

**BROAD CREEK  
PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT  
AND

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**BROAD CREEK PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

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INDEPENDENT AUDITORS' REPORT  
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JUNE 30, 2017 AND 2016

COMMISSIONERS AND MANAGEMENT

		<u>Term expires</u>
William Dugle	- Chairman	July 11, 2019
John Joseph	- Vice Chairman	July 11, 2018
James Rowe	- Secretary	July 11, 2018
Thomas Hopkins	- Member	July 11, 2019
Lee Hildenbrandt	- Member	July 11, 2018

Mike Allen	- General Manager
Lauren Sturre	- Finance Director
Cary S. Griffin	- Assistant Secretary

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AND  
FINANCIAL STATEMENTS

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# Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS  
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## **INDEPENDENT AUDITORS' REPORT**

November 3, 2017

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, 2017 and 2016, 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, 2017 and 2016, 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 Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 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, 2017. 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 Commission 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. The CPI adjusted rate for fiscal year 2017 is \$.85 for water purchased between November 2016 and February 2017. The peak contracted rate for the water for fiscal year 2017 is \$1.78 per 1,000 gallons from July 2016 through October 2016, and from March 2017 through June 2017. The District purchased a total of 249 million gallons of treated Savannah River water at a cost of \$320,129 compared to fiscal year 2016 purchases of 44.3 million gallons which totaled \$73,259. The increased purchase is a result of District wells being down during Hurricane Matthew and during water tank rehab and painting.
- The District's property tax millage rate is unchanged in fiscal year 2017. It remains at 10 mills. Property tax revenue increased 0.4% from fiscal year 2015 to 2016, and increased 1.5% from 2016 to 2017. Property tax revenue totaled \$1,452,547 in fiscal year 2017. The property tax revenue enables the District to fund needed capital projects, to supplement operating rate revenue, and to help maintain debt service obligations.
- On July 7, 2016, the District sold to an unrelated third party a fifteen year exclusive telecom easement on the water tower, and assigned the District's interest in the two existing agreements for a sum of \$850,333. These funds will be recognized over the fifteen year term in accordance with generally accepted accounting principles. The agreement allows for the purchaser of the easement to keep 100% of rent derived from any replacement leases, which take the place of the two above mentioned agreements, and specifies a 50% split of any rent received from additional tower lease agreements. Tower lease revenue recognized in fiscal year 2017 totals \$61,763.

- The District's capital additions total \$1,285,793 for fiscal year 2017 compared to \$1,064,681 in fiscal year 2016. The District's depreciation expense totals \$1,510,403 and \$1,497,219, respectively. All capital expenditures were funded through District revenues and the District's depreciation reserve. The District's capital investment for fiscal year 2017 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:
  - Upgrades to the treatment plant total \$397,485 in fiscal year 2017. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and sewage effluent storage. \$250,118 was spent on an additional Huber sludge dewatering system to allow for system redundancy for emergency purposes. The additional \$147,367 was used for pump replacements, valve replacements, a new flow meter, replacement of aluminum walkways at the plant, and the final components for a sludge dumpster system started in the prior fiscal year.
  - Upgrades to the distribution system total \$87,710 in fiscal year 2017. The distribution system includes the water tower, water transmission lines, valves, well houses and equipment, hydrants, and meters. The District is in the process of installing Automatic Meter Read (AMR) system for commercial meters. All residential meters and a growing number of commercial meters are now read remotely which allows the District to monitor high usage alarms and mitigate potential leak problems for District customers more quickly. AMR commercial meters were installed at a cost of \$58,491. The District purchased a valve exerciser at a cost of \$29,219. Routine valve exercising eliminates costly emergency valve repairs and helps the District to resolve system breaks more quickly.
  - Upgrades to the collection system total \$720,659 in fiscal year 2017. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. Phase VII of the vacuum sewer line and isolation valve replacement project on Sea Lane, Starboard Tack, and Lee Shore was completed in May 2017 at a capital cost of \$345,627. The project addresses underground vacuum line deterioration and increases line size for better service. The remaining \$375,032 of collection system capital expenditures was to repair lift station lines, replace station pumps and control panels, and upgrade District manholes.
  - Administrative capital additions total \$79,939 in fiscal year 2017. These include the purchase of a new financial software suite with improved customer interface, and new office furniture.

- As of June 30, 2017 the District has the following number of customer accounts by classification:
  - Residential Single Family Home/Metered Condo – 1016 accounts
  - Residential Regime/Apartment – 8 accounts, 268 units
  - Commercial Hotel/Timeshare – 7 accounts, 1337 units
  - Commercial Transient Rental Home – 288 accounts
  - Commercial Transient Rental Regime – 32 accounts, 2012 units
  - Commercial Business – 84 accounts
  - Commercial Irrigation – 121 accounts
  
- For fiscal year 2017 the District has the following water/wastewater flows:

**WATER USED/BILLED AND PUMPED**

Customer Class	Used/Billed Gallons FY 2017	Used/Billed Gallons FY 2016	Used/Billed Gallons FY 2015
Residential Single Family Home/Metered Condo	174,360,226	143,262,265	146,500,730
Residential Regime/Apartment	24,229,180	17,731,330	19,033,850
Commercial Hotel/Timeshare	100,298,490	93,892,070	108,458,330
Commercial Transient Rental Home, Regime	263,779,371	223,399,190	235,257,250
Commercial Business	31,961,363	31,573,090	27,385,680
Commercial Irrigation	96,852,635	89,158,290	98,687,290
Billed Total	691,481,265	599,016,235	635,323,130
Water Used in Hydrant Flushing	368,248	534,062	496,532
Water Used in Hydrant Flow Meter Rental	190,195	50	503,309
<b>Total Water Billed/Used</b>	<b>692,039,705</b>	<b>599,550,347</b>	<b>636,322,971</b>
Water Pumped in Gallons - 3 District Wells	465,711,349	558,328,230	581,666,298
Water Purchased in Gallons - HHPSD/BJWSA	249,033,000	44,323,000	61,801,000
<b>Total Water Pumped in Gallons</b>	<b>714,744,349</b>	<b>602,651,230</b>	<b>643,467,298</b>

**WASTEWATER INFLOW**

	Gallons FY 2017	Gallons FY 2016	Gallons FY 2015
Wastewater Influent Flows	353,373,749	359,867,951	357,890,936
Total Rainfall	41.5"	44"	41.6"
Estimated Island Visitors (Chamber of Commerce)	2,677,951	2,642,770	2,613,757

Total billed usage in fiscal year 2017 increased by 15.4% compared to fiscal year 2016 and 8.8% compared to fiscal year 2015. Total water pumped also increased by 18.6% and 11.1% for the same time periods. The increase in billed usage and pumpage from the District water sources is due directly and indirectly to Hurricane Matthew which hit Hilton Head Island on October 8, 2016. Falling trees and debris broke some distribution mains and laterals causing water to temporarily flow. New landscaping after hurricane clean-up required above average irrigation across all customer classes.

**OPERATING INCOME**

	<b>Budget FY2017</b>	<b>Actual FY2017</b>	<b>Actual FY2016</b>	<b>Actual FY2015</b>
<b>Total Operating Revenues</b>	4,870,178	4,981,275	4,616,515	4,483,517
<b>Total Operating Expenses</b>	3,880,550	3,969,741	3,862,379	4,160,058
<b>Operating Income</b>	\$989,628	\$1,011,534	\$754,136	\$323,459

- Total operating revenues for fiscal year 2017 are \$4,981,275 or 102.3% of budget. Total operating revenue consists of rate revenue, connection fees, and other miscellaneous revenue. Included in operating revenue in fiscal year 2017 are insurance proceeds less Hurricane Matthew preparation and clean-up expenses. The net insurance proceeds are \$91,043 or 1.9% of total budget. (See Note 11 of “Notes to Financial Statements”).

Total operating revenues for fiscal year 2017 are up 7.9% compared to 2016, and up 11.1% compared to 2015. Rate revenue makes up 96% of the operating revenue. Rate revenue is up by 7.6%, or \$337,837 compared to prior year. The increase in rate revenue is the result of increased irrigation following Hurricane Matthew.

- Operating expenses include expenses related to the day to day District operations, and exclude expenditures related to debt service and capital. 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. Operating expenses before depreciation and amortization are \$3,969,741 or 102.3% of budget.

Actual operating expenses for fiscal year 2017 are 2.8% higher than 2016 and 4.6% lower than 2015. The major variances in fiscal year 2017 operating expenses compared to fiscal year 2016 expenses are as follows (*see Schedule of Operating Expenses, pg 30,31*):

- Salaries, wages, and benefit expense are down 3.8%, or \$79,424, compared to prior year. The District joined the SC Public Employee Benefit Authority (PEBA) effective January 1, 2017. As a result of the change, health and dental insurance premium savings in fiscal year 2017 total \$114,805. The savings is slightly offset by a Commission approved increase from 6% to 8% matching contribution to the defined contribution retirement plan as well as a 1.7% increase to salaries and payroll taxes compared to prior year.
- Administrative expenses are up 7.3%, or \$26,873, compared to prior year. Increases to Commission compensation, consultant meeting fees, bank fees, and telephone expense were partially offset by decreases to legal fees, and property insurance. The District hired a consultant to review District capacity and connection fees, which accounts for a 7.5% increase to consultant meeting fees compared to prior year. The fee changes will be implemented in fiscal year 2018. Merchant service bank fees are up 105% from \$11,257 in fiscal year 2016 to \$23,174 in fiscal year 2017 due to increased volume of online payments. Telephone expense is up 21.4% as the

District transitions to smartphone technology and increased data usage. Legal fees are down 31.2% from prior year as more of those costs are capitalized and reimbursed through commercial water and sewer agreements in fiscal year 2017.

- Plant and system operations expenses are down 6.6%, or \$86,701, compared to prior year. Electricity is down 11.8%, or \$45,954, from prior year due in part to tax savings from the District's tax exempt status. Engineering fees are down \$145,047 compared to fiscal year 2016, when a one-time operational assessment study was undertaken. Implementation of the study in fiscal year 2017 required additional expenditures of \$116,024 to repair and maintenance of collection, distribution, and treatment plant equipment and processes compared to prior year. Chemical purchases were down 8.7%, or \$12,558, in part due to wells being down during water tower upgrades. Generator repairs and water tower upgrades were also completed in fiscal year 2017.

## 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, Yacht Cove and Shelter Cove Harbor. The District serves approximately 5,126 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 its water from the Savannah River). The District's current use from the supplemental Savannah River source is an average of 682,282 gallons per day compared to last year's average of 121,433. 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 986,147 gallons per day in fiscal year 2017. The peak treatment month was July 2016 at 1.41 mgd average and the peak treatment day was July 3, 2016 at 1.7 mg. The plant and system design will adequately serve 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 and District sprayfield. During fiscal year 2017, 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 assets also include eighteen wastewater pump stations; two wastewater vacuum stations; one water tower; sixty-three miles of water distribution lines and forty-one miles of wastewater collection lines.

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. (SC Code of Laws, **SECTION 6-11-271**. Millage levy for special purpose district).

## **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, 2017, 2016 AND 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property, plant and equipment, net	\$ 15,690,406	\$ 15,914,645	\$ 16,347,183
Other assets	<u>5,671,749</u>	<u>3,947,913</u>	<u>3,712,213</u>
<b>Total assets</b>	21,362,155	19,862,558	20,059,396
Deferred outflows from debt refunding	<u>82,299</u>	<u>96,016</u>	<u>109,732</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 21,444,454</u>	<u>\$ 19,958,574</u>	<u>\$ 20,169,128</u>
Current liabilities	850,870	821,060	1,253,079
Long term liabilities	<u>3,951,843</u>	<u>3,807,398</u>	<u>4,358,496</u>
<b>Total liabilities</b>	4,802,713	4,628,458	5,611,575
<b>Net position:</b>			
Investment in capital assets, net of related liabilities	11,982,705	11,670,661	11,359,860
Restricted for debt service	-	-	39,022
Unrestricted	<u>4,659,036</u>	<u>3,659,455</u>	<u>3,158,671</u>
<b>Total net position</b>	<u>16,641,741</u>	<u>15,330,116</u>	<u>14,557,553</u>
<b>Total liabilities and net position</b>	<u>\$ 21,444,454</u>	<u>\$ 19,958,574</u>	<u>\$ 20,169,128</u>

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017, 2016 AND 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total operating revenues</b>	\$ 4,981,275	\$ 4,616,515	4,483,517
<b>Expenses</b>			
Salaries, wages and employee benefits	2,024,300	2,103,724	2,222,111
Depreciation and amortization	1,524,120	1,510,936	1,508,570
Other operating expenses	<u>1,945,441</u>	<u>1,758,655</u>	<u>1,937,947</u>
Total operating expenses	5,493,861	5,373,315	5,668,628
<b>Loss from operations</b>	(512,586)	(756,800)	(1,185,111)
<b>Other income (expense)</b>			
Property taxes	1,452,496	1,420,755	1,414,885
Other income	124,840	135,823	130,063
Gain (loss) on disposed assets	371	100	(8,026)
Interest expense	<u>(142,309)</u>	<u>(164,952)</u>	<u>(192,629)</u>
Total other income (expense)	1,435,398	1,391,726	1,344,293
<b>Increase in net position before developer contributions</b>	922,812	634,926	159,182
Developer contributions	<u>388,813</u>	<u>137,637</u>	<u>45,854</u>
<b>Increase in net position</b>	<u>1,311,625</u>	<u>772,563</u>	<u>205,036</u>
<b>Net position at beginning of year</b>	<u>15,330,116</u>	<u>14,557,553</u>	<u>14,352,517</u>
<b>Net position at end of year</b>	<u>\$ 16,641,741</u>	<u>\$ 15,330,116</u>	<u>\$ 14,557,553</u>

**AUDITED FINANCIAL STATEMENTS**

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2017 AND 2016**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Current assets</b>		
Cash and investments	\$ 4,193,348	\$ 3,006,519
Cash with Beaufort County Treasurer	629,385	137,181
Accounts receivable - trade	560,729	583,605
Accounts receivable - other	25,526	1,267
Inventory	232,037	171,175
Prepaid expenses	<u>30,724</u>	<u>48,166</u>
Total current assets	5,671,749	3,947,913
<b>Non-current assets</b>		
Property, plant and equipment, net	<u>15,690,406</u>	<u>15,914,645</u>
<b>Total assets</b>	<u>21,362,155</u>	<u>19,862,558</u>
<b>Deferred outflows of resources</b>		
Deferred outflows from refunding debt	<u>82,299</u>	<u>96,016</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 21,444,454</u>	<u>\$ 19,958,574</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2017 AND 2016**

<b>LIABILITIES AND NET POSITION</b>	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>Current liabilities</b>		
Accounts payable - trade	\$ 147,838	\$ 206,265
Accrued payroll	78,398	64,795
Deferred revenue	54,634	-
Bonds payable due within one year	<u>570,000</u>	<u>550,000</u>
Total current liabilities	850,870	821,060
<b>Long term liabilities</b>		
Bonds payable due after one year	3,220,000	3,790,000
Deferred revenue	710,248	-
Deposits	<u>21,595</u>	<u>17,398</u>
Total long term liabilities	<u>3,951,843</u>	<u>3,807,398</u>
<b>Total liabilities</b>	4,802,713	4,628,458
<b>Net position</b>		
Investment in capital assets, net of related liabilities	11,982,705	11,670,661
Unrestricted	<u>4,659,036</u>	<u>3,659,455</u>
<b>Total net position</b>	<u>16,641,741</u>	<u>15,330,116</u>
<b>Total liabilities and net position</b>	<u><u>\$ 21,444,454</u></u>	<u><u>\$ 19,958,574</u></u>

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating revenues</b>		
Residential	\$ 1,159,039	\$ 942,890
Commercial	3,595,479	3,480,522
Recycled water	33,149	26,416
Connection fees	50,722	55,820
Disaster recovery, net	91,043	-
Other operating revenues	<u>51,843</u>	<u>110,867</u>
Total operating revenues	4,981,275	4,616,515
<b>Operating expenses</b>		
Salaries, wages and employee benefits	2,024,300	2,103,724
Administrative expenses	396,570	369,697
Plant and system operations	1,228,742	1,315,699
Water purchases	<u>320,129</u>	<u>73,259</u>
Total operating expenses before depreciation and amortization	3,969,741	3,862,379
Income from operations before depreciation and amortization	1,011,534	754,136
Depreciation expense	1,510,403	1,497,219
Amortization expense	<u>13,717</u>	<u>13,717</u>
Loss from operations	(512,586)	(756,800)
<b>Other income (expenses)</b>		
Property taxes	1,452,496	1,420,755
Availability charges	32,017	34,350
Tower lease income	61,763	89,932
Interest income	31,060	11,541
Gain (loss) on disposed assets	371	100
Interest expense	<u>(142,309)</u>	<u>(164,952)</u>
Net other income (expenses)	<u>1,435,398</u>	<u>1,391,726</u>
<b>Increase in net position before developer contributions</b>	922,812	634,926
Developer contributions	<u>388,813</u>	<u>137,637</u>
<b>Increase in net position</b>	<u>1,311,625</u>	<u>772,563</u>
<b>Net position, beginning of year</b>	<u>15,330,116</u>	<u>14,557,553</u>
<b>Net position, end of year</b>	<u>\$ 16,641,741</u>	<u>\$ 15,330,116</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 4,841,203	\$ 4,420,196
Other operating cash receipts	142,886	110,867
Cash paid to suppliers	(2,609,107)	(2,647,894)
Cash paid to employees	(1,448,878)	(1,416,100)
Net cash provided by operating activities	<u>926,104</u>	<u>467,069</u>
<b>Cash flows from investing activities:</b>		
Purchases of certificates of deposit	(400,000)	(700,000)
Redemption of certificates of deposit	200,000	100,000
Interest earned	31,060	11,541
Net cash provided by (used in) investing activities	<u>(168,940)</u>	<u>(588,459)</u>
<b>Cash flows from noncapital financing activities:</b>		
Property taxes collected	1,452,496	1,420,755
Availability charges	32,017	34,350
Tower lease income	826,645	89,931
Net cash provided by noncapital financing activities	<u>2,311,158</u>	<u>1,545,036</u>
<b>Cash flows from capital financing activities:</b>		
Developer contributions	388,813	137,637
Acquisition of property, plant and equipment	(1,285,793)	(1,064,681)
Proceeds from sale of property, plant and equipment	-	100
Principal paid on bonds	(550,000)	(757,055)
Interest paid	(142,309)	(166,791)
Net cash used in capital financing activities	<u>(1,589,289)</u>	<u>(1,850,790)</u>
Net increase (decrease) in cash and cash equivalents	1,479,033	(427,144)
Cash and cash equivalents at beginning of year	<u>2,543,700</u>	<u>2,970,844</u>
Cash and cash equivalents at end of year	<u>\$ 4,022,733</u>	<u>\$ 2,543,700</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Schedule of cash and cash equivalents:</b>		
Cash and investments from the Statement of Net Position	\$ 4,193,348	\$ 3,006,519
Less: Certificate of deposit investments	<u>(800,000)</u>	<u>(600,000)</u>
Unrestricted cash and cash equivalents	3,393,348	2,406,519
Held by Beaufort County Treasurer	<u>629,385</u>	<u>137,181</u>
Total cash and cash equivalents at end of year	<u>\$ 4,022,733</u>	<u>\$ 2,543,700</u>
 <b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (512,586)	\$ (756,800)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,510,403	1,497,219
Amortization	13,717	13,717
Changes in assets and liabilities		
Accounts receivable - trade	22,876	(83,319)
Accounts receivable - other	(24,259)	(1,035)
Inventory	(60,862)	22,550
Prepaid expenses	17,442	(1,040)
Accounts payable	(58,427)	(254,837)
Accrued payroll	13,603	31,712
Deposits	<u>4,197</u>	<u>(1,098)</u>
Net cash provided by operating activities	<u>\$ 926,104</u>	<u>\$ 467,069</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

**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 2017 and 2016, 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, 2017 AND 2016

**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.

**Investments**

Investments consist of certificates of deposit with original maturities of three months or more which are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

**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, 2017, management does not anticipate any significant bad debts from these receivables.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**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 \$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 \$16,783 and \$12,551 at June 30, 2017 and 2016, respectively.

**Date of Management's Review**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 3, 2017, the date that the financial statements were available to be issued.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**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.

**Note 2. Cash, Cash Equivalents and Investments**

Cash and investments as of June 30, 2017 and 2016 are classified in the accompanying financial statements as follows:

Statement of net position:	<b>2017</b>	<b>2016</b>
Cash and investments	\$ 4,193,348	\$ 3,006,519
Cash with Beaufort County Treasurer	629,385	137,181
Cash controlled by District (restricted for debt service)	-	-
Total cash and investments	<u>\$ 4,822,733</u>	<u>\$ 3,143,700</u>

Cash and investments as of June 30 consist of the following:	<b>2017</b>	<b>2016</b>
Cash on hand	\$ 200	\$ 200
Demand deposits with financial institutions	906,275	941,859
South Carolina local government investment pool	2,486,873	1,464,460
Certificates of deposit	800,000	600,000
Cash held by Beaufort County Treasurer	629,385	137,181
	<u>\$ 4,822,733</u>	<u>\$ 3,143,700</u>

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, 2017, the carrying amounts of the District’s cash and investments was \$4,193,348 and the bank balance of cash on deposit was \$4,430,231. At June 30, 2017, \$629,385 was held by the Beaufort County Treasurer.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

The deposits of the District were collateralized as follows at June 30, 2017:

	<u>June 30, 2017</u>
Amounts insured by FDIC coverage	\$ 1,301,549
Amounts collateralized through the local government investment pool	2,486,873
Amounts collateralized with pledged securities	641,809
Uncollateralized	-
Total bank balances	<u>\$ 4,430,231</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, 2017 AND 2016

### **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.

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. In accordance with GASB Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*” and as amended by GASB Statement No. 72, “*Fair Value Measurement and Application*”, investments are carried at fair value determined annually based upon quoted market prices for identical or similar investments. The total 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. Funds may be deposited by Pool participants at any time and may be withdrawn upon 27 hours notice. Financial statements for the Pool may be obtained by writing to the Office of the State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960. The Pool is not rated.

At June 30, 2017 and 2016, amounts held in the Pool totaled \$2,473,239 and \$1,464,460, respectively. The funds held in the Pool represent reserves designated for operations and capital expenditures.

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

Accounts receivable - other consists of employee receivables, insurance receivables, accrued interest and miscellaneous operating receivables of \$25,526 and \$1,267 for the years ended June 30, 2017 and 2016, respectively.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

Capital asset activity during the years was as follows:

	6/30/2016	Additions	Disposals	Transfers	6/30/2017
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	13,751	1,051,201	-	(716,776)	348,176
Total nondepreciable assets	249,798	1,051,201	-	(716,776)	584,223
Wastewater treatment and distribution	30,215,485	105,743	(97,017)	112,684	30,336,895
Water and sewer systems	10,283,676	70,153	(12,524)	604,092	10,945,397
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	668,838	16,442	(20,418)	-	664,862
Trucks and other equipment	1,123,556	42,255	(133,285)	-	1,032,526
Total depreciable assets	42,455,673	234,593	(263,244)	716,776	43,143,798
Accumulated depreciation					
Wastewater treatment and distribution	(21,049,676)	(949,155)	97,017	(3,181)	(21,904,995)
Water and sewer systems	(4,506,269)	(419,107)	12,524	(11,738)	(4,924,590)
Water tank	(126,665)	(1,677)	-	-	(128,342)
Buildings, office and fence	(269,953)	(43,905)	20,418	-	(293,440)
Trucks and other equipment	(838,263)	(81,641)	133,656	-	(786,248)
Total Accumulated Depreciation	(26,790,826)	(1,495,485)	263,615	(14,919)	(28,037,615)
Net depreciable assets	15,664,847	(1,260,892)	371	701,857	15,106,183
Total property plant and equipment	\$ 15,914,645	\$ (209,691)	\$ 371	\$ (14,919)	\$ 15,690,406

	6/30/2015	Additions	Disposals	Transfers	6/30/2016
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	467,384	485,849	-	(939,482)	13,751
Total nondepreciable assets	703,431	485,849	-	(939,482)	249,798
Wastewater treatment and distribution	30,063,576	126,585	(5,900)	31,224	30,215,485
Water and sewer systems	9,061,845	313,573	-	908,258	10,283,676
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	650,199	24,334	(5,695)	-	668,838
Trucks and other equipment	1,035,700	114,340	(26,484)	-	1,123,556
Total depreciable assets	40,975,438	578,832	(38,079)	939,482	42,455,673
Accumulated depreciation					
Wastewater treatment and distributio	(20,071,821)	(983,353)	5,900	(402)	(21,049,676)
Water and sewer systems	(4,121,233)	(375,654)	-	(9,382)	(4,506,269)
Water tank	(124,983)	(1,682)	-	-	(126,665)
Buildings, office and fence	(232,813)	(42,835)	5,695	-	(269,953)
Trucks and other equipment	(780,836)	(83,911)	26,484	-	(838,263)
Total accumulated depreciation	(25,331,686)	(1,487,435)	38,079	(9,784)	(26,790,826)
Net depreciable assets	15,643,752	(908,603)	-	929,698	15,664,847
Total property plant and equipment	\$16,347,183	\$ (422,754)	\$ -	\$ (9,784)	\$15,914,645

Depreciation expense for the years ended June 30, 2017 and 2016 was \$1,510,403 and \$1,497,219, respectively.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **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 had a fifteen year term and were payable in quarterly installments of \$57,249 with the final payment due May 1, 2016. The interest rate was 4.97% on these bonds and interest of \$6,940 was paid for the years ended June 30, 2016.

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 \$142,309 and \$159,851 was paid for the years ended June 30, 2017 and June 30, 2016, 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, 2017 and 2016 was \$82,299 and \$96,016, respectively, and is reported as a deferred outflow of resources in accordance with GASB 63.

The revenue bonds required certain funds to be maintained by the District. Most of these had previously been established for other bonds. These were the gross revenue fund, the operation and maintenance fund and the depreciation and contingency fund. In addition, the District was 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
2018	\$ 570,000	\$ 124,274	\$ 694,274
2019	595,000	105,584	700,584
2020	615,000	86,074	701,074
2021	645,000	65,908	710,908
2022	670,000	44,758	714,758
2023	695,000	22,789	717,789
TOTAL	<u>\$ 3,790,000</u>	<u>\$ 449,387</u>	<u>\$ 4,239,387</u>

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, 2017 and 2016.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 6. Long Term Liabilities**

Long-term liability activity for the year ended June 30, 2017, was as follows:

	6/30/2016	Additions	Reductions	6/30/2017	Due within One Year
General obligation bonds	\$ 4,340,000	\$ -	\$ (550,000)	\$ 3,790,000	\$ 570,000
Deferred tower lease	-	819,516	(54,634)	764,882	54,634
Deposits	17,398	4,197	-	21,595	-
Long-term liabilities	<u>\$ 4,357,398</u>	<u>\$ 823,713</u>	<u>\$ (604,634)</u>	<u>\$ 4,576,477</u>	<u>\$ 624,634</u>

The principal payments of the general obligation bonds, due by July 1, 2017 and 2016, were paid on June 30, 2017 and 2016, 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, if additional infrastructure is necessary, they will contribute the infrastructure upon completion. Additionally, 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.

For the years ended June 30, 2017 and 2016, \$388,813 and \$137,637, respectively, was collected in cash for capacity fees from developers and no infrastructure assets were contributed to the District.

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 supplemented by an agreement between Broad Creek PSD and Hilton Head No. 1 PSD whereby all costs of water purchased and maintenance of the Segment 3 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 \$320,129 and \$73,259 in water for the years ended June 30, 2017 and 2016, respectively.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **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 \$6,576 and \$58,051 for the years ended June 30, 2017 and 2016, respectively, and were recorded as capital assets or plant and systems operations expenses as appropriate. At June 30, 2017 and 2016, \$-0- and \$2,525 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. Disaster Recovery / 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- for insurance recoveries during the year ended June 30, 2016.

In October 2016, Hurricane Matthew made landfall in the District's service area and caused damage to the District's property and systems. A smaller storm also brought some minor damage earlier in the fiscal year. The District received \$477,926 for insurance recoveries related to these storms during the year ended June 30, 2017. The district incurred direct costs for clean up and repairs to property, system, and landscaping in the amount of \$386,883 which were netted against the insurance recoveries to result in disaster recovery income of \$91,043. This income is associated with expenses that were not directly identifiable, and thus were not netted against the recoveries, such as administrative and maintenance payroll related to storm recovery and claim administration and per diem payments for usage of District equipment in clean-up efforts, as well as payment for projects the district did not complete by June 30, 2017 such as additional landscape repairs.

### **Note 12. Retirement 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. Through December 31, 2016, the annual District contribution due under the plan was a match of up to, but not to exceed, 6% of participating employees' covered compensation. Effective January 1, 2017, the annual District contribution due under the plan is a contribution of 4% of covered compensation towards the employees' plan and to match employee payroll contributions that exceed 4% up to a maximum of 8% of participating employees' covered compensation. The plan's assets equal the vested benefits at June 30, 2017. District contributions to the

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 12. Retirement Plan (continued)**

plans for the years ended June 30, 2017 and 2016 were \$84,208 and \$66,182, respectively. Plan members contributed \$99,912 and \$85,094 for the years ended June 30, 2017 and 2016, respectively.

**Note 13. Deferred Tower Lease Income**

During the year ended June 30, 2016, the District leased water tower space and adjacent land to two unrelated parties under agreements with non-cancelable five and ten year terms with various expiration dates from 2016 through 2017. On July 7, 2016, the District sold an unrelated third party a fifteen year exclusive telecom easement on the water tower and assigned their interest in the two above mentioned agreements for a gross sum of \$850,333 which will be reduced by direct expenses and prorated rent expenditures to a net sum of \$819,516. The net sum will be recognized on a straight line basis over the fifteen year term, \$54,634 per year, in accordance with generally accepted accounting principles. The agreement allows for the purchaser of the easement to keep 100% of rent derived from any replacement leases which take the place of the two above mentioned agreements and specifies a 50% split of any rent received from additional tower lease agreements. No additional tower leases were added to the agreement during the year ended June 30, 2017.

**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:

	2017	2016
Invested in capital assets, net of related liabilities		
Net property, plant and equipment services	\$ 15,690,406	\$ 15,914,645
Less: Debt as disclosed in Notes 5 and 6	(3,790,000)	(4,340,000)
Deferred refunding costs	82,299	96,016
	11,982,705	11,670,661
 Unrestricted		
Unrestricted - Designated for Capital Activity	1,251,122	215,640
Unrestricted - Designated for Operating Reserves	2,464,776	2,268,536
Unrestricted	943,138	1,175,279
	4,659,036	3,659,455
Total net position	\$ 16,641,741	\$ 15,330,116

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.

# **BROAD CREEK PUBLIC SERVICE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

### **Note 14. Net Position and Contributed Capital (continued)**

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 were 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. During the year ended June 30, 2016, the Commissioners decided to remove this designation and replace it with reserves designated for operations. The District's goal is to hold an equivalent of six months of operating expenses in operating reserve accounts.

**ACCOMPANYING FINANCIAL INFORMATION**

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF OPERATING EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Salaries, wages and employee benefits</b>		
Salaries and wages	\$ 1,465,514	\$ 1,446,495
Payroll taxes	112,241	111,423
Group insurance and other benefits	446,545	545,806
Total	2,024,300	2,103,724
 <b>Administrative expenses</b>		
Commissioners' fees	51,950	34,800
Computer services	54,723	58,031
Legal fees	28,751	42,072
Audit, accounting and bookkeeping fees	20,300	19,540
Consultant meeting expense	26,773	15,300
Bank charges and trustee fees	23,174	11,257
Insurance	84,290	89,301
Office supplies and expenses	33,522	36,033
Telephone	30,017	24,732
Public relations	7,787	7,392
Taxes and licenses	4,440	4,414
Travel, meetings and training	30,843	26,825
Total	\$ 396,570	\$ 369,697

See accompanying notes to the financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF OPERATING EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

(continued)

	<u>2017</u>	<u>2016</u>
<b>Plant and system operations</b>		
Electricity	\$ 342,682	\$ 388,636
Engineering fees	20,517	165,564
Chemicals and supplies	132,348	144,906
Repairs and maintenance - system	386,288	287,319
Repairs and maintenance - equipment	28,103	44,541
Repairs and maintenance - other	207,519	174,026
Fuel and lubricants	40,651	39,787
Safety program	18,618	21,485
Refuse disposal	<u>52,016</u>	<u>49,179</u>
Total	1,228,742	1,315,443
<b>Water purchases</b>	<u>320,129</u>	<u>73,259</u>
Total operating expenses before depreciation and amortization	<u>\$ 3,969,741</u>	<u>\$ 3,862,123</u>

See accompanying notes to the financial statements.