

**BROAD CREEK
PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

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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

BROAD CREEK PUBLIC SERVICE DISTRICT

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BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

November 2, 2018

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, 2018 and 2017, 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, 2018 and 2017, 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.

Kolman & 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, 2018. 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 2018 is \$.86 for water purchased between November 2017 and February 2018. The peak contracted rate for the water for fiscal year 2018 is \$1.82 per 1,000 gallons from July 2017 through October 2017, and from March 2018 through June 2018. The District purchased a total of 89 million gallons of treated Savannah River water at a cost of \$127,776 compared to fiscal year 2017 purchases of 249 million gallons which totaled \$320,129. The decreased purchase in fiscal year 2018 reflects an increase in well usage. Following Hurricane Matthew in fiscal year 2017 purchase of Savannah River water was unusually high due to well repairs and water tank rehab and painting.
- The District's property tax millage rate is unchanged in fiscal year 2018. It remains at 10 mills. Property tax revenue increased 1.5% from fiscal year 2016 to 2017 and increased .6% from 2017 to 2018. Property tax revenue totaled \$1,460,977 in fiscal year 2018. The property tax revenue enables the District to fund needed capital projects, to supplement operating rate revenue, and to help maintain debt service obligations.
- The District's capital additions total \$2,656,186 for fiscal year 2018 compared to \$1,285,793 in fiscal year 2017. The District's depreciation expense totals \$1,496,348 and \$1,510,403, during this same time period. All capital expenditures were funded through District revenues and the District's depreciation reserve. The District's capital investment for fiscal year 2018 included replacing older 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 \$2,193,209 in fiscal year 2018. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent storage. \$1,995,484 was spent on upgrades and relining of the 24-million-gallon storage pond. The project consisted of tree and muck removal as well as a new pond liner, pumps and valves. The project was necessary due to the age of the liner and damage caused by Hurricane Matthew in 2016. The remaining treatment plant capital expenditures consist of

\$153,344 for the final installment of an additional Huber sludge dewatering system purchased in fiscal year 2017. The new Huber allows for system redundancy for emergency purposes. The additional \$44,381 includes spending for a replacement sludge conveyor belt and plant fence security.

- Upgrades to the distribution system total \$81,780 in fiscal year 2018. 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 an automatic meter read (AMR) system for all 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 \$70,650. Additionally, the District replaced variable frequency drive controls that control pumps at two District wells at a cost of \$11,130.
- Upgrades to the collection system total \$289,283 in fiscal year 2018. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. Phase VIII of the vacuum sewer line and isolation valve replacement project on Weather Shore and Upwind was completed in fiscal year 2018 at a capital cost of \$63,005. The project addresses underground vacuum line deterioration and increases line size for better service. \$152,936 was spent on raised vacuum system controllers. These raised controllers help minimize damage to the sewer vacuum system due to storm related flooding. The remaining \$73,342 of collection system capital expenditures include Port Tack vacuum station engineering designs for the station overhaul to be completed in fiscal year 2019.
- Administrative capital additions total \$91,914 in fiscal year 2018 for the purchase of four new District vehicles.
- As of June 30, 2018, the District has the following number of customer accounts by classification:
 - Residential Single-Family Home/Metered Condo – 1026 accounts
 - Residential Regime/Apartment – 10 accounts, 404 units
 - Commercial Hotel/Timeshare – 9 accounts, 1338 units
 - Commercial Transient Rental Home – 290 accounts
 - Commercial Transient Rental Regime – 32 accounts, 2012 units
 - Commercial Business – 87 accounts
 - Commercial Irrigation – 122 accounts

- The District has the following water/wastewater flows in fiscal year 2018:

WATER USED/BILLED AND PUMPED

Customer Class	Used/Billed Gallons FY 2018	Used/Billed Gallons FY 2017	Used/Billed Gallons FY 2016
Residential Single-Family Home/Metered Condo	164,236,186	174,360,226	143,262,265
Residential Regime/Apartment	21,110,980	24,229,180	17,731,330
Commercial Hotel/Timeshare	107,274,689	100,298,490	93,892,070
Commercial Transient Rental Home, Regime	240,671,297	263,779,371	223,399,190
Commercial Business	35,169,884	31,961,363	31,573,090
Commercial Irrigation	88,533,722	96,852,635	89,158,290
Metered/ Billed Total	<u>656,996,758</u>	<u>691,481,265</u>	<u>599,016,235</u>
Water Used at Plant, Wells, Lift Stations	2,250,000	Not metered	Not metered
Water Used in Hydrant Flushing	578,000	368,248	534,062
Water Used in Hydrant Flow Meter Rental	364,452	190,195	50
Metered/ Unbilled Total	<u>3,192,452</u>	<u>558,443</u>	<u>534,112</u>
Total Metered Water	<u>660,189,210</u>	<u>692,039,708</u>	<u>599,550,347</u>
Water Pumped in Gallons - 3 District Wells	596,395,317	465,711,349	558,328,230
Water Purchased in Gallons - HHPSD/BJWSA	88,680,000	249,033,000	44,323,000
Total Water Pumped	<u>685,075,317</u>	<u>714,744,349</u>	<u>602,651,230</u>

WASTEWATER INFLOW

	Gallons FY 2018	Gallons FY 2017	Gallons FY 2016
Wastewater Influent Flows	380,737,688	353,373,749	359,867,951
Total Rainfall	47"	41.5"	44"

Total metered/billed water in fiscal year 2018 decreased by 5% compared to fiscal year 2017 and increased by 9.8% compared to fiscal year 2016. Total water pumped decreased by 4.2% compared to 2017 and increased by 13.7% compared to 2016. Fiscal year 2017 is an anomaly as far as the increase in metered and pumped water is concerned due to Hurricane Matthew which hit Hilton Head Island on October 8, 2016. Broken distribution lines and increased irrigation following cleanup accounts for the unusual increases. In fiscal year 2018 water lines were repaired, but single-family home irrigation remained higher than fiscal year 2016 due to fewer trees and newer landscaping. The increase wastewater influent flows in fiscal year 2018 compared to prior years is due in a large part to the continued increase in Island visitors.

OPERATING INCOME

	Budget FY2018	Actual FY2018	Actual FY2017	Actual FY2016
Total Operating Revenues	\$4,746,505	\$4,964,959	\$4,981,275	\$4,616,515
Total Operating Expenses	3,770,553	3,658,073	3,969,741	3,862,379
Operating Income	\$975,952	\$1,306,886	\$1,011,534	\$754,136

- Total operating revenues for fiscal year 2018 are \$4,964,959 or 105% of budget. Total operating revenue consists of rate revenue, connection fees, and other miscellaneous revenue. Included in operating revenue in fiscal year 2018 are additional unbudgeted hurricane insurance proceeds and unbudgeted Palmetto Electric capital credits together totaling \$61,268.

Total operating revenues for fiscal year 2018 are down .3% compared to 2017, and up 7.5% compared to 2016. Water and sewer rate revenue makes up 97% of the operating revenue. Water and sewer rate revenue is up by 1.3% or \$63,172 compared to prior year. The increase in rate revenue is largely the result of increased commercial water usage both from Island visitors and irrigation.

- Operating expenses are 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 \$3,658,073 or 97% of budget.

Actual operating expenses for fiscal year 2018 are 7.9% lower than 2017 and 5.3% higher than 2016. The major variances in fiscal year 2018 operating expenses compared to fiscal year 2017 expenses are as follows (*see Schedule of Operating Expenses, pg 30,31*):

- Salaries, wages, and benefit expense are down 4.2% or \$84,291 compared to prior year. The District joined the SC Public Employee Benefit Authority (PEBA) effective January 1, 2017 for health, dental, and life coverage. The partial year premium savings in fiscal year 2017 was \$114,805. The additional savings for the full fiscal year 2018 is \$55,441. Salary expense is down 2.8% or \$40,898 compared to prior year due to open positions that were filled late into the current fiscal year. The savings are only slightly offset by an increase to retirement plan contributions.
- Administrative expenses are down 5.5% or \$21,706 compared to prior year. There is a decrease of \$13,773 in District commissioned miscellaneous studies, such as rate studies, from the prior year. Conference and travel expenses are also lower by \$10,927 compared to prior year. Worker's compensation premium is lower by \$17,934 as a result of no fiscal year claims and the expiration of old settlements. The decreases are slightly offset by an increase to information technology spending of \$6,878. The

District migrated from inhouse servers to cloud hosting. The move is designed to further secure District data, and make it accessible during natural disasters such as hurricanes. Janitorial expenses are up by \$4,117 for expanded service compared to prior year. Other spending offsets include an increase to the annual audit fee of \$2,500, an increase of \$2,165 for county storm water fees, an increase of \$3,173 for miscellaneous public relations expenses and job postings, and a \$1,947 increase over prior year for legal fees associated with contract work

- Plant and system operations expenses are down 1.1% or \$13,319 compared to prior year. Repairs to the collection system are down by \$49,866 or 21% from prior year. Prior year was an exception in collection spending trends due to storm related repairs and maintenance. Water tank expense is down \$32,942 or 90% due to the completion of the maintenance contract. Generator maintenance is down 81% or \$17,665 which again reflects unusually high repairs needed in the prior year. Lab operations and supplies is up \$20,906 or 39% due in part to the replacement of equipment just under the capital threshold of \$5,000. Vehicle expenses are up by \$10,208 due to tire replacements and repair work, and portable equipment spending is up \$10,284 for needed repairs to existing equipment and the purchase of new equipment under \$5,000. Gas expense is up by \$12,912 due to escalating gas prices. Refuse disposal cost is up \$8,512 due to increased flows over prior year. Spending on repairs to the administration and operation buildings is up by \$9,714 compared to prior years from painting, and unscheduled roof and air conditioning repairs. The remaining minor variances include such expenses as electricity, licensing, and field generators.

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 5,279 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 gets its water from the Savannah River). The District's current use from the supplemental Savannah River source is an average of 242,959 gallons per day compared to last year's average of 682,282. 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 1,043,117 gallons per day in fiscal year 2018. The peak treatment month was July 2017 at 1.50 mgd average and the peak treatment day was July 3, 2017 at 1.8 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 spray field. During fiscal year 2018, 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, 2018, 2017 AND 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property, plant and equipment, net	\$ 16,823,557	\$ 15,690,406	\$ 15,914,645
Other assets	<u>5,229,044</u>	<u>5,671,749</u>	<u>3,947,913</u>
Total assets	22,052,601	21,362,155	19,862,558
Deferred outflows from debt refunding	<u>68,583</u>	<u>82,299</u>	<u>96,016</u>
Total assets and deferred outflows of resources	<u>\$ 22,121,184</u>	<u>\$ 21,444,454</u>	<u>\$ 19,958,574</u>
Current liabilities	830,089	850,870	821,060
Long term liabilities	<u>3,306,279</u>	<u>3,951,843</u>	<u>3,807,398</u>
Total liabilities	4,136,368	4,802,713	4,628,458
Net position:			
Investment in capital assets, net of related liabilities	13,672,140	11,982,705	11,670,661
Unrestricted	<u>4,312,676</u>	<u>4,659,036</u>	<u>3,659,455</u>
Total net position	<u>17,984,816</u>	<u>16,641,741</u>	<u>15,330,116</u>
Total liabilities and net position	<u>\$ 22,121,184</u>	<u>\$ 21,444,454</u>	<u>\$ 19,958,574</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018, 2017 AND 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total operating revenues	\$ 4,960,982	\$ 4,981,275	4,616,515
Expenses			
Salaries, wages and employee benefits	1,940,009	2,024,300	2,103,724
Depreciation and amortization	1,510,065	1,524,120	1,510,936
Other operating expenses	<u>1,714,074</u>	<u>1,945,441</u>	<u>1,758,655</u>
Total operating expenses	5,164,148	5,493,861	5,373,315
Loss from operations	(203,166)	(512,586)	(756,800)
Other income (expense)			
Property taxes	1,460,977	1,452,496	1,420,755
Other income	134,383	124,840	135,823
Gain (loss) on disposed assets	(10,705)	371	100
Interest expense	<u>(124,274)</u>	<u>(142,309)</u>	<u>(164,952)</u>
Total other income (expense)	1,460,381	1,435,398	1,391,726
Increase in net position before developer contributions	1,257,215	922,812	634,926
Developer contributions	<u>85,860</u>	<u>388,813</u>	<u>137,637</u>
Increase in net position	<u>1,343,075</u>	<u>1,311,625</u>	<u>772,563</u>
Net position at beginning of year	<u>16,641,741</u>	<u>15,330,116</u>	<u>14,557,553</u>
Net position at end of year	<u>\$ 17,984,816</u>	<u>\$ 16,641,741</u>	<u>\$ 15,330,116</u>

AUDITED FINANCIAL STATEMENTS

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
Current assets		
Cash and investments	\$ 4,362,371	\$ 4,193,348
Cash with Beaufort County Treasurer	101,328	629,385
Accounts receivable - trade	497,626	560,729
Accounts receivable - other	1,898	25,526
Inventory	184,289	232,037
Prepaid expenses	81,532	30,724
Total current assets	5,229,044	5,671,749
 Non-current assets		
Property, plant and equipment, net	16,823,557	15,690,406
Total assets	22,052,601	21,362,155
 Deferred outflows of resources		
Deferred outflows from refunding debt	68,583	82,299
 Total assets and deferred outflows of resources	\$ 22,121,184	\$ 21,444,454

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

LIABILITIES AND NET POSITION	<u>2018</u>	<u>2017</u>
Current liabilities		
Accounts payable - trade	\$ 94,974	\$ 147,838
Accrued payroll	85,481	78,398
Deferred revenue	54,634	54,634
Bonds payable due within one year	<u>595,000</u>	<u>570,000</u>
Total current liabilities	830,089	850,870
Long term liabilities		
Bonds payable due after one year	2,625,000	3,220,000
Deferred revenue	655,613	710,248
Deposits	<u>25,666</u>	<u>21,595</u>
Total long term liabilities	<u>3,306,279</u>	<u>3,951,843</u>
Total liabilities	4,136,368	4,802,713
Net position		
Investment in capital assets, net of related liabilities	13,672,140	11,982,705
Unrestricted	<u>4,312,676</u>	<u>4,659,036</u>
Total net position	<u>17,984,816</u>	<u>16,641,741</u>
Total liabilities and net position	<u><u>\$ 22,121,184</u></u>	<u><u>\$ 21,444,454</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, 2018 AND 2017

	2018	2017
Operating revenues		
Residential	\$ 1,168,277	\$ 1,159,039
Commercial	3,649,412	3,595,479
Recycled water	18,604	33,149
Connection fees	47,050	50,722
Disaster recovery, net	(3,977)	91,043
Other operating revenues	81,616	51,843
Total operating revenues	4,960,982	4,981,275
 Operating expenses		
Salaries, wages and employee benefits	1,940,009	2,024,300
Administrative expenses	374,864	396,570
Plant and system operations	1,211,434	1,228,742
Water purchases	127,776	320,129
Total operating expenses before depreciation and amortization	3,654,083	3,969,741
 Income from operations before depreciation and amortization	1,306,899	1,011,534
 Depreciation expense	1,496,348	1,510,403
Amortization expense	13,717	13,717
Loss from operations	(203,166)	(512,586)
 Other income (expenses)		
Property taxes	1,460,977	1,452,496
Availability charges	29,257	32,017
Tower lease income	54,634	61,763
Interest income	50,492	31,060
Gain (loss) on disposed assets	(10,705)	371
Interest expense	(124,274)	(142,309)
Net other income (expenses)	1,460,381	1,435,398
 Increase in net position before developer contributions	1,257,215	922,812
Developer contributions	85,860	388,813
Increase in net position	1,343,075	1,311,625
 Net position, beginning of year	16,641,741	15,330,116
 Net position, end of year	\$ 17,984,816	\$ 16,641,741

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,974,099	\$ 4,841,203
Other operating cash receipts	77,639	142,886
Cash paid to suppliers	(2,285,325)	(2,609,107)
Cash paid to employees	(1,417,553)	(1,448,878)
Net cash provided by operating activities	<u>1,348,860</u>	<u>926,104</u>
Cash flows from investing activities:		
Purchases of certificates of deposit	-	(400,000)
Redemption of certificates of deposit	-	200,000
Interest earned	50,492	31,060
Net cash provided by (used in) investing activities	<u>50,492</u>	<u>(168,940)</u>
Cash flows from noncapital financing activities:		
Property taxes collected	1,460,977	1,452,496
Availability charges	29,257	32,017
Tower lease income	-	826,645
Net cash provided by noncapital financing activities	<u>1,490,234</u>	<u>2,311,158</u>
Cash flows from capital financing activities:		
Developer contributions	85,860	388,813
Acquisition of property, plant and equipment	(2,656,139)	(1,285,793)
Proceeds from sale of property, plant and equipment	15,933	-
Principal paid on bonds	(570,000)	(550,000)
Interest paid	(124,274)	(142,309)
Net cash used in capital financing activities	<u>(3,248,620)</u>	<u>(1,589,289)</u>
Net increase (decrease) in cash and cash equivalents	(359,034)	1,479,033
Cash and cash equivalents at beginning of year	<u>4,022,733</u>	<u>2,543,700</u>
Cash and cash equivalents at end of year	<u>\$ 3,663,699</u>	<u>\$ 4,022,733</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Schedule of cash and cash equivalents:		
Cash and investments from the Statement of Net Position	\$ 4,362,371	\$ 4,193,348
Less: Certificate of deposit investments	(800,000)	(800,000)
Unrestricted cash and cash equivalents	3,562,371	3,393,348
Held by Beaufort County Treasurer	101,328	629,385
Total cash and cash equivalents at end of year	\$ 3,663,699	\$ 4,022,733
 Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (203,166)	\$ (512,586)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,496,348	1,510,403
Amortization	13,717	13,717
Changes in assets and liabilities		
Accounts receivable - trade	63,103	22,876
Accounts receivable - other	23,628	(24,259)
Inventory	47,748	(60,862)
Prepaid expenses	(50,808)	17,442
Accounts payable	(52,864)	(58,427)
Accrued payroll	7,083	13,603
Deposits	4,071	4,197
Net cash provided by operating activities	\$ 1,348,860	\$ 926,104

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1. Summary of Significant Accounting Policies

General

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. The District was formed for the purpose of providing and maintaining waterworks and sewage disposal systems for residents of Hilton Head Island, South Carolina.

The District is also authorized to provide security, property, road, lagoon and beach maintenance as well as fire protection, as, in the opinion of the Commissioners, shall be necessary for development of the District. In an effort 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, 2018 and 2017, 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, 2018 AND 2017

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 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. Because the District seldom experiences significant bad debt losses and fully expects to collect all trade receivables, an *Allowance For Uncollectible Accounts* amount is not considered necessary. In addition, the District maintains a separate receivables account for billings to specific commercial accounts required by developer contracts. As of June 30, 2018, management does not anticipate any significant uncollectible amounts from these receivables.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 \$21,461 and \$16,783 at June 30, 2018 and 2017, 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 2, 2018, the date that the financial statements were available to be issued.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 – consists 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, 2018 and 2017 are classified in the accompanying financial statements as follows:

<u>Statement of net position:</u>	<u>2018</u>	<u>2017</u>
Cash and investments	\$ 4,362,371	\$ 4,193,348
Cash with Beaufort County Treasurer	101,328	629,385
Total cash and investments	<u>\$ 4,463,699</u>	<u>\$ 4,822,733</u>
<u>Cash and investments as of June 30 consist of the following:</u>	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 200	\$ 200
Demand deposits with financial institutions	1,289,001	906,275
South Carolina local government investment pool	2,273,170	2,486,873
Certificates of deposit	800,000	800,000
Cash held by Beaufort County Treasurer	101,328	629,385
Total cash and investments	<u>\$ 4,463,699</u>	<u>\$ 4,822,733</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, 2018, the carrying amounts of the District’s cash and investments was \$4,362,371 and the bank balance of cash on deposit was \$4,528,022. At June 30, 2018, \$101,328 was held by the Beaufort County Treasurer.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

The deposits of the District were collateralized as follows at June 30, 2018:

	June 30, 2018
Amounts insured by FDIC coverage	\$ 1,303,266
Amounts collateralized through the local government investment pool	2,273,170
Amounts collateralized with pledged securities	679,775
Uncollateralized	-
Total bank balances	\$ 4,256,211

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, 2018 AND 2017

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, 2018 and 2017, amounts held in the Pool totaled \$2,273,170 and \$2,473,239, 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 \$1,898 and \$25,526 for the years ended June 30, 2018 and 2017, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 4. Property, Plant, Equipment and Depreciation

Capital asset activity during the years was as follows:

	<u>6/30/2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/2018</u>
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	348,176	2,511,473	-	(2,622,899)	236,750
Total nondepreciable assets	584,223	2,511,473	-	(2,622,899)	472,797
Wastewater treatment and distribution	30,336,895	30,529	(37,456)	2,424,286	32,754,254
Water and sewer systems	10,945,397	16,260	-	133,655	11,095,312
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	664,862	1,755	(35,579)	-	631,038
Trucks and other equipment	1,032,526	96,169	(78,517)	64,958	1,115,136
Total depreciable assets	43,143,798	144,713	(151,552)	2,622,899	45,759,858
Accumulated depreciation					
Wastewater treatment and distribution	(21,904,995)	(914,967)	33,391	(14,901)	(22,801,472)
Water and sewer systems	(4,924,590)	(436,530)	-	(71)	(5,361,191)
Water tank	(128,342)	(1,677)	-	-	(130,019)
Buildings, office and fence	(293,440)	(42,702)	12,956	-	(323,186)
Trucks and other equipment	(786,248)	(72,507)	78,517	(12,992)	(793,230)
Total accumulated depreciation	(28,037,615)	(1,468,383)	124,864	(27,964)	(29,409,098)
Net depreciable assets	15,106,183	(1,323,670)	(26,688)	2,594,935	16,350,760
Total property plant and equipment	<u>\$15,690,406</u>	<u>\$ 1,187,803</u>	<u>\$ (26,688)</u>	<u>\$ (27,964)</u>	<u>\$16,823,557</u>

	<u>6/30/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/2017</u>
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	<u>\$ 15,914,645</u>	<u>\$ (209,691)</u>	<u>\$ 371</u>	<u>\$ (14,919)</u>	<u>\$ 15,690,406</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$1,496,348 and \$1,510,403, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5. Bonds Payable

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 \$124,274 and \$142,309 was paid for the years ended June 30, 2018 and June 30, 2017, 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, 2018 and 2017 was \$68,583 and \$82,299, 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:

Years ending June 30,	Principal	Interest	Total
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	\$ 3,220,000	\$ 325,113	\$ 3,545,113

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 both years ended June 30, 2018 and 2017.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 6. Long Term Liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

	6/30/2017	Additions	Reductions	6/30/2018	Due within One Year
General obligation bonds	\$ 3,790,000	\$ -	\$ (570,000)	\$ 3,220,000	\$ 595,000
Deferred tower lease	764,882	-	(54,635)	710,247	54,634
Deposits	21,595	4,071	-	25,666	-
Long-term liabilities	<u>\$ 4,576,477</u>	<u>\$ 4,071</u>	<u>\$ (624,635)</u>	<u>\$ 3,955,913</u>	<u>\$ 649,634</u>

The principal payments of the general obligation bonds, due by July 1, 2018 and 2017, were paid on June 30, 2018 and 2017, respectively and are included in the current fiscal year reduction totals.

Note 7. Contributions from Developers

All developers of new construction are required to provide 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 currently have projects in progress 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, 2018 and 2017, \$85,860 and \$388,813, 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 \$127,776 and \$320,129 in water for the years ended June 30, 2018 and 2017, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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. The District's transactions with MR Systems totaled \$3,935 and \$6,576 for the years ended June 30, 2018 and 2017, respectively, and were recorded as capital assets or plant and systems operations expenses as appropriate. At June 30, 2018 and 2017, respectively, \$-0- was payable to MR Systems from the District.

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

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

On November 4, 1991, the District adopted a 457-defined contribution retirement plan which allows employees to make tax deferred contributions. The plan covers all employees who are 18 years of age and have a minimum of six months of employment service with the District. Until March 2013, the plan was administered by Hartford Life at which point the District selected the South Carolina Deferred Compensation Program as plan administrator. At the time of change of plan administrator, the District also adopted, in addition to the public employee 457 deferred compensation plan, a 401(k)-salary deferral and savings profit sharing plan and also elected to allow Roth contributions to be eligible for both plans. Employees are fully vested in the plans at inception. Through December 31, 2016, the District's annual matching contribution due was a maximum of 6% of participating employees' covered compensation. Effective January 1, 2017, the District's annual matching contribution includes a (a) contribution of 4% of covered compensation towards the employees' plan and also a (b) match of employee payroll contributions that are in excess of 4%, but not to exceed 8%, of participating employees' covered compensation. The plan's assets equal the vested benefits at June 30, 2018. District contributions to the plans for the years ended June 30, 2018 and 2017 were \$91,057 and \$84,208, respectively. Plan members contributed \$120,455 and \$99,912 for the years ended June 30, 2018 and 2017.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 to 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, 2018.

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:

	2018	2017
Invested in capital assets, net of related liabilities		
Net property, plant and equipment services	\$ 16,823,557	\$ 15,690,406
Less: Debt as disclosed in Notes 5 and 6	(3,220,000)	(3,790,000)
Deferred refunding costs	68,583	82,299
	13,672,140	11,982,705
Unrestricted		
Unrestricted - Designated for Capital Activity	1,099,491	1,251,122
Unrestricted - Designated for Operating Reserves	2,498,048	2,464,776
Unrestricted	715,137	943,138
	4,312,676	4,659,036
Total net position	\$ 17,984,816	\$ 16,641,741

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 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, 2018 AND 2017

	2018	2017
Salaries, wages and employee benefits		
Salaries and wages	\$ 1,424,616	\$ 1,465,514
Payroll taxes	114,054	112,241
Group insurance and other benefits	401,339	446,545
Total	1,940,009	2,024,300
 Administrative expenses		
Commissioners' fees	52,800	51,950
Computer services	61,601	54,723
Legal fees	30,697	28,751
Audit, accounting and bookkeeping fees	22,800	20,300
Consultant meeting expense	13,900	26,773
Bank charges and trustee fees	24,445	23,174
Insurance	64,520	84,290
Office supplies and expenses	39,495	33,522
Telephone	27,125	30,017
Public relations	10,960	7,787
Taxes and licenses	6,605	4,440
Travel, meetings and training	19,916	30,843
Total	374,864	396,570
 Plant and system operations		
Electricity	346,236	342,682
Engineering fees	32,254	20,517
Chemicals and supplies	138,637	132,348
Repairs and maintenance - system	327,445	386,288
Repairs and maintenance - equipment	48,594	28,103
Repairs and maintenance - other	184,451	207,519
Fuel and lubricants	53,564	40,651
Safety program	19,724	18,618
Refuse disposal	60,529	52,016
Total	1,211,434	1,228,742
 Water purchases	127,776	320,129
 Total operating expenses before depreciation and amortization	\$ 3,654,083	\$ 3,969,741

See accompanying notes to the financial statements.