

**BROAD CREEK  
PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT  
AND

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**BROAD CREEK PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

COMMISSIONERS AND MANAGEMENT

		<u>Term expires</u>
John Joseph	- Chairman	July 11, 2021
Thomas Hopkins	- Vice Chairman	July 11, 2022
James Rowe	- Secretary	July 11, 2021
Mike Allen	- General Manager	
Lauren Sturre	- Finance Director	
Cary S. Griffin	- Assistant Secretary	

**BROAD CREEK PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**TABLE OF CONTENTS**

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



# Robinson Grant & Co., P.A.

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

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

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

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

## **Independent Auditors' Report**

November 3, 2020

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, 2020 and 2019, 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.

### **Auditors' 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, 2020 and 2019, 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.

*Johnson & Co., P.A.*

## **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, 2020. 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:

- The District's property tax millage rate is unchanged in fiscal year 2020. It remains at 10 mills. Property tax revenue increased 3.8% from fiscal year 2018 to 2019 and increased 1.2% from 2019 to 2020. Property tax revenue totaled \$1,535,747 in fiscal year 2020. 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 \$1,788,043 for fiscal year 2020 compared to \$1,857,953 in fiscal year 2019. Depreciation expense totals \$1,338,017 and \$1,380,543 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 2020 included replacing older assets and upgrading to new more efficient equipment at the plant and in the field. The major capital expenditures in fiscal year include the following:
  - Capital additions to the treatment plant total \$763,128. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent storage. \$451,142 was spent on influent screen upgrades. Influent screens retain solids found in the influent wastewater. These solids, if not retained and removed could damage process equipment and reduce treatment efficiency. The remaining treatment plant capital expenditures of \$311,986 were for the aeration blower upgrade project, effluent filter upgrades, plant valves and pump replacements, and electronic monitoring of plant processes.
  - Capital additions to the distribution system total \$122,989. 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 \$62,739. Additionally, the District replaced damaged water lines and valves at a total cost of \$33,600. \$16,663 was spent towards the initial engineering of the water line

- replacement project to be completed in fiscal year 2021. \$9,987 was spent to replace the fencing at District Well #2.
- Capital additions to the collection system total \$848,841. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. \$216,524 was expended in fiscal year 2020 towards the final replacement cost of the Port Tack Vacuum station. The project brings needed improvements to vacuum performance and odor control. \$83,601 was spent on raised vacuum system controllers. Raised controllers help minimize damage to the sewer vacuum system due to storm related flooding. \$332,478 was spent on new odor control units at lift stations throughout the District. The two staged units allow for additional treatment to reduce odor causing hydrogen sulfate. \$140,092 was expended towards an overhaul to the Chimney Cove Lift Station. The upgrade included new controls and submersible pumps for ease of maintenance and dependability during severe weather. The remaining \$76,146 of collection system capital expenditures include two new lift station pumps for Lift Station #16, fencing at Lift Station #9, and a mini-excavator for District line projects.
  - Administrative capital additions total \$53,085. This amount represents an upgrade to the Administration building including painting, tiling and fixtures and the replacement of a District vehicle.
- As of June 30, 2020, the District has the following number of customer accounts by classification:
    - Residential Single-Family Home/Metered Condo – 956 accounts
    - Residential Regime/Apartment – 11 accounts, 508 units
    - Commercial Hotel/Timeshare – 9 accounts, 1436 units
    - Commercial Transient Rental Home – 373 accounts
    - Commercial Transient Rental Regime – 32 accounts, 2012 units
    - Commercial Business – 89 accounts
    - Commercial Irrigation – 139 accounts

- The District has the following water/wastewater flows in fiscal year 2020:

**WATER METERED AND PUMPED**

Customer Class	Used/Billed Gallons FY 2020	Used/Billed Gallons FY 2019	Used/Billed Gallons FY 2018
Residential Single-Family Home/Metered Condo	157,161,493	156,959,335	164,236,186
Residential Regime/Apartment	25,765,105	20,513,959	21,110,980
Commercial Hotel/Timeshare	86,663,204	89,068,806	107,274,689
Commercial Transient Rental Home, Regime	263,427,581	272,227,276	240,671,297
Commercial Business	23,000,228	29,709,718	35,169,884
Commercial Irrigation	85,108,528	85,261,654	88,533,722
Metered/ Billed Total	641,126,139	653,740,748	656,996,758
Water Used at Plant, Wells, Lift Stations	1,811,201	1,876,242	2,250,000
Water Used in Hydrant Flushing	474,000	289,000	578,000
Water Used in Hydrant Flow Meter Rental	222,153	423,596	364,452
Metered/ Unbilled Total	2,507,354	2,588,838	3,192,452
<b>Total Metered Water</b>	<b>643,633,493</b>	<b>656,329,586</b>	<b>660,189,210</b>
Water Pumped in Gallons - 3 District Wells	608,708,215	615,222,499	596,395,317
Water Purchased in Gallons - HHPSD/BJWSA	44,921,000	49,865,000	88,680,000
<b>Total Water Pumped</b>	<b>653,629,215</b>	<b>665,087,499</b>	<b>685,075,317</b>

**WASTEWATER INFLOW**

	Gallons FY 2020	Gallons FY 2019	Gallons FY 2018
Wastewater Influent Flows	359,043,129	371,142,420	380,737,688
Total Rainfall	54.2"	46.6"	47"

Total metered water in fiscal year 2020 decreased by 1.9% compared to fiscal year 2019 and decreased by 2.5% compared to fiscal year 2018. Total water pumped decreased by 1.7% compared to 2019 and decreased by 4.6% compared to 2018. Fiscal year 2019 usage reflects a return to customary water usage following Hurricane Matthew and the subsequent cleanup in fiscal year 2018. In fiscal year 2020 the decline in usage compared to fiscal year 2019 is reflective of COVID-19 travel restrictions beginning in March 2020 as well as an increase in rainfall and hence reduced irrigation. Residential homes, condos, regimes and apartment usage is up 3.1% in fiscal year 2020 compared to fiscal year 2019 as people sheltered in their residences during the pandemic. Commercial usage minus irrigation is down 4.6% during the same time period due to restrictions on Island travel and businesses during the current pandemic. Wastewater inflows decreased by 3.3% from fiscal year 2019 to 2020 as a result of limited Island travel and business slowdowns.



**OPERATING INCOME**

	<b>Budget FY2020</b>	<b>Actual FY2020</b>	<b>Actual FY2019</b>	<b>Actual FY2018</b>
<b>Total Operating Revenues</b>	\$5,018,396	\$5,131,235	\$4,966,184	\$4,960,982
<b>Total Operating Expenses</b>	4,010,608	3,885,623	3,837,057	3,654,083
<b>Operating Income</b>	\$1,007,788	\$1,245,702	\$1,129,127	\$1,306,886

- Total operating revenues for fiscal year 2020 are \$5,131,235 or 102% of budget. Total operating revenues consists of rate revenue, connection fees, and other miscellaneous revenue. Operating revenues for fiscal year 2020 are up 3.3% compared to 2019, and up 3.4% compared to 2018. Included in fiscal year 2020 revenue are unbudgeted capital credits from Palmetto Electric totaling \$28,059. Water and sewer rate revenue makes up 97.9% of the operating revenue. Water and sewer rate revenue is up by 2.9% or \$139,906 compared to the prior year. The increase in rate revenue is due to a 3% Board approved rate increase in fiscal year 2020. Usage was up in the single- family four tier structure offset by lower usage in the Commercial single tier.
- 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 \$3,885,623 or 96.9% of budget.

Actual operating expenses for fiscal year 2020 are 1.3% higher than 2019 and 6.3% higher than 2018 (*see Schedule of Operating Expenses, pg. 30,31*). The major variances in fiscal year 2020 operating expenses compared to fiscal year 2019 expenses are as follows:

- Salaries, wages, and benefit expenses are up 3.3% or \$69,528 compared to prior year. The increase is due to the budgeted salary increase and corresponding tax and retirement funding increase from 2019 to 2020. Group insurance expense also increased by 3.3% compared to prior year due to renewal increases.
- Administrative expenses are up 5.6% or \$20,166 compared to prior year. The overall increase is primarily due to an increase in legal fees pertaining to human resource matters, implementation of a customer survey, and costs related to the Commissioner selection process. These expense increases compared to prior year were slightly offset by the COVID-19 related reduction in customary travel and meeting expenses.
- Plant and system operations expenses are down 2.3% or \$30,572 compared to prior year. Repairs to the collection and distribution systems are down \$177,835 or 42% from prior year. The bioaugmentation of the collection lines from fiscal year 2019 has

been discontinued in fiscal year 2020 for a savings of \$60,000. After one year of biologically enhancing the system, the expected benefit and potential treatment cost savings of the program was not realized. Distribution system repairs are primarily handled inhouse in fiscal year 2020 as a result of the District's capital investment in repair equipment versus more costly outsourcing as in prior years. The savings are offset by increases of \$53,715 to treatment plant generator repairs and treatment plant electricity. DHEC required exhaust system repairs caused generator downtime and increased electricity consumption at the treatment plant. Engineering fees are up \$92,688 or 242% compared to prior year. An approved engineered Water Supply Alternatives Analysis has been completed in fiscal year 2020 accounting for the increased fees. The analysis will help determine capital expenditures and financing options for the distribution system in upcoming fiscal years with a view to protecting the District's water supply for future generations.

- Water purchases expense is down 12.8% or \$10,557 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 consumer price index adjustment made each July. The contract has been extended an additional ten years to 2029. The CPI adjusted rate for fiscal year 2020 is \$.89 for water purchased between October 2019 and March 2019. The peak contracted rate for the water for fiscal year 2020 is \$1.91 per 1,000 gallons from July 2019 through September 2019, and from April 2020 through June 2020. The District purchased a total of 45 million gallons under this contract at a cost of \$71,933 compared to fiscal year 2019 purchases of 50 million gallons which totaled \$82,490. The decreased purchase in fiscal year 2020 reflects the COVID-19 related decrease in overall District usage.

## 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 5,513 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 123,071 gallons per day compared to last year's average of 136,616. 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 983,680 gallons per day in fiscal year 2020. The peak treatment month was July 2019 at 1.47 mgd average and the peak treatment day was July 5, 2019 at 1.79 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 2020, 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, 2020, 2019 AND 2018**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Property, plant and equipment, net	\$ 17,536,287	\$ 17,087,921	\$ 16,823,557
Other assets	<u>6,211,900</u>	<u>5,659,936</u>	<u>5,229,044</u>
<b>Total assets</b>	23,748,187	22,747,857	22,052,601
Deferred outflows from debt refunding	<u>41,150</u>	<u>54,866</u>	<u>68,583</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 23,789,337</u>	<u>\$ 22,802,723</u>	<u>\$ 22,121,184</u>
Current liabilities	\$ 998,360	\$ 847,605	\$ 830,089
Long term liabilities	<u>1,925,191</u>	<u>2,628,079</u>	<u>3,306,279</u>
<b>Total liabilities</b>	2,923,551	3,475,684	4,136,368
<b>Net position:</b>			
Investment in capital assets, net of related liabilities	15,567,437	14,517,787	13,672,140
Unrestricted	<u>5,298,349</u>	<u>4,809,252</u>	<u>4,312,676</u>
<b>Total net position</b>	<u>20,865,786</u>	<u>19,327,039</u>	<u>17,984,816</u>
<b>Total liabilities and net position</b>	<u>\$ 23,789,337</u>	<u>\$ 22,802,723</u>	<u>\$ 22,121,184</u>

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2020, 2019 AND 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total operating revenues</b>	\$ 5,131,234	\$ 4,966,184	\$ 4,960,982
<b>Expenses</b>			
Salaries, wages and employee benefits	2,146,857	2,077,329	1,940,009
Depreciation and amortization	1,351,734	1,394,260	1,510,065
Other operating expenses	<u>1,738,764</u>	<u>1,759,728</u>	<u>1,714,074</u>
Total operating expenses	5,237,355	5,231,317	5,164,148
<b>Loss from operations</b>	(106,121)	(265,133)	(203,166)
<b>Other income (expense)</b>			
Property taxes	1,535,747	1,518,210	1,460,977
Other income	154,437	166,285	134,383
Gain (loss) on disposed assets	1,428	(24,760)	(10,705)
Interest expense	<u>(86,074)</u>	<u>(105,584)</u>	<u>(124,274)</u>
Total other income (expense)	1,605,538	1,554,151	1,460,381
<b>Increase in net position before developer contributions</b>	1,499,417	1,289,018	1,257,215
Developer contributions	<u>39,330</u>	<u>53,205</u>	<u>85,860</u>
<b>Increase in net position</b>	<u>1,538,747</u>	<u>1,342,223</u>	<u>1,343,075</u>
<b>Net position at beginning of year</b>	<u>19,327,039</u>	<u>17,984,816</u>	<u>16,641,741</u>
<b>Net position at end of year</b>	<u>\$ 20,865,786</u>	<u>\$ 19,327,039</u>	<u>\$ 17,984,816</u>

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2020 AND 2019**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Current assets</b>		
Cash and investments	\$ 5,155,819	\$ 4,686,960
Cash held by Beaufort County Treasurer	100,052	113,511
Accounts receivable - trade	717,944	641,900
Accounts receivable - other	4,156	3,852
Inventory	200,542	163,953
Prepaid expenses	33,387	25,473
Other assets - deposits	<u>-</u>	<u>24,287</u>
Total current assets	6,211,900	5,659,936
<b>Non-current assets</b>		
Property, plant and equipment, net	<u>17,536,287</u>	<u>17,087,921</u>
<b>Total assets</b>	<u>23,748,187</u>	<u>22,747,857</u>
<b>Deferred outflows of resources</b>		
Deferred outflows from refunding debt	<u>41,150</u>	<u>54,866</u>
<b>Total assets and deferred outflows of resources</b>	<b><u><u>\$ 23,789,337</u></u></b>	<b><u><u>\$ 22,802,723</u></u></b>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
**AS OF JUNE 30, 2020 AND 2019**

<b>LIABILITIES AND NET POSITION</b>	<b>2020</b>	<b>2019</b>
<b>Current liabilities</b>		
Accounts payable - trade	\$ 199,838	\$ 83,394
Accrued payroll	98,888	94,577
Deferred revenue	54,634	54,634
Bonds payable due within one year	645,000	615,000
Total current liabilities	998,360	847,605
<b>Long term liabilities</b>		
Bonds payable due after one year	1,365,000	2,010,000
Deferred revenue	546,344	600,979
Deposits	13,847	17,100
Total long term liabilities	1,925,191	2,628,079
<b>Total liabilities</b>	2,923,551	3,475,684
<b>Net position</b>		
Investment in capital assets, net of related liabilities	15,567,437	14,517,787
Unrestricted	5,298,349	4,809,252
<b>Total net position</b>	20,865,786	19,327,039
<b>Total liabilities and net position</b>	<b>\$ 23,789,337</b>	<b>\$ 22,802,723</b>

See accompanying notes to financial statements.



**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating revenues</b>		
Residential	\$ 1,172,433	\$ 1,211,515
Commercial	3,849,891	3,670,903
Recycled water	33,844	36,115
Connection fees	32,100	34,917
Disaster recovery, net	-	(3,931)
Other operating revenues	<u>42,966</u>	<u>16,665</u>
Total operating revenues	5,131,234	4,966,184
<b>Operating expenses</b>		
Salaries, wages and employee benefits	2,146,857	2,077,329
Administrative expenses	380,597	360,431
Plant and system operations	1,286,234	1,316,807
Water purchases	<u>71,933</u>	<u>82,490</u>
Total operating expenses before depreciation and amortization	<u>3,885,621</u>	<u>3,837,057</u>
Income from operations before depreciation and amortization	1,245,613	1,129,127
Depreciation expense	1,338,017	1,380,543
Amortization expense	<u>13,717</u>	<u>13,717</u>
Loss from operations	(106,121)	(265,133)
<b>Other income (expenses)</b>		
Property taxes	1,535,747	1,518,210
Availability charges	24,795	26,858
Tower lease income	54,634	54,634
Interest income	75,008	84,793
Gain (loss) on disposed assets	1,428	(24,760)
Interest expense	<u>(86,074)</u>	<u>(105,584)</u>
Net other income (expenses)	<u>1,605,538</u>	<u>1,554,151</u>
<b>Increase in net position before developer contributions</b>	1,499,417	1,289,018
Developer contributions	<u>39,330</u>	<u>53,205</u>
<b>Increase in net position</b>	<u>1,538,747</u>	<u>1,342,223</u>
<b>Net position, beginning of year</b>	<u>19,327,039</u>	<u>17,984,816</u>
<b>Net position, end of year</b>	<u>\$ 20,865,786</u>	<u>\$ 19,327,039</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 5,008,667	\$ 4,798,656
Other operating cash receipts	42,966	12,734
Cash paid to suppliers	(2,228,142)	(2,265,498)
Cash paid to employees	(1,581,237)	(1,521,935)
Net cash provided by operating activities	1,242,254	1,023,957
<b>Cash flows from investing activities:</b>		
Interest earned	75,008	84,793
Net cash provided by (used in) investing activities	75,008	84,793
<b>Cash flows from noncapital financing activities:</b>		
Property taxes collected	1,535,747	1,518,210
Availability charges	24,795	26,858
Tower lease income	-	-
Net cash provided by noncapital financing activities	1,560,542	1,545,068
<b>Cash flows from capital financing activities:</b>		
Developer contributions	39,330	53,205
Acquisition of property, plant and equipment	(1,760,835)	(1,670,842)
Proceeds from sale of property, plant and equipment	175	1,175
Principal paid on bonds	(615,000)	(595,000)
Interest paid	(86,074)	(105,584)
Net cash used in capital financing activities	(2,422,404)	(2,317,046)
Net increase (decrease) in cash and cash equivalents	455,400	336,772
Cash and cash equivalents at beginning of year	4,000,471	3,663,699
Cash and cash equivalents at end of year	<u>\$ 4,455,871</u>	<u>\$ 4,000,471</u>

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>Schedule of cash and cash equivalents:</b>		
Cash and investments from the Statement of Net Position	\$ 5,155,819	\$ 4,686,960
Less: Certificate of deposit investments	(800,000)	(800,000)
Unrestricted cash and cash equivalents	4,355,819	3,886,960
Held by Beaufort County Treasurer	100,052	113,511
Total cash and cash equivalents at end of year	\$ 4,455,871	\$ 4,000,471
 <b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (106,121)	\$ (265,133)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,338,017	1,380,543
Amortization	13,717	13,717
Changes in assets and liabilities		
Accounts receivable - trade	(76,044)	(144,274)
Accounts receivable - other	(304)	(1,954)
Inventory	(36,589)	20,336
Prepaid expenses	(7,914)	56,059
Other assets - deposits	-	(24,287)
Accounts payable	116,434	(11,580)
Accrued payroll	4,311	9,096
Deposits	(3,253)	(8,566)
Net cash provided by operating activities	\$ 1,242,254	\$ 1,023,957

See accompanying notes to financial statements.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**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 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 effort to raise funds to provide these services, the District has issued both general obligation and revenue bonds (See Note 5). 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, 2020 and 2019, 10 mills were levied each year. 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 No. 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, 2020 AND 2019

### **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.

#### **Revenue Recognition**

The District recognizes operating revenues as those which result from providing services. Operating revenues include connection fees, water revenues and sewer revenues. Connection fees are recognized as income in the period in which they are billable under the various agreements with developers or homeowners. Non-operating revenues are those of the District not directly attributable to the services provided and includes property taxes assessments, 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 cash equivalents.

#### **Investments**

Investments consist of certificates of deposit with original maturities of three months or more and which are reported at cost because they are not transferable and 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 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, 2020, management does not anticipate any significant uncollectible amounts from these receivables.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**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 a 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 costs are charged an expense account as incurred.

**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 included in accrued payroll on the Statement of Net Position and amounted to \$23,628 and \$33,764 at June 30, 2020 and 2019, respectively.

**Date of Management's Review**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 3, 2020, the date that the financial statements were available to be issued.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**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 Commissioners 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 12)

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**

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. As of June 30, 2020, the carrying amounts of the District’s cash and investments was \$5,155,819 and the bank balance of cash on deposit was \$5,221,509. Cash and investments as of June 30, 2020 and 2019 are classified in the accompanying financial statements as follows:

<u>Statement of net position:</u>	<u>2020</u>	<u>2019</u>
Cash and investments	\$ 5,155,819	4,686,960
Cash held with Beaufort County Treasurer	<u>100,052</u>	<u>113,511</u>
Total cash and investments	<u>\$ 5,255,871</u>	<u>\$ 4,800,471</u>

<u>Cash and investments as of June 30 consist of the following:</u>	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 200	\$ 200
Demand deposits with financial institutions	1,985,000	1,557,412
South Carolina local government investment pool	2,370,619	2,329,348
Certificates of deposit	800,000	800,000
Cash held by Beaufort County Treasurer	<u>100,052</u>	<u>113,511</u>
Total cash and investments	<u>\$ 5,255,871</u>	<u>\$ 4,800,471</u>

Custodial credit risk is that in the event of bank failure, the District’s cash assets may not be returned to the District. The District has no formal adopted policies regarding credit risk, custodial credit risk, interest rate risk or concentration of credit risk. The deposits of the District were collateralized as follows at June 30, 2020:

# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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

	<u>June 30, 2020</u>
Amounts insured by FDIC & SPIC coverage	\$ 1,051,790
Amounts collateralized through the local government pool	2,370,619
Amounts collateralized with pledged securities	1,786,155
Uncollateralized	<u>-</u>
Total	<u>\$ 5,208,564</u>

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 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.
- 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 the same are insured by a federal government agency;
- 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.
- 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.



# BROAD CREEK PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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

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, 2020 and 2019, amounts held in the Pool totaled \$2,370,619 and \$2,329,348, respectively. The funds held in the Pool represent reserves designated for operations and capital expenditures.

### **Note 3. Commitments and Contingencies**

In 1995, the District committed to an agreement with Beaufort Jasper Water & Sewer Authority (BJWSA) in which BJWSA will provide up to 2 million gallons of water per day to the District. The District's share of the capacity and construction costs associated with this project 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 \$71,933 and \$82,490 in water for the years ended June 30, 2020 and 2019, respectively.

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

Activity within capital asset accounts is summarized as follows:

## BROAD CREEK PUBLIC SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

#### **Note 4. Property, Plant, Equipment and Depreciation (continued):**

	June 30, 2019	Additions	Disposals	Transfers	June 30, 2020
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	<u>1,021,931</u>	<u>1,570,994</u>	<u>-</u>	<u>(1,398,506)</u>	<u>1,194,419</u>
Total nondepreciable assets	1,257,978	1,570,994	-	(1,398,506)	1,430,466
Wastewater treatment and distribution	32,768,115	55,130	(542,582)	-	32,280,663
Water and sewer systems	11,640,697	66,925	-	1,371,590	13,079,212
Buildings, office and fence	648,538	6,500	-	3,325	658,363
Trucks and other equipment	<u>1,047,360</u>	<u>88,494</u>	<u>(43,761)</u>	<u>23,591</u>	<u>1,115,684</u>
Total depreciable assets	46,104,710	217,049	(586,343)	1,398,506	47,133,922
Accumulated depreciation					
Wastewater treatment and distribution	(23,471,881)	(688,863)	540,910	-	(23,619,834)
Water and sewer systems	(5,692,126)	(508,002)	-	(6,765)	(6,206,893)
Buildings, office and fence	(338,378)	(33,909)	-	(844)	(373,131)
Trucks and other equipment	<u>(772,382)</u>	<u>(99,623)</u>	<u>43,762</u>	<u>-</u>	<u>(828,243)</u>
Total accumulated depreciation	(30,274,767)	(1,330,397)	584,672	(7,609)	(31,028,101)
Net depreciable assets	<u>15,829,943</u>	<u>(1,113,348)</u>	<u>(1,671)</u>	<u>1,390,897</u>	<u>16,105,821</u>
Total property plant and equipment	<u>\$ 17,087,921</u>	<u>\$ 457,646</u>	<u>\$ (1,671)</u>	<u>\$ (7,609)</u>	<u>\$ 17,536,287</u>
	June 30, 2018	Additions	Disposals	Transfers	June 30, 2019
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	<u>236,750</u>	<u>1,464,332</u>	<u>-</u>	<u>(679,151)</u>	<u>1,021,931</u>
Total nondepreciable assets	472,797	1,464,332	-	(679,151)	1,257,978
Wastewater treatment and distribution	32,754,254	29,323	(121,673)	106,211	32,768,115
Water and sewer systems	11,259,430	268,704	(460,377)	572,940	11,640,697
Buildings, office and fence	631,038	51,154	(33,654)	-	648,538
Trucks and other equipment	<u>1,115,136</u>	<u>44,440</u>	<u>(112,216)</u>	<u>-</u>	<u>1,047,360</u>
Total depreciable assets	45,759,858	393,621	(727,920)	679,151	46,104,710
Accumulated depreciation					
Wastewater treatment and distribution	(22,801,472)	(763,961)	94,861	(1,309)	(23,471,881)
Water and sewer systems	(5,491,210)	(463,206)	284,772	(22,482)	(5,692,126)
Buildings, office and fence	(323,186)	(41,546)	26,354	-	(338,378)
Trucks and other equipment	<u>(793,230)</u>	<u>(88,039)</u>	<u>108,887</u>	<u>-</u>	<u>(772,382)</u>
Total accumulated depreciation	(29,409,098)	(1,356,752)	514,874	(23,791)	(30,274,767)
Net depreciable assets	<u>16,350,760</u>	<u>(963,131)</u>	<u>(213,046)</u>	<u>655,360</u>	<u>15,829,943</u>
Total property plant and equipment	<u>\$ 16,823,557</u>	<u>\$ 501,201</u>	<u>\$ (213,046)</u>	<u>\$ (23,791)</u>	<u>\$ 17,087,921</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$1,338,017 and \$1,380,543, respectively.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**Note 5. Bonds Payable**

On May 29, 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 Beaufort County Treasurer, on behalf of the District. Although bond principal payments are due by July 1<sup>st</sup> of a fiscal year, the bond debt service schedule accounts for these principal payments in the current fiscal year; and hence are remitted to the paying agent and recorded by the District by June 30<sup>th</sup> of the current fiscal year. The bonds have a fifteen-year term and are payable in variable semi-annual installments with the final payment due July 1, 2023. The bond interest rate is 3.279% and interest totaling \$86,074 and \$105,584 was paid during the fiscal years ended June 30, 2020 and June 30, 2019, respectively.

The District is amortizing, on a straight-line basis over the life of the Series 2008 bonds, the \$206,891 deferred loss on early retirement of the Series 1998 bonds. The unamortized balance as of June 30, 2020 and 2019 was \$41,150 and \$54,866, respectively and, in accordance with GASB No. 63, is reported as a deferred outflow of resources. For both years ended June 30, 2020 and 2019, amortization expense for deferred refunding costs totaled \$13,717.

The revenue bonds require certain funds to be maintained by the District most of which had previously been established for other bonds and included the gross revenue fund, the operation and maintenance fund and the depreciation and contingency fund. In addition, and in order to provide for the ratable payment as due, the District was required to establish a debt service fund for each series of bonds outstanding. A summary of bond debt service requirements to maturity is as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 645,000	\$ 65,908	\$ 710,908
2022	670,000	44,758	714,758
2023	695,000	22,789	717,789
Total	<u>\$ 2,010,000</u>	<u>\$ 133,455</u>	<u>\$ 2,143,455</u>

**Note 6. Long Term Liabilities**

Activity within long-term liability accounts for the year ended June 30, 2020, was as follows:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Current</u>
General obligation bonds	\$ 2,625,000	\$ -	\$ (615,000)	\$ 2,010,000	\$ 645,000
Deferred tower lease	655,613	-	(54,634)	600,979	54,634
Deposits	17,100	-	(3,900)	13,200	-
Long-term liabilities	<u>\$ 3,955,913</u>	<u>\$ -</u>	<u>\$ (673,534)</u>	<u>\$ 2,624,179</u>	<u>\$ 699,634</u>

The principal payments of the general obligation bonds, due by July 1, 2020 and 2019, were paid on June 30, 2020 and 2019, respectively and are included in the current fiscal year reduction totals.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**Note 7. 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, 2020 and 2019, \$39,330 and \$53,205, respectively, was collected for capacity fees from developers and no infrastructure assets were contributed to the District.

The District charges a connection fee to all new 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. For the fiscal years ended June 30, 2020 and 2019, these fees totaled \$32,100 and \$34,917, respectively.

**Note 8. 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 in which the District purchases from. For the years ended June 30, 2020 and 2019, the District's transactions with MR Systems totaled \$54,378 and \$22,720, respectively, and were recorded as either capital assets or operating expenses as appropriate. As of June 30, 2020 and 2019, respectively, \$-0- was payable from the District to MR Systems.

**Note 9. 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 six 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, 2020.

The District also makes contributions to the plan on behalf of its staff. Effective January 1, 2017, the District's annual matching contribution includes (a) a contribution of 4% of covered compensation towards the employees' plan and (b) a match of employee payroll contributions that are in excess of 4%, but not to exceed 8%, of a participating employees' covered compensation. District contributions to the plans for the years ended June 30, 2020 and 2019 were \$108,278 and \$104,395, respectively. For the fiscal years ended June 30, 2020 and 2019, plan members contributed \$128,904 and \$120,455, respectively.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**Note 10. Deferred Tower Lease 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 fifteen-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 fifteen-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 and mentioned in the preceding paragraph and also specifies a 50% split, between the lessor and the District, of any rent received from additional tower lease agreements subsequently added. No additional tower leases were committed to during the year ended June 30, 2020.

**Note 11. Concentration/Economic Dependence**

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

**Note 12. Net Position and Contributed Capital**

Net position represents the variance between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The District's management is authorized to utilize any funds designated for capital activity within the current fiscal year's approved capital budget. The net position amounts were as follows:

	2020	2019
<u>Invested in capital assets, net of related liabilities</u>		
Net property, plant and equipment services	\$ 17,536,287	\$ 17,087,921
Less: debt as disclosed in Notes 5 and 6	(2,010,000)	(2,625,000)
Deferred refunding costs	41,150	54,866
	15,567,437	14,517,787
 <u>Unrestricted</u>		
Unrestricted - designated for capital activity	2,111,540	1,795,761
Unrestricted - designated for operating reserves	2,870,031	2,551,617
Unrestricted	316,778	461,874
	5,298,349	4,809,252
Total net position	\$ 20,865,786	\$ 19,327,039

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**Note 13. Subsequent Event – Bond Issuance**

In August 2020 the District's board of Commissioners approved the issuance of Series 2020 Utility Revenue Bonds totaling \$12,180,000. Funds from the bond issuance will be received on November 13, 2020 and will both refund the existing Bond Payable accounted for in the Statement of Net Position and also provide funding for capital projects related to infrastructure required for water supply alternatives. These bonds have an interest rate of 1.732% and a fifteen-year term period with a final payment date of June 30, 2035. Related costs incurred to issue these bonds total \$216,615.

**BROAD CREEK PUBLIC SERVICE DISTRICT**  
**SCHEDULES OF OPERATING EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b><u>Salaries, wages and employee benefits</u></b>		
Salaries and wages	\$ 1,585,288	\$ 1,530,741
Payroll taxes	126,223	124,426
Group insurance and other benefits	435,346	422,162
Total	2,146,857	2,077,329
<b><u>Administrative expenses</u></b>		
Commissioners' fees	49,100	52,800
Computer services	52,400	58,994
Legal fees	52,706	27,009
Audit, accounting and bookkeeping fees	17,400	22,500
Consultant meeting expense	16,226	11,405
Bank charges and trustee fees	1,662	1,132
Insurance	81,830	67,738
Office supplies and expenses	40,874	41,178
Telephone	30,935	28,814
Public relations	19,361	10,912
Taxes and licenses	5,114	6,749
Travel, meetings and training	12,989	31,200
Total	380,597	360,431
<b><u>Plant and system operations</u></b>		
Electricity	344,686	320,708
Engineering fees	131,064	38,375
Chemicals and supplies	136,700	135,678
Repairs and maintenance - system	252,727	439,277
Repairs and maintenance - equipment	38,596	33,373
Repairs and maintenance - other	258,251	206,145
Fuel and lubricants	45,644	50,940
Safety program	12,013	8,307
Refuse disposal	65,669	84,004
Total	1,285,350	1,316,807
<b>Water purchases</b>	<b>71,933</b>	<b>82,490</b>
<b>Total operating expenses before depreciation and amortization</b>	<b>\$ 3,884,737</b>	<b>\$ 3,837,057</b>

See accompanying notes to the financial statements.