

**BROAD CREEK  
PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT  
AND

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

**BROAD CREEK PUBLIC SERVICE DISTRICT**

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COMMISSIONERS

		<u>Term expires</u>
Marshall N. Katz	- Chairman	July 11, 2015
James Rowe	- Secretary	July 11, 2015
William Dugle	- Member	July 11, 2013
Thomas Hopkins	- Member	July 11, 2013
John Joseph	- Member	July 11, 2015
Russell Hildebrand	- General Manager	
Cary S. Griffin	- Assistant Secretary	

**BROAD CREEK PUBLIC SERVICE DISTRICT**

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AND  
FINANCIAL STATEMENTS

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**CONTENTS**

<b><u>AUDITED FINANCIAL STATEMENTS</u></b>	<b><u>PAGE</u></b>
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 12
Statements of Net Position	13 - 14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16 - 17
Notes to Financial Statements	18 - 29
<b><u>ACCOMPANYING FINANCIAL INFORMATION</u></b>	
Schedules of Bond Principal and Interest Payments	30
Schedules of Operating Expenses	31 - 32



# Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS OF THE AMERICAN INSTITUTE OF CPAs & S.C. ASSOCIATION OF CPAs

Mailing Address for Hilton Head and Bluffton:  
POST OFFICE DRAWER 22959  
HILTON HEAD ISLAND, SC 29925-2959

5 BELFAIR VILLAGE DRIVE  
BLUFFTON, SC 29910  
(843) 815-6161  
FAX (843) 815-6165  
www.robinsongrant.com

500 CARTERET STREET  
POST OFFICE BOX 1406  
BEAUFORT, SC 29901-1406  
(843) 524-3003  
FAX (843) 524-1372

## **INDEPENDENT AUDITORS' REPORT**

October 3, 2013

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Broad Creek Public Service District (the "District"), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Broad Creek Public Service District as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 1 and Note 15 to the financial statements, the District adopted and changed its method of accounting for bond issuance costs in 2012 as required by Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Required Supplementary Information*

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 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 any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements of the District as a whole. The Schedules of Bond Principal and Interest Payments and Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*Robinson Grant & Co., P.A.*

## **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, 2013. 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:

- 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 2013 was \$.80. 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 from March through October until November 2014.
- In fiscal year 2013 the District levied a 10 mill charge for District expenditures, unchanged from fiscal year 2012. 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). Property tax revenue increased .61% from fiscal year 2011 to 2012, and decreased 2.2% from 2012 to 2013 caused by point of sale lower property valuation assessment. Property tax revenue totaled \$1,545,017 in fiscal year 2013. The property tax revenue allows the District to fund needed capital projects, supplement operating rate revenue, and help maintain debt service obligations.
- The District approved a rate increase effective July 1, 2012. Single family residential usage is billed on an increasing four tier structure. The first tier is zero to 21,000 gallons, which represents indoor/outdoor usage for a typical District full time resident. This tier was increased from \$1.45 per 1,000 gallons to \$1.75 per 1,000 gallons. This generated an additional \$24,010 in usage revenue compared to fiscal year 2012. The single family availability fee was also increased from \$270 to \$300 per year. The availability fee is charged to unimproved lots that benefit from the ability to access the District's water and sewer system. The fee is designed to recover a portion of the cost of the District's available capacity. \$2,100 additional revenue was received from fiscal year 2012 to fiscal year 2013 as a result of the increased availability fee.
- The District's capital additions totaled \$1,556,178 for fiscal year 2013 compared to \$1,399,252 in fiscal year 2012, and the District's depreciation expense totaled \$1,434,574 and \$1,359,620, respectively. The District's capital plan for fiscal year 2013 included

replacing depreciated assets and upgrading to new more efficient technologies at the plant and in the field. The major capital expenditures include the following:

- In fiscal year 2013, the District continued its program of replacing ten year old residential meters with newer automatic meter read (AMR) technology. 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. AMR technology allows the District to pinpoint down to the hour when and how much water was consumed. The District believes it is a valuable tool in responding to customer service calls regarding leak detection and high usage. The replacement meters were purchased in bulk for installation which increased inventory 60% from fiscal year 2012 to 2013. A total of 193 residential meters were installed in fiscal year 2013 at a total capital cost of \$49,968. Eighteen commercial meters were also replaced with AMR technology at a cost of \$36,947.
- Phase III of the Supervisory Control and Data Acquisition (SCADA) program was completed in June 2013 at a capital cost of \$119,460. SCADA electronically monitors well, lift station, and vacuum station pumps and controls. Phase III includes electronic monitoring of the wastewater treatment plant equipment and controls and two lift stations.
- The treatment plant's secondary clarifier catwalks and drive system were replaced due to safety and performance issues at a cost of \$84,177. The secondary clarifier is the middle treatment stage of the wastewater treatment process that further separates solids from liquids before entering the final filtering stage.
- The treatment plant filter gallery was upgraded this fiscal year at a capital cost of \$316,434. The filter gallery is the final wastewater treatment stage before the wastewater, also called effluent, is stored in storage tanks and ponds. The original gallery was over twenty-five years old. The filter gallery structure was replaced with stainless steel supports, under drain system and new filter media. A new turbidity testing system technology was also added to the filters.
- The two treatment plant generators were overhauled during the fiscal year. Both generators, purchased twenty-five years ago, provide emergency power to the wastewater treatment plant and comply with South Carolina Department of Health and Environmental Concerns (SC DHEC) requirements. The complete overhaul extended the generators' useful lives and improved their transition and running performance. The total capital cost was \$137,541.
- Additional upgrades to the treatment plant total \$113,101. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent water storage. They include electrical upgrades, valve replacements, effluent spray field rehab, and engineering plans for effluent pond modifications.

- The District spent \$122,651 in pump and pump motor replacements, and in pump rehabilitation. Pump rehab and replacement is an ongoing annual capital expenditure. The District has over one hundred pumps. Three pumps were replaced at the District potable drinking Well #3. Six pumps were replaced or overhauled at the District lift and vacuum stations. Four pumps were upgraded or overhauled at the District treatment plant. Three portable pumps were purchased for use at the treatment plant and lift/vacuum stations.
- Phase III 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 2013 at a capital cost of \$298,350. The project addresses underground vacuum line deterioration and increases line size for better service.
- Fiscal year statistics as they relate to water pumped and wastewater treated are as follows:

	<b>FY2013</b>	<b>FY2012</b>	<b>FY2011</b>
Water Pumped in Million Gallons (mg)	645	678	715
Water Pumped 8 Golf Wells in mg	38	62	58
Wastewater Influent Flows in mg	288	305	400
Total Rainfall	46.1"	38.1"	50.4"
Total Island Visitors	2,412,204	2,355,668	2,309,156

As of June 30, 2013 the District has the following customer account classifications and numbers:

- Single Family – 1295 accounts
- Regime – 39 accounts, 2264 units
- Supplemental Transient Rental – 1155 accounts
- Commercial Hotel/Timeshare – 8 accounts, 1387 units
- Commercial Business – 71 accounts
- Commercial Irrigation – 125 accounts

#### WATER USED/BILLED AND PUMPED

Customer Class	Used/Billed Gallons FY 2013	Used/Billed Gallons FY 2012	Used/Billed Gallons FY 2011
Single Family/Individually Metered Condos	219,603,630	235,151,866	239,808,351
Regime	211,328,870	203,792,840	221,301,930
Commercial Hotel/Timeshare	103,399,790	102,448,970	117,833,790
Commercial Business	24,185,410	22,501,020	25,289,860
Commercial Irrigation	76,722,190	91,562,160	83,468,950
<b>Billed Total</b>	<b>635,239,890</b>	<b>655,456,856</b>	<b>687,702,881</b>
Water Used in Hydrant Flushing	334,673	482,000	836,400
Water Used in Hydrant Flow Meter Rental	58,100	-	1,365,200
<b>Total Water Billed/Used</b>	<b>635,632,663</b>	<b>655,938,856</b>	<b>689,904,481</b>
Water Pumped in Gallons - 3 District Wells	503,381,535	480,152,180	534,549,477
Water Purchased in Gallons - HHPSD/BJWSA	141,621,000	179,557,205	180,393,000
<b>Total Water Pumped in Gallons</b>	<b>645,002,535</b>	<b>677,709,385</b>	<b>714,942,477</b>

The 3.1% decrease in billed usage from fiscal year 2012 to fiscal year 2013 reflects the increase in rainfall in fiscal year 2013 compared to 2012. Rainfall was heaviest in summer of 2012 and again in spring of 2013. Total water pumped also decreased by 4.8% and golf course use of well water was down by 35%. All irrigating customer classes were irrigating less this fiscal year compared to 2012. Regime and Commercial Timeshare and Hotels customers have a slight increase in billed usage due to a 2.4% increase in Hilton Head Island visitors.

- Operating revenues for fiscal year 2013 were \$4,296,439 or 98% of budget. Operating expenses before depreciation and amortization were \$3,878,922 or 95.8% of budget. Operating revenues for fiscal year 2013 were down .9% compared to 2012, and down 4.1% compared to 2011. Operating expenses before depreciation and amortization were up 1.1% from 2012, and up 4.3% from 2011.

	<b>Budget FY2013</b>	<b>Actual FY2013</b>	<b>Actual FY2012</b>	<b>Actual FY2011</b>
<b>Total Operating Revenue</b>	4,374,682	4,296,439	4,337,148	4,479,538
<b>Total Operating Expenses</b>	4,046,994	3,878,922	3,837,939	3,719,398
<b>Operating Income</b>	\$ 327,688	\$ 417,517	\$ 499,209	\$ 760,140

Total operating revenue consists of rate revenue, connection fees, transfer fees and other miscellaneous revenue, such as returned check fees. Rate revenue makes up 99% of the operating revenue. Budgeted rate revenue is based on a cost of service model. The usage rate revenue budget is calculated by determining the total cost of distributing water during the fiscal year including debt service and capital expenditures, deducting non-rate related revenue, and allocating the remaining costs to each customer class based on how they used water the previous fiscal year. The usage budget is the minimum amount the District needs to collect to cover distribution costs. Actual usage rate revenue was lower than budgeted for fiscal year 2013 by 4.9%, a shortfall of \$82,057. The shortfall was supplemented by other District revenue and lower than budgeted operating expenses. The decrease in usage revenue of 3.2% in fiscal year 2013 compared to fiscal year 2012 was caused by higher rainfall levels in fiscal year 2013.

The flat rate sewer revenue budget also reflects the District's total wastewater collection costs allocated to each customer class. The flat rate charge calculation is based on the number of customers in each class. The customer base may vary slightly year to year. The flat rate revenue was .3% lower than budgeted and .6% higher than prior year due to a slight increase in the transient rental customers. More regime and single family home owners were renting out their properties in fiscal year 2013 compared to 2012.

The operating expense budget is an incremental budget, calculated by examining past fiscal year actual expenses and evaluating any anticipated changes in the upcoming fiscal year. Fiscal year 2013's operations budget reflected an anticipated 5.4% increase in expenses from fiscal year 2012 actual expenses. The actual operating expenses for fiscal

year 2013 were 4.3% under budget. Operating expenses for fiscal year 2013 were 1.1% higher than 2012.

The major variances in fiscal year 2013 operating expenses compared to fiscal year 2012 expenses are as follows:

- Group insurance expense totaled \$462,760 for fiscal year 2013. The 2013 expense is 2.6% lower than 2012. 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 2013 the renewal increase was 12%, the second six months the renewal rate was 9.5%. Although renewals were up, albeit less than anticipated, the expense is lower than prior year because health insurance deductibles were covered 100% by the employees, rather than being shared by the District.
- The District's legal expense totaled \$49,194 in fiscal year 2013, and \$26,548 in fiscal year 2012, an 85% increase. The District hired legal counsel to help negotiate and prepare effluent, water, sewer, and easement contracts with several commercial and regime customers in the District. As of June 30, 2013 all negotiations are still ongoing.
- Water Purchased from Hilton Head Public Service District (HHPSD) expense totaled \$170,383 for fiscal year 2013 compared to \$192,363 in fiscal year 2012. Water pumped from HHPSD/BJWSA was lower in 2013 compared to 2012 by 21% due to the increased rainfall and decreased demand as discussed earlier.
- Electricity expense totaled \$397,241 for fiscal year 2013. The 2013 expense is 7.1% higher than 2012. During fiscal year 2013 the plant generators were overhauled, and as a result the District lost the benefit of reduced off peak demand pricing for three months during the fiscal year
- Treatment Plant Repair and Maintenance expense is up by 24% for fiscal year 2013 compared to 2012. The additional \$12,129 spent includes emergency repairs for the effluent filter pump, dewatering system rollers, and the clarifier.
- Hurricane Response Expense is an unbudgeted line item in fiscal year 2013. At mid-fiscal year, the District Commissioners voted to participate in an Island wide business continuity plan (bcp) prepared by the engineering firm CH2MHill. The District's cost for fiscal year 2013 was \$16,112. The bcp is designed for the three Island water and sewer districts to utilize in working together in the event of an Island wide natural disaster. The plan guides management through identifying the impact of the service area loses, and to help them work as safely and quickly as possible to restore critical services.
- The District has adopted Government Accounting Standard Board (GASB) statements numbers 63 and 65. GASB 63 requires that certain defined transactions that do not qualify as assets or liabilities be reported as "deferred outflows of resources" or "deferred inflows of resources." The difference between assets plus deferred outflows of resources

and liabilities plus deferred inflows of resources is reported as “Net position.” The District has reported deferred outflows from refunding debt in fiscal year 2012 of \$150,882 and \$137,165 in fiscal year 2013. GASB 65 requires certain defined transactions such as bond issue costs be reclassified; instead of being capitalized, bond issue costs should be expensed in the year in which they occur. The District issued no new debt in fiscal year 2013. Unamortized bond issuance costs of prior debt issuance totaling \$62,189 were written off and net position restated in fiscal year 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 5,142 residential, regime managed multi-family, and commercial 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 388,000 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 790,197 gallons per day in fiscal year 2013. The peak treatment month was June 2013 at 1.28 mgd average and the peak treatment day was June 30, 2013 at 1.7 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 2013, 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 statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements.

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

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in net position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position 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 STATEMENTS OF NET POSITION**  
AS OF JUNE 30, 2013, 2012 AND 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Property, plant and equipment, net	\$ 16,295,281	\$ 16,188,952	\$ 16,164,745
Other assets	<u>4,321,239</u>	<u>4,441,198</u>	<u>4,464,787</u>
<b>Total assets</b>	20,616,520	20,630,150	20,629,532
Deferred outflows from debt refunding	137,165	150,882	164,599
<b>Total assets and deferred outflows of resources</b>	<u>\$ 20,753,685</u>	<u>\$ 20,781,032</u>	<u>\$ 20,794,131</u>
Current liabilities	998,110	795,524	887,673
Long term liabilities	<u>5,837,413</u>	<u>6,524,830</u>	<u>7,103,470</u>
<b>Total liabilities</b>	6,835,523	7,320,354	7,991,143
<b>Net position:</b>			
Investment in capital assets, net of related liabilities	9,917,872	9,258,788	8,610,511
Restricted for debt service	35,536	33,887	103,936
Unrestricted	<u>3,964,754</u>	<u>4,168,003</u>	<u>4,088,541</u>
<b>Total net position</b>	<u>13,918,162</u>	<u>13,460,678</u>	<u>12,802,988</u>
<b>Total liabilities and net position</b>	<u>\$ 20,753,685</u>	<u>\$ 20,781,032</u>	<u>\$ 20,794,131</u>

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013, 2012 AND 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Total operating revenues</b>	\$ 4,296,439	\$ 4,337,148	4,479,538
<b>Expenses</b>			
Salaries, wages and employee benefits	2,278,259	2,278,224	2,132,538
Depreciation and amortization	1,448,291	1,373,337	1,503,475
Other operating expenses	<u>1,600,663</u>	<u>1,559,715</u>	<u>1,586,860</u>
Total operating expenses	5,327,213	5,211,276	5,222,873
<b>Loss from operations</b>	(1,030,774)	(874,128)	(743,335)
<b>Other income (expense):</b>			
Property taxes	1,545,017	1,579,676	1,570,115
Other income	170,044	217,058	227,559
Gain (loss) on disposed assets	(7,765)	(15,445)	(88,945)
Interest Expense	<u>(241,038)</u>	<u>(258,271)</u>	<u>(281,673)</u>
Total other income (expense)	1,466,258	1,523,018	1,427,056
<b>Increase in net position before developer contributions</b>	435,484	648,890	683,721
Developer contributions	<u>22,000</u>	<u>8,800</u>	<u>45,100</u>
<b>Increase in net position</b>	<u>457,484</u>	<u>657,690</u>	<u>728,821</u>
<b>Net position at beginning of year</b>	<u>13,460,678</u>	<u>12,802,988</u>	<u>12,074,167</u>
<b>Net position at end of year</b>	<u>\$ 13,918,162</u>	<u>\$ 13,460,678</u>	<u>\$ 12,802,988</u>

**AUDITED FINANCIAL STATEMENTS**

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2013 AND 2012**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,400,302	\$ 2,698,300
Cash with Beaufort County Treasurer	130,977	203,469
Cash controlled by District (restricted)	40,792	40,729
Certificates of deposit	-	807,347
Accounts receivable - trade	414,930	410,703
Accounts receivable - other	160	1,520
Inventory	284,414	176,973
Prepaid expenses	<u>49,664</u>	<u>102,157</u>
Total current assets	4,321,239	4,441,198
<b>Non-current assets</b>		
Property, plant and equipment, net	<u>16,295,281</u>	<u>16,188,952</u>
<b>Total assets</b>	<u>20,616,520</u>	<u>20,630,150</u>
<b>Deferred outflows of resources</b>		
Deferred outflows from refunding debt	<u>137,165</u>	<u>150,882</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 20,753,685</u>	<u>\$ 20,781,032</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2013 AND 2012**

<b>LIABILITIES AND NET POSITION</b>	<b>2013</b>	<b>2012</b>
	<b>2013</b>	<b>2012</b>
<b>Current liabilities</b>		
Accounts payable - trade	\$ 163,346	\$ 88,401
Accrued payroll	138,341	133,809
Current liabilities payable from restricted assets:		
Bonds payable due within one year	691,167	566,472
Accrued interest payable	5,256	6,842
<b>Total current liabilities</b>	<b>998,110</b>	<b>795,524</b>
<b>Long term liabilities</b>		
Bonds payable due after one year	5,823,407	6,514,574
Deposits	14,006	10,256
<b>Total long term liabilities</b>	<b>5,837,413</b>	<b>6,524,830</b>
<b>Total liabilities</b>	<b>6,835,523</b>	<b>7,320,354</b>
<b>Net position</b>		
Investment in capital assets, net of related liabilities	9,917,872	9,258,788
Restricted for debt service	35,536	33,887
Unrestricted	3,964,754	4,168,003
<b>Total net position</b>	<b>13,918,162</b>	<b>13,460,678</b>
<b>Total liabilities and net position</b>	<b>\$ 20,753,685</b>	<b>\$ 20,781,032</b>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating revenues</b>		
Residential	\$ 2,967,793	\$ 2,978,210
Commercial	1,314,762	1,335,985
Connection fees	3,773	4,861
Other operating revenues	10,111	18,092
Total operating revenues	4,296,439	4,337,148
 <b>Operating expenses</b>		
Salaries, wages and employee benefits	2,278,259	2,278,224
Administrative expenses	374,026	356,755
Plant and system operations	1,056,254	1,010,597
Water purchases	170,383	192,363
Total operating expenses before depreciation and amortization	3,878,922	3,837,939
 Income from operations before depreciation and amortization	417,517	499,209
 Depreciation expense	1,434,574	1,359,620
Amortization expense	13,717	13,717
Loss from operations	(1,030,774)	(874,128)
 <b>Other income (expenses)</b>		
Property taxes	1,545,017	1,579,676
Availability charges	40,479	38,378
Tower lease income	116,369	159,491
Interest income	13,196	19,189
Gain (loss) on disposed assets	(7,765)	(15,445)
Interest expense	(241,038)	(258,271)
Net other income (expenses)	1,466,258	1,523,018
 <b>Increase in net position before developer contributions</b>	435,484	648,890
Developer contributions	22,000	8,800
<b>Increase in net position</b>	457,484	657,690
 <b>Net position at beginning of year - as previously reported</b>		12,865,177
Cumulative adjustment - Adoption of GASB Statement No. 65		(62,189)
<b>Net position, beginning of year - as restated</b>	13,460,678	12,802,988
 <b>Net position at end of year</b>	\$ 13,918,162	\$ 13,460,678

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 4,297,321	\$ 4,448,965
Cash paid to suppliers	(2,290,017)	(2,321,211)
Cash paid to employees	(1,564,375)	(1,557,892)
Net cash provided by operating activities	442,929	569,862
<b>Cash flows from investing activities</b>		
Purchases of certificates of deposit	-	(250,000)
Proceeds from certificates of deposit	807,347	180,192
Interest earned	13,196	19,189
Net cash provided by (used in) investing activities	820,543	(50,619)
<b>Cash flows from noncapital financing activities:</b>		
Property taxes collected	1,545,017	1,579,676
Availability charges	40,479	38,378
Tower lease income	116,369	159,491
Net cash provided by noncapital financing activities	1,701,865	1,777,545
<b>Cash flows from capital financing activities:</b>		
Developer contributions	22,000	8,800
Acquisition of property, plant and equipment	(1,549,919)	(1,399,251)
Proceeds from sale of property, plant and equipment	1,251	-
Principal paid on bonds	(566,472)	(637,787)
Interest paid	(242,624)	(261,935)
Net cash used in capital financing activities	(2,335,764)	(2,290,173)
Net increase in cash and cash equivalents	629,573	6,615
Cash and cash equivalents at beginning of year	2,942,498	2,935,883
Cash and cash equivalents at end of year	\$ 3,572,071	\$ 2,942,498

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Schedule of cash and cash equivalents:</b>		
Available for operations:		
Demand deposits	\$ 3,400,302	\$ 2,698,300
Held by Beaufort County Treasurer	130,977	203,469
Total available for operations	3,531,279	2,901,769
Restricted:		
Controlled by District for debt service	40,792	40,729
Total restricted	40,792	40,729
Total cash and cash equivalents at end of year	\$ 3,572,071	\$ 2,942,498
 <b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (1,030,774)	\$ (874,128)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,434,574	1,359,620
Amortization	13,717	13,717
Changes in assets and liabilities		
Accounts receivable - trade	(4,227)	82,134
Accounts receivable - other	1,360	28,133
Inventory	(107,441)	14,583
Prepaid expenses	52,493	(24,863)
Accounts payable	74,945	(39,677)
Accrued payroll	4,532	8,793
Deposits	3,750	1,550
Net cash provided by operating activities	\$ 442,929	\$ 569,862

See accompanying notes to financial statements.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 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 5) 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 30 2013 and 2012, 10 mills were levied. 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 has implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and thus the District applies all applicable GASB pronouncements. 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 statement of net position into net position with categories of invested in capital assets, net of related liabilities, restricted, and unrestricted; 2) the statements of revenues, expenses and changes in net position formatted to report changes in net position in lieu of changes in retained earnings; and 3) additional note disclosures to the financial statements.

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period. Currently deferred losses on bond refundings are the only financial statement item that meets the definition of a deferred outflow of resources and, accordingly, they have been presented as such in the statements of net position. Deferred losses on bond refundings were previously reported as a reduction in long-term debt. The District does not have any financial statement items that meet the definition of a deferred inflow of resources.

# **BROAD CREEK PUBLIC SERVICE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

### **Note 1. Summary of Significant Accounting Policies (continued)**

#### **General (continued)**

GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. The District's only financial statement item that was affected by the implementation of GASB Statement No. 65 was its unamortized bond issuance costs. Under that Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. Any such unamortized bond issuance costs that were incurred and capitalized in a previous year should be written off by a cumulative adjustment of beginning net position. See Note 15 for more information pertaining to the District's write-off of the unamortized portion of bond issuance costs.

#### **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.

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 and investments in the South Carolina Local Government Investment Pool are considered to be cash equivalents.

**BROAD CREEK PUBLIC SERVICE DISTRICT**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

**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, 2013, 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.

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.

**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 \$63,702 and \$63,445 at June 30, 2013 and 2012, respectively.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

**Note 1. Summary of Significant Accounting Policies (continued)**

**Net Position**

Net position is 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 14)

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.

**Reclassification**

Certain accounts and amounts in the June 30, 2012 financial statements have been reclassified in order to conform with the June 30, 2013 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 3, 2013, 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, 2013, the carrying amounts of the District’s demand deposits were \$3,440,894 and the bank balance of cash on deposit was \$3,480,430. At June 30, 2013, \$130,977 was held by the Beaufort County Treasurer.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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

The deposits of the District were collateralized as follows at June 30, 2013:

	<u>June 30, 2013</u>
Amounts insured by FDIC coverage	\$ 290,792
Amounts collateralized through the local government investment pool	1,250,993
Amounts collateralized with an Irrevocable Letter of Credit	1,938,645
Uncollateralized	-
Total bank balances	<u>\$ 3,480,430</u>

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:

- a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government;
- e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) 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.
- f) Repurchase agreements when collateralized by securities as set forth in this section.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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

g) 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.

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.

Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.

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, 2013, the District had \$-0- invested in overnight repurchase agreements. All investments of the District were redeemable on demand without penalty as of June 30, 2013 and are, therefore, classified as cash and cash equivalents.

South Carolina Local Government Investment Pool ("Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. The Pool is not rated.

### **Note 3. Accounts Receivable - Other**

Accounts receivable - other consists of employee receivables and miscellaneous operating receivables of \$160 and \$1, 520 for the years ended June 30, 2013 and 2012, respectively.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 4. Property, Plant, Equipment and Depreciation**

Capital asset activity during the years was as follows:

	6/30/2012	Additions	Disposals	Transfers	6/30/2013
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	36,665	909,988	-	(759,417)	187,236
Total nondepreciable assets	<u>272,712</u>	<u>909,988</u>	<u>-</u>	<u>(759,417)</u>	<u>423,283</u>
Wastewater treatment and distribution	28,968,169	332,184	(104,919)	309,782	29,505,216
Water and sewer systems	7,227,096	173,571	(7,231)	424,790	7,818,226
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	505,238	26,824	(3,435)	24,845	553,472
Trucks and other equipment	1,010,974	113,611	(99,246)	-	1,025,339
Total depreciable assets	<u>37,875,595</u>	<u>646,190</u>	<u>(214,831)</u>	<u>759,417</u>	<u>39,066,371</u>
Accumulated depreciation					
Wastewater treatment and distribution	(17,915,710)	(956,579)	104,919	(3,089)	(18,770,459)
Water and sewer systems	(3,043,344)	(322,655)	1,430	(19,342)	(3,383,911)
Water tank	(119,952)	(1,677)	-	-	(121,629)
Buildings, office and fence	(133,178)	(30,071)	3,435	(1,267)	(161,081)
Trucks and other equipment	(747,171)	(99,894)	89,772	-	(757,293)
Total Accumulated Depreciation	<u>(21,959,355)</u>	<u>(1,410,876)</u>	<u>199,556</u>	<u>(23,698)</u>	<u>(23,194,373)</u>
Net depreciable assets	<u>15,916,240</u>	<u>(764,686)</u>	<u>(15,275)</u>	<u>735,719</u>	<u>15,871,998</u>
Total property plant and equipment	<u>\$ 16,188,952</u>	<u>\$ 145,302</u>	<u>\$ (15,275)</u>	<u>\$ (23,698)</u>	<u>\$ 16,295,281</u>

	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	<u>237,247</u>	<u>713,212</u>	<u>-</u>	<u>(677,747)</u>	<u>272,712</u>
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	<u>36,696,498</u>	<u>686,040</u>	<u>(184,690)</u>	<u>677,747</u>	<u>37,875,595</u>
Accumulated depreciation					
Wastewater treatment and distribution	(17,135,971)	(897,938)	118,199	-	(17,915,710)
Water and sewer systems	(2,702,641)	(340,703)	-	-	(3,043,344)
Water tank	(118,270)	(1,682)	-	-	(119,952)
Buildings, office and fence	(110,284)	(22,894)	-	-	(133,178)
Trucks and other equipment	(701,834)	(96,403)	51,066	-	(747,171)
Total accumulated depreciation	<u>(20,769,000)</u>	<u>(1,359,620)</u>	<u>169,265</u>	<u>-</u>	<u>(21,959,355)</u>
Net depreciable assets	<u>15,927,498</u>	<u>(673,580)</u>	<u>(15,425)</u>	<u>677,747</u>	<u>15,916,240</u>
Total property plant and equipment	<u>\$16,164,745</u>	<u>\$ 39,632</u>	<u>\$ (15,425)</u>	<u>\$ -</u>	<u>\$16,188,952</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$1,434,574 and \$1,359,620, respectively.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

### **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 \$37,523 and \$46,750 was paid for the years ended June 30, 2013 and 2012, respectively, and \$5,256 and \$6,842 was accrued at June 30, 2013 and 2012, respectively.

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 were payable from the gross revenues of the District. The bonds had a ten year term and were payable in quarterly installments of \$100,915 with the final payment due on May 1, 2012. The interest rate was 3.27% on these bonds and interest of \$8,117 was paid for the year ended June 30, 2012.

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 1<sup>st</sup> 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 30<sup>th</sup> 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 \$205,101 and \$207,069 was paid for the years ended June 30, 2013 and June 30, 2012, 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, 2013 and 2012 was \$137,165 and \$150,882, respectively, and is reported as a deferred outflow of resources in accordance with GASB 63.

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.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 5. Bonds Payable (continued)**

Bond debt service requirement to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
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
<b>TOTAL</b>	<b>\$ 6,514,574</b>	<b>\$ 1,173,500</b>	<b>\$ 7,688,074</b>

Deferred refunding costs are amortized on a straight line basis over the remaining term of the related debt. Amortization expense for deferred refunding costs was \$13,717 for the years ended June 30, 2013 and 2012.

**Note 6. Long Term Liabilities**

Long-term liability activity for the year ended June 30, 2013, was as follows:

	6/30/2012	Additions	Reductions	6/30/2013	Due within One Year
Bonds payable:					
General obligation bonds	\$ 6,255,000	\$ -	\$ (375,000)	\$ 5,880,000	\$ 490,000
Revenue bonds	826,046	-	(191,472)	634,574	201,167
Total bonds payable	7,081,046	-	(566,472)	6,514,574	691,167
Deposits	10,256	3,750	-	14,006	-
Long-term liabilities	<u>\$ 7,091,302</u>	<u>\$ 3,750</u>	<u>\$ (566,472)</u>	<u>\$ 6,528,580</u>	<u>\$ 691,167</u>

The principal payments of the general obligation bonds, due by July 1, 2013 and 2012, were paid on June 30, 2013 and 2012, 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, 2013 and 2012, \$22,000 and \$8,800, 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 treatment facilities and the island wide plan to meet the needs of their projects.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

### **Note 7. Contributions from Developers (continued)**

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)

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 \$170,383 and \$192,363 in water for the years ended June 30, 2013 and 2012, respectively.

### **Note 9. Related Party Transactions**

Thomas Hopkins, a commissioner of the District, is an owner and on the Board of MR Systems, one of the District's vendors. Bill Dugle, a commissioner of the District, is also on the Board of MR Systems. The District's transactions with MR Systems totaled \$95,022 and \$271,558 for the years ended June 30, 2013 and 2012, respectively, and were recorded as capital assets or plant and systems operations expenses as appropriate. At June 30, 2013 and 2012, \$34,567 and \$-0- was owed to MR Systems, respectively.

James Rowe, a commissioner of the District is on the Board of First Federal where the District maintains five bank accounts.

### **Note 10. 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 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 \$-0- and \$12,116 for insurance recoveries during the years ended June 30, 2013 and June 30, 2012 respectively.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 12. Pension Plan**

The District adopted a 457 defined contribution plan with employee tax deferred contributions on November 4, 1991. The plan covers all employees who are 18 years old and have six months of service. The Plan was administered by Hartford Life until March 2013 when the District switched administrators to the South Carolina Deferred Compensation Program. At the time of the switch, the District also adopted a 401(k) salary deferral and savings profit sharing plan in addition to the public employee 457 deferred compensation plan and elected to allow Roth contributions to both plans. 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, 2013. District contributions to the plans for the years ended June 30, 2013 and 2012 were \$80,770 and \$85,856 respectively. Plan members contributed \$104,241 and \$92,393 for the years ended June 30, 2013 and 2012, respectively.

**Note 13. 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, 2013 are as follows:

Year ending June 30,	
2014	\$ 84,636
2015	41,124
2016	42,357
2017	43,628
2018	14,685
Thereafter	-
	<u>\$ 226,430</u>

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

### **Note 14. Net Position and Contributed Capital**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net position amounts were as follows:

	<u>2013</u>	<u>2012</u>
Invested in capital assets, net of related liabilities		
Net property, plant, and equipment services	\$ 16,295,281	\$ 16,188,952
Less: Debt as disclosed in Notes 6 and 7	(6,514,574)	(7,081,046)
Deferred refunding costs	<u>137,165</u>	<u>150,882</u>
	9,917,872	9,258,788
Restricted for debt service	35,536	33,887
Unrestricted		
Unrestricted - Designated for Capital Activity	1,029,437	1,124,685
Unrestricted - Designated for Post Disaster Relief	733,333	744,949
Unrestricted	<u>2,201,984</u>	<u>2,298,369</u>
	3,964,754	4,168,003
Total net position	<u><u>\$ 13,918,162</u></u>	<u><u>\$ 13,460,678</u></u>

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.

### **Note 15. Restatement of Beginning Net Position – Bond Issuance Costs**

In accordance with the District's adoption of GASB Statement No. 65, bond issuance costs, excluding those related to prepaid insurance costs, are expensed as incurred. Pursuant to the adoption of this statement, its unamortized bond issuance costs that were incurred and capitalized in 2001, 2003, and 2008 were written off as an adjustment to beginning net position. The cumulative adjustment totaled \$62,189.

ACCOMPANYING FINANCIAL INFORMATION

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS**  
**AS OF JUNE 30, 2013**

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

For the Year ending June 30,	Interest	Principal	Total
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>\$ 1,121,090</u>	<u>\$ 5,880,000</u>	<u>\$ 7,001,090</u>

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS**  
**AS OF JUNE 30, 2013**

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

For the year ending June 30,	Interest	Principal	Total
2014	\$ 27,828	\$ 201,167	\$ 228,995
2015	17,642	211,353	228,995
2016	6,940	222,054	228,994
Totals	<u>\$ 52,410</u>	<u>\$ 634,574</u>	<u>\$ 686,984</u>

See accompanying notes to the financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF OPERATING EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Salaries, wages and employee benefits</b>		
Salaries and wages	\$ 1,576,052	\$ 1,559,436
Payroll taxes	120,584	118,131
Group insurance and other benefits	<u>581,623</u>	<u>600,657</u>
Total	2,278,259	2,278,224
<b>Administrative expenses</b>		
Commissioners' fees	37,200	37,200
Computer services	51,044	46,583
Legal fees	49,194	26,548
Audit, accounting and bookkeeping fees	18,680	20,591
Consultant meeting expense	9,300	9,600
Bank charges and trustee fees	11,426	13,435
Insurance	83,339	85,311
Office supplies and expenses	40,069	40,518
Telephone	18,420	17,683
Public relations	11,620	10,935
Taxes and licenses	4,116	4,160
Travel, meetings and training	39,618	38,771
Vehicle lease	<u>-</u>	<u>5,420</u>
Total	\$ 374,026	\$ 356,755

See accompanying notes to the financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF OPERATING EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

(continued)

	<u>2013</u>	<u>2012</u>
<b>Plant and system operations</b>		
Electricity	\$ 397,241	\$ 370,983
Engineering fees	71,016	67,677
Chemicals and supplies	140,137	154,197
Repairs and maintenance - system	105,942	111,655
Repairs and maintenance - equipment	43,081	46,036
Repairs and maintenance - other	137,232	115,499
Fuel and lubricants	67,598	78,203
Small tools	8,404	6,357
Safety program	11,843	8,946
Connection expense	4,312	4,587
Refuse disposal	53,336	46,457
Hurricane response	<u>16,112</u>	<u>-</u>
Total	1,056,254	1,010,597
<b>Water purchases</b>	<u>170,383</u>	<u>192,363</u>
Total operating expenses before depreciation	<u>\$ 3,878,922</u>	<u>\$ 3,837,939</u>

See accompanying notes to the financial statements.