

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND, SOUTH CAROLINA

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

JUNE 30, 2023 AND 2022

BROAD CREEK PUBLIC SERVICE DISTRICT

ANNUAL FINANCIAL REPORT JUNE 30, 2023 AND 2022

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BROAD CREEK PUBLIC SERVICE DISTRICT

COMMISSIONERS AND MANAGEMENT

JUNE 30, 2023

			<u>Term expires</u>
John Joseph	-	Chairman	July 11, 2024
Thomas Hopkins	-	Vice Chairman	July 11, 2025
James Rowe	-	Secretary	July 11, 2024
Dean Layton	-	Commissioner	July 11, 2025
Glenn Frankle	-	Commissioner	July 11, 2024
Blake Bridwell	-	General Manager	
Lauren Sturre	-	Admin / Finance Director	
Ryan S. Fugate	-	Operations Manager	



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the **Broad Creek Public Service District** (the "District"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") (on pages 4 through 11) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Broad Creek Public Service District's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Savannah, Georgia
August 29, 2023

BROAD CREEK PUBLIC SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2023 AND 2022

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, 2023. 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 2023. It remains at 10 mills. Property tax revenue increased 1% from FY 2021 to 2022 and increased 4.4% from FY 2022 to 2023. Property tax revenue totaled \$1,683,275 in FY 2023. 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 purchased water from Hilton Head Public Service District and/or well water into the Middle Floridan Aquifer for later extraction and use. The Project requires additional purchased capacity of 1.0 million gallons per day from the Beaufort Jasper Water and Sewer Authority as well as additional transmission and well infrastructure. The expected completion time is FY 2026.

The Project has an estimated total cost of \$10,534,413 plus the cost of capacity purchase. On April 24, 2023, the District was approved for a \$10,000,000 grant administered through the South Carolina Infrastructure Investment Program ("SCIIP") and funded with federal funds allocated by the 2021 American Rescue Plan Act ("ARPA") to be utilized in the construction of the District ASR. Construction is scheduled to begin in early FY 2024. The District is required to match 15% of the cost with local funds, which the District currently holds in reserves.

- 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 2023, Enterprise FM Trust ("Lessor") leased to the District ("Lessee") a total of seven vehicles with a four-year lease term valuation. Each vehicle is valued and amortized over 48 months based on the present value of total lease payments per the Government Accounting Standards Board ("GASB") code 87. The leased vehicles have a total capital value of \$174,541. The lease debt liability as of June 30, 2023 is \$84,887. \$43,370 of lease principal and \$1,747 of lease interest has been paid to Enterprise FM Trust in FY 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The District's capital additions total \$2,107,124 for FY 2023 compared to \$2,112,804 in FY 2022. Depreciation expense totals \$1,429,229 and \$1,437,834 during this same time period. All capital expenditures in FY 2023 are funded through District revenues and bond proceeds. District capital investments include replacing older assets and upgrading to new more efficient equipment, and processes at the plant and in the field. The major capital expenditures in FY 2023 include the following:
 - Capital additions to the treatment plant totaling \$45,525. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent storage. \$19,585 was spent on designs for an upgrade to the sludge conveyor system and modifications to the chlorine disinfection process. The remaining treatment plant capital expenditure of \$25,938 was spent on two positive displacement blowers, equipment that feeds necessary air into the treatment process.
 - Capital additions to the distribution system totaling \$1,694,153. The distribution system includes the water tower, water transmission lines, valves, well houses and equipment, hydrants, and meters. \$183,127 was spent on legal and engineering services for the Water Supply Project scheduled to be completed by FY 2026. The District spent \$30,500 on modifications to the chlorine disinfectant system at the three District wells. For safer handling, the District moved from gas to liquid chlorine. The well disinfection modification project has been completed in FY 2023. The District water tower was cleaned and painted FY 2023 at a cost of \$140,946. The District received donated infrastructure totaling \$279,408 from the Towne Centre Apartments construction project. The infrastructure includes all piping, fittings, meter, hydrants necessary for the operation and maintenance of the water main lines. Three 14" gate valves that help isolate portions of the District distribution lines were replaced or added at a cost of \$42,993. These gate valves help make repairs and maintenance to the system more efficient.

The bulk and remaining \$1,017,179 of the distribution system capital additions has been expended on replacing and upgrading the District's automatic meter read system ("AMI"). The District replaced the majority of an obsolete AMI system with new Badger meters and Beacon software, which includes a customer portal to manage water usage. Meter reads are recorded every three to six hours through cellular "endpoints". The new AMI system will allow daily leak detection and hence water conservation. In FY 2023, 1732 meters were added to the Beacon software. The project is expected to be completed by December 2023.

- Capital additions to the collection system totaling \$241,213. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. \$161,001 was spent on upgrades to a District lift station. The upgrade include new controls, new piping, wet well upgrades, and new pumps. \$80,212 of collection system capital expenditures include phase three of a manhole assessment report which evaluates the quality and required repairs of District sewer manholes.
- Administrative and laboratory capital additions totaling \$126,233. The District purchased two vehicles in FY 2023, a skid steer for District infrastructure repairs and a District pickup truck for a total of \$95,003. Fencing upgrades and signage was purchased for \$8,231. The remaining \$22,999 was spent on a distilled water unit used in the District Laboratory for water quality testing.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- As of June 30, 2023, the District has the following number of customer accounts by classification:
 - Residential Single-Family Home/Metered Condo – 926 accounts
 - Residential Regime/Apartment – 10 accounts, 508 units
 - Commercial Hotel/Timeshare – 10 accounts, 1,531 units
 - Commercial Transient Rental Home – 440 accounts
 - Commercial Transient Rental Regime – 32 accounts, 2,012 units
 - Commercial Business – 91 accounts
 - Commercial Irrigation – 134 accounts

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and notes to the financial statements.

The **Statement of Net Position** presents the financial position of the District on a full accrual historical cost basis. The Statement of Net Position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **Statement of Revenues, Expenses and Changes in Net Position** presents the results of the business activities over the course of the FY and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **Statement of Cash Flows** presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 17,530,210	\$ 17,160,854	\$ 17,269,490
Capital assets	<u>18,762,459</u>	<u>18,131,215</u>	<u>17,620,826</u>
Total assets	<u>36,292,669</u>	<u>35,292,069</u>	<u>34,890,316</u>
Current liabilities	1,074,158	1,207,966	1,241,723
Long-term liabilities	<u>9,312,555</u>	<u>10,131,488</u>	<u>11,110,066</u>
Total liabilities	<u>10,386,713</u>	<u>11,339,454</u>	<u>12,351,789</u>
Net position:			
Net investment in capital assets	14,138,942	16,666,129	16,021,124
Unrestricted	<u>11,767,014</u>	<u>7,286,486</u>	<u>6,517,403</u>
Total net position	<u>\$ 25,905,956</u>	<u>\$ 23,952,615</u>	<u>\$ 22,538,527</u>

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total operating revenue	\$ 5,343,307	\$ 5,620,036	\$ 5,513,983
Expenses:			
Salaries, wages and employee benefits	2,313,664	2,304,130	2,160,889
Depreciation and amortization	1,472,864	1,479,890	1,454,798
Other operating expenses	<u>2,140,826</u>	<u>1,972,291</u>	<u>1,767,948</u>
Total operating expenses	<u>5,927,354</u>	<u>5,756,311</u>	<u>5,383,635</u>
Operating income (loss)	<u>(584,047)</u>	<u>(136,275)</u>	<u>130,348</u>
Other income (expenses):			
Property taxes	1,683,275	1,611,818	1,595,881
Other income	686,646	132,418	2,201
Gain (loss) on disposal of assets	(3,016)	(57,329)	21,320
Interest expense	(183,694)	(199,924)	(145,714)
Developer contributions	<u>354,177</u>	<u>63,380</u>	<u>68,705</u>
Total other income (expenses)	<u>2,537,388</u>	<u>1,550,363</u>	<u>1,542,393</u>
Change in net position	1,953,341	1,414,088	1,672,741
Net position, beginning of year	<u>23,952,615</u>	<u>22,538,527</u>	<u>20,865,786</u>
Net position, end of year	<u>\$ 25,905,956</u>	<u>\$ 23,952,615</u>	<u>\$ 22,538,527</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District has the following water/wastewater flows in FY 2023:

WATER METERED AND PUMPED

<u>Customer Class</u>	<u>Used/Billed Gallons FY 2023</u>	<u>Used/Billed Gallons FY 2022</u>	<u>Used/Billed Gallons FY 2021</u>
Residential Single-Family Home/Metered Condo	147,843,252	152,686,837	152,637,521
Residential Regime/Apartment	26,001,066	27,599,278	27,708,427
Commercial Hotel/Timeshare	95,145,284	98,595,700	89,375,574
Commercial Transient Rental Home, Regime	251,713,957	285,365,788	284,145,510
Commercial Business	31,065,992	31,253,359	25,404,888
Commercial Irrigation	74,123,639	90,016,970	88,448,325
Metered/Billed Total	625,893,190	685,517,932	667,720,245
Water Used at Plant, Wells, Lift Stations	3,651,185	2,212,205	2,304,279
Water Used in Hydrant Flushing	35,000	40,000	330,000
Water Used in Hydrant Flow Meter Rental	-	0	12
Metered/Unbilled Total	3,686,185	2,252,205	2,634,291
Total Metered Water	629,579,375	687,770,137	670,354,536
Water Pumped in Gallons - Three District Wells	567,076,442	603,164,012	615,060,096
Water Purchased in Gallons - HHPSD/BJWSA	61,000,000	92,836,000	70,811,000
Total Water Pumped	628,076,442	696,000,012	685,871,096

WASTEWATER INFLOW

	<u>Gallons FY 2023</u>	<u>Gallons FY 2022</u>	<u>Gallons FY 2021</u>
Wastewater Influent Flows	391,561,630	369,303,684	370,698,711
Total Rainfall	49.8"	28.1"	34.9"

Total metered water in FY 2023 decreased 8.5% compared to FY 2022 and decreased 6.1% compared to FY 2021. Total water pumped decreased by 9.8% compared to 2022 and decreased 8.4% compared to 2021. Wastewater inflows for FY 2023 increased 6% compared to FY 2022 and increased 5.6% compared to FY 2021. The decreases in metered water and pumped water in FY 2023 are directly related to the 77% increase in rainfall from the prior year and hence a decrease in irrigation. It also reflects a positive response to a conservation campaign undertaken by the District in the beginning months of FY 2023. The increase of inflows from FY 2022 to FY 2023 is a further indication that although more people were coming into the District, consumers in all customer classes reduced irrigation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING INCOME

	Budget FY 2023	Actual FY 2023	Budget FY 2022	Actual FY 2022
Total Operating Revenues	\$ 5,451,392	\$ 5,343,307	\$ 5,347,416	\$ 5,620,036
Total Operating Expenses	4,459,676	4,454,490	4,159,383	4,276,421
Operating Income	\$ 991,716	\$ 888,817	\$ 1,188,033	\$ 1,343,615

- Total operating revenues for FY 2023 are \$5,343,306 or 98% of budget. Total operating revenues consists of rate revenue, connection fees, and other miscellaneous operating revenue. Operating revenues for FY 2023 are down 4.9% compared to 2022, and down 3.1% compared to 2021. Water and sewer rate revenue makes up 98% of the operating revenue. Water and sewer rate revenue is down 5.2% or \$286,433 compared to the prior year. The Board did not approve a rate increase in FY 2023. Sewer rate revenue remains flat from FY 2022 to FY 2023. The decrease in rate revenue reflects both residential and commercial water usage. High rainfall in FY 2023 compared to FY 2022 coupled with an intentional campaign to encourage Savannah River surface water consumers to reduce irrigation in July and August 2022 accounts for the expected decrease in water rate revenue.
- Operating expenses are related to the day-to-day District operations and exclude expenditures related to debt service and capital. The operating expense budget is an incremental budget, calculated by examining past FY actual expenses and evaluating any anticipated changes in the upcoming FY. Operating expenses before depreciation and amortization are \$4,454,490 or 99.9% of budget.

Operating expenses for FY 2023 are 4.2% higher than 2022 and 13.4% higher than 2021. Consumer price index ("CPI") rose 9.1% since June 30, 2021 to June 30, 2022, and 3% from June 30, 2022 to June 30, 2023. The major variances in FY 2023 operating expenses compared to FY 2022 expenses are as follows:

- Salary, wages, and employee benefits expenses are up 9.1% or \$192,684 compared to prior year.
In November 2022, the District hired a full-time General Manager, which impacted personnel expenses. The District also approved a mid-year 3% cost of living increase for all employees to offset the unusually high change in consumer prices over FY 2022 and FY 2023.
- Administrative expenses are down 22.3% or \$120,037 compared to prior year.
In FY 2022, the District hired a Consulting Engineer to oversee day to day District operations and capital projects in lieu of a General Manager. The Interim General Manager position ended at the beginning of FY 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Plant and system operations expenses are up 11.9% or \$171,426 compared to prior year.
The increase in the operation line-item expenses is, in large, part due to the increase cost of goods and services. Lab supplies, chemicals, engineering, refuse disposal, repair and maintenance to the distribution and collection systems are impacted by the price increases. Repair and maintenance Distribution experienced an additional increase due to a large number of old meters being replaced in preparation for the new AMI system anticipated to be fully operational in FY 2024. Pump repairs, replacement and various manhole rehab projects caused a higher than prior year expense to the Repair and Maintenance Collection line-item.
- Water purchases expense is down 38.5%, or \$66,003 compared to prior year.
On September 22, 2009, the District and Hilton Head Public Service District (“HHPSD”) entered into a ten-year contract with Beaufort-Jasper Water and Sewer Authority (“BJWSA”) to receive treated Savannah River water at an off-peak price, with a CPI adjustment made each July. The contract has been extended an additional ten years to 2029. The CPI adjusted rate for FY 2023 is \$1.04 for water purchased between October 2022 and March 2023. The peak contracted rate for the water for FY 2023 is \$2.07 per 1,000 gallons from July 2022 through September 2022, and from April 2023 through June 2023. The District purchased a total of 61 million gallons under this contract at a cost of \$105,489 compared to FY 2022 purchases of 93 million gallons which totaled \$171,492. The decreased purchase in FY 2023 was caused by the Inverness water well coming back online in FY 2023 after repairs were made in FY 2022. During those repairs, additional water was purchased in order to meet demand.

SUMMARY OF ORGANIZATION AND BUSINESS

The District was created in August 1973, and is governed by a board of five (5) Commissioners who are elected by the registered voters of the District for recommendation to the local legislative delegation. The Governor of South Carolina then appoints the nominees.

The system serves the middle portion of Hilton Head Island to include Palmetto Dunes Resort, Yacht Cove and Shelter Cove Harbor. The District serves approximately 5,642 residential, regime managed multi-family, and commercial properties.

The system derives its water supply primarily from District-owned wells tapped into the Upper Floridan Aquifer. Additionally, the District owns 2 million gallons per day (“MGD”) capacity in the Beaufort-Jasper Water and Sewer Authority’s surface water treatment plant. (Beaufort-Jasper gets its water from the Savannah River). The District’s current use from the supplemental Savannah River source is an average of 167,249 gallons per day compared to last year’s average of 254,345. These combined sources are designed to supply the District’s needs into the foreseeable future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's wastewater treatment plant has a capacity of 2.08 MGD and averaged 1,072,772 gallons per day in FY 2023. The peak treatment month was July 2022 at 1.51 MGD average, and the peak treatment day was July 20, 2022 at 1.66 MGD. The plant and system design will adequately serve the District's needs at build-out. The District's wastewater plant currently treats wastewater to the advanced wastewater treatment ("AWT") standard, and all treated effluent is disposed of through a modern golf course irrigation system and District spray field. During FY 2023, the remaining solids have been processed through a screw press dewatering system, and, by permit, the bio-solids are then hauled to Hickory Hill Waste Disposal in Jasper County. The District is and historically has been in full regulatory compliance.

The District assets also include 18 wastewater pump stations, two wastewater vacuum stations, one water tower, 55 miles of water distribution lines, and 45 miles of wastewater collection lines.

The District levies a 10 mill charge for operations. The millage rate was frozen at a maximum level of 10 mills in 2001 by act of the Legislature and the Governor of South Carolina. (SC Code of Laws, SECTION 6-11-271. Millage levy for special purpose district).

FURTHER INFORMATION

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

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

BROAD CREEK PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,650,578	\$ 6,306,642
Cash held by Beaufort County Treasurer	38,581	23,710
Investments	599,142	497,971
Restricted cash equivalents	5,056,370	9,173,171
Accounts receivable - trade	781,716	886,093
Accounts receivable - other	2,773	1,107
Inventory	331,398	221,371
Prepaid expenses	69,652	50,789
Total current assets	17,530,210	17,160,854
Non-current assets		
Capital assets - nondepreciable	2,470,186	1,250,295
Capital assets - depreciable, net	16,292,273	16,880,920
Total non-current assets	18,762,459	18,131,215
Total assets	\$ 36,292,669	\$ 35,292,069
LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 143,538	\$ 103,159
Accrued payroll	77,337	67,993
Unearned revenue - tower easement	54,634	54,634
Lease liabilities, current portion	44,149	43,438
Compensated absences	29,500	23,742
Bonds payable due within one year	725,000	915,000
Total current liabilities	1,074,158	1,207,966
Non-current liabilities		
Bonds payable due after one year	8,870,000	9,595,000
Unearned revenue - tower easement	382,442	437,076
Deposits	19,375	14,593
Lease liabilities, due in more than one year	40,738	84,819
Total long-term liabilities	9,312,555	10,131,488
Total liabilities	10,386,713	11,339,454
NET POSITION		
Net investment in capital assets	14,138,942	16,666,129
Unrestricted	11,767,014	7,286,486
Total net position	25,905,956	23,952,615
Total liabilities and net position	\$ 36,292,669	\$ 35,292,069

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, 2023 AND 2022

	2023	2022
Operating revenues		
Residential	\$ 1,173,828	\$ 1,238,508
Commercial	4,045,078	4,266,830
Recycled water	37,882	52,360
Connection fees	42,228	29,055
Other operating revenues	44,291	33,283
Total operating revenues	5,343,307	5,620,036
Operating expenses		
Salaries, wages and employee benefits	2,313,664	2,304,130
Administrative expenses	419,099	355,987
Plant and system operations	1,616,238	1,444,812
Water purchases	105,489	171,492
Total operating expenses before depreciation and amortization	4,454,490	4,276,421
Income from operations before depreciation and amortization	888,817	1,343,615
Depreciation expense	1,429,229	1,437,835
Amortization expense	43,635	42,055
Operating loss	(584,047)	(136,275)
Non-operating revenues (expenses)		
Property taxes	1,683,275	1,611,818
Availability charges	18,740	20,579
Tower easement income	54,634	54,634
Interest income	613,272	57,205
Loss on disposed assets	(3,016)	(57,329)
Interest expense	(183,694)	(199,924)
Developer contributions	354,177	63,380
Total non-operating revenues, net	2,537,388	1,550,363
Change in net position	1,953,341	1,414,088
Net position, beginning of year	23,952,615	22,538,527
Net position, end of year	\$ 25,905,956	\$ 23,952,615

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,401,727	\$ 5,398,357
Other operating cash receipts	44,291	33,283
Cash paid to suppliers	(2,224,555)	(2,065,202)
Cash paid to employees	(2,353,196)	(2,370,444)
Net cash provided by operating activities	868,267	995,994
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes collected	1,683,275	1,611,818
Availability charges	18,740	20,579
Tower easement income	54,634	54,634
Net cash provided by non-capital financing activities	1,756,649	1,687,031
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer contributions	354,177	63,380
Acquisition of property, plant and equipment	(2,107,124)	(2,035,688)
Acquisition of lease assets	-	(38,756)
Proceeds from the sale of capital assets	-	26,439
Principal paid on bonds	(915,000)	(900,000)
Interest paid	(183,694)	(199,527)
Lease proceeds	-	77,115
Lease payments	(43,370)	(80,680)
Net cash used in capital and related financing activities	(2,895,011)	(3,087,717)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	613,272	57,205
Purchase (sale) of investments	(101,171)	2,458
Net cash provided by investing activities	512,101	59,663
Increase (decrease) in cash and cash equivalents	242,006	(345,029)
Cash and cash equivalents:		
Beginning of year	15,503,523	15,848,552
End of year	\$ 15,745,529	\$ 15,503,523
Classified as:		
Cash and cash equivalents	\$ 10,650,578	\$ 6,306,642
Restricted cash equivalents	5,056,370	9,173,171
Cash held by Beaufort County Treasurer	38,581	23,710
	\$ 15,745,529	\$ 15,503,523

(Continued)

BROAD CREEK PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (584,047)	\$ (136,275)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	1,429,229	1,437,835
Amortization expense	43,635	42,055
(Increase) decrease in:		
Accounts receivable	102,711	(188,396)
Inventory	(110,027)	(34,756)
Prepaid expenses	(18,863)	(15,699)
Increase (decrease) in:		
Accounts payable	40,379	(45,642)
Accrued payroll and withholding	9,344	(15,782)
Unearned revenue - tower easement	(54,634)	(54,634)
Accrued compensated absences	5,758	4,102
Deposits	4,782	3,186
Net cash provided by operating activities	\$ 868,267	\$ 995,994

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, 2023 AND 2022

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, 2023 and 2022, 10 mills were levied each year. With the exception of millage, the District has the ability to set usage, connection, availability and other related rates.

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

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

The District operates as a proprietary fund type - enterprise fund whereby operations are financed and operated in a manner similar to a private business enterprise. In governmental accounting, the enterprise fund is used to account for operations as noted above or where the Board of Commissioners has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

As a means of delivering services to its customers, the District utilizes wells, purchased water, 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, 2023, 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/amortization of capital assets and right to use leased assets is computed using the straight-line method over the following estimated useful lives of assets:

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

Leases

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position (Continued)

Leases (Continued)

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

Lease assets are reported with other capital assets and lease liabilities are reported with current and non-current liabilities on the Statement of Net Position.

Compensated Absences

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

Net Position

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits and Investments

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

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

At June 30, 2023 and 2022, 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, 2023 and 2022 were \$16,306,090 and \$15,977,784, respectively. The District's bank balances were \$16,437,298 and \$16,044,055, respectively. Cash and investments as of June 30, 2023 and 2022 are classified in the accompanying financial statements as follows:

	2023	2022
Cash and cash equivalents	\$ 10,650,578	\$ 6,306,642
Restricted cash	5,056,370	9,173,171
Investments	599,142	497,971
Cash held with Beaufort County Treasurer	38,581	23,710
Total	\$ 16,344,671	\$ 16,001,494
	2023	2022
Cash on hand	\$ 303	\$ 655
Demand deposits with financial institutions	2,877,698	2,668,628
South Carolina local government investment pool	12,828,947	12,810,530
Certificates of deposit	599,142	497,971
Cash held with Beaufort County Treasurer	38,581	23,710
Total	\$ 16,344,671	\$ 16,001,494

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; and
4. A1/P1 Commercial Paper (Moody's/S&P highest rating).

NOTES TO FINANCIAL STATEMENTS

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

Deposits and Investments (Continued)

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

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

As of June 30, 2023 and 2022, the District reported \$12,828,947 and \$12,810,530, respectively, in operating funds invested in the SCLGIP. The SCLGIP is an investment trust fund created pursuant to Section 6-6-10 of the South Carolina Code of Laws, and administered by the State Treasurer, in which public monies under the custody of any political subdivision in excess of current needs may be deposited. The SCLGIP is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States if such obligations bear any of the three highest ratings of at least two nationally recognized rating services. The SCLGIP is not registered with the Securities and Exchange Commission ("SEC"). It is similar to a money market fund in that it is offered at a stable price and is guided by risk control principles such as significant overnight repurchase agreements for liquidity; attention to credit quality, portfolio diversification and maintenance of a short average maturity of fixed and floating rate investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investment and for External Investment Pools*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the SCLGIP is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.

The remaining investments are certificates of deposit with maturity dates ranging from October 13, 2023 to September 30, 2024.

The District follows the South Carolina legal requirements for investing per the South Carolina Code of Laws.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2023 was as follows:

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance at June 30, 2023</u>
Capital assets, not being depreciated:					
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	1,014,248	1,250,391	-	(30,500)	2,234,139
Total capital assets, not being depreciated	<u>1,250,295</u>	<u>1,250,391</u>	<u>-</u>	<u>(30,500)</u>	<u>2,470,186</u>
Capital assets, being depreciated:					
Wastewater treatment and distribution	32,665,776	25,940	(26,631)	-	32,665,085
Water and sewer systems	15,136,094	704,560	(307,735)	30,500	15,563,419
Buildings, office and fences	615,699	8,231	-	-	623,930
Trucks and other equipment	904,958	118,002	(41,118)	-	981,842
Total capital assets, being depreciated	<u>49,322,527</u>	<u>856,733</u>	<u>(375,484)</u>	<u>30,500</u>	<u>49,834,276</u>
Less accumulated depreciation for:					
Wastewater treatment and distribution	(24,135,888)	(683,125)	23,615	-	(24,795,398)
Water and sewer systems	(7,255,397)	(670,595)	307,735	-	(7,618,257)
Buildings, office and fence	(393,889)	(20,432)	-	-	(414,321)
Trucks and other equipment	(783,068)	(55,077)	41,118	-	(797,027)
Total accumulated depreciation	<u>(32,568,242)</u>	<u>(1,429,229)</u>	<u>372,468</u>	<u>-</u>	<u>(33,625,003)</u>
Total capital assets, being depreciated, net	<u>16,754,285</u>	<u>(572,496)</u>	<u>(3,016)</u>	<u>30,500</u>	<u>16,209,273</u>
Total capital assets, net, excluding leases	<u>\$ 18,004,580</u>	<u>\$ 677,895</u>	<u>\$ (3,016)</u>	<u>\$ -</u>	<u>\$ 18,679,459</u>
Leases					83,000
Total per Statement of Net Position					<u>\$ 18,762,459</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS (CONTINUED)

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

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance at June 30, 2022</u>
Capital assets, not being depreciated:					
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	358,246	1,680,878	-	(1,024,876)	1,014,248
Total capital assets, not being depreciated	<u>594,293</u>	<u>1,680,878</u>	<u>-</u>	<u>(1,024,876)</u>	<u>1,250,295</u>
Capital assets, being depreciated:					
Wastewater treatment and distribution	32,863,280	84,700	(483,301)	201,097	32,665,776
Water and sewer systems	14,217,478	270,110	(175,273)	823,779	15,136,094
Buildings, office and fences	627,289	-	(11,590)	-	615,699
Trucks and other equipment	1,017,745	-	(112,787)	-	904,958
Total capital assets, being depreciated	<u>48,725,792</u>	<u>354,810</u>	<u>(782,951)</u>	<u>1,024,876</u>	<u>49,322,527</u>
Less accumulated depreciation for:					
Wastewater treatment and distribution	(23,872,818)	(697,500)	434,430	-	(24,135,888)
Water and sewer systems	(6,765,090)	(639,907)	149,600	-	(7,255,397)
Buildings, office and fence	(377,499)	(27,980)	11,590	-	(393,889)
Trucks and other equipment	(814,184)	(72,447)	103,563	-	(783,068)
Total accumulated depreciation	<u>(31,829,591)</u>	<u>(1,437,834)</u>	<u>699,183</u>	<u>-</u>	<u>(32,568,242)</u>
Total capital assets being depreciated, net	<u>16,896,201</u>	<u>(1,083,024)</u>	<u>(83,768)</u>	<u>1,024,876</u>	<u>16,754,285</u>
Total capital assets, net, excluding leases	<u>\$ 17,490,494</u>	<u>\$ 597,854</u>	<u>\$ (83,768)</u>	<u>\$ -</u>	<u>\$ 18,004,580</u>
Leases					126,635
Total per Statement of Net Position					<u>\$ 18,131,215</u>

Depreciation expense for the years ended June 30, 2023 and 2022 were \$1,429,229 and \$1,437,834, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. LEASES

Lessee – Lease Assets

A summary of the lease asset activity for the District for the year ended June 30, 2023 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Remeasure</u>	<u>Ending Balance</u>
Leased vehicles	\$ 174,541	\$ -	\$ -	\$ -	\$ 174,541
Less accumulated amortization for leased vehicles	(47,906)	(43,635)	-	-	(91,541)
Total leased vehicles, net	<u>\$ 126,635</u>	<u>\$ (43,635)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,000</u>

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

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

NOTE 5. LONG-TERM DEBT

Long-term liability activity for the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds - direct borrowings					
Utility revenue bonds	\$ 10,510,000	\$ -	\$ (915,000)	\$ 9,595,000	\$ 725,000
Lease liabilities	128,257	-	(43,370)	84,887	44,149
Compensated absences	23,742	96,561	(90,803)	29,500	29,500
Total long-term liabilities	<u>\$ 10,661,999</u>	<u>\$ 96,561</u>	<u>\$ (1,049,173)</u>	<u>\$ 9,709,387</u>	<u>\$ 798,649</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM DEBT (CONTINUED)

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

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

Bonds

In August of 2020, the District issued Series 2020 Utility Revenue Bonds totaling \$12,180,000. The proceeds of these bonds were used to refund the Series 2008 bonds and also provide funding for capital projects related to infrastructure required for water supply alternatives. With this issuance, the Series 2008 bonds were paid off in full. These bonds have an interest rate of 1.732% and a 15-year term period with a final payment date of June 30, 2035. Related costs incurred to issue these bonds totaled \$216,615. The District complied with all associated bond covenants for its fiscal year ended June 30, 2023. Net earnings as defined in the Bond Resolution, exceeded 120% of the annual debt service requirement by \$1,255,000 for the fiscal year ended June 30, 2023.

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>
2024	\$ 725,000	\$ 166,185	\$ 891,185
2025	740,000	153,628	893,628
2026	750,000	140,812	890,812
2027	765,000	127,822	892,822
2028	780,000	114,572	894,572
2029 – 2033	4,100,000	365,885	4,465,885
2034 and 2035	1,735,000	45,205	1,780,205
Total	<u>\$ 9,595,000</u>	<u>\$ 1,114,109</u>	<u>\$ 10,709,109</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds (Continued)

Lease Liabilities

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

Principal and interest requirements to maturity for the lease liabilities as of June 30, 2023 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 44,149	\$ 1,036	\$ 45,185
2025	36,358	337	36,695
2026	4,380	19	4,399
Total	<u>\$ 84,887</u>	<u>\$ 1,392</u>	<u>\$ 86,279</u>

NOTE 6. COMMITMENTS AND CONTINGENCIES

Construction Contracts

In the normal course of business, the District enters into agreements with contractors for the construction and expansion of the wastewater treatment facilities system. As of June 30, 2023, the District had capital improvement commitments totaling \$721,495.

Litigation

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7. RELATED PARTY TRANSACTIONS

Thomas Hopkins, a commissioner of the District, is both an owner and member of the Board of Directors of MR Systems, a vendor of the District. For the years ended June 30, 2023 and 2022, the District's transactions with MR Systems totaled \$7,502 and \$36,502, respectively, and were recorded as either capital assets or operating expenses as appropriate. As of June 30, 2023 and 2022, no amounts were payable from the District to MR Systems.

NOTE 8. RETIREMENT PLAN

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

The District also makes contributions to the plan on behalf of its staff. Effective July 1, 2021, the District's annual matching contribution includes: (a) a contribution of 7% of covered compensation towards the employees' plan based on years of service, and (b) a match of employee payroll contributions that are in excess of 4%, but not to exceed 7%, of a participating employees' covered compensation based on years of service. District contributions to the plans for the years ended June 30, 2023 and 2022 were \$152,812 and \$141,346, respectively. For the fiscal years ended June 30, 2023 and 2022, plan members contributed \$174,341 and \$173,559, respectively.

NOTE 9. CONTRIBUTIONS FROM DEVELOPERS

Developers of new construction are required to also provide the necessary infrastructure to supply water and sewer service to their property. Upon completion, the developers contribute, at no cost to the District, these water and sewer systems as well as the necessary and corresponding easements to the property. Several developers currently have projects in progress within the District and, if additional infrastructure is necessary, it will be contributed upon project completion. Additionally, the various agreements between developers and the District to provide sewer and water capacity for their projects require the developers to contribute to the District funds sufficient to cover their pro rata cost of treatment facilities and the island-wide plan to meet the needs of their projects. For the years ended June 30, 2023 and 2022, \$354,177 and \$63,380, respectively, was collected for capacity fees from developers and no infrastructure assets were contributed to the District.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. UNEARNED TOWER EASEMENT REVENUE

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

In addition, in July 2016, the District sold, to an unrelated party, a 15-year telecom easement associated with the water tower and also simultaneously assigned their interest in the two above-mentioned agreements as well. The gross selling price of this agreement was \$850,333, reduced by direct costs, to a net amount of \$819,516. In accordance with generally accepted accounting principles, the net sum will be recognized as revenue on a straight-line basis over the 15-year agreement term at an annual amount of \$54,634. The agreement allows for the purchaser of the easement to retain all rent derived from any leases which replace those purchased by the District during the June 30, 2016 fiscal year-end mentioned in the preceding paragraph and also specifies a 50% split between the lessor and the District, of any rent received from additional tower easement agreements subsequently added. No additional tower easements were committed to during the year ended June 30, 2023.

NOTE 11. CONCENTRATION AND ECONOMIC DEPENDENCY

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

COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"), the financial statements of the Broad Creek Public Service District (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 29, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC".

Savannah, Georgia
August 29, 2023

BROAD CREEK PUBLIC SERVICE DISTRICT

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

**SECTION I
SUMMARY OF AUDIT RESULTS**

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

Yes No

Significant deficiencies identified not considered to be material weaknesses?

Yes No

Noncompliance material to financial statements noted?

Yes No

Federal Awards

A single audit was not performed for the fiscal year ended June 30, 2023, 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.