Annual Comprehensive Financial Report

FISCAL YEAR ENDED JUNE 30, 2025



ORANGE WATER AND SEWER AUTHORITY

North Carolina
(A Component Unit of the Town of Chapel Hill, NC)

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

ORANGE WATER AND SEWER AUTHORITY

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

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Prepared by:

Orange Water and Sewer Authority
Finance Department

ORANGE WATER AND SEWER AUTHORITY

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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ORANGE WATER AND SEWER AUTHORITY

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ORANGE WATER AND SEWER AUTHORITY

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INTRODUCTORY SECTION

January 5, 2026

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, 2024, and ending June 30, 2025 (FY 2025). 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) management is responsible for the accuracy, completeness and fairness of the information presented including all disclosures.

Highlights

In FY 2025, 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 $15.3 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 2025.

Scope and Organization of this Report

- The Introductory Section (unaudited) contains this letter of transmittal and information about OWASA's organizational structure, principal officers, major initiatives, accomplishments, and future projects.

- The Financial Section includes the independent auditor's report; OWASA management's discussion and analysis of the year; the general-purpose financial statements; and supplementary schedules. The general-purpose financial statements can be issued separately for securities offerings or other purposes.

- The Statistical Section (unaudited) presents fiscal and other data to provide a more complete understanding of OWASA, the community we serve and the local economy.

- The Compliance Section presents the independent auditor's report on compliance with various internal control and other requirements related to certain forms of financial assistance.

As a single-purpose governmental entity, OWASA's financial activities are reported as a sole enterprise fund through which is captured and disclosed the inflow and outflow of total economic resources under the full accrual method of accounting. For financial reporting purposes under GASB Statement 14, OWASA

is considered a component unit of the Town of Chapel Hill because the Town Council appoints a majority of OWASA's Board Members and may remove them without cause. The 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.

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 wastewater 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.



OWASA Administrative Building – Carrboro, NC

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.



Cane Creek Reservoir

OWASA has a state allocation of water supply storage capacity in Jordan Lake equivalent to about five million gallons of water per day (MGD). OWASA does not currently receive water from Jordan Lake to meet the daily needs of its service area nor does OWASA 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 2025.



University Lake

Wastewater System

We operate and maintain about 350 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).

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 2025.

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.



Mason Farm Wastewater Treatment Plant – Filtration System

The University uses RCW for make-up water in cooling towers at chiller plants, toilet flushing, and irrigation. UNC's RCW use averaged about 695,000 gallons per day during FY 2025. 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 to expand system capacity and reduces energy use and costs.

Economic Conditions

In June 2025, the unemployment rate in Orange County was 3.6% compared to the North Carolina average of 3.7 percent and US average of 4.1 percent (Source: US Bureau of Labor Statistics). According to the most recent census, the estimated population of Orange County increased by 11 percent from 2010 to 2020. The estimated population for Orange County as of June 2025 was 151,372.

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. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived, and the evaluation of costs and benefits requires

estimates and judgments by management. All internal control evaluations occur within this framework. 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 multifamily 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 occur 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.

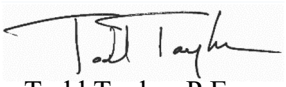
Acknowledgements

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.

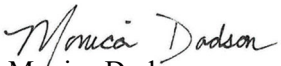
Respectfully submitted,



Todd Taylor, P.E.
Executive Director



Stephen Winters, CPA
Deputy Executive Director



Monica Dodson
Deputy Executive Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange Water and Sewer Authority
North Carolina

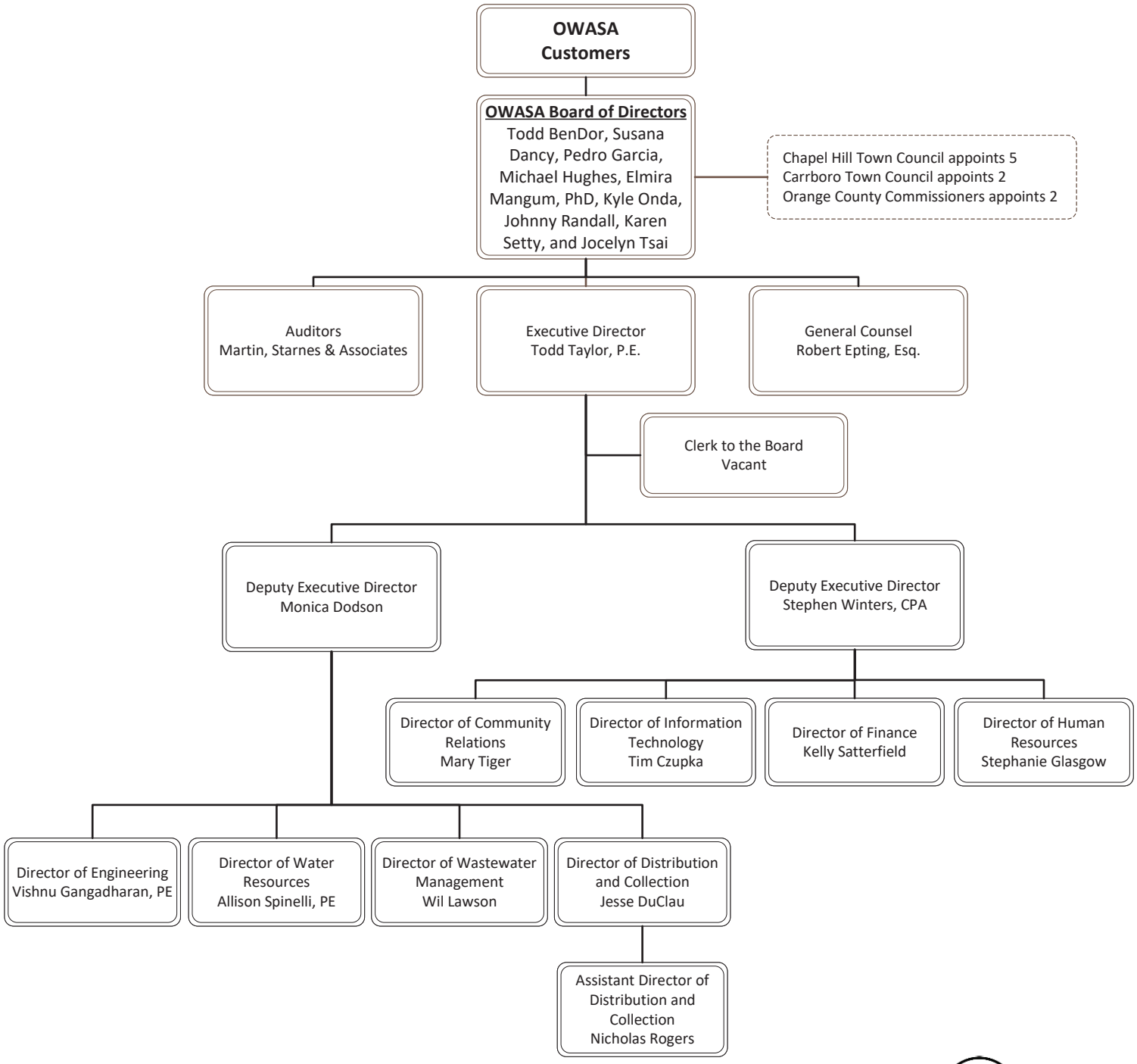
For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2024

Christopher P. Morrill

Executive Director/CEO

Orange Water and Sewer Authority



OWASA

11-05-2025

ORANGE WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS

CHAIR

Michael Hughes, P.E.
3815 Fern Creek Lane
Chapel Hill, NC 27516
Appointed by Orange County: Term Expires June 30, 2027

VICE CHAIR

Todd BenDor, PhD
904 Coker Drive
Chapel Hill, NC 27517
Appointed by Chapel Hill; Term Expires June 30, 2027

SECRETARY

Johnny Randall, PhD
1301 Arboretum Drive
Chapel Hill, NC 27517
Appointed by Orange County; Term Expires June 30, 2026

MEMBERS

Susana Dancy
105 Parkview Crescent
Chapel Hill, NC 27516
Appointed by Chapel Hill; Term Expires June 30, 2026

Pedro Garcia
319 Sonoma Way
Chapel Hill, NC 27516
Appointed by Chapel Hill; Term Expires June 30, 2028

Elmira Mangum, PhD
102 River Creek Place
Carrboro, NC 27510
Appointed by Carrboro; Term Expires June 30, 2028

Kyle Onda, PhD
100 Valley View Drive
Chapel Hill, NC 27516
Appointed by Chapel Hill; Term Expires June 30, 2026

Karen Setty, PhD
220 Lena Circle
Chapel Hill, NC 27516
Appointed by Chapel Hill, Term Expires June 30, 2028

Jocelyn Tsai
105 Cathy Road
Carrboro, NC 27510
Appointed by Carrboro; Term Expires June 30, 2027

ORANGE WATER AND SEWER AUTHORITY
MANAGEMENT TEAM

Steven Bailey, P.E., Engineering Manager (Capital Projects)
Denise Battle, Customer Service Manager
Tim Czupka, CGCIO, Director of Information Technology
Monica Dodson, Deputy Executive Director
Jesse DuClau, Director of Distribution and Collection
Vishnu Gangadharan, P.E., Director of Engineering
Stephanie Glasgow, M.E.S.H., MPM, P.H.R., SHRM-CP, Director of Human Resources
Jessica Godreau, P.E., BCEE, Engineering Manager (Development Services)
Katie Hall, Public Information Officer
Wil Lawson, Director of Wastewater Management
Kim Nimmer, A.I.C.P., Planning and Development Manager
Kelly Satterfield, CPA, Director of Finance
Allison Spinelli, P.E., Director of Water Resources
Todd Taylor, P.E., Executive Director
Mary Tiger, Director of Community Relations
Stephen Winters, CPA, Deputy Executive Director
Vacant, Executive Assistant

GENERAL COUNSEL

Robert Epting, Esquire
Epting and Hackney, Attorneys at Law

FINANCIAL SECTION

MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.
"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Orange Water and Sewer Authority (the "Authority") (a component unit of the Town of Chapel Hill, North Carolina), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Orange Water and Sewer Authority, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Orange Water and Sewer Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, in 2025 the Authority adopted new accounting guidance GASB Statement no. 101, *Compensated Absences.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Orange Water and Sewer Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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' Schedule of Changes in the Total OPEB Liability and Related Ratios, and the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Orange Water and Sewer Authority's basic financial statements. The budgetary schedules and the Schedule of Expenditures of Federal and State Awards, as required by 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2026 on our consideration of Orange Water and Sewer 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 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 Orange Water and Sewer Authority's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 5, 2026

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 year ended June 30, 2025. 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, 2025, OWASA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $321.3 million.
- OWASA's total net position increased by $15.3 million, primarily resulting from income realized from operating activities.
- Capital expenditures of approximately $18.6 million to rehabilitate, replace, upgrade and expand the capacity of system assets.
- Non-current liabilities increased by about $0.6 million as a result of securing low-interest loans from the state of North Carolina 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 *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position* and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short- and long-term financial information about OWASA's financial position. Presentations of comparative data in these schedules are intended to enhance the reader's ability to gauge OWASA's fiscal strength and provide useful trend information. *Notes to the Financial Statements* and a *Schedule of Revenues and Expenditures – Budget and Actual* appear immediately following the basic financial statements. In addition, other required supplementary information, generally statistical and demographic in nature, is presented.

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

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

The *Statement of Cash Flows* deals specifically with the flow of cash and cash equivalents arising from operating, capital and related financing and investing activities. Because OWASA's *Statement of Revenues, Expenses and Changes in Net Position* measures the flow of total economic resources, operating income

usually differs from net cash flow from operations. To supplement the reader's understanding of this difference, the *Statement of Cash Flows* includes reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States, a reconciliation of cash and cash equivalents is also presented in this statement.

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

Financial Analysis

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

	Fiscal Year Ended		Percentage of Change
	2025	**2024**	
Current assets	$45.3	$49.8	(9.0%)
Other non-capital assets	0.7	0.9	(22.2)
Capital assets	396.7	383.7	3.4
Right-to-use assets	1.6	1.9	(15.8)
Total assets	444.3	436.3	1.8
Total deferred outflows of resources	6.1	7.1	(14.1)
Current liabilities	17.3	16.7	3.6
Non-current liabilities	107.3	114.2	(6.0)
Total liabilities	124.6	130.9	(4.8)
Total deferred inflows of resources	4.5	5.7	(21.1)
Net position			
Net investment in capital assets	298.5	282.8	5.6
Restricted	0.5	0.4	25.0
Unrestricted	22.3	23.6	(5.1)
Total net position	$321.3	$306.8	4.8

OWASA's assets exceeded liabilities by $321.3 million at June 30, 2025, compared to $306.8 million at June 30, 2024. OWASA's overall financial position strengthened between FY 2024 and 2025 as net position increased by $15.3 million. Total assets increased during the same period by $8.0 million. These trends reflect investments in infrastructure improvements funded through a combination of cash and debt.

Net capital assets comprised about 90% of total assets for 2025. 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, 2025, these other unrestricted resources totaled $22.3 million and may be used for any lawful purpose.

Non-current liabilities decreased by approximately $6.9 million during the same period reflecting decreases in outstanding bonds due to principal payments and increases low-interest loans from the state of North Carolina net of principal payments.

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
	2025	2024	
Operating revenues			
Drinking water	$27.2	$24.4	11.5%
Wastewater	25.8	22.8	13.2
Reclaimed water	0.5	0.5	0.0
Other	0.5	0.5	0.0
Total operating revenues	54.0	48.2	12.0
Operating expenses	43.9	41.6	5.5
Operating income	10.1	6.6	52.1
Non-operating revenues			
System development fees	1.3	2.8	(53.6)
Amortization of bond and lease revenue	0.7	0.8	(12.5)
Interest	1.5	1.1	36.4
Cell phone tower rental	0.4	0.3	33.3
Total non-operating revenues	3.9	5.0	(20.0)
Non-operating expenses			
Interest	3.1	2.6	19.2
Cost of issuance	0.1	0.4	(75.0)
Total non-operating expenses	3.2	3.0	6.7
Net non-operating	0.7	1.8	(65.0)
Income before contributions	10.8	8.4	25.6
Capital contributions	4.4	6.1	(27.9)
Increase (decrease) in net position	15.2	14.5	3.4
Net position, July 1, as previously reported	306.8	292.1	5.0
Restatement	(0.7)	0.0	100.0
Net position July 1, restated	306.1	292.1	4.8
Net position, June 30	$321.3	$306.8	4.7

The above condensed two-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 gallon 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 2025, drinking water volume sales averaged 6.1 million gallons per day (MGD); the average for 2024 was also 6.1 MGD.

Drinking water demand remains 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.

While water sales volume grew slightly during the year, operating revenues for FY 2025 were about 12.0% greater than the previous year or $54.0 million due to a rate increase of 15% which went into effect on October 1, 2024.

- **Operating Expenses**: Operating expenses were $43.9 million or about 5.7% greater than FY 2024. Operating expenses include a $13.2 million charge for depreciation and a $9,984 credit for post-employment benefits. Factors contributing to the increase from FY 2024 include increases in personnel costs and an increase in chemicals expense used in drinking and wastewater treatment.

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 system development fees, interest earnings, and rents. System development 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.

  System development fee revenue was approximately $1.3 million in FY 2025: about 54.3% less than FY 2024. Interest earned in FY 2025 totaled about $1.5 million. Investments remained in safe and liquid secured deposits.

- **Capital Contributions**: Capital contributions totaled approximately $4.5 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 2025 was about $398.3 million, an increase of approximately $12.7 million from FY 2024. The net increase consisted of additions totaling $26.0 million and a reduction due to deprecation of $13.2 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.

Orange Water and Sewer Authority
Capital Assets
($ Millions)

	Fiscal Year Ended		Percentage of Change
	2025	2024	
Land	$18.5	$17.8	3.9%
Construction in progress	38.4	33.7	13.9
Water treatment and distribution	145.9	136.6	6.9
Wastewater collection and treatment	176.0	177.9	(1.1)
Fixtures and equipment	17.9	17.7	1.1
Right-to-use assets	1.6	1.9	(15.8)
Total	$398.3	$385.6	3.3

Debt Administration

OWASA policy stipulates that at least 30% of capital improvements projects be funded with cash from operations. At June 30, 2025 and 2024, OWASA's outstanding bond and loan debt totaled $94.8 million, $101.3 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of 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, 2021 and 2024. At year end, OWASA owed an accrued debt service liability of approximately $3.6 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2025.

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.

During FY 2025, the Authority reduced its overall long-term debt balance by about $6.5 million. Debt was increased by drawing $1.9 million against low-interest loans from the State of North Carolina and reduced by loan and bond principal payments. The organization also has liabilities in the form of leases and subscriptions giving OWASA the right to use certain assets. At June 30, 2025, the net book value of the right-to-use assets was approximately $1.6 million, and the associated liability was approximately $1.5million.

Please refer to page 25 in the Notes to Financial Statements section for greater detail on OWASA's outstanding debt obligations.

Accounting Policy Change

During FY 2025, the Authority implemented Governmental Accounting Standard Board (GASB) Statement No. 101, *Compensated Absences.* This standard requires governments to recognize a liability for certain types of compensated absences when the leave is earned, rather than when it is taken. The application of GASB 101 resulted in a restatement of ($686,912) to the Authority's beginning net position. As a result, amounts reported in Management's Discussion and Analysis for fiscal year 2025 are not comparable to those reported for fiscal year 2024, which have not been restated in the prior year comparative information.

See Note 6 for additional information regarding the impact of this standard on the current year's financial statements.

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 20% of total drinking water sales.

- The Carrboro-Chapel Hill economy benefits from the size and strength of UNC and UNC Healthcare: public entities that serve the entire state. The University continues to actively plan and develop new facilities and infrastructure.

- There are no major industries in the service area that are subject to significant changes in economic conditions.

- Orange County's unemployment rate has historically been better than the state and national average.

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

FY 2026 Budget Highlights

OWASA's Board of Directors approved a budget that includes a 7% increase in the rates charged for monthly water and sewer services.

Last year, we projected that we would need to implement a 9% rate increase in FY 2026. A smaller-than-anticipated-rate-increase was possible primarily because of a change in our approach to designing and building a new drinking water clearwell and a new facility to reduce per- and polyfluoroalkyl substances (PFAS) from the community's drinking water. Due to the urgent need to replace our existing aging clearwell and the timeframe for meeting the EPA's new regulations on PFAS levels in drinking water, we originally planned to design and construct the two new facilities simultaneously. However, our success at reducing PFAS levels in drinking water using currently available technologies has allowed us to defer construction of the new PFAS facility while meeting the EPA's maximum contaminant levels in the interim.

The FY 2026 budget for Operating expenses is about 6% greater than the original FY 2025 budget. Capital improvement expenditures are budgeted to be approximately $29.3 million.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

ORANGE WATER AND SEWER AUTHORITY

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2025

	2025
Assets:	
Current assets:	
Cash and cash equivalents	$ 29,022,222
Receivables:	
Trade accounts (net of allowances for uncollectible accounts of approximately $362,000)	6,296,504
Other receivables	366,379
Due from other governments	736,267
Inventory, materials, and supplies	2,028,925
Leases receivable	262,195
Prepaid expenses	910,453
Restricted cash and cash equivalents:	
Cash and cash equivalents	1,175,599
Cash and cash equivalents, trustee	4,446,980
Total current assets	45,245,524
Non-current assets:	
Restricted cash and cash equivalents	458,211
Lease receivable, non-current	271,297
Capital assets:	
Non-depreciable	56,841,062
Depreciable	341,486,409
Total capital assets, net of accumulated depreciation and amortization	398,327,471
Total non-current assets, net	399,056,979
Total assets	444,302,503
Deferred Outflows of Resources:	
Contributions to pension plan in current fiscal year	1,708,494
Pension deferrals	2,408,602
Contributions to OPEB plan in current fiscal year	428,117
OPEB deferrals	1,347,615
Deferred charge on refunding	210,604
Total deferred outflows of resources	6,103,432

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

ORANGE WATER AND SEWER AUTHORITY

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2025

	2025
Liabilities:	
Current liabilities:	
Payable from current assets:	
Trade and construction contracts payable	3,703,207
Accrued expenses	837,123
Payable from restricted cash and cash equivalents:	
Accrued interest	631,675
Customer deposits and advances	1,633,810
Current maturity of note payable	1,892,727
Current maturity of bonds payable	6,939,103
Current portion of compensated absences	1,164,168
Current maturity of lease liabilities	77,841
Current maturity of subscription liabilities	70,498
Current maturity of OPEB liabilities	342,749
Total current liabilities	17,292,901
Non-current liabilities:	
Note payable	21,168,097
Bonds payable	64,802,768
Compensated absences	408,434
Lease liabilities	751,381
Subscription liabilities	557,956
Net pension liability	7,572,832
Total OPEB liability	12,017,598
Total non-current liabilities	107,279,066
Total liabilities	124,571,967
Deferred Inflows of Resources:	
Leases	530,089
Pension deferrals	188,880
OPEB deferrals	3,776,991
Total deferred inflows of resources	4,495,960
Net Position:	
Net investment in capital assets	298,574,497
Restricted for capital reserve	458,211
Unrestricted	22,305,300
Total net position	$ 321,338,008

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

ORANGE WATER AND SEWER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2025

	2025
Operating Revenues:	
Water	$ 27,211,570
Wastewater	25,828,637
Reclaimed water	459,284
Other	477,199
Total operating revenues	53,976,690
Operating Expenses:	
Water resources	7,465,309
Water distribution	5,604,198
Wastewater management	6,021,095
Wastewater collection	1,790,618
General and administrative	9,850,574
Depreciation and amortization	13,194,615
Other post-employment benefits	(9,984)
Total operating expenses	43,916,425
Operating income (loss)	10,060,265
Non-Operating Revenues (Expenses):	
System development fees	1,270,149
Investment income, net of fair value of investments adjustment	1,477,376
Interest expense	(3,117,585)
Amortization of bond expense	703,930
Gain (loss) on disposal of capital assets	55,704
Cell phone tower rental	378,466
Miscellaneous	22,764
Costs of issuance	(50,645)
Total non-operating revenues (expenses)	740,159
Income (loss) before capital contributions	10,800,424
Capital Contributions:	
Contributions in aid of construction	4,464,355
Change in net position	15,264,779
Net Position:	
Beginning of year - July 1	306,760,141
Restatement	(686,912)
Beginning of year, restated	306,073,229
End of year - June 30	$ 321,338,008

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

ORANGE WATER AND SEWER AUTHORITY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2025

	2025
Cash Flows from Operating Activities:	
Receipts from customers	$ 53,079,395
Payments to suppliers	(14,721,464)
Payments to employees	(16,896,123)
Other receipts	572,188
Net cash provided (used) by operating activities	22,033,996
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(21,453,447)
Proceeds from disposal of capital assets	55,704
Costs of issuance	(50,645)
Lease payments received	357,971
Principal paid on bond maturities and other long-term debt	(7,944,945)
Interest paid on bond maturities and other long-term debt	(3,131,683)
System development fees received	1,270,149
Proceeds from issuance of debt	1,884,791
Net cash provided (used) by capital and related financing activities	(29,012,105)
Cash Flows from Investing Activities:	
Interest and dividends on investments	1,477,376
Net increase (decrease) in cash and cash equivalents	(5,500,733)
Cash and Cash Equivalents:	
Beginning of year - July 1	40,603,745
End of year - June 30	$ 35,103,012

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

ORANGE WATER AND SEWER AUTHORITY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2025

	2025
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	$ 10,060,265
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	13,194,615
(Gain) loss on sale of property, plant, and equipment	31,403
Changes in assets and liabilities:	
(Increase) decrease in trade accounts receivable	(519,493)
(Increase) decrease in other receivables	99,391
(Increase) decrease in inventory	110,965
(Increase) decrease in prepaid expenses	(790,588)
(Increase) decrease in deferred outflows of resources for OPEB	549,696
(Increase) decrease in deferred outflows of resources for pensions	452,576
Increase (decrease) in trade and construction contracts payable	(431,683)
Increase (decrease) in customer deposits	94,989
Increase (decrease) accrued expenses	83,066
Increase (decrease) compensated absences	11,541
Increase (decrease) in net pension liability	193,717
Increase (decrease) in deferred inflows of resources for pensions	(118,667)
Increase (decrease) in deferred inflows of resources for OPEB	(777,598)
Increase (decrease) in other post-employment benefits	(210,199)
Net cash provided (used) by operating activities	$ 22,033,996
Non-Cash Capital and Related Financing Activities:	
Property, plant, and equipment contributed by private developers	$ 4,464,355
Subscription assets acquired in exchange for a subscription liability	40,920
Total non-cash capital and related financing activities	$ 4,505,275

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

ORANGE WATER AND SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

1. Summary of Significant Accounting Policies

The accounting policies of 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

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 Councils of the Town of Chapel Hill and 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, 2025.

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 June after public hearings are held.

Budgeted revenues are reflected by source and budgeted expenses by department. On a periodic basis, as required by changing conditions, the budgeted amounts are amended. The budgeted amounts shown in the supplemental schedules reflect the governing board's amendments through the fiscal year-end. Expenditures may not legally exceed appropriations at the object level.

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. 159-30c] 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 mutual fund shares when the mutual fund is certified by the Local Government Commission.

The Authority's investments are generally reported at fair value.The North Carolina Capital Management Trust (NCCMT) Government Portfolio is an SEC-registered money market mutual fund that is certified by the Local Government Commission under the provisions of G.S. 159-30(c)(8) and the North Carolina Administrative Code. The Government Portfolio is a 2a-7 fund that invests in treasuries, government agencies, and repurchase agreements collateralized by treasuries. It is rated AAAm by S&P and AAA-mf by Moody's Investor Services and reported at fair value.

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:	**2025**
Bond service	$ 4,446,980
Capital reserve	458,211
Customer deposits	1,175,599
Total business-type activities	$ 6,080,790

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 $362,000 at June 30, 2025.

Lease Receivable

The Authority's lease receivables are measured at the present value of lease payments expected to be received during the lease terms. Under the lease agreements, the Authority may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payments in received.

A deferred inflow of resources is recorded for the lease. The deferred inflows of resources are recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivables. The deferred inflows of resources are amortized on a straight-line basis over the term of the lease.

Inventory and Prepaid Items

Inventory of the authority is valued at cost (first-in, first-out), which approximates market. 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.

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.

Right-to-Use Assets

The Authority has recorded right-to-use assets as a result of implementing GASB 87. The right-to-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

The Authority has recorded the right-to-use subscription assets related to subscription-based information technology arrangements (SBITAs) as a result of implementing GASB 96. The right-to-use subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus payments made to the SBITA vendor before commencement of the subscription term, plus capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The right-to-use subscription assets are amortized on a straight-line basis over the life of the related SBITA.

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 assets that applies to future periods 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 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 assets that applies to future periods and so will not be recognized as revenue until then. The Authority has three items that meet these criteria in the current year – leases, pension related deferrals, and OPEB related deferrals.

Compensated Absences

The Authority recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences-*vacation* and *sick leave.* The liability for compensated absences is reported as incurred in the financial statements. The liability for compensated absences includes salary-related benefits, where applicable.

<u>Vacation</u>
The Authority's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

Sick Leave

The Authority's policy permits employees to accumulate earned but unused sick leave. All sick leave lapses when employees leave the employment of the Authority and, upon separation from service, no monetary obligation exists. However, a liability for estimated value of sick leave that will be used by employees as time off is included in the liability for compensated absences after the Authority adopted GASB Statement 101, Compensated Absences. See Note 6.

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, including construction contracts payable that are attributable to the acquisition, construction, or improvement of those assets. Unspent capital-related debt proceeds are excluded from this calculation.

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/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

G. Accounting Estimates

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

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 under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards for minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2025, the Authority's deposits had a carrying amount of $8,831,441 and a bank balance of $9,026,276. Of the bank balance, $250,000 was covered by federal depository insurance, and $8,776,276 in deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of $1,800 at June 30, 2025.

Cash Equivalents

At June 30, 2025, the Authority's cash equivalents balance was as follows:

Investment Type	Valuation Measurement Method	Fair Value	Less Than 6 Months
NC Capital Management Trust - government portfolio	Fair Value Level 1	$ 26,269,771	$26,269,771

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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, 2025.

Receivables

Receivables, net of allowance for uncollectible accounts, at June 30, 2025 were as follows:

	2025
Utility accounts receivable	$ 6,296,504
Grants receivable	20,000
Due from other governments	736,267
Other receivable	346,379
Total receivables, net	$ 7,399,150

Leases Receivable

As of June 30, 2025, the Authority had six active leases. The leases have annual receipts that range from $55,000 to $60,500 and interest rates that range from 1.1% to 3.9%. As of June 30, 2025, the total combined value of the lease receivable is $533,492, the total combined value of the short-term lease receivable is $262,195, and the combined value of the deferred inflow of resources is $530,089. The leases had no Variable Receipts or Other Receipts included in the Lease Receivable within the fiscal year.

	Lease Receivables		
Year Ending June 30	Principal Payments	Interest Payments	Total
2026	$ 262,195	$ 18,305	$ 280,500
2027	160,132	10,368	170,500
2028	111,165	4,335	115,500
Total	$ 533,492	$ 33,008	$ 566,500

Capital Assets

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

	Balance July 1, 2024	Increases	Decreases	Transfers	Balance June 30, 2025
Non-Depreciable Assets:					
Land	$ 17,844,022	$ 630,285	$ -	$ -	$ 18,474,307
Construction in progress	33,697,369	18,619,127	(31,403)	(13,918,338)	38,366,755
Total non-depreciable assets	51,541,391	19,249,412	(31,403)	(13,918,338)	56,841,062
Depreciable Assets:					
Water treatment and distribution	227,526,882	3,569,795	-	10,029,132	241,125,809
Sewer collection and treatment	280,181,465	1,369,221	-	2,779,786	284,330,472
Fixtures and equipment	61,898,355	1,729,374	(316,854)	1,109,420	64,420,295
Right-to-use lease equipment	366,652	-	-	-	366,652
Right-to-use lease solar equipme	846,702	-	-	-	846,702
Subscription assets	1,385,093	40,920	(86,001)	-	1,340,012
Total depreciable assets	572,205,149	6,709,310	(402,855)	13,918,338	592,429,942
Less Accumulated Depreciation and Amortization:					
Water treatment and distribution	91,057,071	4,122,637	-	-	95,179,708
Sewer collection and treatment	102,260,534	6,101,261	-	-	108,361,795
Fixtures and equipment	44,174,649	2,632,636	(316,854)	-	46,490,431
Right-to-use lease equipment	172,421	99,235	-	-	271,656
Right-to-use lease solar equipme	86,376	33,868	-	-	120,244
Subscription assets	400,722	204,978	(86,001)	-	519,699
Total accumulated depreciation and amortization	238,151,773	13,194,615	(402,855)	-	250,943,533
Total depreciable assets	334,053,376				341,486,409
Capital assets, net	$ 385,594,767				$ 398,327,471

Construction Commitments

The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately $4,169,357 at June 30, 2025.

Net Investment in Capital Assets

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

	2025
Capital assets, net	$ 398,327,471
Total debt, gross	(96,260,371)
Deferred charge related to debt	210,604
Trade and construction contracts payable	(3,703,207)
Net investment in capital assets	$ 298,574,497

Right-to-Use Lease Assets

The Authority has recorded ten right-to-use lease assets. The assets are right-to-use assets for lease equipment. The related leases are discussed in the leases subsection of the liabilities section of this note. The right-to-use lease assets are amortized on a straight-line basis over the terms of the related leases.

Liabilities

Long-Term Obligations

Long-term debt as of June 30, 2025 consists of the following:

	2025
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 $59,676 at June 30, 2025	$ 1,705,000
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 $1,206,934 at June 30, 2025	14,485,000
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 $371,864 at June 30, 2025	11,510,000
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 $288,149 at June 30, 2025	8,670,000
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 $869,764 at June 30, 2025	17,295,000
Revenue bonds payable, Series 2024 Refunding Revenue Serial bonds, in the amount of $14,525,000, issued June 27, 2024, with coupon rates of 4.0 and 5.0% final maturity June 2049; net of unamortized bond premium of $1,110,484 at June 30, 2025	14,170,000
	$ 67,835,000

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.

	2025
Notes 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	$ 2,952,000
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	642,561
Note payable to NCDEQ in the amount of $3,028,700 issued June 17, 2019, interest at 1.53%, DWSRF loan, beginning November 2020, due in annual installments, varying, with a final payment due in May 2040	2,107,553
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	1,243,501
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	1,134,193
Note payable to NCDEQ in the amount of $4,391,524 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	3,592,864
Note payable to NCDEQ in the amount of $1,451,268 issued June 13, 2023, interest at 1.02%, State Revolving Loan, beginning November 2024, due in semi-annual installments, varying, with a final payment due in May 2044	3,098,972
Note payable to NCDEQ in the amount of $3,812,365 issued March 1, 2022, interest at 1.13%, State Revolving loan, beginning May 2024, due in semi-annual installments, varying, with a final payment due in May 2043	3,391,385
Note payable to NCDEQ in the amount of $568,853 issued April 4, 2023, interest at 1.16%, State Revolving loan, beginning November 2025, due in semi-annual installments, varying, with a final payment due in May 2045	568,854
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	3,730,011
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	598,930
	$ 23,060,824

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
2026	$ 6,305,000	$ 599,002	$ 6,904,002	$ 2,511,812
2027	4,835,000	496,823	5,331,823	2,223,101
2028	5,015,000	419,744	5,434,744	2,027,225
2029	5,245,000	375,728	5,620,728	1,823,438
2030	5,440,000	266,090	5,706,090	1,601,137
2031-2035	12,400,000	863,097	13,263,097	5,880,038
2036-2040	11,555,000	463,708	12,018,708	3,896,888
2041-2045	12,445,000	194,463	12,639,463	1,951,437
2045-2046	4,595,000	17,611	4,612,611	385,780
Total	$ 67,835,000	$ 3,696,266	$ 71,531,266	$ 22,300,856

Notes payable – direct borrowing maturities are as follows:

Year Ending June 30	Principal	Interest	Total
2026	$ 1,892,727	$ 218,024	$ 2,110,751
2027	1,892,727	160,192	2,052,919
2028	1,848,649	142,699	1,991,348
2029	1,688,417	127,369	1,815,786
2030	1,688,417	114,280	1,802,697
2031-2035	8,114,084	393,940	8,508,024
2036-2040	5,703,792	143,361	5,847,153
2041-2045	232,011	7,866	239,877
Total	$ 23,060,824	$ 1,307,731	$ 24,368,555

Advance Refunding

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

On 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.

Long-term liability activity for the year ended June 30, 2025 is as follows:

	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025	Due Within One Year
Direct borrowings	$ 22,864,450	$ 1,884,791	$ 1,688,417	$ 23,060,824	$ 1,892,727
Bonds Payable:					
Revenue bonds	73,835,000	-	6,000,000	67,835,000	6,305,000
Bond issuance premiums	4,645,902	-	739,031	3,906,871	634,103
Lease liabilities	947,695	-	118,473	829,222	77,841
Subscription liabilities	725,589	40,920	138,055	628,454	70,498
Compensated absences	1,561,061	11,541	-	1,572,602	1,164,168
Net pension liability (LGERS)	7,379,115	193,717	-	7,572,832	-
Total OPEB liability	12,570,546	(210,199)	-	12,360,347	342,749
Total	$ 124,529,358	$ 1,920,770	$ 8,683,976	$ 117,766,152	$ 10,487,086

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay $67,835,000 in revenue bonds issued in 2014, 2018, 2019, 2020, 2021 and 2024. 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 22% of net revenues. Principal, interest and premiums on the bonds are payable through 2049, solely from the water and sewer customer net revenues. The total principal and interest remaining to be paid on the bonds is $93,832,125. Principal and interest paid in the year ended June 30, 2025 was $8,767,646 and total customer net revenues was $53,976,690. 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 Section 7.04 Rate Covenant, authorizing the issuance of the Water and Sewer Revenue bonds, Series 2014, 2018, 2019, 2020, and 2021. The bond order requires the debt service coverage ratio to be no less than the greater of (I) 120% of the debt service requirements for parity indebtedness and (ii) 100% of the debt service requirements for parity indebtedness and subordinated indebtedness for such fiscal year.

The debt service coverage ratio calculation for the year ended June 30, 2025 is as follows:

Operating revenues	$ 53,976,690
System development fees	1,270,149
Operating expenses*	30,731,794
Income available for debt service	$ 24,515,045
Debt service on parity indebtedness - principal and interest paid	$ 8,767,646
Debt service coverage ratio - parity indebtedness	280%
Subordinated indebtedness debt service - principal and interest paid	$ 2,158,804
Debt service coverage ratio - parity and subordinated indebtedness	224%

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

Leases

As of June 30, 2025, the Authority had 10 active leases. The leases have payments that range from $507 to $44,000 and interest rates that range from 1.3% to 3.9%. As of June 30, 2025, the total combined value of the lease liability is $829,222, and the total combined value of the short-term lease liability is $77,841. The combined value of the right to use asset as of June 30, 2025 of $1,213,354 with accumulated amortization of $391,900 is included within the Lease Class activities table found below.

Year Ending June 30	Business-Type Activities Principal Payments	Interest Payments	Total
2026	$ 77,841	$ 24,574	$ 102,415
2027	38,983	23,042	62,025
2028	37,684	21,807	59,491
2029	34,160	20,585	54,745
2030	25,338	19,702	45,040
2031-2035	144,739	86,461	231,200
2036-2040	178,691	62,509	241,200
2041-2045	218,480	32,719	251,199
2046-2047	73,306	3,234	76,540
Total	$ 829,222	$ 294,633	$ 1,123,855

Subscriptions

As of June 30, 2025, Orange Water and Sewer Authority had seven active subscriptions. The subscriptions have annual payments that range from $7,218 to $66,000 and interest rates that range from 3.5% to 3.9%. As of June 30, 2025, the total combined value of the subscription liability is $628,454, and the total combined value of the short-term subscription liability is $70,498. The combined value of the right to use asset as of June 30, 2025 of $1,340,012 with accumulated amortization of $519,699 is included within the Subscription Class activities table found below.

Year Ending June 30	Business-Type Activities Principal Payments	Interest Payments	Total
2026	$ 70,498	$ 24,650	$ 95,148
2027	58,463	21,861	80,324
2028	64,754	19,480	84,234
2029	71,491	16,955	88,446
2030	78,702	14,167	92,869
2031-2035	284,546	22,860	307,406
Total	$ 628,454	$ 119,973	$ 748,427

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, firefighters and rescue squad workers. 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, disability 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. General employee plan members are eligible to retire with unreduced 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. General employee plan members are eligible to retire with reduced 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 and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan 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 workers 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

LGERS plan members who are LEOs are eligible to retire with unreduced 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 reduced retirement benefits at age 50 with 15 years of creditable service as an officer. LEOs who complete 25 years of creditable service with 15 years as an officer are eligible to retire with reduced retirement benefits. 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 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members.

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, 2025, was 13.63% 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 $1,708,494 for the year ended June 30, 2025.

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 include interest (currently 4% per year) regardless of the number of years of retirement service credit or for the reason for separation from service. 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, 2025, the Authority reported a liability of $7,572,832 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024 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, 2025, the Authority's proportion was 0.11233% (measured as of June 30, 2024), which was an increase of 0.00092% from its proportion as of June 30, 2024 (measured as of June 30, 2023).

For the year ended June 30, 2025, the Authority recognized pension expense of $2,172,919 At June 30, 2025, 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	$ 1,327,046	$ 8,923
Net difference between projected and actual earnings on pension plan investments	1,029,522	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	52,034	179,957
Employer contributions subsequent to the measurement date	1,708,494	-
Total	$ 4,117,096	$ 188,880

$1,708,494 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, 2026. 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
2026	$ 651,887
2027	1,422,511
2028	261,735
2029	(116,411)
Total	$ 2,219,722

Actuarial Assumptions. The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 percent, net of pension plan investment expense, including inflation

The plan actuary 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

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, 2024, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	33.0%	2.4%
Global equity	38.0%	6.9%
Real estate	8.0%	6.0%
Alternatives	8.0%	8.6%
Opportunistic fixed income	7.0%	5.3%
Inflation sensitive	6.0%	4.3%
Total	100%	

The information above is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. 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 2.38%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 6.50%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits 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 6.50 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Authority's proportionate share of the net pension liability (asset)	$ 13,419,275	$ 7,572,832	$ 2,763,323

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 $1,050 per plan year. The Authority will contribute $40 per pay period up to $1,040 per year. The employer contribution and the employee $1,000 per plan year will increase annually by the Board approved Cost of Labor Adjustment.

All active full-time employees are eligible for membership. At June 30, 2023, the plan membership consisted of:

Members	
Retirees and dependents receiving benefits	52
Active members	128
Total	180

Total OPEB Liability

The Authority's total OPEB liability of $12,360,347 was measured as of June 30, 2024 and was determined by an actuarial valuation as of June 30, 2023.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2023 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
Real wage growth	0.75 percent
Wage inflation	3.25 percent
Salary increases	3.25 - 8.41 percent, average, including inflation
Municipal Bond Index Rate	
Prior measurement date	3.65 percent
Measurement date	3.93 percent
Healthcare cost trend rates	Pre-Medicare - 7.00% for 2023 decreasing to an ultimate rate of 4.50% by 2033 Medicare - 5.125% for 2023 decreasing to an ultimate rate of 4.50% by 2026

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, 2023	$ 12,570,546
Changes for the year:	
Service cost at end of year	255,613
Interest	461,536
Difference between expected and actual experience	2,772
Changes of assumptions or other inputs	(564,167)
Benefit payments and implicit subsidy credit	(365,953)
Net change in total OPEB liability	(210,199)
Balance at June 30, 2024	$ 12,360,347

Changes in assumptions and other inputs reflect a change in the discount rate from 3.65% to 3.93%.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2023 valuation were based on a review of recent plan experience done concurrently with the June 30, 2023 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 (2.93 percent) or 1-percentage-point higher (4.93 percent) than the current discount rate:

	1% Decrease (2.93%)	Current Discount Rate (3.93%)	1% Increase (4.93%)
Total OPEB liability	$ 14,562,733	$ 12,360,347	$ 10,620,502

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	$ 10,459,331	$ 12,360,347	$ 14,802,626

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

For the year ended June 30, 2025, the Authority recognized OPEB expense (income) of $(9,964). At June 30, 2025, 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	$ 4,059	$ 1,343,654
Changes of assumptions or other inputs	1,343,556	2,433,337
Contributions made to the OPEB plan in the current year	428,117	-
Total	$ 1,775,732	$ 3,776,991

$428,117 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, 2026. 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
2026	$ (597,702)
2027	(489,299)
2028	(781,124)
2029	(422,844)
2030	(100,866)
Thereafter	(37,541)
Total	$ (2,429,376)

Other Employment Benefits

The Authority provides an annual contribution to a Section 457 Tax Deferred Compensation Plan for all full-time employees. The purpose of this Plan is to provide employees with supplemental income upon retiring. Employees may make elective contributions to the Plan. Such voluntary contributions do not require employees to complete any minimum service requirements prior to enrollment in the Plan.

Employees hired after September 1, 2019, are eligible to receive an employer contribution beginning at the employment date. The contribution is 5% of the employee's annual salary.

Employees hired before September 1, 2019, were given the opportunity to remain on the 457 plan in place prior to September 1, 2019 or participate in the new plan. Employees who chose to remain on the "old" plan receive contribution amounts based on their years of service. Employees with 4-9 years of service receive contributions of $40 per pay period; those with 10-14 years receive $60 per pay period; those with 15-19 years receive $80 per pay period and those with 20 or more years of service receive $100 per pay period. There are no employees on the "old" plan.

Contributions to the Section 457 Tax Deferred Compensation Plan from the Authority were $575,400, for the year ended June 30, 2025.

The Authority has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental 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.

Deferred Outflows and Inflows of Resources

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

	2025
Deferred Outflows:	
Contributions to pension plan in current fiscal year	$ 1,708,494
Pension deferrals	2,408,602
Contributions to OPEB plan in current fiscal year	428,117
OPEB deferrals	1,347,615
Deferred charge on refunding	210,604
Total	$ 6,103,432
Deferred Inflows:	
Leases	$ 530,089
Pension deferrals	188,880
OPEB deferrals	3,776,991
Total	$ 4,495,960

3. 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. As of June 30, 2025, the Finance Officer is bonded for $1,000,000. The remaining employees that have access to funds are bonded under a blanket bond for $200,000.

4. Net Position

At June 30, 2025, the Board of Directors had approved the use of the unrestricted net position for the following purposes:

	2025
Operating reserve	$ 22,305,300

5. 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.

6. Adjustment and Restatement of Beginning Balance

During the current year, the Authority implemented GASB Statement No. 101, *Compensated Absences.* In addition to the value of unused vacation time owed to employees upon separation of employment, the Authority now recognizes an estimated amount of sick leave earned as of year-end that will be used by employees as time off in future years as part of the liability for compensated absences. The effects of the change in accounting principle are summarized below in the "Restatement - GASB 101 Implementation" column in the table below.

	Net Position Balance 6/30/2024 as Previously Reported	Restatement- GASB 101 Implementation	Net Position Balance 6/30/2024 as Restated
Proprietary Fund:			
Statement of Net Position	$ 306,760,141	$ (686,912)	$ 306,073,229

7. Subsequent Event

Subsequent to the year end, the Authority will draw down $1 million from the Drinking Water Revolving Loan for the Lead Service Line Project.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE WATER AND SEWER AUTHORITY

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

Schedule of Changes in the Total OPEB Liability and Related Ratios

Total OPEB Liability	2025	2024	2023	2022
Service cost at end of year	$ 255,613	$ 303,073	$ 453,621	$ 619,739
Interest	461,536	442,233	336,927	378,143
Changes in benefit terms	-	-	-	(132,920)
Difference between expected and actual experience	2,772	(174,535)	1,927	(2,942,246)
Changes of assumptions or other inputs	(564,167)	(28,196)	(3,450,839)	1,016,893
Benefit payments and implicit subsidy credit	(365,953)	(320,062)	(275,461)	(295,482)
Net change in total OPEB liability	(210,199)	222,513	(2,933,825)	(1,355,873)
Total OPEB liability - beginning	12,570,546	12,348,033	15,281,858	16,637,731
Total OPEB liability - ending	$ 12,360,347	$ 12,570,546	$ 12,348,033	$ 15,281,858
Covered-employee payroll	$ 9,071,198	$ 9,071,198	$ 7,816,728	$ 7,816,728
Total OPEB liability as a percentage of covered-employee payroll	136.26%	138.58%	157.97%	195.50%

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
2025	3.93%
2024	3.65%
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

There were no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan.

ORANGE WATER AND SEWER AUTHORITY

OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
LAST EIGHT 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
Changes in benefit terms	-	-	-	-
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-employee payroll	$ 7,704,086	$ 7,704,086	$ 7,751,275	$ 7,751,275
Total OPEB liability as a percentage of covered-employee payroll	215.96%	167.13%	163.98%	164.34%

ORANGE WATER AND SEWER AUTHORITY

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

Local Governmental Employees' Retirement System

	2025	2024	2023	2022	2021
Authority's proportion of the net pension liability (asset) (%)	0.11233%	0.11142%	0.12224%	0.12228%	0.12713%
Authority's proportion of the net pension liability (asset) ($)	$ 7,572,832	$ 7,379,115	$ 6,896,084	$ 1,875,283	$ 4,542,897
Authority's covered payroll	$ 10,854,641	$ 9,523,679	$ 9,148,654	$ 8,877,118	$ 8,780,335
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	69.77%	77.48%	75.38%	21.12%	51.74%
Plan fiduciary net position as a percentage of the total liability**	83.30%	82.49%	84.14%	95.51%	88.61%

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

** This will be the same percentage for all participant employers in the LGERS plan.

ORANGE WATER AND SEWER AUTHORITY

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

	Local Governmental Employees' Retirement System				
	2020	**2019**	**2018**	**2017**	**2016**
Authority's proportion of the net pension liability (asset) (%)	0.12175%	0.12572%	0.12711%	0.12882%	0.11995%
Authority's proportion of the net pension liability (asset) ($)	$ 3,324,897	$ 2,982,507	$ 1,941,888	$ 2,733,991	$ 538,330
Authority's covered payroll	$ 8,396,386	$ 8,171,152	$ 8,194,045	$ 6,980,328	$ 7,352,374
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	39.60%	36.50%	23.70%	39.17%	7.32%
Plan fiduciary net position as a percentage of the total liability**	90.86%	91.63%	94.18%	91.47%	98.09%

ORANGE WATER AND SEWER AUTHORITY

CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TEN FISCAL YEARS

	Local Governmental Employees' Retirement System				
	2025	**2024**	**2023**	**2022**	**2021**
Contractually required contribution	$ 1,708,494	$ 1,458,877	$ 1,156,175	$ 1,042,033	$ 963,041
Contributions in relation to the contractually required contribution	1,708,494	1,458,877	1,156,175	1,042,033	963,041
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 11,560,451	$ 10,854,641	$ 9,523,679	$ 9,148,654	$ 8,877,118
Contributions as a percentage of covered payroll	14.78%	13.44%	12.14%	11.39%	10.85%

ORANGE WATER AND SEWER AUTHORITY

CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TEN FISCAL YEARS

	Local Governmental Employees' Retirement System				
	2020	**2019**	**2018**	**2017**	**2016**
Contractually required contribution	$ 790,230	$ 655,451	$ 617,219	$ 598,984	$ 510,262
Contributions in relation to the contractually required contribution	790,230	655,451	617,219	598,984	510,262
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 8,780,335	$ 8,396,386	$ 8,171,152	$ 8,194,045	$ 6,980,328
Contributions as a percentage of covered payroll	9.00%	7.81%	7.55%	7.31%	7.31%

SUPPLEMENTARY SCHEDULES

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Final Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Water	$ 28,014,932	$ 27,211,570	$ (803,362)
Wastewater	25,829,275	25,828,637	(638)
Reclaimed water	441,300	459,284	17,984
Service initiation fees	14,720	-	(14,720)
Other	673,576	477,199	(196,377)
Total operating revenues	54,973,803	53,976,690	(997,113)
Non-operating revenues:			
Interest income	720,624	1,477,376	756,752
System development fees	1,849,665	1,270,149	(579,516)
Cell phone tower rental	-	378,466	378,466
Miscellaneous	-	22,764	22,764
Total non-operating revenues	2,570,289	3,148,755	578,466
Total revenues	57,544,092	57,125,445	(418,647)
Expenditures:			
Operating expenses:			
Water supply and treatment:			
Salaries and wages	1,802,019	1,843,168	(41,149)
Payroll taxes and employee benefits	810,237	623,695	186,542
Materials and supplies	250,398	293,061	(42,663)
Chemicals	2,972,942	3,117,011	(144,069)
Utilities	424,594	524,296	(99,702)
Maintenance	1,317,176	935,588	381,588
Professional services	35,000	37,711	(2,711)
Insurance	58,344	71,000	(12,656)
Communication	500	2,815	(2,315)
Education and development	26,000	19,936	6,064
Miscellaneous	92,419	93,001	(582)
Total water supply and treatment	7,789,629	7,561,282	228,347
Construction credits	-	(4,145)	4,145

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Final Budget	Actual	Variance Over/Under
Water distribution:			
Salaries and wages	2,134,735	2,155,175	(20,440)
Payroll taxes and employee benefits	1,038,042	1,140,223	(102,181)
Materials and supplies	134,747	127,543	7,204
Utilities	218,352	187,478	30,874
Maintenance	781,698	733,896	47,802
Insurance	6,977	10,297	(3,320)
Communication	3,500	1,473	2,027
Printing and reproduction	2,500	-	2,500
Education and development	24,750	29,235	(4,485)
Miscellaneous	8,000	7,481	519
Total water distribution	4,353,301	4,392,801	(39,500)
Construction credits	(225,901)	(597,565)	371,664
Wastewater treatment:			
Salaries and wages	1,884,809	1,896,483	(11,674)
Payroll taxes and employee benefits	822,975	716,454	106,521
Materials and supplies	297,001	260,912	36,089
Chemicals	1,331,341	1,337,429	(6,088)
Utilities	970,721	916,889	53,832
Maintenance	1,414,320	890,410	523,910
Professional services	30,000	1,148	28,852
Insurance	70,009	85,277	(15,268)
Communication	800	1,235	(435)
Education and development	59,575	17,112	42,463
Miscellaneous	93,430	34,826	58,604
Total wastewater treatment	6,974,981	6,158,175	816,806
Wastewater collection:			
Salaries and wages	787,523	829,642	(42,119)
Payroll taxes and employee benefits	413,794	302,484	111,310
Materials and supplies	76,706	55,775	20,931
Chemicals	175,000	175,445	(445)
Utilities	136,844	172,556	(35,712)

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Final Budget	Actual	Variance Over/Under
Maintenance	282,200	266,928	15,272
Insurance	6,977	10,742	(3,765)
Communication	500	515	(15)
Printing and distribution	500	-	500
Education and development	21,000	8,016	12,984
Miscellaneous	6,500	5,212	1,288
Total wastewater collections	1,907,544	1,827,315	80,229
Construction credits	-	(36,697)	36,697
General and administrative:			
Salaries and wages	5,240,757	5,199,975	40,782
Payroll taxes and employee benefits	2,555,758	2,382,937	172,821
Materials and supplies	275,065	237,188	37,877
Utilities	189,200	170,884	18,316
Maintenance	945,845	696,489	249,356
Professional services	2,288,430	1,573,016	715,414
Insurance	228,784	276,241	(47,457)
Communication	269,513	166,570	102,943
Printing and reproduction	24,000	9,528	14,472
Education and development	133,745	104,664	29,081
Miscellaneous	308,255	383,500	(75,245)
Total general and administrative	12,459,352	11,200,992	1,258,360
Construction credits	(177,558)	(309,531)	131,973
Total operating expenses	33,081,348	30,196,772	2,884,576
Debt Service:			
Principal		7,944,945	
Interest		3,154,132	
Total debt service	15,569,904	11,099,077	4,470,827
Capital outlay	26,990,272	21,494,367	5,495,905
Total expenditures	75,641,524	62,786,071	12,855,453
Revenues over (under) expenditures	(18,097,432)	(5,660,626)	12,436,806

ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2025

	Final Budget	Actual	Variance Over/Under
Other Financing Sources (Uses):			
Proceeds from borrowing	13,559,628	1,884,791	(11,674,837)
Subscriptions issued	-	40,920	40,920
Appropriated fund balance	4,537,804	-	(4,537,804)
Total other financing sources (uses)	18,097,432	1,925,711	(16,171,721)
Net change in fund balance	$ -	(3,734,915)	$ (3,734,915)
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Principal debt payments		7,944,945	
Long-term debt issued		(1,925,711)	
Change in accrued interest payable		(14,098)	
Depreciation and amortization		(13,194,615)	
Change in deferred outflows of resources - pensions		(452,576)	
Change in net pension liability		(193,717)	
Change in deferred inflows of resources - pensions		118,667	
Change in compensated absences		(11,541)	
OPEB expense		9,984	
Amortization of bond expense and patent		703,930	
Capital outlay		21,494,367	
Proceeds from disposal of capital assets		55,704	
Capital contributions		4,464,355	
Change in net position		$ 15,264,779	

ORANGE WATER AND SEWER AUTHORITY

**SCHEDULE OF REVENUES AND EXPENDITURES -
PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2025**

	Project Budget	Cumulative Total to June 30, 2025	Unexpended Balance as of June 30, 2025
Raw Water Supply Sources:			
Revenues:			
General Fund	$ 8,747,103	$ 7,010,491	$ 1,736,612
Expenditures:			
Jordan Lake raw water supply intake and pumping facility	$ 392,558	$ 386,196	$ 6,362
Stone quarry development	581,545	292,740	288,805
Cane Creek pump station improvements	310,000	-	310,000
Cane Creek dam rehabilitation	625,000	561,976	63,024
Cane Creek dam diversion tunnel improvements	200,000	273,331	(73,331)
Cane Creek guardrail replacement	50,000	84,665	(34,665)
Cane Creek fishing pier rehabilitation	40,000	41,181	(1,181)
University Lake permanganate facility	4,652,000	4,304,821	347,179
University Lake dam improvements	75,000	24,385	50,615
University Lake fishing pier and boat launch	70,000	-	70,000
Western Intake Partnership projects	1,751,000	1,041,195	709,805
Total Expenditures	$ 8,747,103	$ 7,010,491	$ 1,736,612
Raw Water Transmission:			
Revenues:			
General Fund	$ -	$ 5,520	$ (5,520)
Expenditures:			
Cane Creek water transmission main capacity study	$ -	$ 5,520	$ (5,520)
Total Expenditures	$ -	$ 5,520	$ (5,520)
Water Treatment:			
Revenues:			
General Fund	$ 18,920,000	$ 13,910,369	$ 5,009,631
Expenditures:			
Water treatment plant front entry rehabilitation	$ 35,000	$ 11,235	$ 23,765
Water treatment plant flash mix basins isolation valve replacement	50,000	-	50,000
Water treatment plant clearwell rehabilitation	1,282,000	1,284,566	(2,566)
Water treatment plant electrical distribution improvements	3,795,000	988,532	2,806,468
Plants SCADA master plan	2,795,000	1,802,111	992,889
Water supply and treatment condition assessment	200,000	87,386	112,614
New clearwell, finished water pump station and electrical distribution system improvements	1,670,000	926,994	743,006
Filters 1, 3, 4 & 5 shaft and actuator replacements	150,000	-	150,000
Water treatment plant conference and mail room space merger	50,000	125,949	(75,949)
Facility Maintenance Coordinator office buildout	35,000	23,018	11,982
Water treatment plant hypo room HVAC system	100,000	133,431	(33,431)
Upflow clarifier condition assessment and hydraulic analysis	-	27,120	(27,120)
PFAS planning study	4,010,000	3,647,326	362,674
Pulsator walkway replacement	140,000	221,890	(81,890)
Water treatment plant belt filter press replacement	4,608,000	4,630,812	(22,812)
Total Expenditures	$ 18,920,000	$ 13,910,369	$ 5,009,631
Drinking Water Pumping:			
Revenues:			
General Fund	$ 325,000	$ 247,224	$ 77,776

ORANGE WATER AND SEWER AUTHORITY

**SCHEDULE OF REVENUES AND EXPENDITURES -
PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2025**

	Project Budget	Cumulative Total to June 30, 2025	Unexpended Balance as of June 30, 2025
Expenditures:			
Highway 54 pump station improvements	$ 75,000	$ -	$ 75,000
Calvander pump station site improvements	250,000	247,224	2,776
Total Expenditures	$ 325,000	$ 247,224	$ 77,776
Drinking Water Storage:			
Revenues:			
General Fund	$ 210,000	$ 201,763	$ 8,237
Expenditures:			
Nunn Mountain roadway improvements	$ 90,000	$ 89,501	$ 499
Storage tank programmable logic controller upgrades	120,000	112,262	7,738
Total Expenditures	$ 210,000	$ 201,763	$ 8,237
Water Transmission & Disribution:			
Revenues:			
General Fund	$ 20,751,054	$ 13,017,335	$ 7,733,719
Expenditures:			
Water main - road improvement projects	$ 1,007,825	$ 402,472	$ 605,353
Water main rehabilitation/replacement projects	4,411,229	3,104,681	1,306,548
Water main upgrades - development projects	231,000	-	231,000
Lead and copper rule compliance	1,470,000	1,213,135	256,865
Barbee Chapel Road booster pump station study	75,000	-	75,000
Dobbins Drive water main condition assessment	435,000	-	435,000
Cameron Avenue water main replacement	8,993,000	5,705,389	3,287,611
Cameron Avenue water main design alternatives assessment	25,000	-	25,000
Water distribution system hydraulic model	740,000	525,611	214,389
Galvanized water main replacement	25,000	14,348	10,652
Legion Road water main replacement	125,000	105,044	19,956
West Rosemary 12" asbestos cement water main replacement	570,000	649,371	(79,371)
Distribution system prioritization model	495,000	481,110	13,890
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
High priority AC water line replacement	600,000	483,072	116,928
Distribution system condition assessment	260,000	73,877	186,123
Jones Ferry Road water main emergency	-	122,772	(122,772)
Burning Tree water main replacement	120,000	-	120,000
Water main replacement - Group II	160,000	136,452	23,548
Total Expenditures	$ 20,751,054	$ 13,017,335	$ 7,733,719
Wastewater Collection Lines:			
Revenues:			
General Fund	$ 13,779,564	$ 6,595,880	$ 7,183,684
Expenditures:			
Gravity sewer rehabilitation	$ 4,912,564	$ 2,081,644	$ 2,830,920
Willow Drive interceptor replacement	25,000	-	25,000
Rocky Branch interceptor replacement	1,162,000	342,812	819,189
Morgan Creek interceptor replacement	4,349,000	3,263,541	1,085,459
Cobb Terrace sewer rehabilitation	665,000	138,788	526,212
Large gravity sewer condition assessment	125,000	155,376	(30,376)
Creek crossing access improvements	1,271,000	274,123	996,877

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUES AND EXPENDITURES -
PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2025

	Project Budget	Cumulative Total to June 30, 2025	Unexpended Balance as of June 30, 2025
Bayberry Drive creek crossing access improvements	65,000	8,500	56,500
Creek aerial crossings assessments	100,000	94,935	5,065
Morgan Creek interceptor - Flagstone Court	225,000	-	225,000
Morgan Creek interceptor aerial rehabilitations	200,000	35,734	164,266
Brigham Road sewer	50,000	58,287	(8,287)
Collection system basin No. 28 rehabilitation	320,000	-	320,000
Collection system flow monitors	250,000	64,074	185,926
Collection system on-call modeling	60,000	78,065	(18,065)
Total Expenditures	$ 13,779,564	$ 6,595,880	$ 7,183,684
Wastewater Pumping Stations and Force Mains:			
Revenues:			
General Fund	$ 1,367,000	$ 383,851	$ 983,149
Expenditures:			
Rogerson Drive force main routing study	$ 50,000	$ -	$ 50,000
Rogerson Drive force main evaluation	75,000	-	75,000
Force main condition assessment	75,000	-	75,000
Force main ARV replacements	580,000	47,503	532,497
Rogerson Drive force main and pump station program	472,000	312,150	159,850
Piney Mountain pump station evaluation	-	7,000	(7,000)
Rangewood lift station and force main assessment	100,000	-	100,000
North Forest Hills II pump station demolition	-	17,197	(17,197)
Piney Mountain force main manhole lining	15,000	-	15,000
Total Expenditures	$ 1,367,000	$ 383,851	$ 983,149
Wastewater Treatment and Disposal:			
Revenues:			
General Fund	$ 15,563,000	$ 9,185,480	$ 6,377,520
Expenditures:			
Mason Farm waste water treatment plant hyper-pitch mixer blades	$ 58,000	$ -	$ 58,000
Mason Farm waste water treatment plant piping heat tracing and insulation	35,000	-	35,000
Heat exchanger for rotary drum thickener	60,000	-	60,000
Mason Farm waste water treatment plant digester #3 and #4 stairwell safety improvements	250,000	152,128	97,872
Mason Farm waste water treatment plant digester #3 and #4 stairwell HVAC improvements	1,300,000	76,342	1,223,658
Mason Farm waste water treatment plant and pump station programmable logic controller replacement	1,250,000	161,748	1,088,252
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
Offsite biosolids tank mixing and nozzle cleaning and condition assessment	800,000	11,228	788,773
Mason Farm waste water treatment plant bridge repairs	110,000	4,903	105,098
Mason Farm waste water treatment plant filtrate side stream treatment	194,000	-	194,000
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
Mason Farm waste water treatment plant rehabilitation and replacement of chemical building and piping	995,000	955,426	39,574
Mason Farm waste water treatment plant gas monitoring system	190,000	-	190,000
Mason Farm waste water treatment plant mater plan	635,000	443,495	191,505
Mason Farm waste water treatment plant clarifier No. 4 conversion	4,285,000	4,077,517	207,483
Mason Farm waste water treatment plant warehouse	770,000	33,185	736,815
Mason Farm waste water treatment plant hypochorite tank replacement	60,000	27,564	32,436
Mason Farm waste water treatment plant aeration basin condition assessment	200,000	150,449	49,551
Mason Farm waste water treatment plant primary effluent to IPS capacity improvements	150,000	35,959	114,041

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUES AND EXPENDITURES -
PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2025

	Project Budget	Cumulative Total to June 30, 2025	Unexpended Balance as of June 30, 2025
Mason Farm waste water treatment plant RAS pumping improvements	150,000	-	150,000
Digester 2 cleanout and inspection	200,000	-	200,000
Carbon study and fermenter evaluation	80,000	-	80,000
Mason Farm hydrograph development and EQ study	70,000	-	70,000
Ammonia based aeration control study	70,000	-	70,000
Gas monitoring system	280,000	187,737	92,263
Digester cleaning operational assistance	1,650,000	2,454,639	(804,639)
Biogas removal system improvements	650,000	106,029	543,971
Wastewater condition assessment	90,000	23,000	67,000
Morgan Creek pump station improvements	25,000	22,428	2,572
Old UNC lab building demolition	200,000	111,063	88,937
Reclaimed water elevated storage tank evaluation	50,000	37,960	12,040
Reclaimed water quality evaluation	160,000	73,900	86,100
Total Expenditures	$ 15,563,000	$ 9,185,480	$ 6,377,520
Facility Improvements:			
Revenues:			
General Fund	$ 1,121,000	$ 1,265,436	$ (144,436)
Expenditures:			
Administration building locker room renovation study	$ 15,000	$ 10,240	$ 4,760
Administration building coping and stucco repairs	400,000	312,731	87,269
Jones Ferry Road campus perimeter fencing improvements	450,000	549,466	(99,466)
Administration building interior stairwell study	166,000	303,679	(137,679)
Administration building master plan	90,000	89,320	680
Total Expenditures	$ 1,121,000	$ 1,265,436	$ (144,436)

STATISTICAL SECTION

Financial Trends - These schedules contain trend information to help the reader understand how the Authority's financial performance has changed over time.

Table 1	Net Position By Components
Table 2	Changes in Net Position
Table 3	Water Processed and Wastewater Treated

Debt Capacity - These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

Table 4	Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer
Table 5	Ratio of Total Debt to Net Operating Revenues and Net Total Debt Per Customer

Revenue Capacity - These schedules contain information to help the reader assess the Authority's most significant local revenue sources. Data for the Town of Chapel Hill, NC is presented since OWASA is considered a Component Unit of the Town.

Table 6	Principal Water and Sewer Customers
Table 7	Town of Chapel Hill NC, Property Tax Levies and Collections
Table 8	Town of Chapel Hill, NC Assessed Value and Actual Value of Taxable Property
Table 9	Town of Chapel Hill, NC Direct and Overlapping Property Tax Rates (Per $100 of Assessed Value)

Demographic and Economic Information - These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Table 10	Town of Chapel Hill, NC Demographic and Economic Statistics

Operating Information - These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

Table 11	Miscellaneous Statistical Data
Table 12	Full-Time Equivalents (authorized)

Net Position by Components
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2025	**2024**	**2023**	**2022**	**2021**
Net investment in capital assets	$ 298,574,497	$ 282,821,833	$ 280,093,362	$ 266,012,048	$ 261,482,971
Restricted for capital reserve	458,211	406,286	355,658	323,721	310,538
Unrestricted	22,305,300	23,532,022	7,747,601	14,203,346	15,645,655
Total	$ 321,338,008	$ 306,760,141	$ 288,196,621	$ 280,539,115	$ 277,439,164

Net Position by Components
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2020	**2019**	**2018**	**2017**	**2016**
Net investment in capital assets	$ 270,044,238	$ 266,060,335	$ 255,136,679	$ 236,928,712	$ 224,969,584
Restricted for capital reserve	276,217	241,332	206,053	171,013	260,978
Unrestricted	5,839,587	6,068,016	9,495,342	26,560,322	29,327,642
Total	$ 276,160,042	$ 272,369,683	$ 264,838,074	$ 263,660,047	$ 254,558,204

ORANGE WATER AND SEWER AUTHORITY

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2025	**2024**	**2023**	**2022**	**2021**
Operating Revenues:					
Water	$ 27,670,854	$ 24,438,083	$ 21,407,013	$ 18,872,830	$ 17,608,186
Wastewater	25,828,637	22,832,889	20,368,662	18,049,316	16,620,662
Other	477,199	957,586	826,225	1,073,114	1,285,973
Total operating revenues	53,976,690	48,228,558	42,601,900	37,995,260	35,514,821
Operating Expenses:					
Water Resources	7,465,309	6,743,349	5,832,875	4,760,507	4,526,700
Water Distribution	5,604,198	5,258,974	4,697,054	3,664,480	4,364,507
Wastewater Management	6,021,095	5,950,094	5,819,613	4,996,720	4,905,226
Wastewater Collection	1,790,618	1,663,810	1,540,164	1,441,847	1,228,687
General and Administrative	9,850,574	9,097,951	7,767,815	7,417,715	6,833,838
Depreciation and amortization	13,194,615	12,839,028	12,135,862	11,336,214	10,476,244
Other post-employment benefits	(9,984)	16,209	92,980	691,545	986,707
Total operating expenses	43,916,425	41,569,415	37,886,363	34,309,028	33,321,909
Operating income (loss)	10,060,265	6,659,143	4,715,537	3,686,232	2,192,912
Non-Operating Revenues (Expenses):					
System development fees	1,270,149	2,776,005	812,400	801,021	1,860,926
Investment income	1,477,376	1,069,799	684,832	17,689	1,291
Interest expense	(3,117,585)	(2,650,738)	(2,778,038)	(3,121,647)	(2,708,475)
Amortization of bond expense and patent	703,930	812,509	939,784	1,069,980	946,570
Others	406,289	(118,923)	193,738	640,715	(308,023)
Income (loss) before contributions	10,800,424	8,547,795	4,568,253	3,093,990	1,985,201
Capital Contributions:					
Capital grants and contributions	-	-	640,000	-	-
Contributions in aid of construction	4,464,355	6,100,451	3,428,631	876,715	1,365,144
Total capital contributions	4,464,355	6,100,451	4,068,631	876,715	1,365,144
Increase in net position	15,264,779	14,648,246	8,636,884	3,970,705	3,350,345
Net Position:					
Beginning of year, previously reported - July 1	306,760,141	292,111,895	283,475,011	279,510,387	276,160,042
Restatement	(686,912)	-	-	(6,081)	-
Beginning of year, restated	306,073,229	292,111,895	283,475,011	279,504,306	276,160,042
End of year - June 30	$ 321,338,008	$ 306,760,141	$ 292,111,895	$ 283,475,011	$ 279,510,387

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2020	**2018**	**2017**	**2016**	**2015**
Operating Revenues:					
Water	$ 17,893,981	$ 19,013,363	$ 17,540,247	$ 17,894,907	$ 18,291,453
Wastewater	16,948,606	16,868,447	16,561,076	16,514,394	16,739,718
Other	1,463,607	1,661,463	1,639,071	1,960,069	1,929,671
Total operating revenues	36,306,194	37,543,273	35,740,394	36,369,370	36,960,842
Operating Expenses:					
Water supply and treatment	4,883,456	5,601,957	5,145,181	4,692,599	4,553,491
Water distribution	4,734,237	2,659,501	3,554,221	2,781,136	2,782,489
Wastewater treatment	5,081,371	4,607,301	4,813,684	4,561,981	4,457,289
Wastewater collections	1,265,359	1,264,196	1,329,131	1,185,549	1,254,390
General and administrative	7,244,321	7,352,499	6,331,018	6,403,637	5,951,983
Depreciation and amortization	9,780,753	9,226,257	8,909,129	8,919,124	9,384,310
Other post-employment benefits	602,645	765,944	493,193	466,573	372,993
Total operating expenses	33,592,142	31,477,655	30,575,557	29,010,599	28,756,945
Operating income (loss)	2,714,052	6,065,618	5,164,837	7,358,771	8,203,897
Non-Operating Revenues (Expenses):					
System development fees	1,393,871	1,599,382	2,219,227	1,397,652	1,429,244
Investment income	63,207	56,524	32,802	20,663	15,133
Interest expense	(2,565,779)	(1,863,061)	(1,668,138)	(1,729,871)	(2,637,681)
Amortization of bond expense and patent	611,927	102,842	914,691	120,781	(177,021)
Others	(419,681)	(19,340)	75,348	-	(145,273)
Income (loss) before contributions	1,797,597	5,941,965	6,738,767	7,167,996	6,688,299
Capital Contributions:					
Capital grants and contributions	-	-	-	18,170	2,320
Contributions in aid of construction	1,992,762	1,509,516	2,363,076	1,828,305	1,372,391
Total capital contributions	1,992,762	1,509,516	2,363,076	1,846,475	1,374,711
Increase in net position	3,790,359	7,451,481	9,101,843	9,014,471	8,063,010
Net Position:					
Beginning of year, previously reported - July 1	254,558,204	263,660,047	254,558,204	245,543,733	238,397,316
Restatement	-	(6,273,424)	-	-	(916,593)
Beginning of year, restated	254,558,204	257,386,623	254,558,204	245,543,733	237,480,723
End of year - June 30	$ 258,348,563	$ 264,838,104	$ 263,660,047	$ 254,558,204	$ 245,543,733

ORANGE WATER AND SEWER AUTHORITY

Table 3

Water Processed and Wastewater Treated
(Thousands of Gallons)
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30	Water Processed and Pumped to System	Wastewater Treated
2016	2,440,937	3,149,225
2017	2,397,093	3,094,963
2018	2,463,021	2,843,422
2019	2,432,215	2,971,517
2020	2,352,007	2,734,725
2021	2,254,895	2,830,202
2022	2,367,625	2,604,900
2023	2,445,596	2,726,194
2024	2,380,033	2,799,203
2025	2,467,340	2,507,029

Source: Orange Water and Sewer Authority's records

Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30	Customer Estimate	Net Operating Revenues	Unamortized Issuance Premiums	Debt Service Requirements	Net Bonded Debt	Ratio of Net Revenues to Debt Service Requirements	Net Bonded Debt Per Customer
2016	21,385	$ 18,162,783	$ 4,271,568	$ 7,662,664	$ 71,991,568	2.37	$ 3,366
2017	21,526	16,819,188	3,165,258	7,930,519	65,000,258	2.12	3,019.62
2018	21,585	17,713,695	4,807,515	7,007,230	59,932,515	2.53	2,776.58
2019	21,712	15,504,181	4,070,989	6,362,502	54,255,989	2.44	2,498.89
2020	21,823	14,998,272	5,780,504	7,213,125	66,625,504	2.08	3,052.99
2021	21,921	15,843,468	6,432,633	7,933,465	79,842,633	2.00	3,642.29
2022	21,987	15,713,991	5,327,553	6,656,257	74,962,553	2.36	3,409.40
2023	22,039	17,484,195	4,352,668	7,668,512	68,982,668	2.28	3,130.03
2024	21,429	19,514,380	4,645,902	7,728,513	78,480,902	2.52	3,662.37
2025	21,003	23,244,896	3,906,870	8,767,646	71,741,870	2.65	3,415.79

ORANGE WATER AND SEWER AUTHORITY

Ratio of Total Debt to Net Operating Revenues and Net Total Debt Per Customer
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30	Customer Estimate	Net Operating Revenues	Debt Service Requirements	Net Bonded Debt	For Issuance Premiums
2016	21,385	$ 18,162,783	$ 7,662,664	$ 67,720,000	$ 4,271,568
2017	21,526	16,819,188	7,930,519	61,835,000	3,165,258
2018	21,585	17,713,695	7,007,230	55,125,000	4,807,515
2019	21,712	15,504,181	6,362,502	50,185,000	4,070,989
2020	21,823	14,998,272	7,213,125	60,845,000	5,780,504
2021	21,921	15,843,468	7,933,465	73,410,000	6,432,633
2022	21,987	15,713,991	7,842,182	69,635,000	5,327,553
2023	22,039	17,484,195	9,218,798	64,630,000	4,352,668
2024	21,429	19,514,380	9,744,301	73,835,000	4,645,902
2025	21,003	23,244,896	10,926,450	67,835,000	3,906,870

Ratio of Total Debt to Net Operating Revenues and Net Total Debt Per Customer
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30	Direct Borrowings	Lease and Subscription Liabilities	Net Total Debt	Ratio of Net Revenues to Debt Service Requirements	Net Total Debt Per Customer
2016	$ 5,904,000	$ -	$ 77,895,568	2.37	$ 3,643
2017	5,576,000	-	70,576,258	2.12	3,278.65
2018	5,248,000	-	65,180,515	2.53	3,019.71
2019	12,244,218	-	66,500,207	2.44	3,062.83
2020	13,400,502	-	80,026,006	2.08	3,667.05
2021	14,315,726	-	94,158,359	2.00	4,295.35
2022	14,060,466	622,727	89,645,746	2.00	4,077.22
2023	16,671,578	1,031,851	86,686,097	1.90	3,933.30
2024	22,864,450	1,673,284	29,183,636	2.00	1,361.88
2025	23,060,824	1,457,676	28,425,370	2.13	1,353.40

ORANGE WATER AND SEWER AUTHORITY

Table 6

Principal Water and Sewer Customers
Year Ended June 30, 2025 and 2016
(Unaudited)

	Percent of Water Sales 2025	Percent of Water Sales 2016
University of North Carolina at Chapel Hill	19%	21%
Chapel Hill - Carrboro City Schools	1%	2%
Chapel Hill Housing	1%	
Granville Towers (housing)	1%	
Chapel Hill 260 (Apartments)	<1%	
CP Villages (Apartments)	<1%	<1%
University Place	<1%	<1%
RA Properties (Apartments)	<1%	
Triangle Communities (Apartments)	<1%	<1%
Northwood Ravin (Apartments)	<1%	<1%
The Villages Apartments		<1%
Town of Chapel Hill		<1%
Carol Woods Retirement Community		<1%
Estes Park Apartments		<1%

Source: Orange Water and Sewer Authority's Records

ORANGE WATER AND SEWER AUTHORITY

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years
		Amount	Percentage of Original Levy	
2016	$ 39,789,825	$ 39,638,269	99.62%	$ -
2017	39,471,449	39,314,757	99.60%	-
2018	40,816,019	40,679,175	99.66%	-
2019	43,418,983	43,206,984	99.51%	-
2020	45,060,958	44,871,448	99.58%	-
2021	46,050,771	45,882,304	99.63%	-
2022	48,632,356	48,492,226	99.71%	-
2023	49,787,472	49,650,109	99.72%	-
2024	55,272,239	55,115,135	99.72%	-
2025	58,713,915	58,413,809	99.49%	-

ORANGE WATER AND SEWER AUTHORITY

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

Fiscal Year Ended June 30	Total Collections to Date		Outstanding Delinquent Taxes
	Amount	Percentage of Adjusted Levy	
2016	$ 39,638,269	99.62%	$ 151,556
2017	39,314,757	99.60%	156,692
2018	40,679,175	99.66%	136,844
2019	43,206,984	99.51%	211,999
2020	44,871,448	99.58%	189,510
2021	45,882,304	99.63%	168,467
2022	48,492,226	99.71%	140,130
2023	49,650,109	99.72%	137,363
2024	55,115,135	99.72%	157,104
2025	58,413,809	99.49%	300,106

ORANGE WATER AND SEWER AUTHORITY

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

Fiscal Year Ended June 30		Residential Property	Commercial Property	Combined Real Property	Personal Property	Public Service Companies (3)
2016		*	*	$ 6,913,283,131	$ 541,047,846	$ 85,443,691
2017		*	*	6,902,832,865	546,117,755	83,768,622
2018	(1)	*	*	7,399,771,971	550,409,864	84,467,574
2019		*	*	7,529,444,369	613,170,831	80,677,065
2020		*	*	7,601,209,365	598,051,765	84,003,208
2021		*	*	7,805,662,760	576,246,878	83,305,619
2022	(1)	*	*	8,754,178,419	618,604,665	88,764,776
2023		*	*	8,795,629,837	646,036,515	96,163,533
2024		*	*	8,876,404,468	688,799,325	97,775,053
2025		*	*	9,034,791,862	725,395,202	94,023,578

*The Breakdown between residential and commercial property is not available for fiscal years after 2011.

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

ORANGE WATER AND SEWER AUTHORITY

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

Fiscal Year Ended June 30	Total Taxable Assessed Value	Total Direct Tax Rate (4)	Estimated Actual Taxable Value (5)	Ratio of Assessed Value to Estimated Actual Value (6)
2016	$ 7,539,774,668	0.524	$ 7,599,047,236	99.22%
2017	7,532,719,242	0.524	7,562,971,127	99.60%
2018	8,034,649,409	0.508	8,062,060,414	99.66%
2019	8,223,292,265	0.528	8,263,784,811	99.51%
2020	8,283,264,338	0.544	8,318,200,781	99.58%
2021	8,465,215,257	0.544	8,496,652,873	99.63%
2022	9,461,547,860	0.514	9,489,066,152	99.71%
2023	9,537,829,885	0.522	9,564,610,795	99.72%
2024	9,662,978,846	0.572	9,690,111,157	99.72%
2025	9,854,210,642	0.592	9,904,724,738	99.49%

ORANGE WATER AND SEWER AUTHORITY

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

	Years Taxes Payable				
	2016	**2017**	**2018**	**2019**	**2020**
Chapel Hill within Orange County:					
Town direct rates:					
General Fund	$ 0.388	$ 0.388	$ 0.376	$ 0.386	$ 0.386
Transportation	0.051	0.051	0.050	0.060	0.060
Debt Service**	0.085	0.085	0.082	0.082	0.098
Downtown Service District	0.071	0.071	0.070	0.070	0.070
Overlapping rates:					
Orange County	0.878	0.878	0.838	0.850	0.868
Chapel Hill - Carrboro School District	0.208	0.208	0.202	0.202	0.202
Total	1.681	1.681	1.618	1.650	1.684
Chapel Hill within Durham County:					
Town direct rates:					
General Fund	0.388	0.388	0.376	0.386	0.386
Transportation	0.051	0.051	0.050	0.060	0.060
Debt Service	0.085	0.085	0.082	0.082	0.098
Overlapping rates:					
Durham County	0.793	0.740	0.768	0.778	0.712
Total	1.317	1.264	1.276	1.306	1.256

*Revaluation Year

Source: North Carolina State Department of Revenue

ORANGE WATER AND SEWER AUTHORITY

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

	Years Taxes Payable				
	2021	**2022**	**2023**	**2024**	**2025**
Chapel Hill within Orange County:					
Town direct rates:					
General Fund	$ 0.386	$ 0.372	$ 0.372	$ 0.422	$ 0.437
Transportation	0.060	0.054	0.062	0.062	0.067
Debt Service**	0.098	0.088	0.088	0.088	0.088
Downtown Service District	0.070	0.064	0.064	0.064	0.064
Overlapping rates:					
Orange County	0.868	0.819	0.831	0.835	0.863
Chapel Hill - Carrboro School District	0.202	0.183	0.183	0.198	0.198
Total	1.684	1.580	1.600	1.669	1.717
Chapel Hill within Durham County:					
Town direct rates:					
General Fund	0.386	0.372	0.372	0.422	0.437
Transportation	0.060	0.054	0.054	0.062	0.067
Debt Service	0.098	0.088	0.088	0.088	0.088
Overlapping rates:					
Durham County	0.712	0.722	0.722	0.752	0.799
Total	1.256	1.236	1.236	1.324	1.391

*Revaluation Year

ORANGE WATER AND SEWER AUTHORITY **Table 10**

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

Year	Population (1)	Personal Income (in thousands)(2)	Per Capita Personal Income (2)	Median Age (3)	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate % (5)
2016	59,753	$ 7,440,708	$ 52,989	25.8	15.82	41,490	5.2
2017	59,569	7,822,299	55,338	25.7	15.82	41,199	4.9
2018	59,903	8,286,315	58,438	26.2	15.82	42,038	4.3
2019	63,178	9,015,914	62,202	26.4	15.82	42,138	3.9
2020	64,051	9,840,004	67,385	26.2	15.82	42,295	4.5
2021	63,634	9,678,411	65,185	25.8	15.82	41,824	4.5
2022	61,912	10,001,400	67,089	25.2	15.82	42,925	3.2
2023	61,912	10,001,400	67,089	25.2	15.82	42,925	3.2
2024	62,195	11,672,141	77,568	25.6	15.82	43,877	3.4
2025	63,288	12,424,716	82,487	25.8	15.82	43,497	3.5

Notes:
(1) Town of Chapel Hill Department of Planning, Office of State Budget and Management
(2) U.S. Department of Commerce, Bureau of Economic Analysis. Data available for Orange County only. Most recent available census data.
(3) U.S. Department of Commerce, most recent available census data.
(4) Chapel Hill-Carrboro City Schools and The University of North Carolina at Chapel Hill.
(5) N.C. Employment Security Commission, Local Area Unemployment Statistics.

ORANGE WATER AND SEWER AUTHORITY

Table 11

Miscellaneous Statistical Data
Year Ended June 30, 2025
(Unaudited)

Year Founded and Incorporated	1975
Size of Service Area:	
Square miles	31
Miles of water pipe	406
Miles of wastewater collection pipe	351
Customer accounts	21,003
Budgeted Employee Positions	148.0
Water Treatment Plant Capacity (in MGD):	
Capacity	20
Production average	7.3
Production peak	10.5
Wastewater Treatment Plant Capacity (in MGD):	
Capacity	14.5
Average daily flow	6.9
Number of Water Supply Resources	4
Total Capacity of Water Supply Resources (millions of gallons):	
Cane Creek Reservoir	3,000
University Lake	450
Quarry Reservoir	200
Jordan Lake Level II Allocation	5 MGD

Source: Orange Water and Sewer Authority's Records

Full-Time Equivalents (authorized)
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year				
	2025	**2024**	**2023**	**2022**	**2021**
Department					
General and Administrative:					
Executive Department	6.00	8.00	8.00	7.00	7.00
Community Relations	12.00	9.00	9.00	9.00	9.00
Engineering	18.00	17.00	17.00	16.00	16.00
Human Resources	5.00	5.00	5.00	4.00	4.00
Finance	5.00	6.00	6.00	5.00	5.00
Information Technology	7.00	6.00	6.00	5.00	5.00
Operations:					
Water Resources	24.00	23.00	23.00	25.00	25.00
Water Distribution	34.00	35.00	35.00	35.00	35.00
Wastewater Management	25.00	23.00	23.00	23.00	23.00
Wastewater Collection	14.00	14.00	14.00	13.00	13.00
Totals	150.00	146.00	146.00	142.00	142.00

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

Full-Time Equivalents (authorized)
Last Ten Fiscal Years
(Unaudited)

	Fiscal Year				
	2020	**2019**	**2018**	**2017**	**2016**
Department					
General and Administrative:					
Executive Department	7.00	7.00	6.00	5.50	5.50
Community Relations	9.00	9.00	9.00	9.00	9.00
Engineering	16.00	16.00	15.00	14.00	14.00
Human Resources	4.00	4.00	3.00	3.00	3.00
Finance	5.00	5.00	6.00	6.00	6.00
Information Technology	5.00	5.00	5.00	4.00	4.00
Operations:					
Water Resources	25.00	25.00	26.00	25.50	25.50
Water Distribution	35.00	35.00	33.00	32.00	32.00
Wastewater Management	23.00	23.00	23.00	22.50	22.50
Wastewater Collection	13.00	13.00	13.00	15.00	14.00
Totals	142.00	142.00	139.00	136.50	135.50

COMPLIANCE SECTION

MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.
"A Professional Association of Certified Public Accountants and Management Consultants"

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the accompanying financial statements of the business-type activities of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 5, 2026.

Report on 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 opinions 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 or significant deficiencies may exist that were not identified.

Report on 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 5, 2026

MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.
"A Professional Association of Certified Public Accountants and Management Consultants"

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the 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 Federal Program

Opinion on Each Major Federal Program

We have audited Orange Water and Sewer Authority's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and 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 Orange Water and Sewer Authority's major federal programs for the year ended June 30, 2025. Orange Water and Sewer Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

In our opinion, Orange Water and Sewer Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Orange Water and Sewer Authority and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Orange Water and Sewer Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Orange Water and Sewer Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Orange Water and Sewer Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Orange Water and Sewer Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Orange Water and Sewer Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- obtain an understanding of Orange Water and Sewer Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of Orange Water and Sewer Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will

not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 5, 2026

Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the 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

Opinion on Each Major State Program

We have audited Orange Water and Sewer Authority's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and 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 Orange Water and Sewer Authority's major state programs for the year ended June 30, 2025. Orange Water and Sewer Authority's major state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

In our opinion, Orange Water and Sewer Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2025.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Orange Water and Sewer Authority and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of Orange Water and Sewer Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Orange Water and Sewer Authority's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Orange Water and Sewer Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Orange Water and Sewer Authority's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Orange Water and Sewer Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- obtain an understanding of Orange Water and Sewer Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of Orange Water and Sewer Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 5, 2026

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

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(is) identified?	_____	Yes	X	None reported
Non-compliance material to financial statements noted?	_____	Yes	X	No

Federal Awards

Internal control over major federal programs:				
• Material weakness(es) identified?	_____	Yes	X	No
• Significant deficiency(ies) identified?	_____	Yes	X	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	Yes	X	No

Identification of major federal programs:

AL No(s)	Name of Federal Programs or Cluster
66.468	Drinking Water State Revolving Fund (DWSRF)

Dollar threshold used to distinguish between Type A and Type B programs	$750,000			
Auditee qualified as low-risk auditee?	X	Yes	_____	No

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

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:

Program Name

State Reserve Loan

Auditee qualified as low-risk auditee? __X__ Yes _____ No

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

None.

3. Findings Related to the Audit of Federal Awards

None.

4. Findings Related to the Audit of State Awards

None.

ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025

None reported.

ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Grantor/Pass-through Grantor/Program Title	Federal AL 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 Resources:					
Drinking Water State Revolving Fund (DWSRF):					
Drinking Water State Revolving Fund	66.468	H-SRF-F-21-1980	$ 58,112	$ -	$ -
Drinking Water State Revolving Fund	66.468	WIF-1981	1,213,135	-	-
Drinking Water State Revolving Fund	66.468	WIF-1983	109,084	-	-
Total Drinking Water State Revolving Fund (DWSRF)			1,380,331	-	-
Total U.S. Environmental Protection Agency			1,380,331	-	-
Total Federal Assistance			1,380,331	-	-
State Grants:					
N.C. Department of Environmental Quality					
Division of Water Infrastructure:					
State Reserve Loan		SRP-W-0212	-	2,262,596	-
Total N.C. Department of Environmental Quality			-	2,262,596	-
Total State Assistance			-	2,262,596	-
Total Federal and State Assistance			$ 1,380,331	$ 2,262,596	$ -

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, 2025. The information in this SEFSA is presented in accordance with the requirements of Title 2 US 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 full 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.

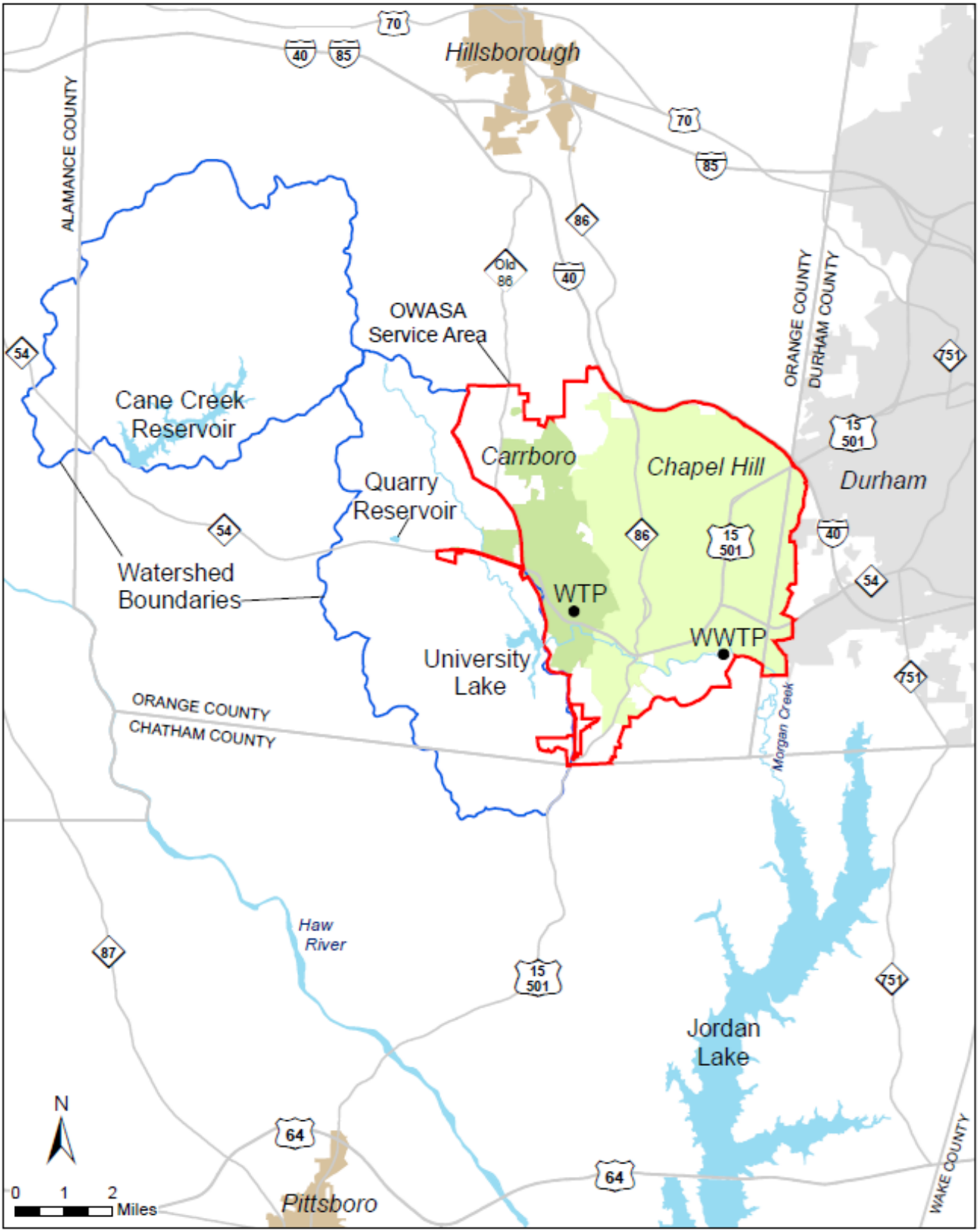
3. Loans Outstanding

The Authority had the following loan balances outstanding at June 30, 2025 for loans that the grantor/pass-pass-through 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, 2025 consisted of:

Program Title	AL Number	Pass-Through Grantor's Number	Amount Outstanding
Drinking Water State Revolving Funds	66.468	WIF-1981	$ 3,592,864
Drinking Water State Revolving Funds	66.468	H-SRF-F-21-1980	3,098,972
Drinking Water State Revolving Funds	66.468	WIF-1983	3,391,385
Drinking Water State Revolving Funds	66.468	SRF-D-LSL-0054	-
State Reserve Loan	N/A	SRF-W-0212	568,854

4. Indirect Cost Rate

The Authority has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.


Hillsborough
ALAMANCE COUNTY
ORANGE COUNTY
DURHAM COUNTY
OWASA
Service Area
Cane Creek
Reservoir
Quarry
Reservoir
Watershed
Boundaries
Carrboro
Chapel Hill
Durham
WTP
WWTP
University
Lake
ORANGE COUNTY
CHATHAM COUNTY
Morgan Creek
Haw
River
Jordan
Lake
WAKE COUNTY
Pittsboro
N
0 1 2
Miles