

**BROAD CREEK
PUBLIC SERVICE DISTRICT**

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

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COMMISSIONERS AND MANAGEMENT

		<u>Term expires</u>
William Dugle	- Chairman	July 11, 2019
John Joseph	- Vice Chairman	July 11, 2021
James Rowe	- Secretary	July 11, 2021
Thomas Hopkins	- Member	July 11, 2019
Lee Hildenbrandt	- Member	October 31, 2019
Mike Allen	- General Manager	
Lauren Sturre	- Finance Director	
Cary S. Griffin	- Assistant Secretary	

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

November 7, 2019

Commissioners
Broad Creek Public Service District
Hilton Head Island,
Beaufort County, South Carolina

We have audited the accompanying financial statements of the Broad Creek Public Service District (the District), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Broad Creek Public Service District as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements of the District as a whole. The Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying account and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Operating Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Johnson & Co., P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Broad Creek Public Service District's (the District) annual financial statements presents management's analysis of the District's financial condition and activities during the fiscal year that ended on June 30, 2019. This information should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is solid. The District is within its debt covenants as well as the more stringent financial policies and guidelines set by the Commission and Management. The following are key financial highlights:

- The District's property tax millage rate is unchanged in fiscal year 2019. It remains at 10 mills. Property tax revenue increased 0.6% from fiscal year 2017 to 2018 and increased 3.8% from 2018 to 2019. Property tax revenue totaled \$1,518,210 in fiscal year 2019. The property tax revenue enables the District to fund needed capital projects, to supplement operating rate revenue, and to help maintain debt service obligations.
- The District's capital additions total \$1,857,953 for fiscal year 2019 compared to \$2,656,186 in fiscal year 2018. The District's depreciation expense totals \$1,380,543 and \$1,496,348 during this same time period. All capital expenditures were funded through District revenues and the District's depreciation reserve. The District's capital investment for fiscal year 2019 included replacing older assets and upgrading to new more efficient equipment at the plant and in the field. The major capital expenditures include the following:
 - Capital additions to the treatment plant total \$205,788 in fiscal year 2019. These capital expenditures are a combination of emergency repairs and budgeted upgrades necessary for the wastewater treatment processes and effluent storage. \$106,211 was spent on equalization basin upgrades. The equalization basins serve as holding tanks for plant inflows, which help to maintain steady flow to the treatment process. The remaining treatment plant capital expenditures of \$99,577 were for aeration blower upgrade project, plant asphalt, cargo lift, doors, treatment plant manhole upgrade, and electronic monitoring of plant processes.
 - Capital additions to the distribution system total \$196,602 in fiscal year 2019. The distribution system includes the water tower, water transmission lines, valves, well houses and equipment, hydrants, and meters. The District is in the process of installing an automatic meter read (AMR) system for all commercial meters. All residential meters and a growing number of commercial meters are now read remotely which allows the District to monitor high usage alarms and mitigate potential leak problems for District customers more quickly. AMR commercial meters were installed at a cost of \$67,342. Additionally, the District replaced damaged water lines, valves, and well equipment at a total cost of \$129,260.

- Capital additions to the collection system total \$1,250,876 in fiscal year 2019. The collection system is comprised of sewer transmission lines, valves, lift stations and equipment, vacuum stations and equipment, vacuum tanks, and manholes. \$924,911 was expended in fiscal year 2019 towards the replacement of Port Tack Vacuum station. The project will be completed in fiscal year 2020, with expected improvements to vacuum performance and odor control. The final phase, Phase VIII of the vacuum sewer line and isolation valve replacement project on Lookout was completed in fiscal year 2019 at a capital cost of \$187,872. The project addresses underground vacuum line deterioration and increases line size for better service. \$122,290 was spent on raised vacuum system controllers. These raised controllers help minimize damage to the sewer vacuum system due to storm related flooding. The remaining \$15,803 of collection system capital expenditures include two new lift station pumps.

- Administrative capital additions total \$204,687 in fiscal year 2019. \$174,124 of that amount represents the total book value of individual assets under the capital asset threshold of \$5,000. The individual assets were removed from fixed assets and the remaining total book value was added as one asset with a life of three years. The remaining \$30,563 of the administrative capital additions was expended on the purchase of a fixed asset module for our financial software and a new company vehicle.

- As of June 30, 2019, the District has the following number of customer accounts by classification:
 - Residential Single-Family Home/Metered Condo – 944 accounts
 - Residential Regime/Apartment – 10 accounts, 405 units
 - Commercial Hotel/Timeshare – 9 accounts, 1436 units
 - Commercial Transient Rental Home – 376 accounts
 - Commercial Transient Rental Regime – 32 accounts, 2012 units
 - Commercial Business – 89 accounts
 - Commercial Irrigation – 125 accounts

- The District has the following water/wastewater flows in fiscal year 2019:

WATER METERED AND PUMPED

Customer Class	Used/Billed Gallons FY 2019	Used/Billed Gallons FY 2018	Used/Billed Gallons FY 2017
Residential Single-Family Home/Metered Condo	156,959,335	164,236,186	174,360,226
Residential Regime/Apartment	20,513,959	21,110,980	24,229,180
Commercial Hotel/Timeshare	89,068,806	107,274,689	100,298,490
Commercial Transient Rental Home, Regime	272,227,276	240,671,297	263,779,371
Commercial Business	29,709,718	35,169,884	31,961,363
Commercial Irrigation	85,261,654	88,533,722	96,852,635
Metered/ Billed Total	<u>653,740,748</u>	<u>656,996,758</u>	<u>691,481,265</u>
Water Used at Plant, Wells, Lift Stations	1,876,242	2,250,000	Not metered
Water Used in Hydrant Flushing	289,000	578,000	368,248
Water Used in Hydrant Flow Meter Rental	423,596	364,452	190,195
Metered/ Unbilled Total	<u>2,588,838</u>	<u>3,192,452</u>	<u>558,443</u>
Total Metered Water	<u>656,329,586</u>	<u>660,189,210</u>	<u>692,039,708</u>
Water Pumped in Gallons - 3 District Wells	615,222,499	596,395,317	465,711,349
Water Purchased in Gallons - HHPSD/BJWSA	49,865,000	88,680,000	249,033,000
Total Water Pumped	<u>665,087,499</u>	<u>685,075,317</u>	<u>714,744,349</u>

WASTEWATER INFLOW

	Gallons FY 2019	Gallons FY 2018	Gallons FY 2017
Wastewater Influent Flows	371,142,420	380,737,688	353,373,749
Total Rainfall	46.6"	47"	41.5"

Total metered water in fiscal year 2019 decreased by .6% compared to fiscal year 2018 and decreased by 5.2% compared to fiscal year 2017. Total water pumped decreased by 2.9% compared to 2018 and decreased by 6.9% compared to 2018. Fiscal year 2019 reflects a return to customary water usage compared to fiscal years 2018 and 2017. Fiscal year 2017 was the year of Hurricane Matthew with broken distribution lines and increased irrigation following hurricane cleanup. Fiscal year 2018 water lines were repaired, but single-family home irrigation remained high due to fewer trees and newer landscaping. In fiscal year 2019 there is an increase in usage for commercial transient rental home and regime class and a decrease in residential single-family home class as more single-family home customers identified their properties as commercial short-term rental properties. Wastewater inflows decreased by 2.5% from fiscal year 2018 to 2019 and commercial hotel/timeshare usage decreased by 7.6% for the same period indicating a change in occupancy rate, more efficient internal water usage, or a reduction in irrigation.

OPERATING INCOME

	Budget FY2019	Actual FY2019	Actual FY2018	Actual FY2017
Total Operating Revenues	\$5,010,243	\$4,966,184	\$4,960,982	\$4,981,275
Total Operating Expenses	3,986,355	3,837,057	3,654,083	3,969,741
Operating Income	\$1,023,888	\$1,129,127	\$1,306,886	\$1,011,534

- Total operating revenues for fiscal year 2019 are \$4,966,184 or 99% of budget. Total operating revenues consists of rate revenue, connection fees, and other miscellaneous revenue. Operating revenues for fiscal year 2019 are up .10% compared to 2018, and down .30% compared to 2017. Included in fiscal year 2018 revenue are unbudgeted capital credits from Palmetto Electric. These were not received in fiscal year 2019. Water and sewer rate revenue makes up 98.3% of the operating revenue. Water and sewer rate revenue is up by 1% or \$64,729 compared to prior year. The increase in rate revenue is largely the result of changes to the customer base. More single- family homes were put on the short-term rental market generating more commercial 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 fiscal year actual expenses and evaluating any anticipated changes in the upcoming fiscal year. Operating expenses before depreciation and amortization are \$3,837,057 or 96.2% of budget.

Actual operating expenses for fiscal year 2019 are 5% higher than 2018 and .4% higher than 2017 (see Schedule of Operating Expenses, page 27). The major variances in fiscal year 2019 operating expenses compared to fiscal year 2018 expenses are as follows:

- Salaries, wages, and benefit expense are up 7.1% or \$137,320 compared to prior year. The increase is due to an increase in District staff from fiscal year 2018 to fiscal year 2019. In fiscal year 2018 the District was not at full staff, starting out the year with 18 employees and ending the fiscal year with 21 employees. In fiscal year 2019 the year started with 21 employees and finished with 22 employees. Additionally, annual raises and insurance increases impacted the salaries, wages, and benefits expense increase.
- Administrative expenses are down 3.9% or \$14,433 compared to prior year. The overall decrease is primarily due to a reduction in bank fees offset in part by an increase to property and liability insurance and conference attendance. In fiscal year 2019 the Board voted to no longer pay online credit card payment convenience fees, and instead require those fees be absorbed by the customer. Savings to the District is

just under \$24,000 or a decrease of 95% from prior year. Property and liability insurance increase is 12.4% from prior year due the effects of storm damage claims throughout the state of SC during fiscal years 2017 and 2018. Conference and meetings increases are 56.7% or \$11,284. Conference attendance returned to normal levels in fiscal year 2019 due to larger staffing and focus on staff development.

- Plant and system operations expenses are up 8.7% or \$105,373 compared to prior year. Repairs to the collection and distribution systems are up by \$104,096 or 33% from prior year. New lift station pumps and bioaugmentation of the collection lines account for the collection system increases. Emergency distribution line and well repairs account for the distribution system increases. Water tank expense is up \$20,095 due to tank painting and maintenance. Refuse disposal is up \$23,475 or 38.8% from prior fiscal year due to heavier dumpster weights from treatment plant construction and blend tank cleanout. Generator maintenance is up \$25,005 which reflects exhaust system repairs and required DHEC testing to the exhaust system. These increases are offset in part by decreases to portable equipment expense of \$10,915, safety equipment expense of \$11,418, lab operating supplies and fees of \$13,465, and most notably electricity expense of \$25,528. Efficiency improvements to plant operations including aeration blower run times resulted in a 11.4% decrease to the cost of electricity at the treatment plant
- Water purchases expense is down 35.4% or \$45,286 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 CPI adjusted rate for fiscal year 2019 is \$.88 for water purchased between October 2018 and March 2019. The peak contracted rate for the water for fiscal year 2019 is \$1.86 per 1,000 gallons from July 2018 through September 2018, and from April 2019 through June 2019. The District purchased a total of 50 million gallons of treated Savannah River water at a cost of \$82,490 compared to fiscal year 2018 purchases of 89 million gallons which totaled \$127,776. The decreased purchase in fiscal year 2019 reflects an increase in well usage following well repairs from fiscal year 2018.

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 5,387 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 136,616 gallons per day compared to last year's average of 242,959. 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 1,016,828 gallons per day in fiscal year 2019. The peak treatment month was July 2018 at 1.46 mgd average and the peak treatment day was June 12, 2019 at 1.8 mg. The plant and system design will adequately serve the District's needs at build-out. The District's wastewater plant currently treats wastewater to the AWT (advanced wastewater treatment) standard and all treated effluent is disposed of through a modern golf course irrigation system and District spray field. During fiscal year 2019, the remaining solids have been processed through a screw press dewatering system, and, by permit, the bio-solids are then hauled to Hickory Hill Waste Disposal in Jasper County. The District is and historically has been in full regulatory compliance.

The District assets also include eighteen wastewater pump stations; two wastewater vacuum stations; one water tower; sixty-three miles of water distribution lines and forty-one miles of wastewater collection lines.

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

OVERVIEW OF ANNUAL FINANCIAL REPORT

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

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements.

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

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

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

The ***notes to the financial statements*** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

BROAD CREEK PUBLIC SERVICE DISTRICT
CONDENSED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property, plant and equipment, net	\$ 17,087,921	\$ 16,823,557	\$ 15,690,406
Other assets	<u>5,659,936</u>	<u>5,229,044</u>	<u>5,671,749</u>
Total assets	22,747,857	22,052,601	21,362,155
Deferred outflows from debt refunding	<u>54,866</u>	<u>68,583</u>	<u>82,299</u>
Total assets and deferred outflows of resources	<u>\$ 22,802,723</u>	<u>\$ 22,121,184</u>	<u>\$ 21,444,454</u>
Current liabilities	\$ 847,605	\$ 830,089	\$ 850,870
Long term liabilities	<u>2,628,079</u>	<u>3,306,279</u>	<u>3,951,843</u>
Total liabilities	3,475,684	4,136,368	4,802,713
Net position:			
Investment in capital assets, net of related liabilities	14,517,787	13,672,140	11,982,705
Unrestricted	<u>4,809,252</u>	<u>4,312,676</u>	<u>4,659,036</u>
Total net position	<u>19,327,039</u>	<u>17,984,816</u>	<u>16,641,741</u>
Total liabilities and net position	<u>\$ 22,802,723</u>	<u>\$ 22,121,184</u>	<u>\$ 21,444,454</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019, 2018 AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ 4,966,184	\$ 4,960,982	\$ 4,981,275
Expenses			
Salaries, wages and employee benefits	2,077,329	1,940,009	2,024,300
Depreciation and amortization	1,394,260	1,510,065	1,524,120
Other operating expenses	<u>1,759,728</u>	<u>1,714,074</u>	<u>1,945,441</u>
Total operating expenses	5,231,317	5,164,148	5,493,861
Loss from operations	(265,133)	(203,166)	(512,586)
Other income (expense)			
Property taxes	1,518,210	1,460,977	1,452,496
Other income	166,285	134,383	124,840
Gain (loss) on disposed assets	(24,760)	(10,705)	371
Interest expense	<u>(105,584)</u>	<u>(124,274)</u>	<u>(142,309)</u>
Total other income (expense)	1,554,151	1,460,381	1,435,398
Increase in net position before developer contributions	1,289,018	1,257,215	922,812
Developer contributions	<u>53,205</u>	<u>85,860</u>	<u>388,813</u>
Increase in net position	<u>1,342,223</u>	<u>1,343,075</u>	<u>1,311,625</u>
Net position at beginning of year	<u>17,984,816</u>	<u>16,641,741</u>	<u>15,330,116</u>
Net position at end of year	<u>\$ 19,327,039</u>	<u>\$ 17,984,816</u>	<u>\$ 16,641,741</u>

AUDITED FINANCIAL STATEMENTS

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
	<hr/>	<hr/>
Current assets		
Cash and investments	\$ 4,686,960	\$ 4,362,371
Cash with Beaufort County Treasurer	113,511	101,328
Accounts receivable - trade	641,900	497,626
Accounts receivable - other	3,852	1,898
Inventory	163,953	184,289
Prepaid expenses	25,473	81,532
Other assets - deposits	24,287	-
Total current assets	<hr/> 5,659,936	<hr/> 5,229,044
 Non-current assets		
Property, plant and equipment, net	<hr/> 17,087,921	<hr/> 16,823,557
 Total assets	<hr/> 22,747,857	<hr/> 22,052,601
 Deferred outflows of resources		
Deferred outflows from refunding debt	<hr/> 54,866	<hr/> 68,583
 Total assets and deferred outflows of resources	 <hr/> <hr/> \$ 22,802,723	 <hr/> <hr/> \$ 22,121,184

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

LIABILITIES AND NET POSITION	<u>2019</u>	<u>2018</u>
Current liabilities		
Accounts payable - trade	\$ 83,394	\$ 94,974
Accrued payroll	94,577	85,481
Deferred revenue	54,634	54,634
Bonds payable due within one year	<u>615,000</u>	<u>595,000</u>
Total current liabilities	847,605	830,089
 Long term liabilities		
Bonds payable due after one year	2,010,000	2,625,000
Deferred revenue	600,979	655,613
Deposits	<u>17,100</u>	<u>25,666</u>
Total long term liabilities	<u>2,628,079</u>	<u>3,306,279</u>
Total liabilities	3,475,684	4,136,368
 Net position		
Investment in capital assets, net of related liabilities	14,517,787	13,672,140
Unrestricted	<u>4,809,252</u>	<u>4,312,676</u>
Total net position	<u>19,327,039</u>	<u>17,984,816</u>
 Total liabilities and net position	<u><u>\$ 22,802,723</u></u>	<u><u>\$ 22,121,184</u></u>

See accompanying notes to financial statements.

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

	<u>2019</u>	<u>2018</u>
Operating revenues		
Residential	\$ 1,211,515	\$ 1,168,277
Commercial	3,670,903	3,649,412
Recycled water	36,115	18,604
Connection fees	34,917	47,050
Disaster recovery, net	(3,931)	(3,977)
Other operating revenues	<u>16,665</u>	<u>81,616</u>
Total operating revenues	4,966,184	4,960,982
Operating expenses		
Salaries, wages and employee benefits	2,077,329	1,940,009
Administrative expenses	360,431	374,864
Plant and system operations	1,316,807	1,211,434
Water purchases	<u>82,490</u>	<u>127,776</u>
Total operating expenses before depreciation and amortization	<u>3,837,057</u>	<u>3,654,083</u>
Income from operations before depreciation and amortization	1,129,127	1,306,899
Depreciation expense	1,380,543	1,496,348
Amortization expense	<u>13,717</u>	<u>13,717</u>
Loss from operations	(265,133)	(203,166)
Other income (expenses)		
Property taxes	1,518,210	1,460,977
Availability charges	26,858	29,257
Tower lease income	54,634	54,634
Interest income	84,793	50,492
Gain (loss) on disposed assets	(24,760)	(10,705)
Interest expense	<u>(105,584)</u>	<u>(124,274)</u>
Net other income (expenses)	<u>1,554,151</u>	<u>1,460,381</u>
Increase in net position before developer contributions	1,289,018	1,257,215
Developer contributions	<u>53,205</u>	<u>85,860</u>
Increase in net position	<u>1,342,223</u>	<u>1,343,075</u>
Net position, beginning of year	<u>17,984,816</u>	<u>16,641,741</u>
Net position, end of year	<u>\$ 19,327,039</u>	<u>\$ 17,984,816</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 4,798,656	\$ 4,974,099
Other operating cash receipts	12,734	77,639
Cash paid to suppliers	(2,265,498)	(2,285,325)
Cash paid to employees	(1,521,935)	(1,417,553)
Net cash provided by operating activities	1,023,957	1,348,860
Cash flows from investing activities:		
Interest earned	84,793	50,492
Net cash provided by (used in) investing activities	84,793	50,492
Cash flows from noncapital financing activities:		
Property taxes collected	1,518,210	1,460,977
Availability charges	26,858	29,257
Tower lease income	-	-
Net cash provided by noncapital financing activities	1,545,068	1,490,234
Cash flows from capital financing activities:		
Developer contributions	53,205	85,860
Acquisition of property, plant and equipment	(1,670,842)	(2,656,139)
Proceeds from sale of property, plant and equipment	1,175	15,933
Principal paid on bonds	(595,000)	(570,000)
Interest paid	(105,584)	(124,274)
Net cash used in capital financing activities	(2,317,046)	(3,248,620)
Net increase (decrease) in cash and cash equivalents	336,772	(359,034)
Cash and cash equivalents at beginning of year	3,663,699	4,022,733
Cash and cash equivalents at end of year	\$ 4,000,471	\$ 3,663,699

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Schedule of cash and cash equivalents:		
Cash and investments from the Statement of Net Position	\$ 4,686,960	\$ 4,362,371
Less: Certificate of deposit investments	<u>(800,000)</u>	<u>(800,000)</u>
Unrestricted cash and cash equivalents	3,886,960	3,562,371
Held by Beaufort County Treasurer	<u>113,511</u>	<u>101,328</u>
Total cash and cash equivalents at end of year	<u>\$ 4,000,471</u>	<u>\$ 3,663,699</u>
 Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (265,133)	\$ (203,166)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,380,543	1,496,348
Amortization	13,717	13,717
Changes in assets and liabilities		
Accounts receivable - trade	(144,274)	63,103
Accounts receivable - other	(1,954)	23,628
Inventory	20,336	47,748
Prepaid expenses	56,059	(50,808)
Other assets - deposits	(24,287)	-
Accounts payable	(11,580)	(52,864)
Accrued payroll	9,096	7,083
Deposits	<u>(8,566)</u>	<u>4,071</u>
Net cash provided by operating activities	<u>\$ 1,023,957</u>	<u>\$ 1,348,860</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1. Summary of Significant Accounting Policies

General

Broad Creek Public Service District (the District) was created by enabling legislation Act No. 1739 ratified on August 3, 1972 and amended by Act No. 575 ratified on July 11, 1973. The District was formed for the purpose of providing and maintaining waterworks and sewage disposal systems for residents of Hilton Head Island, South Carolina.

The District is also authorized to provide security, property, road, lagoon and beach maintenance as well as fire protection, as, in the opinion of the Commissioners, shall be necessary for development of the District. In effort to raise funds to provide these services, the District has issued both general obligation and revenue bonds (See Note 5) In this respect, the District is also authorized to levy and collect a tax upon all taxable property within the District to retire the bonds and pay the interest thereon. In addition to the above-mentioned tax levy, annually, the District levies an ad valorem tax for administrative purposes. For the years ended June 30, 2019 and 2018, 10 mills were levied. With the exception of millage, the District has authority to set usage, connection, availability and other related rates.

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

The District has implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and thus the District applies all applicable GASB pronouncements. These GASB Statements require the presentation of Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: 1) the classification of the equity section of the statement of net position into net position with categories of invested in capital assets, net of related liabilities, restricted, and unrestricted; 2) the statements of revenues, expenses and changes in net position formatted to report changes in net position in lieu of changes in retained earnings; and 3) additional note disclosures to the financial statements.

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period. Currently deferred losses on bond refundings are the only financial statement item that meets the definition of a deferred outflow of resources and, accordingly, they have been presented as such in the statements of net position. The District does not have any financial statement items that meet the definition of a deferred inflow of resources.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1. Summary of Significant Accounting Policies (continued)

Fund Accounting

The District operates as a proprietary fund type-enterprise fund whereby operations are financed and operated in a manner similar to a private business enterprise. Under the enterprise fund concept, the cost of providing goods or services to the public are financed and recovered primarily through user charges.

Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund type is accounted for on a cost of service measurement focus using the accrual basis of accounting.

Water revenue, sewer revenue, revenue bond interest and all operating expenses are recognized using the accrual method of accounting. Property taxes and availability charges are recognized when collected by the Beaufort County Treasurer. General obligation bond interest is recognized as an expense when paid.

Connection fees are recognized as income in the period in which they are billable under the various agreements with developers or homeowners.

Revenue Policy

The District recognizes operating revenues as those revenues resulting from providing services. Operating revenues include water revenues, sewer revenues and connection fees as operating revenues. Non-operating revenues are revenues of the District not directly attributable to the services provided. This includes property taxes, availability charges, tower lease revenues, interest income and gains (losses) on the sale of capital assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers both restricted and unrestricted demand deposits and money market accounts to be cash equivalents. In addition, all highly liquid investments, including repurchase agreements, with original maturities of three months or less and investments in the South Carolina Local Government Investment Pool are considered cash equivalents.

Investments

Investments consist of certificates of deposit with original maturities of three months or more which are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Accounts Receivable

The District uses the direct write-off method for uncollectible trade accounts. Because the District seldom experiences significant bad debt losses and fully expects to collect all trade receivables, an *Allowance For Uncollectible Accounts* amount is not considered necessary. In addition, the District maintains a separate receivables account for billings to specific commercial accounts required by developer contracts. As of June 30, 2019, management does not anticipate any significant uncollectible amounts from these receivables.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1. Summary of Significant Accounting Policies (continued)

Inventory

Inventories are valued at the lower of cost or market, principally on an average cost method.

Capitalization Policy

Interest associated with construction costs less interest income earned on funds obtained for this purpose is capitalized. Other charges directly associated with construction such as engineering, design, legal and accounting fees are capitalized into the project.

Property, Plant, Equipment and Depreciation

Property, plant and equipment are recorded at cost when constructed or purchased by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. For assets contributed by developers, land is recorded at its fair market value at the date of the contribution. Water and sewage systems received from developers are capitalized at the cost to the developer.

Depreciation of all property, plant and equipment is provided by the straight- line method calculated on the assets' estimated useful lives as follows:

	<u>Estimated Life (Years)</u>
Wastewater treatment plant	5 - 30
Water and sewer systems	5 - 30
Water tank	33
Buildings, office and fences	5 - 25
Trucks and other equipment	5 - 15

Betterments and improvements, which extend the useful life of an asset are capitalized and depreciated over their useful life. Repairs and maintenance are charged to expense as incurred.

Compensated Absences

The District accounts for compensated absences by accruing a liability for future absences according to the guidelines of GASB Statement No. 16, Accounting for Compensated Absences. Compensated absences are included in accrued payroll on the balance sheet and amounted to \$33,764 and \$21,461 at June 30, 2019 and 2018, respectively.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 7, 2019, the date that the financial statements were available to be issued.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1. Summary of Significant Accounting Policies (continued)

Net Position

Net position is classified as follows:

Investment in capital assets – represents the District’s total investment in capital assets.

Restricted – representing those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The District is legally or contractually obligated to spend these funds in accordance with the restrictions imposed by third parties.

Unrestricted – consists of those operating funds over which the Board of Directors retains full control to use in achieving any of its authorized purposes. The Board has designated certain funds to be used for specific purposes. (See Note 13)

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Note 2. Cash, Cash Equivalents and Investments

Cash and investments as of June 30, 2019 and 2018 are classified in the accompanying financial statements as follows:

Custodial credit risk is the risk that in the event of failure, the District’s deposits may not be returned to the District. Bank balances differ from the District’s carrying amount due to cash on hand, deposits in transit and outstanding checks. At June 30, 2019, the carrying amounts of the District’s cash and investments was \$4,686,960 and the bank balance of cash on deposit was \$4,837,535. At June 30, 2019, \$113,511 of the District’s cash balance was held on their behalf by the Beaufort County Treasurer.

<u>Statement of net position:</u>	<u>2019</u>	<u>2018</u>
Cash and investments	\$ 4,686,960	4,362,371
Cash held with Beaufort County Treasurer	113,511	101,328
Total cash and investments	<u>\$ 4,800,471</u>	<u>\$ 4,463,699</u>

<u>Cash and investments as of June 30 consist of the following:</u>	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 200	\$ 200
Demand deposits with financial institutions	1,557,412	1,289,001
South Carolina local government investment pool	2,329,348	2,273,170
Certificates of deposit	800,000	800,000
Cash held by Beaufort County Treasurer	113,511	101,328
Total cash and investments	<u>\$ 4,800,471</u>	<u>\$ 4,463,699</u>

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

The District has not adopted formal policies regarding credit risk, custodial credit risk, interest rate risk or concentration of credit risk. The deposits of the District were collateralized as follows at June 30, 2019:

	<u>June 30, 2019</u>
Amounts insured by FDIC coverage	\$ 1,052,418
Amounts collateralized through the local government investment pool	2,329,348
Amounts collateralized with pledged securities	1,452,155
Uncollateralized	-
Total bank balances	<u>\$ 4,833,921</u>

In accordance with South Carolina Statute (SC Code Ann. 6-5-10), the governing body of any municipality, county, school district or other local government unit or political subdivision may invest money subject to their control and jurisdiction in:

- a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed.
- b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- d) Savings and Loan Associations to the extent the same are insured by a federal government agency;
- e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- f) Repurchase agreements when collateralized by securities as set forth in this section.
- g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), and (5) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

BROAD CREEK PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

The provisions of this chapter shall not impair the power of a municipality, county, school district or other local governmental unit or political subdivision or county treasurer to hold funds in deposit accounts with banking institutions as otherwise authorized by law.

Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.

South Carolina Local Government Investment Pool (Pool) investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and as amended by GASB Statement No. 72, *Fair Value Measurement and Application*, investments are carried at fair value determined annually based upon quoted market prices for identical or similar investments. The total value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 27 hours-notice. Financial statements for the Pool may be obtained by writing to the Office of the State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960. The Pool is not rated.

At June 30, 2019 and 2018, amounts held in the Pool totaled \$2,329,348 and \$2,273,170, respectively. The funds held in the Pool represent reserves designated for operations and capital expenditures.

Note 3. Accounts Receivable - Other

Accounts receivable - other consists of employee receivables, insurance receivables, accrued interest and miscellaneous operating receivables of \$3,852 and \$1,898 for the years ended June 30, 2019 and 2018, respectively.

Note 4. Commitments and Contingencies

In 1995, Broad Creek PSD signed an agreement with Beaufort Jasper Water & Sewer Authority (BJWSA) to provide up to 2 million gallons per day of water. The District's share of the capacity and construction costs was \$7.5 million. The District funded the construction cost through a \$6.5 million bond issue and using \$1.0 million of its reserves. (See Note 6 and 7)

In 2007, the BJWSA agreement was supplemented by an agreement between Broad Creek PSD and Hilton Head No. 1 PSD whereby all costs of water purchased and maintenance of the Segment 3 transmission lines of BJWSA water shall be borne by Hilton Head No. 1 PSD. In turn, Broad Creek PSD shall receive blended BJWSA water and Hilton Head PSD No. 1 reverse osmosis treated water with no minimum per day water purchase requirements. The District purchased \$82,490 and \$127,776 in water for the years ended June 30, 2019 and 2018, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 5. Property, Plant, Equipment and Depreciation

Capital asset activity during the years was as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2019</u>
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	236,750	1,464,332	-	(679,151)	1,021,931
Total nondepreciable assets	<u>472,797</u>	<u>1,464,332</u>	<u>-</u>	<u>(679,151)</u>	<u>1,257,978</u>
Wastewater treatment and distribution	32,754,254	29,323	(121,673)	106,211	32,768,115
Water and sewer systems	11,095,312	268,704	(460,377)	572,940	11,476,579
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	631,038	51,154	(33,654)	-	648,538
Trucks and other equipment	1,115,136	44,440	(112,216)	-	1,047,360
Total depreciable assets	<u>45,759,858</u>	<u>393,621</u>	<u>(727,920)</u>	<u>679,151</u>	<u>46,104,710</u>
Accumulated depreciation					
Wastewater treatment and distribution	(22,801,472)	(763,961)	94,861	(1,309)	(23,471,881)
Water and sewer systems	(5,361,191)	(461,529)	284,772	(22,482)	(5,560,430)
Water tank	(130,019)	(1,677)	-	-	(131,696)
Buildings, office and fence	(323,186)	(41,546)	26,354	-	(338,378)
Trucks and other equipment	(793,230)	(88,039)	108,887	-	(772,382)
Total accumulated depreciation	<u>(29,409,098)</u>	<u>(1,356,752)</u>	<u>514,874</u>	<u>(23,791)</u>	<u>(30,274,767)</u>
Net depreciable assets	<u>16,350,760</u>	<u>(963,131)</u>	<u>(213,046)</u>	<u>655,360</u>	<u>15,829,943</u>
Total property plant and equipment	<u>\$16,823,557</u>	<u>\$ 501,201</u>	<u>\$ (213,046)</u>	<u>\$ (23,791)</u>	<u>\$17,087,921</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2018</u>
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	348,176	2,511,473	-	(2,622,899)	236,750
Total nondepreciable assets	<u>584,223</u>	<u>2,511,473</u>	<u>-</u>	<u>(2,622,899)</u>	<u>472,797</u>
Wastewater treatment and distribution	30,336,895	30,529	(37,456)	2,424,286	32,754,254
Water and sewer systems	10,945,397	16,260	-	133,655	11,095,312
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	664,862	1,755	(35,579)	-	631,038
Trucks and other equipment	1,032,526	96,169	(78,517)	64,958	1,115,136
Total depreciable assets	<u>43,143,798</u>	<u>144,713</u>	<u>(151,552)</u>	<u>2,622,899</u>	<u>45,759,858</u>
Accumulated depreciation					
Wastewater treatment and distribution	(21,904,995)	(914,967)	33,391	(14,901)	(22,801,472)
Water and sewer systems	(4,924,590)	(436,530)	-	(71)	(5,361,191)
Water tank	(128,342)	(1,677)	-	-	(130,019)
Buildings, office and fence	(293,440)	(42,702)	12,956	-	(323,186)
Trucks and other equipment	(786,248)	(72,507)	78,517	(12,992)	(793,230)
Total accumulated depreciation	<u>(28,037,615)</u>	<u>(1,468,383)</u>	<u>124,864</u>	<u>(27,964)</u>	<u>(29,409,098)</u>
Net depreciable assets	<u>15,106,183</u>	<u>(1,323,670)</u>	<u>(26,688)</u>	<u>2,594,935</u>	<u>16,350,760</u>
Total property plant and equipment	<u>\$15,690,406</u>	<u>\$ 1,187,803</u>	<u>\$ (26,688)</u>	<u>\$ (27,964)</u>	<u>\$16,823,557</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$1,380,543 and \$1,496,348, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 6. Bonds Payable

On May 29, 2008, the District issued \$6,435,000 of General Obligation Refunding Bonds, Series 2008. The proceeds of these bonds were used to currently refund the Series 1998 bonds, pay a 1% call premium of \$63,300 and pay a portion of the costs of this bond issuance. The bonds are payable from property taxes levied each year by the Beaufort County Treasurer for the purpose of providing funds to pay the annual debt service requirements of the bonds. Although bond principal payments are due by July 1st of the next fiscal year, the bond debt service schedule places these principal payments in the current fiscal year; and hence are remitted to the paying agent and recorded by the District by June 30th of the current fiscal year. The bonds have a fifteen-year term and are payable in variable semi-annual installments with the final payment due July 1, 2023. The interest rate is 3.279% on these bonds, and interest of \$105,584 and \$124,274 was paid for the years ended June 30, 2019 and June 30, 2018, respectively.

The District is amortizing the deferred loss on early retirement of the Series 1998 bonds of \$206,891 over the life of the Series 2008 bonds. The unamortized balance at June 30, 2019 and 2018 was \$54,866 and \$68,583, respectively, and is reported as a deferred outflow of resources in accordance with GASB 63.

The revenue bonds required certain funds to be maintained by the District. Most of these had previously been established for other bonds. These were the gross revenue fund, the operation and maintenance fund and the depreciation and contingency fund. In addition, the District was required to establish a debt service fund for each series of bonds outstanding to provide for the ratable payment of same as they fall due.

Bond debt service requirement to maturity are as follows:

Years ending June 30,	Principal	Interest	Total
2020	615,000	86,074	701,074
2021	645,000	65,908	710,908
2022	670,000	44,758	714,758
2023	695,000	22,789	717,789
TOTAL	\$ 2,625,000	\$ 219,529	\$ 2,844,529

Deferred refunding costs are amortized on a straight-line basis over the term of the related debt. Amortization expense for deferred refunding costs totaled \$13,717 for both years ended June 30, 2019 and 2018.

Note 7. Long Term Liabilities

Long-term liability activity for the year ended June 30, 2019, was as follows:

	June 30, 2018	Additions	Reductions	June 30, 2019	Due within one year
General obligation bonds	\$ 3,220,000	\$ -	\$ (595,000)	\$ 2,625,000	\$ 615,000
Deferred tower lease	710,247		(54,634)	655,613	54,634
Deposits	25,666		(8,566)	17,100	-
Long-term liabilities	\$ 3,955,913	\$ -	\$ (658,200)	\$ 3,297,713	\$ 669,634

The principal payments of the general obligation bonds, due by July 1, 2019 and 2018, were paid on June 30, 2019 and 2018, respectively and are included in the current fiscal year reduction totals.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8. Contributions from Developers

All developers of new construction are required to provide the necessary infrastructure to provide water and sewer service to their property. Upon completion the developers will contribute, at no cost to the District, the water and sewer systems and provide the necessary easements to the property. Several developers currently have projects in progress within the District and, if additional infrastructure is necessary, they will contribute the infrastructure upon completion. Additionally, the various agreements between developers and the District to provide sewer and water capacity for their projects require the developers to contribute to the District funds sufficient to cover their pro rata cost of treatment facilities and the island wide plan to meet the needs of their projects.

For the years ended June 30, 2019 and 2018, \$53,205 and \$85,860, respectively, was collected in cash for capacity fees from developers and no infrastructure assets were contributed to the District.

The District charges a connection fee to all new commercial, multi-family and residential customers. This fee is recognized as income when the connection is made or at the time contract commitments are met to provide service to commercial or multi-family projects. These fees totaled \$34,917 and \$47,050 for the fiscal years ended June 30, 2019 and 2018, respectively.

Note 9. Related Party Transactions

Thomas Hopkins, a commissioner of the District, is both an owner and a member of the Board of Directors of MR Systems, a District vendor. The District's transactions with MR Systems totaled \$22,720 and \$3,935, respectively, for the years ended June 30, 2019 and 2018 and were recorded as capital assets expensed as appropriate. As of June 30, 2019 and 2018, respectively, \$-0- was payable from the District to MR Systems.

Note 10. Retirement Plan

On November 4, 1991, the District adopted a 457-defined contribution retirement plan which allows employees to make tax deferred contributions. The plan covers all employees who are 18 years of age and have a minimum of six months of employment service with the District. Until March 2013, the plan was administered by Hartford Life at which point the District selected the South Carolina Deferred Compensation Program as plan administrator. At the time of change of plan administrator, the District also adopted, in addition to the public employee 457 deferred compensation plan, a 401(k)-salary deferral and savings profit-sharing plan and elected to allow Roth contributions to be eligible for both plans. Employees are fully vested in the plans at inception. Through December 31, 2016, the District's annual matching contribution due was a maximum of 6% of participating employees' covered compensation. Effective January 1, 2017, the District's annual matching contribution includes (a) a contribution of 4% of covered compensation towards the employees' plan and (b) a match of employee payroll contributions that are in excess of 4%, but not to exceed 8%, of participating employees' covered compensation. The plan's assets equal the vested benefits at June 30, 2019. District contributions to the plans for the years ended June 30, 2019 and 2018 were \$104,395 and \$91,057, respectively. Plan members contributed \$128,904 and \$120,455, respectively, for the years ended June 30, 2019 and 2018.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 11. Deferred Tower Lease Income

During the year ended June 30, 2016, the District leased water tower space and adjacent land to two unrelated parties under agreements which included non-cancelable five and ten-year terms with various expiration dates from 2025 through 2027. On July 7, 2016, the District sold to an unrelated third party a fifteen-year exclusive telecom easement on the water tower and assigned their interest in the two above mentioned agreements for a gross sum of \$850,333 which will be reduced by direct expenses and prorated rent expenditures to a net sum of \$819,516. The net sum will be recognized on a straight-line basis over the fifteen-year term, \$54,634 per year, in accordance with generally accepted accounting principles. The agreement allows for the purchaser of the easement to keep 100% of rent derived from any replacement leases which take the place of the two above mentioned agreements and specifies a 50% split of any rent received from additional tower lease agreements. No additional tower leases were added during the year ended June 30, 2019.

Note 12. Economic Dependence

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

Note 13. Net Position and Contributed Capital

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net position amounts were as follows:

	2019	2018
Invested in capital assets, net of related liabilities		
Net property, plant and equipment services	\$ 17,087,921	\$ 16,823,557
Less: Debt as disclosed in Notes 6 and 7	(2,625,000)	(3,220,000)
Deferred refunding costs	54,866	68,583
	14,517,787	13,672,140
Unrestricted		
Unrestricted - Designated for Capital Activity	1,795,761	1,099,491
Unrestricted - Designated for Operating Reserves	2,551,617	2,498,048
Unrestricted	461,874	715,137
	4,809,252	4,312,676
Total net position	\$ 19,327,039	\$ 17,984,816

The District's management is authorized by the Commissioners to utilize any funds designated for capital activity within the current fiscal year's approved capital budget.

ACCOMPANYING FINANCIAL INFORMATION

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Salaries, wages and employee benefits		
Salaries and wages	\$ 1,530,741	\$ 1,424,616
Payroll taxes	124,426	114,054
Group insurance and other benefits	422,162	401,339
Total	<u>2,077,329</u>	<u>1,940,009</u>
Administrative expenses		
Commissioners' fees	52,800	52,800
Computer services	58,994	61,601
Legal fees	27,009	30,697
Audit, accounting and bookkeeping fees	22,500	22,800
Consultant meeting expense	11,405	13,900
Bank charges and trustee fees	1,132	24,445
Insurance	67,738	64,520
Office supplies and expenses	41,178	39,495
Telephone	28,814	27,125
Public relations	10,913	10,960
Taxes and licenses	6,748	6,605
Travel, meetings and training	31,200	19,916
Total	<u>360,431</u>	<u>374,864</u>
Plant and system operations		
Electricity	320,708	346,236
Engineering fees	38,375	32,254
Chemicals and supplies	135,678	138,637
Repairs and maintenance - system	439,277	327,445
Repairs and maintenance - equipment	33,373	48,594
Repairs and maintenance - other	206,145	184,451
Fuel and lubricants	50,940	53,564
Safety program	8,307	19,724
Refuse disposal	84,004	60,529
Total	<u>1,316,807</u>	<u>1,211,434</u>
Water purchases	<u>82,490</u>	<u>127,776</u>
Total operating expenses before depreciation and amortization	<u>\$ 3,837,057</u>	<u>\$ 3,654,083</u>

See accompanying notes to the financial statements.