

BROAD CREEK
PUBLIC SERVICE DISTRICT
HILTON HEAD ISLAND
BEAUFORT COUNTY, SOUTH CAROLINA
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2012

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2012

COMMISSIONERS

		<u>Term expires</u>
Marshall N. Katz	- Chairman	July 11, 2012
James Rowe	- Secretary	July 11, 2012
William Dugle	- Member	July 11, 2013
Thomas Hopkins	- Member	July 11, 2013
John Joseph	- Member	July 11, 2012
Russell Hildebrand	- General Manager	
Cary S. Griffin	- Assistant Secretary	

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

October 23, 2012

Commissioners
Broad Creek Public Service District
Hilton Head Island,
Beaufort County, South Carolina

We have audited the accompanying balance sheets of the Broad Creek Public Service District (the "District") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits 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 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Broad Creek Public Service District as of June 30, 2012 and 2011, and the results of its operations, and its cash flows for the years 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 on pages 3 through 12 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 operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Broad Creek Public Service District's (the District) annual financial statements presents management's analysis of the District's financial condition and activities during the Fiscal year that ended on June 30, 2012. This information should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is solid. The District is within its debt covenants as well as the more stringent financial policies and guidelines set by the Board and Management. The following are key financial highlights:

- In fiscal year 2012, the District levied a 10 mill charge for operations. The millage rate was frozen at a maximum level of 10 mills in 2001 by act of the Legislature and the Governor of South Carolina (section 6-11-271). However, as a result of a property value reassessment in 2009 the millage was rolled back to 9.52 mills in fiscal year 2010 (section 6-1-320). Allowable millage increase caps for fiscal year 2011 and 2012 were set at 2% and 3.35% respectively. The District levied 9.52 mills in fiscal year 2010, 9.71 mills in fiscal year 2011, and 10 mills in fiscal year 2012. Property tax revenue increased 2.5% from fiscal year 2010 to 2011, and .61% from 2011 to 2012. The consistent property tax revenue allowed the District to fund its needed capital projects and maintain debt service obligations without a rate increase in fiscal year 2012.
- On September 22, 2009 the District and Hilton Head Public Service District (HHPSD) entered into a ten year contract with Beaufort Jasper Water and Sewer Authority (BJWSA) to receive treated Savannah River water at an off-peak price, with a consumer price index adjustment made each July. For the first five contract years the base rate is \$.75 per 1000 gallons from November to February. The CPI adjusted rate for fiscal year 2012 was \$.79. For the last five contract years, the base price will be recalculated based on current BJWSA costs. The new base contract price will be in place through February 2020. The standard contracted rate for the water is \$1.58 per 1000 gallons until November 2014.
- In fiscal year 2012, the District continued its program of replacing residential meters that are ten years old. The ongoing program is designed to reduce water loss, to make certain that all non-testable backflow devices are replaced on a specific schedule, and to ensure accurate usage measurements and usage revenue. A total of 47 residential meters were replaced. In addition, 46 new stretch yoke meter boxes and backflow devices were installed and 114 boxes cleared in preparation for the new radio read meters to be installed in fiscal year 2013. The total capital cost was \$23,114. Twenty commercial meters were also replaced at a cost of \$48,847.

- Phase II of the vacuum sewer line and isolation valve replacement project from Port Tack to the end of Mooring Buoy in Palmetto Dunes was completed in June 2012 at a capital cost of \$325,000. The project addresses underground line deterioration and increases line size for better service.
- During fiscal year 2012, the District rehabilitated twelve critical manholes at a capital cost of \$52,154. The rehabilitation project protects the integrity of the manholes, improves sewer flows, and shores up manholes for safety purposes.
- The Village lift station was upgraded this fiscal year as part of an ongoing lift station upgrade program. The old pump was set in a dry well and required confined space maintenance. For safety and efficiency, this pump was replaced with a submersible pump that can be raised for maintenance. New control panels and a new check valve were also added. The total capital cost was \$107,408.
- Phase II of the Supervisory Control and Data Acquisition (SCADA) program was completed in February 2012 at a total capital cost of \$282,550. SCADA electronically monitors well, lift station, and vacuum station pumps and controls. Phase II includes electronic monitoring of the Wastewater Treatment Plant equipment and controls.
- Fiscal year 2012's other major capital asset additions and improvements include:

The District spent \$117,711 in pump and pump motor replacement and in pump rehabilitation. Five pumps were replaced at the District lift and vacuum stations. Five pumps were upgraded at the District treatment plant.

Upgrades to the treatment plant totaled \$269,307. These capital expenditures were a combination of emergency repairs and budgeted upgrades necessary for the water distribution and wastewater treatment processes. These include electrical upgrades, valve replacements, steel walkways, air conditioning system, odor control system, generator switch, filter work, and laboratory upgrades.

Upgrades to distribution and collection systems totaled \$87,140. Included in the expenditures were well equipment, upgrades to the groundwater test wells, stainless safety rails at District lift stations, fire hydrant replacement, generator enclosure box, vacuum tank and valve replacements, and lift station pit evacuators for lift station pipe cleaning.

The District purchased four new vehicles for administration and operation use with a capital cost of \$75,116. The District also purchased new computer equipment for a total of \$23,946, including a new server for utility billing and finance.

- Fiscal year statistics as they relate to water pumped and wastewater treated are as follows:

	FY2012	FY2011	FY2010
Water Pumped in Million Gallons (mg)	678	715	686
Water Pumped 8 Golf Wells in mg	62	58	41
Wastewater Influent Flows in mg	305	400	363
Total Rainfall	40.2"	38.1"	50.4"
Total Island Visitors	2,355,668	2,309,156	2,205,354

As of June 30, 2012 the District has the following customer account classifications and numbers:

- Single Family – 1283 accounts
- Regime – 39 accounts, 2264 units
- Supplemental Transient Rental – 1026 accounts
- Commercial Hotel/Timeshare – 8 accounts, 1361 units
- Commercial Business – 77 accounts
- Commercial Irrigation – 125 accounts

Water Used/Billed and Pumped

Customer Class	Est. Used/Billed Gallons FY 2012	Est. Used/Billed Gallons FY 2011	Est. Used/Billed Gallons FY 2010
Single Family / Individually Metered Condos	235,151,866	239,808,351	217,434,340
Regime	203,792,840	221,301,930	199,398,940
Commercial Hotel/Timeshare	102,448,970	117,833,790	117,644,410
Commercial Business	22,501,020	25,289,860	27,231,850
Commercial Irrigation	91,562,160	83,468,950	74,685,860
Billed Total	655,456,856	687,702,881	636,395,400
Water Used in Hydrant Flushing	850,000	836,400	-
Water Used in Hydrant Flow Meter Rental	-	1,365,200	-
Total Water Billed/Used	656,306,856	689,904,481	636,395,400
Water Pumped in Gallons - 3 District Wells	480,152,180	534,549,477	489,665,839
Water Pumped in Gallons - HHPSD/BJWSA	179,557,205	180,393,000	196,771,000
Total Water Pumper in Gallons	677,709,385	714,942,477	686,436,839

The 4.7% decrease in billed usage from fiscal year 2011 to fiscal year 2012 is in part the result of greater customer awareness and customer efforts to better manage water usage, particularly in the regime customer class. As reflected in the decrease in water pumped, overall usage in all customer classes was down compared to fiscal year 2011 except for commercial irrigation. Commercial irrigation customer class does not include single family and regime irrigation, but does include separate irrigation meters for hotels,

timeshares, and other businesses. The increase in commercial irrigation can be attributed to the hot dry months of July through September 2011. Rainfall during that period totaled 15” compared to 22” for the same time period in 2010. Hotels and timeshares, as well as other commercial irrigation customers were irrigating more during those dry periods compared to single family and regime, and compared to the prior year. The weather conditions during the months of March through June 2012 played a role in overall decreased usage. Rainfall during that period totaled 15” compared to 11” the prior year. Everyone was irrigating less.

- Operating revenues for fiscal year 2012 were \$4,337,148 or 103% of budget. Operating expenses before depreciation and amortization were \$3,837,939 or 96.5% of budget. Operating revenues for fiscal year 2012 were down 3.2% compared to 2011, and up 1.8% compared to 2010. Operating expenses before depreciation and amortization were up 3.1% from 2011, and up 6.4% from 2010.

	Budget FY2012	Actual FY2012	Actual FY2011	Actual FY2010
Total Operating Revenue	4,203,491	4,337,148	4,479,538	4,261,486
Total Operating Expenses	3,977,323	3,837,939	3,719,398	3,607,359
Operating Income	\$ 226,168	\$ 499,210	\$ 760,140	\$ 654,127

Total operating revenue consists of rate revenue, connection fees, transfer fees and other miscellaneous revenue, such as insurance claim funds. Rate budgets are based on a cost of service model. Usage rate revenue is calculated by determining the estimated cost of distributing water during the fiscal year and allocating that cost to each customer class based how they used water the previous fiscal year. The usage budget is the minimum amount the District needs to collect to cover distribution costs. The flat rate sewer revenue budget is based on actual customer base times the flat rate. The customer base may vary slightly year to year. Actual usage rate revenue was higher than budgeted for fiscal year 2012. It was lower than fiscal year 2011 actual due to a decrease in usage from fiscal year 2011 to 2012. The flat rate revenue was higher than budgeted and higher than prior year due to an increase in the transient rental customers. More regime and single family home owners were renting out their properties in fiscal year 2012 compared to 2011. Connection fees were \$4,861 in fiscal year 2012, and \$20,195 in fiscal year 2011, a 75% decrease. Fewer new homes were connected to the District system in fiscal year 2012.

The operating expense budget is an incremental budget, arrived at by examining past fiscal year actual expenses and evaluating any anticipated changes in the upcoming fiscal year. Fiscal year 2012’s operations budget reflects a 6.9% increase from fiscal year 2011 actual expenses. The operating expenses for fiscal year 2012 were 3.6% under budget.

The major variances in fiscal year 2012 expenses compared to fiscal year 2011 expenses are as follows:

Salary expense totaled \$1,535,935 for fiscal year 2012. The 2012 expense is 5.5% higher than 2011. The variance is the result of an approved higher than normal salary increase of 5% to align employees with competitive rates, increased temporary worker hours in fiscal year 2012, and the full salary for an employee hired in February 2011.

Group insurance expense totaled \$475,098 for fiscal year 2012. The 2012 expense is 12.5% higher than 2011. This variance is the result of group insurance renewal rates. The renewal for Blue Cross Blue Shield, the District's health insurance carrier is based on calendar year. The first six months of fiscal year 2012 the renewal increase was 14%, the second six months the renewal rate was 12%.

Conference and meeting expense totaled \$38,771 for fiscal year 2012. The 2012 expense is 27% lower than 2011. During fiscal year 2012 District employee attendance to out of state industry conferences was down. Most District training and meeting events took place locally or within the state.

Information Technology expense totaled \$46,583 for fiscal year 2012. The 2012 expense is 28% higher than 2011. The increased expenditures are due to new maintenance contracts associated with software and equipment, as well as new laptops and wireless cards for laptops. There were additional vendor labor charges associated with new banking software, relocating lines, and computer setups.

Water Purchased from Hilton Head Public Service District (HHPD) expense totaled \$192,363 for fiscal year 2012. Although usage of BJWSA was slightly lower 2012 compared to 2011, the amount pumped during peak pricing (\$1.58 per 1000) was higher by 8.9 million gallons. The off-peak price for fiscal year 2012 increased by 3 cents, from 76 cents to 79 cents, on the 116.9 million gallons used.

Operation Fees and Permits expense totaled \$24,691 for fiscal year 2012. The 2012 expense is 7% lower than 2011. The fiscal year 2012 budget was increased in anticipation of the Department of Health and Environmental Control (DHEC) changes in testing and sampling of wastewater and drinking water. DHEC was considering two options: raising the fee to utilities in order to continue their in house testing and sampling process or having utilities outsource the process and report the results to DHEC. Neither change was implemented in fiscal year 2012.

Electricity expense totaled \$370,983 for fiscal year 2012. The 2012 expense is 9% lower than 2011. The budget was increased from fiscal year 2011 to 2012 by \$8,000 or 2% based in part on previous year consumption. During fiscal year 2012 parts of the treatment plant previously unconnected to the generator were connected reducing the off peak demand charge. In addition, during fiscal year

2011 the generator was down while under repair causing higher than usual off peak demand charges.

Refuse Disposal expense totaled \$46,459 for fiscal year 2012. The 2012 expense is 15% lower than 2011. Fiscal year 2011 influent flows, or waste water into the plant for treatment, were 400 million gallons. Fiscal year 2012 influent flows were 305 million gallons. The lower flows directly correlate to the reduced cost of sludge disposal.

Repair and maintenance to the collection and distribution system expense totaled \$111,655 for fiscal year 2012. The 2012 expense is 15% higher than 2011. Fiscal year 2012 experienced unusual repair and maintenance issues compared to 2011. There were emergency repairs on lift station and vacuum station equipment due to age; a component in the variable frequency drive malfunctioned at Port Tack vacuum station; there was an emergency removal of a large pine tree damaging line on Sea Lane in Palmetto Dunes; and there were miscellaneous landscape fixes at lift stations.

Chemical expense totaled \$119,405 for fiscal year 2012. The 2012 expense is 16% higher than 2011. At the end of fiscal year 2012, large purchases of lime, salt, and polymer were made for summer usage compared to the previous year. Liquid polymer for the dewatering system was used for the entire fiscal year instead of granular polymer. Polymer expense increased over \$11,000 from 2011 to 2012.

SUMMARY OF ORGANIZATION AND BUSINESS

The District was created in August 1973 and is governed by a board of five (5) Commissioners who are elected by the registered voters of the District for recommendation to the local legislative delegation. The Governor of South Carolina then appoints the nominees.

The system serves the middle portion of Hilton Head Island to include Palmetto Dunes Resort and Shelter Cove Harbor. The District serves approximately 4,500 residential, commercial and transient rental properties.

The system derives its water supply primarily from District-owned wells tapped into the Floridan Aquifer. Additionally, the District owns 2 million gallons per day (mgd) capacity in the Beaufort-Jasper Water and Sewer Authority's surface water treatment plant. (Beaufort-Jasper obtains its water from the Savannah River). The District's current use from the supplemental Savannah River source is an average of 492,000 gallons per day. These combined sources are designed to supply the District's needs into the foreseeable future.

The District's wastewater treatment plant has a capacity of 2.08 mgd and averaged 836,000 gallons per day in fiscal year 2012. The peak treatment month was in July 2011 at 1.4 mgd average and the peak treatment day was in August 2011 at 1.5 mg. The plant and system design envisions serving the District's needs at build-out. The District's wastewater plant currently treats wastewater to the AWT (advanced wastewater treatment) standard and all treated effluent is disposed of through a modern golf course irrigation system. During fiscal year 2012, the remaining solids have been processed through a screw press dewatering system, and, by permit, the bio-solids are then hauled to Hickory Hill Waste Disposal in Jasper County. The District is and historically has been in full regulatory compliance.

The District levies a 10 mill charge for operations. The millage rate was frozen at a maximum level of 10 mills in 2001 by act of the Legislature and the Governor of South Carolina. (section 6-11-271)

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The *balance sheet* presents the financial position of the District on a full accrual historical cost basis. The balance sheet presents information on all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the District is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

BROAD CREEK PUBLIC SERVICE DISTRICT

CONDENSED BALANCE SHEETS AS OF JUNE 30, 2012, 2011 AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Property, plant and equipment, net	\$ 16,188,952	\$ 16,164,745	\$ 16,567,335
Other assets	<u>4,493,027</u>	<u>4,526,976</u>	<u>3,959,252</u>
Total assets	20,681,979	20,691,721	20,526,587
Current liabilities	781,807	887,673	832,864
Long term liabilities	<u>6,387,665</u>	<u>6,938,871</u>	<u>7,547,007</u>
Total liabilities	7,169,472	7,826,544	8,379,871
Net assets:			
Investment in capital assets, net of related liabilities	9,310,617	8,672,700	8,488,037
Restricted for debt service	33,887	103,936	100,412
Unrestricted	<u>4,168,003</u>	<u>4,088,541</u>	<u>3,558,267</u>
Total net assets	<u>13,512,507</u>	<u>12,865,177</u>	<u>12,146,716</u>
Total liabilities and net assets	<u><u>\$ 20,681,979</u></u>	<u><u>\$ 20,691,721</u></u>	<u><u>\$ 20,526,587</u></u>

BROAD CREEK PUBLIC SERVICE DISTRICT
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012, 2011 AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total operating revenues	\$ 4,337,148	\$ 4,479,538	4,261,486
Expenses			
Salaries, wages and employee benefits	2,278,224	2,132,538	2,006,603
Depreciation and amortization	1,383,697	1,513,835	1,424,523
Other operating expenses	<u>1,559,715</u>	<u>1,586,860</u>	<u>1,600,756</u>
Total operating expenses	5,221,636	5,233,233	5,031,882
Loss from operations	(884,488)	(753,695)	(770,396)
Other income (expense):			
Property taxes	1,579,676	1,570,115	1,532,423
Other income	217,058	227,559	230,236
Gain (loss) on disposed assets	(15,445)	(88,945)	9,555
Interest Expense	<u>(258,271)</u>	<u>(281,673)</u>	<u>(304,077)</u>
Total other income (expense)	1,523,018	1,427,056	1,468,137
Increase in net assets before developer contributions	638,530	673,361	697,741
Developer contributions	<u>8,800</u>	<u>45,100</u>	<u>27,675</u>
Increase in net assets	<u>647,330</u>	<u>718,461</u>	<u>725,416</u>
Net assets at beginning of year	<u>12,865,177</u>	<u>12,146,716</u>	<u>11,421,300</u>
Net assets at end of year	<u>\$ 13,512,507</u>	<u>\$ 12,865,177</u>	<u>\$ 12,146,716</u>

AUDITED FINANCIAL STATEMENTS

BROAD CREEK PUBLIC SERVICE DISTRICT

BALANCE SHEETS

AS OF JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 2,698,300	\$ 2,643,500
Cash with Beaufort County Treasurer	203,469	177,939
Cash controlled by District (restricted)	40,729	114,444
Certificates of deposit	807,347	737,562
Accounts receivable - trade	410,703	492,837
Accounts receivable - other	1,520	29,653
Inventory	176,973	191,556
Prepaid expenses	<u>102,157</u>	<u>77,294</u>
Total current assets	4,441,198	4,464,785
Non-current assets		
Property, plant and equipment, net	16,188,952	16,164,745
Bond issuance costs, net	<u>51,829</u>	<u>62,190</u>
Total non-current assets	16,240,781	16,226,935
Total assets	<u>\$ 20,681,979</u>	<u>\$ 20,691,720</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT

BALANCE SHEETS

AS OF JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS	2012	2011
Current liabilities		
Accounts payable - trade	\$ 88,401	\$ 128,078
Accrued payroll	133,809	125,016
Current liabilities payable from restricted assets:		
Bonds payable due within one year	566,472	637,787
Accrued interest payable	6,842	10,508
Less deferred refunding costs	<u>(13,717)</u>	<u>(13,717)</u>
Total current liabilities	<u>781,807</u>	<u>887,672</u>
Long term liabilities		
Bonds payable due after one year	6,514,574	7,081,046
Deposits	10,256	8,706
Less deferred refunding costs	<u>(137,165)</u>	<u>(150,881)</u>
Total long term liabilities	<u>6,387,665</u>	<u>6,938,871</u>
Total liabilities	7,169,472	7,826,543
Net assets		
Investment in capital assets, net of related liabilities	9,310,617	8,672,700
Restricted for debt service	33,887	103,936
Unrestricted	<u>4,168,003</u>	<u>4,088,541</u>
Total net assets	13,512,507	12,865,177
Total liabilities and net assets	<u>\$ 20,681,979</u>	<u>\$ 20,691,720</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Residential	\$ 2,978,210	\$ 3,087,186
Commerical	1,335,985	1,360,520
Connection fees	4,861	20,195
Other operating revenues	<u>18,092</u>	<u>11,637</u>
Total operating revenues	4,337,148	4,479,538
 Operating expenses		
Salaries, wages and employee benefits	2,278,224	2,132,538
Administrative expenses	356,755	373,949
Plant and system operations	1,010,597	1,038,337
Water purchases	<u>192,363</u>	<u>174,574</u>
Total operating expenses before depreciation and amortization	3,837,939	3,719,398
 Income from operations before depreciation and amortization	499,209	760,140
 Depreciation expense	1,359,620	1,489,758
Amortization expense	<u>24,077</u>	<u>24,077</u>
Loss from operations	(884,488)	(753,695)
 Other income (expenses)		
Property taxes	1,579,676	1,570,115
Availability charges	38,378	45,922
Tower lease income	159,491	154,624
Interest income	19,189	27,013
Gain (loss) on disposed assets	(15,445)	(88,945)
Interest expense	<u>(258,271)</u>	<u>(281,673)</u>
Net other income (expenses)	1,523,018	1,427,056
 Increase in net assets before developer contributions	638,530	673,361
Developer contributions	<u>8,800</u>	<u>45,100</u>
Increase in net assets	<u>647,330</u>	<u>718,461</u>
 Net assets at beginning of year	<u>12,865,177</u>	<u>12,146,716</u>
Net assets at end of year	<u>\$ 13,512,507</u>	<u>\$ 12,865,177</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities		
Cash received from customers	\$ 4,448,966	\$ 4,330,926
Cash paid to suppliers	(2,321,212)	(2,264,139)
Cash paid to employees	(1,557,892)	(1,471,900)
Net cash provided by operating activities	569,862	594,887
Cash Flows From Investing Activities		
Purchases of certificates of deposit	(250,000)	(366,595)
Proceeds from certificates of deposit	180,192	355,826
Interest earned	19,189	27,013
Net cash provided by investing activities	(50,619)	16,244
Cash flows from noncapital financing activities:		
Property taxes collected	1,579,676	1,570,115
Availability charges	38,378	45,922
Tower lease income	159,491	154,624
Net cash provided by noncapital financing activities	1,777,545	1,770,661
Cash flows from capital financing activities:		
Developer contributions	8,800	45,100
Acquisition of property, plant and equipment	(1,399,251)	(1,176,440)
Principal paid on bonds	(637,787)	(611,330)
Interest paid	(261,935)	(285,197)
Net cash used in capital financing activities	(2,290,173)	(2,027,867)
Net increase in cash and cash equivalents	6,615	353,925
Cash and cash equivalents at beginning of year	2,935,883	2,581,958
Cash and cash equivalents at end of year	\$ 2,942,498	\$ 2,935,883

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Schedule of cash and cash equivalents:		
Available for operations:		
Demand deposits	\$ 2,698,300	\$ 2,643,500
Held by Beaufort County Treasurer	203,469	177,939
Total available for operations	2,901,769	2,821,439
Restricted:		
Controlled by District for debt service	40,729	114,444
Total restricted	40,729	114,444
Total cash and cash equivalents at end of year	\$ 2,942,498	\$ 2,935,883
 Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (884,488)	\$ (753,695)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,359,620	1,489,758
Amortization	24,077	24,077
Changes in assets and liabilities		
Accounts receivable - trade	82,134	(129,992)
Accounts receivable - other	28,133	(20,837)
Inventory	14,583	(74,639)
Prepaid expenses	(24,863)	12,407
Accounts payable	(39,677)	31,336
Accrued payroll	8,793	14,255
Deposits	1,550	2,217
Net cash provided by operating activities	\$ 569,862	\$ 594,887

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1. Summary of Significant Accounting Policies

General

The Broad Creek Public Service District (the "District") was created by enabling legislation Act No. 1739 ratified on August 3, 1972 and amended by Act No. 575 ratified on July 11, 1973. Generally, the District was formed to provide and maintain waterworks and sewage disposal systems. Additionally, the District is authorized to provide security, fire protection, property, road, lagoon and beach maintenance as, in the opinion of the Commissioners, shall be necessary for development of the District.

In order to raise funds to provide these services the District has issued both general obligation and revenue bonds. (See Note 6) In this respect the District is also authorized to levy and collect a tax upon all taxable property within the District to retire the bonds and pay the interest thereon. In addition to the above mentioned tax levy, annually, the District levies an ad valorem tax for administrative purposes. For the years ended June 20 2012 and 2011, 10 mills and 9.71 mills were levied respectively. With the exception of millage, the District has authority to set usage, connection, availability, and other related rates.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District applies all relevant GASB pronouncements. The District applied all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions through November 30, 1989. These GASB Statements require the presentation of Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: 1) the classification of the equity section of the balance sheets into net assets with categories of invested in capital assets, net of related liabilities, restricted, and unrestricted; 2) the statements of revenues, expenses and changes in net assets formatted to report changes in net assets in lieu of changes in retained earnings; and 3) additional note disclosures to the financial statements.

Fund Accounting

The District operates as a proprietary fund type-enterprise fund whereby operations are financed and operated in a manner similar to a private business enterprise. Under the enterprise fund concept the cost of providing goods or services to the general public are financed and recovered primarily through user charges.

Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund type is accounted for on a cost of service measurement focus using the accrual basis of accounting.

Water revenue, sewer revenue, revenue bond interest, and all operating expenses are recognized using the accrual method of accounting. Property taxes and availability charges are recognized when collected by the Beaufort County Treasurer. General obligation bond interest is recognized as an expense when paid.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

Connection fees are recognized as income in the period in which they are billable under the various agreements with developers or homeowners.

Revenue Policy

The District recognizes operating revenues as those revenues resulting from providing services. Operating revenues include water revenues, sewer revenues and connection fees as operating revenues. Non-operating revenues are revenues of the District not directly attributable to the services provided. This includes property taxes, availability charges, tower lease revenues, interest income and gains (losses) on the sale of capital assets.

Cash and cash equivalents

For purposes of the statement of cash flows, the District considers both restricted and unrestricted demand deposits and money market accounts to be cash equivalents. In addition, all highly liquid investments, including repurchase agreements, with original maturities of three months or less are considered to be cash equivalents.

Accounts Receivable

The District uses the direct write-off method for uncollectible trade accounts. An allowance for uncollectible accounts is not considered necessary by management because the District seldom experiences significant bad debt losses and fully expects to collect all trade receivables. The District maintains a separate receivables account for billings required under various developer contracts. As of June 30, 2012, management does not anticipate any significant bad debts from these receivables.

Inventory

Inventories are valued at the lower of cost or market, principally on an average cost method.

Capitalization Policy

Interest associated with construction costs less interest income earned on funds obtained for this purpose is capitalized. Other charges directly associated with construction such as engineering, design, legal and accounting fees are capitalized into the project.

Property, Plant, Equipment and Depreciation

Property, plant and equipment are recorded at cost when constructed or purchased by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. For assets contributed by developers, land is recorded at its fair market value at the date of the contribution. Water and sewage systems received from developers are capitalized at the cost to the developer.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

Property, Plant Equipment and Depreciation (continued)

Depreciation of all property, plant and equipment is provided by the straight line method calculated on the assets' estimated useful lives as follows:

	<u>Estimated Life (Years)</u>
Wastewater treatment plant	5 - 30
Water and sewer systems	5 - 30
Water tank	33
Buildings, office and fences	5 - 25
Trucks and other equipment	5 - 15

Betterments and improvements, which extend the useful life of an asset are capitalized and depreciated over their useful life. Repairs and maintenance are charged to expense as incurred.

Net Assets

Net assets are classified as follows:

Investment in capital assets – represents the District's total investment in capital assets.

Restricted – representing those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The District is legally or contractually obligated to spend these funds in accordance with the restrictions imposed by third parties.

Unrestricted – consist of those operating funds over which the Board of Directors retains full control to use in achieving any of its authorized purposes. The Board has designated certain funds to be used for specific purposes. (See Note 13)

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Compensated Absences

The District accounts for compensated absences by accruing a liability for future absences according to the guidelines of GASB Statement No. 16, Accounting for Compensated Absences. Compensated absences are included in accrued payroll on the balance sheet and amounted to \$63,445 and \$65,214 at June 30, 2012 and 2011.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

Reclassification

Certain accounts and amounts in the June 30, 2011 financial statements have been reclassified in order to conform with the June 30, 2012 presentation.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 23, 2012, the date that the financial statements were available to be issued.

Note 2. Cash, Cash Equivalents and Investments

Custodial credit risk is the risk that in the event of failure, the District's deposits may not be returned to the District. Bank balances differ from the District's carrying amount due to cash on hand, deposits in transit and outstanding checks. At June 30, 2012, the carrying amounts of the District's demand deposits were \$2,738,829 and the bank balance of cash on deposit was \$2,975,862. At June 30, 2012, \$203,469 was held by the Beaufort County Treasurer.

	June 30, 2012
Amounts insured by FDIC coverage	\$ 828,838
Amounts collateralized with securities held by the pledging financial institution in the District's name	508,519
Amounts collateralized with an Irrevocable Letter of Credit Uncollateralized	1,638,505
	-
Total bank balances	<u>\$ 2,975,862</u>

At June 30, 2012, the District's investments consisted of certificates of deposit in the amount of \$807,347 with maturities ranging from six to thirty-six months covered by FDIC insurance.

The District has not adopted formal policies regarding credit risk, custodial credit risk, interest rate risk or concentration of credit risk.

In accordance with South Carolina Statute, SC Code Ann. 6-5-10, the governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:

- (1) Obligations of the United States and agencies thereof;
- (2) General obligations of the State of South Carolina or any of its political units;
- (3) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government;

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 2. Cash, Cash Equivalents and Investments (continued)

- (4) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (5) Repurchase agreements when collateralized by securities as set forth in this section.
- (6) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), and (5) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.
- (b) The provisions of this chapter shall not impair the power of a municipality, county, school district or other local governmental unit or political subdivision or county treasurer to hold funds in deposit accounts with banking institutions as otherwise authorized by law.
- (c) Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.

In accordance with South Carolina Statute, SC Code Ann. 11-1-60, the State or any department, institution, agency, district, county, municipality or other political subdivision of the State or any political or public corporation of the State or of the United States may invest its funds or the moneys in its custody or possession eligible for investment in the shares of any federal savings and loan association or in the shares of any building and loan association organized and existing under the laws of this state when such shares are insured by the Federal Savings and Loan Insurance Corporation and also in bonds or debentures issued by any Federal home loan bank or in the consolidated bonds or debentures issued by the Federal Home Loan Bank Board.

Beginning in February 2010, the District's repurchase agreements require the bank's trust department to invest excess funds of the District in overnight deposits in U.S. securities. The rate of return is based on the market rates determined on a day-to-day basis and the District is not protected against a loss in market value. At June 30, 2012, the District had \$508,519 invested in overnight repurchase agreements. All investments of the District were redeemable on demand without penalty as of June 30, 2012 and are, therefore, classified as cash and cash equivalents.

Note 3. Accounts Receivable - Other

Accounts receivable - other consists of employee receivables and miscellaneous operating receivables of \$1,520 and \$29,652 for the years ended June 30, 2012 and 2011, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 4. Property, Plant, Equipment and Depreciation

Capital asset activity during the years was as follows:

	6/30/2011	Additions	Disposals	Transfers	6/30/2012
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	1,200	713,212	-	(677,747)	36,665
Total nondepreciable assets	237,247	713,212	-	(677,747)	272,712
Wastewater treatment and distribution	28,537,864	228,087	(133,624)	335,842	28,968,169
Water and sewer systems	6,578,653	323,443	-	325,000	7,227,096
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	426,938	61,395	-	16,905	505,238
Trucks and other equipment	988,925	73,115	(51,066)	-	1,010,974
Total depreciable assets	36,696,498	686,040	(184,690)	677,747	37,875,595
Accumulated depreciation	(20,769,000)	(1,359,620)	169,265	-	(21,959,355)
Net depreciable assets	15,927,498	(673,580)	(15,425)	677,747	15,916,240
Total property plant and equipment	\$ 16,164,745	\$ 39,632	\$ (15,425)	\$ -	\$ 16,188,952

	6/30/2010	Additions	Disposals	Transfers	6/30/2011
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	290,446	728,174	-	(1,017,420)	1,200
Total nondepreciable assets	526,493	728,174	-	(1,017,420)	237,247
Wastewater treatment and distribution	28,395,980	210,833	(337,566)	268,617	28,537,864
Water and sewer systems	5,721,926	124,671	(16,746)	748,802	6,578,653
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	436,699	7,336	(17,097)	-	426,938
Trucks and other equipment	919,014	105,426	(35,515)	-	988,925
Total depreciable assets	35,637,737	448,266	(406,924)	1,017,419	36,696,498
Accumulated depreciation	(19,596,895)	(1,477,977)	317,653	(11,781)	(20,769,000)
Net depreciable assets	16,040,842	(1,029,711)	(89,271)	1,005,638	15,927,498
Total property plant and equipment	\$16,567,335	\$ (301,537)	\$ (89,271)	\$ (11,782)	\$16,164,745

Depreciation expense for the years ended June 30, 2012 and 2011 was \$1,359,620 and \$1,489,758 respectively.

Note 5. Bonds Payable

On May 15, 2001, the District issued \$2,300,000 Waterworks and Sewer System Improvement Revenue Bonds (second lien), Series 2001. The proceeds from these bonds were used to finance certain improvements and extensions to the waterworks and sewer system of the District and pay the costs of this bond issuance. The bonds have a fifteen year term and are payable in quarterly installments of \$57,249 with the final payment due May 1, 2016. The interest rate is 4.97% on these bonds and interest of \$46,750 and \$55,533 was paid for the years ended June 30, 2012 and 2011, respectively, and \$6,842 and \$8,352 was accrued at June 30, 2012 and 2011, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 5. Bonds Payable (continued)

On August 20, 2003, the District issued \$3,066,111 Waterworks and Sewer System Refunding Revenue Bonds, Series 2003. The proceeds from these bonds were used to repay the outstanding balance of a State Water Pollution Revolving Fund loan and bond issuance costs. The bonds are payable from the gross revenues of the District. The bonds have a ten year term and are payable in quarterly installments of \$100,915 with the final payment due May 1, 2012. The interest rate is 3.27% on these bonds and interest of \$8,117 and \$20,791 was paid for the years ended June 30, 2012 and 2011 respectively, and \$-0- and \$2,156 was accrued at June 30, 2012 and 2011, respectively.

On May 29, 2008, the District issued \$6,435,000 of General Obligation Refunding Bonds, Series 2008. The proceeds of these bonds were used to currently refund the Series 1998 bonds, pay a 1% call premium of \$63,300 and pay a portion of the costs of this bond issuance. The bonds are payable from property taxes levied each year by the Beaufort County Treasurer for the purpose of providing funds to pay the annual debt service requirements of the bonds. Although bond principal payments are due by July 1st of the next fiscal year, the bond debt service schedule places these principal payments in the current fiscal year; and hence are remitted to the paying agent and recorded by the District by June 30th of the current fiscal year. The bonds have a fifteen year term and are payable in variable semi-annual installments with the final payment due July 1, 2023. The interest rate is 3.279% on these bonds, and interest of \$207,069 and \$208,872 was paid for the years ended June 30, 2012 and June 30, 2011, respectively. The District is amortizing the deferred loss on early retirement of the Series 1998 bonds of \$206,891 over the life of the Series 2008 bonds. The unamortized balance at June 30, 2012 and 2011 was \$150,882 and \$164,598, respectively.

The revenue bonds require certain funds to be maintained by the District. Most of these had previously been established for other bonds. These are the gross revenue fund, the operation and maintenance fund and the depreciation and contingency fund. In addition, the District is required to establish a debt service fund for each series of bonds outstanding to provide for the ratable payment of same as they fall due.

Bond debt service requirement to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2013	566,472	242,624	809,096
2014	691,167	220,633	911,800
2015	726,353	194,380	920,733
2016	757,054	166,791	923,845
2017	550,000	142,309	692,309
2018 - 2023	3,790,000	449,387	4,239,387
TOTAL	\$ 7,081,046	\$ 1,416,124	\$ 8,497,170

Bond issuance and deferred refunding costs are amortized on a straight line basis over the remaining term of the related debt. Amortization expense for bond issuance costs was \$10,360 for the years ended June 30, 2012 and 2011. Amortization expense for deferred refunding costs was \$13,717 for the years ended June 30, 2012 and 2011.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 6. Long Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	6/30/2011	Additions	Reductions	6/30/2012	Due within One Year
Bonds payable:					
General obligation bonds	\$ 6,315,000	\$ -	\$ (60,000)	\$ 6,255,000	\$ 375,000
Revenue bonds	1,403,832	-	(577,786)	826,046	191,472
Total bonds payable	7,718,832	-	(637,786)	7,081,046	566,472
Deferred refunding charges	(164,597)	-	13,716	(150,881)	(13,716)
Deposits	8,706	3,050	(1,500)	10,256	-
Long-term liabilities	<u>\$ 7,562,941</u>	<u>\$ 3,050</u>	<u>\$ (625,570)</u>	<u>\$ 6,940,421</u>	<u>\$ 552,756</u>

The principal payments of the general obligation bonds, due by July 1, 2012 and 2011, were paid on June 30, 2012 and 2011, respectively and included in the current fiscal year reduction totals.

Note 7. Contributions from Developers

All developers are required to construct the necessary infrastructure to provide water and sewer service to their property. Upon completion the developers will contribute, at no cost to the District, the water and sewer systems and provide the necessary easements to the property.

Several developers are currently developing projects within the District and will contribute the infrastructure upon completion and will also contribute a surcharge fee for the expansion of the wastewater treatment facilities and water system as explained below.

For the years ended June 30, 2012 and 2011, \$8,800 and \$45,100, respectively, was collected in cash from developers and no infrastructure assets were contributed to the District.

The various agreements between developers and the District to provide sewer and water capacity for their projects require the developers to contribute to the District funds sufficient to cover their pro rata cost of the expansion of the treatment facilities and the island wide plan to meet the needs of their projects.

The District charges a connection fee to all commercial, multi-family and residential customers. This fee is recognized as income when the connection is made or at the time contract commitments are met to provide service to commercial or multi-family projects.

Note 8. Commitments and Contingencies

In 1995 Broad Creek PSD signed an agreement with Beaufort Jasper Water & Sewer Authority (BJWSA) to provide up to 2 million gallons per day of water. The District's share of the capacity and construction costs was \$7.5 million. The District funded the construction cost through a \$6.5 million bond issue and using \$1.0 million of its reserves. (See Note 5 and 6)

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 8. Commitments and Contingencies (continued)

In 2007, the BJWSA agreement was replaced by an agreement between Broad Creek PSD and Hilton Head No. 1 PSD whereby all costs of water purchased and maintenance of transmission lines of BJWSA water shall be borne by Hilton Head No. 1 PSD. In turn, Broad Creek PSD shall receive blended BJWSA water and Hilton Head PSD No. 1 reverse osmosis treated water with no minimum per day water purchase requirements. The District purchased \$192,363 and \$174,574 in water for the years ended June 30, 2012 and 2011, respectively.

Note 9. Economic Dependence

The District has a service area within the geographical boundaries of Hilton Head Island, South Carolina. A change in the overall economic conditions of this area may have a significant influence upon the operating results of the District.

Note 10. Pension Plan

The District adopted a defined contribution plan with employee tax deferred contributions on November 4, 1991. The plan, which is administered by Hartford Life, currently covers all employees who are 18 years old and have six months of service. Employees are fully vested at inception. Effective January 1, 2007, the annual District contribution due under the plan is a match of up to, but not to exceed 6% of participating employees' covered compensation. The plan's assets equal the vested benefits at June 30, 2011. District contributions for the years ended June 30, 2012 and 2011 were \$85,856 and \$84,958 respectively. Plan members contributed \$92,393 and \$74,052 for the years ended June 30, 2012 and 2011, respectively.

Note 11. Insurance Recoveries

The District records insurance recoveries as other revenue, offset to expenses, or net asset replacement cost depending on timing of claim payment and whether the asset affected is replaced or repaired. The District received \$12,116 and \$-0- for insurance recoveries during the years ended June 30, 2012 and June 30, 2011 respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 12. Lease Income

The District leases water tower space and adjacent land to unrelated parties under agreements with non-cancelable five and ten year terms with various expiration dates from 2012 through 2017. The minimum future rentals to be received on these leases as of June 30, 2012 are as follows:

Year ending June 30,	
2013	122,898
2014	126,194
2015	84,181
2016	42,358
2017	43,628
Thereafter	14,685
	<u>\$ 433,944</u>

Note 13. Net Assets and Contributed Capital

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	2012	2011
Invested in capital assets, net of related liabilities		
Net property, plant, and equipment services	\$ 16,188,952	\$ 16,164,745
Less: Debt as disclosed in Notes 6 and 7	(7,081,046)	(7,718,832)
Deferred refunding costs	150,882	164,597
Bond issuance costs, net	51,829	62,190
	9,310,617	8,672,700
 Restricted for debt service	 33,887	 103,936
 Unrestricted		
Unrestricted - Designated for Capital Activity	1,124,685	1,018,392
Unrestricted - Designated for Post Disaster Relief	744,949	737,562
Unrestricted	2,298,369	2,332,587
	4,168,003	4,088,541
 Total net assets	 \$ 13,512,507	 \$ 12,865,177

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 13. Net Assets and Contributed Capital (continued)

The District's management is authorized by the Commissioners to utilize any funds designated for capital activity within the current fiscal year's approved capital budget.

During the year ended June 30, 2005 the District received property taxes in excess of budgeted amounts as a result of the 2004 Beaufort County reassessment. These funds have been designated by the Commissioners to be used for expenses incurred in the event of a disaster for repair, replacement and refurbishment of the District's water and sewer infrastructure.

ACCOMPANYING FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING FINANCIAL INFORMATION

October 23, 2012

Commissioners
Broad Creek Public Service District
Hilton Head Island,
Beaufort County, South Carolina

We have audited the financial statements of Broad Creek PSD as of and for the years ended June 30, 2012 and 2011, and our report thereon dated October 23, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented in the Schedules of Bond Principal and Interest Payments and Schedules of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 audits of the financial statements and certain additional 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 financial statements taken as a whole.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS
AS OF JUNE 30, 2012

\$6,435,000 General Obligation Refunding Bonds
 3.279% Interest Rate
Dated May 29, 2008

For the Year ending June 30,	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	205,101	375,000	580,101
2014	192,805	490,000	682,805
2015	176,738	515,000	691,738
2016	159,851	535,000	694,851
2017	142,309	550,000	692,309
2018	124,274	570,000	694,274
2019	105,584	595,000	700,584
2020	86,074	615,000	701,074
2021	65,908	645,000	710,908
2022	44,758	670,000	714,758
2023	22,789	695,000	717,789
Totals	<u>\$ 1,326,191</u>	<u>\$ 6,255,000</u>	<u>\$ 7,581,191</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS
AS OF JUNE 30, 2012

\$2,300,000 Revenue Bonds
 4.97% Interest Rate
Dated May 15, 2001

For the year ending June 30,	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	37,523	191,472	228,995
2014	27,828	201,167	228,995
2015	17,642	211,353	228,995
2016	6,940	222,054	228,994
Totals	<u>\$ 89,933</u>	<u>\$ 826,046</u>	<u>\$ 915,979</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Salaries, wages and employee benefits		
Salaries and wages	\$ 1,559,436	\$ 1,486,155
Payroll taxes	118,131	113,275
Group insurance and other benefits	600,657	524,317
Uniforms	-	8,791
Total	<u>2,278,224</u>	<u>2,132,538</u>
 Administrative expenses		
Commissioners' fees	37,200	37,200
Computer services	46,583	36,555
Legal fees	26,548	33,371
Audit, accounting and bookkeeping fees	20,591	17,400
Consultant meeting expense	9,600	9,000
Bank charges and trustee fees	13,435	12,013
Insurance	85,311	79,002
Office supplies and expenses	40,517	38,776
Telephone	17,683	23,187
Public relations	10,935	11,572
Dues and subscriptions	-	5,457
Taxes and licenses	4,160	6,420
Travel, meetings and training	38,771	53,156
Vehicle lease	5,420	10,840
Total	<u>\$ 356,754</u>	<u>\$ 373,949</u>

See accompanying notes to the financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(continued)

	<u>2012</u>	<u>2011</u>
Plant and system operations		
Electricity	\$ 370,983	\$ 409,179
Engineering fees	67,677	65,236
Chemicals and supplies	154,197	135,586
Repairs and maintenance - system	111,655	96,825
Repairs and maintenance - equipment	46,036	44,891
Repairs and maintenance - other	115,499	129,646
Fuel and lubricants	78,203	81,899
Small tools	6,357	6,793
Safety program	8,946	8,467
Connection expense	4,587	5,034
Refuse disposal	<u>46,457</u>	<u>54,781</u>
Total	1,010,597	1,038,337
Water purchases	<u>192,363</u>	<u>174,574</u>
Total operating expenses before depreciation	<u>\$ 3,837,938</u>	<u>\$ 3,719,398</u>

See accompanying notes to the financial statements.