



2016 Comprehensive Annual Financial Report



**For Fiscal Years Ending
June 30, 2016 and June 30, 2015**

**Hilton Head Public Service District
Hilton Head Island, South Carolina**



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Comprehensive Annual Financial Report

**For Fiscal Years Ending
June 30, 2016 and June 30, 2015**

Prepared by:
Finance Department

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On the cover: The PSD constructed a water booster station on Jenkins Island in Fiscal Year 2016. The station helps optimize water pressure in key parts of the PSD’s tap water distribution system.

INTRODUCTION



PSD Water Services Technician Doug Nice draws a sample at the PSD's Reverse Osmosis Water Treatment Facility on Jenkins Island. The PSD tests thousands of samples of tap water during the course of a fiscal year.

Board of Commissioners

Hilton Head No.1 Public Service District (PSD) is governed by a seven-member Board of Commissioners. Commissioners are elected by registered voters during general elections. Commissioners serve four-year terms and represent four different voting districts within the PSD service area.

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 and user fees.

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

The 2016 Hilton Head Public Service District Commission



W. Robert "Bob" Manne, Chair, District 4
Current Term: 2012-2016
Long Range Water Supply Committee
Community and Personnel Relations Committee



Robert "Bob" Gentzler, Vice Chair, District 3
Current Term: 2014-2018
Chairman, Planning & Operations Committee



Gary Kratz, Treasurer, District 4
Current Term: 2012-2016
Finance Committee
Planning and Operations Committee
Long Range Water Supply Committee



John Geisler, Secretary, District 3
Current Term: 2012-2016
Chairman, Finance Committee



David McCoy, District 2
Current Term: 2012-2016
Finance Committee
Community & Personnel Relations Committee



Frank Drehwing, District 4
Current Term: 2014-2018
Chairman, Long-Range Water Supply Committee
Community and Personnel Relations Committee



Herbert Ford, District 1
Current Term: 2014-2018
Planning & Operations Committee

HILTON HEAD PUBLIC SERVICE DISTRICT Vision & Mission Statement

Vision Statement

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

Mission Statement

Hilton Head Public Service District's mission is to:

- A. Provide high quality drinking water, wastewater treatment and recycled water services to customers within the District;
- B. Deliver those services in a cost-effective and timely manner;
- C. Maintain sensitivity to the needs of the community; and
- D. Contribute to the improvement of public health and the environment of the District.

Strategic Goals

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

Hilton Head PSD Strategic Goals

Revised November 17, 2015

Goal No. 1 – Water Services: Meet all of our customers’ water supply needs with the highest quality water possible in a cost-effective manner.

Goal No. 2 – Water Reclamation Services: Meet all of the District’s wastewater process and reclamation services in a cost-effective manner while enhancing and protecting the Island’s environment.

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

Goal No. 4 – Customer Satisfaction: Direct all activities to achieve a consistently high level of customer satisfaction.

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

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

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

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

November 28, 2016

Management Letter of Transmittal

The Commission and staff of the PSD are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This is the seventh report issued as a CAFR 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.

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

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

Profile of the Government

The Hilton Head Public Service District (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.

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 District's creation. Beginning in 1995, the District 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 based 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.

Today, Hilton Head PSD serves more than 17,000 customers 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 traditional Native Islander neighborhoods as well as the large-scale subdivisions of Hilton Head Plantation, Indigo Run, Port Royal Plantation, and Palmetto Hall Plantation.

The PSD can provide a maximum water demand of 13 million gallons a day (MGD). It experiences an average demand of 5-6 MGD and a peak demand of 8-9 MGD. The PSD's Reverse Osmosis (RO) Water Treatment Facility provides 4 MGD and its Aquifer Storage & Recovery (ASR) Facility provides 2 MGD in the peak summer season. Wholesale water from the mainland and fresh water wells comprise the remainder of the PSD's water supply.

The PSD operates a Recycled Water Plant capable of treating 6.4 MGD. Average flow into the treatment plant is 2.6 MGD. The PSD is a 100% recycled water utility. All treated wastewater goes to golf course irrigation or interior wetlands nourishment – no treated wastewater is discharged to any receiving bodies of water.

A Letter from the General Manager: Rising to the Challenges, Together



J. Pete Nardi, PSD General Manager

It is my pleasure and honor to present for your review Hilton Head Public Service District's Fiscal Year 2016 Comprehensive Annual Financial Report (CAFR). The District continues to rise to meet an array of complex challenges. Technology is offering new opportunities for customer service enhancements. Community infrastructure needs call for detailed planning and expedited construction projects. Big data analysis is driving organizational efficiency and improvement.

Fiscal Year '16 saw the utility begin use of its Automated Metering Infrastructure (AMI), which reads water meters remotely via a smartpoint-to-tower system. We are poised to further develop customer service enhancements based on this system. Fiscal Year '16 also saw the PSD complete several construction projects to convert existing neighborhoods from septic systems to the public sewer system, and plan additional conversion projects for the coming years.

The utility's financial health underpins all of its success on a daily basis. Our cyclical approach to strategic planning and financial reporting provides regular opportunities to check the organization's financial pulse and make certain that our goals and directives are aligned with our fiscal reality.

The PSD team remains its greatest asset. From the excellent accounting team who prepared this report – Finance Manager Larry Sapp and Senior Accountant Brian Cronin – to the field and customer service technicians who represent the PSD to our customers each day, we are rising to the challenges and achieving success together.

All My Best,

J. Pete Nardi
General Manager/CEO
Hilton Head PSD

Financial Information

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

Accounting System and Budgetary Control

The District's financial accounting system is based on the full accrual basis in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). The accounts of the District are organized on the basis of a proprietary fund type enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, liabilities, net 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 is required by state law to adopt a balanced budget by June 30 of each year. District staff begins preparation of a draft budget in January, which is presented to the Commission in April and approved prior to June 30 of each year. The budget may be amended from time to time within the fiscal year. As required by the laws of the State of South Carolina, the District will adopt a balanced Operating Budget and provide full disclosure when a deviation from a balanced Operating Budget is planned or when it occurs. This balanced budget will ensure that all operating expenses will not exceed operating revenues at adoption and at year-end. Any increase in expenses, decrease in revenues, or combination of the two that would result in a material budget imbalance may require a Commission approved budget revision.

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

Internal Accounting Controls

The District has developed and adopted a comprehensive set of financial policies that are consistent with the District's goals and objectives. Financial policies are an integral part of the development of service, providing of capital, and establishing of financial plans and the annual budget. They provide the basis for decision-making and ensure the District's ongoing financial stability. The financial policies of the District provide the structure and direction for financial reporting, planning, and decision making by management and the Board. Additionally, they are designed to ensure the financial integrity of the District. Policies are documented and periodically reviewed to reflect changes in Board policy, legal and professional requirements, and changes in accepted industry practices. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, and that records used for preparing financial reports and maintaining asset accountability are reliable. Because the cost of control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.¹ A system of internal controls is established and monitored by management. The Finance Manager reviews controls and procedures on a continuing basis and immediately reports any concerns to the General Manager / Finance Committee for resolution. As part of this initiative, the Finance Manager oversees the documentation and

¹ Government Finance Officers Association of the United States and Canada (GFOA), *GAAFR – Governmental Accounting, Auditing, and Financial Reporting* (Chicago, IL 60601-1210: GFOA), p. 592 and p. 735.

periodic review of financial standard operating procedures to ensure that internal audit functions and professional skepticism are incorporated as part of the analytical and reporting function. Management of the District is further charged, through personnel policies, with providing the leadership that promotes ethical behavior.

The Finance Committee of the Board of Commissioners serves as the Audit Committee of the District. It is comprised of three members of the Board. Generally, this Committee meets with management regularly to review the financial status of the District. Additionally, the Committee meets with management and the independent external auditors to ensure that both parties are fulfilling their obligations with regard to auditing, controls, and other financial reporting factors.

Rates and Charges

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

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

The District also examines rates and charges levied by other water and sewer systems for like services in establishing rates, fees and charges. These fees (water and sewer user fees, capacity fees, tap fees, tower revenues, etc.) are reviewed through the District's annual cost of service process. An aggressive policy of seeking the collection of delinquent utility accounts is maintained and is outlined by specific procedures. In projecting revenues - and where judgment is required - conservatism is the rule.

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. On June 28, 2016, the District's Board adopted a water and sewer rate increase to be effective July 1, 2016 whereby both the water and sewer base rates were to be increased by \$1.00. For a summary of the District's historical and present water and sewer rates, please reference the Water and Sewer Rate Comparison Table in the Statistical Section on page 84.

Millage

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

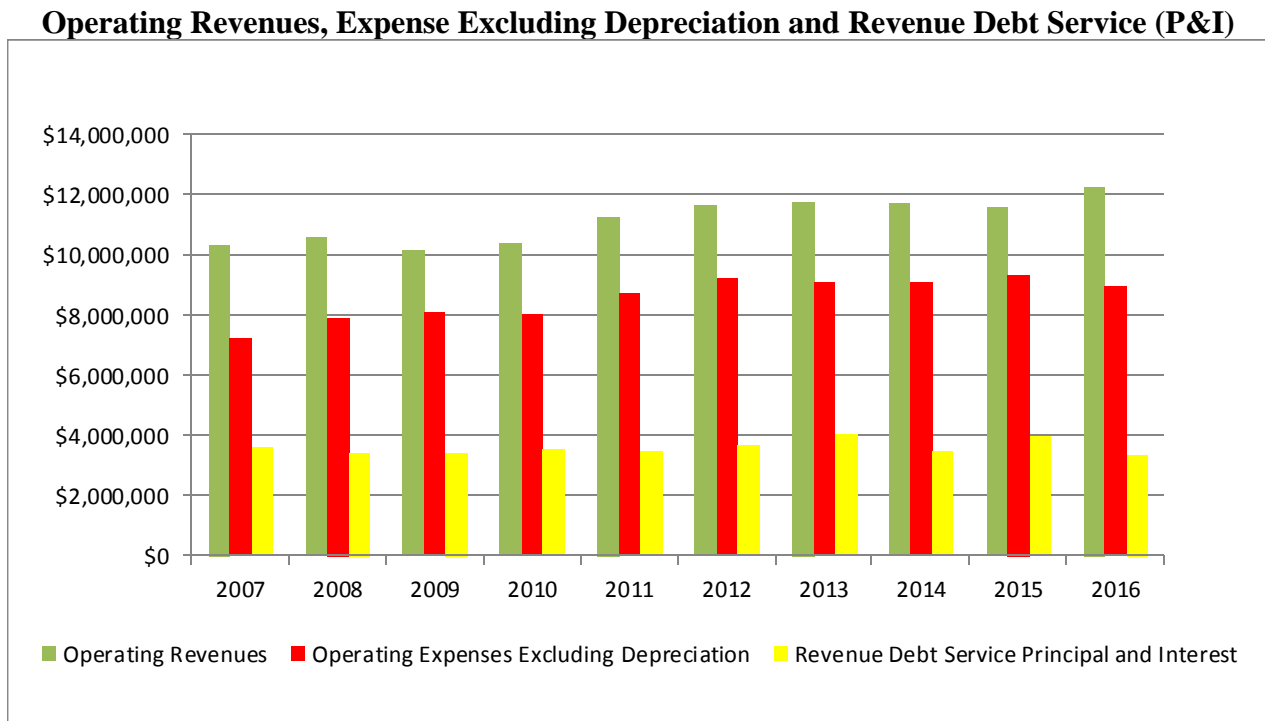
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year;
5. compliance with a regulation promulgated or statute enacted by the federal or state government after the ratification date of this section for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government;
6. purchase by the local governing body of undeveloped real property or of the residential development rights in undeveloped real property near an operating United States military base which property has been identified as suitable for residential development but which residential development would constitute undesirable residential encroachment upon the United States military base as determined by the local governing body. The local governing body shall enact an ordinance authorizing such purchase and the ordinance must state the nature and extent of the potential residential encroachment, how the purchased property or development rights would be used and specifically how and why this use would be beneficial to the United States military base, and what the impact would be to the United States military base if such purchase were not made. Millage rate increases for the purpose of such purchase must be separately stated on each tax bill and must specify the property, or the development rights to be purchased, the amount to be collected for such purchase, and the length of time that the millage rate increase will be in effect. The millage rate increase must reasonably relate to the purchase price and must be rescinded five years after it was placed in effect or when the amount specified to be collected is collected, whichever occurs first. The millage rate increase for such purchase may not be reinstated unless approved by a majority of the qualified voters of the governmental entity voting in a referendum. The cost of holding the referendum must be paid from the taxes collected due to the increased millage rate; or
7. to purchase capital equipment and make expenditures related to the installation, operation, and purchase of the capital equipment including, but not limited to, taxes, duty, transportation, delivery, and transit insurance, in a county having a population of less than one hundred thousand persons and having at least forty thousand acres of state forest land. For purposes of this section, "capital equipment" means an article of nonexpendable, tangible, personal

property, to include communication software when purchased with a computer, having a useful life of more than one year and an acquisition cost of fifty thousand dollars or more for each unit.

The limitations described above do not apply to the levy of debt service millage. Therefore, the District is also authorized to impose ad valorem property taxes in an amount not exceeding eight percent (8%) of the assessed value of all taxable property to defray the debt service on general obligation bonds of the District. All of such general obligation bonds are approved by the Beaufort County Council pursuant to South Carolina general law.

Financial Condition

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



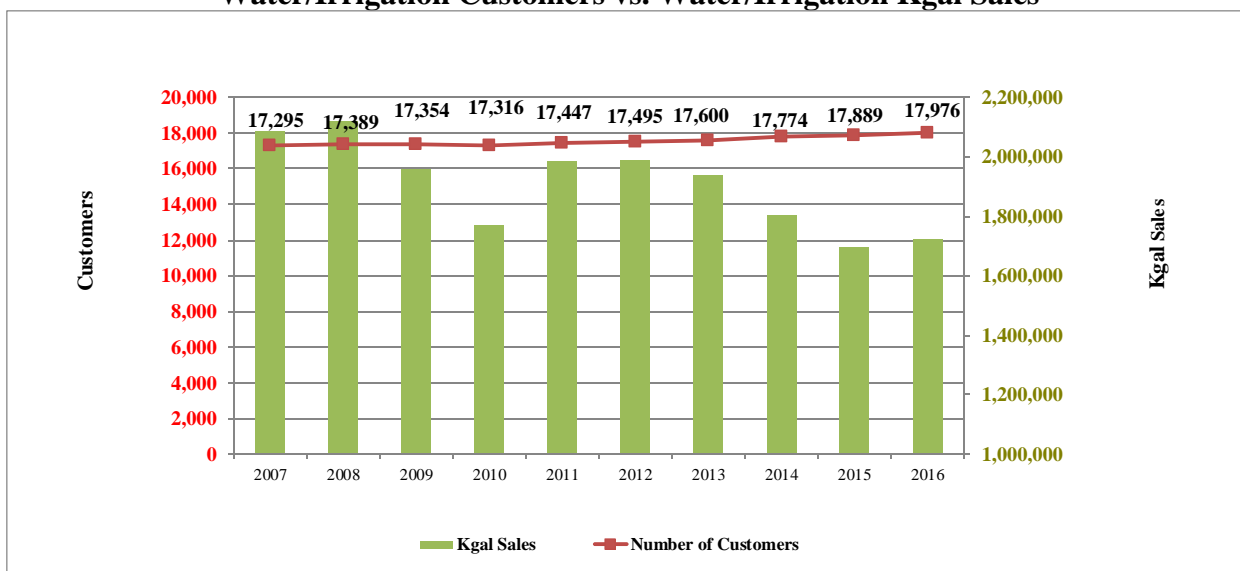
Billed water consumption for fiscal year 2016 was 31.6 million gallons or 1.9% higher than fiscal year 2015. There was also a full fiscal year of the \$1.00 water base rate increase that was put into effect on January 1, 2015. As such, water service revenues were up \$281,717 or 4.9% compared to last fiscal year. Sewer revenues were up \$218,062 or 4.5% also due to increased consumption and a full fiscal year of the \$1.00 sewer base rate increase which was effective as of January 1, 2015. Total operating revenues have increased \$694,713 or 6.0% compared to fiscal year 2015, while departmental expenses decreased \$371,145 or 4.0%. Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 27.

Billed water consumption for fiscal year 2015 was down 114.0 million gallons or 6.3% less than fiscal year 2014 mainly due to cooler than usual weather conditions and increased rainfall. As such, water service revenues were down \$49,913 or 0.9% compared to last fiscal year despite a \$1.00 water base rate increase effective January 1, 2015. Despite lower water consumption, sewer revenues were up \$101,000 or 2.1% due

to a rate increase which was effective as of January 1, 2015.² Fiscal year 2015 total operating revenues decreased 1.1% or \$123,281 compared to fiscal year 2014, while departmental expenses increased \$272,510 or 3.0%. Billed water consumption for fiscal year 2014 was down 130.0 million gallons or 6.7% less than fiscal year 2013 also due to cooler than usual weather conditions and increased rainfall. As such, water service revenues were down \$173,940 or 2.9% compared to fiscal year 2013 despite a \$1.00 water base rate increase effective January 1, 2013. Despite lower water consumption, sewer revenues for fiscal year 2014 were up due to a rate increase which was effective as of January 1, 2013.³ Fiscal year 2014 total operating revenues decreased 0.2% or \$25,525 compared to fiscal year 2013, while departmental expenses decreased \$33,714 or 0.4%.

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

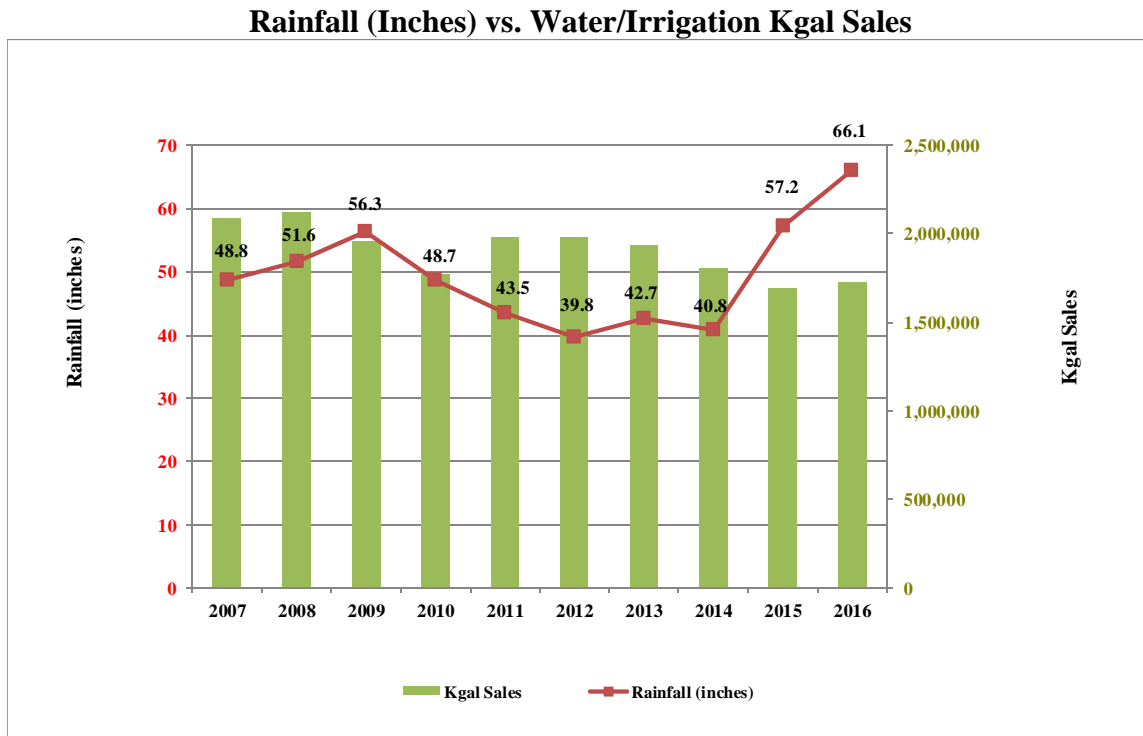
Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



² Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

³ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

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



Fiscal years' 2015 and 2016 both had the most rainfall since fiscal year 2003.⁴ Although there was a higher amount of rainfall for fiscal year 2016 when compared to fiscal year 2015, fiscal year 2016 had 31.6 million gallons or 1.9% more billed water/irrigation consumption. Despite lower rainfall amounts for fiscal years 2010 through 2014, respective water consumption levels were also low when compared to past fiscal years with higher rainfall such as 2007 and 2008. While rainfall is a definite factor for water consumption, additional factors such as water efficiency fixtures, temperature and economic influences such as new housing development, housing vacancies, and tourism occupancy levels also have a material effect on customer water consumption levels. In recent years, there also seems to be a trend toward lower water consumption in general which is likely due to water efficient appliances and fixtures.

Independent Audit

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

⁴ As measured at the District's wastewater treatment plant.

Certificate of Achievement for Excellence in Financial Reporting

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 comprehensive annual financial report for the fiscal year ended June 30, 2015 (reference the following page). This was the sixth year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Final Comments

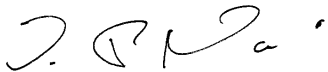
Management has developed policies and procedures that direct personnel actions toward the Board's adopted mission of providing high quality water and sewer service to all properties within the District and provide those services at a reasonable cost. Further, the Board has adopted the District's Strategic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



Larry Sapp, CGFO, Chief Financial Officer



Brian Cronin, Senior Accountant



Pete Nardi, General Manager



Government Finance Officers Association

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

Presented to

**Hilton Head Public Service District
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

FINANCIAL

For Fiscal Years Ended June 30, 2016 and June 30, 2015



Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF THE AMERICAN INSTITUTE OF CPAs & S.C. ASSOCIATION OF CPAs

Mailing Address for Hilton Head and Bluffton:
POST OFFICE DRAWER 22959
HILTON HEAD ISLAND, SC 29925-2959

5 BELFAIR VILLAGE DRIVE
BLUFFTON, SC 29910
(843) 815-6161
FAX (843) 815-6165
www.robinsongrant.com

500 CARTERET STREET
POST OFFICE BOX 1406
BEAUFORT, SC 29901-1406
(843) 524-3003
FAX (843) 524-1372

INDEPENDENT AUDITORS' REPORT

November 28, 2016

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

We have audited the accompanying financial statements of Hilton Head No. 1 Public Service District (the "District"), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Head No. 1 Public Service District as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements of Hilton Head No. 1 Public Service District taken as a whole. The introductory section, supplementary information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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. Such information has been subjected to the auditing procedures applied in the audits 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Robinson Grant & Co., P.A.

Management’s Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District’s (the “District”) annual financial statements presents our analysis of the District’s financial performance during the fiscal years ending June 30, 2016, 2015 and 2014. Please read it in conjunction with the unaudited financial statements contained in this section.

Financial Highlights

- Total assets at the end of the fiscal year 2016 were approximately \$88.1 million (See Table A-1, Page 22). Total assets including deferred outflows of resources were \$90.2 million, exceeding liabilities by \$34.5 million.
- On September 3, 2015, the District issued series 2015A revenue refunding bonds in the amount of \$19,846,000 and series 2015B revenue refunding bonds in the amount of \$2,721,000 to advance refund the District’s series 2006 refunding revenue bonds, series 2007 revenue bonds, series 2009A revenue bonds, series 2010A revenue bonds, series 2011 revenue bonds, series 2011B revenue bonds, and a portion of the 2010B revenue bonds. The 2015A bonds bear interest at a rate of 1.93% and are payable in 20 semi-annual principal and interest installments of various amounts beginning on December 1, 2015, and continuing through June 1, 2025. The 2015B bonds bear interest at a rate of 2.29% and are payable in 29 semi-annual principal and interest installments of various amounts beginning on December 1, 2015, and continuing through December 1, 2029. More detailed information can be found in Note 8- Deferred amount on refunding on page 53.
- Water Customer Growth: The District added 87 new water/irrigation taps to the system in fiscal year 2016. As of June 30, 2016, the District has a total of 17,976 equivalent dwelling units (EDUs). This is a 0.5% increase for FY’ 16. For FY’ 15 there was a 0.6% increase in total EDUs. The current EDUs include 16,899 water service units, 1,026 irrigation service units, and 51 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.

Water & Irrigation Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
2016	11,483	4,907	1,586	17,976	0.5%
2015	11,145	4,851	1,893	17,889	0.6%
2014	10,846	4,850	2,078	17,774	1.0%
2013	10,679	4,850	2,071	17,600	0.6%
2012	10,565	4,850	2,080	17,495	0.3%
2011	10,527	4,843	2,077	17,447	0.8%
2010	10,415	4,843	2,058	17,316	-0.2%
2009	10,440	4,843	2,071	17,354	-0.2%
2008	10,525	4,834	2,030	17,389	0.5%
2007	10,463	4,822	2,010	17,295	1.1%

- Sewer Customer Growth: The District added 125 new sewer connections to the system in fiscal year 2016. As of June 30, 2016, sewer service EDUs total 15,758. This is a 0.8% increase for FY’ 16 as compared to the FY’ 15 increase of 0.9%.

Sewer Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
2016	9,431	4,907	1,420	15,758	0.8%
2015	9,305	4,851	1,477	15,633	0.9%
2015	9,175	4,850	1,461	15,486	1.5%
2013	8,976	4,850	1,434	15,260	1.0%
2012	8,847	4,850	1,412	15,109	0.5%
2011	8,775	4,843	1,412	15,030	0.9%
2010	8,653	4,843	1,395	14,891	0.1%
2009	8,635	4,843	1,402	14,880	0.3%
2008	8,603	4,834	1,398	14,835	1.2%
2007	8,467	4,822	1,369	14,658	2.0%

- As shown in the table below, the sewer to water customer percentage has increased to 93.25% percent since the beginning of fiscal year 2016.⁵

Water / Sewer Connection Growth 06/30/16								
<u>Date</u>	<u>Water & Irrigation EDU's</u>	<u>Only Water EDU's</u>	<u>Inactive Water EDU's</u>	<u>Change in Water EDU's</u>	<u>Sewer EDU's</u>	<u>Inactive Sewer EDU's</u>	<u>Change in Sewer EDU's</u>	<u>% Sewer to Water EDU's</u>
06/30/15	17,889	16,816	310	N/A	15,633	139	N/A	92.97%
09/30/15	17,952	16,878	319	62	15,698	143	65	93.01%
12/31/15	17,883	16,809	322	-69	15,638	150	-60	93.03%
03/31/16	17,929	16,853	307	44	15,698	130	60	93.15%
06/30/16	<u>17,976</u>	<u>16,899</u>	307	<u>21</u>	<u>15,758</u>	126	<u>25</u>	93.25%
Total EDU's Added	<u>87</u>	<u>83</u>		<u>83</u>	<u>125</u>		<u>125</u>	

Subsequent Events

- On July 1, 2016, a rate increase was put into effect whereby both the water and sewer base rates were increased by \$1.00. The District's Board adopted this rate increase on June 28, 2016 at the June Commission meeting.
- On October 7, 2016 Hurricane Matthew moved up the South Carolina coast as a Category 2 storm. The following day Hilton Head Island received wind gusts of 88 mph and the highest single day rainfall in the amount of 11.0 inches. As of the date of this report, an estimate of the total damages and their financial impact to the District has not been completed. The District is working on submitting claims with the South Carolina Insurance Reserve Fund and the District has been approved for public assistance in the form of FEMA reimbursement but cannot estimate the amount of insurance proceeds or FEMA reimbursement expected.

⁵ This percentage is based solely on water customers and does not include irrigation, dock meters, hydrants, pool meters, and golf course water coolers etc.

Financial Analysis of the District

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

Condensed Statements of Net Position

The following comparative condensed statements of net position show changes in financial position from previous fiscal years:

TABLE A-1
Hilton Head Public Service District
Condensed Statements of Net Position as of June 30, 2016, 2015, and 2014⁶

Year Ended June 30,	2016	2015	2014	2015 to 2016	%
Assets				Increase (decrease)	
Current assets	\$ 6,642,875	\$ 5,271,093	\$ 4,878,765	\$ 1,371,781	26.0%
Restricted assets	2,482,528	3,426,411	3,377,968	(943,883)	-27.5%
Net Property Plant & Equipment	76,843,129	78,637,208	76,445,775	(1,794,078)	-2.3%
Sewer Assessments, Long-term	1,890,736	2,067,292	2,576,762	(176,556)	-8.5%
Other	250,629	484,674	482,538	(234,045)	-48.3%
Total Assets	<u>88,109,897</u>	<u>89,886,678</u>	<u>87,761,809</u>	<u>(1,776,781)</u>	<u>-2.0%</u>
Deferred outflows of resources					
Deferred outflows related to pensions	330,809	358,474	230,484		
Deferred outflows from refunding debt	1,750,301	1,399,180	1,613,275	351,121	25.1%
	<u>2,081,110</u>	<u>1,757,654</u>	<u>1,843,759</u>	<u>323,456</u>	<u>18.4%</u>
Total assets and deferred outflows of resources	<u>\$ 90,191,007</u>	<u>\$ 91,644,332</u>	<u>\$ 89,605,568</u>	<u>(1,453,325)</u>	<u>-1.6%</u>
Liabilities					
Current Liabilities	5,995,566	6,218,441	5,231,463	(222,876)	-3.6%
Noncurrent Liabilities, net of amortization	49,603,079	52,199,309	51,291,448	(2,596,230)	-5.0%
Total Liabilities	<u>55,598,645</u>	<u>58,417,750</u>	<u>56,522,911</u>	<u>(2,819,105)</u>	<u>-4.8%</u>
Deferred inflows of resources					
Deferred inflows related to pensions	82,480	347,473	-	(264,993)	-76.3%
	<u>55,681,125</u>	<u>58,765,223</u>	<u>-</u>	<u>(3,084,098)</u>	
Net Position					
Net investment in capital assets	28,981,560	27,588,236	27,495,374	1,393,324	5.1%
Restricted for debt service	2,482,528	3,426,103	3,377,968	(943,575)	-27.5%
Unrestricted	3,045,794	1,864,770	2,209,315	1,181,024	63.3%
Total Net Position	<u>34,509,882</u>	<u>32,879,109</u>	<u>33,082,657</u>	<u>1,630,772</u>	<u>5.0%</u>
Total Liabilities and Net Position	<u>\$ 90,191,007</u>	<u>\$ 91,644,332</u>	<u>\$ 89,605,568</u>	<u>\$ (1,453,325)</u>	<u>-1.6%</u>

⁶ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68.

Net Position

Changes in net position result from operating and non-operating revenues, expenses and contributions of capital. Net position is classified under the following three components: 1) *net investment in capital assets*; 2) *restricted for debt service*; and 3) *unrestricted net position*.

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

The total net position as of June 30, 2016, was \$34,509,882, representing a \$1,630,772 increase from the prior year. Fiscal year 2015 had a decrease in total net position from fiscal year 2014 of \$203,547.⁷

	Change in Net Position		
Year Ended June 30,	2016	2015	2014
Invested in Capital assets, net	\$ 28,981,560	\$ 27,588,236	\$ 27,495,374
Restricted for capital activity and debt service	2,482,528	3,426,103	3,377,968
Unrestricted	3,045,794	1,864,770	2,209,315
Total Net Position	<u>\$ 34,509,882</u>	<u>\$ 32,879,109</u>	<u>\$ 33,082,657</u>

Of the total net position, \$6,642,875 million are current non-restricted assets available to support short-term operations (see Table A-1, page 22). This current asset balance is \$1,371,782 higher than on June 30, 2015.

⁷ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68.

Capital Assets

As of June 30, 2016, the District has invested \$76,843,129 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below. Net Property Plant & Equipment has decreased \$1,794,079 during fiscal year 2016. More detailed information on capital asset activity can be found in Note 5 – Property, plant, equipment and depreciation on pages 46 and 47.

**TABLE A-2
Capital Assets**

Year Ended June 30,	2016	2015	2014
<u>Capital assets not being depreciated:</u>			
Land	\$ 1,299,194	\$ 1,299,194	\$ 1,299,194
Construction in Progress	<u>785,002</u>	<u>5,926,019</u>	<u>1,629,184</u>
Total Capital Assets not being depreciated	2,084,196	7,225,213	2,928,378
 Capital assets being depreciated:			
Waterworks system	62,262,580	55,813,320	55,763,179
Sewage disposal system	39,645,717	38,672,883	37,059,830
Buildings	4,339,091	4,339,091	4,339,090
Sewage treatment facilities	34,727,539	34,711,422	34,711,422
Transportation equipment	1,098,157	1,017,719	1,017,719
Operations furniture and equipment	2,198,499	2,080,981	2,155,261
Office furniture and equipment	<u>776,042</u>	<u>748,927</u>	<u>663,460</u>
Sub Total	\$ 145,047,625	\$ 137,384,343	\$ 135,709,961
Less Accumulated depreciation	<u>(70,288,692)</u>	<u>(65,972,348)</u>	<u>(62,192,564)</u>
Total capital assets being depreciated, net	74,758,933	71,411,995	73,517,397
 Property, Plant and Equipment, net	 76,843,129	 78,637,208	 76,445,775

Non-current Liabilities and Debt Administration

As of June 30, 2016, (see Table A-1, page 22) the District had \$49,603,079 in non-current liabilities as compared to fiscal year end 2015 total of \$52,199,309. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 47 and Note 7 – Non-current liabilities on page 53.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District is in compliance with the necessary requirements at 175%.

TABLE A-3
Coverage of Debt Service⁸

Year Ended June 30,	2016	2015	2014
Net Income(loss) before capital contributions per Financial Statements	\$225,930	(\$1,098,079)	(\$923,245)
Capacity Fees	585,744	631,652	477,179
Add: Depreciation	4,482,776	4,485,346	4,481,885
Net Pension Expense	298,810	288,870	
SCRS Retirement Contributions	(222,257)	(241,688)	
Amortization	243,692	223,221	223,221
Bond Issuance Costs	119,950	67,329	38,685
Interest Expense (Bonds)	1,230,078	1,613,384	1,661,902
Assessments - Debt Service	452,658	486,300	382,702
Less: Property Taxes – Debt Service	<u>(1,396,680)</u>	<u>(1,391,881)</u>	<u>(1,167,016)</u>
Net Earnings Available for Debt Service	\$6,020,702	\$5,064,453	\$5,175,313
Debt Service on Revenue Bonds	3,441,323	\$3,987,537	\$3,504,184
Coverage of Debt Service by Net Earnings	175%	127%	148%
Debt Coverage without Capacity Fees	158%	111%	134%

⁸ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68.

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 Positions provides information regarding the nature and source of these changes as presented below:⁹

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

Year Ended June 30,	2016		2015		2014		2015 to		2014	
	Actual	Actual	Actual	Actual	Inc/(Dec)	% Change	Inc/(Dec)	% Change		
Operating Revenues	\$ 12,285,436	\$ 11,590,723	\$ 11,714,003	\$ 694,713	6.0%	\$ (123,280)	-1.1%			
Total Non-operating Revenues	<u>2,972,492</u>	<u>3,027,124</u>	<u>2,822,581</u>	<u>(54,632)</u>	-1.8%	<u>204,543</u>	<u>7.2%</u>			
Total Revenues	<u>15,257,928</u>	<u>14,617,847</u>	<u>14,536,585</u>	<u>640,080</u>	<u>4.4%</u>	<u>81,262</u>	<u>0.6%</u>			
Departmental Expenses	8,955,501	9,326,646	9,054,136	371,145	4.0%	(272,510)	-3.0%			
Depreciation	4,482,776	4,485,346	4,481,885	2,570	0.1%	(3,461)	-0.1%			
Total Non-operating Expenses	<u>1,593,721</u>	<u>1,903,934</u>	<u>1,923,808</u>	<u>310,212</u>	<u>16.3%</u>	<u>19,874</u>	<u>1.0%</u>			
Total Expenses	<u>15,031,999</u>	<u>15,715,926</u>	<u>15,459,829</u>	<u>683,928</u>	<u>4.4%</u>	<u>(256,097)</u>	<u>-1.7%</u>			
Increase (decrease) in net assets before capital contributions	225,929	(1,098,079)	(923,245)	1,324,008	120.6%	(174,834)	-18.9%			
Capital Contributions:										
Water Capacity Fee	273,256	282,528	195,270	(9,272)	-3.3%	87,259	44.7%			
Sewer Capacity Fee	312,488	349,123	281,909	(36,635)	-10.5%	67,214	23.8%			
Developer Contributions of Systems	819,099	262,880	1,184,597	556,220	211.6%	(921,717)	-77.8%			
Sewer Assessments	-	-	243,609	-	-	(243,609)	-			
Total Capital Contributions	<u>1,404,843</u>	<u>894,531</u>	<u>1,905,385</u>	<u>510,312</u>	<u>57.0%</u>	<u>(1,010,854)</u>	<u>-53.1%</u>			
Change in net position	\$ 1,630,772	\$ (203,548)	\$ 982,140	\$ 1,834,320	-901.2%	\$ (1,185,687)	-120.7%			
Net position, beginning of the year, as previously reported			36,163,836							
Cumulative adjustment - adoption of GASB Statement No. 65			(4,063,319)							
Net position, beginning of the year - as restated	<u>32,879,109</u>	<u>\$ 33,082,657</u>	<u>32,100,517</u>							
Net position, end of year	<u>\$ 34,509,881</u>	<u>\$ 32,879,109</u>	<u>\$ 33,082,657</u>							

Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2016 total \$12,285,436, which is over 80% of total revenues (operating and non-operating) for the year. Total operating revenues have increased 6.0% or \$694,713 compared to last year's revenues. Total operating revenues increased \$81,262 or 0.6% from fiscal year 2014 to fiscal year 2015.

Water service revenues were up \$281,718 or 4.9% compared to last fiscal year due to a full year \$1.00 water rate increase that was effective January 1, 2015 and due to higher billed water consumption. Fiscal year billed water consumption was up 31.6 million gallons or 1.9% when compared to last fiscal year. Sewer revenues were up \$218,062 or 4.5% due to a full year \$1.00 sewer rate increase that was effective January 1, 2015 and due to higher billed water consumption.

⁹ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68.

Water Tap in fees decreased \$9,775 or 9.2% due to decreased tap ins. Sewer Connection Fees increased \$25,441 or 30% despite decreased sewer connections.

Golf course irrigation revenue was \$40,590 or 20% lower compared to last fiscal year due to the higher rainfall. Availability fees were also lower this fiscal year due to additional water and sewer connections on existing homes. Other operating revenues are \$263,511 or 1239% higher than last year. During January 2016, the District achieved sales and use tax exempt status for the wastewater treatment plant resulting in a \$188,136 sales tax reimbursement payment from the Palmetto Electric Cooperative in addition to a South Carolina Department of Revenue Sales and Use Tax refund.

Non-Operating Revenues (Fiscal Year to Year Comparisons)

Total non-operating revenues were equal to \$2,972,492 as compared to \$3,027,124 for fiscal year 2015 a decrease of \$54,632 or 1.8%. The non-operating revenues received by the District were derived primarily from ad valorem property taxes, interest earnings, and tower leases. The District imposed an ad valorem tax of 3.00 mills for operational purposes and 4.61 mills for debt service. The Commission has the authority to set the rates charged for water and sewer services without approval of any other authority, although such rate-setting ability is subject to certain procedural requirements including the holding of public hearings and the posting of public notices.

Departmental Expenses (Fiscal Year to Year Comparisons)

Total departmental expenses have decreased \$371,145 or 4.0% compared to fiscal year 2015 (See Table A-5, page 29). For fiscal year 2015, departmental expenses decreased \$272,510 or 3.0% from fiscal year 2014.

The following departmental expense items decreased when compared to the same period last year.

- Payroll and Related expenses decreased \$418,916 or 11.3%. This decrease relates to the reduction of staff due to retirement and attrition. The FY' 16 budget was based on 33.5 employees but the staffing level was reduced to 31.5 employees for the fiscal year.
- Administrative expenses decreased by \$37,387 or 4.7% mainly due to decreased bad debt, special functions, and utilities expense.
- Operations expenses decreased \$7,566 or 0.5%.
- Purchased water expense decreased by \$247,435 or 31% despite higher billed customer water consumption. This is mainly due to all four RO plant skids being operational for the entire fiscal year.
- Professional Fees decreased by \$76,311 or 25%. This is mainly due to sewer master plan items being capitalized or reimbursed from Town.
- Vehicle expenses decreased \$33,572 or 28%. This is due to lower fuel prices as well as the implementation of the District's advanced metering infrastructure system which has reduced vehicle usage.

The following expenses increased for fiscal year 2016 when compared to fiscal year 2015.

- Maintenance expenses increased by \$240,780 or 24%. This is mainly due to extra maintenance and repair costs associated with the large scale gravity sewer repairs and the Hargray fiber optic cable install project. Staff is still in the process of cost recovery efforts with Hargray.
- Water tap in expenses increased by \$25,533 or 28%.
- Sewer Connection expense increased \$68,217 or 83%.
- ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. ASR water withdrawal expense increased 6,579 or 3.4%. For fiscal year 2016 ASR withdrawal increased 6.3 million gallons. ASR operating and maintenance expenses also increased by \$3,907 or 9.6%.
- RO plant expenses increased \$105,025 or 17%. This is due to increased RO plant water production. For fiscal year 2016 RO plant water production increased 297.8 million gallons.

Non-Operating Revenues (Fiscal Year to Year Comparisons)

Total non-operating expenses were \$1,593,787 as compared to \$1,903,934 for fiscal year 2015 a decrease of \$310,212 or 16.3%. This variance mainly relates to lower interest expense due to the refunding of bonds that closed September 3, 2015.

TABLE A-5
Hilton Head PSD
Statement of Revenues, Expenses and Changes in Net Position
Year to Date as of June 30, 2016 and June 30, 2015
(With comparative amounts for the same period in prior fiscal year)

	FY 2016		FY 2015		FY 2016 to FY 2015 Comparison	
	Actual	Actual	Dollars	%	Favorable (Unfavorable)	
Operating Revenues						
Water Service	\$ 6,009,410	\$ 5,727,692	\$ 281,718	4.9%		
Sewer Service	5,056,081	4,838,019	218,062	4.5%		
Tap In Fees - Water	96,427	106,202	(9,775)	-9.2%		
Connection Fees - Sewer	109,984	84,543	25,441	30.1%		
Service Fees	39,113	42,646	(3,533)	-8.3%		
Golf Course Irrigation	164,344	204,934	(40,590)	-19.8%		
Availability Fees	525,302	565,423	(40,121)	-7.1%		
Other Operating Revenues	284,775	21,264	263,511	1239.2%		
Total Operating Revenues	12,285,436	11,590,723	694,712	6.0%		
Departmental Expenses						
Payroll & Related	3,294,097	3,713,013	418,916	11.3%		
Administrative Expenses	756,507	793,893	37,387	4.7%		
Operations	1,563,548	1,571,114	7,566	0.5%		
Maintenance	1,247,020	1,006,240	(240,780)	-23.9%		
Water Tap In Expenses	115,995	90,462	(25,533)	-28.2%		
Sewer Connection Expense	150,570	82,353	(68,217)	-82.8%		
Purchased Water	543,661	791,096	247,435	31.3%		
ASR-1 Water	202,890	196,311	(6,579)	-3.4%		
RO Plant O&M	723,049	618,024	(105,025)	-17.0%		
ASR-1 O&M	44,562	40,656	(3,907)	-9.6%		
Professional Fees	229,387	305,698	76,311	25.0%		
Vehicle	84,215	117,787	33,572	28.5%		
Total Departmental Expenses	8,955,501	9,326,646	371,145	4.0%		
Depreciation	4,482,776	4,485,346	2,570	0.1%		
Total Operating Expenses	13,438,277	13,811,992	373,715	2.7%		
Operating income (loss)	(1,152,842)	(2,221,269)	1,068,428	48.1%		
Non-operating revenues						
Property taxes-G.O. Debt Levy	1,396,680	1,391,881	4,799	0.3%		
Property taxes-Operations Levy	931,507	913,930	17,577	1.9%		
Rental Income	78,552	80,579	(2,027)	-2.5%		
Interest earned	92,713	132,549	(39,836)	-30.1%		
Tower lease	471,540	508,185	(36,645)	-7.2%		
Gain (Loss) of disposal of equipment	1,500	-	1,500.00	-		
Total Non-operating Revenues	2,972,492	3,027,124	(54,633)	-1.8%		
Non-operating Expenses						
Interest expense-Bonds	1,230,078	1,613,353	383,275	23.8%		
Bond Defeasance Amortization	249,373	214,095	(35,278)	-16.5%		
Amortization of Bond Insurance Cost	1,526	9,157	7,631	83.3%		
Bond Issuance Costs	119,950	67,329	(52,621)	-78.2%		
Bond Premium Amortization	(7,206)	-	7,206	-		
Total Non-operating Expenses	1,593,721	1,903,934	310,212	16.3%		
Total Non-operating Revenues/Exp.	1,378,771	1,123,190	255,580	22.8%		
Increase (decrease) in net position,						
before capital contributions	225,929	(1,098,079)	1,324,008	120.6%		
Water Capacity Fee	273,256	282,528	(9,272)	-3.3%		
Sewer Capacity Fee	312,488	349,123	(75,867)	-21.7%		
Developer Contributions of Systems Assessments	819,099	262,880	49,608	18.9%		
	-	-	-	-		
Total Capital Contributions	1,404,843	894,531	510,312	57.0%		
Change in net position	\$ 1,630,772	\$ (203,548)	\$ 1,834,321	-901.2%		
Net position, beginning of the year, as restated	\$ 32,879,109	33,082,657				
Net position, end of year	\$ 34,509,882	\$ 32,879,109				

Water and Sewer Revenues/Expenses: Fiscal Year 2016 vs. Fiscal Year 2015.
(Please reference Table A-6, page 31)¹⁰

Water Revenues and Related Expenses:

- For FY' 16, total water operating revenues have increased \$393,907 or 6.6% compared to FY' 15 due to the previously mentioned higher customer water consumption.
- Water departmental expenses decreased \$243,148 or 4.6%. Departmental expenses are explained in more detail on pages 27 and 28.
- Water operating loss for fiscal year 2016 is \$766,382 compared to the fiscal year 2015 loss of \$1,404,634. A difference of \$638,253 or 45%.

Sewer Revenues and Related Expenses:

- Total sewer and related operating revenues have increased \$300,805 or 5.4% mainly due to increased sewer service revenue, connection fees, and other operating revenues.
- Sewer departmental expenses decreased just \$127,998 or 3.2%. Departmental expenses are explained in more detail on page 27 and 28.
- Sewer operating loss for fiscal year 2016 is \$386,459 compared to the fiscal year 2015 loss of \$816,635. A difference of \$430,176 or 53%.

¹⁰ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68.

TABLE A-6
Hilton Head PSD
Water vs. Sewer Fiscal Year to Year Comparison Schedule
Year to Date as of June 30, 2016

	(With comparative amounts for the same period in prior fiscal year)		FY 2016 to FY 2015	
	FY 2016	FY 2015	Comparison	
	Actual	Actual	Dollars	%
Operating Revenues				
Water				
Service	\$ 6,009,410	\$ 5,727,692	\$ 281,717	4.9%
Tap In Fees	96,427	106,202	(9,775)	-9.2%
Service Fees	19,557	21,323	(1,767)	-8.3%
Availability Fees	105,060	113,085	(8,024)	-7.1%
Other Operating Revenues	142,387	10,632	131,755	1239.2%
Total Water Operating Revenues	6,372,841	5,978,934	393,907	6.6%
Sewer				
Service	5,056,081	4,838,019	218,062	4.5%
Connection Fees	109,984	84,543	25,441	30.1%
Service Fees	19,557	21,323	(1,767)	-8.3%
Availability Fees	420,241	452,338	(32,097)	-7.1%
Golf Course Irrigation	164,344	204,934	(40,590)	-19.8%
Other Operating Revenues	142,387	10,632	131,755	1239.2%
Total Sewer Operating Revenues	5,912,594	5,611,789	300,805	5.4%
Total Operating Revenues	12,285,436	11,590,723	694,712	6.0%
Departmental Expenses				
Water				
Payroll & Related	1,515,285	1,707,986	192,701	11.3%
Administrative Expenses	438,774	460,458	21,684	4.7%
Operations	672,326	675,579	3,253	0.5%
Maintenance	660,921	533,307	(127,613)	-23.9%
Water Tap in Expense	115,995	90,462	(25,533)	-28.2%
Purchased Water	543,661	791,096	247,436	31.3%
ASR-1 Water	202,890	196,311	(6,579)	-3.4%
ASR-1 O&M	44,562	40,656	(3,907)	-9.6%
RO Plant O&M	723,049	618,024	(105,025)	-17.0%
Professional Fees	94,049	125,336	31,288	25.0%
Vehicle	38,739	54,182	15,443	28.5%
Total Water Departmental Expenses	5,050,249	5,293,397	243,148	4.6%
Sewer				
Payroll & Related	1,778,812	2,005,027	226,214	11.3%
Administrative	317,733	333,435	15,702	4.7%
Operations	891,222	895,535	4,313	0.5%
Maintenance	586,099	472,933	(113,167)	-23.9%
Sewer Connection Expense	150,570	82,353	(68,217)	-82.8%
Professional Fees	135,338	180,362	45,024	25.0%
Vehicle	45,476	63,605	18,129	28.5%
Total Sewer Departmental Expense	3,905,251	4,033,249	127,998	3.2%
Operating Expenses before depreciation	8,955,500	9,326,647	371,147	4.0%
Depreciation - Water	2,088,974	2,090,171	1,198	0.1%
Depreciation - Sewer	2,393,803	2,395,175	1,372	0.1%
Total Operating Expenses	13,438,277	13,811,993	2,570	0.0%
Water Operating income (loss)	(766,382)	(1,404,634)	638,253	45.4%
Sewer Operating income (loss)	(386,459)	(816,635)	430,176	52.7%
Total Operating income (loss)	(1,152,841)	(2,221,270)	1,068,429	48.1%
Non-operating revenues (expenses), net	1,378,771	1,123,190	255,580	-22.8%
Increase (decrease) in net position,				
before capital contributions	225,929	(1,098,079)	1,324,009	120.6%
Capital Contributions	1,404,843	894,531	510,312	57.0%
Change in net position	\$ 1,630,773	\$ (203,548)	\$ 1,834,321	-901.2%
Net position, beginning of the year, as restated	32,879,109	33,082,657		
Net position, end of year	\$ 34,509,882	\$ 32,879,109		

CONTACTING THE DISTRICT'S FINANCE MANAGER

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

AUDITED FINANCIAL STATEMENTS
For Fiscal Years Ended June 30, 2016 and June 30, 2015

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current assets		
Cash available for operations	\$ 3,668,819	\$ 2,492,212
Cash in banks (restricted)	1,782,031	2,662,676
Cash held by Beaufort County Treasurer (restricted)	700,497	763,736
Accounts receivable - trade, net	2,183,433	1,806,053
Sewer and capacity assessments, due within one year	167,678	443,780
Inventory	434,554	316,211
Prepaid expenses	188,391	212,836
Total current assets	<u>9,125,403</u>	<u>8,697,504</u>
Noncurrent assets		
Property, plant and equipment		
Nondepreciable assets	2,084,196	7,225,213
Depreciable assets, net	<u>74,758,933</u>	<u>71,411,995</u>
Total property, plant and equipment	76,843,129	78,637,208
Accounts receivable - Project SAFE	247,743	403,954
Sewer and capacity assessments, due after one year	1,890,736	2,067,292
Prepaid insurance - bonds	-	77,834
Other assets	2,886	2,886
Total noncurrent assets	<u>78,984,494</u>	<u>81,189,174</u>
Total assets	88,109,897	89,886,678
Deferred outflows of resources		
Deferred outflows related to pensions	330,809	358,474
Deferred outflows from refunding debt	<u>1,750,301</u>	<u>1,399,180</u>
Total deferred outflows of resources	<u>2,081,110</u>	<u>1,757,654</u>
Total assets and deferred outflows of resources	<u>\$ 90,191,007</u>	<u>\$ 91,644,332</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2016 AND 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current liabilities		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 527,931	\$ 586,645
Accounts payable - construction	221,839	562,108
Notes payable, due within one year	18,000	18,000
Customer deposits	154,530	154,560
Deferred revenues	223,132	230,390
Other accrued liabilities	399,111	502,910
Total current liabilities payable from unrestricted assets	<u>1,544,543</u>	<u>2,054,613</u>
Payable from restricted assets:		
Interest payable	244,148	295,757
Bonds payable, current portion	3,782,728	3,523,065
Notes payable, current portion	424,147	345,006
Total current liabilities payable from restricted assets	<u>4,451,023</u>	<u>4,163,828</u>
Total current liabilities	5,995,566	6,218,441
Noncurrent liabilities		
Bonds payable, net of current portion	37,074,233	40,727,658
Notes payable, net of current portion	8,090,923	7,350,149
Net pension liability	4,437,923	4,121,502
Total noncurrent liabilities	<u>49,603,079</u>	<u>52,199,309</u>
Total liabilities	55,598,645	58,417,750
Deferred inflows of resources		
Deferred inflows related to pensions	82,480	347,473
Net position		
Net investment in capital assets	28,981,560	27,588,236
Restricted for debt service	2,482,528	3,426,103
Unrestricted	3,045,794	1,864,770
Total net position	<u>34,509,882</u>	<u>32,879,109</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 90,191,007</u>	<u>\$ 91,644,332</u>

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Water service	\$ 6,009,410	\$ 5,727,692
Sewer service	5,056,081	4,838,019
Tap in fees - water	96,427	106,202
Tap in fees - sewer	109,984	84,543
Availability charges	525,302	565,423
Golf course irrigation	164,344	204,934
Service fees and penalties	39,113	42,646
Other operating revenues	<u>284,775</u>	<u>21,264</u>
Total operating revenues	12,285,436	11,590,723
 Departmental Expenses		
Payroll and related expenses	3,294,097	3,713,013
Administrative expenses	756,507	793,893
Operations expenses	1,563,548	1,571,114
Maintenance expenses	1,247,020	1,006,240
Tap in expenses	266,565	172,815
Purchased water	543,661	791,096
RO plant expenses	723,049	618,024
ASR plant expenses	247,452	236,966
Professional fees	229,387	305,698
Vehicle expenses	84,215	117,787
Depreciation	<u>4,482,776</u>	<u>4,485,346</u>
Total departmental expenses	13,438,277	13,811,992
Loss from operations	(1,152,841)	(2,221,269)
 Non-Operating Revenues (Expenses)		
Property taxes - debt service	1,396,680	1,391,881
Property taxes - operations	931,507	913,930
Rental and tower lease income	550,092	588,764
Interest earned	92,713	132,549
Gain on disposal of assets	1,500	-
Bond issuance costs	(119,950)	(67,329)
Amortization of bond insurance	(1,526)	(9,157)
Amortization of bond defeasance	(249,373)	(214,095)
Interest expense	<u>(1,222,872)</u>	<u>(1,613,353)</u>
Total net non-operating income	1,378,771	1,123,190
Increase (decrease) in net position before capital contributions	\$ 225,930	\$ (1,098,079)

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Capital Contributions		
Capacity fees	\$ 585,744	\$ 631,651
Developer contributions of systems	<u>819,099</u>	<u>262,880</u>
Total capital contributions	<u>1,404,843</u>	<u>894,531</u>
Change in net position	1,630,773	(203,548)
Net position, beginning of the year	<u>32,879,109</u>	<u>33,082,657</u>
Net position, end of year	<u>\$ 34,509,882</u>	<u>\$ 32,879,109</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 11,779,462	\$ 11,644,304
Cash paid to suppliers	(6,634,090)	(6,579,135)
Cash paid to employees	(2,366,825)	(2,550,935)
Other revenues	284,775	21,264
Net cash provided by operating activities	<u>3,063,322</u>	<u>2,535,498</u>
Cash flows from investing activities:		
Interest earned	<u>92,713</u>	<u>132,549</u>
Net cash provided by investing activities	92,713	132,549
Cash flows from noncapital financing activities:		
Property taxes collected - operations	931,507	913,930
Rental and tower lease income	542,835	559,104
Sewer assessments collected	<u>410,120</u>	<u>434,762</u>
Net cash provided by noncapital financing activities	1,884,462	1,907,796
Cash flows from capital and related financing activities:		
Capacity fees	585,744	631,651
Capacity fee assessments	42,538	51,538
Property taxes collected - debt service	1,396,680	1,391,881
Interest paid	(1,281,687)	(1,617,068)
Proceeds from SRF notes	1,147,651	5,189,595
Proceeds from 2015A & B revenue refunding bonds	22,567,000	-
Amount paid to defease debt	(481,193)	-
Payoff of refunded bonds	(22,747,041)	-
Payoff of 2004B revenue bonds	-	(200,940)
Bond issuance costs	(119,950)	(67,329)
Principal payments on bonds and notes	(3,612,729)	(3,651,988)
Proceeds from sale of capital assets	1,500	-
Purchases of property, plant and equipment	<u>(2,306,287)</u>	<u>(5,875,217)</u>
Net cash used by capital and related financing activities	<u>(4,807,774)</u>	<u>(4,147,877)</u>
Net increase (decrease) in cash	232,723	427,966
Cash and cash equivalents, at beginning of year	<u>5,918,624</u>	<u>5,490,658</u>
Cash and cash equivalents, at year end	<u>\$ 6,151,347</u>	<u>\$ 5,918,624</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,152,841)	\$ (2,221,269)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,482,776	4,485,346
Increase in allowance for doubtful accounts	-	-
Increase (decrease) in pension expense due to GASB 68	79,093	47,182
Abandoned construction in progress costs expensed	131,904	-
Changes in assets and liabilities		
Accounts receivable - trade, net	(377,380)	91,757
Inventories	(118,343)	(59,186)
Prepaid assets	24,445	(22,205)
Accounts receivable - Project SAFE	156,211	(11,172)
Accounts payable - trade	(58,714)	167,264
Customer deposits	(30)	(5,740)
Other accrued liabilities	(103,799)	63,521
Net cash provided by operating activities	<u>\$ 3,063,322</u>	<u>\$ 2,535,498</u>
<u>Schedule of cash and cash equivalents</u>		
Available for operations		
Demand deposits (interest and non-interest bearing)	\$ 3,563,759	\$ 2,475,608
Held by Beaufort County Treasurer	<u>105,060</u>	<u>16,604</u>
Total available for operations	3,668,819	2,492,212
Restricted		
Cash in banks	1,782,031	2,662,676
Held by Beaufort County Treasurer	<u>700,497</u>	<u>763,736</u>
Total restricted	<u>2,482,528</u>	<u>3,426,412</u>
Total cash and cash equivalents	<u>\$ 6,151,347</u>	<u>\$ 5,918,624</u>
<u>Supplemental Disclosures</u>		
Noncash financing activities:		
Developer contribution of systems	\$ 819,099	\$ 262,880
Capitalized Interest	\$ 35,487	\$ -

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1 - Summary of significant accounting policies

General

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

The financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

The District has implemented the provisions of GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and thus applied all applicable GASB pronouncements. These GASB statements require the presentation of Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: 1) the classification of the equity section of the statement of net position into net position with categories of net investment in capital assets, restricted, and unrestricted; 2) the statement of revenues, expenses and changes in net position formatted to report changes in net position in lieu of changes in retained earnings; and 3) additional note disclosures to the financial statements.

In 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period.

Fund accounting

The accounts of the District are organized on the basis of a proprietary fund type - enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, 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, availability fees, and other revenues related to operations. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1 - Summary of significant accounting policies (continued)

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 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 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.

Basis of accounting

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

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

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

Cash and cash equivalents

The District considers both restricted and unrestricted demand deposits and money market accounts to be cash equivalents. In addition, all highly liquid investments, including repurchase agreements, with original maturities of three months or less from the date of purchase are considered to be cash equivalents.

Accounts receivable, allowance for doubtful accounts and bad debt expense

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.5475% of budgeted water and sewer revenues. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2016 and 2015, the balance of the allowance for doubtful accounts was \$59,944. Bad debt expense for the years ended June 30, 2016 and 2015 was \$24,294 and \$47,553, respectively.

Inventory

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1 - Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Betterments and improvements over \$1,000 which extend the useful life of an asset are capitalized and depreciated over their estimated useful life. Depreciation of all property, plant and equipment is provided by the straight-line method and estimated useful lives of assets in service are as follows:

Description	Estimated life (in years)
Waterworks system	5-50
Sewage disposal system	5-33
Building	40
Sewage treatment facilities	3-40
Transportation equipment	5
Operations furniture and equipment	3-7
Office furniture and equipment	4-10

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project that is being financed from the debt proceeds. Interest capitalized for the years ended June 30, 2016 and 2015 totaled \$35,487 and \$0-, respectively.

Compensated absences

The District accounts for compensated absences by accruing a liability for future absences according to the guidelines of GASB Statement No. 16, *Accounting for Compensated Absences*, which amounted to \$256,890 and \$334,254 at June 30, 2016 and 2015, respectively.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prepaid insurance - bonds

Prepaid insurance costs connected to bond issuances are capitalized and amortized using the straight-line method over the life of the bonds commencing at the date of issuance. The unamortized portion of the prepaid insurance costs was written off as a part of deferred outflows from debt refunding when the underlying bonds were refunded in September 2015. Amortization expense on prepaid bond insurance costs was \$1,526 and \$9,157, respectively, for the years ended June 30, 2016 and 2015. All other bond issuance costs are reported as an expense of the current period.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1 - Summary of significant accounting policies (continued)

Bond discount and premium

The 2006 revenue bonds included two series of bonds, one issued at a premium of \$40,990 and one issued at a discount of \$197,849. The unamortized portion of the premium and discount was written off as a part of deferred outflows of debt refunding when the bonds were refunded in September 2015. The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two series of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. Sixty-seven percent of the unamortized portion of the premium and discount was written off as a part of deferred outflows of debt refunding when sixty-seven percent of the bonds were refunded in September 2015. The 2010 general obligation bonds included two series of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2016 and 2015 was \$80,774 and \$44,987, respectively, which is included as a direct deduction from bonds payable, net of current portion on the statements of net position. Bond discount and premium amortization totaled \$7,207 and \$31 for the years ended June 30, 2016 and 2015, respectively, and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

Use of estimates

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

Reclassification

Certain accounts and amounts in the June 30, 2015 financial statements have been reclassified in order to conform to the June 30, 2016 presentation.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 28, 2016, the date that the financial statements were available to be issued.

Note 2 – Cash, cash equivalents and investments

At June 30, 2016, the bank balances of unrestricted and restricted accounts totaled \$5,365,052 and had a carrying balance totaling \$5,345,590. A sum of \$200 is held in petty cash funds of the District.

Custodial credit risk is the risk that, in the event of failure of a financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2016, none of the District's deposits or investments were exposed to custodial credit risk. The amounts covered by federal depository insurance (FDIC), invested in money market accounts and collateralized were as follows:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

	Unrestricted	Restricted under bond covenants	Total
FDIC insured	\$ 670,023	\$ -	\$ 670,023
Collateralized	2,912,998	1,782,031	4,695,029
Balance per bank at June 30, 2016	\$ 3,583,021	\$ 1,782,031	\$ 5,365,052

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The District’s investment policy limits investments to those that are very creditworthy. At June 30, 2016, the District’s investments were all in a Standard and Poor’s AAAM rated money market account that is collateralized by U.S. Treasury obligations. As of June 30, 2016 and 2015, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

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

Investment Policy

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

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

Note 3 - Cash held by the Beaufort County Treasurer

Cash held by the Beaufort County Treasurer includes the remaining proceeds of the general obligation bond issues, property tax collections and interest earned on monies held by the Treasurer. The funds will be used as follows:

	As of June 30,	
	2016	2015
Unrestricted cash - Available for general operating purposes	\$ 105,060	\$ 16,604
Restricted cash - Bond principal retirement and interest payments	<u>700,497</u>	<u>763,736</u>
Total	<u>\$ 805,557</u>	<u>\$ 780,340</u>

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

Note 4 - Accounts receivable

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

	2016	2015
Receivables from customers	\$ 816,634	\$ 880,059
Unbilled receivables from customers	1,200,477	868,280
Other receivables	<u>166,322</u>	<u>57,714</u>
	<u>\$ 2,183,433</u>	<u>\$ 1,806,053</u>

Long term Project SAFE accounts receivable represent amounts due from the Community Foundation of the Lowcountry (CFLC) which operates a program called Project SAFE that provides grants for low and moderate income homeowners to connect to the public sewer system. 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. The District expects repayment in full on these receivables and has classified them as non-current as there are no set repayment terms.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 5 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2016 and 2015 was as follows:

	June 30, 2015	Additions	Disposals	Transfers	June 30, 2016
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	<u>5,926,019</u>	<u>2,073,890</u>	<u>(131,904)</u>	<u>(7,083,003)</u>	<u>785,002</u>
Total capital assets not being depreciated	7,225,213	2,073,890	(131,904)	(7,083,003)	2,084,196
<u>Capital assets being depreciated:</u>					
Waterworks system	55,813,320	188,294	-	6,260,966	62,262,580
Sewage disposal system	38,672,883	150,797	-	822,037	39,645,717
Buildings	4,339,091	-	-	-	4,339,091
Sewage treatment facilities	34,711,422	22,201	(6,084)	-	34,727,539
Transportation equipment	1,017,719	150,646	(70,208)	-	1,098,157
Operations furniture and equipment	2,080,981	161,488	(43,970)	-	2,198,499
Office furniture and equipment	<u>748,927</u>	<u>73,285</u>	<u>(46,170)</u>	-	<u>776,042</u>
Total capital assets being depreciated	137,384,343	746,711	(166,432)	7,083,003	145,047,625
<u>Less accumulated depreciation for:</u>					
Waterworks system	(26,504,124)	(2,013,588)	-	-	(28,517,712)
Sewage disposal system	(13,459,380)	(1,355,013)	-	-	(14,814,393)
Buildings	(1,762,204)	(112,863)	-	-	(1,875,067)
Sewage treatment facilities	(21,180,215)	(834,918)	6,084	-	(22,009,049)
Transportation equipment	(902,374)	(51,578)	70,208	-	(883,744)
Operations furniture and equipment	(1,521,525)	(85,271)	43,970	-	(1,562,826)
Office furniture and equipment	<u>(642,526)</u>	<u>(29,545)</u>	<u>46,170</u>	-	<u>(625,901)</u>
Total accumulated depreciation	<u>(65,972,348)</u>	<u>(4,482,776)</u>	<u>166,432</u>	-	<u>(70,288,692)</u>
Total capital assets being depreciated, net	<u>71,411,995</u>	<u>(3,736,065)</u>	-	<u>7,083,003</u>	<u>74,758,933</u>
Year end totals	<u>\$78,637,208</u>	<u>\$ (1,662,175)</u>	<u>\$ (131,904)</u>	<u>\$ -</u>	<u>\$76,843,129</u>

During the year ended June 30, 2016, the PSD decided not to move forward on one of its construction in progress projects. Accordingly, the planning, design, and engineering costs capitalized into construction in progress totaling \$131,904 were removed and reclassified into professional fees on the statement of revenues, expenses, and changes in net position.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

	June 30, 2014	Additions	Disposals	Transfers	June 30, 2015
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	<u>1,629,184</u>	<u>6,375,117</u>	<u>-</u>	<u>(2,078,282)</u>	<u>5,926,019</u>
Total capital assets not being depreciated	2,928,378	6,375,117	-	(2,078,282)	7,225,213
<u>Capital assets being depreciated:</u>					
Waterworks system	55,763,179	104,074	(622,888)	568,955	55,813,320
Sewage disposal system	37,059,830	103,726	-	1,509,327	38,672,883
Buildings	4,339,091	-	-	-	4,339,091
Sewage treatment facilities	34,711,422	-	-	-	34,711,422
Transportation equipment	1,017,719	-	-	-	1,017,719
Operations furniture and equipment	2,155,261	8,395	(82,675)	-	2,080,981
Office furniture and equipment	<u>663,460</u>	<u>85,467</u>	<u>-</u>	<u>-</u>	<u>748,927</u>
Total capital assets being depreciated	135,709,962	301,662	(705,563)	2,078,282	137,384,343
<u>Less accumulated depreciation for:</u>					
Waterworks system	(25,076,449)	(2,050,563)	622,888	-	(26,504,124)
Sewage disposal system	(12,138,922)	(1,320,458)	-	-	(13,459,380)
Buildings	(1,649,341)	(112,863)	-	-	(1,762,204)
Sewage treatment facilities	(20,345,347)	(834,868)	-	-	(21,180,215)
Transportation equipment	(846,259)	(56,115)	-	-	(902,374)
Operations furniture and equipment	(1,517,606)	(86,594)	82,675	-	(1,521,525)
Office furniture and equipment	<u>(618,641)</u>	<u>(23,885)</u>	<u>-</u>	<u>-</u>	<u>(642,526)</u>
Total accumulated depreciation	<u>(62,192,565)</u>	<u>(4,485,346)</u>	<u>705,563</u>	<u>-</u>	<u>(65,972,348)</u>
Total capital assets being depreciated, net	<u>73,517,397</u>	<u>(4,183,684)</u>	<u>-</u>	<u>2,078,282</u>	<u>71,411,995</u>
Year end totals	<u>\$76,445,775</u>	<u>\$ 2,191,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$78,637,208</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$4,482,776 and \$4,485,346, respectively. Transfers relate to construction in progress completed during the year.

Note 6 – Long-term obligations

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

Notes payable

The District is obligated under a note dated November 30, 1988, with a balance of \$115,939 and \$133,939 at June 30, 2016 and 2015, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 6 – Long-term obligations (continued)

Notes payable (continued)

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The SIRF loan balance outstanding at June 30, 2016 and 2015 amounted to \$333,047 and \$354,468, respectively.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.0% per annum. These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 were payable quarterly beginning January 1, 2009 through October 1, 2011. Effective November 21, 2011, the interest rate was reduced to 2.25% resulting in reduced principal and interest payments of \$45,350 to be paid quarterly from January 1, 2012 through October 1, 2028. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The SRF loan balance outstanding at June 30, 2016 and 2015 amounted to \$1,937,500 and \$2,073,392, respectively.

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. During the year ended June 30, 2015, draws of \$2,563,810 were taken on this loan. During the year ended June 30, 2016, the remaining draws of \$357,620 were taken on the loan and the loan had a balance of \$2,888,397 at June 30, 2016. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$3,451,303. Proceeds were used to defray the cost expanding the existing Reverse Osmosis Treatment Facility, installing an additional booster pump station, and relocating a major water line within the district. The note bears interest at a rate of 2.00% per annum. During the years ended June 30, 2016 and 2015, draws of \$825,518 and \$2,625,785, respectively, were taken on this loan. Five quarterly principal and interest payments of \$56,989 were due beginning May 1, 2015, one quarterly principal and interest payment of \$29,753 was due on August 1, 2016, and seventy-four quarterly principal and interest payments of \$52,450 are due beginning on November 1, 2016. The balance outstanding at June 30, 2016 and 2015 was \$3,258,187 and \$2,587,546, respectively. The notes are backed by general obligation debt.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 6 – Long-term obligations (continued)

Bonds payable

In May 2000, the District issued \$530,000 of Series 2000B revenue bonds for purposes of funding certain improvements within the District. The bonds were an obligation of the District, bore interest at the rate of 6.172% and were payable annually through May 2020 in the amount of \$46,856, which included interest. The bonds will be repaid by annual assessments of the owners in the Burkes Beach area over a 20 year period and will be collected by the county treasurer. In June 2010, the District made a \$342,069 payment to pay off these bonds. After the pay off, \$190,722 of these bonds were refinanced as series 2010A revenue bonds. The series 2010A bonds bear interest at a rate of 3.85% per annum. The first payment of principal and interest in the amount of \$23,219 was due May 26, 2011. Nine additional payments of principal and interest of \$23,301 were payable on May 26th of each year beginning in 2012 and continuing until 2020. The 2010A revenue bonds outstanding amounted to \$104,169 at June 30, 2015. On September 3, 2015, these bonds were refunded through the issuance of Series 2015 A and B revenue bonds.

In April 2004, the District determined that a debt service savings could be achieved by issuing a series of 2004 revenue bonds in the amount of \$17,575,000 and applying the proceeds thereof to refund a portion of the callable maturities of the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. The 2004 revenue bonds bore varying interest rates of between 2% to 5%, and were payable semi-annually beginning August 1, 2004 through August 1, 2021. In November 2012, these bonds were advance refunded to achieve a debt service savings by the issuance of series 2012A revenue bonds in the amount of \$12,275,000. Interest on the bonds is payable semi-annually at interest rates of between 0.542% and 2.839% per annum. Principal payments are due annually on August 1st of each year beginning in 2013 and continuing through 2024. The 2012A revenue bonds outstanding amounted to \$8,275,000 and \$9,875,000 at June 30, 2015 and 2014, respectively.

In August 2004, the District completed the issuance of series 2004B revenue bonds for \$430,000. The proceeds of the bonds are to be used first for funding the debt service requirement and the issuance costs of the bond. Proceeds are then to be used to reimburse the District for the cost of system improvements. A one time principal payment was made in September 2004 of \$103,978. Beginning May 2, 2005, the remaining balance of \$326,022 will be paid with 19 annual payments of \$26,275, which includes interest at a rate of 5.19% per annum. A final payment of \$26,126, including interest, was due on May 2, 2024. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. The 2004B bonds outstanding amounted to \$200,940 at June 30, 2014. On July 28, 2014, the District paid off the series 2004B revenue bonds in full. There was no prepayment penalty.

On February 2, 2006, the District issued \$18,770,000 of Series 2006 revenue bonds to refund the series 1998 revenue bonds in order to achieve savings on debt service. Interest on the bonds was payable semi-annually at varying interest rates of between 3.50% and 4.125% per annum. Principal payments were due annually on December 1st of each year beginning in 2006 and continuing until 2023. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. The 2006 bonds outstanding amounted to \$15,725,000 at June 30, 2015. On September 3, 2015, these bonds were refunded through the issuance of Series 2015 A and B revenue bonds.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

In June 2007, the District issued \$930,000 of series 2007 revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2007 bond bore interest at a rate of 4.22% per annum. Principal and interest of \$69,771 were payable on June 20th of each year beginning in 2008 and continuing until 2027. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. The 2007 revenue bonds outstanding amounted to \$646,525 at June 30, 2015. On September 3, 2015, these bonds were refunded through the issuance of Series 2015 A and B revenue bonds.

On October 3, 2007, the District issued \$7,350,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. Interest on the bonds is payable semi-annually beginning March 1, 2008 at varying interest rates of between 4.50% and 4.00% per annum. Principal payments on the bonds are due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$4,900,000 and \$5,250,000 at June 30, 2016 and 2015, respectively.

In July 2009, the District issued \$355,902 of series 2009A revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2009A bond bore interest at a rate of 4.55% per annum. Principal and interest of \$33,254 were payable on July 30th of each year beginning in 2010 and continuing until 2024. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. The 2009A revenue bonds outstanding amounted to \$262,479 at June 30, 2015. On September 3, 2015, these bonds were refunded through the issuance of Series 2015 A and B revenue bonds.

In July 2009, the District issued \$1,781,694 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bear interest at a rate of 4.219% per annum. The first payment of principal and interest in the amount of \$159,413 was due March 1, 2010. Fourteen additional payments of principal and interest of \$160,040 are payable on March 1st of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$1,067,829 and \$1,178,162 at June 30, 2016 and 2015, respectively.

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds were to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds were due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2010B revenue bonds outstanding amounted to \$2,865,000 at June 30, 2015. On September 3, 2015, sixty-seven percent of these bonds, \$1,920,000, were refunded through the issuance of Series 2015 A and B revenue bonds. Principal payments on the remaining balance of \$945,000 are due annually beginning on December 1, 2016 through December 1, 2020 and interest payments remain payable semi-annually through December 1, 2020. The interest rate on the remaining bonds is 4.00% per annum. The 2010 revenue bonds outstanding at June 30, 2016 amounted to \$805,000.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$2,920,000 and \$3,100,000 at June 30, 2016 and 2015, respectively.

On April 27, 2011, the District issued \$384,402 of series 2011 revenue bonds. Proceeds were to be used to defray the costs of system improvements. The series 2011 bond bore interest at a rate of 3.91% per annum. Principal and interest of \$34,356 were payable on April 27th of each year beginning in 2012 and continuing until 2026. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$302,443 at June 30, 2015. On September 3, 2015, these bonds were refunded through the issuance of Series 2015 A and B revenue bonds.

On August 24, 2011, the District issued \$6,003,544 of series 2011B refunding revenue bonds. Proceeds were used to refund the May 2000 loan agreement with the South Carolina Water Quality Revolving Fund Authority; the purpose of the original loan agreement was to fund the expansion of the wastewater treatment plant capacity by 3,200,000 gallons per day. The series 2011B bonds bore interest at a rate of 2.89% per annum. Principal and interest of \$57,666 were payable on the 24th of each month beginning in September 2011 and continuing until August 2021. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$3,904,379 at June 30, 2015. On September 3, 2015, these bonds were refunded through the issuance of Series 2015 A and B revenue bonds.

On November 29, 2012, the District issued \$815,000 of series 2012B revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2012B bond bears interest at a rate of 2.15% per annum. Interest only payments are due semi-annually from February 1, 2013 through August 1, 2024. The principal balance is due in full on August 1, 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2012B revenue bonds outstanding amounted to \$815,000 at June 30, 2016 and 2015.

On April 23, 2014, the District issued \$282,294 of Series 2014A revenue bonds for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 3.42% and are payable in annual principal and interest payments of \$24,371 through April 2029. 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 2014A revenue bonds outstanding amounted to \$252,358 and \$267,578 at June 30, 2016 and 2015, respectively

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

On September 3, 2015, the District issued \$19,846,000 of Series A refunding revenue bonds and \$2,721,000 of Series B refunding revenue bonds. Proceeds were used to refund the series 2006 refunding revenue bonds, series 2007 revenue bonds, series 2009A revenue bonds, series 2010A refunding revenue bonds, series 2011 revenue bonds, series 2011B refunding revenue bonds, and sixty seven percent of the outstanding 2010B revenue bonds. The bonds are payable from revenues derived from operation of the District’s system, and are secured by a lien upon these revenues. The series 2015A bonds bear interest at a rate of 1.93% per annum and principal and interest payments are due semi-annually beginning in December 2015 and continuing until June 2025. The 2015A revenue bonds outstanding amounted to \$19,083,000 at June 30, 2016. The series 2015B bonds bear interest at a rate of 2.29% per annum and principal and interest payments are due semi-annually beginning in December 2015 and continuing until December 2029. The 2015B revenue bonds outstanding amounted to \$2,658,000 at June 30, 2016.

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

Years Ended				
June 30,	Principal	Interest	Total	
2017	\$ 4,224,875	\$ 1,113,228	\$ 5,338,103	
2018	4,331,852	1,030,988	5,362,840	
2019	4,421,841	935,423	5,357,264	
2020	4,523,239	834,696	5,357,935	
2021	4,639,058	727,575	5,366,633	
2022-2026	21,103,378	1,983,891	23,087,269	
2027-2031	4,561,297	390,651	4,951,948	
2032-2036	1,503,717	49,427	1,553,144	
	<u>\$ 49,309,257</u>	<u>\$ 7,065,879</u>	<u>\$ 56,375,136</u>	

For those bonds due June 30,	General Obligation bonds dated Oct. 3, 2007	General Obligation bonds dated Sept. 28, 2010	Revenue bonds dated Nov. 29, 2012
2017	4.000%	2.250%	1.372%
2018	4.000%	3.000%	1.667%
2019	4.000%	3.000%	1.917%
2020-2023	4.000%	3.000%	2.339%
2024	4.000%	3.000%	2.839%
2025	4.000%	3.000%	-
2026-2027	4.000%	3.125%	-
2028	-	3.250%	-

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 7 – Non-current liabilities

The non-current liability activity during fiscal years 2016 and 2015 was as follows:

	June 30, 2015	Additions	Reductions	June 30, 2016	Amounts due within one year
Revenue bonds	\$34,677,573	\$22,567,000	\$(25,356,215)	\$31,888,358	\$ 3,117,740
GO bonds	9,528,162	-	(640,333)	8,887,829	664,988
Notes payable - GO debt	5,015,406	825,518	(312,190)	5,528,734	291,186
Notes payable - Revenue/other	2,697,749	357,620	(51,033)	3,004,336	150,961
Bond discount/premium	44,988	42,992	(7,206)	80,774	-
Net pension liability	4,121,502	316,421	-	4,437,923	-
Subtotal	\$56,085,380	\$24,109,551	\$(26,366,977)	\$53,827,954	\$ 4,224,875
Less current portion	(3,886,071)			(4,224,875)	
Noncurrent liabilities	<u>\$52,199,309</u>			<u>\$49,603,079</u>	

	June 30, 2014	Additions	Reductions	June 30, 2015	Amounts due within one year
Revenue bonds	\$37,704,831	\$ -	\$ (3,027,258)	\$34,677,573	\$ 2,882,732
GO bonds	10,144,029	-	(615,867)	9,528,162	640,333
Notes payable - GO debt	2,581,423	2,625,785	(191,802)	5,015,406	312,190
Notes payable - Revenue/other	151,939	2,563,810	(18,000)	2,697,749	50,816
Bond discount/premium	45,019	-	(31)	44,988	-
Net pension liability	4,293,803	-	(172,301)	4,121,502	-
Subtotal	\$54,921,044	\$ 5,189,595	\$ (4,025,259)	\$56,085,380	\$ 3,886,071
Less current portion	(3,629,596)			(3,886,071)	
Noncurrent liabilities	<u>\$51,291,448</u>			<u>\$52,199,309</u>	

Note 8 – Deferred amount on refunding

On February 2, 2006, the District issued revenue bonds amounting to \$18,770,000 with varying interest rates to advance refund series 1998 revenue bonds amounting to \$17,825,000 of principal which were to mature in 2024. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2006 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1.28 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$886,805. The District is amortizing the deferred amount on early retirement of \$1,133,015 over the 18-year life of the refunded bonds. The unamortized balance at June 30, 2015 was \$534,739. The unamortized portion of the deferred amount on refunding was written off as a part of deferred outflows from debt refunding on the refunding debt when the bonds were refunded in September 2015.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 8 – Deferred amount on refunding (continued)

In June 2010, the District issued revenue bonds amounting to \$190,722 with varying interest rates to advance refund series 2000B revenue bonds amounting to \$530,000 of principal which were to mature in 2020. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2010 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$84,295, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,268. The District is amortizing the deferred amount on early retirement of \$17,137 over the 10-year life of the refunded bonds. The unamortized balance at June 30, 2015 was \$8,569. The unamortized portion of the deferred loss on refunding was written off as a part of deferred outflows from debt refunding on the refunding debt when the bonds were refunded in September 2015.

In November 2012, the District issued revenue bonds amounting to \$12,275,000 with varying interest rates to advance refund series 2004 revenue bonds amounting to \$17,575,000 which had varying interest rates and a balance of \$11,740,000 at the time of the refunding. The 2004 bonds previously refunded revenue bonds totaling \$18,110,000. The 2004 revenue bonds were set to mature in 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2012A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$527,149, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$206,473. The District is amortizing the deferred amount on early retirement of \$1,240,395 over the 8.33 year remaining life of the refunded bonds. The unamortized balance at June 30, 2016 and 2015 was \$707,025 and \$855,872, respectively.

In September 2015, the District issued series 2015A revenue bonds amounting to \$19,846,000 with a 1.93% interest rate to advance refund \$15,725,000 of the \$18,770,000 series 2006 refunding revenue bonds which had varying interest rates and a maturity of December 2023, \$241,168 of the \$335,902 series 2009A revenue bonds which had an interest rate of 4.55% and a maturity date of July 2024, \$104,168 of the \$190,722 series 2010A revenue bonds which had an interest rate of 3.85% and a maturity date of May 2020, \$205,000 of the \$3,400,000 series 2010B revenue bonds which had an interest rate of 4.00% and a maturity date of December 2024, and \$3,807,737 of the \$6,003,544 series 2011B revenue bonds which had an interest rate of 2.89% and a maturity date of August 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1,814,453, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,718,876. The District is amortizing the deferred amount on early retirement of \$866,883 over the 9.75 year life of the refunded bonds. The unamortized balance at June 30, 2016 was \$792,790.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 8 – Deferred amount on refunding (continued)

In September 2015, the District issued series 2015B revenue bonds amounting to \$2,721,000 with a 2.29% interest rate to advance refund \$646,524 of the \$930,000 series 2007 revenue bonds which had an interest rate of 4.22% and a maturity of June 2027, \$1,715,000 of the \$3,400,000 series 2010B revenue bonds which had varying interest rates and a maturity date of December 2029, and \$302,444 of the \$384,000 series 2011 revenue bonds which had an interest rate of 3.91% and a maturity date of April 2026. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015B advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$336,864, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$298,448. The District is amortizing the deferred amount on early retirement of \$266,044 over the 14.25 year life of the refunded bonds. The unamortized balance at June 30, 2016 was \$250,486.

Note 9 – Restricted Assets

A reserve fund for debt service is mandated by bond covenants. At June 30, 2016 and 2015, the debt service reserves totaled \$2,482,528 and \$3,426,103, 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.

Note 10 - Lease arrangements

The District is currently leasing office space, land use and space on its water tower facilities to various cellular phone companies for attachment of antennae. Original lease terms range from one to five year periods, with renewal options. Rental income in connection with these leases was \$531,510 and \$568,138 for the years ended June 30, 2016 and 2015, respectively. The future minimum lease income is as follows:

Years ended	
June 30,	Amount
2017	\$ 348,143
2018	135,089
2019	74,989
2020	74,989
2021	70,955
Thereafter	4,232
Total	<u>\$ 708,397</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 11 - Economic dependence

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

Note 12 – Insurance recoveries

The District records insurance recoveries as an offset to the related expense. The District received \$3,184 and \$-0- for insurance recoveries during the years ended June 30, 2016 and 2015, respectively.

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 basically 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.

Regulatory mandates

The District, as well as some other water authorities on Hilton Head Island, South Carolina, has entered into contracts for additional water supply sources to meet its future needs due to restrictions placed on the District by the South Carolina Department of Health and Environmental Control. The restrictions and contract for water supply have a significant financial impact on the District. During the years ended June 30, 1998 and June 30, 2003, the District signed agreements with Beaufort-Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum amount of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$739,198 and \$1,001,103 for the years ended June 30, 2016 and 2015, 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 \$819,099 and \$262,880 and payments of capacity fees totaling \$585,744 and \$631,651 were collected during the fiscal years ended June 30, 2016 and 2015, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District.

Construction commitments

The District had outstanding construction contract commitments of \$248,214 and \$1,110,430 at June 30, 2016 and 2015, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 14 - 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 2016 through 2034. Assessments receivable totaled \$2,058,414 and \$2,511,072 as of June 30, 2016 and 2015, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2016 and 2015, \$83,335 and \$122,375, respectively, of the assessments collected was recognized as interest income.

Note 15 - 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 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, 2016 and 2015 were \$160,619 and \$184,735, respectively. The matching contribution for the years ended June 30, 2016 and 2015 was \$9,642 and \$9,628, respectively. Participants are immediately vested in all contributions and earnings thereon.

South Carolina Retirement System

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

General Information about the Pension Plan

Plan Description. SCRS is a cost-sharing multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority (PEBA) that was established effective 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 allowances and other benefits for employees of the state, its public school districts, and political subdivisions that elect participation. PEBA issues a publically 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.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 15 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

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. 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.

Contributions. Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year. Required employee contribution rates for the years ended June 30, 2016 and 2015 were 8.16% and 8.00%, respectively. Required employer contribution rates for the years ended June 30, 2016 and 2015 were 10.91% and 10.75%, respectively. The incidental death benefit employer contribution rate for the years ended June 30, 2016 and 2015 was 0.15%. The District's required contribution for the years ended June 30, 2016 and 2015 were \$222,257 and \$241,688, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the District reported a liability of \$4,437,923 and \$4,121,502, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, using membership data as of July 1, 2014, projected forward to the end of the fiscal year and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. 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, 2015 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2015. At June 30, 2016 and 2015, the District's proportion was 0.0234 percent and 0.0239 percent, respectively.

For the year ended June 30, 2016, the District recognized pension expense of \$298,810. At June 30, 2016, 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	\$ 78,847	\$ 7,936
Net difference between projected and actual earnings on pension plan investments	29,705	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	74,544
District contributions subsequent to the measurement date	222,257	-
Total	<u>\$ 330,809</u>	<u>\$ 82,480</u>

For the year ended June 30, 2015, the District recognized pension expense of \$288,870. At June 30, 2015, 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	\$ 116,786	\$ -
Net difference between projected and actual earnings on pension plan investments	-	347,473
District contributions subsequent to the measurement date	241,688	-
Total	<u>\$ 358,474</u>	<u>\$ 347,473</u>

The \$222,257 and \$241,688 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2016 and 2015, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, 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, 2016 AND 2015

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Year ended June 30,	Deferred Outflows (Inflows) of Resources
2017	(4,560)
2018	(4,560)
2019	(31,463)
2020	66,836
2021	-
Thereafter	-

Actuarial Assumptions. Actuarial assumptions 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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time 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. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary Increases	3.5% to 12.5% (varies by service), including inflation
Investment rate of return	7.5 percent, including inflation
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using the published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rates of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is producing by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	<u>100.0%</u>		<u>6.00%</u>
Inflation for Acturial Purposes			<u>2.75%</u>
Total Expected Nomical Return			<u>8.75%</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 15 - Deferred compensation plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in futures. Based on those assumptions, each System's fiduciary net position was projected to be available to make all 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.

Sensitivity of the District's proportionate share of net the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	<u>\$ 5,594,917</u>	<u>\$ 4,437,923</u>	<u>\$3,468,163</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.

Note 16 - Other commitments and contingencies

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 17 - 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,	
	2016	2015
Net investment in capital assets		
Net property, plant and equipment in service	\$ 76,843,129	\$ 78,637,208
Less: Debt as disclosed in Notes 6 & 7	(49,309,257)	(51,918,891)
Bond premium, net	(80,774)	(44,987)
Deferred amount on refunding, net	1,750,301	1,399,180
Prepaid insurance - bonds	-	77,834
Accounts payable for capital assets	(221,839)	(562,108)
	28,981,560	27,588,236
Restricted for debt service	2,482,528	3,426,103
Unrestricted	3,045,794	1,864,770
Total net position	\$ 34,509,882	\$ 32,879,109

Note 18 – Subsequent event

On October 7, 2016 Hurricane Matthew moved up the South Carolina coast as a Category 2 storm. The following day Hilton Head Island received wind gusts of 88 mph and the highest single day rainfall in the amount of 11.0 inches. As of the date of this report, an estimate of the total damages and their financial impact to the District has not been completed. The District is working on submitting claims with the South Carolina Insurance Reserve Fund and the District has been approved for public assistance in the form of FEMA reimbursement but cannot estimate the amount of insurance proceeds or FEMA reimbursement expected.

SUPPLEMENTAL FINANCIAL INFORMATION

Table A-1
Hilton Head PSD
Budgetary Comparison Schedule
Fiscal Year to Date as of June 30, 2016

	Fiscal Year 2016		FY 16 Actual to FY 16 Budget Comparison	
	Actual	Budget	Dollars	%
	Favorable (Unfavorable)			
Operating Revenues				
Water Service	\$ 6,009,410	\$ 6,267,800	\$ (258,390)	-4.1%
Sewer Service	5,056,081	5,011,200	44,881	0.9%
Tap In Fees - Water	96,427	57,800	38,627	66.8%
Connection Fees - Sewer	109,984	40,000	69,984	175.0%
Service Fees	39,113	36,782	2,331	6.3%
Golf Course Irrigation	164,344	320,000	(155,656)	-48.6%
Availability Fees	525,302	596,300	(70,998)	-11.9%
Other Operating Revenues	284,775	21,118	263,657	1248.5%
Total Operating Revenues	12,285,436	12,351,000	(65,564)	-0.5%
Departmental Expenses				
Payroll & Related	3,294,097	3,445,400	151,303	4.4%
Administrative Expenses	756,507	772,700	16,193	2.1%
Operations	1,563,548	1,766,100	202,552	11.5%
Maintenance	1,247,020	997,700	(249,320)	-25.0%
Water Tap In Expenses	115,995	60,000	(55,995)	-93.3%
Sewer Connection Expenses	150,570	52,000	(98,570)	-189.6%
Purchased Water	543,661	635,100	91,439	14.4%
ASR-1 Water	202,890	201,600	(1,290)	-0.6%
RO Plant O&M	723,049	717,394	(5,655)	-0.8%
ASR-1 O&M	44,562	55,800	11,238	20.1%
Professional Fees	229,387	185,000	(44,387)	-24.0%
Vehicle	84,215	108,500	24,285	22.4%
Total Departmental Expenses	8,955,500	8,997,294	41,794	0.5%
Depreciation	4,482,776	4,405,000	(77,776)	-1.8%
Total Operating Expenses	13,438,277	13,402,294	(35,983)	-0.3%
Operating income (loss)	(1,152,841)	(1,051,294)	(101,547)	-9.7%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,396,680	1,428,000	(31,320)	-2.2%
Property taxes-Operations Levy	931,507	955,000	(23,493)	-2.5%
Rental Income	78,552	80,600	(2,048)	-2.5%
Interest earned	92,713	127,900	(35,187)	-27.5%
Tower lease	471,540	517,200	(45,660)	-8.8%
Gain (Loss) of disposal of equipment	1,500	-	1,500	N/A
Total Non-operating Revenues	2,972,492	3,108,700	(136,208)	-4.4%
Non-operating Expenses				
Interest expense-Bonds	1,230,078	1,567,800	337,722	21.5%
Bond Defeasance Amortization	249,373	214,100	(35,273)	-16.5%
Amortization of Bond Insurance	1,526	9,200	7,674	83.4%
Bond Issuance Costs	119,950	285,000	165,050	57.9%
Bond Premium Amortization	(7,207)	(30)	7,177	23921.9%
Total Non-operating Expenses	1,593,721	2,076,070	482,349	23.2%
Total Non-operating Revenues/Exp.	1,378,771	1,032,630	346,141	33.5%
Increase (decrease) in net position, before capital contributions	225,930	(18,664)	244,594	1310.5%
Water Capacity Fee	273,256	110,000	163,256	148.4%
Sewer Capacity Fee	312,488	130,000	182,488	140.4%
Developer Contributions of Systems	819,099	-	819,099	N/A
Assessments	-	-	-	0.0%
Total Capital Contributions	1,404,843	240,000	1,164,843	485.4%
Change in net position	\$ 1,630,773	\$ 221,336	\$ 1,409,437	636.8%
Net position, beginning of the fiscal year	\$ 32,879,109			
Net position, June 30, 2016	\$ 34,509,882			

Notes to Budgetary Comparison Schedule

Budgetary Highlights

Operating Revenues: Actual of \$12,285,436 vs. FY'16 Budget of \$12,351,000 represents a variance of \$65,564 or 0.5% below budget.

The following is a summary of material variances for the Operating Revenue categories:¹¹

- Water service revenues are below budget by \$258,390 or 4.1%. Fiscal year 2016 had the highest amount of precipitation since fiscal year 1992 as recorded at the District's wastewater treatment plant. Recorded rainfall for fiscal year 2016 was 66.09 inches. In recent years, there also is a trend toward lower water consumption due to water efficient appliances and fixtures. Sewer service revenues are up by \$44,881 or 0.9%.
- Water tap-in fees are above budget \$38,627 or 67% and sewer connection fees are above budget \$69,984 or 175%. These lines are budgeted conservatively and the District had a large number of new customers added during the fiscal year as explained in the financial highlight section on page customer growth section on page 20.
- Golf course irrigation revenues are \$155,656 or 49% below budget due to the aforementioned high amount of rainfall.
- Availability fees are \$70,998 or 12% below budget due to newly added water and sewer connections.
- Other operating revenues are \$263,657 or 1248% over budget due to a \$188,136 sales tax reimbursement payment, from the Palmetto Electric Cooperative in addition to a South Carolina Department of Revenue Sales and Use Tax refund of \$49,076.

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$41,794 or 0.5% under budget. The following is a summary of material variances for the Departmental Expenses categories:¹¹

- Payroll and Related Expense: Actual of \$3,294,097 vs. FY'16 Budget of \$3,445,400 is \$151,303 or 4.4% below budget. This variance relates to the reduction of staff due to retirement and attrition. The FY'16 budget was based on 33.5 employees but the staffing level was reduced to 31.5 employees for the fiscal year.
- Operations Expense: Actual of \$1,563,548 vs. FY'16 Budget of \$1,766,100 is \$202,552 or 12% below budget due to lower than expected fuel and power costs.
- Maintenance Expense: Actual of \$1,247,020 vs. FY'16 Budget of \$997,700 is \$249,320 or 25% above budget. This is mainly due to extra maintenance and repair costs associated with the large scale gravity sewer repairs and the Hargray fiber optic cable install project. Staff is in the process of cost recovery efforts with Hargray.

¹¹ In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for the District's quarterly and annual reports.

- Water Tap In Expenses: Actual of \$115,995 vs. FY' 16 Budget of \$60,000 is \$55,995 or 93% above budget. As with water tap in fees this line item is budgeted conservatively and there was a large number of connections as covered on page 20 under Customer Growth.
- Sewer Connection Expenses: Actual of \$150,570 vs. FY' 16 Budget of \$52,000 is \$98,570 or 190% above budget. This line item is also budgeted conservatively and there were a large number of sewer connections as covered on pages 20 and 21 under Customer Growth.
- Purchased Water Expense: Actual of \$543,661 vs. FY' 16 Budget of \$635,100 is \$91,439 or 14% below budget. This is mainly due to all four RO plant skids being operational for the entire fiscal year.
- ASR-1 O&M: Actual of \$44,562 vs. FY' 16 Budget of \$55,800 is \$11,238 or 20% below budget due to reduced fuel, power, and chemical costs.
- Professional Fees: Actual of \$229,387 vs. FY' 16 Budget of \$185,000 is \$44,387 or 24% above budget. During fiscal year 2016, the PSD decided not to move forward on one of its construction in progress projects. Accordingly, the planning, design, and engineering costs capitalized into construction in progress totaling \$131,904 were removed and reclassified into professional fees on the statement of revenues, expenses, and changes in net position.
- Vehicle Expense: Actual of \$84,215 vs. FY' 16 Budget of \$108,500 is \$24,285 or 22% below budget. This is mainly due to sustained low gasoline prices and less travel for vehicles due to the implementation of the automated metering infrastructure.
- Total Non-Operating Revenues: Actual of \$2,972,492 vs. FY' 16 Budget of \$3,108,700 represents a variance of \$136,208 or 4.4% below budget. This variance is mainly due to the loss of tower leases and lower interest earned. Also, the operations levy and GO levy are lower than budget due to delinquent taxes.
- Total Non-Operating Expenses: Actual of \$1,593,721 vs. FY' 16 Budget of \$2,076,070 represents a variance of \$482,349 or 23% below budget. This variance mainly relates to lower interest expense due to the refunding of bonds that closed September 3, 2015 and associated bond issuance costs that were much less than budgeted due to refunding of the bonds via bank placement versus selling the bonds on the market.
- Capital Contributions: Actual Capacity Fees of \$585,744 vs. FY' 16 Budget of \$240,000 represents a variance of \$345,744 or 144% above budget due to collection of capacity fees for unanticipated developer projects. Developer Contributions of Systems are a non-budgeted item totaling \$819,099 and related to the funds received from the Town of Hilton Head for the Gumtree Sewer Project and also the development of the Salt Creek Landing project.
- Bond Covenants: Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District is in compliance with the necessary requirements at 175%.

Fiscal year 2016's change in net position was an increase of \$1,630,773 vs. FY'16 Budget increase of \$221,336 which represents a variance of \$1,409,437 above budget which is mainly related to collection of capacity fees and developer contributions of systems in the amount of \$1,404,843.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SUMMARY SCHEDULE OF DEBT
JUNE 30, 2016

Description	Rate	06/30/2014	Addition	Reduction	6/30/2015	Addition	Reduction	06/30/2016	Current
Revenue Bonds									
Series 2004B	5.19%	\$ 200,940	\$ -	\$ (200,940)	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2006	3.50 to 4.13%	16,235,000	-	(510,000)	15,725,000	-	(15,725,000)	-	-
Series 2007	4.22%	687,292	-	(40,767)	646,525	-	(646,525)	-	-
Series 2009A	4.55%	282,862	-	(20,383)	262,479	-	(262,479)	-	-
Series 2010	2.00% to 4.00%	3,005,000	-	(140,000)	2,865,000	-	(2,060,000)	805,000	150,000
Series 2010A	3.85%	122,744	-	(18,575)	104,169	-	(104,169)	-	-
Series 2011	3.91%	324,126	-	(21,683)	302,443	-	(302,443)	-	-
Series 2011B	2.89%	4,474,573	-	(570,194)	3,904,379	-	(3,904,379)	-	-
Series 2012A	0.542% to 2.839%	11,275,000	-	(1,490,000)	9,785,000	-	(1,510,000)	8,275,000	1,020,000
Series 2012B	2.15%	815,000	-	-	815,000	-	-	815,000	-
Series 2014A	3.42%	282,294	-	(14,716)	267,578	-	(15,220)	252,358	15,740
Series 2015A	1.93%	-	-	-	-	19,846,000	(763,000)	19,083,000	1,847,000
Series 2015B	2.29%	-	-	-	-	2,721,000	(63,000)	2,658,000	85,000
Total Revenue Bonds		37,704,831	-	(3,027,258)	34,677,573	22,567,000	(25,356,215)	31,888,358	3,117,740
Notes Payable - Revenue/Other									
*SCJEDA - Notes Payable	0.00%	151,939	-	(18,000)	133,939	-	(18,000)	115,939	18,000
SIRF Series 2014 Revenue Bonds	1.00%	-	2,563,810	-	2,563,810	357,620	(33,033)	2,888,397	132,961
Total Notes Payable - Revenue/Other		151,939	2,563,810	(18,000)	2,697,749	357,620	(51,033)	3,004,336	150,961
Total Revenue/Other Debt		37,856,770			37,375,322			34,892,694	
General Obligation Bonds:									
Series 2007	4.00% to 4.50%	5,585,000	-	(335,000)	5,250,000	-	(350,000)	4,900,000	365,000
Series 2009	4.22%	1,284,029	-	(105,867)	1,178,162	-	(110,333)	1,067,829	114,988
Series 2010	2.00% to 3.38%	3,275,000	-	(175,000)	3,100,000	-	(180,000)	2,920,000	185,000
Total General Obligation Bonds		10,144,029	-	(615,867)	9,528,162	-	(640,333)	8,887,829	664,988
Notes Payable - GO Debt:									
SRF - Series 2007 GO Bonds	2.25%	2,206,268	-	(132,876)	2,073,392	-	(135,892)	1,937,500	138,975
SIRF Series 2007 GO Bonds	3.50%	375,155	-	(20,687)	354,468	-	(21,421)	333,047	22,180
SRF - Series 2014 GO Bonds	2.00%	-	2,625,785	(38,239)	2,587,546	825,518	(154,877)	3,258,187	130,031
Total Notes Payable - GO Debt		2,581,423	2,625,785	(191,802)	5,015,406	825,518	(312,190)	5,528,734	291,186
Total GO Debt		12,725,452			14,543,568			14,416,563	
Total Long-Term Liabilities		50,582,222	5,189,595	(3,852,927)	51,918,890	23,750,138	(26,359,771)	49,309,257	4,224,875
Less current portion		(3,629,596)			(3,886,071)			(4,224,875)	
Bond discount/premium, net of amortization		45,019			44,988			80,774	
Total Long Term Debt		\$ 46,997,645			\$ 48,077,807			\$ 45,165,156	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS
 JUNE 30, 2016

For the Year ending June 30,	\$3,400,000 Revenue Bond Dated August 24, 2010		\$12,275,000 Revenue Bond 2012 A Dated November 29, 2012		\$815,000 Revenue Bond 2012 B Dated November 29, 2012		\$282,294 Revenue Bond 2014 A Dated April 23, 2014		\$19,846,000 Revenue Bond 2012 A Dated September 3, 2015		\$2,721,000 Revenue Bond 2014 A Dated April 23, 2014	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2017	\$ 29,200	\$ 150,000	\$ 169,251	\$ 1,020,000	\$ 17,523	\$ -	\$ 8,631	\$ 15,740	\$ 359,395	\$ 1,847,000	\$ 60,376	\$ 85,000
2018	23,100	155,000	155,918	1,035,000	17,523	-	8,092	16,279	323,565	1,885,000	58,441	85,000
2019	16,800	160,000	140,067	1,050,000	17,523	-	7,536	16,835	287,010	1,923,000	56,471	88,000
2020	10,300	165,000	121,011	1,075,000	17,523	-	6,960	17,411	249,713	1,958,000	54,445	90,000
2021	3,500	175,000	97,726	1,110,000	17,523	-	6,364	18,007	211,769	1,992,000	52,372	92,000
2022	-	-	84,602	10,000	17,523	-	5,749	18,622	167,688	3,156,000	49,246	272,000
2023	-	-	82,757	120,000	17,523	-	5,112	19,259	106,970	3,119,000	42,960	280,000
2024	-	-	79,279	125,000	17,523	-	4,453	19,918	46,484	3,177,000	36,514	285,000
2025	-	-	38,752	2,730,000	8,761	815,000	3,772	20,599	376	26,000	31,213	72,000
2026	-	-	-	-	-	-	3,067	21,304	-	-	28,270	299,000
2027	-	-	-	-	-	-	2,339	22,032	-	-	21,537	277,000
2028	-	-	-	-	-	-	1,585	22,786	-	-	15,412	238,000
2029	-	-	-	-	-	-	806	23,566	-	-	9,939	244,000
2030	-	-	-	-	-	-	-	-	-	-	2,874	251,000
	<u>\$ 82,900</u>	<u>\$ 805,000</u>	<u>\$ 969,363</u>	<u>\$ 8,275,000</u>	<u>\$ 148,945</u>	<u>\$ 815,000</u>	<u>\$ 64,466</u>	<u>\$ 252,358</u>	<u>\$ 1,752,970</u>	<u>\$ 19,083,000</u>	<u>\$ 520,070</u>	<u>\$ 2,658,000</u>
Current		<u>\$ 150,000</u>		<u>\$ 1,020,000</u>		<u>\$ -</u>		<u>\$ 15,740</u>		<u>\$ 1,847,000</u>		<u>\$ 85,000</u>
Noncurrent		<u>\$ 655,000</u>		<u>\$ 7,255,000</u>		<u>\$ 815,000</u>		<u>\$ 236,618</u>		<u>\$ 815,000</u>		<u>\$ 2,573,000</u>

For the Year ending June 30,	\$7,350,000 GO Bond Dated October 3, 2007		\$1,781,694 Series 2009 GO Bond Dated July 30, 2009		\$3,970,000 GO Bond Dated September 25, 2010		BOND TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
2017	\$ 196,000	\$ 365,000	\$ 45,052	\$ 114,988	\$ 88,550	\$ 185,000	\$ 973,978	\$ 3,782,728	\$ 4,756,706
2018	181,400	380,000	40,200	119,839	84,368	190,000	892,607	3,866,118	4,758,725
2019	166,200	390,000	35,144	124,895	78,688	195,000	805,439	3,947,730	4,753,169
2020	150,600	405,000	29,875	130,165	72,837	200,000	713,264	4,040,576	4,753,840
2021	134,400	420,000	24,383	135,656	66,838	205,000	614,875	4,147,663	4,762,538
2022	117,600	440,000	18,660	141,380	60,687	210,000	521,755	4,248,002	4,769,757
2023	100,000	460,000	12,695	147,345	54,388	220,000	422,405	4,365,604	4,788,009
2024	81,600	480,000	6,479	153,561	47,787	230,000	320,119	4,470,479	4,790,598
2025	62,400	500,000	-	-	40,888	240,000	186,162	4,403,599	4,589,761
2026	42,400	520,000	-	-	33,687	245,000	107,424	1,085,304	1,192,728
2027	21,600	540,000	-	-	26,031	255,000	71,507	1,094,032	1,165,539
2028	-	-	-	-	18,062	265,000	35,059	525,786	560,845
2029	-	-	-	-	9,450	280,000	20,195	547,566	567,761
2030	-	-	-	-	-	-	2,874	251,000	253,874
	<u>\$ 1,254,200</u>	<u>\$ 4,900,000</u>	<u>\$ 212,488</u>	<u>\$ 1,067,829</u>	<u>\$ 682,261</u>	<u>\$ 2,920,000</u>	<u>\$ 5,687,663</u>	<u>\$ 40,776,187</u>	<u>\$ 46,463,850</u>
Current		<u>\$ 365,000</u>		<u>\$ 114,988</u>		<u>\$ 185,000</u>		<u>80,774</u>	
Noncurrent		<u>\$ 4,535,000</u>		<u>\$ 952,841</u>		<u>\$ 2,735,000</u>		<u>\$ 3,782,728</u>	
							Plus: Net Premium/Discount		
							Less: Current		
								<u>\$ 37,074,233</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS
 JUNE 30, 2016

For the Year ending June 30,	\$530,000 SCJESA Note		\$2,887,826 SC SRF Loan		\$481,080 SIRF GO Bond		\$2,921,430 SIRF Revenue Bonds		\$3,750,000 SRF GO Bond		NOTE TOTALS		
	Dated November 30, 1988		Dated October 3, 2007		Dated October 3, 2007		Dated July 23, 2014		Dated September 10, 2014		Total	Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total
2017	\$ -	\$ 18,000	\$ 42,427	\$ 138,975	\$ 11,368	\$ 22,180	\$ 28,386	\$ 132,961	\$ 57,071	\$ 130,031	\$ 139,252	\$ 442,147	\$ 581,399
2018	-	18,000	39,273	142,128	10,581	22,967	27,052	134,295	61,455	148,343	138,361	465,733	604,094
2019	-	18,000	36,048	145,353	9,767	23,781	25,704	135,643	58,466	151,332	129,985	474,109	604,094
2020	-	18,000	32,750	148,652	8,923	24,625	24,342	137,005	55,417	154,382	121,432	482,664	604,096
2021	-	18,000	29,377	152,025	8,050	25,498	22,967	138,380	52,306	157,493	112,700	491,396	604,096
2022	-	18,000	25,928	155,474	7,146	26,402	21,578	139,769	49,132	160,666	103,784	500,311	604,095
2023	-	7,939	22,500	158,902	6,210	27,339	20,175	141,172	45,895	163,904	94,780	499,256	594,036
2024	-	-	18,792	162,610	5,240	28,308	18,758	142,589	42,592	167,206	85,382	500,713	586,095
2025	-	-	15,102	166,300	4,236	29,312	17,327	144,020	39,223	170,576	75,888	510,208	586,096
2026	-	-	11,329	170,073	3,197	30,351	15,881	145,466	35,785	174,013	66,192	519,903	586,095
2027	-	-	7,470	173,932	2,120	31,428	14,421	146,926	32,279	177,519	56,290	529,805	586,095
2028	-	-	3,523	177,879	1,006	32,542	12,946	148,401	28,702	181,096	46,177	539,918	586,095
2029	-	-	254	45,197	73	8,314	11,457	149,890	25,053	184,746	36,837	388,147	424,984
2030	-	-	-	-	-	-	9,952	151,395	21,330	188,468	31,282	339,863	371,145
2031	-	-	-	-	-	-	8,433	152,915	17,532	192,266	25,965	345,181	371,146
2032	-	-	-	-	-	-	6,898	154,449	13,658	196,140	20,556	350,589	371,145
2033	-	-	-	-	-	-	5,347	156,000	9,706	200,093	15,053	356,093	371,146
2034	-	-	-	-	-	-	3,782	157,566	5,674	204,125	9,456	361,691	371,147
2035	-	-	-	-	-	-	2,200	159,147	1,560	155,788	3,760	314,935	318,695
2036	-	-	-	-	-	-	603	120,408	-	-	603	120,408	121,011
	<u>\$ -</u>	<u>\$ 115,939</u>	<u>\$ 284,773</u>	<u>\$ 1,937,500</u>	<u>\$ 77,917</u>	<u>\$ 333,047</u>	<u>\$ 298,209</u>	<u>\$ 2,888,397</u>	<u>\$ 652,836</u>	<u>\$ 3,258,187</u>	<u>\$ 1,313,735</u>	<u>\$ 8,533,070</u>	<u>\$ 9,846,805</u>
Current		<u>\$ 18,000</u>		<u>\$ 138,975</u>		<u>\$ 22,180</u>		<u>\$ 132,961</u>		<u>\$ 130,031</u>		<u>\$ 442,147</u>	
Noncurrent		<u>\$ 97,939</u>		<u>\$ 1,798,525</u>		<u>\$ 310,867</u>		<u>\$ 2,755,436</u>		<u>\$ 3,128,156</u>		<u>\$ 8,090,923</u>	

STATISTICAL SECTION

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Statements of Revenues, Expenses, and Debt Service per Bond Covenants¹²

Last Ten Fiscal Years

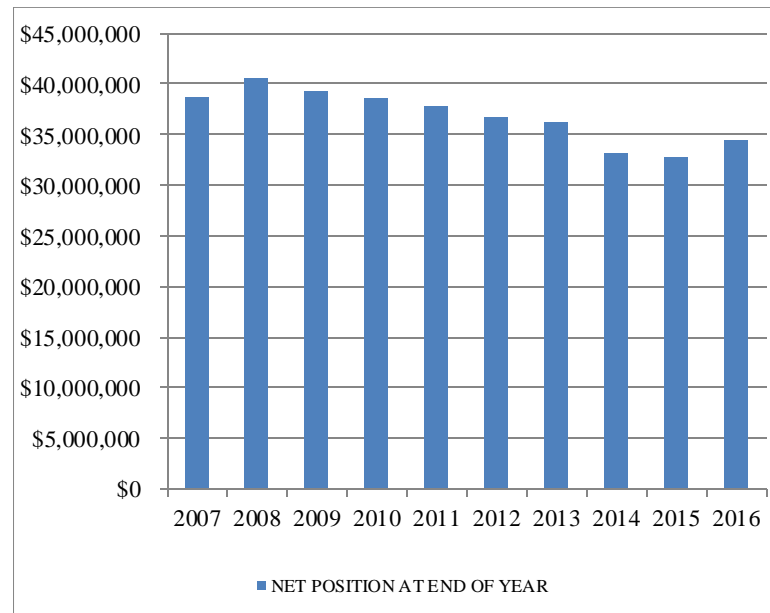
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues										
Water service	\$5,465,028	\$5,518,049	\$5,307,260	\$5,308,798	\$5,836,921	\$5,949,379	\$5,951,546	\$5,777,606	\$5,727,692	\$6,009,410
Sewer service	3,941,776	4,059,860	3,959,087	4,034,068	4,208,115	4,522,434	4,623,093	\$4,736,919	\$4,838,019	\$5,056,081
Tap in fees - water	106,768	72,569	35,133	31,305	43,041	41,861	61,925	\$124,837	\$106,202	\$96,427
Tap in fees - sewer	19,600	11,284	2,330	117,367	71,614	83,425	109,475	\$117,505	\$84,543	\$109,984
Availability charges	504,303	540,104	547,354	570,169	610,332	638,137	623,076	\$597,582	\$565,423	\$525,302
Service fees and penalties	38,218	38,153	50,311	70,488	73,245	51,108	36,645	\$44,174	\$42,646	\$39,113
Golf course irrigation	261,616	301,856	243,274	230,583	358,105	338,205	319,041	\$297,609	\$204,934	\$164,344
Other operating Revenues	16,712	16,188	19,154	35,679	80,342	15,539	14,727	17,771	21,264	284,775
Total Operating Revenues	\$10,354,021	\$10,558,063	\$10,163,903	\$10,398,457	\$11,281,715	\$11,640,088	\$11,739,528	\$11,714,003	\$11,590,723	\$12,285,436
Operating Expenses										
Payroll and related expenses	\$2,797,439	\$3,038,152	\$3,227,906	\$3,229,296	\$3,293,800	\$3,392,515	\$3,474,067	\$3,571,288	\$3,713,013	\$3,294,097
Administrative expenses	494,394	544,208	697,194	692,053	792,437	923,287	783,768	\$789,686	\$793,893	\$756,507
Operations expenses	1,098,914	1,197,436	1,430,222	1,410,295	1,639,353	1,761,310	1,686,667	\$1,667,542	\$1,571,114	\$1,563,548
Maintenance expenses	626,455	733,394	677,372	768,575	1,103,787	987,389	1,038,224	\$1,125,413	\$1,006,240	\$1,247,020
Water Tap In expenses	93,757	79,818	26,620	23,030	-	37,443	38,250	\$60,078	\$90,462	\$115,995
Sewer Connection expense	16,473	3,512	3,900	128,227	-	78,775	84,144	\$85,401	\$82,353	\$150,570
Purchased water	1,671,703	1,596,183	1,356,803	746,571	1,024,455	1,028,789	817,441	\$622,629	\$791,096	\$543,661
ASR-1 Water	-	-	-	-	-	16,792	133,760	\$194,537	\$196,311	\$202,890
RO Plant O&M	-	-	127,852	674,039	581,270	604,539	607,876	\$533,249	\$618,024	\$723,049
ASR-1 O&M	-	-	-	-	-	5,275	30,868	\$40,747	\$40,656	\$44,562
Professional fees	294,484	532,391	410,736	269,207	171,575	243,600	265,786	\$237,182	\$305,698	\$229,387
Vehicle expenses	140,654	146,335	131,379	107,292	119,162	130,473	126,999	\$126,384	\$117,787	\$84,215
Depreciation	3,540,690	3,720,333	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	\$4,481,885	\$4,485,346	\$4,482,776
Total Operating Expenses	\$10,774,963	\$11,591,762	\$12,055,616	\$12,453,662	\$13,181,999	\$13,669,995	\$13,645,296	\$13,536,021	\$13,811,992	\$13,438,277
Operating Income (Loss from operations)	(\$420,942)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)	(\$2,029,907)	(\$1,905,768)	(\$1,822,018)	(\$2,221,269)	(\$1,152,841)
Non-operating revenues (expenses)										
Property taxes-debt service	\$125,052	\$409,292	\$817,751	\$967,418	\$1,235,347	\$1,233,107	\$1,195,990	\$1,167,016	\$1,391,881	\$1,396,680
Property taxes-operations	760,054	901,072	924,702	1,028,416	1,039,316	1,023,502	1,016,558	\$901,453	\$913,930	\$931,507
Rental income	87,011	84,546	84,496	82,150	81,493	80,235	79,641	80,096	80,579	78,552
Interest earned	508,389	437,209	269,950	256,948	234,668	205,100	168,990	142,313	132,549	92,713
Tower leases	472,207	599,135	471,303	448,673	465,355	423,468	506,687	531,703	508,185	471,540
Tower lease contract settlement	-	-	-	-	-	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-	(31,250)	(226,335)	(38,685)	(67,329)	(119,950)
Amortization of bond costs	(204,719)	(204,689)	(206,685)	(202,112)	(209,256)	(239,272)	(216,004)	(223,222)	(223,222)	(243,693)
Loss on disposal of equipment	-	(33,175)	2,000	161	7,672	-	-	-	-	1,500
Interest expense	(1,888,236)	(1,860,432)	(1,911,438)	(2,208,372)	(2,300,439)	(2,101,677)	(1,842,617)	(1,661,902)	(1,613,384)	(1,230,078)
Total Non-Operating Income (Loss)	(\$140,242)	\$332,958	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773	\$1,123,190	\$1,378,771
Net Income (loss) before capital contributions per Financial Statements	(\$561,184)	(\$700,741)	(\$1,439,634)	(\$1,681,923)	(\$1,346,128)	(\$1,436,694)	(\$1,222,859)	(\$923,245)	(\$1,098,079)	\$225,930
Capacity Fees	1,070,629	985,723	109,037	242,308	309,857	394,546	79,240	477,179	631,652	585,744
Add: Depreciation	3,540,690	3,720,333	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	4,481,885	4,485,346	4,482,776
Net Pension Expense	-	-	-	-	-	-	-	-	288,870	298,810
SCRS Retirement Contributions	-	-	-	-	-	-	-	-	(241,688)	(222,257)
Amortization	204,719	204,689	206,685	202,112	209,256	239,272	169,938	223,222	223,222	243,693
Bond Issuance Costs	-	-	-	-	-	31,250	226,335	38,685	67,329	119,950
Interest Expense (Bonds)	1,888,236	1,860,432	1,911,438	2,208,372	2,300,439	2,101,677	1,842,617	1,661,902	1,613,384	1,230,078
Assessments - Debt Service	365,377	419,060	508,381	537,759	550,586	396,027	415,758	382,702	486,300	452,658
Less: Property Taxes - Debt Service	(125,052)	(409,292)	(817,751)	(967,418)	(1,235,347)	(1,233,107)	(1,195,990)	(1,167,016)	(1,391,881)	(1,396,680)
Net Earnings Available for Debt Service	\$6,383,415	\$6,080,204	\$4,443,788	\$4,946,286	\$5,244,823	\$4,952,778	\$4,872,485	\$5,175,313	\$5,064,454	\$6,020,702
Debt Service on Revenue Bonds	\$3,637,421	\$3,441,126	\$3,438,347	\$3,523,871	\$3,477,484	\$3,660,650	\$4,037,286	\$3,504,185	\$3,987,537	\$3,441,323
Required per Bond Covenants	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Coverage of Debt Service by Net Earnings	175%	177%	129%	140%	151%	135%	121%	148%	127%	175%

¹² Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Schedule of Change in Net Position¹³

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Income (Loss from operations)	(\$420,942)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)	(\$2,029,907)	(\$1,905,768)	(\$1,822,018)	(\$2,221,269)	(\$1,152,841)
Total Non-Operating Income (Loss)	(\$140,242)	\$332,958	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773	\$1,123,190	\$1,378,771
Capital Contributions	<u>\$2,224,783</u>	<u>\$2,555,086</u>	<u>\$201,573</u>	<u>\$979,621</u>	<u>\$696,652</u>	<u>\$1,348,696</u>	<u>\$553,337</u>	<u>\$1,905,385</u>	<u>\$894,531</u>	<u>\$1,404,843</u>
Changes in net position	\$1,663,599	\$1,854,345	(\$1,238,061)	(\$702,302)	(\$649,476)	(\$87,998)	(\$669,522)	\$982,140	(\$203,548)	\$1,630,773
Effect of prior period adjustments on net position										
Cumulative adjustment - adoption of GASB Statement No. 68								(\$4,063,319)		
Cumulative adjustment - adoption of GASB Statement No. 65						(\$992,288)				
Net position at beginning of year, as previously reported						<u>\$37,913,644</u>				
Net position at beginning of year as previously reported	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$36,921,356</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>
Net position at end of year	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>	<u>\$34,509,882</u>

Net Position at End of Year



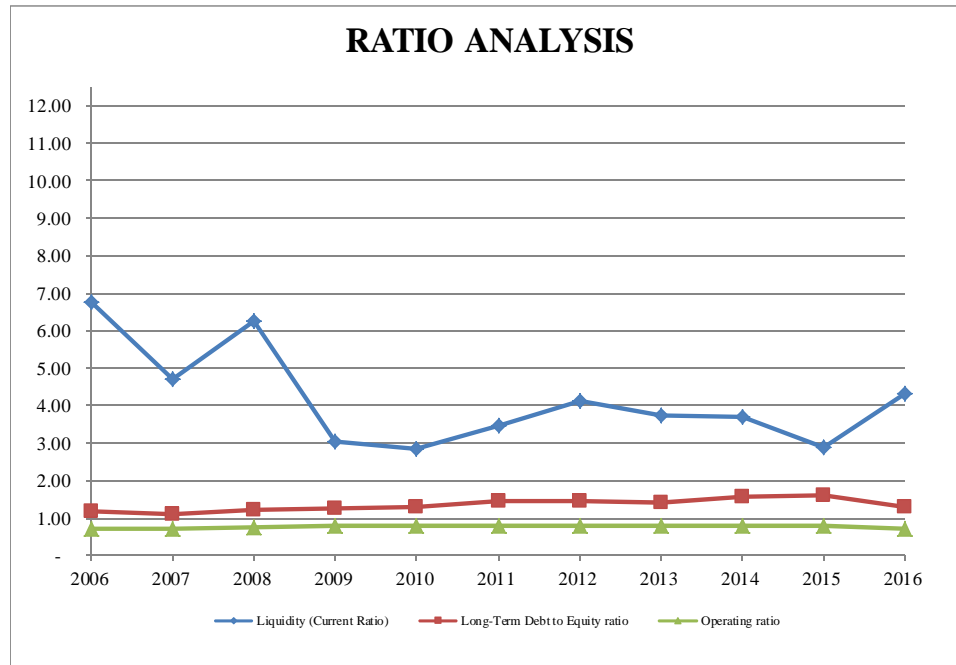
¹³ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Net Position by Component¹⁴

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net position										
Net investment in capital assets	\$27,526,781	\$29,167,977	\$30,467,552	\$29,464,863	\$27,806,556	\$26,621,121	\$27,016,214	\$27,495,374	\$27,588,236	\$28,981,560
Restricted for debt service	2,708,532	2,334,594	2,446,988	2,378,848	2,779,466	3,419,743	2,885,019	3,377,968	3,426,103	2,482,528
Unrestricted	<u>8,413,825</u>	<u>9,000,912</u>	<u>6,350,882</u>	<u>6,719,409</u>	<u>7,327,622</u>	<u>6,792,494</u>	<u>6,262,603</u>	<u>2,209,315</u>	<u>1,864,770</u>	<u>3,045,794</u>
Net position	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>	<u>\$34,509,882</u>

Ratio Analysis

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liquidity (Current Ratio)	4.69	6.26	3.04	2.86	3.46	4.12	3.72	3.69	2.88	4.30
Long-Term Debt to Equity ratio	1.10	1.22	1.26	1.27	1.43	1.43	1.39	1.55	1.59	1.31
Operating ratio	0.70	0.75	0.80	0.77	0.77	0.79	0.77	0.77	0.80	0.73



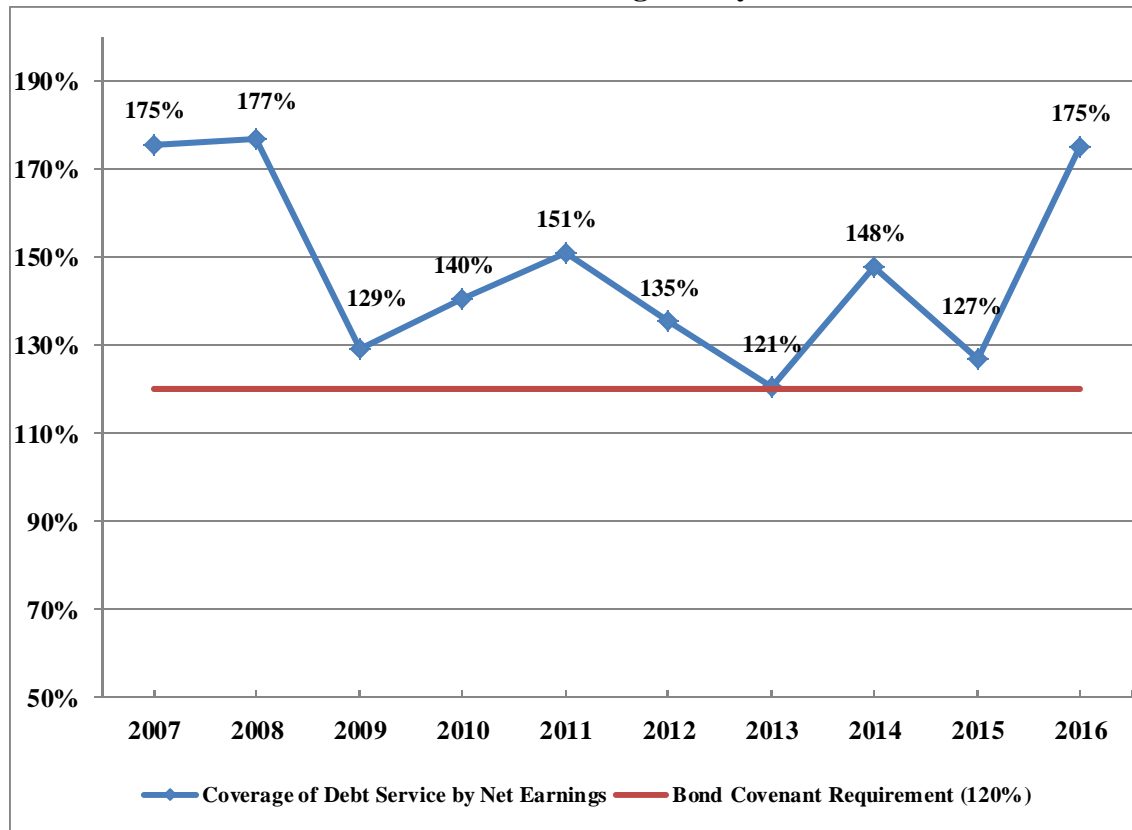
¹⁴ Please note that fiscal years 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Total Outstanding Debt by Type

Fiscal Year	GO Bonds	SRF GO Loans	Total GO Debt	Revenue Bonds	SRF Revenue Loans*	Notes Payable	Total Outstanding Debt	Bond Premiums / discounts	Total Outstanding Debt Net of Amortization	Average Debt Per Customer
2007	-	-	-	37,972,665	7,949,668	277,939	46,200,272	1,175,275	47,375,547	2,739
2008	7,350,000	-	7,350,000	36,853,711	7,511,300	259,939	51,974,950	1,170,019	53,144,969	3,056
2009	7,085,000	3,276,237	10,361,237	35,388,165	7,057,386	241,939	53,048,727	1,063,321	54,112,048	3,118
2010	8,476,338	3,149,328	11,625,666	34,383,013	6,587,376	223,939	52,819,994	956,624	53,776,618	3,106
2011	11,866,601	3,018,480	14,885,081	36,906,574	6,100,698	205,939	58,098,292	922,848	59,021,140	3,383
2012	11,313,078	2,877,671	14,190,749	41,004,952	-	187,939	55,383,640	812,333	56,195,973	3,212
2013	10,740,609	2,731,331	13,471,940	39,713,937	-	169,939	53,355,816	45,050	53,400,866	3,034
2014	10,144,028	2,581,424	12,725,452	37,704,831	-	151,939	50,582,222	45,019	50,627,241	2,848
2015	9,528,162	5,015,406	14,543,568	34,677,573	2,563,810	133,939	51,918,891	44,988	51,963,879	2,905
2016	8,887,829	5,528,734	14,416,563	31,888,358	2,888,397	115,939	49,309,257	80,774	49,390,031	2,748

Reference Note 6 on page 52 and Summary Schedule of Debt on page 69 for supporting documentation. Total GO debt equals \$14,416,563. GASB 63 was implemented in fiscal year 2012 and deferred refunding are now reported as deferred outflows from refunding debt.

Debt Service Coverage Analysis¹⁵



¹⁵ 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.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	June 30, 2007	Additions	Disposals	Transfers	Fiscal Year 2011 Reclassifications*	June 30, 2016
Capital assets not being depreciated:						
Land	\$ 379,915	919,278	-	-	-	\$ 1,299,194
Construction in Progress	<u>2,720,938</u>	<u>48,908,290</u>	<u>(131,904)</u>	<u>(50,712,322)</u>	<u>-</u>	<u>785,002</u>
Total Capital Assets not being depreciated	3,100,853	49,827,568	(131,904)	(50,712,322)	-	2,084,196
Capital assets being depreciated:						
Waterworks system	39,534,680	578,728	(798,717)	22,690,027	257,862	62,262,580
Sewage disposal system	17,449,943	1,243,814	-	19,355,706	1,596,254	39,645,717
Buildings	4,196,734	81,227	-	75,987	(14,858)	4,339,091
Sewage treatment facilities	36,575,668	87,216	(8,484)	220	(1,927,081)	34,727,539
Transportation equipment	605,193	642,964	(374,207)	-	224,208	1,098,157
Operations furniture and equipment	1,913,094	451,719	(349,987)	419,131	(235,457)	2,198,499
Office furniture and equipment	<u>651,083</u>	<u>282,360</u>	<u>(256,472)</u>	<u>-</u>	<u>99,072</u>	<u>776,042</u>
Sub Total	100,926,395	3,368,028	(1,787,868)	42,541,071	-	145,047,625
Less Accumulated depreciation	<u>(33,057,250)</u>	<u>(44,862,873)</u>	<u>5,872,104</u>	<u>1,759,328</u>	<u>-</u>	<u>(70,288,692)</u>
Total capital assets being depreciated, net	<u>67,869,145</u>	<u>(41,494,845)</u>	<u>4,084,236</u>	<u>44,300,399</u>	<u>-</u>	<u>74,758,933</u>
Year End Totals	<u>\$ 70,969,998</u>	<u>8,332,724</u>	<u>3,952,332</u>	<u>(6,411,923)</u>	<u>-</u>	<u>\$ 76,843,129</u>

* During Fiscal Year 2012 Capital Assets items were revisited to verify that all assets were designated in the correct categories for Fiscal Year 2011. It was determined at that time that certain assets should be moved from one category to another with an effective date of June 30, 2011.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
PP&E	\$ 101,306,310	\$ 107,539,856	\$ 121,309,803	\$ 124,015,092	\$ 126,932,175	\$ 134,001,976	\$ 135,459,397	\$ 138,683,537	\$ 138,683,537	\$ 146,346,818
Accumulated Depreciation	<u>(33,057,250)</u>	<u>(36,681,713)</u>	<u>(40,512,192)</u>	<u>(44,736,215)</u>	<u>(49,097,940)</u>	<u>(53,557,747)</u>	<u>(57,977,115)</u>	<u>(62,192,564)</u>	<u>(65,972,348)</u>	<u>(70,288,692)</u>
Net PP&E in Service	68,249,059	70,858,143	80,797,611	79,278,877	77,834,235	80,444,229	77,482,282	76,490,973	72,711,189	76,058,127
Construction in Progress	<u>2,720,938</u>	<u>4,542,373</u>	<u>641,980</u>	<u>1,236,180</u>	<u>3,514,449</u>	<u>553,892</u>	<u>441,125</u>	<u>1,629,184</u>	<u>5,926,019</u>	<u>785,002</u>
Net PP&E	<u>\$ 70,969,998</u>	<u>\$ 75,400,516</u>	<u>\$ 81,439,592</u>	<u>\$ 80,515,057</u>	<u>\$ 81,348,684</u>	<u>\$ 80,998,121</u>	<u>\$ 77,923,407</u>	<u>\$ 78,120,157</u>	<u>\$ 78,637,208</u>	<u>\$ 76,843,129</u>

Customer Statistics at Fiscal Year-End¹⁶

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

Year	Water	Percent Increase	Wastewater	Percent Increase	Ratio of Customers with Both Services
2007	16,344	1.1%	14,658	2.0%	89.7%
2008	16,392	0.3%	14,835	1.2%	90.5%
2009	16,355	-0.2%	14,880	0.3%	91.0%
2010	16,321	-0.2%	14,891	0.1%	91.2%
2011	16,395	0.5%	15,030	0.9%	91.7%
2012	16,441	0.3%	15,109	0.5%	91.9%
2013	16,540	0.6%	15,260	1.0%	92.3%
2014	16,705	1.0%	15,486	1.5%	92.7%
2015	16,867	1.0%	15,633	0.9%	92.7%
2016	16,899	0.2%	15,758	0.8%	93.2%

¹⁶ These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

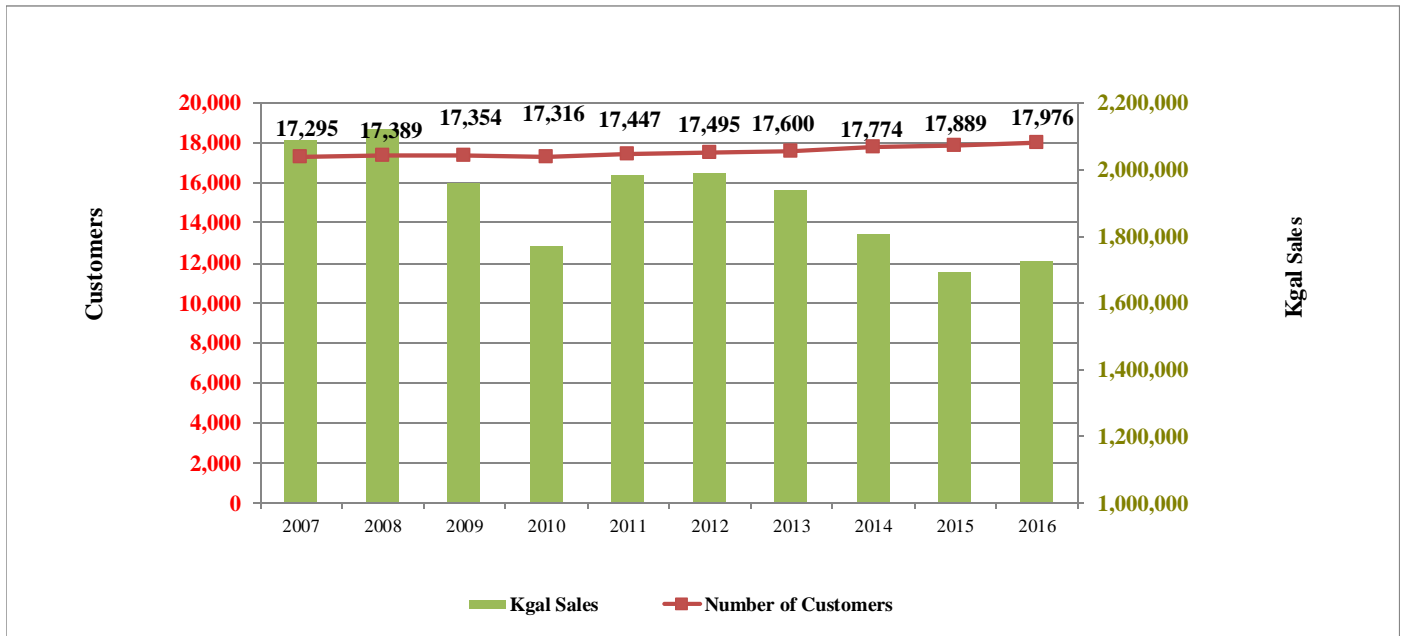
Year	Just Water Meters	Percent Increase	Wastewater	% Inc
2007	1,721,661	6.3%	1,490,636	8.13%
2008	1,745,767	1.4%	1,523,113	2.18%
2009	1,629,557	-6.7%	1,432,874	-5.92%
2010	1,486,416	-8.8%	1,279,144	-10.73%
2011	1,644,020	10.6%	1,426,486	11.52%
2012	1,656,442	0.8%	1,425,564	-0.06%
2013	1,605,369	-3.1%	1,393,724	-2.23%
2014	1,537,065	-4.3%	1,320,838	-5.23%
2015	1,439,514	-6.3%	1,274,826	-3.48%
2016	1,475,858	2.5%	1,275,251	0.03%

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

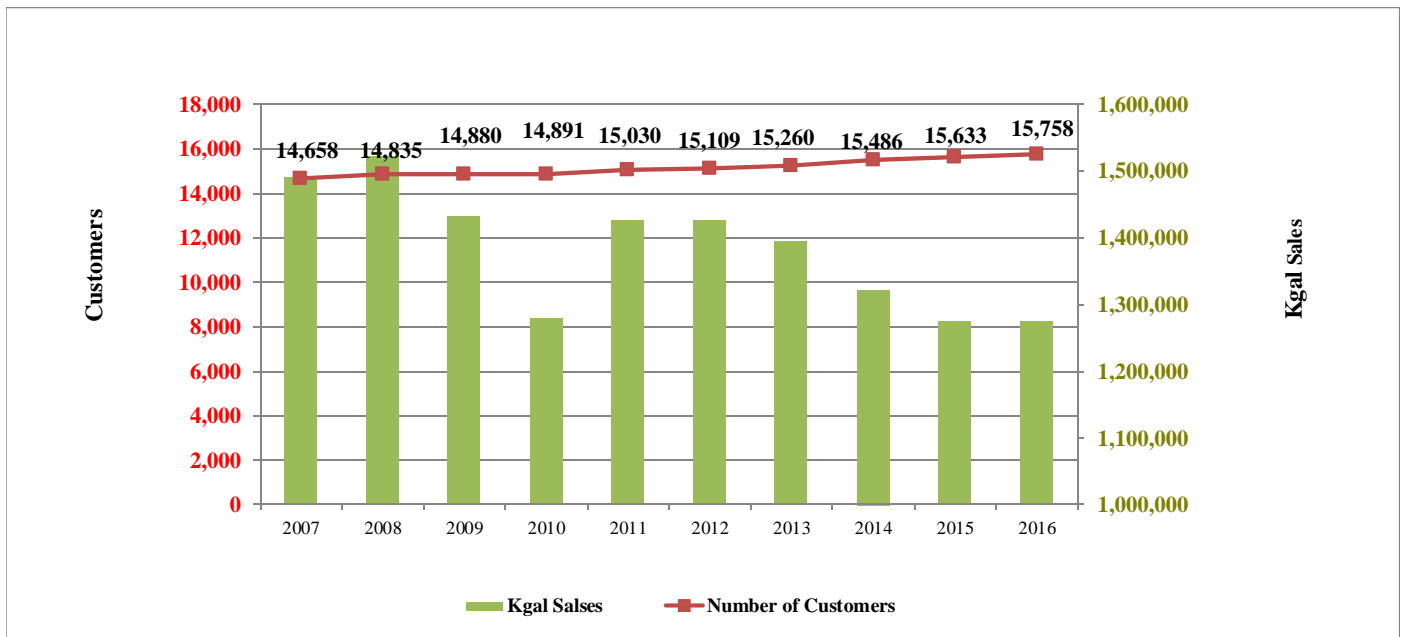
Reported in kgals (thousands of gallons)

Year	Water & Irrigation Meters	Percent Increase	Wastewater	% Inc
2007	2,086,348	7.3%	1,490,636	8.13%
2008	2,119,295	1.6%	1,523,113	2.18%
2009	1,957,926	-7.6%	1,432,874	-5.92%
2010	1,773,200	-9.4%	1,279,144	-10.73%
2011	1,983,289	11.8%	1,426,486	11.52%
2012	1,986,913	0.2%	1,425,564	-0.06%
2013	1,935,918	-2.6%	1,393,724	-2.23%
2014	1,806,920	-6.7%	1,320,838	-5.23%
2015	1,692,874	-6.3%	1,274,826	-3.48%
2016	1,724,451	1.9%	1,275,251	0.03%

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



Sewer Customers vs. Wastewater Kgal Sales



Water Rate Comparison

Effective Date

		FY'07	FY'08	FY'09*	FY'10**	FY'11***	FY'12	FY'13****	FY'14	FY'15*****	FY'16
Residential	Base Charge	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 11.00	\$ 11.00	\$ 12.00	\$ 12.00	\$ 13.00	\$ 13.00
	First 5,000 Gallons	\$ 1.25	\$ 1.25								
	Next 5,001 to 17,000 gallons	\$ 1.50	\$ 1.50								
	Next 17,001 to 32,000 gallons	\$ 1.75	\$ 1.75								
	Over 32,000 gallons	\$ 2.00	\$ 2.00								
	First 10,000 Gallons Water			\$ 1.36	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
	First 10,000 Gallons Irrigation			\$ 1.36	\$ 1.40	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 10,001 to 20,000 gallons			\$ 1.64	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 20,001 to 30,000 gallons			\$ 1.91	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20
	Over 30,000 gallons			\$ 2.18	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55
Commercial	Base Charge	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 18.00	\$ 18.00
	First 5,000 Gallons	\$ 1.50	\$ 1.50								
	Next 5,001 to 17,000 gallons	\$ 1.75	\$ 1.75								
	Next 17,001 to 32,000 gallons	\$ 2.00	\$ 2.00								
	Over 32,000 gallons	\$ 2.25	\$ 2.25								
	First 10,000 Gallons			\$ 1.64	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
	Next 10,001 to 20,000 gallons			\$ 1.91	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99
	Next 20,001 to 30,000 gallons			\$ 2.18	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51
	Over 30,000 gallons			\$ 2.45	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87

*Effective August 1, 2008

**Effective October 1, 2009

***Effective May 1, 2011

****Effective January 1, 2013

*****Effective January 1, 2015

Wastewater Rate Comparison

Effective Date

		FY'07**	FY'08	FY'09	FY'10	FY'11***	FY'12	FY'13****	FY'14	FY'15*****	FY'16
Residential	Base Charge	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00
	Per 1,000 gallons with Cap*	\$ 1.90	\$ 1.90	\$ 1.90	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Commercial	Base	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00
	Per 1,000 gallons (No Cap)	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.60	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00

*For years prior to FY'06, the effective sewer cap for residential customers was 32,000 gallons. From FY'06 to the present date the sewer cap is lowered to 10,000 gallons.

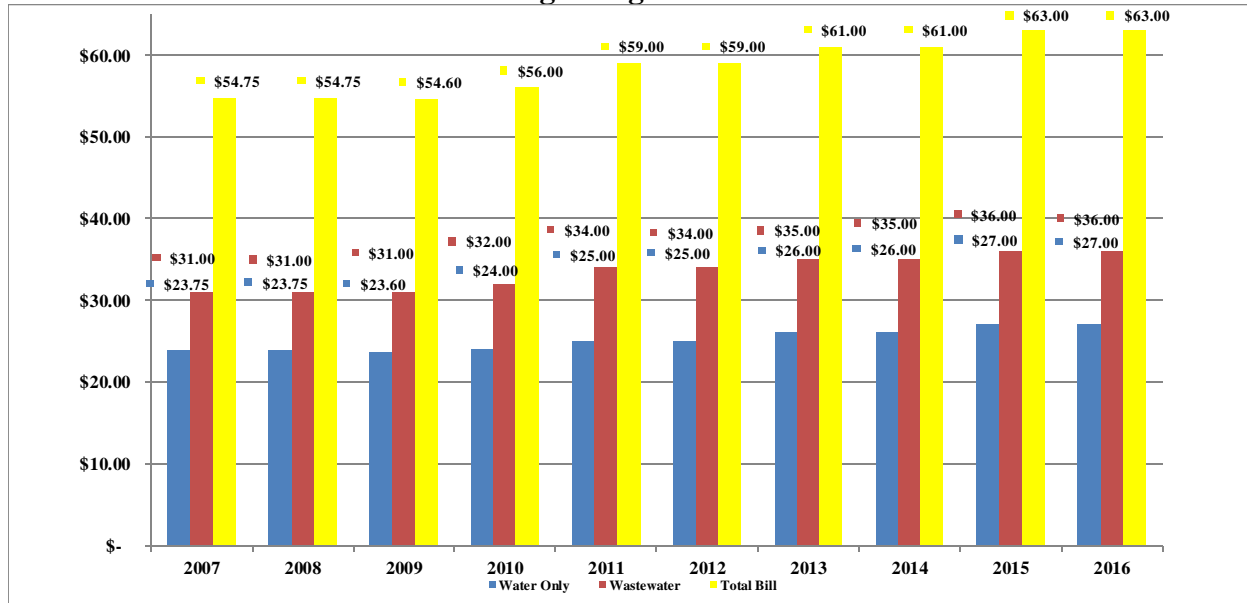
**Per Thousand Increase Effective August 1, 2006

***Effective January 1, 2011

****Effective January 1, 2013

*****Effective January 1, 2015

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



Water and Sewer Installation Fees

Water meter installation fees (existing service lines)	2007	2008	2009**	2010	2011	2012	2013***	2014	2015	2016
3/4" Meter	\$ 355	\$ 355	\$ 430	\$ 430	\$ 430	\$ 430	\$ 640	\$ 640	\$ 640	\$ 640
1" Meter	490	490	570	570	570	570	850	850	850	850
2" Meter with meter box and backflow	1,186	1,186	2,090	2,090	2,090	2,090	2,330	2,330	2,330	2,330
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)	2007	2008	2009**	2010	2011	2012	2013***	2014	2015	2016
3/4" Meter	\$ 355	\$ 355	\$ 430	\$ 430	\$ 430	\$ 430	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020
1" Meter	490	490	570	570	570	570	1,080	1,080	1,080	1,080
2" Meter with meter box and backflow	1,186	1,186	2,090	2,090	2,090	2,090	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
* T&M equals Time and Materials										
** Rate change 10/1/2009										
*** Rate change 7/1/2013										
Sewer Installation Fees for fiscal years 2007 through 2016:										
A. Sewer Service Installation Fee Individual 4 Inch Lateral: \$1,200										
B. Main Extensions, Laterals above 4 Inches, and Mains Greater than 6 feet in depth: Time and Materials										
Sewer Inspection Fee:										
The PSD charges a one-time Sewer Inspection Fee of \$100 to new customers at the time they connect to the sewer system. The fee covers the cost of the PSD inspecting the new connection to make sure it meets PSD requirements.										
More information is available at: http://www.hhpsd.com/fees										

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.

Water Capacity Fee per residential equivalency unit	\$2,400
Sewer Capacity Fee per residential equivalency unit	\$3,040

The District offers a one-year, interest free, payment plan for all capacity fees. The installments are placed on a customer's utility bill.

* The same water and sewer capacity fee rates have been in effect since 2005.

Population per Capita Income

Last Ten Available Years

Year	Hilton Head		Beaufort County		South Carolina	
	Population	Per Capita	Population	Per Capita	Population	Per Capita
2006	34,156	37,212	139,333	39,840	4,357,847	31,111
2007	33,890	41,411	143,614	43,183	4,444,110	32,350
2008	33,913	42,611	147,616	45,427	4,528,996	33,157
2009	34,249	41,951	150,415	46,790	4,589,872	32,376
2010	37,099	40,798	155,215	31,081	4,635,835	32,688
2011	37,099	41,846	162,233	32,116	4,673,348	34,183
2012	37,675	39,703	164,684	32,731	4,723,723	35,056
2013	39,412	41,049	171,838	32,891	4,774,839	35,831
2014	40,039	47,049	175,852	32,503	4,832,482	36,677
2015	40,512	45,116	179,589	32,290	4,896,146	38,302

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

Beaufort County Top Employers 2015

Employer	Employees	Percentage of Total County Employment	Type of Business
Beaufort County School District	2,410	29.4%	Educational
Beaufort Memorial Hospital	1,709	20.8%	Health Services
County of Beaufort	1,127	13.7%	Government
Marine Corps Community Services	789	9.6%	Government
Publix Super Markets, Inc	702	8.6%	Retail
Sea Pines Resort	673	8.2%	Resort
Wal-Mart	632	7.7%	Retail
University of South Carolina Beaufort	389	6.0%	Educational Services
Care Core National LLC	419	0.6%	Health Services
Temet Physicians Services of Hilton Head	167	2.0%	Health Services

Source: Beaufort County Regional Chamber of Commerce

Beaufort County Labor Force and Employment

Category	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Civilian Labor Force	72,218	65,449	65,162	63,521	61,954	63,382	62,940	63,780	64,019	62,759
Employment	67,467	61,723	61,513	58,500	56,264	57,647	57,344	60,421	61,256	59,786
Unemployment	3,877	3,726	3,649	5,021	5,690	5,735	5,596	3,359	2,763	2,973
Unemployment Rate	5.20%	5.69%	5.60%	7.90%	9.18%	9.05%	8.89%	5.27%	4.32%	4.74%

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

Year	County	South Carolina	United States
2015	5.4%	6.6%	5.3%
2014	5.7%	6.4%	6.2%
2013	5.6%	6.7%	6.1%
2012	7.9%	9.1%	8.1%
2011	9.2%	10.4%	8.9%
2010	9.0%	11.2%	9.6%
2009	8.9%	11.5%	9.3%
2008	5.3%	6.8%	5.8%
2007	4.3%	5.6%	4.6%
2006	4.7%	6.4%	4.6%

Source: South Carolina Department of Employment and Workforce

The District's Millage History

Debt Type	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	4.57	4.61	3.52	3.90	3.52	3.61	2.82	2.70	1.50	0.50
Total	7.57	7.61	6.52	6.90	6.52	6.61	5.82	5.70	4.50	3.50

Ratio of (net) General Bonded Debt¹⁷

Fiscal Year	Tax Year	General Obligation Debt	Real & Personal Property		Motor Vehicle		Total Estimated Actual Values	Ratio of (net) General bonded debt
			Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2016	2015	\$ 14,416,563	\$ 304,425,280	\$ 6,382,251,455	\$ 44,258,230	\$ 555,082,470	6,937,333,925	0.21%
2015	2014	14,543,567	300,997,070	6,304,695,756	43,355,970	532,878,920	6,837,574,676	0.21%
2014 (2)	2013 (2)	12,725,452	300,452,700	6,311,095,156	35,311,800	442,155,020	6,753,250,176	0.19%
2013	2012	13,471,940	371,197,470	8,175,132,303	29,695,798	275,031,590	8,450,163,893	0.16%
2012	2011	14,190,749	369,960,240	8,383,249,241	29,596,819	213,787,160	8,597,036,401	0.17%
2011	2010	14,885,081	380,448,420	8,049,155,174	30,435,874	169,536,890	8,218,692,064	0.18%
2010 (1)	2009 (1)	11,625,667	360,750,834	6,456,014,121	28,860,067	144,247,638	6,600,261,759	0.18%
2009	2008	10,361,238	321,010,415	5,817,101,577	25,680,833	286,269,571	6,103,371,148	0.17%
2008	2007	7,350,000	305,542,479	-	24,443,398	-	-	0.00%
2007	2006	-	302,219,576	5,694,066,431	24,177,566	364,651,496	6,058,717,927	0.00%

Source: Beaufort County Auditor and the District Official Statement

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

(2) The County implemented its county-wide reassessment in fiscal year 2014.

¹⁷ Total General Obligation debt equals GO Bonds and Notes Payable-GO Debt located on page 53.

General Obligation Outstanding Debt

Fiscal Year	Tax Year	Real Property	Personal Property(1)	Total Assessed Value of the District (1)	8% Debt Limit Value	Total Outstanding GO Debt	Available Debt Limit	Percent of Debt Limit	Average Debt Per Customer
2016	2015	\$ 279,205,512	\$ 44,629,650	\$ 323,835,162	\$ 25,906,813	\$ 14,416,563	11,490,250	56%	802
2015	2014	300,997,070	43,355,970	344,353,040	\$ 27,548,243	14,543,567	13,004,676	53%	813
2014	2013 (3)	300,452,700	35,311,800	335,764,500	26,861,160	12,725,452	14,135,708	47%	716
2013	2012	335,101,410	36,096,060	371,197,470	29,695,798	13,471,940	16,223,857	45%	765
2012	2011	336,927,670	33,032,570	369,960,240	29,596,819	14,190,749	15,406,070	48%	811
2011	2010	337,319,400	43,129,020	380,448,420	30,435,874	14,885,081	15,550,793	49%	853
2010	2009 (2)	322,448,420	38,302,414	360,750,834	28,860,067	11,625,667	17,234,400	40%	671
2009	2008	281,804,999	39,205,416	321,010,415	25,680,833	10,361,238	15,319,596	40%	597
2008	2007	266,386,512	39,155,967	305,542,479	24,443,398	7,350,000	17,093,398	30%	423
2007	2006	260,107,171	42,112,405	302,219,576	24,177,566	-	24,177,566	0%	-

Source: Beaufort County Auditor

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

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

(3) The County implemented its county-wide reassessment in fiscal year 2013.

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 2007 through FY 2016.

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 2015, 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 \$323,835,162 and thus the eight percent (8%) debt limit of the District is not less than \$25,906,813. The District presently has the following bonded indebtedness chargeable against this limit:

<u>Originally Issued</u>	<u>Date</u>	<u>Original Amount</u>	<u>Outstanding Balance as of June 30, 2016</u>
Series 2007	October 3, 2007	\$ 7,350,000	\$ 4,900,000
SRF - Series 2007	January 23, 2008	2,876,532	1,937,500
SIRF - Series 2007	April 14, 2008	480,480	333,047
Series 2009	July 30, 2009	1,781,694	1,067,829
Series 2010	August 24, 2010	3,970,000	2,920,000
SRF - Series 2014	September 10, 2014	3,750,000	3,258,187
	Total Indebtedness - GO Bonds	\$ 20,208,706	\$ 14,416,563

Source for Outstanding balance. Reference Summary Schedule of Debt on page 70.

General Obligation Outstanding Debt

As of June 30, 2016, the outstanding aggregate principal amounts due on the GO Bonds was \$14,416,563 and includes: (A) \$4,900,000 in outstanding principal due on the 2007 Bonds; (B) \$1,937,500 in outstanding principal due the 2008A Bond; (C) \$333,047 in outstanding principal due on the 2008B Bond; (D) \$1,067,829 in outstanding principal due on the 2009 Bond; (E) \$2,920,000 in outstanding principal due on the 2010 Bonds and \$3,258,187 in outstanding principal due on the 2014 Bonds.

Overlapping Debt

Jurisdiction	Tax Year 2015 Assessed Value (Capped)	Tax Year 2015 Assessed Value (Capped) of the District	Outstanding General Obligation Debt	Amount Applicable to the District for Fiscal Year 2016
County of Beaufort	\$ 1,818,894,430	\$ 323,838,162	\$ 222,157,019	\$ 39,553,104
Beaufort County School District	1,818,894,430	323,838,162	329,294,621	58,628,012
Town of Hilton Head	863,950,905	323,838,162	80,130,009	30,035,451
Sub Total of Overlapping Debt				128,216,567
Hilton Head No. 1 PSD direct debt				14,416,563
Total Direct and overlapping debt				\$ 142,633,130.00

Sources: Beaufort County Assessor's Office.

Debt outstanding provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the the District's. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the the District's of Hilton Head Island. This process recognizes that, when considering the the District's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and, therefore, responsible for repaying the debt---of each overlapping government.

Assessed Values of the District

Fiscal Year	Tax Year	Real Property	Personal Property(1)	Total
2016	2015	\$304,425,280	\$ 44,258,230	\$ 348,683,510
2015	2014	300,997,070	43,355,970	344,353,040
2014	2013 (3)	300,452,700	35,311,800	335,764,500
2013	2012	335,101,410	36,096,060	371,197,470
2012	2011	336,927,670	33,032,570	369,960,240
2011	2010	337,319,400	43,129,020	380,448,420
2010 (2)	2009 (2)	322,448,420	38,302,414	360,750,834
2009	2008	281,804,999	39,205,416	321,010,415
2008	2007	266,386,512	39,155,967	305,542,479
2007	2006	260,107,171	42,112,405	302,219,576

Source: Beaufort County Auditor

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

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

(3) The County implemented its county-wide reassessment in fiscal year 2014.

Tax Year 2015 Market Value for the District

Classification	Assessed Value	Assessment Ratio	Market Value
1. Real Property and Mobile Homes	\$ 124,732,810	4.00%	\$ 3,133,120,900
2. Real Property and Mobile Homes	179,692,470	6.00%	3,249,130,555
3. Business Personal Property	6,793,590	10.50%	63,944,640
4. Merchant's Furniture, Fixtures and Equipment	1,612,990	10.50%	12,627,240
5. Motor Vehicles ⁽¹⁾	22,839,990	Various	352,189,100
6. Marine Equipment ⁽²⁾	814,890	Various	13,417,720
7. Airplanes	71,380	0.00%	1,189,640
8. Manufacturing Property	181,730	10.50%	1,730,740
9. Public Utilities	9,138,270	10.50%	87,031,150
10. Rental Property and Signs ⁽³⁾	2,805,390	Various	22,952,240

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

Source: Beaufort County Auditor.

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

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

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

Tax Collection Record for the District

Fiscal Year	Taxes Subject to Collection	Current Collections	Current % Collected	Delinquent Taxes Collected	Total Collections	Total % Collected
2015-2016	\$ 59,813,690	\$ 56,772,652	94.9%	\$ 998,112	\$ 57,770,764	96.6%
2014-2015	60,702,084	57,349,775	94.5%	735,673	58,085,448	95.7%
2013-2014	57,332,809	54,957,102	95.9%	825,387	55,782,489	97.3%
2012-2013	55,541,177	54,613,687	98.3%	114,378	54,728,065	98.5%
2011-12	55,424,959	52,849,333	95.4%	163,278	53,012,611	95.6%
2010-11	59,167,642	56,320,727	95.2%	161,774	56,482,501	95.5%
2009-10	57,172,896	52,623,858	92.0%	491,840	53,115,698	92.9%
2008-09	56,329,331	54,777,459	97.2%	869,821	55,647,279	98.8%
2007-08	51,252,916	50,333,765	98.2%	652,019	50,985,784	99.5%
2006-07	54,353,422	52,223,375	96.1%	424,257	52,647,631	96.8%

Tax Year 2015 - District Largest Taxpayers

Employer	Type of Business	2015 Assessed Value	2015-16 Amounts Paid
Marriott Ownership Resorts Inc	Real Estate	\$ 6,273,820	\$ 1,412,836
Palmetto Electric Coop, Inc	Utility	4,859,150	1,001,398
SCG Hilton Head Property LLC	Real Estate	4,260,000	963,394
Hargray Telephone Company Inc	Utility	2,863,320	634,731
Hilton Head Health Systems LP	Medical	1,423,550	330,295
Indigo Run	Property	885,910	216,849
Heritage Golf Port Royal LLC	Golf	887,870	216,570
Time Warner Cable Southeast LLC	Utility	891,320	202,410
Tenet HealthCare Corporation	Health	725,430	162,518
Swope Properties	Real Estate	553,520	136,655
Source: Beaufort County Auditor.			

District Top Ten Water/Irrigation Users

Fiscal year ended June 30, 2016

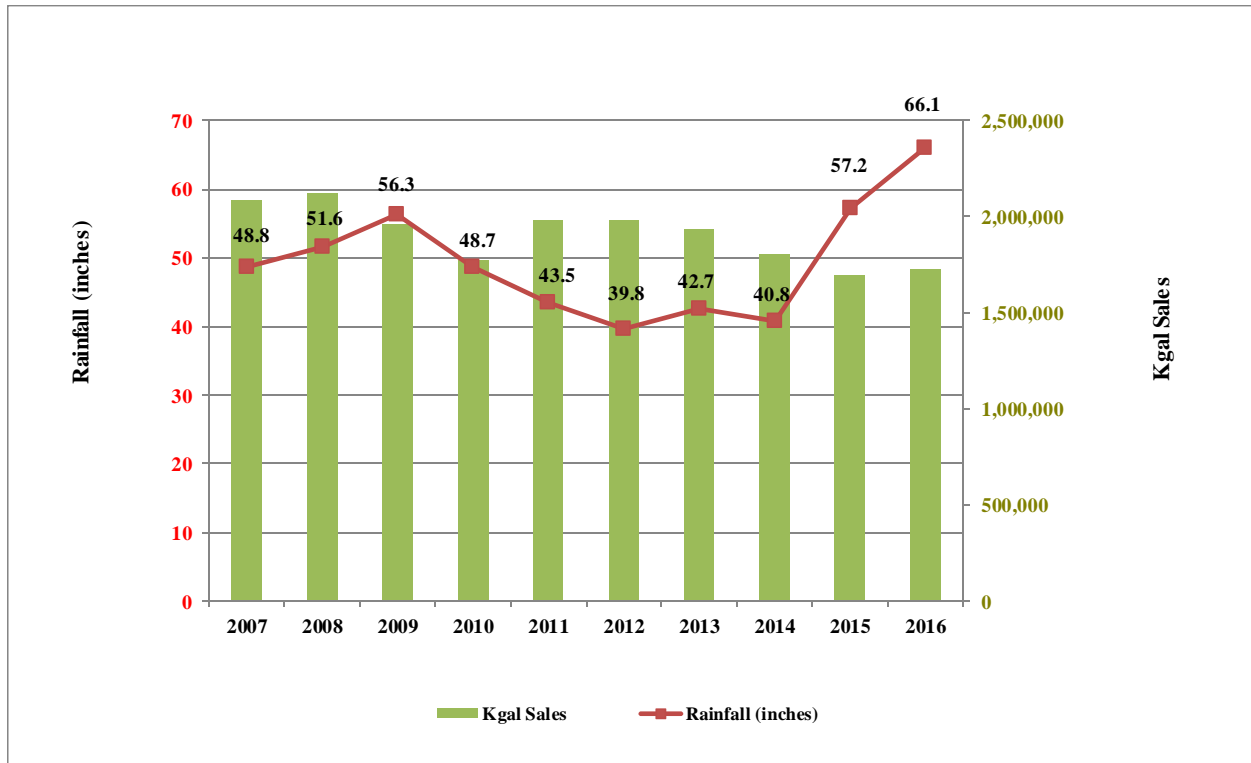
User Name	Type	2016 Billed Revenues	% of Total 2016 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 173,788	2.89%
Cypress of Hilton Head Association	Residential Homes	106,285	1.77%
Westin Resort	Resort	99,685	1.66%
Hilton Head Resort/Four Seasons	Resort	79,274	1.32%
Fiddlers Cove	Resort	72,142	1.20%
Spa at Port Royal	Resort	65,724	1.09%
Marriott Vacation Club	Resort	59,941	1.00%
Marshside Owner's Association	Apartment Complex	59,006	0.98%
IMC	Apartment Complex	44,591	0.74%
Marriott Surfwatch	Resort	25,275	0.42%
Remaining Customers		<u>5,223,699</u>	<u>86.93%</u>
		<u>\$ 6,009,410</u>	100.00%

District Top Ten Wastewater Users

Fiscal year ended June 30, 2016

User Name	Type	2016 Billed Revenues	% of Total 2016 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 198,919	3.93%
Westin Resort	Resort	120,094	2.38%
Hilton Head Resort/Four Seasons	Resort	103,563	2.05%
Fiddler's Cove	Resort	83,123	1.64%
Marriott Vacation Club	Resort	72,154	1.43%
Cypress of Hilton Head Association	Residential Homes	72,128	1.43%
Spa at Port Royal	Resort	70,703	1.40%
Marriott Surfwatch	Resort	68,437	1.35%
Marshside Owners Association	Apartment Complex	60,048	1.19%
IMC	Apartment Complex	54,294	1.07%
Remaining Customers		<u>4,152,618</u>	<u>82.13%</u>
		<u>\$ 5,056,081</u>	100.00%

Rainfall (inches) vs. Water/Irrigation Kgal Sales



**Schedule of the Hilton Head No. 1 PSD SCRS Contributions
For the fiscal year ended June 30, 2016¹⁸**

	SCRS										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	
Contractually required contribution	\$ 222,257	\$ 239,148	\$ 230,376	\$ 222,013	\$ 185,953	\$ 171,769	\$ 168,516	\$ 162,220	\$ 143,821	\$ 116,922	
Contributions in relation to the contractually required contribution	222,257	239,148	230,376	222,013	185,953	171,769	168,516	162,220	143,821	116,922	
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	0	0	
Hilton Head No. 1 PSD's covered-employee payroll	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558	\$ 2,124,527	\$ 1,981,382	\$ 1,858,973	\$ 1,823,765	\$ 1,755,623	\$ 1,587,430	\$ 1,452,452	
Contributions as a percentage of covered-employee payroll	10.91%	10.75%	10.45%	10.45%	9.39%	9.24%	9.24%	9.24%	9.06%	8.05%	

Note: For all years, there should be a zero amount for contribution deficiency excess because all required contributions were made per PEBA's previous reports.

**Schedule of the Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability
For the fiscal year ended June 30, 2016**

	SCRS		
	2016	2015	2014
Hilton Head No. 1 PSD's proportion of the net pension liability	0.023400%	0.023939%	0.023939%
Hilton Head No. 1 PSD's proportionate share of the net pension liability	\$ 4,437,923	\$ 4,121,502	\$ 4,063,319
Hilton Head No. 1 PSD's covered payroll	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558
Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	217.84573%	185.26694%	184.31445%
* Plan fiduciary net position as a percentage of the total pension liability	57.00000%	59.90000%	53.38821%

** Source - SCRS
Ten year of information unavailable*

¹⁸ GASB 68 was implemented for fiscal year 2015 and 2014.

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

Water Purchased from BJWSA Summary (Whole Dollars)												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2007 ¹	2008	2009	2010 ²	2011	2012	2013	2014	2015	2016		
All District Purchases from BJWSA	\$ 1,593,943	\$ 1,518,423	\$ 1,364,990	\$ 934,368	\$ 1,199,029	\$ 1,472,568	\$ 1,183,047	\$ 984,044	\$ 1,110,409	\$ 812,457		
Reclaimed Water Adjustment ³	77,760	77,760	77,760	25,920	-	-	-	-	-	-		
Broad Creek Purchases	-	-	(85,947)	(213,717)	(174,574)	(192,363)	(170,383)	(162,657)	(109,306)	(73,259)		
Capitalized Purchased Water	-	-	-	-	-	(171,887)	-	-	-	-		
Prepaid Purchased Water Expense	-	-	-	-	(79,529)	(195,783)	(210,007)	(195,337)				
Purchased Water Expense	\$ 1,671,703	\$ 1,596,183	\$ 1,356,803	\$ 746,571	\$ 1,024,455	\$ 1,028,789	\$ 817,441	\$ 625,603	\$ 791,096	\$ 543,661		

Water Purchased from BJWSA Summary (KGalS)												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
All KgalS Purchased from BJWSA	1,390,980	1,047,188	863,918	679,724	877,933	1,240,631	1,003,131	776,286	852,633	538,925		
Reclaimed Water Adjustment	-	-	(54,397)	(208,191)	(178,539)	(192,469)	(152,148)	(110,869)	(67,224)	(44,304)		
Broad Creek Purchases	-	-	-	-	-	(217,579)	-	-	-	-		
Capitalized Purchased Water	-	-	-	-	(79,413)	(244,028)	(240,743)	(247,602)	(232,782)			
Prepaid Purchased Water Expense	-	-	-	-	-	606,955	424,674	537,807	261,839			
Purchased Water (KGalS)	1,390,980	1,047,188	809,521	471,533	699,394	751,170	606,955	424,674	537,807	261,839		
Total Peak Purchases	822,794	1,047,188	863,918	511,537	648,537	623,380	487,874	457,223	457,997	391,043		
Total Off-peak Purchases	568,186	-	-	168,187	229,396	617,251	515,257	319,063	414,636	147,882		
Total Off-peak and Peak Purchases	1,390,980	1,047,188	863,918	679,724	877,933	1,240,631	1,003,131	776,286	852,633	538,925		

BJWSA Rates Per Kgal Summary												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
Rates Charged by BJWSA												
Peak Rate	\$ 1.45	\$ 1.45	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.74	\$ 1.76		
Off Peak Rate	\$ 0.71	\$ -	\$ -	\$ 0.75	\$ 0.76	\$ 0.79	\$ 0.80	\$ 0.82	\$ 0.84	\$ 0.84		
District Cost/Kgal Prior to Broad Creek Purchases ⁴	\$ 1.15	\$ 1.45	\$ 1.58	\$ 1.37	\$ 1.37	\$ 1.19	\$ 1.18	\$ 1.27	\$ 1.30	\$ 1.51		
Effective District Cost/Kgal After Broad Creek Purchases ⁵	N/A	N/A	\$ 1.58	\$ 1.53	\$ 1.46	\$ 1.22	\$ 1.19	\$ 1.23	\$ 1.27	\$ 1.49		

¹ Nov 2006 - Feb 2007 there was an off-peak rate of \$0.71/kgal applied to all consumption.

² Off-peak rate agreement signed September, 2009 and the rate increases every year based on CPI.

³ This adjustment adds the potable water expense associated with providing reclaimed water to golf courses at a reduced rate in exchange for potable water with drawal rights to certain wells

⁴ Combined peak and off-peak purchases calculated as all District purchases from BJWSA divided by all KgalS purchased from BJWSA

⁵ 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.



P.O. Box 21264
Hilton Head Island, SC 29925
843.681.5525
www.hhpsd.com

Hilton Head No. 1 Public Service District
21 Oak Park Drive