

**BROAD CREEK PUBLIC SERVICE DISTRICT**

**HILTON HEAD ISLAND, SOUTH CAROLINA**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2022 and 2021**

# BROAD CREEK PUBLIC SERVICE DISTRICT

## ANNUAL FINANCIAL REPORT JUNE 30, 2022 AND 2021

---

### TABLE OF CONTENTS

Page

#### INTRODUCTORY SECTION

Commissioners and Management.....	i
-----------------------------------	---

#### FINANCIAL SECTION

Independent Auditor's Report.....	1 – 3
Management's Discussion and Analysis.....	4 – 11

#### Basic Financial Statements:

Statements of Net Position.....	12
Statements of Revenues, Expenses and Changes in Net Position.....	13
Statements of Cash Flows.....	14 and 15
Notes to Financial Statements.....	16 – 29

#### Supplementary Information:

Schedules of Operating Expenses.....	30
--------------------------------------	----

#### COMPLIANCE SECTION

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	31 and 32
Schedule of Findings and Responses.....	33

## **INTRODUCTORY SECTION**

# BROAD CREEK PUBLIC SERVICE DISTRICT

## COMMISSIONERS AND MANAGEMENT

JUNE 30, 2022

---

		<u>Term expires</u>	
<b>John Joseph</b>	-	<b>Chairman</b>	<b>July 11, 2024</b>
<b>Thomas Hopkins</b>	-	<b>Vice Chairman</b>	<b>July 11, 2022</b>
<b>James Rowe</b>	-	<b>Secretary</b>	<b>July 11, 2024</b>
<b>Dean Layton</b>	-	<b>Commissioner</b>	<b>July 11, 2022</b>
<b>Glenn Frankle</b>	-	<b>Commissioner</b>	<b>July 11, 2024</b>
<b>Arnold Ellison</b>	-	<b>Interim General Manager</b>	
<b>Lauren Sturre</b>	-	<b>Finance Director</b>	
<b>Cary S. Griffin</b>	-	<b>Assistant Secretary</b>	

## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

---

To the Broad Creek Public Service District  
Board of Commissioners  
Hilton Head Island, South Carolina

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements of the **Broad Creek Public Service District**, (the "District"), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

---

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") (on pages 4 through 11) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

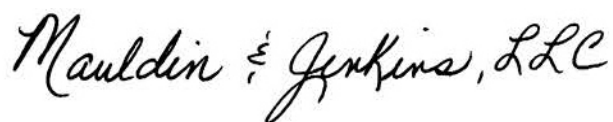
---

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, schedules of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Broad Creek Public Service District's internal control over financial reporting and compliance.



Savannah, Georgia  
September 26, 2022



# BROAD CREEK PUBLIC SERVICE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

---

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 ("FY") that ended on June 30, 2022. 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 State, Commission and Management. The following are key financial highlights:

- The District's property tax millage rate is unchanged in FY 2022. It remains at 10 mills. Property tax revenue increased 3.9% from FY 2020 to 2021 and increased 1% from FY 2021 to 2022. Property tax revenue totaled \$1,611,818 in FY 2022. The property tax revenue supplements user rates and fees, and helps the District to fund administrative expenses and needed capital projects.
- In FY 2021, the District Commission approved the Water Supply Project (the "Project") which seeks to secure District water resources far into the future. The Project includes the construction of an aquifer storage and recovery ("ASR") well. The District ASR well involves the direct injection of Savannah River water blended with reverse osmosis water from Hilton Head Public Service District into the Middle Floridan Aquifer for later extraction and use. The Project requires additional purchased capacity of 1.5 million gallons per day from the Hilton Head Public Service District as well as additional transmission and well infrastructure. The expected completion time is FY 2026.

The Project has an updated estimated total cost of \$13,100,000. The District will fund the project through utility revenue bonds issued in FY 2021 and District capital reserves. In order to offset costs, in FY 2023 the District will be applying for grant money administered through the South Carolina Infrastructure Investment Program ("SCIIP") and funded with federal funds allocated by the 2021 American Rescue Plan Act ("ARPA").

- On October 1, 2020, the District entered into an equity lease agreement with Enterprise FM Trust for the lease of District company vehicles to replace the District's aging fleet. In FY 2022, Enterprise FM Trust ("Lessor") leased to the District ("Lessee") a total of seven vehicles with a four-year lease term valuation. Each vehicle is valued and amortized over 48 months based on the present value of total lease payments per the Government Accounting Standards Board ("GASB") code 87. The leased vehicles have a total capital value of \$174,541. The lease debt liability as of June 30, 2022 is \$128,257. \$80,680 of lease principal and \$2,303 of lease interest has been paid to Enterprise FM Trust in FY 2022.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

- The District's capital and leased asset additions total \$2,112,803 for FY 2022 compared to \$1,507,733 in FY 2021. Depreciation expense totals \$1,437,834 and \$1,403,291 during this same time period. Amortization expense on leased assets totals \$42,055 and \$10,357 for FY 2022 and FY 2021, respectively. All capital expenditures are funded through District revenues and bond proceeds. District capital investments for FY 2022 include replacing older assets and upgrading to new more efficient equipment, and processes at the plant and in the field. The major capital expenditures in FY 2022 include the following:
  - Capital additions to the treatment plant totaling \$369,880. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent storage. \$130,446 was spent on upgrades to the plant wet well. The wet well receives and holds overflow water and wastewater from the treatment process, which will then be treated later. The remaining treatment plant capital expenditures of \$239,434 have been spent for ongoing projects to upgrade the sludge conveyor system, replace gas chlorine with safer liquid chlorine used in treatment, a new effluent filter pump, a new backwash pump, and the installation of electronic plant process monitoring equipment.
  - Capital additions to the distribution system totaling \$1,210,799. The distribution system includes the water tower, water transmission lines, valves, well houses and equipment, hydrants, and meters. \$601,363 was spent on legal and engineering services for the Water Supply Project scheduled to be completed by FY 2026. The District spent \$327,822 on modifications to the chlorine disinfectant system at the three District wells and a new pump at one of the wells. For safer handling, the District moved from gas to liquid chlorine. Water lines have been upgraded in the District for a total expenditure of \$194,546. The remaining \$87,068 of the distribution system capital additions has been expended on additions to the District's automatic meter read system ("AMI").
  - Capital additions to the collection system totaling \$455,008. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. \$378,258 was spent on upgrades to two District lift stations. The upgrades include new controls, wet well upgrades, and new pumps. \$70,000 of collection system capital expenditures include phase two of a manhole assessment report which evaluates the quality and required repairs of District sewer manholes. The remaining \$6,750 was spent on raised vacuum system controllers. Raised controllers help minimize damage to the sewer vacuum system due to storm related flooding.
  - Administrative leased asset additions totaling \$77,115. In FY 2022, the District received three leased vehicles to be amortized over four years for a total leased vehicles addition of \$77,115.
- As of June 30, 2022, the District has the following number of customer accounts by classification:
  - Residential Single-Family Home/Metered Condo – 920 accounts
  - Residential Regime/Apartment – 10 accounts, 508 units
  - Commercial Hotel/Timeshare – 10 accounts, 1,531 units
  - Commercial Transient Rental Home – 435 accounts
  - Commercial Transient Rental Regime – 32 accounts, 2,012 units
  - Commercial Business – 86 accounts
  - Commercial Irrigation – 133 accounts

# MANAGEMENT'S DISCUSSION AND ANALYSIS

---

## OVERVIEW OF ANNUAL FINANCIAL REPORT

The 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 FY 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONDENSED STATEMENTS OF NET POSITION

	2022	2021	2020
Current assets	\$ 17,160,854	\$ 17,269,490	\$ 6,211,900
Capital assets	<u>18,131,215</u>	<u>17,620,826</u>	<u>17,536,287</u>
Total assets	<u>35,292,069</u>	<u>34,890,316</u>	<u>23,748,187</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>41,150</u>
Current liabilities	1,207,966	1,241,723	998,360
Long-term liabilities	<u>10,131,488</u>	<u>11,110,066</u>	<u>1,925,191</u>
Total liabilities	<u>11,339,454</u>	<u>12,351,789</u>	<u>2,923,551</u>
Net position:			
Net investment in capital assets	16,666,129	16,021,124	15,567,437
Unrestricted	<u>7,286,486</u>	<u>6,517,403</u>	<u>5,298,349</u>
Total net position	<u>\$ 23,952,615</u>	<u>\$ 22,538,527</u>	<u>\$ 20,865,786</u>

### CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2022	2021	2020
Total operating revenue	<u>\$ 5,620,036</u>	<u>\$ 5,513,983</u>	<u>\$ 5,131,234</u>
Expenses:			
Salaries, wages and employee benefits	2,304,130	2,160,889	2,146,857
Depreciation and amortization	1,479,890	1,454,798	1,351,734
Other operating expenses	<u>1,972,291</u>	<u>1,767,948</u>	<u>1,738,764</u>
Total operating expenses	<u>5,756,311</u>	<u>5,383,635</u>	<u>5,237,355</u>
Operating income (loss)	<u>(136,275)</u>	<u>130,348</u>	<u>(106,121)</u>
Other income (expenses):			
Property taxes	1,611,818	1,595,881	1,535,747
Other income	132,418	2,201	154,437
Gain (loss) on disposal of assets	(57,329)	21,320	1,428
Interest expense	(199,924)	(145,714)	(86,074)
Bond issuance costs	-	-	-
Developer contributions	<u>63,380</u>	<u>68,705</u>	<u>39,330</u>
Total other income (expenses)	<u>1,550,363</u>	<u>1,542,393</u>	<u>1,644,868</u>
Change in net position	1,414,088	1,672,741	1,538,747
Net position, beginning of year	<u>22,538,527</u>	<u>20,865,786</u>	<u>19,327,039</u>
Net position, end of year	<u>\$ 23,952,615</u>	<u>\$ 22,538,527</u>	<u>\$ 20,865,786</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The District has the following water/wastewater flows in FY 2022:

### WATER METERED AND PUMPED

<u>Customer Class</u>	<u>Used/Billed Gallons FY 2022</u>	<u>Used/Billed Gallons FY 2021</u>	<u>Used/Billed Gallons FY 2020</u>
Condo	<b>152,686,837</b>	152,637,521	157,161,493
Residential Regime/Apartment	<b>27,599,278</b>	27,708,427	25,765,105
Commercial Hotel/Timeshare	<b>98,595,700</b>	89,375,574	86,663,204
Commercial Transient Rental Home, Regime	<b>285,365,788</b>	284,145,510	263,427,581
Commercial Business	<b>31,253,359</b>	25,404,888	23,000,228
Commercial Irrigation	<b>90,016,970</b>	88,448,325	85,108,528
<b>Metered/Billed Total</b>	<b><u>685,517,932</u></b>	<u>667,720,245</u>	<u>641,126,139</u>
Water Used at Plant, Wells, Lift Stations	<b>2,212,205</b>	2,304,279	1,811,201
Water Used in Hydrant Flushing	<b>40,000</b>	330,000	474,000
Water Used in Hydrant Flow Meter Rental	-	12	222,153
Metered/Unbilled Total	<b><u>2,252,205</u></b>	<u>2,634,291</u>	<u>2,507,354</u>
<b>Total Metered Water</b>	<b><u>687,770,137</u></b>	<u>670,354,536</u>	<u>643,633,493</u>
Water Pumped in Gallons - Three District Wells	<b>603,164,012</b>	615,060,096	608,708,215
Water Purchased in Gallons - HHPSD/BJWSA	<b>92,836,000</b>	70,811,000	44,921,000
<b>Total Water Pumped</b>	<b><u>696,000,012</u></b>	<u>685,871,096</u>	<u>653,629,215</u>

### WASTEWATER INFLOW

	<u>Gallons FY 2022</u>	<u>Gallons FY 2021</u>	<u>Gallons FY 2020</u>
Wastewater Influent Flows	<b>369,303,684</b>	370,698,711	359,043,129
Total Rainfall	<b>28.1"</b>	34.9"	54.2"

Total metered water in FY 2022 increased 2.6% compared to FY 2021 and increased 6.9% compared to FY 2020. Total water pumped increased 1.5% compared to 2021 and increased 6.5% compared to 2020. Wastewater inflows for FY 2022 decreased 0.4% compared to FY 2021 and increased 2.9% compared to FY 2020. The increases in metered water and pumped water in FY 2022, the 19.5% decrease in rainfall from prior year, and the relatively unchanged inflows from FY 2021 to FY 2022 are an indication of increased irrigation. This is further supported by the increased usage in the commercial classes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OPERATING INCOME

	<b>Budget FY 2022</b>	<b>Actual FY 2022</b>	<b>Budget FY 2021</b>	<b>Actual FY 2021</b>
<b>Total Operating Revenues</b>	<b>\$ 5,347,416</b>	\$ 5,620,036	\$ 5,203,279	\$ 5,513,983
<b>Total Operating Expenses</b>	<b>4,159,383</b>	4,276,421	4,072,070	3,928,837
<b>Operating Income</b>	<b>\$ 1,188,033</b>	\$ 1,343,614	\$ 1,131,209	\$ 1,585,146

- Total operating revenues for FY 2022 are \$5,620,036, or 105% of budget. Total operating revenues consist of rate revenue, connection fees, and other miscellaneous operating revenue. Operating revenues for FY 2022 are up 2% compared to 2021, and up 9.6% compared to 2020. Water and sewer rate revenue makes up 98% of the operating revenue. Water and sewer rate revenue is up 2%, or \$107,983 compared to the prior year. The increase in rate revenue is due to a 3% Board approved rate increase in FY 2022. In addition, there is a 3.7% increase in commercial usage from FY 2021 to FY 2022 reflecting increased irrigation and an increase in island visitors. Residential usage remains unchanged during the same time period.
- 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 FY actual expenses and evaluating any anticipated changes in the upcoming FY. Operating expenses before depreciation and amortization are \$4,276,421, or 103% of budget.

Operating expenses for FY 2022 are 8.9% higher than 2021 and 10.1% higher than 2020. Consumer price index ("CPI") rose 9.1% since June 30, 2021 to June 30, 2022. The major variances in FY 2022 operating expenses compared to FY 2021 expenses are as follows:

- Salaries and administrative expenses are up 6.0%, or \$150,188 compared to prior year.  
The District Commissioners approved an annual 4.0% salary increase for employees in FY 2022. Conferences and meetings line item also increased as COVID-19 lockdown restrictions loosened in FY 2022.
- Plant and system operations expenses are up 11.8% or \$152,623 compared to prior year.  
The increase in the operation line-item expenses is, in large part due to the increase cost of goods and services or CPI. Lab supplies, chemicals, gas, repair and maintenance to the treatment plant, distribution and collection systems are impacted by the price increases. Repair and maintenance to the Distribution system experienced an additional increase due to a large number of old meters being replaced in preparation for the new AMI system anticipated to be fully operational in FY 2023.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

- Water purchases expense is up 35.3%, or \$44,773 compared to prior year.

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 CPI adjustment made each July. The contract has been extended an additional ten years to 2029. The CPI adjusted rate for FY 2022 is \$0.91 for water purchased between October 2021 and March 2022. The peak contracted rate for the water for FY 2022 is \$1.97 per 1,000 gallons from July 2021 through September 2021, and from April 2022 through June 2022. The District purchased a total of 93 million gallons under this contract at a cost of \$171,492 compared to FY 2021 purchases of 71 million gallons which totaled \$126,719. The increased purchase in FY 2022 was caused by continued down time of the supervisory control and data acquisition (“SCADA”) equipment at the District wells. SCADA allows for remote well monitoring and control. Inverness water well was down from July 2021 to November 2021. During repairs, additional water was purchased in order to meet demand.

### **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 5,520 residential, regime managed multi-family, and commercial properties.

The system derives its water supply primarily from District-owned wells tapped into the Upper 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 194,003 gallons per day compared to last year’s average of 123,071. 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 1,011,791 gallons per day in FY 2022. The peak treatment month was July 2021 at 1.58 MGD average and the peak treatment day was July 28, 2021 at 1.75 MGD. 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 advanced wastewater treatment (“AWT”) standard and all treated effluent is disposed of through a modern golf course irrigation system and District spray field. During FY 2022, 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 18 wastewater pump stations; two wastewater vacuum stations; one water tower; 55 miles of water distribution lines and 45 miles of wastewater collection lines.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

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).

### **FURTHER INFORMATION**

This financial overview is designed to provide readers with a general overview of the District's finances, and to show accountability. If you have questions or would like further information about this financial report, you may contact officials at:

Broad Creek Public Service District  
3 Marina Side Drive  
Hilton Head, South Carolina 29928.



## **BASIC FINANCIAL STATEMENTS**

# BROAD CREEK PUBLIC SERVICE DISTRICT

## STATEMENTS OF NET POSITION JUNE 30, 2022 AND 2021

	2022	2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,306,642	\$ 5,879,224
Cash held by Beaufort County Treasurer	23,710	27,208
Investments	497,971	500,429
Restricted cash equivalents	9,173,171	9,942,120
Accounts receivable - trade	886,093	697,370
Accounts receivable - other	1,107	1,434
Inventory	221,371	186,615
Prepaid expenses	50,789	35,090
Total current assets	17,160,854	17,269,490
<b>Non-current assets</b>		
Capital assets - nondepreciable	1,250,295	594,293
Capital assets - depreciable, net	16,754,285	16,896,202
Lease assets	126,635	130,331
Total non-current assets	18,131,215	17,620,826
Total assets	\$ 35,292,069	\$ 34,890,316
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 103,159	\$ 148,801
Accrued payroll	67,993	83,775
Unearned revenue - tower easement	54,634	54,634
Lease liabilities, current portion	43,438	34,873
Compensated absences	23,742	19,640
Bonds payable due within one year	915,000	900,000
Total current liabilities	1,207,966	1,241,723
<b>Non-current liabilities</b>		
Bonds payable due after one year	9,595,000	10,510,000
Unearned revenue - tower easement	437,076	491,710
Deposits	14,593	11,407
Lease liabilities, due in more than one year	84,819	96,949
Total long-term liabilities	10,131,488	11,110,066
Total liabilities	11,339,454	12,351,789
<b>NET POSITION</b>		
Net investment in capital assets	16,666,129	16,021,124
Unrestricted	7,286,486	6,517,403
Total net position	23,952,615	22,538,527
Total liabilities and net position	\$ 35,292,069	\$ 34,890,316

The accompanying notes are an integral part of these financial statements.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
<b>Operating revenues</b>		
Residential	\$ 1,238,508	\$ 1,160,949
Commercial	4,266,830	4,236,407
Recycled water	52,360	36,715
Connection fees	29,055	26,680
Other operating revenues	33,283	53,232
Total operating revenues	5,620,036	5,513,983
<b>Operating expenses</b>		
Salaries, wages and employee benefits	2,304,130	2,160,889
Administrative expenses	355,987	349,040
Plant and system operations	1,444,812	1,292,189
Water purchases	171,492	126,719
Total operating expenses before depreciation and amortization	4,276,421	3,928,837
Income from operations before depreciation and amortization	1,343,615	1,585,146
Depreciation expense	1,437,835	1,413,648
Amortization expense	42,055	41,150
Operating income (loss)	(136,275)	130,348
<b>Non-operating revenues (expenses)</b>		
Property taxes	1,611,818	1,595,881
Availability charges	20,579	21,349
Tower easement income	54,634	54,634
Interest income	57,205	33,043
Gain (loss) on disposed assets	(57,329)	21,320
Interest expense	(199,924)	(145,714)
Bond issuance costs	-	(106,825)
Developer contributions	63,380	68,705
Total non-operating revenues, net	1,550,363	1,542,393
<b>Change in net position</b>	1,414,088	1,672,741
<b>Net position, beginning of year</b>	22,538,527	20,865,786
<b>Net position, end of year</b>	\$ 23,952,615	\$ 22,538,527

The accompanying notes are an integral part of these financial statements.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 5,398,357	\$ 5,484,047
Other operating cash receipts	33,283	53,232
Cash paid to suppliers	(2,065,202)	(1,850,351)
Cash paid to employees	(2,370,444)	(2,169,846)
Net cash provided by operating activities	995,994	1,517,082
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Property taxes collected	1,611,818	1,595,881
Availability charges	20,579	21,349
Tower easement income	54,634	54,634
Net cash provided by non-capital financing activities	1,687,031	1,671,864
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Developer contributions	63,380	68,705
Acquisition of property, plant and equipment	(2,035,688)	(1,367,045)
Acquisition of lease assets	(38,756)	(140,688)
Proceeds from the sale of capital assets	26,439	30,866
Proceeds from bond issuance	-	12,180,000
Principal paid on bonds	(900,000)	(2,780,000)
Bond issuance costs	-	(106,825)
Interest paid	(199,527)	(145,714)
Lease proceeds	77,115	140,688
Lease payments	(80,680)	(8,866)
Net cash provided by (used in) capital and related financing activities	(3,087,717)	7,871,121
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	57,205	33,043
Sale of investments	2,458	299,571
Net cash provided by investing activities	59,663	332,614
Increase (decrease) in cash and cash equivalents	(345,029)	11,392,681
<b>Cash and cash equivalents:</b>		
Beginning of year	15,848,552	4,455,871
End of year	\$ 15,503,523	\$ 15,848,552
<b>Classified as:</b>		
Cash and cash equivalents	\$ 6,306,642	\$ 5,879,224
Restricted cash equivalents	9,173,171	9,942,120
Cash held by Beaufort County Treasurer	23,710	27,208
	\$ 15,503,523	\$ 15,848,552

# BROAD CREEK PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (136,275)	\$ 130,348
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	1,437,835	1,413,648
Amortization expense	42,055	41,150
(Increase) decrease in:		
Accounts receivable	(188,396)	23,296
Inventory	(34,756)	13,927
Prepaid expenses	(15,699)	(1,703)
Increase (decrease) in:		
Accounts payable	(45,642)	(51,037)
Accrued payroll and withholding	(15,782)	8,515
Unearned revenue - tower easement	(54,634)	(23,628)
Accrued compensated absences	4,102	(34,994)
Deposits	3,186	(2,440)
Net cash provided by operating activities	<u>\$ 995,994</u>	<u>\$ 1,517,082</u>

The accompanying notes are an integral part of these financial statements.

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

---

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Broad Creek Public Service District (the "District") are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District exclusively follows the standards set forth by the GASB.

#### A. Reporting Entity

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 within the District's service area

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. In this respect, and in order to retire the funds and pay the interest thereon, the District is also authorized to levy and collect a tax upon all taxable property within the District. 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, 2022 and 2021, 10 mills were levied each year. With the exception of millage, the District has District to set usage, connection, availability and other related rates.

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

#### B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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. In governmental accounting, the enterprise fund is used to account for operations as noted above or where the Board of Commissioners has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Because of the business-like characteristics of the District's operations, the accompanying financial statements use the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with their activities are reported. Proprietary fund equity is classified as net position.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

As a means of delivering services to its customers, the District utilizes wells, a water production plant, water distribution systems, wastewater reclamation facilities and wastewater collection systems. To provide the resources that are necessary to pay for the utility services and the related support functions, the District charges its customers user fees which are based on the specific level of services that they are receiving.

Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **C. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Assets, Liabilities and Net Position

##### Cash, cash equivalents and investments

For the purposes of the statement of cash flows, the District considers cash on hand (including restricted cash) 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 cash equivalents. Investments are reported at fair value.

##### Accounts Receivable

The District uses the direct write-off method for uncollectible trade accounts. Because the District seldom experiences significant bad debt losses and expects to fully collect all trade receivables, accounting for an amount applicable for Allowance for Uncollectible Accounts 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, 2022, management does not anticipate any significant uncollectible amounts from these receivables.

##### Inventories and Prepaid Expenses

The inventory of the District consists of materials and supplies to support maintenance work on various water distribution and wastewater collection systems as well as to maintain the vehicles and equipment used in system operations. All inventories are valued using the average cost method.

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

##### Capital Assets

Capital assets 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, the assets are recorded at their acquisition value as of the date contributed.



## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Assets, Liabilities and Net Position (Continued)

##### Capital Assets (Continued)

Depreciation of capital assets and right to use leased assets is computed using the straight-line method over the following estimated useful lives of assets:

<u>Asset Classification</u>	<u>Asset Life</u>
Wastewater treatment and distribution	5 – 30 years
Water and sewer systems	5 – 33 years
Buildings, office and fences	5 – 25 years
Trucks and other equipment	5 – 15 years
Right to use leased vehicles	1 – 5 years

##### Leases

*Lessee.* The District is a lessee for noncancellable leases of vehicles. The District recognizes a lease liability and an intangible right-to-use lease asset in its financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines: 1) the discount rate it uses to discount the expected lease payments to present value, 2) lease term, and 3) lease payments:

- The District uses the implicit interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided or can be imputed, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option prices that the District is reasonably certain to exercise.

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Assets, Liabilities and Net Position (Continued)

##### Leases (Continued)

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with current and non-current liabilities on the statement of net position.

##### Compensated Absences

In accordance with GASB Statement No. 16, Accounting for Compensated Absences, the District accounts for paid time off owed to employees by accruing a liability for future absences. Compensated absences are reported separately on the Statement of Net Position.

##### Net Position

As required by GASB, the District classified net position into three components; net investment in capital assets, restricted, and unrestricted. These classifications of net position are defined as follows:

- Net investment in capital assets consists of all capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent proceeds at year-end, the reporting of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Instead, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted net position consists of constraints placed on net position through external restrictions imposed by creditors (e.g. debt covenants), grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position consists of all other assets that do not meet the definition of 'restricted' or of 'net investment in capital assets'. Generally, net position represents those financial resources that are available to the District to meet any future obligations that might arise.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

#### Deposits and Investments

Credit risk is the risk that an issuer to an investment will not fulfill its obligation. The District does not have a formal written policy on credit risk.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District does not have a formal written policy on custodial credit risk for deposits.

At June 30, 2022 and 2021, there were no deposits uninsured or uncollateralized.

Due to cash on hand, deposits in transit and outstanding checks, there may be balance variances between the District's bank balance and carrying amounts. The District's cash balances as of June 30, 2022 and 2021 were \$15,977,784 and \$16,321,773, respectively. The District's bank balances were \$16,044,055 and \$16,346,913, respectively. Cash and investments as of June 30, 2022 and 2021 are classified in the accompanying financial statements as follows:

	2022	2021
Cash and cash equivalents	\$ 6,306,642	\$ 5,879,224
Restricted cash	9,173,171	9,942,120
Investments	497,971	500,429
Cash held with Beaufort County Treasurer	23,710	27,208
Total	\$ 16,001,494	\$ 16,348,981
	2022	2021
Cash on hand	\$ 655	\$ 139
Demand deposits with financial institutions	2,668,628	2,603,299
South Carolina local government investment pool	12,810,530	13,217,906
Certificates of deposit	497,971	500,429
Cash held with Beaufort County Treasurer	23,710	27,208
Total	\$ 16,001,494	\$ 16,348,981

The State Treasurer offers participation in the South Carolina Local Government Investment Pool ("SCLGIP") to political subdivisions of the State. Funds deposited into the SCLGIP by legally qualified entities are used to purchase investment securities as follows:

1. U.S. Government Securities (direct obligations);
2. Federal Agency Securities;
3. Repurchase Agreements secured by U.S. Government Securities and/or Federal Agency Securities;
4. A1/P1 Commercial Paper (Moody's/S&P highest rating).

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

#### Deposits and Investments (Continued)

Funds belonging to any entity that are on deposit with the SCLGIP represent participation units in a portfolio comprised of the above referenced securities, and the external investment pool is not rated.

It is the policy of the State Treasurer's Office that no derivatives of the U.S. Government Securities and/or Federal Agency Securities and/or A1/P1 Commercial Paper are to be purchased by or for the SCLGIP. Also, it is the policy of the State Treasurer's Office that the weighted average maturity ("WAM") of the LGIP portfolio not to exceed 60 days.

As of June 30, 2022 and 2021, the District reported \$12,810,530 and \$13,217,906, respectively, in operating funds invested in the SCLGIP. The SCLGIP is an investment trust fund created pursuant to Section 6-6-10 of the South Carolina Code of Laws, and administered by the State Treasurer, in which public monies under the custody of any political subdivision in excess of current needs may be deposited. The SCLGIP is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States if such obligations bear any of the three highest ratings of at least two nationally recognized rating services. The SCLGIP is not registered with the Securities and Exchange Commission ("SEC"). It is similar to a money market fund in that it is offered at a stable price and is guided by risk control principles such as significant overnight repurchase agreements for liquidity; attention to credit quality, portfolio diversification and maintenance of a short average maturity of fixed and floating rate investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investment and for External Investment Pools*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the SCLGIP is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

The remaining investments are certificates of deposit with maturity dates ranging from August 18, 2022 to March 11, 2024.

While the District has no formal policy relating to the credit risk of investments, all investments are in accordance with South Carolina Statutes.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2022, was as follows:

	Balance at June 30, 2021	Additions	Deletions	Transfers	Balance at June 30, 2022
<b>Capital assets, not being depreciated:</b>					
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	358,246	1,680,878	-	(1,024,876)	1,014,248
Total capital assets, not being depreciated	594,293	1,680,878	-	(1,024,876)	1,250,295
<b>Capital assets, being depreciated:</b>					
Wastewater treatment and distribution	32,863,280	84,700	(483,301)	201,097	32,665,776
Water and sewer systems	14,217,478	270,110	(175,273)	823,779	15,136,094
Buildings, office and fences	627,289	-	(11,590)	-	615,699
Trucks and other equipment	1,017,745	-	(112,787)	-	904,958
Total capital assets, being depreciated	48,725,792	354,810	(782,951)	1,024,876	49,322,527
<b>Less accumulated depreciation for:</b>					
Wastewater treatment and distribution	(23,872,818)	(697,500)	434,430	-	(24,135,888)
Water and sewer systems	(6,765,090)	(639,907)	149,600	-	(7,255,397)
Buildings, office and fence	(377,499)	(27,980)	11,590	-	(393,889)
Trucks and other equipment	(814,184)	(72,447)	103,563	-	(783,068)
Total accumulated depreciation	(31,829,591)	(1,437,834)	699,183	-	(32,568,242)
Total capital assets, net, excluding leases	16,896,201	(1,083,024)	(83,768)	1,024,876	16,754,285
Total capital assets	\$ 17,490,494	\$ 597,854	\$ (83,768)	\$ -	\$ 18,004,580

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the District for the year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Additions	Deletions	Transfers	Balance at June 30, 2021
<b>Capital assets, not being depreciated:</b>					
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	1,194,419	1,239,435	-	(2,075,608)	358,246
Total capital assets, not being depreciated	<u>1,430,466</u>	<u>1,239,435</u>	<u>-</u>	<u>(2,075,608)</u>	<u>594,293</u>
<b>Capital assets, being depreciated:</b>					
Wastewater treatment and distribution	32,280,663	57,610	(449,822)	974,829	32,863,280
Water and sewer systems	13,079,212	70,000	(32,513)	1,100,779	14,217,478
Buildings, office and fences	658,363	-	(31,074)	-	627,289
Trucks and other equipment	1,115,684	-	(97,939)	-	1,017,745
Total capital assets, being depreciated	<u>47,133,922</u>	<u>127,610</u>	<u>(611,348)</u>	<u>2,075,608</u>	<u>48,725,792</u>
<b>Less accumulated depreciation for:</b>					
Wastewater treatment and distribution	(23,619,834)	(699,022)	446,038	-	(23,872,818)
Water and sewer systems	(6,206,893)	(584,949)	26,752	-	(6,765,090)
Buildings, office and fence	(373,131)	(35,442)	31,074	-	(377,499)
Trucks and other equipment	(828,243)	(83,878)	97,938	-	(814,183)
Total accumulated depreciation	<u>(31,028,101)</u>	<u>(1,403,291)</u>	<u>601,802</u>	<u>-</u>	<u>(31,829,590)</u>
Total capital assets, net, excluding leases	<u>16,105,821</u>	<u>(1,275,681)</u>	<u>(9,546)</u>	<u>2,075,608</u>	<u>16,896,202</u>
Total capital assets	<u>\$ 17,536,287</u>	<u>\$ (36,246)</u>	<u>\$ (9,546)</u>	<u>\$ -</u>	<u>\$ 17,490,495</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$1,437,834 and \$1,403,291, respectively.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. LEASES

#### Lessee – Lease Assets

A summary of the lease asset activity for the District for the year ended June 30, 2022 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasure</u>	<u>Ending Balance</u>
Leased vehicles	\$ 140,688	\$ 77,115	\$ (43,262)	\$ -	\$ 174,541
for leased vehicles	<u>(10,357)</u>	<u>(42,055)</u>	<u>4,506</u>	<u>-</u>	<u>(47,906)</u>
Total leased vehicles, net	<u>\$ 130,331</u>	<u>\$ 35,060</u>	<u>\$ (38,756)</u>	<u>\$ -</u>	<u>\$ 126,635</u>

A summary of the lease asset activity for the District for the year ended June 30, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasure</u>	<u>Ending Balance</u>
Leased vehicles	\$ -	\$ 140,688	\$ -	\$ -	\$ 140,688
for leased vehicles	<u>-</u>	<u>(10,357)</u>	<u>-</u>	<u>-</u>	<u>(10,357)</u>
Total leased vehicles, net	<u>\$ -</u>	<u>\$ 130,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,331</u>

### NOTE 5. LONG-TERM DEBT

Long-term liability activity for the fiscal year ended June 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds - direct borrowings					
Utility revenue bonds	\$ 11,410,000	\$ -	\$ (900,000)	\$ 10,510,000	\$ 915,000
Total bonds payable	11,410,000	-	(900,000)	10,510,000	915,000
Lease liabilities	131,822	77,115	(80,680)	128,257	43,438
Compensated absences	19,640	43,869	(39,767)	23,742	23,742
Total long-term liabilities	<u>\$ 11,561,462</u>	<u>\$ 120,984</u>	<u>\$ (1,020,447)</u>	<u>\$ 10,661,999</u>	<u>\$ 982,180</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the fiscal year ended June 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds - direct borrowings					
General obligation bonds	\$ 2,010,000	\$ -	\$ (2,010,000)	\$ -	\$ -
Utility revenue bonds	-	12,180,000	(770,000)	11,410,000	900,000
Total bonds payable	<u>2,010,000</u>	<u>12,180,000</u>	<u>(2,780,000)</u>	<u>11,410,000</u>	<u>900,000</u>
Lease liabilities	-	140,688	(8,866)	131,822	34,873
Compensated absences	23,628	83,742	(87,730)	19,640	19,640
Total long-term liabilities	<u>\$ 2,033,628</u>	<u>\$ 12,404,430</u>	<u>\$ (2,876,596)</u>	<u>\$ 11,561,462</u>	<u>\$ 954,513</u>

### Bonds

In May of 2008, the District issued Series 2008 General Obligation Refunding Bonds totaling \$6,345,000. The proceeds of these bonds were used to refund the Series 1998 bonds, pay a 1% call premium of \$63,300 and pay a portion of the costs of the bond issuance. Bond principal and interest debt service requirements are repaid annually from real estate taxes levied and collected annually by the Beaufort County Treasurer, on behalf of the District.

In August of 2020, the District issued Series 2020 Utility Revenue Bonds totaling \$12,180,000. The proceeds of these bonds were used to refund the Series 2008 bonds and also provide funding for capital projects related to infrastructure required for water supply alternatives. With this issuance, the Series 2008 bonds were paid off in full. These bonds have an interest rate of 1.732% and a 15-year term period with a final payment date of June 30, 2035. Related costs incurred to issue these bonds totaled \$216,615. The District complied with all associated bond covenants for its fiscal year ended June 30, 2022. Net earnings as defined in the Bond Resolution, exceeded 120% of the annual debt service requirement by \$27,000 for the fiscal year ended June 30, 2022.

A summary of bond debt service requirements to maturity is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 915,000	\$ 182,033	\$ 1,097,033
2024	725,000	166,185	891,185
2025	740,000	153,628	893,628
2026	750,000	140,812	890,812
2027	765,000	127,822	892,822
2028 – 2032	4,030,000	435,685	4,465,685
2033 – 2035	2,585,000	89,977	2,674,977
Total	<u>\$ 10,510,000</u>	<u>\$ 1,296,142</u>	<u>\$ 11,806,142</u>



## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 5. LONG-TERM DEBT (CONTINUED)

#### Bonds (Continued)

#### Lease Liabilities

The District entered into lease agreements for periods between four and five years as lessee for the use of vehicles. The leases have an imputed interest rate of 5-7%.

Principal and interest requirements to maturity for the lease liabilities as of June 30, 2022 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 43,438.00	\$ 1,747.00	\$ 45,185
2024	44,149	1,036	45,185
2025	36,358	337	36,695
2026	4,312	19	4,331
Total	<u>\$ 128,257</u>	<u>\$ 3,139</u>	<u>\$ 131,396</u>

### NOTE 6. COMMITMENTS AND CONTINGENCIES

#### Construction Contracts

In the normal course of business, the District enters into agreements with contractors for the construction and expansion of the wastewater treatment facilities system. As of June 30, 2022, the District had capital improvement commitments totaling \$118,897.

#### Litigation

From time to time, there may be various unasserted claims and lawsuits against the District. Although the outcome of these claims and lawsuits is not presently determinable, it is the opinion of legal counsel that resolution of these matters will not have a material adverse effect on the financial condition of the District.

## NOTES TO FINANCIAL STATEMENTS

---

### **NOTE 7. RELATED PARTY TRANSACTIONS**

Thomas Hopkins, a commissioner of the District, is both an owner and member of the Board of Directors of MR Systems, a vendor of the District. For the years ended June 30, 2022 and 2021, the District's transactions with MR Systems totaled \$36,502 and \$41,385, respectively, and were recorded as either capital assets or operating expenses as appropriate. As of June 30, 2022 and 2021, no amounts were payable from the District to MR Systems.

### **NOTE 8. RETIREMENT PLAN**

For the purpose of allowing employees and staff to contribute tax-deferred contributions to a retirement plan, the District offers both: (a) 457-defined contribution, and (b) 401(k)-salary deferral and savings profit-sharing plan to all employees who are both: (a) 18 years of age, and (b) employed with the District for a minimum of three months. Both retirement plans offered by the District also allow employees to contribute Roth-type amounts as well. The plan's assets equal the vested benefits as of June 30, 2021.

The District also makes contributions to the plan on behalf of its staff. Effective July 1, 2021, the District's annual matching contribution includes: (a) a contribution of 7% of covered compensation towards the employees' plan based on years of service, and (b) a match of employee payroll contributions that are in excess of 4%, but not to exceed 7%, of a participating employees' covered compensation based on years of service. District contributions to the plans for the years ended June 30, 2022 and 2021 were \$141,346 and \$108,868, respectively. For the fiscal years ended June 30, 2022 and 2021, plan members contributed \$173,559 and \$180,688, respectively.

### **NOTE 9. CONTRIBUTIONS FROM DEVELOPERS**

Developers of new construction are required to also provide the necessary infrastructure to supply water and sewer service to their property. Upon completion, the developers contribute, at no cost to the District, these water and sewer systems as well as the necessary and corresponding easements to the property. Several developers currently have projects in progress within the District and, if additional infrastructure is necessary, it will be contributed upon project 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, 2022 and 2021, \$63,380 and \$68,705, respectively, was collected for capacity fees from developers and no infrastructure assets were contributed to the District.

## NOTES TO FINANCIAL STATEMENTS

---

### **NOTE 10. UNEARNED TOWER EASEMENT REVENUE**

During the fiscal year ended June 30, 2016, the District leased, to two unrelated parties, water tower space and adjacent land. The non-cancelable lease agreements with these parties included five and ten-year terms with expiration dates varying from 2025 through 2027.

In addition, in July 2016, the District sold (to an unrelated party) a 15-year telecom easement associated with the water tower and also simultaneously assigned their interest in the two above-mentioned agreements as well. The gross selling price of this agreement was \$850,333, reduced by direct costs, to a net amount of \$819,516. In accordance with generally accepted accounting principles, the net sum will be recognized as revenue on a straight-line basis over the 15-year agreement term at an annual amount of \$54,634. The agreement allows for the purchaser of the easement to retain all rent derived from any leases which replace those purchased by the District during the June 30, 2016 fiscal year-end mentioned in the preceding paragraph and also specifies a 50% split between the lessor and the District, of any rent received from additional tower easement agreements subsequently added. No additional tower easements were committed to during the year ended June 30, 2022.

### **NOTE 11. CONCENTRATION AND ECONOMIC DEPENDENCY**

The District's service area is within the geographical boundaries of Hilton Head, South Carolina. A change in economic conditions for this area may have a significant influence on the District's operations.

## **SUPPLEMENTARY INFORMATION**

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF OPERATING EXPENSES**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>Salaries, wages and employee benefits</b>		
Salaries and wages	\$ 1,723,409	\$ 1,604,459
Payroll taxes	123,317	124,885
Group insurance and other benefits	457,404	431,545
Total salaries, wages and employee benefits	<u>2,304,130</u>	<u>2,160,889</u>
<b>Administrative expenses</b>		
Commissioner's fees	52,800	49,400
Computer services	47,823	43,693
Legal fees	28,722	28,426
Audit, accounting and bookkeeping fees	13,030	24,000
Consultant meeting expense	9,733	13,700
Bank charges and trustee fees	7,205	6,130
Insurance	88,655	89,068
Office supplies and expenses	45,911	41,407
Telephone	32,874	31,537
Public relations	5,483	12,721
Taxes and licenses	6,025	5,121
Travel, meetings and trainings	17,726	3,837
Total administrative expenses	<u>355,987</u>	<u>349,040</u>
<b>Plant and system operations</b>		
Electricity	318,248	324,037
Engineering fees	19,311	19,330
Chemicals and supplies	201,128	164,106
Repairs and maintenance - system	377,532	312,399
Repairs and maintenance - equipment	38,673	63,095
Repairs and maintenance - other	287,519	236,836
Fuels and lubricants	75,182	61,443
Safety program	15,589	16,021
Refuse disposal	111,630	94,922
Total plant and system operations	<u>1,444,812</u>	<u>1,292,189</u>
<b>Water purchases</b>	<u>171,492</u>	<u>126,719</u>
Total operating expenses before depreciation and amortization	<u>\$ 4,276,421</u>	<u>\$ 3,928,837</u>

## **COMPLIANCE SECTION**



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

---

To the Broad Creek Public Service District  
Board of Commissioners  
Hilton Head Island, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"), the financial statements of the Broad Creek Public Service District (the "District") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26 2022.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

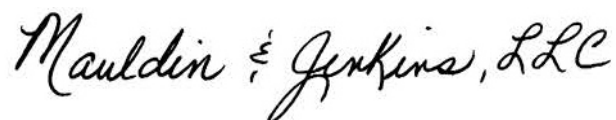
---

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Savannah, Georgia  
September 26, 2022



**BROAD CREEK PUBLIC SERVICE DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

---

**SECTION I  
SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

Yes  No

Significant deficiencies identified not considered to be material weaknesses?

Yes  No

Noncompliance material to financial statements noted?

Yes  No

**Federal Awards**

A single audit was not performed for the fiscal year ended June 30, 2022, due to the District not expending \$750,000 or more of federal funds.

**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None reported.

**SECTION III  
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Not applicable.

**SECTION IV  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

None reported.