

BROAD CREEK
PUBLIC SERVICE DISTRICT
HILTON HEAD ISLAND
BEAUFORT COUNTY, SOUTH CAROLINA
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2011

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2011

COMMISSIONERS

		<u>Term expires</u>
Marshall N. Katz	- Chairman	July 11, 2012
James Rowe	- Secretary	July 11, 2012
William Dugle	- Member	July 11, 2013
Thomas Hopkins	- Member	July 11, 2013
John Joseph	- Member	July 11, 2012
Russell Hildebrand	- General Manager	
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, 2011

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 12
Balance Sheets	13 - 14
Statements of Revenues, Expenses and Changes in Net Assets	15
Statements of Cash Flows	16 - 17
Notes to Financial Statements	18 - 28
<u>ACCOMPANYING FINANCIAL INFORMATION</u>	
Independent Auditors' Report	29
Schedules of Bond Principal and Interest Payments	30 - 31
Schedules of Operating Expenses	32 - 33



Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

C. THOMAS DEWITT, CPA
KENDALL F. ERICKSON, CPA
J. LOUIS GRANT, CPA
MICHAEL R. PUTICH, CPA
WILLIAM C. ROBINSON, CPA
JUDITH A. JOHNSON, CPA

JAMES W. LITCHFIELD, CPA (1946-1994)

SUITE A
15 LAFAYETTE PLACE
INDIGO RUN COMMERCIAL PARK
POST OFFICE DRAWER 22959
HILTON HEAD ISLAND, SOUTH CAROLINA 29925-2959
(843) 342-5151
FAX (843) 342-5180
hh@robinsongrant.com
www.robinsongrant.com

MEMBERS
AMERICAN INSTITUTE OF CPAS
S.C. ASSOCIATION OF CPAS
BEAUFORT OFFICE (843) 524-3003
FAX (843) 524-1372
bft@robinsongrant.com
BLUFFTON OFFICE (843) 815-6161
FAX (843) 815-6165
blf@robinsongrant.com

INDEPENDENT AUDITORS' REPORT

October 26, 2011

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

We have audited the accompanying balance sheets of the Broad Creek Public Service District (the "District") as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements and schedules 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Broad Creek Public Service District as of June 30, 2011 and 2010, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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 operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general 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.

Robinson Hunt & 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, 2011. 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 Board and management. The following are key financial highlights:

- The District implemented a new rate schedule on July 1, 2010. The single family tier structure was reduced from five tiers to four tiers; the flat sewer charge was increased from \$31.00 per unit to \$33.00; and the Regime Class remained on budget billing with an added true-up in the twelfth month to collect the difference between billed and actual usage during the fiscal year. The new rate structure was based on the rate revenue requirements per customer class as determined by a cost of service analysis. The water usage rate averages \$2.51 per 1,000 gallons for all customer classes. The sewer rates are not tied to water usage, but to contributory load factors by class and the cost of treating wastewater. The sewer charge appears on the customers' bill as a "flat" rate.
- 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. For the first five contract years the base rate is \$.75 per 1,000 gallons from November to February. The CPI adjusted rate for fiscal year 2011 is \$.76. For the last five contract years, the base price will be recalculated based on current BJWSA costs. The new base contract price will be in place through February 2020. The standard contracted rate for the water is \$1.58 per 1,000 gallons until November 2014.
- In fiscal year 2011 the District continued its residential ten year old meter replacement program. The program is being undertaken to ensure accurate usage measurements and usage revenue; reduce water loss; and to make certain that all non-testable backflow devices are replaced on a specific schedule. A total of 207 residential meters were replaced with radio read meters over the course of the fiscal year for a capital cost of \$60,085. The meters allow the District to receive readings automatically by radio wave in place of manual system input. In addition to the residential meters, thirteen commercial radio read meters were installed in the District at a cost of \$28,392.

- Phase I of the vacuum sewer line and isolation valve replacement from the junction of Sea Lane and Mooring Buoy to Port Tack in Palmetto Dunes was completed in June 2011 at a capital cost of \$369,555. The project was undertaken to address the ongoing problem of low vacuum pressure at the Port Tack vacuum station, which was caused by underground line deterioration. In addition, at a capital cost of \$8,923, eight vacuum tank control valves were replaced on residential vacuum tanks to control the release of contents into the vacuum system.
- During this current fiscal year, the District rehabilitated thirty-five critical manholes at a capital cost of \$185,086. The accomplished goals of the project were to improve sewer flows; eliminate unnecessary treatment of groundwater which had been seeping into the system; and to shore up manholes for safety purposes.
- The Shelter Cove lift station was upgraded this fiscal year as part of an ongoing lift station upgrade program. The old existing pump, fixed in the dry well, required confined space maintenance. For safety and efficiency, this pump was replaced with a submersible pump that can be raised for maintenance. New control panels and a new check valve were added, as well. The work was done at a capital cost of \$134,077.
- This year's other major capital asset additions and improvements include:

In addition to the submersible pump at the Shelter Cove lift station, the District spent \$89,829 in pump and pump motor replacement and rehabilitation. Eight pumps were replaced at the District lift stations, three pumps and motors were upgraded at the District treatment plant, and one portable pump was purchased for lift station emergencies.

Upgrades to the treatment plant totaled \$129,109. These capital expenditures were a combination of emergency repairs and budgeted upgrades necessary for the water distribution and wastewater treatment processes. These include electrical upgrades, valve replacements, paving, belt press conveyor, flow meters, and generators diesel tanks.

Upgrades to distribution and collection systems totaled \$91,900 and included well equipment, upgrades to the groundwater test wells, paving and fencing at District lift stations, and pit evacuators for two District lift station wet wells.

The District purchased two new vehicles for the operators' use and a F350 pickup with a lift for field maintenance totaling \$85,038.

- Fiscal year statistics as they relate to water pumped and wastewater treated are as follows:

	<u>FY2011</u>	<u>FY2010</u>	<u>FY2009</u>
Water Pumped in Million Gallons (mg)	715	686	683
Water Pumped 8 Golf Wells in mg	58	41	33
Wastewater Influent Flows in mg	400	363	367
Total Rainfall	23.5"	38.1"	50.4"
Total Island Visitors	2,260,308	2,205,354	*

* not available

As of June 30, 2011 the District has the following customer account classifications and numbers:

- Single Family – 1,280 accounts
- Regime – 39 accounts, 2,264 units
- Supplemental Transient Rental – 1,026 accounts
- Commercial Hotel/Timeshare – 8 accounts, 1,361 units
- Commercial Business – 77 accounts
- Commercial Irrigation – 112 accounts

USED AND PUMPED VARIANCE

<u>Customer Class</u>	<u>Billed/Used FY2011</u>	<u>Billed/Used FY2010</u>	<u>Billed/Used FY2009</u>
Single Family	239,808,351	217,434,340	243,279,230
Regime	221,301,930	199,398,940	215,119,320
Commercial Hotel/Timeshare	117,833,790	117,644,410	112,351,858
Commercial Business	25,289,860	27,231,850	26,221,160
Commercial Irrigation	83,468,950	74,685,860	78,085,950
Billed Total	687,702,881	636,395,400	675,057,518
Water Used in Hydrant Flushing	836,400	*	*
Water Used in Hydrant Flow Meter Rental	1,365,200	*	*
Total Water Billed/Used in Gallons	689,904,481	636,395,400	675,057,518
Water Pumped in Gallons – 3 District Wells	534,549,477	489,655,839	556,363,927
Water Pumped in Gallons – HHPD	180,393,000	196,771,000	127,047,123
Total Water Pumper in Gallons	714,942,477	686,426,839	683,411,050
Variance Between Billed and Pumped	27,239,596	50,031,439	8,353,532
% Estimated Potential Water Loss	3.50%	7.29%	1.22%

*not available

The 8.3% increase in billed usage from fiscal year 2010 to fiscal year 2011 can be primarily attributed to the increase in irrigation by all customer classes, and to an increase in Hilton Head Island visitors. The weather conditions during the months of April through June 2011 played a role in the increased irrigation. Compared to the same time last fiscal year, rainfall was down and temperatures were up. It was a hotter and drier season, and customers were irrigating heavily. According to the Hilton Head Chamber of Commerce statistics, Hilton Head Island visitors increased 2.4% from fiscal year 2010 to fiscal year 2011.

The decrease in estimated potential water loss from fiscal year 2010 to fiscal year 2011 can be attributed primarily to the new automatic meters installed for both commercial and residential users. These replaced older and defective meters. According to the EPA, water loss on the level of 10-20% is considered normal loss. The American Water Works Association "Leak Detection and Accountability Committee Final Report 2002," states that 10% is the benchmark for water loss.

- Operating revenues for fiscal year 2011 were \$4,479,538 or 103% of budget. Operating expenses before depreciation and amortization were \$3,719,398 or 95.8% of budget. Operating revenues for fiscal year 2011 were up 5.1% compared to 2010, and up 6.4% compared to 2009. Operating expenses before depreciation and amortization were up 3.1% from 2010, and down 1.1% from 2009.

	Budget FY2011	Actual FY2011	Actual FY2010	Actual FY2009
Total Operating Revenue	4,363,143	4,479,538	4,261,486	4,208,767
Total Operating Expenses	3,880,486	3,719,398	3,607,359	3,759,365
Operating Income	\$ 482,657	\$ 760,140	\$ 654,127	\$ 449,402

Budgeted operating revenue is calculated by using previous fiscal year usage as the base, and incorporating approved rate changes. Actual rate revenue was higher than budgeted for fiscal year 2011 and higher than fiscal year 2010 actual due to an increase in usage from fiscal year 2010 to 2011. The rate revenue also increased from fiscal year 2010 to fiscal year 2011 due to the sewer flat rate increase from \$31 per month to \$33 per month per residential/hotel/timeshare unit. Other operating revenue, included in "Total Operating Revenue" was down from fiscal year 2010 to 2011 due in large part to unusual insurance claim recovery and consultant fee reimbursements during fiscal year 2010.

The operating expense budget is an incremental budget, arrived at by examining past fiscal year actual expenses and evaluating any anticipated changes in the upcoming fiscal year. Fiscal year 2011's operations budget reflects a 7.6% increase from fiscal year 2010 actual expenses. The actual operating expenses for fiscal year 2011 were 4.2% under budget.

The major variances in actual fiscal year 2011 expenses to fiscal year 2011 budget and fiscal year 2010 actual expenses are as follows:

Salary expense totaled \$1,456,000, 100% of budget, for fiscal year. The variance of 5.5% increase in salary expense compared to fiscal year 2010 was the result of an approved overall salary increase of 4%, increased overtime hours for fiscal year 2011, and the addition of an employee in February 2011.

Group insurance was over-budgeted because of the uncertainty over the impact of the Patient Protection and Affordable Care Act on the renewal rates. The District rates came in at 11% increase. The District allowed for a 20% increase over prior year expenses knowing that dependents would be added back on the plan, and the anticipation of an additional employee, as well as the uncertainty in the insurance market. The District total expense was \$422,320, an 8.4% increase from the prior year expense.

Public Relations/Newsletter was budgeted at \$25,000 to better educate the public on the salt water intrusion issues. The District mailed a four page brochure to our customers near the end of the fiscal year. The cost for the mailing was less than anticipated. The actual expense of \$11,572 was 46% of the budgeted amount.

Property and liability insurance coverage renews in October each year. Fiscal year 2011 budget was based on anticipated increase in premiums. At renewal, coverage amounts were adjusted and older items removed resulting in a decrease of premium. The actual expense of \$44,824 was 70% of budget. It was a decrease of 17.6% from prior year actual expense.

Workers compensation insurance was 31.6% over-budgeted due to unexpected refunds and credits from prior and current year worker compensation audits. In addition, the State Accident fund notified the District in October, 2010 of a 3.1% decrease in workers compensation premiums for 2011. At the time of budgeting, the District was preparing for a rate increase. The actual expense totaled \$34,178, a 26.7% decrease from prior fiscal year expense.

Water Purchased from Hilton Head Public Service District (HHPSD) was over-budgeted by 12.7%. Although overall billed usage was up from fiscal year 2010 to fiscal year 2011, the District advantaged the reduced off peak price \$.76 per 1,000 gallons from HHPSD during November 2010 through March 2011, and pumped more from the aquifer during peak months. The actual expense was 87% of budget and an 18.3% decrease from the prior year actual expense. Purchases totaled \$174,574.

Repair and maintenance to the collection and distribution system actual expense over the past three fiscal years has varied between \$96,825 and \$107,000. The District increased the budget by 10% to \$110,000 for fiscal year 2011 in anticipation of higher costs for supplies. The reduced cost of repairs and

maintenance reflects the capital repairs to the vacuum system and lift stations, and the capital purchase of lift station pumps. The actual expense for fiscal year 2011 was \$96,825, 88% of budget and .8% less than the prior fiscal year.

Electrical expense for fiscal year 2011 was \$409,179, 7.9% higher than the prior year. The higher temperatures caused higher electric bills. In addition, there were problems with the electric to generator switch over during peak electrical demand causing a higher on peak usage charge. Electricity was 5% over budget.

Diesel fuel expense had a 65.6% increase from fiscal year 2010 to fiscal year 2011 as a result of diesel price increases and increased diesel consumption. The average diesel price in fiscal year 2010 was \$2.39 per gallon. The average price in fiscal year 2011 was \$3.14 per gallon. The higher diesel consumption is due to the increased temperatures in fiscal year 2011 causing the generator to run more frequently even with the switch over problem. The total cost of diesel was \$40,477, 112% of budget.

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 and Shelter Cove Harbor. The District serves approximately 4,500 residential, commercial and transient rental 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 obtains its water from the Savannah River). The District's current use from the supplemental Savannah River source is an average of 375,000 gallons per day. 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 1.1 mgd in fiscal year 2011. The plant and system design envisions serving 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. During fiscal year 2011 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 levies a 9.71 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. (section 6-11-271)

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 strategic plan, 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 balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

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

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets 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 BALANCE SHEETS
AS OF JUNE 30, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Property, plant and equipment, net	\$ 16,164,745	\$ 16,567,335	\$ 16,989,926
Other assets	<u>4,526,975</u>	<u>3,959,252</u>	<u>3,398,812</u>
Total assets	20,691,720	20,526,587	20,388,738
Current liabilities	887,672	819,147	758,381
Long term liabilities	<u>6,938,871</u>	<u>7,560,724</u>	<u>8,209,057</u>
Total liabilities	7,826,543	8,379,871	8,967,438
Net assets:			
Investment in capital assets, net of related liabilities	8,672,700	8,488,037	8,349,002
Restricted for debt service	103,936	100,412	96,987
Unrestricted	<u>4,088,541</u>	<u>3,558,267</u>	<u>2,975,311</u>
Total net assets	<u>12,865,177</u>	<u>12,146,716</u>	<u>11,421,300</u>
Total liabilities and net assets	<u>\$ 20,691,720</u>	<u>\$ 20,526,587</u>	<u>\$ 20,388,738</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
CONDENSED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total operating revenues	\$ 4,479,538	\$ 4,261,486	\$ 4,208,767
Expenses			
Salaries, wages and employee benefits	2,132,538	2,006,603	1,999,805
Depreciation and amortization	1,513,835	1,424,523	1,392,619
Other operating expenses	<u>1,586,860</u>	<u>1,600,756</u>	<u>1,759,560</u>
Total operating expenses	5,233,233	5,031,882	5,151,984
Loss from operations	(753,695)	(770,396)	(943,217)
Other income (expense):			
Property taxes	1,570,115	1,532,423	1,434,093
Other income	227,559	230,236	222,703
Gain (loss) on disposed assets	(88,945)	9,555	10,318
Interest Expense	<u>(281,673)</u>	<u>(304,077)</u>	<u>(325,536)</u>
Total other income (expense)	1,427,056	1,468,137	1,341,578
Increase in net assets before developer contributions	673,361	697,741	398,361
Developer contributions	<u>45,100</u>	<u>27,675</u>	<u>23,100</u>
Increase in net assets	<u>718,461</u>	<u>725,416</u>	<u>421,461</u>
Net assets at beginning of year	<u>12,146,716</u>	<u>11,421,300</u>	<u>10,999,839</u>
Net assets at end of year	<u>\$ 12,865,177</u>	<u>\$ 12,146,716</u>	<u>\$ 11,421,300</u>

AUDITED FINANCIAL STATEMENTS

BROAD CREEK PUBLIC SERVICE DISTRICT
BALANCE SHEETS
AS OF JUNE 30, 2011 AND 2010

ASSETS	2011	2010
Current assets		
Cash and cash equivalents	\$ 2,643,500	\$ 2,396,285
Cash with Beaufort County Treasurer	177,939	71,230
Cash controlled by District (restricted)	114,444	114,443
Certificates of deposit	737,562	726,465
Accounts receivable - trade	492,837	362,845
Accounts receivable - other	29,653	8,816
Inventory	191,556	116,917
Prepaid expenses	77,294	89,701
Total current assets	4,464,785	3,886,702
Non-current assets		
Property, plant and equipment, net	16,164,745	16,567,335
Bond issuance costs, net	62,190	72,550
Total non-current assets	16,226,935	16,639,885
Total assets	\$ 20,691,720	\$ 20,526,587

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
BALANCE SHEETS
AS OF JUNE 30, 2011 AND 2010

LIABILITIES AND NET ASSETS	<u>2011</u>	<u>2010</u>
Current liabilities		
Accounts payable - trade	\$ 130,740	\$ 99,404
Accrued payroll	122,354	108,099
Current liabilities payable from restricted assets:		
Bonds payable due within one year	637,787	611,330
Accrued interest payable	10,508	14,031
Less deferred refunding costs	<u>(13,717)</u>	<u>(13,717)</u>
Total current liabilities	<u>887,672</u>	<u>819,147</u>
Long term liabilities		
Bonds payable due after one year	7,081,046	7,718,833
Deposits	8,706	6,489
Less deferred refunding costs	<u>(150,881)</u>	<u>(164,598)</u>
Total long term liabilities	<u>6,938,871</u>	<u>7,560,724</u>
Total liabilities	7,826,543	8,379,871
Net assets		
Investment in capital assets, net of related liabilities	8,672,700	8,488,037
Restricted for debt service	103,936	100,412
Unrestricted	<u>4,088,541</u>	<u>3,558,267</u>
Total net assets	12,865,177	12,146,716
Total liabilities and net assets	<u>\$ 20,691,720</u>	<u>\$ 20,526,587</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating revenues		
Residential	\$ 3,087,186	\$ 2,837,802
Commerical	1,360,520	1,326,707
Connection fees	20,195	16,525
Other operating revenues	11,637	80,452
Total operating revenues	4,479,538	4,261,486
 Operating expenses		
Salaries, wages and employee benefits	2,132,538	2,006,603
Administrative expenses	373,949	407,699
Plant and system operations	1,038,337	979,340
Water purchases	174,574	213,717
Total operating expenses before depreciation and amortization	3,719,398	3,607,359
 Income from operations before depreciation and amortization	760,140	654,127
 Depreciation expense	1,489,758	1,400,446
Amortization expense	24,077	24,077
Loss from operations	(753,695)	(770,396)
 Other income (expenses)		
Property taxes	1,570,115	1,532,423
Availability charges	45,922	47,482
Tower lease income	154,624	148,464
Interest income	27,013	34,290
Gain (loss) on disposed assets	(88,945)	9,555
Interest expense	(281,673)	(304,077)
Net other income (expenses)	1,427,056	1,468,137
 Increase in net assets before developer contributions	673,361	697,741
Developer contributions	45,100	27,675
Increase in net assets	718,461	725,416
 Net assets at beginning of year	12,146,716	11,421,300
Net assets at end of year	\$ 12,865,177	\$ 12,146,716

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 4,330,926	\$ 4,217,404
Cash paid to suppliers	(2,264,139)	(2,182,290)
Cash paid to employees	(1,471,900)	(1,470,628)
Net cash provided by operating activities	<u>594,887</u>	<u>564,486</u>
Cash Flows From Investing Activities		
Purchases of certificates of deposit	(366,595)	(192,754)
Proceeds from certificates of deposit	355,826	922,391
Interest earned	27,013	34,290
Net cash provided by investing activities	<u>16,244</u>	<u>763,927</u>
Cash flows from noncapital financing activities:		
Property taxes collected	1,570,115	1,532,423
Availability charges	45,922	47,482
Tower lease income	154,624	148,464
Net cash provided by noncapital financing activities	<u>1,770,661</u>	<u>1,728,369</u>
Cash flows from capital financing activities:		
Developer contributions	45,100	27,675
Proceeds from sale of capital assets	-	10,100
Acquisition of property, plant and equipment	(1,176,440)	(978,401)
Principal paid on bonds	(611,330)	(585,702)
Interest paid	(285,197)	(307,464)
Net cash used in capital financing activities	<u>(2,027,867)</u>	<u>(1,833,792)</u>
Net increase in cash and cash equivalents	353,925	1,222,990
Cash and cash equivalents at beginning of year	<u>2,581,958</u>	<u>1,358,968</u>
Cash and cash equivalents at end of year	<u>\$ 2,935,883</u>	<u>\$ 2,581,958</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Schedule of cash and cash equivalents:		
Available for operations:		
Demand deposits	\$ 2,643,500	\$ 2,396,285
Held by Beaufort County Treasurer	<u>177,939</u>	<u>71,230</u>
Total available for operations	<u>2,821,439</u>	<u>2,467,515</u>
Restricted:		
Controlled by District for debt service	<u>114,444</u>	<u>114,443</u>
Total restricted	<u>114,444</u>	<u>114,443</u>
Total cash and cash equivalents at end of year	<u>\$ 2,935,883</u>	<u>\$ 2,581,958</u>

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (753,695)	\$ (770,396)
Adjustments to reconcile net operating loss to net cash provided by operating activities		
Depreciation	1,489,758	1,400,446
Amoritzation	24,077	24,077
Changes in assets and liabilities		
Accounts receivable - trade	(129,992)	(63,556)
Accounts receivable - other	(20,837)	20,193
Inventory	(74,639)	(19,616)
Prepaid expenses	12,407	(14,470)
Accounts payable	31,336	(27,001)
Accrued payroll	14,255	15,528
Deposits	<u>2,217</u>	<u>(719)</u>
Net cash provided by operating activities	<u>\$ 594,887</u>	<u>\$ 564,486</u>

See accompanying notes to financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies

General

The 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. Generally, the District was formed to provide and maintain waterworks and sewage disposal systems. Additionally, the District is authorized to provide security, fire protection, property, road, lagoon and beach maintenance as, in the opinion of the Commissioners, shall be necessary for development of the District.

In order to raise funds to provide these services the District has issued both general obligation and revenue bonds. (See Note 6) 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 of 9.71 mills for administrative purposes. 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 applies all relevant GASB pronouncements. The District applied all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions through November 30, 1989. 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 balance sheets into net assets with categories of Invested in Capital Assets net of related debt, Restricted, and Unrestricted; 2) the statements of revenues, expenses and changes in net assets formatted to report changes in net assets in lieu of changes in retained earnings; and 3) additional note disclosures to the financial statements.

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 general 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.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

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 are considered to be cash equivalents.

Accounts Receivable

The District uses the direct write-off method for uncollectible trade accounts. An allowance for uncollectible accounts is not considered necessary by management because the District seldom experiences significant bad debt losses and fully expects to collect all trade receivables. The District maintains a separate receivables account for billings required under various developer contracts. As of June 30, 2011 management does not anticipate any significant bad debts from these receivables.

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 \$1,000 and an estimated useful life in excess of two years. 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.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Property, Plant, Equipment and Depreciation (continued)

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

	<u>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.

Net Assets

Net assets are 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 – consist 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.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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 \$65,214 and \$64,202 at June 30, 2011 and 2010.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Reclassification

Certain accounts and amounts in the June 30, 2010 financial statements have been reclassified in order to conform with the June 30, 2011 presentation.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 26, 2011, the date that the financial statements were available to be issued.

Note 2. Cash, Cash Equivalents and Investments

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, 2011, the carrying amounts of the District's demand deposits were \$2,757,744 and the bank balance of cash on deposit was \$2,870,254. At June 30, 2011, \$177,939 was held by the Beaufort County Treasurer.

At June 30, 2011, the District's investments consisted of certificates of deposit in the amount of \$737,562 with maturities ranging from six to thirty-six months.

	June 30, 2011
Amounts insured by FDIC coverage	\$ 1,401,785
Amounts collateralized with securities held by the pledging financial institution in the District's name	714,786
Amounts collateralized with an Irrevocable Letter of Credit Uncollateralized	1,491,245
Total bank balances	\$ 3,607,816

The District has not adopted formal policies regarding credit risk, custodial credit risk, interest rate risk or concentration of credit risk.

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 and county treasurers may invest money subject to their control and jurisdiction in:

- (1) Obligations of the United States and agencies thereof;
- (2) General obligations of the State of South Carolina or any of its political units;
- (3) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government;

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

- (4) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) 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.
- (5) Repurchase agreements when collateralized by securities as set forth in this section.
- (6) 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.
- (b) 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.
- (c) Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.

In accordance with South Carolina Statute, SC Code Ann. 11-1-60, the State or any department, institution, agency, district, county, municipality or other political subdivision of the State or any political or public corporation of the State or of the United States may invest its funds or the moneys in its custody or possession eligible for investment in the shares of any Federal savings and loan association or in the shares of any building and loan association organized and existing under the laws of this State when such shares are insured by the Federal Savings and Loan Insurance Corporation and also in bonds or debentures issued by any Federal home loan bank or in the consolidated bonds or debentures issued by the Federal Home Loan Bank Board.

Beginning in February 2010, the District's repurchase agreements require the bank's trust department to invest excess funds of the District in overnight deposits in U.S. securities. The rate of return is based on the market rates determined on a day-to-day basis and the District is not protected against a loss in market value. At June 30, 2011, the District had \$714,786 invested in overnight repurchase agreements. All investments of the District were redeemable on demand without penalty as of June 30, 2011 and are, therefore, classified as cash and cash equivalents.

Note 3. Accounts Receivable - Other

Accounts receivable - other consists of employee receivables and miscellaneous operating receivables of \$29,653 and \$8,816 for the years ended June 30, 2011 and 2010, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 4. Property, Plant, Equipment and Depreciation

Capital asset activity during the years was as follows:

	<u>6/30/2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/2011</u>
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	290,446	728,174	-	(1,017,420)	1,200
Total nondepreciable assets	<u>526,493</u>	<u>728,174</u>	<u>-</u>	<u>(1,017,420)</u>	<u>237,247</u>
Wastewater treatment and distribution	28,395,980	210,833	(337,566)	268,617	28,537,864
Water and sewer systems	5,721,926	124,671	(16,746)	748,802	6,578,653
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	436,699	7,336	(17,097)	-	426,939
Trucks and other equipment	919,014	105,426	(35,515)	-	988,925
Total depreciable assets	<u>35,637,737</u>	<u>448,266</u>	<u>(406,924)</u>	<u>1,017,419</u>	<u>36,696,498</u>
Accumulated depreciation	<u>(19,596,895)</u>	<u>(1,477,977)</u>	<u>317,653</u>	<u>(11,781)</u>	<u>(20,769,000)</u>
Net depreciable assets	<u>16,040,842</u>	<u>(1,029,711)</u>	<u>(89,271)</u>	<u>1,005,638</u>	<u>15,927,498</u>
Total property plant and equipment	<u>\$ 16,567,335</u>	<u>\$ (301,537)</u>	<u>\$ (89,271)</u>	<u>\$ (11,782)</u>	<u>\$ 16,164,745</u>

	<u>6/30/2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>6/30/2010</u>
Land	\$ 236,047	\$ -	\$ -	\$ -	\$ 236,047
Construction in progress	61,230	454,132	-	(224,916)	290,447
Total nondepreciable assets	<u>297,277</u>	<u>454,132</u>	<u>-</u>	<u>(224,916)</u>	<u>526,494</u>
Wastewater treatment and distribution	28,131,167	283,016	(23,633)	5,430	28,395,980
Water and sewer systems	5,381,606	120,834	-	219,486	5,721,926
Water tank	164,118	-	-	-	164,118
Buildings, office and fence	390,632	46,067	-	-	436,699
Trucks and other equipment	956,896	74,351	(112,233)	-	919,014
Total depreciable assets	<u>35,024,419</u>	<u>524,267</u>	<u>(135,865)</u>	<u>224,916</u>	<u>35,637,737</u>
Accumulated depreciation	<u>(18,331,770)</u>	<u>(1,400,446)</u>	<u>135,320</u>	<u>-</u>	<u>(19,596,895)</u>
Net depreciable assets	<u>16,692,649</u>	<u>(876,179)</u>	<u>(545)</u>	<u>224,916</u>	<u>16,040,842</u>
Total property plant and equipment	<u>\$16,989,926</u>	<u>\$ (422,046)</u>	<u>\$ (545)</u>	<u>\$ -</u>	<u>\$16,567,335</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$1,489,758 and \$1,400,446 respectively.

Note 5. Bonds Payable

On May 15, 2001, the District issued \$2,300,000 Waterworks and Sewer System Improvement Revenue Bonds (second lien), Series 2001. The proceeds from these bonds were used to finance certain improvements and extensions to the waterworks and sewer system of the District and pay the costs of this bond issuance. The bonds are payable from the gross revenues of the District. The interest rate is 4.97% on these bonds and interest of \$55,533 and \$63,893 was paid for the years ended June 30, 2011 and 2010, respectively, and \$8,352 and \$9,789 was accrued at June 30, 2011 and 2010, respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

Note 5. Bonds Payable (continued)

On August 20, 2003, the District issued \$3,066,111 Waterworks and Sewer System Refunding Revenue Bonds, Series 2003. The proceeds from these bonds were used to repay the outstanding balance of a State Water Pollution Revolving Fund loan and bond issuance costs. The bonds are payable from the gross revenues of the District. The interest rate is 3.27% on these bonds and interest of \$20,791 and \$33,059 was paid for the years ended June 30, 2011 and 2010 respectively, and \$2,156 and \$4,242 was accrued at June 30, 2011 and 2010, respectively.

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 interest rate is 3.279% on these bonds, and interest of \$208,872 and \$210,512 was paid for the years ended June 30, 2011 and June 30, 2010, 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, 2011 and 2010 was \$164,598 and \$178,315, respectively.

The revenue bonds require certain funds to be maintained by the District. Most of these had previously been established for other bonds. These are the gross revenue fund, the operation and maintenance fund and the depreciation and contingency fund. In addition, the District is 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:

Year ending June 30,	Principal	Interest	Total
2012	637,788	261,934	899,722
2013	566,472	242,624	809,096
2014	691,167	220,633	911,800
2015	726,353	194,380	920,733
2016	757,054	166,791	923,845
2017 - 2020	2,975,000	524,149	3,499,149
2021 - 2023	1,365,000	67,547	1,432,547
TOTAL	<u>\$ 7,718,834</u>	<u>\$ 1,678,058</u>	<u>\$ 9,396,892</u>

Bond issuance and deferred refunding costs are amortized on a straight line basis over the remaining term of the related debt. Amortization expense for bond issuance costs was \$10,360 for the years ended June 30, 2011 and 2010. Amortization expense for deferred refunding costs was \$13,717 for the years ended June 30, 2011 and 2010.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 6. Long Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>6/30/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2011</u>	<u>Due within One Year</u>
Bonds payable:					
General obligation bonds	\$ 6,370,000	\$ -	\$ (55,000)	\$ 6,315,000	\$ 60,000
Revenue bonds	1,960,162	-	(556,330)	1,403,832	577,787
Total bonds payable	8,330,162	-	(611,330)	7,718,832	637,787
Deferred refunding charges	(178,314)	-	13,717	(164,597)	(13,717)
Deposits	6,489	5,883	(3,666)	8,706	-
Long-term liabilities	<u>\$ 8,158,337</u>	<u>\$ 5,883</u>	<u>\$ (601,279)</u>	<u>\$ 7,562,941</u>	<u>\$ 624,070</u>

The principal payments of the general obligation bonds, due by July 1, 2011 and 2010, were paid on June 30, 2011 and 2010, respectively and included in the current fiscal year reduction totals.

Note 7. Contributions from Developers

All developers are required to construct 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.

Greenwood Development Corporation and other developers are currently developing projects within the District and will contribute the infrastructure upon completion and will also contribute a surcharge fee for the expansion of the wastewater treatment facilities and water system as explained below.

For the years ended June 30, 2011 and 2010, \$45,100 and \$27,500, respectively, was collected in cash from developers and no infrastructure assets were contributed to the District.

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 the expansion of the treatment facilities and the island wide plan to meet the needs of their projects.

The District charges a connection fee to all 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.

Note 8. 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 5 and 6)

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 8. Commitments and Contingencies (continued)

In 2007, the BJWSA agreement was replaced by an agreement between Broad Creek PSD and Hilton Head No. 1 PSD whereby all costs of water purchased and maintenance of 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 \$174,574 and \$213,717 in water for the years ended June 30, 2011 and 2010, respectively.

Note 9. Economic Dependence

The District has a service area within the geographical boundaries of Hilton Head Island, South Carolina. A change in the overall economic conditions of this area may have a significant influence upon the operating results of the District.

Note 10. Pension Plan

The District adopted a defined contribution plan with employee tax deferred contributions on November 4, 1991. The plan, which is administered by Hartford Life, currently covers all employees who are 18 years old and have six months of service. Employees are fully vested at inception. Effective January 1, 2007, the annual District contribution due under the plan is a match of up to, but not to exceed 6% of participating employees' covered compensation, except for non-elective deferrals. The plan's assets equal the vested benefits at June 30, 2011. District contributions for the years ended June 30, 2011 and 2010 were \$84,958 and \$81,244 respectively. Plan members contributed \$74,052 and \$71,217 for the years ended June 30, 2011 and 2010, respectively.

Note 11. Insurance Recoveries

The District records insurance recoveries as other revenue, offset to expenses, or net asset replacement cost depending on timing of claim payment and whether the asset affected is replaced or repaired. The District received \$-0- and \$31,777 for insurance recoveries during the years ended June 30, 2011 and June 30, 2010 respectively.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 12. Lease Income

The District leases water tower space and adjacent land to unrelated parties under agreements with non-cancelable five and ten year terms with various expiration dates from 2012 through 2015. The minimum future rentals to be received on these leases as of June 30, 2011 are as follows:

Year ending June 30,	
2012	159,263
2013	96,803
2014	86,267
2015	43,057
Thereafter	-
	<u>\$ 385,390</u>

Note 13. Net Assets and Contributed Capital

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	2011	2010
Invested in capital assets, net of related liabilities		
Net property, plant, and equipment services	\$ 16,164,745	\$ 16,567,335
Less: Debt as disclosed in Notes 6 and 7	(7,718,832)	(8,330,163)
Deferred refunding costs	164,597	178,315
Bond issuance costs, net	62,190	72,550
	8,672,700	8,488,037
Restricted for debt service	103,936	100,412
Unrestricted		
Unrestricted - Designated for Capital Activity	1,018,392	1,000,665
Unrestricted - Designated for Post Disaster Relief	737,562	726,465
Unrestricted	2,332,587	1,831,137
	4,088,541	3,558,267
Total net assets	\$ 12,865,177	\$ 12,146,716

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 13. Net Assets and Contributed Capital (continued)

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.

During the year ended June 30, 2005 the District received property taxes in excess of budgeted amounts as a result of the 2004 Beaufort County reassessment. These funds have been designated by the Commissioners to be used for expenses incurred in the event of a disaster for repair, replacement and refurbishment of the District's water and sewer infrastructure.

ACCOMPANYING FINANCIAL INFORMATION



Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

C. THOMAS DEWITT, CPA
KENDALL F. ERICKSON, CPA
J. LOUIS GRANT, CPA
MICHAEL R. PUTICH, CPA
WILLIAM C. ROBINSON, CPA
JUDITH A. JOHNSON, CPA
JAMES W. LITCHFIELD, CPA (1946-1994)

SUITE A
15 LAFAYETTE PLACE
INDIGO RUN COMMERCIAL PARK
POST OFFICE DRAWER 22959
HILTON HEAD ISLAND, SOUTH CAROLINA 29925-2959
(843) 342-5151
FAX (843) 342-5180
hh@robinsongrant.com
www.robinsongrant.com

MEMBERS
AMERICAN INSTITUTE OF CPAS
S.C. ASSOCIATION OF CPAS
BEAUFORT OFFICE (843) 524-3003
FAX (843) 524-1372
bft@robinsongrant.com
BLUFFTON OFFICE (843) 815-6161
FAX (843) 815-6165
blf@robinsongrant.com

INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING FINANCIAL INFORMATION

October 26, 2011

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

We have audited the financial statements of Broad Creek PSD as of and for the years ended June 30, 2011 and 2010, and our report thereon dated October 26, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented in the Schedules of Bond Principal and Interest Payments and Schedules of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robinson Grant & Co., P.A.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS
AS OF JUNE 30, 2011

\$6,435,000 General Obligation Refunding Bonds
 3.279% Interest Rate
Dated May 29, 2008

For the Year ending June 30,	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	207,069	60,000	267,069
2013	205,101	375,000	580,101
2014	192,805	490,000	682,805
2015	176,738	515,000	691,738
2016	159,851	535,000	694,851
2017	142,309	550,000	692,309
2018	124,274	570,000	694,274
2019	105,584	595,000	700,584
2020	86,074	615,000	701,074
2021	65,908	645,000	710,908
2022	44,758	670,000	714,758
2023	22,789	695,000	717,789
Totals	<u>\$ 1,533,260</u>	<u>\$ 6,315,000</u>	<u>\$ 7,848,260</u>

\$3,066,111 Revenue Bonds
 3.27% Interest Rate
Dated August 20, 2003

For the year ending June 30,	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	8,115	395,544	403,659
	<u>\$ 8,115</u>	<u>\$ 395,544</u>	<u>\$ 403,659</u>

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF BOND PRINCIPAL AND INTEREST PAYMENTS
AS OF JUNE 30, 2011

\$2,300,000 Revenue Bonds
 4.97% Interest Rate
Dated May 15, 2001

For the year ending <u>June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	46,750	182,244	228,994
2013	37,523	191,472	228,995
2014	27,828	201,167	228,995
2015	17,642	211,353	228,995
2016	6,940	222,054	228,994
Totals	\$ 136,683	\$ 1,008,290	\$ 1,144,973

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Salaries, wages and employee benefits		
Salaries and wages	\$ 1,486,155	\$ 1,405,827
Payroll taxes	113,275	107,095
Group insurance and other benefits	524,317	485,168
Uniforms	8,791	8,513
Total	2,132,538	2,006,603
 Administrative expenses		
Commissioners' fees	37,200	37,200
Computer services	36,555	30,108
Legal fees	33,371	37,292
Audit, accounting and bookkeeping fees	17,400	26,110
Consultant meeting expense	9,000	9,333
Bank charges and trustee fees	12,013	11,951
Insurance	79,002	101,099
Office supplies and expenses	38,776	37,154
Telephone	23,187	27,744
Public relations	11,572	14,143
Dues and subscriptions	5,457	4,941
Taxes and licenses	6,420	5,478
Travel, meetings and training	53,156	54,350
Vehicle lease	10,840	10,796
Total	\$ 373,949	\$ 407,699

See accompanying notes to the financial statements.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

(continued)

	<u>2011</u>	<u>2010</u>
Plant and system operations		
Electricity	\$ 409,179	\$ 379,073
Engineering fees	65,236	72,112
Chemicals and supplies	135,586	130,274
Repairs and maintenance - system	96,825	97,412
Repairs and maintenance - equipment	44,891	50,219
Repairs and maintenance - other	129,646	114,383
Fuel and lubricants	81,899	59,794
Small tools	6,793	6,353
Safety program	8,467	8,178
Connection expense	5,034	3,713
Refuse disposal	<u>54,781</u>	<u>57,829</u>
Total	1,038,337	979,340
 Water purchases	 <u>174,574</u>	 <u>213,717</u>
 Total operating expenses before depreciation	 <u>\$ 3,719,398</u>	 <u>\$ 3,607,359</u>

See accompanying notes to the financial statements.