

Bethlehem Water District

(A Component Unit of Alexander County, North Carolina)

Basic Financial Statements

Year Ended June 30, 2007



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

BETHLEHEM WATER DISTRICT

BETHLEHEM, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

BETHLEHEM WATER DISTRICT
BETHLEHEM, NORTH CAROLINA

BOARD OF COMMISSIONERS

DARRELL ROBERTSON, CHAIRMAN

WES BOLICK, VICE CHAIRMAN

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HAROLD ODOM

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RICHARD FRENCH, COUNTY MANAGER

BETHLEHEM WATER DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Bethlehem Water District
Bethlehem, 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, 2007, 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, based on our audit, 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, 2007, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 26, 2007

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, 2007. 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

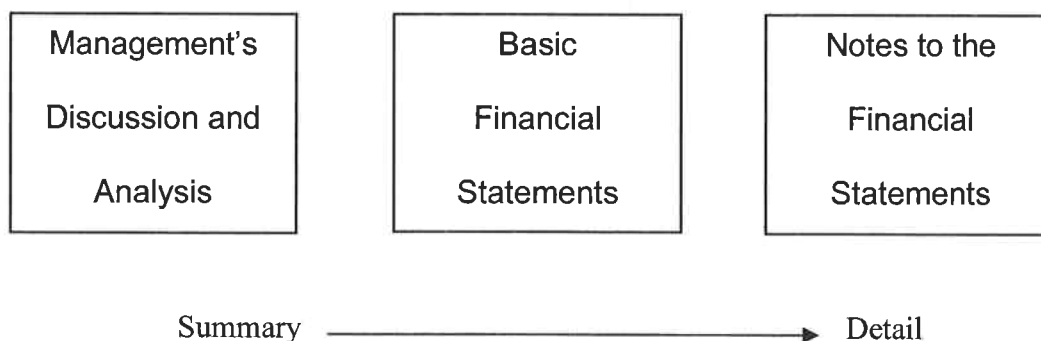
- As of the close of the current fiscal year, Bethlehem Water District reported net assets of \$741,377. Approximately 61 percent of this total amount, or \$450,963, is classified as unrestricted.
- Bethlehem Water District's total debt decreased by \$151,045 (8%) during the current fiscal year. No new 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	
	2007	2006
Current and other assets	\$ 468,613	\$ 387,787
Capital assets	2,109,151	2,200,724
Total assets	2,577,764	2,588,511
Long-term liabilities outstanding	1,662,839	1,818,737
Other liabilities	173,548	170,094
Total liabilities	1,836,387	1,988,831
Net Assets:		
Invested in capital assets, net of related debt	290,414	230,942
Unrestricted	450,963	368,738
Total net assets	\$ 741,377	\$ 599,680

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 \$741,377 (net assets) as of June 30, 2007. 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.
- Higher rate of return on investments, resulting in higher investment earnings.

Bethlehem Water District Changes in Net Assets
Figure 3

	Business-type Activities	
	2007	2006
Operating Revenues:		
Water Sales	\$ 905,465	\$ 859,506
Total operating revenues	<u>905,465</u>	<u>859,506</u>
Operating Expenses:		
Administration	14,600	4,450
Water operations	555,888	519,744
Depreciation and amortization	93,188	93,188
County reimbursement	40,000	130,000
Other	-	1,111
Total operating expenses	<u>703,676</u>	<u>748,493</u>
Operating income	201,789	111,013
Nonoperating revenues (expenses)	<u>(60,092)</u>	<u>(70,951)</u>
Change in net assets	141,697	40,062
Net assets, July 1	<u>599,680</u>	<u>559,618</u>
Net assets, June 30	<u>\$ 741,377</u>	<u>\$ 599,680</u>

Business-type activities: Business-type activities increased Bethlehem Water District's net assets by \$141,697. See Figure 3 above for the results of current year operations compared to the prior year.

Capital Asset and Debt Administration

Capital assets. Bethlehem Water District's capital assets as of June 30, 2007, total \$2,109,151 (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

	Activities	
	2007	2006
Distribution System	\$ 3,608,220	\$ 3,608,220
Accumulated depreciation	(1,499,069)	(1,407,496)
Total	<u>\$ 2,109,151</u>	<u>\$ 2,200,724</u>

Long-term Debt. As of June 30, 2007, Bethlehem Water District had total debt outstanding of \$1,818,737.

Bethlehem Water District's Outstanding Debt

Figure 5

	Business-type Activities	
	2007	2006
Notes payable	\$ 120,000	\$ 150,000
General obligation bonds	1,698,737	1,819,782
Total	<u>\$ 1,818,737</u>	<u>\$ 1,969,782</u>

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