

**BROAD CREEK
PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

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COMMISSIONERS

		<u>Term expires</u>
William Dugle	- Chairman	July 11, 2016
John Joseph	- Vice Chairman	July 11, 2015
James Rowe	- Secretary	July 11, 2015
Marshall N. Katz	- Member	July 11, 2015
Thomas Hopkins	- Member	July 11, 2016
Mike Allen	- 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, 2015 AND 2014

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 11
Statements of Net Position	12 - 13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15 - 16
Notes to Financial Statements	17 - 27
<u>ACCOMPANYING FINANCIAL INFORMATION</u>	
Schedules of Bond Principal and Interest Payments	28
Schedules of Operating Expenses	29 - 30



Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

September 17, 2015

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

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, 2015 and 2014, 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, 2015 and 2014, 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.

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 11 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, 2015. 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 2015 is \$.84. For the last five contract years, the price will be recalculated based on current BJWSA costs. The new base contract price will be in place through February 2020. The peak contracted rate for the water for fiscal year 2015 is \$1.74 per 1000 gallons from March through June 2015.
- In fiscal year 2015 the District levied a 10 mill charge for District expenditures, unchanged from fiscal year 2014. Property tax revenue decreased 8.7% from fiscal year 2013 to 2014, and increased .3% from 2014 to 2015. Property tax revenue totaled \$1,414,885 in fiscal year 2015. The property tax revenue enables the District to fund needed capital projects, supplement operating rate revenue, and help maintain debt service obligations.
- Effective July 1, 2014 the District redefined and reduced the customer classes from three classes to two classes: Residential and Commercial. The "Multi-family Regime" customer class was eliminated by splitting it between Residential and Commercial. Residential single family homes and multi-family regime properties that participate in the short-term rental market have been reclassified as Commercial. Multi-family Regimes that do not allow short-term rentals in their bylaws have been reclassified as Residential. The commercial transient rental unit fee, a fee assessed to homes and units on the short-term rental market to compensate for the additional impact to the sewer system, is now billed directly to the Regime based on the total number of units in the complex rather than directly to the rental unit owner. The reclassification and new billing method better reflect the change of use of the properties from residential to commercial enterprises.
- The District approved a rate change effective July 1, 2014. Single family homes in the District are billed for their water usage according to a four ascending tier structure. The first three tier rates were increased by 5% and the fourth tier remained unchanged. The Residential and Commercial single tier rate charged to non-single family homes was also increased by 5%. The water usage revenue increased by \$143,805 or 9% from fiscal year

2014. The revenue increase reflects a combination of the rate increase and change in usage from prior year. The flat rate sewer charges were increased by 6% for single family homes and multi-family, timeshare, and hotel units. The businesses including stores, restaurants, and offices saw a 41% reduction in the flat sewer rate offset by the addition of a more equitable commercial sewer usage charge. Total sewer revenue increased by \$17,790 or .7% from the prior fiscal year.

- The District entered into separate contracts with Greenwood Communities and Resorts, Inc. and Long Cove Club Owner's Association, Inc. to provide recycled water to their golf courses. The DHEC permitted District discharge sites include a spray field in the District area, three Palmetto Dunes golf courses in the District area, and the new addition of Long Cove Club holding pond outside of District boundaries. Recycled water revenue generated for two months in fiscal year 2015 totals \$15,227.
- The District's capital additions total \$2,137,268 for fiscal year 2015 compared to \$904,855 in fiscal year 2014. The District's depreciation expense totals \$1,494,853 and \$1,461,389 respectively. All capital expenditures were funded through District revenues and the District's depreciation reserve. The District's capital plan for fiscal year 2015 includes replacing depreciated assets and upgrading to new more efficient technologies at the plant and in the field. The major capital expenditures include the following:
 - Upgrades to the treatment plant total \$918,339 in fiscal year 2015. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and sewage effluent storage. They include pump replacements, valve replacements, a new generator exhaust system to meet EPA standards, and pond storage modifications. The storage modifications total cost is \$895,063 and enables the District to provide recycled water in a more timely and effective manner to recycled water customers by expanding immediate use storage capacity.
 - Upgrades to the distribution system total \$191,535 in fiscal year 2015. The distribution system includes the water tower, water transmission lines, valves, well houses and equipment, hydrants, and meters. The District installed 286 Automatic Meter Read (AMR) residential meters and 17 AMR commercial meters at a cost of \$130,435. These meters replace manual read meters. Automatic reads alert the District to unusually high water usage saving both District and customer resources. The remaining \$61,100 of distribution upgrades include repairs to and relocation of water lines within the District.
 - Upgrades to the collection system total \$921,199 in fiscal year 2015. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. Phase V of the vacuum sewer line and isolation valve replacement project on Mooring Buoy and Haul Away to the Water Oaks vacuum station in Palmetto Dunes was completed in April 2015 at a capital cost of \$325,665. The project addresses underground vacuum line deterioration and increases line size for better service. Water Oak Vacuum Station was renovated which included replacement pumps, upgrades to electrical

processes, and upgrades to the remote monitoring system. The renovation benefits the District and customers by reducing low vacuum problems, reducing pump run time and reducing noise and vacuum station smells. The cost of the upgrade for fiscal year 2015 is \$467,384. The remaining \$128,150 of collection system capital expenditures was to replace station pumps and control panels, and upgrade station driveways.

- Administrative capital additions total \$106,195 in fiscal year 2015. These include three fleet vehicle purchases as part of the annual fleet purchase program, and an upgraded computer server and equipment that allows the District to remotely monitor operations processes.
- Fiscal year statistics as they relate to water pumped and wastewater treated are as follows:

	FY2015	FY2014	FY2013
Water Pumped in Million Gallons (mg)	643	645	645
Water Pumped 8 Golf Wells in mg	1	10	38
Wastewater Influent Flows in mg	357	356	288
Total Rainfall	41.6”	53.3”	46.1”
Total Island Visitors	2,613,757	2,561,753	2,446,699

As of June 30, 2015 the District has the following customer account classifications and numbers:

- Residential Single Family Home/Metered Condo – 1011 accounts
- Residential Regime/Apartment – 8 accounts, 252 units
- Commercial Hotel/Timeshare – 8 accounts, 1387 units
- Commercial Transient Rental Home – 285 accounts
- Commercial Transient Rental Regime – 32 accounts, 2012 units
- Commercial Business – 80 accounts
- Commercial Irrigation – 117 accounts

WATER USED/BILLED AND PUMPED

Customer Class	Used/Billed Gallons FY 2015	Used/Billed Gallons FY 2014	Used/Billed Gallons FY 2013
Residential Single Family Home/Metered Condo	146,500,730	148,436,210	156,097,737
Residential Regime/Apartment	19,033,850	19,102,900	21,292,593
Commercial Hotel/Timeshare	108,458,330	99,144,100	103,399,790
Commercial Transient Rental Home, Regime	235,257,250	264,298,730	253,542,170
Commercial Business	27,385,680	24,471,470	24,185,410
Commercial Irrigation	98,687,290	79,797,850	76,722,190
Billed Total	635,323,130	635,251,260	635,239,890
Water Used in Hydrant Flushing	496,532	47,000	334,673
Water Used in Hydrant Flow Meter Rental	503,309	26,920	58,100
Total Water Billed/Used	636,322,971	635,325,180	635,632,663
Water Pumped in Gallons - 3 District Wells	581,666,298	534,563,550	503,381,535
Water Purchased in Gallons - HHPSD/BJWSA	61,801,000	110,888,000	141,621,000
Total Water Pumped in Gallons	643,467,298	645,451,550	645,002,535

Total billed usage remained flat from fiscal year 2014 to fiscal year 2015, and as compared to fiscal year 2013. Total water pumped also remained flat from 2014 to 2015, however the source of pumped water changed. Eight percent more water was pumped from the wells and 42% less water was purchased from the Savannah River source in 2015 compared to 2014. Although less gallons were purchased, more were purchased during the peak rate months due to District well repairs; hence the water purchase expense remained unchanged from fiscal year 2014 to 2015. Golf course well water use declined by 90% in 2015 compared to 2014 and by 97% compared to 2013. The decreased golf well usage relates directly to the pond storage modifications and the District's ability to supply more recycled water on demand.

- Operating revenues for fiscal year 2015 are \$4,483,517 or 101% of budget. Operating expenses before depreciation and amortization are \$4,160,058 or 98% of budget. Operating revenues for fiscal year 2015 are up 2% compared to 2014, and up 4% compared to 2013. Operating expenses before depreciation and amortization are up 5% from 2014, and up 7% from 2013.

	Budget	Actual	Actual	Actual
	FY2015	FY2015	FY2014	FY2013
Total Operating Revenue	4,419,946	4,483,517	4,390,111	4,296,439
Total Operating Expenses	4,238,075	4,160,058	3,948,869	3,878,922
Operating Income	\$ 181,871	\$ 323,459	\$ 441,242	\$ 417,517

Total operating revenue consists of rate revenue, recycled water, connection fees, and other miscellaneous revenue. Rate revenue makes up 99% of the operating revenue. Budgeted rate revenue is based on a cost of service model. The rate revenue budget is calculated by totaling the budgeted expenses 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 their percentage of total usage from the prior year. The usage budget is the minimum amount the District needs to collect to cover distribution costs. The sewer budget is the actual flat sewer rate times the customer base plus an estimate of the usage portion of sewer to cover sewer treatment costs. Overall actual rate revenue is higher than budgeted for in fiscal year 2015 by less than 1%.

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. The actual operating expenses for fiscal year 2015 are 2% under budget. Actual operating expenses for fiscal year 2015 are 5% higher than 2014.

The major variances in fiscal year 2015 operating expenses compared to fiscal year 2014 expenses are as follows:

- Effective July 1, 2014 the District changed its capitalization policy to define an asset as anything over \$5,000 with a useful life of over one year. In prior years the

capitalization threshold was \$1,000. The benefit of increasing the capital threshold is to more accurately track assets including disposals and to reflect the increasing cost of equipment. Equipment under \$5000 has been expensed in fiscal year 2015 which is reflected in an increase from prior year to Information Technology, Repair and Maintenance (RM) Collection, RM Distribution, RM Treatment Plant, RM Admin and Shop, and Lab Operating Supplies and Fees expenses.

- One time Flyover expense totals \$143,487 for fiscal year 2015. Beaufort County, SC is in process of making changes to roadways that required The District and HHPSD to relocate a mutually owned transmission line which brings treated Savannah River water to Hilton Head Island. The relocation cost was carried by both utilities with The District's portion equaling 33% of the total relocation cost.
- Diesel Fuel expense totals \$19,061 for fiscal year 2015 and RM Treatment Generator expense totals \$4,499. The 2015 Diesel Fuel expense is 45% lower than prior year and RM Treatment is 76% lower than 2014. The EPA requires all companies that use a generator for peak electric shaving to install a tier four catalytic exhaust system in order to reduce exhaust emissions. The required upgrades to the generator caused temporary generator down time which in turn caused a hold on maintenance and reduced fuel purchases.

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 5,144 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 169,318 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 978,082 gallons per day in fiscal year 2015. The peak treatment month was July 2014 at 1.51 mgd average and the peak treatment day was July 25, 2014 at 1.66 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 2015, 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, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Property, plant and equipment, net	\$ 16,347,183	\$ 15,723,639	\$ 16,295,281
Other assets	<u>3,712,213</u>	<u>4,615,245</u>	<u>4,321,239</u>
Total assets	20,059,396	20,338,884	20,616,520
Deferred outflows from debt refunding	<u>109,732</u>	<u>123,449</u>	<u>137,165</u>
Total assets and deferred outflows of resources	<u>\$ 20,169,128</u>	<u>\$ 20,462,333</u>	<u>\$ 20,753,685</u>
Current liabilities	1,253,079	995,277	998,110
Long term liabilities	<u>4,358,496</u>	<u>5,114,539</u>	<u>5,837,413</u>
Total liabilities	5,611,575	6,109,816	6,835,523
Net position:			
Investment in capital assets, net of related liabilities	11,359,860	10,023,680	9,917,872
Restricted for debt service	39,022	37,241	35,536
Unrestricted	<u>3,158,671</u>	<u>4,291,596</u>	<u>3,964,754</u>
Total net position	<u>14,557,553</u>	<u>14,352,517</u>	<u>13,918,162</u>
Total liabilities and net position	<u>\$ 20,169,128</u>	<u>\$ 20,462,333</u>	<u>\$ 20,753,685</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total operating revenues	\$ 4,483,517	\$ 4,390,111	4,296,439
Expenses			
Salaries, wages and employee benefits	2,222,111	2,252,099	2,278,259
Depreciation and amortization	1,508,570	1,475,106	1,448,291
Other operating expenses	<u>1,937,947</u>	<u>1,696,770</u>	<u>1,600,663</u>
Total operating expenses	5,668,628	5,423,975	5,327,213
Loss from operations	(1,185,111)	(1,033,864)	(1,030,774)
Other income (expense)			
Property taxes	1,414,885	1,410,860	1,545,017
Other income	130,063	224,590	170,044
Gain (loss) on disposed assets	(8,026)	(6,064)	(7,765)
Interest expense	<u>(192,629)</u>	<u>(218,967)</u>	<u>(241,038)</u>
Total other income (expense)	1,344,293	1,410,419	1,466,258
Increase in net position before developer contributions	159,182	376,555	435,484
Developer contributions	<u>45,854</u>	<u>57,800</u>	<u>22,000</u>
Increase in net position	<u>205,036</u>	<u>434,355</u>	<u>457,484</u>
Net position at beginning of year	<u>14,352,517</u>	<u>13,918,162</u>	<u>13,460,678</u>
Net position at end of year	<u>\$ 14,557,553</u>	<u>\$ 14,352,517</u>	<u>\$ 13,918,162</u>

AUDITED FINANCIAL STATEMENTS

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014
	2015	2014
Current assets		
Cash and cash equivalents	\$ 2,833,057	\$ 3,509,845
Cash with Beaufort County Treasurer	96,926	334,930
Cash controlled by District (restricted)	40,861	40,831
Accounts receivable - trade	500,286	435,824
Accounts receivable - other	232	22,918
Inventory	193,725	224,367
Prepaid expenses	47,126	46,530
Total current assets	3,712,213	4,615,245
Non-current assets		
Property, plant and equipment, net	16,347,183	15,723,639
Total assets	20,059,396	20,338,884
Deferred outflows of resources		
Deferred outflows from refunding debt	109,732	123,449
Total assets and deferred outflows of resources	\$ 20,169,128	\$ 20,462,333

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2015 AND 2014

LIABILITIES AND NET POSITION	2015	2014
	2015	2014
Current liabilities		
Accounts payable - trade	\$ 461,102	\$ 185,582
Accrued payroll	33,083	79,752
Current liabilities payable from restricted assets:		
Bonds payable due within one year	757,055	726,353
Accrued interest payable	1,839	3,590
Total current liabilities	1,253,079	995,277
Long term liabilities		
Bonds payable due after one year	4,340,000	5,097,055
Deposits	18,496	17,484
Total long term liabilities	4,358,496	5,114,539
Total liabilities	5,611,575	6,109,816
Net position		
Investment in capital assets, net of related liabilities	11,359,860	10,023,680
Restricted for debt service	39,022	37,241
Unrestricted	3,158,671	4,291,596
Total net position	14,557,553	14,352,517
Total liabilities and net position	\$ 20,169,128	\$ 20,462,333

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Residential	\$ 1,002,221	\$ 1,212,817
Commercial	3,415,183	3,042,992
Recycled water	15,228	-
Connection fees	37,576	100,338
Other operating revenues	<u>13,309</u>	<u>33,964</u>
Total operating revenues	4,483,517	4,390,111
 Operating expenses		
Salaries, wages and employee benefits	2,222,111	2,252,099
Administrative expenses	398,016	396,628
Plant and system operations	1,430,625	1,190,812
Water purchases	<u>109,306</u>	<u>109,330</u>
Total operating expenses before depreciation and amortization	4,160,058	3,948,869
 Income from operations before depreciation and amortization	323,459	441,242
 Depreciation expense	1,494,853	1,461,389
Amortization expense	<u>13,717</u>	<u>13,717</u>
Loss from operations	(1,185,111)	(1,033,864)
 Other income (expenses)		
Property taxes	1,414,885	1,410,860
Availability charges	36,849	131,931
Tower lease income	87,215	84,675
Interest income	5,999	7,984
Gain (loss) on disposed assets	(8,026)	(6,064)
Interest expense	<u>(192,629)</u>	<u>(218,967)</u>
Net other income (expenses)	1,344,293	1,410,419
 Increase in net position before developer contributions	159,182	376,555
Developer contributions	<u>45,854</u>	<u>57,800</u>
Increase in net position	<u>205,036</u>	<u>434,355</u>
 Net position, beginning of year	<u>14,352,517</u>	<u>13,918,162</u>
 Net position, end of year	<u>\$ 14,557,553</u>	<u>\$ 14,352,517</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,442,753	\$ 4,349,938
Cash paid to suppliers	(2,341,106)	(2,316,468)
Cash paid to employees	(1,560,055)	(1,605,574)
Net cash provided by operating activities	<u>541,592</u>	<u>427,896</u>
Cash flows from investing activities:		
Interest earned	<u>5,999</u>	<u>7,984</u>
Net cash provided by (used in) investing activities	<u>5,999</u>	<u>7,984</u>
Cash flows from noncapital financing activities:		
Property taxes collected	1,414,885	1,410,860
Availability charges	36,849	131,931
Tower lease income	<u>87,215</u>	<u>84,675</u>
Net cash provided by noncapital financing activities	1,538,949	1,627,466
Cash flows from capital financing activities:		
Developer contributions	45,854	57,800
Acquisition of property, plant and equipment	(2,130,961)	(904,855)
Proceeds from sale of property, plant and equipment	4,538	9,043
Principal paid on bonds	(726,353)	(691,166)
Interest paid	<u>(194,380)</u>	<u>(220,633)</u>
Net cash used in capital financing activities	<u>(3,001,302)</u>	<u>(1,749,811)</u>
 Net increase (decrease) in cash and cash equivalents	 (914,762)	 313,535
 Cash and cash equivalents at beginning of year	 <u>3,885,606</u>	 <u>3,572,071</u>
 Cash and cash equivalents at end of year	 <u>\$ 2,970,844</u>	 <u>\$ 3,885,606</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Schedule of cash and cash equivalents:		
Available for operations:		
Demand deposits	\$ 2,833,057	\$ 3,509,845
Held by Beaufort County Treasurer	96,926	334,930
Total available for operations	2,929,983	3,844,775
Restricted:		
Controlled by District for debt service	40,861	40,831
Total restricted	40,861	40,831
Total cash and cash equivalents at end of year	\$ 2,970,844	\$ 3,885,606
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,185,111)	\$ (1,033,864)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,494,853	1,461,389
Amortization	13,717	13,717
Changes in assets and liabilities		
Accounts receivable - trade	(64,462)	(20,894)
Accounts receivable - other	22,686	(22,758)
Inventory	30,642	60,047
Prepaid expenses	(596)	3,134
Accounts payable	275,520	22,236
Accrued payroll	(46,669)	(58,589)
Deposits	1,012	3,478
Net cash provided by operating activities	\$ 541,592	\$ 427,896

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 2015 and 2014, 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. 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, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies (continued)

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.

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, 2015, 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.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1. Summary of Significant Accounting Policies (continued)

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 \$5,000 and an estimated useful life in excess of one year. 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 \$19,394 and \$51,150 at June 30, 2015 and 2014, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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.

Reclassification

Certain accounts and amounts in the June 30, 2014 financial statements have been reclassified in order to conform with the June 30, 2015 presentation.

Date of Management’s Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 17, 2015, 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, 2015, the carrying amounts of the District’s demand deposits were \$3,873,717 and the bank balance of cash on deposit was \$3,091,182. At June 30, 2015, \$96,926 was held by the Beaufort County Treasurer.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

The deposits of the District were collateralized as follows at June 30, 2015:

	<u>June 30, 2015</u>
Amounts insured by FDIC coverage	\$ 290,861
Amounts collateralized through the local government investment pool	1,456,338
Amounts collateralized with pledged securities	1,343,983
Uncollateralized	-
Total bank balances	<u>\$ 3,091,182</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, 2015 AND 2014

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.

All investments of the District were redeemable on demand without penalty as of June 30, 2015 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 daily 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.

The funds held in the Pool represent reserves designated for operations. The District’s goal is to hold an equivalent of six months of operating expenses in this account. At June 30, 2015 and 2014, amounts held in the Pool totaled \$1,456,338 and \$1,253,036, respectively.

Note 3. Accounts Receivable - Other

Accounts receivable - other consists of employee receivables and miscellaneous operating receivables of \$232 and \$22,918 for the years ended June 30, 2015 and 2014, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 4. Property, Plant, Equipment and Depreciation

Capital asset activity during the years was as follows:

	6/30/2014	Additions	Disposals	Transfers	6/30/2015
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	86,990	1,536,299	-	(1,155,905)	467,384
Total nondepreciable assets	<u>323,037</u>	<u>1,536,299</u>	<u>-</u>	<u>(1,155,905)</u>	<u>703,431</u>
Wastewater treatment and distribution	29,680,604	314,210	(638,061)	706,823	30,063,576
Water and sewer systems	8,492,249	160,427	-	409,169	9,061,845
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	611,484	38,715	-	-	650,199
Trucks and other equipment	1,022,680	121,223	(108,203)	-	1,035,700
Total depreciable assets	<u>39,971,135</u>	<u>634,575</u>	<u>(746,264)</u>	<u>1,115,992</u>	<u>40,975,438</u>
Accumulated depreciation					
Wastewater treatment and distribution	(19,732,275)	(977,019)	638,061	(588)	(20,071,821)
Water and sewer systems	(3,738,212)	(380,762)	-	(2,259)	(4,121,233)
Water tank	(123,306)	(1,677)	-	-	(124,983)
Buildings, office and fence	(197,142)	(35,671)	-	-	(232,813)
Trucks and other equipment	(779,598)	(96,878)	95,640	-	(780,836)
Total Accumulated Depreciation	<u>(24,570,533)</u>	<u>(1,492,007)</u>	<u>733,701</u>	<u>(2,847)</u>	<u>(25,331,686)</u>
Net depreciable assets	<u>15,400,602</u>	<u>(857,432)</u>	<u>(12,563)</u>	<u>1,113,145</u>	<u>15,643,752</u>
Total property plant and equipment	<u>\$ 15,723,639</u>	<u>\$ 678,867</u>	<u>\$ (12,563)</u>	<u>\$ (42,760)</u>	<u>\$ 16,347,183</u>

	6/30/2013	Additions	Disposals	Transfers	6/30/2014
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	187,236	642,060	-	(742,306)	86,990
Total nondepreciable assets	<u>423,283</u>	<u>642,060</u>	<u>-</u>	<u>(742,306)</u>	<u>323,037</u>
Wastewater treatment and distribution	29,505,216	86,345	(30,417)	119,460	29,680,604
Water and sewer systems	7,818,226	108,308	-	565,715	8,492,249
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	553,472	4,972	-	53,040	611,484
Trucks and other equipment	1,025,339	66,637	(62,296)	-	1,029,680
Total depreciable assets	<u>39,066,371</u>	<u>266,262</u>	<u>(92,713)</u>	<u>738,215</u>	<u>39,978,135</u>
Accumulated depreciation					
Wastewater treatment and distribution	(18,770,459)	(962,631)	15,310	(14,495)	(19,732,275)
Water and sewer systems	(3,383,911)	(354,195)	-	(106)	(3,738,212)
Water tank	(121,629)	(1,677)	-	-	(123,306)
Buildings, office and fence	(161,081)	(34,484)	-	(1,577)	(197,142)
Trucks and other equipment	(757,293)	(91,601)	69,296	-	(779,598)
Total accumulated depreciation	<u>(23,194,373)</u>	<u>(1,444,588)</u>	<u>84,606</u>	<u>(16,178)</u>	<u>(24,570,533)</u>
Net depreciable assets	<u>15,871,998</u>	<u>(1,178,326)</u>	<u>(15,107)</u>	<u>722,037</u>	<u>15,400,602</u>
Total property plant and equipment	<u>\$16,295,281</u>	<u>\$ (536,266)</u>	<u>\$ (15,107)</u>	<u>\$ (20,269)</u>	<u>\$15,723,639</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$1,494,853 and \$1,461,389, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 \$17,642 and \$27,828 was paid for the years ended June 30, 2015 and 2014, respectively, and \$1,839 and \$3,590 was accrued at June 30, 2015 and 2014, 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 \$176,738 and \$192,805 was paid for the years ended June 30, 2015 and June 30, 2014, 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, 2015 and 2014 was \$109,732 and \$123,449, 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.

Bond debt service requirement to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2016	\$ 757,055	\$ 166,791	\$ 923,846
2017	550,000	142,309	692,309
2018	570,000	124,274	694,274
2019	595,000	105,584	700,584
2020	615,000	86,074	701,074
2021 - 2023	2,010,000	133,455	2,143,455
TOTAL	\$ 5,097,055	\$ 758,487	\$ 5,855,542

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, 2015 and 2014.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 6. Long Term Liabilities

Long-term liability activity for the year ended June 30, 2015, was as follows:

	6/30/2014	Additions	Reductions	6/30/2015	Due within One Year
Bonds payable:					
General obligation bonds	\$ 5,390,000	\$ -	\$ (515,000)	\$ 4,875,000	\$ 535,000
Revenue bonds	433,408	-	(211,353)	222,055	222,055
Total bonds payable	5,823,408	-	(726,353)	5,097,055	757,055
Deposits	17,484	-	-	18,496	-
Long-term liabilities	<u>\$ 5,840,892</u>	<u>\$ -</u>	<u>\$ (726,353)</u>	<u>\$ 5,115,551</u>	<u>\$ 757,055</u>

The principal payments of the general obligation bonds, due by July 1, 2015 and 2014, were paid on June 30, 2015 and 2014, 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, 2015 and 2014, \$45,854 and \$57,800, 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.

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 \$109,306 and \$162,657 in water for the years ended June 30, 2015 and 2014, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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. William Dugle, a commissioner of the District, is also on the Board of MR Systems. The District's transactions with MR Systems totaled \$45,829 and \$15,247 for the years ended June 30, 2015 and 2014, respectively, and were recorded as capital assets or plant and systems operations expenses as appropriate. At June 30, 2015 and 2014, \$38,715 and \$0- was owed to MR Systems, respectively.

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 \$1,321 and \$171,217 for insurance recoveries during the years ended June 30, 2015 and June 30, 2014, respectively.

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, 2015. District contributions to the plans for the years ended June 30, 2015 and 2014 were \$72,578 and \$77,775 respectively. Plan members contributed \$92,437 and \$104,615 for the years ended June 30, 2015 and 2014, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 2015 through 2017. The minimum future rentals to be received on these leases as of June 30, 2015 are as follows:

Year ending June 30,	
2016	\$ 89,786
2017	92,480
2018	50,317
2019	-
Thereafter	-
	<u>\$ 232,583</u>

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:

	2015	2014
Invested in capital assets, net of related liabilities		
Net property, plant and equipment services	\$ 16,347,183	\$ 15,723,639
Less: Debt as disclosed in Notes 5 and 6	(5,097,055)	(5,823,408)
Deferred refunding costs	109,732	123,449
	11,359,860	10,023,680
 Restricted for debt service	 39,022	 37,241
 Unrestricted		
Unrestricted - Designated for Capital Activity	500,141	1,002,423
Unrestricted - Designated for Post Disaster Relief	757,631	726,483
Unrestricted	1,900,899	2,562,690
	3,158,671	4,291,596
 Total net position	 \$ 14,557,553	 \$ 14,352,517

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

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS
AS OF JUNE 30, 2015

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

For the Year ending June 30,	Interest	Principal	Total
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>\$ 751,547</u>	<u>\$ 4,875,000</u>	<u>\$ 5,626,547</u>

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

For the year ending June 30,	Interest	Principal	Total
2016	6,940	222,055	228,995
Totals	<u>\$ 6,940</u>	<u>\$ 222,055</u>	<u>\$ 228,995</u>

See accompanying notes to the financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Salaries, wages and employee benefits		
Salaries and wages	\$ 1,514,604	\$ 1,546,446
Payroll taxes	117,583	119,427
Group insurance and other benefits	589,924	586,226
Total	2,222,111	2,252,099
Administrative expenses		
Commissioners' fees	37,200	37,200
Computer services	75,954	59,804
Legal fees	25,578	40,532
Audit, accounting and bookkeeping fees	22,290	19,045
Consultant meeting expense	57,708	53,753
Bank charges and trustee fees	9,623	11,958
Insurance	86,644	81,886
Office supplies and expenses	36,841	39,325
Telephone	16,265	16,610
Public relations	7,335	9,248
Taxes and licenses	4,134	4,638
Travel, meetings and training	18,444	22,629
Total	\$ 398,016	\$ 396,628

See accompanying notes to the financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

(continued)

	<u>2015</u>	<u>2014</u>
Plant and system operations		
Electricity	\$ 424,199	\$ 409,204
Engineering fees	231,319	64,629
Chemicals and supplies	188,840	183,596
Repairs and maintenance - system	264,985	206,348
Repairs and maintenance - equipment	38,190	36,157
Repairs and maintenance - other	154,754	140,785
Fuel and lubricants	50,331	72,084
Safety program	19,544	11,651
Refuse disposal	58,463	57,358
Hurricane response	-	<u>9,000</u>
Total	<u>1,430,625</u>	<u>1,190,812</u>
Water purchases	<u>109,306</u>	<u>109,330</u>
Total operating expenses before depreciation and amortization	<u>\$ 4,160,058</u>	<u>\$ 3,948,869</u>

See accompanying notes to the financial statements.