

Accountants' Report

BROAD CREEK PUBLIC SERVICE DISTRICT

HILTON HEAD ISLAND

BEAUFORT COUNTY, SOUTH CAROLINA

ACCOUNTANTS' REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 1987

ROBINSON GRANT & CO., P.A.

Certified Public Accountants

Hilton Head Island, South Carolina

BROAD CREEK PUBLIC SERVICE DISTRICT

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COMMISSIONERS

Robert E. Huber - Chairman (Term expires August 3, 1988)
Anthony J. Capici - Vice-Chairman (Term expires August 2, 1989)
Leslie M. Bernick - Assistant Secretary (Term expires August 3, 1988)
James L. Rowe (Term expires August 3, 1988)
J. Saxton Wolfe (Term expires August 2, 1989)

William T. Hunter - Manager

Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

21 NEW ORLEANS ROAD

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MEMBERS
AMERICAN INSTITUTE OF CPAS
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S.C. ASSOCIATION OF CPAS

BEAUFORT OFFICE (803) 524-3003

September 8, 1987

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

We have examined the balance sheets of the Broad Creek Public Service District as of June 30, 1987 and 1986, and the related statements of revenues, expenses and changes in retained earnings, and changes in financial position, and the schedule of operating expenses for the years then ended and the schedule of bond principal and interest payments as of June 30, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements and schedules present fairly the financial position of the Broad Creek Public Service District as of June 30, 1987 and 1986, and the results of its operations, and changes in its financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Robinson Grant & Co., P.A.

BROAD CREEK PUBLIC SERVICE DISTRICT
BALANCE SHEET

Exhibit "A"

<u>ASSETS</u>	As of June 30,	
	1987	1986
<u>Current Assets</u>		
Cash and equivalents (Notes 2 and 6)	\$ 853,671	\$ 728,779
Cash with Beaufort County Treasurer	4,560	5,577
Accounts receivable - trade (Note 1)	111,429	74,970
Accounts receivable - other (Note 3)	286,718	59,740
Inventory (Note 1)	58,859	73,922
Prepaid expenses	4,772	8,971
Deposits and other receivables	171	171
Total current assets	1,320,180	952,130
<u>Restricted Assets</u>		
Cash with Beaufort County Treasurer (Note 4)	902,344	-0-
<u>Property, Plant and Equipment</u> (At cost, less accumulated depreciation) (Notes 1 and 6)		
	4,827,092	4,517,302
<u>Amortizable Assets</u> (Note 1)		
	6,392	11,233
Total Assets	\$ 7,056,008	\$ 5,480,665
<u>LIABILITIES AND FUND BALANCE</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 25,824	\$ 61,879
Retainage payable	1,635	1,635
Notes payable - due within one year (Note 4)	-0-	196,976
Bonds payable - due within one year (Schedule 1)	75,000	-0-
Accrued interest payable	-0-	44,753
Deferred interest credit (Note 4)	13,575	-0-
Payroll taxes and withholdings payable	1,152	818
Total current liabilities	117,186	306,061
<u>Noncurrent Liabilities</u>		
Notes payable - due after one year (Note 4)	-0-	1,146,021
Bonds payable - due after one year (Schedule 1)	2,085,000	-0-
Accrued interest (Note 4)	-0-	85,890
Deposits	400	-0-
Total noncurrent liabilities	2,085,400	1,231,911
Total liabilities	2,202,586	1,537,972
<u>Commitments and Contingencies</u> (Notes 5, 6 and 7)		
<u>Fund Balance</u>		
Contributions from developers (Notes 2 and 6)	3,122,904	2,745,666
Retained earnings (Exhibit "B")	1,730,518	1,197,027
Fund balance	4,853,422	3,942,693
Total Liabilities and Fund Balance	\$ 7,056,008	\$ 5,480,665

See notes to financial statements

BROAD CREEK PUBLIC SERVICE DISTRICT
STATEMENT OF CHANGES IN FINANCIAL POSITION

Exhibit "C"

	For the Year Ended	
	June 30,	
	<u>1987</u>	<u>1986</u>
<u>Working Capital Was Provided By:</u>		
Excess of revenues over expenditures (Exhibit "B")	\$ 533,491	\$ 303,796
Add expenses not requiring the outlay of working capital during the current period:		
Amortization	4,841	11,586
Depreciation	232,043	223,481
Total working capital provided by operations	770,375	538,863
Bond proceeds	2,160,000	-0-
Increase in deposits	400	-0-
Contributions from developers	377,238	485,332
Total working capital provided	<u>3,308,013</u>	<u>1,024,195</u>
<u>Working Capital Was Applied To:</u>		
Acquisition of property, plant and equipment	541,833	552,946
Increase in amortizable assets	-0-	4,007
Payment of long-term debt	1,306,911	196,978
Increase in restricted assets	902,344	-0-
Total working capital applied	<u>2,751,088</u>	<u>753,931</u>
Increase in Working Capital	<u>\$ 556,925</u>	<u>\$ 270,264</u>

The increase in working capital is accounted for as follows:

<u>Working Capital Increase (Decrease)</u>		
Cash and equivalents	\$ 123,875	\$ 243,607
Accounts receivable	263,437	24,737
Inventory	(15,063)	20,594
Prepaid expenses	(4,199)	5,170
Accounts payable	36,055	(12,363)
Retainage payable	-0-	(1,635)
Notes payable	196,976	(16,430)
Bonds payable	(75,000)	-0-
Salaries and related payroll taxes payable	(334)	(70)
Accrued interest payable	44,753	6,654
Deferred interest credit	(13,575)	-0-
Increase in Working Capital	<u>\$ 556,925</u>	<u>\$ 270,264</u>

See notes to financial statements

BROAD CREEK PUBLIC SERVICE DISTRICT
 SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS
 AS OF JUNE 30, 1987

Schedule 1

For the Year Ending June 30,	\$2,160,000 General Obligations Bonds Dated March 1, 1987		Total
	Interest	Principal	
1988	\$ 139,625	\$ 75,000	\$ 214,625
1989	134,000	75,000	209,000
1990	128,375	75,000	203,375
1991	122,750	100,000	222,750
1992	115,250	100,000	215,250
1993	107,750	100,000	207,750
1994	100,250	100,000	200,250
1995	94,650	100,000	194,650
1996	88,950	100,000	188,950
1997	83,150	125,000	208,150
1998	75,775	125,000	200,775
1999	68,275	125,000	193,275
2000	60,650	125,000	185,650
2001	52,900	150,000	202,900
2002	43,450	150,000	193,450
2003	33,850	175,000	208,850
2004	22,475	175,000	197,475
2005	11,100	185,000	196,100
Totals	<u>\$ 1,483,225</u>	<u>\$ 2,160,000</u>	<u>\$ 3,643,225</u>

The bonds bear interest at the following rates for the bonds due in those years:

1988 - 1993	7.5%	1999	6.1%
1994	5.6%	2000	6.2%
1995	5.7%	2001	6.3%
1996	5.8%	2002	6.4%
1997	5.9%	2003 - 2004	6.5%
1998	6.0%	2005	6.0%

Interest is payable on March 1 and September 1 of each year, commencing September 1, 1987. Bond principal is payable on March 1 of each year.

BROAD CREEK PUBLIC SERVICE DISTRICT
SCHEDULE OF OPERATING EXPENSES

Schedule 2

	For the Year Ended June 30,	
	1987	1986
<u>Salaries, Wages and Employee Benefits</u>		
Salaries and wages	\$ 230,850	\$ 204,800
Payroll taxes	17,146	16,849
Group insurance and other benefits	18,274	23,795
Uniforms	4,389	3,337
Total	<u>270,659</u>	<u>248,781</u>
<u>Administrative Expenses</u>		
Administrative fees (Note 4)	42,000	36,000
Commissioners' fees	13,200	10,200
Computer services and amortization (Note 1)	43,714	38,383
Legal fees	27,074	13,461
Audit, accounting, and bookkeeping fees	6,690	5,800
Insurance	18,343	18,532
Office supplies and expenses	12,014	7,819
Telephone	8,518	7,611
Public relations	300	1,832
Dues, subscriptions and contributions	356	1,125
Travel and meetings	7,568	3,273
Miscellaneous	6,123	1,828
Depreciation (Note 1)	12,743	11,286
Total	<u>198,643</u>	<u>157,150</u>
<u>Plant and System Operations</u>		
Connection expense	30,904	13,965
Electricity	173,771	161,419
Engineering fees	43,835	37,620
Chemicals and supplies	21,976	24,822
Repairs and maintenance - system	100,730	65,451
Repairs and maintenance - equipment	19,204	8,842
Repairs and maintenance - other	8,365	10,779
Fuel and lubricants	11,295	13,302
Small tools	1,106	3,484
Security	7,265	6,450
Miscellaneous	4,295	1,924
Depreciation (Note 1)	219,299	212,195
Total	<u>642,045</u>	<u>560,253</u>
Total Operating Expenses	<u>\$ 1,111,347</u>	<u>\$ 966,184</u>

See notes to financial statements

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1987

Note 1. Summary of Significant Accounting Policies

General - The Broad Creek Public Service 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, sewage disposal, security and fire protection facilities as in the opinion of the Commissioners shall be necessary for development of the District.

In order to raise funds to provide these facilities the District is authorized to issue general obligation bonds; on April 6, 1987 the District issued \$2,160,000 of general obligation bonds. (See Note 4.) 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 the District levies, annually, an ad valorem tax of not exceeding five mills for corporate purposes.

Accounting Method - Water revenue, sewer revenue, 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.

Accounts Receivable - The District uses the direct write-off method for uncollectible 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 receivables.

Inventory - Inventories are valued at the lower of cost or market, principally on the first-in, first-out method.

Amortization - Computer programming costs of \$28,513 are being amortized over three and four year periods. Amortization was \$4,841 and \$11,586 for 1987 and 1986, respectively.

Property, Plant, Equipment and Depreciation - Property, plant and equipment are recorded at cost when constructed or purchased by the District. 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 at various rates calculated on the assets' estimated useful lives.

BROAD CREEK PUBLIC SERVICE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 1987

Note 1. Summary of Significant Accounting Policies (continued)
Property, Plant, Equipment and Depreciation (continued)

The major components are:

	Estimated Life Range (Years)	As of June 30,	
		1987	1986
Land		\$ 177,262	\$ 177,262
Water and sewer system	25	865,233	865,233
Water tank	33	108,767	108,767
Sewage treatment plant	33	670,377	670,377
Additions to the system	20-33	3,780,421	3,416,502
Buildings, office and fence	25	101,673	41,588
Trucks and other equipment	3 - 5	358,892	301,961
Construction in progress		229,185	169,572
Total		6,291,810	5,751,262
Accumulated depreciation		(1,464,718)	(1,233,960)
Property, Plant and Equipment, Net		<u>\$ 4,827,092</u>	<u>\$ 4,517,302</u>

Note 2. Cash

The Commissioners have designated \$488,637 of these funds to be used for expansion and construction. (See Notes 4, 6 and 7) These funds have been designated for the purpose described in Note 7; but, they are not restricted for those projects and may be used for other purposes with Commission approval.

Note 3. Accounts Receivable - Other

Accounts receivable - other consists of connection fees and availability charges in the amount of \$223,370, reimbursable costs paid by the District for developers petitioning for annexation in the amount of \$51,609, and insurance receivables of \$11,739.

Note 4. Notes Payable and Bonds Payable

On April 6, 1987, the District issued \$2,160,000 of General Obligation Bonds, Series 1987, in \$5,000 denominations. In addition, \$13,575 was paid by the bond purchasers for accumulated interest from March 1, 1987 to April 6, 1987. The proceeds from these bonds were used to extinguish the existing notes payable and related accrued interest in the amount of \$1,281,740. The \$878,260 balance of the proceeds is restricted and will be used toward the construction of improvements to the wastewater treatment plant, upgrading from secondary to advanced treatment and for construction of sludge bed modifications and fill work at the plant. (See note 7.)

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1987

Note 5. Commitments

In 1975, the District and Palmetto Dunes Resort entered into a management agreement, whereby the latter provides certain management and administrative support to the District. This position was assigned to Greenwood Development Corporation (Greenwood). As long as the District was indebted to Greenwood, Greenwood had the option to renew this agreement. The District has notified Greenwood of its intent to terminate this agreement as of December 31, 1987. The District is presently negotiating a new management agreement. Total billed under this agreement during the years ended June 30, 1987 and 1986 was \$42,000 and \$36,000, respectively. Current monthly payments from July 1 to December 31, 1987 are \$4,250 per month.

Note 6. Contributions from Developers

All Developers are required to construct the necessary infrastructure to provide the 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 waste water treatment facilities, the outfall and water system as explained in Note 7.

For the year ended June 30, 1986, two additions were completed and contributed to the District. These were the South Island Square project of \$89,613 and the Leamington Phase I project for \$327,919.

For the year ended June 30, 1987, one addition was completed, Leamington Phase II. This project has been capitalized at a cost of \$364,917.

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 prorata cost of the expansion of the treatment facilities and the island wide plan to meet the needs of their projects. The agreements call for \$947,827 in current and future payments from these developers, of which \$488,637 had been received by June 30, 1987. Letters of credit in the amount of \$287,572 are being held to partially secure the balance due and will be utilized as needed for the expansion of the treatment facilities.

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.

BROAD CREEK PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1987

Note 7. Commitments and Contingencies

On January 6, 1984 the District entered into an agreement with the South Carolina Department of Health and Environmental Control (DHEC) to participate in an island wide plan for the disposal of wastewater within the bounds of the District. In connection with this plan the District has committed to an expansion of its present wastewater treatment facilities to accomodate future development within the District.

The District has agreed to participate in the Island Wide Plan for wastewater treatment and disposal as proposed by DHEC through the implementation of certain construction within the District and in financial support of construction of an outfall system outside the District. Anticipated future cost of implementing the District's portion of the Island Wide Plan is approximately \$3,931,000. The District plans to fund the majority of this cost through a surcharge to developers based upon their required usage of sewer capacity for all new projects within the District, bond proceeds, and revenues.

The District has \$878,260 from the bond proceeds, \$10,509 interest earned on the proceeds, and \$488,637 from aid to construction fees, designated for these projects. No contracts have been executed for these projects as of June 30, 1987; however, the District is in the process of negotiating for the initial plant expansion and design for the plant upgrade.