 was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2019.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.50 - 7.75 percent, average, including inflation
Discount rate	2.21 percent
Healthcare cost trend rates	Pre-Medicare - 7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026 Medicare - 5.00% for 2019 decreasing to an ultimate rate of 4.50% by 2021

The discount rate used to measure the total OPEB liability is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Changes in the Total OPEB Liability

Total OPEB Liability:	
Balance at July 1, 2020	$ 12,876,052
Changes for the year:	
Service cost at end of year	407,705
Interest	459,812
Difference between expected and actual experience	(37,771)
Changes of assumptions or other inputs	3,227,040
Benefit payments and implicit subsidy credit	(295,107)
Net change in total OPEB liability	3,761,679
Balance at June 30, 2021	$ 16,637,731

Changes in assumptions and other inputs reflect a change in the discount rate from 3.50% to 2.21%.

DRAFT

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21 percent) or 1-percentage-point higher (3.21 percent) than the current discount rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability	$ 19,961,381	$ 16,637,731	$ 14,051,339

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
Total OPEB liability	$ 13,715,869	$ 16,637,731	$ 20,509,709

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

For the year ended June 30, 2021, the Authority recognized OPEB expense of $986,707. At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,448	$ 310,569
Changes of assumptions or other inputs	2,770,629	1,095,678
Contributions made to the OPEB plan in the current year	295,482	-
Total	$ 3,083,559	$ 1,406,247

DRAFT

$295,482 reported at deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2022	$ 119,190
2023	119,190
2024	119,190
2025	208,463
2026	337,894
Thereafter	477,903
Total	$ 1,381,830

Other Employment Benefits

The Authority has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed $50,000 or be less than $25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Authority, the Authority does not determine the number of eligible participants. The Authority has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and law enforcement officers. The Authority considers these contributions to be immaterial.

DRAFT

4. Deferred Outflows and Inflows of Resources

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

	2021	2020
Deferred Outflows:		
Contributions to pension plan in current fiscal year	$ 963,041	$ 790,230
Pension deferrals	1,612,516	1,198,644
Contributions to OPEB plan in current fiscal year	295,482	295,137
OPEB deferrals	2,788,077	22,066
Deferred charge on refunding	351,007	386,106
Total	$ 6,010,123	$ 2,692,183
Deferred Inflows:		
Pension deferrals	$ 28,625	$ 39,806
OPEB deferrals	1,406,247	1,710,345
Total	$ 1,434,872	$ 1,750,151

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's property insurance does have a flood coverage endorsement. Coverage is provided in zones B, C and X. There is a $5M single occurrence and yearly aggregate limit and the deductible is $50k for a single occurrence.

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 $1,553,297 at June 30, 2021.

6. Net Position

At June 30, 2021 and 2020, the Board of Directors had approved the use of the unrestricted net position for the following purposes:

	2021	2020
Operating reserve	$ 15,645,655	$ 5,839,587

DRAFT

7. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

8. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. These reclassifications had no effect on previously reported results of operations or net position.

9. Summary Disclosure of Significant Commitments and Contingencies

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Authority, COVID-19 is expected to impact various parts of its fiscal year 2021-22 operations and financial results. Management believes the Authority is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
LAST FOUR FISCAL YEARS

Schedule of Changes in the Total OPEB Liability and Related Ratios

Total OPEB Liability	2021	2020	2019	2018
Service cost at end of year	$ 407,705	$ 445,581	$ 473,531	$ 537,550
Interest	459,812	488,973	449,217	396,831
Difference between expected and actual experience	(37,771)	(387,860)	10,631	23,866
Changes of assumptions or other inputs	3,227,040	(97,373)	(719,076)	(1,282,089)
Benefit payments and implicit subsidy credit	(295,107)	(283,833)	(242,282)	(240,928)
Net change in total OPEB liability	3,761,679	165,488	(27,979)	(564,770)
Total OPEB liability - beginning	12,876,052	12,710,564	12,738,543	13,303,313
Total OPEB liability - ending	$ 16,637,731	$ 12,876,052	$ 12,710,564	$ 12,738,543
Covered payroll	$ 7,704,086	$ 7,704,086	$ 7,751,275	$ 7,751,275
Total OPEB liability as a percentage of covered payroll	215.96%	167.13%	163.98%	164.34%

Notes to Schedule:
Changes of Assumptions: Changes of assumptions and other inputs reflect the effects of changes on the discount rate of each period. The following are the discount rates used in each period:

Fiscal Year	Rate
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

DRAFT

ORANGE WATER AND SEWER AUTHORITY

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

Local Government Employees' Retirement System

	2021	2020	2019	2018
Authority's proportion of the net pension liability (asset) (%)	0.12713%	0.12175%	0.12572%	0.12711%
Authority's proportion of the net pension liability (asset) ($)	$ 4,542,897	$ 3,324,897	$ 2,982,507	$ 1,941,888
Authority's covered payroll	$ 8,780,335	$ 8,396,386	$ 8,171,152	$ 8,194,045
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	51.74%	39.60%	36.50%	23.70%
Plan fiduciary net position as a percentage of the total liability	88.61%	90.86%	91.63%	94.18%

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

The pension schedules are intended to report information for ten years, and additional years' information will be displayed as it becomes available.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

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

Local Government Employees' Retirement System

	2017	2016	2015	2014
Authority's proportion of the net pension liability (asset) (%)	0.12882%	0.11995%	0.12040%	11.89000%
Authority's proportion of the net pension liability (asset) ($)	$ 2,733,991	$ 538,330	$ (709,819)	$ 1,433,202
Authority's covered payroll	$ 6,980,328	$ 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 payroll	39.17%	7.32%	(9.73%)	20.74%
Plan fiduciary net position as a percentage of the total liability	91.47%	98.09%	102.64%	94.35%

DRAFT

ORANGE WATER AND SEWER AUTHORITY

CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS

Local Government Employees' Retirement System	2021	2020	2019	2018
Contractually required contribution	$ 963,041	$ 790,230	$ 655,451	$ 617,219
Contributions in relation to the contractually required contribution	963,041	790,230	655,451	617,219
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 8,877,118	$ 8,780,335	$ 8,396,386	$ 8,171,152
Contributions as a percentage of covered payroll	10.85%	9.00%	7.81%	7.55%

The pension schedules are intended to report information for ten years, and additional years' information will be displayed as it becomes available.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT FISCAL YEARS

Local Government Employees' Retirement System	2017	2016	2015	2014
Contractually required contribution	$ 598,984	$ 510,262	$ 519,888	$ 516,608
Contributions in relation to the contractually required contribution	598,984	510,262	519,888	516,608
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 8,194,045	$ 6,980,328	$ 7,352,374	$ 7,297,821
Contributions as a percentage of covered payroll	7.31%	7.31%	7.07%	7.08%

DRAFT

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Water	$ 17,701,102	$ 17,608,186	$ (92,916)
Sewer	16,820,377	16,620,662	(199,715)
Reclaimed water	463,200	454,180	(9,020)
Service initiation fees	18,820	15,810	(3,010)
Other	922,686	815,983	(106,703)
Total operating revenues	35,926,185	35,514,821	(411,364)
Non-operating revenues:			
Interest income	81,296	1,291	(80,005)
Development service fees	1,081,490	1,860,926	779,436
FEMA Reimbursement	-	731	731
Total non-operating revenues	1,162,786	1,862,948	700,162
Total revenues	37,088,971	37,377,769	288,798
Expenditures:			
Water supply and treatment:			
Salaries and wages	1,471,741	602,312	869,429
Fringe benefits	605,820	473,703	132,117
Materials and supplies	186,992	139,527	47,465
Chemicals	1,413,495	1,345,999	67,496
Utilities	292,206	283,204	9,002
Maintenance	963,953	713,580	250,373
Professional services	12,500	28,179	(15,679)
Insurance	64,800	60,139	4,661
Communication	3,000	542	2,458
Education and development	9,600	4,125	5,475
Miscellaneous	80,809	82,443	(1,634)
Total water supply and treatment	5,104,916	3,733,753	1,371,163

DRAFT

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Variance Over/Under
Water distribution:			
Salaries and wages	1,721,815	1,635,937	85,878
Fringe benefits	754,191	2,141,080	(1,386,889)
Materials and supplies	105,143	89,431	15,712
Utilities	210,306	155,929	54,377
Maintenance	539,436	476,484	62,952
Insurance	6,900	8,525	(1,625)
Communication	5,000	3,828	1,172
Printing and reproduction	1,500	-	1,500
Education and development	23,100	7,611	15,489
Miscellaneous	1,500	3,359	(1,859)
Total water distribution	3,368,891	4,522,184	(1,153,293)
Construction credits	(187,250)	(157,677)	(29,573)
Wastewater treatment:			
Salaries and wages	1,525,274	1,653,858	(128,584)
Fringe benefits	611,431	488,045	123,386
Materials and supplies	249,094	205,840	43,254
Chemicals	805,569	750,651	54,918
Utilities	663,536	616,140	47,396
Maintenance	1,167,944	997,830	170,114
Professional services	20,000	10,844	9,156
Insurance	77,721	72,956	4,765
Communication	1,000	960	40
Education and development	38,625	4,853	33,772
Miscellaneous	69,350	103,249	(33,899)
Total wastewater treatment	5,229,544	4,905,226	324,318
Sewer collections:			
Salaries and wages	543,498	542,546	952
Fringe benefits	257,032	178,029	79,003
Materials and supplies	50,681	26,101	24,580
Chemicals	230,000	231,302	(1,302)
Utilities	136,974	107,897	29,077
Maintenance	190,294	157,205	33,089
Insurance	6,900	7,903	(1,003)
Communication	500	148	352

DRAFT

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Variance Over/Under
Printing and distribution	7,000	-	7,000
Education and development	10,750	9,302	1,448
Miscellaneous	6,000	2,633	3,367
Total sewer collections	1,439,629	1,263,066	176,563
Construction credits	-	(34,379)	34,379
General and administrative:			
Salaries and wages	3,777,553	3,772,133	5,420
Fringe benefits	1,601,088	838,277	762,811
Materials and supplies	142,613	109,564	33,049
Utilities	191,800	161,028	30,772
Maintenance	468,853	478,749	(9,896)
Professional services	1,235,855	1,034,981	200,874
Insurance	81,031	103,823	(22,792)
Communication	187,746	219,293	(31,547)
Printing and reproduction	26,700	10,360	16,340
Education and development	95,010	19,127	75,883
Miscellaneous	203,545	190,099	13,446
Total general and administrative	8,011,794	6,937,434	1,074,360
Construction credits	(147,179)	(127,783)	(19,396)
Debt Service:			
Principal		7,329,500	
Interest		2,420,667	
Total debt service	9,068,258	9,750,167	(681,909)
Capital outlay	21,393,500	17,253,574	4,139,926
Total expenditures	53,282,103	48,045,565	5,236,538
Revenues over (under) expenditures	(16,193,132)	(10,667,796)	5,525,336

DRAFT

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2021

	Final Budget	Actual	Variance Over/Under
Other Financing Sources (Uses):			
Proceeds from borrowing	15,488,632	20,796,724	(5,308,092)
Bond refunding premium	-	1,633,800	(1,633,800)
Appropriated fund balance	704,500	-	704,500
Total other financing sources (uses)	16,193,132	22,430,524	(6,237,392)
Net change in fund balance	$ -	11,762,728	$ 11,762,728
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Principal payments debt		7,329,500	
Bond refunding premium		(1,633,800)	
Long-term debt issued		(20,796,724)	
Change in interest accrual for bonded debt		(287,808)	
Depreciation		(10,476,244)	
Change in deferred outflows of resources - pensions		413,872	
Change in net pension liability		(1,218,000)	
Change in deferred inflows of resources - pensions		11,181	
Change in compensated absences		(24,187)	
OPEB expense		(986,707)	
Amortization of bond expense and patent		946,570	
Capital outlay		17,253,574	
Gain on disposal of capital asset		58,639	
Costs of issuance		(367,393)	
Capital contributions		1,365,144	
Change in net position		$ 3,350,345	

DRAFT

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2021

	Project Budget	Cumulative Total to June 30, 2021	Unexpended Balance as of June 30, 2021
Raw Water Supply Sources:			
Revenues:			
General Fund	$ 2,892,103	$ 2,988,196	$ (96,093)
Expenditures:			
Jordan Lake raw water supply intake and pumping facility	$ 352,558	$ 358,883	$ (6,325)
Stone quarry development	411,545	192,872	218,673
University Lake pump station improvements	1,426,000	2,195,050	(769,050)
Cane Creek pump station improvements	35,000	-	35,000
Cane Creek raw water transmission main capacity study	200,000	275	199,725
University Lake permanganate facility	347,000	241,116	105,884
University Lake fishing pier and boat launch	70,000	-	70,000
Western Intake Partnership projects	50,000	-	50,000
Total expenditures	$ 2,892,103	$ 2,988,196	$ (96,093)
Water Treatment:			
Revenues:			
General Fund	$ 9,770,000	$ 10,231,009	$ (461,009)
Expenditures:			
Water treatment plant rehabilitation projects	$ 80,000	$ 131,057	$ (51,057)
Water treatment plant front entry rehabilitation	35,000	11,235	23,765
HVAC replacement	325,000	200,129	124,871
Water treatment plant electrical distribution improvements	200,000	478,709	(278,709)
Plants SCADA master plan	175,000	120,900	54,100
Water treatment plant turbidimeter replacements	90,000	49,211	40,789
Water treatment plant sedimentation basin rehabilitation	2,647,000	2,813,582	(166,582)
Water treatment plant concrete condition assessment	375,000	165,556	209,444
Water treatment plant filter media and backwash improvements	1,330,000	1,335,321	(5,321)
Water treatment plant finished water pump improvements	850,000	537,660	312,340
Water treatment plant chemical facility upgrades	2,855,000	3,741,871	(886,871)
Water treatment plant belt filter press replacement	808,000	645,778	162,222
Total expenditures	$ 9,770,000	$ 10,231,009	$ (461,009)
Water Transmission and Distribution:			
Revenues:			
General Fund	$ 29,608,547	$ 21,057,961	$ 8,550,587
Expenditures:			
Water main - road improvement projects	$ 612,000	$ 426,091	$ 185,909
Water main rehabilitation/replacement projects	7,942,547	6,422,739	1,519,808
High priority water main replacement	8,832,000	7,813,718	1,018,282
Water main upgrades - development projects	231,000	-	231,000
Barbee Chapel Road booster pump station study	75,000	-	75,000
Dobbins Drive water main replacement	1,196,000	1,429,409	(233,409)
Dobbins Drive water main condition assessment	435,000	-	435,000

DRAFT

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2021

	Project Budget	Cumulative Total to June 30, 2021	Unexpended Balance as of June 30, 2021
Cameron Avenue water main replacement	2,244,000	1,691,929	552,071
Cameron Avenue water main design alternatives assessment	25,000	-	25,000
Water distribution system hydraulic model	280,000	90,804	189,196
Jones Ferry water line improvements	1,800,000	829,222	970,778
Galvanized water main replacement	1,709,000	534,479	1,174,521
Kensington water line replacement	2,079,000	1,212,271	866,729
Distribution system prioritization model	495,000	465,482	29,518
Distribution system sampling stations	185,000	2,000	183,000
Bolinwood Bridge water main replacement	300,000	138,262	161,738
Westwood neighborhood water and sewer rehabilitation	75,000	-	75,000
Lake Ellen water main replacement	160,000	-	160,000
Brandywine Road water main replacement	739,000	-	739,000
Barnes Street valve evaluation	34,000	-	34,000
Distribution system condition assessment	100,000	1,554	98,446
Water main replacement - Group II	60,000	-	60,000
Total expenditures	$ 29,608,547	$ 21,057,960	$ 8,550,587
Wastewater Collection Lines:			
Revenues:			
General Fund	$ 19,328,000	$ 14,511,635	$ 4,816,366
Expenditures:			
Gravity sewer rehabilitation	$ 12,837,000	$ 10,827,528	$ 2,009,472
Bolinwood Drive interceptor replacement	1,254,000	294,264	959,736
Dobbins Drive interceptor replacement	2,910,000	2,439,616	470,384
Willow Drive interceptor replacement	25,000	-	25,000
Prince Street common service replacement	65,000	46,055	18,945
Rocky Branch interceptor replacement	62,000	39,502	22,498
Creek crossing access improvements	771,000	136,643	634,357
Rogers Road sanitary sewer extension	1,803,000	1,135,421	667,579
Credit (Orange County reimbursement) Rogers Road sewer	(1,673,000)	(1,074,845)	(598,155)
Sanitary sewer hydraulic modeling	1,214,000	655,204	558,796
Collection system flow monitors	60,000	-	60,000
East Main Street sewer rehabilitation	-	12,246	(12,246)
Total expenditures	$ 19,328,000	$ 14,511,634	$ 4,816,366

DRAFT

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2021

	Project Budget	Cumulative Total to June 30, 2021	Unexpended Balance as of June 30, 2021
Wastewater Pumping Stations and Force Mains:			
Revenues:			
General Fund	$ 6,295,000	$ 9,196,765	$ (2,901,766)
Expenditures:			
Rogerson Drive pump station rehabilitation	$ 4,448,000	$ 3,324,613	$ 1,123,387
Rogerson Drive force main routing study	50,000	-	50,000
Rogerson Drive force main evaluation	75,000	-	75,000
Rogerson Drive force main and pump station program	147,000	109,532	37,468
Pump station operational assessments	140,000	48,228	91,772
Rogerson Drive force main emergency repair	1,200,000	5,677,521	(4,477,521)
Wastewater pump station rehabilitation	235,000	36,872	198,128
Total expenditures	$ 6,295,000	$ 9,196,766	$ (2,901,766)
Wastewater Treatment and Disposal:			
Revenues:			
General Fund	$ 20,638,000	$ 15,140,617	$ 5,497,383
Expenditures:			
Mason Farm waste water treatment plant rehabilitation and improvement project	$ 2,107,000	$ 2,431,685	$ (324,685)
Mason Farm waste water treatment plant intermediate pump station (IPS) rehabilitation	1,716,000	930,680	785,320
Mason Farm waste water treatment plant solids thickening system improvements	8,601,000	6,316,944	2,284,056
Mason Farm waste water treatment plany hyper-pitch mixer blades	58,000	-	58,000
Mason Farm waste water treatment plant piping heat tracing and insulation	35,000	-	35,000
Plants facilities building envelope rehabilitation	1,175,000	797,630	377,370
Mason Farm waste water treatment plant miscellaneous building rehabilitation	65,000	-	65,000
Mason Farm waste water treatment plant biosolids conveyance and loading	91,000	-	91,000
Offsite biosolids storage improvements	115,000	38,782	76,218
Mason Farm waste water treatment plant filtrate side stream treatment	194,000	-	194,000
Mason Farm waste water treatment plant secondary clarifier rehabilitation and pumping improvements	2,461,000	1,246,255	1,214,745
Mason Farm waste water plant digester complex rehabilitation and improvements	692,000	878,805	(186,805)
Mason Farm waste water treatment plant fermenter tank and pumping rehabilitation	200,000	-	200,000
Mason Farm waste water treatment plant primary sludge pump station rehabilitation and old lab building demo	75,000	-	75,000
Asset Management Plan development	-	24,840	(24,840)

DRAFT

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2021

	Project Budget	Cumulative Total to June 30, 2021	Unexpended Balance as of June 30, 2021
Mason Farm waste water treatment plant rehabilitation and replacement of chemical building and piping	995,000	907,586	87,414
Mason Farm waste water treatment plant security improvements	182,000	33,380	148,620
Mason Farm waste water treatment plant gas monitoring system	190,000	-	190,000
Mason Farm waste water tretament plant headworks rehabilitation	1,361,000	1,495,464	(134,464)
Mason Farm waste water plant facilities planning	100,000	88	99,912
Mason Farm waste water treatment plant clarifier No. 4 conversion	125,000	38,478	86,522
Mason Farm waste water treatment plant administration building planning study	25,000	-	25,000
Reclaimed water valve and coupling rehabilitation	75,000	-	75,000
Total expenditures	$ 20,638,000	$ 15,140,617	$ 5,497,383
Facility Improvements:			
Revenues:			
General Fund	$ -	$ 10,240	$ (10,240)
Expenditures:			
Administration building locker room renovation study	$ -	$ 10,240	$ (10,240)

DRAFT

This page left blank intentionally.

DRAFT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the years ended June 30, 2021 and 2020 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 7, 2021.

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) as a basis for designing 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.

DRAFT

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, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.
Hickory, North Carolina
September 7, 2021

DRAFT

Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; in Accordance with Uniform Guidance; and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the Orange Water and Sewer Authority's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Orange Water and Sewer Authority's major state programs for the year ended June 30, 2021. The Orange Water and Sewer Authority's major state program is identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Orange Water and Sewer Authority's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 US *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the *State Single Audit Implementation Act*. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Orange Water and Sewer Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

DRAFT

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

Opinion on Each Major State Program

In our opinion, the Orange Water and Sewer Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 7, 2021

DRAFT

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	

State Awards

Internal control over major state programs:			
• Material weakness(es) identified?	_____ Yes	X No	
• Significant deficiency(ies) identified?	_____ Yes	X None reported	
Type of auditor's report issued on compliance for major state programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?	_____ Yes	X No	

Identification of major state programs:

State Reserve Loan

DRAFT

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

None

3. Findings Related to the Audit of State Awards

None

DRAFT

None reported.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	State/ Pass-through Grantor's Number	Federal (Direct & Passed-through) Expenditures	State Expenditures	Passed Through To Subrecipients
Federal Grants:					
U.S. Environmental Protection Agency					
Passed-through the N.C. Department of Environmental Quality:					
Division of Water Infrastructure:					
Drinking Water State Revolving Fund Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	WIF-1928	$ 3,695	$ -	$ -
Capitalization Grants for Drinking Water State Revolving Funds	66.468	WIF-1981	677,427	-	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	WIF-1983	16,294	-	-
Total Drinking Water State Revolving Fund Cluster			697,416	-	-
Total U.S. Environmental Protection Agency			697,416	-	-
Total Federal Assistance			$ 697,416	$ -	$ -
N.C. Department of Environmental Quality					
Division of Water Infrastructure:					
State Reserve Loan		H-SRP-D-17-0021	$ -	$ 386,894	$ -
State Reserve Loan		E-SRP-W-17-0047	-	1,553,548	-
Total N.C. Department of Environmental Quality			-	1,940,442	-
Total State Assistance			$ -	$ 1,940,442	$ -
Total Federal and State Assistance			$ 697,416	$ 1,940,442	$ -

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

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Orange Water and Sewer Authority under the programs of the federal government and the State of North Carolina for the year ended June 30, 2021. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the operations of the Orange Water and Sewer Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Orange Water and Sewer Authority.

2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Orange Water and Sewer Authority has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

3. Loans Outstanding

The Authority had the following loan balances outstanding at June 30, 2021 for loans that the grantor/pass-passthrough grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA.

The balance of loans outstanding at June 30, 2021 consist of:

Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Amount Outstanding
Capitalization Grants for Drinking Water State Revolving Funds	66.468	WIF-1981	$ 636,648
State Reserve Loan	N/A	H-SRP-D-17-0021	829,436

DRAFT

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, 2021 and 2020, 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 7, 2021.

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. However, our audit was not directed primarily toward obtaining knowledge of such non-compliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's non-compliance with the above referenced terms, covenants, provisions, or conditions of the bond order, in so far 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.
Hickory, North Carolina
September 7, 2021

DRAFT

This page left blank intentionally.

DRAFT

OWASA Board of Directors – 12 Month Board Meeting Schedule (September 17, 2021)

Month	Board Meetings		Committee Meetings & Other Board Items
	Work Session	Business Meeting	
September 2021	Annual Report on Disposal of Surplus Personal Property (C) Resolution Authorizing ED to Apply for Loans from State of NC EEO/Affirmative Action Report and D&I Update (C) Strategic Plan Update Update on OWASA's COVID-19 Vaccination and Local Govt/Organizations Policies CS – Prepare for GC Annual Review (C) 9/9/2021	Annual Report and Financial Audit (C) Approve GC Engagement (C) PFAS Cost Recovery Forest Management Program Update (Annual Meeting of the BOD) 9/23/2021	*Possible welcome of new Board member(s)* *Meeting between the BOCC Members & Orange County Appointees to the BOD (9-23-2021)*
October 2021	Strategic Plan Update LRWSP - Preview of Jordan Lake Alternatives CS – Cybersecurity Update 10/14/2021	(Tentative) Receipt of the OC Board of Health Report on Drinking Water Fluoridation Strategic Trends Report (C) Q1 Financial Report (C) 10/28/2021	*Possible welcome of new Board member(s)* *BOD D&I Training Sessions (TBD)*
November 2021	(Tentative) LRWSP – Draft Alternatives Analysis & CEP Award Fermenter Construction Project 11/11/2021	*Holiday – no meeting*	*Strategic Plan Work Session (TBD)*
December 2021	Review Water Conservation Plan Information Session on Medical Insurance Renewals Award East Main Street Sewer Construction Project CS – Prepare for ED Interim Review (C) 12/9/2021	*Holiday – no meeting*	*Strategic Plan Work Session (TBD)* *Board/Staff Panel Meeting to Interview Audit Firms (TBD)*
January 2022	Appoint Audit Firm (C) Employee Health and Dental Insurance Update for FY 23 (C) D&I Update (C) (Tentative) LRWSP – Select Alternative and Approve CEP CS – ED Interim Performance Review (C) 1/13/2022	2021 Annual Lakes Recreation Report (C) CIP Semiannual Report (C) Q2 Financial Report (C) Discuss FY 23 Budget Calendar and Planning Assumptions (C) Annual Update of the Energy Management Plan (C) 1/27/2022	*Strategic Plan Work Session (TBD)*
February 2022	Department Managers FY 23 Budget Presentations (C) Reliability and Resiliency Improvements Update (C) CS – Prepare for GC Interim Review (C) 2/10/2022	Affordability Program Update (C) CS – GC Interim Review (C) 2/24/2022	*Strategic Plan Work Session(s) (TBD)*
March 2022	FY 23 Draft Budget (C) 3/10/2022	Set date for Public Hearings – FY 23 Budget & Rates (C) FY 23 Draft Budget and Rate Adjustment (C) 3/24/2022	
April 2022	Review Employee Health and Dental Insurance Renewals (C) FY 23 Draft Budget and Rate Adjustment (C) Strategic Plan Update BOD Eligible for Nominations to Election as Board Officers (include Officer descriptions) (C) Planning for BOD Self-Assessment (C) 4/14/2022	Q3 Financial Report (C) Authorize Staff to Publish FY23 Budget and Rate Information (C) BOD Eligible for Nominations to Election as Board Officers (include Officer descriptions – if needed) (C) 4/28/2022	
May 2022	Approve Employee Insurance Renewals (C) Employee Merit Pay for FY23 (C) CS – Prepare ED Annual Review (C) 5/12/2022	Public Hearings – FY 23 Budget and Rates (C) CS –ED Annual Performance Review (C) (Public Hearings) 5/26/2022	

OWASA Board of Directors – 12 Month Board Meeting Schedule (September 17, 2021)

Month	Board Meetings		Committee Meetings & Other Board Items
	Work Session	Business Meeting	
June 2022	Approve FY 23 Budget and Rates (including Employee Merit Pay decision) (↻) Election of Officers (↻) 6/9/2022	TBD 6/23/2022	
July 2022	D&I Update (↻) 7/14/2022	TBD 7/28/2022	*Possible welcome of new Board member(s)*
August 2022	TBD 8/11/2022	Preliminary 12 Month Financial Report (↻) CIP Semiannual Report (↻) CS – Prepare GC Annual Review (↻) 8/25/2022	

The 12 Month Board Meeting Schedule shows Strategic Plan initiatives and other priority efforts that the Board and staff plan to give greatest consideration to during the next twelve months. The schedule also shows major recurring agenda items that require Board action, or items that have been scheduled in response to the Board's prior standing request. This schedule does not show all the items the Board may consider in a work session or business meeting.

The 12 Month Board Meeting Schedule will be reviewed and updated at each monthly work session and may also be discussed and updated at the Board's business meetings.

In addition to the initiatives shown in this schedule, staff will be working on other Strategic Plan and organizational priorities that are not expected to require major additional discussion with the Board except as part of budget deliberations.

The schedule implies that the following Strategic Plan initiatives would be addressed beyond the 12-month period. The Board may conclude that one or more of the following initiatives are higher priority. The schedule will be revised as needed to reflect the Board's priorities, and any additional initiatives that the Board may decide to address.

- Development of a plan and policy framework for OWASA lands is considered a longer-term priority. The NRTS Committee discussed this issue in September 2017 and determined it was lower priority than Forest Management.
- Water Conservation Plan will be prepared concurrent with update of the Long-Range Water Supply Plan.

The OWASA Board determines which topics it wants to explore as a full Board (potentially in a work session format) and which topics it wants to assign to Board committees or committee chairs for further analysis and development of recommendations. Board also determines priorities and desired timeframes for addressing topics. Committee meetings will be updated on the schedule routinely.

Abbreviations Used in Draft Schedule:

(↻)	Recurring agenda item (generally these are "required" items)
AV/AMI	Agua Vista/Advanced Metering Infrastructure
BOCC	Orange County Board of County Commissioners
BOD	Board of Directors
CCR	Cane Creek Reservoir
CE	Community Engagement
CEP	Community Engagement Plan
CHTC	Chapel Hill Town Council
CIP	Capital Improvements Program
COLA	Cost of Labor Adjustment
CS	Closed Session of the Board
CTC	Carrboro Town Council
CY	Calendar Year
D&I	Diversity and Inclusion
ED	Executive Director
EEO	Equal Employment Opportunity
EPA	Environmental Protection Agency
FY	Fiscal Year
GC	General Counsel

HR	Human Resources
KPI	Key Performance Indicator
LRWSP	Long-Range Water Supply Plan
MOA	Memorandum of Agreement
MWBE	Minority/Women-owned Business Enterprises
MST	Mountains-to-Sea Trail
MFMM	Multi-Family Master Meter
NCDOT	North Carolina Department of Transportation
NRTS	Natural Resources and Technical Services
OC	Orange County
Q	Quarter
RFP	Request for Proposals
SRF	State Revolving Fund
SOW	Scope of Work
TBD	To Be Determined
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plant

Orange Water and Sewer Authority

Meeting of the Board of Directors

August 26, 2021

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held a regular meeting by virtual means in accordance with the law, on Thursday, August 26, 2021, at 6:00 p.m. utilizing Microsoft Teams software.

Board Members present: Jody Eimers (Chair), Yinka Ayankoya (Vice Chair), John N. Morris (Secretary), Bruce Boehm, Raymond (Ray) DuBose, and Kevin Leibel. Board Member absent: Todd BenDor.

OWASA staff present: Mary Darr, Robert Epting, Esq. (Epting and Hackney), Vishnu Gangadharan, Robin Jacobs (Epting and Hackney), Simon Lobdell, Andrea Orbich, Dan Przybyl, Nick Rogers, Ruth Rouse, Kelly Satterfield, Allison Spinelli, Todd Taylor, Mary Tiger, Stephen Winters, and Richard Wyatt.

Others present: Meg Holton (UNC Water Resources Manager) and Michelle Mayes.

Motions

1. Yinka Ayankoya made a Motion to approve the Minutes of the July 8, 2021, Meeting of the Board of Directors, second by John Morris and the Motion was unanimously approved.

2. BE IT RESOLVED THAT the Board of Directors of the Orange Water and Sewer Authority approved Resolution Awarding a Construction Contract for the West Cameron Avenue Water Main Replacement Phase 2 Project. (Motion by Ray DuBose, second by Bruce Boehm and the Motion was unanimously approved.)

3. BE IT RESOLVED THAT the Board of Directors of the Orange Water and Sewer Authority approved Resolution Accepting a Revised Low-Interest Loan Offer from the State of North Carolina, and Authorizing Executive Director to Execute and Administer all Related Loan Offer and Acceptance Documents. (Motion by Ray DuBose, second by Bruce Boehm and the Motion was unanimously approved.)

4. BE IT RESOLVED THAT the Board of Directors of the Orange Water and Sewer Authority approved Resolution Amending the Fiscal Year (FY) 2021 Annual Budget. (Motion by Ray DuBose, second by John Morris and the Motion was unanimously approved.)

* * * * * * *

Announcements

Jody Eimers announced that due to COVID-19 public health concerns, the OWASA Board of Directors held the meeting virtually utilizing Microsoft Teams software. Ms. Eimers stated that Board Members, General Counsel, and staff will participate in the meeting remotely.

DRAFT

Ms. Eimers asked if any Board Member knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight to disclose the same at this time; none were disclosed.

Ray DuBose announced that on August 19, 2021, the Orange County Climate Council met and received updates on public input for regional transportation plans, solar on Carrboro's new 203 building, and Orange County's progress on creating a climate action plan. He noted the group discussed draft bylaws that are expected to be finished and delivered to local governments in the region later this fall. Mr. DuBose said it has been an honor to service on the Climate Council but after 2 years, he will relinquish his seat. Jody Eimers expressed interest serving on the Orange County Climate Council; and, without objection, the Board agreed Ms. Eimers will now represent the OWASA Board of Directors on the Orange County Climate Council.

Bruce Boehm said that John Morris and he were invited to attend a meeting organized by the Friends of the Mountains to the Sea Trail (MST) on Saturday, August 21, 2021; only Mr. Boehm attended, and he disclosed he supports the MST. Mr. Boehm said other attendees included three members of Orange County Board of County Commissioners, former Orange County Commissioners, former OWASA Board Members, area landowners, and other staff members and volunteers of the Friends of MST. He said the purpose of this meeting was to bring the County Commissioners up to speed on the section of MST trail on OWASA land because County staff are engaged with the organization of this section of the trail. Mr. Boehm noted the Friends of the MST and Orange County Commissioners will work with OWASA to identify a route and provide updates.

Vishnu Gangadharan, Director of Engineering and Planning, announced and re-introduced Allison Spinelli, OWASA's new Engineering Manager – Capital Projects.

Petitions and Requests

Ms. Eimers asked for petitions and requests the public, Board and staff; none were received.

Item One: 12 Month Board Meeting Schedule

John Morris asked if staff can confirm a preview of Jordan Lake Water Supply Alternatives at the October 14, 2021 meeting and invite Greg Characklis, University of North Carolina at Chapel Hill, to participate in the meeting; staff will follow up.

Item Two: Minutes

Yinka Ayankoya made a Motion to approve the Minutes of the July 8, 2021, Meeting of the Board of Directors, second by John Morris and the Motion was unanimously approved. Please see Motion 1.

Item Three: Award a Construction Contract for the West Cameron Avenue Water Replacement Phase 2

DRAFT

Simon Lobdell, Utilities Engineer, provided a brief presentation on this item; then he and Allsion Spinelli, Engineering Manager – Capital Projects, responded to questions and comments from Board Members.

Ray DuBose made a Motion to approve the Resolution Awarding a Construction Contract for the West Cameron Avenue Water Main Replacement Phase 2 Project; second by Bruce Boehm and the Motion was unanimously approved. Please see Motion 2.

Ray DuBose made a Motion to approve Resolution Accepting a Revised Low-Interest Loan Offer from the State of North Carolina, and Authorizing Executive Director to Execute and Administer all Related Loan Offer and Acceptance Documents; second by Bruce Boehm and the Motion was unanimously approved. Please see Motion 3.

Item Four: Fiscal Year 2021 Budget Amendment

Ray DuBose made a Motion to approve the Resolution Amending the Fiscal Year 2021 Annual Budget; second by John Morris and the Motion was unanimously approved. Please see Motion 4.

Item Five: Preliminary Financial Report for Twelve-Month Period Ended June 30, 2021

Stephen Winters, Director of Finance and Customer Service, provided a presentation on the Preliminary Financial Report for the 12-month period ended June 30, 2021. Mr. Winters reported all financial performance targets for OWASA were met during this period.

Jody Eimers requested an update on the Infrastructure Act at a future Board meeting and if there are opportunities for Board involvement.

Item Six: Capital Improvements Program Semiannual Report

Allison Spinelli, Engineering Manager – Capital Projects, provided a presentation on the Capital Improvements Program Semiannual Report. She reported that approximately $15.8 million was invested in 44 active capital projects during the reporting period. This CIP expenditure total was 78 percent of the FY 2021 budget. The coronavirus pandemic had an impact on construction projects, however the majority of budget variances were due to schedule changes.

The Board expressed its deep and sincere appreciation to staff for their commitment to ensuring OWASA's financial stability throughout the challenges of the coronavirus pandemic and requested the Executive Director extend that appreciation to all employees.

Item Seven: Update on OWASA's COVID-19 Information and Discussion by the Board

Todd Taylor, Executive Director, provided an update on OWASA's response to COVID-19, noting staff continues to take proactive measures to ensure the community receives high-quality and reliable water, wastewater, and reclaimed water services. He said the mask mandate was reinstated on August 2nd due to the rise of COVID-19 cases. Incentives have been implemented

DRAFT

for employees who get vaccinated and show proof of vaccination; currently, OWASA vaccination rate is at 58% with the hopes of improving with the incentives. Employees who do not provide proof of vaccination by September 1st are required to submit a negative test result weekly to report to work.

Mary Tiger, Strategic Initiatives Manager, provided information on how many customers have received bill assistance in the past year and noted other bill assistance programs available (Care to Share, North Carolina HOPE, Orange County Emergency Housing Assistance, Orange County DSS, and the Low-Income Household Water Assistance Program -which begins this fall). She provided an update on the extent and severity of past due customer accounts, including staff's efforts to contact those customers who are in arrears.

Item Eight: COVID Protocols for In-Person Board of Directors Meetings

Todd Taylor, Executive Director, provided an overview of this item. In addition, Mr. Taylor also informed the Board that it may mandate proof of vaccination at in-person Board Meetings, which may include the public attending the meeting. However, until in-person Board Meetings resume, he suggested the Board delay that measure and schedule a discussion prior to implementing in-person Board meeting requirements.

Jody Eimers stated OWASA is operating under guidance from the local governments and said she didn't believe it was necessary to change Board Meeting requirements until they return to in-person meetings. She also said Mr. Taylor should handle whether employee vaccinations should be mandated.

Kevin Leibel said he feels OWASA should mandate vaccination of its employees to protect employees and the public health, even if that results in employee terminations.

Jody Eimers requested other Board Members provide their opinions an employee vaccination mandate.

Yinka Ayankoya said that if vaccinations are to be required, she thinks exemptions should be allowed for strongly held religious principles, or if required to preserve the health of an individual employee or personal health. She also sated she believed vaccination should be a matter of personal choice.

Bruce Boehm said he believes the Board's responsibility is to ensure OWASA employees, contactors, customers, and stakeholders are safe; safety is ensured when OWASA employees wear a mask and maintain social distance and immunizations keep hospitals from overcrowding. Mr. Boehm said if the Towns or County has a primary goal that organizations in its jurisdictions mandate vaccinating employees, he would agree.

Ray DuBose said he is impressed with OWASA's policies implemented and would like to see how they progress over time. He suggested the Board receive updates at future meetings.

DRAFT

Mr. Leibel said he is for mandating employee vaccinations and the Board should go on record mandating employee vaccinations.

Ms. Eimers said she supports vaccinations and OWASA's policies for employees to include incentivizing vaccinations.

John Morris said the Board should place an item on a future agenda to discuss the mandate before deciding.

The Board agreed updates would be provided on the OWASA employee vaccination rates and local government/organizations vaccine polices for the next Board meeting.

Mr. Taylor noted the Town of Carrboro has implemented a vaccine mandate for their employees with religious/medical exemptions and he is not opposed to using a mandate. Mr. Taylor said, based on tonight's discussion, would the Board support his decision to implement a vaccine mandate based on OWASA employee vaccination rates or action by local governments, or would the Board want to discuss the topic prior to a decision.

Mr. Boehm commented Mr. Taylor is responsible for the safety of OWASA employees and if Mr. Taylor feels an employee vaccination mandate is best, he would be supportive.

Ms. Eimers requested each Board Member express their preference if Mr. Taylor were to implement mandating employee vaccination via Board Member roll call.

Ms. Ayankoya said she does not support Mr. Taylor's making an employee vaccination mandate, as she believes vaccination should be a matter of personal choice.

Mr. Boehm said he supports Mr. Taylor's suggestion.

Mr. DuBose said he supports Mr. Taylor's authority to make the decision whether to require employees to be vaccinated, when and if he feels the need to implement a vaccine mandate and if he does.

Mr. Eimers said she supports Mr. Taylor's making the decision. She also said if Mr. Taylor does not implement a mandate, and the Board thinks he should, she would reserve the right of the Board to inform him to implement a mandate.

Mr. Leibel said he supports Mr. Taylor's suggestion, but that he believes the Board should go ahead and mandate vaccinations.

Mr. Morris said he recognizes Mr. Taylor's authority to make the employee vaccine mandate decision.

Robert Epting summarized that while five Board Members supported allowing the Executive Director to have the authority to determine whether to require employee vaccination; and noted that Ms. Ayankoya did not appear to support the decision.

DRAFT

Item Nine: Summary of Board Meeting Action Items

Todd Taylor summarized the following staff action items and provided an overview of the next Board meeting:

- Notify Orange County Climate Council that Jody Eimers will replace Ray DuBose on the Council as an OWASA Board Member representative;
- Confirm the review of Jordan Lake Water Supply Alternatives at the October 14, 2021 meeting and invite Greg Characklis to participate;
- Update on the Infrastructure Act and opportunities for Board involvement;
- Provide regular updates on OWASA employee vaccination rates and local government/organizations vaccine polices; and
- Agenda items for the September 9, 2020, virtual Board Work Session:
    - Resolution Authorizing OWASA's Executive Director to Apply for Loans from the State of North Carolina;
    - Annual Report on Disposal of Surplus Personal Property;
    - Diversity and Inclusion Program Progress Report and Equal Employment Opportunity/Affirmative Action Report for Fiscal Year 2021
    - Strategic Plan Update
    - Closed Session to conduct the annual review of General Counsel
- Agenda items for the September 23, 2020, virtual Annual Meeting:
    - Presentation of OWASA's annual financial report;
    - PFAS Cost Recovery Opportunity;
    - Forest Management Program Update; and
    - Resolution Appointing OWASA General Counsel.

Item Nine: Closed Session

Without objection, the Board of Directors convened in a closed session for the purpose of discussing a personnel matter as provided in N.C. General Statutes 143.318.11(6).

Following the Closed Session, the Board reconvened in open session, reported no action was taken in the closed session, and the meeting was adjourned at 8:46 p.m.

Respectfully submitted by:

Andrea Orbich
Executive Assistant/Clerk to the Board

Attachments

DRAFT

Orange Water and Sewer Authority

Closed Session of the Board of Directors

September 9, 2021

The Board of Directors of Orange Water and Sewer Authority met virtually in Closed Session on Thursday, September 9, 2021, following the Board meeting.

Board Members present: Yinka Ayankoya (Vice Chair), John Morris (Secretary), Todd BenDor, Bruce Boehm, Ray DuBose, and Kevin Leibel. Board Member absent: Jody Eimers (Chair).

Staff present: Robert Epting and Robin Jacobs, General Counsel to the Board.

****

Item One

The Board of Directors met in Closed Session with General Counsel to evaluate and provide feedback pertaining to the annual review of significant activities of General Counsel from September 2020 to August 2021.

No official action was taken at the meeting.

The meeting was adjourned at 7:37 p.m.

_____

Raymond E. DuBose, P.E., Chair
Human Resources Committee

DRAFT

Agenda Item:

- Information Regarding a PFAS Cost Recovery Program

Purpose:

- To provide a brief overview of PFAS and information on a potential cost recovery program opportunity.

Background:

- A group of compounds of emerging concern are per- and polyfluoroalkyl substances, known collectively as PFAS.

- PFAS are used in a variety of everyday products to increase resistance to water, grease, or stains. PFAS can be found in products including carpet, clothing, fabric for furniture, paper packaging for food, cookware, and other materials. They are also used industrial processes and in in aqueous firefighting foams (AFFF) used at airfields and other high temperature fires.

- The Environmental Protection Agency (EPA) has not set drinking water standards for these chemicals while research continues to be conducted. The EPA has set a Health Advisory Level of 70 parts per trillion for the combined amount of two more common PFAS compounds (PFOS and PFOA) in drinking water.

- In 2018, OWASA proactively tested water from our Cane Creek Reservoir, Quarry Reservoir and University Lake for PFAS. We detected two PFAS compounds in University Lake and the Quarry Reservoir and 11 PFAS compounds in Cane Creek Reservoir. Based on those results, we now test the water in Cane Creek Reservoir on a quarterly basis to monitor these compound levels and evaluate the effectiveness of OWASA's treatment methods. In June 2019, the Board received an update on Monitoring of Compounds of Emerging Concern.

- OWASA's treated drinking water is safe and meets all Federal and State regulations and established health advisory levels. OWASA conducts quarterly PFAS monitoring to ensure we have timely, localized data. OWASA's treated drinking water consistently tests below the EPA's PFAS Health Advisory Level. Results for reservoir and drinking water monitoring can be found on our website: https://www.owasa.org/pfas-monitoring-program/

- We also support local and national monitoring and research for improving water quality. OWASA currently serves on the PFAS Testing Network's Stakeholder Group and has participated in the PFAS Testing Network's landfill leachate sampling study and drinking water studies. We fund and participate in PFAS research conducted by the Water Research Foundation and the North Carolina Urban Water Consortium. Additionally, we are a founding member of the Triangle Area Wide Source Water Project.

- Napoli Shkolnik, PLLC, (Napoli) will provide information on an opportunity to recover any expenses a utility may have incurred or may experience in the future for testing, treatment and remediation of PFAS contamination. Napoli's effort is endorsed by the National Rural Water Association and Napoli has filed a class action lawsuit on behalf some water utilities now dealing with unregulated chemicals in their drinking water. A message from Partner, Hank Naughton (Attachment 1), as well as a PFAS contamination overview (Attachment 2) is provided for reference.

Recommendation:

- Board review, discussion, and, if desired, approval of a Resolution for OWASA to Participate in a PFAS Cost Recovery Program (Attachment 3).

Information:

- Message from Napoli Partner
- Napoli Shkolnik PFAS Overview
- Resolution Authorizing OWASA to Engage Counsel and Participate in PFAS Cost Recovery Litigation

NAPOLI SHKOLNIK PLLC
ATTORNEYS AT LAW

HANK NAUGHTON
PARTNER

PFAS Cost Recovery Project

I hope this finds you and all close to you, family, friends and colleagues, safe and healthy as we all look to 2021 with hope.

After spending twenty-six years in the Massachusetts House, I am proud to have joined Napoli Shkolnik PLLC (Napoli) as Managing Partner of both the Public Client Practice Group and our PFAS Cost Recovery Program. I am also in the process of opening our firm's Massachusetts office.

Napoli, with over 30 years of experience, has the capability to successfully advise and represent your utility. Our firm has demonstrated, through national leadership roles in numerous mass tort and class action cases, that we have both the financial resources and the legal, human, intellectual, and technological capital to successfully pursue and obtain substantial results to benefit its clients in this PFAS Cost Recovery Program. Notable examples of this expertise include leadership in the current AFFF litigation (Aqueous Film Forming Foam), as well as in Opioid and other related drug and device cases. Our firm is able and prepared, as necessary, to advance and invest millions of dollars in time and out-of-pocket expenses, with the firm's recovery contingent upon a successful outcome, in the pursuit of the claims in PFAS contamination matters.

The legal team Napoli has committed to this litigation is comprised of five partners (including myself), eighteen associates, as well as paralegal and technology support staff. We maintain low rates of turnover, assuring consistency in our work. Napoli attorneys have been recognized by some of the most prestigious publications, including the "Top 100 Trial Lawyers" and "Top 40 Under 40" by National Trial Lawyers. We have also been included in the invitation-only Multi-Million Dollar Advocates Forum® for the numerous multi-million-dollar verdicts and settlements we have been able to secure on behalf of our clients.

Fortune Magazine has recognized Napoli as "America's Premier Lawyers," and our firm was included in the 2012-2016 Legal 500 U.S. editions. We have also been named in the LawDragon™ 500 Leading Lawyers in America. In all, our team is not just able to demonstrate consistency and stability in practice, but rather, exceeding this requirement by demonstrating a stellar track record that would be instrumental in representing Towns in this PFAS Cost Recovery Action and progress.

Please let me provide you a few specifics about this firm I've been proud to join. Mr. Paul Napoli will be serving as our primary attorney in this litigation and is nationally renowned for his leadership in the area of environmental mass tort, complex liability cases, and representing municipalities, with more than 25 years of experience. Notably, and specifically important in this case, Paul's most recent appointment is as Co-Lead Counsel in the In re: Aqueous Film-Forming Foams (AFFF) Products Liability Multi District Litigation (MDL) 2873 by Judge Richard M. Gergel, the District Judge in the District of South Carolina overseeing the AFFF MDL. In short, Paul has been and will be at the table for every significant decision, procedure and activity in this case. This will mean that our ability to represent the interests of your utility will be front and center.

Mr. Napoli and our team of attorneys tackling this litigation have significant experience in environmental litigation, and is organized to address PFOA contamination, environmental hazards, air pollution, pesticides, hazardous waste, oil spills, water contamination disease clusters, fracking and energy exploration and soil contamination.

Napoli Shkolnik PLCC has the capacity to successfully represent your utility in this cost recovery litigation. We are able and prepared, as necessary, to advance and invest considerable resources in time and out-of-pocket expenses necessary for proposed representation cost recovery program. In recent years our firm has successfully resolved and self-funded the following mass litigations:

1. $816.45 million settlement for World Trade Center recovery workers.
2. $1.2 billion settlement of pharmaceutical litigation.
3. $52 million settlement of an MTBE environmental litigation.
4. $28 million supplemental settlement for World Trade Center recovery workers;
5. $10 million+ awarded for asbestos victims.

Our firm has the significant resources required to handle the voluminous motion practice and discovery demands which will be required in this lawsuit. We are committed and prepared to fund this complex and expansive litigation leveraging our significant experience in litigating mass tort and class action matters which normally require the receipt, organization, and analysis of millions of documents. I ask that you take a moment to consider our success in the past as evidence of our ability to produce an outstanding result for your utility this case.

References:

The below client list is included as documentation of the vast experience Napoli has in representing governmental entities and water and wastewater utilities. In the AFFF MDL, Napoli currently represents over one hundred counties, cities, private and public water district providers, other governmental entities and is Counsel to the National Rural Water Association, and organization with over 31,000 members. A list of some of these entities with references is below:

A list of some of these entities with references is below:

Nassau County	Jared A. Kasschau, Esq.	Nassau County Attorney	(516) 571-3056	One West Street Mineola, NY 11501
Hicksville Water District	Nicholas Brigandi	Chairman of the Board	(516) 931-01844	4 Dean Street Hicksville, NY 11801
Town of Southampton	Jay Schneiderman	Supervisor	(631) 287-5740	116 Hampton Road Southampton, NY 11968
City of Dayton	John C. Musto	Chief Trial Counsel, Department of Law, Civil Division	(937) 333-4116	101 West 3rd Street Dayton, OH 45401
City of Tucson	Mike Rankin		(520) 791-4221 mike.rankin@tucsonaz.gov	255 W Alameda Street Tucson, AZ 85701

Town of Marana	Frank Cassidy	City Attorney Town of Marana Legal Department	fcassidy@maranaaz.gov	11555 W Civic Center Dr Bldg A3 Marana, Arizona, 85653-7006
Hampton Bays Water District	James Burke	Town Hall	(631) 287-3065 jburke@southamptontownny.gov	116 Hampton Road, Southampton, NY 11968
Southside Water Worksand Sewer Board	Brandon Sewell	Maintenance Superintendent	(256) 442-8707	3001 AL-77 Southside, AL 35907
Weirton Water Board	Butch Mastrantoni		(304) 797-8591	200 Municipal Plaza Weirton, WV 26062

Other Environmental Clients past and present relevant to this project include the following:

Albertson Water District	Bethpage Water District	City of Glen Cove Water District Freon Contamination of Supply Wells (2010-2015)	Greenlawn Water District VOC contamination for supply wells (Present)	Manhasset-Lakeville Water District
Aqua NY of Sea Cliff	Carle Place Water District	Garden City Park Water District	Hampton Bays Water District	Oyster Bay Water District
Town of Huntington/Dix Hills Water District VOC contamination for supply wells (Present)	Town of Southampton	Village of Garden City	Village of Mineola	Tampa Bay Water District (Florida)
Pascoag Utility District (Rhode Island)	National Rural Water Association Sam Wade, CEO Emeritus	Hicksville Water District 1,4- Dioxane Contamination of Supply Well #4	Alligator Water and Sewer District (South Carolina) DBCP and EDB pesticide	Methyl Tertiary Butyl Ether (MTBE) Contamination Clients (2001-2014)

Manhasset-Lakeville Water District	Plainview Water District	South Huntington Water District	Tampa Bay Water District (Florida)	City of Crystal River (Florida)
Oyster Bay Water District	South Farmingdale Water District	Town of East Hampton	Homosassa Water District (Florida)	Village of Westbury
Town of Riverhead Water District	Village of Hempstead	Village of West Hempstead Water District		

I want to again thank you for taking the time to consider registering and allowing Napoli Shkolnik to represent you in this litigation.

Please feel free to call me at 978 852 3643 with any questions and I truly hope we can speak soon.

All the best,
Hank Naughton
Partner

NAPOLI SHKOLNIK PLLC
ATTORNEYS AT LAW

OFFICES NATIONWIDE

PFAS CONTAMINATION



These "Forever Chemicals" are being found increasingly in the groundwater and drinking water supplies in communities throughout the country.

WHAT IS PFAS?

Perfluorooctanoic acid ("PFOA") and perfluorooctane sulfonate ("PFOS") (collectively "PFAS") are part of a group of man-made perfluorinated chemicals that were used in common industrial and household products, including firefighting foam and Scotchgard.

Due to the chemical nature of PFOA and PFOS as a surfactant, it was able to be mixed with water and sprayed as foam on fires, putting a film on the fire to separate oxygen from the fuel surface, and therefore able to stop the chemical reaction from burning.

This firefighting foam, or Aqueous Film Forming Foam ("AFFF") was widely used particularly at municipal airports and military bases for training purposes and to combat jet fuel spills. The foam seeped through the soil at these sites and, through migration and runoff, leached into underground aquifers and surface water bodies used for drinking water.



THERE IS NO SAFE LEVEL OF EXPOSURE

WHO IS RESPONSIBLE?

PFOA was produced by eight major U.S. companies, including: Arkema, Asahi, Ciba, Clariant, Daikin, DuPont, 3M/Dyneon, Solvay, and Solexis. PFOS was solely produced by one company in the United States: 3M Company. Although these manufacturers agreed to phase-out AFFF containing PFAS several years ago, recent testing has led to the discovery of widespread contamination indrinking water supplies in many states.

PLAINTIFFS INVOLVED IN PFAS LITIGATION

The cases in the MDL involve a variety of plaintiffs and claims, including class actions brought on behalf of residents in areas where AFFF contamination occurred, lawsuits involving individual personal injury claims, and actions brought on behalf of states, municipalities, and public water districts for costs associated with treating contaminated water systems.



PAUL J. NAPOLI, *Of Counsel*
Co-Lead Counsel in the AFFF Products Liability Litigation

In addition to litigating extensively on behalf of clients for environmental contamination, Mr. Napoli is known for his dedicated representation of 9/11 responders and other rescue and recovery workers who became ill or were injured during rescue, recovery and debris-removal activities at the World Trade Center in the months following 9/11.

AWWA MEMBER

NYSAC EXCELSIOR PARTNER

NATIONAL RURAL WATER ASSOCIATION CORPORATE MEMBER NRWA

NATIONAL ASSOCIATION of COUNTIES NACo

Copyright © 2020 Napoli Shkolnik PLLC Attorneys At Law. All rights reserved. Attorney advertising. Prior results do not guarantee similar outcomes.

PFAS: EMERGING CONTAMINANTS

ENVIRONMENTAL AND HEALTH CONCERNS

PFAS can remain in the environment, particularly in water, for many years and can move through air, soil and into groundwater. PFAS has also been found to bioaccumulate in humans and animals. People can be exposed to PFAS through food, drinking water, and/or biodegradation of consumer products. These contaminants are readily absorbed by the body and, once ingested, may persist in the body for long periods of time. The body of scientific studies supporting a connection between serum levels and disease include those conducted in the US and Europe.

One of the most often cited studies was conducted by the C8 Science Panel, formed as the result of a settlement in a class action lawsuit against DuPont, found a probable link between PFOA and the following six diseases:

- Kidney Cancer
- Testicular Cancer
- Ulcerative Colitis
- Thyroid Disease
- Pregnancy Induced Hypertension (including preeclampsia)
- Hypercholesterolemia

STATE ACTION SAND REGULATORY LIMITS

The trigger for the current wave of litigation in the U.S. regarding PFAS came when in May 2016, the EPA issued Lifetime Health Advisories and Health Effects Support Documents for PFOA and PFOS recommending that exposure to PFOA and PFOS not exceed 70 parts per trillion in drinking water. While health advisories are non-regulatory, they reflect the EPA's assessment of the best available peer-reviewed science. In addition, the Agency for Toxic Substances and Disease Registry (ATSDR) and Center for Disease Control and Prevention (CDC) have also issued an Interim Guidance to aid physicians withpatient consultations which identifies health effects associated with exposure.

Although EPA's heath standard is only advisory, they have made it clear that they are taking the necessary steps to set enforceable limits for both PFOA and PFOS under their PFAS Action Plan. More importantly, many states either have or are considering much more stringent and mandatory Maximum Contaminant Levels (MCLs) including California, Minnesota, New Hampshire, New Jersey, and Vermont. In New Jersey, an MCL of 13 ppt for PFOA was adopted. State Attorneys Generals, including in Minnesota and New York, have also sued to recover the costs of cleanup, drinking water remediation and Natural Resource Damages.

Since 2016, dozens of lawsuits have been filed against the manufacturers of AFFF on behalf of public and private water providers. One such manufacturer, 3M, was warned by its own environmental specialist-merely two decades ago-of the insidious toxic nature of PFAS. In late 2018, the Judicial Panel for Multidistrict Litigation (JPML) ordered that all AFFF cases be consolidated before Judge Richard Gergel of the District of South Carolina. In Re: Aqueous Film-Forming Foams Products Liability Litigation (MDL No. 2:18-mn-2873-RMG). Recently, Paul J. Napoli was appointed as Plaintiffs' Co-Lead Counsel in the above litigation, charged with overseeing the coordination, preparation, and presentation of the necessary legal documentation.

YOUR TEAM



Hank Naughton
Partner



Andrew Croner
Partner



Michelle Greene
Associate



Patrick Lanciotti
Associate



Sam Wade
Water Consultant
former NRWA CEO



William Kellermeyer
Law Clerk

NAPOLI SHKOLNIK PLLC
ATTORNEYS AT LAW

PRINCIPAL OFFICE
360 LEXINGTON AVENUE, 11TH FLOOR
NEW YORK, NEW YORK 10017

Copyright © 2020 Napoli Shkolnik PLLC Attorneys At Law. All rights reserved. Attorney advertising. Prior results do not guarantee similar outcomes.

Resolution Authorizing OWASA to Engage Counsel and Participate in PFAS Cost Recovery Litigation

Whereas, compounds of PFAS polluting compounds have been found to be present in OWASA's water reservoir, and in its raw water and treatment and transmission facilities, and in its wastewater treatment system, and it is to be expected that Federal and State regulatory agencies will require detection, testing and removal to some level at some time in the future; and

Whereas, such pollution has been noted in public water systems around the country, and water utilities anticipate that the regulatory requirements bound to be applied will be expensive, and that such remedial costs ought to be recovered from the parties legally responsible for that pollution; and

Whereas, class action litigation seeking such recovery has been filed by more than 200 communities in a number of Federal Courts around the country, and their individual claims have been consolidated for hearing in the Federal District Court in Charleston, S.C., in *In re: Aqueous Film-Forming Foam Products Liability Litigation.* The NAPOLI SHKOLNIK law firm is one of the co-Lead Counsel Firms representing more than 200 Plaintiff communities in that litigation; and

Whereas, OWASA has determined to join that class action as a party plaintiff, to obtain a share of the recovery of such costs from those responsible for the manufacture and distribution of the PFAS polluting compounds, and to accept Napoli Shkolnik's offer of representation in that litigation:

Now, Therefore, Be It Resolved by the Board of Directors of the Orange Water and Sewer Authority:

1. That Orange Water and Sewer Authority accepts the offer of NAPOLI SHKOLNIK PLLC of representation by that firm as a claimant in the said pending class action, and to be joined as a party plaintiff in that litigation.

2. The Executive Director and General Counsel are authorized and directed to take actions as necessary with Napoli Shkolnik LLC to pursue this claim, upon the terms and conditions they deem appropriate for this purpose.

Adopted this 23rd day of September 2021.

_____
Jo Leslie Eimers, Chair

ATTEST:

_____
John N. Morris, Secretary

Agenda Item

- Resolution Reappointing the Firm of Epting and Hackney as General Counsel to the Orange Water and Sewer Authority

Purpose

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

Background

- The firm of Epting and Hackney has capably served as General Counsel to OWASA since October 1, 1984.

- The hourly rate for services of General Counsel remains unchanged.

- Maintain monthly retainer at $10,000.

Recommendation

- Reappoint Epting and Hackney as General Counsel to the Orange Water and Sewer Authority in accordance with the terms and conditions set out in his letter dated September 15, 2021 to the Executive Director (attached).

  "*Motion that the Board of Directors approves the Resolution Reappointing the Firm of Epting and Hackney as General Counsel to the Orange Water and Sewer Authority.*"

September 23, 2021

Resolution Reappointing the Firm of Epting and Hackney as General Counsel to the Orange Water and Sewer Authority

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

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

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

Now, Therefore, Be It Resolved by the Orange Water and Sewer Authority Board of Directors:

1. That the firm of Epting and Hackney, Chapel Hill, N.C., is hereby reappointed General Counsel of Orange Water and Sewer Authority in accordance with the terms and conditions set out in Robert Epting's letter dated September 15, 2021 to the Executive Director.

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

3. That this reappointment will be effective October 1, 2021 and shall continue until terminated as provided in Mr. Epting's said letter dated September 15, 2021.

Adopted this 23rd day of September 2021.

_____
Jo Leslie Eimers, Chair

ATTEST:

_____
John N. Morris, Secretary

EPTING AND HACKNEY
ATTORNEYS AND COUNSELLORS AT LAW
410 MARTIN LUTHER KING, JR. BOULEVARD
P. O. DRAWER 1329
CHAPEL HILL, NORTH CAROLINA 27514

ROBERT EPTING
JOE HACKNEY
ELIZABETH LACKEY JACOBS
STEVE LACKEY

TELEPHONE 919-929-0323
FACSIMILE 919-929-3960

OF COUNSEL:
ELLEN B. SCOUTEN

September 15, 2021

Mr. Todd Taylor
Executive Director
Orange Water and Sewer Authority
Carrboro, NC 27510

General Counsel Engagement Letter

Dear Mr. Taylor:

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

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

Today most of the matters we handle directly as OWASA's General Counsel are things I believe benefit from the scope of our training and experience as environmental lawyers for more than thirty years, and from our many years of experience serving on and working with our local governments, and with state and federal agencies. In that work, for other clients, our hourly rate is now $325.00 per hour, and up, depending upon the complexity of the matter.

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

The amount of my work for OWASA has increased over the years and now constitutes most of my own legal work. But we constantly look for ways to educate staff to be able to minimize legal costs, and I am satisfied that OWASA obtains a fair bargain for our services. I am proud of our efforts on OWASA's behalf, and we continue to enjoy the work and appreciate OWASA's very prompt payment for this representation.

Again, we propose to continue to serve in the coming year upon the same terms and conditions as last year, and which have not changed for a number of years, as set out below.

1. Appointment and Service as General Counsel.

As General Counsel, we would undertake and agree to exercise our best professional judgment and to provide our best efforts in that service, including, as necessary the services of my partners, associates, and firm employees and contractors under our direction and supervision, to the Authority, its Board and staff, as to the legal affairs, rights, and responsibilities of the Authority. My partner Elizabeth Jacobs and I will be OWASA's primary legal contacts, and we will devote not less than forty hours per week to these services.

Appointment of General Counsel would be made and accepted anticipating and engaging our legal services on an operating year basis, that is, from October 1, 2021 through September 30, 2022, subject to such reviews, renewal, or termination as the Board of Directors may deem appropriate; provided, that such appointment will be deemed to continue in full effect until terminated as provided herein by either of the parties.

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

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

While serving as General Counsel, I will be permitted to continue in the general practice

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

2. Specific Services.

As General Counsel, I will be available generally for consultations and assignments as noted above. I will attend regular Board meetings and such other meetings and work sessions as requested. Whenever I may be unable to attend such meetings, one of my partners, Elizabeth Jacobs or Joe Hackney, will attend in my place. The term "General Counsel" used herein includes their service as needed or assigned, as well as my own, as well as our firm EPTING & HACKNEY, a law partnership. I or my partner(s) will be available regularly in my firm office, or in OWASA's offices as requested, and at any other time by telephone and electronic messaging means, for regular consultations by Board and staff.

3. Compensation by Monthly Retainer; Other Compensation.

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

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

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

4. Expenses.

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

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

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

c) The costs of non-local travel (distance exceeding 25 miles), meals and lodging when incurred in the service of the Authority; automobile expenses for personal vehicles to be reimbursed at the IRS-allowed rate, currently 58 cents per mile; and the expenses and fees for continuing education authorized and approved by the Executive Director of the Authority;

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

5. Other Services.

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

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

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

With kindest regards, I remain

Sincerely yours,

Robert Epting

Robert Epting

Agenda Item:

- Forest Management Program Update

Purpose:

- Provide the Board of Directors and public an update on OWASA's Forest Management Program.

Background:

- OWASA owns about 2,400 acres of forest lands, much of which is for protecting water quality in the Cane Creek Reservoir, a primary source of drinking water for the Carrboro-Chapel Hill communities.

- On September 26, 2019, following a community engagement process, the Board authorized staff to implement the Forest Management Program on OWASA owned lands in accordance with the Board approved Vision, Guiding Principles, and management strategies.

- A variety of forest management activities have occurred since the September 24, 2020 Update to OWASA Board including a prescribed burn, removal of small diameter trees, precommercial thinning, and clean-up and maintenance of water bars, ditches, and turnouts at the Mitigation Tract.

- OWASA contracted with a timber company to implement portions of the Forest Stewardship Plans developed for the Meadow Crest North and Meadow Crest South Tracts. Due to weather and crew availability, these activities have not yet started. The contractor has two years to complete the work.

- Over the next year, our forestry consultant will develop a Forest Stewardship Plan for our 187-acre Teer West property and they will mark, map, and prepare for additional forest management activities at the 364-acre Meadow Crest South tract as outlined in that Forest Stewardship Plan. We also will continue to implement the Mitigation Tract's Forest Stewardship Plan including a 24-acre timber sale, road maintenance, additional fire break construction, precommercial thinning and another prescribed burn.

Action Needed:

- Information only, no action needed.

MEMORANDUM

TO: Board of Directors

THROUGH: Todd Taylor, P.E.

FROM: Johnny Riley

DATE: September 17, 2021

SUBJECT: Forest Management Program Update

Purpose

Provide the Board of Directors and public an update on OWASA's Forest Management Program.

Background

OWASA owns about 2,400 acres of forest lands, much of which is for protecting water quality in the Cane Creek Reservoir, the primary source of drinking water for the Carrboro-Chapel Hill communities.

On September 26, 2019, following a community engagement process, the Board authorized staff to implement the Forest Management Program on OWASA owned lands in accordance with the Board approved Vision, Guiding Principles and management strategies.

Forest Management Vision

Protect water quality now and for future generations by following science-based principles to manage our forest lands so they are healthy, diverse, resilient, and sustainable.

Guiding Principles

OWASA plans to achieve its Vision through the application of seven guiding principles for our forest management program, forest stewardship plans, decisions, and actions:

- Protect Water Quality, OWASA's Highest Priority
- Improve Ecological Health of Forested Land
- Reduce the Risk of Wildfire
- Improve Wildlife Habitat and Species Diversity
- Sustainably Manage OWASA's Resources
- Engage the Community and Partner Agencies
- Minimize Adverse Impacts on Neighbors and Surrounding Community

Forest Management Activities since the September 24, 2020 Update to OWASA Board

In November 2020, a contract between OWASA and David Raynor Logging was signed to actively manage approximately 77 acres of the Meadow Crest South and Meadow Crest North properties as part of the Forest Stewardship Plans finalized for those tracts in September 2020. Due to weather and crew availability, this work has not yet started. We anticipate the work being completed this calendar year. However, the contract allows the timber company two years to complete the work. We will continue to be in close contact with our neighbors as this work is completed.

In April 2021, the North Carolina Forest Service conducted a prescribed burn on 83 acres at the Mitigation Tract. The purpose of this prescribed burn was to promote oak and hickory regeneration after original thinning in 2014.

In April 2021, we hired a crew of workers to mechanically remove small diameter trees from a portion of the Mitigation Tract. This mechanical removal was conducted to promote the growth of desirable trees and decrease competition within the area.

In June 2021, a 16-acre portion of the Mitigation Tract was thinned for the second time in accordance with the Forest Stewardship Plan.

In August 2021, firebreaks, water bars, ditches and turnouts were cleaned up and maintained by a contractor at the Mitigation Tract.

Planned Activities for Fiscal Year (FY) 2022

The FY 2022 budget includes funding to work with our forestry consultant, True North Forest Management Services, to develop a Forest Stewardship Plan for our 187-acre Teer West property on Flatrock Road.

Management activities at the Mitigation Tract include a 24-acre timber sale, road maintenance, additional fire break construction, precommercial thinning and another prescribed burn scheduled for April 2022.

We will also work with our forestry consultant to mark, map, and prepare for additional forest management activities in the 364-acre Meadow Crest South Tract as outlined in that Forest Stewardship Plan.

I look forward to the Board discussion and questions.

Johnny Riley
Reservoir and Land Resources Supervisor