



Annual Comprehensive Financial Report



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

Hilton Head Island, South Carolina

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

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.

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 19, 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 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.

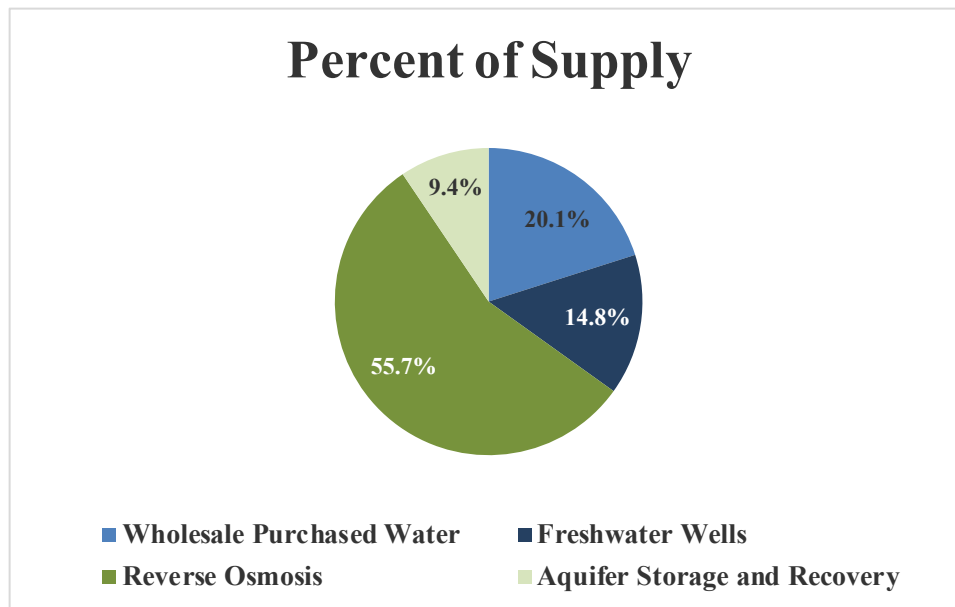
Profile of Hilton Head PSD

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.



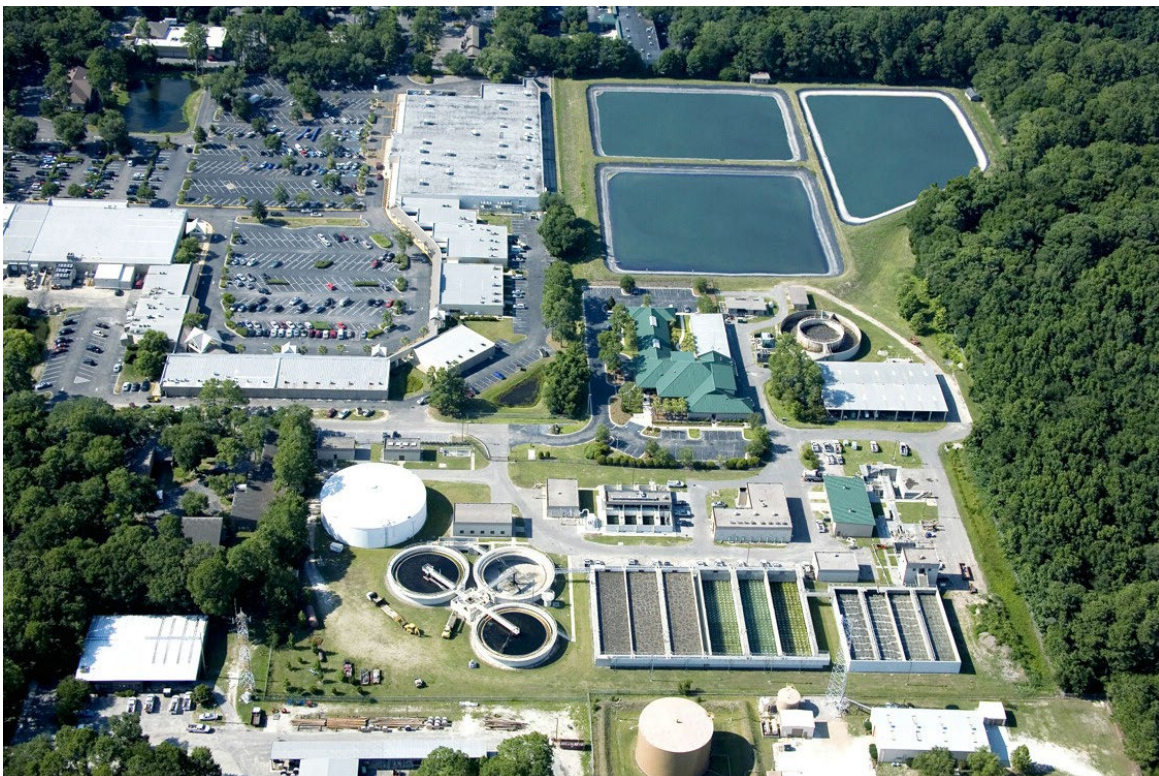
The PSD can provide a total water capacity of approximately 13 million gallons a day (mgd). It experiences an average demand of 6-7 mgd and a peak-day demand of 10-11 mgd. The PSD's Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is 55.7% of water supplied in Fiscal Year 2025. The 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

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

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

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,

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.

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

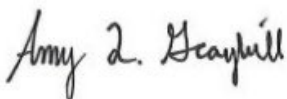
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its annual comprehensive financial report for the fiscal year ended June 30, 2024 (shown on page 14). 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

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

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



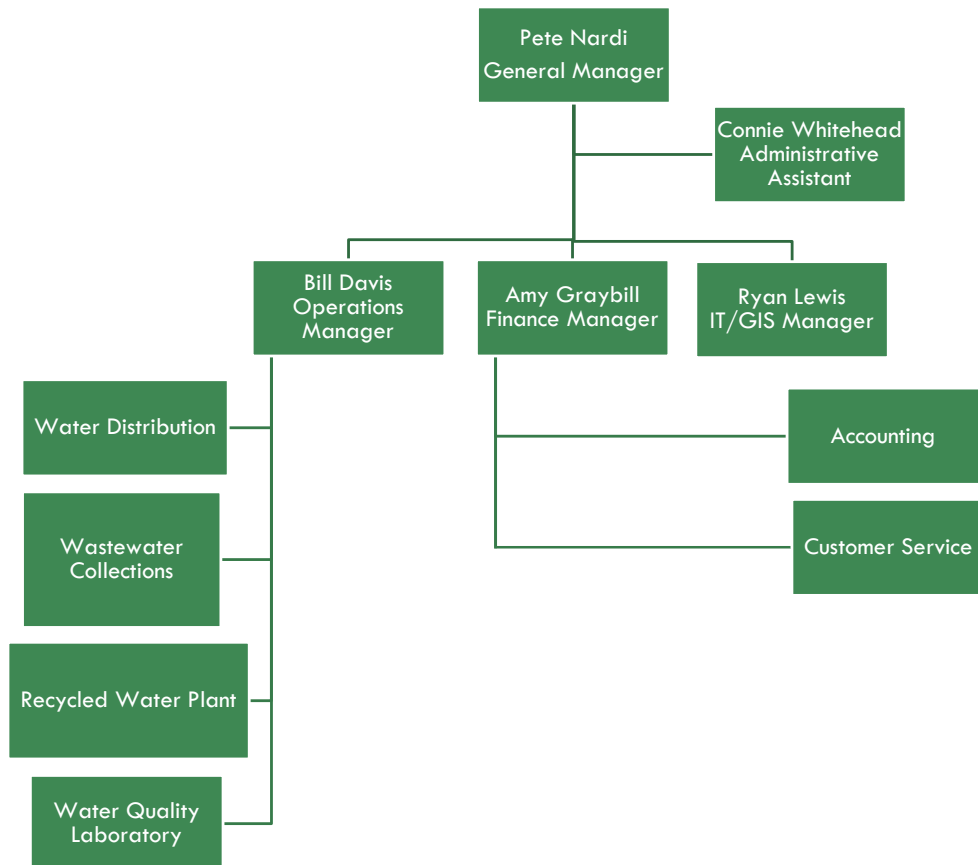
Michael Marks
District 5
Current Term: 2022-2026



Andy Paterno
District 6
Current Term: 2024-2028



Organizational Chart



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

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 19, 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 19, 2025

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.

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 2024.¹ 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.² Spring/Summer³ 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

¹ This percentage is based solely on water customers and does not include irrigation, dock meters, hydrants, pool meters, and golf course water coolers etc.

² Rainfall measurements were recorded at the wastewater treatment plant.

³ Months included for each year are March through August.

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.

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	%
Assets				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%
Total Assets	115,491,104	88,054,021	86,852,914	27,437,083	31.2%	1,201,107	1.4%
Deferred outflows of resources							
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%
Total Deferred outflows of resources	833,094	931,454	1,301,205	(98,360)	-10.6%	(369,751)	-28.4%
Total assets and deferred outflows of resources	\$ 116,324,198	\$ 88,985,475	\$ 88,154,119	27,338,723	30.7%	831,356	0.9%
Liabilities							
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%
Total Liabilities	47,011,973	26,455,822	30,304,442	20,556,151	77.7%	(3,848,620)	-12.7%
Deferred inflows of resources							
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%
Total Deferred inflows of resources	1,978,721	1,985,431	1,467,582	(6,710)	-0.3%	517,849	35.3%
Total liabilities and deferred inflows of resources	48,990,694	28,441,253	31,772,024	20,549,441	72.3%	(3,330,771)	-10.5%
Net Position							
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%
Total Net Position	67,333,504	60,544,222	56,382,095	6,789,282	11.2%	4,162,127	7.4%
Total Liabilities and Net Position	\$ 116,324,198	\$ 88,985,475	\$ 88,154,119	\$ 27,338,723	30.7%	\$ 831,356	0.9%

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%
Total Cash	\$ 35,887,814	\$ 16,205,331	\$ 14,589,276	\$ 19,682,483	121.5%	\$ 1,616,055	11.1%

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
Capital assets not being depreciated:			
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
Capital assets being depreciated:			
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
Property, Plant and Equipment, net	<u>\$ 72,163,689</u>	<u>\$ 65,276,327</u>	<u>\$ 66,116,980</u>

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.

- 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

Year Ended June 30,	<u>2025</u>	<u>2024</u>	<u>2023</u>
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
Coverage of Debt Service by Net Earnings*	274%	303%	243%
Debt Coverage without Capacity Fees	267%	246%	228%

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,	2024 to 2025				2023 to 2024		
	2025	2024	2023	Inc/(Dec)	% Change	Inc/(Dec)	% Change
Operating Revenues							
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%
Operating Expenses							
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%
Net Operating Income	(2,385,468)	(2,232,789)	(2,253,558)	(152,679)	6.8%	20,769	-0.9%
Non-operating Revenues							
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%
Non-operating Expenses	(1,139,488)	(602,500)	(675,279)	(536,988)	89.1%	72,779	-10.8%
Increase in Net Position before Capital Contributions:	1,898,738	1,917,123	1,167,064	(18,385)	-1.0%	750,059	64.3%
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.

- 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:

	FY 2025	FY 2026		FY 2025	FY 2026
<u>Water/Irrigation Base Rate per Unit:</u>	<u>Current</u>	<u>Revised Rate</u>	<u>Sewer Base Rate per Unit:</u>	<u>Current</u>	<u>Revised Rate</u>
Residential Customers	17.50	18.25	Residential & Commercial Customers	19.50	20.25
Commercial Customers	22.50	22.50	Residential & Commercial Sewer	2025	2026
Residential Water	2025	2026	<u>Rates per 1,000 Gallons:</u>	<u>Current</u>	<u>Revised Rate</u>
<u>Rates per 1,000 Gallons:</u>	<u>Current</u>	<u>Revised Rate</u>	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	Meter Install Fees	2025	2026
Block 4 - All Over 30,000 Gal	3.72	4.06	<u>(Existing Service Line)</u>	<u>Current</u>	<u>Revised Rate</u>
Residential Irrigation	2025	2026	3/4" Meter	1,180.00	1,360.00
<u>Rates per 1,000 Gallons:</u>	<u>Current</u>	<u>Revised Rate</u>	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	Meter Install Fees	2025	2026
Block 4 - All Over 30,000 Gal	3.72	4.06	<u>(No Existing Service Line)*</u>	<u>Current</u>	<u>Revised Rate</u>
Commerical Water & Irrigation	2025	2026	3/4" Meter	1,390.00	1,620.00
<u>Rates per 1,000 Gallons:</u>	<u>Current</u>	<u>Revised Rate</u>	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	<u>Hourly Labor Rate</u>	2025	2026
Block 4 - All Over 30,000 Gal	3.72	4.06	for time and materials and for work	<u>Current</u>	<u>Revised Rate</u>
			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.

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.

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

	June 30	
	2025	2024
Assets		
Current Assets		
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
Total current assets	40,671,471	19,731,660
Noncurrent Assets		
Property, Plant and Equipment		
Nondepreciable Assets	12,410,499	3,405,985
Depreciable Assets, net	59,753,190	61,870,342
Total Property, Plant and Equipment	72,163,689	65,276,327
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
Total Noncurrent Assets	74,819,633	68,322,361
Total Assets	115,491,104	88,054,021
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	833,094	722,277
Deferred Charges from Debt Refunding	-	209,177
Total Deferred Outflows of Resources	833,094	931,454
Total Assets and Deferred Outflows of Resources	\$ 116,324,198	\$ 88,985,475

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

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

Liabilities	June 30	
	2025	2024
Current Liabilities		
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
Total Current Liabilities Payable from Unrestricted Assets	1,850,695	1,440,427
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
Total Current Liabilities Payable from Restricted Assets	5,742,226	4,561,508
Total Current Liabilities	7,592,921	6,001,935
Noncurrent Liabilities		
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
Total Noncurrent Liabilities	39,419,052	20,453,887
Total Liabilities	47,011,973	26,455,822
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	381,199	161,707
Deferred Inflows Related to Lease Revenue	1,597,522	1,823,724
Total Deferred Outflows of Resources	1,978,721	1,985,431
Total Liabilities and Deferred Inflows of Resources	48,990,694	28,441,253
Net Position		
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
Total Net Position	67,333,504	60,544,222
Total Liabilities, Deferred Inflows of Resources & Net Position	\$ 116,324,198	\$ 88,985,475

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

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

	Fiscal Year Ended June 30	
	2025	2024
Operating Revenues		
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
Total Operating Revenues	16,157,596	15,171,109
Departmental Expenses		
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
Total Departmental Expenses	13,122,640	12,188,422
Depreciation	5,420,424	5,215,476
Total Operating Expenses	18,543,064	17,403,898
Operating Income (Loss)	(2,385,468)	(2,232,789)
Non-operating Revenues		
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
Total Non-operating Revenues	\$ 5,423,694	\$ 4,752,412

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

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

	Fiscal Year Ended June 30	
	2025	2024
Non-operating Expenses		
Interest Expense	\$ 755,068	\$ 277,038
Bond Defeasance Amortization	209,177	325,462
Bond Issuance Costs	175,243	-
Total Non-operating Expenses	1,139,488	602,500
Total Non-operating Revenues/Expenses	4,284,206	4,149,912
Increase (Decrease) in Net Position, Before Capital Contributions	\$ 1,898,738	\$ 1,917,123
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
Total Capital Contributions	4,890,544	2,245,004
Change in net position	6,789,282	4,162,127
Net position, beginning of the year	60,544,222	56,382,095
Net position, end of year	\$ 67,333,504	\$ 60,544,222

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

	Fiscal Year Ended June 30	
	2025	2024
Cash Flows from Operating Activities:		
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
Net Cash Provided by Operating Activities	3,044,491	2,998,214
Cash Flows from Investing Activities		
Interest Income	1,440,962	900,541
Net Cash Provided by Investing Activities	1,440,962	900,541
Cash Flows from Noncapital Financing Activities:		
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)
Net Cash Provided by Noncapital Financing Activities	1,453,559	1,348,892
Cash Flows from Capital and Related Financing Activities:		
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)
Net Cash Used by Capital and Related Financing Activities	13,743,471	(3,631,592)
Net Increase (Decrease) in Cash	19,682,483	1,616,055
Cash and Cash Equivalents at Beginning of Year	\$ 16,205,331	\$ 14,589,276
Cash and Cash Equivalents at End of Year	\$ 35,887,814	\$ 16,205,331

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

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

	Fiscal Year Ended June 30	
	2025	2024
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating Loss	\$ (2,385,468)	\$ (2,232,789)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided 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
Net Cash Provided by Operating Activities	\$ 3,044,491	\$ 2,998,214

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
Total Available for Operations	\$ 15,873,800	\$ 13,876,252

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
Total Restricted	\$ 20,014,014	\$ 2,329,079

Total Cash and Cash Equivalents	\$ 35,887,814	\$ 16,205,331
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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

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

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

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

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 19, 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

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. 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.

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:

	<u>June 30, 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2025</u>
<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>

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	1,049,989	1,446,671	-	(389,868)	2,106,792
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	672,987	24,130	(107,792)	-	589,325
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	(637,915)	(11,897)	107,792	-	(542,020)
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

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

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.

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

Note 8 – Long-term obligations (continued)

Bonds payable – Revenue – DBP (continued)

The 2020C advance refunding met the requirements of an in-substance debt defeasance; accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2025 and 2024, the outstanding balance of the 2012A defeased bonds was \$0 and \$2,730,000, respectively, and the outstanding balance of the 2012B defeased bonds was \$0 and \$815,000, respectively. The refunding transaction resulted in a deferred amount on the refunding of \$401,233, which was recorded as a deferred outflow of resources and is being amortized over the 3.75 remaining life of the old bonds. The unamortized balance at June 30, 2025 and 2024 was \$0 and \$8,916, respectively. As a result of the refunding, the District increased its total debt service requirements by \$101,037, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$134,165. Interest on the bonds is payable semi-annually at 0.94% per annum. Principal payments are due annually on June 1st of each year beginning in 2021 and continuing through 2025. The Series 2020C revenue refunding bonds outstanding amounted to \$0 and \$850,000 at June 30, 2025 and 2024, respectively.

On February 24, 2023, the District issued \$235,000 of Series 2023 revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds bear interest annually at 4.15% per annum and principal and interest payments of \$25,529 are due annually on June 1st of each year beginning in 2024 and continuing through 2035. The bonds are to be repaid by annual assessments to the owners in the areas that were connected over a 20-year period which will be collected by the county treasurer. The 2023 revenue bonds outstanding amounted to \$205,528 and \$221,851 at June 30, 2025 and 2024, respectively.

Bonds payable – General Obligation – DBP

On November 2, 2020, the District issued \$9,910,000 of general obligation refunding bonds as a bank loan to take advantage of favorable interest rates. Proceeds were used to refund the 2008 SRF GO loan, the 2008 SRF GO loan, the 2014 SRF GO loan, the 2007 GO bonds, the 2009 GO bonds, and the 2010 GO bonds. Proceeds in the amount of \$9,836,204 along with \$467,616 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 (\$37,319), which was deemed immaterial to amortize and was recorded as a reduction of bond defeasance amortization expense in the year of refunding. As a result of the refunding, the District reduced its total debt service requirements by \$837,279, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$658,550. Interest on the bonds is payable semi-annually at 1.25% per annum. Principal payments are due annually on May 1st of each year beginning in 2021 and continuing through 2028. The 2020 general obligation bonds outstanding amounted to \$3,225,000 and \$4,470,000 at June 30, 2025 and 2024, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 8 – Long-term obligations (continued)

Bonds payable – General Obligation – DBP (continued)

On November 5, 2024, the District issued \$20,400,000 of Series 2024B general obligation bonds as a bank loan to defray the costs of improvements and/or repairs to the District's water and wastewater systems including replacement of the Leg O Mutton booster pump, expansion of the RO plant, construction of an ASR 2 well, and replacement of three WWTP influent screw pumps. Interest on the bonds is payable semi-annually at 3.65% per annum. Principal payments are due annually on May 1st of each year beginning in 2028 and continuing through 2044. The 2024B revenue bonds outstanding amounted to \$20,400,000 and \$0 at June 30, 2025 and 2024, respectively.

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

Year Ended June 30,	Direct Borrowing/Placement		Total
	Principal	Interest	
2026	3,688,202	990,865	4,679,067
2027	3,768,547	944,042	4,712,589
2028	3,362,007	896,175	4,258,182
2029	3,139,587	845,117	3,984,704
2030	3,130,291	782,355	3,912,646
2031 - 2035	8,498,315	3,645,738	12,144,053
2036 - 2040	5,872,601	1,478,918	7,351,519
2032 - 2035	6,876,670	580,537	7,457,207
Grand Total	<u>\$ 38,336,220</u>	<u>\$ 10,163,747</u>	<u>\$ 41,042,760</u>

Note 9 – Non-current liabilities

The non-current liability activity during fiscal years 2025 and 2024 was as follows:

	June 30, 2024	Additions	Reductions	June 30, 2025	Amounts due within one year
Revenue bonds - DBP	12,650,096	-	(2,145,233)	10,504,863	2,136,822
GO bonds - DBP	4,470,000	20,400,000	(1,245,000)	23,625,000	1,300,000
Notes payable - Revenue/other - DBP	1,786,582	-	(144,020)	1,642,562	145,466
Notes payable - GO - DBP	-	2,589,929	(26,134)	2,563,795	105,914
Finance Purchase	80,920	-	(80,920)	-	-
Net pension liability	5,081,463	-	(310,429)	4,771,034	-
Subtotal	<u>\$ 24,069,061</u>	<u>\$ 22,989,929</u>	<u>\$ (3,951,736)</u>	<u>\$ 43,107,254</u>	<u>\$ 3,688,202</u>
Less current portion	<u>(3,615,174)</u>			<u>(3,688,202)</u>	
Noncurrent liabilities	<u>\$ 20,453,887</u>			<u>\$ 39,419,052</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 9 – Non-current liabilities (continued)

	June 30, 2023	Additions	Reductions	June 30, 2024	Amounts due within one year
Revenue bonds - DBP	14,761,265	-	(2,111,169)	12,650,096	2,145,233
GO bonds - DBP	5,910,000	-	(1,440,000)	4,470,000	1,245,000
Notes payable - Revenue/other - DBP	1,929,172	-	(142,590)	1,786,582	144,020
Finance Purchase	116,925	-	(36,005)	80,920	80,921
Net pension liability	5,213,073	-	(131,610)	5,081,463	-
Subtotal	\$ 27,930,435	\$ -	\$ (3,861,374)	\$ 24,069,061	\$ 3,615,174
Less current portion	(3,729,764)			(3,615,174)	
Noncurrent liabilities	<u>\$ 24,200,671</u>			<u>\$ 20,453,887</u>	

Note 10 - Economic dependence

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

Note 11 - Lease arrangements

The District leases space on its water tower facilities to various cellular phone companies for attachment of antennae with agreements ranging from one year to ten years with interest rates between 3% and 5%. The District recognized \$646,058 and \$630,767 of revenue for the years ended June 30, 2025 and 2024, respectively, including lease revenue of \$614,001 and \$598,399, respectively, and interest revenue of \$32,057 and 32,368, respectively. Principal and interest payments due under non-cancellable terms are as follows:

Years ended June 30,	Principal	Interest	Total
2026	484,041	34,453	518,494
2027	321,277	27,092	348,369
2028	287,252	17,454	304,706
2029	196,781	8,837	205,618
2030	97,770	2,933	100,703
Grand Total	1,387,121	90,769	1,477,890

The District is also currently renting office space and land use to third parties. These agreements have clauses that allow either party to cancel without cause with less than a year's notice. Rental income in connection with these arrangements was \$88,564 and \$87,674 for the years ended June 30, 2025 and 2024, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 12 – Risk Management, disaster recovery, and insurance recoveries

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; job related injuries or illnesses to employees; natural disasters and employee health and accidents. To insure against casualty risks the District is a member of the State of South Carolina Insurance Reserve Fund (SC IRF), a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina. The SC IRF discontinued its coverage of underground lines in 2024. The District was unable to find a comparable policy for those assets so it is self-funding damage to these assets going forward through its operating cash reserves.

The District acquires insurance from the State Accident Fund for job related injury and illness (Workers' Compensation) to its employees. Workers' Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Medical insurance coverage, encompassing health, dental, life and other medical benefits to employees and their dependents, was obtained via the State's group insurance program.

There were no significant reductions in insurance coverage from the previous year and no settlements have exceeded insurance coverage for the fiscal years ended June 30, 2025 and 2024. During 2025 and 2024, the District did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

During the year ended June 30, 2025 and 2024, \$16,677 and \$21,316, respectively, was received for non-disaster related insurance recoveries of which \$16,677, and \$15,316, respectively, were offset against the related repair expense. The remaining \$0 and \$6,000 for the years ended June 30, 2025 and 2024, respectively, is included in disaster and insurance recovery income on the statement of revenues, expenses, and changes in net position as the related asset replacement was not specifically identifiable to remove from the District's capital asset records.

On August 8, 2024, Tropical Storm Debby impacted Beaufort County. There were no damages to insured assets. The District was approved for and received \$22,882 of federal FEMA and SC Emergency Management Division assistance for expenses that were not directly identifiable such as overtime payroll to operate an emergency operations center as well as per diem payments for usage of District equipment in preparation efforts. For the year ended June 30, 2025, \$22,882 has been included in disaster and insurance recovery income on the statement of revenues, expenses, and changes in net position related to this event.

Note 13 - Construction and development commitments

Policy

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 13 - Construction and development commitments (continued)

Regulatory mandates

The District, as well as some other water utilities on Hilton Head Island, South Carolina, have entered into contracts for additional water supply sources to meet its future needs due to restrictions placed on the District by the South Carolina Department of Environmental Services. The restrictions and contract for water supply have a significant financial impact on the District. During the year June 30, 2015, the District signed its current agreement with Beaufort-Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum of 1 million gallons of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$1,674,077 and \$1,078,633 for the years ended June 30, 2025 and 2024, respectively, of which \$277,050 and \$283,544, respectively, were injected into the ASR system. Water withdrawn from the ASR system totaled \$249,076 and \$266,461 for the years ended June 30, 2025 and 2024, respectively.

Expansion

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$222,500 and \$863,172 and payments of capacity fees totaling \$170,944 and \$1,381,832 were collected during the fiscal years ended June 30, 2025 and 2024, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District; these contributions totaled \$222,500 and \$853,392 for the years ended June 30, 2025 and 2024, respectively, and are included as part of developer contributions of systems. During the year ended June 30, 2024, the Town also contributed \$9,780 toward leasehold improvements as a part of its rental agreement with the District for office space.

Construction commitments

The District had outstanding engineering and construction contract commitments of \$22,895,903 and \$2,738,422 at June 30, 2025 and 2024, respectively.

Note 14 - Deferred compensation plans

Section 457/401(k) Plan

In April 2004, the District reactivated its Internal Revenue Code Section 457 retirement plan. All persons employed by the District on March 31, 2004 became eligible employees. In May 2012, the District also adopted a 401(k) Plan option. Under the Plan, all participants may make an elective deferral up to 100% of their annual compensation subject to the Internal Revenue Code maximum contribution limitations. The District makes a 6% matching contribution to each eligible participant's account who has not chosen to also participate in the South Carolina Retirement Plan. Employee contributions for the years ended June 30, 2025 and 2024 were \$119,298 and \$111,221, respectively. The matching contribution for the years ended June 30, 2025 and 2024 was \$6,789 and \$6,471, respectively. Participants are immediately vested in all contributions and earnings thereon.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 14 - Deferred compensation plans (continued)

South Carolina Retirement System

Effective April 2004, the District joined the South Carolina Retirement System (SCRS).

General Information about the Pension Plan

Plan Description. The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election. PEBA issues a publicly available financial report that can be obtained at www.peba.sc.gov.

Membership. Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. As a condition of employment, all employees are required to become members of the SCRS. However, employees who worked for the District on the date of its admission into the Retirement System could elect non-membership within six-months. An employee member of the system with an effective date of membership prior to July 1, 2012 is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits Provided. Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 14 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

Contributions. Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS until reaching 18.41 percent. The legislation included a further provision that if the scheduled contributions are not sufficient to meet the funding periods set in state statute, the PEBA board would increase the employer contribution rates as necessary to meet the funding periods set for the applicable year.

Pension reform legislation modified statute such that the employer contribution rates for SCRS to be further increased, not to exceed one-half of one percent in any one year, if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS and PORS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS may not be decreased until the plans are at least 85 percent funded.

Required employee contribution rates for the years ended June 30, 2025 and 2024 were 9.00%. Required employer contribution rates for the years ended June 30, 2025 and 2024 were 18.41%. The District does not participate in the incidental death benefit program. The District's required contribution for the years ended June 30, 2025 and 2024 was \$592,189 and \$518,900, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

Net Pension Liability

At June 30, 2025 and 2024, the District reported a liability of \$4,771,034 and \$5,081,463, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2024, using generally accepted actuarial principles. There was no legislation enacted during the 2024 legislative session that had a material change in the benefit provisions for the SCRS. The District's proportion of the net pension liability was based on a projection of the District's contributions for the year ended June 30, 2024 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2024. At June 30, 2025 and 2024, the District's proportion was 0.0203 percent and 0.0210 percent, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 14 - Deferred compensation plans (Continued)

Deferred Outflows/Inflows of Resources

For the year ended June 30, 2025, the District recognized pension expense of \$390,434. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 156,793	\$ 5,921
Net difference between projected and actual earnings on pension plan investments	-	183,829
Changes in proportion and differences between proportionate share of contributions	-	191,449
Assumption changes	84,112	-
District contributions subsequent to the measurement date	592,189	-
Total	<u>\$ 833,094</u>	<u>\$ 381,199</u>

For the year ended June 30, 2024, the District recognized pension expense of \$406,321. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 88,223	\$ 14,092
Net difference between projected and actual earnings on pension plan investments	-	6,956
Changes in proportion and differences between proportionate share of contributions	37,299	140,659
Assumption changes	77,855	-
District contributions subsequent to the measurement date	518,900	-
Total	<u>\$ 722,277</u>	<u>\$ 161,707</u>

The \$592,189 and \$518,900 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2025 and 2024, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2026 and 2025, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 14 - Deferred compensation plans (Continued)

Deferred Outflows/Inflows of Resources (continued)

As of June 30, 2025		As of June 30, 2024	
Year ended June 30,	Deferred Outflows (Inflows) of Resources	Year ended June 30,	Deferred Outflows (Inflows) of Resources
2025	\$ (165,493)	2024	\$ 67,097
2026	\$ 105,824	2025	\$ (150,784)
2027	\$ (32,350)	2026	\$ 128,339
2028	\$ (48,275)	2027	\$ (2,982)
2029	\$ -	2028	\$ -
Thereafter	\$ -	Thereafter	\$ -

Actuarial Assumptions

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019. A more recent experience report on the Systems was issued for the period ending June 30, 2023 and will be used for future valuations.

The total pension liability as of June 30, 2024 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actual cost method	Entry age normal
Salary Increases	3.0% to 11.0% (varies by service), including inflation
Investment rate of return	7.00 %, including inflation
Inflation	2.25%
Benefit adjustments	lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020. Assumptions used in the determination of the June 30, 2024, total pension liability are as follows:

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 14 - Deferred compensation plans (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2024 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

Allocation/Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Public Equity	46.0%	6.23%	2.87%
Bonds	26.0%	2.60%	0.68%
Private Equity ¹	9.0%	9.60%	0.86%
Private Debt ¹	7.0%	6.90%	0.48%
Real Assets	12.0%		
Real Estate ¹	9.0%	4.30%	0.39%
Infrastructure ¹	3.0%	7.30%	0.22%
Total Expected Return ²	100.0%		5.49%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.74%

¹ Retirement System Investment Commission (RSIC) staff and consultant will notify the Commission if the collective exposure to Private Equity, Private Debt and Private Real Assets exceeds 30 percent of the total plan assets.

² Portable Alpha Strategies, which utilize Hedge Funds and are not included in the Policy Target, will be capped at 15% of total assets.

Discount Rate

The discount rate used to measure the total pension liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 14 - Deferred compensation plans (Continued)

Sensitivity Analysis

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate:

	As of June 30, 2025			As of June 30, 2024		
	1% Decrease (6.0)%	Current Discount Rate (7.0)%	1% Increase (8.0)%	1% Decrease (6.0)%	Current Discount Rate (7.0)%	1% Increase (8.0)%
District's proportionate share of the net pension liability	<u>\$ 6,182,721</u>	<u>\$ 4,771,034</u>	<u>\$ 3,470,982</u>	<u>\$ 6,565,735</u>	<u>\$ 5,081,463</u>	<u>\$ 3,847,788</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PEBA financial report.

Payable to Plan

The District reported a payable of a \$67,166 and \$62,126 to PEBA as of June 30, 2025 and 2024, respectively, representing required employer and employee contributions for the month of June 2025 and 2024, respectively, for the SCRS. These amounts are included in Accrued Payroll & Other Liabilities in the statements of net position and were paid in July 2025 and 2024, respectively.

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

Note 15 - Net position

Net position represents the difference between assets, deferred inflows of resources, liabilities and deferred outflows of liabilities. The net position amounts were as follows:

	As of June 30,	
	2025	2024
Net investment in capital assets		
Net property, plant and equipment in service	72,163,689	65,276,327
Less: Debt as disclosed in Notes 7 & 8	(38,336,220)	(18,987,598)
Deferred amount on refunding, net	-	209,177
Accounts payable for capital assets	(2,369,465)	(173,974)
Unspent Bond Construction Proceeds	18,587,904	-
	<u>50,045,908</u>	<u>46,323,932</u>
Restricted for debt service & capital grants		
Restricted cash and cash equivalents	20,014,014	2,329,079
Less: Unspent Bond Construction Proceeds	(18,587,904)	-
Less: Unearned Grant Revenue	-	(1,000,000)
Less: Accrued Debt Interest Payable	(155,320)	(27,255)
	<u>1,270,790</u>	<u>1,301,824</u>
Unrestricted	<u>16,016,806</u>	<u>12,918,466</u>
Total net position	<u>\$ 67,333,504</u>	<u>\$ 60,544,222</u>

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the District's South Carolina Retirement System Contributions
For the fiscal year ended June 30, 2025 - Last ten years

	<i>South Carolina Retirement System</i>									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 592,189	\$ 518,900	\$ 466,620	\$ 424,042	\$ 387,521	\$ 370,538	\$ 352,212	\$ 307,158	\$ 272,562	\$ 222,257
Contributions in relation to the contractually required contribution	592,189	518,900	466,620	424,042	387,521	370,538	352,212	307,158	272,562	222,257
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Hilton Head No. 1 PSD's covered payroll	\$ 3,216,671	\$ 2,818,576	\$ 2,680,184	\$ 2,584,048	\$ 2,514,738	\$ 2,404,535	\$ 2,444,222	\$ 2,290,514	\$ 2,388,802	\$ 2,037,186
Contributions as a percentage of covered payroll	18.41%	18.41%	17.41%	16.41%	15.41%	15.41%	14.41%	13.41%	11.41%	10.91%
<i>Note: For last 10 fiscal years, there should be a zero amount for contribution deficiency (excess) because all required contributions were made per South Carolina Retirement System's previous reports.</i>										

Schedule of the District's Proportionate Share of the Net Pension Liability
For the fiscal year ended June 30, 2025 - Last ten years

	<i>South Carolina Retirement System</i>									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Measurement date	6/30/2024	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Hilton Head No. 1 PSD's proportion of the net pension liability	0.020345%	0.021017%	0.021504%	0.022032%	0.021345%	0.022686%	0.021859%	0.023369%	0.020752%	0.023400%
Hilton Head No. 1 PSD's proportionate share of the net pension liability	\$ 4,771,034	\$ 5,081,463	\$ 5,213,073	\$ 4,767,968	\$ 5,454,096	\$ 5,180,120	\$ 4,897,854	\$ 5,260,737	\$ 4,432,597	\$ 4,437,923
Hilton Head No. 1 PSD's covered payroll	\$ 2,818,576	\$ 2,680,184	\$ 2,584,048	\$ 2,514,738	\$ 2,404,535	\$ 2,444,222	\$ 2,290,514	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629
Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered payroll during the measurement period	169.27108%	189.59381%	201.74056%	189.60101%	226.82539%	211.93329%	213.83209%	220.22491%	217.58429%	199.49048%
Plan fiduciary net position as a percentage of the total pension liability	61.80000%	58.60000%	57.10000%	60.70000%	50.70000%	54.40000%	54.10000%	53.30000%	52.90000%	57.00000%
<i>Source - South Carolina Retirement System</i>										

SUPPLEMENTAL FINANCIAL INFORMATION

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Budgetary Comparison Schedule FOR THE YEAR ENDING JUNE 30, 2025

	Fiscal Year 2025		FY 25 Actual to FY 25 Budget Comparison	
	Actual	Budget	Dollars	%
			Favorable (Unfavorable)	
Operating Revenues				
Water Service	\$ 8,718,132	\$ 8,618,900	\$ 99,232	1.2%
Sewer Service	6,760,202	6,700,700	59,502	0.9%
Tap In Fees - Water	227,067	187,800	39,267	20.9%
Connection Fees - Sewer	188,584	315,600	(127,016)	-40.2%
Golf Course Irrigation	194,753	185,000	9,753	5.3%
Disaster recovery, net	22,882	-	22,882	100.0%
Service Fees	19,281	20,100	(819)	-4.1%
Other Operating Revenues	26,695	27,300	(605)	-2.2%
Total Operating Revenues	16,157,596	16,055,400	102,196	0.6%
Departmental Expenses				
Payroll & Related	4,960,426	5,285,400	324,974	6.1%
Administrative Expenses	1,061,189	1,143,600	82,411	7.2%
Operations	3,551,136	3,426,900	(124,236)	-3.6%
Maintenance	1,380,618	1,595,700	215,082	13.5%
Purchased Water	1,646,103	1,273,200	(372,903)	-29.3%
Water Tap In Expenses	178,412	141,000	(37,412)	-26.5%
Sewer Connection Expenses	162,378	297,600	135,222	45.4%
Professional Fees	182,378	214,500	32,122	15.0%
Total Departmental Expenses	13,122,640	13,377,900	255,260	1.9%
Depreciation	5,420,424	5,250,000	(170,424)	-3.2%
Total Operating Expenses	18,543,064	18,627,900	84,836	0.5%
Operating income (loss)	(2,385,468)	(2,572,500)	187,032	7.3%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,877,746	1,763,100	114,646	6.5%
Property taxes-Operations Levy	1,372,970	1,290,000	82,970	6.4%
Rental Income	88,564	88,400	164	0.2%
Tower Lease Income	614,001	605,100	8,901	1.5%
Interest Income - Leases	32,057	32,100	(43)	-0.1%
Interest Income	1,458,176	439,500	1,018,676	231.8%
Gain (Loss) of disposal of equipment	(19,820)	15,000	(34,820)	-232.1%
Total Non-operating Revenues	5,423,694	4,233,200	1,190,494	28.1%
Non-operating Expenses				
Interest expense	755,068	263,700	(491,368)	-186.3%
Bond Defeasance Amortization	209,177	209,200	23	0.0%
Bond Issuance Costs	175,243	42,500	(132,743)	-312.3%
Total Non-operating Expenses	1,139,488	515,400	(624,088)	-121.1%
Total Non-operating Revenues/Exp.	4,284,206	3,717,800	566,406	15.2%
Increase (decrease) in net position, before capital contributions	1,898,738	1,145,300	753,438	65.8%
Water Capacity Fee	47,520	114,000	(66,480)	-58.3%
Sewer Capacity Fee	123,424	156,000	(32,576)	-20.9%
Capital Grant Income	4,497,100	6,000,000	(1,502,900)	-25.0%
Developer Contributions of Systems	222,500	1,550,000	(1,327,500)	-85.6%
Total Capital Contributions	4,890,544	7,820,000	(2,929,456)	-37.5%
Change in net position	\$ 6,789,282	\$ 8,965,300	\$ (2,176,018)	-24.3%
Net position, beginning of the fiscal year	\$ 60,544,222			
Net position, June 30, 2025	\$ 67,333,504			

Notes to Budgetary Comparison Schedule

Budgetary Highlights

Operating Revenues: Actual operating revenues are \$16,157,596 versus budgeted operating revenues of \$16,055,400 which results in a variance of \$102,196 or 0.6% over budget. The following is a summary of material/selected variances⁴ for the Operating Revenue categories:

- Water Service revenues are above budget by \$99,232 or 1.2% and Sewer Service revenues are above budget by \$59,502 or 0.9%. Billed consumption increased from the prior year which is the basis for budgeted consumption levels. Billed water consumption for fiscal year (FY) 2025 increased 115 million gallons from 1,916 million gallons billed during FY 2024 to 2,031 million gallons billed during FY 2025.
- Connection Fees – Sewer are under budget due to the makeup of sewer connection requests. There were more Low Pressure Sewer (LPS) connections in FY 2024 than in FY 2025; FY 2025 had more gravity sewer connections which have a lower up-front cost. Accordingly, this lower Connection Fee - Sewer revenue is offset by lower Sewer Connection Expenses.

Total Operating Expenses: Total operating expenses are \$84,836 or 0.5% under budget. The following is a summary of material/selected variances for the Operating Expenses categories:

- Payroll & Related is under budget by \$324,974 or 6.1%. Of this amount, \$201,754 is the non-cash year end adjustment necessary to bring the actuarially determined net pension liability accounts to their required year end reporting total. The remaining underage is due to the timing of filling open positions.
- Operations expense is over budget by \$124,236 or 3.6% which is mainly related to the electricity rate increase that went into effect January 1st.
- Maintenance expense is under budget by \$215,082 or 13.5%. Well, RO, lift station, distribution system, and collection system maintenance came in lower than anticipated. This line item should be viewed in conjunction with capital additions as items greater than \$5,000 that increase the life of an asset are included in those areas.
- Purchased Water is over budget by \$372,903 or 29.3% due to more gallons purchased than estimated during budget preparation. Budgeted purchased water is based on prior year purchases. The District purchased 158 million more gallons FY 2025 than FY 2024. This increase was partially attributable to the 115 million gallon increase in billed consumption during FY 2025. Additionally, the District located and repaired a leaking air relief valve on the 24" line during May 2025. A satellite leak detection study was done in June 2025 (included in professional fees) to further the District's efforts to monitor and reduce non-revenue water.
- Depreciation is over budget by \$170,424 or 3.2%. Depreciation is budgeted using general estimates regarding the useful life of additions in the upcoming year and the timing of their purchase. Actual additions were purchased earlier in the year and with shorter estimated useful lives than projected at the time of budget preparation.

⁴ In most cases, a variance of more than \$100,000 or 10% constitutes a material variance for quarterly reports. Water and Sewer Variances are typically discussed regardless of their variances given that they are the two main drivers for the District's overall revenue.

Non-Operating Revenues and Expenses: Actual non-operating revenues are \$5,423,694 versus budgeted non-operating revenues of \$4,233,200 which results in a variance of \$1,190,494 or 28.1% over budget. This is mostly related to Interest Income which is \$1,018,676 over budget in line with continued higher market interest rates as well as interest earned on the 2024B GO Bond Proceed Funds which was not budgeted. Staff endeavors to keep all cash not needed for current operations in the SC Local Government Investment Pool which is still seeing rates around 4.5%. Interest was conservatively budgeted at 3.25%. Additionally, the value of a mill came in higher than anticipated during budget preparation which led to Property taxes coming in over budget. The overage in non-operating revenues is partially offset by an overage in non-operating interest expense and bond issuance costs related to the 2024B GO Bond issuance which were not budgeted.

Capital Contributions: Capacity fees, capital grant income, and developer contributions of systems came in \$2,929,456 under budget. Capital Grant Income came in \$1,502,900 under budget due to the timing of reimbursable construction expenditures; this is expected to only be a timing difference as the grant revenue will be received in upcoming years. The \$1,550,000 budgeted Developer Contribution of Systems was primarily related to the US 278 bridge project and associated SCDOT reimbursement which did not commence during the fiscal year as expected. The \$222,500 reported as Developer Contributions of Systems relates to a non-cash transfer of a water and sewer systems from its developer to the District at the completion of those systems.

The change in net position for the period was \$6,789,282, which was \$2,176,018 lower than the budgeted change in net position of \$8,965,300. Capital grant income and developer contributions of systems came in approximately \$2.8 million under budget due to the timing of grant reimbursable construction expenditures and the US 278 bridge project not moving forward in FY 2025 as expected. Operating income was around \$187,000 over budget. Non-operating income was around \$566,000 over budget with stronger interest earnings than budgeted (including unbudgeted 2024B bond proceeds fund interest earnings) offsetting unbudgeted interest expense and bond issuance costs related to the 2024B GO Bond Issuance completed in November 2024.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Summary Schedule of Debt

JUNE 30, 2025

Description	Rate	6/30/2023	Addition	Reduction	6/30/2024	Addition	Reduction	6/30/2025	Current
<u>Revenue Bonds - DBP</u>									
Series 2017A	2.69%	331,265	-	(33,021)	298,244	-	(33,909)	264,335	34,822
Series 2020B	1.21%	12,505,000	-	(1,225,000)	11,280,000	-	(1,245,000)	10,035,000	2,085,000
Series 2020C	0.94%	1,690,000	-	(840,000)	850,000	-	(850,000)	-	-
Series 2023	4.15%	235,000	-	(13,149)	221,851	-	(16,323)	205,528	17,000
Total Revenue Bonds - DBP		<u>14,761,265</u>	<u>-</u>	<u>(2,111,170)</u>	<u>12,650,095</u>	<u>-</u>	<u>(2,145,232)</u>	<u>10,504,863</u>	<u>2,136,822</u>
<u>Notes Payable - Revenue/Other - DBP</u>									
SIRF Series 2014 Revenue Bonds	1.00%	1,929,172	-	(142,590)	1,786,582	-	(144,020)	1,642,562	145,466
Total Notes Payable - Revenue/Other		<u>1,929,172</u>	<u>-</u>	<u>(142,590)</u>	<u>1,786,582</u>	<u>-</u>	<u>(144,020)</u>	<u>1,642,562</u>	<u>145,466</u>
Total Revenue /Other Debt		<u>16,690,437</u>			<u>14,436,677</u>			<u>12,147,425</u>	
<u>General Obligation Bonds - DBP</u>									
Series 2020	1.25%	5,910,000	-	(1,440,000)	4,470,000	-	(1,245,000)	3,225,000	1,300,000
Series 2024B	3.65%	-	-	-	-	20,400,000	-	20,400,000	-
Total General Obligation Bonds - DBP		<u>5,910,000</u>	<u>-</u>	<u>(1,440,000)</u>	<u>4,470,000</u>	<u>20,400,000</u>	<u>(1,245,000)</u>	<u>23,625,000</u>	<u>1,300,000</u>
<u>Notes Payable General Obligation - DBP</u>									
SRF Series 2024A General Obligation Bonds	2.10%	-	-	-	-	2,589,929	(26,134)	2,563,795	105,914
Total Notes Payable - Revenue/Other		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,589,929</u>	<u>(26,134)</u>	<u>2,563,795</u>	<u>105,914</u>
Total General Obligation Debt		<u>5,910,000</u>			<u>4,470,000</u>			<u>26,188,795</u>	
<u>Finance Purchase Liabilities</u>									
Various		116,926	-	(36,005)	80,921	-	(80,921)	-	-
Total Long-Term Debt Liability		22,717,363	-	(3,729,765)	18,987,598	22,989,929	(3,641,307)	38,336,220	3,688,202
Less current portion		<u>(3,729,764)</u>			<u>(3,615,174)</u>			<u>(3,688,202)</u>	
Total Long Term Debt		<u>\$ 18,987,599</u>			<u>\$ 15,372,424</u>			<u>\$ 34,648,018</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Schedule of Bond & Note Principal and Interest Payments

JUNE 30, 2025

For the Year ending June 30,	\$515,000 Revenue Bond 2017 A Dated August 21, 2017		\$14,925,000 Revenue Bond 2020 B Dated November 2, 2020		\$9,910,000 GO Bond Dated November 2, 2020		\$235,000 Revenue Bond 2023 FFA Dated Feb 24, 2023		\$20,400,000 GO Bond 2024 B Dated November 5, 2024		BOND TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total	Total	Total
											Interest	Principal	
2026	7,110	34,822	121,423	2,085,000	40,313	1,300,000	8,529	17,000	744,600	-	921,975	3,436,822	4,358,797
2027	6,174	35,760	96,194	2,105,000	24,062	1,355,000	7,824	17,705	744,600	-	878,854	3,513,465	4,392,319
2028	5,212	36,721	70,725	2,135,000	7,125	570,000	7,089	18,440	744,600	343,000	834,751	3,103,161	3,937,912
2029	4,224	37,709	44,891	1,880,000	-	-	6,324	19,205	732,080	940,000	787,519	2,876,914	3,664,433
2030	3,210	38,723	22,143	1,830,000	-	-	5,527	20,003	697,770	975,000	728,650	2,863,726	3,592,376
2031	2,168	39,765	-	-	-	-	4,697	20,833	662,183	1,011,000	669,048	1,071,598	1,740,646
2032	1,098	40,835	-	-	-	-	3,832	21,697	625,282	1,049,000	630,212	1,111,532	1,741,744
2033	-	-	-	-	-	-	2,932	22,598	586,993	1,088,000	589,925	1,110,598	1,700,523
2034	-	-	-	-	-	-	1,994	23,535	547,281	1,128,000	549,275	1,151,535	1,700,810
2035	-	-	-	-	-	-	1,017	24,512	506,109	1,170,000	507,126	1,194,512	1,701,638
2036	-	-	-	-	-	-	-	-	463,404	1,214,000	463,404	1,214,000	1,677,404
2037	-	-	-	-	-	-	-	-	419,093	1,259,000	419,093	1,259,000	
2038	-	-	-	-	-	-	-	-	373,140	1,305,000	373,140	1,305,000	
2039	-	-	-	-	-	-	-	-	325,507	1,354,000	325,507	1,354,000	
2040	-	-	-	-	-	-	-	-	276,086	1,404,000	276,086	1,404,000	
2041	-	-	-	-	-	-	-	-	224,840	1,457,000	224,840	1,457,000	
2042	-	-	-	-	-	-	-	-	171,660	1,511,000	171,660	1,511,000	
2043	-	-	-	-	-	-	-	-	86,508	1,567,000	86,508	1,567,000	
2044	-	-	-	-	-	-	-	-	59,312	1,625,000	59,312	1,625,000	
2045	-	-	-	-	-	-	-	-	-	-	-	-	
	\$ 29,196	\$ 264,335	\$ 355,376	\$ 10,035,000	\$ 71,500	\$ 3,225,000	\$ 49,765	\$ 205,528	\$ 8,991,048	\$ 20,400,000	\$ 9,496,885	\$ 34,129,863	\$ 30,208,602
Current		\$ (34,822)		\$ (2,085,000)		\$ (1,300,000)		\$ (17,000)				\$ (3,436,822)	
Noncurrent		\$ 229,513		\$ 7,950,000		\$ 1,925,000		\$ 188,528				\$ 30,693,041	

For the Year ending June 30,	\$2,921,430 SRF Revenue Note Dated July 23, 2014		\$2,589,929 SRF GO Note Dated August 30, 2024		NOTE TOTALS			BOND & NOTE TOTALS		
	Interest	Principal	Interest	Principal	Total	Total	Total	Total	Total	Total
					Interest	Principal				
2026	15,881	145,466	53,009	105,914	68,890	251,380	320,270	990,865	3,688,202	4,679,067
2027	14,421	146,926	50,767	108,156	65,188	255,082	320,270	944,042	3,768,547	4,712,589
2028	12,946	148,401	48,478	110,445	61,424	258,846	320,270	896,175	3,362,007	4,258,182
2029	11,457	149,890	46,141	112,783	57,598	262,673	320,271	845,117	3,139,587	3,984,704
2030	9,952	151,395	43,753	115,170	53,705	266,565	320,270	782,355	3,130,291	3,912,646
2031	8,433	152,914	41,316	117,608	49,749	270,522	320,271	718,797	1,342,120	2,060,917
2032	6,898	154,449	38,826	120,097	45,724	274,546	320,270	675,936	1,386,078	2,062,014
2033	5,347	156,000	36,285	122,639	41,632	278,639	320,271	631,557	1,389,237	2,020,794
2034	3,782	157,566	33,689	125,235	37,471	282,801	320,272	586,746	1,434,336	2,021,082
2035	2,200	159,147	31,038	127,885	33,238	287,032	320,270	540,364	1,481,544	2,021,908
2036	603	120,408	28,331	130,592	28,934	251,000	279,934	492,338	1,465,000	1,957,338
2037	-	-	25,567	133,356	25,567	133,356	158,923	444,660	1,392,356	1,837,016
2038	-	-	22,744	136,179	22,744	136,179	158,923	395,884	1,441,179	1,837,063
2039	-	-	19,862	139,061	19,862	139,061	158,923	345,369	1,493,061	1,838,430
2040	-	-	16,919	142,005	16,919	142,005	158,924	293,005	1,546,005	1,839,010
2041	-	-	13,913	145,010	13,913	145,010	158,923	238,753	1,602,010	1,840,763
2042	-	-	10,844	148,080	10,844	148,080	158,924	182,504	1,659,080	1,841,584
2043	-	-	7,710	151,214	7,710	151,214	158,924	94,218	1,718,214	1,812,432
2044	-	-	4,509	154,414	4,509	154,414	158,923	63,821	1,779,414	1,843,235
2045	-	-	1,241	117,952	1,241	117,952	119,193	1,241	117,952	119,193
	\$ 91,920	\$ 1,642,562	\$ 574,942	\$ 2,563,795	\$ 543,553	\$ 3,072,442	\$ 3,482,639	\$ 10,163,747	\$ 38,336,220	\$ 48,499,967
Current		\$ (145,466)		\$ (105,914)		\$ (251,380)			\$ (3,688,202)	
Noncurrent		\$ 1,497,096		\$ 2,457,881		\$ 2,821,062			\$ 34,648,018	

STATISTICAL SECTION

Statistical Section

The purpose of the statistical section is to provide additional information useful in assessing a government's financial condition. The statistical section provides information on financial trends, revenue capacity, debt capacity, operating information as well as demographic and economic information.

Statistical Section Table of Contents

	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and position have changed over time</i>	76-79
Revenue Capacity <i>These schedules contain information identifying the factors affecting the District's ability to generate revenue</i>	80-85
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future</i>	86-89
Demographic and Economic Information <i>These schedules offer demographic and economic indicators showing the environment in which the District operates</i>	90-91
Other Operational and Capital Information <i>These schedules contain operational, capital, and service information to convey how the District's financial reports relate to its service</i>	92-95

Financial Trends

Statements of Revenues, Expenses, and Debt Service per Bond Covenants⁵

Last Ten Fiscal Years

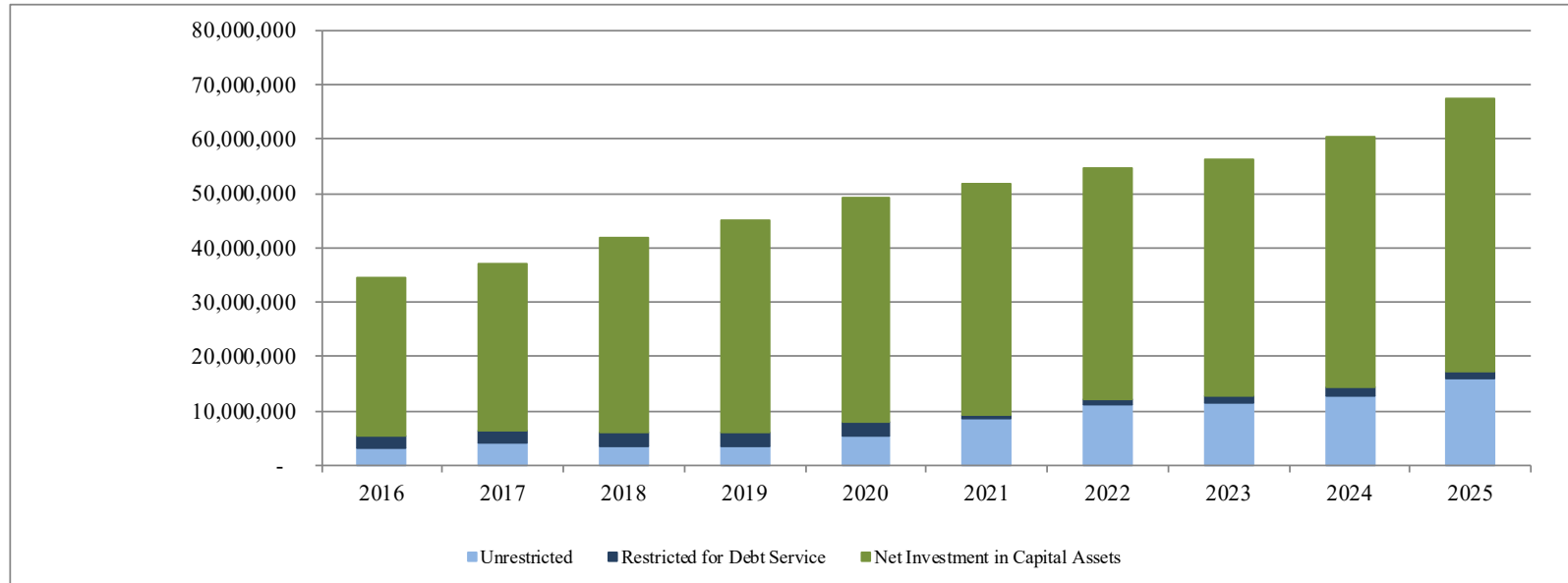
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenues										
Water Service	\$6,009,410	\$6,680,175	\$6,586,002	\$7,148,606	\$7,735,802	\$7,746,340	\$7,817,334	\$7,774,846	\$8,020,935	\$8,718,132
Sewer Service	5,056,081	5,143,168	5,226,965	5,408,090	5,719,313	5,852,395	6,013,685	6,051,117	6,295,468	6,760,202
Water Tap In Fees	96,427	137,423	213,517	180,487	240,179	247,227	214,342	239,996	159,173	227,067
Sewer Connection Fees	109,984	219,483	229,355	278,737	242,418	212,488	216,469	344,630	420,091	188,584
Availability Fees	525,302	506,930	491,474	445,190	452,602	420,187	27,279	-	-	-
Golf Course Irrigation	164,344	284,937	175,015	182,516	155,676	207,233	155,994	167,553	218,906	194,753
Service Fees	39,113	29,105	34,059	38,391	23,015	14,662	26,118	19,913	20,908	19,281
Disaster Recovery, net	-	58,691	115,466	3,942	86,502	44,828	7,854	1,700	6,000	22,882
Other Operating Revenues	284,775	28,676	53,566	48,281	91,432	265,862	51,992	90,288	29,628	26,695
Total Operating Revenues	\$12,285,435	\$13,088,589	\$13,125,419	\$13,734,240	\$14,746,939	\$15,011,222	\$14,531,067	\$14,690,043	\$15,171,109	\$16,157,596
Operating Expenses										
Payroll and Related Expenses	\$3,294,097	\$3,689,699	\$3,951,862	\$3,889,589	\$4,062,153	\$4,203,335	\$3,952,377	\$4,251,569	\$4,669,436	\$4,960,426
Administrative Expenses	767,276	877,410	961,211	957,919	1,006,662	1,020,574	1,026,137	1,091,603	1,028,890	1,061,189
Operations Expenses	2,308,426	2,509,332	2,570,764	2,500,471	2,608,108	2,657,074	2,865,270	3,259,419	3,284,179	3,551,136
Maintenance Expenses	1,343,199	1,163,384	1,450,531	1,416,172	1,216,813	1,322,787	1,529,491	1,409,057	1,505,505	1,380,618
Purchased Water	746,550	1,238,997	1,343,588	1,387,939	892,181	899,685	1,031,270	1,004,551	1,061,550	1,646,103
Water Tap In Expenses	115,995	191,120	216,109	171,891	152,870	171,909	166,639	173,700	109,607	178,412
Sewer Connection Expenses	150,570	174,722	221,696	247,232	215,867	200,934	198,236	325,863	402,999	162,378
Professional Fees	229,387	99,701	146,084	127,011	342,116	203,678	248,636	287,305	126,256	182,378
Depreciation	4,482,776	4,576,123	4,733,613	4,946,397	5,044,727	5,188,028	5,142,783	5,140,534	5,215,476	5,420,424
Total Operating Expenses	\$13,438,276	\$14,520,488	\$15,595,458	\$15,644,621	\$15,541,497	\$15,868,004	\$16,160,839	\$16,943,601	\$17,403,898	\$18,543,064
Operating Income (Loss)	(1,152,841)	(1,431,899)	(2,470,040)	(1,910,381)	(794,558)	(856,782)	(1,629,772)	(2,253,558)	(2,232,789)	(2,385,468)
Non-Operating Revenues (Expenses)										
Property Taxes-Debt Service	\$1,396,680	\$1,403,497	\$1,441,325	\$1,371,933	\$1,414,091	\$1,499,844	\$1,522,142	\$1,583,535	\$1,793,252	\$1,877,746
Property Taxes-Operations Levy	931,507	973,607	984,296	1,011,176	1,034,553	1,071,896	1,086,204	1,155,522	1,305,973	1,372,970
Rental Income	78,552	79,115	79,068	79,757	79,758	78,156	83,965	86,094	87,674	88,564
Tower Leases Income	471,540	531,964	462,986	485,678	625,067	537,442	571,437	584,104	598,399	614,001
Interest Income - Leases	-	-	-	-	-	15,992	18,881	33,092	32,368	32,057
Interest Income	92,713	99,041	108,346	156,389	184,093	102,306	109,605	604,314	900,541	1,458,176
Gain (Loss) on Disposal	1,500	3,500	95,716	15,000	-	2,500	38,540	49,240	34,205	(19,820)
Bond Issuance Costs	(119,950)	0	(69,609)	-	(42,056)	(225,650)	-	(37,500)	-	(175,243)
Amortization of Bond Costs	(243,693)	(256,428)	(256,428)	(256,428)	(256,428)	(265,132)	(325,462)	(325,462)	(325,462)	(209,177)
Interest Expense	(1,230,078)	(1,091,811)	(1,030,789)	(941,525)	(841,047)	(511,229)	(350,625)	(312,317)	(277,038)	(755,068)
Total Non-Operating Income (Loss)	\$1,378,770	\$1,742,486	\$1,814,909	\$1,921,980	\$2,198,031	\$2,306,125	\$2,754,687	\$3,420,622	\$4,149,912	\$4,284,206
Net Income (loss) before Capital per Financial Statements	\$225,930	\$310,587	(\$655,130)	\$11,599	\$1,403,473	\$1,449,343	\$1,124,915	\$1,167,064	\$1,917,123	\$1,898,738
Capacity Fees	585,744	565,093	565,672	878,264	864,478	1,157,787	1,396,743	356,520	1,381,832	170,944
Add: Depreciation	4,482,776	4,576,123	4,733,613	4,946,397	5,044,727	5,188,028	5,142,783	5,140,534	5,215,476	5,420,424
Net Pension Expense	298,810	251,759	514,614	382,374	560,016	613,324	290,852	408,173	406,321	390,435
SCRS Retirement Contributions	(222,257)	(272,562)	(307,158)	(352,212)	(367,120)	(387,521)	(424,042)	(466,620)	(518,900)	(592,189)
Amortization	243,693	247,787	256,428	256,428	265,428	265,132	325,462	325,462	325,462	209,177
Bond Issuance Costs	119,950	-	69,609	-	42,056	225,650	-	37,500	-	175,243
Interest Expense (Bonds)	1,230,078	1,100,452	1,030,789	941,525	841,047	509,935	347,001	308,748	273,469	752,731
Assessments - Debt Service	452,658	157,973	190,300	190,184	188,409	200,485	209,221	222,184	237,137	208,324
Less: Property Taxes - Debt Service	(1,396,680)	(1,403,497)	(1,441,325)	(1,371,933)	(1,414,091)	(1,499,844)	(1,522,142)	(1,583,535)	(1,793,252)	(1,877,746)
Net Earnings Available for Debt Service	\$6,020,702	\$5,533,715	\$4,957,413	\$5,882,626	\$7,419,423	\$7,722,320	\$6,890,792	\$5,916,030	\$7,444,668	\$6,756,081
Debt Service on Revenue Bonds	\$3,441,323	\$3,923,462	\$4,008,312	\$4,040,662	\$4,048,243	\$2,686,001	\$2,440,269	\$2,437,980	\$2,461,000	\$2,468,287
Required per Bond Covenants (120%)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Coverage of Debt Service by Net	175%	141%	124%	146%	183%	288%	282%	243%	303%	274%
Debt Coverage without Capacity Fees	158%	127%	110%	124%	162%	244%	225%	228%	246%	267%

⁵ Please note that fiscal years 2022 and onward reflect implementation of GASB 87.

Schedule of Changes in Net Position⁶

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Income (Loss from operations)	\$ (1,152,841)	\$ (1,431,899)	\$ (2,470,040)	\$ (1,910,381)	\$ (794,558)	\$ (856,782)	\$ (1,629,772)	\$ (2,253,558)	\$ (2,232,789)	\$ (2,385,468)
Total Non-Operating Income (Loss)	1,378,770	1,742,486	1,814,909	1,921,980	2,198,031	2,306,125	2,754,687	3,420,622	4,149,912	4,284,206
Capital Contributions and Assessments	1,404,843	2,334,412	5,452,120	3,213,568	2,528,490	1,157,787	1,891,418	482,566	2,245,004	4,890,544
Changes in net position	1,630,773	2,644,999	4,796,990	3,225,167	3,931,963	2,607,130	3,016,333	1,649,630	4,162,127	6,789,282
Net position at beginning of year	32,879,110	34,509,883	37,154,881	41,951,871	45,177,038	49,109,001	51,716,131	54,732,465	56,382,095	60,544,222
Net position at end of year	<u>\$ 34,509,883</u>	<u>\$ 37,154,881</u>	<u>\$ 41,951,871</u>	<u>\$ 45,177,038</u>	<u>\$ 49,109,001</u>	<u>\$ 51,716,131</u>	<u>\$ 54,732,465</u>	<u>\$ 56,382,095</u>	<u>\$ 60,544,222</u>	<u>\$ 67,333,504</u>

Net Position at End of Year



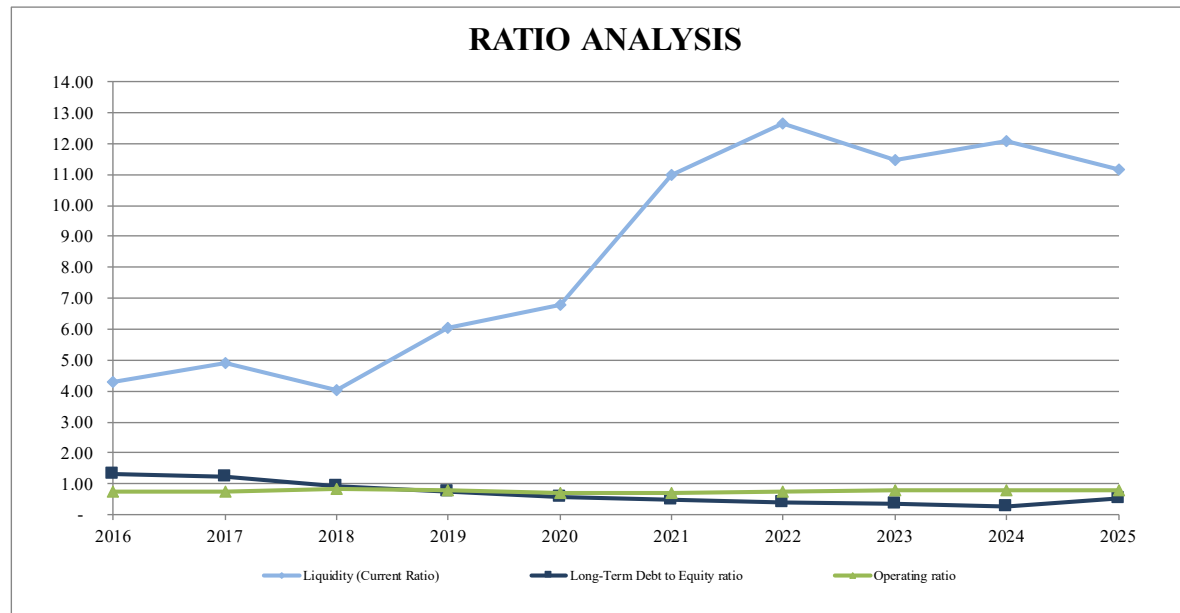
⁶ Please note that fiscal years 2022 and onward reflect implementation of GASB 87.

Net Position by Component

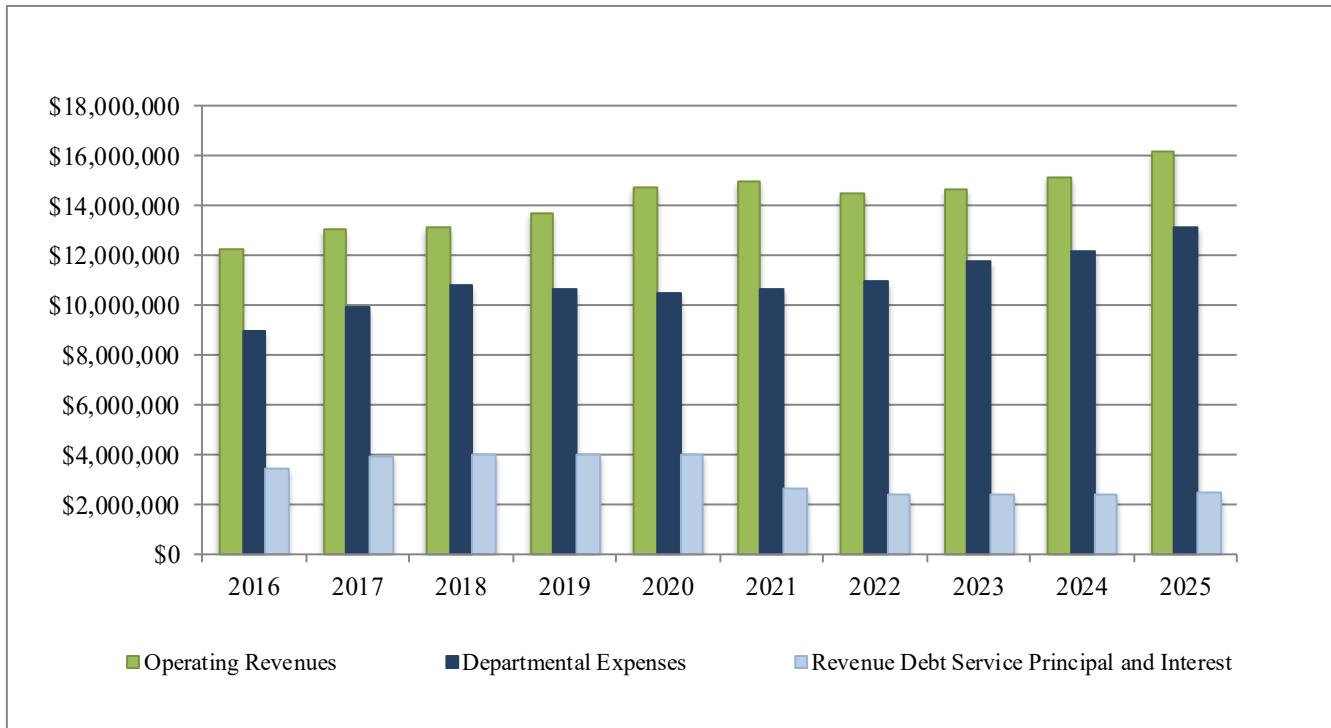
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net position										
Net investment in capital assets	\$28,981,560	\$30,631,424	\$36,023,464	\$39,248,405	\$41,211,563	\$42,457,546	\$42,602,561	\$43,634,968	\$46,323,932	\$50,045,908
Restricted for debt service	2,482,528	2,406,220	2,425,274	2,412,700	2,570,882	680,403	887,721	1,161,690	1,301,824	1,270,790
Unrestricted	3,045,794	4,117,237	3,503,133	3,515,934	5,326,557	8,578,183	11,242,183	11,585,437	12,918,466	16,016,806
Net position	<u>\$34,509,882</u>	<u>\$37,154,881</u>	<u>\$41,951,871</u>	<u>\$45,177,039</u>	<u>\$49,109,002</u>	<u>\$51,716,132</u>	<u>\$54,732,465</u>	<u>\$56,382,095</u>	<u>\$60,544,222</u>	<u>\$67,333,504</u>

Ratio Analysis

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Liquidity (Current Ratio)	4.30	4.89	4.05	6.05	6.79	10.97	12.65	11.48	12.08	11.16
Long-Term Debt to Equity ratio	1.31	1.22	0.90	0.74	0.59	0.51	0.41	0.34	0.25	0.51
Operating ratio	0.73	0.76	0.83	0.78	0.71	0.71	0.76	0.80	0.80	0.81



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



Revenue Capacity

Customer Statistics at Fiscal Year-End⁷

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

Year	Water	Percent Increase	Wastewater	Percent Increase	Ratio of Customers with Both Services
2016	16,899	0.2%	15,758	0.8%	93.25%
2017	17,076	1.0%	15,961	1.3%	93.47%
2018	17,345	1.6%	16,258	1.9%	93.73%
2019	17,503	0.9%	16,473	1.3%	94.12%
2020	17,693	1.1%	16,693	1.3%	94.35%
2021	18,033	1.9%	17,075	2.3%	94.69%
2022	18,424	2.2%	17,566	2.9%	95.34%
2023	18,549	0.7%	17,726	0.9%	95.56%
2024	18,653	0.6%	17,863	0.8%	95.76%
2025	18,805	0.8%	18,049	1.0%	95.98%

Water & Irrigation Customer Statistics at Fiscal Year-End

Water & Irrigation Customer Growth at Fiscal Year-end

Year	Residential	Master Metered Residential	Commercial	Total	Percent Increase
2016	11,060	4,907	2,009	17,976	0.49%
2017	11,226	4,907	2,022	18,155	1.00%
2018	11,492	4,907	2,029	18,428	1.50%
2019	11,627	4,907	2,054	18,588	0.87%
2020	11,812	4,907	2,064	18,783	1.05%
2021	12,186	4,907	2,026	19,119	1.79%
2022	12,073	5,397	2,054	19,524	2.12%
2023	12,158	5,400	2,098	19,656	0.68%
2024	12,249	5,399	2,118	19,766	0.56%
2025	12,401	5,403	2,122	19,926	0.81%

Wastewater Customer Statistics at Fiscal Year-End

Wastewater Customer Growth at Fiscal Year-end

Year	Residential	Master Metered Residential	Commercial	Total	Percent Increase
2016	9,431	4,907	1,420	15,758	0.80%
2017	9,588	4,907	1,466	15,961	1.29%
2018	9,882	4,907	1,469	16,258	1.86%
2019	10,097	4,907	1,469	16,473	1.32%
2020	10,311	4,907	1,475	16,693	1.34%
2021	10,699	4,907	1,469	17,075	2.29%
2022	10,739	5,351	1,476	17,566	2.88%
2023	10,859	5,354	1,513	17,726	0.91%
2024	10,976	5,353	1,534	17,863	0.77%
2025	11,147	5,357	1,545	18,049	1.04%

⁷ These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

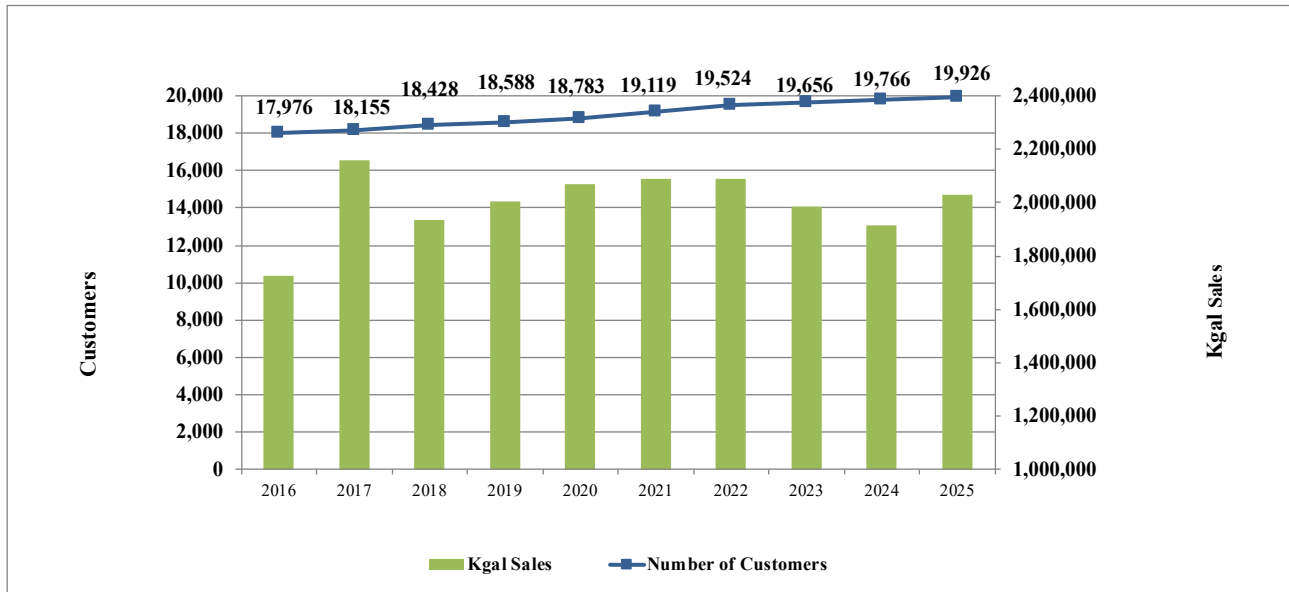
Year	Just Water Meters	Percent Increase	Wastewater	% Inc
2016	1,475,858	2.5%	1,275,251	0.0%
2017	1,819,663	23.3%	1,573,203	23.4%
2018	1,640,939	-9.8%	1,402,469	-10.9%
2019	1,680,080	2.4%	1,474,373	5.1%
2020	1,740,042	3.6%	1,526,212	3.5%
2021	1,789,282	2.8%	1,582,591	3.7%
2022	1,786,118	-0.2%	1,595,976	0.8%
2023	1,692,614	-5.2%	1,532,388	-4.0%
2024	1,644,421	-2.8%	1,511,998	-1.3%
2025	1,756,852	6.8%	1,594,622	5.5%

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

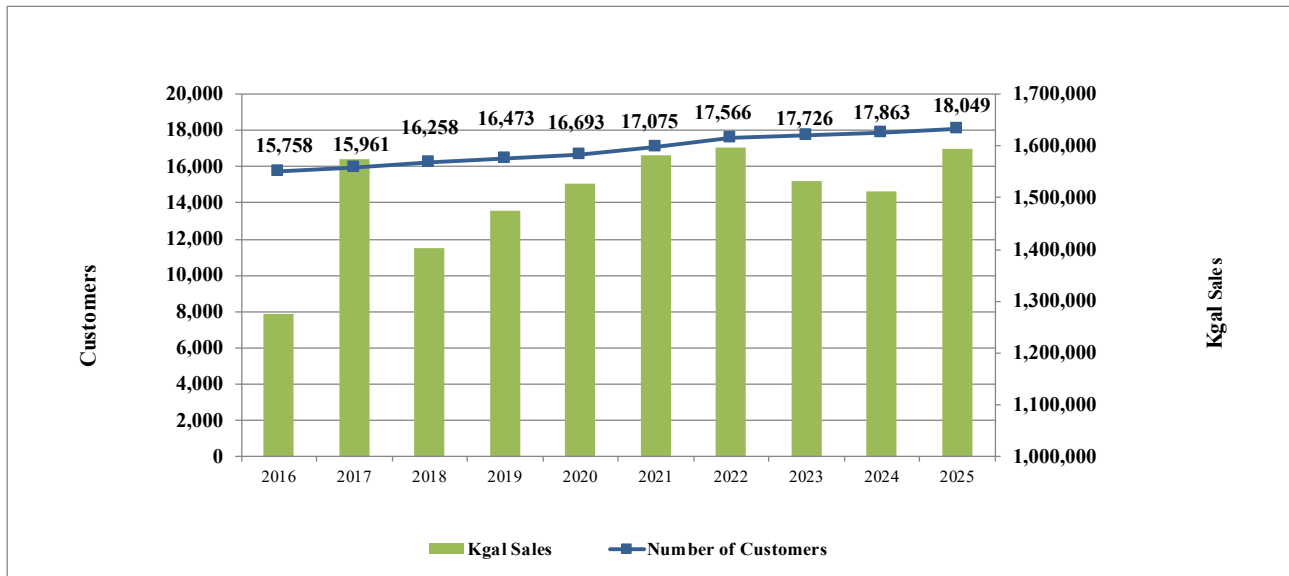
Reported in kgals (thousands of gallons)

Year	Water & Irrigation Meters	Percent Increase	Wastewater	% Inc
2016	1,724,451	1.9%	1,275,251	0.0%
2017	2,159,321	25.2%	1,573,203	23.4%
2018	1,933,031	-10.5%	1,402,469	-10.9%
2019	2,006,513	3.8%	1,474,373	5.1%
2020	2,068,280	3.1%	1,526,212	3.5%
2021	2,087,714	0.9%	1,582,591	3.7%
2022	2,087,003	0.0%	1,595,976	0.8%
2023	1,986,576	-4.8%	1,532,388	-4.0%
2024	1,915,867	-3.6%	1,511,998	-1.3%
2025	2,031,048	6.0%	1,594,622	5.5%

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales Last Ten Fiscal Years



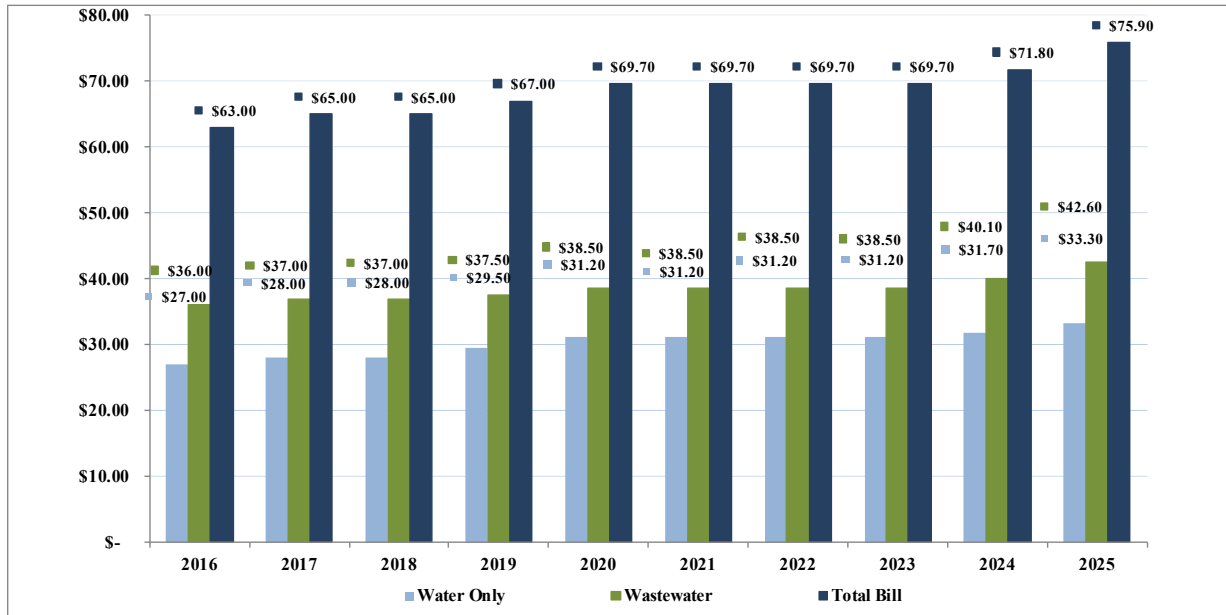
Sewer Customers vs. Wastewater Kgal Sales Last Ten Fiscal Years



Water and Wastewater Rate Comparisons

Water Rate Comparison											
Effective Date											
		FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25
Residential Water	Base Charge	\$ 13.00	\$ 14.00	\$ 14.00	\$ 15.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 17.50
	First 10,000 Gallons	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.47	\$ 1.47	\$ 1.47	\$ 1.47	\$ 1.52	\$ 1.58
	Next 10,001 to 20,000 gallons	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91	\$ 2.11	\$ 2.24
	Next 20,001 to 30,000 gallons	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.18	\$ 2.27	\$ 2.27	\$ 2.27	\$ 2.36	\$ 2.54	\$ 2.79
	Over 30,000 gallons	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.60	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.98	\$ 3.38	\$ 3.72
Residential Irrigation	Base Charge	\$ 13.00	\$ 14.00	\$ 14.00	\$ 15.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 17.50
	First 10,000 Gallons Irrigation	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91	\$ 2.11	\$ 2.24
	Next 10,001 to 20,000 gallons	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91	\$ 2.11	\$ 2.24
	Next 20,001 to 30,000 gallons	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.18	\$ 2.27	\$ 2.27	\$ 2.27	\$ 2.36	\$ 2.54	\$ 2.79
	Over 30,000 gallons	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.60	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.98	\$ 3.38	\$ 3.72
Commercial Water and Irrigation	Base Charge	\$ 18.00	\$ 19.00	\$ 19.00	\$ 20.50	\$ 21.50	\$ 21.50	\$ 21.50	\$ 21.50	\$ 21.50	\$ 22.50
	First 10,000 Gallons	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
	Next 10,001 to 20,000 gallons	\$ 1.99	\$ 1.99	\$ 1.99	\$ 2.01	\$ 2.04	\$ 2.04	\$ 2.04	\$ 2.06	\$ 2.11	\$ 2.24
	Next 20,001 to 30,000 gallons	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.53	\$ 2.54	\$ 2.79
	Over 30,000 gallons	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.97	\$ 3.07	\$ 3.07	\$ 3.07	\$ 3.18	\$ 3.38	\$ 3.72
Wastewater Rate Comparison											
Effective Date											
		FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24	FY'24	FY'25
Residential	Base Charge	\$ 16.00	\$ 17.00	\$ 17.00	\$ 17.50	\$ 18.50	\$ 18.50	\$ 18.50	\$ 18.50	\$ 18.50	\$ 19.50
	Per 1,000 gallons with 10 kgal Cap	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.16	\$ 2.31
Commercial	Base Charge	\$ 16.00	\$ 17.00	\$ 17.00	\$ 17.50	\$ 18.50	\$ 18.50	\$ 18.50	\$ 18.50	\$ 18.50	\$ 19.50
	Per 1,000 gallons (No Cap)	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.16	\$ 2.31

Water/Wastewater Bill History (Residential Customers Using 10 Kgals/Month)



Water and Sewer Installation Fees

Water meter installation fees (existing service lines)										
3/4" Meter	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$ 640	\$ 640	\$ 640	\$ 640	\$1,020	\$1,020	\$1,020	\$1,180	\$1,180	\$1,180
1" Meter	850	850	850	850	1,280	1,280	1,280	1,500	1,500	1,500
2" Meter with meter box and backflow	2,330	2,330	2,330	2,330	2,720	2,720	2,720	3,440	3,440	3,440
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
Water meter installation fees (no existing service lines)										
3/4" Meter	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$ 1,020	\$ 1,020	\$ 1,020	\$1,020	\$1,210	\$1,210	\$1,210	\$1,390	\$1,390	\$1,390
1" Meter	1,080	1,080	1,080	1,080	1,450	1,450	1,450	1,710	1,710	1,710
2" Meter with meter box and backflow	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
Sewer Installation Fees										
Sewer Connection Fee	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 150	\$ 150
Sewer Installation Costs	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
* T&M equals Time and Materials										
More information is available at: http://www.hhpsd.com/about-hhpsd/customer-service/										

Capacity Fees

The District requires developers to pay capacity fees in order to defray the cost of providing expanded service to the area to be developed per residential equivalency unit.

Capacity Fee (per unit)	
Water Capacity (House)	\$2,400.00
Water Capacity (Mobile Home)	\$1,800.00
Sewer Capacity	\$3,040.00
* The same water and sewer capacity fees have been in effect since 2005.	

District Top Ten Water/Irrigation Customers

Fiscal year ended June 30, 2025

User Name	Type	2025 Billed Revenues	% of Total 2025 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 232,753	2.67%
Cypress of Hilton Head Association	Residential Homes	198,034	2.27%
Westin Resort	Resort	163,203	1.87%
Marriott Surfwatch	Resort	116,761	1.34%
Hilton Head Resort/Four Seasons	Resort	110,977	1.27%
Marriott Vacation Club	Resort	103,296	1.18%
Fiddler's Cove	Condo Complex	86,812	1.00%
Marshside Owner's Association	Apartment Complex	76,953	0.88%
Spa at Port Royal	Resort	71,860	0.82%
Aquatera Hilton Head	Apartment Complex	70,319	0.81%
Remaining Customers		<u>7,487,164</u>	<u>85.88%</u>
		<u>\$ 8,718,132</u>	100.00%

District Top Ten Wastewater Customers

Fiscal year ended June 30, 2025

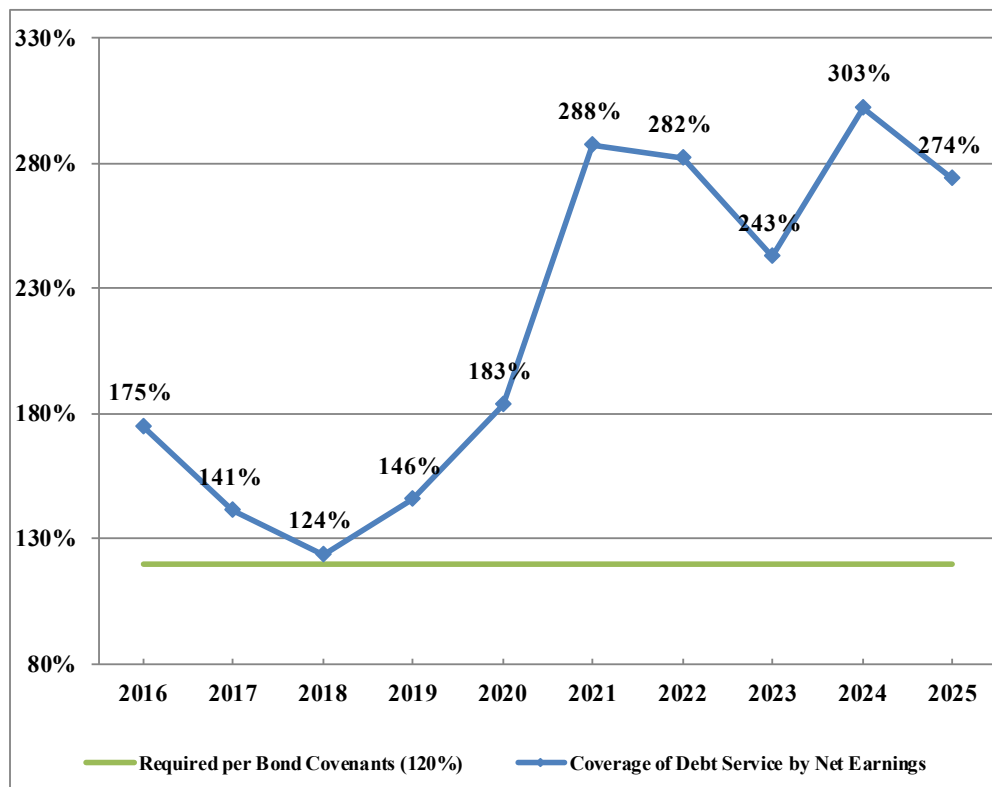
User Name	Type	2025 Billed Revenues	% of Total 2025 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 248,378	3.67%
Westin Resort	Resort	138,605	2.05%
Hilton Head Resort/Four Seasons	Resort	126,764	1.88%
Cypress of Hilton Head Association	Residential Homes	122,983	1.82%
Fiddler's Cove	Condo Complex	98,054	1.45%
Marriott Vacation Club	Resort	91,067	1.35%
Marriott Surfwatch	Resort	90,373	1.34%
Marshside Owner's Association	Apartment Complex	81,815	1.21%
Spa at Port Royal	Resort	77,949	1.15%
Aquatera Hilton Head	Apartment Complex	73,663	1.09%
Remaining Customers		<u>5,610,552</u>	<u>82.99%</u>
		<u>\$ 6,760,202</u>	100.00%

Debt Capacity

Total Outstanding Debt by Debt Type

Fiscal Year	GO Bonds	Revenue Bonds	SRF Revenue Loans*	SRF GO Loans	Notes Payable	Finance Purchase Payable	Total Outstanding Debt	Bond Premiums / discounts	Total Outstanding Debt Net of Amortization	Average Debt Per Customer
2016	8,887,829	31,888,358	2,888,397	5,528,734	115,939	-	49,309,257	80,774	49,390,031	2,748
2017	8,222,841	28,770,617	2,755,436	5,237,548	97,939	-	45,084,381	72,133	45,156,514	2,487
2018	7,533,001	26,078,181	3,769,233	4,924,110	79,939	-	42,384,464	63,492	42,447,956	2,303
2019	6,823,102	22,811,429	3,692,024	4,603,642	61,939	-	37,992,136	54,851	38,046,987	2,047
2020	6,087,937	19,911,323	3,500,050	4,275,983	43,939	-	33,819,232	46,210	33,865,442	1,803
2021	8,630,000	18,659,736	2,210,113	-	25,939	188,937	29,714,725	-	29,714,725	1,554
2022	7,295,000	16,603,422	2,070,344	-	7,939	152,931	26,129,636	-	26,129,636	1,338
2023	5,910,000	14,761,265	1,929,172	-	-	116,926	22,717,363	-	22,717,363	1,156
2024	4,470,000	12,650,095	1,786,582	-	-	80,921	18,987,598	-	18,987,598	961
2025	23,625,000	10,504,863	1,642,562	2,563,795	-	-	38,336,220	-	38,336,220	1,924

Debt Service Coverage Analysis⁸



The District's Millage History

Debt Type	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	4.31	4.40	4.05	4.10	4.20	4.20	4.20	4.10	4.10	4.10
Total	7.31	7.40	7.05	7.10	7.20	7.20	7.20	7.10	7.10	7.10

⁸ 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.

Ratio of (net) General Obligation Bonded Debt

Fiscal Year	Tax Year	General Obligation Debt	Real Property		Motor Vehicle & Other		Total Estimated Appraised Values	Ratio of (net) General bonded debt
			Assessed Taxable Value at 4% & 6%	Estimated Appraised Value	Assessed Value Various Rates	Estimated Appraised Value		
2016	2015	\$ 14,416,563	\$ 276,766,480	\$ 6,374,778,755	\$ 40,419,860	\$ 527,077,690	\$ 6,901,856,445	0.21%
2017	2016	13,460,389	280,372,310	6,463,470,955	46,618,080	578,551,170	7,042,022,125	0.19%
2018	2017	12,457,111	286,061,400	6,593,162,755	47,799,978	597,464,630	7,190,627,385	0.17%
2019	2018	11,426,744	305,078,770	7,236,129,455	47,973,493	587,625,970	7,823,755,425	0.15%
2020	2019	10,363,920	311,484,940	7,345,163,455	42,889,611	547,543,940	7,892,707,395	0.13%
2021	2020	8,630,000	316,904,720	7,456,241,055	44,538,724	559,478,160	8,015,719,215	0.11%
2022	2021	7,295,000	325,289,700	7,639,145,155	43,972,915	560,692,390	8,199,837,545	0.09%
2023	2022	5,910,000	344,885,780	8,026,850,455	48,577,413	640,616,090	8,667,466,545	0.07%
2024	2023	4,470,000	402,924,340	12,178,128,655	48,453,145	654,145,300	12,832,273,955	0.03%
2025	2024	26,188,795	422,003,695	12,455,414,910	57,611,499	772,269,670	13,227,684,580	0.20%

Source: Beaufort County Treasurer.

(1) The County implemented its county-wide reassessment in tax years 2018 and 2023.

General Obligation Outstanding Debt

Fiscal Year	Tax Year	Taxable Assessed Value of Real Property	Taxable Assessed Value of Personal Property	Total Taxable Assessed Value of the District	8% Debt Limit Value	Total Outstanding GO Debt	Available Debt Limit	Percent of Debt Limit	Average Debt Per Customer	Number of Customers
2016	2015	\$ 276,766,480	\$ 40,419,860	\$ 317,186,340	\$ 25,374,907	\$ 14,416,563	\$ 10,958,344	57%	802	17,976
2017	2016	280,372,310	46,618,080	326,990,390	26,159,231	13,460,389	12,698,842	51%	741	18,155
2018	2017	286,061,400	47,799,978	333,861,378	26,708,910	12,457,111	14,251,799	47%	676	18,428
2019	2018	305,078,770	47,973,493	353,052,263	28,244,181	11,426,744	16,817,437	40%	615	18,588
2020	2019	311,484,940	42,889,611	354,374,551	28,349,964	10,363,920	17,986,044	37%	552	18,783
2021	2020	316,904,720	44,538,724	361,443,444	28,915,476	8,630,000	20,285,476	30%	451	19,119
2022	2021	325,289,700	43,972,915	369,262,615	29,541,009	7,295,000	22,246,009	25%	374	19,524
2023	2022	344,885,780	48,577,413	393,463,193	31,477,055	5,910,000	25,567,055	19%	301	19,656
2024	2023	402,924,340	48,453,145	451,377,485	36,110,199	4,470,000	31,640,199	12%	226	19,766
2025	2024	422,003,695	57,611,499	479,615,194	38,369,216	26,188,795	12,180,421	68%	1,314	19,926

Source: Beaufort County Treasurer's Office

The above table shows the then outstanding principal, authorized debt limit, available debt limit and other information regarding the District's general obligation indebtedness from FY 2016 through FY 2025.

General Obligation Debt Limit

Section 14 of Article X of the Constitution of the State of South Carolina (the "State") provides that subsequent to November 30, 1977, the special purpose districts of the State may issue bonded indebtedness in an amount not exceeding eight percent (8%) of the assessed value of all taxable property therein. The assessed value of all taxable property located within the District for the year 2025, which is the last completed assessment thereof, exclusive of properties subject to a fee in lieu of tax, is a sum of not less than \$479,615,194 and thus the eight percent (8%) debt limit of the District is not less than \$38,369,216. The District presently has the following bonded indebtedness chargeable against this limit:

Originally Issued	Date	Original Amount	Outstanding Balance as of June 30, 2025
Series 2020	November 2, 2020	\$ 9,910,000	\$ 3,225,000
SRF - Series 2024A	August 30, 2024	2,589,929	2,563,795
Series 2024B	November 4, 2024	20,400,000	20,400,000
	Total Indebtedness - GO Bonds	\$ 32,899,929	\$ 26,188,795

Assessed Values of Taxable Property of the District

Fiscal Year	Tax Year	Real Property	Personal Property	Total
2016	2015	\$ 276,766,480	\$ 40,419,860	317,186,340
2017	2016	280,372,310	46,618,080	326,990,390
2018	2017	286,061,400	47,799,978	333,861,378
2019	2018	305,078,770	47,973,493	353,052,263
2020	2019	311,484,940	42,889,611	354,374,551
2021	2020	316,904,720	44,538,724	361,443,444
2022	2021	325,289,700	43,972,915	369,262,615
2023	2022	344,885,780	48,577,413	393,463,193
2024	2023	402,924,340	48,453,145	451,377,485
2025	2024	422,003,695	57,611,499	479,615,194
Source: Beaufort County Treasurer's Office				
The County implemented its county-wide reassessment in tax years 2018 and 2023				

Tax Year 2024 Market Value for the District

Classification	Assessed Value of Taxable Property	Assessment Ratio	Appraised Value
1. Real Property and Mobile Homes	\$ 206,436,840	4.00%	\$ 7,352,310,399
2. Real Property and Mobile Homes	215,566,855	6.00%	5,103,104,511
3. Business Personal Property	3,971,360	10.50%	37,052,740
4. Merchant's Furniture, Fixtures and Equipment	1,765,070	10.50%	16,395,310
5. Motor Vehicles ⁽¹⁾	29,320,350	Various	460,336,880
6. Marine Equipment ⁽²⁾	4,554,178	Various	76,411,550
7. Airplanes	1,469,628	4.00%	24,844,360
8. Manufacturing Property	551,980	10.50%	5,256,890
9. Public Utilities	7,148,680	10.50%	68,082,670
10. Rental Property and Signs ⁽³⁾	8,830,253	Various	83,889,270
Total	\$ 479,615,194		\$ 13,227,684,580
<p>Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. There is presently no property in multi-county industrial parks or property otherwise subject to fee in lieu of taxes in the District.</p> <p>Source: Beaufort County Treasurer's Office</p> <p>(1) Includes personal automobiles and commercial vehicles, which are assessed at different ratios.</p> <p>(2) Includes personal watercraft and commercial fishing boats, which are assessed at different ratios.</p> <p>(3) Includes residential rental property and commercial signs, which are assessed at different ratios.</p>			

Tax Collection Record for the District

Fiscal Year	Taxes Subject to Collection	Current Collections	Current % Collected	Delinquent Taxes Collected	Total Collections	Total % Collected
2015-2016	2,359,833	2,259,929	95.8%	\$ 73,254	\$ 2,333,183	98.9%
2016-2017	2,347,367	2,253,133	96.0%	65,734	2,318,867	98.8%
2017-2018	2,436,930	2,348,903	96.4%	61,866	2,410,769	98.9%
2018-2019	2,463,280	2,377,954	96.5%	62,786	2,440,740	99.1%
2019-2020	2,497,764	2,403,056	96.2%	69,007	2,472,063	99.0%
2020-2021	2,566,458	2,469,818	96.2%	74,939	2,544,757	99.2%
2021-2022	2,645,453	2,571,183	97.2%	35,099	2,606,282	98.5%
2022-2023	2,787,199	2,721,177	97.6%	28,304	2,749,481	98.6%
2023-2024	3,191,775	3,105,585	97.3%	38,966	3,144,551	98.5%
2024-2025	3,377,812	3,242,698	96.0%	50,670	3,293,368	97.5%
Source: Beaufort County Treasurer's Office						

Tax Year 2024 - District Largest Taxpayers

Employer	Type of Business	2024 Assessed Value	2024-25 Amounts Paid
Marriot Ownership Resort Inc	Real Estate	\$ 6,760,480	\$ 1,718,685
Palmetto Electric Cooperative	Utility	4,672,360	1,150,078
SCG Hilton Head Property LLC	Real Estate	4,458,110	1,133,857
AB PR QOZB II Property LLC.	Real Estate	2,980,190	775,693
Andrick Development	Real Estate	2,305,190	584,336
Bayshore Hilton Head LLC	Real Estate	2,227,460	572,434
Hilton Head Health System LP	Medical	2,165,570	563,858
Barnwell Family Associates LLC	Real Estate	2,191,710	553,737
Foiles William M Esquire Trustee	Real Estate	1,884,940	477,056
Blue Water Investments	Real Estate	1,791,880	457,359
Source: Beaufort County Treasurer's Office.			

Demographic and Economic Information
Population per Capita Income

	<i>Hilton Head</i>		<i>Beaufort County</i>		<i>South Carolina</i>	
Year	Population	Per Capita	Population	Per Capita	Population	Per Capita
2015	40,456	46,091	175,852	32,290	4,896,146	25,951
2016	40,512	44,869	179,859	32,401	4,961,119	27,016
2017	40,500	47,454	183,149	33,877	5,024,369	25,521
2018	39,639	50,289	186,844	34,966	5,084,127	27,909
2019	39,861	51,773	188,715	36,306	5,148,714	27,986
2020	37,661	56,942	187,117	38,946	5,118,425	29,426
2021	38,076	60,988	191,748	41,070	5,190,705	30,727
2022	38,069	61,752	196,371	43,463	5,282,634	32,823
2023	38,097	66,506	198,979	48,132	5,373,555	36,072
2024	37,805	72,304	193,749	47,303	5,317,212	37,334
Source: U.S. Census Bureau						

Town of Hilton Head Island Top Employers 2024

Employer	Employees	Type of Business
SERG Group Restaurants	797	Food Services
Sea Pines Resort LLC	731	Hospitality
Coastal Restaurants and Bars	715	Food Services
Marriott Vacation Club International	521	Hospitality
Hilton Head Medical Center and Clinics	483	Health Services
Beaufort County School District	440	Educational
Greenwood Communities & Resorts (Palmetto Dunes)	407	Hospitality
Cypress of Hilton Head	315	Health Services
Publix Super Markets Inc.	310	Grocery
Omni Hilton Head Oceanfront Resort	159	Hospitality
Total	4,878	
Source: Town of Hilton Head Island 06/30/2024 Annual Comprehensive Financial Report		

Beaufort County Labor Force and Employment

Category	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Civilian Labor Force	71,661	72,535	74,104	75,517	79,798	77,127	73,502	76,398	79,850	84,267
Employment	67,748	69,081	71,113	73,082	77,165	72,961	70,873	73,997	77,626	81,047
Unemployment	3,913	3,454	2,991	2,435	2,633	4,166	2,629	2,401	2,224	3,220
Unemployment Rate	5.6%	5.0%	4.0%	3.4%	3.3%	5.4%	3.5%	3.1%	2.8%	3.8%

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

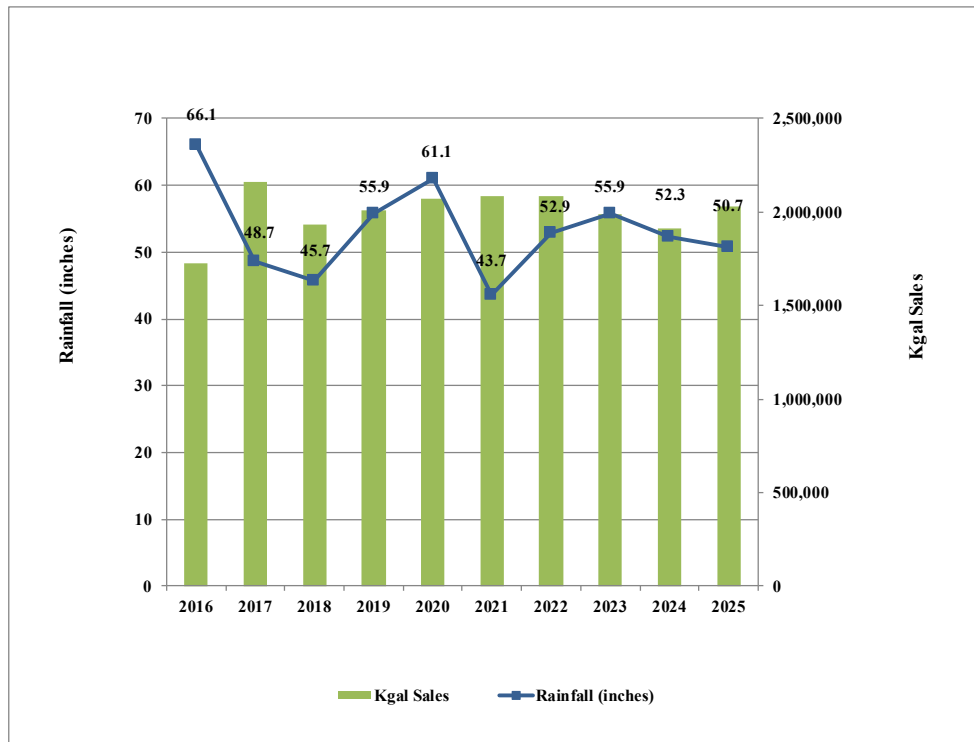
Year	Beaufort County	South Carolina	United States
2015	5.6%	6.0%	5.3%
2016	5.0%	5.0%	4.9%
2017	4.0%	4.3%	4.4%
2018	3.4%	3.4%	3.9%
2019	3.3%	2.9%	3.7%
2020	5.4%	6.2%	8.1%
2021	3.5%	4.0%	5.3%
2022	3.1%	3.2%	3.6%
2023	2.8%	3.0%	3.6%
2024	3.8%	4.1%	4.0%

Source: South Carolina Department of Employment and Workforce.

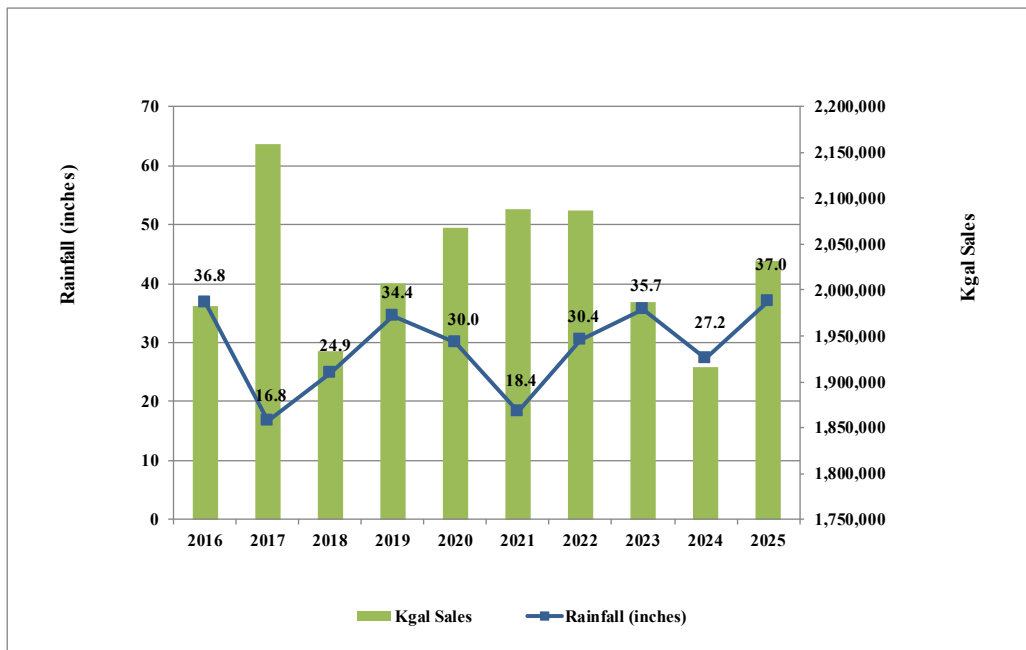
Other Operational and Capital Information
Full Time Equivalent Employees by Function

Fiscal Year	Executive Staff	Finance & Customer Service Staff	Operations Staff	Total
2016	7	9	19	35
2017	6	8	22	36
2018	6	8	22	36
2019	6	8	21	35
2020	5	8	23	36
2021	5	8	24	37
2022	5	9	24	38
2023	5	9	24	38
2024	5	9	26	40
2025	5	9	27	41

Rainfall (inches) vs. Water/Irrigation Kgal Sales⁹



Summer Rainfall (Inches) vs. Water/Irrigation Kgal Sales¹⁰



⁹ Rainfall measurements were recorded at the wastewater treatment plant.

¹⁰ Months included for each year are March through August.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2025</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	-	-	-	\$ 1,299,193
Construction in Progress	<u>785,002</u>	<u>25,705,249</u>	<u>-</u>	<u>(15,378,945)</u>	<u>11,111,306</u>
Total Capital Assets not being depreciated	2,084,195	25,705,249	-	(15,378,945)	12,410,499
<u>Capital assets being depreciated:</u>					
Waterworks system	62,262,581	4,220,079	(1,723,301)	1,109,717	65,869,076
Sewage disposal system	39,645,717	5,334,139	(1,308,316)	13,109,478	56,781,018
Buildings	4,339,091	173,941	(22,871)	-	4,490,161
Sewage treatment facilities	34,727,539	3,659,965	(2,177,817)	698,001	36,907,688
Transportation equipment	1,098,157	1,441,979	(958,104)	-	1,582,032
Operations furniture and equipment	2,198,499	557,380	(715,273)	108,803	2,149,409
Office furniture and equipment	<u>776,042</u>	<u>103,162</u>	<u>(266,095)</u>	<u>-</u>	<u>613,109</u>
Sub Total	145,047,626	15,490,645	(7,171,777)	15,025,999	168,392,493
Less Accumulated depreciation	<u>(70,288,692)</u>	<u>(45,408,102)</u>	<u>7,057,491</u>	<u>-</u>	<u>(108,639,303)</u>
Total capital assets being depreciated, net	<u>74,758,934</u>	<u>(29,917,457)</u>	<u>(114,286)</u>	<u>15,025,999</u>	<u>59,753,190</u>
 Year End Totals	 <u>\$ 76,843,129</u>	 <u>(4,212,208)</u>	 <u>(114,286)</u>	 <u>(352,946)</u>	 <u>\$ 72,163,689</u>

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

Last Ten Fiscal Years

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
PP&E	\$ 146,346,818	\$ 147,901,161	\$ 155,357,839	\$ 156,261,306	\$ 161,887,889	\$ 162,767,990	\$ 164,543,832	\$ 166,709,011	\$ 169,220,692	\$ 169,691,686
Accumulated Depreciation	<u>(70,288,692)</u>	<u>(74,619,859)</u>	<u>(78,115,155)</u>	<u>(82,552,877)</u>	<u>(87,488,189)</u>	<u>(91,731,711)</u>	<u>(96,661,563)</u>	<u>(101,642,020)</u>	<u>(106,051,157)</u>	<u>(108,639,303)</u>
Net PP&E in Service	76,058,126	73,281,302	77,242,684	73,708,429	74,399,700	71,036,279	67,882,269	65,066,991	63,169,535	61,052,383
Construction in Progress	<u>785,002</u>	<u>1,457,297</u>	<u>513,974</u>	<u>2,802,108</u>	<u>57,707</u>	<u>45,310</u>	<u>37,206</u>	<u>1,049,989</u>	<u>2,106,792</u>	<u>11,111,306</u>
 Net PP&E	 <u>\$ 76,843,128</u>	 <u>\$ 74,738,599</u>	 <u>\$ 77,756,658</u>	 <u>\$ 76,510,537</u>	 <u>\$ 74,457,407</u>	 <u>\$ 71,081,589</u>	 <u>\$ 67,919,475</u>	 <u>\$ 66,116,980</u>	 <u>\$ 65,276,327</u>	 <u>\$ 72,163,689</u>

Beaufort-Jasper Water and Sewer Authority (BJWSA)-Purchased Water Expense Summary

Water Purchased from BJWSA Summary (Whole Dollars)										
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
All District Purchases from BJWSA	\$ 812,457	\$ 1,555,262	\$ 1,460,476	\$ 1,472,872	\$ 981,138	\$ 1,030,216	\$ 1,222,325	\$ 1,158,859	\$ 1,270,500	\$ 1,952,859
Broad Creek Purchases	(73,259)	(320,129)	(127,776)	(82,490)	(71,933)	(126,719)	(171,492)	(105,489)	(191,866)	(278,782)
Capitalized Purchased Water	-	-	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	(195,537)	(217,652)	(216,031)	(220,013)	(234,031)	(249,583)	(254,677)	(283,417)	(283,545)	(277,050)
Purchased Water Expense	\$ 543,661	\$ 1,017,482	\$ 1,116,669	\$ 1,170,368	\$ 675,174	\$ 653,914	\$ 796,156	\$ 769,953	\$ 795,089	\$ 1,397,027
Water Purchased from BJWSA Summary (KGals)										
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
All Kgals Purchased from BJWSA	538,925	1,125,264	1,039,001	985,829	603,904	638,084	754,288	672,322	661,653	898,358
Reclaimed Water Adjustment	-	-	-	-	-	-	-	-	-	-
Broad Creek Purchases	(44,304)	(251,213)	(80,844)	(49,207)	(44,896)	(70,811)	(92,463)	(61,000)	(96,705)	(151,458)
Capitalized Purchased Water	-	-	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	(232,782)	(256,061)	(251,199)	(250,015)	(262,894)	(279,977)	(279,685)	(265,565)	(254,025)	(252,250)
Purchased Water (KGals)	261,839	617,990	706,958	686,607	296,114	287,296	382,140	345,757	310,923	494,650
Total Peak Purchases	391,043	643,858	590,557	617,696	435,925	442,909	505,588	446,256	472,715	599,171
Total Off-peak Purchases ¹	147,882	481,406	448,444	368,133	167,979	195,175	248,700	226,066	188,938	299,187
Total Off-peak and Peak Purchases	538,925	1,125,264	1,039,001	985,829	603,904	638,084	754,288	672,322	661,653	898,358
BJWSA Rates Per Kgal Summary										
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2015	FY 2016	FY 2017	FY 2018	FY 2024	FY 2025
Rates Charged by BJWSA										
Peak Rate ²	\$ 1.76	\$ 1.78	\$ 1.82	\$ 1.86	\$ 1.91	\$ 1.95	\$ 1.97	\$ 2.07	\$ 2.26	\$ 2.71
Off Peak Rate	\$ 0.84	\$ 0.85	\$ 0.86	\$ 0.88	\$ 0.89	\$ 0.90	\$ 0.91	\$ 1.04	\$ 1.07	\$ 1.10
District Cost/Kgal Prior to Broad Creek Purchases ³	\$ 1.51	\$ 1.38	\$ 1.41	\$ 1.49	\$ 1.62	\$ 1.61	\$ 1.62	\$ 1.72	\$ 1.92	\$ 2.17
Effective District Cost/Kgal After Broad Creek Purchases ⁴	\$ 1.49	\$ 1.41	\$ 1.39	\$ 1.48	\$ 1.63	\$ 1.59	\$ 1.59	\$ 1.72	\$ 1.91	\$ 2.24
¹ Off-peak rate agreement signed on September, 2009 and the rate increases every fiscal year based on CPI.										
² The FY 2021 peak rate did not go into effect until January 1, 2021. All other peak rates were effective the entire fiscal year.										
³ Combined peak and off-peak purchases calculated as all District purchases from BJWSA divided by all Kgals purchased from BJWSA.										
⁴ During off-peak months, the District pays the peak rate for the first 1 million gallons purchased from BJWSA and the off-peak rate for any amount purchased over one million gallons. However, the District charges the Broad Creek PSD the off-peak rate for all of the water that they purchase during off-peak months. During peak months Broad Creek PSD is charged the peak price. As such, this calculation backs out Broad Creek PSD payments to the District and the Kgals that Broad Creek purchased to arrive at the District's Effective Cost/Kgal for its own water usage.										

COMPLIANCE SECTION



Greene Finney Cauley, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL
AUDITING STANDARDS***

To the Board of Commissioners
Hilton Head No.1 Public Service District
Hilton Head Island, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hilton Head No.1 Public Service District (the "District"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

GREENEFINNEYCAULEY.CPA • INFO@GREENEFINNEYCAULEY.CPA

MAULDIN, SC
864.232.5204

CHARLESTON, SC
843.735.5805

ANDERSON, SC
864.225.8713

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greene Finney Cauley, LLP

Greene Finney Cauley, LLP
Mauldin, South Carolina
November 19, 2025



Greene Finney Cauley, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
Hilton Head No.1 Public Service District
Hilton Head Island, South Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Hilton Head No.1 Public Service District's (the "District") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

GREENEFINNEYCAULEY.CPA • INFO@GREENEFINNEYCAULEY.CPA

MAULDIN, SC	CHARLESTON, SC	ANDERSON, SC
864.232.5204	843.735.5805	864.225.8713

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Greene Finney Cauley, LLP

Greene Finney Cauley, LLP
Mauldin, South Carolina
November 19, 2025

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Federal Granor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	Grant Identification Number	Expenditures
U.S. Department of the Treasury			
<i>Passed Through - South Carolina Rural Infrastructure Authority</i>			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	A-23-C095	\$ 3,497,100
<i>Passed Through - Beaufort County</i>			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	2023-6e	<u>1,000,000</u>
Total U.S. Department of the Treasury			<u>4,497,100</u>
U.S. Department of Homeland Security			
<i>Passed Through - South Carolina Emergency Management Division</i>			
Disaster Grants - Public Assistance - Tropical Storm Debby	97.036	FEMA-4835-DR-SC	22,882
Total U.S. Department of Homeland Security			<u>22,882</u>
Total Expenditures of Federal Awards			<u>\$ 4,519,982</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal award programs of the Hilton Head No. 1 Public Service District (the “District”) for the year ended June 30, 2025. All federal awards received directly from the federal agencies, as well as those passed through other government agencies, are included on the Schedule.

Note 2 – Basis of Accounting

The accompanying Schedule is presented using the full accrual basis of accounting.

Note 3 - Relationship to Financial Statements

Federal award expenditures are reported in the District’s financial statements as expenditures in the District’s proprietary fund.

Note 4 – Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

Note 5 - Sub-Recipients

The District did not provide any federal awards to sub-recipients during fiscal year 2025.

Note 6 – Indirect Cost Rate

The amount expended does not include any amounts claimed as an indirect cost recovery, as the District elected not to use the *de minimis* cost rate.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	<u> X </u> No
Significant deficiencies identified?	_____ Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?	_____ Yes	<u> X </u> No
Significant deficiencies?	_____ Yes	<u> X </u> No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (Uniform Guidance)?	_____ Yes	<u> X </u> No
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Identification of major program:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	U.S. Department of the Treasury COVID-19 – Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
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Auditee qualified as low-risk auditee?	_____ Yes	<u> X </u> No
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HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

Not applicable.



Hilton Head No. 1 Public Service District

21 Oak Park Drive

P.O. Box 21264

Hilton Head Island, SC 29925

843.681.5525

www.hhpsd.com