

**HILTON HEAD PUBLIC SERVICE DISTRICT**  
21 OAK PARK DRIVE– POST OFFICE BOX 21264  
HILTON HEAD ISLAND, SOUTH CAROLINA 29925  
TELEPHONE 843-681-5525 – FAX 843-681-5052

**NOVEMBER 2025 AGENDA PACKET CONTENTS**

1. Agenda for the November 19, 2025, Regular Commission Meeting
2. Draft Minutes of the October 22, 2025, Regular Commission Meeting
3. Memo from the GM on the RO Plant Expansion Project Change Order Request
4. RO Plant Expansion Project Change Order #2
5. FY'25 Audit Presentation
6. FY'25 Management Letter
7. FY'25 Annual Comprehensive Financial Report
8. FY'26 First Quarter Financial Report
9. GM Monthly Report
10. Proposed 2026 PSD Calendar – FYI
11. Charts, Graphs and Water Quality Report



**HILTON HEAD PUBLIC SERVICE DISTRICT**

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TELEPHONE 843-681-5525 – FAX 843-681-5052  
www.hhpsd.com

**AGENDA**

Hilton Head Public Service District Commission  
9 a.m.

November 19, 2025

PSD Community Room  
21 Oak Park Drive, Hilton Head Island, SC 29926

- I. Call to Order & Freedom of Information Act Announcement
- II. Pledge of Allegiance
- III. Roll Call of Commissioners
- IV. Public Comment on Non-Agenda Items
- V. Adoption of Draft Minutes of October 22, 2025, Regular Meeting
- VI. Change Order Request for RO Plant Expansion Project (Action)
- VII. FY '25 Annual Comprehensive Financial Report (Action)
- VIII. FY '26 First Quarter Financial Report
- IX. General Manager's Monthly Report
- X. Nomination of 2026 Commission Officers
- XI. Adjournment





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

21 OAK PARK DRIVE – POST OFFICE BOX 21264  
HILTON HEAD ISLAND, SOUTH CAROLINA 29925  
TELEPHONE 843-681-5525 – FAX 843-681-5052

## **MINUTES COMMISSION MEETING OCTOBER 22, 2025**

**I. The meeting was called to order by Chairman Frank Turano at 9:00 a.m.**

**II. Those in attendance were:**

Mr. Frank Turano	Chair
Mr. Jerry Cutrer	Vice Chair
Mr. Stuart Bell	Treasurer
Mrs. Patti Soltys	Secretary
Mr. Andy Paterno	Commissioner
Mr. Ibrahim Abdul-Malik	Commissioner
Mr. Michael Marks	Commissioner

Present by request:

Mr. Pete Nardi	General Manager
Mr. Bill Davis	Operations Manager
Ms. Amy Graybill	Finance Manager
Mrs. Connie Whitehead	Commission Recording Secretary

Visitors

None

**III. Pledge of Allegiance**

The Pledge of Allegiance was led by Mr. Frank Turano.

**IV. Public Comment on Non-Agenda Items**

None

**V. Adoption of Draft Minutes of the September 24, 2025, Commission Meeting**

### Action

- Mr. Paterno moved to adopt the minutes of the August 27, 2025, meeting as presented. Mr. Ibrahim Abdul-Malik seconded. The motion passed unanimously.

## **VI. Screw Pumps Replacement Project Bid Acceptance**

### Key Discussion Points

- Mr. Nardi gave an update on the screw pumps replacement bids.
- WGK was the low responsive bidder at \$4.37 million.
- Staff is seeking approval by the board to accept the bid.

### Action

- Mr. Cutrer moved to authorize acceptance of WGK's low responsible bid of \$4.37 million. Mr. Abdul-Malik seconded. The motion passed unanimously.

## **VII. FY'26 First Quarter Management Report**

### Key Discussion Points

- Mr. Nardi presented the FY'26 First Quarter Management Report. A copy is included in the agenda packet.
- The Old House Creek Sewer Project is complete. The project has resulted in sewer availability to 24 homes. Approximately eight homeowners have reached out so far to connect.

## **VIII. General Manager's Monthly Report**

### Key Discussion Points

- Mr. Nardi presented the General Manager's Monthly Report. A copy is included in the agenda packet.
- The nomination of commission officers for the 2026 calendar year will take place in November. A vote will be taken in December.

## **IX. Adjournment**

### Action

- Mr. Abdul-Malik moved to adjourn the meeting. Mr. Marks. The motion passed unanimously.
- The meeting adjourned at 9:53 a.m.



# **RO Plant Project Change Order Request**



**HILTON HEAD PUBLIC SERVICE DISTRICT**

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

To: All Commissioners  
From: Pete Nardi, General Manager  
Re: Reverse Osmosis Plant Expansion Project Change Order Request

November 13, 2025

Dear Commissioners:

A Change Order request has been submitted to the PSD for work related to the Reverse Osmosis (RO) Plant Expansion Project. Please see attached detail and summary below.

In summary, the requests are for:

- 1.) A betterment of the electronic control system that operates the RO Plant's membrane units. This change was requested by the PSD in order to move from a Modbus (client-and-server) communication system between the units and booster pumps to a hardwired system that will significantly reduce the risk of plant outages resulting from local network outages. This will also minimize the time and the amount of extra equipment needed to troubleshoot electrical failures within the system. This is an expense that always would have been part of the project but was not finalized until after contract award. Amount: \$43,186.40.
- 2.) Remediation of unsuitable soils at the heavy-duty loading dock and sodium hypochlorite bulk storage tank concrete slabs. The existence of the unsuitable soils did not present itself during geotechnical surveying done as part of the project design and is a result of the hydric (essentially wetlands) soil conditions that exist at the RO Plant site. As a result of negotiations, this request was reduced by approximately \$7,000 from the initial request, with the contractor participating by purchasing equipment at its own expense. Amount: \$15,221.40.
- 3.) An improvement of a type of valve that is being installed at the sodium hypochlorite storage tank based on supplier recommendation and improvement to the drain piping and valving in the truck loading area at the plant. Amount: \$6,151.05.

Total change order: \$64,558.85\*

\* PSD staff negotiated \$7,572.92 in reductions to the original Change Order request, resulting in the amounts shown above.

### **Funding Considerations**

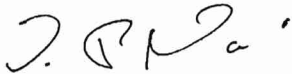
The Leg O'Mutton Booster Station, RO Plant Expansion/ASR Well #2/RO Well #4, and Screw Pump Replacement projects are being funded first by grant funds and the proceeds of the 2024B General Obligation (GO) debt issuance, inclusive of interest earned on those proceeds. It is anticipated that these funding sources will not be fully depleted by the end of FY 2026. Currently, based on base bids only, the PSD expects to have to fund approximately \$1 million from rates and/or cash reserves as a part of its upcoming FY 2027 budget to complete these projects. This number is subject to change as it is based on an estimate of interest earnings on the bond proceeds. Any change orders, as well as non-construction related additional expenditures (such as the water that will need to be purchased to build the initial ASR storage zone bubble), will increase the amount that will need to be funded in the FY 2027 budget.

### **Recommendation**

Staff recommends the Commission authorize approval of the attached Change Order Request in the total amount of: \$64,558.85.

As always, please do not hesitate to contact me if you have any questions.

All my best,



J. Pete Nardi  
General Manager  
Hilton Head PSD



Environmental Systems Division  
913 Norman Alley  
Conway, South Carolina 29526  
Phone: (864) 546-7900

**Project:** 24-509-Hilton Head RO Expansion

**Project Manager:** Joe Capriola  
(815) 601-0722  
joe.capriola@harpergc.com

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## **CHANGE ORDER #002: ELECTRICAL REVISIONS, UNSUITABLE SOILS, MISC. REWORK (PCO'S 002,003,005)**

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**DATE:** 11/11/2025

**TO:** **ATTENTION:**

**INITIATED BY:** Joe Capriola **SCHEDULE IMPACT:** 12 days

**SOURCE:**

**DESCRIPTION:**

This change order captures the below change events that were submitted and approved as Potential Change Orders #002, #003, and #005. In addition to the cost, we are requesting 12 working days be added to the substantial completion date. Current Substantial Completion date 10/22/26 - New Substantial Completion Date 11/9/26.

**PCO #002 CE #005 - Electrical Revisions**

During the initial Veolia workshop meeting on 11/7/2024, the Hilton Head PSD requested a change to Veolia's design to account for hardwired communication between the VFDs in lieu of Modbus communication as detailed at bid time. This change was captured on the recently revised E-drawings dated 5/13/25, along with several other electrical scope changes as a result of the final Veolia design. This Change Order reflects cost impacts incurred by the Electrician from the revised E-drawings.

**PCO #003 CE #009 - Generator and Bulk Storage Undercut - Unsuitable Soils**

During excavation work for the generator slab, bulk storage slab, and concrete paving (loading dock) it was observed that the in-situ material was completely saturated and contained a lot of silt. For approximately 2 weeks it was attempted to dewater subgrade using pumps placed two feet below the subgrade elevation. No observable progress was made so excavation proceeded, and a density test was requested by ECS to establish a baseline. While on site, the subgrade was visibly pumping and the density test proved that the subgrade was oversaturated and not able to be compacted due to the high moisture content. ECS recommends 1.5' of undercut for the entire area under the generator slab and bulk storage slab, and replacement with 57 stone to bridge over the oversaturated soil to provide proper bearing strength. In areas under the concrete loading dock, geogrid is recommended in lieu of undercut and stone. Attached is a change notification for the additional materials for the work. Harper has agreed to absorb the cost of the labor and equipment for this work to help alleviate the cost impact.

**PCO #005 CE #012 - Hayward CPVC Electrical Actuated Ball Valves and CPVC Drain**

The plans and specifications require two electric actuated, vented ball valves for sodium hypochlorite. The electric actuated ball valve supplier (Hayward) recommends changing the two actuators from model EAU2 to ECP3 due to the vented requirement. The drain piping under the heavy-duty concrete paving (truck loading area) is shown as DIP on the plans. This will be changed to CPVC (to improve corrosion resistance) and a duckbill check valve (Red Valve Tideflex Model TF-2) will be added where it enters the containment area sump to prevent containment area contents from entering the drainpipe.

**ATTACHMENTS:**

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**CHANGE NOTIFICATIONS IN THIS CHANGE ORDER:**

#	Title	Schedule Impact	Amount
002	CE #005 - Electrical Revisions	10 days	43,186.40
003	CE #009 - Generator and Bulk Storage Undercut	2 days	15,221.40
005	CE #012 - Hayward CPVC Electric Actuated Ball Valves and CPVC Drain		6,151.05
<b>TOTAL:</b>			<b>\$ 64,558.85</b>



## **CHANGE NOTIFICATION # 002 : CE #005 - Electrical Revisions**

#	Cost Code	Description	Type	Amount	Labor Burden (63.62) Includes Cost Type (3))	Subcontractor Bond (2% of SUB) Includes Cost Type (1))	Fuel & Oil (55% of EQT) (55.00% Includes Cost Type (2))	Misc Tools (5% of Labor) (5.00% Includes Cost Type (3))	Safety (3% of Labor) (3.00% Includes Cost Type (3))	Punchlist (3% of Labor) (3.00% Includes Cost Type (3))	Clean Up (2% of Labor) (2.00% Includes Cost Type (3))	Sales Tax (7% of MAT'L) (7.00% Includes Cost Type (3))	Subtotal
1	16-002 - Electrical	Electrical Revisions	SUBCON TRACT	\$ 39,117.00	\$ 0.00	\$ 782.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 39,899.34
Subtotal:				\$ 39,117.00	\$ 0.00	\$ 782.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$39,899.34
Quotation Estimate (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Submittal Preparation (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Procurement (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Field Coordination: 0.00% Includes Cost Type (11)													\$ 0.00
Direct Supervision (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
As-Built Documents (\$50/Sheet): 0.00% Includes Cost Type (11)													\$ 0.00
AGC Fee (.05% of Total): 0.05% Includes Cost Type (11)													\$ 19.95
Insurance (0.50% of Total): 0.50% Includes Cost Type (11)													\$ 199.60
Builders Risk Insurance (Coastal 0.5% or Non-Coastal 0.25%): 0.50% Includes Cost Type (11)													\$ 200.59
Licenses & Permits (1% of Total): 1.00% Includes Cost Type (11)													\$ 403.19
Harper Bond (1% of Total): 1.00% Includes Cost Type (11)													\$ 407.23
Fee (15% of L,M,E,OTH): 15.00% Includes Cost Type (10)													\$ 0.00
Fee (5% of SUB): 5.00% Includes Cost Type (1)													\$ 2,056.50
Grand Total:													\$43,186.40

[illegible]

**CHANGE NOTIFICATION # 005 : CE #012 - Hayward CPVC Electric Actuated Ball Valves and CPVC Drain**

#	Cost Code	Description	Type	Amount	Labor Burden (63.62% Includes Cost Type (3))	Subcontractor Bond (2% of SUB) (2.00% Includes Cost Type (1))	Fuel & Oil (55% of EQT) (55.00% Includes Cost Type (2))	Misc Tools (5% of Labor) (5.00% Includes Cost Type (3))	Safety (3% of Labor) (3.00% Includes Cost Type (3))	Punchlist (3% of Labor) (3.00% Includes Cost Type (3))	Clean Up (2% of Labor) (2.00% Includes Cost Type (3))	Sales Tax (7% of MAT'L) (7.00% Includes Cost Type (3))	Subtotal
1	15-604 - PVC Pipe & Fittings	CPVC Actuated Ball Valves	MATERIAL	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2	15-601 - DIP & Fittings	DIP Return and Restock	MATERIAL	(\$350.74)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	(\$24.55)	(\$375.29)
3	15-604 - PVC Pipe & Fittings	6" CPV Drain	MATERIAL	\$ 5,200.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 364.00	\$ 5,564.00
				<b>Subtotal:</b>	\$4,849.26	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$339.45	\$5,188.71
Quotation Estimate (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Submittal Preparation (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Procurement (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Field Coordination: 0.00% Includes Cost Type (11)													\$ 0.00
Direct Supervision (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
As-Built Documents (\$50/Sheet): 0.00% Includes Cost Type (11)													\$ 0.00
AGC Fee (.05% of Total): 0.05% Includes Cost Type (11)													\$ 2.59
Insurance (0.50% of Total): 0.50% Includes Cost Type (11)													\$ 25.96
Builders Risk Insurance (Coastal 0.5% or Non-Coastal 0.25%): 0.50% Includes Cost Type (11)													\$ 26.09
Licenses & Permits (1% of Total): 1.00% Includes Cost Type (11)													\$ 52.43
Harper Bond (1% of Total): 1.00% Includes Cost Type (11)													\$ 52.96
Fee (15% of L,M,E,OTH): 15.00% Includes Cost Type (10)													\$ 802.31
Fee (5% of SUB): 5.00% Includes Cost Type (1)													\$ 0.00
<b>Grand Total:</b>													<b>\$6,151.05</b>

The original (Contract Sum)	\$ 10,523,000.00
Net change by previously authorized Change Orders	\$ 0.00
The contract sum prior to this Change Order was	\$ 10,523,000.00
The contract sum will be increased by this Change Order in the amount of	\$ 64,558.85
The new contract sum including this Change Order will be	\$ 10,587,558.85
The contract time will be increased by this Change Order by 12 days	

Unless otherwise noted herein, pricing is based on the work occurring and being completed between the date of this Prime Contract Change Order and contract substantial completion. Any variance to schedule would require an adjustment to this Prime Contract Change Order in time and money to account for additional direct costs required to procure, install and/or manage this scope of work. Pricing is valid for 30 days from the date of this Prime Contract Change Order.

Submitted By:

Approved By:

Approved By:

SIGNATURE	DATE
Environmental Systems Division	
Contractor	

SIGNATURE	DATE
W.K. Dickson & Co. Inc (Charleston)	
Architect/Engineer	

SIGNATURE	DATE
Hilton Head Public Service District	
Owner	



**Project:** 24-509-Hilton Head RO Expansion

**Project Manager:** Joe Capriola  
(815) 601-0722  
joe.capriola@harpergc.com

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Subtotal:				\$ 39,117.00	\$ 0.00	\$782.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$39,899.34
Quotation Estimate (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Submittal Preparation (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Procurement (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
Field Coordination: 0.00% Includes Cost Type (11)													\$ 0.00
Direct Supervision (\$50/HR): 0.00% Includes Cost Type (11)													\$ 0.00
As-Built Documents (\$50/Sheet): 0.00% Includes Cost Type (11)													\$ 0.00
AGC Fee (.05% of Total): 0.05% Includes Cost Type (11)													\$ 19.95
Insurance (0.50% of Total): 0.50% Includes Cost Type (11)													\$ 199.60
Builders Risk Insurance (Coastal 0.5% or Non-Coastal 0.25%): 0.50% Includes Cost Type (11)													\$ 200.59
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Harper Bond (1% of Total): 1.00% Includes Cost Type (11)													\$ 407.23
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Fee (5% of SUB): 5.00% Includes Cost Type (1)													\$ 2,056.50
Grand Total:													\$43,186.40

Unless otherwise noted herein, pricing is based on the work occurring and being completed between the date of this Potential Change Order and contract substantial completion. Any variance to schedule would require an adjustment to this Potential Change Order in time and money to account for additional direct costs required to procure, install and/or manage this scope of work. Pricing is valid for 30 days from the date of this Potential Change Order.



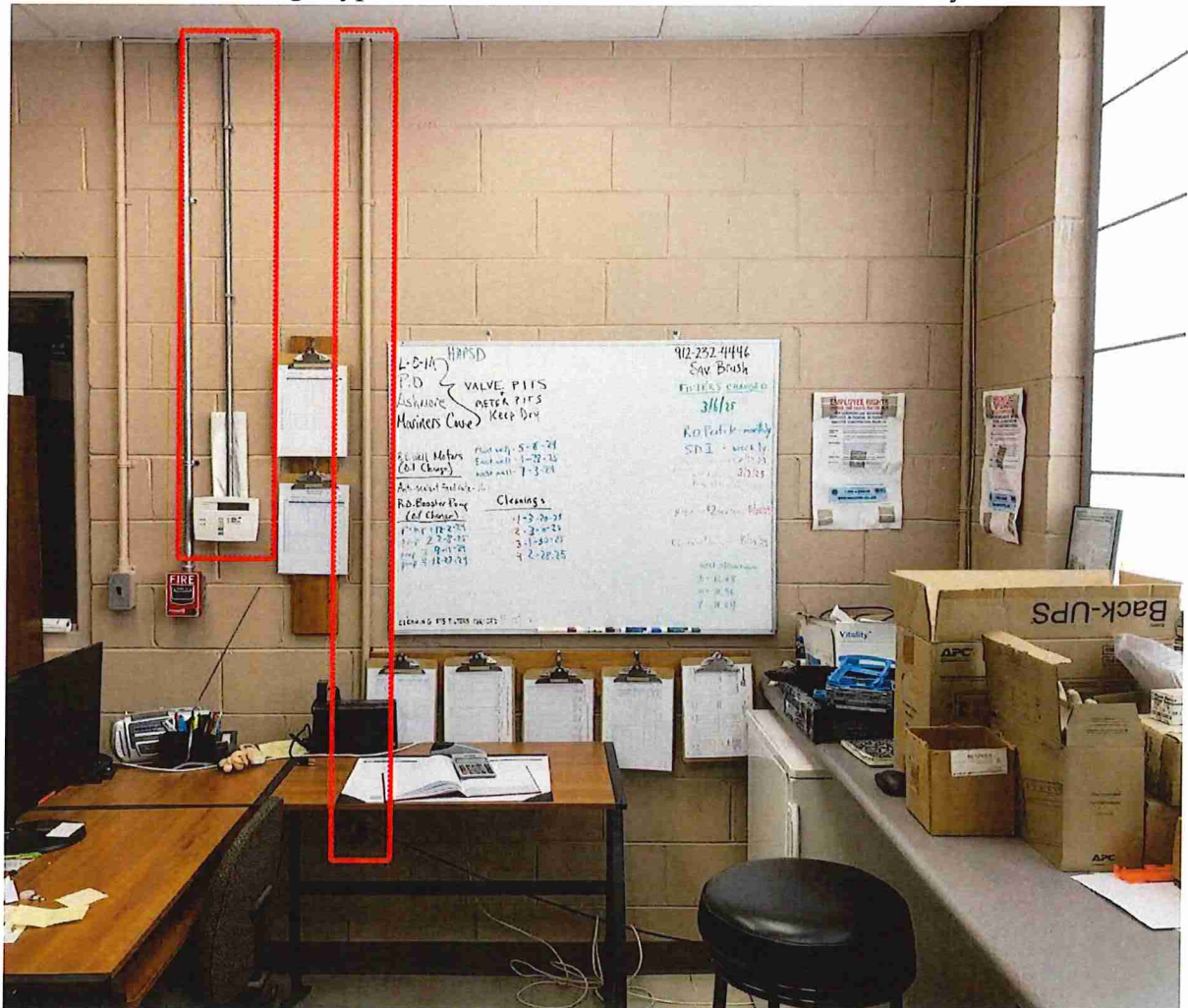
## HHPSD RO WTP

### Electrical Drawing Updates to conform to Veolia Drawings

May 13, 2025

1. Change in MCP-100 dimensions

- a. Dimensions of MCP-100 increased from what was expected during design. This increase in size will require that the existing duplex receptacle be relocated to the left. The existing keypad should be relocated to the left of the doorway



2. VFD's will have hardwired I/O to MCP-100, rather than ethernet connections

- a. Remove from E-03 (6 CAT 6E)
- b. Add (drawing E-03) from each VFD to MCP-100
  - i. 2#16TSP (PUMP SPEED COMMAND, SPEED FEEDBACK)
  - ii. 6#14+14G (RUN STATUS; RUN COMMAND; FAULT)

- c. E-602 Starter Type 1 wiring diagram updated to reflect hardwired connections
- 3. Combination of T-206 and T-306
  - a. Remove device T-306 from the plans. Install new panel T-206 in the location that T-306 was planned (on building column).
  - b. The existing panel T-206 will be converted into a junction box, JB-T-206. Existing wiring to existing panel T-206 will be extended to new panel T-206 via three new conduits.
- 4. H-O-A and E-Stop locations
  - a. RO Pump H-O-A switches to be located in Panels T-106 and T-206
  - b. Added (24#14+#14G) 1" C between T-106 and VFDs RO-P-1, 2, and 3
  - c. Added (24#14+#14G) 1" C between T-206 and VFDs RO-P-4, 5, and 6
- 5. Re-use of existing instrumentation within new panels
  - a. A number of panels will require that existing door-mounted equipment be removed from the existing panel and relocated into the new panel through pre-cut holes. This includes panels E-106, E-206, E-306, E-406 and T-206. Notes 4 and 9 on sheet E-01 included/updated to address this.
- 6. E-506 and E-606 power feed
  - a. Add (2#12+#12G) in 3/4" C to existing panel LP1. See Note 6 on drawing E-01.
- 7. Pump Control Panel FCP-SH2
  - a. Sheet E-06: There is no need to transmit speed from FCP-SH-2 to LCP-1-4. One TSP was removed from 3/4" C between FCP and LCP. Delete A between FCP-SH-2 and LCP-1-4.
- 8. Clean in Place (CIP) Control Panel C-106
  - a. Existing Clean in Place Panel C-106 will need to be unwired and removed. The new CIP Panel C-106 (supplied by Veolia) will need to be installed and wired.
  - b. Panel C-106 added to drawing E-01.
- 9. A new low flow switch, FS-C102, will be added to the CIP panel.
  - a. Device FS-C102 and (3#14+#14G) 3/4" C added to drawing Sheet E-01
- 10. Flow Control Valve wiring
  - a. An additional #12 wire was added to the wiring between T-206 and RO-FCV-5 and RO-FCV-6

11. Network Architecture Changes

- a. The network architecture has changed from a radial system to a looped system.
- b. In addition to the (2) CAT 6E cables routing to LCP-1-4 for the looped PLC connection, an additional CAT 6E cable will be installed between MCP-100 and LCP-1-4 for the HMI at LCP-1-4.
- c. Wiring and conduit revised to reflect new configuration. See conductor and conduit routing on sheet E-01 and conductor schedule on sheet ES01.

12. Sheet E-06

- a. Increase number of #14 between FCP-SH-2 and LCP-1 from (20#14+#14G) to (28#14+#14G)

13. Panel and Device name updates

- a. Update of Panel name FCP-RO-1 (E-105) becomes FCP-RO-1 (E-106)

803-632-3232

[illegible]

F. M. Young Company, Inc.

PO Box 158

Fairfax, SC 29827

803-632-3232

Quantity	Size	Type	material	
2	1.25"	Al 90	\$ 25.00	\$ 50.00
3	.75"	Al LB	\$ 30.00	\$ 90.00
1	1"	Al LB	\$ 45.00	\$ 45.00
	1"	Al Tee	\$ 50.00	\$ -
3	.75"	Core Drill	\$ 1.00	\$ 3.00
1	1"	Core Drill	\$ 1.25	\$ 1.25
1	1.25"	Core Drill	\$ 2.00	\$ 2.00
20	.75"	Al Bend		\$ -
6	2"	Al 90	\$ 28.00	\$ 168.00
250	.75"	Al	\$ 1.86	\$ 465.00
430	1"	Al	\$ 2.60	\$ 1,118.00
0	1.25"	Al	\$ 5.90	\$ -
100	2"	Al	\$ 7.80	\$ 780.00
16	.75"	Meyers Hub	\$ 6.50	\$ 104.00
24	1"	Meyers Hub	\$ 7.80	\$ 187.20
2	1.25"	Meyers Hub	\$ 9.25	\$ 18.50
18	2"	Meyers Hub	\$ 15.75	\$ 283.50
16	.75"	Kos	\$ 0.10	\$ 1.60
24	1"	Kos	\$ 0.15	\$ 3.60
2	1.25"	Kos	\$ 0.15	\$ 0.30
18	2"	Kos	\$ 0.25	\$ 4.50
40	.75"	strap	\$ 3.00	\$ 120.00
60	1"	strap	\$ 4.25	\$ 255.00
	1.25"	strap	\$ 5.50	\$ -
15	2"	strap	\$ 6.00	\$ 90.00
1500	TSP		\$ 0.60	\$ 900.00
12500	#14		\$ 0.18	\$ 2,250.00
2000	#12		\$ 0.20	\$ 400.00
6	J Boxes		\$ 100.00	\$ 600.00
2	Small Control Panels		\$ 50.00	\$ 100.00
400	Equipment Terminations		\$ 0.25	\$ 100.00
100	.75"	LT Flex	\$ 2.50	\$ 250.00
30	1"	LT Flex	\$ 3.50	\$ 105.00
10	1.25"	LT Flex	\$ 5.00	\$ 50.00
	2"	LT Flex	\$ 8.00	\$ -
35	.75"	LT Flex Conn	\$ 15.00	\$ 525.00
12	1"	LT Flex Conn	\$ 20.00	\$ 240.00
2	1.25"	LT Flex Conn	\$ 25.00	\$ 50.00
	2"	LT Flex Conn	\$ 30.00	\$ -
1	PM			\$ -



F. M. Young Company, Inc.  
 PO Box 158  
 Fairfax, SC 29827  
 803-632-3232

				\$ 9,360.45
			misc	\$ 870.00
				\$ 10,230.45
			tax	\$ 818.44
				\$ 11,048.89
The above are net changes.				
Items that have been deducted.				
270	.75"	AI		
10	1"	AI		
80	1.25"	AI		
4	1.25"	AI 90		
30	.75"	LT Flex		
12	.75"	LT Flex Conn		
500	#14			
840	Cat 6			





Environmental Systems Division  
913 Norman Alley  
Conway, South Carolina 29526  
Phone: (864) 546-7900

**Project Manager:** Joe Capriola  
(815) 601-0722  
joe.capriola@harpergc.com

[illegible]

As-Built Documents (\$50/Sheet): 0.00% Includes Cost Type (11)	\$ 0.00
AGC Fee (.05% of Total): 0.05% Includes Cost Type (11)	\$ 6.42
Insurance (0.50% of Total): 0.50% Includes Cost Type (11)	\$ 64.23
Builders Risk Insurance (Coastal 0.5% or Non-Coastal 0.25%): 0.50% Includes Cost Type (11)	\$ 64.55
Licenses & Permits (1% of Total): 1.00% Includes Cost Type (11)	\$ 129.75
Harper Bond (1% of Total): 1.00% Includes Cost Type (11)	\$ 131.05
Fee (15% of L,M,E,OTH): 15.00% Includes Cost Type (10)	\$ 1,985.40
Fee (5% of SUB): 5.00% Includes Cost Type (1)	\$ 0.00
Grand Total:	\$15,221.40

Unless otherwise noted herein, pricing is based on the work occurring and being completed between the date of this Potential Change Order and contract substantial completion. Any variance to schedule would require an adjustment to this Potential Change Order in time and money to account for additional direct costs required to procure, install and/or manage this scope of work. Pricing is valid for 30 days from the date of this Potential Change Order.

CS01  
KMD PROJ. NO.:  
20220974.00.CH

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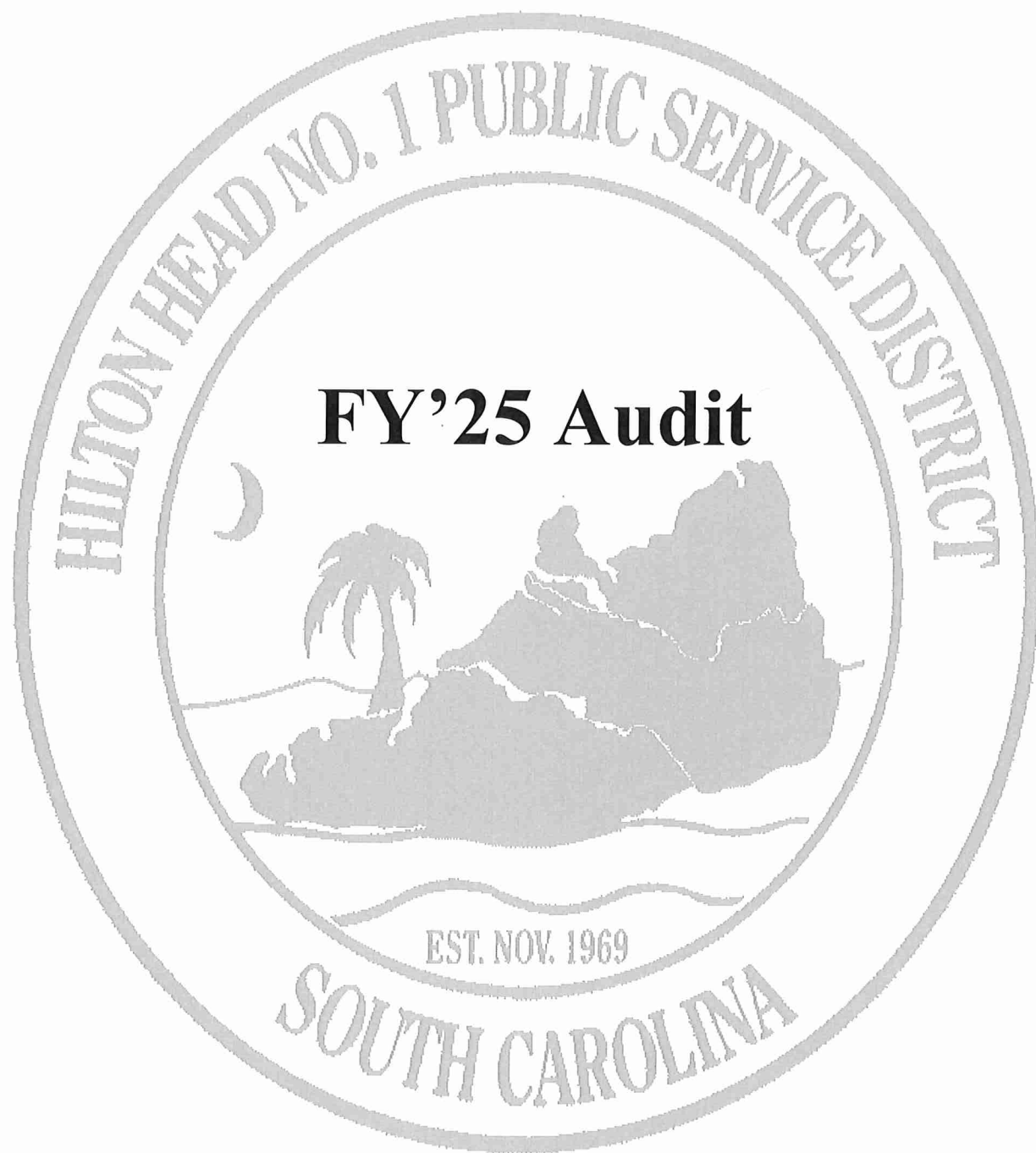
Environmental Systems Division  
913 Norman Alley  
Conway, South Carolina 29526  
Phone: (864) 546-7900

**Project Manager:** Joe Capriola  
(815) 601-0722  
joe.capriola@harpergc.com

[illegible]

Builders Risk Insurance (Coastal 0.5% or Non-Coastal 0.25%): 0.50% Includes Cost Type (11)	\$ 26.09
Licenses & Permits (1% of Total): 1.00% Includes Cost Type (11)	\$ 52.43
Harper Bond (1% of Total): 1.00% Includes Cost Type (11)	\$ 52.96
Fee (15% of L,M,E,OTH): 15.00% Includes Cost Type (10)	\$ 802.31
Fee (5% of SUB): 5.00% Includes Cost Type (1)	\$ 0.00
Grand Total:	\$6,151.05

Unless otherwise noted herein, pricing is based on the work occurring and being completed between the date of this Potential Change Order and contract substantial completion. Any variance to schedule would require an adjustment to this Potential Change Order in time and money to account for additional direct costs required to procure, install and/or manage this scope of work. Pricing is valid for 30 days from the date of this Potential Change Order.







## Financial Audit Presentation Year Ended June 30, 2025

1



### HILTON HEAD PSD 2025 FINANCIAL AUDIT

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#### **OPINION**

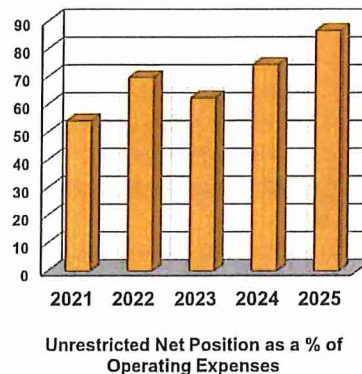
- The District's responsibility:
  - Maintain effective internal controls
    - There are limitations on internal controls.
    - Regular risk assessment is important, including assessing the risk of fraud.
  - Financial Statements
    - Accuracy, completeness, and propriety of balances, amounts, and disclosures

2



## HILTON HEAD PSD 2025 FINANCIAL AUDIT

- Unrestricted net position is \$16.0M, which is 86% of 2025 operating expenses
- This is a good, healthy net position as of June 30, 2025



5



## HILTON HEAD PSD 2025 FINANCIAL AUDIT

### Major Reasons To Maintain An Adequate Unrestricted Net Position:

- Significant emergencies and unanticipated expenditures
- Providing funds for grant matching requirements
- Funding of major capital improvements with operating reserves rather than debt issuances
- Unique funding requirements of a coastal community (higher risk of natural disasters, other acts of God)
- Potential for better interest rates on future debt issues

6



## HILTON HEAD PSD 2025 FINANCIAL AUDIT

### Other Items of Note

- Capital Assets
  - Total capital assets were \$72.2M at 6/30/2025 – increase of \$7.0M from 6/30/2024 as capital additions of \$12.4M exceeded depreciation expense of \$5.4M
  - Significant FY2025 Ongoing Projects:
    - Leg O Mutton Booster Pump - \$1,593,000
    - RO Treatment Plant Expansion - \$1,809,000
    - RO Well #4 and Transmission Mains - \$2,775,000
    - ASR #2 and Transmission Mains - \$2,762,000

9



## HILTON HEAD PSD 2025 FINANCIAL AUDIT

### Other Items of Note

- Long-term Obligations
  - Total long-term obligations were \$39.4M at 6/30/2025 – increase of \$19.0M from 6/30/2024 due to new debt issuances of \$23.0M exceeding scheduled principal payments of \$4.0M
  - FY2025 Issuances:
    - \$2.6M Note - SC Water Quality Revolving Fund Authority
    - \$20.4M Series 2024B General Obligation Bonds
  - Scheduled debt service requirements of \$4.7M for FY2026

10



# Greene Finney Cauley, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

November 3, 2025

Board of Commissioners  
Hilton Head No.1 Public Service District  
21 Oak Park Drive  
Hilton Head Island, SC 29926

We have audited the financial statements of Hilton Head No.1 Public Service District (the "District") for the year ended June 30, 2025 ("2025"). Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 10, 2025. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not significantly changed during 2025. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant sensitive estimates affecting the District's financial statements were:

Management's estimate of the useful lives of capital assets and the resulting depreciation expense is based on historical data and industry standards. Management's estimate of the property taxes and accounts receivables and the allowance for uncollectible amounts associated with these balances are based on information provided by the County and historical collection rates. Management's estimates of the pension balances are based on an actuarial valuation (the assumptions used in the actuarial valuation are based on accounting requirements, actuarial standards, historical data, and industry trends) prepared and certified by an independent actuary. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. For purposes of

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this communication, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that may or may not cause future financial statements to be materially misstated). No significant adjusting journal entries were identified during the audit process.

In our judgment, there were no material known unrecorded and uncorrected misstatements, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 3, 2025.

#### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### **Other Matters**

We applied certain limited procedures to the management's discussion and analysis, the schedule of the District's South Carolina Retirement System Contributions, and the Schedule of the District's Proportionate Share of the Net Pension Liability which are required supplementary information ("RSI") that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental financial information, as listed in the table of contents, which accompanies the financial statements but is not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled this information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section or statistical section which accompany the financial statements but are not RSI. Such information has 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 it.

**Restriction on Use**

This information is intended solely for the information and use of the Board of Commissioners and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Greene Finney Cauley, LLP*

Greene Finney Cauley, LLP  
Certified Public Accountants

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## Annual Comprehensive Financial Report



**For the Fiscal Years Ended  
June 30, 2025 and June 30, 2024**

Hilton Head Island, South Carolina

# DRAFT

## **Hilton Head Public Service District**

Hilton Head Island, South Carolina

### **Annual Comprehensive Financial Report**

**For the Fiscal Years Ended  
June 30, 2025 and June 30, 2024**

Prepared by:  
Finance Department



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**HiltonHeadPSD**  
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**Hilton Head Public Service District**  
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On the cover: Groundbreaking at Reverse Osmosis (RO) Well #4. The District received a \$10,000,000 grant from the South Carolina Infrastructure Investment Program (SCIIP) to expand its Reverse Osmosis (RO) water treatment plant from 4 million gallons per day (mgd) to 6 mgd and build a second Aquifer Storage and Recovery (ASR) well.



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## INTRODUCTION SECTION



During fiscal year 2025, the District used drone technology to capture video along its large diameter distribution mains throughout its service area. The aerial video was used to search for areas of potential leaks as a part of the PSD's ongoing efforts to minimize water loss.



**COMMISSIONERS**

Frank Turano, Chair  
Jerry Cutrer, Vice-Chair  
Stuart Bell, Treasurer  
Patti Soltys, Secretary  
Ibrahim Abdul-Malik  
Michael Marks  
Andy Paterno

**EXECUTIVE STAFF**

J. Pete Nardi, General Manager  
Amy Graybill, Finance Manager  
William C. Davis, Operations Manager

## HILTON HEAD PUBLIC SERVICE DISTRICT

November 3, 2025

*To the Members of the Commission and Customers of Hilton Head PSD:*

### Letter of Transmittal

The management and staff of the Hilton Head Public Service District (PSD or District) are pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2025. This is the sixteenth report issued as an ACFR 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. The District is required to publish a complete set of annual audited financial statements; this report fulfills that requirement for the fiscal year ended June 30, 2025.

The District's management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Greene Finney Cauley LLP, Certified Public Accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2025. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the financial statements. MD&A complements this letter of transmittal and should be read in conjunction with the financial statements.

The District is required to assess whether an annual single audit in conformity with the provisions by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards needs to be performed. In accordance with these requirements, a Single Audit was needed because the District's federal expenditures exceeded \$750,000 during fiscal year 2025.

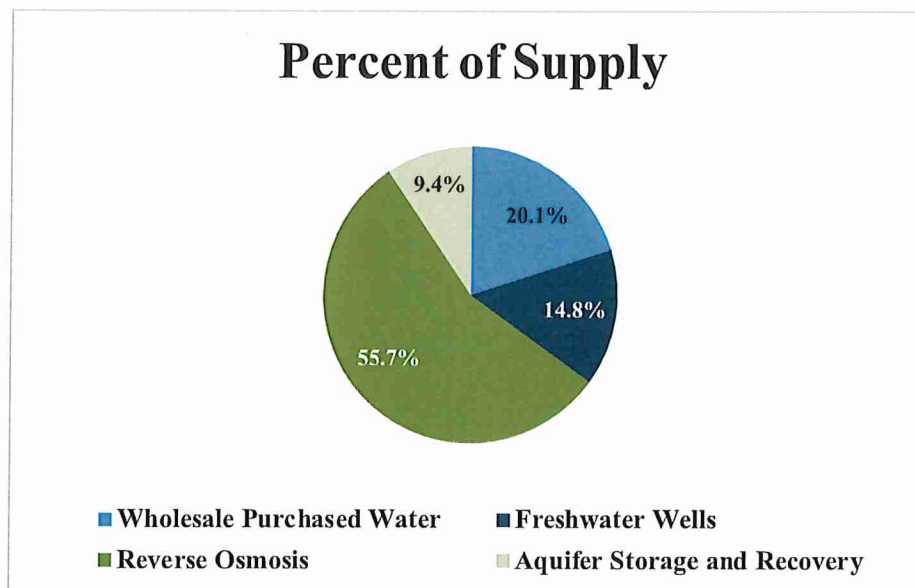
## Profile of Hilton Head PSD

The PSD is a special purpose district created by the South Carolina General Assembly in 1969 to provide water and sewer services to Hilton Head Island. The PSD provides:

- Tap water production and treatment.
- Tap water distribution.
- Sanitary sewer collections.
- Wastewater treatment.
- Recycled water distribution.

Residents of Hilton Head Island relied on private wells for their drinking water needs until 1957. At that time, a local development firm called the Hilton Head Water Company introduced a community waterworks system, installing water lines and drilling wells throughout the island. Ten separate utilities, both public and private, provided water and wastewater services to the residents of the island at the time of the PSD's creation. Beginning in 1995, the PSD acquired the four utilities that now comprise its current service area. In addition, the PSD acquired two small systems on the island previously served by a mainland utility. Consolidation of the remaining island utilities formed the three public service districts currently serving Hilton Head Island – Hilton Head, Broad Creek, and South Island PSDs.

The PSD serves a population of more than 25,500 in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort. The utility's service area includes many of the neighborhoods where the island's 40,000 full-time residents reside, including the Historic Gullah Neighborhoods as well as the large-scale subdivisions of Hilton Head Plantation, Indigo Run, Port Royal, and Palmetto Hall. The District also services Hilton Head Island's medical center, airport, and the public school campus.



The PSD can provide a total water capacity of approximately 13 million gallons a day (mgd). It experiences an average demand of 6-7 mgd and a peak-day demand of 10-11 mgd. The PSD's Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is 55.7% of water supplied in Fiscal Year 2025. The RO Facility's source of water is brackish groundwater from the 600-foot-deep Middle Floridan Aquifer, pumped from three wells. The brackish water is treated in the RO Facility, which began



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operations in 2009 in response to the loss of fresh groundwater wells caused by saltwater intrusion into the shallower Upper Floridan Aquifer.

Water purchased on a wholesale basis from the Beaufort-Jasper Water & Sewer Authority (BJWSA) on the mainland represented 20.1% of water supplied in fiscal year 2025. The treated drinking water is conveyed to the PSD via its 24" pipeline buried under the Intracoastal Waterway. Fresh groundwater from the PSD's remaining Upper Floridan wells provided 14.8% of water supplied in Fiscal Year 2025.

The remaining 9.4% of water supplied in fiscal year 2025 came from the PSD's Aquifer Storage & Recovery (ASR) Facility. It is the island's first-ever ASR facility and began operations in 2011. In the winter months of lower demand, the facility stores approximately 250 million gallons of treated tap water in the Middle Floridan Aquifer. It then withdraws and re-treats the water during the summer months of higher demand, providing 2 mgd of supply. The stored water is purchased at a reduced, "off-peak" rate from BJWSA. The PSD's ASR Facility recovers the stored water in the summer months of higher demand when the full wholesale rate from BJWSA is in effect, saving customers' money. The United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2020 recognized the PSD's ASR Facility as an outstanding worldwide example of a managed aquifer recharge program.

In addition to its RO plant, ASR, and Upper Floridan wells, the PSD maintains over 220 miles of water distribution mains, 200 miles of sewer collection mains, 5 elevated storage tanks, 3 ground-level storage tanks, 1,500 hydrants, 120 sewer lift stations, 13,750 customer water meters, 500 customer Low Pressure Sewer (LPS) systems, and a tertiary-treatment, return activated sludge (RAS) recycled water treatment plant. The recycled water treatment plant can treat 6.4 mgd of wastewater. Average flow into the treatment plant is 3 mgd. The PSD is a 100% recycled water utility. All treated wastewater is recycled for golf course irrigation or interior wetlands nourishment – no treated wastewater is discharged to any receiving bodies of water.



**The PSD Customer Service Center and Recycled Water Plant**



## Local Economy

Tourism is the largest industry in Hilton Head Island's economy. In addition to being a premier vacation destination, the island is also known as a retirement destination. Maintaining and preserving the natural environment has been a key component in the island's strategy to attract visitors and residents to the area and the island is well-known for its beaches, waterways, bike paths, golf courses, and other natural and outdoor amenities.

The District continued to see new growth, redevelopment, and development in its service area. During Fiscal Year (FY) 2025, the District sold 2.031 billion gallons of water which is slightly more than its 10-year average of 2 billion gallons. The PSD's water and irrigation customer count grew by 0.8% during FY 2025, which was slightly lower than its average customer growth rate of 1.1% per year over the last ten years. The District received capacity fee payments from four larger scale developers during FY 2024; those large developments drove growth in FY 2025 and are expected to continue to drive growth in upcoming years as the units related to these projects connect to the system. While no additional large scale capacity payments were received during FY 2025, there are several projects being discussed in the community that may begin in upcoming fiscal years.

Real estate prices continue to remain much higher than their pre-pandemic levels and the short-term rental market continues to grow in areas that were previously residential. These real estate market conditions have brought challenges for workers seeking affordable housing. The Town of Hilton Head Island has identified this workforce housing shortage as one of its most pressing challenges. In recent fiscal years, it has developed programs aimed to help develop land in the Historic Gullah Neighborhoods and created a program using American Rescue Plan Act (ARPA) funding to assist low-income renters and homeowners with connecting to the public sewer system. Public private housing partnerships are also being investigated across Beaufort County. As the majority of undeveloped land on Hilton Head Island is in the District's service area, the District has already begun to see development in relation to these programs and expects this to continue in the upcoming fiscal years.

The District and its service area continued to be affected by the inflationary pressures and supply chain issues felt across the nation during the last several fiscal years. In particular, the District continues to see substantial increases in construction costs that were first noted in FY 2024 and which continue to bring capital projects in at more than double the anticipated pre-pandemic cost. Additionally, the District's purchased water rate increased 20% in FY 2025 and will increase another 24% in FY 2026. The District also continued to experience longer lead times when sourcing parts and inventory, and many parts manufacturers have begun adding tariff surcharges to their pricing.

## Long Term Financial Planning

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. 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenues and expenses. The fund is established to account



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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 operates on a current funding basis and is required by state law to adopt a balanced operating budget by June 30 of each year. Expenditures are budgeted and controlled so as not to exceed current revenues plus the planned use of net position accumulated through prior years. In addition to its annual operating budget, the District also prepares a five-year capital improvement program, cash flow projection, and debt coverage projection to bring a longer-term perspective into the current financial planning. To prepare for emergencies or contingencies, the District's financial policies set a target of six months to one year of the total budgeted operating expenditures, net of depreciation, to be maintained as an unrestricted operating cash reserve.

### ***Rates and Charges***

The District maintains and administers a revenue system that assures a reliable, equitable and sufficient revenue stream to support the District's services. Since the principal revenue stream for the District is comprised 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 targets 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).

The 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, etc.) are reviewed through the District's annual cost of service process. In projecting revenues - and where judgment is required - conservatism is the rule.

### ***Millage***

Pursuant to Act No. 596 of 1969, the District is authorized to impose ad valorem property taxes not to exceed ten mills to defray a portion of its operational costs; however, the District's operational ad valorem millage is now capped by statute 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 a certain number of specific, prescribed purposes.

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 as to rate or amount, to defray the debt service on general obligation bonds of the District. All such general obligation bonds are approved by the Beaufort County Council pursuant to South Carolina general law. Absent a referendum, the outstanding par amount of general obligation bonds issued by the PSD shall not exceed eight percent (8%) of the assessed value of all taxable property in the PSD.



## Major Initiatives

### *Long Term Water Supply Initiatives*

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During the year, the PSD has continued work on its long-term water supply implementation. This initiative aims to ensure that the District is in a position to meet its peak demand at build out of the District's service area and also considers the potential effects of the future loss of groundwater wells to saltwater intrusion. The planning includes an evaluation of the future supply options based on areas such as source-water quality and availability, treatment requirements, regulatory requirements, and capital costs. In fiscal year 2020, the District completed an initial recalibration of its computerized water distribution system model, which aids in scenario-based analysis of the impact of current and future peak demand periods on water pressure and fire flow capabilities. The model underwent further updating in fiscal years 2022 and 2023 and allows the utility to evaluate strategic locations for future water production and supply assets, as well as to identify future distribution system improvements. In fiscal year 2021, the District initiated a groundwater hydrogeologic modeling effort to determine current and future quality and capacity in the island's underground aquifers, as well as a cost versus benefit analysis of differing future water supply options. The District finalized the cost benefit study during fiscal year 2022 and began planning a timeline to fund these projects.

In September 2022, the District submitted a grant application to the South Carolina Infrastructure Investment Program (SCIIP) to request ARPA funding to expand its RO plant from 4 mgd to 6 mgd and to build a second ASR facility capable of storing an additional 250 million gallons of treated tap water in the Middle Floridan Aquifer which it can withdraw and re-treat during the summer months of higher demand, providing 2 MGD of supply. The District was pleased to be awarded the maximum \$10,000,000 grant amount in April 2023. The grant requires a local matching component which was estimated at around \$7,000,000 by the District's engineers at the time of the grant application. The District bid out these projects in 2024. In an example of the intense construction inflationary environment, the actual matching component is now expected to be \$20,500,000. The District closed on a \$2,589,929 engineering only general obligation (GO) loan with the SC State Revolving Fund (SRF) in August 2024 and issued another \$20,400,000 in general obligation debt in November 2024 to fund the remaining match and other needed capital projects. When completed, these projects will add an additional 4 mgd to the District's total water capacity which is expected to lower future operating costs by reducing reliance on purchased water. They will also bolster the PSD's ability to provide water during emergency situations and peak days, as well as to accommodate new growth. These projects will improve resiliency for the District as the purchased water pipeline represents a single point of failure and the District's remaining freshwater wells are susceptible to saltwater intrusion.

In October of 2022, the District was excited to partner with Beaufort County to receive a sub-recipient allocation of \$1,000,000 from Beaufort County's ARPA allocation for two capital projects: a high service water distribution booster pump station and an emergency generator at the District's RO Plant. The new booster pump station, which is pictured on the following page, will replace critical high service water distribution pumps which are over forty years old at the PSD's Leg-O-Mutton ground storage tank. The new water booster station will improve pumping capacity and allow the District to deliver water and re-pressurize the system in times of high demand and in response to natural disasters. Since the award of the grant, the District has spent local funds to engineer and bid this booster pump project in accordance with ARPA guidelines. Bidding was completed in May 2024 and the ARPA allocation was spent on construction costs during FY 2025. The emergency generator at the District's RO plant will also provide improved disaster resiliency and was bid and is being completed as part of the SCIIP grant RO expansion project.



*The new Leg-O-Mutton Booster Pump Station which was funded in part by an allocation of ARPA funds from Beaufort County:*



In conjunction with these efforts, the PSD is closely monitoring the U.S. 278 Corridor Project being led by the South Carolina Department of Transportation (SCDOT). The PSD's 24" water pipeline, which is the sole delivery mechanism of its purchased water supply from BJWSA, may be required to be relocated as a part of this project. While the District believes the majority of the cost of the basic relocation will be covered by the SCDOT under the Utility Relocation Act, the PSD will be considering various options relating to relocating the line, including implications for increased wholesale water capacity and disaster resiliency.

### ***Asset Management Planning***

During fiscal year 2020, the District completed an Asset Management Plan to supplement development of the five-year Capital Improvement Program (CIP) that is presented annually as a part of the District's budget. The plan ranks approximately 100 major assets of the District on the basis of probability and consequence of failure, condition, replacement value, and expected useful life, among other categories. It includes assets such as the RO and ASR facilities, multiple features and equipment within the wastewater treatment plant, sewer lift stations, drinking water production wells, ground-level water storage tanks and elevated water towers, and many more. During the past several fiscal years, the District continued to develop and expand an in house tracking and field inspection program aimed at capturing additional operational and financial data for the District's 120+ sewer lift stations. The goal of the Asset Management Plan is to provide predictability in the District's long-term CIP, avoid unanticipated repairs and outages,

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and maintain appropriate levels of service. Asset Management planning aids the District in designing stable rates and in managing financial burdens. It is an ongoing process that involves continuous updating and honing of asset condition assessments, and multi-year capital planning to ensure that the District's infrastructure, facilities, and equipment are operating effectively and efficiently. Fiscal years 2022 through 2025 have involved the identification and replacement or relining of ductile iron sewer mains, which can be among the most vulnerable of buried assets as they age.

During the fall of 2024, the District applied for a state grant from the South Carolina Rural Infrastructure Authority to replace and upgrade all three of the influent screw pump stations in its wastewater treatment plant. The District was pleased to be awarded the maximum grant amount of \$1.5 million in December 2024. Since the grant award, the District has been designing and engineering the project. The project was bid in the fall of 2025 and the lowest responsive construction bid of \$4.37 million was accepted at the October 22, 2025, Commission meeting. The District is using local funds, including the proceeds of the November 2024 \$20.4 million GO debt issuance, to pay for the engineering costs and to meet the required match to complete the project. The grant funds will be spent on construction expenditures in upcoming fiscal years.

During fiscal year 2024, the District hired an asset management specialist who is updating and refining the District's database of assets and working to streamline the asset condition and maintenance work order and data collection process. During fiscal year 2025, various asset management software programs were vetted and the District selected a program to implement during the upcoming fiscal year. This program will provide a centralized location to store all historically gathered asset data and a robust work order system that will be used to continually improve and update asset performance and condition assessment data.

## **Awards and Acknowledgements**

### ***Organizational Awards***

The District has earned the 5-Year Directors Award from the Partnership for Safe Water for completing a rigorous self-assessment and peer-reviewed program for the optimization of our drinking water distribution system. The Partnership for Safe Water is an alliance of seven national drinking water organizations, including the U.S. Environmental Protection Agency and the American Water Works Association, and more than 500 water utilities. The goal of the Partnership is to optimize the protection of public health by improving utility performance beyond regulatory requirements.

The PSD earned the S.C. Department of Environmental Services' Facility Excellence Awards for the PSD's Recycled Water Plant on Oak Park Drive, and for its sanitary sewer collection system. The awards, which recognize the PSD team for environmental protection and regulatory compliance, were presented at the Water Environment Association of South Carolina's 2025 Environmental Conference. The PSD's Recycled Water Plant annually treats approximately 1 billion gallons of wastewater, producing beneficial recycled water that is then used for golf course irrigation and wetlands nourishment, with zero discharge to area waterways. The PSD's sanitary sewer collection system represents one of the best environmental protection systems on the island, collecting wastewater from homes and businesses for conveyance to the Recycled Water Plant.



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Hilton Head Public Service District's Water Quality Laboratory was recognized again as a Laboratory of Excellence as part of its annual certification by the S.C. Department of Environmental Services. The independent agency that conducts the certification recognized the PSD lab "achieving 100% acceptable data" in a group of more than 370 participating labs, according to a statement from the independent agency. "This achievement is a demonstration of the superior quality of the laboratory," according to the statement. The PSD Water Quality Laboratory conducts thousands of tests annually on the quality of our tap water and treated recycled water.

The District's Oak Park Drive property was once again recognized as a Certified Audubon Cooperative Sanctuary by Audubon International based on our environmental quality, community outreach, enhancement of wildlife habitat, and minimization of environmental footprint. Audubon International recognized the PSD for its efforts to assist customers in converting from septic systems to the PSD's public sewer system, its internship and outreach efforts in local schools, and its energy efficiency practices. The PSD's recycled water program, which annually recycles more than 1 billion gallons of highly treated wastewater into beneficial recycled water for wetlands habitat nourishment and golf course irrigation, also was recognized by the Cooperative Sanctuary Program. Habitat for more than 25 species at the PSD's Oak Park Drive site was noted by Audubon International in its review, including osprey, Canada geese, a variety of waterfowl that frequent the recycled water lagoons on the property, and a pollinator garden.

### *Financial Awards*

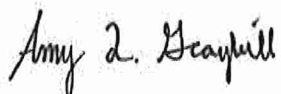
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its annual comprehensive financial report for the fiscal year ended June 30, 2024 (shown on page 14). This was the fifteenth year that the District achieved this prestigious award. To be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized annual comprehensive 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 annual comprehensive 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.

### *Acknowledgements*

The preparation of this report could not be accomplished without the dedicated service of the entire staff of the Finance Department. We also want to thank all PSD team members for their service, and our customers and Board of Commissioners for their support of our utility and its mission.

Respectfully Submitted,



Amy Graybill, CPA, Finance Manager



Pete Nardi, General Manager



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Hilton Head Public Service District #1  
South Carolina**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2024

*Christopher P. Morill*

Executive Director/CEO

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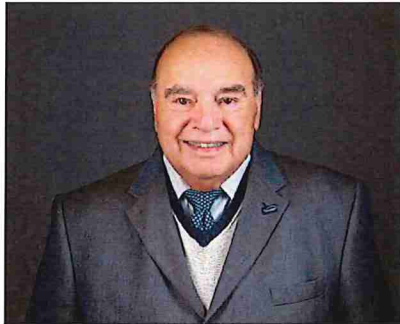
## Board of Commissioners

Hilton Head No. 1 Public Service District is governed by a seven-member Board of Commissioners. Commissioners are elected by registered voters of the District during general elections. Commissioners serve four-year terms. During FY 2024, the District was redistricted from four voting districts to seven different voting districts within the PSD service area to ensure fair representation.

The Commission establishes policies 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, user fees, and millage.

The Commission normally meets on the fourth Wednesday 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.

### The 2024-25 Hilton Head Public Service District Commission



**Frank Turano, Chair**  
District 7  
Current Term: 2022-2026



**Jerry Cutrer, Vice Chair**  
District 4  
Current Term: 2024-2028



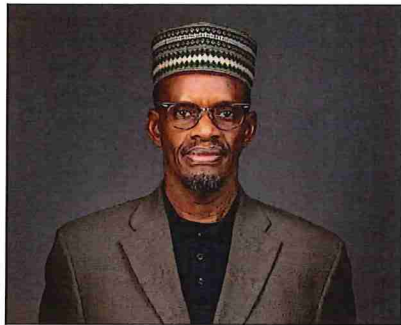
**Stuart Bell, Treasurer**  
District 2  
Current Term: 2024-2028

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**The 2024-25 Hilton Head Public Service District Commission** *(continued)*



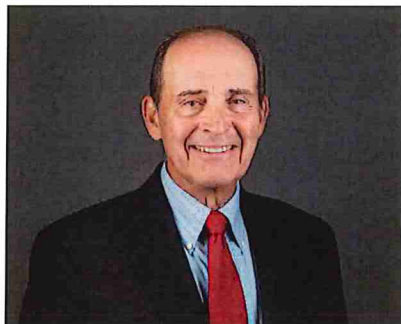
**Patti Soltys, Secretary**  
District 3  
Current Term: 2024-2028



**Ibrahim Abdul-Malik**  
District 1  
Current Term: 2022-2026



**Michael Marks**  
District 5  
Current Term: 2022-2026



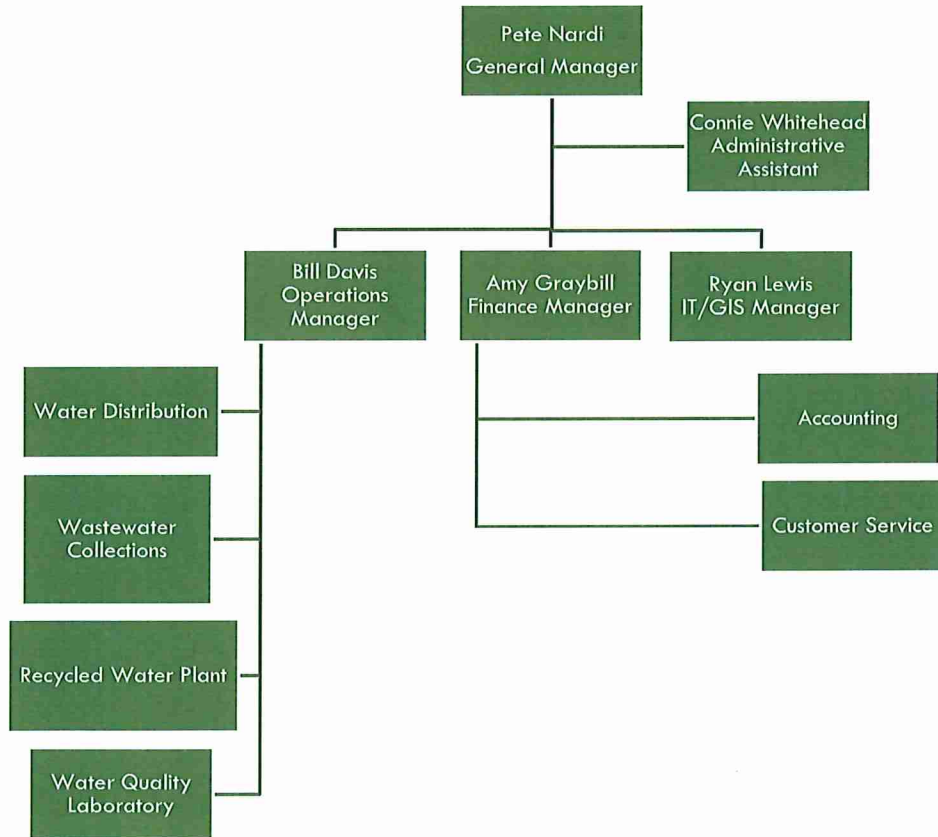
**Andy Paterno**  
District 6  
Current Term: 2024-2028



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## Organizational Chart



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# FINANCIAL SECTION

For Fiscal Years Ended June 30, 2025 and June 30, 2024



# Greene Finney Cauley, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Hilton Head No.1 Public Service District  
21 Oak Park Drive  
Hilton Head Island, SC 29926

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Hilton Head No.1 Public Service District (the "District") as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Hilton Head No.1 Public Service District as of June 30, 2025 and 2024, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to the financial audits contained in Government Auditing Standards (Government Auditing Standards), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



## *Auditor's Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's South Carolina Retirement System Contributions, and the Schedule of the District's Proportionate Share of the Net Pension Liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### *Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional



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procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or provide any assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Greene Finney Cauley, LLP*

Greene Finney Cauley, LLP  
Mauldin, South Carolina  
November 3, 2025

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## Management's Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District's (the "District") annual financial statements presents management's analysis of the District's financial performance during the fiscal years ending June 30, 2025, 2024 and 2023. To enhance the reader's understanding, management encourages considering the information contained in the MD&A in conjunction with the financial statements as presented in the financial section of this report, the transmittal letter, and statistical information.

### Overview of the Financial Statements

The basic financial statements are presented on the full accrual basis of accounting and include statements of net position; statements of revenues, expenses, and changes in net positions; statements of cash flows; and notes to the financial statements.

The **Statements of Net Position** present the District's financial position and provide information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating.

The **Statements of Revenues, Expenses, and Changes in Net Position** present the business activity and results of operations for the fiscal year. These statements present the change in net position during the fiscal year. The statements can be used to evaluate the profitability of the District and to assess whether it has recovered all of its costs through user fees and charges.

The **Statements of Cash Flows** present the cash activities of the District segregated in the following four major categories: operating, investing, noncapital financing, and capital and related financing activities. These statements provide information as to the sources and uses of cash, where the cash was derived from, what cash was used for, and what the change in cash balance was during the reported periods.

The **Notes to the Financial Statements** provide required disclosures and other information essential to fully understand the data provided in the statements. **Required supplementary information** presents schedules concerning progress in funding the District's obligation to provide pension benefits to its employees. **Supplementary information** contains additional financial data, such as budgetary comparisons and detailed debt schedules. Although not a required part of the financial statements, the supplementary data enhances information provided to users.

### General Trends and Significant Events

- The District continued to see growth from development and redevelopment in its service area partially due to four large scale developments that were initiated during fiscal year 2024 representing approximately 210 new units expected to connect during fiscal years 2024 through 2026.
- Additionally, the District still continues to see connections related to its Master Sewer Plan. This project involved a partnership with the Town of Hilton Head to bring sewer to many previously unserved areas, a commitment from the PSD's Commission to continue to fund District infrastructure necessary to bring sewer to any remaining unserved landlocked parcels, and a partnership with a local non-profit, the Community Foundation of the Lowcountry, which raised funds for and administers the Project SAFE and Water Fund programs which provide grants to low-income homeowners to cover the cost of connecting to the District's water and sewer systems.



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The Town of Hilton Head has also developed programs aimed at assisting native islanders in developing their property and developed a grant program using ARPA funds that provided sewer connection grants to low-income owners and renters not covered by Project SAFE. That grant program brought a number of new Master Sewer Plan connections during the previous and current fiscal year.

- Water Customer Growth: The District added 160 new water/irrigation customers to the system in fiscal year (FY) 2025. As of June 30, 2025, the District has a total of 19,426 equivalent dwelling units (EDUs). This is a 0.81% increase for FY 2025. For FY 2024, there was a 0.56% increase in total EDUs. The current EDUs include 18,805 water service units, 1,036 irrigation service units, and 85 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.
- Sewer Customer Growth: The District added 186 new sewer customers to the system in fiscal year 2025. As of June 30, 2025, sewer service EDUs total 18,049. This is a 1.04% increase for FY 2025 as compared to the FY 2024 increase of 0.77%.
- During FY 2025, the sewer to water customer percentage has increased from 95.76% to 95.98% percent since the end of fiscal year 2024.<sup>1</sup> This increase is related to the District's Master Sewer Plan construction projects, Project SAFE funded connections, and Town of Hilton Head sewer connection program as well as general development in the District.
- Billed consumption for FY 2025 increased 115 million gallons from 1.916 billion gallons billed during FY 2024 to 2.031 billion gallons during FY 2025. Total rainfall in fiscal year 2025 decreased 1.6 inches from 52.3 inches to 50.7 inches.<sup>2</sup> Spring/Summer<sup>3</sup> rainfall increased 9.7 inches from 27.2 inches in fiscal year 2024 to 37.0 inches in fiscal year 2025. (See the Rainfall Comparison tables on page 93 in the Statistical section of this report for further data). While lower rainfall, particularly during the spring and summer months, often results in increased consumption due to increased irrigation, rain can be inconsistent throughout the District's service area so certain areas may receive more or less rain than the treatment plant where the rainfall data is recorded. Additionally, the District experienced a number of days of extremely heavy rainfall which offset drier periods of higher irrigation demand. The increase in consumption may also be attributable to customer growth offset by customers adopting more conservation-oriented water usage habits.
- Increases in consumption along with rate increases enacted as of July 1, 2024 led to increases in operating revenues over the prior year which offset increases in operating expenses over the prior year. However, strong interest revenues, growth in the District's tax base, and capital grant income reimbursement payments led to the District ending the 2025 fiscal year with a \$6.8 million increase in net position and a \$2.0 million increase in unrestricted cash. This increase in unrestricted cash is partially attributable to the timing of reimbursement of grant project engineering expenditures through the Series 2024A SRF GO loan in the fall of 2024. It is also related to the timing of capital project completion; the District carried forward approximately \$1,598,000 worth of fiscal year 2025 budgeted capital projects into fiscal year 2026 for completion. The amount of budgeted capital projects carried over from fiscal year 2024 was \$1,175,000.
- In April 2023, the District received the maximum \$10,000,000 SCIIP grant award for expanding its RO plant from 4 mgd to 6 mgd and to construct a second ASR facility. At the time of the grant award, the District and its engineers estimated that the District's matching contribution to these

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<sup>1</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.

<sup>2</sup> Rainfall measurements were recorded at the wastewater treatment plant.

<sup>3</sup> Months included for each year are March through August.

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projects would be \$7,000,000. In an example of the intense construction inflationary environment, the actual matching component is now expected to be \$20,500,000. The District closed on a \$2,589,929 engineering only general obligation loan with the SC State Revolving Fund (SRF) in August 2024 and issued another \$20,400,000 general obligation bond in November 2024 to fund the remaining match and other needed capital projects. When completed, these projects will add an additional 4 mgd to the District's total water supply capacity and are expected to lower future operating costs by reducing reliance on purchased water. They will bolster the PSD's ability to provide water during emergency situations and peak days as well as to accommodate new growth. These projects will also improve resiliency for the District as the purchased water pipeline represents a single point of failure and the District's remaining freshwater wells are susceptible to saltwater intrusion.

- In October 2022, the District also received a \$1,000,000 subrecipient allocation of Beaufort County's ARPA allocation to offset the cost of constructing a new booster pump station at its Leg-O-Mutton ground storage tank and installing an emergency generator at its RO plant. The District received these funds in November 2022 and held them in a restricted bank account until actual construction costs were incurred during FY 2025. Since the award, the District has used local funds to pay its engineers to design the booster pump station and prepare the related bid documents. The District bid the booster pump project in May 2024 and is utilizing the GO debt issuances noted previously to cover the remaining matching costs and reimburse the engineering costs. The RO Plant emergency generator is being completed as a component of the SCIIP grant project.

## **Financial Highlights and Analysis of the District**

The District's financial position improved during the past fiscal year; debt reimbursement of capital project engineering costs, capital grant income, strong interest income, and growth in the District's tax base led to an increase in net position and unrestricted cash.

### ***Condensed Statements of Net Position***

The comparative condensed statements of net position shown on the next page show changes in financial position from previous fiscal years as of June 30, 2025, 2024, and 2023.

Total assets and deferred outflows of resources were \$116.3 million, exceeding liabilities and deferred inflows of resources by \$67.3 million (net position). Of the total net position, \$16.0 million was unrestricted. Total net position increased by \$6.8 million or 11.2% compared to a \$4.2 million or 7.4% increase in fiscal year 2024. Unrestricted net position increased \$3.1 million or 24.0% compared to a \$1.3 million or 11.5% increase in fiscal year 2024.



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## Hilton Head Public Service District Condensed Statements of Net Position As of June 30, 2025, 2024, and 2022

As of June 30,	2025	2024	2023	2024 to 2025	%	2023 to 2024	%
<b>Assets</b>				Increase (decrease)		Increase (decrease)	
Current assets	\$ 20,657,457	\$ 17,402,581	\$ 15,780,786	\$ 3,254,876	18.7%	\$ 1,621,795	10.3%
Restricted assets	20,014,014	2,329,079	2,196,596	17,684,935	759.3%	132,483	6.0%
Net Property Plant & Equipment	72,163,689	65,276,327	66,116,980	6,887,362	10.6%	(840,653)	-1.3%
Other Noncurrent Assets	2,655,944	3,046,034	2,758,552	(390,090)	-12.8%	287,482	10.4%
<b>Total Assets</b>	<b>115,491,104</b>	<b>88,054,021</b>	<b>86,852,914</b>	<b>27,437,083</b>	<b>31.2%</b>	<b>1,201,107</b>	<b>1.4%</b>
<b>Deferred outflows of resources</b>							
Deferred outflows related to pensions	833,094	722,277	766,566	110,817	15.3%	(44,289)	-5.8%
Deferred outflows from refunding debt	-	209,177	534,639	(209,177)	-100.0%	(325,462)	-60.9%
<b>Total Deferred outflows of resources</b>	<b>833,094</b>	<b>931,454</b>	<b>1,301,205</b>	<b>(98,360)</b>	<b>-10.6%</b>	<b>(369,751)</b>	<b>-28.4%</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 116,324,198</b>	<b>\$ 88,985,475</b>	<b>\$ 88,154,119</b>	<b>27,338,723</b>	<b>30.7%</b>	<b>831,356</b>	<b>0.9%</b>
<b>Liabilities</b>							
Current Liabilities	7,592,921	6,001,935	6,103,771	1,590,986	26.5%	(101,836)	-1.7%
Noncurrent Liabilities, net of amortization	39,419,052	20,453,887	24,200,671	18,965,165	92.7%	(3,746,784)	-15.5%
<b>Total Liabilities</b>	<b>47,011,973</b>	<b>26,455,822</b>	<b>30,304,442</b>	<b>20,556,151</b>	<b>77.7%</b>	<b>(3,848,620)</b>	<b>-12.7%</b>
<b>Deferred inflows of resources</b>							
Deferred inflows related to pensions	381,199	161,707	186,965	219,492	135.7%	(25,258)	-13.5%
Deferred inflows related to lease revenue	1,597,522	1,823,724	1,280,617	(226,202)	-12.4%	543,107	42.4%
<b>Total Deferred inflows of resources</b>	<b>1,978,721</b>	<b>1,985,431</b>	<b>1,467,582</b>	<b>(6,710)</b>	<b>-0.3%</b>	<b>517,849</b>	<b>35.3%</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>48,990,694</b>	<b>28,441,253</b>	<b>31,772,024</b>	<b>20,549,441</b>	<b>72.3%</b>	<b>(3,330,771)</b>	<b>-10.5%</b>
<b>Net Position</b>							
Net investment in capital assets	50,045,908	46,323,932	43,634,968	3,721,976	8.0%	2,688,964	6.2%
Restricted for debt service and grants	1,270,790	1,301,824	1,161,690	(31,034)	-2.4%	140,134	12.1%
Unrestricted	16,016,806	12,918,466	11,585,437	3,098,340	24.0%	1,333,029	11.5%
<b>Total Net Position</b>	<b>67,333,504</b>	<b>60,544,222</b>	<b>56,382,095</b>	<b>6,789,282</b>	<b>11.2%</b>	<b>4,162,127</b>	<b>7.4%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 116,324,198</b>	<b>\$ 88,985,475</b>	<b>\$ 88,154,119</b>	<b>\$ 27,338,723</b>	<b>30.7%</b>	<b>\$ 831,356</b>	<b>0.9%</b>

### *Current and Restricted Assets*

Of the total net position, \$20.7 million are current non-restricted assets available to support short-term operations. This current asset balance is \$3.2 million higher than the June 30, 2024 balance of \$17.4 million which was \$1.6 million higher than the June 30, 2023 balance of \$15.7 million. The FY 2025 increase was mostly attributable to an increase in cash and cash equivalents as well as an increase in accounts receivable related to the ongoing grant projects. Total unrestricted and restricted cash balances consisted of the following:

Cash Balances As of June 30,	2025	2024	2023	2024 to 2025	%	2023 to 2024	%
Unrestricted cash and cash equivalents	\$ 15,873,800	\$ 13,876,252	\$ 12,392,680	\$ 1,997,548	14.4%	\$ 1,483,572	12.0%
Cash and cash equivalents (restricted)	20,014,014	2,329,079	2,196,596	17,684,935	759.3%	132,483	6.0%
<b>Total Cash</b>	<b>\$ 35,887,814</b>	<b>\$ 16,205,331</b>	<b>\$ 14,589,276</b>	<b>\$ 19,682,483</b>	<b>121.5%</b>	<b>\$ 1,616,055</b>	<b>11.1%</b>

During fiscal year 2025, overall cash increased \$19.7 million or 121.5%. Unrestricted cash increased \$2.0 million or 14.4% bringing the District's unrestricted cash to \$15.9 million at June 30, 2025 compared to \$13.9 million at June 30, 2024. This increase was mostly attributable to the reimbursement of grant project engineering expenditures paid prior to June 30, 2024 through the issuance of the Series 2024A GO SRF note during fiscal year 2025. Restricted cash increased \$17.7 million during fiscal year 2025 due to the issuance of the Series 2024B GO Debt. During fiscal year 2024, overall cash increased \$1.6 million or 11.1% with a \$1.5 million (a 12.0%) increase in unrestricted cash and a \$132,000 (a 6.0%) increase in restricted cash. The FY 2024 unrestricted cash increase was mostly due to capacity fees, increased property tax revenue, increased interest revenue as well as the timing of capital projects.

### Capital Assets

As of June 30, 2025, the District has invested \$72.2 million (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown below. Net Property Plant & Equipment has increased \$6.9 million during fiscal year 2025 with capital additions of \$12.3 million being offset by depreciation of \$5.4 million.

#### Capital Assets

Year Ended June 30,	2025	2024	2023
<b>Capital assets not being depreciated:</b>			
Land	\$ 1,299,193	\$ 1,299,193	\$ 1,299,193
Construction in Progress	11,111,306	2,106,792	1,049,989
Total Capital Assets not being depreciated	12,410,499	3,405,985	2,349,182
<b>Capital assets being depreciated:</b>			
Waterworks System	65,869,076	65,728,178	64,629,846
Sewer Collection System	56,781,018	55,785,072	55,067,931
Office Building and Improvements	4,490,161	4,481,249	4,504,120
Wastewater Treatment Plant	36,907,688	37,859,193	36,971,940
Transportation Equipment	1,582,032	1,396,322	1,428,065
Operations Equipment	2,149,409	2,082,160	2,134,929
Office Furniture and Equipment	613,109	589,325	672,987
Sub Total	\$ 168,392,493	\$ 167,921,499	\$ 165,409,818
Less Accumulated depreciation	(108,639,303)	(106,051,157)	(101,642,020)
Total capital assets being depreciated, net	59,753,190	61,870,342	63,767,798
<b>Property, Plant and Equipment, net</b>	<b>\$ 72,163,689</b>	<b>\$ 65,276,327</b>	<b>\$ 66,116,980</b>

Large projects/ additions completed during 2025 include:

- The District spent the following on projects funded by grants and the 2024A and 2024B GO debt issuances during FY 2025:
  - Leg O Mutton Booster Pump - \$1,593,000
  - RO Treatment Plant Expansion - \$1,809,000
  - RO Well # 4 and Transmission Mains - \$2,775,000
  - ASR # 2 and Transmission Mains - \$2,762,000
  - Influent Screw Pump Replacements - \$58,000

These projects were all ongoing at June 30, 2025 so they are included in Construction in Progress above.

- The District spent \$73,000 replacing various pumps, controls and valves at its reclaimed water irrigation/pump stations. Various upgrades and improvements at the wastewater treatment plant including replacements of switch gears, band screen chains, pumps, blowers, valves, actuators and building resurfacing totaled \$757,000.
- Gravity sewer main relining projects totaling \$623,000 were completed.

- DRAFT
- Upgrades and improvements to the District's existing lift stations totaled \$327,000 and LPS pump replacements totaled \$65,000. Other collection system repairs and replacements including manhole coating, new collector mains, and piping totaled \$183,000.
  - The District continued its meter change out program and \$584,000 of meters were replaced. Other major distribution system repairs and replacements including line replacement, variable frequency drives, programmable logical controllers, meter reconfiguration, valves, actuators, and hydrants totaled \$181,000.
  - Developer contributions of water systems and sewer systems totaled \$222,000.
  - Upgrades to the District's administrative building including elevator rehab and general technology and operations equipment purchases totaled \$34,000.
  - Four service trucks totaled \$252,000. Other operations equipment including SCADA upgrades, equipment, and bypass pumps totaled \$63,000.

More detailed information on capital asset activity and developer contributions of systems can be found in Note 7 – Property, plant, equipment, and depreciation on page 50 and Note 13 - Construction and development commitments on page 57.



## *Liabilities and Debt Administration*

As of June 30, 2025, the District's current liabilities totaled \$7.6 million versus \$6.0 million at June 30, 2024 and \$6.1 million at June 30, 2023. The increase of \$1.6 million or 26.5% from fiscal year 2024 to fiscal year 2025 was mostly attributable to increases in construction accounts payable related to the start of the construction phase on the District's large grant and debt funded projects. These accounts payable construction increases were offset by a \$1,000,000 decrease in unearned grant revenue when the construction phase of the projects funded by the Beaufort County ARPA allocation began and the grant revenue was earned during fiscal year 2025.

Non-current liabilities increased \$19 million or 92.7% during fiscal year 2025 due to the issuance of the Series 2024A and Series 2024B GO debt issuances in the fall of 2024 offset by scheduled debt payments and changes in net pension liability. These non-current liabilities decreased \$3.7 million from \$24.2 million at 2023 fiscal year end to \$20.5 million at 2024 fiscal year end in accordance with debt payment schedules combined with changes in net pension liability values provided by the state pension system. More detailed information on long term debt obligations can be found in Note 8 – Long term obligations on page 52 and Note 9 – Non-current liabilities on page 55.

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. The District's revenue bonds are secured by the revenues of the District. The District's debt coverage ratio decreased from 303% in fiscal year 2024 to 274% in fiscal year 2025 which was mostly related to a decrease in capacity fees received during fiscal 2025. Ratios for the prior three fiscal years are above the 120% required by the District's bond covenants as shown below:

### *Coverage of Debt Service*

<b>Year Ended June 30,</b>	<b><u>2025</u></b>	<b><u>2024</u></b>	<b><u>2023</u></b>
Net Income(loss) before capital contributions			
per Financial Statements	\$1,898,738	\$1,917,123	1,167,064
Capacity Fees	170,944	1,381,832	356,520
Add: Depreciation	5,420,424	5,215,476	5,140,534
Net Pension Expense	390,435	406,321	408,173
SCRS Retirement Contributions	(592,189)	(518,900)	(466,620)
Amortization	209,177	325,462	325,462
Bond Issuance Costs	175,243	-	37,500
Interest Expense (Bonds)	752,731	273,469	308,748
Assessments - Debt Service	208,324	237,137	222,184
Less: Property Taxes – Debt Service	<u>(1,877,746)</u>	<u>(1,793,252)</u>	<u>(1,583,535)</u>
Net Earnings Available for Debt Service	\$6,756,081	\$7,444,668	\$5,916,030
 Debt Service on Revenue Bonds	 \$2,468,287	 \$2,461,000	 \$2,437,980
 <b>Coverage of Debt Service by Net Earnings*</b>	 <b>274%</b>	 <b>303%</b>	 <b>243%</b>
 <b>Debt Coverage without Capacity Fees</b>	 <b>267%</b>	 <b>246%</b>	 <b>228%</b>

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

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

### Hilton Head PSD Statement of Revenues, Expenses and Changes in Net Position and Comparison Schedule

Year Ended June 30,	2025	2024	2023	2024 to 2025		2023 to 2024	
				Inc/(Dec)	% Change	Inc/(Dec)	% Change
<b>Operating Revenues</b>							
Water Service Revenues	\$ 8,718,132	\$ 8,020,935	\$ 7,774,846	\$ 697,197	8.7%	\$ 246,089	3.2%
Sewer Service Revenues	6,760,202	6,295,468	6,051,117	464,734	7.4%	244,351	4.0%
Other Operating Revenues	679,262	854,706	864,080	(175,444)	-20.5%	(9,374)	-1.1%
Total Operating Revenues	16,157,596	15,171,109	14,690,043	986,487	6.5%	481,066	3.3%
<b>Operating Expenses</b>							
Payroll & Related Expenses	4,960,426	4,669,436	4,251,569	290,990	6.2%	417,867	9.8%
Administrative Expenses	1,061,189	1,028,890	1,091,603	32,299	3.1%	(62,713)	-5.7%
Operations Expenses	3,551,136	3,284,179	3,259,419	266,957	8.1%	24,760	0.8%
Maintenance Expenses	1,380,618	1,505,505	1,409,057	(124,887)	-8.3%	96,448	6.8%
Purchased Water	1,646,103	1,061,550	1,004,551	584,553	55.1%	56,999	5.7%
Water Tap In Expenses	178,412	109,607	173,700	68,805	62.8%	(64,093)	-36.9%
Sewer Connection Expenses	162,378	402,999	325,863	(240,621)	-59.7%	77,136	23.7%
Professional Fees	182,378	126,256	287,305	56,122	44.5%	(161,049)	-56.1%
Depreciation	5,420,424	5,215,476	5,140,534	204,948	3.9%	74,942	1.5%
Total Operating Expenses	18,543,064	17,403,898	16,943,601	1,139,166	6.5%	460,297	2.7%
<b>Net Operating Income</b>	<b>(2,385,468)</b>	<b>(2,232,789)</b>	<b>(2,253,558)</b>	<b>(152,679)</b>	<b>6.8%</b>	<b>20,769</b>	<b>-0.9%</b>
<b>Non-operating Revenues</b>							
Property Taxes - G.O. Debt Levy	1,877,746	1,793,252	1,583,535	84,494	4.7%	209,717	13.2%
Property Taxes - Operations Levy	1,372,970	1,305,973	1,155,522	66,997	5.1%	150,451	13.0%
Interest Income	1,458,176	900,541	604,314	557,635	61.9%	296,227	49.0%
Other Non-Operating Revenues	714,802	752,646	752,530	(37,844)	-5.0%	116	0.0%
Total Non-operating Revenues	5,423,694	4,752,412	4,095,901	671,282	14.1%	656,511	16.0%
<b>Non-operating Expenses</b>	<b>(1,139,488)</b>	<b>(602,500)</b>	<b>(675,279)</b>	<b>(536,988)</b>	<b>89.1%</b>	<b>72,779</b>	<b>-10.8%</b>
<b>Increase in Net Position before Capital Contributions:</b>	<b>1,898,738</b>	<b>1,917,123</b>	<b>1,167,064</b>	<b>(18,385)</b>	<b>-1.0%</b>	<b>750,059</b>	<b>64.3%</b>
Water Capacity Fee	47,520	581,400	93,260	(533,880)	-91.8%	488,140	523.4%
Sewer Capacity Fee	123,424	800,432	263,260	(677,008)	-84.6%	537,172	204.0%
Capital Grant Income	4,497,100	-	-	4,497,100	100.0%	-	0.0%
Developer Contributions of Systems	222,500	863,172	126,046	(640,672)	-74.2%	737,126	584.8%
Total Capital Contributions	4,890,544	2,245,004	482,566	2,645,540	117.8%	1,762,438	365.2%
Change in net position	\$ 6,789,282	\$ 4,162,127	\$ 1,649,630	\$ 2,627,155	63.1%	\$ 2,512,497	152.3%
Net position, beginning of the year	\$ 60,544,222	\$ 56,382,095	\$ 54,732,465	\$ 4,162,127	7.4%	\$ 1,649,630	3.0%
Net position, end of year	\$ 67,333,504	\$ 60,544,222	\$ 56,382,095	\$ 6,789,282	11.2%	\$ 4,162,127	7.4%



### *Operating Revenues (Fiscal Year to Year Comparisons)*

Operating revenues for fiscal year 2025 total \$16,157,596 which is a \$986,487 or 6.5% increase from fiscal year 2024. Total operating revenues increased 3.3% or \$481,066 from fiscal year 2023 to fiscal year 2024.

Selected highlights of significant FY 2025 increases or decreases are as follows:

- Water service revenues increased \$697,197 or 8.7% from fiscal year 2024 to 2025 due to base and volumetric rate increases and an increase in consumption. Water service revenues increased \$246,089 or 3.2% from 2023 to 2024 due to volumetric rate increases despite a reduction in consumption.
- Sewer service revenues increased by \$464,734 or 7.4% from fiscal year 2024 to 2025 due to base and volumetric rate increases and an increase in consumption. During fiscal year 2024, sewer service revenues increased \$244,351 or 4.0% due to a volumetric rate increase despite a reduction in consumption. Sewer revenues are generally not as affected by consumption as water revenues due to water only irrigation meters and the 10,000 gallon monthly residential sewer cap.
- Other operating revenues include water and sewer connection fees, golf course irrigation, availability fees, service fees, disaster and insurance recoveries, and other miscellaneous items. These revenues decreased \$175,444 or 20.5% from fiscal year 2024 to 2025 compared to a \$9,374 or 1.1% decrease from fiscal year 2023 to 2024. The fiscal year 2025 decrease was mostly related to decreased sewer connection fees. While total new sewer connections were up, there were more less expensive gravity sewer connections as opposed to more expensive Low Pressure Sewer (LPS) connections. The type of sewer connection needed depends upon the location of the new connection. The decrease in sewer connection fee revenue is offset by a corresponding decrease in the sewer connection operating expense.

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

Total departmental expenses have increased \$1,139,166 or 6.5% compared to fiscal year 2024. For fiscal year 2024, departmental expenses increased \$460,297 or 2.7% compared to fiscal year 2023.

Selected highlights of significant FY 2025 increases or decreases are as follows:

- Payroll and related expenses increased \$290,990 or 6.2% in fiscal year 2025 and increased \$417,867 or 9.8% in fiscal year 2024. In fiscal years 2025, 2024, and 2023, a non-cash decrease adjustment of \$201,754, \$112,579, and \$58,477, respectively, was necessary to bring pension expense to the South Carolina Retirement Systems (SCRS) actuarially determined amount. Additionally, these non-cash decreases were offset by merit salary increases, a FY 2024 one-time inflation payment of \$2,000 per employee, increases to employer health insurance premiums, and the addition of one new position in each year.
- Operations expenses increased \$266,957 or 8.1% in FY 2025 and \$24,760 or 0.8% in FY 2024. The FY 2025 increase was mainly related to inflationary increases. The District's electricity provider enacted a rate increase in January 2025 and chemical prices continued to see inflationary increases.



- DRAFT
- Maintenance expenses decreased by \$124,887 or 8.3% in FY 2025 and increased by \$96,448 or 6.8% in FY 2024. This category is often variable from year to year depending on the timing of needed repairs that do not meet the District's capitalization threshold of \$5,000 or that do not extend the life of the asset. If those conditions are met, the repairs are included as capital expenditures.
  - Purchased Water expense increased \$584,553 or 55.1% in FY 2025 versus a \$56,999 or 5.7% increase for FY 2024. In FY 2025, the wholesale purchased water rate increased 20% versus a 9% increase for FY 2024. Additionally, the District purchased 158 million more gallons during FY 2025 than FY 2024. This increase was partially attributable to the 115 million gallon increase in billed consumption during FY 2025. The District also located and repaired a leaking air relief valve on its 24" line during May 2025.
  - Sewer connection expenses decreased \$240,621 or 59.7% in FY 2025 and increased by \$77,136 or 23.7% in FY 2024. As noted above, there were more gravity sewer connections in FY 2025 versus FY 2024 which had more LPS sewer connections that have a higher connection cost. These connection expenses are offset by the sewer connection fee revenue in other operating revenues.
  - Professional fees increased \$56,122 or 44.5% in FY 2025 compared to a \$161,049 or 56.1% decrease in FY 2024. The FY 2025 increase was mostly related to the completion of a satellite leak detection study to further the District's efforts to reduce non-revenue water. The FY 2024 decrease was related to the completion of water supply planning and modeling studies and grant application assistance expenses incurred in FY 2023. In FY 2024 and 2025, most of the District's engineering expenditures were design expenditures capitalized into the cost of the large-scale water supply capital projects.

#### ***Non-operating revenues (Fiscal Year to Year Comparisons)***

Total non-operating revenues increased \$671,282 or 14.1% in FY 2025 compared to an increase of \$656,511 or 16.0% in FY 2024.

Selected highlights of significant increases or decreases are as follows:

- More GO and operating property tax revenue was collected in FY 2025 and FY 2024 due to increases in assessed taxable values including Beaufort County's five-year reassessment which occurred during FY 2024.
- Interest income increased \$557,635 or 61.9% in FY 2025 and \$296,227 or 49.0% during FY 2024 due to overall increases in interest rates. District staff endeavored to keep all excess funds not needed for immediate operations in its South Carolina Local Government Investment Pool account to take advantage of market interest rates. Additionally, in FY 2025 the District had more investable cash from the receipt of the proceeds from the 2024B GO debt issuance.

#### ***Non-Operating Expenses (Fiscal Year to Year Comparisons)***

Total non-operating expenses increased \$536,988 or 89.1% in FY 2025 due to the bond issuance costs and interest on the newly issued 2024 GO debt and decreased \$72,779 or 10.8% in FY 2024 related to reductions in interest expense in accordance with debt payment schedules.

## Capital Contributions (Fiscal Year to Year Comparisons)

Significant, large-scale developer capacity fee payments, which are due before construction begins, were received in FY 2024. No significant large-scale capacity fees were received in FY 2025 or FY 2023. Developer contributions of systems were donated by these large-scale developers when their systems were completed in FY 2025, 2024, and 2023. The size of these varies by the size of the development completed. In FY 2025, the District began its Leg O Mutton booster pump and RO generator projects which utilized the \$1,000,000 ARPA allocation from Beaufort County and began work on the RO expansion and ASR 2 SCIP Grant projects which earned the District an additional \$3,497,100 in capital grant income.

## SUBSEQUENT EVENTS

On July 1, 2025, a rate increase was put into effect whereby the following water and sewer rate increases were put into effect:

<b>Water/Irrigation Base Rate per Unit:</b>			<b>Sewer Base Rate per Unit:</b>		
	FY 2025 Current	FY 2026 Revised Rate		FY 2025 Current	FY 2026 Revised Rate
Residential Customers	17.50	18.25	Residential & Commercial Customers	19.50	20.25
Commercial Customers	22.50	22.50	<b>Residential &amp; Commercial Sewer</b>	2025	2026
<b>Residential Water</b>	2025	2026	<b>Rates per 1,000 Gallons:</b>	Current	Revised Rate
<b>Rates per 1,000 Gallons:</b>	Current	Revised Rate	Residential sewer usage is capped at	2.31	2.85
Block 1 - 0 to 10,000 Gal	1.58	1.69	10,000 gallons per month. There is		
Block 2 - 10,001 to 20,000 Gal	2.24	2.37	no cap on commercial sewer usage.		
Block 3 - 20,001 to 30,000 Gal	2.79	3.04	<b>Meter Install Fees</b>	2025	2026
Block 4 - All Over 30,000 Gal	3.72	4.06	<b>(Existing Service Line)</b>	Current	Revised Rate
<b>Residential Irrigation</b>	2025	2026	3/4" Meter	1,180.00	1,360.00
<b>Rates per 1,000 Gallons:</b>	Current	Revised Rate	1" Meter	1,500.00	1,840.00
Block 1 - 0 to 10,000 Gal	2.24	2.37	2" Meter and Backflow	3,440.00	4,110.00
Block 2 - 10,001 to 20,000 Gal	2.24	2.37	Any other size	Time & Materials	
Block 3 - 20,001 to 30,000 Gal	2.79	3.04	<b>Meter Install Fees</b>	2025	2026
Block 4 - All Over 30,000 Gal	3.72	4.06	<b>(No Existing Service Line)*</b>	Current	Revised Rate
<b>Commercial Water &amp; Irrigation</b>	2025	2026	3/4" Meter	1,390.00	1,620.00
<b>Rates per 1,000 Gallons:</b>	Current	Revised Rate	1" Meter	1,710.00	2,100.00
Block 1 - 0 to 10,000 Gal	1.69	1.69	Any other size	Time & Materials	
Block 2 - 10,001 to 20,000 Gal	2.24	2.37	* Greater of fee listed or Time & Materials		
Block 3 - 20,001 to 30,000 Gal	2.79	3.04	<b>Hourly Labor Rate</b>	2025	2026
Block 4 - All Over 30,000 Gal	3.72	4.06	for time and materials and for work	Current	Revised Rate
			performed for outside agencies	65.00	75.00

The District's Commission adopted this rate increase at the June Commission Meeting on June 16, 2025.

## FINAL COMMENTS AND REQUESTS FOR INFORMATION

Continued high-end development and the recent real estate boom has compounded the growing need for workforce housing in the District's service area. While there are still areas of the District's service area that contain potential for development or redevelopment and the District expects to continue to see some growth in the coming years, the District recognizes that the current rate of growth is likely unsustainable in the long term due to the limited land space of its service area. Conservatism is maintained during the budget process so as not to rely on development that may not occur to fund operations. The District also recognizes that the coming years may bring staffing challenges due to the lack of workforce housing in the area. This issue is expected to be heightened when the U.S. 278 bridge replacement project takes off which is expected to negatively affect commuting for off-island workers.



# DRAFT

The recent growth combined with the culmination of the District's long range water planning studies has identified a need to expand the District's water supply assets over the next five years to obtain additional capacity and disaster resiliency. The District was pleased to receive the \$10,000,000 SCIIP grant and the \$1,000,000 ARPA allocation from Beaufort County which will provide a great resource to address these issues. However, intense construction inflation required a significantly higher level of additional local funding than originally projected by the District's engineers. The District was able to utilize its GO debt capacity during the current year to continue with the projects as originally planned but has had to scale back and potentially delay some of the large preventative asset rehabilitation projects it had originally planned to consider funding with this GO debt capacity along with the water supply projects. During the fiscal year, the District was pleased to receive a \$1,500,000 SC RIA state grant to put towards its highest priority rehabilitation project, the WWTP influent screw pump replacement project, but will need to plan for additional local matching funds to complete all of its grant projects in upcoming budgets. District staff anticipates needing approximately \$1 million in additional funds after utilizing grant funds, bond proceeds, and related bond interest earned to finalize all of the large-scale grant projects currently underway. Any change orders on those projects will add to that projected need. Staff anticipates addressing this funding need in its FY 2027 budget; grant funds and bond proceeds are anticipated to fund all FY 2026 expenditures.

The continued effects of inflation, tariff surcharges, supply chain issues, and vendor availability remain significant challenges for the District. As an asset intensive organization with aging infrastructure, large price increases and limited availability of parts and vendors are expected to continue to affect the District's ability to preventatively maintain its system.

The U.S. 278 bridge replacement project will also factor into the District's upcoming financial planning as the District may be required to relocate its main 24" purchased water pipeline. While this project is anticipated to be substantially covered cost-wise by the SCDOT in accordance with state utility relocation law, the District may need to expend engineering expenses up front and await reimbursement. There is also a risk that the pipeline could be damaged in preliminary work before the project is declared which would have a serious negative impact on the District operationally and financially. This line is a single point of failure. Without access to purchase wholesale water, the District would be unable to meet system pressure requirements; costs and lost revenue would be substantial. The District currently holds approximately one year's worth of operating expenses in its operating reserve, which is the upper end of its target balance. This would be used as a buffer in the event of an unanticipated failure.

Consideration of these risks as well as the overall industry and economic environment are considered during the District's annual budget and cost of service analysis to ensure that the PSD is poised to meet these challenges while providing its customers with a high level of customer service. The District always aims to take a conservative view towards budgeting to ensure long term sustainability while also maintaining a sensitivity towards the need to keep service affordable for the District's customer base which includes many of Hilton Head Island's full-time workforce population.

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



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## AUDITED FINANCIAL STATEMENTS

For Fiscal Years Ended June 30, 2025 and June 30, 2024



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
AS OF JUNE 30, 2025 AND 2024

	<b>June 30</b>	
	<b>2025</b>	<b>2024</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents Available for Operations	\$ 15,873,800	\$ 13,876,252
Cash and Cash Equivalents in Banks (Restricted)	19,208,123	1,705,042
Cash and Cash Equivalents Held by Beaufort County Treasurer (Restricted)	805,891	624,037
Accounts Receivable - Trade, net	1,813,834	1,885,583
Accounts Receivable - Grants	1,241,109	-
Accounts Receivable - Connection Grants	18,089	126,793
Accrued Interest Receivable	17,214	-
Lease Receivable, due within one year	484,041	465,316
Sewer and Capacity Assessments, due within one year	207,894	208,595
Inventory	582,825	495,589
Prepaid Expenses	418,651	344,453
<b>Total current assets</b>	<b>40,671,471</b>	<b>19,731,660</b>
<b>Noncurrent Assets</b>		
Property, Plant and Equipment		
Nondepreciable Assets	12,410,499	3,405,985
Depreciable Assets, net	59,753,190	61,870,342
<b>Total Property, Plant and Equipment</b>	<b>72,163,689</b>	<b>65,276,327</b>
Lease Receivable, due after one year	903,080	1,148,419
Sewer and Capacity Assessments, due after one year	1,752,864	1,897,615
<b>Total Noncurrent Assets</b>	<b>74,819,633</b>	<b>68,322,361</b>
<b>Total Assets</b>	<b>115,491,104</b>	<b>88,054,021</b>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows Related to Pensions	833,094	722,277
Deferred Charges from Debt Refunding	-	209,177
<b>Total Deferred Outflows of Resources</b>	<b>833,094</b>	<b>931,454</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 116,324,198</b>	<b>\$ 88,985,475</b>

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

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## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### STATEMENTS OF NET POSITION (continued)

AS OF JUNE 30, 2025 AND 2024

	June 30	
	2025	2024
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Payable from Unrestricted Assets:		
Accounts Payable-Trade	\$ 523,576	\$ 410,247
Accounts Payable-Construction	470,761	173,974
Finance Purchase Liabilities, due within one year	-	80,921
Customer Deposits	226,028	184,696
Unearned Revenue	17,341	15,210
Accrued Payroll & Other Liabilities	612,989	575,379
<b>Total Current Liabilities Payable from Unrestricted Assets</b>	<b>1,850,695</b>	<b>1,440,427</b>
Payable from Restricted Assets:		
Interest Payable	155,320	27,255
Accounts Payable-Construction	1,898,704	-
Unearned Grant Revenue	-	1,000,000
Notes Payable, due within one year	251,380	144,020
Bonds Payable, due within one year	3,436,822	3,390,233
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>5,742,226</b>	<b>4,561,508</b>
<b>Total Current Liabilities</b>	<b>7,592,921</b>	<b>6,001,935</b>
<b>Noncurrent Liabilities</b>		
Notes Payable, due after one year	3,954,978	1,642,562
Bonds Payable, due after one year	30,693,040	13,729,862
Net Pension Liability	4,771,034	5,081,463
<b>Total Noncurrent Liabilities</b>	<b>39,419,052</b>	<b>20,453,887</b>
<b>Total Liabilities</b>	<b>47,011,973</b>	<b>26,455,822</b>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows Related to Pensions	381,199	161,707
Deferred Inflows Related to Lease Revenue	1,597,522	1,823,724
<b>Total Deferred Outflows of Resources</b>	<b>1,978,721</b>	<b>1,985,431</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>48,990,694</b>	<b>28,441,253</b>
<b>Net Position</b>		
Net Investment in Capital Assets	50,045,908	46,323,932
Restricted for Debt Service and Grants	1,270,790	1,301,824
Unrestricted	16,016,806	12,918,466
<b>Total Net Position</b>	<b>67,333,504</b>	<b>60,544,222</b>
<b>Total Liabilities, Deferred Inflows of Resources &amp; Net Position</b>	<b>\$ 116,324,198</b>	<b>\$ 88,985,475</b>

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



**DRAFT**

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	Fiscal Year Ended June 30	
	2025	2024
<b>Operating Revenues</b>		
Water Service	\$ 8,718,132	\$ 8,020,935
Sewer Service	6,760,202	6,295,468
Water Tap In Fees	227,067	159,173
Sewer Connection Fees	188,584	420,091
Golf Course Irrigation	194,753	218,906
Service Fees	19,281	20,908
Disaster & Insurance Recovery, net	22,882	6,000
Other Operating Revenues	26,695	29,628
<b>Total Operating Revenues</b>	<b>16,157,596</b>	<b>15,171,109</b>
<b>Departmental Expenses</b>		
Payroll & Related Expenses	4,960,426	4,669,436
Administrative Expenses	1,061,189	1,028,890
Operations Expenses	3,551,136	3,284,179
Maintenance Expenses	1,380,618	1,505,505
Purchased Water	1,646,103	1,061,550
Water Tap In Expenses	178,412	109,607
Sewer Connection Expenses	162,378	402,999
Professional Fees	182,378	126,256
<b>Total Departmental Expenses</b>	<b>13,122,640</b>	<b>12,188,422</b>
Depreciation	5,420,424	5,215,476
<b>Total Operating Expenses</b>	<b>18,543,064</b>	<b>17,403,898</b>
<b>Operating Income (Loss)</b>	<b>(2,385,468)</b>	<b>(2,232,789)</b>
<b>Non-operating Revenues</b>		
Property Taxes - G.O. Debt Levy	1,877,746	1,793,252
Property Taxes - Operations Levy	1,372,970	1,305,973
Rental Income	88,564	87,674
Tower Lease Income	614,001	598,399
Interest Income - Leases	32,057	32,368
Interest Income	1,458,176	900,541
Gain (Loss) on Disposal of Assets	(19,820)	34,205
<b>Total Non-operating Revenues</b>	<b>\$ 5,423,694</b>	<b>\$ 4,752,412</b>

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

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**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (continued)**  
**FOR THE YEARS ENDED JUNE 30, 2025 AND 2024**

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	<b>Fiscal Year Ended June 30</b>	
	<b>2025</b>	<b>2024</b>
<b>Non-operating Expenses</b>		
Interest Expense	\$ 755,068	\$ 277,038
Bond Defeasance Amortization	209,177	325,462
Bond Issuance Costs	175,243	-
<b>Total Non-operating Expenses</b>	<b>1,139,488</b>	<b>602,500</b>
<b>Total Non-operating Revenues/Expenses</b>	<b>4,284,206</b>	<b>4,149,912</b>
<b>Increase (Decrease) in Net Position, Before Capital Contributions</b>	<b>\$ 1,898,738</b>	<b>\$ 1,917,123</b>
Water Capacity Fee	\$ 47,520	\$ 581,400
Sewer Capacity Fee	123,424	800,432
Capital Grant Income	4,497,100	-
Developer Contributions of Systems	222,500	863,172
<b>Total Capital Contributions</b>	<b>4,890,544</b>	<b>2,245,004</b>
<b>Change in net position</b>	<b>6,789,282</b>	<b>4,162,127</b>
<b>Net position, beginning of the year</b>	<b>60,544,222</b>	<b>56,382,095</b>
<b>Net position, end of year</b>	<b>\$ 67,333,504</b>	<b>\$ 60,544,222</b>

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOW**  
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	<b>Fiscal Year Ended June 30</b>	
	<b>2025</b>	<b>2024</b>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 16,329,803	\$ 15,002,135
Cash Paid to Suppliers	(10,415,342)	(8,861,278)
Cash Paid to Employees	(2,919,547)	(3,172,271)
Other Revenues	49,577	29,628
<b>Net Cash Provided by Operating Activities</b>	<b>3,044,491</b>	<b>2,998,214</b>
<b>Cash Flows from Investing Activities</b>		
Interest Income	1,440,962	900,541
<b>Net Cash Provided by Investing Activities</b>	<b>1,440,962</b>	<b>900,541</b>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Property Taxes Collected - Operations Levy	1,372,970	1,305,973
Sewer Assessments Collected	143,460	163,281
Sewer Assessments Financed	(62,871)	(120,362)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,453,559</b>	<b>1,348,892</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capacity Fees	170,944	1,381,832
Capacity Fee Assessments	64,864	73,856
Property Taxes Collected - G.O. Debt Levy	1,877,746	1,793,252
Interest Paid	(627,003)	(284,689)
Proceeds from Series 2024A GO SRF Loan	2,589,929	-
Proceeds from Series 2024B GO Bonds	20,400,000	-
Bond Issuance Costs	(175,243)	-
Principal Payments on Bonds and Notes	(3,641,308)	(3,729,765)
Rental and Tower Lease Income	737,165	736,682
Proceeds from Capital Grants	2,255,991	-
Proceeds from Sale of Assets	48,559	50,826
Purchases of Property, Plant and Equipment	(9,958,173)	(3,653,586)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>13,743,471</b>	<b>(3,631,592)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>19,682,483</b>	<b>1,616,055</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>\$ 16,205,331</b>	<b>\$ 14,589,276</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 35,887,814</b>	<b>\$ 16,205,331</b>

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



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**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOW (continued)**  
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	<b>Fiscal Year Ended June 30</b>	
	<b>2025</b>	<b>2024</b>
<b>Reconciliation of Operating Loss to Net Cash Provided</b>		
<b>by Operating Activities:</b>		
Operating Loss	\$ (2,385,468)	\$ (2,232,789)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided</i>		
<i>by Operating Activities:</i>		
Depreciation	5,420,424	5,215,476
Difference Between GASB 68 and Actual Contributions	(201,754)	(112,579)
<i>Changes in Assets and Liabilities</i>		
Accounts Receivable - Trade	71,748	809
Accounts Receivable - Project SAFE	108,704	(87,483)
Inventories	(87,236)	89,736
Prepaid Assets	(74,198)	(21,125)
Accounts Payable - Trade	113,329	47,361
Customer Deposits	41,332	(52,671)
Other Accrued Liabilities	37,610	151,479
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,044,491</b>	<b>\$ 2,998,214</b>

**Schedule of Cash and Cash Equivalents**

*Available for Operations*

Demand Deposits (interest and non-interest bearing)	\$ 1,475,132	\$ 1,657,454
SC Local Government Investment Pool	11,311,985	\$ 12,135,350
Cash Equivalent - 90 Day Certificate of Deposit	3,000,000	\$ -
Held by Beaufort County Treasurer	86,683	83,448
<b>Total Available for Operations</b>	<b>\$ 15,873,800</b>	<b>\$ 13,876,252</b>

*Restricted*

Cash in Banks	\$ 620,219	\$ 705,042
SC Local Government Investment Pool	18,587,904	1,000,000
Held by Beaufort County Treasurer	805,891	624,037
<b>Total Restricted</b>	<b>\$ 20,014,014</b>	<b>\$ 2,329,079</b>
<b>Total Cash and Cash Equivalents</b>	<b>\$ 35,887,814</b>	<b>\$ 16,205,331</b>

**Supplemental Disclosures**

*Noncash Financing Activities:*

Developer Contribution of Systems	\$ 222,500	\$ 853,392
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## **NOTES TO FINANCIAL STATEMENTS**

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

## **NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2025 AND 2024

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### **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 on Hilton Head Island, SC.

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:

#### **Fund accounting**

The accounts of the District are organized on the basis of a single proprietary fund type - enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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, 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 reported as nonoperating revenues and expenses.

#### **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 assessment income 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 or in the period a related front foot assessment is finalized.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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

**Cash and cash equivalents**

Cash and cash equivalents, for the purposes of the Statement of Cash Flows, include restricted and unrestricted cash on hand or on deposit, certain bank money market funds, interests in the South Carolina Local Government Investment Pool, repurchase agreements, and investments with an original maturity of three months or less.

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

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.10% and 0.12% of water and sewer revenues for the years ended June 30, 2025 and 2024, respectively. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2025 and 2024, the balance of the allowance for doubtful accounts was \$20,000. Bad debt expense for the years ended June 30, 2025 and 2024 was \$5,474 and \$10,150, respectively.

**Inventory and prepaid items**

Inventory consists of supplies and is recorded as an expense at cost when consumed on a weighted average cost basis. Certain payments to vendors reflect expenses applicable to future accounting periods and are recorded as prepaids. Prepaid expenses are accounted for using the consumption method.

**Leases**

The District is a lessor for several noncancellable leases for space on its water tower facilities to various cellular phone companies for the attachment of antennae. The District recognizes a lease receivable and a deferred inflow of resources in its financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses the annual escalator in the lease contract as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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

**Property, plant and equipment**

Property, plant, and equipment are recorded at cost when constructed or purchased. The District capitalizes assets, or groups of similar assets, that have a useful life of at least three years and a cost over \$5,000. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition cost rather than fair value. Betterments and improvements over \$5,000 which extend the useful life of an asset at least three years are capitalized and depreciated over their estimated useful life. 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	Useful Life (in Years)
Waterworks System	5-50
Sewer Collection System	5-50
Office Building and Improvements	5-40
Wastewater Treatment Plant	5-50
Transportation Equipment	5
Operations Equipment	3-15
Office Furniture and Equipment	3-15

Repairs and maintenance are charged to expense as incurred.

**Compensated absences**

Effective for the fiscal year ended June 30, 2025, the District implemented GASB Statement No. 101, *Compensated Absences*. This Statement establishes recognition and measurement guidance for all types of compensated absences, including vacation, sick leave, holidays, sabbaticals, and other forms of leave, whether paid in cash or settled through noncash means. Under GASB 101, a liability is recognized for leave when the leave is attributable to services already rendered and it is probable that the leave will be used for time off or otherwise paid/settled. The liability is measured at the employee's pay rate in effect at the financial reporting date, plus salary-related payments, such as the employer's share of Social Security and Medicare taxes, that are directly and incrementally associated with the leave.

The District previously accounted for compensated absences in accordance with GASB Statement No. 16. The District's leave policy is based on one category of paid time off; accordingly, all leave had already been reported as a liability under GASB Statement No. 16. The effect of implementing this standard for the District was the addition of salary-related payments which comprised the employer's share of Social Security and Medicare taxes for the District. The estimated impact of this adjustment to the District's previously issued June 30, 2024 comparatively stated balances was \$22,447 which was not considered material to restate those previously reported balances.

The District's accrual for compensated absences amounted to \$306,027 and \$293,430 at June 30, 2025 and 2024, respectively. These balances are expected to be used within one year and are therefore included in Accrued Payroll & Other Liabilities in the Statement of Net Position.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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

**Deferred outflows/inflows of resources**

In addition to assets, the statement of net position contains a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has deferred charges from debt refunding, which qualify for reporting in this category. Deferred charges on refundings and advance refundings result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District has deferred outflows related to pensions. For contributions to the pension plan subsequent to the measurement date, these contributions will be a reduction of the collective net pension liability in the next reporting period. For deferred outflows related to pensions for the net difference between expected and actual experience, the outflows are amortized over the expected remaining service lives of plan members. Deferred outflows related to pensions for the net difference between projected and actual investment earnings are amortized over a five-year period. Deferred outflows related to changes in pension assumptions are amortized over the expected remaining service lives of plan members. Deferred outflows related to changes in proportionate share of plan contributions are amortized over the expected remaining service lives of plan members.

In addition to liabilities, the statement of net position contains a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows related to pensions. Deferred inflows related to pensions for the net difference between projected and actual investment earnings are amortized over a five-year period. Deferred inflows related to pensions for the net difference between expected and actual experience are amortized over the expected remaining service lives of plan members. Deferred inflows related to changes in proportionate share of plan contributions are amortized over the expected remaining service lives of plan members. The District also has deferred inflows related to lease revenue which are amortized over the remaining term of the lease.

**Net position**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for debt service and grants; and unrestricted. Net investment in capital assets 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 debt service and grants consists of net position 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 position 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.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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

**Claims and judgements**

These events and obligations are recorded on the accrual basis, when the event occurs, and the obligation arises.

**Reclassification**

Certain accounts and amounts in the June 30, 2024 financial statements have been reclassified in order to conform to the June 30, 2025 presentation.

**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.

**Date of Management's Review**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 3, 2025, the date that the financial statements were available to be issued.

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

At June 30, 2025 and 2024, the bank balances of the District's demand deposit accounts totaled \$1,828,527 and \$1,731,625, respectively, and had a carrying balance totaling \$1,474,732 and \$1,657,054 respectively. A sum of \$400 is held in petty cash funds of the District. As of June 30, 2025 and 2024, all investments of the District were redeemable on demand without penalty or had a maturity of three months or less and are, therefore, classified as cash and cash equivalents.

**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.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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

**Investment Policy (continued)**

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.

*Custodial credit risk for deposits* is the risk that, in the event of failure of a financial institution, the District's deposits may not be returned. The District's policy is to request collateral for all bank deposits in excess of amounts of up to \$250,000 per custodian with major banking institutions which are insured by the Federal Deposit Insurance Corporation. As of June 30, 2025, the District's deposits were fully collateralized and thus were not exposed to custodial credit risk.

*Custodial credit risk for investments* 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 rating organization. The District's investment policy limits investments to those that are very creditworthy. Investments at June 30, 2025 and 2024, were respectively comprised of \$29,899,889 and \$13,135,530 in funds held with the South Carolina Local Government Investment Pool (SCLGIP), \$3,000,000 and \$0 held in a 90-day certificate of deposit, and \$620,219 and \$705,042 restricted funds for debt service. At June 30, 2025 and 2024, the District's certificate of deposit was collateralized by a letter of credit and the restricted funds for debt service were all in Standard and Poor's AAAM rated money market funds collateralized by U.S. Treasury obligations.

*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.

*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. The cash flow needs of the District along 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, 2025 AND 2024

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

#### Investment Policy (continued)

SCLGIP investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and as amended by GASB Statement No. 72, *Fair Value Measurement and Application*, investments are carried at fair value determined annually based upon quoted market prices for identical or similar investments. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing to the Office of the State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960. The Pool is not rated.

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

Cash held by the Beaufort County Treasurer (the Treasurer) includes any remaining proceeds of general obligation bond issues, property tax collections and interest earned on monies held by the Treasurer. The deposits are a pool of funds invested by the pool for the entities which receive property taxes from the Treasurer. As such, collateral is not identified for each deposit, but rather for the fund as a whole. The pool is not rated. These deposits are collateralized by cash or governmental agency securities, which are fully guaranteed as to principal and interest by the federal government. Additional information on Beaufort County's cash and investment policies and holdings can be found in their annual financial report which is available at [www.beaufortcountysc.gov](http://www.beaufortcountysc.gov). The funds will be used as follows:

	As of June 30,	
	2025	2024
Unrestricted cash - Available for general operating purposes	\$ 86,683	\$ 83,448
Restricted cash - Bond principal retirement and interest payments	805,891	624,037
	<u>\$ 892,574</u>	<u>\$ 707,485</u>

### Note 4 – Restricted assets

A reserve fund for debt service is mandated by bond covenants. The debt service funds are used to segregate resources accumulated for debt service payments coming due over the next twelve months. At June 30, 2025 and 2024, the debt service reserves totaled \$1,426,110 and \$1,329,079, respectively. Bond proceeds funds are restricted for funding capital projects and totaled \$18,587,904 and \$0 at June 30, 2025 and 2024, respectively. The District also holds funds, 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.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

**Note 4 – Restricted assets (continued)**

At June 30, 2025 and 2024, the District held \$0 and \$1,000,000, respectively, in cash restricted for grants. During the year ended June 30, 2023, the District was awarded a \$1,000,000 subrecipient allocation of Beaufort County’s ARPA funding to be spent on a booster pump station at the District’s Leg-O-Mutton ground storage tank and an emergency generator at the District’s RO plant. The District spent its own funds on engineering and bid preparation for these projects during fiscal year 2024 and spent the restricted funds on the actual construction costs that were bid in accordance with ARPA guidelines during fiscal year 2025. Accordingly, these funds were recorded as Unearned Grant Revenue on the Statements of Net Position at June 30, 2024 and recognized as revenue during fiscal year 2025.

**Note 5 - Accounts receivable**

Current trade accounts receivable includes the following as of June 30:

	2025	2024
Receivables from customers	\$ 1,103,291	\$ 1,098,721
Unbilled receivables from customers	692,941	751,478
Other receivables	17,602	35,384
	<u>\$ 1,813,834</u>	<u>\$ 1,885,583</u>

Receivables from customers are reported net of an allowance for doubtful accounts of \$20,000 as of June 30, 2025 and 2024.

Accounts Receivable – Grants represents reimbursements due to the District from granting agencies for eligible grant expenditures incurred. Accounts Receivable – Connection Grants represent amounts due from the Community Foundation of the Lowcountry (CFLC) which operates programs called the Water Fund and Project SAFE that provide grants for low- and moderate-income homeowners to connect to the public water and sewer system, respectively. The District provides funding to the CFLC in the form of Bucks for a Better Island, a program that rounds up customer bills to the next highest dollar. This account also represents amounts due from the Town of Hilton Head Island, which operated a program to provide sewer connection grants for low- and moderate-income renters and homeowners that may not fully qualify for Project-SAFE to connect to the public sewer system.

**Note 6 - Sewer assessments**

The District has constructed various sewer collection systems, the cost of which is to be repaid by annual sewer assessments collected by the Beaufort 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 2026 through 2044. Assessments receivable totaled \$1,960,758 and \$2,106,210 as of June 30, 2025 and 2024, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2025 and 2024, \$57,114 and \$60,360, respectively, of the assessments collected was recognized as interest income.

# DRAFT

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

#### Note 7 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2025 and 2024 was as follows:

	June 30, 2024	Additions	Disposals	Transfers	June 30, 2025
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	\$ -	\$ -	\$ -	\$ 1,299,193
Construction in progress	<u>2,106,792</u>	<u>9,212,441</u>	<u>-</u>	<u>(207,927)</u>	<u>11,111,306</u>
Total capital assets not being depreciated	<u>3,405,985</u>	<u>9,212,441</u>	<u>-</u>	<u>(207,927)</u>	<u>12,410,499</u>
<u>Capital assets being depreciated:</u>					
Waterworks System	65,728,178	871,172	(730,274)	-	65,869,076
Sewer Collection System	55,785,072	1,240,559	(284,237)	39,624	56,781,018
Office Building and Improvements	4,481,249	8,912	-	-	4,490,161
Wastewater Treatment Plant	37,859,193	709,456	(1,720,461)	59,500	36,907,688
Transportation Equipment	1,396,322	251,540	(65,830)	-	1,582,032
Operations Equipment	2,082,160	57,166	(98,720)	108,803	2,149,409
Office Furniture and Equipment	<u>589,325</u>	<u>24,919</u>	<u>(1,135)</u>	<u>-</u>	<u>613,109</u>
Total capital assets being depreciated	<u>167,921,499</u>	<u>3,163,724</u>	<u>(2,900,657)</u>	<u>207,927</u>	<u>168,392,493</u>
<u>Less accumulated depreciation for:</u>					
Waterworks System	(44,507,362)	(2,091,216)	730,274	-	(45,868,304)
Sewer Collection System	(27,888,721)	(1,954,597)	284,237	-	(29,559,081)
Office Building and Improvements	(2,732,075)	(105,957)	-	-	(2,838,032)
Wastewater Treatment Plant	(27,908,036)	(969,868)	1,665,454	-	(27,212,450)
Transportation Equipment	(907,862)	(160,623)	65,830	-	(1,002,655)
Operations Equipment	(1,565,081)	(121,261)	85,348	-	(1,600,994)
Office Furniture and Equipment	<u>(542,020)</u>	<u>(16,902)</u>	<u>1,135</u>	<u>-</u>	<u>(557,787)</u>
Total accumulated depreciation	<u>(106,051,157)</u>	<u>(5,420,424)</u>	<u>2,832,278</u>	<u>-</u>	<u>(108,639,303)</u>
Total assets being depreciated	<u>61,870,342</u>	<u>(2,256,700)</u>	<u>(68,379)</u>	<u>207,927</u>	<u>59,753,190</u>
Year End Totals	<u>\$ 65,276,327</u>	<u>\$ 6,955,741</u>	<u>\$ (68,379)</u>	<u>\$ -</u>	<u>\$ 72,163,689</u>

# DRAFT

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

#### Note 7 - Property, plant, equipment and depreciation (continued)

	June 30, 2023	Additions	Disposals	Transfers	June 30, 2024
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	\$ -	\$ -	\$ -	\$ 1,299,193
Construction in progress	<u>1,049,989</u>	<u>1,446,671</u>	<u>-</u>	<u>(389,868)</u>	<u>2,106,792</u>
Total capital assets not being depreciated	<u>2,349,182</u>	<u>1,446,671</u>	<u>-</u>	<u>(389,868)</u>	<u>3,405,985</u>
<u>Capital assets being depreciated:</u>					
Waterworks System	64,629,846	1,079,193	-	19,139	65,728,178
Sewer Collection System	55,067,931	943,982	(256,841)	30,000	55,785,072
Office Building and Improvements	4,504,120	-	(22,871)	-	4,481,249
Wastewater Treatment Plant	36,971,940	546,524	-	340,729	37,859,193
Transportation Equipment	1,428,065	231,893	(263,636)	-	1,396,322
Operations Equipment	2,134,929	119,050	(171,819)	-	2,082,160
Office Furniture and Equipment	<u>672,987</u>	<u>24,130</u>	<u>(107,792)</u>	<u>-</u>	<u>589,325</u>
Total capital assets being depreciated	<u>165,409,818</u>	<u>2,944,772</u>	<u>(822,959)</u>	<u>389,868</u>	<u>167,921,499</u>
<u>Less accumulated depreciation for:</u>					
Waterworks System	(42,458,979)	(2,048,383)	-	-	(44,507,362)
Sewer Collection System	(27,010,272)	(1,135,290)	256,841	-	(27,888,721)
Office Building and Improvements	(2,640,351)	(106,305)	14,581	-	(2,732,075)
Wastewater Treatment Plant	(26,237,833)	(1,670,203)	-	-	(27,908,036)
Transportation Equipment	(1,031,950)	(139,548)	263,636	-	(907,862)
Operations Equipment	(1,624,720)	(103,850)	163,489	-	(1,565,081)
Office Furniture and Equipment	<u>(637,915)</u>	<u>(11,897)</u>	<u>107,792</u>	<u>-</u>	<u>(542,020)</u>
Total accumulated depreciation	<u>(101,642,020)</u>	<u>(5,215,476)</u>	<u>806,339</u>	<u>-</u>	<u>(106,051,157)</u>
Total assets being depreciated	<u>63,767,798</u>	<u>(2,270,704)</u>	<u>(16,620)</u>	<u>389,868</u>	<u>61,870,342</u>
Year End Totals	<u>\$ 66,116,980</u>	<u>\$ (824,033)</u>	<u>\$ (16,620)</u>	<u>\$ -</u>	<u>\$ 65,276,327</u>

Depreciation expense for the years ended June 30, 2025 and 2024 was \$5,420,424 and \$5,215,476, respectively. Transfers relate to construction in progress completed during the year.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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**Note 8 – Long-term obligations**

Long-term debt includes various finance purchase agreements, bonds, loans, and notes payable that have been issued or approved by the District for the improvement or acquisition of water and wastewater infrastructure, equipment, and defeasance of outstanding debt. General covenants, along with debt service requirements, are disclosed below. See Note 4, restricted assets, for a discussion of cash restricted for debt service.

Revenue bonds and State Revolving Loans payable are collateralized by an irrevocable pledge of income and revenues derived from the operations of the systems and are secured by a lien upon those revenues. The District's debt instruments contain various covenants and restrictions, which among other things, require the District to provide certain financial information and meet certain financial tests. The District's bond resolutions require that the "net earnings" (as defined in the bond resolution) are equal to at least 120% of the annual principal and interest requirements of all series of revenue parity bonds outstanding in that year. For the years ended June 30, 2025 and 2024, the District's "net earnings" were 274% and 303%, respectively, of its annual principal and interest requirements of all series of revenue parity bonds.

General Obligation Bonds are direct obligations and pledge the full faith and credit of the District and are generally limited to 8% of the assessed value of all taxable property of the District.

During 2021, the District entered into several finance purchase agreements for vehicles with payment terms of four years with interest rates varying from 2.69% to 2.79%, secured by the underlying vehicles. As of June 30, 2025 and 2024, the assets acquired through finance purchase in the amount of \$203,133 are included in transportation equipment with accumulated amortization of \$174,534 and \$134,523, respectively, included in accumulated depreciation on the statement of net position. Amortization expense totaled \$40,011 for the years ended June 30, 2025 and 2024, and is included in depreciation expense on the statement of revenues, expenses, and changes in net position.

Each of the District's outstanding debt issues are either direct borrowings/placements ("DBP") or publicly traded ("PT"). The District's DBP debt generally contain provisions that in an event of default, (a) outstanding amounts can become immediately due if the District is unable to make a payment and (b) lender could exercise its option to demand return of the financed assets.

**Notes payable – Revenue/Other – DBP**

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$2,921,430. Proceeds were used to defray the costs of installing and implementing an Advanced Meter Reading Infrastructure. The note bears interest at a rate of 1.00% per annum. Principal and interest of \$40,337 are payable quarterly beginning April 1, 2016 through January 1, 2036. The loan had a balance of \$1,642,562 and \$1,786,582 at June 30, 2025 and 2024, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2025 AND 2024

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**Note 8 – Long-term obligations (continued)**

**Notes payable – General Obligation – DBP**

On August 30, 2024, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$2,589,929. Proceeds were used to defray the costs of planning and engineering for the Leg O Mutton booster pump replacement project, RO plant expansion project, and ASR 2 construction. The note bears interest at a rate of 2.1% per annum. Principal and interest of \$39,731 are payable quarterly beginning May 1, 2025 through February 1, 2045. The loan had a balance of \$2,563,795 and \$0 at June 30, 2025 and 2024, respectively.

**Bonds payable – Revenue – DBP**

On August 21, 2017, the District issued \$515,000 of Series 2017A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. Interest on the bonds is payable semi-annually at 2.69% per annum. Principal payments are due annually on June 1st of each year beginning in 2018 and continuing through 2032. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20-year period and will be collected by the county treasurer. The 2017A revenue bonds outstanding amounted to \$264,335 and \$298,244 at June 30, 2025 and 2024, respectively.

On November 2, 2020, the District issued \$14,925,000 of Series 2020B revenue refunding bonds as a bank loan to take advantage of favorable interest rates and to restructure the payback period to reduce near term revenue debt service requirements. Proceeds were used to currently refund the 2017 SRF loan, the Series 2014A revenue bonds, the 2015A revenue refunding bonds, the 2015B revenue refunding bonds, and the Series 2020 revenue bonds. Proceeds in the amount of \$14,822,366 along with \$1,267,584 of the District's accrued debt service funds were used to pay the principal, accrued interest, and redemption premiums due on the refunded issuances as of November 2, 2020. The remaining proceeds were used to pay issuance costs. The refunding transaction resulted in a deferred amount on the refunding of \$1,001,304, which was recorded as a deferred outflow of resources and is being amortized over the 4.58 remaining life of the old bonds. The unamortized balance at June 30, 2025 and 2024 was \$0 and \$200,261, respectively. As a result of the refunding, the District increased its total debt service requirements by \$590,721, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$108,592. Interest on the bonds is payable semi-annually at 1.21% per annum. Principal payments are due annually on June 1st of each year beginning in 2021 and continuing through 2030. The Series 2020B revenue refunding bonds outstanding amounted to \$10,035,000 and \$11,280,000 at June 30, 2025 and 2024, respectively.

On November 2, 2020, the District issued \$4,170,000 of Series 2020C revenue refunding bonds as a bank loan to take advantage of favorable interest rates and to restructure the payback period to reduce near term revenue debt service requirements. Proceeds were used to advance refund the Series 2012A revenue refunding bonds and the Series 2012B revenue bonds. Proceeds in the amount of \$4,137,349 along with \$28,001 of the District's accrued debt service funds were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues until the debt is called or defeased. The remaining proceeds were used to pay issuance costs.