

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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

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

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)
TAYLORSVILLE, NORTH CAROLINA

BOARD OF COMMISSIONERS

LARRY YODER, CHAIRMAN

RYAN MAYBERRY, VICE CHAIRMAN

JAMES JENNINGS

ANDREW FERGUSON

JUDY MOOSE

RICHARD FRENCH, COUNTY MANAGER

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

| <u>Exhibit</u> | | <u>Page</u> |
|------------------------|--|--------------------|
| | Independent Auditor's Report | 1-2 |
| | Management's Discussion and Analysis | 3-7 |
| | Basic Financial Statements | |
| A | Statement of Fund Net Position – Proprietary Fund | 8 |
| B | Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund | 9 |
| C | Statement of Cash Flows – Proprietary Fund | 10 |
| | Notes to the Financial Statements | 11-17 |
| | Supplementary Information | |
| <u>Schedule</u> | | |
| 1 | Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) | 18 |

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Bethlehem Water District
Taylorsville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Bethlehem Water District, a component unit of Alexander County, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bethlehem Water District, as of June 30, 2014, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bethlehem Water District's basic financial statements. The individual fund financial statement and budget and actual schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 24, 2014

Management's Discussion and Analysis

As management of the Bethlehem Water District (a component unit of Alexander County), we offer readers of the Bethlehem Water District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this narrative.

Financial Highlights

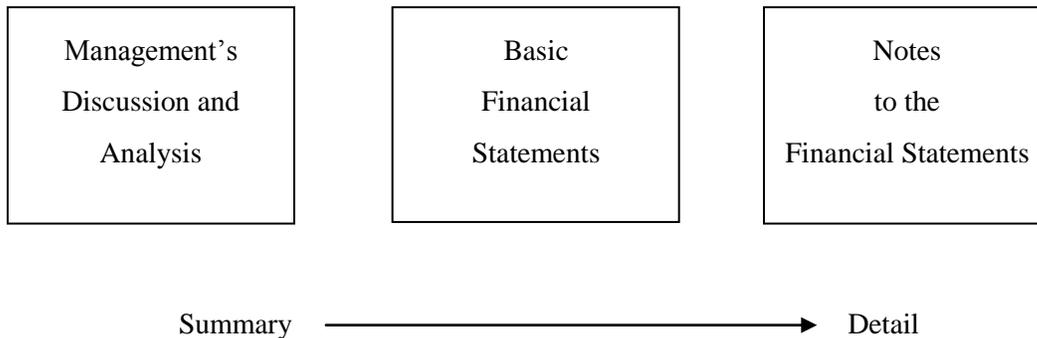
- As of the close of the current fiscal year, the Bethlehem Water District reported net position of \$2,015,462. Approximately 53.52% of this total amount, or \$1,078,737, is classified as unrestricted.
- The Bethlehem Water District's total debt decreased by \$177,604 (21%) during the current fiscal year. The key factor in this decrease was principal payments on debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bethlehem Water District's basic financial statements. The District's financial statements consist of two components: 1) basic financial statements, and 2) notes to the financial statements (see Figure 1). In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Bethlehem Water District.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The Bethlehem Water District's basic financial statements are comprised of Exhibits A through C. The Bethlehem Water District operates as a singular enterprise fund. All activities of the District are considered business-type activities. Business-type activities are those that the District charges customers to provide water sales.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided. Budgetary information required by the General Statutes can be found in this part of the statements.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements start after Exhibit C of this report.

Financial Analysis

Bethlehem Water District's Net Position

Figure 2

| | Business-Type Activities | |
|-----------------------------------|-----------------------------|---------------------|
| | 2014 | 2013 |
| Current and other assets | \$ 1,087,002 | \$ 963,083 |
| Capital assets | 1,622,580 | 1,718,128 |
| Total assets | <u>2,709,582</u> | <u>2,681,211</u> |
| Long-term liabilities outstanding | 505,999 | 685,855 |
| Other liabilities | 188,121 | 185,906 |
| Total liabilities | <u>694,120</u> | <u>871,761</u> |
| Net Position: | | |
| Net investment in capital assets | 936,725 | 854,669 |
| Unrestricted | 1,078,737 | 954,781 |
| Total net position | <u>\$ 2,015,462</u> | <u>\$ 1,809,450</u> |

Net position may serve over time as one useful indicator of the District's financial condition. The assets of the Bethlehem Water District exceeded liabilities by \$2,015,462 (net position) as of June 30, 2014. One portion of net position reflects the District's net investment in capital assets (e.g., water distribution infrastructure, equipment, and vehicles). The Bethlehem Water District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Bethlehem Water District's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

Several particular aspects of the District’s financial operations positively influenced total net position:

- Continued principal repayment of long-term debt, resulting in lower interest expense.
- Savings from water refunding bonds issued in April 2013, resulting in lower interest expense.
- Increased water rates.

Bethlehem Water District’s Changes in Net Position

Figure 3

| | Business-Type Activities | |
|--|-------------------------------------|---------------------|
| | 2014 | 2013 |
| Operating Revenues: | | |
| Water sales | \$ 1,154,021 | \$ 1,158,227 |
| Operating Expenses: | | |
| Administration | 90,795 | 42,724 |
| Water operations | 793,559 | 900,311 |
| Depreciation and amortization | 95,548 | 103,129 |
| Total operating expenses | <u>979,902</u> | <u>1,046,164</u> |
| Operating income | 174,119 | 112,063 |
| Non-operating revenues (expenses) | <u>(13,522)</u> | <u>(33,927)</u> |
| Income (loss) before contributions and transfers | <u>160,597</u> | <u>78,136</u> |
| Capital contributions | - | 159,259 |
| Transfers in (out) | <u>45,415</u> | <u>-</u> |
| Total capital contributions and transfers | <u>45,415</u> | <u>159,259</u> |
| Change in net position | 206,012 | 237,395 |
| Net Position: | | |
| Beginning of year - July 1 | <u>1,809,450</u> | <u>1,572,055</u> |
| End of year - June 30 | <u>\$ 2,015,462</u> | <u>\$ 1,809,450</u> |

Business-Type Activities. Business-type activities increased the Bethlehem Water District’s net position by \$206,012. See Figure 3 above for the results of current year operations compared to the prior year.

Capital Assets and Debt Administration

Capital Assets. The Bethlehem Water District’s capital assets as of June 30, 2014, total \$1,622,580 (net of accumulated depreciation). These assets include water distribution infrastructure, equipment, and vehicles.

- There were no major capital asset transactions during the year.

Bethlehem Water District’s Capital Assets

Figure 4

| | Business-Type Activities | |
|--------------------------|-------------------------------------|---------------------|
| | <u>2014</u> | <u>2013</u> |
| Distribution system | \$ 3,770,941 | \$ 3,770,941 |
| Accumulated depreciation | <u>(2,148,361)</u> | <u>(2,052,813)</u> |
| Total | <u>\$ 1,622,580</u> | <u>\$ 1,718,128</u> |

Long-Term Debt. As of June 30, 2014, the Bethlehem Water District had total debt outstanding of \$685,855.

Bethlehem Water District’s Outstanding Debt

Figure 5

| | Business-Type Activities | |
|--------------------------|-------------------------------------|-------------------|
| | <u>2014</u> | <u>2013</u> |
| General obligation bonds | <u>\$ 685,855</u> | <u>\$ 863,459</u> |

Additional information regarding the Bethlehem Water District’s long-term debt can be found in note 2.B. of this audited financial report.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Business-Type Activities. Water rates will increase 1.5% to cover increased operating costs passed on from the County's water supplier.

Requests for Information

This report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Alexander County, 621 Liledoun Road, Taylorsville, NC 28681.

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014

Assets:

Current assets:

| | |
|--------------------------|------------------|
| Cash and investments | \$ 987,026 |
| Accounts receivable, net | <u>99,976</u> |
| Total current assets | <u>1,087,002</u> |

Non-current assets:

| | |
|---|------------------|
| Depreciable assets, net of depreciation | <u>1,622,580</u> |
|---|------------------|

| | |
|--------------|------------------|
| Total assets | <u>2,709,582</u> |
|--------------|------------------|

Liabilities and Net Position:

Current liabilities:

| | |
|-----------------------------------|----------------|
| Due to primary government | 4,990 |
| Accrued interest | 3,275 |
| Current portion of long-term debt | <u>179,856</u> |
| Total current liabilities | <u>188,121</u> |

Non-current liabilities:

| | |
|---------------------------------------|----------------|
| Non-current portion of long-term debt | <u>505,999</u> |
|---------------------------------------|----------------|

| | |
|-------------------|----------------|
| Total liabilities | <u>694,120</u> |
|-------------------|----------------|

Net Position:

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | 936,725 |
| Unrestricted | <u>1,078,737</u> |
| Total net position | <u>\$ 2,015,462</u> |

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

BETHLEHEM WATER DISTRICT
 (A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

**STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues:

| | |
|-------------|---------------------|
| Water sales | <u>\$ 1,154,021</u> |
|-------------|---------------------|

Operating Expenses:

| | |
|-------------------------------|----------------|
| Administration | 90,795 |
| Water operations | 793,559 |
| Depreciation and amortization | <u>95,548</u> |
| Total operating expenses | <u>979,902</u> |

| | |
|------------------|----------------|
| Operating income | <u>174,119</u> |
|------------------|----------------|

Non-Operating Revenues (Expenses):

| | |
|---|-----------------|
| Investment earnings | 700 |
| Interest and fees paid | <u>(14,222)</u> |
| Total non-operating revenues (expenses) | <u>(13,522)</u> |

| | |
|--------------------------------|---------|
| Income (loss) before transfers | 160,597 |
|--------------------------------|---------|

Transfers In (Out):

| | |
|--------------------|---------------|
| Transfers in (out) | <u>45,415</u> |
|--------------------|---------------|

| | |
|------------------------|---------|
| Change in net position | 206,012 |
|------------------------|---------|

Net Position:

| | |
|----------------------------|------------------|
| Beginning of year - July 1 | <u>1,809,450</u> |
|----------------------------|------------------|

| | |
|-----------------------|----------------------------|
| End of year - June 30 | <u><u>\$ 2,015,462</u></u> |
|-----------------------|----------------------------|

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

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities:

| | |
|---|------------------|
| Cash received from customers | \$ 1,156,237 |
| Cash paid for goods and services | <u>(884,354)</u> |
| Net cash provided by operating activities | <u>271,883</u> |

Cash Flows from Non-Capital Financing Activities:

| | |
|--|---------------|
| Change in due to/from primary government | 238 |
| Interfund transfer in (out) | <u>45,415</u> |
| Net cash provided (used) by non-capital financing activities | <u>45,653</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|---|------------------|
| Principal paid on bonds and notes payable | (177,604) |
| Interest and fees paid on bonds | <u>(14,497)</u> |
| Net cash used by capital and related financing activities | <u>(192,101)</u> |

Cash Flows from Investing Activities:

| | |
|-------------------------|------------|
| Interest on investments | <u>700</u> |
|-------------------------|------------|

| | |
|---|---------|
| Net increase in cash and cash equivalents | 126,135 |
|---|---------|

Cash and Cash Equivalents:

| | |
|----------------------------|----------------|
| Beginning of year - July 1 | <u>860,891</u> |
|----------------------------|----------------|

| | |
|-----------------------|-------------------|
| End of year - June 30 | <u>\$ 987,026</u> |
|-----------------------|-------------------|

**Reconciliation of Operating Income to
Net Cash Provided (Used) By Operating Activities:**

| | |
|---|-------------------|
| Operating income | \$ 174,119 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 95,548 |
| (Increase) decrease in accounts receivable | <u>2,216</u> |
| Net cash provided (used) by operating activities | <u>\$ 271,883</u> |

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

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. Summary of Significant Accounting Policies

The accounting policies of the Bethlehem Water District (the “Water District”) 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 Water District, which is governed by a five-member Board of Commissioners, is a component unit of Alexander County, North Carolina. The Board of Commissioners of Alexander County also serve as the Board of Commissioners of the Water District. As required by generally accepted accounting principles, these financial statements are also blended with the County’s financial statements because of the significance of their operational and financial relationship to the County.

B. Basis of Presentation

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

Fund Financial Statements. The fund financial statements provide information about the Water District’s funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented, if applicable. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column, if applicable.

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 or ancillary activities.

The Water District has one fund category – proprietary funds.

Proprietary Funds

Enterprise Funds

The enterprise funds are 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 Bethlehem Water District operates as a singular enterprise fund.

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

The enterprise fund is considered a major fund for the year ended June 30, 2014.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Water District 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 Water District's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

The Water District's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the enterprise fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The Water District Manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$10,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$10,000 must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

F. Assets, Liabilities, and Fund Equity

Deposits and Investments

All deposits of the Water District are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Water District may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Water District may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

The Water District's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

Cash and Cash Equivalents

The Water District's cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Allowance for Doubtful Accounts

The Water District historically experiences uncollectible accounts, and accounts receivable are 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.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Capital assets are recorded at original cost at the time of acquisition. Capital assets donated to the Water District are recorded at the estimated fair market value at the date of donation. Distribution system assets are depreciated on a straight-line basis using 25-40 years as the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Long-Term Obligations

The Water District's debt service requirements are being met by water revenues, but the taxing power of Alexander County, North Carolina, is pledged to make these payments if water revenues should ever be insufficient. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

Net Position

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

2. Detail Notes On All Funds

A. Assets

Deposits

All of the Water District'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 Water District'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 Water District, these deposits are considered to be held by their agents in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Water District or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Water District 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 Water District has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Water District complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

At June 30, 2014, the Water District's deposits had a carrying amount of \$917,141 and a bank balance of \$917,141. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$667,141 was covered by collateral held under the Pooling Method.

Investments

As of June 30, 2014, the Water District had \$69,885 of investments in the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The District has no policy regarding credit risk.

Receivables – Allowances for Doubtful Accounts

The amounts shown for receivables in Exhibit A are net of an allowance for doubtful accounts of \$9,355.

Capital Assets

The capital assets of the Water District at June 30, 2014, are as follows:

| | <u>July 1, 2013</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>June 30, 2014</u> |
|---------------------------------------|---------------------|--------------------|--------------------|------------------|----------------------|
| Depreciable Assets: | | | | | |
| Distribution system | \$ 3,770,941 | \$ - | \$ - | \$ - | \$ 3,770,941 |
| Less Accumulated Depreciation: | | | | | |
| Distribution system | (2,052,813) | (95,548) | - | - | (2,148,361) |
| Capital assets, net | <u>\$ 1,718,128</u> | <u>\$ (95,548)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,622,580</u> |

The Water District contracts with the City of Hickory to provide billing and collection services, as well as maintenance on the lines. Total service fees paid for the year ending June 30, 2014, were \$769,426.

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2014, is composed of the following elements:

| | <u>Business-Type Activities</u> |
|----------------------------------|-------------------------------------|
| Capital assets | \$ 1,622,580 |
| Long-term debt | (685,855) |
| Net investment in capital assets | <u>\$ 936,725</u> |

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

B. Liabilities

Risk Management

The Water District is included, where applicable, in the insurance coverages of Alexander County, North Carolina.

Alexander County, North Carolina, 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 County obtains workers' compensation and employers liability insurance through Key Risk Insurance Company with workers' compensation coverage up to the statutory limits and employers' liability coverage subject to a limit of \$1,000,000. The County obtains property coverage through Millennium Insurance Group equal to replacement cost values of owned property subject to a limit of \$34 million for any one occurrence; general, auto, public officials, law enforcement, and employment practices liability coverage of \$1 million per occurrence; auto physical damage coverage for owned autos at actual cash value (ambulances at replacement cost); and crime coverage of \$250,000 per occurrence. The County obtains medical and dental insurance for employees through Blue Cross and Blue Shield of North Carolina and United Healthcare, respectively. The County uses a third-party administrator to manage the group medical and dental insurance plans.

The County participates in the National Flood Insurance Program (NFIP) with Flood Insurance Rate Maps that designate two County-owned properties as having a one percent annual chance of a 100-year flood in any given year. The County has not secured flood insurance through the NFIP, but carries flood insurance with a \$1,000,000 limit and a \$50,000 deductible through the County's property insurance carrier.

The County carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the Water District's employees that have access to \$100 or more at any given time of the Water District's funds are performance bonded through a commercial surety bond. The Finance Director and County Manager are individually bonded for \$100,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000. This blanket bond also covers the County positions named above.

Long-Term Obligations

General Obligation Indebtedness

All bonds issued by the Water District are collateralized by the full-faith, credit, and taxing power of Alexander County, North Carolina. Principal and interest requirements are appropriated when due.

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Bonds payable at June 30, 2014, are as follows:

\$863,459, 2013 water refunding bonds (issued 4/26/13), due semi-annually on October 1 and April 1 in installments of \$96,050, which includes interest at 1.91%, through April 2018 \$ 685,855

Annual debt service requirements to maturity for the Water District's general obligation bonds are as follows:

| Year Ended | | | | |
|-------------------|-------------------|------------------|-------------------|--|
| June 30 | Principal | Interest | Total | |
| 2015 | \$ 179,856 | \$ 12,245 | \$ 192,101 | |
| 2016 | 183,307 | 8,794 | 192,101 | |
| 2017 | 186,825 | 5,276 | 192,101 | |
| 2018 | <u>135,867</u> | <u>1,690</u> | <u>137,557</u> | |
| Total | <u>\$ 685,855</u> | <u>\$ 28,005</u> | <u>\$ 713,860</u> | |

A summary of changes in long-term obligations follows:

| | <u>July 1, 2013</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2014</u> | <u>Current Portion</u> |
|--------------------------|---------------------|------------------|--------------------|----------------------|------------------------|
| General obligation bonds | \$ 863,459 | \$ - | \$ 177,604 | \$ 685,855 | \$ 179,856 |

Interfund Balances and Activities

The following is a summary of interfund transfers:

| | <u>Transfers</u> | | | |
|---------------------------------------|-------------------|-------------------|---|--|
| | <u>From</u> | <u>To</u> | <u>Purpose</u> | |
| Transfers From/To Other Funds: | | | | |
| Primary Government | \$ - | \$ 66,175 | Local match for water project | |
| Bethlehem Water District | 66,175 | - | funded by DWSRF loan | |
| Bethlehem Water District | - | 111,590 | Resources for preliminary water project costs | |
| Primary Government | <u>111,590</u> | <u>-</u> | | |
| Total | <u>\$ 177,765</u> | <u>\$ 177,765</u> | | |

BETHLEHEM WATER DISTRICT
(A COMPONENT UNIT OF ALEXANDER COUNTY, NORTH CAROLINA)

**SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|------------------|-------------------|--------------------------------|
| Revenues: | | | |
| Operating Revenues: | | | |
| Water sales | \$ 1,173,000 | \$ 1,154,021 | \$ (18,979) |
| Non-Operating Revenues: | | | |
| Investment earnings | <u>775</u> | <u>700</u> | <u>(75)</u> |
| Total revenues | <u>1,173,775</u> | <u>1,154,721</u> | <u>(19,054)</u> |
| Expenditures: | | | |
| Administration | 93,000 | 90,795 | 2,205 |
| Water and distribution | 831,825 | 793,559 | 38,266 |
| Budgetary Appropriations: | | | |
| Debt principal | 178,000 | 177,604 | 396 |
| Interest and fees paid | 16,000 | 14,497 | 1,503 |
| Contingency | <u>100,365</u> | <u>-</u> | <u>100,365</u> |
| Total expenditures | <u>1,219,190</u> | <u>1,076,455</u> | <u>142,735</u> |
| Revenues over (under) expenditures | <u>(45,415)</u> | <u>78,266</u> | <u>123,681</u> |
| Other Financing Sources (Uses): | | | |
| Transfer from Primary Government | 111,591 | 111,590 | (1) |
| Transfer (to) Primary Government | <u>(66,176)</u> | <u>(66,175)</u> | <u>1</u> |
| Total other financing sources (uses) | <u>45,415</u> | <u>45,415</u> | <u>-</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>\$ 123,681</u> | <u>\$ 123,681</u> |
| Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis: | | | |
| Revenues and other financing sources over (under) expenditures and other financing uses | | \$ 123,681 | |
| Reconciling items: | | | |
| Debt principal | | 177,604 | |
| Depreciation and amortization | | (95,548) | |
| Change in accrued interest | | <u>275</u> | |
| Net income (loss) - GAAP basis | | <u>\$ 206,012</u> | |