

# Hilton Head No.1 Public Service District Comprehensive Annual Financial Report



Fiscal Year Ending  
June 30, 2011

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# INTRODUCTION

## Board of Commissioners

The Hilton Head No.1 Public Service District (the “PSD” or the “District”) is governed by a seven-member Board of Commissioners (the “Commission”). Commissioners are elected to four-year terms by registered voters during general elections. Commissioners represent four different sub districts within the PSD service area.



**W. Robert “Bob” Manne, Chairman, District 4**

Current Term: 2008-2012

Long Range Water Supply Committee

Community and Personnel Relations Committee



**Robert “Bob” Gentzler, Vice Chairman, District 3**

Current Term: 2010-2014

Chairman, Planning & Operations Committee



**Gary Kratz, Treasurer, District 4**

Current Term: 2008-2012

Finance Committee

Planning and Operations Committee

Long Range Water Supply Committee



**John Geisler, Secretary, District 3**

Current Term: 2008-2012

Chairman, Finance Committee



**Jack Burke, District 2**

Current Term: 2008-2012

Planning and Operations Committee

## Board of Commissioners (continued)



**Frank Drehwing, District 4**

Current Term: 2010-2014

Chairman, Long-Range Water Supply Committee  
Community and Personnel Relations Committee



**Herbert Ford, District 1**

Current Term: 2010-2014

Chairman, Community & Personnel Relations Committee

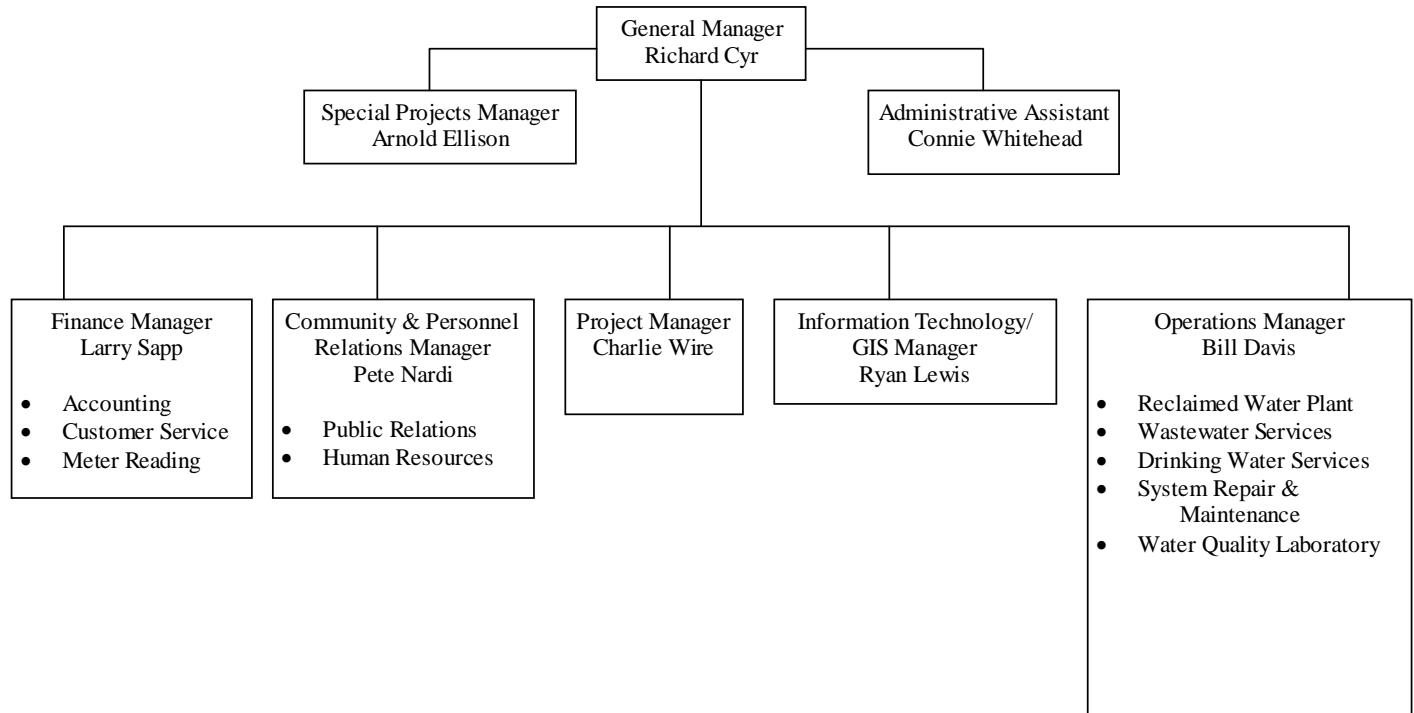
The PSD's Customer Service Center is located at 21 Oak Park Drive off Mathews Drive on Hilton Head Island. The Commission normally meets there on the fourth Tuesday of each month.





## Administrative Team

Below is an organizational chart of the District's administrative team.



In 2011, the PSD completed construction of its Aquifer Storage & Recovery Well in Hilton Head Plantation. The well stores water in the underground aquifer in the winter months of lower demand, and withdraws water in the summer months of high demand – providing 2 million gallons a day over an approximately four-month period.

## A Message from the General Manager

Welcome to Hilton Head Public Service District's Comprehensive Annual Financial Report. This report reflects the work of all members of the PSD team – from our front-line water and wastewater technicians and customer service representatives, to our senior management team and Board of Commissioners.

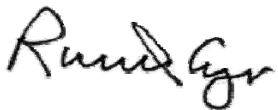
In this report's Priorities and Projects section, you will read about one of the most important issues facing Hilton Head PSD and Hilton Head Island itself – ensuring a clean and long-term drinking water supply. The PSD has taken numerous steps to replace water supply lost to saltwater intrusion into the groundwater aquifer that was our traditional source of drinking water. We remain deeply engaged in the strategic planning of our future water supply projects and measures. In 2011, we constructed the island's first-ever Aquifer Storage & Recovery (ASR) well, which will provide 2 million gallons a day of fresh drinking water during times of peak demand.

The extension of our public sewer system to properties within our service area that still rely upon septic systems to treat their household wastewater is another high priority for the utility. The PSD and the Town of Hilton Head Island have taken an aggressive approach to pool our resources and perform sewer installation projects. The Stoney neighborhood sewer project is a great example of the partnership between the PSD and Town benefitting our mutual customers – the residents and businesses of Hilton Head Island.

The PSD emphasizes efficiency in all aspects of our operations and services. We encourage water efficiency among our customers through a conservation-based rate structure that helps customers save money by using less water. Our customer and public education efforts are focused on smart irrigation practices and water-efficient landscapes.

The PSD's highest calling is to the protection of public health and our delicate island environment. We take our mission seriously and we are honored to be stewards of this special place – Hilton Head Island.

Best Regards,



General Manager  
Hilton Head PSD

Aerial view of the PSD  
Reclaimed Water Plant and  
Customer Service Center



## **Vision Statement**

Our vision is to be a state of the art public utility, operated by an excellent, highly trained staff, providing the best practical levels of water and sewer customer service and satisfaction.

## **Mission Statement**

Hilton Head Public Service District is a public utility chartered by the General Assembly of South Carolina and owned by the people of the State. Its mission is to provide high quality water and sewer service to all properties within the district, and to deliver that service at a reasonable cost and in a timely manner, with sensitivity to the needs of the community and commitment to improving the environment of the island.

## **Strategic goals**

The PSD Commission conducts an annual Strategic Planning Session and conducts ongoing strategic planning activities throughout the year. Each Strategic Goal is accompanied by specific directives and staff work plan items. The directives and staff work plan also are updated annually. Below are the current Strategic Goals for the PSD as adopted by the PSD Commission.

### **The District's Strategic Goals**

Revised November 20, 2011

Goal No. 1 – Water Services: Meet all of our customers' water supply needs with the highest quality water possible at a reasonable cost.

Goal No. 2 – Water Reclamation Services: Meet all of the District's wastewater process and reclamation services at a reasonable cost while enhancing and protecting the Island's environment.

Goal No. 3 – Environmental: Operate in a sustainable manner with high regard for protecting and improving the environment.

Goal No. 4 – Customer Satisfaction: Achieve a consistently high level of customer satisfaction.

Goal No. 5 – Financial Responsibility: Conduct all District activity in a fiscally responsible manner.

Goal No. 6 – Organizational Excellence and Leadership: Achieve organizational excellence and leadership under the guidance of careful strategic planning.

Goal No. 7 – Asset Management: Improve, maintain and secure the District's property, information, plant and equipment assets.

Goal No. 8 – External Relations: Develop and expand the District's positive relationships with external organizations, utilities and governments.



## The PSD At-a-Glance

- Provides drinking water, wastewater treatment, and reclaimed water services for more than 18,000 residential and commercial customers in the north and mid-island areas of Hilton Head Island, SC.
- Drinking water sources are: brackish groundwater from the 600-foot-deep Middle Floridan Aquifer treated in Reverse Osmosis Plant that began operations in April 2009; fresh groundwater from the 150-to-300-foot-deep Upper Floridan Aquifer; and treated Savannah River surface water purchased from the Beaufort-Jasper Water & Sewer Authority.
- Provides customers with an average of 6 million gallons of drinking water a day.
- Has the capacity to provide approximately 3.8 billion gallons of drinking water a year.
- Uses five elevated water storage tanks with a total capacity of approximately 1.4 million gallons, and three ground-level storage tanks with a capacity of 7 million gallons.
- Maintains 220 miles of drinking water lines throughout our service area.
- Operates a Reclaimed Water Plant with a capacity to treat 6.4 million gallons of wastewater a day.
- Maintains a public sewer system with more than 100 lift stations, including 133 miles of gravity sewer lines and 69 miles of force main.
- Has the capacity to store 45 million gallons of reclaimed water, using two storage tanks and two different lagoon systems.
- Provides reclaimed water to 11 golf courses on the island for use in irrigation. Also provides reclaimed water to four wetlands in Hilton Head Plantation and Palmetto Hall as part of a state-monitored wetlands nourishment program. The PSD annually recycles nearly 1 billion gallons of reclaimed water for golf course irrigation and wetlands nourishment.



In 2011, the PSD completed a sewer installation project in the Stoney area on the north end of Hilton Head Island. The project brought sewer access to Native Islander neighborhoods that had been relying on septic systems, which are ill-suited for the island's high groundwater table.

## Priorities and Projects

### *Fighting Saltwater Intrusion*

Hilton Head PSD has lost six drinking water wells since 2000 as a result of saltwater intrusion into our Upper Floridan Aquifer. The intrusion is being caused by the over-pumping of the aquifer in the Savannah, Ga., area, and by naturally occurring phenomena. Studies have shown that the saltwater is advancing through the aquifer at a rate of about 300 feet a year and there is nothing the PSD can do to reduce or stop the intrusion.

One of the first steps to replace the drinking water supply lost to the intrusion was the construction of a pipeline underneath the Intracoastal Waterway in the late 1990s. The pipeline allows the PSD to purchase treated Savannah River water from the Beaufort-Jasper Water & Sewer Authority. A second step came in 2009 when the PSD launched its Reverse Osmosis (RO) Drinking Water Treatment Facility on Jenkins Island across from Windmill Harbour. The RO plant filters brackish groundwater and produces 3 million gallons of drinking water a day. It is expandable to provide 6 million gallons of drinking water a day.

The PSD remains constantly engaged in monitoring saltwater intrusion, planning the optimized use of the Upper Floridan Aquifer and planning alternative sources and supplies of drinking water. The utility works closely with Dr. Richard Spruill, hydrologist at East Carolina University and principal in Groundwater Management Associates of Greenville, N.C., to monitor the rate and location of saltwater intrusion. Recent monitoring indicates the PSD may be able to extend the life of some Upper Floridan wells by reducing the rate of pumping. Additionally, research indicates some potential exists for treatment of Upper Floridan groundwater in the RO facility. The PSD is evaluating all options at its disposal to ensure a long-term and high-quality supply of drinking water.

### *Aquifer Storage and Recovery (ASR) Well Completed*

In 2011, the PSD completed construction of a new well that stores drinking water for the high-demand summer months. The Aquifer Storage & Recovery (ASR) well stores surplus drinking water in the 600-foot-deep Middle Floridan Aquifer during the winter months of low demand, and pumps into the water distribution system during the summer months of high demand.

The ASR well is set to provide 2 million gallons a day of drinking water during times of peak demand, and replaces part of the drinking water supply necessary to meet the PSD's daily peak water demand projection of 12 million gallons a day. The ASR well is located at the utility's Royal James Drive property in Hilton Head Plantation.

Concurrent to the ASR project, the PSD installed a new 16-inch water transmission main into Hilton Head Plantation and added a booster pump station at its Wild Horse Road water tower. This project was needed to help provide optimum water pressure in the Hilton Head Plantation area. In 2011, the utility also pressurized a 24-inch water main jointly owned by the Broad Creek and Hilton Head PSDs. These main improvements are a crucial transmission and storage component of the PSD's efforts to combat the impacts of saltwater intrusion.

The PSD Commission chose to pay for the \$4-million ASR well and main improvement project using general obligation bonds that will be repaid by the utility's property tax rate. The project adds less than \$4.00 to the annual PSD taxes on a home valued at \$100,000.

### *Future Water Supply Projects*

The PSD's timeframe for future projects to replace lost water supply is outlined below:

- 2017 – Second ASR well needed to replace one Upper Floridan well.
- 2020 – Third ASR well needed to replace two Upper Floridan wells.
- 2020 – Reverse Osmosis plant expansion may be needed to add another one million gallons a day of supply.

The construction of additional ASR wells and expansion of the Reverse Osmosis plant are options currently at the forefront of the PSD's future water supply planning.

### *The Sewer Extension Effort, 2011 Update*

In 2011, the PSD completed an important project to bring sewer services to the Stoney neighborhood on the north-end of Hilton Head Island. This neighborhood traditionally is home to Native Islander families and long had expressed a desire for public sewer service. The Town's Tax Increment Finance (TIF) district in the Stoney area provided a portion of the funding for the project, which brought sewer availability to 136 properties and created access to the sewer system throughout the neighborhood.

The PSD and the Town also are working on the use of TIF funds to bring sewer access to the Chaplin Native Islander neighborhood, and the PSD is in the process of preparing a sewer project for the Town's Fords Shell Park on Squire Pope Road.

In 2003, approximately 80 percent of all properties in the District's service area (Jenkins Island to the Hilton Head Resort) were connected to the public sewer system. Today, approximately 93 percent of all properties in the PSD service area are connected to the public sewer system. That leaves about 1,200 properties that remain unconnected to sewer.

Neighborhoods such as Spanish Wells, Chaplin, Baygall, and Stoney, comprise the bulk of the areas still in need of sewer access. The PSD is prioritizing projects based on public health, environmental impact, customer interest, and cost, among other factors.

The progress made has been the result of taking a systematic approach to extending the sewer system into previously un-served areas whenever the opportunity arises as a result of development or neighborhood initiative.

The front-foot assessment process offered by the PSD allows property owners a long-term, low-interest financing option to pay for their sewer connection. The assessment is placed on owners' Beaufort County, S.C., property tax bill.

### *Project SAFE*

Project SAFE (Sewer Access for Everyone) is one of the most important tools used by the PSD to offer sewer access throughout our service area. The program, a fund managed by the nonprofit Community Foundation of the Lowcountry, provides income-based grants to low-to-moderate income homeowners. The

PSD assists customers in the application process, and the Foundation makes all grant award determinations. Homeowners can receive partial and full grants to cover their connection costs.

Hilton Head PSD customers contribute more than \$35,000 annually to Project SAFE, and the fund has provided more than \$280,000 in sewer connection grants since 2001.

#### *Town of Hilton Head Island Partnership*

Cooperation between the PSD and the Town of Hilton Head Island in recent years has resulted in reducing the cost of installing sewer by identifying Town-owned lands where sewer infrastructure, such as pump stations and mains, can be located. It also has led to Town projects to install sewer for public park facilities that have not been served by the sewer system.

In October 2011, the Hilton Head Town Council and the PSD Commission held “Sewer Summit III,” a joint meeting to discuss progress in the sewer extension effort and to set the stage for continued partnership. Summits have been held every three years since 2005. The following five areas were discussed at Sewer Summit III as needing Town government activities to finish the job of extending the sewer system to PSD customers who still lack access:

- Co-location of lift stations on Town property
- Bring sewer to Town properties
- Coordination of utility projects (electric, water, sewer, road paving, etc.)
- Assist in funding to bring sewer to un-served areas
- Enact Town policies to discourage septic tank installations



**COMMISSIONERS**

Bob Manne, Chair  
Bob Gentzler, Vice-Chair  
John Geisler, Secretary  
Gary Kratz, Treasurer  
Jack Burke  
Frank J. Drehwing  
Herbert Ford

**EXECUTIVE STAFF**

Richard C. Cyr, General Manager  
William C. Davis, Operations Manager  
Larry M. Sapp, Finance Manager  
Pete Nardi, Community Relations Manager

# **HILTON HEAD PUBLIC SERVICE DISTRICT**

November 29, 2011

## **Management Letter of Transmittal**

The Commission and staff of the District are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This is the second report issued as a CAFR and it will be made available to the general public via the [www.hhpsd.com](http://www.hhpsd.com) web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island.

Management is responsible, in all material respects, for both the accuracy of the data included herein, and for the comprehensiveness of the presentation, including all disclosures. The data contained herein is being presented to fairly disclose the financial position and the results of operations of the PSD. All disclosures necessary to provide the reader with an understanding of the PSD's financial and operational activities have been included.

The CAFR is presented in three sections: Introduction; Financial; and Statistical. The Introduction contains an overview of the PSD's mission and its operations, including management transmittal letters. The Financial section has a report of the independent auditor, management's discussion and analysis, the PSD's financial statements, and supplemental financial data. The Statistical section includes financial and demographic information, generally presented on a multi-year basis.

### ***Profile of the Government***

The PSD was created by Act No. 596 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina for the year 1969, and certain amendments thereto, as a Special Purpose District of perpetual succession. The purpose of the PSD is to provide for a publicly owned and operated waterworks and sewage disposal system within its service area on Hilton Head Island.

Citizens of Hilton Head Island relied on private wells for their drinking water needs until 1957. At that time, a local development firm by the name of the Hilton Head Water Company introduced a community waterworks system, installing water lines and drilling wells throughout the island.

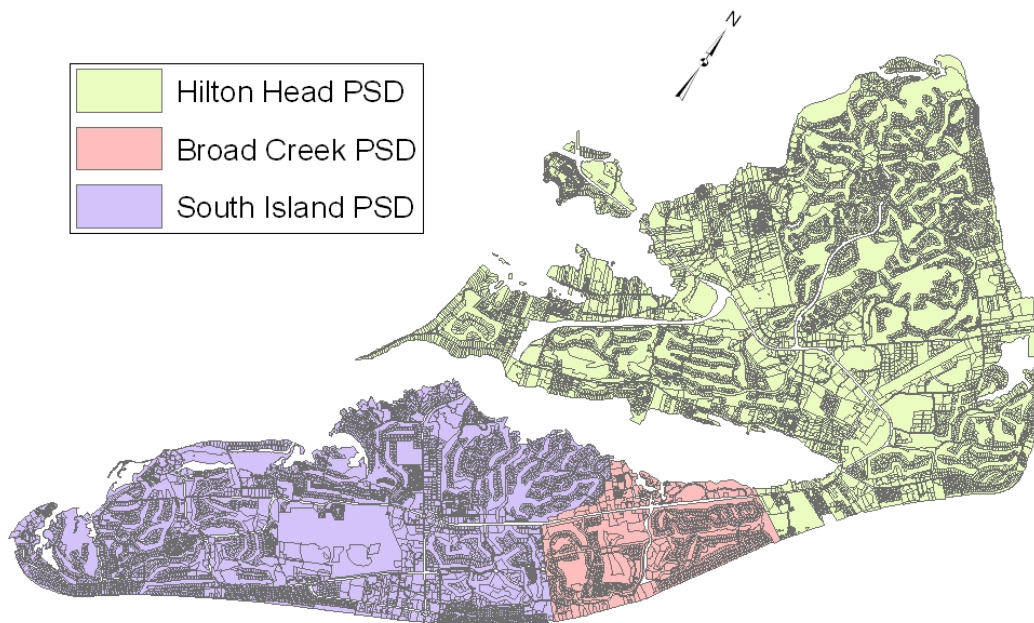
As the community expanded and development progressed Hilton Head citizens became increasingly aware of the need for enhanced services, a need especially apparent in fire protection, water flow and sewer services.

The island once was served by 10 different water and wastewater utilities. Beginning in 1995, the District acquired the four utilities that now encompass its current service district, including Hilton Head Plantation Utilities, Hilton Head Island Rural Water District, Coastal Utilities and Hilton Head Water Company. In addition, the District acquired two small systems on the island previously served by the Beaufort-Jasper Water & Sewer Authority. Consolidation of the remaining island utilities formed the three public service districts currently serving Hilton Head Island.

Today, the PSD serves more than 18,000 customers in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort.

The remainder of Hilton Head Island is served by either the Broad Creek PSD, which serves the Palmetto Dunes and Shelter Cove areas, or the South Island PSD, which serves all areas of the island south of Palmetto Dunes. The three island public service districts work together on an array of issues, from hurricane operations and recovery to future water supply planning.

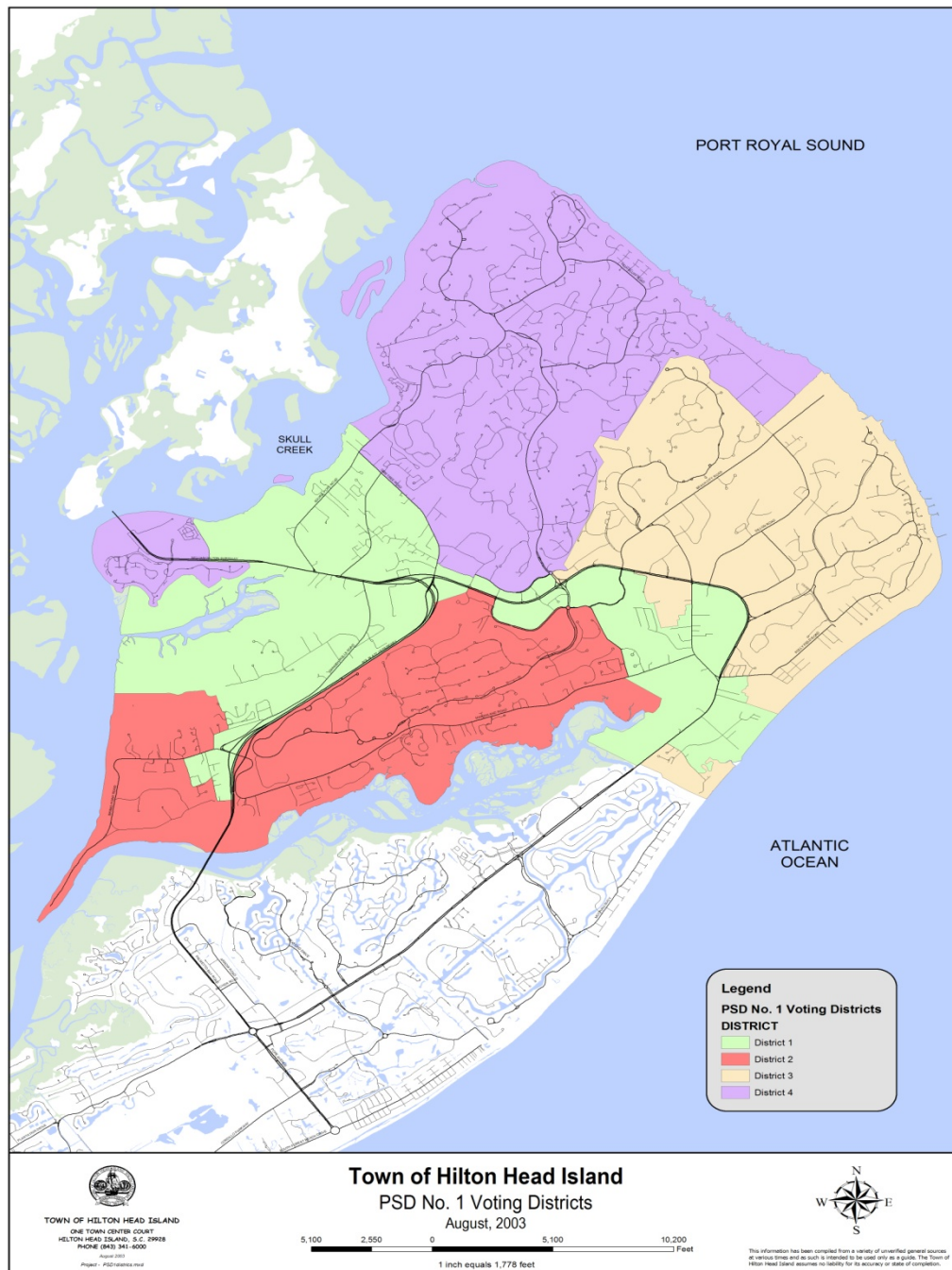
The following map shows each of the three PSDs' service areas:



Members of the Hilton Head PSD Board of Commissioners were nominated by the Beaufort County Legislative Delegation and appointed by the Governor of South Carolina until 2003, at which time legislation was passed to have Commission members be elected by registered voters within the PSD service area.

Commissioners are elected to four-year terms. Commissioner elections are held during general election years. Commissioners represent four different voting districts within the PSD service area. Three Commissioners represent Voting District 4, and two Commissioners represent Voting District 3. All other Voting Districts are represented by one PSD Commissioner.

The map below shows the PSD Voting Districts within the utility's service area:



The Commission establishes policy for the PSD and employs the General Manager. The Commission reviews and adopts the utility's annual operating budget and conducts an annual Cost of Service Analysis in order to determine the utility's consumption rates and user fees.

The Commission normally meets on the fourth Tuesday of each month in the PSD Community Room at 21 Oak Park Drive off Mathews Drive on Hilton Head Island. Public comment is welcome at all Commission meetings.

### *Waterworks System*

The District's waterworks system currently consists of the following components: (a) six Upper Floridan Aquifer wells with treatment, (b) five elevated storage tanks with a total capacity of 1,350,000 gallons; (c) one 2,000,000 gallon ground storage tank; (d) four booster pump stations; (e) approximately 1,268,678 linear feet of water line ranging in size from 2 inches to 20 inches in diameter; (f) a 3.0 millions of gallons per day ("MGD") capacity reverse osmosis water treatment facility (the "RO Facility"); and (g) an aquifer storage and recovery well 240 MG withdrawal capacity. All wells are equipped with emergency generators. In addition, two ground storage tanks located within the District, with capacity of 3.0 and 2.0 million gallons, and 40,500 linear feet of 24 inch transmission mains are jointly owned with the Broad Creek PSD.

The District's water supply comes from three primary sources. The first source for potable and irrigation water is six wells drilled into the Upper Floridan Aquifer at approximately 150 to 200 feet below sea level. The water meets all drinking water standards and is chlorinated for disinfection as required by South Carolina Department of Health and Environmental Control ("DHEC") regulations. Under current operating conditions, the wells have a total annual permitted withdrawal capacity of approximately 1.31 billion gallons. The wells are not subject to a daily withdrawal limitation, provided that the amounts withdrawn in a given year or month may not exceed the annual or monthly permits, respectively.

The second source for potable and irrigation water is the Savannah River. The District obtains a portion of its water supply from the Savannah River and entered into a contract to purchase that water from the Beaufort-Jasper Water and Sewer Authority (BJWSA). The District has the right to draw up to 4 MGD under the Contract. In addition, in September 2009, the District entered into an off-peak water purchasing contract with BJWSA. The Off-Peak Contract was initially for a five-year term commencing in November 2009, and provides for the purchase of water in the months of November through February at Off-Peak Rates. The term of the Off-Peak Contract was extended to 10 years in January 2010. For fiscal year 2011, the Off-Peak Rate is \$0.76 per 1,000 gallons for all water purchased above the District's 1 MGD minimum established under the Contract. The Off-Peak Rate is adjusted annually based on the July Consumer Price Index. There is no cap on the amount of water available for purchase and no minimum purchase amount. The Contract is discussed further in the Financial Highlights section of the Management's Discussion and Analysis.

The third source for potable and irrigation water is the Reverse Osmosis Drinking Water Treatment Facility, which treats brackish groundwater from the 600-foot-deep Middle Floridan Aquifer, a new source for Hilton Head Island. The RO Facility became operational in mid-April 2009. It provides 3 MGD of drinking water, which is about half of the District's average daily demand, and is expandable to provide 6 MGD.

With few exceptions, water services are available to all parcels of property presently located within the boundaries of the District. The number of customers has grown from 4,059 water taps (3,833 residential and 226 commercial) in 1988 to 17,316 water taps (comprising 10,415 residential taps, 4,843 master metered residential and 2,058 commercial water taps) in 2010. More information on water customer counts and growth can be found in the Financial Highlights section of the Management's Discussion and Analysis.



### *Wastewater and Reclaimed Water System*

The wastewater system is presently comprised of a wastewater collection system and treatment plant. Approximately 40% of the wastewater system infrastructure is less than ten years old, another 40% is ten to twenty years old, and the remaining twenty 20% is 20 to 30 years old. At present, the wastewater system is comprised of approximately 110 lift stations, 709,870 linear feet of gravity sewer lines (ranging in size from 4 inches to 42 inches in diameter), and 434,972 linear feet of force main, including effluent force mains ranging in size from 1-1/4 inches to 16 inches in diameter. The wastewater treatment plant is a 6.4 MGD complete mix activated sludge treatment plant with aerobic digestion and sludge dewatering. The wastewater treatment plant produces an effluent of less than 5 parts per million (ppm) of biological oxygen demand, 5 ppm of suspended solids, and 5 ppm of ammonia-nitrogen, as required by its National Pollutant Discharge Elimination System permit. Most of the effluent – also known as reclaimed water – produced by the wastewater treatment plant is distributed to eleven (11) golf courses within the District’s service area for disposal by spray irrigation. A smaller amount of effluent is distributed to four (4) conservancy wetlands within the District’s service area. The District also has four lined storage lagoons capable of storing up to 42 million gallons of reclaimed water and two ground level storage tanks capable of storing 3 million gallons of reclaimed water.

The number of sewer customers has grown from 3,310 customers (3,210 residential and 100 commercial) in 1988 to 15,030 customers (comprising 8,775 residential, 4,843 master metered residential, and 1,412 commercial) at June 30, 2011. More information on water and sewer customer counts and growth can be found in the Financial Highlights Section of the Management’s Discussion and Analysis.

### ***Financial Information***

The Management’s Discussion and Analysis (“MD&A”) is intended to serve as an introduction to the District’s financial statements and should be read in conjunction with the supplementary information and this portion of the management transmittal letter. The MD&A is found in the Financial Section of this report.

### *Accounting System and Budgetary Control*

The District’s financial accounting system is based on the full accrual basis in accordance with generally accepted accounting principles in the United States of America (GAAP). The accounts of the District are organized on the basis of a proprietary fund type enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis with costs recovered primarily through user charges.

The District is required by State law to adopt a balanced budget by June 30 of each year. District staff begins preparation of a draft budget in January, which is presented to the Commission in April and approved prior to June 30 of each year. The budget may be amended from time to time within the fiscal year. As required by the laws of the State of South Carolina, the District will adopt a balanced Operating Budget and provide full disclosure when a deviation from a balanced Operating Budget is planned or when it occurs. This balanced budget will ensure that all operating expenses will not exceed operating revenues at adoption and at year-end. Any increase in expenses, decrease in revenues, or combination of the two that would result in a material budget imbalance may require a Commission approved budget revision.

The District operates on a current funding basis. Expenditures are budgeted and controlled so as not to exceed current revenues plus the planned use of Fund Balances accumulated through prior years.

### *Internal Accounting Controls*

The District has developed and adopted a comprehensive set of financial policies that are consistent with the District's goals and objectives. Financial policies are an integral part of the development of service, providing of capital, and establishing of financial plans and the annual budget. They provide the basis for decision-making and ensure the District's ongoing financial stability. The financial policies of the District provide the structure and direction for financial reporting, planning, and decision making by management and the Board. Additionally, they are designed to ensure the financial integrity of the District. Policies are documented and periodically reviewed to reflect changes in Board policy, legal and professional requirements, and changes in accepted industry practices. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, and that records used for preparing financial reports and maintaining asset accountability are reliable. A system of internal controls is established and monitored by management. The Finance Manager reviews controls and procedures on a continuing basis and immediately reports any concerns to the General Manager / Finance Committee for resolution. As part of this initiative, the Finance Manager oversees the documentation and periodic review of financial standard operating procedures to ensure that internal audit functions and professional skepticism are incorporated as part of the analytical and reporting function. Management of the District is further charged, through personnel policies, with providing the leadership that promotes ethical behavior.

The Finance Committee of the Board of Directors serves as the Audit Committee of the District. It is composed of two members of the Board. Generally, this Committee meets with management on a monthly basis to review the financial status of the District. Additionally, the Committee meets with management and the independent external auditors to ensure that both parties are fulfilling their obligations with regard to auditing, controls, and other financial reporting factors.

### *Rates and Charges*

The District maintains and administers a revenue system that assures a reliable, equitable and sufficient revenue stream to support the District services. Since the principal revenue stream for the District is composed of the fees and charges established by the Commission, the governing body of the District, it is important that the District adopts policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

As stated in the District's financial policies, all user charges and fees are set at levels related to the costs (operating, direct, indirect and capital) of providing its services. The District reviews these fees and charges annually during the budget process and target rates that are expected to produce revenues sufficient to fully fund the costs of providing services – particularly in the District's key businesses (water and wastewater).

Cost of service includes direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital. The District may choose not to recover all costs, but it must identify such costs. Reasons for not recovering full costs are identified and explained.

The District also examines rates and charges levied by other water and sewer systems for like services in establishing rates, fees and charges. These fees (water and sewer user fees, capacity fees, tap fees, tower

revenues, etc.) are reviewed through the District's annual cost of service process. An aggressive policy of seeking the collection of delinquent utility accounts is maintained and is outlined by specific procedures. In projecting revenues - and where judgment is required - conservatism is the rule.

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. The following two paragraphs cover both the water and sewer rate increases which have occurred over the past ten years.

On August 1, 2008, it was necessary to raise water rates for the first time since July 1, 1999. Effective October 1, 2009, it was again necessary to raise water rates. The most recent water rate increase took place on May 1, 2011 and was the first in almost 12 years to increase the water base rate charge.<sup>1</sup> The first consumption tier for residential irrigation was also increased from \$1.40 to \$1.71 for the first 10,000 gallons of irrigation consumption. For a summary of the District's historical and present water rates, please reference the Water Rates Comparisons Table in the Statistical Section on page 91.

Sewer rates were restructured for fiscal year 2006 to incorporate a 10,000-gallon monthly cap for residential users (previously the cap was 32,000 gallons) with residential consumption rates being increased from \$1.25 to \$1.65 per thousand gallons and commercial consumption rates being increased from \$1.25 to \$1.50 with no cap. It was then necessary to raise sewer rates again for fiscal year 2007 for residential customers up to \$1.90 per thousand gallons. On October 1, 2009, another sewer rate increase was put into effect increasing both residential and commercial consumption rates by \$0.10 per thousand gallons. The most recent sewer rate increase took place on May 1, 2011 and was also the first in almost 12 years to increase the sewer base rate charge.<sup>2</sup> The commercial sewer volume charge also was adjusted from \$1.60 to \$2.00 per 1,000 gallons of water consumption. For a summary of the District's historical and present sewer rates, please reference the Wastewater Rates Comparison Table in the Statistical Section on page 91.

### *Millage*

Pursuant to Act No. 596, the District is authorized to impose ad valorem property taxes not to exceed ten mills to defray a portion of its operational costs. The District's operational ad valorem tax millage is fixed at 3 mills. As of July 1, 2007, millage rates for operations may increase only at a rate equal to the sum of (a) the increase in the consumer price index, plus (b) the rate of population growth of the political subdivision or school district. This limitation may be overridden by a vote of two-thirds of the governing body of the political subdivision, but only for the following purposes and only in a year in which such condition exists:

1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year;

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<sup>1</sup> The water base rate was increased by \$1.00 per unit for all customers.

<sup>2</sup> The sewer base rate was increased by \$2.00 per unit for all customers.

5. compliance with a regulation promulgated or statute enacted by the federal or state government after the ratification date of this section for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government;
6. purchase by the local governing body of undeveloped real property or of the residential development rights in undeveloped real property near an operating United States military base which property has been identified as suitable for residential development but which residential development would constitute undesirable residential encroachment upon the United States military base as determined by the local governing body. The local governing body shall enact an ordinance authorizing such purchase and the ordinance must state the nature and extent of the potential residential encroachment, how the purchased property or development rights would be used and specifically how and why this use would be beneficial to the United States military base, and what the impact would be to the United States military base if such purchase were not made. Millage rate increases for the purpose of such purchase must be separately stated on each tax bill and must specify the property, or the development rights to be purchased, the amount to be collected for such purchase, and the length of time that the millage rate increase will be in effect. The millage rate increase must reasonably relate to the purchase price and must be rescinded five years after it was placed in effect or when the amount specified to be collected is collected, whichever occurs first. The millage rate increase for such purchase may not be reinstated unless approved by a majority of the qualified voters of the governmental entity voting in a referendum. The cost of holding the referendum must be paid from the taxes collected due to the increased millage rate; or
7. to purchase capital equipment and make expenditures related to the installation, operation, and purchase of the capital equipment including, but not limited to, taxes, duty, transportation, delivery, and transit insurance, in a county having a population of less than one hundred thousand persons and having at least forty thousand acres of state forest land. For purposes of this section, “capital equipment” means an article of nonexpendable, tangible, personal property, to include communication software when purchased with a computer, having a useful life of more than one year and an acquisition cost of fifty thousand dollars or more for each unit.

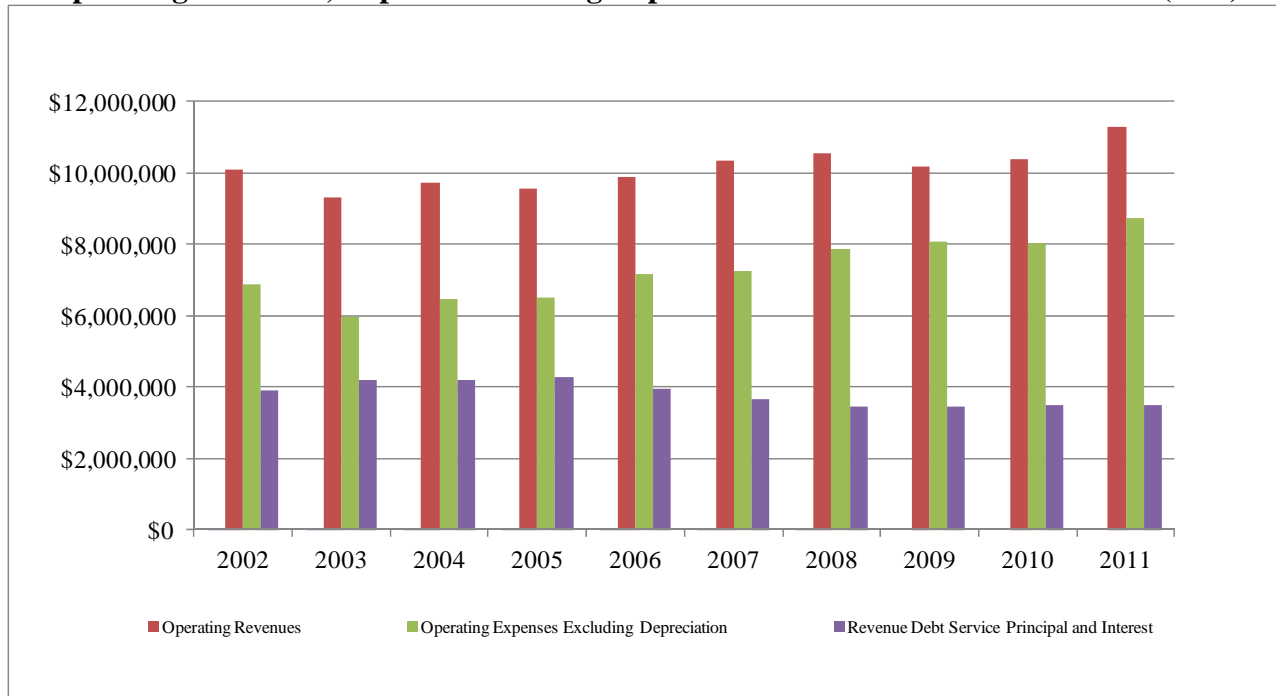
The limitations described above do not apply to the levy of debt service millage. Therefore, the District is also authorized to impose ad valorem property taxes, without limit, to defray the debt service on general obligation bonds of the District. All of such general obligation bonds are approved by the Beaufort County Council pursuant to South Carolina general law.



## Financial Condition

Operating revenues, operating expenses (excluding depreciation), and revenue related debt service payments for the past ten fiscal years are summarized in the following graph.

**Operating Revenues, Expense Excluding Depreciation and Revenue Debt Service (P&I)**



For both fiscal years 2009 and 2010, there was a sharp decrease in operating revenues due to lower customer water consumption levels. While there was a slight decrease in customer counts during this time, it is more likely that low consumption levels were mainly due to the economic downturn and a combination of increased rainfall (fiscal year 2009) and cooler weather (fiscal year 2010). Despite lower consumption levels during these years, water and sewer revenues remained adequate due in part to a water rate increase implemented in fiscal year 2009 and both a water and sewer rate increase implemented in fiscal year 2010. These rate increases are shown in more detail in the Water Rate Comparison on page 91.

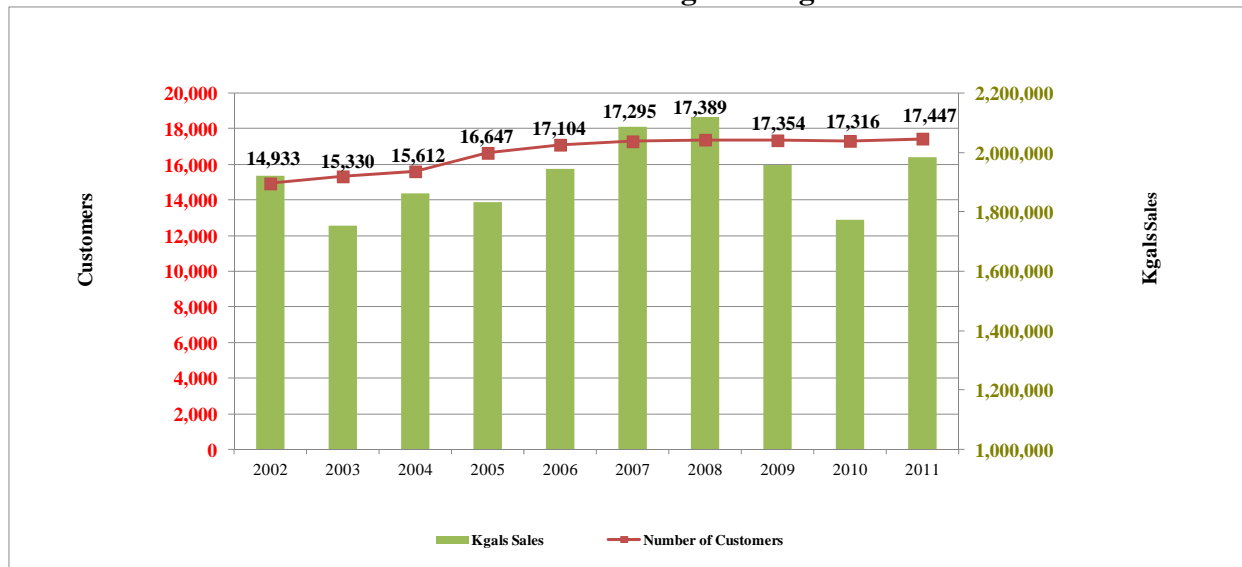
Fiscal year 2011 consumption rebounded to its highest level since fiscal year 2008 resulting in higher revenues. Water/irrigation consumption increased 11.8% or 210 million gallons for fiscal year 2011 when compared to fiscal year 2010. Higher consumption levels and resulting higher revenues for fiscal year 2011 are mainly due to more seasonable weather and higher island occupancy rates for both housing and especially tourism. The combined home, villa and hotel occupancy percentage increased by 1 percent for Hilton Head Island for fiscal year 2011 when compared to fiscal year 2010.<sup>3</sup> Combined with more seasonable weather was the fact that the District's area also had 5.2 less inches of rainfall compared to fiscal year 2010. Only a very small portion of increased revenues for fiscal year 2011 can be attributed to the water and sewer rate increase (reference page 29 of the Management's Discussion and Analysis) put into effect on May 1, 2011.

<sup>3</sup> Source: The Hilton Head Chamber of Commerce, <http://www.thinkhiltonheadisland.org/article-details?hhaid=54>.

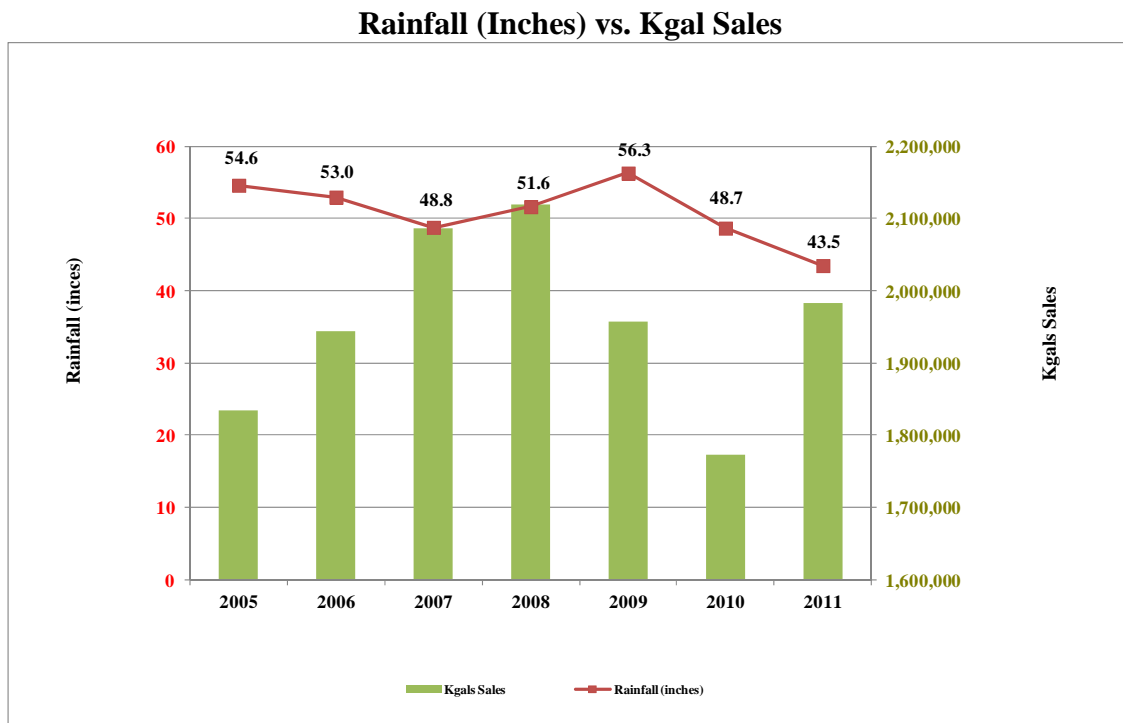
While revenues increased for fiscal year 2011, departmental expenses also increased mainly due to higher purchased water costs associated with higher consumption levels and higher operations and maintenance expenses. Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 38.

The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equates to more water consumed, there is no evident direct relationship between the District’s customer counts and overall consumption levels due to the other variables that influence customer water consumption (e.g. temperature, economy).

**Customers vs. Water/Irrigation Kgal Sales**



The following chart is a comparison of rainfall amounts in relation to water and irrigation Kgals sales.



Despite lower rainfall amounts for fiscal years 2010 and 2011, water consumption levels were low when compared to past fiscal years such as 2007 and 2008. As previously discussed, other seasonal factors such as temperature and economic influences such as new housing development, housing vacancies, and tourism occupancy levels can also have a material effect on customer water consumption levels.

### *Cash Management*

Cash management activities are conducted in full compliance with prevailing state and federal regulations. Furthermore, such activities are designed to adhere to guidelines and standards promulgated by such professional organizations as the American Institute of Certified Public Accountants (AICPA), the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA). Investments of the District must comply with Section 6-5-10 of the South Carolina Code. The provisions of Section 6-5-10 do not impair the power of the District to hold funds in deposit accounts with banking institutions as otherwise authorized by law. Investments have maturities consistent with the time or times when the invested monies will be needed in cash.

The District's cash management program seeks to achieve three objectives with regards to investments: safety of principal, adequate liquidity to meet daily cash needs, and a reasonable yield commensurate with the preservation of principal and liquidity.

The Finance Manager institutes and administers specific procedures and criteria relating to cash management issues in pursuit of ensuring the absolute safety and integrity of the District's financial assets, while optimizing financial return of those assets. Additionally, the Finance Manager, with the assistance of the Commission and General Manager of the District, is responsible for oversight and will regularly examine and evaluate the District's Cash and Investment Management Policy (the "Policy") and investment activities, and will recommend revisions to the Policy and operational rules and regulations as circumstances dictate.

### *Risk Management*

The District has policies in place to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events. Further, the District purchases insurance for general and automobile liability and participates with the State Accident Fund providing workers' compensation coverage to limit the exposure to risk.

The District also has implemented policies regarding insurance coverage on various assets. These policies ensure that assets at risk are properly identified and sufficiently insured, while also tracking those assets that should be removed from the insurable assets list.

### *Independent Audit*

The accompanying financial statements have been audited by the District's independent auditors, Robinson Grant & Co., P.A., and their report on the financial statements resulting from their audit is included in the Financial Section of this report.



## *Certificate of Achievement for Excellence in Financial Reporting*

The Government Finance Officer Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the first year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Management believes that the current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

### *Final Comments*

Management has developed policies and procedures that direct personnel actions toward the Board's adopted mission of providing high quality water and sewer service to all properties within the District and provide those services at a reasonable cost. Further, the Board adopted the District's Strategic Goals in November 2011. These goals support the District's mission and are reviewed annually during the early planning process of creating staff work plans for the upcoming fiscal budgeting process.

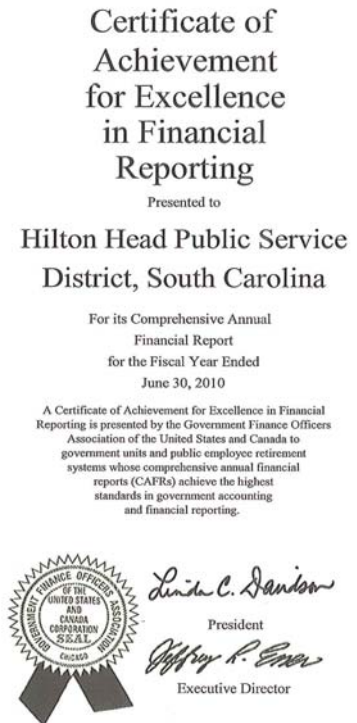
We are thankful to all District employees for their hard work and dedication. Additionally, we would like to recognize the District's General Manager and Board of Directors for their leadership, support, and continued commitment to excellence.



Larry Sapp, Finance Manager



Brian Cronin, Senior Accountant



# FINANCIAL



# Robinson Grant & Co., P.A.

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## INDEPENDENT AUDITORS' REPORT

November 29, 2011

The Commissioners  
Hilton Head No. 1 Public Service District  
Hilton Head Island,  
Beaufort County, South Carolina

We have audited the accompanying balance sheets of Hilton Head No. 1 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 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 referred to above present fairly, in all material respects, the financial position of Hilton Head No. 1 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements of Hilton Head No. 1 Public Service District taken as a whole. The introductory section, supplementary information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied to the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Robinson Hunt & Co., P.A.*

## Management's Discussion and Analysis

This report of the Hilton Head No. 1 Public Service District (the "District") annual financial statements presents our analysis of the District's financial performance during the fiscal years ending June 30, 2011, 2010 and 2009. Please read it in conjunction with the financial statements following this section.

### *Financial Highlights*

- Total assets at the end of the fiscal year 2011 were approximately \$96.91 million, exceeding liabilities by \$37.91 million (See Table A-1, Page 33).
- *Standard and Poor's Revenue Bond Rating*

District's Revenue Bond Rating: On July 29, 2010, Standard and Poor's (S&P) assigned its AA long term rating to the District's \$3,400,000 Series 2010B waterworks and sewer system improvement revenue bonds and affirmed its AA underlying rating on the District's previously rated parity bonds. According to S&P the rating affirmation issued reflects the District's:<sup>4</sup>

- ✓ Diverse Customer Base;
- ✓ Good debt service coverage and liquidity; and
- ✓ Well-developed infrastructure with manageable future capital needs.

### *Series 2010B Revenue Bond Closing Details*

The Series 2010B Revenue Bonds closed on August 24, 2010 and were issued in the principal/par amount of \$3,400,000. The all inclusive cost/interest rate is 4.084%.

- *Standard and Poor's 2010 General Obligation Bond Rating*

District's General Obligation Bond Rating: On August 31, 2010, S&P raised its rating on the District's general obligation debt two notches to AA+ from AA- based on the District's strong financial operations and stable local economy. S&P also assigned its AA+ rating and stable outlook to the District's series 2010 GO bonds. This bond issue is to be used to fund the District's Aquifer Storage and Recovery (ASR) Project. According to S&P the rating issued further reflects the District's:<sup>5</sup>

- ✓ Affluent community in northern Hilton Head Island, South Carolina;
- ✓ Well established, tourism-centered local economy with below average unemployment;
- ✓ Large and growing property tax base; and
- ✓ Strong financial position, supported by healthy fund balance reserves.

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<sup>4</sup> Source: Standard and Poor's, Global Credit Portal Ratings Direct, [www.standardandpoors.com/ratingsdirect](http://www.standardandpoors.com/ratingsdirect), July 29, 2010.

<sup>5</sup> Source: Standard and Poor's, Global Credit Portal Ratings Direct, [www.standardandpoors.com/ratingsdirect](http://www.standardandpoors.com/ratingsdirect), August 31, 2010.

### *Moody's General Obligation Bond Rating*

During August 2010, Moody's again assigned a Aa1 rating to the District's Series 2010 GO bonds. Positive factors which were cited by Moody's included the following:

- ✓ Wealthy tax base with seasonal component experiencing moderate growth;
- ✓ Modestly growing customer base; Modest growth expected in near-term;
- ✓ Satisfactory financial operations and liquidity position guided by formal fiscal policies; and
- ✓ Debt burden expected to remain modest.

### *Series 2010 GO Bond Closing Details*

The Series 2010 GO Bond closed on September 28, 2010 and was issued in the principal/par amount of \$3,970,000. The all inclusive cost/interest rate is 3.301%.

- Effective September 1, 2010, Golf course irrigation rates were raised from \$0.57 to \$0.61 per thousand gallons for non-pumped golf courses and from \$0.72 to \$0.91 for pumped golf courses.
- The following rate changes were approved at the March 22, 2011 Commission Meeting and put into effect as of May 1, 2011:

Base Rate Changes (Base Rate adjusted for first time in 12 years):

- ✓ The residential/multi-metered residential water and irrigation base rate was increased from \$10.00 to \$11.00 per meter/unit.
- ✓ The commercial water and irrigation base rate was increased from \$15.00 to \$16.00 per meter/unit.
- ✓ The residential/multi-metered and commercial sewer base rate was increased from \$12.00 to \$14.00 per meter/unit.

Volumetric Rate Changes:

- ✓ The residential volumetric irrigation rate was increased from \$1.40 to \$1.71 for the first 10,000 gallons.
- ✓ The commercial volumetric sewer rate was increased from \$1.60 to \$2.00 per 1,000 gallons.
- Series 2011 Front Foot Assessment (FFA) Revenue Bond - The Series 2011 FFA Revenue Bond closed April 27, 2011 in the amount of \$384,402. The purpose of this bond is to finance sewer service for the following properties: Old House Subdivision, Otter Hole Mobile Home Park, Squire Pope Road, Manatee Way, Alice Perry Drive, Ben White Drive, Cheryl's Bluff, Enterprise Lane, Lost Manor Way, Fish Haul Road and Simmons Road, a total of 46 sewer connections. The Commission passed a resolution on June 28, 2011 approving the initial assessment roll.
- The District received notice dated June 29, 2011 that the Beaufort Jasper Water and Sewer Authority (BJWSA) Board adopted their FY 2012 budget and reviewed a schedule of new retail and wholesale water rates. At that time it was approved that the District's wholesale water rate of \$1.58 per 1,000



gallons would remain unchanged. BJWSA anticipates this rate to remain into effect until June 30, 2014, at which time BJWSA will update their cost of service rate study.

- **Energy Grant Sub-Recipient Agreement** – In early June 2011, the District and the Town of Hilton Head Island received a \$160,000 grant from the State of South Carolina for the installation of energy-saving equipment at the District’s wastewater treatment plant. The funds were awarded through the State Office of Local Government’s Water & Sewer Energy Efficiency grant program. The PSD and Town jointly applied for the grant. The grant will fund improvements to the District’s wastewater processing by automating the amount of air that is pumped into the aeration basins. Currently, samples are taken periodically during the day, and the dissolved oxygen (DO) levels are adjusted to meet the waste treatment requirements. This new equipment will continuously monitor the DO and adjust the amount of air pumped in the aeration basins. Consulting engineers estimate this new equipment will reduce the annual energy requirement for this process by 20 percent or \$21,600 and have a 7.4 year payback.
- During the June 2011 Board meeting, the Commission adopted a reimbursement agreement with the Town of Hilton Head Island in the amount of \$997,543. The purpose of this agreement was to obtain the Town’s authorization to fund a portion of the Stoney area sewer project. Several years ago, it was agreed upon to jointly complete sewer infrastructure installations within the remaining Tax Increment Financing (TIF) areas. The Greens’ Shell project was completed in 2009 and was the first such project. The Stoney project and three other projects (Ford Shell Park, Linear Park and Marshland Road area) are scheduled to be completed in fiscal year 2012. As of June 30, 2011 the District had expended \$409,100. Once this project is complete the District will be reimbursed the \$997,543.
- The ASR Well and related water system improvements have been performed on schedule and on budget. The ASR well and controls are completed and have been tested for operations, while the 16-inch water main on Wildhorse Road has passed all pressure and bacteria tests. The new pump station at the Wildhorse elevated tank has been installed and only needs power for its operation. The new control valves on the three ground storage tanks are installed and have been placed into operation with the Pembroke elevated tank and the 24-inch main that transports water from BJWSA and the District’s RO plant into the District’s water distribution system. The total cost of this project is estimated to be \$3.4 million. Of this amount approximately \$1.7 million has been expended as of June 30, 2011.
- **Water Customer Growth:** The District has added 131 new water/irrigation taps to the system in fiscal year 2011. As of June 30, 2010, the District has a total of 17,447 equivalent dwelling units (“EDUs”). This is a 0.8% increase for FY’11. For both FY’10 and FY’09 there was a 0.2% decrease in total EDUs. The current EDUs consist of 16,395 water service units, 1,001 irrigation service units, and 51 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.

#### Water & Irrigation Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
2011	10,527	4,843	2,077	17,447	0.8%
2010	10,415	4,843	2,058	17,316	-0.2%
2009	10,440	4,843	2,071	17,354	-0.2%
2008	10,525	4,834	2,030	17,389	0.5%
2007	10,463	4,822	2,010	17,295	1.1%

- Sewer Customer Growth: The District has added 139 new sewer connections to the system in fiscal year 2011. As of June 30, 2011, sewer service EDUs total 15,030. This is a 0.9% increase for FY'11 as compared to the FY'10 increase of 11 new EDUs or 0.1%.

Sewer Customers						
<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>	
2011	8,775	4,843	1,412	15,030	0.9%	
2010	8,653	4,843	1,395	14,891	0.1%	
2009	8,635	4,843	1,402	14,880	0.3%	
2008	8,603	4,834	1,398	14,835	1.2%	
2007	8,467	4,822	1,369	14,658	2.0%	

- As shown in the table below, the sewer to water customer percentage has increased to 91.67% percent since the beginning of fiscal year 2011.<sup>6</sup>

Sewer Connection Growth 06/30/2011								
<u>Date</u>	<u>All Water/Irrigation EDU's</u>	<u>Water EDU's</u>	<u>Inactive Water EDU's</u>	<u>Change in Water EDU's</u>	<u>Sewer EDU's</u>	<u>Inactive Sewer EDU's</u>	<u>Change in Sewer EDU's</u>	<u>% Water to Sewer EDU's</u>
06/30/10	17,316	16,270	318	N/A	14,891	165	N/A	91.52%
09/30/10	17,350	16,304	300	34	14,930	157	39	91.57%
12/31/10	17,418	16,371	288	67	15,004	144	74	91.65%
03/31/11	17,433	16,385	283	14	15,023	144	19	91.69%
06/30/11	17,447	16,395	284	<u>10</u>	15,030	134	<u>7</u>	91.67%
<b>Total EDU's Added</b>				<b>125</b>			<b>139</b>	

### *Subsequent Events*

- On August 23, 2011, the District refinanced the Series 2000A SRF Revenue Bond which resulted in a total \$312,458 net present value savings. Through this refinancing the District was able to lower the effective bond interest rate from 3.50% to 2.89%. The District also eliminated the Letter of Credit that was funding the Debt Service Reserve Fund. This bond closed on August 24, 2011 with an annual savings is \$43,855 which includes the elimination of the Letters of Credit.
- During August 2011, the Commission adopted a resolution: (a) providing funds to redeem and refund the Series 2000A State Revolving Revenue Bond, with a fixed interest rate of 3.5 percent, and the elimination of the debt service reserve fund requirements; and (b) paying certain costs and expenses relating to the issuance of the 2011B Bond. The Series 2011B Bond closed, August 24, 2011, with a fixed interest rate of 2.89% and a term of 10 years. The Net Present Value savings as the closing date of \$312,458.

<sup>6</sup> This percentage is based solely on water customers and does not include irrigation, dock meters, hydrants, pool meters, and golf course water coolers etc.

- During October 2011, the South Carolina Budget and Control Board contacted the District regarding the FY 2012 Amendment for all prior SRF Loan Policies for State Drinking Water Revolving Loan Funds (DWSRF). The amendment relates to interest rate and debt service fund on all currently outstanding SRF loans. Interest rate reductions are available during FY 2012 as a one time opportunity until June 30, 2012. Staff submitted a formal written request during October requesting the SC Budget and Control Board to re-amortize the outstanding principal balance of the District Series 2007 SRF GO Bonds. As of November 2011, the District received the revised Loan Agreement for the interest rate reductions. The interest rate reduction lowers the permanent quarterly payment from \$48,135 to \$45,350, thereby saving the District \$11,138 annually and \$189,344 over the remaining term of the loan. The new quarterly payments will be effective January 1, 2012.

## *Financial Analysis of the District*

The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that shows the District's financial position as a result of this year's operations. These two statements report the net assets of the District and changes in them. The District's net assets and the difference between assets and liabilities is one way to measure financial health or financial position. Over time, increases or decreases in net assets are indicators of whether the District's financial health is improving or deteriorating. However, one must also consider other non-financial factors such as changes in economic conditions, population growth, annexation and new or changed legislation.

### *Balance Sheets*

The following comparative condensed balance sheets show changes in financial position from previous fiscal years:

**TABLE A-1**  
**Hilton Head Public Service District**  
**Condensed Balance Sheets as of June 30, 2011, 2010, and 2009**

Year Ended June 30,	2011	2010	2009	2011 to 2010	%
<b>Assets</b>				Increase (decrease)	
Current assets	\$ 5,398,683	\$ 5,118,206	\$ 4,330,719	\$ 280,477	5.5%
Restricted assets	5,578,182	2,378,848	2,684,128	3,199,334	134.5%
Net Property Plant & Equipment	81,348,684	80,515,057	81,439,611	833,627	1.0%
Sewer Assessments, Long-term	3,459,654	3,329,883	3,284,197	129,771	3.9%
Other	1,121,928	946,120	993,225	175,808	18.6%
<b>Total Assets</b>	<u>96,907,131</u>	<u>92,288,114</u>	<u>92,731,880</u>	<u>4,619,017</u>	<u>5.0%</u>
<b>Liabilities</b>					
Current Liabilities	4,770,476	4,577,296	4,021,429	193,180	4.2%
Noncurrent Liabilities, net of amortization	54,223,011	49,147,698	49,445,029	5,075,313	10.3%
<b>Total Liabilities</b>	<u>58,993,487</u>	<u>53,724,994</u>	<u>53,466,458</u>	<u>5,268,493</u>	<u>9.8%</u>
<b>Net Assets</b>					
Invested in capital assets, net	27,806,556	29,464,863	30,467,552	(1,658,307)	-5.6%
Restricted for capital activity/debt service	2,779,466	2,378,848	2,446,988	400,618	16.8%
Unrestricted	7,327,622	6,719,409	6,350,882	608,213	9.1%
<b>Total Net Assets</b>	<u>37,913,644</u>	<u>38,563,120</u>	<u>39,265,422</u>	<u>(649,476)</u>	<u>-1.7%</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 96,907,131</u>	<u>\$ 92,288,114</u>	<u>\$ 92,731,880</u>	<u>\$ 4,619,017</u>	<u>5.0%</u>

## Net Assets

Changes in net assets result from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: *invested in capital assets, net of related debt*; *restricted for capital activity and debt service*; and *unrestricted net assets*.

*Invested in capital assets, net of related debt*, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds of other restricted cash and investments is excluded from the determination.

*Restricted for capital activity and debt service* consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

*Unrestricted* consists of all other net assets not included in the above categories.

Total net assets as of June 30, 2011 were \$37,913,644, representing a \$649,476 or 1.7% decrease from the prior year. Fiscal year 2010 had a decrease in total net assets from fiscal year 2009 of \$702,302 or 1.8% due to decreased capital contributions.

Change in Net Assets			
Year Ended June 30,	2011	2010	2009
Invested in Capital assets, net	\$ 27,806,556	\$ 29,464,863	\$ 30,467,552
Restricted for capital activity and debt service	2,779,466	2,378,848	2,446,988
Unrestricted	7,327,622	6,719,409	6,350,882
Total Net Assets	<u>\$ 37,913,644</u>	<u>\$ 38,563,120</u>	<u>\$ 39,265,422</u>

Of the total net assets, \$5,398,683 million are current non-restricted assets available to support short-term operations (Table A-1, page 33). This current asset balance is \$280,476 higher than on June 30, 2010.

## Capital Assets

As of June 30, 2011, the District has invested \$81,348,684 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below. Net Property Plant & Equipment has increased \$833,627 during fiscal 2011. More detailed information on capital asset activity can be found in Note 5 – Property, plant, equipment and depreciation, on pages 59 and 60.

**TABLE A-2**  
**Capital Assets**

Year Ended June 30,	2011	2010	2009
<u>Capital assets not being depreciated:</u>			
Land	\$ 1,299,194	\$ 1,299,194	\$ 1,239,194
Construction in Progress	<u>3,514,449</u>	<u>1,236,180</u>	<u>641,980</u>
Total Capital Assets not being depreciated	4,813,643	2,535,374	1,881,174
 <b>Capital assets being depreciated:</b>			
Waterworks system	51,129,252	50,684,177	49,500,248
Sewage disposal system	30,390,298	27,948,640	26,415,558
Buildings	4,314,370	4,314,370	4,314,370
Sewage treatment facilities	36,638,501	36,638,501	36,640,901
Transportation equipment	690,940	687,913	715,655
Operations furniture and equipment	1,875,442	1,861,500	1,878,214
Office furniture and equipment	<u>594,178</u>	<u>580,797</u>	<u>605,663</u>
Sub Total	\$ 125,632,981	\$ 122,715,898	\$ 120,070,609
Less Accumulated depreciation	<u>(49,097,940)</u>	<u>(44,736,214)</u>	<u>(40,512,172)</u>
Total capital assets being depreciated, net	76,535,041	77,979,684	79,558,437
 Year End Totals	 81,348,684	 80,515,058	 81,439,611



### *Non-current Liabilities and Debt Administration*

As of June 30, 2011, (see Table A-1, page 33) the District had \$54,223,011 in non-current liabilities as compared to fiscal year end 2009 of \$49,147,698. This is due to the additional debt added for fiscal year 2011 associated with the Series 2010 GO Bonds, Series 2010B Revenue Bond, and Series 2011 Front Foot Assessment Revenue Bond. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 60 and Note 7 – Non-current liabilities on page 64.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District is in compliance with the necessary requirements at 151%.

**TABLE A-3**  
**Coverage of Debt Service**

<b>Year Ended June 30,</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net Income(loss) before capital contributions per Financial Statements	(\$1,346,128)	(\$1,681,923)	(\$1,439,634)
Capacity Fees	309,857	242,308	109,037
Add: Depreciation	4,456,160	4,405,077	3,965,632
Amortization	209,256	202,112	206,685
Interest Expense (Bonds)	2,300,439	2,208,372	1,911,438
Assessments - Debt Service	550,586	537,759	508,381
Less: Property Taxes – Debt Service	<u>(1,235,347)</u>	<u>(967,418)</u>	<u>(817,751)</u>
Net Earnings Available for Debt Service	\$5,244,822	\$4,946,286	\$4,443,788
Debt Service on Revenue Bonds	3,477,484	\$3,523,871	\$3,438,347
<b>Coverage of Debt Service by Net Earnings</b>	<b>151%</b>	<b>140%</b>	<b>129%</b>
<b>Debt Coverage without Capacity Fees</b>	<b>142%</b>	<b>133%</b>	<b>126%</b>

## Statements of Revenues, Expenses and Changes in Net Assets

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the nature and source of these changes as presented below:

**TABLE A-4**  
**Hilton Head PSD**  
**Statement of Revenues, Expenses and Changes in Net Assets and Comparison Schedule**

Year Ended June 30,	2011 Actual	2010 Actual	2009 Actual	2011 to 2010 Actual	%	2010 to 2009 Actual	%
Operating Revenues	\$ 11,281,715	\$ 10,398,457	\$ 10,163,903	\$ 883,258	8.5%	\$ 234,554	2.3%
Total Non-operating Revenues	<u>3,063,851</u>	<u>2,783,767</u>	<u>2,570,201</u>	<u>280,084</u>	<u>10.1%</u>	<u>213,565</u>	<u>8.3%</u>
Total Revenues	<u>14,345,566</u>	<u>13,182,224</u>	<u>12,734,105</u>	<u>1,163,342</u>	<u>8.8%</u>	<u>448,119</u>	<u>3.5%</u>
Departmental Expenses	8,725,839	8,048,586	8,089,984	(677,253)	-8.4%	41,398	0.5%
Depreciation	4,456,160	4,405,077	3,965,632	(51,083)	-1.2%	(439,445)	-11.1%
Total Non-operating Expenses	<u>2,509,695</u>	<u>2,410,484</u>	<u>2,118,123</u>	<u>(99,211)</u>	<u>-4.1%</u>	<u>(292,360)</u>	<u>-13.8%</u>
Total Expenses	<u>15,691,694</u>	<u>14,864,147</u>	<u>14,173,739</u>	<u>(827,547)</u>	<u>-5.6%</u>	<u>(690,407)</u>	<u>-4.9%</u>
Increase (decrease) in net assets before capital contributions	(1,346,128)	(1,681,923)	(1,439,634)	335,795	20.0%	(242,289)	-16.8%
Capital Contributions:							
Water Capacity Fee	148,815	34,512	63,437	114,303	331.2%	(28,925)	-45.6%
Sewer Capacity Fee	161,042	207,796	45,600	(46,754)	-22.5%	162,196	355.7%
Developer Contributions of Systems	42,393	416,411	92,536	(374,018)	-89.8%	323,875	350.0%
Sewer Assessments	<u>344,402</u>	<u>320,902</u>	<u>-</u>	<u>23,500</u>	<u>N/A</u>	<u>320,902</u>	<u>N/A</u>
Total Capital Contributions	<u>696,652</u>	<u>979,621</u>	<u>201,573</u>	<u>(282,969)</u>	<u>-28.9%</u>	<u>778,047</u>	<u>386.0%</u>
Increase (decrease) in net assets	\$ (649,476)	\$ (702,302)	\$ (1,238,061)	\$ 52,827	-7.5%	\$ 535,759	43.3%
Net Assets at the beginning of the year	<u>38,563,120</u>	<u>39,265,422</u>	<u>40,503,483</u>				
Net Assets at end of year	<u>\$ 37,913,644</u>	<u>\$ 38,563,120</u>	<u>\$ 39,265,422</u>				

### Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2011 total \$11,285,715 which is almost 79% of total revenues (operating and non-operating) for the year. Total operating revenues have increased 8.5% or \$883,258 compared to last year's revenues mainly due to increased water and sewer service revenues which were \$702,170 higher than in fiscal year 2010. Total operating revenues increased 2.3% or \$234,554 from fiscal year 2009 to fiscal year 2010 mainly due to mainly due to increased sewer connection fees which were \$115,037 higher then fiscal year 2009.<sup>7</sup>

Higher water and sewer revenues were mainly due to increased water consumption. Water consumption has increased 210.1 million gallons compared to last fiscal year. In addition to higher water and sewer service revenues, other line items that have contributed to this year's \$883,258 operating revenue increase include the following (see Table A-5, Page 40):

<sup>7</sup> During fiscal year 2010, higher sewer connections fees were caused by low pressure connections installed and paid for by grants from Project Safe and are were offset by related higher sewer connection expenses.

- Golf course irrigation revenues also had a significant increase of \$127,522 or 55%.
- Water tap in fees increased \$11,736 or 37%.
- Availability fees have increased \$40,163 or 7.0%.
- Other operating revenues which consist of miscellaneous income and purchase discounts increased \$44,663 or 125% mainly due to refunds received from Wachovia Bank, NA related to the refunding of the Series 2000B Front Foot Assessment Revenue Bond in June 2010.

The previously discussed line items that increased operating revenues were partially offset by decreased sewer connection fee revenue. In 2010, higher sewer connection fees were caused by low pressure connections installed and paid for by grants from Project Safe and offset by related higher sewer connection expenses.

Total non-operating revenues were equal to \$3,063,851. The non-operating revenues received by the District were derived primarily from ad valorem property taxes, interest earnings, and tower leases. The District imposed an ad valorem tax of 3.0 mills for operational purposes and 2.82 mills for debt service. The Commission has the authority to set the rates charged for water and sewer services without approval of any other authority, although such rate-setting ability is subject to certain procedural requirements including the holding of public hearings and the posting of public notices.

#### *Departmental Expenses (Fiscal Year to Year Comparisons)*

Total departmental expenses have increased \$677,253 or 8.4% compared to fiscal year 2010 (See Table A-5, page 40). For fiscal year 2010, departmental expenses decreased \$41,398 or 0.5% from fiscal year 2009. The following factors have contributed to this year's increase:

Purchased water expense increased \$277,884 or 37% compared to last fiscal year. The main contributing factor to increased purchased water expense is the aforementioned increase in customer consumption of 210.1 million gallons. The following departmental expense items were also increased when compared to the same period last year.

- Operations expenses have increased \$229,058 or 16% due to higher operations chemical and fuel/power costs.
- Maintenance expenses have increased \$243,747 or 32% mainly due to higher systems, lift station, well, and effluent systems maintenance.
- Administrative expenses have increased \$100,384 or 13% mainly due to higher insurance other than group/vehicle, utilities, bad debt, and bank/bond administration fees.
- Payroll and Related expenses have increased \$64,504 or 2.0% due to higher group insurance, training/education expense, and workers compensation insurance.
- Vehicle expenses increased \$11,870 or 11% mainly due to a major repair on the District's vacuum truck.

These increased expenses were partially offset by lower professional fees, RO Plant O&M, and water tap in/sewer connection expense items.

**TABLE A-5**  
**Hilton Head PSD**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year to Date as of June 30, 2011 and June 30, 2010**

	(With comparative amounts for the same period in prior fiscal year)		FY 2011 to FY 2010	
	FY 2011	FY 2010	Comparison	
	Actual	Actual	Dollars	%
<b>Operating Revenues</b>			<b>Favorable (Unfavorable)</b>	
Water Service	\$ 5,836,921	\$ 5,308,798	\$ 528,123	9.9%
Sewer Service	4,208,115	4,034,068	174,047	4.3%
Tap In Fees - Water	43,041	31,305	11,736	37.5%
Connection Fees - Sewer	71,614	117,367	(45,753)	-39.0%
Service Fees	73,245	70,488	2,757	3.9%
Golf Course Irrigation	358,105	230,583	127,522	55.3%
Availability Fees	610,332	570,169	40,163	7.0%
Other Operating Revenues	80,342	35,679	44,663	125.2%
<b>Total Operating Revenues</b>	<b>11,281,715</b>	<b>10,398,457</b>	<b>883,258</b>	<b>8.5%</b>
<b>Departmental Expenses</b>				
Payroll & Related	3,231,400	3,166,896	(64,504)	-2.0%
Administrative Expenses	854,837	754,453	(100,384)	-13.3%
Operations	1,639,353	1,410,295	(229,058)	-16.2%
Maintenance	1,012,322	768,575	(243,747)	-31.7%
Water Tap In/Sewer Connection Expenses	91,465	151,257	59,792	39.5%
Purchased Water	1,024,455	746,571	(277,884)	-37.2%
RO Plant O&M	581,270	674,039	92,769	13.8%
Professional Fees	171,575	269,207	97,632	36.3%
Vehicle	119,162	107,292	(11,870)	-11.1%
<b>Total Departmental Expenses</b>	<b>8,725,839</b>	<b>8,048,586</b>	<b>(677,253)</b>	<b>-8.4%</b>
Depreciation	4,456,160	4,405,077	(51,083)	-1.2%
<b>Total Operating Expenses</b>	<b>13,181,999</b>	<b>12,453,662</b>	<b>(728,337)</b>	<b>-5.8%</b>
<b>Operating income (loss)</b>	<b>(1,900,284)</b>	<b>(2,055,205)</b>	<b>154,921</b>	<b>7.5%</b>
<b>Non-operating revenues</b>				
Property taxes-G.O. Debt Levy	1,235,347	967,418	267,929	27.7%
Property taxes-Operations Levy	1,039,316	1,028,416	10,900	1.1%
Rental Income	81,493	82,150	(657)	-0.8%
Interest earned	234,668	256,948	(22,280)	-8.7%
Tower lease	465,355	448,673	16,682	3.7%
Gain (Loss) of disposal of equipment	7,672	161	7,510	N/A
<b>Total Non-operating Revenues</b>	<b>3,063,851</b>	<b>2,783,767</b>	<b>280,084</b>	<b>10.1%</b>
<b>Non-operating Expenses</b>				
Interest expense-Bonds	2,300,439	2,208,372	(92,067)	-4.2%
Bond Defeasance Amortization	233,430	231,716	(1,714)	-0.7%
Amortization of Debt Expenses	85,952	77,093	(8,859)	-11.5%
Bond Premium Amortization	(110,126)	(106,698)	3,428	3.2%
<b>Total Non-operating Expenses</b>	<b>2,509,695</b>	<b>2,410,483</b>	<b>(99,212)</b>	<b>-4.1%</b>
<b>Total Non-operating Revenues/Exp.</b>	<b>554,156</b>	<b>373,282</b>	<b>180,873</b>	<b>48.5%</b>
<b>Increase (decrease) in net assets,</b>				
<b>before capital contributions</b>	<b>(1,346,128)</b>	<b>(1,681,923)</b>	<b>335,794</b>	<b>20.0%</b>
Water Capacity Fee	148,815	34,512	114,303	331.2%
Sewer Capacity Fee	161,042	207,796	(46,754)	-22.5%
Developer Contributions of Systems	42,393	416,411	(374,018)	-89.8%
Assessments	344,402	320,902	23,500	N/A
<b>Total Capital Contributions</b>	<b>696,652</b>	<b>979,620</b>	<b>(282,968)</b>	<b>-28.9%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ (649,476)</b>	<b>\$ (702,302)</b>	<b>\$ 52,826</b>	<b>-7.5%</b>
<b>Net Assets at the beginning of the year</b>	<b>\$ 38,563,120</b>			
<b>Net Assets Year-To-Date</b>	<b>\$ 37,913,644</b>			

*Water and Sewer Revenues/Expenses: Fiscal Year 2011 vs. Fiscal Year 2010.*  
(Please reference Table A-6, Page 42)

**Water Revenues and Related Expenses:**

- For FY'11, total water operating revenues have increased 10% or \$528,123 compared to FY'10. As discussed, fiscal year 2011 experienced much higher water consumption levels which resulted in higher revenue growth. The previously discussed water rate increase which was put into effect May 1, 2011 also increased water revenues by approximately \$21,000.
- Water departmental expenses increased \$450,060 or 9.9% mainly due to the previously discussed increases for purchased water, operations, and maintenance expenses.
- Water operating loss for fiscal year 2011 is \$1,008,262 compared to the fiscal year 2010 loss of \$1,106,428. A difference of \$98,166 or 8.9%.

**Sewer Revenues and Related Expenses:**

- Total sewer and related operating revenues have increased 6.4% or \$311,229 from last fiscal year due to higher sewer related water consumption. Further, the previously discussed sewer rate increase which was put into effect May 1, 2011 increased sewer revenues by approximately \$48,000.
- Sewer departmental expenses increased 6.5% or \$227,194 compared to last fiscal year mainly due to the previously discussed increases for operations, and maintenance expenses.
- Sewer operating loss for fiscal year 2011 is \$892,021 compared to the fiscal year 2010 loss of \$948,777. A difference of \$56,757 or 6.0%.

**TABLE A-6**  
**Hilton Head PSD**  
**Water vs. Sewer Fiscal Year to Year Comparison Schedule**  
**Year to Date as of June 30, 2011**

	(With comparative amounts for the same period in prior fiscal year)		FY 2011 to FY 2010	
	FY 2011	FY 2010	Comparison	
	Actual	Actual	Dollars	%
<b>Operating Revenues</b>			<b>Favorable (Unfavorable)</b>	
<b>Water</b>				
Service	\$ 5,836,921	\$ 5,308,798	\$ 528,123	9.9%
Tap In Fees	43,041	31,305	11,736	37.5%
Service Fees	36,623	35,244	1,379	3.9%
Availability Fees	115,990	107,530	8,460	7.9%
Other Operating Revenues	40,171	17,839	22,332	125.2%
<b>Total Water Operating Revenues</b>	<b>6,072,746</b>	<b>5,500,717</b>	<b>572,029</b>	<b>10.4%</b>
<b>Sewer</b>				
Service	4,208,115	4,034,068	174,047	4.3%
Connection Fees	71,614	117,367	(45,753)	N/A
Service Fees	36,622	35,244	1,378	3.9%
Availability Fees	494,342	462,639	31,703	6.9%
Golf Course Irrigation	358,105	230,583	127,522	55.3%
Other Operating Revenues	40,171	17,839	22,332	125.2%
<b>Total Sewer Operating Revenues</b>	<b>5,208,970</b>	<b>4,897,741</b>	<b>311,229</b>	<b>6.4%</b>
<b>Total Operating Revenues</b>	<b>11,281,716</b>	<b>10,398,457</b>	<b>883,259</b>	<b>8.5%</b>
<b>Departmental Expenses</b>				
<b>Water</b>				
Payroll & Related	1,486,444	1,456,772	(29,672)	-2.0%
Administrative Expenses	495,806	437,583	(58,223)	-13.3%
Operations	704,922	606,427	(98,495)	-16.2%
Maintenance	558,316	464,481	(93,835)	-20.2%
Water Tap in Expense	26,690	23,030	(3,661)	-15.9%
Purchased Water	1,024,455	746,571	(277,884)	-37.2%
RO Plant O&M	581,270	674,039	92,769	N/A
Professional Fees	71,720	96,121	24,401	25.4%
Vehicle	54,815	49,354	(5,460)	-11.1%
<b>Total Water Departmental Expenses</b>	<b>5,004,438</b>	<b>4,554,379</b>	<b>(450,060)</b>	<b>-9.9%</b>
<b>Sewer</b>				
Payroll & Related	1,744,956	1,710,124	(34,832)	-2.0%
Administrative	359,031	316,870	(42,161)	-13.3%
Operations	934,431	803,868	(130,563)	-16.2%
Maintenance	454,006	304,094	(149,911)	-49.3%
Sewer Connection Expense	64,775	128,227	63,452	N/A
Professional Fees	99,855	173,086	73,231	42.3%
Vehicle	64,347	57,938	(6,410)	-11.1%
<b>Total Sewer Departmental Expense</b>	<b>3,721,401</b>	<b>3,494,207</b>	<b>(227,194)</b>	<b>-6.5%</b>
<b>Operating Expenses before depreciation</b>	<b>8,725,839</b>	<b>8,048,585</b>	<b>(677,254)</b>	<b>-8.4%</b>
Depreciation - Water	2,076,571	2,052,766	(23,805)	-1.2%
Depreciation - Sewer	2,379,589	2,352,311	(27,278)	-1.2%
<b>Total Operating Expenses</b>	<b>13,181,999</b>	<b>12,453,662</b>	<b>(728,337)</b>	<b>-5.5%</b>
<b>Water Operating income (loss)</b>	<b>(1,008,262)</b>	<b>(1,106,428)</b>	<b>98,166</b>	<b>8.9%</b>
<b>Sewer Operating income (loss)</b>	<b>(892,021)</b>	<b>(948,777)</b>	<b>56,757</b>	<b>6.0%</b>
<b>Total Operating income (loss)</b>	<b>(1,900,283)</b>	<b>(2,055,205)</b>	<b>154,922</b>	<b>7.5%</b>
Non-operating revenues (expenses), net	554,156	373,283	180,873	-48.5%
<b>Increase (decrease) in net assets,</b>				
<b>before capital contributions</b>	<b>(1,346,128)</b>	<b>(1,681,923)</b>	<b>335,795</b>	<b>20.0%</b>
<b>Capital Contributions</b>	<b>696,652</b>	<b>979,621</b>	<b>(282,969)</b>	<b>-28.9%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ (649,476)</b>	<b>\$ (702,302)</b>	<b>\$ 52,826</b>	<b>-7.5%</b>



## **CONTACTING THE DISTRICT'S FINANCE MANAGER**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Manager, P.O. Box 21264, Hilton Head Island, SC 29925. The District's website can be located at [hhpsd.com](http://hhpsd.com).

## **AUDITED FINANCIAL STATEMENTS**

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## BALANCE SHEETS AS OF JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Current assets</b>		
Cash available for operations	\$ 2,447,200	\$ 2,554,900
Cash in banks (restricted)	2,174,532	1,804,778
Cash held by Beaufort County Treasurer (restricted)	604,935	574,070
Cash held for construction (restricted)	2,798,716	-
Accounts receivable - trade net	2,246,649	1,936,011
Accounts receivable - tower leases	-	8,820
Sewer assessments, due within one year	362,253	335,220
Inventory	237,860	236,835
Prepaid expenses	104,720	46,420
Total current assets	10,976,865	7,497,054
<b>Noncurrent assets</b>		
Property, plant and equipment		
Nondepreciable assets	4,813,643	2,535,374
Depreciable assets, net	76,535,041	77,979,683
Total property, plant and equipment	81,348,684	80,515,057
Sewer assessments, due after one year	3,459,654	3,329,883
Bond issuance costs, net	1,106,751	921,962
Other assets	15,177	24,158
Total noncurrent assets	85,930,266	84,791,060
Total assets	<u>\$ 96,907,131</u>	<u>\$ 92,288,114</u>

The accompanying notes are an integral part of these financial statements.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## BALANCE SHEETS AS OF JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Current liabilities</b>		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 377,846	\$ 534,074
Accounts payable - construction	545,841	548,353
Notes payable, due within one year	18,000	18,000
Customer deposits	143,580	135,010
Deferred revenue	146,677	143,536
Other accrued liabilities	<u>329,470</u>	<u>409,349</u>
Total current liabilities payable from unrestricted assets	1,561,414	1,788,322
Payable from restricted assets:		
Interest payable	548,318	530,869
Bonds payable, due within one year	2,021,897	1,640,578
Notes payable, due within one year	<u>638,847</u>	<u>617,527</u>
Total current liabilities payable from restricted assets	<u>3,209,062</u>	<u>2,788,974</u>
Total current liabilities	4,770,476	4,577,296
<b>Noncurrent liabilities</b>		
Bonds payable, due after one year	46,751,278	41,218,772
Notes payable, due after one year	8,668,270	9,325,117
Bond discount/premium, net of amortization	922,848	956,624
Deferred loss on early retirement of debt, net of amortization	<u>(2,119,385)</u>	<u>(2,352,815)</u>
Total noncurrent liabilities	54,223,011	49,147,698
Total liabilities	58,993,487	53,724,994
<b>Net assets</b>		
Invested in capital assets, net of related liabilities	27,806,556	29,464,863
Restricted for capital activity and debt service	2,779,466	2,378,848
Unrestricted	<u>7,327,622</u>	<u>6,719,409</u>
Total net assets	37,913,644	38,563,120
Total liabilities and net assets	<u>\$ 96,907,131</u>	<u>\$ 92,288,114</u>

The accompanying notes are an integral part of these financial statements.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Operating Revenues</b>		
Water service	\$ 5,836,921	\$ 5,308,798
Sewer service	4,208,115	4,034,068
Tap in fees - water	43,041	31,305
Tap in fees - sewer	71,614	117,367
Availability charges	610,332	570,169
Golf course irrigation	358,105	230,583
Service fees and penalties	73,245	70,488
Other operating revenues	<u>80,342</u>	<u>35,679</u>
Total operating revenues	11,281,715	10,398,457
<b>Departmental Expenses</b>		
Payroll and related expenses	3,231,400	3,166,896
Administrative expenses	854,837	754,453
Operations expenses	1,639,353	1,410,295
Maintenance expenses	1,012,322	768,575
RO plant expenses	581,270	674,039
Tap in expenses	91,465	151,257
Purchased water	1,024,455	746,571
Professional fees	171,575	269,207
Vehicle expenses	119,162	107,292
Depreciation	<u>4,456,160</u>	<u>4,405,077</u>
Total departmental expenses	<u>13,181,999</u>	<u>12,453,662</u>
Loss from operations	(1,900,284)	(2,055,205)
<b>Non-operating revenues (expenses)</b>		
Property taxes - debt service	1,235,347	967,418
Property taxes - operations	1,039,316	1,028,416
Rental and tower lease income	546,848	530,823
Interest earned	234,668	256,948
Gain on disposal of equipment	7,672	161
Amortization of bond and note costs	(209,256)	(202,112)
Interest expense	<u>(2,300,439)</u>	<u>(2,208,372)</u>
Total net non-operating income	<u>554,156</u>	<u>373,282</u>
<b>Decrease in net assets before capital contributions</b>	\$ (1,346,128)	\$ (1,681,923)

The accompanying notes are an integral part of these financial statements.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Capital Contributions</b>		
Assessments	\$ 344,402	\$ 320,902
Capacity fees	309,857	242,308
Developer contributions of systems	<u>42,393</u>	<u>416,411</u>
Total capital contributions	696,652	979,621
 Change in net assets	 (649,476)	 (702,302)
 Net assets, beginning of the year	 <u>38,563,120</u>	 <u>39,265,422</u>
 Net assets, end of year	 <u><u>\$ 37,913,644</u></u>	 <u><u>\$ 38,563,120</u></u>

The accompanying notes are an integral part of these financial statements.



# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 10,899,305	\$ 10,037,448
Cash paid to suppliers	(6,717,042)	(5,337,610)
Cash paid to employees	(2,304,229)	(2,235,489)
Other revenues	<u>80,342</u>	<u>35,679</u>
Net cash provided by operating activities	1,958,376	2,500,028
<b>Cash flows from investing activities</b>		
Change in restricted cash	(3,199,335)	305,194
Interest earned	<u>234,668</u>	<u>256,948</u>
Net cash provided by investing activities	(2,964,667)	562,142
<b>Cash flow from noncapital financing activities:</b>		
Property taxes collected - operations	1,039,316	1,028,416
Rental and tower lease income	567,794	520,403
Sewer assessment	<u>187,598</u>	<u>249,912</u>
Net cash provided by noncapital financing activities:	1,794,708	1,798,731
<b>Cash flow from capital and related financing activities</b>		
Capacity fees	309,857	242,308
Property taxes collected - bond sinking fund	1,235,347	967,418
Interest expense	(2,282,990)	(2,192,638)
Proceeds from GO bonds	3,987,185	-
Proceeds from revenue bonds	3,843,568	2,328,318
Bond issuance and other capitalized costs	(270,741)	(55,427)
Principal payments on bonds and notes	(2,476,106)	(2,557,050)
Proceeds from sale of capital assets	11,281	161
Purchases of property, plant and equipment	<u>(5,253,518)</u>	<u>(3,141,069)</u>
Net cash used by capital and related financing activities	(896,117)	(4,407,979)
<b>Net increase (decrease) in cash</b>	(107,700)	452,922
Cash and cash equivalents at beginning of year	<u>2,554,900</u>	<u>2,101,978</u>
Cash and cash equivalents at year end	<u>\$ 2,447,200</u>	<u>\$ 2,554,900</u>

The accompanying notes are an integral part of these financial statements.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (1,900,284)	\$ (2,055,205)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>		
Depreciation	4,456,160	4,405,077
Increase in allowance for doubtful accounts	35,000	-
Changes in assets and liabilities		
Accounts receivable - trade	(345,638)	(324,268)
Inventories	(1,025)	(14,912)
Prepaid assets	(58,300)	38,740
Accounts payable - trade	(156,228)	321,072
Customer deposits	8,570	(1,062)
Other accrued liabilities	(79,879)	130,586
Net cash provided by operating activities	<u>1,958,376</u>	<u>2,500,028</u>
<u>Schedule of cash and cash equivalents</u>		
Available for operations		
Demand deposits (interest and non-interest bearing)	2,287,326	2,385,606
Held by Beaufort County Treasurer	159,874	169,294
	<u>\$ 2,447,200</u>	<u>\$ 2,554,900</u>
<u>Supplemental Disclosures</u>		
Noncash financing activities:		
Assessments	\$ 344,402	\$ 320,902
Developer contribution of systems	\$ 42,393	\$ 416,411

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 1 - Summary of significant accounting policies**

**General**

The Hilton Head No. 1 Public Service District was established in November of 1969. Its purpose is to provide water and sewer services to the public within designated boundaries.

The financial statements of the District have been prepared in conformity with U.S. 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 more significant of the government's accounting policies are described below:

The District applies all relevant GASB pronouncements. The District applied all relevant Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Based on provisions in GASB Statement 20, the District has elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

These GASB statements require the presentation of Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: 1) the classification of the Equity section of the balance sheet into Net Assets with categories of Invested in Capital Assets net of related debt, Restricted, and Unrestricted; 2) the statement 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 accounts of the District are organized on the basis of a proprietary fund type - enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis financed and recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for sales and services provided to them. The District also recognizes as operating income tap fees, availability fees, and other revenues related to operations. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reporting as nonoperating revenues and expenses.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 1 - Summary of significant accounting policies (continued)**

**Net assets**

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets.

Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds of other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

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.

**Basis of accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund type is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Property taxes and availability charges are recognized when collected by the Beaufort County Treasurer.

Fees and payments due under developer contracts are treated as capital contributions and are recognized in the period received. Tap fees and connection fees are recognized as income in the period the customer connects to the system.

**Cash and cash equivalents**

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 from the date of purchase are considered to be cash equivalents.

**Accounts receivable, allowance for doubtful accounts and bad debt expense**

The District carries accounts receivable at cost less an allowance for doubtful accounts. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2011 and 2010, the balance of the allowance for doubtful accounts was \$47,000 and \$12,000,

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 1 - Summary of significant accounting policies (continued)**

**Accounts receivable, allowance for doubtful accounts and bad debt expense (continued)**

respectively. Bad debt expense for the years ended June 30, 2011 and 2010 was \$103,627 and \$55,989, respectively.

**Inventory**

Inventory is recorded at the lower of cost or market on a weighted average cost basis.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Betterments and improvements over \$1,000 which extend the useful life of an asset are capitalized and depreciated over their estimated useful life.

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project which is being financed from the bond proceeds. No interest was capitalized for the years ended June 30, 2011 and 2010.

Depreciation of all property, plant and equipment is provided by the straight-line method and estimated useful lives of assets in service are as follows:

Description	Estimated life (in years)
Waterworks system	5-40
Sewage disposal system	5-33
Building	40
Sewage treatment facilities	3-40
Transportation equipment	5
Operations furniture and equipment	3-7
Office furniture and equipment	4-10

**Bond issuance cost**

Bond issuance costs are amortized using the straight-line method over the life of the bonds commencing at the date of issuance. Amortization expense on bond issuance costs was \$85,952 and \$77,093 for the years ended June 30, 2011 and 2010, respectively.

**Bond discount and premium**

The issue price of the 2004 revenue bonds exceeded its par value resulting in a bond premium of \$1,669,539. The bond premium is being amortized over the 17-year life of the 2004 revenue bonds. The 2006 revenue bonds included two series of bonds, one issued at a premium of \$40,990 and one issued at a discount of \$197,849. The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two series of bonds, one issued at a premium of \$126,097 and one issued at a

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 1 - Summary of significant accounting policies (continued)**

**Bond discount and premium (continued)**

discount of \$66,931. The 2010 general obligation bonds included two series of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2011 and 2010 was \$922,848 and \$956,624, respectively.

**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, which amounted to \$205,881 and \$210,919 at June 30, 2011 and 2010, respectively.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification**

Certain accounts and amounts in the June 30, 2010 financial statements have been reclassified in order to conform to 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 November 29, 2011, the date that the financial statements were available to be issued.

**Note 2 – Cash, cash equivalents and investments**

At June 30, 2011, the bank balances of unrestricted and restricted accounts totaled \$5,700,128 and had a carrying balance totaling \$5,541,740. A sum of \$200 is held in petty cash funds of the District.

Custodial credit risk is the risk that, in the event of failure of a financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2011, none of the District's deposits or investments were exposed to custodial credit risk. The amounts covered by federal depository insurance (FDIC), invested in money market accounts and collateralized were as follows:

	Unrestricted	Restricted under bond covenants	Total
FDIC insured	\$ 250,000	\$ -	\$ 250,000
Collateralized	2,195,514	3,254,614	5,450,128
Balance per bank at 6/30/11	<u>\$ 2,445,514</u>	<u>\$ 3,254,614</u>	<u>\$ 5,700,128</u>

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 2 – Cash, cash equivalents and investments (continued)**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policy limits investments to those that are very creditworthy. At June 30, 2011, the District's investments were all in a Standard and Poor's AAAM rated money market account that is collateralized by U.S. Treasury obligations. As of June 30, 2011 and 2010 all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The district's investment policy does not address this risk.

**Investment Policy**

The District's cash management program seeks to achieve three objectives with regards to investments: safety of principal, adequate liquidity to meet daily cash needs, and a reasonable yield commensurate with the preservation of principal and liquidity. The following investment strategy has been designed to accomplish these objectives:

1. The District will invest in very creditworthy, highly liquid investments with maturities of one year or less and in intermediate-term securities of high credit quality with maturities no greater than five years. The District will only invest in those securities specified under South Carolina Code Section 6-5-10. These include collateralized money market accounts and certificates of deposits, U.S. Treasury Bills and Notes, high quality obligations of certain U.S. agencies and instrumentalities, and the local government investment pool.
2. The primary objective of all District investment activity is the preservation of capital and safety of principal. Each investment transaction shall ensure that capital losses are avoided, whether from security default, sale of instruments prior to maturity or erosion of market value.
3. At all times, the District shall remain sufficiently liquid to meet cash flow requirements by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. There may be times when the District has more or less of its funds in particular investment vehicles due to cash flow needs, prevailing market conditions, and other factors. Analyzing monthly financial reports in conjunction with prevailing market conditions serve as a general guideline for making investment decisions. In this way, the portfolio will be able to take advantage of rising interest rates by re-investing maturing securities at higher yields. In falling rate environments, it will profit from having investments that were made at higher rates. Following this discipline ensures that the District will always have sufficient cash available for daily needs, preserve its principal, and earn a competitive yield without assuming unacceptable risks.



# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

### **Note 3 - Cash held by the Beaufort County Treasurer**

Cash held by the Beaufort County Treasurer includes the remaining proceeds of the general obligation bond issues, property tax collections and interest earned on monies held by the Treasurer.

The funds will be used as follows:

	As of June 30,	
	2011	2010
Unrestricted cash - Available for general operating purposes	\$ 159,874	\$ 169,294
Restricted cash - Available for construction	1,718,634	-
Restricted cash - Bond principal retirement and interest payments	604,935	574,070
Total	<u>\$ 2,483,443</u>	<u>\$ 743,364</u>

The deposits are a pool of funds invested by the pool for the entities which receive property taxes from the County Treasurer. As such, collateral is not identified for each deposit, but rather for the fund as a whole. These deposits are collateralized by cash or governmental agency securities, which are fully guaranteed as to principal and interest by the federal government.

### **Note 4 - Accounts receivable-trade**

Accounts receivable include the following:

	As of June 30,	
	2011	2010
Receivables from customers	\$ 1,149,946	\$ 1,011,987
Unbilled receivables from customers	956,324	889,397
Other receivables	140,379	34,627
Total	<u>\$ 2,246,649</u>	<u>\$ 1,936,011</u>

	As of June 30,	
	2011	2010
Receivables from customers	\$ 1,149,946	\$ 1,011,987
Unbilled receivables from customers	956,324	889,397
Other receivables	140,379	34,627
Total	<u>\$ 2,246,649</u>	<u>\$ 1,936,011</u>

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 5 - Property, plant, equipment and depreciation**

Capital asset activity during the year ended June 30, 2011 and 2010 was as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2011</u>
<b><u>Capital assets not being depreciated:</u></b>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	<u>1,236,180</u>	<u>5,131,695</u>	<u>-</u>	<u>(2,853,426)</u>	<u>3,514,449</u>
Total capital assets not being depreciated	<u>2,535,374</u>	<u>5,131,695</u>	<u>-</u>	<u>(2,853,426)</u>	<u>4,813,643</u>
<b><u>Capital assets being depreciated:</u></b>					
Waterworks system	50,684,177	22,849	-	422,226	51,129,252
Sewage disposal system	27,948,640	10,458	-	2,431,200	30,390,298
Buildings	4,314,370	-	-	-	4,314,370
Sewage treatment facilities	36,638,501	-	-	-	36,638,501
Transportation equipment	687,913	101,073	(98,046)	-	690,940
Operations furniture and equipment	1,861,500	13,942	-	-	1,875,442
Office furniture and equipment	<u>580,797</u>	<u>13,381</u>	<u>-</u>	<u>-</u>	<u>594,178</u>
Total capital assets being depreciated	<u>122,715,898</u>	<u>161,703</u>	<u>(98,046)</u>	<u>2,853,426</u>	<u>125,632,981</u>
Less accumulated depreciation	<u>(44,736,215)</u>	<u>(4,456,160)</u>	<u>94,435</u>	<u>-</u>	<u>(49,097,940)</u>
Total capital assets being depreciated, net	<u>77,979,683</u>	<u>(4,294,457)</u>	<u>(3,611)</u>	<u>2,853,426</u>	<u>76,535,041</u>
Year End Totals	<u>\$ 80,515,057</u>	<u>\$ 837,238</u>	<u>\$ (3,611)</u>	<u>\$ -</u>	<u>\$ 81,348,684</u>

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 5 - Property, plant, equipment and depreciation (continued)**

	June 30, 2009	Additions	Disposals	Transfers	June 30, 2010
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,239,194	\$ 60,000	\$ -	\$ -	\$ 1,299,194
Construction in progress	<u>641,980</u>	<u>2,890,949</u>	<u>-</u>	<u>(2,296,749)</u>	<u>1,236,180</u>
Total capital assets not being depreciated	<u>1,881,174</u>	<u>2,950,949</u>	<u>-</u>	<u>(2,296,749)</u>	<u>2,535,374</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	49,500,248	3,850	-	1,180,079	50,684,177
Sewage disposal system	26,415,558	416,412	-	1,116,670	27,948,640
Buildings	4,314,370	-	-	-	4,314,370
Sewage treatment facilities	36,640,901	-	(2,400)	-	36,638,501
Transportation equipment	715,655	33,324	(61,066)	-	687,913
Operations furniture and equipment	1,878,214	62,634	(79,348)	-	1,861,500
Office furniture and equipment	<u>605,663</u>	<u>13,354</u>	<u>(38,220)</u>	<u>-</u>	<u>580,797</u>
Total capital assets being depreciated	<u>120,070,609</u>	<u>529,574</u>	<u>(181,034)</u>	<u>2,296,749</u>	<u>122,715,898</u>
Less accumulated depreciation	<u>(40,512,172)</u>	<u>(4,405,077)</u>	<u>181,034</u>	<u>-</u>	<u>(44,736,215)</u>
Total capital assets being depreciated, net	<u>79,558,437</u>	<u>(3,875,503)</u>	<u>-</u>	<u>2,296,749</u>	<u>77,979,683</u>
Year End Totals	<u>\$ 81,439,611</u>	<u>\$ (924,554)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,515,057</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$4,456,160 and \$4,405,077, respectively. Transfers relate to construction in progress completed during the year.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 6 – Long-term obligations**

The District has financed its acquisitions of property, plant and equipment through bond issuances and notes payable as follows:

**Notes payable**

The District is obligated under a note dated November 30, 1988, with a balance of \$205,939 and \$223,939 at June 30, 2011 and 2010, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date.

On May 26, 2000, the district entered into a loan agreement with the South Carolina Water Quality Revolving Fund Authority in the amount of \$10,194,238 for the purpose of expanding the wastewater treatment plant capacity by 3,200,000 gallons per day. The note is an obligation of the District, bears interest at the rate of 3.50 percent, and is payable quarterly through September 2021 in the amount of \$177,724, which includes interest, from revenues derived from operation of the District's system, and is secured by a lien upon these revenues. The balance of this note payable was \$6,100,698 and \$6,587,376 at June 30, 2011 and 2010, respectively.

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2011 and 2010 amounted to \$433,063 and \$451,058, respectively.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.99% per annum. (See note 7) These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SRF loan balance outstanding at June 30, 2011 and 2010 amounted to \$2,585,417 and \$2,698,270, respectively.

**Bonds payable**

In May 2000, the District issued \$530,000 of Series 2000B revenue bonds for purposes of funding certain improvements within the District. The bonds were an obligation of the District, bore interest at the rate of 6.172% and were payable annually through May, 2020 in the amount of \$46,856, which included interest. The bonds will be repaid by annual assessments to the owners in the Burkes Beach area over a 20 year period and will be collected by the county treasurer. The 2000B revenue bonds outstanding at June 30, 2009 amounted to \$366,316. In June 2010, the District made a \$342,069 payment to pay off these bonds. After the pay off, \$190,722 of these bonds were refinanced as series 2010A revenue bonds. The series 2010A bonds bear interest at a rate of 3.85% per annum. The first payment of principal and interest in the amount of \$23,219 is due March 26, 2011. Nine additional payments of principal and interest of \$23,301 are payable on March 26<sup>th</sup> of each year beginning in 2012.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 6 – Long-term obligations (continued)**

**Bonds payable(continued)**

and continuing until 2020. The 2010A revenue bonds outstanding amounted to \$174,438 and \$190,722 at June 30, 2011 and 2010, respectively.

In April 2004, the District determined that a debt service savings could be achieved by issuing a series of 2004 revenue bonds in the amount of \$17,575,000 and applying the proceeds thereof to refund a portion of the callable maturities of the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. The 2004 revenue bonds bear varying interest rates of between 2% to 5%, and are payable semi-annually beginning August 1, 2004 through August 1, 2021. The 2004 revenue bonds outstanding amounted to \$13,900,000 and \$14,640,000 at June 30, 2011 and 2010, respectively.

In August 2004, the District completed the issuance of series 2004B revenue bonds for \$430,000. The proceeds of the bonds are to be used first for funding the debt service requirement and the issuance costs of the bond. Proceeds are then to be used to reimburse the District for the cost of system improvements. A one time principal payment was made in September 2004 of \$103,978. Beginning May 2, 2005, the remaining balance of \$326,022 will be paid with 19 annual payments of \$26,275 which includes interest at a rate of 5.19% per annum. A final payment of \$26,126, including interest, is due on May 2, 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2004B bonds outstanding amounted to \$243,940 and \$256,883 at June 30, 2011 and 2010, respectively.

On February 2, 2006 the District issued \$18,770,000 of Series 2006 revenue bonds to refund the series 1998 revenue bonds in order to achieve savings on debt service. Interest on the bonds is payable semi-annually at varying interest rates of between 3.50% and 4.125% per annum. Principal payments are due annually on December 1<sup>st</sup> of each year beginning in 2006 and continuing until 2023. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2006 bonds outstanding amounted to \$17,665,000 and \$18,105,000 at June 30, 2011 and 2010, respectively.

In June 2007, the District issued \$930,000 of series 2007 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2007 bond bears interest at a rate of 4.22% per annum. Principal and interest of \$69,771 are payable on June 20<sup>th</sup> of each year beginning in 2008 and continuing until 2027. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2007 revenue bonds outstanding amounted to \$799,952 and \$834,507 at June 30, 2011 and 2010, respectively.

On October 3, 2007 the District issued \$7,350,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. Interest on the bonds is payable semi-annually beginning March 1, 2008 at varying interest rates of between 4.50% and 4.00% per annum. Principal payments on the bonds are due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$6,520,000 and \$6,810,000 at June 30, 2011 and 2010, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 6 – Long-term obligations (continued)**

**Bonds payable (continued)**

In July 2009, the District issued \$335,902 of series 2009A revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2009A bond bears interest at a rate of 4.55% per annum. Principal and interest of \$33,254 are payable on June 30<sup>th</sup> of each year beginning in 2010 and continuing until 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2009A revenue bonds outstanding amounted to \$338,842 and \$355,902 at June 30, 2011 and 2010, respectively.

In July 2009, the District issued \$1,781,694 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bear interest at a rate of 4.219% per annum. The first payment of principal and interest in the amount of \$159,413 was due March 1, 2010. Fourteen additional payments of principal and interest of \$160,040 are payable on March 1<sup>st</sup> of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$1,576,601 and \$1,666,338 at June 30, 2011 and 2010, respectively.

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds are to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds are due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2010B revenue bonds outstanding amounted to \$3,400,000 at June 30, 2011.

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$3,770,000 at June 30, 2011.

On April 27, 2011, the District issued \$384,402 of series 2011 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2011 bond bears interest at a rate of 3.91% per annum. Principal and interest of \$34,356 are payable on April 27<sup>th</sup> of each year beginning in 2012 and continuing until 2026. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$384,402 at June 30, 2011.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 6 – Long-term obligations (continued)**

Maturities and debt service costs of bonds and notes payable are as follows:

Years ended June 30,	Principal	Interest	Total
2012	\$ 2,678,744	\$ 2,297,471	\$ 4,976,215
2013	3,354,181	2,187,677	5,541,858
2014	3,495,740	2,053,881	5,549,621
2015	3,643,465	1,907,630	5,551,095
2016	3,792,397	1,754,115	5,546,512
2017-2021	22,048,208	6,172,551	28,220,759
2022-2026	16,248,921	1,805,485	18,054,406
2027-2030	2,836,636	171,764	3,008,400
	<u>\$ 58,098,292</u>	<u>\$ 18,350,574</u>	<u>\$ 76,448,866</u>

Bonds with varying interest rates at June 30, 2011 are as follows:

For those bonds due June 30,	Revenue bonds dated April 13, 2004	Revenue bonds dated Feb. 2, 2006	General Obligation bonds dated Oct. 3, 2007	Revenue bonds dated Aug. 24, 2010	General Obligation bonds dated Sept. 28, 2010
2012	4.000%	3.500%	4.125%	2.000%	2.000%
2013	4.250%	3.500%	4.000%	3.000%	2.000%
2014	5.000%	3.625%	4.000%	3.000%	2.000%
2015	5.000%	3.625%	4.000%	3.000%	2.000%
2016	5.000%	3.75% - 4.00%	4.000%	4.000%	2.000%
2017	5.000%	4.000%	4.000%	4.000%	2.250%
2018 - 22	-	4.000%	4.000%	4.000%	3.000%
2023	-	4.100%	4.000%	4.000%	3.000%
2024	-	4.125%	4.000%	4.000%	3.000%
2025	-	-	4.000%	4.000%	3.000%
2026 - 27	-	-	4.000%	4.000%	3.125%
2028	-	-	-	4.000%	3.250%
2029	-	-	-	3.875%	3.375%

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 7 – Non-current liabilities**

The non-current liability activity during fiscal years 2011 and 2010 was as follows:

	June 30, 2010	Additions	Reductions	June 30, 2011	Amounts due within one year
Revenue bonds	\$ 34,383,014	\$ 3,784,402	\$ (1,275,841)	\$ 36,891,575	\$ 1,468,375
GO bonds	8,476,338	3,970,000	(564,738)	\$ 11,881,600	553,523
Notes payable	9,960,643	-	(635,526)	\$ 9,325,117	656,846
Bond discount/premium	956,623	76,351	(110,126)	\$ 922,848	-
Less deferred amount	(2,352,815)	-	233,430	\$ (2,119,385)	-
Sub Total	\$ 51,423,803	\$ 7,830,753	\$ (2,352,801)	\$ 56,901,755	\$ 2,678,744
Less current portion	(2,276,105)			(2,678,744)	
Noncurrent liabilities	\$ 49,147,698			\$ 54,223,011	

	June 30, 2009	Additions	Reductions	June 30, 2010	Amounts due within one year
Revenue bonds	\$ 35,388,165	\$ 546,624	\$ (1,551,775)	\$ 34,383,014	\$ 1,275,841
GO bonds	7,085,000	1,781,694	(390,356)	8,476,338	364,737
Notes payable	10,575,562	-	(614,919)	9,960,643	635,527
Bond discount/premium	1,063,321	-	(106,698)	956,623	-
Less deferred amount	(2,567,394)	-	214,579	(2,352,815)	-
Sub Total	\$ 51,544,654	\$ 2,328,318	\$ (2,449,169)	\$ 51,423,803	\$ 2,276,105
Less current portion	(2,099,625)			(2,276,105)	
Noncurrent liabilities	\$ 49,445,029			\$ 49,147,698	

**Note 8 - Defeased debt**

On June 1, 1995, the District issued revenue bonds amounting to \$23,395,000 with varying interest rates to advance refund general obligation bonds amounting to \$125,000 and revenue bonds amounting to \$6,045,000 which had varying interest rates. The general obligation bonds were set to mature in 1998, and the revenue bonds were set to mature in 2012. Part of the proceeds of the new revenue bond issue was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments until the previously existing debt issues are retired. The advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District is amortizing the deferred loss on early retirement of \$630,489 over a period of the original issue of the related bond issues, which ranges from two to seventeen years. The unamortized balance at June 30, 2011 and 2010 was \$33,414 and \$70,144, respectively.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 8 - Defeased debt (continued)**

In April 2004, the District issued revenue bonds amounting to \$17,575,000 with varying interest rates to advance refund a portion of the 1995 and 1996 revenue bonds amounting to \$18,110,000 which had varying interest rates. The 1995 bond previously refunded general obligation and revenue bonds totaling \$6,170,000. The 1995 and 1996 revenue bonds were set to mature in 2020 and 2016, respectively. Part of the proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues.

The 2004 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1,906,345, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,232,494. The District is amortizing the deferred loss on early retirement of \$2,234,714 over the 17-year average life of the refunded bonds. The unamortized balance at June 30, 2011 and 2010 was \$1,281,674 and \$1,413,128, respectively.

On February 2, 2006 the District issued revenue bonds amounting to \$18,770,000 with varying interest rates to advance refund series 1998 revenue bonds amounting to \$17,825,000 of principal which were to mature in 2024. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues.

The 2006 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1.28 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$886,805. The District is amortizing the deferred loss on early retirement of \$1,133,015 over the 18-year life of the refunded bonds. The unamortized balance at June 30, 2011 and 2010 was \$788,873 and \$852,407, respectively.

In June 2010, the District issued revenue bonds amounting to \$190,722 with varying interest rates to advance refund series 2000B revenue bonds amounting to \$530,000 of principal which were to mature in 2020. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues.

The 2010 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$84,295, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,268. The District is amortizing the deferred loss on early retirement of \$17,137 over the 10-year life of the refunded bonds. The unamortized balance at June 30, 2011 and 2010 was \$15,424 and \$17,137, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 9 – Restricted Assets**

A reserve fund for debt service is mandated by bond covenants. At June 30, 2011 and 2010 the debt service reserves totaled \$2,779,466 and \$2,378,849, respectively.

The District also has funds established, as mandated by bond covenants, for operation and maintenance, and depreciation and contingencies. The operating and maintenance fund is intended to provide for the payment of the operations and maintenance expenses. The depreciation and contingency fund is intended to provide a reasonable reserve for the depreciation of the system, for contingencies and for improvements, betterment and extensions of the system.

At June 30, 2011, the District had \$2,798,716 held by the Beaufort County Treasurer relating to the September 28, 2010 GO bond issuance. Use of these funds is restricted for constructing, furnishing and equipping a new Aquifer Storage and Recovery well.

**Note 10 - Lease arrangements**

The District is currently leasing office space, land use and space on its water tower facilities to various cellular phone companies for attachment of antennae. Original lease terms range from one to five year periods, with renewal options. Rental income in connection with these leases was \$465,355 and \$448,673 for the years ended June 30, 2011 and 2010, respectively.

The future minimum lease income is as follows:

Years ended	
June 30,	Amount
2012	\$ 518,900
2013	347,233
2014	206,696
2015	182,205
2016	170,717
Thereafter	68,174
Total	<u>\$ 1,493,925</u>

**Note 11 - Economic dependence**

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

# **HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2011

### **Note 12 - Construction and development commitments**

#### **Policy**

The District has financed a portion of its expansion through direct charges to developers and through governmental grants. Developers basically install the systems within a given area or contribute toward treatment plant or water production facilities in exchange for a portion of the capacity. All systems contributed must be approved by the District and are contributed, generally without cost to the District, once they are completed and acceptable for use.

#### **Regulatory mandates**

The District, as well as some other water authorities on Hilton Head Island, South Carolina, has entered into contracts for additional water supply sources to meet its future needs due to restrictions placed on the District by the South Carolina Department of Health and Environmental Control. The restrictions and contract for water supply have a significant financial impact on the District.

During the years ended June 30, 1998 and June 30, 2003, the District signed agreements with Beaufort Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum amount of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$1,024,455 and \$746,571 for the years ended June 30, 2011 and 2010, respectively.

#### **Expansion**

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$42,393 and \$416,411 and payments of capacity fees totaling \$309,857 and \$242,308 were collected during the fiscal years ended June 30, 2011 and 2010, respectively.

All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District.

#### **Construction commitments**

The District has approximately \$2,947,000 of commitments remaining on construction contracts entered into prior to June 30, 2011.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 13 - Sewer assessments**

The District has constructed various sewer systems, the cost of which is to be repaid by annual sewer assessments collected by the County treasurer from the property owners that benefited from these systems. These assessments are being collected annually and are expected to be paid in full beginning 2016 through 2026. Assessments receivable totaled \$3,821,907 and \$3,665,103 as of June 30, 2011 and 2010, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2011 and 2010, \$188,333 and \$212,894, respectively, of the assessments collected was recognized as interest income.

**Note 14 - Deferred compensation plans**

**Section 457 plan**

In April 2004, the District reactivated its Internal Revenue Code Section 457 retirement plan. All persons employed by the District on March 31, 2004 became eligible employees. Under the Plan, all participants make a minimum of 6% salary reduction contribution as elected in his or her salary deferral agreement. The District makes a 6% matching contribution to each eligible participant's account. Employee contributions for the years ended June 30, 2011 and 2010 were \$150,599 and \$141,087, respectively. The matching contribution for the years ended June 30, 2011 and 2010 was \$20,152 and \$19,554, respectively.

**South Carolina Retirement System**

Effective April 2004, the District also joined the South Carolina Retirement System (SCRS). SCRS is a cost sharing multiple employer defined benefit retirement plan for employees of the state and its public school districts, counties, cities, and other political subdivisions that elect participation. SCRS provides members a guaranteed monthly pension based on a formula that includes the member's average final compensation, years of service, and a benefit multiplier.

As a condition of employment, all employees are required to become members of the SCRS and contribute 6.5% of compensation. However, employees who worked for the District on the date of its admission into the Retirement System could elect non-membership within six-months. The District's required contributions for the years ended June 30, 2011, 2010 and 2009 were 9.24%. The District's matching contribution for the years ended June 30, 2011, 2010 and 2009 were \$171,769, \$174,808 and \$162,108 respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

For the years ended June 30, 2011, 2010 and 2009, \$1,858,973, \$1,891,868, and \$1,755,623, respectively, of wages were subject to retirement. During the years ended June 30, 2011, 2010 and 2009, \$120,833, \$122,672, and \$114,115, respectively, were contributed to the system for the employees' share which represented 6.50% of covered payroll for each of those years.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

### **Note 14 - Deferred compensation plans (continued)**

#### **South Carolina Retirement System (continued)**

Employees are vested after 5 years and are entitled to a deferred annuity commencing at age 60. Employees who retire at age 65 with 5 years of service and have twenty-eight years of credited service are entitled to a retirement benefit, payable monthly for life equal to 1.82% of average final compensation times years of credited service. Employees who retire between the ages of 55 and 60 with 25 years of service receive an annuity reduced by 4% for each year of service under twenty-eight. Employees who retire at age 60 receive an annuity reduced by 5% for each year under the age of 65.

The System also provides disability benefits, group life insurance benefits and survivor benefits. Cost of living adjustments are granted on an ad hoc basis, subject to approval by the State Budget and Control Board.

A comprehensive annual financial report containing financial statements and required supplementary information for the South Carolina Retirement System is publicly available on the website at [www.retirement.sc.gov](http://www.retirement.sc.gov) or by submitting a request to South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

For each plan the maximum employee contribution are as follows:

Plan year	2011	2010
Under 50 years of age	\$ 16,500	\$ 16,500
50 years of age and over	\$ 22,000	\$ 22,000

### **Note 15 - Other commitments and contingencies**

The District is subject to various claims and contingencies arising out of the normal course of business. Management of the District believes that the ultimate liability, if any, from such claims or contingencies will be covered by the District's insurance policies and are not likely to have a material adverse effect on the District's operating results, financial condition or liquidity. Currently there are no material outstanding issues being addressed by legal counsel.

### **Note 16 – Subsequent events**

In August 2011, the District issued \$6,003,544 of series 2011B revenue bonds. The funds received from this issuance will be used to defray the cost of system improvements and construction commitments as disclosed in Note 12.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 17 - Net assets**

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

	As of June 30,	
	2011	2010
<b>Invested in capital assets, net of related liabilities</b>		
Net property, plant and equipment in service	\$ 81,348,685	\$ 80,515,057
Less: Debt as disclosed in Notes 6 & 7	(58,098,292)	(52,819,994)
Cash for construction	2,798,716	-
Bond premium, net	(922,848)	(956,624)
Deferred amount on refunding, net	2,119,385	2,352,815
Bond issue costs and discounts, net	1,106,751	921,962
Accounts payable for capital assets	(545,841)	(548,353)
	<u>27,806,556</u>	<u>29,464,863</u>
<b>Restricted for capital activity and debt service</b>	2,779,466	2,378,848
<b>Unrestricted</b>	<u>7,327,622</u>	<u>6,719,409</u>
Total net assets	<u>\$ 37,913,644</u>	<u>\$ 38,563,120</u>

# **SUPPLEMENTAL FINANCIAL INFORMATION**

<p style="text-align: center;"><b>Hilton Head PSD</b>  <b>Budgetary Comparison Schedule</b>  <b>Year to Date as of June 30, 2011</b>  <b>(With comparative amounts for the same period in prior fiscal year)</b></p>				
	<b>Fiscal Year 2011</b>		<b>FY 2011 to FY 2011 Budget Comparison</b>	
	<b>Actual</b>	<b>Budget</b>	<b>Dollars</b>	<b>%</b>
<b>Operating Revenues</b>			<b>Favorable (Unfavorable)</b>	
Water Service	\$ 5,836,921	\$ 5,757,000	\$ 79,921	1.4%
Sewer Service	4,208,115	4,166,900	41,215	1.0%
Tap In Fees - Water	43,041	30,000	13,041	43.5%
Connection Fees - Sewer	71,614	2,000	69,614	N/A
Service Fees	73,245	75,064	(1,819)	-2.4%
Golf Course Irrigation	358,105	358,000	105	0.0%
Availability Fees	610,332	574,100	36,232	6.3%
Other Operating Revenues	80,342	17,200	63,142	367.1%
<b>Total Operating Revenues</b>	<b>11,281,715</b>	<b>10,980,264</b>	<b>301,451</b>	<b>2.7%</b>
<b>Departmental Expenses</b>				
Payroll & Related	3,231,400	3,290,800	59,400	1.8%
Administrative Expenses	854,837	772,300	(82,537)	-10.7%
Operations	1,639,353	1,418,300	(221,053)	-15.6%
Maintenance	1,012,322	837,100	(175,222)	-20.9%
Water Tap In/Sewer Connection Expenses	91,465	25,000	(66,465)	-265.9%
Purchased Water	1,024,455	668,000	(356,455)	-53.4%
RO Plant O&M	581,270	691,700	110,430	16.0%
Professional Fees	171,575	165,000	(6,575)	-4.0%
Vehicle	119,162	124,800	5,638	4.5%
<b>Total Departmental Expenses</b>	<b>8,725,839</b>	<b>7,993,000</b>	<b>(732,839)</b>	<b>-9.2%</b>
Depreciation	4,456,160	4,357,100	(99,060)	-2.3%
<b>Total Operating Expenses</b>	<b>13,181,999</b>	<b>12,350,100</b>	<b>(831,899)</b>	<b>-6.7%</b>
<b>Operating income (loss)</b>	<b>(1,900,284)</b>	<b>(1,369,836)</b>	<b>(530,448)</b>	<b>-38.7%</b>
<b>Non-operating revenues</b>				
Property taxes-G.O. Debt Levy	1,235,347	1,238,000	(2,653)	-0.2%
Property taxes-Operations Levy	1,039,316	1,028,800	10,516	1.0%
Rental Income	81,493	95,500	(14,007)	-14.7%
Interest earned	234,668	286,200	(51,532)	-18.0%
Tower lease	465,355	461,400	3,955	0.9%
Gain (Loss) of disposal of equipment	7,672	0	7,672	N/A
<b>Total Non-operating Revenues</b>	<b>3,063,851</b>	<b>3,109,900</b>	<b>(46,049)</b>	<b>-1.5%</b>
<b>Non-operating Expenses</b>				
Interest expense-Bonds	2,300,439	2,296,000	(4,439)	-0.2%
Bond Defeasance Amortization	233,430	233,400	(30)	0.0%
Amortization of Debt Expenses	85,952	89,000	3,048	3.4%
Bond Premium Amortization	(110,126)	(110,100)	26	0.0%
<b>Total Non-operating Expenses</b>	<b>2,509,695</b>	<b>2,508,300</b>	<b>(1,395)</b>	<b>-0.1%</b>
<b>Total Non-operating Revenues/Exp.</b>	<b>554,156</b>	<b>601,600</b>	<b>(47,444)</b>	<b>-7.9%</b>
<b>Increase (decrease) in net assets, before capital contributions</b>	<b>(1,346,128)</b>	<b>(768,236)</b>	<b>(577,892)</b>	<b>75.2%</b>
Water Capacity Fee	148,815	50,000	98,815	197.6%
Sewer Capacity Fee	161,042	230,700	(69,658)	-30.2%
Developer Contributions of Systems Assessments	42,393	-	N/A	N/A
	344,402	-	N/A	N/A
<b>Total Capital Contributions</b>	<b>696,652</b>	<b>280,700</b>	<b>415,952</b>	<b>148.2%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ (649,476)</b>	<b>\$ (487,536)</b>	<b>\$ (161,940)</b>	<b>-33.2%</b>
<b>Net Assets at the beginning of the year</b>	<b>\$ 38,563,120</b>			
<b>Net Assets Year-To-Date</b>	<b>\$ 37,913,644</b>			



## Notes to Budgetary Comparison Schedule

### *Budgetary Highlights*

The District operates on a fiscal year (July 1 – June 30). The budget must be adopted prior to the start of its Fiscal Year. The capital and operating budgets are prepared together and adopted at the same time. A budgetary comparison schedule can be found on the previous page.

- Operating Revenues: Actual of \$11,281,715 vs. FY'11 Budget of \$10,980,264 represents a variance of \$301,451 or 2.7%.
  - ✓ Water Service Revenue is 79,921 or 1.4% over budget. Water service revenues were increased approximately \$21,000 due to the previously mentioned water rate increase effective May 1, 2011.
  - ✓ Sewer Service Revenue is \$41,215 or 1.0% over budget. FY'11 sewer service revenues were increased by approximately \$48,000 due to the previously mentioned sewer rate increase effective May 1, 2011.
  - ✓ Water Tap Fees are \$13,041 or 43% over budget due to higher than expect customer growth and water tap-ins funded via Project SAFE grants. These revenues are offset by higher sewer connection expenses.
  - ✓ Sewer Connection Fees are \$69,614 over budget mainly due to sewer connections fund via Project SAFE grants. The timing of these projects was unknown during budget preparation. These revenues are offset by higher sewer connection expenses.
  - ✓ Availability Fees increased \$36,232 or 6.3% due to additional information provided by the County which enabled the District increase the number of availability fees. These availability fees were added subsequent to the approval of the FY'11 budget.
  - ✓ Other Operation Revenues are \$63,142 over budget due to refunds received from Wachovia Bank, NA related to the refunding of the Series 2000B Front Foot Assessment Revenue Bond in June 2010.

The District's operating expenses encompass ten (10) separate categories. Departmental expenses account for approximately 66% of the total operating expense budget, with depreciation accounting for the remaining 34%. By category, payroll and related cost accounted for 25%, administration accounted for 6%, operations for 12%, maintenance for 8%, water tap in/sewer connection for 1%, RO operating & maintenance for 4%, purchased water for 8%, and professional fees and vehicles for 2%, for the total of 66% (rounded). Total operating expenses were over budget by \$831,899 or 6.7%. The factors contributing to this overage are discussed in more detail below.

- Payroll and Related Expenses: Actual of \$3,231,400 vs. FY'11 Budget of \$3,290,800 is \$59,400 or 1.8% below budget and is mainly due to lower than expected salary and training/education expense. Staffing was budgeted for 38.5 full-time employees.

- Administration Expenses: Actual of \$854,837 vs. FY'11 Budget of \$772,300 is \$82,537 or 11% above budget. This variance is mainly due to increased bad debt, bank/bond administration fees, and insurance other than group or vehicle expenses.
- Operations Expenses: Actual of \$1,639,353 vs. FY'11 Budget of \$1,418,300 is \$221,053 or 16% greater than budget. This is mainly due to higher than expected costs for operation's chemicals and fuel/power expenses. A portion of this variance is also due to unbudgeted potable water usage that is now metered. During the end of fiscal year 2010 the District began to meter the amount of potable water utilized at the wastewater treatment plant and staff was not able to project the amount of usage or the impact to budget. The FY'12 Budget has been adjusted to reflect these costs.
- Maintenance Expenses: Actual of \$1,012,322 vs. FY'11 Budget of \$837,100 is \$175,222 or 21% higher than budget. Systems maintenance, lift station maintenance, and meter maintenance were all higher than anticipated.
- Water Tap in / Sewer Connection Expenses: Actual of \$91,465 vs. FY'11 Budget of \$25,000 is \$66,465 higher than budget. This variance is due mainly due to water tap-ins and sewer connections funded via Project SAFE grants and higher than expected customer growth. These expenses are offset by higher water tap-in and sewer connection revenues.
- Purchased Water: Actual of \$1,024,455 vs. FY'11 Budget of \$668,000 is \$356,455 or 53% above budget. This variance is mainly attributed to higher customer consumption that has increased over 210 million gallons compared to FY'10. In addition, the District has also seen increased customer growth. Note: An evaluation of purchased water expense in conjunction with the loss of groundwater wells have determined that the District will continue to see increased purchased water expense in FY'12 until the ASR well is operable. Once the ASR well becomes operable in April 2012, staff anticipates keeping purchases of peak priced water to a minimum by utilizing ASR off-peak purchased water.
- RO Plant Operation & Maintenance: Actual of \$581,270 vs. FY'11 Budget of \$691,700 represents a variance of \$110,430 or 16% below budget due to lower than expected fuel/power and chemical costs.
- Professional Fees: Actual of \$171,575 vs. FY'11 Budget of \$165,000 represents a variance of \$6,575 or 4.0% above than budget.
- Vehicle Expenses: Actual of \$119,162 vs. FY'11 Budget of \$124,800 is \$5,638 or 4.5% lower than budget.
- Total Departmental Expenses (excluding depreciation): Actual of \$8,725,841 vs. FY'11 Budget of \$7,993,000 represents a variance of \$732,839 or 9.2% above budget. As discussed, this variance is mainly due to higher than expected increases for purchased water, operations, and maintenance expenses coupled with smaller overages for tap in/connection fees, administrative, and professional fees. These overages were partially offset by lower than budgeted RO Plant O&M, payroll and related, and vehicle expenses.
- Total Non-Operating Revenue: Actual of \$3,063,851 vs. FY'11 Budget of \$3,109,900 represents a variance of \$46,049 or 1.5% below budget.

- Total Non-Operating Expenses: Actual of \$2,509,695 vs. FY'11 Budget of \$2,508,300 represents a variance of \$1,395 or 0.1% above budget.
- Capacity Fees: Actual of \$309,857 vs. FY'11 Budget of \$280,700 represents a variance of \$29,157 above budget. This variance relates to financed capacity fees related to the Series 2011 FFA Revenue Bond and Project SAFE. Note: Total financed capacity fees were equal to \$213,130.
- Developer Contributions of Systems/Assessments: Both developer contributions of systems and assessments are non-budgeted items.
- Total Capital Contributions: Actual of \$696,652 vs. FY'11 Budget of \$280,700 represents a variance of \$415,951 above budget. Note: Exclusion of the previously mentioned non-budgeted items results in Actual of \$309,857 vs. Budget of \$280,700 as discussed above under the Capacity Fees comparison.

Fiscal year 2011's decrease in net assets was \$(649,476) which was \$161,940 under the projected decrease in net assets of \$(487,536). This shortfall is mainly attributable to higher than expected operating expenses.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SUMMARY SCHEDULE OF DEBT**  
**JUNE 30, 2011**

<u>Description</u>	<u>Rate</u>	<u>6/30/2009</u>	<u>Addition</u>	<u>Reduction</u>	<u>6/30/2010</u>	<u>Addition</u>	<u>Reduction</u>	<u>06/30/2011</u>	<u>Current</u>
<b><u>Notes Payable</u></b>									
*SCJEDA - Notes Payable	0.00%	\$ 241,939	\$ -	\$ (18,000)	\$ 223,939	\$ -	\$ (18,000)	\$ 205,939	\$ 18,000
<b><u>Revenue Bonds</u></b>									
Series 2000B	6.17%	366,316	-	(366,316)	-	-	-	-	-
Series 2004	2.00% to 5.00%	15,350,000	-	(710,000)	14,640,000	-	(740,000)	13,900,000	775,000
Series 2004B	5.19%	269,186	-	(12,304)	256,882	-	(12,943)	243,939	13,615
Series 2006	3.50 to 4.13%	18,535,000	-	(430,000)	18,105,000	-	(440,000)	17,665,000	460,000
Series 2007	4.22%	867,663	-	(33,156)	834,507	-	(34,555)	799,952	36,013
Series 2009A	4.55%	-	355,902	-	355,902	-	(17,060)	338,842	17,836
Series 2010	2.00% to 4.00%	-	-	-	-	3,400,000	-	3,400,000	130,000
Series 2010A	3.85%	-	190,722	-	190,722	-	(16,284)	174,438	16,585
Series 2011	3.91%	-	-	-	-	384,402	-	384,402	19,326
<b>Total Revenue Bonds</b>		35,388,165	546,624	(1,551,776)	34,383,013	3,784,402	(1,260,842)	36,906,573	1,468,375
<b><u>State Revolving Fund Loans:</u></b>									
SRF - Series 2000A Revenue Bond	3.50%	7,057,385	-	(470,010)	6,587,375	-	(486,677)	6,100,698	503,936
SRF - Series 2007 GO Bonds	3.99%	2,807,800	-	(109,530)	2,698,270	-	(112,853)	2,585,417	116,277
SIRF Series 2007 GO Bonds	3.50%	468,438	-	(17,379)	451,059	-	(17,996)	433,063	18,633
<b>Total State Revolving Loans</b>		10,333,623	-	(596,919)	9,736,704	-	(617,526)	9,119,178	638,846
<b><u>General Obligation Bonds:</u></b>									
Series 2007	4.00% to 4.50%	7,085,000	-	(275,000)	6,810,000	-	(290,000)	6,520,000	300,000
Series 2009	4.22%	-	1,781,694	(115,356)	1,666,338	-	(89,737)	1,576,601	93,523
Series 2010	2.00% to 3.38%	-	-	-	-	3,970,000	(200,000)	3,770,000	160,000
<b>Total General Obligation Bonds</b>		7,085,000	1,781,694	(390,356)	8,476,338	3,970,000	(579,737)	11,866,601	553,523
Total Long-Term Liabilities		\$ 53,048,727	\$ 2,328,318	\$ (2,557,051)	\$ 52,819,994	\$ 7,754,402	\$ (2,476,105)	\$ 58,098,291	\$ 2,678,744
Less current portion		<u>(2,081,625)</u>			<u>(2,276,105)</u>			<u>(2,678,744)</u>	
Bond discount/premium, net of amortization		1,063,321			956,624			922,848	
Deferred loss on early retirement of debt, net of amortization		(2,567,394)			(2,352,815)			(2,119,385)	
<b>Total Long Term Debt</b>		<u>\$ 49,463,029</u>			<u>\$ 49,147,698</u>			<u>\$ 54,223,011</u>	

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS

### JUNE 30, 2011

For the Year ending June 30,	\$190,722 Series 2010A Revenue Bonds Dated June 16, 2010		\$17,575,000- Refunded Revenue Bonds Dated April 11, 2004		\$430,000 Revenue Bond Dated August 10, 2004		\$18,770,000 Revenue Bonds Dated February 2, 2006		\$930,000 Revenue Bond Dated June 20, 2007		\$7,350,000 GO Bond Dated October 3, 2007		\$335,902 Series 2009A FFA Dated July 30, 2009	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2012	6,716	16,585	661,163	775,000	12,660	13,615	697,174	460,000	33,758	36,013	261,175	300,000	15,417	17,836
2013	6,077	17,223	616,431	1,385,000	11,954	14,321	680,724	480,000	32,238	37,532	248,800	310,000	14,606	18,648
2014	5,414	17,886	550,500	1,460,000	11,211	15,064	663,443	490,000	30,654	39,116	236,400	325,000	13,757	19,496
2015	4,726	18,575	475,625	1,535,000	10,428	15,846	645,318	510,000	29,004	40,767	223,400	335,000	12,870	20,383
2016	4,010	19,290	396,875	1,615,000	9,606	16,669	625,574	525,000	27,283	42,487	210,000	350,000	11,943	21,311
2017	3,268	20,033	324,375	1,285,000	8,741	17,534	594,068	1,055,000	25,490	44,280	196,000	365,000	10,973	22,280
2018	2,497	20,804	258,375	1,355,000	7,831	18,444	551,061	1,100,000	23,622	46,149	181,400	380,000	9,959	23,294
2019	1,696	21,605	188,875	1,425,000	6,874	19,401	506,161	1,145,000	21,674	48,097	166,200	390,000	8,900	24,354
2020	864	22,437	115,875	1,495,000	5,867	20,408	459,461	1,190,000	19,645	50,126	150,600	405,000	7,791	25,462
2021	-	-	39,250	1,570,000	4,808	21,467	410,761	1,245,000	17,529	52,242	134,400	420,000	6,633	26,620
2022	-	-	-	-	3,694	22,581	325,361	3,025,000	15,325	54,446	117,600	440,000	5,422	27,832
2023	-	-	-	-	2,522	23,753	200,184	3,155,000	13,027	56,744	100,000	460,000	4,155	29,098
2024	-	-	-	-	1,289	24,837	67,753	3,285,000	10,632	59,138	81,600	480,000	2,831	30,422
2025	-	-	-	-	-	-	-	-	8,137	61,634	62,400	500,000	1,447	31,806
2026	-	-	-	-	-	-	-	-	5,536	64,235	42,400	520,000	-	-
2027	-	-	-	-	-	-	-	-	2,825	66,946	21,600	540,000	-	-
2028	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 35,267</u>	<u>\$ 174,438</u>	<u>\$ 3,627,344</u>	<u>\$ 13,900,000</u>	<u>\$ 97,485</u>	<u>\$ 243,940</u>	<u>\$ 6,427,042</u>	<u>\$ 17,665,000</u>	<u>\$ 316,380</u>	<u>\$ 799,952</u>	<u>\$ 2,433,975</u>	<u>\$ 6,520,000</u>	<u>\$ 126,705</u>	<u>\$ 338,842</u>

Current		<u>\$ 16,585</u>		<u>\$ 775,000</u>		<u>\$ 13,615</u>		<u>\$ 460,000</u>		<u>\$ 36,013</u>		<u>\$ 300,000</u>		<u>\$ 17,836</u>
Noncurrent		<u>\$ 157,853</u>		<u>\$ 13,125,000</u>		<u>\$ 230,325</u>		<u>\$ 17,205,000</u>		<u>\$ 763,939</u>		<u>\$ 6,220,000</u>		<u>\$ 321,006</u>

For the Year ending June 30,	\$1,781,694 Series 2009 GO Bond Dated July 30, 2009		\$3,400,000 Revenue Bond Dated August 24, 2010		\$3,970,000 GO Bond Dated September 25, 2010		\$384,000 Revenue Bond Dated April 27, 2011		BOND TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
2012	66,517	93,523	124,175	130,000	105,550	160,000	15,030	19,326	1,999,335	2,021,898	4,021,232
2013	62,571	97,469	121,575	130,000	102,350	165,000	14,274	20,082	1,911,601	2,675,275	4,586,876
2014	58,459	101,581	118,250	135,000	99,050	170,000	13,489	20,867	1,800,627	2,794,011	4,594,638
2015	54,173	105,867	114,125	140,000	95,650	175,000	12,673	21,683	1,677,991	2,918,121	4,596,112
2016	49,707	110,333	109,925	140,000	92,150	180,000	11,826	22,531	1,548,899	3,042,621	4,591,520
2017	45,052	114,988	104,825	150,000	88,550	185,000	10,945	23,412	1,412,286	3,282,527	4,694,813
2018	40,200	119,839	98,725	155,000	84,368	190,000	10,029	24,327	1,268,067	3,432,857	4,700,925
2019	35,144	124,895	92,425	160,000	78,688	195,000	9,078	25,278	1,115,714	3,578,630	4,694,345
2020	29,875	130,165	85,925	165,000	72,838	200,000	8,090	26,267	956,830	3,729,864	4,686,695
2021	24,383	135,656	79,125	175,000	66,838	205,000	7,063	27,294	790,790	3,878,279	4,669,069
2022	18,660	141,380	72,025	180,000	60,688	210,000	5,995	28,361	624,769	4,129,600	4,754,369
2023	12,695	147,345	64,625	190,000	54,388	220,000	4,887	29,470	456,482	4,311,409	4,767,892
2024	6,479	153,561	56,925	195,000	47,788	230,000	3,734	30,622	279,031	4,488,580	4,767,611
2025	-	-	48,925	205,000	40,888	240,000	2,537	31,819	164,334	1,070,260	1,234,593
2026	-	-	40,625	210,000	33,688	245,000	1,293	33,064	123,541	1,072,299	1,195,840
2027	-	-	32,163	220,000	26,031	255,000	-	-	82,619	1,081,946	1,164,565
2028	-	-	23,444	230,000	18,063	265,000	-	-	41,506	495,000	536,506
2029	-	-	14,338	240,000	9,450	280,000	-	-	23,788	520,000	543,788
2030	-	-	4,844	250,000	-	-	-	-	4,844	250,000	254,844
	<u>\$ 503,915</u>	<u>\$ 1,576,601</u>	<u>\$ 1,406,988</u>	<u>\$ 3,400,000</u>	<u>\$ 1,177,011</u>	<u>\$ 3,770,000</u>	<u>\$ 130,943</u>	<u>\$ 384,402</u>	<u>\$ 16,283,055</u>	<u>\$ 48,773,175</u>	<u>\$ 65,056,231</u>
Current		<u>\$ 93,523</u>		<u>\$ 130,000</u>		<u>\$ 160,000</u>		<u>\$ 19,326</u>		<u>\$ 2,021,898</u>	
Noncurrent		<u>\$ 1,483,079</u>		<u>\$ 3,270,000</u>		<u>\$ 3,610,000</u>		<u>\$ 365,076</u>		<u>\$ 46,751,278</u>	

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS**  
**JUNE 30, 2011**

For the Year ending June 30,	\$530,000 SCJESA Note		\$10,194,238 SC SRF Laon		\$2,887,826 SC SRF Laon		\$481,080 SIRF GO Bond		<b>NOTE TOTALS</b>		
	Dated November 30, 1988		Dated October 3, 2007		Dated October 3, 2007		Dated October 3, 2007		Total	Total	Total
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total
2012	-	18,000	206,959	503,936	76,263	116,277	14,914	18,634	298,136	656,847	954,983
2013	-	18,000	189,088	521,807	72,735	119,805	14,254	19,294	276,076	678,906	954,983
2014	-	18,000	170,584	540,311	69,100	123,440	13,569	19,979	253,253	701,729	954,983
2015	-	18,000	151,423	559,472	65,355	127,185	12,861	20,687	229,639	725,344	954,983
2016	-	18,000	131,583	579,312	61,496	131,043	12,127	21,421	205,207	749,776	954,983
2017	-	18,000	111,039	599,856	57,521	135,019	11,368	22,180	179,927	775,055	954,983
2018	-	18,000	89,767	621,128	53,424	139,115	10,581	22,967	153,772	801,210	954,983
2019	-	18,000	67,741	643,154	49,204	143,336	9,767	23,781	126,711	828,271	954,983
2020	-	18,000	44,933	665,962	44,855	147,685	8,923	24,625	98,711	856,272	954,983
2021	-	18,000	21,317	689,578	40,374	152,165	8,050	25,498	69,741	885,241	954,983
2022	-	18,000	1,542	176,182	35,758	156,782	7,146	26,402	44,445	377,366	421,812
2023	-	7,939	-	-	31,001	161,539	6,210	27,339	37,211	196,816	234,027
2024	-	-	-	-	26,100	166,440	5,240	28,308	31,340	194,748	226,088
2025	-	-	-	-	21,050	171,489	4,236	29,312	25,287	200,801	226,088
2026	-	-	-	-	15,848	176,692	3,197	30,351	19,044	207,043	226,088
2027	-	-	-	-	10,487	182,053	2,120	31,428	12,607	213,480	226,088
2028	-	-	-	-	4,963	187,576	1,006	32,542	5,969	220,118	226,088
2029	-	-	-	-	358	47,777	73	8,315	431	56,091	56,523
	-	-	-	-	-	-	-	-	-	-	-
	\$ -	\$ 205,939	\$ 1,185,976	\$ 6,100,698	\$ 735,891	\$ 2,585,417	\$ 145,642	\$ 433,063	\$ 2,067,509	\$ 9,325,117	\$ 11,392,625
Current		\$ 18,000		\$ 503,936		\$ 116,277		\$ 18,634		\$ 638,847	
Noncurrent		\$ 187,939		\$ 5,596,762		\$ 2,469,140		\$ 414,429		\$ 8,686,270	

# STATISTICAL SECTION

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<sup>8</sup> In some cases less than 10 years of data in certain tables is illustrated due to the unavailability of information and/or the implementation GASB No.34 in fiscal year 2004.



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# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## Statements of Revenues, Expenses, and Debt Service per Bond Covenants

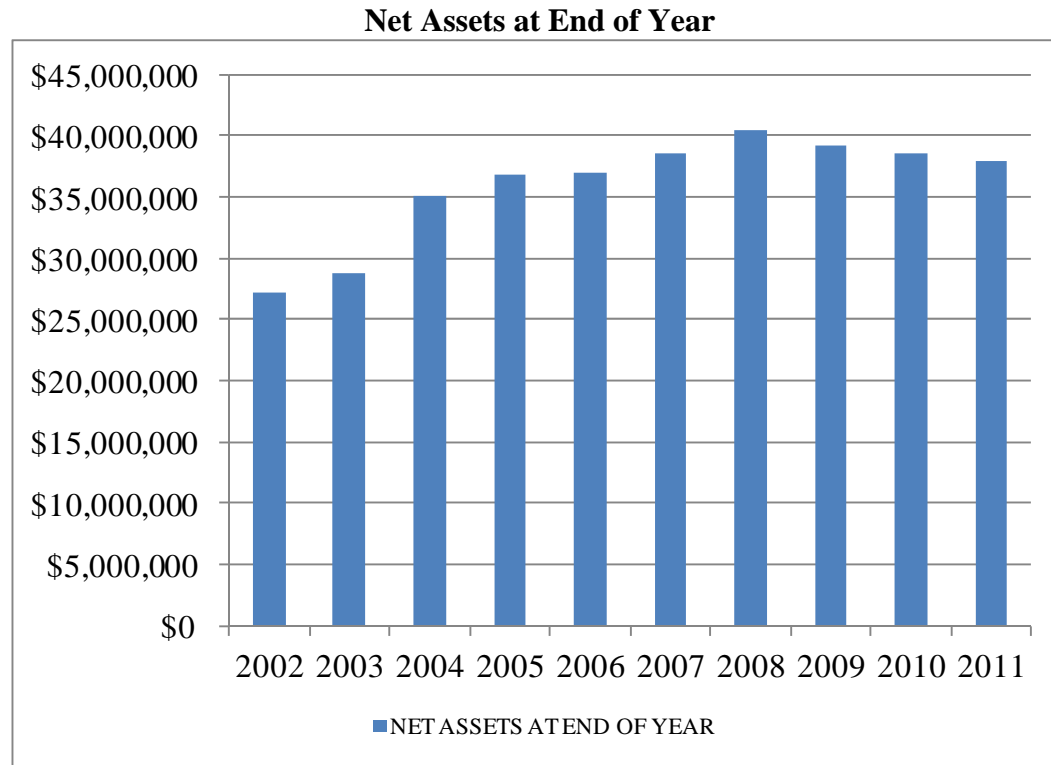
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Operating Revenues</u>										
Water service	\$4,997,200	\$4,633,117	\$4,992,011	\$4,870,847	\$5,162,771	\$5,465,028	\$5,518,049	\$5,307,260	\$5,308,798	\$5,836,921
Sewer service	3,405,374	3,342,647	3,503,456	3,525,405	3,655,945	3,941,776	4,059,860	3,959,087	4,034,068	4,208,115
Tap in fees - water	252,861	324,760	264,670	262,564	175,964	106,768	72,569	35,133	31,305	43,041
Tap in fees - sewer	267,231	266,792	272,536	294,286	72,493	19,600	11,284	2,330	117,367	71,614
Availability charges	501,788	503,166	443,559	400,503	546,788	504,303	540,104	547,354	570,169	610,332
Service fees and penalties	299,630	38,601	32,199	41,985	42,121	38,218	38,153	50,311	70,488	73,245
Golf course irrigation	227,662	123,858	181,379	157,944	216,700	261,616	301,856	243,274	230,583	358,105
Other operating Revenues	128,936	92,011	29,181	12,647	7,803	16,712	16,188	19,154	35,679	80,342
Total Operating Revenues	\$10,080,681	\$9,324,953	\$9,718,991	\$9,566,181	\$9,880,585	\$10,354,021	\$10,558,063	\$10,163,903	\$10,398,457	\$11,281,715
<u>Operating Expenses</u>										
Payroll and related expenses	\$3,347,730	\$2,601,065	\$2,506,686	\$2,416,236	\$2,593,804	\$2,735,039	\$2,975,752	\$3,165,506	\$3,166,896	\$3,231,400
Administrative expenses	633,966	586,073	533,999	555,416	563,365	556,794	606,608	759,594	754,453	854,837
Operations expenses	669,274	702,466	857,153	938,247	1,086,507	1,098,914	1,197,436	1,430,222	1,410,295	1,639,353
Maintenance expenses	686,019	651,475	824,196	842,872	829,386	736,685	816,724	707,892	919,832	1,103,787
Purchased water	1,298,780	1,146,852	1,225,760	1,394,283	1,645,206	1,671,703	1,596,183	1,356,803	746,571	1,024,455
RO Plant O&M	-	-	-	-	-	-	-	127,852	674,039	581,270
Professional fees	146,028	166,255	408,970	243,961	291,336	294,484	532,391	410,736	269,207	171,575
Vehicle expenses	96,618	103,496	105,783	129,805	140,672	140,654	146,335	131,379	107,292	119,162
Depreciation	2,882,264	3,197,862	3,208,842	3,221,943	3,349,668	3,540,690	3,720,333	3,965,632	4,405,077	4,456,160
Total Operating Expenses	\$9,760,680	\$9,155,544	\$9,671,389	\$9,742,763	\$10,499,944	\$10,774,963	\$11,591,762	\$12,055,616	\$12,453,662	\$13,181,999
Operating Income (Loss from operations)	\$320,001	\$169,409	\$47,602	(\$176,582)	(\$619,359)	(\$420,942)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)
<u>Non-operating revenues (expenses)</u>										
Property taxes-debt service	348,968	\$360,384	\$378,626	\$320,228	\$269,130	\$125,052	\$409,292	\$817,751	\$967,418	\$1,235,347
Property taxes-operations	566,993	551,967	566,682	831,083	848,076	760,054	901,072	924,702	1,028,416	1,039,316
Sewer Assessments	464,385	464,888	-	-	-	-	-	-	-	-
Rental income	-	-	18,395	58,039	80,852	87,011	84,546	84,496	82,150	81,493
Interest earned	269,689	192,692	116,629	354,611	538,646	508,389	437,209	269,950	256,948	234,668
Tower leases	410,130	380,467	415,892	426,723	454,800	472,207	599,135	471,303	448,673	465,355
Tower lease contract settlement	-	-	-	-	(\$275,000)	-	-	-	-	-
Amortization of bond costs	(136,950)	(138,690)	(150,479)	(170,672)	(360,077)	(204,719)	(204,689)	(206,685)	(202,112)	(209,256)
Loss on disposal of equipment	-	-	1,450	-	-	-	(33,175)	2,000	161	7,672
Interest expense	(2,639,877)	(2,767,890)	(2,357,062)	(2,368,340)	(1,911,202)	(1,888,236)	(1,860,432)	(1,911,438)	(2,208,372)	(2,300,439)
Total Non-Operating Income (Loss)	(\$716,662)	(\$956,181)	(\$1,009,867)	(\$548,328)	(\$354,775)	(\$140,242)	\$332,958	\$452,079	\$373,282	\$554,156
Net Income(loss) before capital contributions per Financial Statements	(\$396,661)	(\$786,772)	(\$962,265)	(\$724,911)	(\$974,134)	(\$561,184)	(\$700,741)	(\$1,439,634)	(\$1,681,923)	(\$1,346,128)
Capacity Fees	444,597	1,508,090	1,337,085	1,808,924	907,349	1,070,629	985,723	109,037	242,308	309,857
Add: Depreciation	2,882,264	3,197,862	3,208,842	3,221,943	3,349,668	3,540,690	3,720,333	3,965,632	4,405,077	4,456,160
Amortization	136,950	138,690	150,479	170,672	360,077	204,719	204,689	206,685	202,112	209,256
Interest Expense (Bonds)	2,639,877	2,767,890	2,357,062	2,368,340	1,911,202	1,888,236	1,860,432	1,911,438	2,208,372	2,300,439
Assessments - Debt Service	-	-	427,784	244,854	244,956	365,377	419,060	508,381	537,759	550,586
Less: Property Taxes - Debt Service	(348,968)	(360,384)	(378,626)	(320,228)	(269,130)	(125,052)	(409,292)	(817,751)	(967,418)	(1,235,347)
Net Earnings Available for Debt Service	\$5,358,060	\$6,465,375	\$6,140,361	\$6,769,594	\$5,529,988	\$6,383,415	\$6,080,204	\$4,443,788	\$4,946,286	\$5,244,823
Debt Service on Revenue Bonds	\$3,904,146	\$4,177,462	\$4,181,197	\$4,290,731	\$3,944,189	\$3,637,421	\$3,441,126	\$3,438,347	\$3,523,871	\$3,477,484
<b>Required per Bond Covenants</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>
<b>Coverage of Debt Service by Net Earnings</b>	<b>137%</b>	<b>155%</b>	<b>147%</b>	<b>158%</b>	<b>140%</b>	<b>175%</b>	<b>177%</b>	<b>129%</b>	<b>140%</b>	<b>151%</b>
<b>Debt Coverage without Capacity Fees</b>	<b>126%</b>	<b>119%</b>	<b>115%</b>	<b>116%</b>	<b>117%</b>	<b>146%</b>	<b>148%</b>	<b>126%</b>	<b>133%</b>	<b>142%</b>

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## Schedule of Change in Net Assets<sup>9</sup>

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating Income (Loss from operations)	\$1,515,988	\$191,065	\$77,398	\$47,602	(\$176,582)	(\$619,359)	(\$420,942)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)
Total Non-Operating Income (Loss)	(\$97,515)	(\$587,726)	(\$864,170)	(\$1,009,867)	(\$548,328)	(\$354,775)	(\$140,242)	\$332,958	\$452,079	\$373,282	\$554,156
Capital Contributions	<u>\$1,507,430</u>	<u>\$555,621</u>	<u>\$2,342,934</u>	<u>\$2,111,131</u>	<u>\$2,371,635</u>	<u>\$1,153,508</u>	<u>\$2,224,783</u>	<u>\$2,555,086</u>	<u>\$201,573</u>	<u>\$979,621</u>	<u>\$696,652</u>
Increase (decrease) in net assets	\$2,925,903	\$158,960	\$1,556,162	\$1,148,866	\$1,646,725	\$179,374	\$1,663,599	\$1,854,345	(\$1,238,061)	(\$702,302)	(\$649,476)
Effect of prior period adjustments on net assets				\$5,200,347							
Net assets at beginning of year, as previously reported				<u>\$28,810,228</u>							
Net assets at beginning of year	<u>\$24,169,207</u>	<u>\$27,095,110</u>	<u>\$27,254,070</u>	<u>\$34,010,575</u>	<u>\$35,159,441</u>	<u>\$36,806,165</u>	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>
Net assets at end of year	<u>\$27,095,110</u>	<u>\$27,254,070</u>	<u>\$28,810,231</u>	<u>\$35,159,441</u>	<u>\$36,806,166</u>	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>



<sup>9</sup> Less than 10 years of data is illustrated due to the unavailability of information and the implementation GASB No.34 in fiscal year 2004.

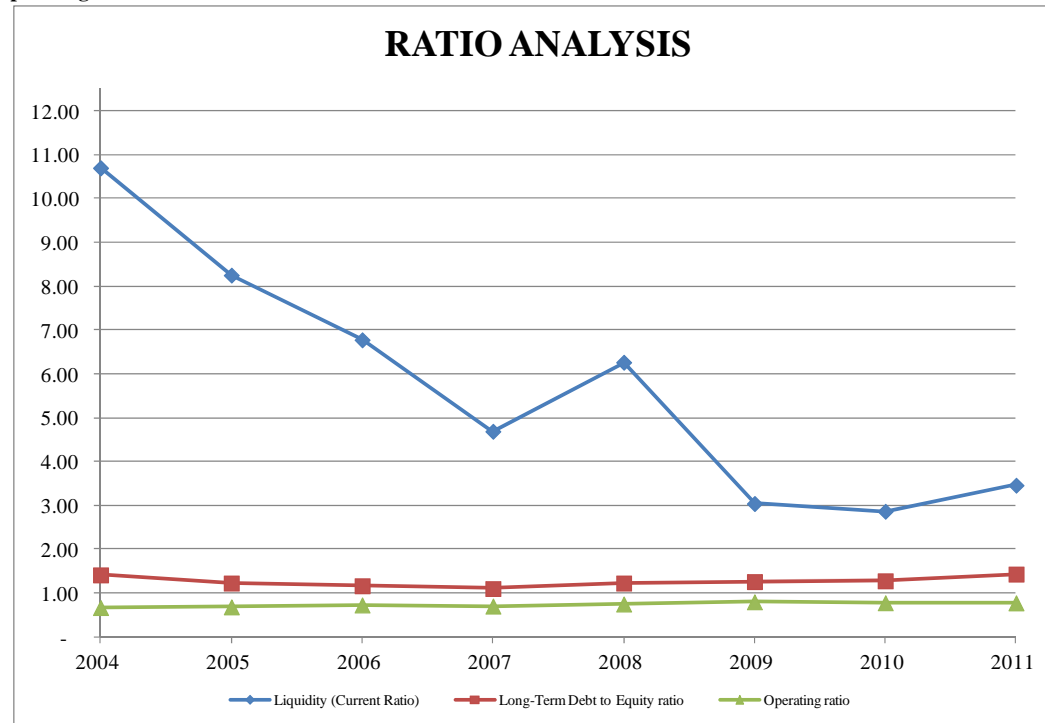
## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### Net Assets by Component<sup>10</sup>

	2004	2005	2006	2007	2008	2009	2010	2011
<b>Net assets</b>								
Invested in capital assets, net of related liabilities	\$18,511,205	\$19,885,561	\$25,634,468	\$27,526,781	\$29,167,977	\$30,467,552	\$29,464,863	\$27,806,556
Restricted for capital activity and debt service	2,097,137	5,442,647	2,176,688	2,708,532	2,334,594	2,446,988	2,378,848	2,779,466
Unrestricted	<u>14,551,099</u>	<u>11,477,957</u>	<u>9,174,383</u>	<u>8,413,825</u>	<u>9,000,912</u>	<u>6,350,882</u>	<u>6,719,409</u>	<u>7,327,622</u>
Net assets	<u>\$35,159,441</u>	<u>\$36,806,165</u>	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>

### Ratio Analysis<sup>10</sup>

	2004	2005	2006	2007	2008	2009	2010	2011
<b>Liquidity (Current Ratio)</b>	10.70	8.25	6.78	4.69	6.26	3.04	2.86	3.46
<b>Long-Term Debt to Equity ratio</b>	1.41	1.22	1.16	1.10	1.22	1.26	1.27	1.43
<b>Operating ratio</b>	0.66	0.68	0.72	0.70	0.75	0.80	0.77	0.77

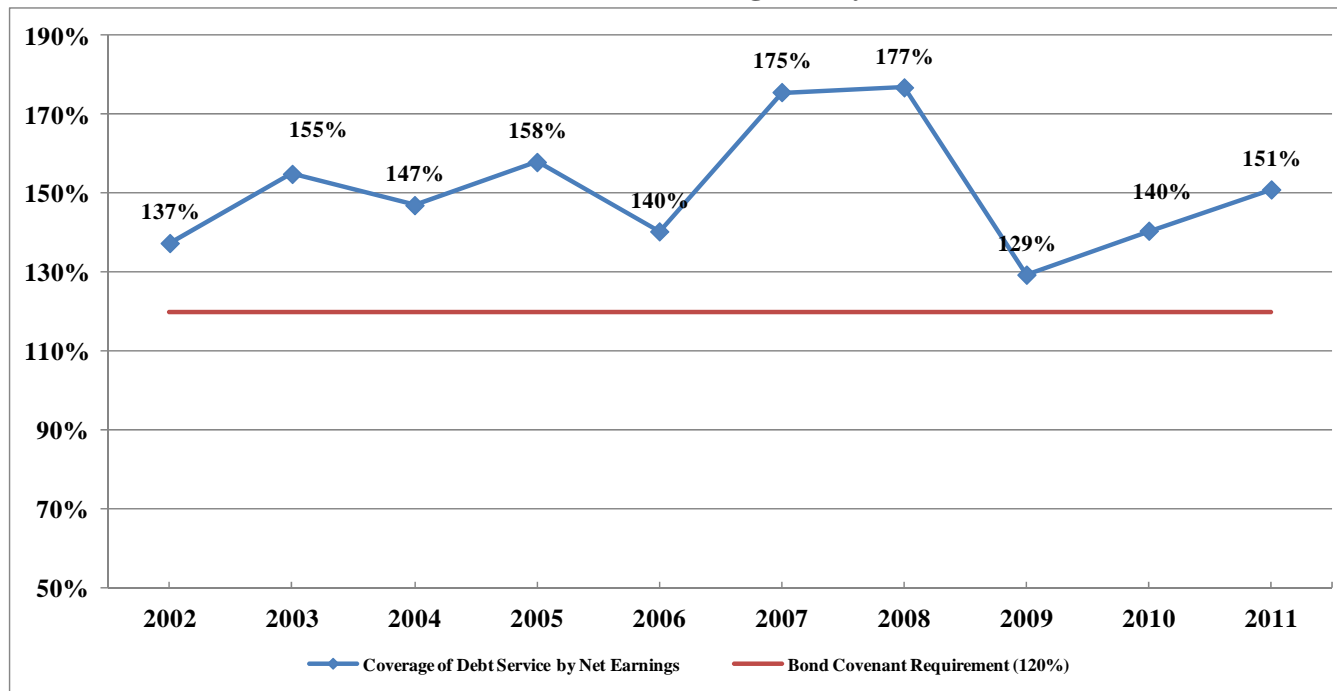


<sup>10</sup> Less than 10 years of data is illustrated due to the unavailability of information and the implementation GASB No.34 in fiscal year 2004.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**Outstanding Debt by Debt Type**

Fiscal Year	GO Bonds	Revenue Bonds	SRF Revenue Loans	SRF GO Loans	Notes Payable	Total Outstanding Debt	Average Debt Per Customer
2002	\$ 1,650,000	\$ 45,145,841	\$ 9,925,439	\$ -	\$ 367,939	\$ 57,089,219	\$ 3,692
2003	1,450,000	44,009,899	9,558,064		349,939	55,367,902	3,485
2004	795,000	42,282,972	9,176,733		331,939	52,586,644	3,243
2005	530,000	41,192,626	8,781,879		313,939	50,818,444	3,058
2006	275,000	37,803,495	8,373,023		295,939	46,747,457	2,779
2007	-	37,972,665	7,949,668		277,939	46,200,272	2,671
2008	7,350,000	36,853,711	7,511,300		259,939	51,974,950	2,989
2009	7,085,000	35,388,165	7,057,386	3,276,237	241,939	53,048,727	3,057
2010	8,476,339	34,383,014	6,587,376	3,149,328	223,939	52,819,996	3,050
2011	11,866,601	36,906,573	6,100,698	3,018,480	205,939	58,098,292	3,330

**Debt Service Coverage Analysis**



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**Detailed Schedule of Change in Net Assets<sup>11</sup>**

Last Nine Fiscal Years

	June 30, 2003	Additions	Disposals	Transfers	June 30, 2011
<u>Capital assets not being depreciated:</u>					
Land	368,614	930,580	-	-	1,299,194
Construction in Progress	<u>1,836,586</u>	<u>35,994,511</u>	<u>-</u>	<u>(34,316,647)</u>	<u>3,514,449</u>
Total Capital Assets not being depreciated	2,205,200	36,925,091	-	(34,316,647)	4,813,643
 <b>Capital assets being depreciated:</b>					
Waterworks system	34,827,349	1,421,616	(1,024,703)	15,904,990	51,129,252
Sewage disposal system	10,013,537	2,254,998	(119,253)	18,241,016	30,390,298
Buildings	4,153,874	81,227	(2,452)	81,721	4,314,370
Sewage treatment facilities	36,522,658	92,670	(3,560)	26,733	36,638,501
Transportation equipment	1,016,536	619,536	(945,132)	-	690,940
Operations furniture and equipment	1,962,348	202,914	(352,008)	62,188	1,875,442
Office furniture and equipment	<u>854,435</u>	<u>143,837</u>	<u>(404,094)</u>	<u>-</u>	<u>594,178</u>
Sub Total	89,350,736	4,816,799	(2,851,202)	34,316,647	125,632,980
Less Accumulated depreciation	<u>(21,961,131)</u>	<u>(29,871,956)</u>	<u>2,735,147</u>	<u>-</u>	<u>(49,097,940)</u>
Total capital assets being depreciated, net	<u>67,389,605</u>	<u>(25,055,156)</u>	<u>(116,055)</u>	<u>34,316,647</u>	<u>76,535,041</u>
 Year End Totals	<u>\$ 69,594,805</u>	<u>\$ 11,869,934</u>	<u>\$ (116,055)</u>	<u>\$ -</u>	<u>\$ 81,348,684</u>

**Schedule of Net Property, Plant, & Equipment (PP&E)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
PP&E	\$ 87,504,590	\$ 89,719,351	\$ 93,660,892	\$ 95,834,607	\$ 96,222,163	\$ 101,306,310	\$ 107,539,856	\$ 121,309,803	\$ 124,015,092	\$ 126,932,175
Accumulated Depreciation	<u>(18,767,821)</u>	<u>(21,961,131)</u>	<u>(24,905,146)</u>	<u>(28,027,340)</u>	<u>(29,642,022)</u>	<u>(33,057,250)</u>	<u>(36,681,713)</u>	<u>(40,512,192)</u>	<u>(44,736,215)</u>	<u>(49,097,940)</u>
Net PP&E in Service	68,736,769	67,758,220	68,755,747	67,807,266	66,580,141	68,249,059	70,858,143	80,797,611	79,278,877	77,834,235
Construction in Progress	<u>407,273</u>	<u>1,836,586</u>	<u>306,918</u>	<u>928,300</u>	<u>3,005,393</u>	<u>2,720,938</u>	<u>4,542,373</u>	<u>641,980</u>	<u>1,236,180</u>	<u>3,514,449</u>
 Net PP&E	<u>\$ 69,144,042</u>	<u>\$ 69,594,805</u>	<u>\$ 69,062,665</u>	<u>\$ 68,735,566</u>	<u>\$ 69,585,534</u>	<u>\$ 70,969,998</u>	<u>\$ 75,400,516</u>	<u>\$ 81,439,592</u>	<u>\$ 80,515,057</u>	<u>\$ 81,348,684</u>

<sup>11</sup> Less than 10 years of data is illustrated due to the unavailability of information and the implementation GASB No.34 in fiscal year 2004.

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### Customer Statistics at Fiscal Year-End

Number of Water vs. Wastewater Customers at Fiscal Year-end

<b>Year</b>	<b>Water</b>	<b>Percent Increase</b>	<b>Wastewater</b>	<b>Percent Increase</b>	<b>Ratio of Customers with Both Services</b>
2002	14,176	2.9%	12,850	2.8%	90.6%
2003	14,526	2.5%	13,210	2.8%	90.9%
2004	14,764	1.6%	13,497	2.2%	91.4%
2005	15,766	6.8%	13,870	2.8%	88.0%
2006	16,168	2.5%	14,374	3.6%	88.9%
2007	16,344	1.1%	14,658	2.0%	89.7%
2008	16,392	0.3%	14,835	1.2%	90.5%
2009	16,355	-0.2%	14,880	0.3%	91.0%
2010	16,321	-0.2%	14,891	0.1%	91.2%
2011	16,446	0.8%	15,030	0.9%	91.4%

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### Billings at Fiscal Year-End (Just Water, No Irrigation)

Reported in kgals (thousands of gallons)

Year	Water	Percent Increase	Wastewater	% Inc
2002	1,594,177		1,331,003	
2003	1,488,689	-6.6%	1,255,115	-5.7%
2004	1,553,989	4.4%	1,314,219	4.7%
2005	1,545,367	-0.6%	1,313,400	-0.1%
2006	1,619,616	4.8%	1,378,504	5.0%
2007	1,721,661	6.3%	1,490,636	8.1%
2008	1,745,767	1.4%	1,523,113	2.2%
2009	1,629,557	-6.7%	1,432,874	-5.9%
2010	1,486,416	-8.8%	1,279,144	-10.7%
2011	1,644,020	10.6%	1,426,486	11.5%

### Billings at Fiscal Year-End (Water and Irrigation)

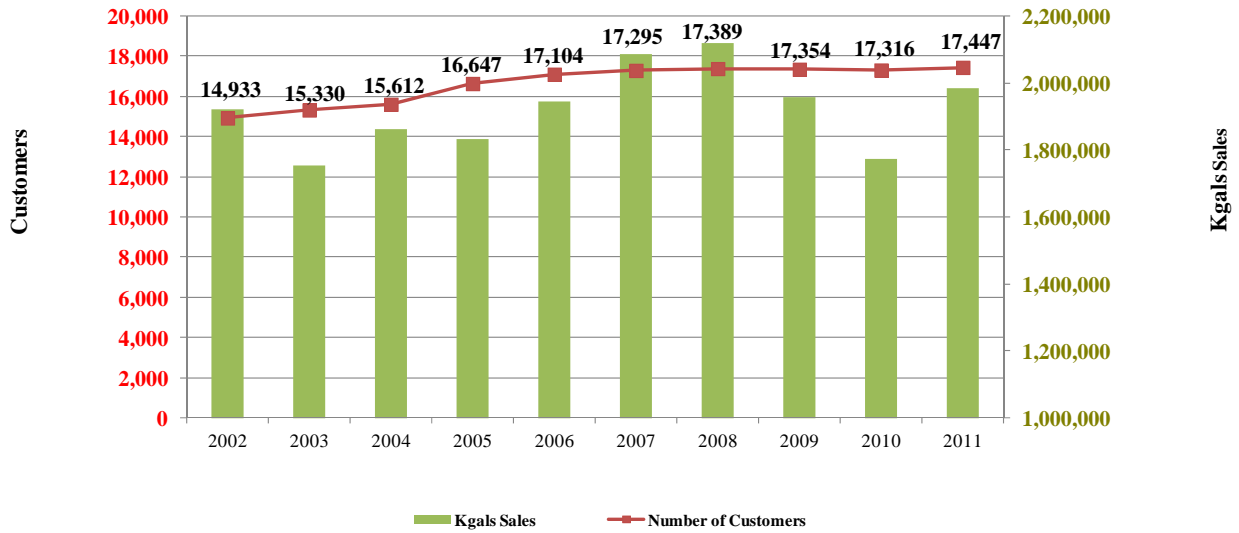
Reported in kgals (thousands of gallons)

Year	Water/Irrigation	Percent Increase	Wastewater	% Inc
2002	1,921,347		1,331,003	
2003	1,753,397	-8.7%	1,255,115	-5.7%
2004	1,861,014	6.1%	1,314,219	4.7%
2005	1,834,200	-1.4%	1,313,400	-0.1%
2006	1,943,868	6.0%	1,378,504	5.0%
2007	2,086,348	7.3%	1,490,636	8.1%
2008	2,119,295	1.6%	1,523,113	2.2%
2009	1,957,926	-7.6%	1,432,874	-5.9%
2010	1,773,200	-9.4%	1,279,144	-10.7%
2011	1,983,289	11.8%	1,426,486	11.5%

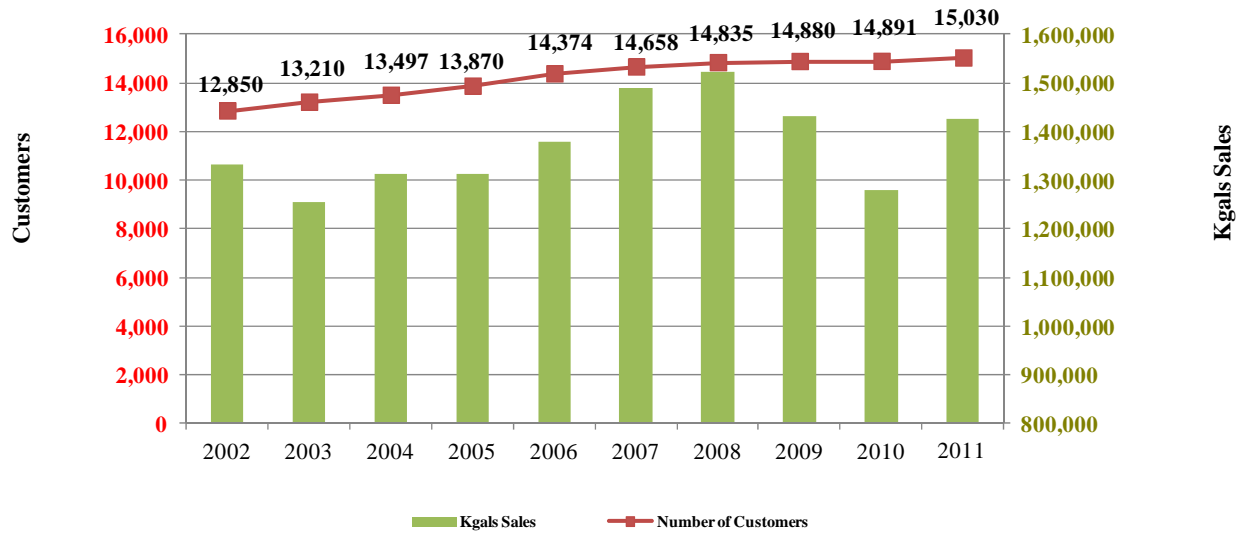


## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### Customers vs. Water/Irrigation Kgal Sales

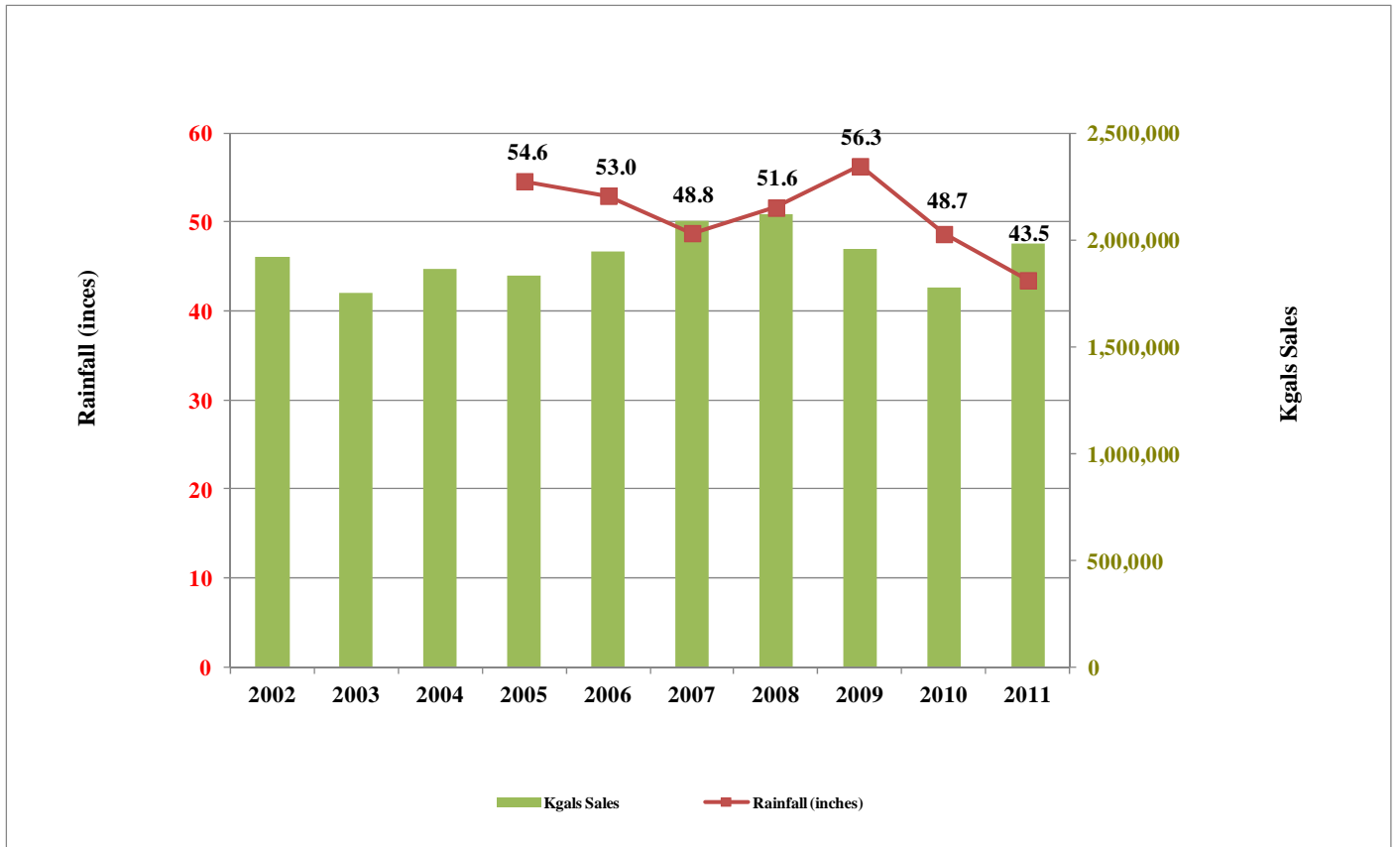


### Customers vs. Wastewater Kgal Sales



## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### Rainfall (Inches) vs. Water/Irrigation Kgal Sales<sup>12</sup>



<sup>12</sup> Rainfall data is not available for 2002 through 2004.

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

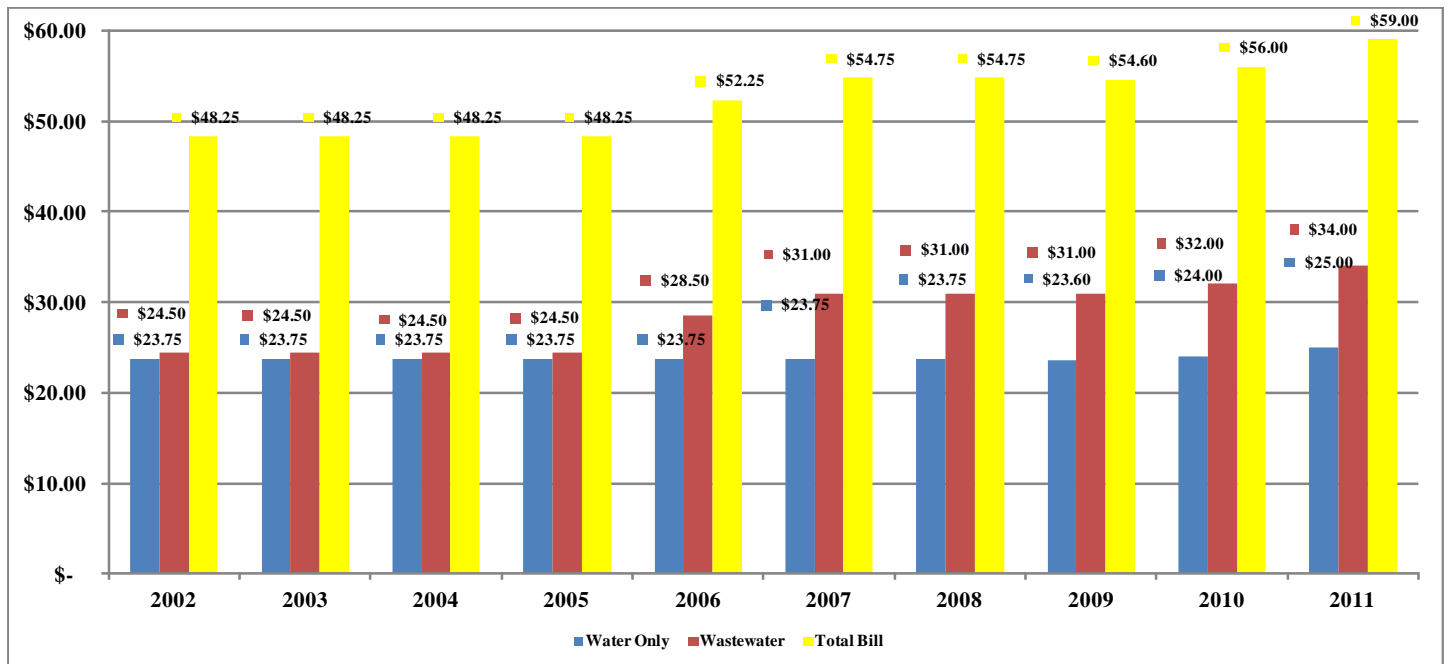
Water Rate Comparison											
Effective Date											
		FY'02	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09*	FY'10**	FY'11***
Residential	Base Charge	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 11.00
	First 5,000 Gallons	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25			
	Next 6,000 to 17,000 gallons	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50			
	Next 18,000 to 32,000 gallons	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75			
	Over 32,000 gallons	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00			
	First 10,000 Gallons Water								\$ 1.36	\$ 1.40	\$ 1.40
	First 10,000 Gallons Irrigation								\$ 1.36	\$ 1.40	\$ 1.71
	Next 11,000 to 20,000 gallons								\$ 1.64	\$ 1.71	\$ 1.71
	Next 21,000 to 30,000 gallons								\$ 1.91	\$ 2.20	\$ 2.20
	Over 30,000 gallons								\$ 2.18	\$ 2.55	\$ 2.55
Commercial	Base Charge	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 16.00
	First 5,000 Gallons	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50			
	Next 6,000 to 17,000 gallons	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75			
	Next 18,000 to 32,000 gallons	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00			
	Over 32,000 gallons	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25			
	First 10,000 Gallons								\$ 1.64	\$ 1.69	\$ 1.69
	Next 11,000 to 20,000 gallons								\$ 1.91	\$ 1.99	\$ 1.99
	Next 21,000 to 30,000 gallons								\$ 2.18	\$ 2.51	\$ 2.51
	Over 30,000 gallons								\$ 2.45	\$ 2.87	\$ 2.87

\*Effective August 1, 2008  
 \*\*Effective October 1, 2009  
 \*\*\*Effective May 1, 2011

Wastewater Rate Comparison											
Effective Date											
		FY'02	FY'03	FY'04	FY'05	FY'06*	FY'07**	FY'08	FY'09	FY'10	FY'11
Residential	Base Charge	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00
	Per 1,000 gallons with Cap*	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.65	\$ 1.90	\$ 1.90	\$ 1.90	\$ 2.00	\$ 2.00
Commercial	Base	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00
	Per 1,000 gallons (No Cap)	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.60	\$ 2.00

\*For years prior to FY'06, the effective sewer cap for residential customers was 32,000 gallons. From FY'06 to the present date the sewer cap is lowered to 10,000 gallons.  
 \*\*Per Thousand Increase Effective August 1, 2006

### Water and Wastewater Bill History for Residential Customers Using 10,000 Gallons per Month



## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### District Top Ten Water Users

Fiscal year ended June 30, 2011

User Name	Type	2011 Billed Revenues	% of Total 2010 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 171,572	2.94%
Cypress of Hilton Head Island Assoc.	Residential Homes	132,984	2.28%
Hilton Head Westin Resort	Resort	119,225	2.04%
Hilton Head Resort/Four Seasons	Resort	93,636	1.60%
Marriott Vacation Club	Resort	86,001	1.47%
Marriott Surfwatch	Resort	78,460	1.34%
Fiddler's Cove	Resort	62,339	1.07%
Marshside Owners Association	Apartment Complex	51,575	0.88%
Spa at Port Royal	Resort	45,842	0.79%
Hilton Head Health Systems	Medical	43,266	0.74%
Remaining Customers		<u>4,952,021</u>	<u>84.84%</u>
		<u>\$ 5,836,921</u>	100.00%

### District Top Ten Wastewater Users

Fiscal year ended June 30, 2011

User Name	Type	2010 Billed Revenues	% of Total 2010 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 173,394	4.12%
Hilton Head Resort/Four Seasons	Resort	117,925	2.80%
Hilton Head Westin Resort	Resort	99,030	2.35%
Fiddler's Cove	Resort	72,967	1.73%
Cypress of Hilton Head Island Assoc.	Residential Homes	72,923	1.73%
Marriott Vacation Club	Resort	68,534	1.63%
Marriott Surfwatch	Resort	54,438	1.29%
Spa at Port Royal	Resort	53,968	1.28%
IMC Resort Services	Resort	48,458	1.15%
Marshside Owners Association	Apartment Complex	47,616	1.13%
Remaining Customers		<u>3,398,863</u>	<u>80.77%</u>
		<u>\$ 4,208,115</u>	100.00%

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### The District's Millage History

Debt Type	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	2.00	2.00	2.00	1.10	1.00	0.50	1.50	2.70	2.82	3.61
Total	5.00	5.00	5.00	4.10	4.00	3.50	4.50	5.70	5.82	6.61

### Overlapping Debt

Jurisdiction	2010 Assessed Value (Capped) <sup>(1)</sup>	2010 Assessed Value (Capped) of the District	Outstanding General Obligation Debt	Amount Applicable to the District
County of Beaufort	\$1,832,553,569	\$380,448,420	\$201,355,000	\$36,243,900
Beaufort County School District	1,832,553,569	380,448,420	376,508,303	67,771,495
Town of Hilton Head	949,555,131	346,437,875	67,120,000	23,492,000

<sup>(1)</sup> Assessed value is capped due to the limitations regarding property valuation under Act No. 388 as further discussed in "CERTAIN FISCAL MATTERS – Property Tax/Assessment Legislation – Reassessment Valuations Limited" herein.

Sources: Beaufort County Auditor; Town of Hilton Head Island Comprehensive Annual Report, Fiscal Year Ended June 30, 2010; Beaufort County, South Carolina Comprehensive Annual Report, Fiscal Year Ended June 30, 2010; Beaufort County School District, South Carolina Comprehensive Annual Report, Fiscal Year June 30, 2010.

### Assessed Values of the District

Year	Real Property	Personal Property <sup>(1)</sup>	Total
2010	\$ 337,319,400	\$ 43,129,020	\$ 380,448,420
2009 <sup>(2)</sup>	322,448,420	38,302,414	360,750,834
2008	281,804,999	39,205,416	321,010,415
2007	266,386,512	39,155,967	305,542,479
2006	260,107,171	42,112,405	302,219,576
2005	249,949,026	43,357,300	293,306,326
2004 <sup>(3)</sup>	246,696,930	44,083,874	290,780,804
2003	145,111,702	46,455,963	191,567,665
2002	142,979,005	45,252,607	188,231,612
2001	137,925,038	45,981,108	183,906,146

Source: Beaufort County Auditor

(1) Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. Presently, there is no property in multi-county industrial parks or property otherwise subject to fee in lieu of taxes in the District.

(2) The County implemented its county-wide reassessment in fiscal year 2009.

(3) The County implemented its county-wide reassessment in fiscal year 2004.

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### 2010 Market Value for the District

Classification	Assessed Value	Assessment Ratio	Market Value
1. Real Property and Mobile Homes	\$ 137,098,620	4.00%	\$ 4,076,285,568
2. Real Property and Mobile Homes	200,220,780	6.00%	4,306,963,673
3. Business Personal Property	11,852,190	10.50%	106,715,240
4. Merchant's Furniture, Fixtures and Equipment	1,457,730	10.50%	13,883,320
5. Motor Vehicles <sup>(1)</sup>	11,289,030	Various	169,536,890
6. Marine Equipment <sup>(2)</sup>	1,914,720	Various	31,895,210
7. Airplanes	155,690	0.00%	2,594,540
8. Manufacturing Property	222,000	10.50%	2,114,290
9. Public Utilities	8,584,130	10.50%	81,753,620
10. Rental Property and Signs <sup>(3)</sup>	7,653,530	Various	72,512,950

Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. There is presently no property in multi-county industrial parks or property otherwise subject to fee in lieu of taxes in the District.

Source: Beaufort County Auditor.

<sup>(1)</sup> Includes personal automobiles and commercial vehicles, which are assessed at different ratios.

<sup>(2)</sup> Includes personal watercraft and commercial fishing boats, which are assessed at different ratios.

<sup>(3)</sup> Includes residential rental property and commercial signs, which are assessed at different ratios.

### Tax Collection Record for the District

Fiscal Year	Taxes Subject to Collection	Current Collections	Current % Collected	Delinquent Taxes Collected	Total Collections	Total % Collected
2010-11	\$ 59,167,642	\$ 56,320,727	95.2%	\$ 161,774	\$ 56,482,501	95.5%
2009-10	57,172,896	52,623,858	92.0	491,840	53,115,698	92.9
2008-09	56,329,331	54,777,459	97.2	869,821	55,647,279	98.8
2007-08	51,252,916	50,333,765	98.2	652,019	50,985,784	99.5
2006-07	54,353,422	52,223,375	96.1	424,257	52,647,631	96.8
2005-06	49,747,721	46,454,422	93.3	617,181	47,071,603	94.6
2004-05*	50,467,835	44,421,691	88.0	422,203	44,843,894	88.8
2003-04	44,449,943	41,178,415	92.6	395,576	41,573,991	93.5
2002-03	41,924,960	39,560,970	94.3	433,015	39,993,985	95.3
2001-02	38,921,769	36,263,650	93.1	373,744	36,637,394	94.1

Source: Beaufort County Auditor and Treasurer.

\* Lower collections due to unresolved appeals.

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### District Largest Taxpayers

Employer	Type of Business	2010 Assessed Value	2009-10 Amounts Paid
1. Marriott Ownership Resorts, Inc.	Real Estate	\$8,174,400	\$1,424,899.79
2. SCG Hilton Head Property LLC	Real Estate	4,260,000	894,864.89
3. Palmetto Electric Coop, Inc	Utility	4,183,180	763,287.71
4. Hargray Telephone Company, Inc	Utility	2,844,370	534,130.37
5. Hilton Head Health System LP	Medical	1,976,710	384,325.23
6. Heritage Golf Port Royal LLC	Golf	1,173,080	241,670.92
7. Indigo Run Asset Corp.	Property	791,530	189,723.45
8. Time Warner NY Cable LLC	Utility	924,770	175,303.19
9. Pineland Associates LLC	Property	66,004	154,870.49
10. SVG LLC	Property	582,580	118,620.85

Source: Beaufort County Auditor.

### Population per Capita Income

Last Ten Available Years

Year	Hilton Head		Beaufort County		South Carolina	
	Population	Per Capita	Population	Per Capita	Population	Per Capita
2000	33,971	31,289	122,068	33,471	4,023,396	25,081
2001	34,048	32,331	124,740	34,554	4,061,844	25,648
2002	34,616	32,665	128,415	34,744	4,102,211	26,069
2003	34,578	33,661	130,793	35,523	4,143,120	26,684
2004	34,600	36,499	134,595	38,482	4,196,799	27,903
2005	34,761	38,411	138,959	40,392	4,249,385	29,223
2006	34,156	41,588	143,091	43,856	4,324,799	30,927
2007	33,890	42,658	146,722	45,031	4,404,914	31,925
2008	33,913	41,951	150,415	44,191	4,479,800	32,495
2009	34,249	43,600	155,215	42,918	4,554,258	32,505

Information is not available for 2010.

Source: Bureau of Economic Analysis, Regional Economic Information Systems, U.S. Census Bureau

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### Beaufort County Top Employers

Employer	Employees	Percentage of Total County Employment	Type of Business
Department of Defense	7,358	12.3%	Military
Beaufort County School District	3,500	5.9%	Educational Services
County of Beaufort	1,340	2.2%	Government
Beaufort Memorial Hospital	1,250	2.1%	Health Services
Marine Corps Community Services	770	1.3%	Military
Tenet Healthsystem Hilton Head Inc.	557	0.9%	Health Services
Wal-Mart Associates Inc.	400	0.7%	Retail
Care Core	396	0.6%	Health Services
Cypress Club, Inc.	350	0.3%	Hospitality
Mariners Inn	200	0.3%	Hospitality

Source: Beaufort County Regional Chamber of Commerce

### Beaufort County Labor Force and Employment<sup>1</sup>

Category	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Civilian Labor Force	63,786	63,517	64,103	65,083	60,707	61,900	59,198	56,329	53,781	N/A
Employment	58,151	57,924	60,711	62,198	57,667	58,897	56,272	53,657	51,533	N/A
Unemployment	5,635	5,593	3,392	2,885	3,040	3,003	2,926	2,672	2,248	N/A
Unemployment Rate	8.83%	8.81%	5.29%	4.43%	5.01%	4.85%	4.94%	4.74%	4.18%	3.90%

N/A - Information not available

-1 - Workers involved in labor disputes are included among the employed. Total employment also includes agricultural workers, proprietors, self-employed persons, workers in private households and unpaid family workers.

### Unemployment Rate Comparison

Year	County	South Carolina	United States
2010	8.8%	11.2%	9.6%
2009	8.8	11.7	9.3
2008	5.3	6.9	5.8
2007	4.4	5.6	4.6
2006	5.0	6.5	4.6
2005	4.9	6.7	5.1
2004	4.9	6.8	5.5
2003	4.7	6.7	6.0
2002	4.2	5.9	5.8
2001*	3.9	N/A	N/A

Source: South Carolina Employment Security Commission, Labor Market Information Division; U.S. Dept. of Labor, Bureau of Labor Statistics.

\* Data unavailable





[www.hhpsd.com](http://www.hhpsd.com)

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