

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND, SOUTH CAROLINA

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

JUNE 30, 2021 and 2020

BROAD CREEK PUBLIC SERVICE DISTRICT

ANNUAL FINANCIAL REPORT JUNE 30, 2021 AND 2020

TABLE OF CONTENTS

	<u>Page</u>
Commissioners and Management.....	i
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 – 27
Supplementary Information	
Schedules of Operating Expenses	28
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>	29 and 30
Schedule of Findings and Responses.....	31

**BROAD CREEK PUBLIC SERVICE DISTRICT
COMMISSIONERS AND MANAGEMENT
JUNE 30, 2021**

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



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Broad Creek Public Service District, (the "District"), as of and for the year ended June 30, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 opinion.

Opinion

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, 2021, and the changes in financial position and cash flows thereof for the year 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 Management's Discussion and Analysis (on pages 4 through 10) 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 the 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 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 on page 28 is presented for purposes of additional analysis and is 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 accounting 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 for the year ended June 30, 2021.

The financial statements of the District as of and for the year ended June 30, 2020 were audited by other auditors, whose report dated November 3, 2020 expressed an unmodified opinion on those statements. The report of the other auditors, whose report dated November 3, 2020 stated that the supplementary information for the year ended June 30, 2020 was subjected to the auditing procedures applied in the audit of the June 30, 2020 basic financial statements and certain auditing 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 their opinion, the supplementary information was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2020.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2021, 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 District's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Savannah, Georgia
October 1, 2021

BROAD CREEK PUBLIC SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021 AND 2020

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 (fy) that ended on June 30, 2021. 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 2021. It remains at 10 mills. Property tax revenue increased 1.2% from fy 2019 to 2020 and increased 3.9% from 2020 to 2021. Property tax revenue totaled \$1,595,881 in fy 2021. 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 from the Savannah River water as well as additional transmission and well infrastructure. The expected completion time is fy 2025.

The Project has an estimated total cost of \$9,929,000. The District Commission approved debt financing to fund the Water Supply Project. On November 13, 2020, the District issued \$12,180,000 of utility revenue bonds with a 1.732% coupon and 15-year term through JP Morgan Chase Bank, NA. \$2,055,000 was used to refund the District's outstanding 2008 general obligation bond. The balance funded bond issuance costs.

- 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 2021, Enterprise FM Trust (Lessor) leased to the District (Lessee) a total of five vehicles with a four-year lease term valuation. Each vehicle is valued and amortized over forty-eight months based on the present value of total lease payments in accordance with GASB pronouncements. The leased vehicles have a total capital value of \$140,688. The lease debt liability as of June 30, 2021 is \$131,822. \$8,866 of lease principal and \$642 of lease interest has been paid to Enterprise FM Trust in fy 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The District's capital additions total \$1,507,733 for fy 2021 compared to \$1,788,043 in fy 2020. Depreciation expense totals \$1,413,648 and \$1,338,017 during this same time period. All capital expenditures are funded through District revenues and bond proceeds. District capital investments for fy 2021 include replacing older assets and upgrading to new more efficient vehicles, equipment, and processes at the plant and in the field. It also includes initial expenditures on legal and engineering fees for the District Water Supply Project. The major capital expenditures in fy 2021 include the following:
 - Capital additions to the treatment plant totaling \$441,790. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent storage. \$270,668 was spent on the completion of the influent screen upgrades for a total project cost of \$721,810. 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 \$171,122 have been spent for ongoing projects to upgrade the odor control and sludge conveyor systems, aeration basin infrastructure and equipment, a new effluent pump, and electronic monitoring of plant processes.
 - Capital additions to the distribution system totaling \$444,281. The distribution system includes the water tower, water transmission lines, valves, well houses and equipment, hydrants, and meters. \$192,593 was spent on initial legal and engineering fees for the Water Supply Project scheduled to be completed in fy 2025. Water lines have been upgraded in the District for a total expenditure of \$150,228. The District is in process of modifying the chlorine disinfection system at the three District wells and the treatment plant. In fy 2021, \$76,398 has been spent on well modification designs. The remaining \$25,062 of the distribution system capital additions has been expended on additions to the District's automatic meter read system ("AMI") and a pilot AMI software and endpoint program.
 - Capital additions to the collection system totaling \$480,974. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. \$261,596 was spent on new odor control units at four District lift stations. The units allow for additional treatment to reduce odor causing hydrogen sulfate. \$134,427 was expended towards upgrades to lift stations including an overhaul to the Marina Side Drive Lift Station. The overhaul included new controls and a submersible pump for ease of maintenance and dependability during severe weather. \$70,000 of collection system capital expenditures include phase one of a manhole assessment report which evaluates the quality and required repairs of District sewer manholes. The remaining \$14,951 was spent on raised vacuum system controllers. Raised controllers help minimize damage to the sewer vacuum system due to storm related flooding.
 - Administrative capital additions totaling \$140,688. In fy 2021, the District received five vehicles to be depreciated over four years for a total capital addition of \$140,688.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- As of June 30, 2021, the District has the following number of customer accounts by classification:
 - Residential Single-Family Home/Metered Condo – 915 accounts
 - Residential Regime/Apartment – 11 accounts, 508 units
 - Commercial Hotel/Timeshare – 9 accounts, 1,436 units
 - Commercial Transient Rental Home – 428 accounts
 - Commercial Transient Rental Regime – 32 accounts, 2,012 units
 - Commercial Business – 88 accounts
 - Commercial Irrigation – 133 accounts

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

CONDENSED STATEMENTS OF NET POSITION

	2021	2020	2019
Current assets	\$ 17,269,490	\$ 6,211,900	\$ 5,659,936
Capital assets	17,620,826	17,536,287	17,087,921
Total assets	34,890,316	23,748,187	22,747,857
Deferred outflows of resources	-	41,150	54,866
Current liabilities	1,241,723	998,360	847,605
Long-term liabilities	11,110,066	1,925,191	2,628,079
Total liabilities	12,351,789	2,923,551	3,475,684
Net position:			
Net investment in capital assets	16,021,124	15,567,437	14,517,787
Unrestricted	6,517,403	5,298,349	4,809,252
Total net position	\$ 22,538,527	\$ 20,865,786	\$ 19,327,039

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2021	2020	2019
Total operating revenue	\$ 5,513,983	\$ 5,131,234	\$ 4,966,184
Expenses:			
Salaries, wages and employee benefits	2,160,889	2,146,857	2,077,329
Depreciation and amortization	1,454,798	1,351,734	1,394,260
Other operating expenses	1,767,948	1,738,764	1,759,728
Total operating expenses	5,383,635	5,237,355	5,231,317
Operating income (loss)	130,348	(106,121)	(265,133)
Other income (expenses):			
Property taxes	1,595,881	1,535,747	1,518,210
Other income	109,026	154,437	166,285
Gain (loss) on disposal of assets	21,320	1,428	(24,760)
Interest expense	(145,714)	(86,074)	(105,584)
Bond issuance costs	(106,825)	-	-
Developer contributions	68,705	39,330	53,205
Total other income (expenses)	1,542,393	1,644,868	1,607,356
Change in net position	1,672,741	1,538,747	1,342,223
Net position, beginning of year	20,865,786	19,327,039	17,984,816
Net position, end of year	\$ 22,538,527	\$ 20,865,786	\$ 19,327,039

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District has the following water/wastewater flows in fy 2021:

WATER METERED AND PUMPED

Customer Class	Used/Billed Gallons FY 2021	Used/Billed Gallons FY 2020	Used/Billed Gallons FY 2019
Residential Single-Family Home/Metered Condo	152,637,521	157,161,493	156,959,335
Residential Regime/Apartment	27,708,427	25,765,105	20,513,959
Commercial Hotel/Timeshare	89,375,574	86,663,204	89,068,806
Commercial Transient Rental Home, Regime	284,145,510	263,427,581	272,227,276
Commercial Business	25,404,888	23,000,228	29,709,718
Commercial Irrigation	88,448,325	85,108,528	85,261,654
Metered/Billed Total	667,720,245	641,126,139	653,740,748
Water Used at Plant, Wells, Lift Stations	2,304,279	1,811,201	1,876,242
Water Used in Hydrant Flushing	330,000	474,000	289,000
Water Used in Hydrant Flow Meter Rental	12	222,153	423,596
Metered/ Unbilled Total	2,634,291	2,507,354	2,588,838
Total Metered Water	670,354,536	643,633,493	656,329,586
Water Pumped in Gallons - Three District Wells	615,060,096	608,708,215	615,222,499
Water Purchased in Gallons - HHPSD/BJWSA	70,811,000	44,921,000	49,865,000
Total Water Pumped	685,871,096	653,629,215	665,087,499

WASTEWATER INFLOW

	Gallons FY 2021	Gallons FY 2020	Gallons FY 2019
Wastewater Influent Flows	370,698,711	359,043,129	371,142,420
Total Rainfall	34.9"	54.2"	46.6"

Total metered water in fy 2021 increased by 4.2% compared to fy 2020 and increased by 2.1% compared to fy 2019. Total water pumped increased by 4.9% compared to 2020 and increased by 3.1% compared to 2019. Wastewater inflows for fy 2021 increased by 3.3% compared to fy 2020 and decreased by .1% compared to fy 2019. The increases in metered water, pumped water and inflows from fy 2020 to fy 2021 are attributed to increased irrigation as result of reduced rainfall in 2021, as well as a lifting of COVID-19 restrictions encouraging a busier tourist season.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING INCOME

	Budget FY 2021	Actual FY 2021	Actual FY 2020	Actual FY 2019
Total Operating Revenues	\$5,203,279	\$5,513,983	\$5,131,234	\$4,966,184
Total Operating Expenses	\$4,072,070	\$3,928,837	\$3,885,623	\$3,837,057
Operating Income	\$1,131,209	\$1,585,146	\$1,245,702	\$1,129,127

Total operating revenues for fy 2021 are \$5,513,982, or 106%, of budget. Total operating revenues consist of rate revenue, connection fees, and other miscellaneous operating revenue. Operating revenues for fy 2021 are up 7.5% compared to 2020, and up 11% compared to 2019. Water and sewer rate revenue makes up 97.9% of the operating revenue. Water and sewer rate revenue is up 7.5%, or \$375,031, compared to the prior year. The increase in rate revenue is due to a 3% Board approved rate increase in fy 2021. In addition, there is a 6.4% increase in commercial usage from fy 2020 to fy 2021 reflecting increased irrigation and an increase in Island visitors.

- 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 \$3,928,837, or 96.5%, of budget.

Actual operating expenses for fy 2021 are 1.2% higher than 2020 and 2.4% higher than 2019. The major variances in fy 2021 operating expenses compared to fy 2020 expenses are as follows:

- Administrative expenses are down 8.3%, or \$31,557, compared to prior year.
The overall decrease is primarily due a decline in legal expenditures compared to prior year as legal matters were resolved in fy 2020. There was also a decline in in person conference attendance from fy 2020 to fy 2021.
- Water purchases expense is up 76.2%, or \$54,786, 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 fy 2020 is \$0.90 for water purchased between October 2020 and March 2021. The peak contracted rate for the water for fy 2021 is \$1.95 per 1,000 gallons from July 2020 through September 2020, and from April 2021 through June 2021. The District purchased a total of 71 million gallons under this contract at a cost of \$126,719 compared to fy 2020 purchases of 45 million gallons which totaled \$71,933. The increased purchase in fy 2021 was caused by down time of the supervisory control and data acquisition (“SCADA”) equipment at the District wells. SCADA allows for remote well monitoring and control. During repairs two wells were turned off and additional water was purchased in order to meet demand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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 1,018,212 gallons per day in fy 2021. The peak treatment month was July 2020 at 1.38 mgd average and the peak treatment day was June 29, 2021 at 1.51 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 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 2021, 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).

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

BROAD CREEK PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,879,224	\$ 4,355,819
Cash held by Beaufort County Treasurer	27,208	100,052
Investments	500,429	800,000
Restricted cash equivalents	9,942,120	-
Accounts receivable - trade	697,370	717,944
Accounts receivable - other	1,434	4,156
Inventory	186,615	200,542
Prepaid expenses	35,090	33,387
Total current assets	17,269,490	6,211,900
Non-current assets		
Capital assets - nondepreciable	594,293	1,430,466
Capital assets - depreciable, net	17,026,533	16,105,821
Total non-current assets	17,620,826	17,536,287
Total assets	34,890,316	23,748,187
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from refunding debt	-	41,150
Total deferred outflows of resources	-	41,150
Total assets and deferred outflows of resources	\$ 34,890,316	\$ 23,789,337
LIABILITIES		
Current liabilities		
Accounts payable	\$ 148,801	\$ 199,838
Accrued payroll	83,775	75,260
Unearned revenue - tower easement	54,634	54,634
Capital lease liability due within one year	34,873	-
Compensated absences	19,640	23,628
Bonds payable due within one year	900,000	645,000
Total current liabilities	1,241,723	998,360
Non-current liabilities		
Bonds payable due after one year	10,510,000	1,365,000
Unearned revenue - tower easement	491,710	546,344
Deposits	11,407	13,847
Capital lease liability due after one year	96,949	-
Total long-term liabilities	11,110,066	1,925,191
Total liabilities	12,351,789	2,923,551
NET POSITION		
Net investment in capital assets	16,021,124	15,567,437
Unrestricted	6,517,403	5,298,349
Total net position	22,538,527	20,865,786
Total liabilities and net position	\$ 34,890,316	\$ 23,789,337

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, 2021 AND 2020

	2021	2020
Operating revenues		
Residential	\$ 1,160,949	\$ 1,172,433
Commercial	4,236,407	3,849,891
Recycled water	36,715	33,844
Connection fees	26,680	32,100
Other operating revenues	53,232	42,966
Total operating revenues	5,513,983	5,131,234
Operating expenses		
Salaries, wages and employee benefits	2,160,889	2,146,857
Administrative expenses	349,040	380,597
Plant and system operations	1,292,189	1,286,234
Water purchases	126,719	71,933
Total operating expenses before depreciation and amortization	3,928,837	3,885,621
Income from operations before depreciation and amortization	1,585,146	1,245,613
Depreciation expense	1,413,648	1,338,017
Amortization expense	41,150	13,717
Operating income (loss)	130,348	(106,121)
Non-operating revenues (expenses)		
Property taxes	1,595,881	1,535,747
Availability charges	21,349	24,795
Tower easement income	54,634	54,634
Interest income	33,043	75,008
Gain on disposed assets	21,320	1,428
Interest expense	(145,714)	(86,074)
Bond issuance costs	(106,825)	-
Developer contributions	68,705	39,330
Total non-operating revenues, net	1,542,393	1,644,868
Change in net position	1,672,741	1,538,747
Net position, beginning of year	20,865,786	19,327,039
Net position, end of year	\$ 22,538,527	\$ 20,865,786

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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,484,047	\$ 5,008,667
Other operating cash receipts	53,232	42,966
Cash paid to suppliers	(1,850,351)	(2,228,142)
Cash paid to employees	(2,169,846)	(1,581,237)
Net cash provided by operating activities	1,517,082	1,242,254
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes collected	1,595,881	1,535,747
Availability charges	21,349	24,795
Tower easement income	54,634	-
Net cash provided by non-capital financing activities	1,671,864	1,560,542
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer contributions	68,705	39,330
Acquisition of property, plant and equipment	(1,507,733)	(1,760,835)
Proceeds from the sale of capital assets	30,866	175
Proceeds from bond issuance	12,180,000	-
Principal paid on bonds	(2,780,000)	(615,000)
Bond issuance costs	(106,825)	-
Interest paid	(145,714)	(86,074)
Proceeds from capital leases	140,688	-
Principal paid on capital leases	(8,866)	-
Net cash provided by (used in) capital and related financing activities	7,871,121	(2,422,404)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	33,043	75,008
Sale of investments	299,571	-
Net cash provided by investing activities	332,614	75,008
Increase in cash and cash equivalents	11,392,681	455,400
Cash and cash equivalents:		
Beginning of year	\$ 4,455,871	\$ 4,000,471
End of year	\$ 15,848,552	\$ 4,455,871
Classified as:		
Cash and cash equivalents	\$ 5,879,224	\$ 4,355,819
Restricted cash equivalents	9,942,120	-
Cash held by Beaufort County Treasurer	27,208	100,052
	\$ 15,848,552	\$ 4,455,871

BROAD CREEK PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 130,348	\$ (106,121)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	1,413,648	1,338,017
Amortization expense	41,150	13,717
(Increase) decrease in:		
Accounts receivable	23,296	(76,348)
Inventory	13,927	(7,914)
Prepaid expenses	(1,703)	(36,589)
Increase (decrease) in:		
Accounts payable	(51,037)	116,434
Accrued payroll and withholding	8,515	4,311
Accrued compensated absences	(58,622)	-
Deposits	(2,440)	(3,253)
Net cash provided by operating activities	<u>\$ 1,517,082</u>	<u>\$ 1,242,254</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, 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, 2021 and 2020, 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 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 uses 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, 2021, 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 all property, plant and equipment is provided by the straight-line method calculated on the assets' estimated useful lives as follows:

<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

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, 2021 and 2020, 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, 2021 and 2020 were \$16,321,773 and \$5,155,819, respectively. The District's bank balances were \$16,346,913 and \$5,221,509, respectively. Cash and investments as of June 30, 2021 and 2020 are classified in the accompanying financial statements as follows:

	2021	2020
Cash and cash equivalents	\$ 5,879,224	\$ 4,355,819
Restricted Cash	9,942,120	-
Investments	500,429	800,000
Cash held with Beaufort County Treasurer	27,208	100,052
Total	\$ 16,348,981	\$ 5,255,871
	2021	2020
Cash on hand	\$ 139	\$ 200
Demand deposits with financial institutions	2,603,299	1,985,000
South Carolina local government investment pool	13,217,906	2,370,619
Certificates of deposit	500,429	800,000
Cash held with Beaufort County Treasurer	27,208	100,052
Total	\$ 16,348,981	\$ 5,255,871

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 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, 2021 and 2020, the District reported \$13,217,906 and \$2,370,619, 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 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 July 6, 2021 to August 18, 2022.

The District has no formal policy relating to the credit risk of investments.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

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

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance at June 30, 2021</u>
Capital assets, not being depreciated:					
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>
Capital assets, being depreciated:					
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	140,688	(97,938)	-	1,158,434
Total capital assets, being depreciated	<u>47,133,922</u>	<u>268,298</u>	<u>(611,347)</u>	<u>2,075,608</u>	<u>48,866,481</u>
Less accumulated depreciation for:					
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)	(94,235)	97,937	-	(824,541)
Total accumulated depreciation	<u>(31,028,101)</u>	<u>(1,413,648)</u>	<u>601,801</u>	<u>-</u>	<u>(31,839,948)</u>
Total capital assets, being depreciated, net	<u>16,105,821</u>	<u>(1,145,350)</u>	<u>(9,546)</u>	<u>2,075,608</u>	<u>17,026,533</u>
Total capital assets	<u>\$ 17,536,287</u>	<u>\$ 94,085</u>	<u>\$ (9,546)</u>	<u>\$ -</u>	<u>\$ 17,620,826</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the District for the year ended June 30, 2020, was as follows:

	Balance at June 30, 2019	Additions	Deletions	Transfers	Balance at June 30, 2020
Capital assets, not being depreciated:					
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	1,021,931	1,570,994	-	(1,398,506)	1,194,419
Total capital assets, not being depreciated	1,257,978	1,570,994	-	(1,398,506)	1,430,466
Capital assets, being depreciated:					
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 fences	648,538	6,500	-	3,325	658,363
Trucks and other equipment	1,047,360	88,494	(43,761)	23,591	1,115,684
Total capital assets, being depreciated	46,104,710	217,049	(586,343)	1,398,506	47,133,922
Less accumulated depreciation for:					
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	(772,382)	(99,623)	43,762	-	(828,243)
Total accumulated depreciation	(30,274,767)	(1,330,397)	584,672	(7,609)	(31,028,101)
Total capital assets, being depreciated, net	15,829,943	(1,113,348)	(1,671)	1,390,897	16,105,821
Total capital assets	<u>\$ 17,087,921</u>	<u>\$ 457,646</u>	<u>\$ (1,671)</u>	<u>\$ (7,609)</u>	<u>\$ 17,536,287</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$1,413,648 and \$1,338,017, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. LONG-TERM DEBT

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>
Capital lease payable	-	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>

Long-term liability activity for the fiscal year ended June 30, 2020, 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	\$ 2,625,000	\$ -	\$ (615,000)	\$ 2,010,000	\$ 645,000
Compensated absences	33,764	71,203	(81,339)	23,628	23,628
Total long-term liabilities	<u>\$ 2,658,764</u>	<u>\$ 71,203</u>	<u>\$ (696,339)</u>	<u>\$ 2,033,628</u>	<u>\$ 668,628</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 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 fifteen-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, 2021. Net earnings as defined in the Bond Resolution, exceeded 120% of the annual debt service requirement by \$268,000 for the fiscal year ended June 30, 2021.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. LONG-TERM DEBT (CONTINUED)

Bonds (Continued)

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>
2022	\$ 900,000	\$ 197,621	\$ 1,097,621
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 – 2031	3,960,000	504,272	4,464,272
2032 – 2035	3,420,000	149,212	3,569,212
Total	<u>\$ 11,410,000</u>	<u>\$ 1,493,763</u>	<u>\$ 12,903,763</u>

Capital Leases

In February of 2021, the District entered into a lease agreement as lessee for financing the acquisition of five vehicles. This lease qualifies as a capital lease for accounting purposes. As of June 30, 2021, the District's leased assets had an acquisition value of \$131,822, current year depreciation and accumulated depreciation of \$10,357, and a net book value of \$121,465.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021 were as follows:

<u>Fiscal Year</u>	<u>Total</u>
2022	\$ 36,566
2023	36,566
2024	36,566
2025	25,797
Total minimum lease payments	135,495
Less: amount representing interest	(3,673)
Present value of minimum lease payments	<u>\$ 131,822</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. 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, 2021, the District had capital improvement commitments totaling \$667,942.

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.

NOTE 6. 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, 2021 and 2020, the District's transactions with MR Systems totaled \$41,385 and \$54,378, respectively, and were recorded as either capital assets or operating expenses as appropriate. As of June 30, 2021 and 2020, no amounts were payable from the District to MR Systems.

NOTE 7. RETIREMENT PLAN

For the purpose of allowing employees and staff to contribute tax-deferred contributions to a retirement plan, the District offers both a: (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, 2021 and 2020 were \$108,868 and \$108,278, respectively. For the fiscal years ended June 30, 2021 and 2020, plan members contributed \$180,688 and \$128,904, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. 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, 2021 and 2020, \$68,705 and \$39,330, respectively, was collected for capacity fees from developers and no infrastructure assets were contributed to the District.

NOTE 9. 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 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 easement agreements subsequently added. No additional tower easements were committed to during the year ended June 30, 2021.

NOTE 10. CONCENTRATION AND ECONOMIC DEPENDENCY

The District's service area is within in 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, 2021 AND 2020

	2021	2020
Salaries, wages and employee benefits		
Salaries and wages	\$ 1,604,459	\$ 1,585,288
Payroll taxes	124,885	126,223
Group insurance and other benefits	431,545	435,346
Total salaries, wages and employee benefits	2,160,889	2,146,857
Administrative expenses		
Commissioner's fees	49,400	49,100
Computer services	43,693	52,400
Legal fees	28,426	52,706
Audit, accounting and bookkeeping fees	24,000	17,400
Consultant meeting expense	13,700	16,226
Bank charges and trustee fees	6,130	1,662
Insurance	89,068	81,830
Office supplies and expenses	41,407	40,874
Telephone	31,537	30,935
Public relations	12,721	19,361
Taxes and licenses	5,121	5,114
Travel, meetings and trainings	3,837	12,989
Total administrative expenses	349,040	380,597
Plant and system operations		
Electricity	324,037	344,686
Engineering fees	19,330	131,064
Chemicals and supplies	164,106	136,700
Repairs and maintenance - system	312,399	252,727
Repairs and maintenance - equipment	63,095	38,596
Repairs and maintenance - other	236,836	259,135
Fuels and lubricants	61,443	45,644
Safety program	16,021	12,013
Refuse disposal	94,922	65,669
Total plant and system operations	1,292,189	1,286,234
Water purchases	126,719	71,933
 Total operating expenses before depreciation and amortization	 \$ 3,928,837	 \$ 3,885,621

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Broad Creek Public Service District (the "District"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 1, 2021.

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.

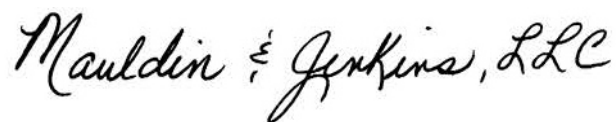
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

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
October 1, 2021

BROAD CREEK PUBLIC SERVICE DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES FOR THE FISCAL YEAR ENDED JUNE 30, 2021

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting: Material weaknesses identified?	___ Yes <u>X</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u>X</u> No
Noncompliance material to financial statements noted?	___ Yes <u>X</u> No

Federal Awards

A single audit was not performed for the fiscal year ended June 30, 2021, 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.