

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)**

**SEABROOK ISLAND, SOUTH CAROLINA**

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY  
INFORMATION AND INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2017**

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**COMMISSIONERS**

James L. Bannwart, Chairman  
Leon D. Vancini  
Tim Morawski

Managed by Louis Berger Hawthorne Services, Inc.

## INDEPENDENT AUDITORS' REPORT

To the Commissioners of  
Seabrook Island Utility Commission  
(Component Unit of the Town of Seabrook Island)  
Seabrook Island, South Carolina

We have audited the accompanying basic financial statements of the Seabrook Island Utility Commission, a component unit of the Town of Seabrook Island, South Carolina, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Seabrook Island Utility Commission, as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the Commission's basic financial statements. The schedule of operating expenses on page 22 is presented for purposes of additional analysis and is not a required part of 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 schedule of operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Glaser and Company, LLC*

July 17, 2018  
Charleston, South Carolina

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
MANAGEMENTS' DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

The Seabrook Island Utility Commission (the "Commission") consists of a water and sewer system located on Seabrook Island, South Carolina. The affairs of the system are administered by three commissioners, who are elected by the Town of Seabrook Island's voters. The Commission has full control of the system. The Town of Seabrook (the "Town") considers the Commission to be a component unit of the Town as its revenue bonds are carried in the name of the Town. The Commission has contracted with Hawthorne Services, Inc. to manage the daily operations of the system.

As management of the Commission, our discussion and analysis provides an overview of the Commission's financial activities for the year ended December 31, 2017.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The basic financial statements, which consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets, and statement of cash flows (pages 8-11), provide information about the activities of the Commission as a whole and present a long-term view of the Commission's finances.

One of the most important questions asked about the Commission's finances is, "Is the Commission, as a whole, better or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's fund net assets and changes in them. You can think of the Commission's fund net assets, the difference between assets and liabilities – as one way to measure the Commission's financial health, or financial position. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Commission's customer base and the condition of the Commission's infrastructure, to assess the overall health of the Commission.

The Commission's activities are considered business-type activities whereby the Commission charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Commission's water and sewer system are reported on the statement of net assets.

**Notes to the Financial Statements**

The notes provide additional information that is essential to the full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 12 – 21.

In November 2016, Hawthorne Services, a Louis Berger Company, implemented a new billing and accounting system (SmartFusion) for the SIUC. The system conversion was effective on December 1, 2016. However, the conversion had a residual effect to cash flow and operations of the utility in the beginning of 2017 due to delayed billings from November to December. In January 2017, the Commission authorized a one-time combined billing for the November and December services and an accelerated billing cycle to 20-day intervals to catch up billings and cash flow. Regular billings commenced in June 2017 and for the remainder of the year, with full recovery to cash flow. The Commission recorded a total of \$88,592.17 in miscellaneous income for water and sewer as a result payment from the Town of Seabrook for FEMA reimbursement associated with Hurricane Matthew damages in 2016. The management company, Hawthorne Services, a Louis Berger company closed their North Charleston office and moved the accounting & billing office to the SIUC plant operations office with an additional bookkeeper hired in July 2017.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
MANAGEMENTS' DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

**CONDENSED COMPARATIVE ANALYSIS**

Our analysis below focuses on the balance sheet (Table 1) and changes in fund net equity (Table 2) of the Commission's activities.

	<b>Table 1 Balance Sheet (In thousands)</b>	
	<b>2017</b>	<b>2016</b>
Assets		
Current assets	\$ 2,814	\$ 2,968
Capital assets	12,588	13,099
Other assets	878	846
Total assets	\$ 16,280	\$ 16,913
Long-term debt outstanding	\$ 6,017	\$ 6,693
Other liabilities	379	449
Total Liabilities	6,396	7,142
Net Assets		
Invested in capital assets, net of related debt	6,571	6,405
Restricted	846	809
Unrestricted	2,467	2,557
Total Net Assets	9,884	9,771
Total Liabilities and Net Assets	\$ 16,280	\$ 16,913

The Utility system generated cash of \$893,370 from operations, and \$46,669 from developer and customer impact fees. Asset additions were \$277,099 in capital assets. The funds remaining after paying for capital assets were used to pay \$676,314 in net principal, \$145,786 in interest, and were offset by application of \$34,343 in interest income and an increased operations cash accounts of \$275,844 over the previous year.

The balance of other long-term assets consists of debt escrow accounts used to service the 2005 SRF loan, and the 2012 SRF loan and unamortized debt issue costs.

**SEABROOK ISLAND UTILITY COMMISSION  
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MANAGEMENTS' DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

**CONDENSED COMPARATIVE ANALYSIS – CONTINUED**

	<b>Table 2 Changes in Net Assets (In Thousands)</b>	
	<b>2017</b>	<b>2016</b>
Operating Revenues		
Water revenues	\$ 1,674	\$ 1,741
Sewer revenues	1,273	1,194
Other operating revenue	327	230
Total Operating Revenues	3,274	3,165
Plant operations	2,646	2,749
General and administrative	524	525
Total Operating Expenses	3,170	3,274
Non-Operating Revenues (Expenses):		
Other income	35	22
Other expense	(145)	(158)
Net Non-Operating Revenue (Expense)	(110)	(136)
Loss Before Capital Contribution	(6)	(246)
Capital Contributions:		
Developer contributions	73	71
Impact fees	47	80
Total Capital Contributions	120	151
Increase (decrease) in Net Assets	113	(94)
Beginning Net Assets	9,771	9,865
Ending Net Assets	\$ 9,884	\$ 9,771

In comparing 2017 to 2016 actual revenues and expenses, water revenue decreased primarily from reduced customer irrigation, deep well and effluent revenues caused by increased rain fall in 2017. Sewer revenue increased \$79,000 due to rate increase and addition of new residential services. Other operating revenue increased \$80,318 from FEMA reimbursement received in 2017 for Hurricane Mathew in 2016. Antenna rental shows a reduction of \$6,869 due to cancellation of Conterra lease effective September 30, 2017. Variances under \$1,000 are not noted here.

General and administrative expense decreased overall \$707 with increases of \$16,666 management fee, professional fees, \$5,392, other \$2,748, office supplies and postage \$603, offset by decreases of \$16,725 telephone and utilities, \$8,122 insurance, \$728 depreciation, \$471 repairs and maintenance, \$70 permit fees and licenses. Variances under \$500 are not noted here.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
MANAGEMENTS' DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

**FINANCIAL HIGHLIGHTS**

Due to current year operations, the Commission's net assets increased \$112,453 over last year. As of December 31, 2017, 15 residential water service accounts and nine (9) residential sewer service customers (accounts) were added during the calendar year within the Town of Seabrook. Outside the town, twelve residential customers and three commercial sewer service locations were added in 2017. Effective January 1, 2017, the Sewer Base Rate (ERU) increased by 6% for both residential and commercial customers. The increase was implemented to provide additional revenue to offset the costs of maintenance and repairs to the existing sewer system. There was no increase to the water rates during 2017.

Commercial sewer service expanded by 18.6 ERU's at Freshfields Village to serve three new commercial accounts. Tap-in Fees, also referred to Connection Fees decreased by 3% in 2017. Residential impact fees saw little change between 2016 and 2017 with an increase of less than 0.5 %. There were two commercial impact fee's totaling \$40,480 for Fuji Sushi and The Cantina 76 located in Freshfields. There were two developer contributions in 2017 totaling 73,000, Salt Marsh Phase 2 Water (\$38,000) and Salt Marsh Phase 2 Sewer (\$35,000.)

At December 31, 2017, total cash on hand was \$2,727,208 a decrease of \$46,236 from last year. This was primarily due to purchases of capital and unbudgeted expenses incurred for Hurricane Irma.

**General Fund Budgetary Highlights**

The actual charges to appropriations (expenditures) were approximately \$1,104 over 2017 budget, with significant variances. The most significant positive variances were \$77,658 salaries & benefits, \$24,015 elevated tank, \$15,032 utilities, \$9,057 interest expense, \$5,778 professional expenses, \$2,682 bank charges, \$1,957 maintenance & repair Bldg. \$1,694 commissioners gen expense, \$1,509 postage, stationary and supplies. The most significant negative variances were \$71,876 outside services, \$29,613 water, \$20,030 auto & truck gas and oil, \$11,951 management fee, \$11,178 depreciation, \$9,338 sludge removal and \$4,465 chemicals. All other variances less than \$1,000 are not listed. This does not reflect Aid in Construction as it is not budgeted. Resources available for appropriation (revenues) were above the final 2017 budget by \$55,197. The Commission attributes this positive variance primarily to Miscellaneous Income received for Hurricane Mathew reimbursement and impact fees of \$40,480 for Fuji Sushi and The Cantina 76.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2017, the Commission had approximately \$12.6 million invested in a broad range of net capital assets, including \$5.9 million for plant purchase, \$1.6 million for 16" water line, \$1.7 million for reservoir tanks, \$2.4 million for pump station flood-proofing, and \$1.7 million for WWTP Improvement. This amount includes net deductions (including additions and deductions) of \$510,835 or 3.90% compared to last year. Significant capital assets acquired during 2017 included \$7,350 Office Roof, \$46,766 Pumps & Panels, \$32,326 Manhole Rehab, \$4,950 GST Screens & Frames and \$106,196 PS 1&2 Generators and Transfer Switch. There was also aid in construction additions of \$38,000 for Salt Marsh Phase 2 Water and \$35,000 Salt Marsh Phase 2 Sewer. These were offset by depreciation of \$787,934 giving the net decrease in total book value.

The Commission's fiscal year 2018 budget calls for it to spend approximately \$225,000 for capital projects. The 2018 projects are \$40,000 for sewer pumps and panels, \$50,000 for sewer collection system rehab, \$105,000 for generators and transfer switches for PS 6 & 12 and \$30,000 for ground storage tank pump rebuild and auto valve.

**SEABROOK ISLAND UTILITY COMMISSION  
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MANAGEMENTS' DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

**Debt**

At year-end, the Commission had approximately \$6.02 million in bonds and notes outstanding.

A \$5,300,000 Revenue Bond was issued July 1, 2015 to South State Bank in order to refinance the 2005 Bonds. It is a 10-year commercial loan at 2.22% interest. A Revenue bond payment of \$275,000 is due January 1 and July 1 of each calendar year. In 2017 \$550,000 was paid with scheduled payment due January 1, 2018 of \$275,000 with remaining \$3,925,000 is due thereafter.

On November 10, 2005, the Commission obtained financing from the South Carolina Drinking Water Revolving Fund with the actual proceeds being received in January and August of 2006. The total loan was in the amount of \$1,000,717, with \$476,309 remaining balance outstanding and payable at December 31, 2017. On January 30, 2012, the Commission obtained \$1.7 million financing from the 2012 South Carolina Water Pollution Control Revolving Fund. The final loan amount was \$1,696,302 as amended April 15, 2013, with \$1,340,711 remaining balance outstanding and payable at December 31, 2017.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the fiscal-year 2018 budget, rates, and fees that will be charged for its activities. One of those factors is the cost of water and other operating costs. In 2017 Charleston Water Systems announced there would be water cost increase for 2018, so St. John's will be increasing the cost to us. Therefore, the Commission will retain the water base fee and there will be a pass-through rate increase to the customer for usage fees in 2018 by \$.16 per 1000 gallons. The rate will increase from \$3.87 to \$4.03 per 1000 gallons.

This was taken into account when adopting the operating budget for 2018. Amounts available for appropriation in the budget are \$3.3 million, an increase of 1.69% over the final 2017 budget of \$3.2 million. Combined water & irrigation income was expected to increase 2.6%, while sewer income had no change. Comparing 2017 and 2018 budgets, water impact fees, and both water and sewer connect fees are expected to remain the same. As for sewer, there are very few Cassique (outside areas) left that SIUC would be in a position to serve. Antenna rent was expected to decrease about .0052% with September 30, 2017 cancellation of Conterra lease.

## **BASIC FINANCIAL STATEMENTS**

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2017**

<b>Current Assets</b>	
Cash and cash equivalents - unrestricted	\$ 2,380,842
Customer accounts receivable	371,362
Other receivables	7,440
Unbilled revenue	38,818
Prepaid expenses	15,346
Total Current Assets	<u>2,813,808</u>
<b>Other Assets</b>	
Cash and cash equivalents - restricted	346,366
Investments - restricted	499,766
Capital assets, net of accumulated depreciation	12,587,743
Unamortized debt issue costs, net accumulated amortization	32,529
Total Other Assets	<u>13,466,404</u>
<b>Total Assets</b>	<u>16,280,212</u>
<b>Current Liabilities - Payable from Current Assets</b>	
Accounts payable	241,995
Accrued expenses	32,730
Total Current Liabilities - Payable From Current Assets	<u>274,725</u>
<b>Current Liabilities - Payable from Restricted Assets</b>	
Accrued interest	31,956
Current maturities of long-term debt	679,180
Customer deposits	72,754
Total Current Liabilities - Payable From Restricted Assets	<u>783,890</u>
Total Current Liabilities	<u>1,058,615</u>
<b>Long-Term Debt</b>	
Revenue bonds payable, less current maturities	3,650,000
State loans, less current maturities	1,687,840
Total Long-Term Debt	<u>5,337,840</u>
<b>Total Liabilities</b>	<u>6,396,455</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	6,570,723
Restricted	846,132
Unrestricted	2,466,902
<b>Total Net Assets</b>	<u>\$ 9,883,757</u>

See accompanying notes to the financial statements.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Operating Revenues</b>	
Water	\$ 1,674,117
Sewer	1,273,228
Availability fees	80,536
Tap-in fees	16,559
Lease income	116,670
Miscellaneous	113,037
Total Operating Revenue	<u>3,274,147</u>
<b>Operating Expenses</b>	
General and administrative	524,322
Plant operation	2,645,598
Total Operating Expenses	<u>3,169,920</u>
<b>Operating Income</b>	<u>104,227</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	34,343
Interest expense	(145,786)
Total Non-Operating Expenses, net	<u>(111,443)</u>
<b>Loss before Capital Contributions</b>	<u>(7,216)</u>
<b>Capital Contributions</b>	
Impact fees	46,669
Developer capital contributions	73,000
Total Capital Contributions	<u>119,669</u>
<b>Increase in Net Assets</b>	112,453
<b>Net Assets, beginning of year</b>	<u>9,771,304</u>
<b>Net Assets, end of year</b>	<u>\$ 9,883,757</u>

See accompanying notes to the financial statements.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 3,350,769
Payments to suppliers	(1,929,299)
Payments to contract employees	<u>(523,100)</u>
Net cash provided by operating activities	<u>898,370</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Principal paid on long-term debt	(676,314)
Interest paid on long-term debt	(147,479)
Decrease in debt escrow	2,274
Capital contributions from customers	46,669
Principal paid on loan from Town of Seabrook	-
Purchase of capital assets	<u>(204,099)</u>
Net cash used by capital and related financing activities	<u>(978,949)</u>
<b>Cash Flows From Investing Activities</b>	
Interest received	<u>34,343</u>
Net cash provided by investing activities	<u>34,343</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(46,236)
<b>Cash and Cash Equivalents, at Beginning of the Year</b>	<u>2,773,444</u>
<b>Cash and Cash Equivalents, at End of the Year</b>	<u><u>\$ 2,727,208</u></u>

See accompanying notes to the financial statements.

**SEABROOK ISLAND UTILITY COMMISSION  
 (COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
 STATEMENT OF CASH FLOWS - CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 2017**

**Reconciliation of Operating Income to Net Cash Provided  
 by Operating Activities:**

Operating Income	\$	104,227
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**Adjustments to Reconcile Operating Income to Net Cash  
 Provided by Operating Activities:**

Depreciation		787,934
Amortization of deferred loan costs included in interest		4,954
Bad debt expense		14,030
Changes in Assets and Liabilities:		
Assets (increase) decrease:		
Customer accounts receivable		(388,956)
Unbilled revenue		451,548
Prepaid expenses		(8,424)
Liabilities increase:		
Accounts payable		(88,824)
Accrued expenses		12,227
Customer deposits		9,654

<b>Net Cash Provided by Operating Activities</b>	<b>\$</b>	<b><u>898,370</u></b>
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See accompanying notes to the financial statements.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Entity**

The Seabrook Island Utility Commission (the “Commission”), formerly the Seabrook Island Water and Sewer Commission, consists of a water and sewer system (the “System”) located on Seabrook Island, South Carolina. The affairs of the System are administered by three commissioners, who are elected by the Town of Seabrook Island’s (the “Town’s”) voters. The Commission has full control of the System. The Commission has contracted with Hawthorne Services, Inc. to manage the daily operations of the System.

**Component Unit**

The Town considers the Commission to be a component unit of the Town as the Commission’s revenue bonds were issued in the name of the Town. See Note 5 for a further discussion of these bonds.

**Measurement Focus, Basis of Accounting and Presentation**

The Commission’s policy is to prepare its financial statements on the accrual basis of accounting, and accordingly, revenue is recorded when earned rather than when received and expenses are recorded when incurred rather than when paid. The Commission accounts for and reports its operations under Alternative One of the Governmental Accounting Standards Board (GASB) Statement Number 20. Under this alternative, the Commission must follow all GASB pronouncements and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

All activities of Seabrook Island Utility Commission are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that a periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Commission applies GASB statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires capital contributions to be reported as non-operating revenues in the statement of revenues, expenses and changes in net assets, not as direct increases in equity.

**Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of cash on hand, cash deposited, and interests in the State of South Carolina Treasurer’s Pool. All unrestricted highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

**Investments**

State of South Carolina statutes authorize the entity to invest in the following:

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 deposits to the extent insured by the Federal Deposit Insurance Corporation;
4. No-load open-end and closed-end portfolios of certain investment companies with issues of the United States government;
5. Certificates of deposit and repurchase agreements collateralized by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, or a market value not less than the amount of the certificate of deposit so secured, including interest.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Customer Accounts Receivable**

Customer accounts receivable consist mostly of charges for water and sewer services for the month of December 2017. Accounts are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts. Management believes that any difference between this method and methods prescribed by accounting principles generally accepted in the United States of America is immaterial.

**Unbilled Revenue**

Unbilled revenue represents the amount of water revenue pertaining to 2017 that has not been billed at year-end due to the billing cycle.

**Restricted Assets**

Certain assets are classified as restricted assets on the statement of net assets because their use is limited by debt agreements. The Commission applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Capital Assets**

Capital assets are recorded at cost less accumulated depreciation. The Commission has a policy to capitalize all capital assets in excess of \$2,000. Assets acquired through contributions from developers or other entities are capitalized at their estimated fair value, if available, or at engineers' estimated fair value or cost to construct at the date of the contribution. Depreciation of capital assets is computed using the straight-line method based on the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Land Improvements	15
Buildings	15 to 40
Waterworks and Sewer System	2 to 40
Office Furniture & Fixtures	3 to 10

**Bond Premiums and Discounts**

Bond premiums and discounts are deferred and amortized over the term of the bonds using the effective interest method. Net bond premiums totaled \$0 at December 31, 2017. Net bond premiums are presented as an increase of the face amount of revenue bonds payable, and amortized expense is presented in interest expense.

**Operating Revenues and Expenses and Rate Structure**

Revenues from water and sewer services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital costs and certain debt service. Operating revenues and expenses are those that result from providing services and delivering goods and services to customers.

**Tap-In Fees**

The Commission collects a non-recurring fee for new water and sewer connections. This fee applies only to new service on platted lots. A portion of tap-in fees covers the cost of connecting new service, and this amount is recognized as operating revenue when received. The Commission also receives an impact fee and this fee is recognized as capital contribution revenue when received. The purpose of impact fees is to offset the costs of operating the existing water system in place that must support these new connections.

**SEABROOK ISLAND UTILITY COMMISSION  
(COMPONENT UNIT OF THE TOWN OF SEABROOK ISLAND)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Developer Capital Contributions**

Developer capital contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets as capital contributions revenue and capital assets when deeded to the Commission. Contributions consist of developer contributed water and sewer infrastructures provided by developers for projects that result in the creation of platted lots.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. CASH EQUIVALENTS AND INVESTMENTS**

**Cash**

As of December 31, 2017, the Commission's carrying amount of deposits was \$311,557 and the bank balances were \$428,019.

**Cash Equivalents**

At December 31, 2017, the Commission had \$2,414,645 deposited with the South Carolina Local Government Investment Pool ("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 county treasurer or any governing body political subdivision of the State may be deposited. The Pool is a 2a-7 like pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value determined annually based on quoted market prices. The total fair value of the Pool is appropriated to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

**Cash and Cash Equivalents – Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a policy on custodial credit risk. As of December 31, 2017, the Commission's bank balances of \$177,518 were exposed to custodial credit risk.

**Designated Cash**

The Commission has established a designated emergency fund. At December 31, 2017, the designated cash balance for this purpose was \$450,000 and is included in unrestricted cash and cash equivalents.

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**2. CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

**Investments**

At December 31, 2017, the Commission had \$533,938 of investments in First American Treasury Obligations. These investments are restricted for servicing the debt of the Commission. The investments are held by a trustee and are carried at cost, which approximates fair value.

**Investments – Custodial Credit Risk**

Custodial credit risk for an investment is the exposure that a counter party fails, absent collateral, and the Commission is unable to recover its investment value. The Commission has no policy restricting the amounts or percentages of investments that may be invested in authorized investments. The Commission's investments were not exposed to custodial credit risk as of December 31, 2017.

A reconciliation of cash and cash equivalents and investments at December 31, 2017 is as follows:

Carrying amount of deposits	\$ 312,563
Carrying amount of investment pool	2,414,645
Carrying amount of investments	<u>499,766</u>
<b>Total</b>	<b><u>\$ 3,226,974</u></b>
Cash and cash equivalents - restricted	\$ 346,366
Cash and cash equivalents - unrestricted	2,380,842
Investments - restricted	<u>499,766</u>
<b>Total</b>	<b><u>\$ 3,226,974</u></b>

**3. RESTRICTED CASH AND INVESTMENT ACCOUNTS**

A portion of cash, cash equivalents and investments has been restricted pursuant to the bond and loan agreements.

**Debt Service Fund and Debt Service Reserve Funds**

The investment accounts have been restricted pursuant to the debt agreements for the purpose of paying the interest on and the retirement of debt, and to maintain the security of the loans. The amount restricted at December 31, 2017 was \$499,766.

**Operations and Maintenance Fund**

Pursuant to the bond and loan agreements, at December 31, 2017, the Commission has restricted \$121,366 as an estimate of expenses to operate and maintain the System for the ensuing month.

**Capital Improvements Fund**

Pursuant to the bond and loan agreements, at December 31, 2017, the Commission has restricted \$225,000 as an estimate of future capital improvements during 2018.

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**4. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

	<u>Balance 1/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2017</u>
Capital assets not depreciated:				
Land	\$ 76,258	\$ -	\$ -	\$ 76,258
Capital assets depreciated:				
Land improvements	57,002	-	-	57,002
Buildings	325,780	7,349	-	333,129
Waterworks and sewer system	24,285,236	269,750	-	24,554,986
Office furniture and fixtures	28,232	-	-	28,232
Subtotal	<u>24,772,508</u>	<u>277,099</u>	<u>-</u>	<u>25,049,607</u>
Accumulated depreciation	<u>(11,673,930)</u>	<u>(787,934)</u>		<u>(12,461,864)</u>
 Total	 <u>\$ 13,098,578</u>	 <u>\$ (510,835)</u>	 <u>\$ -</u>	 <u>\$ 12,587,743</u>

Depreciation expense recorded for the year ended December 31, 2017 was \$787,934.

**5. LONG-TERM DEBT**

A summary of changes in long-term debt for the year ended December 31, 2017 is as follows:

	<u>Balance 1/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2017</u>
2005 South Carolina Water Quality Revolving fund authority loan	\$ 528,279	\$ -	\$ (51,970)	\$ 476,309
Portion due within one year				<u>53,149</u>
2012 South Carolina Water Quality Revolving fund authority loan	<u>1,415,055</u>	<u>-</u>	<u>(74,344)</u>	<u>1,340,711</u>
Portion due within one year				<u>76,031</u>
Revenue Bonds - Series 2015	<u>4,750,000</u>	<u>-</u>	<u>(550,000)</u>	<u>4,200,000</u>
Portion due within one year				<u>550,000</u>
 Net long-term debt	 <u>\$ 6,693,334</u>	 <u>\$ -</u>	 <u>\$ (676,314)</u>	 <u>\$ 6,017,020</u>

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**5. LONG-TERM DEBT - CONTINUED**

South Carolina Water Quality Revolving Fund Authority Loan - 20" Water Line

On November 10, 2005, the Commission signed a loan agreement with the South Carolina Water Quality Revolving Fund Authority ("Water Authority") in the name of the Town of Seabrook for an available amount of \$1,120,808. The proceeds from the loan are to fund the installation of approximately 7,650 linear feet of 20-inch water main and all necessary appurtenances. At December 31, 2017, \$476,309 remained outstanding and payable. Pursuant to the terms of the loan agreement, amounts disbursed shall bear interest from the date of the Water Authority's check for each disbursement and accrued interest only shall be due on the payment initiation date, February 1, 2006, with the repayments of principal and interest to begin on the first day of the third month following the payment initiation date or August 1, 2006. Interest accrues at a rate of 3.00% per annum, with principal and interest due in 79 quarterly installments of \$18,699 each and one final installment of \$18,699 in 2026. The note is secured by a lien upon the net revenues of the System, as defined in the general bond ordinance, and a statutory lien granted to the Authority upon the System.

On August 16, 2006, the loan was amended. Since \$121,127 of the original loan authorization remained undisbursed after the final draw, the permanent loan amount became \$1,000,717. As a result, the payment amount was recalculated retroactive to the payment initiation date thereby reducing the quarterly installments to \$16,680 over the same 20-year term ending February 1, 2026. On January 1, 2012, the loan was amended for an interest reduction to 2.25% per annum, thereby reducing the quarterly installments to \$15,855 over the same term.

South Carolina Water Quality Revolving Fund Authority Loan – Waste Water Treatment Plan Upgrade

On January 30, 2012, the Town of Seabrook Island, South Carolina, signed a Loan Agreement with the South Carolina Water Quality Revolving Fund Authority for the benefit of the Seabrook Island Utility Commission as its component unit. At December 31, 2017, \$1,340,711 remained outstanding and payable. The loan amount is for \$1,700,000 (subsequently amended to \$1,696,302) and the proceeds are used for a waste water treatment plant upgrade. The loan calls for 80 quarterly installments of principal and interest of \$26,447 (subsequently reduced to \$26,390) and bears interest of 2.25%. The loan matures on February 1, 2033. The note is secured by the net revenues of the Commission and a statutory lien upon the system pursuant to Section 6-21-330 of the Code of Laws of South Carolina, 1976, as amended.

Water and Sewer System Refunding Revenue Bonds, Series 2015

The \$5,300,000 Water and Sewer System Refunding Revenue Bonds, Series 2015 ("Series 2015 Bonds") were issued to provide funds (1) to advance refund the Town's outstanding Water and Sewer System Refunding Revenue Bonds, Series 2005, with a principal balance of \$4,035,000 outstanding at issuance; (2) to satisfy the 2000 South Carolina Infrastructure Facilities Loan with an outstanding principal balance of \$1,371,035 at issuance; and (3) to pay certain costs of issuance relating to the Series 2015 Bonds. A portion of the proceeds were placed in a refunding trust fund established under a refunding trust agreement and applied, together with the investment earnings thereon, to pay all the principal and interest payable on the outstanding amount of \$5,300,000 on the Series 2015 bonds. No debt service reserve fund was established or initially funded with respect to the Series 2015 Bonds.

The bonds were issued in July 2015, and interest is payable quarterly on January 1, April 1, July 1 and October 1 at coupon rate of 2.22%. Principal of the Series 2015 Bonds is payable, subject to redemption, on January 1 and July 1 each year through 2025 at \$275,000 per redemption.

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**5. LONG-TERM DEBT - CONTINUED**

The Series 2015 Bonds are subject to redemption at the option of the Town upon the written direction of the Commission, in whole or in part at any time, at the redemption price equal to 100% of the principal amount of the Series 2015 Bonds to be redeemed plus accrued interest to the date fixed for redemption.

With limited obligations for the Town of Seabrook Island, the Series 2015 Bonds are solely payable from the net revenues of the Commission and are solely secured by a pledge of and lien upon such net revenues. Net revenue is defined as the revenue of the System after deducting expenses of operating and maintaining the System.

In the bond ordinance, the Town covenants and agrees that it will cause the Commission to operate the System in an efficient and economical manner and will cause the Commission to establish, levy, maintain, revise, and collect such fees, rates, and other charges for the use of the services and facilities furnished as may be necessary or proper, which fees, rates and other charges, together with the other revenues and other available moneys, shall for each fiscal year be at least sufficient, after making due and reasonable allowances for contingencies and for a margin of error in estimates, to provide an amount not less than (1) the amount required to be deposited into the operation and maintenance fund for the then current fiscal year; (2) 110% of the amounts required to be deposited in the debt service fund; (3) the amount required to be deposited in the debt service reserve fund; (4) the amount required to be deposited in the capital improvements fund; (5) the amount required to provide for payment of any junior bonds; and (6) the amount necessary to comply in all respects with the terms of the bond ordinance or any other contract or agreement with the holder of the Series 2015 Bonds.

The Commission has various financial and non-financial covenants it is required to comply with associated with the Series 2015 Bonds. As of December 31, 2017, the Commission was in compliance with all financial covenants.

At December 31, 2017, maturities on the Commission's long-term debt excluding revenue bonds discounts and premiums and deferred losses were as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Years ending December 31:			
2018	\$ 679,180	\$ 126,934	\$ 806,114
2019	682,109	111,791	793,900
2020	685,078	96,585	781,663
2021	688,172	81,310	769,482
2022	691,309	65,963	757,272
2023-2027	2,093,262	133,409	2,226,671
2028-2032	497,910	29,909	527,819
Total	\$ 6,017,020	\$ 645,901	\$ 6,662,921

The Commission recognized \$145,786 of interest expense during the year ended December 31, 2017.

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**6. CONCENTRATION OF CREDIT RISK**

The Commission provides water and sewer services predominantly to residents and businesses located in the Town of Seabrook Island, South Carolina. It also offers sewer service to two developments outside the Town that were under contract when the System was acquired. Accounts receivable of the Commission consist mostly of these charges. Additionally, all of the water sold is purchased from St. Johns Water Company, Inc. of Johns Island, South Carolina.

**7. LEASE INCOME**

The Commission collects income for leasing space for antennas under the following lease agreements:

- a) The Commission entered into an agreement with BellSouth Cellular Corp. (now AT&T) in August 1996. BellSouth has the option to extend for four additional five-year periods with a three percent increase for each year of the five-year period. On September 1, 2011, BellSouth opted to exercise its third renewal option and extend the agreement for an additional five-year period beginning September 1, 2011 at \$25,094 per year, increasing 15% each year (effective September 1, 2016).
- b) The Commission entered into a new agreement with Charleston-North Charleston MSA Limited Partnership d/b/a Alltel (now Verizon) in April 2001. The lease term was for an initial term of five years to be automatically renewed for four additional terms of five years each. Rent for each renewal term will be the annual rent in effect for the final year of the initial term or prior renewal term increased by 15%. In May 2006, Alltel opted to renew the lease for an additional five-year term. The monthly rent is \$2,578. In May 2011, the agreement was renewed for an additional five-year period at a monthly rent of \$2,965.
- c) The Commission has an agreement with AGW Leasing Company, Inc. (now Sprint) dated March 1999. The lease term is for five years with an automatic renewal for four additional 5-year terms. The monthly rental amount is \$1,325 with an increase of 15% for each renewal term. In December 2014, AGW Leasing Company exercised the third of these renewal terms at \$2,015 per month.
- d) The Commission has an agreement with Triton PCS Property Company, LLC (now T-Mobile) dated January 2000. The lease term is for five years with an automatic renewal for four additional 5-year terms. The monthly rental amount is \$1,325 with an increase of 15% for each renewal term. In January 2015, T-Mobile exercised the third of these renewal terms at \$2,015 per month.
- e) The Commission had an agreement with Conterra Ultra Broadband, LLC dated December 15, 2010. The lease term is for five years and was commenced February 2011, with an automatic renewal for four additional 5-year terms. The annual rent is \$6,000, payable annually in advance of the year. The rent will increase 3% annually over the term of the agreement. This agreement was terminated on September 30, 2017.

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**7. LEASE INCOME - CONTINUED**

The following is a schedule of the approximate future minimum rental income to be received at December 31:

2018	\$	48,360
2019		46,345
2020		-
2021		-
Thereafter		-
		<hr style="border-top: 1px solid black;"/>
	\$	<u>94,705</u>

Rental lease income recognized under these leases for the year ended December 31, 2017 was \$116,670.

**8. COMMITMENTS**

On January 8, 2008, the Commission signed a new 5-year contract effective May 1, 2008 with Hawthorne Services, Inc., a Louis Berger company, (Hawthorne) to manage the daily operations of the System. It has a 5-year renewal option which was exercised on April 10, 2013. The contract is subject to termination at the sole discretion of the Commission if the services of Hawthorne are inferior in quality as measured by interruptions in service, customer complaints, and cost overruns without satisfactory explanation and if Hawthorne and the Commission do not resolve Hawthorne’s failure to perform the defined services in whole or in part within 30 days. In the event of termination, the Commission shall pay only for the services rendered to the date of such termination.

The management fee paid to Hawthorne was \$250,450 for the year ended December 31, 2017. This fee may be adjusted annually for escalating direct costs for the accounting and billing function upon approval of the Commission.

On July 15, 2009, the Commission signed a 60-year contract with St. Johns Water Company, Inc. (SJWC) for purchase of potable water for the Commission. Water supplied must meet the applicable purity standards of the South Carolina Department of Health and Environmental Control. SJWC agrees to provide the Commission access to 2,470,000 gallons of water per day. In the event of emergency or control amendment, the flow rate may be raised to meet the needs of the Commission. Monthly volumetric charges for water services are based upon the rate charged to SJWC by the Charleston Water System (CWS). The Commission is charged a percentage of the operating and maintenance costs of SJWC based upon the percentage of gallons purchased from SJWC to the total gallons purchased by SJWC from the CWS.

**9. FACILITY CHARGE ADJUSTMENT**

In the event that the established water and sewer charges and fees yield cash revenue in excess of the obligations specified by the bond ordinance, the Commission, at its sole discretion, may from time to time return surplus cash to eligible residential and commercial customers through a facility charge adjustment. Surplus cash is defined as operating cash and current accounts receivable in excess of forecasted operating maintenance, debt service and capital expenditures for the current month, after providing for payment of the prior month payable to the management company and the monthly debt service payment.

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**9. FACILITY CHARGE ADJUSTMENT - CONTINUED**

In addition, the following conditions must be met:

- a. The current year-to-date operating cash surplus must exceed 10% of the total debt service interest and principal payments for the fiscal year.
- b. There must be at least \$350,000 in cash reserves for emergency operating expenses.
- c. There must be at least \$100,000 in cash available for capital expenditures.

Eligible customers are customers of record for billing purposes on the date that the Commission declares a facility charge adjustment. During the year ended December 31, 2017, the Commission did not approve a facility charge adjustment.

**10. RELATED PARTIES**

The Commission is a component unit of the Town, (see Note One). The Commission and the Town entered into several transactions during the year ended December 31, 2017.

The Commission provides water to the Town. During the year, the Commission recorded \$10,350 in revenue related to the sale of water to the Town. At December 31, 2017, the Commission had accounts receivable from the Town in the amount of \$1,859. This amount is included in customer accounts receivable on the statement of net assets.

**11. RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. To insure against these risks, the Commission is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina. The Commission pays annual premiums to the State Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims.

The Commission incurred no significant uninsured claims during the year ended December 31, 2017. There was no liability or expense recorded for other actual claims, and management does not believe any provision for unasserted claims is necessary. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

**12. SUBSEQUENT EVENTS**

Management has evaluated the impact of events and transactions occurring subsequent to December 31, 2017 through July 17, 2018, the date these financial statements were available for issuance. Based upon this evaluation, there were no material subsequent events that required recognition in these financial statements.

**SUPPLEMENTARY INFORMATION**

**SEABROOK ISLAND UTILITY COMMISSION  
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SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>General and Administrative Expenses</b>			
Management fee	\$ 100,180	\$ 150,270	\$ 250,450
Telephone and utilities	75,560	75,560	151,120
Repairs and maintenance	11,552	11,595	23,147
Professional fees	14,611	14,611	29,222
Insurance	7,245	8,333	15,578
Other	15,395	15,360	30,755
Depreciation	1,294	1,293	2,587
Permit fees and licenses	11,229	1,006	12,235
Office supplies and postage	4,614	4,614	9,228
<b>Total General and Administrative Expenses</b>	<u>\$ 241,680</u>	<u>\$ 282,642</u>	<u>\$ 524,322</u>
<b>Plant Operation Expenses</b>			
Purchased water	\$ 879,687	\$ -	\$ 879,687
Depreciation	244,642	540,705	785,347
Payroll and payroll taxes	231,338	303,989	535,327
Other	58,338	690	59,028
Repairs and maintenance	95,491	58,615	154,106
Outside services	54,568	104,869	159,437
Testing, treatment and disposal	8,087	64,579	72,666
<b>Total Plant Operation Expenses</b>	<u>\$ 1,572,151</u>	<u>\$ 1,073,447</u>	<u>\$ 2,645,598</u>

See independent auditors' opinion.