

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

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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

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BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Bethlehem Water District, (a component unit of Alexander County, North Carolina), as of and for the year ended June 30, 2012, which comprise the Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion on these basic 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Bethlehem Water District as of June 30, 2012, 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.

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 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bethlehem Water District's financial statements as a whole. 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 individual fund financial statement and budget and actual schedule 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 12, 2012

Management's Discussion and Analysis

As management of 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, 2012. 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

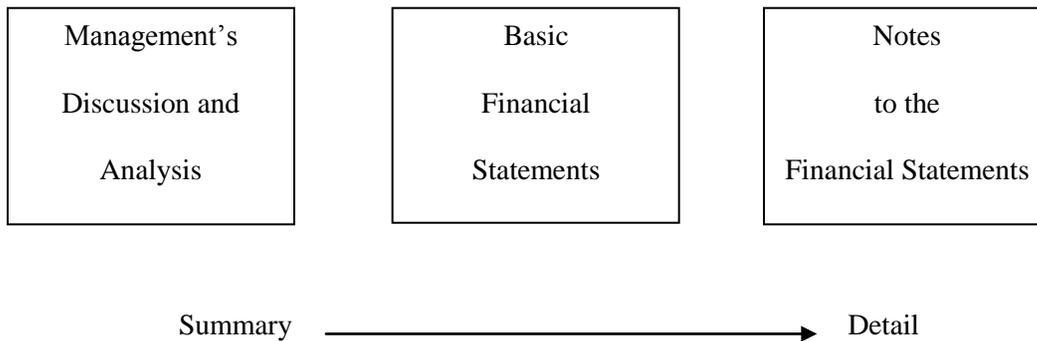
- As of the close of the current fiscal year, Bethlehem Water District reported net assets of \$1,572,055. Approximately 52 percent of this total amount, or \$810,111, is classified as unrestricted.
- Bethlehem Water District's total debt decreased by \$147,336 (13%) during the current fiscal year. No new debt was issued.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to 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 Bethlehem Water District.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

Bethlehem Water District’s basic financial statements are comprised of Exhibits A through C. 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 Assets

Figure 2

	Business-Type Activities	
	2012	2011
Current and other assets	\$ 832,473	\$ 663,142
Capital assets	1,778,647	1,773,419
Total assets	<u>2,611,120</u>	<u>2,436,561</u>
Long-term liabilities outstanding	863,459	1,016,703
Other liabilities	175,606	173,994
Total liabilities	<u>1,039,065</u>	<u>1,190,697</u>
Net Assets:		
Invested in capital assets, net of related debt	761,944	609,380
Unrestricted	810,111	636,484
Total net assets	<u>\$ 1,572,055</u>	<u>\$ 1,245,864</u>

Net assets may serve over time as one useful indicator of the District’s financial condition. The assets of Bethlehem Water District exceeded liabilities by \$1,572,055 (net assets) as of June 30, 2012. One portion of net assets reflects the District’s investment in capital assets (e.g. water distribution infrastructure, equipment, and vehicles); less any related debt still outstanding that was issued to acquire those items. Bethlehem Water District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Bethlehem Water District’s investment in its 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 assets:

- Continued principal repayment of long-term debt, resulting in lower interest expense.
- Savings from water refunding bonds issued in April 2003, resulting in lower interest expense.
- Construction in progress of the Bethlehem Water Capital Project Fund.

Bethlehem Water District Changes in Net Assets

Figure 3

	Business-Type Activities	
	2012	2011
Operating Revenues:		
Water sales	\$ 1,124,421	\$ 1,125,326
Operating Expenses:		
Administration	15,130	46,799
Water operations	777,431	750,693
Depreciation and amortization	94,369	94,174
Total operating expenses	<u>886,930</u>	<u>891,666</u>
Operating Income:	237,491	233,660
Non-operating revenues (expenses)	<u>(42,350)</u>	<u>(49,105)</u>
Income (loss) before contributions	195,141	184,555
Capital contributions	<u>131,050</u>	<u>5,468</u>
Change in net assets	326,191	190,023
Net assets, July 1	<u>1,245,864</u>	<u>1,055,841</u>
Net assets, June 30	<u><u>\$ 1,572,055</u></u>	<u><u>\$ 1,245,864</u></u>

Business-Type Activities: Business-type activities increased Bethlehem Water District’s net assets by \$326,191. See Figure 3 above for the results of current year operations compared to the prior year.

Capital Assets and Debt Administration

Capital Assets. Bethlehem Water District’s capital assets as of June 30, 2012, total \$1,778,647 (net of accumulated depreciation). These assets include water distribution infrastructure, equipment, and vehicles.

- Major capital asset transactions during the year include addition of construction in progress of the Bethlehem Water Capital Project Fund.

Bethlehem Water District’s Capital Assets

Figure 4

	Business-Type Activities	
	<u>2012</u>	<u>2011</u>
Construction in progress	\$ 99,952	\$ 1,968
Distribution system	3,637,798	3,637,798
Accumulated depreciation	<u>(1,959,103)</u>	<u>(1,866,347)</u>
Total	<u>\$ 1,778,647</u>	<u>\$ 1,773,419</u>

Long-Term Debt. As of June 30, 2012, Bethlehem Water District had total debt outstanding of \$1,016,703.

Bethlehem Water District’s Outstanding Debt

Figure 5

	Business-Type Activities	
	<u>2012</u>	<u>2011</u>
General obligation bonds	<u>\$ 1,016,703</u>	<u>\$ 1,164,039</u>

Additional information regarding 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, 2013

Business - Type Activities: Water rates will increase 3% to cover increased operating costs passed on from the County's water supplier. In addition, a Community Development Block Grant (CDBG) project continues from 2011-2012. The project will install 1,730 linear feet of eight-inch water line with approximately eight service connections.

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 ASSETS
PROPRIETARY FUND
JUNE 30, 2012

Assets:

Current assets:

Cash and investments	\$ 715,906
Accounts receivable, net	107,148
Total current assets	<u>823,054</u>

Non-current assets:

Land and other non-depreciable assets	99,952
Depreciable assets, net of depreciation	1,678,695
Other assets	9,419
Total non-current assets	<u>1,788,066</u>

Total assets	<u>2,611,120</u>
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Liabilities and Net Assets:

Current liabilities:

Accounts payable and accrued liabilities	93
Due to primary government	12,178
Miscellaneous liabilities	10,091
Current portion of long-term debt	153,244
Total current liabilities	<u>175,606</u>

Non-current liabilities:

Non-current portion of long-term debt	<u>863,459</u>
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Total liabilities	<u>1,039,065</u>
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Net Assets:

Invested in capital assets, net of related debt	761,944
Unrestricted	<u>810,111</u>

Total net assets	<u>\$ 1,572,055</u>
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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 ASSETS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2012**

Operating Revenues:

Water sales \$ 1,124,421

Operating Expenses:

Administration 15,130

Water operations 777,431

Depreciation and amortization 94,369

Total operating expenses 886,930

Operating income 237,491

Non-Operating Revenues (Expenses):

Investment earnings 952

Interest and fees paid (43,302)

Total non-operating revenues (expenses) (42,350)

Income (loss) before contributions 195,141

Capital contributions 131,050

Change in net assets 326,191

Net assets, beginning of year - July 1 1,245,864

Net assets, end of year - June 30 \$ 1,572,055

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, 2012

Cash Flows from Operating Activities:

Cash received from customers	\$ 1,120,735
Cash paid for goods and services	<u>(797,497)</u>
Net cash provided by operating activities	<u>323,238</u>

Cash Flows from Non-Capital Financing Activities:

Change in due to/from primary government	<u>2,102</u>
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**Cash Flows from Capital and Related
Financing Activities:**

Acquisition and construction of capital assets	(97,984)
Principal paid on bonds and notes payable	(147,336)
Interest and fees paid on bonds	(44,764)
Capital contributions	<u>131,050</u>
Net cash used by capital and related financing activities	<u>(159,034)</u>

Cash Flows From Investing Activities:

Interest on investments	<u>952</u>
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Net increase in cash and cash equivalents	167,258
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Cash and cash equivalents-beginning of year	<u>548,648</u>
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Cash and cash equivalents-end of year	<u>\$ 715,906</u>
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**Reconciliation of Operating Income to
Net Cash Provided (Used) by Operating Activities:**

Operating income	\$ 237,491
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	94,369
(Increase) decrease in accounts receivable	(3,686)
Increase (decrease) in accounts payable	<u>(4,936)</u>
Net cash provided (used) by operating activities	<u>\$ 323,238</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, 2012

1. Summary of Significant Accounting Policies

The accounting policies of 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 serves 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. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds, when 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

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

control, accountability or other purposes. Bethlehem Water District operates as a singular enterprise fund.

The Enterprise Fund is considered a major fund for the year ended June 30, 2012.

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.

All business-type activities (enterprise funds) of the Water District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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 \$5,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000 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.

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

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. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

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.

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Capital Assets

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 40 years as the estimated useful life.

Long-Term Obligations

Material bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. 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.

G. 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, 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

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

At June 30, 2012 the Water District's deposits had a carrying amount of \$646,061 and a bank balance of \$646,061. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$396,061 was covered by collateral held under the Pooling Method.

Investments

As of June 30, 2012, the Water District had \$69,845 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 \$7,336.

Capital Assets

The capital assets of the Water District at June 30, 2012 are as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Non-Depreciable Assets:				
Construction in progress	\$ 1,968	\$ 97,984	\$ -	\$ 99,952
Depreciable Assets:				
Distribution system	3,637,798	-	-	3,637,798
Less Accumulated Depreciation:				
Distribution system	<u>(1,866,347)</u>	<u>(92,756)</u>	-	<u>(1,959,103)</u>
Capital assets, net	<u>\$ 1,773,419</u>	<u>\$ 5,228</u>	<u>\$ -</u>	<u>\$ 1,778,647</u>

The 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, 2012 were \$744,397.

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Invested in Capital Assets, Net of Related Debt

The total invested in capital assets, net of related debt at June 30, 2012 is composed of the following elements:

	Business-Type Activities
Capital assets	\$ 1,778,647
Long-term debt	(1,016,703)
Invested in capital assets, net of related debt	\$ 761,944

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 \$22 million for any one occurrence; general, auto, public officials, law enforcement, and employment practices liability coverage of \$2 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.

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

Bonds payable at June 30, 2012 are as follows:

\$2,160,305, 2003 Water Refunding Bonds (issued 4/24/03), due semi-annually on October 1 and April 1 in installments of \$96,050, which includes interest at 3.97% \$ 1,016,703

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

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 153,244	\$ 38,857	\$ 192,101
2014	159,388	32,713	192,101
2015	165,778	26,323	192,101
2016	172,425	19,676	192,101
2017	179,339	12,762	192,101
2018	186,529	5,572	192,101
Total	<u>\$ 1,016,703</u>	<u>\$ 135,903</u>	<u>\$ 1,152,606</u>

A summary of changes in long-term obligations follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>	<u>Current Portion</u>
General obligation bonds	<u>\$ 1,164,039</u>	<u>\$ -</u>	<u>\$ 147,336</u>	<u>\$ 1,016,703</u>	<u>\$ 153,244</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, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Water sales	\$ 1,153,000	\$ 1,124,421	\$ (28,579)
Non-Operating Revenues:			
Investment earnings	800	952	152
Total revenues	<u>1,153,800</u>	<u>1,125,373</u>	<u>(28,427)</u>
Expenditures:			
Administration	100,200	15,130	85,070
Water and distribution	783,100	744,397	38,703
Budgetary Appropriations:			
Capital outlay	50,000	-	50,000
Debt principal	147,500	147,336	164
Interest and fees paid	45,000	43,302	1,698
Contingency	<u>28,000</u>	<u>-</u>	<u>28,000</u>
Total expenditures	<u>1,153,800</u>	<u>950,165</u>	<u>203,635</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 175,208</u>	<u>\$ 175,208</u>
Reconciliation from Budgetary Basis			
(Modified Accrual) to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 175,208	
Reconciling items:			
Debt principal		147,336	
Depreciation and amortization		(94,369)	
Capital contributions - capital project grant		131,050	
Capital project expenses not capitalized		<u>(33,034)</u>	
Net income (loss) - GAAP basis		<u>\$ 326,191</u>	

BETHLEHEM WATER DISTRICT
(A Component Unit of Alexander County, North Carolina)

BETHLEHEM WATER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Hoyle Keller Loop Revitalization Project:				
Revenues:				
CDBG Grant	\$ 389,105	\$ 5,468	\$ 131,050	\$ 136,518
Expenditures:				
Rehabilitation	140,000	-	29,079	29,079
Clearance activities	11,000	-	3,955	3,955
Administration	60,000	1,968	35,022	36,990
Planning	3,500	3,500	-	3,500
Water improvements	174,605	-	62,962	62,962
Total expenditures	<u>389,105</u>	<u>5,468</u>	<u>131,018</u>	<u>136,486</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32</u>	<u>\$ 32</u>