

COMPREHENSIVE ANNUAL FINANCIAL REPORT

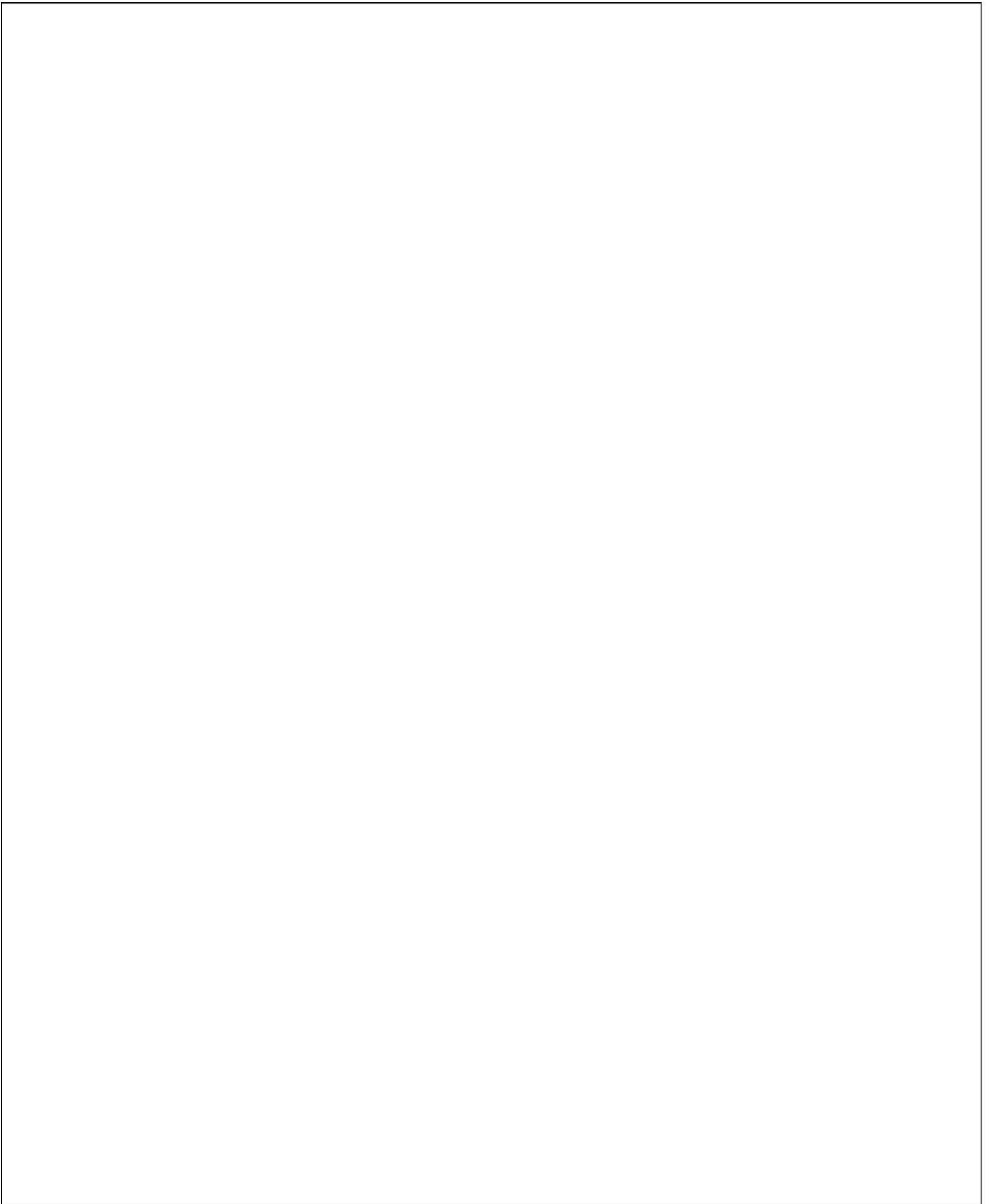
Fiscal Year Ended June 30, 2010

Orange Water and Sewer Authority

Carrboro, North Carolina



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





ORANGE WATER AND SEWER AUTHORITY

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to the Carrboro-Chapel Hill community.*

ORANGE WATER AND SEWER AUTHORITY

(A component unit of the Town of
Chapel Hill, North Carolina)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal years ended June 30, 2010 and 2009

Prepared by:

Orange Water and Sewer Authority

ORANGE WATER AND SEWER AUTHORITY
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ORANGE WATER AND SEWER AUTHORITY

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

September 9, 2010

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

We are pleased to present our Comprehensive Annual Financial Report for the Fiscal Year from July 1, 2009 through June 30, 2010 (FY 2010). This report conforms to the reporting and accounting standards of the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the Government Finance Officers Association's (GFOA's) *Governmental Accounting, Auditing and Financial Reporting* document. Orange Water and Sewer Authority (OWASA) is responsible for the accuracy, completeness and fairness of the information presented including all disclosures.

HIGHLIGHTS

In FY 2010, OWASA served the Carrboro-Chapel Hill community in full compliance with Federal and State standards for drinking water and treated wastewater quality.

In April, 2010, the Board of Directors adopted an update to OWASA's Long-Range Water Supply Plan. One of the most significant findings of the report is that OWASA's University Lake/Cane Creek Reservoir system and planned expansion of the Quarry Reservoir can meet the community's expected drinking water needs for the next 50 years under most circumstances.

A major engineering study to evaluate the hydraulic (flow) and treatment capacity of the Mason Farm Wastewater Treatment Plant (WWTP) was undertaken in FY 2010. Although work is still underway, the report indicates that by changing the plant's configuration, chemical use and costs can be significantly reduced. Additionally, the plant will not require another major capacity expansion until beyond 2030.

Customer water use declined for the fourth consecutive year. The 6.7 million gallons per day (MGD) sold in FY 2010 is about 25% less than was sold in FY 2002 despite an increase of about 13% in customer accounts over that period. However, due to a rate increase effective in October 2009, cost savings in operating expenses, and other factors, OWASA ended the year with an increase in income that was well above budget. This surplus will be available for future financial needs including capital improvements. Please refer to the Management's Discussion and Analysis and the audited general purpose financial statements for additional information on OWASA's financial performance during FY 2010.

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 auditors' report; OWASA management's discussion and analysis of the year ended June 30, 2010; 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 auditors' report on compliance with various internal control and other requirements related to certain forms of financial assistance.

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

BACKGROUND

A special purpose local governmental entity organized under State law, OWASA is a public non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community in southeast Orange County and a small part of southwest Durham County. We serve about 80,000 people.

Creation of OWASA

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

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

Governance

A nine-member Board of Directors governs OWASA. The Chapel Hill Town Council appoints five, and the Carrboro Board of Aldermen and the Orange County Board of Commissioners each appoints two Board Members. The OWASA Board adopts the annual budget; sets rates, fees, and charges based on cost-of-service principles; makes policy decisions; approves issuance of

revenue bonds or other debt instruments; and appoints the Executive Director, General Counsel and Independent Auditor.

Water System

Our water comes from Cane Creek Reservoir, a three billion gallon supply eight miles west of Carrboro; University Lake, a 450 million gallon reservoir on the west side of Carrboro; and the 200 million gallon Stone Quarry Reservoir three miles west of Carrboro. OWASA has a State allocation of water supply storage capacity in Jordan Lake equivalent to about five million gallons of water per day. OWASA does not currently receive water from Jordan Lake nor does it have facilities to do so. OWASA maintains emergency-only water system connections with the City of Durham, the Town of Hillsborough and Chatham County public water systems.



Aerial view of University Lake in Carrboro

Our Jones Ferry Road Water Treatment Plant (WTP) has a capacity of 20 MGD. Our drinking water storage capacity is 8 million gallons and we maintain 409 miles of raw water, finished water, and water interconnection lines.

Wastewater System

We operate and maintain 334 miles of sanitary sewer and force main lines, and 21 pump stations to carry wastewater to the Mason Farm WWTP, which has a peak treatment capacity of 14.5 MGD (daily average for a calendar month).



***OWASA
Operator
checking the
aeration basis at
Mason Farm
WWTP***

Highly treated wastewater is recycled to the natural environment at Morgan Creek on the southeast side of Chapel Hill or provided as reclaimed water to the University of North Carolina at Chapel Hill (UNC) as described below. Morgan Creek is a tributary of Jordan Lake, a water source for several communities in the region.

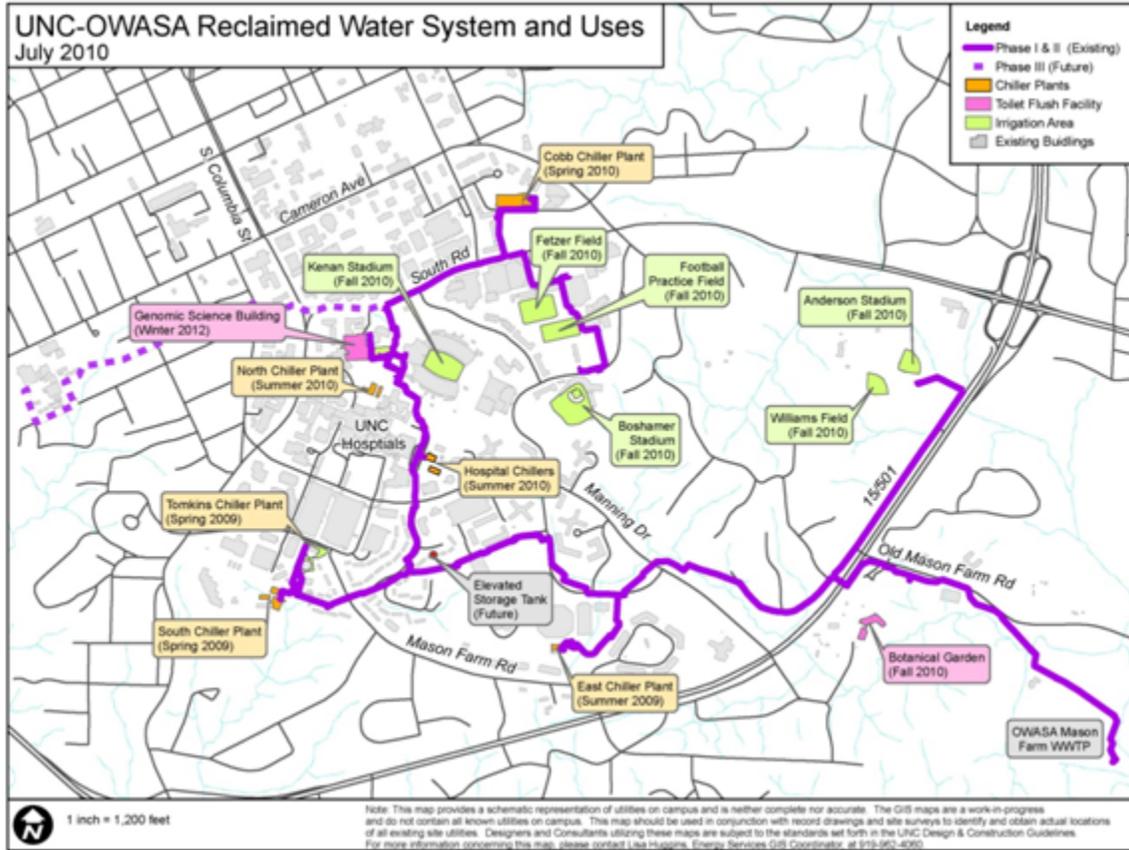
Reclaimed Water System

In the spring of 2009, OWASA and UNC completed construction and testing of the reclaimed water (RCW) system that initially serves certain facilities in the main campus area. The system includes a pump station, storage tank, chemical treatment systems, and a monitoring and control system at the Mason Farm WWTP, and about 25,000 feet of RCW distribution lines 6 to 24 inches in diameter.

The University began using RCW in April, 2009 as make-up water for cooling towers at chiller plants, toilet flushing and irrigation. UNC's RCW use averaged about 0.3 MGD during FY 2010, and the cooling towers at five chiller plants have been connected to the RCW system. In FY 2011, RCW use is expected to increase to 0.74 MGD. At build-out of the system serving the main campus expected around 2028, RCW demand could reach about 2.0 MGD.

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

The RCW project is financially self-supporting. UNC paid to build the system and OWASA recovers all operating, maintenance, management, and overhead costs for the RCW through rates and fees. Financial responsibilities, including rate decisions by OWASA, and other technical matters are specified in a contract signed by OWASA and UNC in April 2006. OWASA received about \$2.25 million in Federal and State grants for the project.



The map above shows the location of reclaimed water system lines from our WWTP to and within the University campus

OWASA Operator checks the pumping system delivering RCW to the University



The RCW system is a third utility for OWASA. Revenues and costs are tracked separately to ensure proper cost allocation and recovery through cost-of-service rates.

ECONOMIC CONDITIONS

In June, 2010 the unemployment rate in Orange County was 6.5 percent compared to the US average of 9.7 percent and the North Carolina average of 11.2 percent (Source: US Bureau of Labor Statistics data, not seasonally adjusted). The estimated population of Orange County increased by 13 percent from 2000 through 2010, Carrboro’s and Chapel Hill’s population rose 16 and 21 percent, respectively, during the same period. The estimated value of permitted construction in Orange County in 2009 totaled \$204.8 million; \$77.9 million commercial and \$127.0 million residential. Taxable retail sales in Orange County in FY 2009 totaled \$927 million.

We believe the relative stability of the Carrboro-Chapel Hill economy reflects the substantial size and strength of UNC and UNC Hospitals as public entities serving the entire state. Although new service connections in FY 2010 were below the historical growth rate, the University and UNC Hospitals continue to actively plan and develop new facilities and infrastructure.

Fiscal Year	2009	2010	% Change
Customer accounts (meters read)	20,137	20,241	0.5
Total water sales (thousands of gallons)	2,504,720	2,448,111	(2.3)
Water sales – average per day	6.86 MGD	6.70 MGD	(2.3)

In addition to general economic conditions, the significant shift in drinking water demand that occurred during the last decade reflects our customers’ commitment to sustainability and the effectiveness of the conservation signal conveyed by our pricing structure.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Long-Range Water Supply Plan – The OWASA Board adopted an updated version of its Long-Range Water Supply Plan in April 2010. The report reviews the underlying assumptions including demand projections, supply/demand-side alternatives, and other alternatives that have been identified since the last comprehensive water supply plan was completed in 2000.

The report concludes that due largely to the 25% potable water demand reductions achieved by our customers since 2002, OWASA’s University Lake/Cane Creek Reservoir system and planned expansion of the Quarry Reservoir can meet our service area’s expected drinking water needs for the next 50 years under most circumstances. However, we will still need the “safety net” of Jordan Lake in case of severe drought, critical facility failure, or other unforeseen or emergency situation. It is essential that we retain our Jordan Lake water supply allocation and acquire cost-effective access to it.

The report also indicates that the reduction in water use achieved by OWASA customers must be sustained in the future in order to realize the positive findings of the report. Accordingly, OWASA will continue to promote conservation and efficiency through our conservation water rates, customer awareness and education, targeted technical assistance, etc. Through conservation-focused actions including the establishment of the RCW system, future generations living and working in OWASA’s service area will be able to enjoy a reliable supply of high quality drinking water with far less capital investment than predicted 10 years ago.

Mason Farm WWTP Hydraulic and Treatment Capacity Study – In FY 2010, we conducted a major engineering study to evaluate the hydraulic (flow) and treatment capacity of the Mason Farm WWTP. The study is nearing completion and although field work is still underway to further optimize plant processes and to validate computer modeling, preliminary results are very promising. Key findings include:

- By adjusting the treatment configuration in the plant’s biological treatment process (aeration basins), the wastewater plant will be able to meet the Jordan Lake Rules regarding nitrogen removal at the current permitted capacity of 14.5 MGD with significant overall reductions in chemical use and costs.
- Based on current growth and demand projections as presented in the above-mentioned Long-Range Water Supply Plan, the WWTP will not require another major capacity expansion until after 2030.
- Overall study results indicate that more than \$60 million of previously anticipated WWTP projects can be deferred beyond FY 2025.

The majority of remaining field work involves assessing the aeration system improvements that will be needed and further evaluating the effect of these improvements on planned future work to control odor from the plant. Efforts will include additional odor modeling to ensure that the appropriate number (and location) of aeration basins are covered in order to achieve OWASA’s commitment to the Town of Chapel Hill’s and OWASA’s goal of no objectionable off-site odors.

Forestry Management – OWASA made a policy decision in January 2009 to actively and sustainably manage and improve forest resources on OWASA land. We will soon begin active management on our 490-acre Cane Creek Mitigation Tract. We are also finalizing a Forest Stewardship Plan for all other major OWASA land holdings. The primary objective of our forestry stewardship program is to protect long-term drinking water quality and watershed health by improving the health and diversity of our forest resources and wildlife habitat.

An initial draft of the Forest Stewardship Plan has been submitted for review by the NC Division of Forest Resources, the NC Wildlife Resources Commission and the Duke Forest Manager. Our process will include soliciting comments and questions from the public and that input will be considered as we finalize the overall forest stewardship plan for OWASA’s other forest lands.

Reclaimed Water System – The final sections of pipelines needed to provide RCW to meet UNC’s chiller plant cooling tower and irrigation demands were completed during FY 2010. Experience during the past summer has validated the RCW system’s importance and the future value it will provide to the University and all other OWASA customers, as discussed above.

Odor Control at the Mason Farm WWTP – We are continuing our multi-year program to eliminate objectionable off-site odors from the WWTP in accordance with OWASA’s commitments and requirements by the Town of Chapel Hill. Construction of improvements which cover and treat the foul air from the plant’s three primary settling tanks was completed in September, 2009. Design for covering and treating air from some portion of the aeration basins

will be revised to accommodate any necessary changes resulting from the Mason Farm WWTP Hydraulic and Treatment Capacity Study mentioned above. We remain on schedule to complete construction work on this project by the end of calendar year 2014.

Strategic Plan – In March 2010, the OWASA Board of Directors approved a Strategic Plan with goals and objectives for financial security and stability, resource management and infrastructure sustainability, knowledge management and workforce sustainability and customer satisfaction. The Strategic Plan calls for conducting a comprehensive functional analysis to identify cost saving and efficiency opportunities; pursuing future access to OWASA’s Jordan Lake allocation; developing a formal asset management plan; communicating the value and true cost of water; and measuring customer satisfaction.

Financial Performance – In FY 2010, OWASA significantly improved its financial position as evidenced by two important measurements of fiscal performance.

- OWASA’s *Financial Management Policy* establishes targets for three reserve funds: a Working Capital Reserve, a Capital Improvement Reserve Fund, and a Rate/Revenue Stabilization Fund. OWASA exceeded its FY 2010 minimum balance targets for these funds increasing its overall reserve balance as of June 30, 2010 to approximately \$14.4 million.
- The *Financial Management Policy* also establishes a goal for OWASA’s debt service coverage ratio: the ratio of “net income available for making debt service payments” to “annual debt service.” For FY 2010, OWASA’s debt service coverage ratio was 1.9, meaning OWASA generated funds during the year equal to almost twice the amount needed for meeting its debt service obligations. OWASA’s Board of Directors has set a goal of achieving a debt service coverage ratio of 2.0 by FY 2012.

FINANCIAL INFORMATION

The annual budget is an integral part of OWASA’s accounting system and 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 (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America.

Management believes that OWASA’s internal accounting controls adequately protect assets and provide reasonable assurance of the proper recording of financial transactions. However, under the scrutiny required by auditing standards, one finding of a significant deficiency in internal control procedures was cited by the auditor. The cited deficiency resulted from management’s misinterpretation of FASB No. 34 related to the capitalization of interest associated with assets

under construction. OWASA management takes such findings seriously and has taken steps to eliminate the cause of the internal control finding.

As a self-supporting and self-sustaining single-purpose entity, the measurement focus of OWASA's financial accounting system is on the flow of total economic resources. With this measurement focus, all assets and liabilities associated with our operations are included in the *Statement of Net Assets*. OWASA uses the accrual basis of accounting under which revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the actual date of receipt or disbursement of cash.

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

Cash Management

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

All cash deposits are made in Board-designated official depositories and are insured or collateralized as required by State law. OWASA may designate, as an official depository, any bank or savings association whose principal office is in North Carolina. At June 30, 2010, OWASA's cash was invested in the N.C. Capital Management Trust, Treasury Securities or public fund money market accounts.

To facilitate operational efficiency and to reduce costs of the accounts payable function, authorized OWASA employees use purchasing cards in accordance with internal control procedures and policies. To further reduce costs, OWASA uses a web-based banking service for fund transfers including direct deposit of payroll, customer bank drafts, debt service payments and interfund transfers.

OWASA provides customers with various options for making payments. In addition to mail and walk-in service, customers may make payments through automatic bank drafts, and credit and debit cards. Credit and debit card transactions can be initiated through OWASA's website (www.owasa.org), over the phone, or at our cashier's window.

Risk Management

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

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

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

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

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

Independent Audit

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

Certificate of Achievement for Excellence in Financial Reporting

OWASA has received the GFOA Certificate of Achievement for Excellence in Financial Reporting since 2000. To receive a Certificate of Achievement, a government must publish an

easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our comprehensive annual financial report for FY 2010 continues to meet the Certificate of Achievement Program requirements and we will submit it to the GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation Award

OWASA received its tenth Distinguished Budget Presentation Award from the GFOA for our FY 2009 budget. This award program recognizes governments that prepare high quality budget documents to meet the needs of decision-makers and citizens. We believe that our budget report for FY 2010 continues to meet the Distinguished Budget Presentation Program requirements and we have submitted it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

We express our appreciation to the independent certified public accountants, Cherry, Bekaert & Holland, L.L.P., 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 staff.

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

Respectfully submitted,



Ed Kerwin
Executive Director



Stephen Winters, CPA
Director of Finance and Customer Service

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange Water and Sewer
Authority, North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

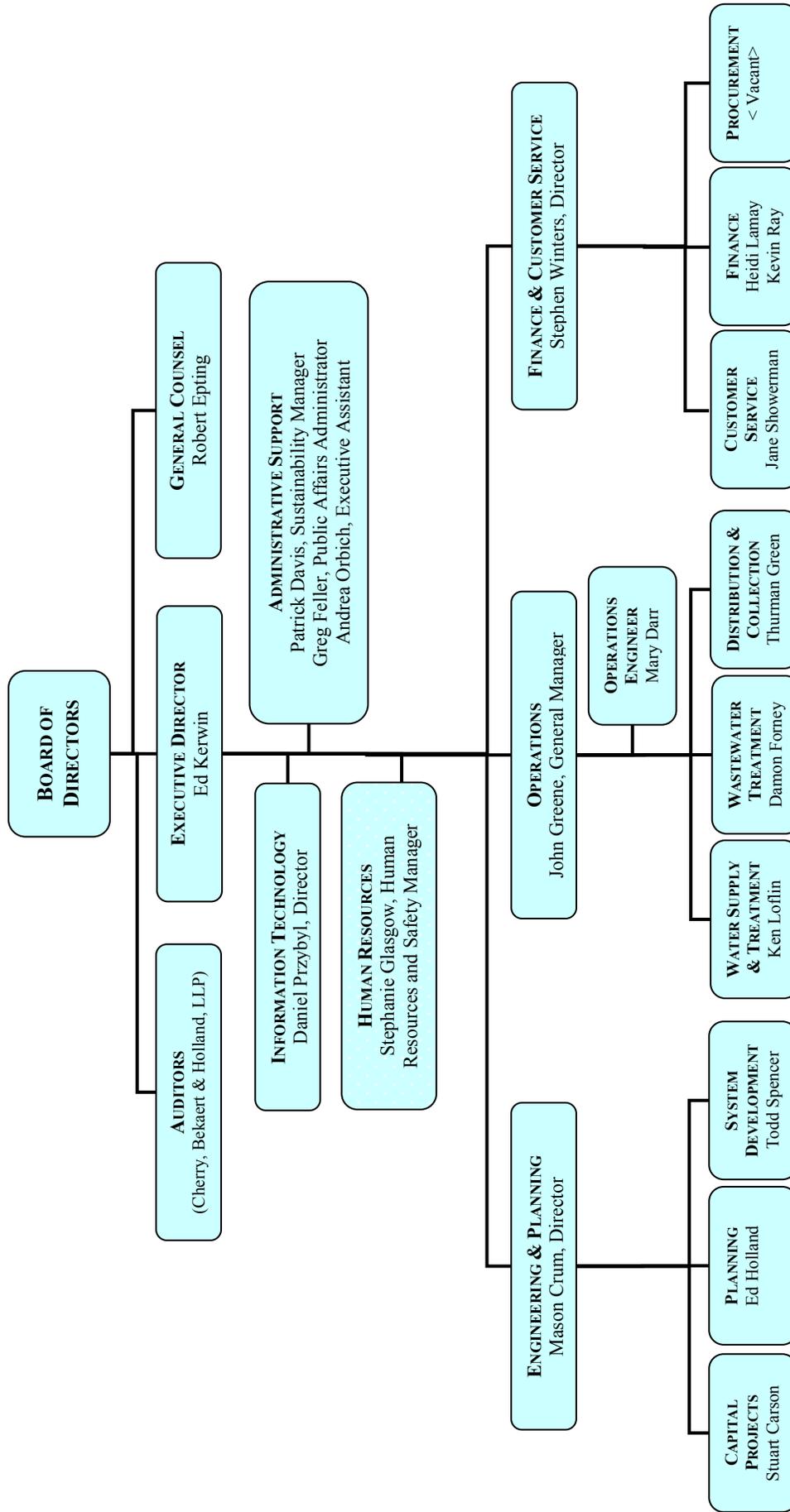
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Orange Water and Sewer Authority



ORANGE WATER AND SEWER AUTHORITY

CHAIR

Randolph (Randy) M. Kabrick, P.E.
207 Woodleaf Drive
Chapel Hill, NC 27514
Appointed by Chapel Hill; Term Expires 6/30/10

VICE CHAIR

Gordon Merklein
504 Highgrove Drive
Chapel Hill, NC 27516
Appointed by Chapel Hill; Term Expires 6/30/13

SECRETARY

Braxton Foushee
100 Williams Street
Carrboro, NC 27510
Appointed by Carrboro; Term Expires 6/30/11

Fred Battle
1105 Brenda Court
Chapel Hill, N.C. 27516
Appointed by Orange County; Term Expires 6/30/12

Michael A. Clarke
Carol Woods Retirement Community
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Appointed by Chapel Hill; Term Expires 6/30/11

Joyce C. Preslar
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Alan Rimer, P.E.
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William R. Stott, III
105 Oleander Road
Carrboro, NC 27510
Appointed by Carrboro; Term Expires 6/30/12

Amy Witsil
115 Woodshire Lane
Chapel Hill, NC 27514
Appointed by Chapel Hill; Term Expires 6/30/12

ORANGE WATER AND SEWER AUTHORITY
OWASA MANAGEMENT TEAM

Stuart Carson, P.E., Engineering Manager (Project Management)
Mason Crum, P.E., Director of Engineering and Planning
Patrick K. Davis, Sustainability Manager
Damon Forney, Wastewater Treatment and Biosolids Manager
Stephanie Glasgow, M.E.S.H., P.H.R., Human Resources and Safety Manager
Thurman Green, Distribution and Collections Systems Manager
John Greene, P.E., General Manager of Operations
Ed Holland, A.I.C.P., Director of Planning and Development
Ed Kerwin, Executive Director
Heidi Lamay, Finance Manager
Kenneth Loflin, Water Supply and Treatment Manager
Andrea Orbich, Clerk to the Board/Executive Assistant
Dan Przybyl, Director of Information Technology
Kevin M. Ray, Finance Manager
Jane Showerman, Customer Service Manager
Todd Spencer, P.E., Engineering Manager (System Development)
Stephen Winters, CPA, Director of Finance and Customer Service

GENERAL COUNSEL

Robert Epting, Esquire
Epting and Hackney, Attorneys at Law



Independent Auditors' Report

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

We have audited the accompanying statements of net assets of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

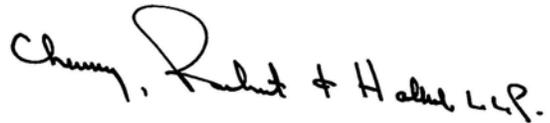
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010 and 2009, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis and required supplementary information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this data. However, we did not audit this information and express no opinion thereon.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CHERRY, BEKAERT & HOLLAND, L.L.P.

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." in a cursive, flowing script.

Raleigh, North Carolina
September 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Orange Water and Sewer Authority (OWASA) offers to the readers of OWASA's financial statements the following discussion and analysis of the Authority's financial performance for the fiscal years ended June 30, 2010 and 2009. This presentation is intended to further 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–xi.

FINANCIAL HIGHLIGHTS

- At June 30, 2010, OWASA's net assets totaled \$211 million, reflecting a \$10 million increase over the previous year primarily due to the acquisition of capital assets through equity funding with no issuance of new debt.
- Current assets increased by approximately \$6.0 million reflecting a stronger net asset balance.
- Due to significant investments in plant capacity in recent years, OWASA was able to maintain a low level of capital expenditures for FY 2010 while continuing its commitment to maintaining an adequate water and sewer infrastructure.
- Total current liabilities decreased slightly during the year.
- Noncurrent liabilities decreased by about \$4.3 million as a result of principal payments on long-term debt with no new debt issued.
- OWASA's credit ratings from Standard and Poor's and Fitch of AA+ remain unchanged; the credit rating from Moody's was moved to Aa1 as a result of Moody's recalibration of its long-term U.S. municipal ratings.

OVERVIEW OF THE FINANCIAL STATEMENTS

OWASA's primary mission is to provide water, sewer, and reclaimed water services to Chapel Hill, Carrboro and portions of southeastern Orange County. OWASA does not provide other general purpose government services or programs. OWASA's operations, capital expansion program and debt payments are funded almost entirely through rates, fees and other charges for water, sewer, and reclaimed water services. As such, 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 Assets*, a *Statement of Revenues, Expenses and Changes in Net Assets (Equity)* 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, and implications for, OWASA's financial position. Presentation of two-year and three-year comparative data in these schedules further enhances the reader's ability to gauge OWASA's fiscal strength and provides useful trend information. To further illuminate the information contained in these statements, *Notes to Financial Statements* and a *Statement of Revenues and Expenditures – Budget and Actual*, appear immediately following the basic financial statements. In addition to this discussion and analysis, other required supplementary information, generally statistical and demographic in nature, is presented.

The *Statement of Net Assets* presents OWASA's basic financial position through disclosure of information about OWASA's assets and liabilities. Net assets represent the difference between total assets and total liabilities. Net assets may serve over time as a useful indicator of OWASA's financial condition.

The *Statement of Revenues, Expenses and Changes in Net Assets* 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 assets, which links this statement to the *Statement of Net Assets*.

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 Assets* measures the flow of total economic resources, operating income usually differs from net cash flow from operations. To enhance 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 Financial Statements* provide additional information critical to the understanding of the basic financial statements.

FINANCIAL ANALYSIS

Orange Water and Sewer Authority				
Schedule of Net Assets				
(\$ millions)				
	Fiscal Year Ended			Percentage of Change (2009 to 2010)
	2010	2009	2008	
Current assets and restricted noncurrent assets	\$27.7	\$21.6	\$20.0	28.2%
Capital and other long-term assets	290.8	292.1	282.4	(0.4)
Total assets	318.5	313.7	302.4	1.5
Current liabilities	9.8	10.3	11.1	(4.9)
Noncurrent liabilities	98.2	102.5	106.7	(4.2)
Total liabilities	108.0	112.8	117.8	(4.3)
Net assets				
Invested in capital assets, net of related debt	188.1	184.5	177.3	2.0
Restricted	1.3	1.2	1.3	8.3
Unrestricted	21.1	15.1	6.0	39.7
Total net assets	\$210.5	\$200.8	\$184.6	4.8

OWASA's assets exceeded liabilities by \$211 million at June 30, 2010, compared to \$201 million and \$185 million at June 30, 2009 and 2008, respectively. This trend of increasing net

worth is indicative of OWASA's commitment to maintaining an infrastructure to meet the water and sewer needs of its customers now and in the future, and reflects the fact that a significant portion of recent infrastructure development is funded through cash rather than debt.

Capital assets net of related debt comprised more than 90% of total net assets for the comparative years of 2008 through 2010. These capital assets are essential in providing water and sewer services to customers and consequently, these assets are not available for future spending. The resources needed to repay the related debt must be provided by other sources. At June 30, 2010, these other resources totaled \$22.5 million. \$1.3 million of these assets are subject to external restrictions as to how they may be used but these restrictions primarily require that they be used to pay for capital assets or debt related to capital assets. The remaining \$21.2 million is unrestricted and may be used for any lawful purpose.

OWASA's overall financial position strengthened between fiscal years ended June 30, 2008 and 2010 as net assets increased by \$26 million. Total assets increased during the same period by \$16.1 million reflecting cash financing of infrastructure.

Analysis of total liabilities further demonstrates the benefit of cash financing and debt reduction. Current liabilities decreased by \$1.3 million from 2008 to 2010. The decrease is mostly attributable to a reduction in trade and construction contracts payable which resulted from the low level of construction activity in FY 2010. Noncurrent liabilities decreased by approximately 8% or \$8.5 million during the same period reflecting principal payments on long-term debt.

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

Orange Water and Sewer Authority				
Revenues, Expenses and Change in Net Assets				
(\$ Millions)				
	<u>Fiscal Year Ended</u>			<u>Percentage of Change</u> <u>(2009 to 2010)</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	
Operating revenues	\$33.6	\$29.5	\$28.8	13.9%
Operating expenses	<u>26.6</u>	<u>27.0</u>	<u>23.9</u>	(1.5)
Operating income	7.0	2.5	4.9	180.0
Nonoperating revenues (expenses)	<u>(1.4)</u>	<u>(0.8)</u>	<u>(1.3)</u>	(75.0)
Income before contributions	5.6	1.7	3.6	229.4.3
Capital contributions	<u>4.1</u>	<u>14.5</u>	<u>3.3</u>	(71.7)
Increase in net assets	9.7	16.2	6.9	(40.1)
Net assets, July 1	<u>200.8</u>	<u>184.6</u>	<u>177.7</u>	8.8
Net assets, June 30	<u>210.5</u>	<u>200.8</u>	<u>184.6</u>	4.8

The above condensed three-year comparison of Revenues, Expenses and Change in Net Assets, combined with the following discussion provides additional insight as to the causes affecting net assets.

- **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 expansion program and debt service are funded almost entirely from fees charged to customers for water, sewer, and reclaimed water services, and other related services. As such, OWASA's revenue stream is impacted by fluctuations in demand for services and other economic factors.

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

Continuing a trend that began in 2002, potable water sales volume declined about 2% during FY 2010 but was about 3% greater than expectations. The decline in customer drinking water demand reflects OWASA's and OWASA's customers' continued commitment to water resource conservation, the strong conservation signal delivered through the increasing block rate and seasonal pricing structures for residential and commercial customers, respectively, start-up of the new reclaimed water system that serves the University, and a combined rate adjustment in water and sewer charges of approximately 9.75%. The rate increase, partially offset by the drop in demand, provided operating revenues of \$33.6 million, representing a \$4.1 million increase over the prior year.

- **Operating Expenses:** With lower than expected chemical costs as a primary contributing factor, operating expenses were \$26.6 million or about 1.5% less than FY 2009 and 11.3% greater than FY 2008. OWASA's flexibility in operational activity and budget execution enabled its managers to save over 10%, or \$1.8 million of their FY 2010 operating appropriation. Operating expenses include a \$9.1 million charge for depreciation and a \$883,497 charge for post-employment benefits. From a cash flow perspective, OWASA's ability to meet operating expenses and adequately cover debt service remained positive.
- **Nonoperating Revenues (Expense):** Nonoperating revenues are comprised primarily of customer (service availability) fees and interest earnings. Customer fees, similar to impact fees, are calculated to recover from new customers the fair share cost of system capacity when a new connection is made to the system. Nonoperating expenditures are made up primarily of interest expense on debt and amortization of bond expenses.

Customer fees of \$1.4 million represented a 43% decline from FY 2009 and a 28% decline from FY 2008. Total new connections during FY 2010 remained below historical growth. Although fund balance improved significantly during the year, interest earnings remained very low in FY 2010. Interest rates averaged less than 0.5% and investments remained in safe and liquid secured deposits. Other income includes items such as gains on the disposal of surplus property and is generally not of a material amount.

OWASA paid interest on nearly \$5.0 million less in outstanding debt compared to 2009 and combined with very low rates on the variable rate bonds, interest expense declined by about 18% or \$602,000.

- **Capital Contributions:** Total capital contributions decreased by over 70% during FY 2010. Receipts included state and federal grants related to the construction of the reclaimed water system but totaled only \$101,000. Other contributions of \$4 million were comprised of reimbursements for construction of developer dedicated facilities.

Contributions in aid of construction in the form of dedicated service lines are reclassified as contributions after net income. Although OWASA receives such contributions annually, these transactions are not of a cash nature and are not included in the budget under the modified accrual method.

Capital Assets

OWASA annually expands or places into service new and renewed capital assets. Capital assets net of depreciation decreased by \$1.2 million in FY 2010. However, this net decrease consisted of additions totaling \$7.9 million and a reduction due to depreciation of \$9.1 million. The asset additions included the rehabilitation or replacement of various water and sewer mains, improvements to the University Lake pump station, and improvements to the Mason Farm Wastewater Treatment Plant odor control system.

The downturn in customer demand combined with the system improvements that have been completed over the last several years has led to a leaner capital improvements program for the near-term including the likelihood that several major system expansions will be able to be deferred well into the future. Please refer to Note 4 for additional information on capital assets.

Orange Water and Sewer Authority				
Capital Assets				
(\$ Millions)				
	Fiscal Year Ended			Percentage of Change (2009 to 2010)
	<u>2010</u>	<u>2009</u>	<u>2008</u>	
Land	\$20.0	\$20.0	\$20.0	0.0%
Construction in progress	14.0	23.2	67.3	(39.7)
Water treatment and distribution	104.0	98.5	99.5	5.6
Sewer collection and treatment	134.2	130.3	77.1	3.0
Fixtures and equipment	17.7	19.1	17.5	(7.3)
Total	<u>\$289.9</u>	<u>\$291.1</u>	<u>\$281.4</u>	(0.4)%

Debt Administration

OWASA policy dictates that at least 30% of capital projects be funded with cash from operations. At June 30, 2010, 2009 and 2008, OWASA's outstanding debt totaled \$101.8 million, \$106.7 million, and \$111.5 million respectively, net of applicable premiums, discounts

and deferred refunding costs. These amounts consist of water and sewer system revenue and refunding bonds issued in 1999, 2001, 2003, 2004, 2005 and 2006. At year end, OWASA owed an accrued debt service liability of approximately \$7.1 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2010.

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

Please refer to Note 5 in the Notes to Financial Statements section for greater detail on OWASA's outstanding debt obligations.

Economic Factors

OWASA, located in Orange County, North Carolina, enjoys the benefit of several key factors within its service area.

- The University of North Carolina at Chapel Hill (UNC) is OWASA's largest customer; accounting for approximately 28% of total water sales.
- The relative stability of the Carrboro-Chapel Hill economy reflects the substantial size and strength of UNC and UNC Hospitals as public entities serving the entire state. The University continues to actively plan and develop new facilities and infrastructure.
- Further enhancing the stability of OWASA's customer base is the fact that there is no major industry in the service area that is subject to significant changes in economic conditions.
- Orange County's unemployment rate has historically been considerably better than the State and National average.

In addition to the existing good water stewardship of its customers, OWASA encourages water conservation through public education, voluntary and mandatory water use restrictions, and pricing structures to ensure adequate water supplies. However, conservation carries significant implications for revenue streams. As described earlier in this document, drinking water consumption decreased during the year by approximately 2% and while customer fees were above expectations, new system connections remained below historical average. OWASA has been able to adjust the rates and fees it charges its customers and successfully manage its operational spending budget to offset lower demand without degradation of services or programs. For FY 2010, total assets increased, liabilities were reduced, and the increase in net assets was above budget.

Requests for Information

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

ORANGE WATER AND SEWER AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

Assets	2010	2009
Current assets		
Cash and cash equivalents	\$ 13,851,271	\$ 7,274,608
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately \$115,325 for 2010 and 2009)	4,306,096	2,901,325
Other	364,681	2,566,921
Inventory, materials and supplies	780,716	795,919
Prepaid expenses	16,669	17,133
Restricted cash and cash equivalents:		
Cash and cash equivalents, trustee	7,111,172	6,811,395
Total current assets	26,430,605	20,367,301
Noncurrent assets		
Restricted cash and cash equivalents	1,252,498	1,226,604
Capital assets:		
Non-depreciable	33,963,724	43,153,781
Depreciable	255,970,716	247,996,014
Total capital assets, net of accumulated depreciation	289,934,440	291,149,795
Unamortized bond expenses, net of accumulated amortization of \$480,450 for 2010 and \$401,601 for 2009	856,882	935,730
	856,882	935,730
Total noncurrent assets, net	292,043,820	293,312,129
Total assets	318,474,425	313,679,430
 Liabilities and Net Assets		
Current liabilities		
Payable from current assets:		
Trade and construction contracts payable	849,983	1,570,516
Customer deposits and advances	1,223,614	1,212,728
Accrued expenses	598,580	664,417
Payable from restricted cash and cash equivalents:		
Accrued interest	1,879,564	1,970,281
Current maturities of bonds payable	5,231,725	4,840,566
Current maturity of capital lease	17,898	15,504
Total current liabilities	9,801,364	10,274,012
Noncurrent liabilities		
Bonds payable	96,543,942	101,775,666
Capital lease	34,159	52,017
Other noncurrent liabilities	1,621,497	738,000
Total liabilities	108,000,962	112,839,695
Net assets		
Invested in capital assets, net of related debt	188,106,716	184,466,042
Restricted for capital reserve	1,252,498	1,226,604
Restricted for debt service	1,116	6,114
Unrestricted	21,113,133	15,140,975
Total net assets	\$ 210,473,463	\$ 200,839,735

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Water	\$ 16,943,596	\$ 15,285,506
Sewer	14,848,339	12,798,394
Service initiation fees	148,750	141,355
Reclaimed water	361,913	78,520
Other	1,256,174	1,233,515
Total operating revenues	33,558,772	29,537,290
Operating expenses:		
Water supply and treatment	2,619,340	2,665,629
Water distribution	2,218,544	2,160,231
Sewer treatment	3,088,738	3,487,838
Sewer collections	1,129,237	1,035,025
General and administrative	4,260,847	4,567,519
Customer relations	540,582	598,092
Maintenance	2,059,026	2,135,038
Laboratory	733,127	837,770
Depreciation and amortization	9,053,691	8,765,924
Other post-employment benefits	883,497	738,000
Total operating expenses	26,586,629	26,991,066
Operating income	6,972,143	2,546,224
Nonoperating revenues (expenses):		
Customer fees	1,436,564	2,498,459
Investment income, net of fair value of investments adjustment	29,169	80,343
Interest expense	(2,702,687)	(3,305,193)
Amortization of bond and lease expense	(73,283)	(83,338)
Other	(92,613)	5,687
Income before contributions	5,569,293	1,742,182
Capital contributions:		
Capital grants and contributions	101,451	1,577,049
Contributions in aid of construction	3,962,984	12,916,939
Total capital contributions	4,064,435	14,493,988
Increase in net assets	9,633,728	16,236,170
Net assets:		
Beginning	200,839,735	184,603,565
Ending	\$ 210,473,463	\$ 200,839,735

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Receipts from customers	\$ 30,897,827	\$ 28,780,696
Payments to suppliers	(8,066,921)	(11,864,741)
Payments to employees	(7,150,983)	(8,702,403)
Other receipts	1,351,019	1,227,868
Net cash provided by operating activities	17,030,942	9,441,420
Cash flows from capital and related financing activities		
Acquisition and construction of property, plant and equipment	(3,972,602)	(4,714,250)
Proceeds from sale of property, plant and equipment	2,405	8,459
Principal paid on bond maturities and other long-term debt	(4,850,464)	(4,853,470)
Interest paid on bond maturities on other long-term debt	(2,793,404)	(4,316,718)
Customer fees received	1,354,837	2,769,262
Capital grants and contributions	101,451	1,577,049
Net cash used in capital and related financing activities	(10,157,777)	(9,529,668)
Cash flows from investing activities		
Interest and dividends on investments	29,169	80,343
Net cash provided by investing activities	29,169	80,343
Net increase (decrease) in cash and cash equivalents	6,902,334	(7,905)
Cash and cash equivalents:		
Beginning	15,312,607	15,320,512
Ending	\$ 22,214,941	\$ 15,312,607
Reconciliation of cash and cash equivalents:		
Current assets	\$ 13,851,271	\$ 7,274,608
Restricted assets:		
Authority	1,252,498	1,176,906
Trustee	7,111,172	6,861,093
	\$ 22,214,941	\$ 15,312,607

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 6,972,143	\$ 2,546,224
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	9,053,691	8,765,924
(Gain) loss on sale of property, plant and equipment	94,845	(5,647)
Changes in assets and liabilities:		
Trade accounts receivable	(1,404,771)	476,921
Other receivables	2,202,240	(2,026,819)
Inventory	15,203	(44,741)
Prepaid expenses	464	(1,942)
Trade and construction contracts payable	(720,533)	(1,030,836)
Accrued expenses	(65,837)	24,336
Other noncurrent liabilities	883,497	738,000
Net cash provided by operating activities	\$ 17,030,942	\$ 9,441,420
 Supplemental schedule of noncash capital and related financing activities, noncapital financing activities and investing activities		
 Property, plant and equipment contributed by private developers	 \$ 3,962,984	 \$ 12,916,939
Capitalized interest, net of investment earnings	\$ 995,366	\$ 898,372
Amortization of bond expenses, bond discounts and deferred refunding gains and losses	\$ (73,283)	\$ (83,338)

See notes to financial statements.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 1. Summary of 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 Boards of Aldermen of the Towns of Chapel Hill and Carrboro in June 1975, as a public entity, politic and corporate, for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems serving the above governmental jurisdictions and certain contiguous areas. The Authority is a separate governmental unit granted independent authority by the North Carolina General Statutes to allow the Authority's Board of Directors to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency.

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

b. Measurement focus, basis of accounting, and financial statement presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Authorities also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use unrestricted resources first, then restricted resources as they are needed.

c. Assets, liabilities, and net assets

1. Deposits and investments

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.

All deposits of the Authority are made in board-designated official depositories and are secured as required by State statute. 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 NOW and SuperNOW accounts, money market accounts, and certificates of deposits.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 1. Summary of Significant Accounting Policies (Continued)

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

The Authority's investments with a maturity of more than one year at acquisition and nonmoney market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities, a SEC-register (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade receivables that are determined to be uncollectible by the client are based on their knowledge of collection history for similar customers. The Authority grants credit to residential, business and industrial customers, substantially all of whom are local to the Orange County, North Carolina area.

3. Inventory, materials and supplies

Materials and supplies are valued at average cost.

4. 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 assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "capital reserve" accounts are used to report resources set aside to subsidize potential deficiencies from the Authority's operation that could adversely affect debt service payments.

5. Other assets

Unamortized bond expenses represent the difference between the reacquisition price and the net carrying amount of debt that is being deferred and amortized when new debt is issued for current or advanced refunding of existing debt. Costs incurred attributable to the issuance of revenue bonds have been deferred and are being amortized over the life of the bonds using the effective interest method.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 1. Summary of Significant Accounting Policies (Continued)

6. 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

	<u>Years</u>
Water treatment and distribution	20 - 60
Sewer collection and treatment	40 - 60
Fixtures and equipment	5 - 20

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

7. Compensated absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements. At June 30, 2010 and 2009, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$407,380 and \$421,094, respectively.

8. 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.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 1. Summary of Significant Accounting Policies (Continued)

9. Net assets

Invested in capital assets, net of related debt net assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets for maintenance reserve represent the Authority's portion of net assets that are restricted by externally imposed constraints by creditors that relate to the Authority's revenue bonds.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

10. Operating revenues and expenses

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

11. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, 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 reporting period. Actual results could differ from those estimates.

Note 2. Stewardship and Accountability – Budgetary Information

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

In March of each year, the Authority requests information from various departments to project the amount of appropriations for each department so that a budget may be prepared. The proposed budget is presented to the Authority's board for review and approval before the end of April.

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.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

Note 3. Cash and Cash Equivalents

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 the Authority’s agent in the Authority’s name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooling method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the pooling method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the pooling method. The Authority has no policy regarding custodial credit risk for deposits.

At June 30, 2010, the Authority’s deposits had a carrying amount of \$15,092,741 and a bank balance of \$15,085,365. Of the bank balance, \$318,727 was covered by federal depository insurance and \$14,766,638 in interest-bearing deposits were covered by collateral held under the pooling method. The Authority had cash on hand of \$1,175 at June 30, 2010.

At June 30, 2009, the Authority’s deposits had a carrying amount of \$8,498,317 and a bank balance of \$8,498,317. Of the bank balance, \$612,844 was covered by federal depository insurance and \$7,986,167 in interest-bearing deposits were covered by collateral held under the pooling method. The Authority had cash on hand of \$1,175 at June 30, 2009.

Cash Equivalents:

At June 30, 2010 and 2009, the Authority’s cash equivalents balances at fair value were as follows:

	2010	2009
The North Carolina Capital Management Trust, a mutual fund	<u>\$ 7,121,025</u>	<u>\$ 6,813,115</u>

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The NCCMT has a weighted-average maturity of 36 days or less as of June 30, 2010 and 2009 and 60 days or less as of June 30, 2009.

Credit Risk. The Authority has no policy regarding credit risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (“NRSROs”). The Authority’s investment in the NCCMT Cash Portfolio carried a credit rating of AAA by Standard & Poor’s as of June 30, 2010 and 2009.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 4. Capital Assets

Capital assets activity consists of the following for the years ended June 30, 2010 and 2009:

	July 1, 2009 Beginning Balance	Increases	Decreases	Transfers	June 30, 2010 Ending Balance
Capital assets, not being depreciated:					
Land	\$ 19,996,428	\$ -	\$ -	\$ -	\$19,996,428
Construction in progress	<u>23,157,353</u>	<u>3,307,069</u>	<u>-</u>	<u>(12,497,126)</u>	<u>13,967,296</u>
Total capital assets, not being depreciated	<u>43,153,781</u>	<u>3,307,069</u>	<u>-</u>	<u>(12,497,126)</u>	<u>33,963,724</u>
Capital assets, being depreciated:					
Water treatment and distribution	135,359,473	3,969,008	-	4,710,758	144,039,239
Sewer collection and treatment	164,851,773	570,308	-	7,163,795	172,585,876
Fixtures and equipment	<u>40,173,123</u>	<u>89,249</u>	<u>(485,280)</u>	<u>622,573</u>	<u>40,399,665</u>
Total capital assets, being depreciated	<u>340,384,369</u>	<u>4,628,565</u>	<u>(485,280)</u>	<u>12,497,126</u>	<u>357,024,780</u>
Less accumulated depreciation for:					
Water treatment and distribution	36,827,489	3,184,837	-	-	40,012,326
Sewer collection and treatment	34,450,617	3,935,173	-	-	38,385,790
Fixtures and equipment	<u>21,110,249</u>	<u>1,933,681</u>	<u>(387,982)</u>	<u>-</u>	<u>22,655,948</u>
Total accumulated depreciation	<u>92,388,355</u>	<u>\$ 9,053,691</u>	<u>\$ (387,982)</u>	<u>\$ -</u>	<u>101,054,064</u>
Total capital assets, being depreciated, net	<u>247,996,014</u>				<u>255,970,716</u>
Total capital assets, net	<u>\$291,149,795</u>				<u>\$289,934,440</u>

	July 1, 2008 Beginning Balance	Increases	Decreases	Transfers	June 30, 2009 Ending Balance
Capital assets, not being depreciated:					
Land	\$ 19,994,878	\$ 1,550	\$ -	\$ -	\$19,996,428
Construction in progress	<u>67,263,987</u>	<u>11,892,551</u>	<u>-</u>	<u>(55,999,185)</u>	<u>23,157,353</u>
Total capital assets, not being depreciated	<u>87,258,865</u>	<u>11,894,101</u>	<u>-</u>	<u>(55,999,185)</u>	<u>43,153,781</u>
Capital assets, being depreciated:					
Water treatment and distribution	133,193,210	3,911,946	-	(1,745,683)	135,359,473
Sewer collection and treatment	107,962,214	2,669,515	-	54,220,044	164,851,773
Fixtures and equipment	<u>36,638,622</u>	<u>53,996</u>	<u>(44,319)</u>	<u>3,524,824</u>	<u>40,173,123</u>
Total capital assets, being depreciated	<u>277,794,046</u>	<u>6,635,457</u>	<u>(44,319)</u>	<u>55,999,185</u>	<u>340,384,369</u>
Less accumulated depreciation for:					
Water treatment and distribution	33,686,193	3,141,296	-	-	36,827,489
Sewer collection and treatment	30,815,449	3,635,168	-	-	34,450,617
Fixtures and equipment	<u>19,162,298</u>	<u>1,989,459</u>	<u>(41,508)</u>	<u>-</u>	<u>21,110,249</u>
Total accumulated depreciation	<u>83,663,940</u>	<u>\$ 8,765,923</u>	<u>\$ (41,508)</u>	<u>\$ -</u>	<u>92,388,355</u>
Total capital assets, being depreciated, net	<u>194,130,106</u>				<u>247,996,014</u>
Total capital assets, net	<u>\$281,388,971</u>				<u>\$291,149,795</u>

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 5. Long-Term Debt

Long-term debt as of June 30, 2010 and 2009 consists of the following:

	2010	2009
Revenue bonds:		
Revenue bonds payable, Series 2006 Revenue Serial Bonds in the amount of \$15,500,000, issued October 26, 2006, with coupon rates of 4.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$545,421 at June 30, 2010; Revenue bonds payable, Series 2006 Revenue Term Bonds in the amount of \$6,785,000, issued October 26, 2006, with an interest rate of 5.0%, due in full July 2031	\$ 21,700,421	\$ 22,300,988
Revenue and revenue refunding bonds payable, Series 2005 Revenue and Revenue Refunding Bonds, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized premium and deferred refunding loss of \$171,991 at June 30, 2010	18,503,009	18,485,810
Revenue bonds payable, Series 2004A Revenue Bonds in the amount of \$21,265,000, issued June 1, 2004, with coupon rates of 3.0% and 5.25%, final maturity July 2021, net of unamortized premium of \$463,350 at June 30, 2010; Revenue bonds payable, Series 2004B Revenue Bonds in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (0.37% at June 30, 2010), final maturity July 2029	37,343,350	38,535,794
Revenue and revenue refunding bonds payable, Series 2003 Revenue and Revenue Refunding Bonds, issued April 9, 2003, with coupon rates of 2.5% to 5.0%, final maturity July 2016, net of unamortized premium and deferred refunding loss of \$313,457 at June 30, 2010	6,386,543	7,054,299
Revenue and revenue refunding bonds payable, Series 2001 Revenue and Revenue Refunding Bonds, issued September 13, 2001, with coupon rates of 3.5% to 5.0%, final maturity July 2026, net of unamortized premium and deferred refunding loss of \$47,344 at June 30, 2010	17,842,344	19,530,500
Revenue and revenue refunding bonds payable, Series 1999 Revenue and Revenue Refunding Bonds, issued April 15, 1999, with coupon rates of 4.0% to 5.25%, final maturity July 2009, net of unamortized premium of \$0 at June 30, 2010	-	708,841
	101,775,667	106,616,232
Less current maturities:		
Bonds payable, net of unamortized premiums and discounts and deferred refunding gains and losses	5,231,725	4,840,566
Long-term portion	\$ 96,543,942	\$101,775,666

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 5. Long-Term Debt (Continued)

Obligations under capital lease:

	2010	2009
Capitalized equipment lease obligation due in annual installments of \$24,264 which includes interest at 14.45% through February 1, 2013	\$ 52,057	\$ 67,521
Less current maturities	17,898	15,504
Long-term portion	\$ 34,159	\$ 52,017

Bond payable maturities are as follows:

Fiscal Year	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2011	\$ 5,230,000	\$ (1,725)	\$ 5,231,725	\$ 4,424,113
2012	5,450,000	(1,726)	5,451,726	4,205,413
2013	5,510,000	(1,726)	5,511,726	3,967,338
2014	5,295,000	(1,726)	5,296,726	3,741,076
2015	5,030,000	(1,726)	5,031,726	3,523,300
2016-2020	26,025,000	(217,597)	26,242,597	13,940,496
2021-2025	23,385,000	(182,521)	23,567,521	8,275,939
2026-2030	22,370,000	(127,833)	22,497,833	2,985,244
2031-2032	2,910,000	(34,087)	2,944,087	149,000
Total	\$101,205,000	\$ (570,667)	\$101,775,667	\$45,211,919

Capital lease maturities are as follows:

Fiscal Year	Maturities	Interest	Total
2011	\$ 17,898	\$ 6,366	\$ 24,264
2012	20,662	3,602	24,264
2013	13,497	658	14,155
Total	\$ 52,057	\$ 10,626	\$ 62,683

In 2005, the Authority issued \$18,675,000, net of a discount of \$257,985, in Series 2005 Revenue and Revenue Refunding Bonds to provide for a partial refunding of Series 2001 and Series 1999 Revenue Bonds. The Authority irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the Series 2001 and Series 1999 Revenue Bonds as they become due. The par value of the defeased Series 2001 and Series 1999 Revenue Bonds at June 30, 2010 was \$9,125,000 and \$0, respectively.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 5. Long-Term Debt (Continued)

In 1985, the Authority defeased Series 1977A Revenue Bonds by placing the proceeds of new bonds, Series 1985A Revenue Bonds, in an irrevocable trust to provide for all future debt service payments on the old bonds. The gain of \$1,517,000, resulting from the refunding is being amortized over the life of the new issue. In addition to the amounts held in the trust, the trustee also has a security interest in the revenues of the Authority, after provisions have been made for the payment of current expenses, as defined in the Bond Order dated March 7, 1985. The par value of the defeased Series 1977A Revenue Bonds at June 30, 2010 was \$650,000.

Long-term liability activity for the years ended June 30, 2010 and 2009 are as follows:

	July 1, 2009 Beginning Balance	Additions	Reductions	June 30, 2010 Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 106,040,000	\$ -	\$ 4,835,000	\$ 101,205,000	\$ 5,230,000
Less deferred amounts:					
For issuance premiums	2,227,474	-	190,138	2,037,336	186,297
For issuance discounts and Deferred refunding	(1,651,242)	-	(184,573)	(1,466,669)	(184,572)
Capital Lease	67,521	-	15,464	52,057	17,898
Total long-term debt	<u>\$ 106,683,753</u>	<u>\$ -</u>	<u>\$ 4,856,030</u>	<u>\$ 101,827,724</u>	<u>\$ 5,249,623</u>

	July 1, 2008 Beginning Balance	Additions	Reductions	June 30, 2009 Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 110,880,000	\$ -	\$ 4,840,000	\$ 106,040,000	\$ 4,835,000
Less deferred amounts:					
For issuance premiums	2,417,612	-	190,138	2,227,474	190,138
For issuance discounts and Deferred refunding	(1,835,813)	-	(184,571)	(1,651,242)	(184,572)
Capital Lease	80,991	-	13,470	67,521	15,504
Total long-term debt	<u>\$ 111,542,790</u>	<u>\$ -</u>	<u>\$ 4,859,037</u>	<u>\$ 106,683,753</u>	<u>\$ 4,856,070</u>

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$101,775,667 in revenue bonds issued in 1999, 2001, 2003, 2004, 2005 and 2006. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Principal and interest on the bonds are payable through 2031, solely from the water and sewer customer net revenues. Annual principal and interest on the bonds are expected to require approximately 51 percent of such net revenues. Principal and interest paid for in the years ended June 30, 2010 and 2009 were \$8,623,770 and 9,156,718, respectively.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 6. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan description: The Authority contributes to the statewide Local Governmental Employees' Retirement System ("LGERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding policy: Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 4.88% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$329,383, \$333,736, and \$341,694 respectively. The contributions made by the Authority equaled the required contributions for each year.

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. Employees who meet any of the retirement options available through LGERS and retire 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. A separate stand-alone report is not issued.

All active full-time employees are eligible for membership. At July 1, 2009, the plan membership consisted of:

Members:	
Inactive	19
Active	<u>122</u>
Total	<u>141</u>

Funding policy: The Authority plan members pay their share of the cost of coverage (premiums) for healthcare benefits provided to qualified retirees. The Authority has chosen to fund the plan benefits on a pay-as-you-go basis. The Authority contributed \$60,503 or 1.0% and \$151,000 or 1.5% of the annual covered payroll during the years ending June 30, 2010 and 2009, respectively.

Basis of accounting: Postemployment expenses are made from the General Fund, which is maintained on the accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 6. Pension Plan Obligations (continued)

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

	2010	2009
Employer annual required contribution	\$ 944,000	\$ 889,000
Interest paid on OPEB obligation	-	-
Annual OPEB cost	944,000	889,000
Employer contributions made for current fiscal year	60,503	151,000
Increase in net OPEB obligation	883,497	738,000
Net OPEB obligation beginning of fiscal year	738,000	-
Net OPEB obligation end of fiscal year	\$ 1,621,497	\$ 738,000

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

Fiscal Year End	Annual Plan Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation End of Year
June 30, 2009	\$ 889,000	17.00%	\$ 738,000
June 30, 2010	944,000	06.00%	1,621,497

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$12,597,000 and \$9,918,000 as of June 30, 2010 and 2009, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$5,924,000, and the ratio of UAAL to the covered payroll was 212.6 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ORANGE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

Note 6. Pension Plan Obligations (continued)

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

In the July 1, 2009 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 9.00 to 5.00 percent annually. Both rates included a 2.50 percent inflation assumption. There are no assets set aside for these benefits. The plan is funded on a pay-as-you-go basis.

Note 7. 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 coverages. Claims have not exceeded coverage in any of the past three fiscal years. The Authority currently does not carry flood insurance.

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

Commitments: The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately \$1,128,590 at June 30, 2010.

Note 8. Net Assets

At June 30, 2010 and 2009, the Board of Directors had approved the use of the unrestricted net assets for the following purposes:

	<u>2010</u>	<u>2009</u>
Operating reserve	\$ 6,199,548	\$ 4,601,988
Other reserves	1,300,000	-
Capital projects	<u>13,732,082</u>	<u>10,538,987</u>
	<u>\$ 21,231,630</u>	<u>\$ 15,140,975</u>

Note 9. Subsequent Events

Subsequent to the Statement of Net Assets date, the Authority's board of directors approved the issuance of the Orange Water and Sewer Authority Water and Sewer System Revenue Refunding Bonds, Series 2010. This issuance will refund approximately \$25 million in outstanding debt related to the 2001A and 2004A revenue bonds. The expected closing date for this new issuance is September 30, 2010.

ORANGE WATER AND SEWER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
 Other Postemployment Benefits (OPEB) Plan
 June 30, 2010 and 2009

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	UAAL as % Of Covered Payroll (3)/(5)
7/1/2007	\$ -	\$ 9,918,000	\$ 9,918,000	0.0	\$ 6,375,000	155.6%
7/1/2009	-	12,597,000	12,597,000	0.0	5,924,000	212.6%

Schedule of Employer Contributions:

Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net Ending OPEB Liability / (Asset)
6/30/2009	\$ 889,000	\$ 151,000	17.00%	\$ 738,000
6/30/2010	944,000	60,503	06.00%	1,621,497

ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating revenues				
Water	\$ 16,372,159	\$ 16,372,159	\$ 17,305,509	\$ 933,350
Sewer	14,726,764	14,726,764	14,848,339	121,575
Service initiation fees	148,952	148,952	148,750	(202)
Other	1,630,200	1,630,200	1,163,561	(466,639)
Total operating revenues	<u>32,878,075</u>	<u>32,878,075</u>	<u>33,466,159</u>	<u>588,084</u>
Nonoperating revenues				
Interest income	72,365	72,365	29,169	(43,196)
Customer fees	1,163,650	1,163,650	1,436,564	272,914
Grants and contributions	253,000	253,000	101,451	(151,549)
Contributions in aid of construction	-	-	3,962,984	3,962,984
Total nonoperating revenues	<u>1,489,015</u>	<u>1,489,015</u>	<u>5,530,168</u>	<u>4,041,153</u>
Total revenues	<u>34,367,090</u>	<u>34,367,090</u>	<u>38,996,327</u>	<u>4,629,237</u>
Expenditures				
Water supply and treatment				
Salaries and wages	635,995	635,995	702,886	(66,891)
Fringe benefits	247,086	247,086	313,289	(66,203)
Chemicals	1,478,491	1,426,491	1,020,007	406,484
Materials and supplies	40,751	40,751	31,736	9,015
Utilities	419,700	419,700	383,888	35,812
Maintenance	19,043	19,043	27,795	(8,752)
Professional services	60,500	60,500	48,735	11,765
Insurance	60,200	60,200	78,303	(18,103)
Communication	800	800	213	587
Education and development	8,560	8,560	6,059	2,501
Miscellaneous	10,161	10,161	7,780	2,381
Total water supply and treatment	<u>2,981,287</u>	<u>2,929,287</u>	<u>2,620,691</u>	<u>308,596</u>
Construction credits	<u>-</u>	<u>-</u>	<u>(1,351)</u>	<u>1,351</u>

ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures (continued)				
Water distribution				
Salaries and wages	\$ 1,123,100	\$ 1,123,100	\$ 1,121,612	\$ 1,488
Fringe benefits	489,952	510,952	527,982	(17,030)
Materials and supplies	74,250	74,250	77,157	(2,907)
Utilities	204,525	204,525	173,769	30,756
Maintenance	500,000	500,000	482,776	17,224
Professional services	-	-	-	-
Insurance	8,080	8,080	9,551	(1,471)
Communication	500	500	744	(244)
Printing and reproduction	1,400	1,400	261	1,139
Education and development	10,550	10,550	8,498	2,052
Miscellaneous	3,900	3,900	1,795	2,105
Total water distribution	<u>2,416,257</u>	<u>2,437,257</u>	<u>2,404,145</u>	<u>33,112</u>
Construction credits	<u>(225,693)</u>	<u>(225,693)</u>	<u>(185,601)</u>	<u>(40,092)</u>
Sewer treatment				
Salaries and wages	712,016	712,016	696,039	15,977
Fringe benefits	284,197	284,197	269,542	14,655
Chemicals	1,765,541	1,725,541	860,291	865,250
Materials and supplies	81,800	121,800	52,142	69,658
Utilities	975,000	975,000	1,035,850	(60,850)
Maintenance	50,910	50,910	34,772	16,138
Professional services	23,500	23,500	13,000	10,500
Insurance	77,777	77,777	98,638	(20,861)
Communication	600	600	452	148
Education and development	8,000	8,000	7,641	359
Miscellaneous	24,000	24,000	20,371	3,629
Total sewer treatment	<u>4,003,341</u>	<u>4,003,341</u>	<u>3,088,738</u>	<u>914,603</u>

ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (continued)				
Sewer collections				
Salaries and wages	\$ 507,817	\$ 507,817	\$ 472,380	\$ 35,437
Fringe benefits	214,815	214,815	198,033	16,782
Chemicals	106,000	85,000	97,927	(12,927)
Materials and supplies	60,000	60,000	47,156	12,844
Utilities	133,750	133,750	123,124	10,626
Maintenance	218,000	218,000	187,442	30,558
Professional services	1,500	1,500	-	1,500
Insurance	7,582	7,582	9,255	(1,673)
Communication	1,000	1,000	285	715
Printing and reproduction	1,000	1,000	132	868
Education and development	11,750	11,750	8,991	2,759
Miscellaneous	5,200	5,200	1,665	3,535
Total sewer collections	<u>1,268,414</u>	<u>1,247,414</u>	<u>1,146,390</u>	<u>101,024</u>
Construction credits	<u>-</u>	<u>-</u>	<u>(17,153)</u>	<u>17,153</u>
General and administrative				
Salaries and wages	2,634,798	2,803,149	2,487,018	316,131
Fringe benefits	911,118	911,116	777,522	133,594
Materials and supplies	71,843	58,744	54,753	3,991
Utilities	190,250	178,150	169,642	8,508
Maintenance	219,705	211,605	205,157	6,448
Professional services	499,450	467,100	525,554	(58,454)
Insurance	36,000	36,000	40,896	(4,896)
Communication	173,930	120,230	31,029	89,201
Printing and reproduction	10,625	6,225	5,008	1,217
Education and development	58,645	46,245	40,334	5,911
Miscellaneous	183,765	151,565	76,062	75,503
Total general and administrative	<u>4,990,129</u>	<u>4,990,129</u>	<u>4,412,975</u>	<u>577,154</u>
Construction credits	<u>(173,068)</u>	<u>(173,068)</u>	<u>(152,128)</u>	<u>(20,940)</u>

ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures (continued)				
Customer relations				
Salaries and wages	\$ 270,232	\$ 270,232	\$ 286,042	\$ (15,810)
Fringe benefits	99,821	99,821	95,751	4,070
Materials and supplies	3,000	3,000	4,224	(1,224)
Professional services	34,000	34,000	33,531	469
Communication	83,500	83,500	77,709	5,791
Printing and reproduction	1,000	1,000	736	264
Education and development	4,700	4,700	4,592	108
Miscellaneous	48,305	48,305	37,997	10,308
Total customer relations	<u>544,558</u>	<u>544,558</u>	<u>540,582</u>	<u>3,976</u>
Maintenance				
Salaries and wages	667,607	667,607	570,401	97,206
Fringe benefits	254,090	254,090	245,702	8,388
Materials and supplies	30,037	30,037	38,503	(8,466)
Utilities	1,000	1,000	528	472
Maintenance	1,004,851	1,056,851	1,197,408	(140,557)
Professional services	19,000	19,000	-	19,000
Insurance	16,499	16,499	-	16,499
Communication	1,000	1,000	1,096	(96)
Education and development	14,965	14,965	1,044	13,921
Miscellaneous	5,000	5,000	4,884	116
Total maintenance	<u>2,014,049</u>	<u>2,066,049</u>	<u>2,059,566</u>	<u>6,483</u>
Construction credits	<u>-</u>	<u>-</u>	<u>(540)</u>	<u>(540)</u>
Laboratory				
Salaries and wages	402,711	402,711	332,463	70,248
Fringe benefits	146,784	146,784	132,910	13,874
Materials and supplies	229,545	229,545	195,466	34,079
Maintenance	40,710	40,710	35,807	4,903
Professional services	12,000	12,000	10,777	1,223
Insurance	7,975	7,975	10,292	(2,317)
Communication	11,000	11,000	9,513	1,487
Education and development	6,200	6,200	4,299	1,901
Miscellaneous	2,900	2,900	1,600	1,300
Total laboratory	<u>859,825</u>	<u>859,825</u>	<u>733,127</u>	<u>126,698</u>

ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (continued)				
Debt service				
Bonded debt service	\$ 9,678,113	\$ 9,678,113	\$ 8,623,770	\$ 1,054,343
Capital outlay	5,742,000	5,742,000	6,940,268	(1,198,268)
Total expenditures	<u>34,099,212</u>	<u>34,099,212</u>	<u>32,213,479</u>	<u>1,885,733</u>
Excess of revenues over expenditures	<u>\$ 267,878</u>	<u>\$ 267,878</u>	<u>6,782,848</u>	<u>\$ 6,514,970</u>
Reconciliation of modified accrual to full accrual basis				
Principal payments on bonded debt			4,835,000	
Capital interest			995,366	
Change in interest accrual for bonded debt			90,717	
Depreciation and amortization			(9,053,691)	
Other post employment benefits			(883,497)	
Amortization of bond expense and patent			(73,283)	
Capital outlay			<u>6,940,268</u>	
Net income - accrual basis			<u>\$ 9,633,728</u>	

Orange Water & Sewer Authority
SCHEDULE OF REVENUES AND EXPENDITURES - PROJECT FUNDS
From Inception Through June 30, 2010

	Project Budget	Cumulative Totals to June 30, 2010	Unexpended Balance as of June 30, 2010
Raw water supply sources:			
Revenues, general fund	\$ 615,170	\$ 395,904	\$ 219,266
Expenditures:			
Jordan Lake raw water supply intake and pumping facility	\$ 59,558	\$ 45,262	\$ 14,296
Watershed preservation	-	4,710	(4,710)
Stone quarry acquisition	246,545	19,297	227,248
University Lake pump station improvements	309,067	326,635	(17,568)
Total expenditures	\$ 615,170	\$ 395,904	\$ 219,266
Water treatment:			
Revenues, general fund	\$ 1,098,983	\$ 765,089	\$ 333,894
Expenditures:			
Water treatment plant instrumentation and controls	\$ -	\$ 877	\$ (877)
Water treatment plant rehabilitation projects	455,000	303,767	151,233
Water treatment plant chloramination facilities	-	1,429	(1,429)
Water treatment plant security improvements	298,983	87,639	211,344
Sodium hypochlorite facility tanks improvements	325,000	353,369	(28,369)
Water treatment plant filter influent repairs	20,000	18,008	1,992
Total expenditures	\$ 1,098,983	\$ 765,089	\$ 333,894
Finished water pumping:			
Revenues, general fund	\$ 200,000	\$ 27,282	\$ 172,718
Expenditures:			
Calvander pumb station improvements	\$ 25,000	\$ 12,269	\$ 12,731
Booster pump station at Barbee Chapel Road	175,000	15,013	159,987
Total expenditures	\$ 200,000	\$ 27,282	\$ 172,718

Orange Water & Sewer Authority
SCHEDULE OF REVENUES AND EXPENDITURES - PROJECT FUNDS
From Inception Through June 30, 2010

	Project Budget	Cumulative Totals to June 30, 2010	Unexpended Balance as of June 30, 2010
Water transmission & distribution:			
Revenues, general fund	<u>\$ 2,430,782</u>	<u>\$ 1,952,244</u>	<u>\$ 478,538</u>
Expenditures:			
Water main - road improvement projects	\$ 296,640	\$ 197,196	\$ 99,444
Water line rehabilitation, replacement projects	998,000	778,239	219,761
Reinforcement projects	169,520	75,208	94,312
Cleveland Drive water main replacement	440,622	494,446	(53,824)
Estes at Elliot Road	-	299	(299)
Cameron Avenue water line replacement	101,000	63,242	37,758
Water distribution system hydraulic model update	425,000	343,614	81,386
Total expenditures	<u>\$ 2,430,782</u>	<u>\$ 1,952,244</u>	<u>\$ 478,538</u>
Wastewater collection lines:			
Revenues, general fund	<u>\$ 11,505,353</u>	<u>\$ 9,496,407</u>	<u>\$ 2,008,946</u>
Expenditures:			
Bolin Creek interceptor (Phase III)	\$ 2,107,563	\$ 463,955	\$ 1,643,608
Morgan Creek interceptor	1,519,000	999,300	519,700
Booker Creek interceptor	-	294	(294)
Morgan Creek Basin - rehabilitation and replacement projects	-	426	(426)
Service area sewer line rehabilitation and replacement projects	888,000	978,265	(90,265)
Meeting of the waters interceptor	6,641,790	6,770,000	(128,210)
Willow Drive at Estes	349,000	284,167	64,833
Total expenditures	<u>\$ 11,505,353</u>	<u>\$ 9,496,407</u>	<u>\$ 2,008,946</u>

Orange Water & Sewer Authority
SCHEDULE OF REVENUES AND EXPENDITURES - PROJECT FUNDS
From Inception Through June 30, 2010

	Project Budget	Cumulative Totals to June 30, 2010	Unexpended Balance as of June 30, 2010
Waste water pumping stations & forcemains:			
Revenues, general fund	<u>\$ 2,211,132</u>	<u>\$ 1,707,646</u>	<u>\$ 503,486</u>
Expenditures:			
Pump station improvements	\$ 157,000	\$ 119,461	\$ 37,539
Heritage Hills pump station and force main replacement	568,132	581,147	(13,015)
Oaks I, Cleveland Drive pump station phase out project	1,486,000	1,007,038	478,962
Total expenditures	<u>\$ 2,211,132</u>	<u>\$ 1,707,646</u>	<u>\$ 503,486</u>
Wastewater treatment & disposal:			
Revenues, general fund	<u>\$ 13,829,000</u>	<u>\$ 11,096,008</u>	<u>\$ 2,732,992</u>
Expenditures:			
Mason Farm wastewater treatment plant 18.5 MGD upgrade and expansion	\$ -	\$ 253	\$ (253)
Mason Farm wastewater treatment plant rehabilitation and improvement project	135,000	262,399	(127,399)
Mason Farm wastewater treatment plant odor improvements	2,366,000	2,160,754	205,246
Mason Farm wastewater treatment - hydraulic and treatment capacity	280,000	260,897	19,103
Reclaimed water treatment, pumping and storage facilities	6,819,000	5,258,132	1,560,868
Reclaimed water transmission system	4,229,000	3,153,573	1,075,427
Total expenditures	<u>\$ 13,829,000</u>	<u>\$ 11,096,008</u>	<u>\$ 2,732,992</u>
Information services:			
Revenues, general fund	<u>\$ 300,500</u>	<u>\$ 262,064</u>	<u>\$ 38,436</u>
Expenditures:			
Information services	\$ 300,500	\$ 262,064	\$ 38,436
Total expenditures	<u>\$ 300,500</u>	<u>\$ 262,064</u>	<u>\$ 38,436</u>

ORANGE WATER AND SEWER AUTHORITY
Statistical Section

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Contents

Tables

Financial trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

1 - 2

Revenue capacity

This schedule contains information to help the reader assess the factors affecting the Authority's ability to generate revenue.

3

Debt capacity

This schedule presents information to help the reader assess the affordability of the Authority's current level of outstanding debt and the Authority's ability to issue additional debt in the future.

4

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 and to help make comparisons over time and with other governments.

5 - 9

Operating information

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the services the Authority provides and the activities it performs.

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ORANGE WATER AND SEWER AUTHORITY
Net Assets by Components
Last Eight Fiscal Years
 (accrual basis of accounting)
 (Unaudited)

Table 1

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 188,106,716	\$ 184,466,042	\$ 177,287,377	\$ 161,812,115	\$ 160,813,755	\$ 137,441,321	\$ 110,634,726	\$ 136,790,615
Restricted for capital reserve	1,252,498	1,226,604	1,168,081	1,127,192	1,894,497	2,320,261	265,052	4,452,759
Restricted for future capital projects	-	-	-	-	-	16,794,642	34,552,532	6,287,943
Restricted for debt service	1,116	6,114	154,388	185,258	31,088	-	-	-
Unrestricted	21,113,133	15,140,975	5,993,719	14,546,839	6,611,972	7,373,853	15,468,674	6,076,872
	<u>\$ 210,473,463</u>	<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>	<u>\$ 177,671,404</u>	<u>\$ 169,351,312</u>	<u>\$ 163,930,077</u>	<u>\$ 160,920,984</u>	<u>\$ 153,608,189</u>

Note: Information for the Authority as a whole is available back to 2003 only, the year GASB 34 was implemented.

ORANGE WATER AND SEWER AUTHORITY
Changes in Net Assets
Last Eight Fiscal Years
(accrual basis of accounting)
(Unaudited)

Table 2

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Operating revenues								
Water	\$ 16,943,596	\$ 15,364,026	\$ 16,378,833	\$ 14,218,387	\$ 13,946,421	\$ 12,489,800	\$ 11,873,860	\$ 10,394,529
Sewer	14,848,339	12,798,394	11,046,437	10,272,920	9,682,210	8,563,004	8,619,485	7,607,718
Service initiation fees	148,750	141,355	169,603	142,086	153,670	134,958	132,294	97,660
Other	1,618,087	1,233,515	1,199,220	780,178	649,081	703,905	530,853	573,057
Total operating revenues	33,558,772	29,537,290	28,794,093	25,413,571	24,431,382	21,891,667	21,156,492	18,672,964
Operating expenses								
Water supply and treatment	2,619,340	2,665,629	2,441,028	2,261,394	2,159,244	1,935,704	1,822,522	1,885,679
Water distribution	2,217,957	2,160,231	2,275,756	1,962,980	1,710,117	1,917,141	1,733,384	1,781,525
Sewer treatment	3,050,834	3,487,838	2,981,891	2,865,782	3,042,830	2,080,670	1,954,191	1,973,766
Sewer collections	1,129,237	1,035,025	1,134,682	1,539,591	1,352,661	1,342,978	1,329,066	1,205,400
General and administrative	4,230,197	4,567,519	4,467,944	4,428,491	3,809,200	3,689,846	3,468,158	3,458,288
Customer relations	540,582	598,092	672,147	707,614	966,972	961,862	830,284	798,852
Maintenance	2,128,731	2,135,038	1,881,395	1,979,957	1,860,938	1,600,231	1,623,525	1,538,062
Lab	732,563	837,770	788,628	890,108	821,955	780,707	722,984	651,825
Depreciation and amortization	9,053,691	8,765,924	7,215,175	6,950,774	6,871,350	6,538,782	6,312,316	5,995,331
Other post-employment benefits	883,497	738,000	-	-	-	-	-	-
Total operating expenses	26,586,629	26,991,066	23,858,646	23,586,691	22,595,267	20,847,921	19,796,430	19,288,728
Operating income (loss)	6,972,143	2,546,224	4,935,447	1,826,880	1,836,115	1,043,746	1,360,062	(615,764)
Nonoperating revenues (expenses):								
Customer fees	1,436,564	2,498,459	1,995,415	2,514,450	2,308,651	1,872,820	2,716,555	1,962,517
Investment adjustment	29,169	80,343	584,031	995,354	742,010	821,194	211,708	337,442
Interest expense	(2,702,687)	(3,305,193)	(3,832,320)	(4,361,911)	(2,724,951)	(3,140,164)	(1,216,166)	(1,799,578)
Amortization of bond expense and patent	(73,283)	(83,338)	(69,940)	(96,898)	(141,579)	(115,063)	(163,362)	(192,634)
Other	(92,613)	5,687	2,865	16,431	(58,846)	(39,569)	44,588	(106,101)
Income (loss) before contributions	5,569,293	1,742,182	3,615,498	894,306	1,961,400	442,964	2,953,385	(414,118)
Capital contributions								
Capital grants and contributions	101,451	1,577,049	926,504	650,097	153,232	336,404	537,571	-
Contribution in aid of construction	3,962,984	12,916,939	2,390,159	6,775,689	3,306,603	2,229,725	3,821,839	1,817,642
Total capital contributions	4,064,435	14,493,988	3,316,663	7,425,786	3,459,835	2,566,129	4,359,410	1,817,642
Increase in net assets	9,633,728	16,236,170	6,932,161	8,320,092	5,421,235	3,009,093	7,312,795	1,403,524
Net assets								
Beginning	200,839,735	184,603,565	177,671,404	169,351,312	163,930,077	160,920,984	153,608,189	152,204,665
Ending	\$ 210,473,463	\$ 200,839,735	\$ 184,603,565	\$ 177,671,404	\$ 169,351,312	\$ 163,930,077	\$ 160,920,984	\$ 153,608,189

Note: Information for the Authority as a whole is available back to 2003 only, the year GASB 34 was implemented.

Table 3

ORANGE WATER AND SEWER AUTHORITY
Water Processed and Wastewater Treated
(thousands of gallons)
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year Ended June 30</u>	<u>Water Processed and Pumped to System</u>	<u>Portion of Processed Water Pumped to Hillsborough</u>	<u>Wastewater Treated</u>
2001	3,418,741	-	3,107,328
2002	3,822,000	-	2,922,000
2003	2,945,900	-	2,955,127
2004	3,067,524	-	2,831,033
2005	3,053,404	-	2,982,831
2006	3,142,494	-	2,721,662
2007	3,126,917	-	2,854,787
2008	3,002,669	-	2,701,000
2009	2,915,405	-	2,889,705
2010	2,863,425	-	2,933,870

Source: Orange Water and Sewer Authority's Records

Table 4

ORANGE WATER AND SEWER AUTHORITY
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	Debt Service Requirements	Net Bonded Debt	Ratio of Net Revenues to Debt Service Requirements	Net Bonded Debt Per Customer
2001	17,696	\$ 7,535,344	\$ 3,821,600	\$ 37,365,000	1.97	\$ 2,111
2002	18,436	10,785,421	5,527,785	65,845,000	1.95	3,571.54
2003	18,844	7,573,425	5,970,183	63,570,000	1.27	3,373.49
2004	19,229	10,645,229	5,936,269	101,770,000	1.79	5,292.53
2005	19,467	10,236,973	7,317,151	81,075,000	1.40	4,164.74
2006	19,687	11,758,126	8,073,572	76,740,000	1.46	3,898.00
2007	19,554	12,287,458	8,268,245	114,685,000	1.49	5,865.04
2008	19,998	14,732,933	9,535,182	110,880,000	1.55	5,545.00
2009	20,137	13,813,299	9,027,729	106,040,000	1.53	5,266.00
2010	20,241	17,325,671	9,034,556	101,205,000	1.92	5,000.00

Note: Before fiscal year ended June 30, 2001, net operating revenues were calculated as operating income before depreciation and amortization plus investment income. In 2002, the Authority's new bond order defined net operating revenues as income before contributions plus depreciation, amortization and interest expense.

Table 5

ORANGE WATER AND SEWER AUTHORITY
Principal Water and Sewer Customers
Year Ended June 30, 2010
(Unaudited)

	Percent of Water Sales 2010
University of North Carolina at Chapel Hill	25%
Chapel Hill - Carrboro City Schools	<1%
Triangle Communities (Apartments)	<1%
Kingswood Apartments	<1%
Granville Towers (student housing)	<1%
Carol Woods Retirement Community	<1%
Abbey Court Condominiums	<1%
Town of Chapel Hill	<1%
The Villages Apartments	<1%
Foxcroft Apartments	<1%
University Mall	<1%

Source: Orange Water and Sewer Authority Records

Table 6

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			Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes
		Fiscal Year of the Levy	Percent of Original Levy	Amount		Amount	Percentage of Adjusted Levy	
2001	\$ 17,594,559	\$ 17,466,542	99.27%	*	*	*	*	
2002	20,417,001	20,271,201	99.29%	*	*	*	*	
2003	23,067,472	22,919,205	99.36%	*	*	*	*	
2004	23,775,375	23,653,530	99.49%	\$ 111,079	\$ 23,764,609	99.95%	*	
2005	25,615,621	25,480,324	99.47%	110,800	25,591,124	99.90%	*	
2006	27,718,753	27,578,410	99.49%	124,143	27,702,553	99.94%	*	
2007	28,558,565	28,409,166	99.48%	111,769	28,520,935	99.87%	(1) \$ 388,058	
2008	30,412,485	30,240,782	99.44%	115,691	30,356,473	99.82%	26,311	
2009	33,972,050	33,779,684	99.43%	122,393	33,902,077	99.79%	54,108	
2010	35,119,150	34,836,717	99.20%	-	34,836,717	99.20%	282,432	

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

Notes:

(1) This represents the total delinquent taxes for years 2005 and prior.

Table 7

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)	Total Assessed Value	Total Direct Tax Rate (4)	Estimated Actual Taxable Value (5)		Ratio of Assessed Value to Estimated Actual Value (6)
								Value	Value (5)	
2001	*	*	\$ 2,589,768,417	\$ 388,087,936	\$ 61,660,255	\$ 3,039,516,608	0.578	\$ 3,145,846,210	96.62%	
2002 (1, 2)	*	*	3,556,294,528	403,959,196	60,873,428	4,021,127,152	0.504	4,459,990,186	90.16%	
2003	*	*	3,688,289,625	415,023,471	63,868,306	4,167,181,402	0.553	4,725,767,070	88.18%	
2004	*	*	3,791,942,402	455,906,761	57,587,809	4,305,436,972	0.553	5,139,473,525	83.77%	
2005	*	*	3,918,233,860	482,128,300	57,774,008	4,458,136,168	0.575	4,664,298,146	95.58%	
2006 (1)	\$ 3,956,681,069	\$ 783,355,893	4,740,036,962	498,524,879	60,840,533	5,299,402,374	0.522	5,905,284,571	89.74%	
2007	3,640,445,489	1,249,997,134	4,890,442,623	520,961,320	61,554,945	5,472,958,888	0.522	6,098,683,851	89.74%	
2008	3,825,506,198	1,313,540,280	5,139,046,478	460,567,284	60,142,623	5,659,756,385	0.522	6,306,837,960	89.74%	
2009	3,945,477,182	1,354,733,971	5,300,211,153	471,708,077	63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%	
2010 (1)	4,855,643,567	1,667,252,143	6,522,895,710	455,030,840	67,647,776	7,045,574,326	0.494	7,141,991,207	98.65%	

*The breakdown between residential and commercial property is not available for fiscal years prior to 2006.

Notes:

- (1) Revaluation year.
- (2) Increase due to revaluation and the addition of \$200 million from a major annexation.
- (3) Public service companies valuations are provided by the North Carolina Department of Revenue. These amounts include both real and personal property.
- (4) Source is the State Department of Revenue final report of assessed valuations of NC Municipalities for the 2009/2010 fiscal year.
- (5) Per \$100 of value. Includes taxes for general fund, debt service fund and transit fund.
- (6) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (7) Source is the Property Tax Division of the North Carolina Department of Revenue.

Table 8

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Chapel Hill Within Orange County:										
<u>Town Direct Rates:</u>										
General Fund	0.535	0.461	0.510	0.502	0.516	0.474	0.474	0.474	0.423	0.36
Transportation	0.043	0.043	0.043	0.051	0.059	0.048	0.048	0.048	0.048	0.041
Downtown Service District	0.062	0.062	0.062	0.062	0.062	0.053	0.090	0.090	0.071	0.093
<u>Overlapping Rates:</u>										
Orange County	0.929	0.805	0.845	0.880	0.868	0.843	0.903	0.950	0.998	0.858
Chapel Hill- Carrboro School District	0.220	0.202	0.192	0.200	0.200	0.183	0.189	0.204	0.230	0.188
Total	1.789	1.573	1.652	1.695	1.705	1.601	1.704	1.766	1.899	1.54
Chapel Hill Within Durham County:										
<u>Town Direct Rates:</u>										
General Fund	0.535	0.504	0.510	0.502	0.516	0.474	0.474	0.474	0.423	0.360
Transportation	0.043	0.043	0.043	0.051	0.059	0.048	0.048	0.048	0.048	0.041
<u>Overlapping Rates:</u>										
Durham County	0.930	0.729	0.753	0.763	0.790	0.809	0.809	0.834	0.708	0.690
Total	1.508	1.276	1.306	1.316	1.365	1.331	1.331	1.356	1.179	1.091

* Revaluation year

Source: County tax departments

Table 9

ORANGE WATER AND SEWER AUTHORITY
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 (3)	Median Age (3)	Education Level in Years of Schooling (4)	School Enrollment (4)	Unemployment Rate % (5)
2001	48,902	\$ 3,583,041	\$ 24,133	24.8	14.72	34,462	1.8
2002	50,542	3,800,280	32,126	24.0	15.82	34,628	3.1
2003	51,005	3,877,363	33,125	24.2	15.82	37,012	4.0
2004	51,485	3,902,027	33,211	24.2	15.82	37,587	3.0
2005	51,519	4,122,336	37,121	24.2	15.82	37,308	4.0
2006	52,397	4,667,922	38,629	24.2	15.82	35,260	3.9
2007	53,416	5,060,894	41,435	24.2	15.82	38,718	2.9
2008	54,903	5,060,894	41,435	24.2	15.82	39,864	4.0
2009	55,616	5,450,187	43,844	24.2	15.82	40,316	5.8
2010	56,778	5,976,341	47,063	24.2	15.82	39,428	6.5

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, June 2010 data for Orange County.

Table 10

ORANGE WATER AND SEWER AUTHORITY
Miscellaneous Statistical Data
 Year Ended June 30, 2010
 (Unaudited)

Year Founded and Incorporated	1975
Size of Service Area:	
Square Miles	31
Miles of Water Pipe	409
Miles of Wastewater Collection Pipe	334
Customer Accounts	20,241
Budgeted Employee Positions	129
Water Treatment Plant Capacity (in MGD):	
Capacity	20.0
Production Average, FY 2010	7.8
Production Peak, FY 2010	10.6
Wastewater Treatment Plant Capacity (in MGD):	
Capacity	14.5
Average Daily Flow, FY 2010	8.0
Number of Water Supply Resources	3
Total Capacity of Water Supply Resources (millions of gallons):	
Cane Creek Reservoir	3,000
University Lake	450
Quarry Reservoir	200

Source: Orange Water and Sewer Authority Records

Table 11

ORANGE WATER AND SEWER AUTHORITY
Full Time Equivalents
 Last Eight Fiscal Years
 (Unaudited)

Department	2010	2009	2008	2007	2006	2005	2004	2003
General and Administrative								
Office of the Executive Director	7	7	9	9	9	9	9	8
Engineering	13.5	13.5	15	15	15	15	15	15
Human Resources	3.5	3.5	6	6	6	6	6	6
Finance	6.34	6.34	7	7	7	7	7	7
Purchasing	1.33	1.33	2	2	2	2	2	2
Business Information Services	4	4	4	4	4	4	4	4
Operations								
Customer Service	7.33	7.33	8	8	13	13	13	13
Water Supply and Treatment	13.5	13.5	13	13	13	13	13	13
Water Distribution	32	32	32	32	27	27	27	27
Plants Maintenance	13	13	14	15	15	15	15	15
Laboratory	8	8	10	10	10	10	10	9
Wastewater Treatment	13.5	13.5	15	14	14	14	14	14
Sewer Collection	15	15	15	15	15	15	15	15
Total FTE's	<u>138</u>	<u>138</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>148</u>

Note: Information for the Authority as a whole is available back to 2003 only, the year GASB 34 was implemented.

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



Independent Auditors' 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

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

We have audited the accompanying statements of net assets of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding 10-01, which we consider to be a significant deficiency in internal control over financial reporting. 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.

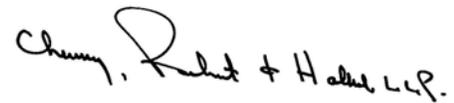
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the organization, members of the Board of Directors, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CHERRY, BEKAERT & HOLLAND, L.L.P.

A handwritten signature in cursive script that reads "Cherry, Bekaert & Holland L.L.P.".

Raleigh, North Carolina
September 9, 2010

ORANGE WATER AND SEWER AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
• Significant deficiencies identified that are not considered to be material weaknesses	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

ORANGE WATER AND SEWER AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section II - Financial Statement Findings

Finding 10-01

Criteria: An entity's internal controls should detect material adjustments needed to the financial statements prior to the year-end audit.

Condition and Context: During the audit, a material adjustment was proposed by the auditor and subsequently booked by the Authority. This entry is specifically related to capitalizing expense.

Effect: The auditor proposed adjusting journal entries which were subsequently posted by management.

Cause: The Authority's year-end close out procedures did not properly entail appropriate adjustment of all balance sheet accounts.

Recommendation: The Authority should develop and implement controls to ensure that all accounts are properly adjusted and closed at year-end.

Views of responsible officials: See Corrective Action Plan

ORANGE WATER AND SEWER AUTHORITY
Corrective Action Plan
Year Ended June 30, 2010

Section II - Financial Statement Findings

Finding #: 10-01

Name of contact person: Stephen Winters, Director of Finance and Customer Service

Corrective Action Plan: The adjustment to capitalize interest resulted from management's misinterpretation of FASB No. 34. Management has reviewed the text of FASB No. 34 and will apply the correct interpretation in future years.

Proposed Completion Date: Immediately

ORANGE WATER AND SEWER AUTHORITY
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Section II – Financial Statement Findings

Finding: 09-01

Status: Not corrected; see finding 10-01 in the current year.



Independent Auditors' Report on Compliance with Bond Covenants

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statements of net assets of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 9, 2010.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the terms, covenants, provisions, or conditions of Section 7.04 contained in the amended and restated bond order, dated September 13, 2001 with the Bank of New York and the North Carolina Local Government Commission, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors and management of the Authority, the Bank of New York and the North Carolina Local Government Commission and is not intended to be and should not be used by anyone other than these specified parties.

CHERRY, BEKAERT & HOLLAND, L.L.P.

Raleigh, North Carolina
September 9, 2010

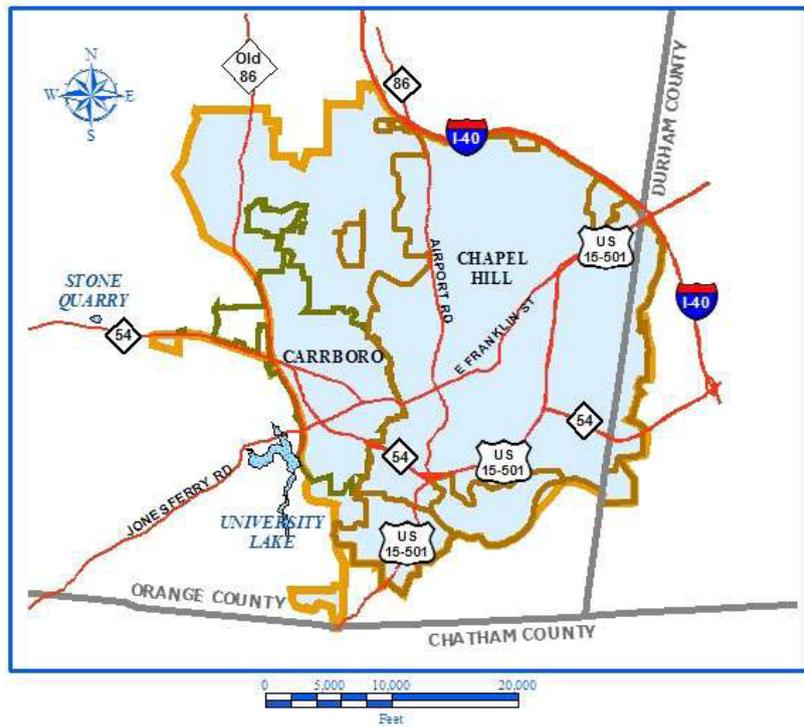
ORANGE WATER AND SEWER AUTHORITY MISSION STATEMENT

OWASA will provide our customers with high quality water and wastewater services through responsible, sustainable, and creative stewardship of the resources and assets we manage. We will do this with a productive, empowered, talented, and diverse work force, which strives for excellence.

OUR VALUES

- **Quality Drinking Water**
We will provide the highest quality drinking water for our customers through proactive and sustainable watershed management, and the effective and reliable operations and maintenance of the water supply, treatment, and distribution system.
- **Environmental Responsibility**
We will protect the environment through the effective and reliable operation and maintenance of the wastewater collection, treatment, and recycling systems. We will manage our resources and assets in an environmentally responsible manner, maintaining or exceeding any regulatory requirements or mandates.
- **Excellence in Customer Service**
We are dedicated to excellence in serving customers in all aspects of our business services. We will be leaders in keeping our customers informed and will provide them meaningful opportunities to participate in decisions that are important to the community.
- **Employees**
We value our employees as our most important resource and we will provide them competitive compensation and benefits, and maintain a safe and rewarding work environment. We will promote diversity and equal opportunity for development and advancement for all employees.
- **Efficiency and Value**
We will perform all services in a financially sound and responsible manner with sufficient revenues to properly operate and fully maintain the water and wastewater system. As OWASA relies solely on user fees, we will continue to be guided by cost-of-service principles with regards to our rates, fees, and charges, and operate the water and sewer system at the lowest rates consistent with our obligation to provide proper and efficient services, now and in the future. We remain committed to continuous improvement in all of our services and will provide high value to our customers.
- **Sustainability**
We will proactively plan, construct, operate, maintain, and finance the water and wastewater system in a manner consistent with the principles of environmental, social and economic sustainability. We will work hard to meet the needs of our current and future customers, community, and environment without compromising the ability of future generations to meet their needs. We will strive to make the highest and best use of our local water resources and we will adopt practices which encourage conservation of water, energy, and other natural resources.
- **Local Government Compatibility**
We will manage our responsibilities in a manner consistent and compatible with the adopted growth management policies and land use plans of the Town of Carrboro, the Town of Chapel Hill, and Orange County. We will maintain open and positive communications with our local governments. We will also maintain open and positive communications with neighboring water utilities and cooperate in regional initiatives where appropriate and consistent with OWASA's commitment to its member governments.
- **Innovation and Creativity**
We will seek innovation and creativity in accomplishing our mission and enhancing our services. We will invest in ongoing research and development for new and improved ways to accomplish our mission.

Orange Water And Sewer Authority Service Area



Legend

-  Lakes and Reservoir
-  Major Roadways
-  County Lines
-  Chapel Hill Boundary
-  Carrboro Boundary
-  OWASA Service Boundary

