

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

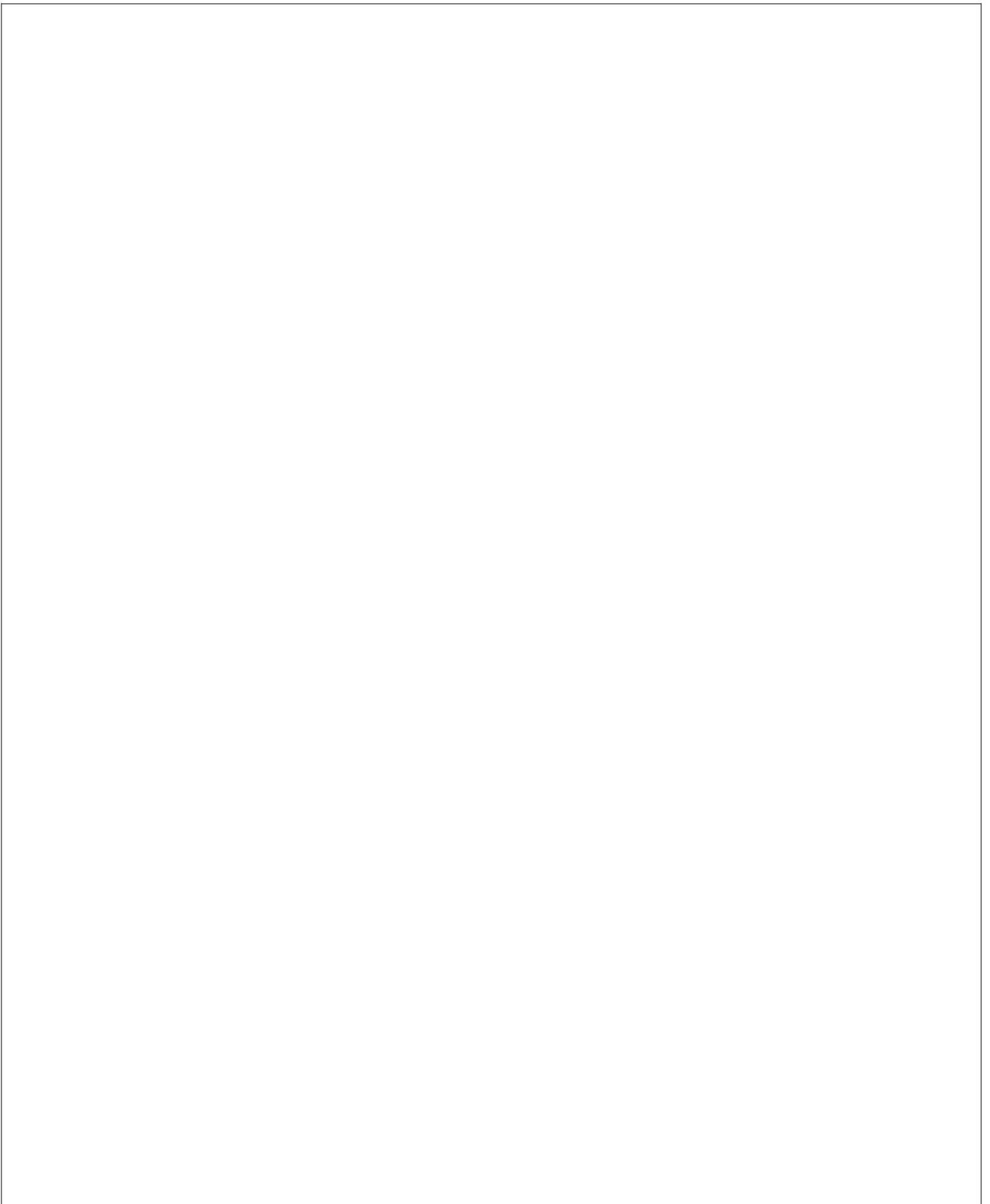
**Fiscal Year Ended June 30, 2011 and 2010**

**Orange Water and Sewer Authority**

**Carrboro - Chapel Hill , North Carolina**



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



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

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

Prepared by:

Orange Water and Sewer Authority

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**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill, North Carolina)**

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# ORANGE WATER AND SEWER AUTHORITY

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

September 22, 2011

## **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, 2010 through June 30, 2011 (FY 2011). 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 2011, OWASA served the Carrboro-Chapel Hill community in full compliance with Federal and State standards for drinking water and treated wastewater quality.

For the second consecutive year, OWASA's financial position improved even though customer water use declined for the fifth consecutive year. The 6.5 million gallons per day (MGD) of water sold in FY 2011 is about 30% less than was sold in FY 2002 despite an increase of about 13% in customer accounts over that period. However, due to cost savings in operating expenses and a rate increase effective in October 2010, OWASA ended the year with an increase in income that was well above budget. The resulting increase in financial reserves will be available for future needs including capital improvements.

Please refer to the Management's Discussion and Analysis and the audited general purpose financial statements for additional information on OWASA's financial performance during FY 2011.

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

- The Introductory Section (unaudited) contains this letter of transmittal and information about OWASA's organizational structure, principal officers, major initiatives, accomplishments, and future projects.
- The Financial Section includes the independent auditor's report; OWASA management's discussion and analysis of the year ended June 30, 2011; the general purpose financial statements; and supplementary schedules. The general purpose financial statements can be issued separately for securities offerings or other purposes.
- The Statistical Section (unaudited) presents fiscal and other data to provide a more complete understanding of OWASA, the community we serve and the local economy.

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

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

## **Background**

A special purpose local governmental entity organized under State law, OWASA is a public non-profit agency providing water, 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 Town of Carrboro, the Town of Chapel Hill and Orange County governing boards incorporated OWASA under Chapter 162A of State law. OWASA began serving the community on February 16, 1977 upon transfer of the municipal and University systems to OWASA.

## **Governance**

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

## **Water System**

Our water comes from Cane Creek Reservoir, a three billion gallon supply eight miles west of Carrboro; University Lake, a 450 million gallon reservoir on the west side of Carrboro; and the 200 million gallon Quarry Reservoir three miles west of Carrboro. 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 water system connections with the City of Durham, the Town of Hillsborough and Chatham County public drinking water systems.



Our Jones Ferry Road Water Treatment Plant (WTP) has a capacity of 20 MGD. Our drinking water storage capacity is 8 million gallons and we maintain 420 miles of raw water, finished water, and water interconnection lines.



### **Wastewater System**

We operate and maintain 336 miles of sanitary sewer and force main lines, and 21 pump stations to carry wastewater to the Mason Farm Wastewater Treatment Plant (WWTP), which has a peak treatment capacity of 14.5 MGD (daily average for a calendar month).



Highly treated wastewater is recycled to the natural environment at Morgan Creek on the southeast side of Chapel Hill or provided as reclaimed water 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. 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 for make-up water in cooling towers at chiller plants, toilet flushing and irrigation. UNC's RCW use averaged about 0.7 MGD during FY 2011 and is expected to increase slightly in FY 2012. At build-out of the system serving the main campus expected around 2028, RCW demand could reach 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 system 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.

*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 2011 the unemployment rate in Orange County was 7.1 percent compared to the US average of 9.2 percent and the North Carolina average of 9.9 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. The estimated value of permitted construction in Orange County in FY 2011 totaled \$130 million; \$36 million commercial and \$94 million residential. Taxable retail sales in Orange County in FY 2010 totaled \$946 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 2011 were below the historical growth rate, the University and UNC Hospitals continue to actively plan and develop new facilities and infrastructure.

Fiscal Year	2010	2011	% Change
Customer accounts (meters read)	20,241	20,453	1.0
Total water sales (thousands of gallons)	2,448,111	2,376,150	(2.9)
Water sales – average per day	6.7 MGD	6.5 MGD	(3.0)

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, the effectiveness of the conservation signal conveyed by our pricing structure, and UNC’s use of reclaimed water.

**Major Initiatives and Accomplishments**

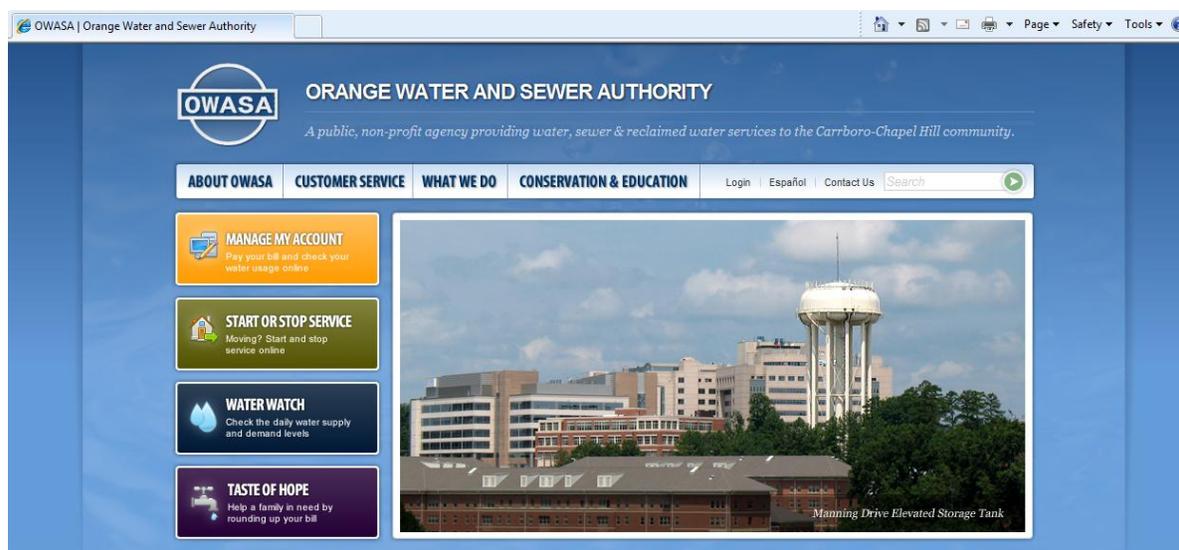
**Excellence in Water Treatment Award** – During FY 2011, OWASA became only the ninth water utility in the United States and the first in North Carolina to receive the *Excellence in Water Treatment* award



from the Partnership for Safe Water. The Partnership for Safe Water was developed by the US Environmental Protection Agency and other water organizations representing water suppliers striving to provide their communities with drinking water quality that surpasses federal standards. The *Excellence in Water Treatment* award is the highest level of performance that can be achieved in the partnership program and it signifies optimized plant performance.

**Bond refunding** – On September 30, 2010, OWASA issued its Water and Sewer System Revenue Refunding Bonds Series 2010. The \$22 million dollar issue refunded a portion of the Series 2001 and Series 2004A bonds. The refunding will save the organization approximately \$2.3 million in interest expense over the next 17 years.

**New Website and Online Customer Service Capability** – In October 2010, OWASA launched its new website. In addition to improving the appearance, functionality and content of the site, new online customer service capability was also added. Customers may now access account information online including water use and billing history, current account balance, and copies of past monthly bills. Additionally, they can pay their bills and sign-up to pay their monthly bills through automatic bank drafts.



*OWASA's Updated Website Homepage*

**Paperless Billing** – In conjunction with the launch of our new website, we also began offering customers the option of receiving their monthly bills electronically. Not only does this provide customers the convenience of conducting business online, it saves the organization the cost of printing and mailing paper bills and is more environmentally friendly. Approximately 10% of OWASA's customers have opted to receive paperless bills.

**Sale of Surplus Real Property** – In April 2011, OWASA sold 61 acres of surplus real property. The land was purchased in 2006 as part of our effort to protect the University Lake watershed. The North Carolina Clean Water Management Trust Fund provided a grant which effectively offset part of OWASA's costs. We secured a conservation easement which placed significant

development and use restrictions on the property and with the easement in place, ownership of the property became unnecessary.

**State of North Carolina Approval of OWASA's Water Shortage Response Plan** – Legislation enacted after North Carolina's drought of 2007-08 requires water suppliers to develop water shortage response plans that outline actions to be taken during drought events. The plan must include specific trigger conditions that will be used to determine different stages of mandatory water use restrictions. OWASA's plan was approved by the State in FY 2011. We retain full discretion to declare mandatory restrictions at any time before reaching the specified triggers. The plan incorporates the water conservation standards that were approved by OWASA's Board of Directors in March 2009.

**Bolin Creek Interceptor Capital Improvement Program Project** – OWASA began a \$5 million project in FY 2011 to replace over one mile of sanitary sewer pipeline along Bolin Creek just north of downtown Chapel Hill. Upon completion, the project will provide additional capacity that will eliminate current surcharging conditions and significantly reduce the potential for future wastewater overflows. The existing pipeline is documented to have structural damage that allows groundwater infiltration that increases flows to the WWTP resulting in additional, avoidable treatment expenses.

**Rate Increase** – After four consecutive years of almost double-digit water and sewer service rate increases, OWASA's Board of Directors approved a 2% increase that will go into effect on October 1, 2011. Over the last several years, we reduced our workforce and other expenses where possible. But facing declining customer water demand, OWASA raised rates to make up for the revenue shortfall that resulted from lower water sales. While water demand was down for the fifth consecutive year, it exceeded our projections for FY 2011 making it possible to keep this year's adjustment just under the rate of inflation. Our long-range planning estimates that rate increases for the next four years will be at or near the inflation rate.

**Engineering Studies of OWASA's Systems** – Three important engineering studies were completed in FY 2011: a *Wastewater Treatment Plant Hydraulic and Treatment Capacity Study*, a *Water Distribution (Hydraulic) Model Update*, and a *Wastewater Collection System Evaluation*. Overall, these studies produced positive results. They show that our infrastructure is in generally good condition and that no capacity increase is required at our water or wastewater treatment plants in the foreseeable future. The process optimization phase of the study at our WWTP identified process changes that have allowed us to save approximately \$300,000 per year through reduced chemical usage.

### **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 the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes that OWASA's internal accounting controls adequately protect assets and provide reasonable assurance of the proper recording of financial transactions.

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. 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 non-residential customers during peak demand periods. Non-residential customers pay a higher commodity rate (charge per thousand gallons) during the peak demand months of May through September, and a lower rate in the remaining months. Irrigation-only water customers pay a year-round water rate which reflects the higher system capacity necessary to serve them. When 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, 2011, 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, 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 unrestricted reserve funds:

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

To minimize risk during a water supply emergency, OWASA has established drinking water system interconnections with the City of Durham, Town of Hillsborough, and Chatham County. 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, Martin, Starnes & Associates, CPAs, P.A., was retained following an open, competitive, qualifications-based selection process. The auditor's report on the General Purpose Financial Statements is included in the Financial Section of this report.

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

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

The Certificate of Achievement is valid for a period of one year. We believe that our comprehensive annual financial report for FY 2011 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 11<sup>th</sup> Distinguished Budget Presentation Award from the GFOA for our FY 2011 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 2012 continues to meet the Distinguished Budget Presentation Program requirements and we have submitted it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgements**

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

Preparation of this report could not have been accomplished without the efficient and dedicated work of the OWASA 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, 2010

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.



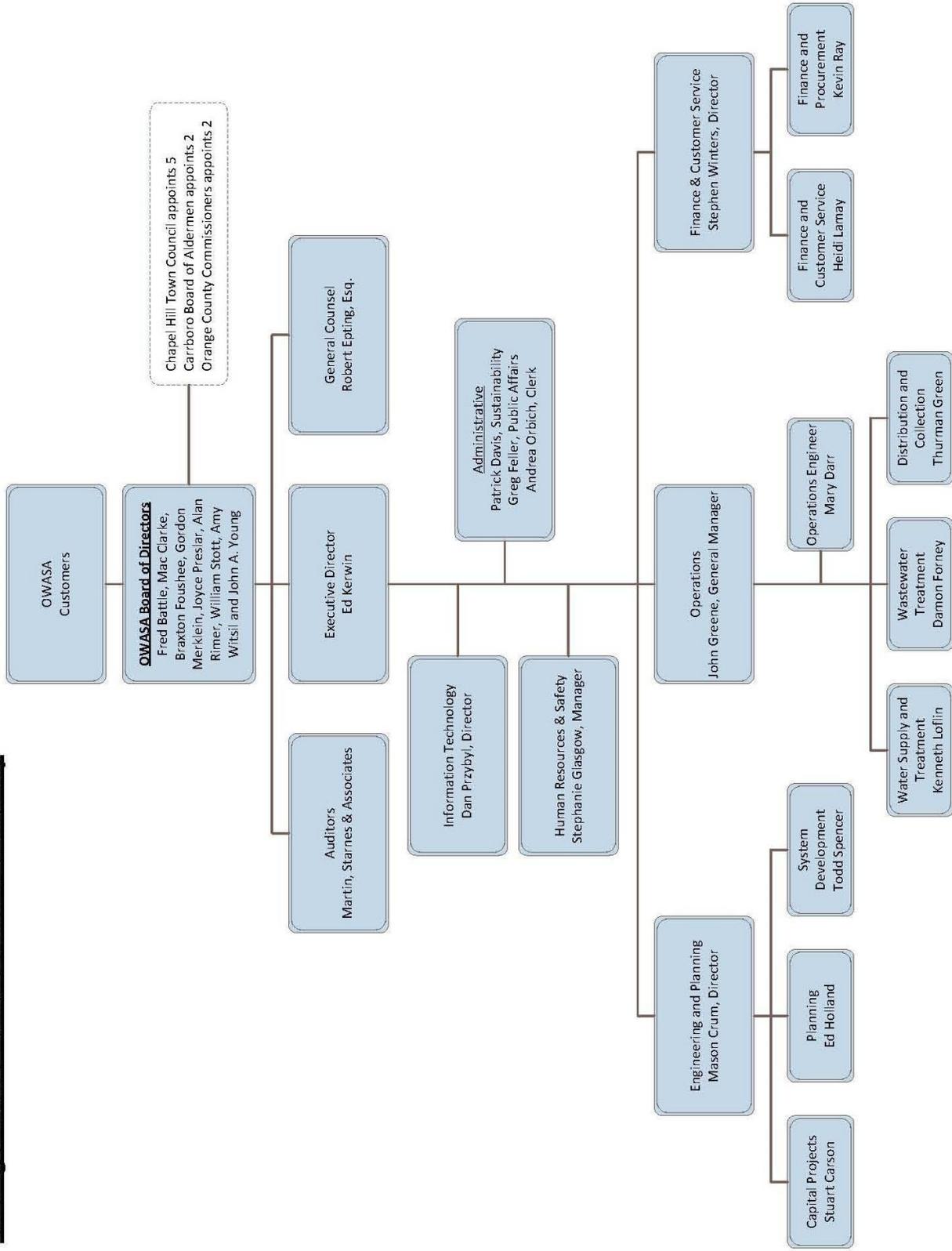
*Linda C. Sandson*

President

*Jeffrey R. Emer*

Executive Director

# Orange Water and Sewer Authority



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

**CHAIR**

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

**VICE CHAIR**

Alan Rimer, P.E.  
519 Hooper Lane  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/13

**SECRETARY**

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

**MEMBERS**

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

Michael A. (Mac) Clarke  
750 Weaver Dairy Road #1202  
Chapel Hill, NC 27514  
Appointed by Chapel Hill; Term Expires 6/30/11

Joyce C. Preslar  
9417 Bethel-Hickory Grove Church Road  
Chapel Hill, NC 27516  
Appointed by Orange County; Term Expires 6/30/11

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

John Young  
304 Simerville Road  
Chapel Hill, NC 27517  
Appointed by Chapel Hill; Term Expires 6/30/13

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

Stuart Carson, P.E., Engineering Manager (Capital Projects)

Mason Crum, P.E., Director of Engineering and Planning

Patrick K. Davis, Sustainability Manager

Greg Feller, Public Affairs Administrator

Damon Forney, Wastewater Treatment and Biosolids Recycling Manager

Stephanie Glasgow, M.E.S.H., P.H.R., Human Resources and Safety Manager

Thurman Green, Water Distribution and Wastewater Collection Systems Manager

John Greene, P.E., General Manager of Operations

Ed Holland, A.I.C.P., Planning Director

Ed Kerwin, Executive Director

Heidi Lamay, Finance and Customer Service Manager

Kenneth Loflin, Water Supply and Treatment Manager

Andrea Orbich, Clerk to the Board/Executive Assistant

Dan Przybyl, Director of Information Technology

Kevin M. Ray, Finance and Procurement Manager

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





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

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Orange Water and Sewer Authority as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Orange Water and Sewer Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Orange Water and Sewer Authority as of June 30, 2010 were audited by other auditors whose report dated September 13, 2011, expressed an unqualified opinion on those statements.

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 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Orange Water and Sewer Authority as of June 30, 2011, and the respective changes in financial position and cash flows for the year 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 13, 2011 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 audit.

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

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of the Orange Water and Sewer Authority as a whole. The introductory section, individual fund financial statements, budget and actual schedules, and statistical tables are presented for purposes of additional analysis and are not required part of the financial statements. The introductory section, individual fund financial statements, budget and actual schedules, and statistical tables are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
September 13, 2011

## 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 position and activities for the fiscal years ended June 30, 2011 and 2010. 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-x.

### FINANCIAL HIGHLIGHTS

- At June 30, 2011, OWASA's net assets totaled \$218 million, reflecting a \$7.2 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 \$6.6 million reflecting a stronger net asset balance.
- Due to significant investments in plant capacity in recent years, OWASA was able to maintain a relatively modest level of capital expenditures for FY 2011 while continuing its commitment to maintaining an adequate water and sewer infrastructure.
- Total current liabilities at the end of FY 2011 were about 15% higher than the prior year resulting primarily from an increase in trade and construction contracts payable related to a large construction project that was in process at year-end.
- Noncurrent liabilities decreased by about \$4.9 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+, and Aa1 from Moody's, remain unchanged.

### OVERVIEW OF THE FINANCIAL STATEMENTS

OWASA's primary mission is to provide water, sewer, and reclaimed water services to Chapel Hill, Carrboro, and portions of southeastern Orange County. OWASA does not provide other general purpose government services or programs. OWASA's operations, capital improvements program, and debt payments are funded almost entirely through rates, fees, and other charges for water, sewer, and reclaimed water services. 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 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 the 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 a reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States, a reconciliation of cash and cash equivalents is also presented in this statement.

The *Notes to the Financial Statements* provide additional information critical to the understanding of the basic financial statements.

## FINANCIAL ANALYSIS

<b>Orange Water and Sewer Authority</b>				
<b>Schedule of Net Assets</b>				
(\$ millions)				
	<b>Fiscal Year Ended</b>			<b>Percentage of Change (2010 to 2011)</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	
Current assets and restricted noncurrent assets	\$34.3	\$27.7	\$21.6	23.8%
Capital and other long-term assets	<u>288.2</u>	<u>290.8</u>	<u>292.1</u>	(0.9)
<b>Total assets</b>	322.5	318.5	313.7	1.3
Current liabilities	11.3	9.8	10.3	15.3
Noncurrent liabilities	<u>93.5</u>	<u>98.2</u>	<u>102.5</u>	(4.8)
<b>Total liabilities</b>	104.8	108.0	112.8	(3.0)
Net assets				
Invested in capital assets, net of related debt	191.9	188.1	184.5	2.1
Restricted	0.1	1.3	1.2	(100.0)
Unrestricted	<u>25.7</u>	<u>21.1</u>	<u>15.1</u>	15.1
<b>Total net assets</b>	<u>\$217.7</u>	<u>\$210.5</u>	<u>\$200.8</u>	3.4

OWASA's assets exceeded liabilities by \$218 million at June 30, 2011, compared to \$211 million and \$201 million at June 30, 2010 and 2009, 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 has been 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 2009 through 2011. 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, 2011, these other unrestricted resources totaled \$25.7 million and may be used for any lawful purpose.

OWASA's overall financial position strengthened between fiscal years ended June 30, 2009 and 2011 as net assets increased by \$17 million. Total assets increased during the same period by \$8.8 million reflecting cash financing of infrastructure.

Analysis of total liabilities further demonstrates the benefit of cash financing and debt reduction. Noncurrent liabilities decreased by approximately 9% or \$9 million during the same period reflecting principal payments on long-term debt.

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

**Orange Water and Sewer Authority**  
**Revenues, Expenses and Change in Net Assets**  
(\$ Millions)

	<b><u>Fiscal Year Ended</u></b>			<b><u>Percentage of Change (2010 to 2011)</u></b>
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	
Operating revenues	\$36.0	\$33.6	\$29.5	7.1%
Operating expenses	<u>27.9</u>	<u>26.5</u>	<u>27.0</u>	5.3
<b>Operating income</b>	8.1	7.1	2.5	14.1
Nonoperating revenues (expenses)	<u>(2.1)</u>	<u>(1.4)</u>	<u>(0.8)</u>	(50.0)
<b>Income before contributions</b>	6.0	5.7	1.7	5.3
Capital contributions	<u>1.2</u>	<u>4.0</u>	<u>14.5</u>	(70.7)
<b>Increase in net assets</b>	7.2	9.7	16.2	(25.5)
Net assets, July 1	<u>210.5</u>	<u>200.8</u>	<u>184.6</u>	4.9
Net assets, June 30	<u>217.7</u>	<u>210.5</u>	<u>200.8</u>	3.4

The above condensed three-year comparison of Revenues, Expenses, and Change in Net Assets, combined with the following discussion provides additional insight regarding changes in 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 improvements program, and debt service are funded almost entirely from fees charged

to customers for water, sewer, and reclaimed water services, and other related services. As 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, although based on measured water consumption, incorporates the assumption that not all water consumed is returned to the sewer system. Sewer billings for residential customers are capped at 15,000 gallons per month. All rates, fees and charges are calculated under a cost-of-service rate-making methodology.

Continuing a trend that began in 2002, potable water sales volume declined about 3% from FY 2010 to FY 2011 but was about 6% greater than expectations. The decline in potable 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, and the expanded use of the reclaimed water system that serves the University. However, the application of a combined rate increase in water and sewer charges of approximately 9.25% resulted in a \$2.4 increase over the prior year in operating revenues. Operating revenues for FY 2011 totaled \$36 million.

- **Operating Expenses:** Operating expenses were \$27.9 million or about 5.3% more than FY 2010 and 3.3% greater than FY 2009. The increases reflect reinstatement of maintenance programs that had been deferred in prior years. However, OWASA's flexibility in operational activity and budget execution enabled its managers to save over 4%, or \$800,000 of their FY 2011 operating appropriation. Operating expenses includes a \$9.3 million charge for depreciation and a \$751,000 charge for post-employment benefits. OWASA's ability to meet operating expenses and adequately cover debt service remained positive.
- **Non-Operating Revenues (Expenses):** Non-operating revenues are comprised primarily of customer (service availability) fees, interest earnings, and gains (or losses) from the sale of surplus property. Customer fees, 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. Non-operating expenditures are made up primarily of interest expense on debt and amortization of bond expenses.

Customer fees of \$1.7 million represented a 21% increase over FY 2010 and a 32% decline from FY 2009. Although fund balance improved significantly during the year, interest earnings remained low in FY 2011. Interest rates averaged less than 0.5% and investments remained in safe, liquid and secured deposits.

OWASA paid interest on nearly \$5.0 million less in outstanding debt compared to 2010 and combined with very low rates on the variable rate bonds, interest expense declined by about 4% or \$100,000.

Non-operating Revenues (Expenses) also includes a loss on the sale of surplus real property of approximately \$1.3. OWASA purchased land in its University Lake watershed in 2006 for about \$2.4 million. Working with the North Carolina Clean Water Management Trust Fund, which provided a grant of approximately \$1.2 million, OWASA secured a conservation easement which placed significant development and use restrictions on the property. Attachment of the conservation easement effected OWASA's watershed protection goals and rendered fee simple ownership of the property unnecessary.

- **Capital Contributions:** Total capital contributions totaled \$1.2 for the year, a decrease of 71% from FY 2010, and were comprised of reimbursements for construction of developer dedicated facilities.

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

### Capital Assets

OWASA annually expands or places into service new and renewed capital assets. Capital assets net of depreciation decreased by \$2.6 million in FY 2011. However, this net decrease consisted of additions totaling \$8.7 million and a reduction due to deprecation of \$9.3 million. Land holdings decreased by approximately \$2 million as a result of the sale of surplus property mentioned above. The property was divided into two parcels which were sold separately: one closing in FY 2011 and one in FY 2012. The asset additions included the rehabilitation or replacement of various water and sewer mains and improvements to the Jones Ferry Road Water Treatment Plant and the Mason Farm Wastewater Treatment Plant.

The 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 Page 23 for additional information on capital assets.

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

	<u>Fiscal Year Ended</u>			<b>Percentage of Change (2010 to 2011)</b>
	<u>2011</u>	<u>2010</u>	<u>2009</u>	
Land	\$18.0	\$20.0	\$20.0	(10.0%)
Construction in progress	11.2	14.0	23.2	(20.0)
Water treatment and distribution	102.7	104.0	98.5	(1.3)
Sewer collection and treatment	139.2	134.2	130.3	3.7
Fixtures and equipment	<u>16.2</u>	<u>17.7</u>	<u>19.1</u>	(8.5)
Total	<u>\$287.3</u>	<u>\$289.9</u>	<u>\$291.1</u>	(0.9)

## **Debt Administration**

OWASA policy dictates that at least 30% of capital projects be funded with cash from operations. At June 30, 2011, 2010, and 2009, OWASA's outstanding debt totaled \$94.6 million, \$101.8 million, and \$106.7 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of water and sewer system revenue and refunding bonds issued in 2001, 2003, 2004, 2005, 2006, and 2010. At year-end, OWASA owed an accrued debt service liability of approximately \$7.2 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2011.

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

Please refer to Page 28 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 23% 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 by 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. 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 2011, 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**  
**(A Component Unit of the Town of Chapel Hill)**

**STATEMENTS OF NET ASSETS**  
**PROPRIETARY FUND**  
**JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 21,244,477	\$ 13,851,271
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately \$115,325 for 2011 and 2010)	3,993,810	4,306,096
Other	520,899	364,681
Inventory, materials, and supplies	954,979	780,716
Prepaid expenses	326,987	16,669
Restricted cash and cash equivalents:		
Cash and cash equivalents, trustee	<u>7,162,678</u>	<u>7,111,172</u>
Total current assets	<u>34,203,830</u>	<u>26,430,605</u>
Non-current assets:		
Restricted cash and cash equivalents	<u>98,616</u>	<u>1,252,498</u>
Capital assets:		
Non-depreciable	29,185,609	33,963,724
Depreciable	<u>258,108,900</u>	<u>255,970,716</u>
Total capital assets, net of accumulated depreciation	<u>287,294,509</u>	<u>289,934,440</u>
Unamortized bond expenses, net of accumulated amortization of \$480,450 for 2011 and \$401,601 for 2010	<u>881,971</u>	<u>856,882</u>
Total non-current assets, net	<u>288,275,096</u>	<u>292,043,820</u>
Total assets	<u>322,478,926</u>	<u>318,474,425</u>

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

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**STATEMENTS OF NET ASSETS**  
**PROPRIETARY FUND**  
**JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Liabilities:</b>		
Current liabilities:		
Payable form current assets:		
Trade and construction contracts payable	2,284,208	849,983
Customer deposits and advances	1,184,473	1,223,614
Accrued expenses	224,814	191,200
Payable from restricted cash and cash equivalents:		
Accrued interest	1,708,160	1,879,564
Current portion of compensated absences	335,000	305,000
Current maturities of bonds payable	5,561,532	5,231,725
Current maturity of capital lease	20,662	17,898
Total current liabilities	<u>11,318,849</u>	<u>9,698,984</u>
Non-current liabilities:		
Bonds payable	90,942,373	96,543,942
Compensated absences	111,832	102,380
Capital lease	13,497	34,159
OPEB liability	2,372,000	1,621,497
Total non-current liabilities	<u>93,439,702</u>	<u>98,301,978</u>
Total liabilities	<u>104,758,551</u>	<u>108,000,962</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	190,756,445	188,106,716
Restricted for capital reserve	98,616	1,252,498
Restricted for debt service	-	1,116
Unrestricted	26,865,314	21,113,133
Total net assets	<u>\$ 217,720,375</u>	<u>\$ 210,473,463</u>

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

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
Water	\$ 18,104,721	\$ 16,943,596
Sewer	15,962,181	14,848,339
Service initiation fees	147,015	148,750
Reclaimed water	429,429	361,913
Other	<u>1,360,484</u>	<u>1,256,174</u>
Total operating revenues	<u>36,003,830</u>	<u>33,558,772</u>
<b>Operating Expenses:</b>		
Water supply and treatment	4,075,074	2,619,340
Water distribution	2,507,512	2,218,544
Sewer treatment	4,768,788	3,088,738
Sewer collections	1,313,106	1,129,237
General and administrative	5,172,326	4,260,847
Customer relations	-	540,582
Maintenance	-	2,059,026
Laboratory	-	733,127
Depreciation and amortization	9,310,159	9,053,691
Other post-employment benefits	<u>750,503</u>	<u>883,497</u>
Total operating expenses	<u>27,897,468</u>	<u>26,586,629</u>
Operating income (loss)	<u>8,106,362</u>	<u>6,972,143</u>
<b>Non-Operating Revenues (Expenses):</b>		
Customer fees	1,713,417	1,436,564
Investment income, net of fair value of investments adjustment	29,261	29,169
Interest expense	(2,623,208)	(2,702,687)
Amortization of bond and lease expense	71,676	(73,283)
Loss on disposal of capital assets	<u>(1,320,156)</u>	<u>(92,613)</u>
Total non-operating revenues (expenses)	<u>(2,129,010)</u>	<u>(1,402,850)</u>

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

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Income (loss) before capital contributions	<u>5,977,352</u>	<u>5,569,293</u>
<b>Capital Contributions:</b>		
Capital grants and contributions	14,354	101,451
Contributions in aid of construction	<u>1,255,206</u>	<u>3,962,984</u>
Total capital contributions	<u>1,269,560</u>	<u>4,064,435</u>
Change in net assets	7,246,912	9,633,728
<b>Net Assets:</b>		
Beginning of year - July 1	<u>210,473,463</u>	<u>200,839,735</u>
End of year - June 30	<u>\$ 217,720,375</u>	<u>\$ 210,473,463</u>

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

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**STATEMENTS OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 34,799,414	\$ 30,897,827
Payments to suppliers	(7,265,623)	(8,066,921)
Payments to employees	(9,587,925)	(7,150,983)
Other receipts	1,321,343	1,351,019
Net cash provided (used) by operating activities	<u>19,267,209</u>	<u>17,030,942</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(7,431,677)	(3,972,602)
Proceeds from sale of property, plant, and equipment	696,500	2,405
Principal paid on bond maturities and other long-term debt	(5,247,898)	(4,850,464)
Interest paid on bond maturities and other long-term debt	(2,796,923)	(2,793,404)
Customer fees received	1,760,004	1,354,837
Capital grants and contributions	14,354	101,451
Net cash provided (used) by capital and related financing activities	<u>(13,005,640)</u>	<u>(10,157,777)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest and dividends on investments	<u>29,261</u>	<u>29,169</u>
Net increase (decrease) in cash and cash equivalents	6,290,830	6,902,334
<b>Cash and Cash Equivalents:</b>		
Beginning of year - July 1	<u>22,214,941</u>	<u>15,312,607</u>
End of year - June 30	<u>\$ 28,505,771</u>	<u>\$ 22,214,941</u>

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

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**STATEMENTS OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ 8,106,362	\$ 6,972,143
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	9,310,159	9,053,691
(Gain) loss on sale of property, plant, and equipment	-	94,845
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	312,286	(1,404,771)
(Increase) decrease in other receivables	(156,218)	2,202,240
(Increase) decrease in inventory	(174,263)	15,203
(Increase) decrease in prepaid expenses	(310,318)	464
Increase (decrease) in trade and construction contracts payable	1,434,225	(720,533)
Increase (decrease) in customer deposits	(39,141)	-
Increase (decrease) accrued expenses	33,614	(65,837)
Increase (decrease) in other post-employment benefits	<u>750,503</u>	<u>883,497</u>
Net cash provided (used) by operating activities	<u>\$ 19,267,209</u>	<u>\$ 17,030,942</u>
<b>Non-Cash Capital and Related Financing Activities:</b>		
Property, plant, and equipment contributed by private developers	1,255,206	3,962,984
Refunding bonds issued	21,645,000	-
Bond refunding premium	3,798,355	-
Payment to bondholders-retired debt	<u>(22,925,000)</u>	<u>-</u>
Total non-cash capital and related financing activities	<u>\$ 3,773,561</u>	<u>\$ 3,962,984</u>

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

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**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill, North Carolina)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**1. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill, North Carolina)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Enterprise Fund**

The Enterprise Fund is used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Authority operates as a singular enterprise fund.

The Enterprise Fund is considered a major fund for the year ended June 30, 2011.

**C. Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the Authority are maintained during the year using the modified accrual basis of accounting.

*Proprietary Fund Financial Statements.* The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As permitted by generally accepted accounting principals, the Authority has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

**D. Budgetary Data**

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

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In March of each year, the Authority requests information from its departments to project the amount of appropriations for each department so that a budget may be prepared. The Board of Directors approves the budget in early June after public hearings are held.

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

**E. Assets, Liabilities, and Fund Equity**

**Deposits and Investments**

All deposits of the Authority are made in board-designated official depositories and are secured as required by G.S. 159-31.

The Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as money market accounts and certificates of deposits.

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC-registered mutual fund.

The Authority's investments with a maturity of more than one year at acquisition and 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.

**Cash and Cash Equivalents**

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

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**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. Customer deposits held by the Authority before any services were supplied are restricted to the service for which the deposits were collected.

**Receivables**

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

**Allowance for Doubtful Accounts**

The Authority historically experiences uncollectible accounts, and accounts receivable is shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The allowance was \$115,325 at June 30, 2011 and 2010.

**Inventory, Materials, and Supplies**

Materials and supplies are valued at average cost and are held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

**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.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

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

**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, 2011 and 2010, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$446,832 and 405,070, respectively.

**Long-Term Debt**

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

**Net Assets**

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

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

*Restricted Net Assets for Capital Reserve* – represents a portion of net assets that are restricted for future maintenance and capital.

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

**F. Operating Revenues and Expenses**

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

**G. Accounting Estimates**

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

**2. Detail Notes On All Funds**

**A. Assets**

**Deposits**

All of the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by their agents in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does

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not confirm this information with the Authority, or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority, under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce Standards for minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Authority’s deposits had a carrying amount of \$21,324,700 and a bank balance of \$21,891,284. Of the bank balance, \$343,810 was covered by federal depository insurance and \$21,547,474 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, 2011.

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.

**Cash Equivalents**

At June 30, 2011 and 2010, the Authority’s cash equivalents balances at fair value were as follows:

	<b>2011</b>	<b>2010</b>
The North Carolina Capital Management Trust, a mutual fund	<u>\$ 7,179,896</u>	<u>\$ 7,121,025</u>

*Interest Rate Risk.* The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The NCCMT had a weighted-average maturity of 36 days or less as of June 30, 2011 and 2010.

*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, 2011 and 2010.

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**Receivables**

Receivables at the government-wide level at June 30, 2011, were as follows:

Utility accounts receivable	\$ 3,993,810
Other receivable	<u>520,899</u>
Total receivables, net	<u>\$ 4,514,709</u>

**Capital Assets**

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

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Non-Depreciable Assets:</b>					
Land	\$ 19,996,428	\$ -	\$ (1,998,542)	\$ -	\$ 17,997,886
Construction in progress	<u>13,967,296</u>	<u>7,245,337</u>	<u>(11,060)</u>	<u>(10,013,850)</u>	<u>11,187,723</u>
Total non-depreciable assets	<u>33,963,724</u>	<u>7,245,337</u>	<u>(2,009,602)</u>	<u>-</u>	<u>29,185,609</u>
<b>Depreciable Assets:</b>					
Water treatment and distribution	144,039,239	662,653	-	1,320,478	146,022,370
Sewer collection and treatment	172,585,876	708,085	-	8,352,204	181,646,165
Fixtures and equipment	<u>40,399,665</u>	<u>70,808</u>	<u>(42,521)</u>	<u>341,168</u>	<u>40,769,120</u>
Total depreciable assets	<u>357,024,780</u>	<u>1,441,546</u>	<u>(42,521)</u>	<u>10,013,850</u>	<u>368,437,655</u>
<b>Less Accumulated Depreciation:</b>					
Water treatment and distribution	40,012,326	3,318,957	-	-	43,331,283
Sewer collection and treatment	38,385,790	4,092,122	-	-	42,477,912
Fixtures and equipment	<u>22,655,948</u>	<u>1,899,080</u>	<u>(35,468)</u>	<u>-</u>	<u>24,519,560</u>
Total accumulated depreciation	<u>101,054,064</u>	<u>\$ 9,310,159</u>	<u>\$ (35,468)</u>	<u>\$ -</u>	<u>110,328,755</u>
Total depreciable assets	<u>255,970,716</u>				<u>258,108,900</u>
Capital assets, net	<u>\$ 289,934,440</u>				<u>\$ 287,294,509</u>

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	<u>Balance</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Non-Depreciable Assets:</b>					
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 non-depreciable assets	<u>43,153,781</u>	<u>3,307,069</u>	<u>-</u>	<u>-</u>	<u>33,963,724</u>
<b>Depreciable Assets:</b>					
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 depreciable assets	<u>340,384,369</u>	<u>4,628,565</u>	<u>(485,280)</u>	<u>12,497,126</u>	<u>357,024,780</u>
<b>Less Accumulated Depreciation:</b>					
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 depreciable assets	<u>247,996,014</u>				<u>255,970,716</u>
Capital assets, net	<u>\$ 291,149,795</u>				<u>\$ 289,934,440</u>

**Invested in Capital Assets, Net of Debt**

The total invested in capital assets, net of related debt at June 30, 2011, is composed of the following elements:

	<u>2011</u>	<u>2010</u>
Capital assets	\$ 287,294,509	\$ 289,934,440
Total debt, gross	<u>96,538,064</u>	<u>101,827,724</u>
Invested in capital assets, net of related debt	<u>\$ 190,756,445</u>	<u>\$ 188,106,716</u>

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**Long-Term Debt**

Long-term debt as of June 30, 2011 and 2010 consists of the following:

	<b>2011</b>	<b>2010</b>
<b>Revenue Bonds:</b>		
Revenue bonds payable, Series 2010 Revenue Serial Bonds, in the amount of \$21,645,000, issued September 30, 2010, with coupon rates of 3.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$1,574,122 at June 30, 2011	\$ 23,219,122	\$ -
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 \$519,854 at June 30, 2011; 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	21,074,854	21,700,421
Revenue and revenue refunding bonds payable, Series 2005, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized premium and deferred refunding loss net of unamortized premium and deferred refunding loss of \$154,792 at June 30, 2011	17,740,208	18,503,009
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 \$123,145 at June 30, 2011; revenue bonds payable, Series 2004B Revenue Bonds, in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (0.37% at June 30, 2010), final maturity July 1, 2029	25,383,145	37,343,350

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	<b>2011</b>	<b>2010</b>
Revenue and revenue refunding bonds payable, Series 2003, issued April 9, 2003, with coupon rates of 2.5% to 5.0%, final maturity July 2016, net of unamortized premium and deferred at June 30, 2011	5,543,786	6,386,543
Revenue and revenue refunding bonds payable, Series 2001, issued September 13, 2001, with coupon rates of 3.5% to 5.0%, final maturity July 2026, net of unamortized premium and deferred refunding of \$7,788 at June 30, 2011	3,542,790	17,842,344
	<b>\$ 96,503,905</b>	<b>\$ 101,775,667</b>

Obligations under capital lease are as follows:

	<b>2011</b>	<b>2010</b>
Capitalized equipment lease obligation due in annual installments of \$24,264, which includes interest at 14.45% through February 1, 2013	\$ 34,159	\$ 52,057
Less: current maturities	20,662	17,898
Long-term portion	\$ 13,497	\$ 34,159

Bond payable maturities are as follows:

<b>Year Ending</b>	<b>Amortization of Premiums and Deferred Refunding</b>			
<b>June 30</b>	<b>Maturities</b>	<b>Losses</b>	<b>Total</b>	<b>Interest</b>
2012	\$ 5,450,000	\$ 111,532	\$ 5,561,532	\$ 4,245,382
2013	5,400,000	111,532	5,511,532	3,975,944
2014	5,170,000	107,638	5,277,638	3,765,375
2015	5,030,000	66,589	5,096,589	3,555,325
2016	5,255,000	66,589	5,321,589	3,333,875
2017-2021	24,965,000	611,361	25,576,361	12,976,732
2022-2026	23,640,000	597,308	24,237,308	7,723,976
2027-2031	18,295,000	127,833	18,422,833	2,476,994
2032	1,490,000	8,523	1,498,523	74,500
Total	\$ 94,695,000	\$ 1,808,905	\$ 96,503,905	\$ 42,128,103

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Capital lease maturities are as follows:

<b>Year Ending June 30</b>	<b>Maturities</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 20,662	\$ 3,602	\$ 24,264
2013	13,497	658	14,155
Total	<u>\$ 34,159</u>	<u>\$ 4,260</u>	<u>\$ 38,419</u>

**Advance Refunding**

On November 30, 2010, the Authority issued \$21,465,000 of advance revenue refunding bonds which were placed in an irrevocable trust for the purpose of general resources for all future debt service payments of \$22,925,000 of Series 2001 and Series 2004A Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price was lower than the net carrying amount of the old debt by \$1,280,000. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$2,345,800 and resulted in an economic gain of \$1,908,502.

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.

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, 2011 was \$335,000.

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Long-term liability activity for the years ended June 30, 2011 and 2010 is as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
<b>Bonds Payable:</b>					
Revenue bonds	\$ 101,205,000	\$ 21,645,000	\$ 28,155,000	\$ 94,695,000	\$ 5,450,000
Less deferred amounts:					
For issuance premiums	2,037,336	3,798,355	793,681	5,042,010	440,550
For issuance discounts and deferred refunding	(1,466,669)	(2,141,383)	374,947	(3,233,105)	(329,018)
Capital lease	52,057	-	17,898	34,159	20,662
Compensated absences	405,070	54,262	12,500	446,832	335,000
OPEB	<u>1,621,497</u>	<u>1,126,000</u>	<u>375,497</u>	<u>2,372,000</u>	<u>-</u>
Total	<u>\$ 103,854,291</u>	<u>\$ 24,482,234</u>	<u>\$ 29,729,523</u>	<u>\$ 99,356,896</u>	<u>\$ 5,917,194</u>

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
<b>Bonds Payable:</b>					
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
Compensated absences	405,070	-	-	405,070	-
OPEB	<u>738,000</u>	<u>944,000</u>	<u>(60,503)</u>	<u>1,621,497</u>	<u>-</u>
Total	<u>\$ 107,826,823</u>	<u>\$ 944,000</u>	<u>\$ 4,795,526</u>	<u>\$ 103,854,291</u>	<u>\$ 5,249,623</u>

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$96,503,905 in revenue bonds issued in 2001, 2003, 2004, 2005, 2006, and 2010. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Principal and interest on the bonds are payable through 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 in the years ended June 30, 2011 and 2010 were \$8,938,297 and 8,623,770, respectively.

The Authority is in compliance with the covenants to rates, fees, rentals, and charges in the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2001, 2003, 2004, 2005, 2006, and 2010. The Bond Order requires the debt service coverage ratio to be no less than 120% of the debt service requirements for parity indebtedness.

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The debt service coverage ratio calculation for the year ended June 30, 2011, is as follows:

Operating revenues	\$ 37,746,508
Operating expenses*	<u>17,836,398</u>
Income available for debt service	<u>19,910,110</u>
Debt service, principal and interest paid (Revenue bond only)	\$ 8,938,298
Debt service coverage ratio for parity debt	2.23

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

At June 30, 2011, the Authority was in compliance with the bond covenants described above.

**4. 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 6.88% 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, 2011, 2010, and 2009 were \$440,320, \$329,383, and \$333,736 respectively. The contributions made by the Authority equaled the required contributions for each year.

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**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, 2010, the plan membership consisted of:

<b>Members:</b>	
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, 2011 and 2010, respectively.

The current annual required contribution (ARC) rate is 16% of annual covered payroll. For the current year, the Authority contributed \$375,497 or 5.4% of annual covered payroll. The Authority obtains healthcare coverage through private insurers. The Authority's required contributions, under an Authority resolution represented 0.3% of covered payroll. There were no contributions made by employees, except for dependent coverage in the amount of \$108,723. The Authority's obligation to contribute to the Plan is established and may be amended by the Board of Directors.

*Basis of Accounting.* Post-employment expenses are made from the 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.

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**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:

	<b>2011</b>	<b>2010</b>
Employer annual required contribution	\$ 1,124,000	\$ 944,000
Interest paid on OPEB obligation	68,000	-
Adjustment to annual required contribution	(66,000)	-
Annual OPEB cost	1,126,000	944,000
Employer contributions made for current fiscal year	375,497	60,503
Increase in net OPEB obligation	750,503	883,497
Net OPEB obligation:		
Beginning of year - July 1	1,621,497	738,000
End of year - June 30	\$ 2,372,000	\$ 1,621,497

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

<b>Year Ended June 30</b>	<b>Annual Plan Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net OPEB Obligation End of Year</b>
2010	\$ 944,000	6.41%	\$ 1,621,497
2011	1,126,000	33.34%	2,372,000

*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, 2011 and 2010, 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

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

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

In the 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. The actuarial value of assets, if any, was determined using techniques that spread the efforts of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on a pay-as-you-go basis. The remaining amortization period at July 1, 2009 was 30 years.

**6. 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 \$4,427,295 at June 30, 2011.

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**7. Net Assets**

At June 30, 2011 and 2010, the Board of Directors had approved the use of the unrestricted net assets for the following purposes:

	<u>2011</u>	<u>2010</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>
Total	<u>\$ 21,231,630</u>	<u>\$ 15,140,975</u>

**8. Summary Disclosure of Significant Contingencies**

**Federal and State-Assisted Programs**

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

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**OTHER POST-EMPLOYMENT BENEFITS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Schedule of Funding Progress**

<b>Actual Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b)-(a))/(c)</b>
7/1/2011	\$ -	\$ 9,918,000	\$ 9,918,000	0.00%	\$ 6,375,000	155.60%
7/1/2009	-	12,597,000	12,597,000	0.00%	5,924,000	212.60%

**Schedule of Employer Contributions**

<b>Year Ended</b>	<b>Annual Required Contribution (ARC)</b>	<b>Percentage of ARC Contributed</b>
6/30/2009	\$ 889,000	17.00%
6/30/2010	944,000	6.00%
6/30/2011	1,124,000	17.00%

**Notes to the Required Schedules:**

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

Valuation date	7/1/2009	
Actuarial cost method	Entry age normal	
Amortization method	Level percent of pay open	
Remaining amortization period	30 years	
Asset valuation method	Market value	
Actuarial assumptions:		
Investment rate of return *	4.50%	* Includes inflation at 2.5%
Medical cost trend rate	9.00-5.00%	
Year of Ultimate trend rate	2016	

**ORANGE WATER AND SEWER AUTHORITY**  
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**ENTERPRISE FUND - WATER**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Water	\$ 16,915,376	\$ 18,104,721	\$ 1,189,345
Sewer	15,842,236	15,962,181	119,945
Reclaimed water	365,697	429,429	63,732
Service initiation fees	143,183	147,015	3,832
Other	<u>1,142,961</u>	<u>1,360,484</u>	<u>217,523</u>
Total operating revenues	<u>34,409,453</u>	<u>36,003,830</u>	<u>1,594,377</u>
Non-operating revenues:			
Interest income	45,294	29,261	(16,033)
Customer fees	723,179	1,713,417	990,238
Grants and contributions	<u>-</u>	<u>14,354</u>	<u>14,354</u>
Total non-operating revenues	<u>768,473</u>	<u>1,757,032</u>	<u>988,559</u>
Total revenues	<u>35,177,926</u>	<u>37,760,862</u>	<u>2,582,936</u>
<b>Expenditures:</b>			
Water supply and treatment:			
Salaries and wages	1,197,574	1,235,436	(37,862)
Fringe benefits	507,557	494,643	12,914
Chemicals	-	826,467	(826,467)
Materials and supplies	978,615	115,960	862,655
Utilities	441,594	398,203	43,391
Maintenance	893,373	832,522	60,851
Professional services	165,734	49,545	116,189
Insurance	-	96,733	(96,733)
Communication	5,300	3,092	2,208
Education and development	19,710	12,606	7,104
Miscellaneous	<u>15,701</u>	<u>9,867</u>	<u>5,834</u>
Total water supply and treatment	<u>4,225,158</u>	<u>4,075,074</u>	<u>150,084</u>

**ORANGE WATER AND SEWER AUTHORITY**  
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**ENTERPRISE FUND - WATER**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
Water distribution:			
Salaries and wages	1,187,467	1,156,837	30,630
Fringe benefits	597,011	532,919	64,092
Materials and supplies	66,250	87,805	(21,555)
Utilities	221,400	170,557	50,843
Maintenance	554,820	658,038	(103,218)
Professional services	9,998	-	9,998
Insurance	-	10,844	(10,844)
Communication	500	1,630	(1,130)
Printing and reproduction	1,300	445	855
Education and development	10,600	10,206	394
Miscellaneous	3,400	3,725	(325)
Total water distribution	<u>2,652,746</u>	<u>2,633,006</u>	<u>19,740</u>
Construction credits	<u>(144,270)</u>	<u>(125,494)</u>	<u>(18,776)</u>
Wastewater treatment:			
Salaries and wages	1,183,639	1,216,866	(33,227)
Fringe benefits	502,694	487,486	15,208
Chemicals	-	757,919	(757,919)
Materials and supplies	1,201,095	211,963	989,132
Utilities	1,028,213	978,454	49,759
Maintenance	839,499	930,301	(90,802)
Professional services	154,468	23,068	131,400
Insurance	-	117,787	(117,787)
Communication	6,840	7,663	(823)
Education and development	18,125	12,950	5,175
Miscellaneous	28,062	24,331	3,731
Total sewer treatment	<u>4,962,635</u>	<u>4,768,788</u>	<u>193,847</u>
Sewer collections:			
Salaries and wages	474,099	484,396	(10,297)
Fringe benefits	201,420	238,792	(37,372)
Chemicals	-	236,275	(236,275)
Materials and supplies	285,500	40,863	244,637
Utilities	134,310	119,243	15,067
Maintenance	191,000	182,850	8,150
Professional services	11,196	-	11,196

**ORANGE WATER AND SEWER AUTHORITY**  
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**ENTERPRISE FUND - WATER**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Insurance	-	9,232	(9,232)
Communication	1,000	511	489
Printing and distribution	500	121	379
Education and development	10,750	8,951	1,799
Miscellaneous	3,660	991	2,669
Total sewer collections	<u>1,313,435</u>	<u>1,322,225</u>	<u>(8,790)</u>
Construction credits	<u>-</u>	<u>(9,119)</u>	<u>9,119</u>
General and administrative:			
Salaries and wages	2,887,856	2,708,347	179,509
Fringe benefits	1,131,255	1,065,817	65,438
Materials and supplies	60,081	56,693	3,388
Utilities	191,200	158,750	32,450
Maintenance	224,190	233,221	(9,031)
Professional services	807,983	747,552	60,431
Insurance	-	40,475	(40,475)
Communication	160,150	112,428	47,722
Printing and reproduction	8,825	4,158	4,667
Education and development	56,250	57,710	(1,460)
Miscellaneous	133,992	83,906	50,086
Total general and administrative	<u>5,661,782</u>	<u>5,269,057</u>	<u>392,725</u>
Construction credits	<u>(116,852)</u>	<u>(97,139)</u>	<u>(19,713)</u>
<b>Debt Service:</b>			
Principal		5,247,898	(5,247,898)
Interest		3,690,399	(3,690,399)
Total debt service	<u>9,680,213</u>	<u>8,938,297</u>	<u>741,916</u>
Capital outlay	<u>9,853,900</u>	<u>6,578,060</u>	<u>3,275,840</u>
Total expenditures	<u>38,088,747</u>	<u>33,352,755</u>	<u>4,735,992</u>
Revenues over (under) expenditures	<u>(2,910,821)</u>	<u>4,408,107</u>	<u>7,318,928</u>

**Other Financing Sources (Uses):**

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**ENTERPRISE FUND - WATER**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Refunding bonds issued	-	21,645,000	(21,645,000)
Bond refunding premium	-	3,798,355	(3,798,355)
Payment to bondholders-retired debt	-	(22,925,000)	22,925,000
Appropriated fund balance	<u>2,910,821</u>	-	<u>2,910,821</u>
Total other financing sources (uses)	<u>2,910,821</u>	<u>2,518,355</u>	<u>392,466</u>
Net change in fund balance	<u>\$ -</u>	<u>6,926,462</u>	<u>\$ 6,926,462</u>

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

Principal payments debt	5,247,898
Refunding bonds issued	(21,645,000)
Bond refunding premium	(3,798,355)
Payment to bondholders - retired debt	22,925,000
Capital interest	871,456
Change in interest accrual for bonded debt	171,404
Depreciation and amortization	(9,310,159)
Change in compensated absences	41,762
Other post-employment benefits	(750,503)
Amortization of bond expense and patent	71,676
Capital outlay	6,560,221
Loss on disposal of capital asset	(1,320,156)
Capital contributions	<u>1,255,206</u>
Net income-accrual basis	<u>\$ 7,246,912</u>

**ORANGE WATER AND SEWER AUTHORITY**  
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**SCHEDULE OF REVENUE AND EXPENDITURES -**  
**PROJECT FUNDS**  
**FROM INCEPTION THROUGH JUNE 30, 2011**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2011</u>	<u>Unexpended Balance as of June 30, 2011</u>
<b>Raw Water Supply Sources:</b>			
<b>Revenues:</b>			
General Fund	\$ 1,307,170	\$ 635,538	\$ 671,632
<b>Expenditures:</b>			
Jordan Lake raw water supply intake and pumping facility	\$ 71,558	\$ 59,016	\$ 12,542
Stone quarry acquisition	261,545	35,748	225,797
University Lake pump station improvements	449,067	383,322	65,745
Cane Creek Dam repairs	525,000	157,452	367,548
Total expenditures	<u>\$ 1,307,170</u>	<u>\$ 635,538</u>	<u>\$ 671,632</u>
<b>Raw Water Transmission:</b>			
<b>Revenues:</b>			
General Fund	\$ 275,000	\$ 117,982	\$ 157,018
<b>Expenditures:</b>			
Raw water meters	\$ 275,000	\$ 117,982	\$ 157,018
<b>Water Treatment:</b>			
<b>Revenues:</b>			
General Fund	\$ 1,781,983	\$ 1,166,135	\$ 615,848
<b>Expenditures:</b>			
Water treatment plant instrumentation and controls	\$ 162,000	\$ 98,203	\$ 63,797
Water treatment plant rehabilitation projects	1,034,000	904,999	129,001
Water treatment plant security improvements	478,983	144,164	334,819
Water treatment plant secondary containment	87,000	-	87,000
Water treatment plant filter influent repairs	20,000	18,769	1,231
Total expenditures	<u>\$ 1,781,983</u>	<u>\$ 1,166,135</u>	<u>\$ 615,848</u>
<b>Finished Water Pumping:</b>			
<b>Revenues:</b>			
General Fund	\$ 200,000	\$ 28,436	\$ 171,564
<b>Expenditures:</b>			
Calvander pump station improvements	\$ 25,000	\$ 12,788	\$ 12,212
Booster pump station at Barbee Chapel Road	175,000	15,648	159,352
Total expenditures	<u>\$ 200,000</u>	<u>\$ 28,436</u>	<u>\$ 171,564</u>

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**SCHEDULE OF REVENUE AND EXPENDITURES -**  
**PROJECT FUNDS**  
**FROM INCEPTION THROUGH JUNE 30, 2011**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2011</u>	<u>Unexpended Balance as of June 30, 2011</u>
<b>Water Transmission and Distribution:</b>			
<b>Revenues:</b>			
General Fund	\$ 5,232,549	\$ 1,953,598	\$ 3,278,951
<b>Expenditures:</b>			
Water main - road improvement projects	\$ 853,640	\$ 746,193	\$ 107,447
Water line rehabilitation, replacement projects	3,136,909	191,783	2,945,126
Reinforcement projects	50,000	-	50,000
Elliot Road/Franklin Street	-	311	(311)
East Franklin Street	-	20,317	(20,317)
Cameron Avenue water line replacement	101,000	65,242	35,758
Churchill Drive	539,000	418,613	120,387
Water distribution system hydraulic model update	552,000	511,139	40,861
Total expenditures	<u>\$ 5,232,549</u>	<u>\$ 1,953,598</u>	<u>\$ 3,278,951</u>
<b>Wastewater Collection Lines:</b>			
<b>Revenues:</b>			
General Fund	\$ 14,772,353	\$ 12,858,341	\$ 1,914,012
<b>Expenditures:</b>			
Bolin Creek interceptor (Phase III)	\$ 4,451,563	\$ 2,996,792	\$ 1,454,771
Morgan Creek interceptor	1,519,000	1,014,581	504,419
Booker Creek interceptor	-	307	(307)
Morgan Creek Basin - rehabilitation and replacement projects	-	444	(444)
Service Area sewer line rehabilitation and replacement projects	1,251,000	1,035,042	215,958
Meeting of the waters interceptor	6,641,790	6,922,804	(281,014)
Willow Drive at Estes	652,000	356,686	295,314
Sanitary sewer service area study	257,000	531,685	(274,685)
Total expenditures	<u>\$ 14,772,353</u>	<u>\$ 12,858,341</u>	<u>\$ 1,914,012</u>

**ORANGE WATER AND SEWER AUTHORITY**  
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**SCHEDULE OF REVENUE AND EXPENDITURES -**  
**PROJECT FUNDS**  
**FROM INCEPTION THROUGH JUNE 30, 2011**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2011</u>	<u>Unexpended Balance as of June 30, 2011</u>
<b>Wastewater Pumping Stations and Force Mains:</b>			
<b>Revenues:</b>			
General Fund	\$ 860,132	\$ 825,383	\$ 34,749
<b>Expenditures:</b>			
Pump station improvements	\$ 207,000	\$ 140,865	\$ 66,135
Heritage Hills pump station and force main replacement	653,132	684,518	(31,386)
Total expenditures	<u>\$ 860,132</u>	<u>\$ 825,383</u>	<u>\$ 34,749</u>
<b>Wastewater Treatment and Disposal:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 3,856,000</u>	<u>\$ 3,261,983</u>	<u>\$ 594,017</u>
<b>Expenditures:</b>			
Mason Farm wastewater treatment plant flood protection enhancement	\$ -	\$ 25,105	\$ (25,105)
Mason Farm wastewater treatment plant rehabilitation and improvement project	335,000	478,831	(143,831)
Mason Farm wastewater treatment plant odor improvements	2,376,000	2,260,304	115,696
Mason Farm wastewater treatment - hydraulic and treatment capacity	400,000	365,935	34,065
Mason Farm wastewater treatment plant reclaimed water pressure and flow	25,000	21,137	3,863
Mason Farm wastewater treatment plant phosphorous removal	500,000	-	500,000
Mason Farm wastewater treatment plant digester heat exchange	110,000	20,304	89,696
Mason Farm wastewater treatment plant safety enhancements	50,000	31,134	18,866
Mason Farm wastewater treatment plant beneficial reuse gas	60,000	59,233	767
Total expenditures	<u>\$ 3,856,000</u>	<u>\$ 3,261,983</u>	<u>\$ 594,017</u>

**ORANGE WATER AND SEWER AUTHORITY**  
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**SCHEDULE OF REVENUE AND EXPENDITURES -  
PROJECT FUNDS  
FROM INCEPTION THROUGH JUNE 30, 2011**

	<u>Project Budget</u>	<u>Cumulative Total to June 30, 2011</u>	<u>Unexpended Balance as of June 30, 2011</u>
<b>Central Office and Operations:</b>			
<b>Revenues:</b>			
General Fund	\$ 115,000	\$ 104,310	\$ 10,690
<b>Expenditures:</b>			
Administration building projects	\$ 65,000	\$ 65,716	\$ (716)
Operations Center projects	50,000	38,594	11,406
Total expenditures	<u>\$ 115,000</u>	<u>\$ 104,310</u>	<u>\$ 10,690</u>
<b>Information Services:</b>			
<b>Revenues:</b>			
General Fund	<u>\$ 322,000</u>	<u>\$ 321,633</u>	<u>\$ 367</u>
<b>Expenditures:</b>			
Information services	<u>\$ 322,000</u>	<u>\$ 321,633</u>	<u>\$ 367</u>

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**Net Assets by Components**

Last Nine Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

	<b>Fiscal</b>			
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Invested in capital assets, net of related debt	\$ 190,756,445	\$ 188,106,716	\$ 184,466,042	\$ 177,287,377
Restricted for capital reserve	98,616	1,252,498	1,226,604	1,168,081
Restricted for future capital projects	-	-	-	-
Restricted for debt service	-	1,116	6,114	154,388
Unrestricted	26,865,314	21,113,133	15,140,975	5,993,719
	<u>\$ 217,720,375</u>	<u>\$ 210,473,463</u>	<u>\$ 200,839,735</u>	<u>\$ 184,603,565</u>

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

**Table 1**

---

<b>Year</b>				
<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 161,812,115	\$ 160,813,755	\$ 137,441,321	\$ 110,634,726	\$ 136,790,615
1,127,192	1,894,497	2,320,261	265,052	4,452,759
-	-	16,794,642	34,552,532	6,287,943
185,258	31,088	-	-	-
<u>14,546,839</u>	<u>6,611,972</u>	<u>7,373,853</u>	<u>15,468,674</u>	<u>6,076,872</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>

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**Changes in Net Assets**

Last Nine Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

	<b>Fiscal Year</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating Revenues:</b>					
Water	\$ 18,534,150	\$ 16,943,596	\$ 15,364,026	\$ 16,378,833	\$ 14,218,387
Sewer	15,962,181	14,848,339	12,798,394	11,046,437	10,272,920
Service initiation fees	147,015	148,750	141,355	169,603	142,086
Other	1,360,484	1,618,087	1,233,515	1,199,220	780,178
<b>Total operating revenues</b>	<b>36,003,830</b>	<b>33,558,772</b>	<b>29,537,290</b>	<b>28,794,093</b>	<b>25,413,571</b>
<b>Operating Expenses:</b>					
Water supply and treatment	4,075,074	2,619,340	2,665,629	2,441,028	2,261,394
Water distribution	2,507,512	2,217,957	2,160,231	2,275,756	1,962,980
Sewer treatment	4,768,788	3,050,834	3,487,838	2,981,891	2,865,782
Sewer collections	1,313,106	1,129,237	1,035,025	1,134,682	1,539,591
General and administrative	5,172,326	4,230,197	4,567,519	4,467,944	4,428,491
Customer relations	-	540,582	598,092	672,147	707,614
Maintenance	-	2,128,731	2,135,038	1,881,395	1,979,957
Lab	-	732,563	837,770	788,628	890,108
Depreciation and amortization	9,310,159	9,053,691	8,765,924	7,215,175	6,950,774
Other post-employment benefits	750,503	883,497	738,000	-	-
<b>Total operating expenses</b>	<b>27,897,468</b>	<b>26,586,629</b>	<b>26,991,066</b>	<b>23,858,646</b>	<b>23,586,691</b>
<b>Operating income (loss)</b>	<b>8,106,362</b>	<b>6,972,143</b>	<b>2,546,224</b>	<b>4,935,447</b>	<b>1,826,880</b>
<b>Non-Operating Revenues (Expenses):</b>					
Customer fees	1,713,417	1,436,564	2,498,459	1,995,415	2,514,450
Investment adjustment	29,261	29,169	80,343	584,031	995,354
Interest expense	(2,623,208)	(2,702,687)	(3,305,193)	(3,832,320)	(4,361,911)
Amortization of bond expense and patent	71,676	(73,283)	(83,338)	(69,940)	(96,898)
Other	(1,320,156)	(92,613)	5,687	2,865	16,431
<b>Income (loss) before contributions</b>	<b>5,977,352</b>	<b>5,569,293</b>	<b>1,742,182</b>	<b>3,615,498</b>	<b>894,306</b>
<b>Capital Contributions:</b>					
Capital grants and contributions	14,354	101,451	1,577,049	926,504	650,097
Contributions in aid of construction	1,255,206	3,962,984	12,916,939	2,390,159	6,775,689
<b>Total capital contributions</b>	<b>1,269,560</b>	<b>4,064,435</b>	<b>14,493,988</b>	<b>3,316,663</b>	<b>7,425,786</b>
<b>Increase in net assets</b>	<b>7,246,912</b>	<b>9,633,728</b>	<b>16,236,170</b>	<b>6,932,161</b>	<b>8,320,092</b>
<b>Net Assets:</b>					
Beginning of year - July 1	210,473,463	200,839,735	184,603,565	177,671,404	169,351,312
End of year - June 30	<b>\$ 217,720,375</b>	<b>\$ 210,473,463</b>	<b>\$ 200,839,735</b>	<b>\$ 184,603,565</b>	<b>\$ 177,671,404</b>

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

Table 2

	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$	13,946,421	\$ 12,489,800	\$ 11,873,860	\$ 10,394,529
	9,682,210	8,563,004	8,619,485	7,607,718
	153,670	134,958	132,294	97,660
	<u>649,081</u>	<u>703,905</u>	<u>530,853</u>	<u>573,057</u>
	<u>24,431,382</u>	<u>21,891,667</u>	<u>21,156,492</u>	<u>18,672,964</u>
	2,159,244	1,935,704	1,822,522	1,885,679
	1,710,117	1,917,141	1,733,384	1,781,525
	3,042,830	2,080,670	1,954,191	1,973,766
	1,352,661	1,342,978	1,329,066	1,205,400
	3,809,200	3,689,846	3,468,158	3,458,288
	966,972	961,862	830,284	798,852
	1,860,938	1,600,231	1,623,525	1,538,062
	821,955	780,707	722,984	651,825
	6,871,350	6,538,782	6,312,316	5,995,331
	-	-	-	-
	<u>22,595,267</u>	<u>20,847,921</u>	<u>19,796,430</u>	<u>19,288,728</u>
	1,836,115	1,043,746	1,360,062	(615,764)
	2,308,651	1,872,820	2,716,555	1,962,517
	742,010	821,194	211,708	337,442
	(2,724,951)	(3,140,164)	(1,216,166)	(1,799,578)
	(141,579)	(115,063)	(163,362)	(192,634)
	<u>(58,846)</u>	<u>(39,569)</u>	<u>44,588</u>	<u>(106,101)</u>
	<u>1,961,400</u>	<u>442,964</u>	<u>2,953,385</u>	<u>(414,118)</u>
	153,232	336,404	537,571	-
	<u>3,306,603</u>	<u>2,229,725</u>	<u>3,821,839</u>	<u>1,817,642</u>
	<u>3,459,835</u>	<u>2,566,129</u>	<u>4,359,410</u>	<u>1,817,642</u>
	5,421,235	3,009,093	7,312,795	1,403,524
	<u>163,930,077</u>	<u>160,920,984</u>	<u>153,608,189</u>	<u>153,204,665</u>
\$	<u>169,351,312</u>	<u>163,930,077</u>	<u>160,920,984</u>	<u>154,608,189</u>

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**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**Water Processed and Wastewater Treated**

(Thousands of Gallons)

Last Ten Fiscal Years

(Unaudited)

<b>Fiscal Year Ended June 30</b>	<b>Water Processed and Pumped to System</b>	<b>Wastewater Treated</b>
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
2011	2,741,182	2,673,448

Source: Orange Water and Sewer Authority's Records

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

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

<b>Fiscal Year Ended June 30</b>	<b>Customer Estimate</b>	<b>Net Operating Revenues</b>	<b>Debt Service Requirements</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net Revenues to Debt Service Requirements</b>	<b>Net Bonded Debt Per Customer</b>
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
2011	20,453	19,910,110	8,938,298	94,695,000	2.23	4,630.00

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**Principal Water and Sewer Customers**

Year Ended June 30, 2011

(Unaudited)

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	<b>Percent of Water Sales 2011</b>
	<hr/>
University of North Carolina at Chapel Hill	23%
Chapel Hill - Carrboro City Schools	1%
Abbey Court Condominiums	<1%
Triangle Communities (Apartments)	<1%
Carol Woods Retirement Community	<1%
The Cedars of Chapel Hill Retirement Community	<1%
University Mall	<1%
Town of Chapel Hill	<1%
Kingswood Apartments	<1%
The Villages Apartments	<1%

Source: Orange Water and Sewer Authority's Records

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

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

<b>Fiscal Year Ended June 30</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>
		<b>Amount</b>	<b>Percent of Original Levy</b>	
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
2005	25,615,621	25,480,324	99.47%	110,800
2006	27,718,753	27,578,410	99.49%	124,143
2007	28,558,565	28,409,166	99.48%	111,769
2008	30,412,485	30,240,782	99.44%	127,377
2009	33,972,050	33,779,684	99.43%	139,190
2010	35,119,150	34,836,717	99.20%	163,514
2011	35,604,158	35,284,111	99.10%	-

\*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 6**

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<b>Total Collections to Date</b>		<b>Outstanding Delinquent Taxes</b>
<b>Amount</b>	<b>Percentage of Adjusted Levy</b>	
*	*	*
*	*	*
\$ 23,764,609	99.95%	*
25,591,124	99.90%	*
27,702,553	99.94%	*
28,520,935	99.87%	*
30,368,159	99.85% (1)	157,547
33,918,874	99.84%	22,248
35,000,231	99.66%	45,463
35,284,111	99.10%	320,047

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

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

---

<b>Fiscal Year</b>		<b>Residential</b>	<b>Commercial</b>	<b>Combined</b>	<b>Personal</b>
<b>Ended</b>		<b>Property</b>	<b>Property</b>	<b>Real Property</b>	<b>Property</b>
<b>June 30</b>					
2002	(1,2)	*	*	\$ 3,556,294,528	\$ 403,959,196
2003		*	*	3,688,289,625	415,023,471
2004		*	*	3,791,842,402	455,906,761
2005		*	*	3,918,233,860	482,128,300
2006	(1)	\$ 3,956,681,069	\$ 783,355,893	4,740,036,962	498,524,879
2007		3,640,445,489	1,249,997,134	4,890,442,623	520,961,320
2008		3,825,506,198	1,313,540,280	5,139,046,478	460,567,284
2009		3,945,477,182	1,354,733,971	5,300,211,153	471,708,077
2010	(1)	4,855,643,567	1,667,252,143	6,522,895,710	455,030,840
2011		5,133,443,183	1,762,638,471	6,896,081,654	452,486,487

\*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 North Carolina 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 North Carolina Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (7) Source is the Property Tax Division of the North Carolina Department of Revenue.

Table 7

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<b>Public Service Companies (3)</b>	<b>Total Assessed Value</b>	<b>Total Direct Tax Rate (4)</b>	<b>Estimated Actual Taxable Value (5)</b>	<b>Ratio of Assessed Value to Estimated Actual Value (6)</b>
\$ 60,873,428	\$ 4,021,127,152	0.504	\$ 4,459,990,186	90.16%
63,868,306	4,167,181,402	0.553	4,725,767,070	88.18%
57,587,809	4,305,336,972	0.553	5,139,473,525	83.77%
57,774,008	4,458,136,168	0.575	4,664,298,146	95.58%
60,840,533	5,299,402,374	0.522	5,905,284,571	89.74%
61,554,945	5,472,958,888	0.522	6,582,822,815	83.14%
60,142,623	5,659,756,385	0.522	6,807,501,064	83.14%
63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%
67,647,776	7,045,574,326	0.494	7,141,991,207	98.65%
62,491,249	7,411,059,390	0.494	7,477,610,120	99.11%

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

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

	<b>Years</b>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	*				*
<b>Chapel Hill within Orange County:</b>					
Town direct rates:					
General Fund	\$ 0.461	\$ 0.510	\$ 0.502	\$ 0.516	\$ 0.474
Transportation	0.043	0.043	0.051	0.059	0.048
Debt Service**	-	-	-	-	-
Downtown Service District	0.062	0.062	0.062	0.062	0.053
Overlapping rates:					
Orange County	0.805	0.845	0.880	0.880	0.843
Chapel Hill - Carrboro School District	0.202	0.192	0.200	0.200	0.183
Total	1.573	1.652	1.695	1.717	1.601
<b>Chapel Hill within Durham County:</b>					
Town direct rates:					
General Fund	0.461	0.510	0.502	0.516	0.474
Transportation	0.043	0.043	0.051	0.059	0.048
Debt Service	-	-	-	-	-
Overlapping rates:					
Durham County	0.729	0.753	0.763	0.790	0.809
Total	1.233	1.306	1.316	1.365	1.331

\*Revaluation Year

\*\* For fiscal years 2007/2008 and prior, property tax revenues were allocated between the general fund and the transit fund. Beginning with the 2008/2009 fiscal year, the allocation was changed to include an allocation to the debt service fund.

Source: North Carolina State Department of Revenue

**Table 8**

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<b>Taxes Payable</b>				
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
			*	
\$ 0.474	\$ 0.474	\$ 0.423	\$ 0.360	\$ 0.360
0.048	0.048	0.048	0.041	0.041
-	-	0.110	0.093	0.093
0.090	0.090	0.071	0.071	0.071
0.903	0.950	0.998	0.858	0.858
0.189	0.204	0.230	0.188	0.188
1.704	1.766	1.880	1.611	1.611
0.474	0.474	0.423	0.360	0.360
0.048	0.048	0.048	0.041	0.041
-	-	0.110	0.093	0.093
0.809	0.834	0.708	0.690	0.746
1.331	1.356	1.289	1.184	1.240

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

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

<b>Year</b>	<b>Population (1)</b>	<b>Personal Income (in thousands)(2)</b>	<b>Per Capita Personal Income (3)</b>	<b>Median Age (3)</b>
2002	50542	\$ 3,800,280	\$ 32,126	24.2
2003	51,005	3,877,363	33,125	24.2
2004	51,485	3,910,401	33,211	24.2
2005	51,519	4,384,443	37,121	24.2
2006	52,397	4,631,572	38,629	24.2
2007	53,416	5,060,894	41,435	24.2
2008	54,903	5,060,894	41,435	24.2
2009	55,616	5,450,187	43,844	24.2
2010	56,778	5,976,341	47,063	30.4
2011	57,233	6,186,352	47,925	30.4

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 9**

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<b>Education Level in Years of Schooling (4)</b>	<b>School Enrollment</b>	<b>Unemployment Rate % (5)</b>
15.82	34,628	3.1
15.82	37,012	4.0
15.82	37,587	3.0
15.82	37,308	4.0
15.82	35,260	3.9
15.82	38,718	2.9
15.82	39,864	4.0
15.82	40,316	5.8
15.82	39,428	6.5
15.82	41,139	7.2

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Table 10

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**Miscellaneous Statistical Data**

Year Ended June 30, 2011

(Unaudited)

---

<b>Year Founded and Incorporated</b>	1975
<b>Size of Service Area:</b>	
Square miles	31
Miles of water pipe	420
Miles of wastewater collection pipe	336
Customer accounts	20,241
<b>Budgeted Employee Positions</b>	128
<b>Water Treatment Plant Capacity (in MGD):</b>	
Capacity	20
Production average, FY 2010	7.5
Production peak, FY 2010	11.4
<b>Wastewater Treatment Plant Capacity (in MGD):</b>	
Capacity	14.5
Average daily flow, FY 2010	7.2
<b>Number of Water Supply Resources</b>	4
<b>Total Capacity of Water Supply Resources (millions of gallons):</b>	
Cane Creek Reservoir	3,000
University Lake	450
Quarry Reservoir	200
Jordan Lake Level II Allocation	5 MGD

Source: Orange Water and Sewer Authority's Records

**ORANGE WATER AND SEWER AUTHORITY**  
**(A Component Unit of the Town of Chapel Hill)**

**Full-Time Equivalents**

Last Nine Fiscal Years

(Unaudited)

<b>Department</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>General and Administrative:</b>					
Office of the Executive Director	7.00	7.00	7.00	9.00	9.00
Engineering	14.00	14.00	13.50	15.00	15.00
Human Resources	2.00	3.00	3.50	6.00	6.00
Finance	9.00	8.00	6.34	7.00	7.00
Purchasing	-	-	1.33	2.00	2.00
Business Information Technology	5.00	5.00	4.00	4.00	4.00
<b>Operations:</b>					
Customer Service	7.00	7.00	7.33	8.00	8.00
Water Supply and Treatment	24.00	24.00	13.50	13.00	13.00
Water Distribution	32.00	32.00	32.00	32.00	32.00
Plants Maintenance	-	-	13.00	14.00	15.00
Laboratory	-	-	8.00	10.00	10.00
Wastewater Treatment	24.00	24.00	13.50	15.00	14.00
Sewer Collection	15.00	15.00	15.00	15.00	15.00
Totals	<u>139.00</u>	<u>139.00</u>	<u>138.00</u>	<u>150.00</u>	<u>150.00</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

**Table 11**

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<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
9.00	9.00	9.00	8.00
15.00	15.00	15.00	15.00
6.00	6.00	6.00	6.00
7.00	7.00	7.00	7.00
2.00	2.00	2.00	2.00
4.00	4.00	4.00	4.00
13.00	13.00	13.00	13.00
13.00	13.00	13.00	13.00
27.00	27.00	27.00	27.00
15.00	15.00	15.00	15.00
10.00	10.00	10.00	9.00
14.00	14.00	14.00	14.00
<u>15.00</u>	<u>15.00</u>	<u>15.00</u>	<u>15.00</u>
<u>150.00</u>	<u>150.00</u>	<u>150.00</u>	<u>148.00</u>

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

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

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

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

We have audited the financial statements of the business-type activities and each major fund of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 13, 2011. 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**

Management is responsible for establishing and maintaining effective 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 opinions 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of 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.

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

This report is intended for the information and use of management, others within the organization, members of the Board of Directors, 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.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P. A.  
September 13, 2011

**ORANGE WATER AND SEWER AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**1. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?                    \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified?            \_\_\_\_\_ Yes      X   None reported

Non-compliance material to financial  
statements noted?

\_\_\_\_\_ Yes      X   No

**ORANGE WATER AND SEWER AUTHORITY**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Finding 10-01 – resolved in the current year

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

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

## REPORT OF INDEPENDENT AUDITORS ON REVENUE BOND COVENANT COMPLIANCE

To the Board of Directors  
Orange Water and Sewer Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statements of net assets of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2011 and 2010, 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 13, 2011.

In connection with our audit, noting came to our attention that caused us to believe that the Authority failed to comply with the terms, covenants, provisions, or conditions of Section 7.04 contained in the amended and restated bond order, dated September 13, 2001 with the Bank of New York and the North Carolina Local Government Commission, insofar as the relate to accounting matters.

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
September 13, 2011

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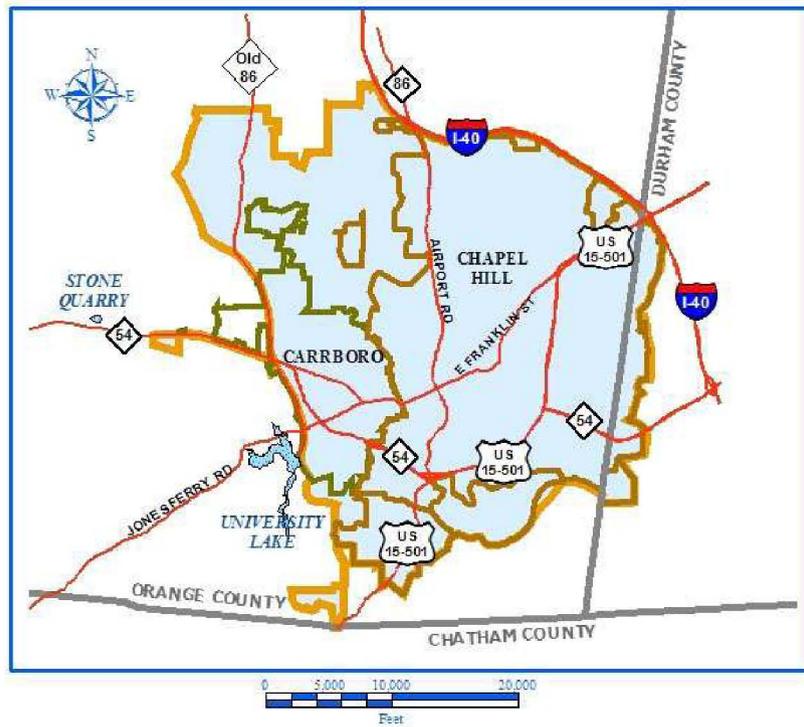
## ORANGE WATER AND SEWER AUTHORITY MISSION STATEMENT

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

