

# 2019 Comprehensive Annual Financial Report



For Fiscal Years Ending  
June 30, 2019 and June 30, 2018

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



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## **Comprehensive Annual Financial Report**

**For Fiscal Years Ending  
June 30, 2019 and June 30, 2018**

Prepared by:  
Finance Department

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<sup>1</sup> SCRS is an abbreviation for South Carolina Retirement System

<sup>2</sup> NPL is an abbreviation for Net Pension Liability

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**On the cover: Members of the Hilton Head Island Audubon Society conduct their annual Christmas Bird Count at the recycled water lagoons at the PSD’s Recycled Water Plant on Oak Park Drive, Hilton Head Island, SC. The lagoons are frequented by an array of water fowl, including hooded merganser and bufflehead ducks, a sign of the high quality of the PSD’s recycled water.**

**The PSD’s Oak Park Drive site was certified as an Audubon International Cooperative Sanctuary in 2019. The PSD’s achievement of the multi-faceted certification demonstrates its commitment to leading the way in environmental stewardship.**

# INTRODUCTION



**Hilton Head PSD Recycled Water Supervisor Bob Davis, left, and General Manager Pete Nardi with the South Carolina Department of Health and Environmental Control’s 2018 Facility Excellence Award presented at the 2019 South Carolina Environmental Conference, in recognition of the outstanding performance of the PSD’s wastewater treatment and recycled water operations. It was the PSD’s third straight year earning the honor.**

**Davis also was honored in 2019 with the prestigious William D. Hatfield Award from the Water Environment Federation, recognizing lifetime achievement in the wastewater treatment profession.**

## 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 of the District 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 Wednesday of each month in the PSD Community Room at 21 Oak Park Drive off Mathews Drive on Hilton Head Island. Public comment is welcome at all Commission meetings.

### The 2018-19 Hilton Head Public Service District Commission



**W. Robert "Bob" Manne**, Chair, District 4  
Current Term: 2016-2020



**David McCoy**, Vice Chair, District 2  
Current Term: 2016-2020



**Gary Kratz**, Treasurer, District 4  
Current Term: 2016-2020



**Frank Drehwing**, Secretary, District 4  
Current Term: 2018-2022



**Herbert Ford**, District 1  
Current Term: 2018-2022



**Patti Soltys**, District 3  
Current Term: 2016-2020



**Frank Turano**, District 3  
Current Term: 2018-2022

## **HILTON HEAD PUBLIC SERVICE DISTRICT**

### **Vision & Mission Statement**

**Revised February 27, 2019**

#### **Vision Statement**

Our vision is to be a state of the art water and sewer public utility, acknowledged as a model of excellence.

#### **Mission Statement**

Hilton Head Public Service District's mission is to:

- A. Provide high quality drinking water, wastewater treatment and recycled water services to present and future customers;
- B. Deliver those services in a cost-effective, equitable, sustainable and timely manner;
- C. Maintain sensitivity to the water and recycled water needs of the community;
- D. Contribute to the improvement of public health and the environment; and
- E. Serve as a platform for economic development.

## Strategic Goals

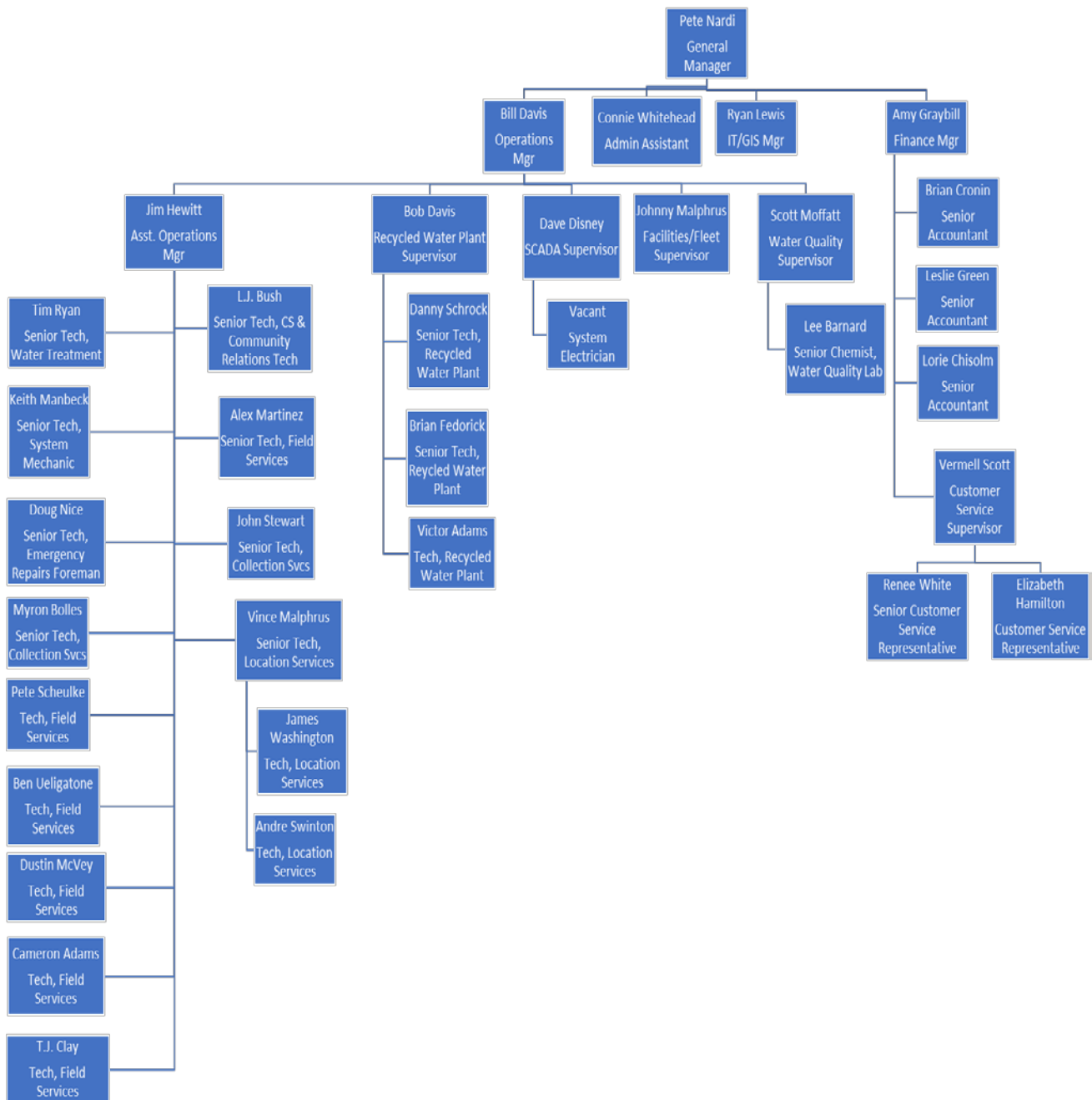
The PSD Commission holds an annual Strategic Planning Session and conducts ongoing strategic planning activities throughout the year. Each Strategic Goal is accompanied by specific directives and staff work plan items. The directives and staff work plan also are updated annually. Below are the current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

### **Hilton Head PSD Strategic Goals** **Adopted March 27, 2019**

- Goal No. 1 – Water Services: Provide for all of our customers’ water supply needs with the highest quality water possible in a cost-effective manner.
- Goal No. 2 – Recycled Water Services: Provide for all of the District’s wastewater collection, treatment and recycled water distribution services in a cost-effective manner while enhancing and protecting the Island’s environment.
- Goal No. 3 – Environmental and Sustainability: 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.
- Goal No. 7 – Asset Management: Acquire, maintain, protect and secure the District’s property, databases, plant and equipment assets (investment in the future).
- Goal No. 8 – External Relations: Develop, expand and leverage the District’s positive relationships with external organizations, utilities and governments.



## Fiscal Year 2019 Organizational Chart



## COMMISSIONERS

Bob Manne, Chair  
David McCoy, Vice-Chair  
Gary Kratz, Treasurer  
Frank Drehwing, Secretary  
Herbert Ford  
Patti Soltys  
Frank Turano



## EXECUTIVE STAFF

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

# HILTON HEAD PUBLIC SERVICE DISTRICT

October 23, 2019

## Management Letter of Transmittal

The Commission and staff of the Hilton Head Public Service District (PSD) are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019. This is the tenth report issued as a CAFR and it will be made available to the general public via the [www.hhpsd.com](http://www.hhpsd.com) web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island.

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

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

## Profile of the Government

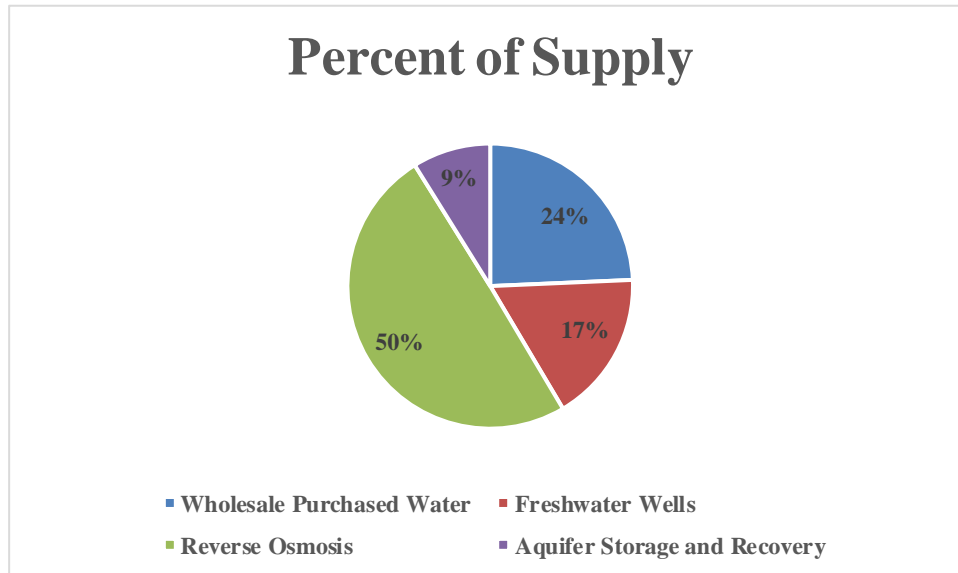
The PSD is a special purpose district created by the South Carolina General Assembly in 1969 to provide water and sewer services to Hilton Head Island. The PSD provides:

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

Residents of Hilton Head Island relied on private wells for their drinking water needs until 1957. At that time, a local development firm called the Hilton Head Water Company introduced a community waterworks system, installing water lines and drilling wells throughout the island. Ten separate utilities, both public and private, provided water and wastewater services to the residents of the island at the time of

the PSD’s creation. Beginning in 1995, the PSD acquired the four utilities that now comprise its current service area. In addition, the PSD acquired two small systems on the island previously served by a mainland utility. Consolidation of the remaining island utilities formed the three public service districts currently serving Hilton Head Island – Hilton Head, Broad Creek, and South Island PSDs.

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

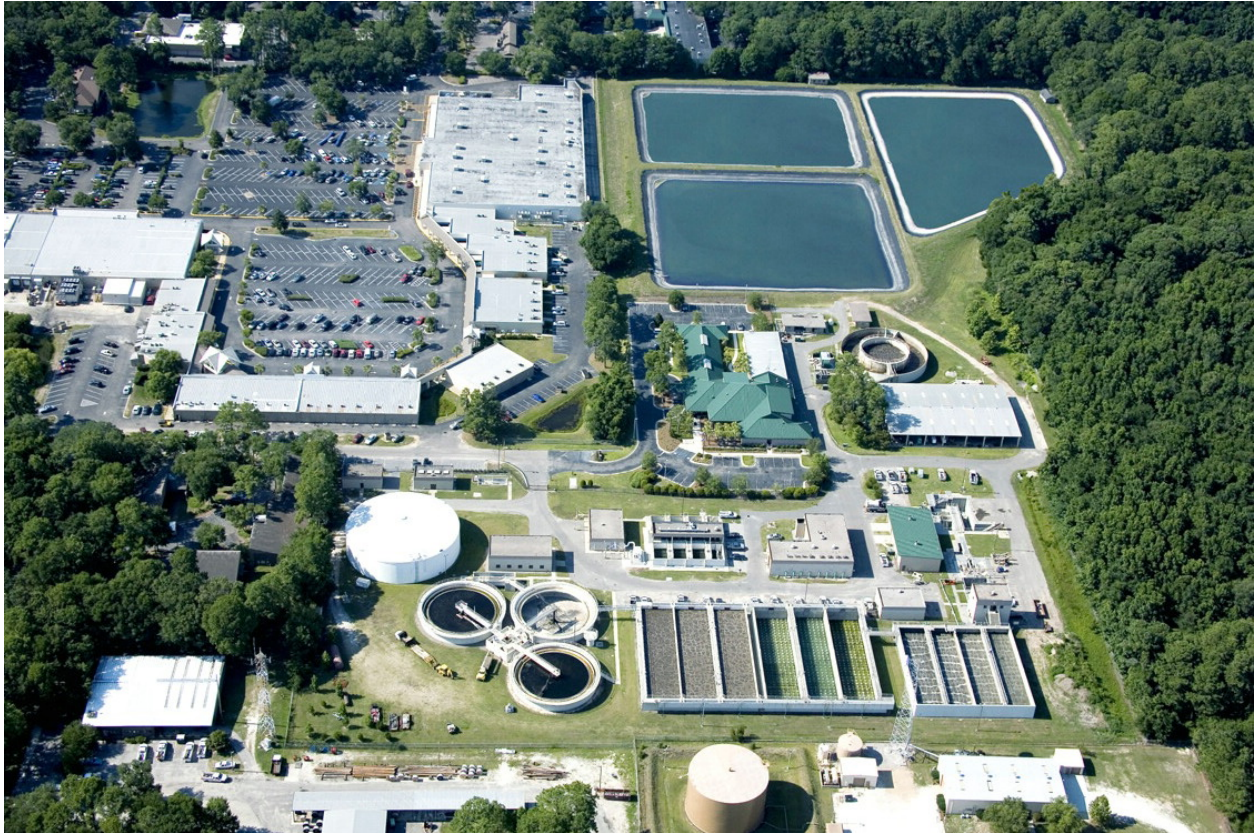


The PSD can provide a maximum water demand of 13 million gallons a day (mgd). It experiences an average demand of 5-6 mgd and a peak demand of 9-10 mgd. The PSD’s Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is about 50% of water supplied in Fiscal Year 2019. The RO Facility’s source of water is brackish groundwater from the 600-foot-deep Middle Floridan Aquifer, pumped from three wells. The brackish water is treated in the RO Facility, which began operations in 2009 in response to the loss of fresh groundwater wells caused by saltwater intrusion into the shallower Upper Floridan Aquifer.

About 24% of water supplied in 2019 was purchased on a wholesale basis from the Beaufort-Jasper Water & Sewer Authority (BJWSA) on the mainland. The treated wholesale water is conveyed to the PSD via its 24” pipeline buried under the Intracoastal Waterway. Fresh groundwater from the PSD’s remaining Upper Floridan wells provided about 17% of water supplied in Fiscal Year 2019.

The remaining 9% of water supplied in Fiscal Year 2019 came from the PSD’s Aquifer Storage & Recovery (ASR) Facility. It is the island’s first-ever ASR facility and began operations in 2011. In the winter months of lower demand, the facility stores approximately 260 million gallons of treated tap water in the Middle Floridan Aquifer. It then withdraws and re-treats the water during the summer months of higher demand, providing 2 mgd of supply. The stored water is purchased at a reduced, “off-peak” rate from BJWSA. The ASR Facility recovers the stored water in the summer months of higher demand and the full wholesale rate from BJWSA, saving customers’ money.

The PSD's Recycled Water Plant is a tertiary-treatment, return activated sludge (RAS) municipal wastewater treatment plant. The Recycled Water Plant is capable of treating 6.4 mgd of wastewater. Average flow into the treatment plant is under 3 mgd. The PSD is a 100% recycled water utility. All treated wastewater is recycled for golf course irrigation or interior wetlands nourishment – no treated wastewater is discharged to any receiving bodies of water.



**The PSD Recycled Water Plant**

### *Master Sewer Plan*

Work is continuing to bring sewer service to homes in Hilton Head Island's north- and mid-island neighborhoods as part of the Town of Hilton Head Island and Hilton Head Public Service District (PSD) Master Sewer Plan projects. About 440 existing homes will ultimately gain access to sewer as a part of this jointly funded project. In all, more than 9 miles of sewer collector mains will be installed in neighborhoods that previously lacked access. Providing sewer access to communities has been a top priority for the Town Council and the PSD. The Town of Hilton Head Island has provided approximately \$10 million for sewer collector mains and the Community Foundation of the Lowcountry has raised nearly \$3 million for its Project SAFE (Sewer Access for Everyone) charitable fund that provides sewer connection grants for income-qualified homeowners. The PSD built two regional sewer lift stations to accommodate the new sewer mains, using \$1.5 million in long-term, low-interest funding from the South Carolina Clean Water Revolving Fund. The overall Master Sewer Plan effort has seen the PSD increase total sewer connections from about 80% of its customers in 2004 to more than 94% in 2019.

*A Letter from the General Manager:*  
**50 years of clean water, and the future on tap**



**J. Pete Nardi, PSD General Manager**

It is once again my pleasure and honor to present for your review the Hilton Head Public Service District (PSD) Comprehensive Annual Financial Report (CAFR). This report represents the outstanding work of our financial administration team at the PSD, led by Finance Manager Amy Graybill, CPA, and Senior Accountant Brian Cronin.

The PSD was created by the South Carolina General Assembly in 1969 and turned 50 years old in 2019. The legacy of our first 50 years is one of providing high quality drinking water and pioneering recycled water services. It's a testament to the professionalism and dedication of the men and women who have worked for the PSD past and present. But a half-century of operations also comes with its asset management challenges, as the PSD enters into an era of replacement and upgrade of aging infrastructure, not unlike so many of our fellow North American water utilities. The PSD is well-positioned to meet those challenges thanks to its solid financial footing, outstanding staff, and supportive Board of Commissioners and customers.

It's very fitting that in a year when we celebrated our 50<sup>th</sup> anniversary, we also used some truly space-age technology to dramatically improve our non-revenue water performance. In 2018-19, the PSD conducted the island's first-ever satellite-based leak detection program. The cutting-edge technology involves multiple satellite passes over the PSD service area that are layered with the Geographic Information System (GIS) mapping of the utility's water distribution system. The satellite can detect potential leaks and generates reporting that pinpoints pipe segments for field investigation. The technology was able to identify very small leaks, such as a leaking customer meter, but it also found a large leak on a water distribution main buried in the salt marsh. Field investigation revealed that the leak might have represented as much as 1.5 million gallons a day of water loss. The subsequent pipe repair is estimated to save the PSD approximately \$500,000 a year! This was a great example of embracing new technology to improve aging infrastructure.

The next 50 years will present our utility with challenges to overcome and opportunities to enjoy. Our work today is preparing us for the next half-century of clean water.

All My Best,

A handwritten signature in dark ink, appearing to read "J. P. Nardi". The signature is fluid and cursive.

J. Pete Nardi  
General Manager  
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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis with costs recovered primarily through user charges.

The District 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/May 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.<sup>3</sup> 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

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<sup>3</sup> 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 26, 2019, the District's Board adopted a water and sewer rate increase to be effective July 1, 2019 whereby both the water and sewer base rates were increased by \$1.00. For a summary of the District's historical and present water and sewer rates, please reference the Water and Wastewater Rate Comparison Table in the Statistical Section on page 92.

### *Millage*

Pursuant to Act No. 596 of 1969, the District is authorized to impose ad valorem property taxes not to exceed ten mills to defray a portion of its operational costs; however, the District's operational ad valorem millage is now capped by statute at 3 mills. As of July 1, 2007, millage rates for operations may increase only at a rate equal to the sum of (a) the increase in the consumer price index, plus (b) the rate of population growth of the political subdivision or school district. This limitation may be overridden by a

vote of two-thirds of the governing body of the political subdivision, but only for the following purposes and only in a year in which such condition exists:

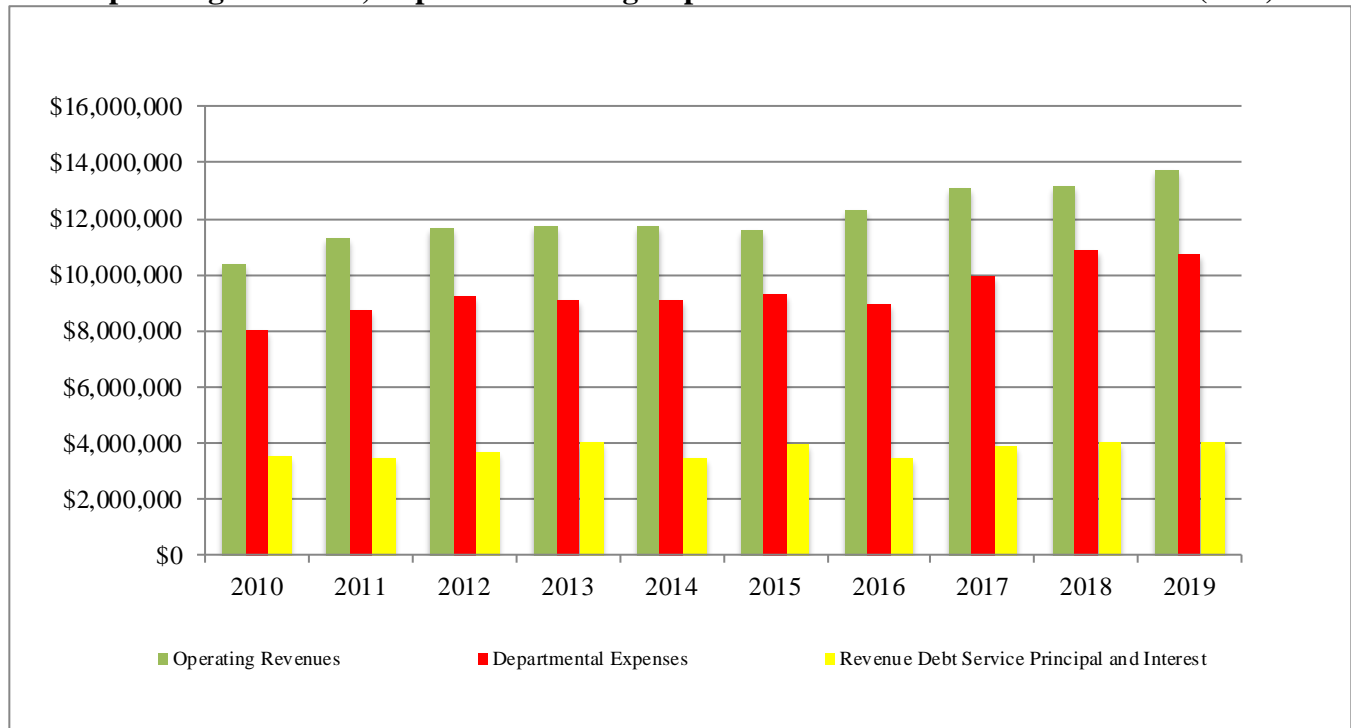
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside 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, without limit as to rate or amount, 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. Absent a referendum, the outstanding par amount of general obligation bonds issued by the PSD shall not exceed eight percent (8%) of the assessed value of all taxable property in the PSD. This item is covered in more detail on page 96 under General Obligation Debt Limit.

## Financial Condition

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

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



Total operating revenues for fiscal year 2019 were \$13,734,240 compared to \$13,125,419 for fiscal year 2018, an increase of \$608,821. Water service revenues increased \$562,604 or 8.5% compared to last fiscal year due to higher billed water consumption and a rate increase that was put into effect on July 1, 2018 (See the Water Rate Comparison table on page 92 in the Statistical Section of this report). Billed water consumption for fiscal year 2019 increased 73.5 mg when compared to fiscal year 2018. Sewer revenues increased \$181,125 or 3.5% due to increased water consumption and a base rate increase that was put into effect on July 1, 2018 (See the Wastewater Rate Comparison table on page 92 in the Statistical Section of this report).<sup>4</sup>

Billed water consumption for fiscal year 2018 was 1,933,031 mg compared to 2,159,321 mg for fiscal year 2017 and water service revenues were down \$94,173 or 1.4%. Despite lower water consumption sewer revenues were up \$83,797 or 1.6% due to more sewer customers being added to the system.

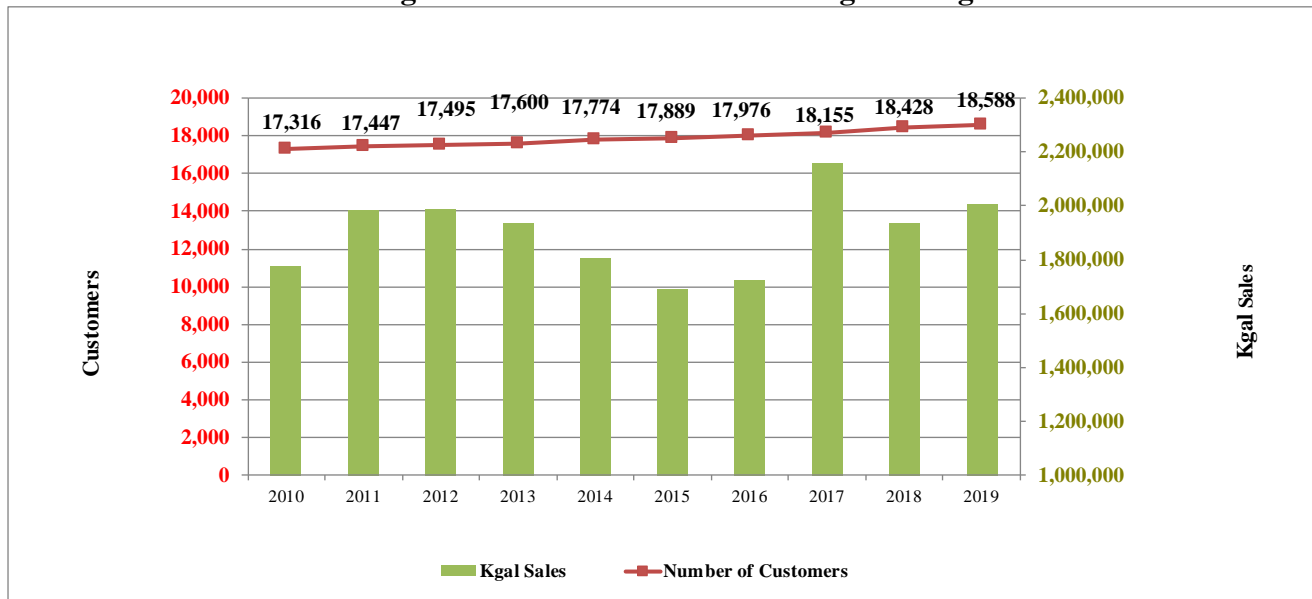
Billed water consumption for fiscal year 2017 was 434.9 million gallons or 25% higher than fiscal year 2016 due to much dryer weather. The District also had a full year water rate increase that was effective July 1, 2016. Further, after Hurricane Matthew there was widespread turf restoration which resulted in higher irrigation. As such, water service revenues were \$6,680,175, an increase of \$670,766 or 11.2% compared to fiscal year 2016. Sewer revenues were up \$87,087 or 1.7%.

<sup>4</sup> Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not positively affected by higher water consumption compared to water service revenues.

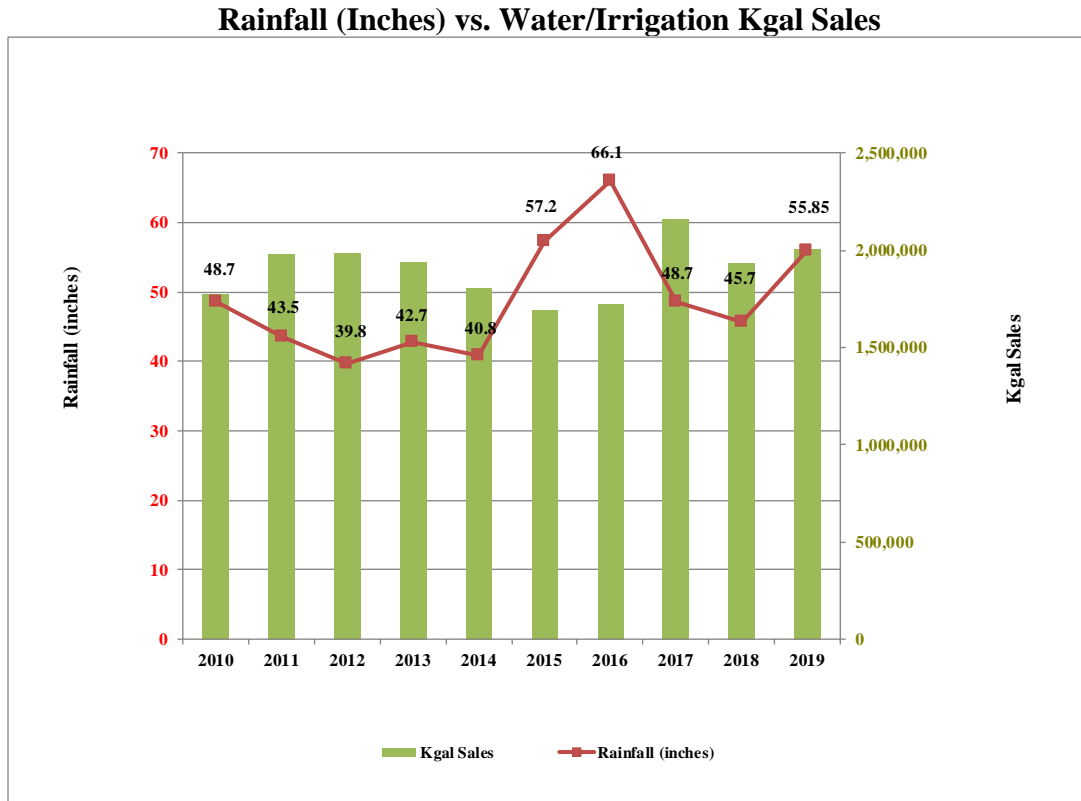
Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 32.

The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equate 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**



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



While fiscal year 2019 rainfall totaled 55.85 inches of rainfall as compared to 45.7 inches for fiscal year 2018, the higher fiscal year 2019 amount is deceiving as 13.9 inches occurred within a 36 hour period during June.<sup>5</sup> This may be a contributing factor as to why billed water consumption for fiscal year 2019 increased 73.5 mg or 3.8% when compared to fiscal year 2018 despite higher overall rainfall for fiscal year 2019.

Fiscal year 2018 rainfall totaled 49.5 inches of rainfall as compared to 48.7 inches for fiscal year 2017. Fiscal year 2018 billed water usage totaled 1,933,031 Mgals and decreased 226.3 million gallons or 10.5% when compared to fiscal year 2017. While fiscal year 2017 had 48.7 inches of rainfall, it should be noted that almost 11 inches of that total was due to Hurricane Matthew.

Billed water usage totaled 2,159,321 Mgals and increased 434.87 million gallons or 25% for fiscal year 2017 when compared to fiscal year 2016. This was the most water the District has ever billed for a fiscal year mainly due to dryer weather. Both during and after Hurricane Matthew, there were also multiple “customer side of meter” water line breaks which increased billed usage. Further, after Hurricane Matthew many customers had new landscaping and plantings added to replenish properties that were damaged. This resulted in higher than usual irrigation to get these new plantings started.

<sup>5</sup> Rainfall measurements were recorded at the wastewater treatment plant.

While there is some correlation evident between annual rainfall and consumption when viewing the previous graph, the relationship between rainfall and consumption becomes more evident when viewing the following graph which takes into account the spring and summer month rainfall amounts for each fiscal year.<sup>6</sup> Fiscal year 2019 had a comparatively high summer rainfall total at 34.4 inches. As previously mentioned, this amount is deceiving as 13.9 inches occurred within a 36-hour period during June. The rest of the summer had comparatively low rainfall. Low spring/summer rainfall was a major factor in the high amount of water that was billed for both fiscal year 2018 and 2017. Comparatively both fiscal year 2018 and 2017 had low rainfall amounts when compared to other years. The last time the District recorded lower summer rainfall than fiscal year 2017 was for fiscal year 2000.

### Summer Rainfall (Inches) vs. Water/Irrigation Kgal Sales



<sup>6</sup> Months included for each year are March through August.

### *Independent Audit*

The accompanying financial statements have been audited by the District's independent auditors, Greene Finney LLP, and their report on the financial statements resulting from their audit is included in the Financial Section of this report.

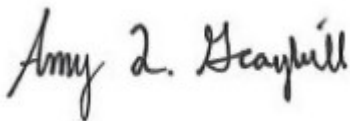
### *Certificate of Achievement for Excellence in Financial Reporting*

The Government Finance 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, 2018 (reference the following page). This was the ninth 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.



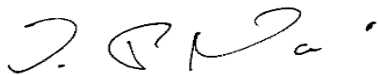
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Amy Graybill, CPA, Finance Manager



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Brian Cronin, Senior Accountant



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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, 2018**

*Christopher P. Morrill*

Executive Director/CEO

# **FINANCIAL**

**For Fiscal Years Ended June 30, 2019 and June 30, 2018**



# Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Hilton Head No.1 Public Service District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hilton Head No.1 Public Service District as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Financial Statements***

The financial statements of the Hilton Head No.1 Public Service District as of June 30, 2018 were audited by other auditors whose report dated December 13, 2018 expressed an unmodified opinion on those statements.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Hilton Head No.1 PSD SCRS Contributions, and the Schedule of Hilton Head No.1 PSD's Proportionate Share of the NPL 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.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental financial information, and the 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 supplemental financial 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section 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.



Greene Finney, LLP  
Mauldin, South Carolina  
October 23, 2019

## 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, 2019, 2018 and 2017. 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 2019 were approximately \$88.0 million (See Table A-1, Page 27). Total assets including deferred outflows of resources were \$89.9 million, exceeding liabilities by \$45.2 million.
- Water Customer Growth: The District added 160 new water/irrigation taps to the system in fiscal year 2019. As of June 30, 2019, the District has a total of 18,588 equivalent dwelling units (EDUs). This is a 0.9% increase for FY’ 19. For FY’ 18 there was a 1.5% increase in total EDUs. The current EDUs include 17,503 water service units, 1,034 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> |
|--------------------|--------------------|-----------------------------------|-------------------|--------------|-----------------|
| 2019               | 11,627             | 4,907                             | 2,054             | 18,588       | 0.9%            |
| 2018               | 11,492             | 4,907                             | 2,029             | 18,428       | 1.5%            |
| 2017               | 11,226             | 4,907                             | 2,022             | 18,155       | 1.0%            |
| 2016               | 11,060             | 4,907                             | 2,009             | 17,976       | 0.5%            |
| 2015               | 10,997             | 4,851                             | 2,041             | 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%           |

- Sewer Customer Growth: The District added 215 new sewer connections to the system in fiscal year 2019. As of June 30, 2019, sewer service EDUs total 16,473. This is a 1.3% increase for FY’ 19 as compared to the FY’ 18 increase of 1.9%.

#### Sewer Customers

| <u>Fiscal Year</u> | <u>Residential</u> | <u>Master Metered Residential</u> | <u>Commercial</u> | <u>Total</u> | <u>% Growth</u> |
|--------------------|--------------------|-----------------------------------|-------------------|--------------|-----------------|
| 2019               | 10,097             | 4,907                             | 1,469             | 16,473       | 1.3%            |
| 2018               | 9,882              | 4,907                             | 1,469             | 16,258       | 1.9%            |
| 2017               | 9,588              | 4,907                             | 1,466             | 15,961       | 1.3%            |
| 2016               | 9,431              | 4,907                             | 1,420             | 15,758       | 0.8%            |
| 2015               | 9,305              | 4,851                             | 1,477             | 15,633       | 0.9%            |
| 2014               | 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%            |

- As shown in the table below, the sewer to water customer percentage has increased to 94.12% percent since the beginning of fiscal year 2018.<sup>7</sup> This increase is primarily due to the District’s Master Sewer Plan construction projects and Project SAFE funded connections.

| <b>Water / Sewer Connection Growth 06/30/19</b> |   |                                   |                                       |  |                              |                                       |  |   |
|---|---|-----------------------------------|---------------------------------------|--|------------------------------|---------------------------------------|--|---|
| <u>Date</u>                                     | <u>Water &amp; Irrigation</u><br><u>EDU's</u> | <u>Only Water</u><br><u>EDU's</u> | <u>Inactive</u><br><u>Water EDU's</u> | <u>Change in</u><br><u>Water EDU's</u> | <u>Sewer</u><br><u>EDU's</u> | <u>Inactive</u><br><u>Sewer EDU's</u> | <u>Change in</u><br><u>Sewer EDU's</u> | <u>% Sewer to</u><br><u>Water EDU's</u> |
| 06/30/18  | 18,428  | 17,345                            | 331                                   | N/A                                    | 16,258                       | 147                                   | N/A                                    | 93.73%                                  |
| 09/30/18  | 18,467  | 17,384                            | 331                                   | 39                                     | 16,304                       | 147                                   | 46                                     | 93.79%                                  |
| 12/31/18  | 18,516  | 17,435                            | 348                                   | 51                                     | 16,365                       | 149                                   | 61                                     | 93.86%                                  |
| 03/31/19  | 18,546  | 17,464                            | 372                                   | 29                                     | 16,418                       | 170                                   | 53                                     | 94.01%                                  |
| 06/30/19  | <u>18,588</u>                                 | <u>17,503</u>                     | 372                                   | 39                                     | <u>16,473</u>                | 169                                   | <u>55</u>                              | 94.12%                                  |
| <b>Total EDU's Added</b>                        | <b><u>160</u></b>                             | <b><u>158</u></b>                 |                                       | <b><u>158</u></b>                      | <b><u>215</u></b>            |                                       | <b><u>215</u></b>                      |   |

- On July 1, 2018, a rate increase was put into effect whereby the water base rates were increased by \$1.50 and sewer base rates were increased by \$0.50 and volumetric rates were adjusted as follows:

|                               | <u>Residential</u><br><u>Water</u> | <u>Residential</u><br><u>Irrigation</u> | <u>Commercial</u><br><u>Water and</u><br><u>Irrigation</u> |
|-------------------------------|------------------------------------|---|--|
| First 10,000 gallons          | \$ 1.40                            | \$ 1.72                                 | \$ 1.69  |
| Next 10,001 to 20,000 gallons | \$ 1.72                            | \$ 1.72                                 | \$ 2.01  |
| Next 20,001 to 30,000 gallons | \$ 2.18                            | \$ 2.18                                 | \$ 2.52  |
| Over 30,000 gallons           | \$ 2.60                            | \$ 2.60                                 | \$ 2.97  |

The District’s Board adopted this rate increase at the June Commission Meeting on June 26, 2018.

<sup>7</sup> This percentage is based solely on water customers and does not include irrigation, dock meters, hydrants, pool meters, and golf course water coolers etc.

### *Subsequent Events*

- On July 1, 2019, a rate increase was put into effect whereby the water base rates were increased by \$1.00 and sewer base rates were increased by \$1.00 and volumetric rates were adjusted as follows:

|                               | Residential<br>Water | Residential<br>Irrigation | Commercial<br>Water and<br>Irrigation |
|-------------------------------|----------------------|---------------------------|---------------------------------------|
| First 10,000 gallons          | \$ 1.47              | \$ 1.82                   | \$ 1.69                               |
| Next 10,001 to 20,000 gallons | 1.82                 | \$ 1.82                   | \$ 2.04                               |
| Next 20,001 to 30,000 gallons | 2.27                 | \$ 2.27                   | \$ 2.52                               |
| Over 30,000 gallons           | 2.79                 | \$ 2.79                   | \$ 3.07                               |

The District's Board adopted this rate increase at the June Commission Meeting on June 26, 2019.

- Hurricane Dorian impacted Beaufort County from the afternoon of September 4, 2019 through the morning of September 5, 2019 with tropical storm-force winds. The highest wind recorded in Beaufort County was 67 mph at 1:35 a.m. on September 5, 2019 at the Hilton Head Island Airport. As of the date of this report, there were no damages to insured assets and the amount of public assistance in the form of FEMA reimbursement for CAT-B forced account labor that the District may receive, if any, is unknown.

## 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 as of June 30, 2019, 2018, and 2017.

**TABLE A-1**  
**Hilton Head Public Service District**  
**Condensed Statements of Net Position**

| Year Ended June 30,                                    | <u>2019</u>          | <u>2018</u>          | <u>2017</u>          | <b>2018 to 2019</b>   | <b>%</b>      |
|--|----------------------|----------------------|----------------------|-----------------------|---------------|
| <b>Assets</b>  |                      |                      |                      | Increase (decrease)   |               |
| Current assets   | \$ 7,205,863         | \$ 7,233,473         | \$ 7,895,323         | \$ (27,610)           | -0.4%         |
| Restricted assets                                      | 2,412,700            | 2,425,274            | 2,406,220            | (12,574)              | -0.5%         |
| Net Property Plant & Equipment                         | 76,510,537           | 77,756,658           | 74,738,599           | (1,246,121)           | -1.6%         |
| Sewer Assessments, Long-term                           | 1,886,679            | 2,090,994            | 1,730,234            | (204,315)             | -9.8%         |
| Other  | -                    | -                    | 45,010               | -                     | 0.0%          |
| <b>Total Assets</b>                                    | <u>88,015,779</u>    | <u>89,506,399</u>    | <u>86,815,386</u>    | <u>(1,490,620)</u>    | <u>-1.7%</u>  |
| <b>Deferred outflows of resources</b>                  |                      |                      |                      |                       |               |
| Deferred outflows related to pensions                  | 890,804              | 1,167,332            | 691,435              | (276,528)             | -23.7%        |
| Deferred outflows from refunding debt                  | 981,017              | 1,237,445            | 1,493,873            | (256,428)             | -20.7%        |
|  | <u>1,871,821</u>     | <u>2,404,777</u>     | <u>2,185,308</u>     | <u>(532,956)</u>      | <u>-22.2%</u> |
| <b>Total assets and deferred outflows of resources</b> | <u>\$ 89,887,600</u> | <u>\$ 91,911,176</u> | <u>\$ 89,000,694</u> | <u>(2,023,576)</u>    | <u>-2.2%</u>  |
| <b>Liabilities</b>                                     |                      |                      |                      |                       |               |
| Current Liabilities                                    | 5,974,263            | 6,470,157            | 6,160,923            | (495,894)             | -7.7%         |
| Noncurrent Liabilities, net of amortization            | 38,336,938           | 43,206,306           | 45,257,260           | (4,869,368)           | -11.3%        |
| <b>Total Liabilities</b>                               | <u>44,311,201</u>    | <u>49,676,463</u>    | <u>51,418,183</u>    | <u>(5,365,262)</u>    | <u>-10.8%</u> |
| <b>Deferred inflows of resources</b>                   |                      |                      |                      |                       |               |
| Deferred inflows related to pensions                   | 399,360              | 282,842              | 427,630              | 116,518               | 41.2%         |
|  | <u>44,710,561</u>    | <u>49,959,305</u>    | <u>51,845,813</u>    | <u>(5,248,744)</u>    |               |
| <b>Net Position</b>                                    |                      |                      |                      |                       |               |
| Net investment in capital assets                       | 39,248,405           | 36,023,464           | 30,631,424           | 3,224,941             | 9.0%          |
| Restricted for debt service                            | 2,412,700            | 2,425,274            | 2,406,220            | (12,574)              | -0.5%         |
| Unrestricted   | 3,515,934            | 3,503,133            | 4,117,237            | 12,801                | 0.4%          |
| <b>Total Net Position</b>                              | <u>45,177,039</u>    | <u>41,951,871</u>    | <u>37,154,881</u>    | <u>3,225,168</u>      | <u>7.7%</u>   |
| <b>Total Liabilities and Net Position</b>              | <u>\$ 89,887,600</u> | <u>\$ 91,911,176</u> | <u>\$ 89,000,694</u> | <u>\$ (2,023,576)</u> | <u>-2.2%</u>  |

## 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 assets not included in the above categories.

The total net position as of June 30, 2019, was \$45,177,039, representing a \$3,225,168 increase from the prior year. Fiscal year 2018 had an increase in total net position from fiscal year 2017 of \$4,796,990.

|  | <b>Net Position</b>  |                      |                      |
|--|----------------------|----------------------|----------------------|
| <b>Year Ended June 30,</b>                       | <b><u>2019</u></b>   | <b><u>2018</u></b>   | <b><u>2017</u></b>   |
| Invested in Capital assets, net                  | \$ 39,248,405        | \$ 36,023,464        | \$ 30,631,424        |
| Restricted for capital activity and debt service | 2,412,700            | 2,425,274            | 2,406,220            |
| Unrestricted                                     | <u>3,515,934</u>     | <u>3,503,133</u>     | <u>4,117,237</u>     |
| Total Net Position                               | <u>\$ 45,177,039</u> | <u>\$ 41,951,871</u> | <u>\$ 37,154,881</u> |

Of the total net position, \$7,205,863 million are current non-restricted assets available to support short-term operations (see Table A-1, page 27). This current asset balance is \$27,610 lower than on June 30, 2018.

The decrease in property, plant & equipment is discussed in further detail on the following page.

The main driver of the decrease in current liabilities was a reduction of accounts payable-construction related to timing of master sewer plan construction payables. The decrease in noncurrent liabilities, net of amortization is mainly attributable to payments on notes and bonds payable. Net pension liability was also reduced.

The increase in net investment in capital assets is related mainly to capital asset activity and payments on related debt made by the District during fiscal year 2019. More detail on the three classifications of net position can be found in Note 17 – Net position on page 71.

## Capital Assets

As of June 30, 2019, the District has invested \$76,510,537 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below.

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

| Year Ended June 30,                          | <u>2019</u>          | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|----------------------|
| <b>Capital assets not being depreciated:</b> |                      |                      |                      |
| Land   | \$ 1,299,194         | \$ 1,299,194         | \$ 1,299,194         |
| Construction in Progress                     | <u>2,802,108</u>     | <u>513,974</u>       | <u>1,457,296</u>     |
| Total Capital Assets not being depreciated   | 4,101,302            | 1,813,168            | 2,756,490            |
| <b>Capital assets being depreciated:</b>     |                      |                      |                      |
| Waterworks system                            | 62,857,016           | 62,546,463           | 62,618,555           |
| Sewage disposal system                       | 49,073,406           | 48,736,481           | 40,891,189           |
| Buildings                                    | 4,339,091            | 4,339,091            | 4,339,091            |
| Sewage treatment facilities                  | 34,782,963           | 34,337,603           | 34,727,539           |
| Transportation equipment                     | 1,317,134            | 1,282,933            | 1,170,788            |
| Operations furniture and equipment           | 1,845,972            | 2,037,521            | 2,076,253            |
| Office furniture and equipment               | <u>746,530</u>       | <u>778,553</u>       | <u>778,553</u>       |
| Sub Total                                    | \$ 154,962,112       | \$ 154,058,645       | \$ 146,601,968       |
| Less Accumulated depreciation                | <u>(82,552,877)</u>  | <u>(78,115,155)</u>  | <u>(74,619,859)</u>  |
| Total capital assets being depreciated, net  | <u>72,409,235</u>    | <u>75,943,490</u>    | <u>71,982,109</u>    |
| Property, Plant and Equipment, net           | <u>\$ 76,510,537</u> | <u>\$ 77,756,658</u> | <u>\$ 74,738,599</u> |

Net Property Plant & Equipment has decreased \$1,246,121 during fiscal year 2019. During fiscal year 2019, capital expenditures of \$3,700,276 were offset by depreciation of \$4,946,397. Major projects/additions completed during 2019 include:

- Expenditures for Years 3 - 5 of the Master Sewer Plan (funded in partnership with the Town of Hilton Head) totaled \$2,133,922. Additionally, \$86,615 was spent on PSD funded Master Sewer Plan projects and \$162,236 of front foot assessment projects were completed. These will be moved from construction in process to capital assets being depreciated in future years as projects are completed.
- Upgrades and improvements to the District's existing lift stations totaled \$220,024.
- Eight new fire hydrants were installed at a cost of \$111,482. This project was done as a part of a partnership with the Town of Hilton Head whereby they contributed \$50,000, which is reported as a developer contribution of systems, towards this project.
- \$192,244 was spent on wastewater treatment plant screw pump upgrades and improvements.
- Three aeration blowers were purchased for \$105,354.
- The District continued its meter change out program and \$153,794 of meters were replaced.

More detailed information on capital asset activity can be found in Note 6 - Property, plant, equipment and depreciation on pages 53 and 54 and Master Sewer Plan Commitments made for capital expenditures can be found in Note 13 – Construction and development commitments / Expansion on page 63.

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

As of June 30, 2019, (see Table A-1, page 27) the District had \$38,336,938 in non-current liabilities as compared to fiscal year end 2018 total of \$43,206,306. More detailed information on long term debt obligation can be found in Note 7– Long term obligations on page 54 and Note 8 – Non-current liabilities on page 59.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. The District’s revenue bonds are secured by the revenues of the District. As shown in the following table, the District is in compliance with the necessary requirements at 146%.

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

| <b>Year Ended June 30,</b>                       | <b><u>2019</u></b> | <b><u>2018</u></b> | <b><u>2017</u></b> |
|--|--------------------|--------------------|--------------------|
| Net Income(loss) before capital contributions    |                    |                    |                    |
| per Financial Statements                         | \$11,599           | (\$655,130)        | \$310,587          |
| Capacity Fees                                    | 878,264            | 565,672            | 565,093            |
| Add: Depreciation                                | 4,946,397          | 4,733,613          | 4,576,123          |
| Net Pension Expense                              | 382,374            | 514,614            | 251,759            |
| SCRS Retirement Contributions                    | (352,212)          | (307,158)          | (272,562)          |
| Amortization                                     | 256,428            | 256,428            | 256,428            |
| Bond Issuance Costs                              | -                  | 69,609             | -                  |
| Interest Expense (Bonds)                         | 941,525            | 1,030,789          | 1,091,811          |
| Assessments - Debt Service                       | 190,184            | 190,300            | 157,973            |
| Less: Property Taxes – Debt Service              | <u>(1,371,933)</u> | <u>(1,441,325)</u> | <u>(1,403,497)</u> |
| Net Earnings Available for Debt Service          | \$5,882,626        | \$4,957,414        | \$5,533,715        |
| <br>   |                    |                    |                    |
| Debt Service on Revenue Bonds                    | \$4,040,662        | \$4,008,312        | \$3,923,462        |
| <br>   |                    |                    |                    |
| <b>Coverage of Debt Service by Net Earnings*</b> | <b>146%</b>        | <b>124%</b>        | <b>141%</b>        |
| <br>   |                    |                    |                    |
| <b>Debt Coverage without Capacity Fees</b>       | <b>124%</b>        | <b>110%</b>        | <b>127%</b>        |

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

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

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

| Year Ended June 30,  | 2019                 |                      | 2018                 |                    | 2017          |                  | 2018 to          |                 | 2017 to          |                 |
|--|----------------------|----------------------|----------------------|--------------------|---------------|------------------|------------------|-----------------|------------------|-----------------|
|  | <u>Actual</u>        | <u>Actual</u>        | <u>Actual</u>        | <u>Actual</u>      | <u>Actual</u> | <u>Actual</u>    | <u>Inc/(Dec)</u> | <u>% Change</u> | <u>Inc/(Dec)</u> | <u>% Change</u> |
| <b>Operating Revenues</b>                                      |                      |                      |                      |                    |               |                  |                  |                 |                  |                 |
| Operating Revenues   | \$ 13,734,240        | \$ 13,125,419        | \$ 13,088,588        | \$ 608,821         | 4.6%          | \$ 36,831        | 0.3%             |                 |                  |                 |
| Total Non-operating Revenues                                   | <u>3,119,933</u>     | <u>3,171,736</u>     | <u>3,090,725</u>     | <u>(51,803)</u>    | <u>-1.6%</u>  | <u>81,011</u>    | <u>2.6%</u>      |                 |                  |                 |
| Total Revenues   | <u>16,854,173</u>    | <u>16,297,155</u>    | <u>16,179,314</u>    | <u>557,018</u>     | <u>3.4%</u>   | <u>117,841</u>   | <u>0.7%</u>      |                 |                  |                 |
| <b>Departmental Expenses</b>                                   |                      |                      |                      |                    |               |                  |                  |                 |                  |                 |
| Departmental Expenses  | 10,698,224           | 10,861,845           | 9,944,364            | (163,621)          | -1.5%         | 917,481          | 9.2%             |                 |                  |                 |
| Depreciation   | 4,946,397            | 4,733,613            | 4,576,123            | (212,784)          | -4.5%         | 157,490          | 3.4%             |                 |                  |                 |
| Total Non-operating Expenses                                   | <u>1,197,953</u>     | <u>1,356,826</u>     | <u>1,348,239</u>     | <u>158,873</u>     | <u>11.7%</u>  | <u>8,587</u>     | <u>0.6%</u>      |                 |                  |                 |
| Total Expenses   | <u>16,842,574</u>    | <u>16,952,284</u>    | <u>15,868,726</u>    | <u>109,710</u>     | <u>0.6%</u>   | <u>1,083,558</u> | <u>6.8%</u>      |                 |                  |                 |
| Increase (decrease) in net assets before capital contributions | 11,599               | (655,129)            | 310,587              | 666,728            | -101.8%       | (965,716)        | -310.9%          |                 |                  |                 |
| <b>Capital Contributions:</b>                                  |                      |                      |                      |                    |               |                  |                  |                 |                  |                 |
| Water Capacity Fee   | 330,960              | 142,200              | 208,423              | 188,760            | 132.7%        | (66,223)         | -31.8%           |                 |                  |                 |
| Sewer Capacity Fee   | 547,304              | 423,472              | 356,670              | 123,832            | 29.2%         | 66,802           | 18.7%            |                 |                  |                 |
| Developer Contributions of Systems                             | 2,335,305            | 4,476,201            | 1,769,319            | (2,140,896)        | -47.8%        | 2,706,882        | 153.0%           |                 |                  |                 |
| Sewer Assessments  | -                    | 410,246              | -                    | (410,246)          | -100.0%       | 410,246          | 0.0%             |                 |                  |                 |
| Total Capital Contributions                                    | <u>3,213,569</u>     | <u>5,452,119</u>     | <u>2,334,412</u>     | <u>(2,238,550)</u> | <u>-41.1%</u> | <u>3,117,707</u> | <u>133.6%</u>    |                 |                  |                 |
| Change in net position   | \$ 3,225,168         | \$ 4,796,990         | \$ 2,645,000         | \$ (1,571,822)     | -32.8%        | \$ 2,151,990     | 81.4%            |                 |                  |                 |
| Net position, beginning of the year                            | <u>41,951,871</u>    | <u>\$ 37,154,881</u> | <u>\$ 34,509,881</u> |                    |               |                  |                  |                 |                  |                 |
| Net position, end of year                                      | <u>\$ 45,177,039</u> | <u>\$ 41,951,871</u> | <u>\$ 37,154,881</u> |                    |               |                  |                  |                 |                  |                 |

## Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2019 total \$13,734,240 which is over 81% of total revenues (operating and non-operating) for the year. Total operating revenues have increased 4.6% or \$608,821 compared to last year's revenues. Total operating revenues increased \$36,831 or 0.3% from fiscal year 2017 to fiscal year 2018. Please reference Table A-5 on page 34 for the following operating revenue line items.

- Water service revenues increased \$562,604 or 8.5% compared to last fiscal year due to higher billed water consumption and a water rate increase that went into effect on July 1, 2018. (See the Water Rate Comparison table on page 92 in the Statistical Section of this report). Fiscal year billed water consumption increased 73.5 million gallons or 3.8% when compared to last fiscal year.
- Sewer service revenues were up \$181,125 or 3.5% due to higher water consumption and a base rate increase that went into effect on July 1, 2018 (See the Wastewater Rate Comparison table on page 92 in the Statistical Section of this report).

- Water Tap in fees decreased \$33,030 or 15.5% due to less water connections than last fiscal year. However, this revenue, which equals \$180,487, exceeds the associated water tap in expense of \$171,891 by \$8,596.
- Sewer Connection Fees increased \$49,382 or 21.5%. There have been a large number of low pressure and gravity sewer connections related to new construction and Master Sewer Plan connections.
- Service fees were \$4,332 or 12.7% higher than last year due to increased collection efforts associated with delinquent accounts.
- Golf course irrigation revenue was \$7,501 or 4.3% higher compared to last fiscal year.
- Availability fees were \$46,284 lower this fiscal year due to additional water and sewer connections on existing homes and the timing of collections.
- The Disaster recovery, net line item includes additional reimbursements and related expenditures that the District received from FEMA for damages associated with Hurricane Matthew in fiscal year 2019. In fiscal year 2018, reimbursements were received for Hurricane Matthew and Hurricane Irma from FEMA and SCEMD.
- Other operating revenues are \$5,285 or 9.9% lower than last year.

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

Total non-operating revenues were equal to \$3,119,933 for fiscal year 2019 as compared to \$3,171,736 for fiscal year 2018, a decrease of \$51,803 or 1.6%. This decrease is mainly due to a \$80,716 decrease on the gain on disposal of equipment line item. During fiscal year 2018, the District received an insurance reimbursement and funds for a centrifuge that caught fire as well as funds for a boom truck that was sold. Additionally, less GO property tax revenue was collected for fiscal year 2019 due to lower assessed values than anticipated. All other non-operating revenue line items increased for fiscal year 2019. During fiscal year 2019, the District established an account with the South Carolina Local Government Investment Pool which, along with rising interest rates, contributed to the \$48,044 increase in interest income.

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

Total departmental expenses have decreased \$163,621 or 1.5% compared to fiscal year 2018 (See Table A-5, page 34). For fiscal year 2018, departmental expenses increased \$917,481 or 9.2% compared to fiscal year 2017.

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

- Sewer Connection expense increased \$25,536 or 11.5% mainly due to new construction and Master Sewer Plan approved connections. Sewer connection expenses are offset by sewer connection fee revenue.
- Purchased water expense increased by \$53,699 or 4.8%. As previously mentioned, fiscal year billed water consumption increased 73.5 million gallons or 3.7% when compared to last fiscal year.

- RO plant expenses increased \$7,296 or 1.0% due to increased maintenance costs.
- Vehicle expense increased by \$3,913 or 3.6% due to increased fuel and insurance costs.

The following expenses decreased for fiscal year 2019 when compared to fiscal year 2018.

- Payroll and Related expenses decreased \$62,273 or 1.6%. This is mainly due to the Special Projects manager retiring early in the year and a vacancy during the year.
- Administrative expenses decreased by \$18,920 or 1.9% mainly due to lower insurance other than group or vehicle expense and lower supplies and materials expenses.
- Operations expenses decreased \$67,402 or 3.8% mainly due to lower power costs related to optimization of the new centrifuge and lower biosolids disposal costs.
- Maintenance expenses decreased by \$31,085 or 2.3%. Temporary centrifuge rental expense was necessary in fiscal year 2018 which was not necessary in fiscal year 2019.
- Water tap in expenses decreased by \$44,218 or 20% due to less water connections this fiscal year.
- ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. ASR water withdrawal expense decreased \$9,348 or 4.1%. Fiscal year 2019 water withdrawn was reduced by 13.77 million gallons when compared to fiscal year 2018.
- ASR operating and maintenance expenses decreased by \$1,746 or 4.0%.
- Professional fees decreased by \$19,073 or 13.1% mostly due to less need for professional services during the fiscal years.

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

Total non-operating expenses were \$1,197,953 as compared to \$1,356,826 for fiscal year 2018, a decrease of \$158,873 or 11.7%. Bond interest expense decreased by \$89,264 and there were no bond issuance costs for fiscal year 2019 compared to \$69,609 in bond issuance costs for fiscal year 2018.

**TABLE A-5**  
**Hilton Head PSD**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year to Date as of June 30, 2019 and June 30, 2018**  
**(With comparative amounts for the same period in prior fiscal year)**

|   | FY 2019              |   | FY 2018              |   | FY 2019 to FY 2018    |               |
|---|----------------------|---|----------------------|---|-----------------------|---------------|
|   | Actual               |   | Actual               |   | Comparison            |               |
|   | Dollars              | % | Dollars              | % | Dollars               | %             |
| <b>Operating Revenues</b>                   |                      |   |                      |   |                       |               |
| Water Service                               | \$ 7,148,606         |   | \$ 6,586,002         |   | \$ 562,604            | 8.5%          |
| Sewer Service                               | 5,408,090            |   | 5,226,965            |   | 181,125               | 3.5%          |
| Tap In Fees - Water                         | 180,487              |   | 213,517              |   | (33,030)              | -15.5%        |
| Connection Fees - Sewer                     | 278,737              |   | 229,355              |   | 49,382                | 21.5%         |
| Service Fees                                | 38,391               |   | 34,059               |   | 4,332                 | 12.7%         |
| Golf Course Irrigation                      | 182,516              |   | 175,015              |   | 7,501                 | 4.3%          |
| Availability Fees                           | 445,190              |   | 491,474              |   | (46,284)              | -9.4%         |
| Disaster recovery, net                      | 3,942                |   | 115,466              |   | (111,524)             | -96.6%        |
| Other Operating Revenues                    | 48,281               |   | 53,566               |   | (5,285)               | -9.9%         |
| <b>Total Operating Revenues</b>             | <b>13,734,240</b>    |   | <b>13,125,419</b>    |   | <b>608,821</b>        | <b>4.6%</b>   |
| <b>Departmental Expenses</b>                |                      |   |                      |   |                       |               |
| Payroll & Related                           | 3,889,589            |   | 3,951,862            |   | 62,273                | 1.6%          |
| Administrative Expenses                     | 964,018              |   | 982,938              |   | 18,920                | 1.9%          |
| Operations                                  | 1,729,876            |   | 1,797,278            |   | 67,402                | 3.8%          |
| Maintenance                                 | 1,324,519            |   | 1,355,604            |   | 31,085                | 2.3%          |
| Water Tap In Expenses                       | 171,891              |   | 216,109              |   | 44,218                | 20.5%         |
| Sewer Connection Expense                    | 247,232              |   | 221,696              |   | (25,536)              | -11.5%        |
| Purchased Water                             | 1,170,368            |   | 1,116,669            |   | (53,699)              | -4.8%         |
| ASR-1 Water                                 | 217,571              |   | 226,919              |   | 9,348                 | 4.1%          |
| ASR-1 O&M                                   | 41,471               |   | 43,217               |   | 1,746                 | 4.0%          |
| RO Plant O&M                                | 702,486              |   | 695,190              |   | (7,296)               | -1.0%         |
| Professional Fees                           | 127,011              |   | 146,084              |   | 19,073                | 13.1%         |
| Vehicle                                     | 112,192              |   | 108,279              |   | (3,913)               | -3.6%         |
| <b>Total Departmental Expenses</b>          | <b>10,698,224</b>    |   | <b>10,861,845</b>    |   | <b>163,621</b>        | <b>1.5%</b>   |
| Depreciation                                | 4,946,397            |   | 4,733,613            |   | (212,784)             | -4.5%         |
| <b>Total Operating Expenses</b>             | <b>15,644,621</b>    |   | <b>15,595,458</b>    |   | <b>(49,163)</b>       | <b>-0.3%</b>  |
| <b>Operating income (loss)</b>              | <b>(1,910,381)</b>   |   | <b>(2,470,039)</b>   |   | <b>559,658</b>        | <b>22.7%</b>  |
| <b>Non-operating revenues</b>               |                      |   |                      |   |                       |               |
| Property taxes-G.O. Debt Levy               | 1,371,933            |   | 1,441,325            |   | (69,392)              | -4.8%         |
| Property taxes-Operations Levy              | 1,011,176            |   | 984,296              |   | 26,880                | 2.7%          |
| Tower Lease Income                          | 485,678              |   | 462,986              |   | 22,692                | 4.9%          |
| Rental Income                               | 79,757               |   | 79,068               |   | 689                   | 0.9%          |
| Interest Income                             | 156,389              |   | 108,345              |   | 48,044                | 44.3%         |
| Gain (Loss) of disposal of equipment        | 15,000               |   | 95,716               |   | (80,716)              | -84.3%        |
| <b>Total Non-operating Revenues</b>         | <b>3,119,933</b>     |   | <b>3,171,736</b>     |   | <b>(51,803)</b>       | <b>-1.6%</b>  |
| <b>Non-operating Expenses</b>               |                      |   |                      |   |                       |               |
| Interest expense-Bonds                      | 941,525              |   | 1,030,789            |   | 89,264                | 8.7%          |
| Bond Defeasance Amortization                | 256,428              |   | 256,428              |   | -                     | -             |
| Bond Issuance Costs                         | -                    |   | 69,609               |   | 69,609                | -             |
| Bond Premium Amortization                   | -                    |   | -                    |   | -                     | -             |
| <b>Total Non-operating Expenses</b>         | <b>1,197,953</b>     |   | <b>1,356,826</b>     |   | <b>158,873</b>        | <b>11.7%</b>  |
| <b>Total Non-operating Revenues/Exp.</b>    | <b>1,921,980</b>     |   | <b>1,814,910</b>     |   | <b>107,070</b>        | <b>5.9%</b>   |
| <b>Increase (decrease) in net position,</b> |                      |   |                      |   |                       |               |
| <b>before capital contributions</b>         | <b>11,599</b>        |   | <b>(655,129)</b>     |   | <b>666,728</b>        | <b>101.8%</b> |
| Water Capacity Fee                          | 330,960              |   | 142,200              |   | 188,760               | 132.7%        |
| Sewer Capacity Fee                          | 547,304              |   | 423,472              |   | (92,512)              | -21.8%        |
| Developer Contributions of Systems          | 2,335,305            |   | 4,476,201            |   | (3,928,897)           | -87.8%        |
| Assessments                                 | -                    |   | 410,246              |   | (410,246)             | -             |
| <b>Total Capital Contributions</b>          | <b>3,213,569</b>     |   | <b>5,452,119</b>     |   | <b>(2,238,550)</b>    | <b>-41.1%</b> |
| <b>Change in net position</b>               | <b>\$ 3,225,168</b>  |   | <b>\$ 4,796,990</b>  |   | <b>\$ (1,571,822)</b> | <b>-32.8%</b> |
| <b>Net position, beginning of the year</b>  | <b>\$ 41,951,871</b> |   | <b>\$ 37,154,881</b> |   | <b>\$ 4,796,990</b>   | <b>12.9%</b>  |
| <b>Net position, end of year</b>            | <b>\$ 45,177,039</b> |   | <b>\$ 41,951,871</b> |   | <b>\$ 3,225,168</b>   | <b>7.7%</b>   |

*Water and Sewer Revenues/Expenses: Fiscal Year 2019 vs. Fiscal Year 2018*

(Please reference Table A-6, page 36)

Water Revenues and Related Expenses:

- For fiscal year 2019, total water operating revenues have increased \$463,523 or 6.6% compared to fiscal year 2018.
- Water departmental expenses decreased \$85,415 or 1.4%. Departmental expenses are explained in more detail on pages 32 and 33.
- Water operating loss for fiscal year 2019 is \$1,037,893 compared to the fiscal year 2018 loss of \$1,487,674. A difference of \$449,781.

Sewer Revenues and Related Expenses:

- For fiscal year 2019, sewer and related operating revenues have increased \$145,297 or 2.4% compared to fiscal year 2018.
- Sewer departmental expenses decreased \$78,208 or 1.7%. Departmental expenses are explained in more detail on page 32 and 33.
- Sewer operating loss for fiscal year 2019 is \$872,488 compared to the fiscal year 2018 loss of \$982,366. A difference of \$109,878.

**TABLE A-6**  
**Hilton Head PSD**  
**Water vs. Sewer Fiscal Year to Year Comparison Schedule**  
**Year to Date as of June 30, 2019 and June 30, 2018**  
(With comparative amounts for the same period in prior fiscal year)

|   | FY 2019              |                      | FY 2018             |        | FY 2019 to FY 2018 |   |
|---|----------------------|----------------------|---------------------|--------|--------------------|---|
|   | Actual               | Actual               | Actual              | Actual | Dollars            | % |
| <b>Operating Revenues</b>                               |                      |                      |                     |        |                    |   |
| <b>Water</b>  |                      |                      |                     |        |                    |   |
| Service   | \$ 7,148,606         | \$ 6,586,002         | \$ 562,604          |        | 8.5%               |   |
| Tap In Fees   | 180,487              | 213,517              | (33,030)            |        | -15.5%             |   |
| Service Fees  | 19,196               | 17,030               | 2,166               |        | 12.7%              |   |
| Availability Fees                                       | 94,380               | 104,192              | (9,812)             |        | -9.4%              |   |
| Disaster recovery, net                                  | 1,971                | 57,733               | (55,762)            |        | -96.6%             |   |
| Other Operating Revenues                                | 24,141               | 26,783               | (2,643)             |        | -9.9%              |   |
| <b>Total Water Operating Revenues</b>                   | <b>7,468,780</b>     | <b>7,005,257</b>     | <b>463,523</b>      |        | <b>6.6%</b>        |   |
| <b>Sewer</b>  |                      |                      |                     |        |                    |   |
| Service   | 5,408,090            | 5,226,965            | 181,125             |        | 3.5%               |   |
| Connection Fees   | 278,737              | 229,355              | 49,382              |        | 21.5%              |   |
| Service Fees  | 19,196               | 17,030               | 2,166               |        | 12.7%              |   |
| Availability Fees                                       | 350,810              | 387,282              | (36,472)            |        | -9.4%              |   |
| Golf Course Irrigation                                  | 182,516              | 175,015              | 7,501               |        | 4.3%               |   |
| Disaster recovery, net                                  | 1,971                | 57,733               | (55,762)            |        | -96.6%             |   |
| Other Operating Revenues                                | 24,140               | 26,783               | (2,643)             |        | -9.9%              |   |
| <b>Total Sewer Operating Revenues</b>                   | <b>6,265,459</b>     | <b>6,120,162</b>     | <b>145,297</b>      |        | <b>2.4%</b>        |   |
| <b>Total Operating Revenues</b>                         | <b>13,734,240</b>    | <b>13,125,419</b>    | <b>608,821</b>      |        | <b>4.6%</b>        |   |
| <b>Departmental Expenses</b>                            |                      |                      |                     |        |                    |   |
| <b>Water</b>  |                      |                      |                     |        |                    |   |
| Payroll & Related                                       | 1,789,211            | 1,817,857            | 28,646              |        | 1.6%               |   |
| Administrative Expenses                                 | 559,130              | 570,104              | 10,974              |        | 1.9%               |   |
| Operations  | 743,847              | 772,830              | 28,983              |        | 3.8%               |   |
| Maintenance   | 701,995              | 718,470              | 16,475              |        | 2.3%               |   |
| Water Tap in Expense                                    | 171,891              | 216,109              | 44,218              |        | 20.5%              |   |
| Purchased Water   | 1,170,368            | 1,116,669            | (53,699)            |        | -4.8%              |   |
| ASR-1 Water   | 217,571              | 226,919              | 9,349               |        | 4.1%               |   |
| ASR-1 O&M   | 702,486              | 695,190              | (7,296)             |        | -1.0%              |   |
| RO Plant O&M  | 41,471               | 43,217               | 1,746               |        | 4.0%               |   |
| Professional Fees                                       | 52,075               | 59,894               | 7,820               |        | 13.1%              |   |
| Vehicle   | 51,608               | 49,808               | (1,800)             |        | -3.6%              |   |
| <b>Total Water Departmental Expenses</b>                | <b>6,201,652</b>     | <b>6,287,067</b>     | <b>85,415</b>       |        | <b>1.4%</b>        |   |
| <b>Sewer</b>  |                      |                      |                     |        |                    |   |
| Payroll & Related                                       | 2,100,378            | 2,134,005            | 33,627              |        | 1.6%               |   |
| Administrative  | 404,888              | 412,834              | 7,946               |        | 1.9%               |   |
| Operations  | 986,029              | 1,024,448            | 38,419              |        | 3.8%               |   |
| Maintenance   | 622,524              | 637,134              | 14,610              |        | 2.3%               |   |
| Sewer Connection Expense                                | 247,232              | 221,696              | (25,536)            |        | -11.5%             |   |
| Professional Fees                                       | 74,936               | 86,190               | 11,253              |        | 13.1%              |   |
| Vehicle   | 60,584               | 58,471               | (2,113)             |        | -3.6%              |   |
| <b>Total Sewer Departmental Expense</b>                 | <b>4,496,571</b>     | <b>4,574,778</b>     | <b>78,207</b>       |        | <b>1.7%</b>        |   |
| <b>Operating Expenses before depreciation</b>           | <b>10,698,224</b>    | <b>10,861,845</b>    | <b>163,622</b>      |        | <b>1.5%</b>        |   |
| Depreciation - Water                                    | 2,305,021            | 2,205,864            | (99,157)            |        | -4.5%              |   |
| Depreciation - Sewer                                    | 2,641,376            | 2,527,749            | (113,627)           |        | -4.5%              |   |
| <b>Total Operating Expenses</b>                         | <b>15,644,621</b>    | <b>15,595,458</b>    | <b>(212,784)</b>    |        | <b>-1.4%</b>       |   |
| <b>Water Operating income (loss)</b>                    | <b>(1,037,893)</b>   | <b>(1,487,674)</b>   | <b>449,781</b>      |        | <b>30.2%</b>       |   |
| <b>Sewer Operating income (loss)</b>                    | <b>(872,488)</b>     | <b>(982,365)</b>     | <b>109,878</b>      |        | <b>11.2%</b>       |   |
| <b>Total Operating income (loss)</b>                    | <b>(1,910,381)</b>   | <b>(2,470,040)</b>   | <b>559,659</b>      |        | <b>22.7%</b>       |   |
| Non-operating revenues (expenses), net                  | 1,921,980            | 1,814,910            | 107,070             |        | -5.9%              |   |
| <b>Increase (decrease) in net position,</b>             |                      |                      |                     |        |                    |   |
| <b>before capital contributions</b>                     | <b>11,599</b>        | <b>(655,129)</b>     | <b>666,729</b>      |        | <b>101.8%</b>      |   |
| <b>Capital Contributions</b>                            | <b>3,213,569</b>     | <b>5,452,119</b>     | <b>(2,238,550)</b>  |        | <b>-41.1%</b>      |   |
| Change in net position                                  | \$ 3,225,168         | \$ 4,796,990         | \$ (1,571,821)      |        | -32.8%             |   |
| <b>Net position, beginning of the year, as restated</b> | <b>\$ 41,951,871</b> | <b>\$ 37,154,881</b> | <b>\$ 4,796,990</b> |        | <b>12.9%</b>       |   |
| <b>Net position, end of year</b>                        | <b>\$ 45,177,039</b> | <b>\$ 41,951,871</b> | <b>\$ 3,225,168</b> |        | <b>7.7%</b>        |   |

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

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

# **AUDITED FINANCIAL STATEMENTS**

**For Fiscal Years Ended June 30, 2019 and June 30, 2018**

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION**  
AS OF JUNE 30, 2019 AND 2018

|  | June 30              |                      |
|--|----------------------|----------------------|
|  | 2019                 | 2018                 |
| <b>Assets</b>  |                      |                      |
| <b>Current Assets</b>  |                      |                      |
| Cash and Cash Equivalents Available for Operations                       | \$ 4,361,258         | \$ 4,412,814         |
| Cash and Cash Equivalents in Banks (Restricted)                          | 1,747,324            | 1,719,088            |
| Cash and Cash Equivalents Held by Beaufort County Treasurer (Restricted) | 665,376              | 706,186              |
| Accounts Receivable - Trade, net   | 1,883,879            | 2,022,730            |
| Accounts Receivable - Project SAFE                                       | 74,100               | 57,857               |
| Accounts Receivable - Tower Lease  | 29,552               | -                    |
| Disaster Recovery Insurance Receivable                                   | -                    | 18,610               |
| Sewer and Capacity Assessments, due within one year                      | 198,124              | 183,994              |
| Inventory  | 358,138              | 324,483              |
| Prepaid Expenses   | 300,812              | 212,985              |
| <b>Total current assets</b>  | <b>9,618,563</b>     | <b>9,658,746</b>     |
| <b>Noncurrent Assets</b>   |                      |                      |
| Property, Plant and Equipment  |                      |                      |
| Nondepreciable Assets  | 4,101,302            | 1,813,168            |
| Depreciable Assets, net  | 72,409,235           | 75,943,490           |
| <b>Total Property, Plant and Equipment</b>                               | <b>76,510,537</b>    | <b>77,756,658</b>    |
| Sewer and Capacity Assessments, due after one year                       | 1,886,679            | 2,090,994            |
| <b>Total Noncurrent Assets</b>   | <b>78,397,216</b>    | <b>79,847,653</b>    |
| <b>Total Assets</b>  | <b>88,015,779</b>    | <b>89,506,399</b>    |
| <b>Deferred Outflows of Resources</b>                                    |                      |                      |
| Deferred Outflows Related to Pensions                                    | 890,804              | 1,167,332            |
| Deferred Outflows from Refinancing Debt                                  | 981,017              | 1,237,445            |
| <b>Total Deferred Outflows of Resources</b>                              | <b>1,871,821</b>     | <b>2,404,777</b>     |
| <b>Total Assets and Deferred Outflows of Resources</b>                   | <b>\$ 89,887,600</b> | <b>\$ 91,911,176</b> |

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF NET POSITION (continued)**  
AS OF JUNE 30, 2019 AND 2018

|  | June 30              |                      |
|--|----------------------|----------------------|
|  | 2019                 | 2018                 |
| <b>Liabilities</b>   |                      |                      |
| <b>Current Liabilities</b>   |                      |                      |
| Payable from Unrestricted Assets:  |                      |                      |
| Accounts Payable-Trade   | \$ 267,069           | \$ 391,037           |
| Accounts Payable-Construction  | 196,162              | 522,682              |
| Notes Payable, due within one year   | 18,000               | 18,000               |
| Customer Deposits  | 151,555              | 158,405              |
| Unearned Revenue   | 216,859              | 272,802              |
| Other Accrued Liabilities  | 340,640              | 407,988              |
| <b>Total Current Liabilities Payable from Unrestricted Assets</b>          | <b>1,190,285</b>     | <b>1,770,914</b>     |
| Payable from Restricted Assets:  |                      |                      |
| Interest Payable   | 194,075              | 214,855              |
| Notes Payable, due within one year   | 519,632              | 507,740              |
| Bonds Payable, due within one year   | 4,070,271            | 3,976,648            |
| <b>Total Current Liabilities Payable from Restricted Assets</b>            | <b>4,783,978</b>     | <b>4,699,243</b>     |
| <b>Total Current Liabilities</b>   | <b>5,974,263</b>     | <b>6,470,157</b>     |
| <b>Noncurrent Liabilities</b>  |                      |                      |
| Bonds Payable, due after one year  | 25,619,111           | 29,698,027           |
| Notes Payable, due after one year  | 7,819,973            | 8,247,542            |
| Net Pension Liability  | 4,897,854            | 5,260,737            |
| <b>Total Noncurrent Liabilities</b>  | <b>38,336,938</b>    | <b>43,206,306</b>    |
| <b>Total Liabilities</b>   | <b>44,311,201</b>    | <b>49,676,463</b>    |
| <b>Deferred Inflows of Resources</b>                                       |                      |                      |
| Deferred Inflows Related to Pensions                                       | 399,360              | 282,842              |
| <b>Total Liabilities and Deferred Inflows of Resources</b>                 | <b>44,710,561</b>    | <b>49,959,305</b>    |
| <b>Net Position</b>  |                      |                      |
| Net Investment in Capital Assets   | 39,248,405           | 36,023,464           |
| Restricted for Debt Service  | 2,412,700            | 2,425,274            |
| Unrestricted   | 3,515,934            | 3,503,133            |
| <b>Total Net Position</b>  | <b>45,177,039</b>    | <b>41,951,871</b>    |
| <b>Total Liabilities, Deferred Inflows of Resources &amp; Net Position</b> | <b>\$ 89,887,600</b> | <b>\$ 91,911,176</b> |

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, 2019 AND 2018

|                                     | <b>Fiscal Year Ended June 30</b> |                     |
|-------------------------------------|----------------------------------|---------------------|
|                                     | <b>2019</b>                      | <b>2018</b>         |
| <b>Operating Revenues</b>           |                                  |                     |
| Water Service                       | \$ 7,148,606                     | \$ 6,586,002        |
| Sewer Service                       | 5,408,090                        | 5,226,965           |
| Water Tap In Fees                   | 180,487                          | 213,517             |
| Sewer Connection Fees               | 278,737                          | 229,355             |
| Service Fees                        | 38,391                           | 34,059              |
| Golf Course Irrigation              | 182,516                          | 175,015             |
| Availability Fees                   | 445,190                          | 491,474             |
| Disaster Recovery, net              | 3,942                            | 115,466             |
| Other Operating Revenues            | 48,281                           | 53,566              |
| <b>Total Operating Revenues</b>     | <b>13,734,240</b>                | <b>13,125,419</b>   |
| <b>Departmental Expenses</b>        |                                  |                     |
| Payroll & Related Expenses          | 3,889,589                        | 3,951,862           |
| Administrative Expenses             | 964,018                          | 982,938             |
| Operations Expenses                 | 1,729,876                        | 1,797,278           |
| Maintenance Expenses                | 1,324,519                        | 1,355,604           |
| Water Tap In Expenses               | 171,891                          | 216,109             |
| Sewer Connection Expenses           | 247,232                          | 221,696             |
| Purchased Water                     | 1,170,368                        | 1,116,669           |
| ASR Water Expense                   | 217,571                          | 226,919             |
| ASR Plant Expenses                  | 41,471                           | 43,217              |
| RO Plant Expenses                   | 702,486                          | 695,190             |
| Professional Fees                   | 127,011                          | 146,084             |
| Vehicle Expenses                    | 112,192                          | 108,279             |
| <b>Total Departmental Expenses</b>  | <b>10,698,224</b>                | <b>10,861,845</b>   |
| Depreciation                        | 4,946,397                        | 4,733,613           |
| <b>Total Operating Expenses</b>     | <b>15,644,621</b>                | <b>15,595,458</b>   |
| <b>Operating Income (Loss)</b>      | <b>(1,910,381)</b>               | <b>(2,470,039)</b>  |
| <b>Non-operating Revenues</b>       |                                  |                     |
| Property Taxes - G.O. Debt Levy     | 1,371,933                        | 1,441,325           |
| Property Taxes - Operations Levy    | 1,011,176                        | 984,296             |
| Tower Lease Income                  | 485,678                          | 462,986             |
| Rental Income                       | 79,757                           | 79,068              |
| Interest Income                     | 156,389                          | 108,345             |
| Gain on Disposal of Assets          | 15,000                           | 95,716              |
| <b>Total Non-operating Revenues</b> | <b>\$ 3,119,933</b>              | <b>\$ 3,171,736</b> |

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (continued)**  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

|  | <b>Fiscal Year Ended June 30</b> |                      |
|--|----------------------------------|----------------------|
|  | <b>2019</b>                      | <b>2018</b>          |
| <b>Non-operating Expenses</b>  |                                  |                      |
| Interest Expense   | \$ 941,525                       | \$ 1,030,789         |
| Bond Defeasance Amortization   | 256,428                          | 256,428              |
| Bond Issuance Costs  | -                                | 69,609               |
| <b>Total Non-operating Expenses</b>                                      | <b>1,197,953</b>                 | <b>1,356,826</b>     |
| <b>Total Non-operating Revenues/Expenses</b>                             | <b>1,921,980</b>                 | <b>1,814,910</b>     |
| <b>Increase (Decrease) in Net Position, Before Capital Contributions</b> | <b>\$ 11,599</b>                 | <b>\$ (655,129)</b>  |
| Water Capacity Fee   | \$ 330,960                       | \$ 142,200           |
| Sewer Capacity Fee   | 547,304                          | 423,472              |
| Developer Contributions of Systems                                       | 2,335,305                        | 4,476,201            |
| Assessments  | -                                | 410,246              |
| <b>Total Capital Contributions</b>                                       | <b>3,213,569</b>                 | <b>5,452,119</b>     |
| <b>Change in net position</b>  | <b>3,225,168</b>                 | <b>4,796,990</b>     |
| <b>Net position, beginning of the year</b>                               | <b>41,951,871</b>                | <b>37,154,881</b>    |
| <b>Net position, end of year</b>   | <b>\$ 45,177,039</b>             | <b>\$ 41,951,871</b> |

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOW**  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

|  | <b>Fiscal Year Ended June 30</b> |                     |
|--|----------------------------------|---------------------|
|  | <b>2019</b>                      | <b>2018</b>         |
| <b>Cash Flows from Operating Activities:</b>                     |                                  |                     |
| Cash Received from Customers                                     | \$ 13,797,775                    | \$ 13,130,110       |
| Cash Paid to Suppliers   | (8,232,482)                      | (8,016,375)         |
| Cash Paid to Employees   | (2,748,378)                      | (2,636,819)         |
| Other Revenues   | 70,833                           | 702,787             |
| <b>Net Cash Provided by Operating Activities</b>                 | <b>2,887,748</b>                 | <b>3,179,703</b>    |
| <b>Cash Flows from Investing Activities</b>                      |                                  |                     |
| Interest Income  | 156,389                          | 108,345             |
| <b>Net Cash Provided by Investing Activities</b>                 | <b>156,389</b>                   | <b>108,345</b>      |
| <b>Cash Flows from Noncapital Financing Activities:</b>          |                                  |                     |
| Property Taxes Collected - Operations Levy                       | 1,011,176                        | 984,296             |
| Rental and Tower Lease Income                                    | 479,940                          | 583,700             |
| Sewer Assessments  | 141,806                          | 144,704             |
| <b>Net Cash Provided by Noncapital Financing Activities</b>      | <b>1,632,922</b>                 | <b>1,712,700</b>    |
| <b>Cash Flows from Capital and Related Financing Activities:</b> |                                  |                     |
| Capacity Fees  | 878,264                          | 411,072             |
| Capacity Fee Assessments   | 48,379                           | 45,596              |
| Property Taxes Collected - G.O. Debt Levy                        | 1,371,933                        | 1,441,325           |
| Interest Paid  | (970,946)                        | (1,055,951)         |
| Proceeds from Series 2017 A Bonds                                | -                                | 515,000             |
| Proceeds from Series 2017 B SRF Note                             | 110,063                          | 1,176,023           |
| Bond Issuance Costs  | -                                | (69,609)            |
| Principal Payments on Bonds and Notes                            | (4,502,391)                      | (4,391,905)         |
| Proceeds from Sale of Assets                                     | 15,000                           | 125,000             |
| Purchases of Property, Plant and Equipment                       | (1,691,491)                      | (3,225,641)         |
| <b>Net Cash Used by Capital and Related Financing Activities</b> | <b>(4,741,189)</b>               | <b>(5,029,091)</b>  |
| <b>Net Increase (Decrease) in Cash</b>                           | <b>(64,130)</b>                  | <b>(28,343)</b>     |
| <b>Cash and Cash Equivalents at Beginning of Year</b>            | <b>\$ 6,838,088</b>              | <b>\$ 6,866,431</b> |
| <b>Cash and Cash Equivalents at End of Year</b>                  | <b>\$ 6,773,958</b>              | <b>\$ 6,838,088</b> |

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF CASH FLOW (continued)**  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

|   | <b>Fiscal Year Ended June 30</b> |                     |
|---|----------------------------------|---------------------|
|   | <b>2019</b>                      | <b>2018</b>         |
| <b>Reconciliation of Operating Loss to Net Cash Provided</b>        |                                  |                     |
| <b>by Operating Activities:</b>                                     |                                  |                     |
| Operating Loss  | \$ (1,910,381)                   | \$ (2,470,039)      |
| <i>Adjustments to Reconcile Operating Loss to Net Cash Provided</i> |                                  |                     |
| <i>by Operating Activities:</i>                                     |                                  |                     |
| Depreciation  | 4,946,397                        | 4,733,613           |
| Decrease in Allowance for Doubtful Accounts                         | -                                | (17,890)            |
| Difference Between GASB 68 and Actual Contributions                 | 30,162                           | 207,456             |
| <i>Changes in Assets and Liabilities</i>                            |                                  |                     |
| Accounts Receivable - Trade   | 138,851                          | 202,201             |
| Accounts Receivable - Project SAFE                                  | (16,243)                         | (15,914)            |
| Disaster Recovery Insurance Receivable                              | 18,610                           | 533,756             |
| Inventories   | (33,655)                         | (16,489)            |
| Prepaid Assets  | (87,827)                         | (12,414)            |
| Accounts Payable - Trade  | (123,968)                        | (39,946)            |
| Customer Deposits   | (6,850)                          | 5,325               |
| Other Accrued Liabilities   | (67,348)                         | 70,044              |
| <b>Net Cash Provided by Operating Activities</b>                    | <b>\$ 2,887,748</b>              | <b>\$ 3,179,703</b> |

**Schedule of Cash and Cash Equivalents**

*Available for Operations*

|   |                     |                     |
|---|---------------------|---------------------|
| Demand Deposits (interest and non-interest bearing) | \$ 1,331,405        | \$ 2,863,164        |
| SC Local Government Investment Pool                 | 2,988,689           | -                   |
| Held by Beaufort County Treasurer                   | 41,164              | 1,549,650           |
| <b>Total Available for Operations</b>               | <b>\$ 4,361,258</b> | <b>\$ 4,412,814</b> |

*Restricted*

|                                   |                     |                     |
|-----------------------------------|---------------------|---------------------|
| Cash in Banks                     | \$ 1,747,324        | \$ 1,719,088        |
| Held by Beaufort County Treasurer | 665,376             | 706,186             |
| <b>Total Restricted</b>           | <b>\$ 2,412,700</b> | <b>\$ 2,425,274</b> |

|  |                     |                     |
|--|---------------------|---------------------|
| <b>Total Cash and Cash Equivalents</b> | <b>\$ 6,773,958</b> | <b>\$ 6,838,088</b> |
|--|---------------------|---------------------|

**Supplemental Disclosures**

*Noncash Financing Activities:*

|                                   |              |              |
|-----------------------------------|--------------|--------------|
| Developer Contribution of Systems | \$ 2,335,305 | \$ 4,476,201 |
| Assessments                       | -            | \$ 410,246   |
| Financed Capacity Fees            | -            | \$ 154,600   |
| Capitalized Interest              | -            | \$ 956       |

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

## **NOTES TO FINANCIAL STATEMENTS**

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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

**General**

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

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 position by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net position 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, 2019 AND 2018

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**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**

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

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

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.356% of water and sewer revenues for the years ended June 30, 2019 and 2018. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2019 and 2018, the balance of the allowance for doubtful accounts was \$42,054. Bad debt (recovery) expense for the years ended June 30, 2019 and 2018 was \$16,303 and (\$1,322), respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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

**Inventory**

Inventory consists of supplies and is recorded at cost on a weighted average cost basis.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition cost rather than fair value. Betterments and improvements over \$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:

| <u>Description</u>                 | <u>(in years)</u> |
|------------------------------------|-------------------|
| 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, 2019 and 2018 totaled \$-0- and \$965, respectively.

**Bond discount and premium**

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 maturities 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 maturities 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, 2019 and 2018 was \$54,851 and \$63,492, 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 \$8,641 for the years ended June 30, 2019 and 2018 and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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

**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 \$239,760 and \$282,311 at June 30, 2019 and 2018, respectively. These balances are expected to be used within one year and are therefore included in Other Accrued Liabilities in the Statement of Net Position.

**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.

**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, 2018 financial statements have been reclassified in order to conform to the June 30, 2019 presentation.

**Date of Management's Review**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 23, 2019, the date that the financial statements were available to be issued.

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

At June 30, 2019, the bank balances of the District's demand deposit accounts totaled \$1,485,486 and had a carrying balance totaling \$1,331,005. A sum of \$400 is held in petty cash funds of the District.

Custodial credit risk for deposits is the risk that, in the event of failure of a financial institution, the District's deposits may not be returned. The District's policy is to request collateral for all bank deposits in excess of amounts of up to \$250,000 per custodian with major banking institutions which are insured by the Federal Deposit Insurance Corporation. As of June 30, 2019, the District's deposits were fully collateralized and thus were not exposed to custodial credit risk.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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

Custodial credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The District's investment policy limits investments to those that are very creditworthy. Investments at June 30, 2019 and 2018, were respectively comprised of \$2,988,689 and \$-0- funds held with the South Carolina Local Government Investment Pool (SCLGIP) and \$1,747,324 and \$1,719,088 restricted funds for debt service. At June 30, 2019 and 2018, the District's restricted funds for debt service were all in Standard and Poor's AAAM rated money market funds collateralized by U.S. Treasury obligations.

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

As of June 30, 2019 and 2018, 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.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2019 AND 2018

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

2. The primary objective of all District investment activity is the preservation of capital and safety of principal. Each investment transaction shall ensure that capital losses are avoided, whether from security default, sale of instruments prior to maturity or erosion of market value.
  
3. At all times, the District shall remain sufficiently liquid to meet cash flow requirements by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

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

|   | As of June 30, |              |
|---|----------------|--------------|
|   | 2019           | 2018         |
| Unrestricted cash - Available for general operating purposes      | \$ 41,164      | \$ 1,549,650 |
| Restricted cash - Bond principal retirement and interest payments | 665,376        | 706,186      |
|   | \$ 706,540     | \$ 2,255,836 |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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**Note 4 - Restricted Assets**

A reserve fund for debt service is mandated by bond covenants. At June 30, 2019 and 2018, the debt service reserves totaled \$2,412,700 and \$2,425,274, 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 5 - Accounts receivable**

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

|                                     | <u>2019</u>         | <u>2018</u>         |
|-------------------------------------|---------------------|---------------------|
| Receivables from customers          | \$ 1,239,642        | \$ 1,026,738        |
| Unbilled receivables from customers | 537,620             | 515,768             |
| Other receivables                   | <u>106,617</u>      | <u>480,224</u>      |
|                                     | <u>\$ 1,883,879</u> | <u>\$ 2,022,730</u> |

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 water and 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.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2019 AND 2018

**Note 6 - Property, plant, equipment and depreciation**

Capital asset activity during the year ended June 30, 2019 and 2018 was as follows:

|  | <u>June 30, 2018</u> | <u>Additions</u>      | <u>Disposals</u> | <u>Transfers</u> | <u>June 30, 2019</u> |
|--|----------------------|-----------------------|------------------|------------------|----------------------|
| <u>Capital assets not being depreciated:</u> |                      |                       |                  |                  |                      |
| Land   | \$ 1,299,194         | \$ -                  | \$ -             | -                | \$ 1,299,194         |
| Construction in progress                     | <u>513,974</u>       | <u>2,974,589</u>      | <u>-</u>         | <u>(686,455)</u> | <u>2,802,108</u>     |
| Total capital assets not being depreciated   | <u>1,813,168</u>     | <u>2,974,589</u>      | <u>-</u>         | <u>(686,455)</u> | <u>4,101,302</u>     |
| <u>Capital assets being depreciated:</u>     |                      |                       |                  |                  |                      |
| Waterworks system                            | 62,546,463           | 199,372               | (81,808)         | 192,989          | 62,857,016           |
| Sewage disposal system                       | 48,736,481           | 172,469               | (77,477)         | 241,933          | 49,073,406           |
| Buildings                                    | 4,339,091            | -                     | -                | -                | 4,339,091            |
| Sewage treatment facilities                  | 34,337,603           | 225,325               | (31,498)         | 251,533          | 34,782,963           |
| Transportation equipment                     | 1,282,933            | 104,487               | (70,286)         | -                | 1,317,134            |
| Operations furniture and equipment           | 2,037,521            | 20,425                | (211,974)        | -                | 1,845,972            |
| Office furniture and equipment               | <u>778,553</u>       | <u>3,609</u>          | <u>(35,632)</u>  | <u>-</u>         | <u>746,530</u>       |
| Total capital assets being depreciated       | <u>154,058,645</u>   | <u>725,687</u>        | <u>(508,675)</u> | <u>686,455</u>   | <u>154,962,112</u>   |
| <u>Less accumulated depreciation for:</u>    |                      |                       |                  |                  |                      |
| Waterworks system                            | (32,397,066)         | (2,152,152)           | 81,808           | -                | (34,467,410)         |
| Sewage disposal system                       | (17,409,712)         | (1,739,105)           | 77,477           | -                | (19,071,340)         |
| Buildings                                    | (2,100,793)          | (112,818)             | -                | -                | (2,213,611)          |
| Sewage treatment facilities                  | (23,077,254)         | (751,568)             | 31,498           | -                | (23,797,324)         |
| Transportation equipment                     | (901,250)            | (100,022)             | 70,286           | -                | (930,986)            |
| Operations furniture and equipment           | (1,543,167)          | (54,219)              | 211,974          | -                | (1,385,412)          |
| Office furniture and equipment               | <u>(685,913)</u>     | <u>(36,514)</u>       | <u>35,632</u>    | <u>-</u>         | <u>(686,795)</u>     |
| Total accumulated depreciation               | <u>(78,115,155)</u>  | <u>(4,946,397)</u>    | <u>508,675</u>   | <u>-</u>         | <u>(82,552,877)</u>  |
| Total assets being depreciated               | <u>75,943,490</u>    | <u>(4,220,710)</u>    | <u>-</u>         | <u>686,455</u>   | <u>72,409,235</u>    |
| Year End Totals                              | <u>\$ 77,756,658</u> | <u>\$ (1,246,121)</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 76,510,537</u> |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2019 AND 2018

**Note 6 - Property, plant, equipment and depreciation (continued)**

|   | <u>June 30, 2017</u> | <u>Additions</u>    | <u>Disposals</u>   | <u>Transfers</u>   | <u>June 30, 2018</u> |
|---|----------------------|---------------------|--------------------|--------------------|----------------------|
| <b><u>Capital assets not being depreciated:</u></b> |                      |                     |                    |                    |                      |
| Land  | \$ 1,299,194         | \$ -                | \$ -               | -                  | \$ 1,299,194         |
| Construction in progress                            | <u>1,457,296</u>     | <u>7,374,488</u>    | <u>-</u>           | <u>(8,317,810)</u> | <u>513,974</u>       |
| Total capital assets not being depreciated          | <u>2,756,490</u>     | <u>7,374,488</u>    | <u>-</u>           | <u>(8,317,810)</u> | <u>1,813,168</u>     |
| <b><u>Capital assets being depreciated:</u></b>     |                      |                     |                    |                    |                      |
| Waterworks system                                   | 62,618,555           | 38,900              | (295,133)          | 184,141            | 62,546,463           |
| Sewage disposal system                              | 40,891,189           | 77,950              | (366,327)          | 8,133,669          | 48,736,481           |
| Buildings   | 4,339,091            | -                   | -                  | -                  | 4,339,091            |
| Sewage treatment facilities                         | 34,727,539           | 20,083              | (410,019)          | -                  | 34,337,603           |
| Transportation equipment                            | 1,170,786            | 229,691             | (117,544)          | -                  | 1,282,933            |
| Operations furniture and equipment                  | 2,076,252            | 39,844              | (78,575)           | -                  | 2,037,521            |
| Office furniture and equipment                      | <u>778,553</u>       | <u>-</u>            | <u>-</u>           | <u>-</u>           | <u>778,553</u>       |
| Total capital assets being depreciated              | <u>146,601,965</u>   | <u>406,468</u>      | <u>(1,267,598)</u> | <u>8,317,810</u>   | <u>154,058,645</u>   |
| <b><u>Less accumulated depreciation for:</u></b>    |                      |                     |                    |                    |                      |
| Waterworks system                                   | (30,564,067)         | (2,128,132)         | 295,133            | -                  | (32,397,066)         |
| Sewage disposal system                              | (16,213,258)         | (1,546,276)         | 349,822            | -                  | (17,409,712)         |
| Buildings   | (1,987,930)          | (112,863)           | -                  | -                  | (2,100,793)          |
| Sewage treatment facilities                         | (22,747,717)         | (739,556)           | 410,019            | -                  | (23,077,254)         |
| Transportation equipment                            | (928,614)            | (90,180)            | 117,544            | -                  | (901,250)            |
| Operations furniture and equipment                  | (1,530,604)          | (78,358)            | 65,795             | -                  | (1,543,167)          |
| Office furniture and equipment                      | <u>(647,666)</u>     | <u>(38,247)</u>     | <u>-</u>           | <u>-</u>           | <u>(685,913)</u>     |
| Total accumulated depreciation                      | <u>(74,619,856)</u>  | <u>(4,733,612)</u>  | <u>1,238,313</u>   | <u>-</u>           | <u>(78,115,155)</u>  |
| Total assets being depreciated                      | <u>71,982,109</u>    | <u>(4,327,144)</u>  | <u>(29,285)</u>    | <u>8,317,810</u>   | <u>75,943,490</u>    |
| Year End Totals                                     | <u>\$ 74,738,599</u> | <u>\$ 3,047,344</u> | <u>\$ (29,285)</u> | <u>\$ -</u>        | <u>\$ 77,756,658</u> |

Depreciation expense for the years ended June 30, 2019 and 2018 was \$4,946,397 and \$4,733,613, respectively. Transfers relate to construction in progress completed during the year.

**Note 7 - Long-term obligations**

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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**Note 7 – Long-term obligations (continued)**

**Notes payable – Revenue/Other**

The District is obligated under a note dated November 30, 1988, with a balance of \$61,939 and \$79,939 at June 30, 2019 and 2018, 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. This note is not part of parity debt and is excluded from the debt coverage calculation.

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$2,921,430. Proceeds were used to defray the costs of installing and implementing an Advanced Meter Reading Infrastructure. The note bears interest at a rate of 1.00% per annum. Principal and interest of \$40,337 are payable quarterly beginning April 1, 2016 through January 1, 2036. The loan had a balance of \$2,485,497 and \$2,621,140 at June 30, 2019 and 2018, respectively. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

On August 23, 2017, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$1,287,051. Proceeds are to be used to defray the cost of certain improvements to its wastewater system. The improvements consist of (i) pump station construction and upgrades; and (ii) installation of related improvements and appurtenances (collectively, the "Project"). The note bears interest at a rate of 1.90% per annum. Eighty quarterly principal and interest payments of \$19,376 will be due beginning March 1, 2018. During the year ended June 30, 2018, draws of \$1,176,988 were taken on this loan. One final draw of \$110,063 was taken on this loan after June 30, 2018. The loan had a balance of \$1,206,527 and \$1,148,093 at June 30, 2019 and 2018, respectively. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

**Notes payable – General Obligation**

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2019 and 2018 amounted to \$264,119 and \$287,900, respectively. The notes are backed by general obligation debt.

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 SRF loan balance outstanding at June 30, 2019 and 2018 amounted to \$1,511,042 and \$1,656,397, respectively. The notes are backed by general obligation debt.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### Note 7 - Long-term obligations (continued)

#### Notes payable – General Obligation (continued)

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. 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, 2019 and 2018 was \$2,828,481 and \$2,979,813, respectively. The notes are backed by general obligation debt.

#### Bonds payable - Revenue

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. On September 3, 2015, sixty-seven percent of outstanding balance of \$2,865,000 of these bonds, \$1,920,000, was 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, 2019 and 2018 amounted to \$340,000 and \$500,000, respectively.

On November 29, 2012, the District issued \$12,275,000 of series 2012A refunding revenue bonds. Proceeds were used to refunding the series 2004 revenue bonds which refunded the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. 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 notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2012A revenue bonds outstanding amounted to \$5,170,000 and \$6,220,000 at June 30, 2019 and 2018, respectively.

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, 2019 and 2018.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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**Note 7 - Long-term obligations (continued)**

**Bonds payable - Revenue (continued)**

On April 23, 2014, the District issued \$282,294 of Series 2014A revenue bonds as a bank loan 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 \$203,504 and \$220,339 at June 30, 2019 and 2018, respectively

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 as bank loans. 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 \$13,428,000 and \$15,351,000 at June 30, 2019 and 2018, respectively. 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 \$2,400,000 and \$2,488,000 at June 30, 2019 and 2018, respectively.

On August 21, 2017, the District issued \$515,000 of Series 2017A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. Interest on the bonds is payable semi-annually at 2.69% per annum. Principal payments are due annually on June 1st of each year beginning in 2018 and continuing through 2032. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20-year period and will be collected by the county treasurer. The 2017A revenue bonds outstanding amounted to \$454,925 and \$483,842 at June 30, 2019 and 2018, respectively.

**Bonds payable - General Obligation**

In July 2009, the District issued \$1,781,694 of general obligation bonds as a bank loan. 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 \$708,102 and \$833,002 at June 30, 2019 and 2018, respectively. The bonds are backed by general obligation debt.

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.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
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**Note 7 - Long-term obligations (continued)**

**Bonds payable – General Obligation (continued)**

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 \$3,765,000 and \$4,155,000 at June 30, 2019 and 2018, respectively. The bonds are backed by general obligation debt.

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 \$2,350,000 and \$2,545,000 at June 30, 2019 and 2018, respectively. The bonds are backed by general obligation debt.

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

| Year Ended June 30, | Principal            | Interest            | Total                |
|---------------------|----------------------|---------------------|----------------------|
| 2020                | \$ 4,607,903         | \$ 869,467          | \$ 5,477,370         |
| 2021                | 4,725,573            | 760,496             | 5,486,069            |
| 2022                | 4,836,720            | 656,567             | 5,493,287            |
| 2023                | 4,955,202            | 546,278             | 5,501,480            |
| 2024                | 5,063,509            | 432,616             | 5,496,125            |
| 2025 - 2029         | 10,637,145           | 806,032             | 11,443,177           |
| 2030 - 2034         | 2,468,905            | 154,010             | 2,622,915            |
| 2035 - 2038         | 697,180              | 13,786              | 710,966              |
| Grand Total         | <u>\$ 37,992,137</u> | <u>\$ 4,239,252</u> | <u>\$ 42,231,389</u> |

| For those<br>bonds due<br>June 30, | General Obligation<br>bonds dated<br>Oct. 3, 2007 | General Obligation<br>bonds dated<br>Sept. 28, 2010 | 2012A Revenue<br>bonds dated<br>Nov. 29, 2012 |
|------------------------------------|---|---|---|
| 2020 - 2023                        | 4.000%  | 3.000%  | 1.917%  |
| 2024                               | 4.000%  | 3.000%  | 2.339%  |
| 2025                               | 4.000%  | 3.000%  | 2.839%  |
| 2026 - 2027                        | 4.000%  | 3.125%  |   |
| 2028                               | 4.000%  | 3.250%  |   |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
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**Note 8 – Non-current liabilities**

The non-current liability activity during fiscal years 2019 and 2018 was as follows:

|                               | June 30,<br>2018     | Additions  | Reductions     | June 30,<br>2019     | Amounts due<br>within one year |
|-------------------------------|----------------------|------------|----------------|----------------------|--------------------------------|
| Revenue bonds                 | \$ 26,078,181        | \$ -       | \$ (3,266,752) | \$ 22,811,429        | \$ 3,335,106                   |
| GO bonds                      | 7,533,001            | -          | (709,898)      | 6,823,103            | 735,165                        |
| Notes payable - GO debt       | 4,924,110            | -          | (320,468)      | 4,603,642            | 327,658                        |
| Notes payable - Revenue/other | 3,849,172            | 110,063    | (205,273)      | 3,753,962            | 209,974                        |
| Bond discount/premium         | 63,492               |            | (8,641)        | 54,851               | -                              |
| Net pension liability         | 5,260,738            | -          | (362,884)      | 4,897,854            | -                              |
| Subtotal                      | \$ 47,708,694        | \$ 110,063 | \$ (4,873,916) | \$ 42,944,841        | \$ 4,607,903                   |
| Less current portion          | (4,502,388)          |            |                | (4,607,903)          |                                |
| Noncurrent liabilities        | <u>\$ 43,206,306</u> |            |                | <u>\$ 38,336,938</u> |                                |

|                               | June 30,<br>2017     | Additions    | Reductions     | June 30,<br>2018     | Amounts due<br>within one year |
|-------------------------------|----------------------|--------------|----------------|----------------------|--------------------------------|
| Revenue bonds                 | \$ 28,770,617        | \$ 515,000   | \$ (3,207,436) | \$ 26,078,181        | \$ 3,266,753                   |
| GO bonds                      | 8,222,840            | -            | (689,839)      | 7,533,001            | 709,895                        |
| Notes payable - GO debt       | 5,237,548            | -            | (313,438)      | 4,924,110            | 320,467                        |
| Notes payable - Revenue/other | 2,853,374            | 1,176,988    | (181,190)      | 3,849,172            | 205,273                        |
| Bond discount/premium         | 72,133               |              | (8,641)        | 63,492               | -                              |
| Net pension liability         | 4,432,597            | 828,141      | -              | 5,260,738            | -                              |
| Subtotal                      | \$ 49,589,109        | \$ 2,520,129 | \$ (4,400,544) | \$ 47,708,694        | \$ 4,502,388                   |
| Less current portion          | (4,331,849)          |              |                | (4,502,388)          |                                |
| Noncurrent liabilities        | <u>\$ 45,257,260</u> |              |                | <u>\$ 43,206,306</u> |                                |

**Note 9 – Deferred amount on refunding**

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, 2019 and 2018 was \$260,483 and \$409,330, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 9 – Deferred amount on refunding (continued)**

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, 2019 and 2018 was \$526,057 and \$614,969, respectively.

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, 2019 and 2018 was \$194,477 and \$213,146, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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 \$565,435 and \$542,054 for the years ended June 30, 2019 and 2018, respectively. The future minimum lease income is as follows:

| Years ended<br>June 30, | Amount              |
|-------------------------|---------------------|
| 2020                    | \$ 450,074          |
| 2021                    | 364,385             |
| 2022                    | 220,153             |
| 2023                    | 140,160             |
| 2024                    | 72,056              |
| Thereafter              | 222,000             |
| Total                   | <u>\$ 1,468,828</u> |

**Note 11 - Economic dependence**

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

**Note 12 - Disaster Recovery / Insurance recoveries**

The District records insurance recoveries as an offset to the related expense. During the year ended June 30, 2018, the District received \$69,000 of insurance recoveries related to a centrifuge fire. The District sold the damaged equipment to a third party for \$46,000. The historical cost of the equipment that was damaged was \$500,950 with a carrying book value of \$29,284. The insurance proceeds of \$69,000 and sale proceeds of \$46,000 were netted against the book carrying value resulting in a gain of \$85,716 which is reported as a part of the gain on the disposal of assets in the statement of revenues, expenses and changes in net position. During the year ended June 30, 2019 and 2018, \$7,211 and \$1,391, respectively, was received for other non-hurricane related insurance recoveries which were offset against the related repair expense.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### Note 12 – Disaster Recovery / Insurance recoveries (continued)

In October 2016, Hurricane Matthew made landfall in the District's service area and caused damage to the District's property and systems. During the year ended June 30, 2017, the District received \$568,146 for insurance recoveries and FEMA reimbursement related to expenses incurred as a result of the hurricane attributable to the year ended June 30, 2017. Of this amount, \$224,897 was received for expenses that were not directly identifiable such as administrative and maintenance payroll related to storm recovery and claim administration as well as per diem payments for usage of District equipment in clean-up efforts. The remaining \$343,249 was reimbursement for direct expenses incurred. The District incurred an additional \$166,205 of direct expenses during the year ended June 30, 2017, including professional fees related to claim submission, for which it had not yet received reimbursement as of the date of the prior report. Although the District expected reimbursement for a portion of these expenses, an estimate of the amount of reimbursement to be received could not be estimated as of the date of the prior report. Given that uncertainty, in accordance with generally accepted accounting principles, no accrual was recorded for those items. During the year ended June 30, 2018, the District received \$41,025 of additional reimbursements related to Hurricane Matthew which are reported as a part of disaster recovery income on the statement of revenues, expenses, and changes in net position. During the year ended June 30, 2019, the District received \$21,894 of additional reimbursements related to Hurricane Matthew which are reported, net of additional expenses of \$17,952 related to appeal work, as a part of disaster recovery income on the statement of revenues, expenses, and changes in net position. The District is still in the appeal process. Additional funds may be received but the amount cannot be reasonably estimated.

On September 11, 2017, Tropical Storm Irma moved up the coast of South Carolina. Hilton Head Island received tropical storm wind gusts of 48 mph or higher and the rainfall around 7 inches. There were no damages to insured assets. The District was approved for \$74,441 of FEMA assistance for expenses that were not directly identifiable such as administrative and maintenance payroll related to storm preparation and claim administration as well as per diem payments for usage of District equipment in preparation efforts. Accordingly, this amount has been included in disaster recovery income on the statement of revenues, expenses, and changes in net position for the year ended June 30, 2018. Of the total approved amount, \$18,610 was received after year end and, accordingly, is reported as an insurance receivable on the statement of net position as of June 30, 2018.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2019 AND 2018

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**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 \$1,390,381 and \$1,332,700 for the years ended June 30, 2019 and 2018, respectively, of which \$220,013 and \$216,031, respectively, were injected into the ASR system.

**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 \$2,335,305 and \$4,476,201 and payments of capacity fees totaling \$878,264 and \$565,672 were collected during the fiscal years ended June 30, 2019 and 2018, 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. In 2017, the District entered into an agreement with the Town of Hilton Head Island whereby the Town will reimburse the District up to \$5,606,315 for the engineering and construction costs related to the first two years of the District's Master Sewer Plan Document which lays out a five year plan to connect substantially all previously unserved areas to the sewer system. In 2018, the District entered into an agreement with the Town of Hilton Head Island whereby the Town will reimburse the District up to \$2,864,868 for the engineering and construction costs related to the remaining three years of the District's Master Sewer Plan Document and an agreement whereby the Town will reimburse the District one-half of the cost of installing new fire hydrants, up to \$50,000. Reimbursements of \$2,335,305 and \$4,476,201 were received under these agreements during the years ended June 30, 2019 and 2018, respectively, and are included as part of the developer contributions of capital assets disclosed above.

**Construction commitments**

The District had outstanding construction contract commitments of \$496,989 and \$-0- at June 30, 2019 and 2018, respectively.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### **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 2038. Assessments receivable totaled \$2,084,803 and \$2,274,988 as of June 30, 2019 and 2018, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2019 and 2018, \$72,712 and \$76,524, 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, 2019 and 2018 were \$148,907 and \$133,066, respectively. The matching contribution for the years ended June 30, 2019 and 2018 was \$10,480 and \$10,385, 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 publicly available financial report that can be obtained at [www.peba.sc.gov](http://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, 2019 AND 2018

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### 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. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary. After June 30, 2027, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent. The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent for SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization period.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2019 AND 2018

**Note 15 - Deferred compensation plans (Continued)**

**General Information about the Pension Plan (Continued)**

*Contributions (continued)*

Required employee contribution rates for the years ended June 30, 2019 and 2018 were 9.00%. Required employer contribution rates for the years ended June 30, 2019 and 2018 were 14.41% and 13.41%, respectively. The incidental death benefit employer contribution rate for the years ended June 30, 2019 and 2018 was 0.15%. The District's required contribution for the years ended June 30, 2019 and 2018 was \$352,212 and \$307,158, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

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

At June 30, 2019 and 2018, the District reported a liability of \$4,897,854 and \$5,260,737, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2018, using generally accepted actuarial principles. 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, 2018 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2018. At June 30, 2019 and 2018, the District's proportion was 0.0219 percent and 0.0234 percent, respectively.

For the year ended June 30, 2019, the District recognized pension expense of \$382,374. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience                                    | \$ 8,841                                  | \$ 28,823                                |
| Net difference between projected and actual earnings on<br>pension plan investments   | 77,803                                    | -  |
| Changes in proportion and differences between<br>proportionate share of contributions | 257,629                                   | 370,537                                  |
| Assumption changes  | 194,319                                   | -  |
| District contributions subsequent to the measurement date                             | <u>352,212</u>                            | <u>-</u>                                 |
| Total   | <u>\$ 890,804</u>                         | <u>\$ 399,360</u>                        |

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### Note 15 - Deferred compensation plans (Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$514,614. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience                                    | \$ 23,452                         | \$ 2,916                         |
| Net difference between projected and actual earnings on<br>pension plan investments   | 146,855                           | -                                |
| Changes in proportion and differences between<br>proportionate share of contributions | 381,907                           | 279,926                          |
| Assumption changes  | 307,960                           | -                                |
| District contributions subsequent to the measurement date                             | 307,158                           | -                                |
| Total   | <u>\$ 1,167,332</u>               | <u>\$ 282,842</u>                |

The \$352,212 and \$307,158 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2019 and 2018, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020 and 2019, 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:

| Year ended June 30, | Deferred Outflows<br>(Inflows) of Resources |
|---------------------|---|
| 2020                | \$ 116,883                                  |
| 2021                | \$ 157,999                                  |
| 2022                | \$ (121,307)                                |
| 2023                | \$ (14,343)                                 |
| 2024                | \$ -  |
| Thereafter          | \$ -  |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2019 AND 2018

**Note 15 - Deferred compensation plans (Continued)**

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

*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. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The total pension liability as of June 30, 2018 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |  |
|---------------------------|--|
| Actual cost method        | Early age normal                                       |
| Salary Increases          | 3.0% to 12.5% (varies by service), including inflation |
| Investment rate of return | 7.25 percent, including inflation                      |
| Inflation                 | 2.25%  |
| Benefit adjustments       | lesser of 1% or \$500 annually                         |

The post-retiree mortality assumption is dependent upon the member’s job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2018, total pension liability are as follows:

| Former Job Class                                      | Males                              | Females                              |
|---|------------------------------------|--------------------------------------|
| Educators   | 2016 PRSC Males multiplied by 92%  | 2016 PRSC Females multiplied by 98%  |
| General Employees and Members of the General Assembly | 2016 PRSC Males multiplied by 100% | 2016 PRSC Females multiplied by 111% |
| Public Safety and Firefighters                        | 2016 PRSC Males multiplied by 125% | 2016 PRSC Females multiplied by 111% |

The long-term expected rate of return on pension plan investments, is based upon the 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### 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 expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

| <b>Asset Class</b>               | <b>Target Asset Allocation</b> | <b>Expected Arithmetic Real Rate of Return</b> | <b>Long Term Expected Portfolio Real Rate of Return</b> |
|----------------------------------|--------------------------------|--|---|
| <b>Global Equity</b>             | <b>47.0%</b>                   |  |   |
| Global Public Equity             | 33.0%                          | 6.99%  | 2.31%   |
| Private Equity                   | 9.0%                           | 8.73%  | 0.79%   |
| Equity Options Strategies        | 5.0%                           | 5.52%  | 0.28%   |
| <b>Real Assets</b>               | <b>10.0%</b>                   |  |   |
| Real Estate (Private)            | 6.0%                           | 3.54%  | 0.21%   |
| Real Estate (REITs)              | 2.0%                           | 5.46%  | 0.11%   |
| Infrastructure                   | 2.0%                           | 5.09%  | 0.10%   |
| <b>Opportunistic</b>             | <b>13.0%</b>                   |  |   |
| GTAA/Risk Parity                 | 8.0%                           | 3.75%  | 0.30%   |
| Hedge Funds (non-PA)             | 2.0%                           | 3.45%  | 0.07%   |
| Other Opportunistic Strategies   | 3.0%                           | 3.75%  | 0.11%   |
| <b>Diversified Credit</b>        | <b>18.0%</b>                   |  |   |
| Mixed Credit                     | 6.0%                           | 3.05%  | 0.18%   |
| Emerging Markets Debt            | 5.0%                           | 3.94%  | 0.20%   |
| Private Debt                     | 7.0%                           | 3.89%  | 0.27%   |
| <b>Conservative Fixed income</b> | <b>12.0%</b>                   |  |   |
| Core Fixed Income                | 10.0%                          | 0.94%  | 0.09%   |
| Cash and Short Duration (Net)    | 2.0%                           | 0.34%  | 0.01%   |
| Total Expected Return            | 100.0%                         |  | 5.03%   |
| Inflation for Actuarial Purposes |                                |  | 2.25%   |
| Total Expected Nominal Return    |                                |  | 7.28%   |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2019 AND 2018

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

*Sensitivity of the District’s proportionate share of 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 7.25 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 (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate:

|   | <b>1%<br/>Decrease<br/>(6.25)%</b> | <b>Current<br/>Discount<br/>Rate (7.25)%</b> | <b>1%<br/>Increase<br/>(8.25)%</b> |
|---|------------------------------------|--|------------------------------------|
| District's proportionate share of the net pension liability | \$ 6,258,550                       | \$ 4,897,854                                 | \$ 3,925,090                       |

*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, 2019 AND 2018

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**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,    |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
| Net investment in capital assets             |                   |                   |
| Net property, plant and equipment in service | 76,510,537        | 77,756,658        |
| Less: Debt as disclosed in Notes 6 & 7       | (37,992,136)      | (42,384,465)      |
| Bond premium, net                            | (54,851)          | (63,492)          |
| Deferred amount on refunding, net            | 981,017           | 1,237,445         |
| Accounts payable for capital assets          | (196,162)         | (522,682)         |
|  | 39,248,405        | 36,023,464        |
| <br>Restricted for debt service              | <br>2,412,700     | <br>2,425,274     |
| <br>Unrestricted                             | <br>3,515,934     | <br>3,503,133     |
| <br>Total net position                       | <br>\$ 45,177,039 | <br>\$ 41,951,871 |

## **Required Supplementary Information**

**Schedule A - Hilton Head No. 1 PSD South Carolina Retirement System Contributions**

**Schedule B - Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability**

**Schedule A - Hilton Head No. 1 PSD South Carolina Retirement System Contributions  
For the fiscal year ended June 30, 2019<sup>8</sup> - Last ten years**

|  | South Carolina Retirement System |              |              |              |              |              |              |              |              |              |
|--|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 2019                             | 2018         | 2017         | 2016         | 2015         | 2014         | 2013         | 2012         | 2011         | 2010         |
| Contractually required contribution                                  | \$ 352,212                       | \$ 307,158   | \$ 272,562   | \$ 222,257   | \$ 239,148   | \$ 230,376   | \$ 222,013   | \$ 185,953   | \$ 171,769   | \$ 168,516   |
| Contributions in relation to the contractually required contribution | 352,212                          | 307,158      | 272,562      | 222,257      | 239,148      | 230,376      | 222,013      | 185,953      | 171,769      | 168,516      |
| Contribution deficiency (excess)                                     | 0                                | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Hilton Head No. 1 PSD's covered payroll                              | \$ 2,444,222                     | \$ 2,290,514 | \$ 2,388,802 | \$ 2,037,186 | \$ 2,224,629 | \$ 2,204,558 | \$ 2,124,527 | \$ 1,981,382 | \$ 1,858,973 | \$ 1,823,765 |
| Contributions as a percentage of covered payroll                     | 14.41%                           | 13.41%       | 11.41%       | 10.91%       | 10.75%       | 10.45%       | 10.45%       | 9.39%        | 9.24%        | 9.24%        |

*Note: For last 10 fiscal years, there should be a zero amount for contribution deficiency (excess) because all required contributions were made per South Carolina Retirement System's previous reports.*

**Schedule B - Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability  
For the fiscal year ended June 30, 2019 - Last ten years\***

|   | South Carolina Retirement System |              |              |              |              |              |
|---|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2019                             | 2018         | 2017         | 2016         | 2015         | 2014         |
| Measurement date  | 6/30/2018                        | 6/30/2017    | 6/30/2016    | 6/30/2015    | 6/30/2014    | 6/30/2013    |
| Hilton Head No. 1 PSD's proportion of the net pension liability   | 0.021859%                        | 0.023369%    | 0.020752%    | 0.023400%    | 0.023939%    | 0.023939%    |
| Hilton Head No. 1 PSD's proportionate share of the net pension liability  | \$ 4,897,854                     | \$ 5,260,737 | \$ 4,432,597 | \$ 4,437,923 | \$ 4,121,502 | \$ 4,063,319 |
| Hilton Head No. 1 PSD's covered payroll   | \$ 2,290,514                     | \$ 2,388,802 | \$ 2,037,186 | \$ 2,224,629 | \$ 2,204,558 | \$ 2,124,527 |
| Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered payroll during the measurement period | 213.83209%                       | 220.22491%   | 217.58429%   | 199.49048%   | 186.95367%   | 191.25758%   |
| Plan fiduciary net position as a percentage of the total pension liability  | 54.10000%                        | 53.30000%    | 52.90000%    | 57.00000%    | 59.90000%    | 53.38821%    |

*Source - South Carolina Retirement System  
\*Fiscal year 2015 was the 1st year of implementation. Measurement dates are provided from the South Carolina Retirement System.  
Going forward this schedule will continue to add years until 10 fiscal years of information is presented.*

<sup>8</sup> GASB 68 was implemented for fiscal year 2015 and 2014.

# **SUPPLEMENTAL FINANCIAL INFORMATION**

**Table A-7**  
**Hilton Head PSD**  
**Budgetary Comparison Schedule**  
**Fiscal Year to Date as of June 30, 2019**

|  | Fiscal Year 2019     |                    | FY 19 Actual to FY 19 Budget   |               |
|--|----------------------|--------------------|--------------------------------|---------------|
|  | Actual               | Budget             | Comparison                     |               |
|  |                      |                    | Dollars                        | %             |
| <b>Operating Revenues</b>  |                      |                    | <b>Favorable (Unfavorable)</b> |               |
| Water Service  | \$ 7,148,606         | \$ 6,984,000       | \$ 164,606                     | 2.4%          |
| Sewer Service  | 5,408,090            | 5,327,600          | 80,490                         | 1.5%          |
| Tap In Fees - Water  | 180,487              | 216,000            | (35,513)                       | -16.4%        |
| Connection Fees - Sewer  | 278,737              | 231,000            | 47,737                         | 20.7%         |
| Service Fees   | 38,391               | 35,000             | 3,391                          | 9.7%          |
| Golf Course Irrigation   | 182,516              | 224,700            | (42,184)                       | -18.8%        |
| Availability Fees  | 445,190              | 490,900            | (45,710)                       | -9.3%         |
| Other Operating Revenues   | 48,281               | 15,100             | 33,181                         | 219.7%        |
| <b>Total Operating Revenues</b>  | <b>13,734,240</b>    | <b>13,524,300</b>  | <b>209,940</b>                 | <b>1.6%</b>   |
| <b>Departmental Expenses</b>   |                      |                    |                                |               |
| Payroll & Related  | 3,889,589            | 3,996,900          | 107,311                        | 2.7%          |
| Administrative Expenses  | 964,018              | 980,700            | 16,682                         | 1.7%          |
| Operations   | 1,729,876            | 1,838,100          | 108,224                        | 5.9%          |
| Maintenance  | 1,324,519            | 1,108,500          | (216,019)                      | -19.5%        |
| Water Tap In Expenses  | 171,891              | 216,000            | 44,109                         | 20.4%         |
| Sewer Connection Expenses  | 247,232              | 231,000            | (16,232)                       | -7.0%         |
| Purchased Water  | 1,170,368            | 1,022,200          | (148,168)                      | -14.5%        |
| ASR-1 Water  | 217,571              | 208,600            | (8,971)                        | -4.3%         |
| ASR-1 O&M  | 41,471               | 44,300             | 2,829                          | 0.4%          |
| RO Plant O&M   | 702,486              | 711,200            | 8,714                          | 19.7%         |
| Professional Fees  | 127,011              | 112,200            | (14,811)                       | -13.2%        |
| Vehicle  | 112,192              | 102,200            | (9,992)                        | -9.8%         |
| <b>Total Departmental Expenses</b>                                       | <b>10,698,224</b>    | <b>10,571,900</b>  | <b>(126,324)</b>               | <b>-1.2%</b>  |
| <b>Depreciation</b>  | <b>4,946,397</b>     | <b>4,894,000</b>   | <b>(52,397)</b>                | <b>-1.1%</b>  |
| <b>Total Operating Expenses</b>  | <b>15,644,621</b>    | <b>15,465,900</b>  | <b>(178,721)</b>               | <b>-1.2%</b>  |
| <b>Operating income (loss)</b>   | <b>(1,910,381)</b>   | <b>(1,941,600)</b> | <b>31,219</b>                  | <b>1.6%</b>   |
| <b>Non-operating revenues</b>  |                      |                    |                                |               |
| Property taxes-G.O. Debt Levy  | 1,371,933            | 1,421,000          | (49,067)                       | -3.5%         |
| Property taxes-Operations Levy   | 1,011,176            | 1,053,600          | (42,424)                       | -4.0%         |
| Tower Lease Income   | 485,678              | 454,400            | 31,278                         | 6.9%          |
| Rental Income  | 79,757               | 80,600             | (843)                          | -1.0%         |
| Interest Income  | 156,389              | 101,000            | 55,389                         | 54.8%         |
| Gain (Loss) of disposal of equipment                                     | 15,000               | -                  | 15,000                         | 0.0%          |
| <b>Total Non-operating Revenues</b>                                      | <b>3,119,933</b>     | <b>3,110,600</b>   | <b>9,333</b>                   | <b>0.3%</b>   |
| <b>Non-operating Expenses</b>  |                      |                    |                                |               |
| Interest expense-Bonds   | 941,525              | 911,860            | (29,665)                       | -3.3%         |
| Bond Defeasance Amortization   | 256,428              | 256,400            | (28)                           | 0.0%          |
| Bond Issuance Costs  | -                    | 35,000             | 35,000                         | 100.0%        |
| <b>Total Non-operating Expenses</b>                                      | <b>1,197,953</b>     | <b>1,203,260</b>   | <b>5,307</b>                   | <b>0.4%</b>   |
| <b>Total Non-operating Revenues/Exp.</b>                                 | <b>1,921,980</b>     | <b>1,907,340</b>   | <b>14,640</b>                  | <b>0.8%</b>   |
| <b>Increase (decrease) in net position, before capital contributions</b> | <b>11,599</b>        | <b>(34,260)</b>    | <b>45,859</b>                  | <b>133.9%</b> |
| Water Capacity Fee   | 330,960              | 110,000            | 220,960                        | 200.9%        |
| Sewer Capacity Fee   | 547,304              | 254,800            | 292,504                        | 114.8%        |
| Developer Contributions of Systems                                       | 2,335,305            | -                  | 2,335,305                      | 0.0%          |
| <b>Total Capital Contributions</b>                                       | <b>3,213,569</b>     | <b>364,800</b>     | <b>2,848,769</b>               | <b>780.9%</b> |
| <b>Change in net position</b>  | <b>\$ 3,225,168</b>  | <b>\$ 330,540</b>  | <b>\$ 2,894,628</b>            | <b>875.7%</b> |
| <b>Net position, beginning of the fiscal year</b>                        | <b>\$ 41,951,871</b> |                    |                                |               |
| <b>Net position, June 30, 2019</b>                                       | <b>\$ 45,177,039</b> |                    |                                |               |

## Notes to Budgetary Comparison Schedule

### *Budgetary Highlights*

Operating Revenues: Actual fiscal year (FY) 2019 operating revenues were \$13,734,240 versus budgeted operating revenues of \$13,524,300 which results in a variance of \$209,940 or 1.6% above budget.

The following is a summary of material variances for the Operating Revenue categories:<sup>9</sup>

- Water service revenues are above budget by \$164,606 or 2.4%. Sewer service revenues are above budget by \$80,490 or 1.5%. This is related to higher than expected water consumption. Billed water consumption increased 73.5 million gallons when comparing FY 2019 to FY 2018.
- Tap in fees for water are below budget by \$35,513 or 16% due to lower than expected water connections. However, this revenue, which equals \$180,487, exceeds the associated water tap in expense of \$171,891 by \$8,596.
- Sewer connection fees are above budget by \$47,437 or 21% due to higher than expected sewer connections. This revenue, which equals \$278,737, exceeds the associated sewer connection expense of \$247,232 by \$31,505.
- Golf course irrigation (recycled water) revenues are \$42,184 or 19% below budget due to less demand than expected from the golf courses. Most of the District's golf courses are continuing the golf-industry trend of keeping irrigation to a minimum regardless of the weather conditions.
- Other operating revenues are above budget by \$33,181 or 220% mainly due to the receipt of Palmetto Electric capital credit funds.

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$126,323 or 1.2% above budget. The following is a summary of material variances for the Departmental Expenses categories:<sup>1</sup>

- Payroll & Related Expenses: Actual of \$3,889,589 versus FY 2019 budget of \$3,996,900 is \$107,311 or 2.7% below budget. This is mainly due to the Special Projects manager retiring early in the year and a vacancy during the year.
- Operations Expenses: Actual of \$1,729,876 versus FY 2019 budget of \$1,838,100 is \$108,224 or 5.9% below budget. The optimization of the new centrifuge led to lower fuel and power costs than expected.
- Maintenance Expenses: Actual of \$1,324,519 versus FY 2019 budget of \$1,108,500 is \$216,019 or 19.5% above budget. This is related to higher system maintenance expenses than expected primarily due to repairs performed in Windmill Harbour and Port Royal associated with the Hargray fiber optic project. Reimbursements are obtained based on damage liability. Additionally, a system-wide satellite leak detection was performed during the year.
- Purchased Water Expense: Actual of \$1,170,368 versus FY 2019 budget of \$1,022,200 is \$148,168 or 14.5% above budget. This is due to higher than expected water consumption. Savings from fixing breaks detected as a part of a leak detection study are expected to be seen in the next fiscal year.

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<sup>9</sup> 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 and Sewer Service variances are typically discussed regardless of their variances given that they are the two main drivers for the District's overall revenue.

- Professional Fees: Actual of \$127,011 versus FY 2019 budget of \$112,200 is \$14,811 or 13% above budget. More legal expenses were incurred than expected related to tower lease contract amendments and a new tower lease agreement.
- Vehicle Expense: Actual of \$112,192 versus FY 2019 budget of \$102,200 is \$9,992 or 9.8% above budget due to higher expected fuel and maintenance costs.
- Interest Income: Actual of \$156,389 versus FY 2019 budget of \$101,000 is \$55,389 or 54.8% above budget. This increase is related to the District's participation in the SC Local Government Investment Pool and overall rising interest rates during the fiscal year.
- Capital Contributions: Capacity Fees of \$878,264 vs. fiscal year 2019 budget of \$364,800 represents a variance of \$513,464 or 141% above budget due to private developer projects. Developer Contributions of Systems are a non-budgeted item totaling \$2,335,305, which represents reimbursements from the Town for Master Sewer Plan and Hydrant projects.

Fiscal year 2019's change in net position was an increase of \$3,225,168 vs. the FY 2019 budgeted increase of \$330,540 represents a variance of 2,848,769 above budget which is mainly related to developer contributions of systems and collection of capacity fees.

## HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

### SUMMARY SCHEDULE OF DEBT

JUNE 30, 2019

| Description                                | Rate             | 6/30/2017            | Addition  | Reduction   | 6/30/2018            | Addition | Reduction   | 6/30/2019            | Current   |
|--|------------------|----------------------|-----------|-------------|----------------------|----------|-------------|----------------------|-----------|
| <b>Revenue Bonds</b>                       |                  |                      |           |             |                      |          |             |                      |           |
| Series 2010B                               | 2% to 4%         | 655,000              | -         | (155,000)   | 500,000              | -        | (160,000)   | 340,000              | 165,000   |
| Series 2012 A                              | 0.542% to 2.839% | 7,255,000            | -         | (1,035,000) | 6,220,000            | -        | (1,050,000) | 5,170,000            | 1,075,000 |
| Series 2012 B                              | 2.15%            | 815,000              | -         | -           | 815,000              | -        | -           | 815,000              | -         |
| Series 2014A                               | 3.42%            | 236,617              | -         | (16,278)    | 220,339              | -        | (16,835)    | 203,504              | 17,411    |
| Series 2015A                               | 1.93%            | 17,236,000           | -         | (1,885,000) | 15,351,000           | -        | (1,923,000) | 13,428,000           | 1,958,000 |
| Series 2015B                               | 2.29%            | 2,573,000            | -         | (85,000)    | 2,488,000            | -        | (88,000)    | 2,400,000            | 90,000    |
| Series 2017A                               | 1.90%            | -                    | 515,000   | (31,157)    | 483,843              | -        | (28,918)    | 454,925              | 29,695    |
| <b>Total Revenue Bonds</b>                 |                  | <u>28,770,617</u>    | 515,000   | (3,207,435) | <u>26,078,182</u>    | -        | (3,266,753) | <u>22,811,429</u>    | 3,335,106 |
| <b>Notes Payable - Revenue/Other</b>       |                  |                      |           |             |                      |          |             |                      |           |
| SCJEDA - Notes Payable                     | 0.00%            | 97,939               | -         | (18,000)    | 79,939               | -        | (18,000)    | 61,939               | 18,000    |
| SIRF Series 2014 Revenue Bonds             | 1.00%            | 2,755,435            | -         | (134,295)   | 2,621,140            | -        | (135,643)   | 2,485,497            | 137,005   |
| SIRF Series 2017B Revenue Bond             | 1.90%            | -                    | 1,176,988 | (28,895)    | 1,148,093            | 110,063  | (51,629)    | 1,206,527            | 54,968    |
| <b>Total Notes Payable - Revenue/Other</b> |                  | <u>2,853,374</u>     | 1,176,988 | (181,190)   | <u>3,849,172</u>     | 110,063  | (205,272)   | <u>3,753,963</u>     | 209,973   |
| <b>Total Revenue /Other Debt</b>           |                  | <u>31,623,991</u>    |           |             | <u>29,927,354</u>    |          |             | <u>26,565,392</u>    |           |
| <b>General Obligation Bonds:</b>           |                  |                      |           |             |                      |          |             |                      |           |
| Series 2007                                | 4.00% to 4.50%   | 4,535,000            | -         | (380,000)   | 4,155,000            | -        | (390,000)   | 3,765,000            | 405,000   |
| Series 2009                                | 4.219%           | 952,840              | -         | (119,839)   | 833,001              | -        | (124,899)   | 708,102              | 130,165   |
| Series 2010                                | 2.00% to 3.375%  | 2,735,000            | -         | (190,000)   | 2,545,000            | -        | (195,000)   | 2,350,000            | 200,000   |
| <b>Total General Obligation Bonds</b>      |                  | <u>8,222,840</u>     | -         | (689,839)   | <u>7,533,001</u>     | -        | (709,899)   | <u>6,823,102</u>     | 735,165   |
| <b>Notes Payable - GO Debt:</b>            |                  |                      |           |             |                      |          |             |                      |           |
| SRF - Series 2007 GO Bonds                 | 3.94%            | 1,798,525            | -         | (142,128)   | 1,656,397            | -        | (145,355)   | 1,511,042            | 148,652   |
| SIRF Series 2007 GO Bonds                  | 3.50%            | 310,867              | -         | (22,967)    | 287,900              | -        | (23,781)    | 264,119              | 24,625    |
| SRF - Series 2014 GO Bonds                 | 2.00%            | 3,128,156            | -         | (148,343)   | 2,979,813            | -        | (151,332)   | 2,828,481            | 154,382   |
| <b>Total Notes Payable - GO Debt</b>       |                  | <u>5,237,548</u>     | -         | (313,438)   | <u>4,924,110</u>     | -        | (320,468)   | <u>4,603,642</u>     | 327,659   |
| <b>Total GO Debt</b>                       |                  | <u>13,460,388</u>    |           |             | <u>12,457,112</u>    |          |             | <u>11,426,744</u>    |           |
| Total Long-Term Debt Liability             |                  | 45,084,379           | 1,691,988 | (4,391,902) | 42,384,465           | 110,063  | (4,502,392) | 37,992,136           | 4,607,903 |
| Less current portion                       |                  | (4,331,849)          |           |             | (4,502,388)          |          |             | (4,607,903)          |           |
| Bond discount/premium, net of amortization |                  | 72,133               |           |             | 63,492               |          |             | 54,851               |           |
| <b>Total Long Term Debt</b>                |                  | <u>\$ 40,824,663</u> |           |             | <u>\$ 37,945,569</u> |          |             | <u>\$ 33,439,084</u> |           |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT  
SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS**

JUNE 30, 2019

| For the<br>Year endi<br>June 30, | \$3,400,000<br>Revenue Bond<br>Dated August 24, 2010 |                   | \$12,275,000<br>Revenue Bond 2012 A<br>Dated Novemver 29, 2012 |                     | \$815,000<br>Revenue Bond 2012 B<br>Dated Novemver 29, 2012 |                   | \$282,294<br>Revenue Bond 2014 A<br>Dated April 23, 2014 |                   | \$19,846,000<br>Revenue Bond 2015 A<br>Dated September 3, 2015 |                      | \$2,721,000<br>Revenue Bond 2015 B<br>Dated September 3, 2015 |                     | \$515,000<br>Revenue Bond 2017 A<br>Dated August 21, 2017 |                   |
|----------------------------------|--|-------------------|--|---------------------|---|-------------------|--|-------------------|--|----------------------|---|---------------------|---|-------------------|
|                                  | Interest   | Principal         | Interest   | Principal           | Interest  | Principal         | Interest   | Principal         | Interest   | Principal            | Interest  | Principal           | Interest  | Principal         |
|                                  | 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   | \$ 12,237         |
| 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              | 11,439  | 30,494            |
| 2022                             | -  | -                 | 84,602   | 10,000              | 17,523  | -                 | 5,749  | 18,622            | 167,688  | 3,156,000            | 49,246  | 272,000             | 10,618  | 31,315            |
| 2023                             | -  | -                 | 82,757   | 120,000             | 17,523  | -                 | 5,112  | 19,259            | 106,970  | 3,119,000            | 42,960  | 280,000             | 9,776   | 32,157            |
| 2024                             | -  | -                 | 79,279   | 125,000             | 17,523  | -                 | 4,453  | 19,918            | 46,484   | 3,177,000            | 36,514  | 285,000             | 8,911   | 33,022            |
| 2025                             | -  | -                 | 38,752   | 2,730,000           | 8,761   | 815,000           | 3,772  | 20,599            | 376  | 26,000               | 31,213  | 72,000              | 8,023   | 33,910            |
| 2026                             | -  | -                 | -  | -                   | -   | -                 | 3,067  | 21,304            | -  | -                    | 28,270  | 299,000             | 7,111   | 34,822            |
| 2027                             | -  | -                 | -  | -                   | -   | -                 | 2,339  | 22,032            | -  | -                    | 21,537  | 277,000             | 6,174   | 35,759            |
| 2028                             | -  | -                 | -  | -                   | -   | -                 | 1,585  | 22,786            | -  | -                    | 15,412  | 238,000             | 5,212   | 36,721            |
| 2029                             | -  | -                 | -  | -                   | -   | -                 | 806  | 23,566            | -  | -                    | 9,939   | 244,000             | 4,224   | 37,709            |
| 2030                             | -  | -                 | -  | -                   | -   | -                 | -  | -                 | -  | -                    | 2,874   | 251,000             | 3,210   | 38,722            |
| 2031                             | -  | -                 | -  | -                   | -   | -                 | -  | -                 | -  | -                    | -   | -                   | 2,168   | 39,765            |
| 2032                             | -  | -                 | -  | -                   | -   | -                 | -  | -                 | -  | -                    | -   | -                   | 1,098   | 40,834            |
|                                  | <u>\$ 13,800</u>                                     | <u>\$ 340,000</u> | <u>\$ 504,127</u>  | <u>\$ 5,170,000</u> | <u>\$ 96,376</u>  | <u>\$ 815,000</u> | <u>\$ 40,207</u>   | <u>\$ 203,504</u> | <u>\$ 783,000</u>  | <u>\$ 13,428,000</u> | <u>\$ 344,782</u>   | <u>\$ 2,400,000</u> | <u>\$ 86,935</u>  | <u>\$ 454,925</u> |
| Current                          |  | <u>\$ 165,000</u> |  | <u>\$ 1,075,000</u> |   | <u>\$ -</u>       |  | <u>\$ 17,411</u>  |  | <u>\$ 1,958,000</u>  |   | <u>\$ 90,000</u>    |   | <u>\$ 29,695</u>  |
| Noncurrent                       |  | <u>\$ 175,000</u> |  | <u>\$ 4,095,000</u> |   | <u>\$ 815,000</u> |  | <u>\$ 186,093</u> |  | <u>\$ 11,470,000</u> |   | <u>\$ 2,310,000</u> |   | <u>\$ 425,230</u> |

| For the<br>Year endi<br>June 30, | \$7,350,000<br>GO Bond<br>Dated October 3, 2007 |                     | \$1,781,694<br>Series 2009 GO Bond<br>Dated July 30, 2009 |                   | \$3,970,000<br>GO Bond<br>Dated September 25, 2010 |                     | <b>BOND TOTALS</b>  |                      |                      |
|----------------------------------|---|---------------------|---|-------------------|--|---------------------|---------------------|----------------------|----------------------|
|                                  | Interest  | Principal           | Interest  | Principal         | Interest   | Principal           | Total<br>Interest   | Total<br>Principal   | Total                |
|                                  | 2020  | \$ 150,600          | \$ 405,000  | \$ 29,875         | \$ 130,165   | \$ 72,837           | \$ 200,000          | \$ 725,501           | \$ 4,070,271         |
| 2021                             | 134,400   | 420,000             | 24,383  | 135,653           | 66,838   | 205,000             | 626,314             | 4,178,154            | 4,804,468            |
| 2022                             | 117,600   | 440,000             | 18,660  | 141,378           | 60,687   | 210,000             | 532,373             | 4,279,315            | 4,811,688            |
| 2023                             | 100,000   | 460,000             | 12,695  | 147,345           | 54,388   | 220,000             | 432,181             | 4,397,761            | 4,829,942            |
| 2024                             | 81,600  | 480,000             | 6,479   | 153,561           | 47,787   | 230,000             | 329,030             | 4,503,501            | 4,832,531            |
| 2025                             | 62,400  | 500,000             | -   | -                 | 40,888   | 240,000             | 194,185             | 4,437,509            | 4,631,694            |
| 2026                             | 42,400  | 520,000             | -   | -                 | 33,687   | 245,000             | 114,535             | 1,120,126            | 1,234,661            |
| 2027                             | 21,600  | 540,000             | -   | -                 | 26,031   | 255,000             | 77,681              | 1,129,791            | 1,207,472            |
| 2028                             | -   | -                   | -   | -                 | 18,062   | 265,000             | 40,271              | 562,507              | 602,778              |
| 2029                             | -   | -                   | -   | -                 | 9,450  | 280,000             | 24,419              | 585,275              | 609,694              |
| 2030                             | -   | -                   | -   | -                 | -  | -                   | 6,084               | 289,722              | 295,806              |
| 2031                             | -   | -                   | -   | -                 | -  | -                   | 2,168               | 39,765               | 41,933               |
| 2032                             | -   | -                   | -   | -                 | -  | -                   | 1,098               | 40,834               | 41,932               |
|                                  | <u>\$ 710,600</u>                               | <u>\$ 3,765,000</u> | <u>\$ 92,092</u>  | <u>\$ 708,102</u> | <u>\$ 430,655</u>                                  | <u>\$ 2,350,000</u> | <u>\$ 3,105,840</u> | <u>\$ 29,634,531</u> | <u>\$ 32,740,371</u> |
| Current                          |   | <u>\$ 405,000</u>   |   | <u>\$ 130,165</u> |  | <u>\$ 200,000</u>   |                     | 54,851               |                      |
| Noncurrent                       |   | <u>\$ 3,360,000</u> |   | <u>\$ 577,937</u> |  | <u>\$ 2,150,000</u> |                     | <u>\$ 4,070,271</u>  |                      |
|                                  |   |                     |   |                   |  |                     |                     | <u>\$ 25,619,111</u> |                      |

Plus: Net Premium/Discount 54,851  
Less: Current \$ 4,070,271  
\$ 25,619,111

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS**  
 JUNE 30, 2019

| Year ending<br>June 30, | \$530,000<br>SCJEDA Note<br>Dated November 30, 1988 |                  | \$2,887,826<br>SRF GO Note<br>Dated October 3, 2007 |                     | \$481,080<br>SIRF GO Note<br>Dated October 3, 2007 |                   | \$2,921,430<br>SRF Revenue Note<br>Dated July 23, 2014 |                     | \$3,750,000<br>SRF GO Note<br>Dated September 10, 2014 |                     | \$1,397,774<br>SRF Revenue Note<br>Dated August 23, 2017 |                     | NOTE TO TALS        |                     |                     |
|-------------------------|---|------------------|---|---------------------|--|-------------------|--|---------------------|--|---------------------|--|---------------------|---------------------|---------------------|---------------------|
|                         | Interest  | Principal        | Interest  | Principal           | Interest   | Principal         | Interest   | Principal           | Interest   | Principal           | Interest   | Principal           | Total<br>Interest   | Total<br>Principal  | Total               |
|                         | 2020  | -                | 18,000  | 32,750              | 148,652  | 8,923             | 24,625   | 24,342              | 137,005  | 55,417              | 154,382  | 22,534              | 54,968              | 143,966             | 537,632             |
| 2021                    | -   | 18,000           | 29,377  | 152,025             | 8,050  | 25,498            | 22,967   | 138,380             | 52,306   | 157,493             | 21,482   | 56,021              | 134,182             | 547,417             | 681,599             |
| 2022                    | -   | 18,000           | 25,928  | 155,474             | 7,146  | 26,402            | 21,578   | 139,769             | 49,132   | 160,666             | 20,410   | 57,093              | 124,194             | 557,404             | 681,598             |
| 2023                    | -   | 7,939            | 22,500  | 158,902             | 6,210  | 27,339            | 20,175   | 141,172             | 45,895   | 163,904             | 19,317   | 58,185              | 114,097             | 557,441             | 671,538             |
| 2024                    | -   | -                | 18,792  | 162,610             | 5,240  | 28,308            | 18,758   | 142,589             | 42,592   | 167,206             | 18,204   | 59,299              | 103,586             | 560,012             | 663,598             |
| 2025                    | -   | -                | 15,102  | 166,300             | 4,236  | 29,312            | 17,327   | 144,020             | 39,223   | 170,576             | 17,069   | 60,434              | 92,957              | 570,642             | 663,599             |
| 2026                    | -   | -                | 11,329  | 170,073             | 3,197  | 30,351            | 15,881   | 145,466             | 35,785   | 174,013             | 15,913   | 61,590              | 82,105              | 581,493             | 663,598             |
| 2027                    | -   | -                | 7,470   | 173,932             | 2,120  | 31,428            | 14,421   | 146,926             | 32,279   | 177,519             | 14,734   | 62,769              | 71,024              | 592,574             | 663,598             |
| 2028                    | -   | -                | 3,523   | 177,878             | 1,006  | 32,542            | 12,946   | 148,401             | 28,702   | 181,096             | 13,533   | 63,970              | 59,710              | 603,887             | 663,597             |
| 2029                    | -   | -                | 254   | 45,196              | 73   | 8,314             | 11,457   | 149,890             | 25,053   | 184,746             | 12,309   | 65,194              | 49,146              | 453,340             | 502,486             |
| 2030                    | -   | -                | -   | -                   | -  | -                 | 9,952  | 151,395             | 21,330   | 188,468             | 11,062   | 66,441              | 42,344              | 406,304             | 448,648             |
| 2031                    | -   | -                | -   | -                   | -  | -                 | 8,433  | 152,914             | 17,532   | 192,266             | 9,790  | 67,713              | 35,755              | 412,893             | 448,648             |
| 2032                    | -   | -                | -   | -                   | -  | -                 | 6,898  | 154,449             | 13,658   | 196,140             | 8,494  | 69,009              | 29,050              | 419,598             | 448,648             |
| 2033                    | -   | -                | -   | -                   | -  | -                 | 5,347  | 156,000             | 9,706  | 200,093             | 7,174  | 70,329              | 22,227              | 426,422             | 448,649             |
| 2034                    | -   | -                | -   | -                   | -  | -                 | 3,782  | 157,566             | 5,674  | 204,125             | 5,828  | 71,675              | 15,284              | 433,366             | 448,650             |
| 2035                    | -   | -                | -   | -                   | -  | -                 | 2,200  | 159,147             | 1,560  | 155,788             | 4,456  | 73,046              | 8,216               | 387,981             | 396,197             |
| 2036                    | -   | -                | -   | -                   | -  | -                 | 603  | 120,408             | -  | -                   | 3,059  | 74,444              | 3,662               | 194,852             | 198,514             |
| 2037                    | -   | -                | -   | -                   | -  | -                 | -  | -                   | -  | -                   | 1,634  | 75,869              | 1,634               | 75,869              | 77,503              |
| 2038                    | -   | -                | -   | -                   | -  | -                 | -  | -                   | -  | -                   | 274  | 38,478              | 274                 | 38,478              | 38,752              |
|                         | <u>\$ -</u>   | <u>\$ 61,939</u> | <u>\$ 167,025</u>                                   | <u>\$ 1,511,042</u> | <u>\$ 46,201</u>                                   | <u>\$ 264,119</u> | <u>\$ 217,067</u>                                      | <u>\$ 2,485,497</u> | <u>\$ 475,844</u>                                      | <u>\$ 2,828,481</u> | <u>\$ 227,276</u>  | <u>\$ 1,206,527</u> | <u>\$ 1,133,413</u> | <u>\$ 8,357,605</u> | <u>\$ 9,491,018</u> |
| Current                 |   | <u>\$ 18,000</u> |   | <u>\$ 148,652</u>   |  | <u>\$ 24,625</u>  |  | <u>\$ 137,005</u>   |  | <u>\$ 154,382</u>   |  | <u>\$ 54,968</u>    |                     | <u>\$ 537,632</u>   |                     |
| Noncurrent              |   | <u>\$ 43,939</u> |   | <u>\$ 1,362,390</u> |  | <u>\$ 239,494</u> |  | <u>\$ 2,348,492</u> |  | <u>\$ 2,674,099</u> |  | <u>\$ 1,151,559</u> |                     | <u>\$ 7,819,973</u> |                     |

# STATISTICAL SECTION

## Statistical Section

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

| <b>Contents</b>  | <b>Pages</b>   |
|--|----------------|
| <b>Financial Trends</b><br><i>These schedules contain trend information to help the reader understand how the District's financial performance and position have changed over time</i>   | <b>83-87</b>   |
| <b>Capital Assets</b><br><i>These schedules contain infrastructure data which shows how the District's financial reports relate to its activities</i>  | <b>88</b>      |
| <b>Demographic and Economic Information</b><br><i>These schedules offer demographic and economic indicators showing the environment in which the District operates</i>   | <b>89-95</b>   |
| <b>Debt Capacity</b><br><i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future</i> | <b>96-99</b>   |
| <b>Other Operational Information</b><br><i>These schedules contain operational and service information to convey how the District's financial reports relate to its services</i>   | <b>100-102</b> |

## Statements of Revenues, Expenses, and Debt Service per Bond Covenants<sup>10</sup>

### Last Ten Fiscal Years

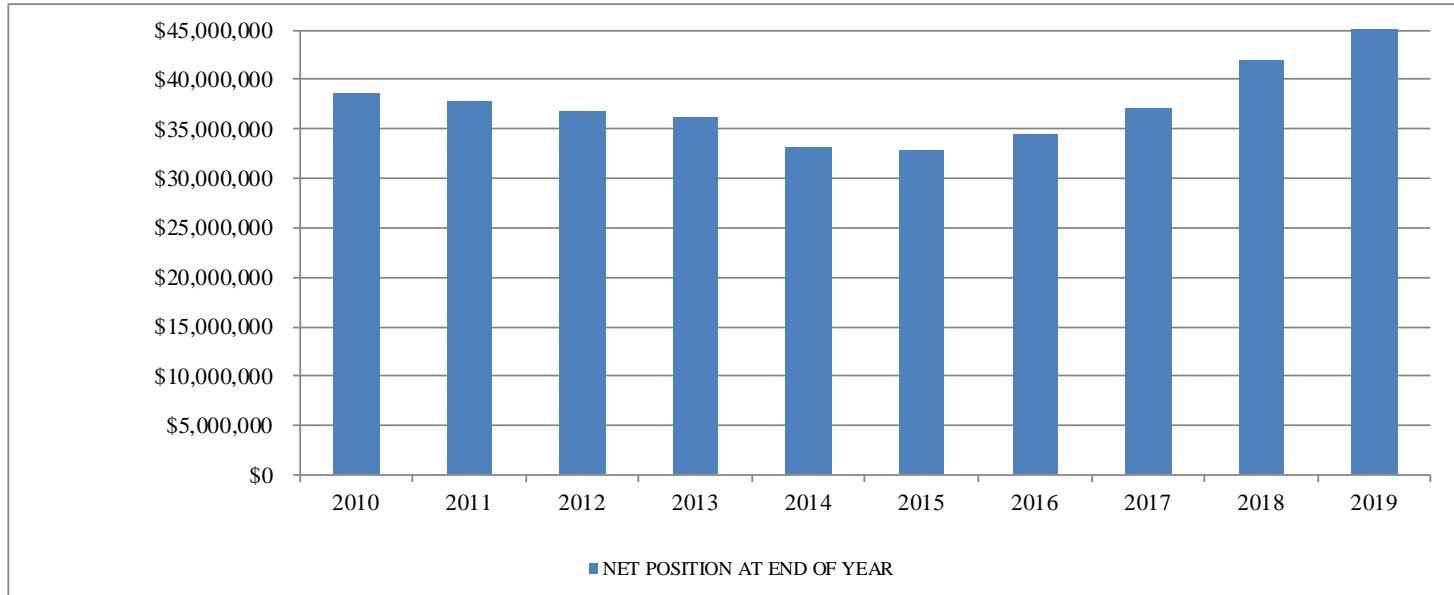
|   | 2010          | 2011          | 2012          | 2013          | 2014         | 2015          | 2016         | 2017         | 2018         | 2019         |
|---|---------------|---------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|
| <b>Operating Revenues</b>                                 |               |               |               |               |              |               |              |              |              |              |
| Water Service   | \$5,308,798   | \$5,836,921   | \$5,949,379   | \$5,951,546   | \$5,777,606  | \$5,727,692   | \$6,009,410  | \$6,680,175  | \$6,586,002  | \$7,148,606  |
| Sewer Service   | 4,034,068     | 4,208,115     | 4,522,434     | 4,623,093     | 4,736,919    | 4,838,019     | 5,056,081    | 5,143,168    | 5,226,965    | 5,408,090    |
| Water Tap In Fees   | 31,305        | 43,041        | 41,861        | 61,925        | 124,837      | 106,202       | 96,427       | 137,423      | 213,517      | 180,487      |
| Sewer Connection Fees                                     | 117,367       | 71,614        | 83,425        | 109,475       | 117,505      | 84,543        | 109,984      | 219,483      | 229,355      | 278,737      |
| Availability Fees   | 570,169       | 610,332       | 638,137       | 623,076       | 597,582      | 565,423       | 525,302      | 506,930      | 491,474      | 38,391       |
| Service Fees  | 70,488        | 73,245        | 51,108        | 36,645        | 44,174       | 42,646        | 39,113       | 29,105       | 34,059       | 182,516      |
| Golf Course Irrigation                                    | 230,583       | 358,105       | 338,205       | 319,041       | 297,609      | 204,934       | 164,344      | 284,937      | 175,015      | 445,190      |
| Disaster Recovery, net                                    | -             | -             | -             | -             | -            | -             | -            | 58,691       | 115,466      | 3,942        |
| Other Operating Revenues                                  | 35,679        | 80,342        | 15,539        | 14,727        | 17,771       | 21,264        | 284,775      | 28,676       | 53,566       | 48,281       |
| Total Operating Revenues                                  | \$10,398,457  | \$11,281,715  | \$11,640,088  | \$11,739,528  | \$11,714,003 | \$11,590,723  | \$12,285,436 | \$13,088,588 | \$13,125,419 | \$13,734,240 |
| <b>Operating Expenses</b>                                 |               |               |               |               |              |               |              |              |              |              |
| Payroll and Related Expenses                              | \$3,229,296   | \$3,293,800   | \$3,392,515   | \$3,474,067   | \$3,571,288  | \$3,713,013   | \$3,294,097  | \$3,689,699  | \$3,951,862  | \$3,889,589  |
| Administrative Expenses                                   | 692,053       | 792,437       | 923,287       | 783,768       | 789,686      | 793,893       | 756,507      | 871,478      | 964,121      | 964,018      |
| Operations Expenses                                       | 1,410,295     | 1,639,353     | 1,761,310     | 1,686,667     | 1,667,542    | 1,571,114     | 1,563,548    | 1,798,365    | 1,797,278    | 1,729,876    |
| Maintenance Expenses                                      | 768,575       | 1,012,322     | 987,389       | 1,038,224     | 1,125,413    | 1,006,240     | 1,247,020    | 1,059,412    | 1,355,604    | 1,324,519    |
| Water Tap In Expenses                                     | 23,030        | 26,691        | 37,443        | 38,250        | 60,078       | 90,462        | 115,995      | 191,120      | 216,109      | 171,891      |
| Sewer Connection Expenses                                 | 128,227       | 64,775        | 78,775        | 84,144        | 85,401       | 82,353        | 150,570      | 174,722      | 221,696      | 247,232      |
| Purchased Water   | 746,571       | 1,024,455     | 1,028,789     | 817,441       | 622,629      | 791,096       | 543,661      | 1,017,482    | 1,116,669    | 1,170,368    |
| ASR-1 Water   | -             | -             | 16,792        | 133,760       | 194,537      | 196,311       | 202,890      | 221,515      | 226,919      | 226,919      |
| ASR-1 O&M   | -             | -             | 5,275         | 30,868        | 40,747       | 40,656        | 44,562       | 42,042       | 43,217       | 41,471       |
| RO Plant O&M  | 674,039       | 581,270       | 604,539       | 607,876       | 533,249      | 618,024       | 723,049      | 691,148      | 714,136      | 702,486      |
| Professional Fees   | 269,207       | 171,575       | 243,600       | 265,786       | 237,182      | 305,698       | 229,387      | 99,701       | 146,084      | 127,011      |
| Vehicle Expenses  | 107,292       | 119,162       | 130,473       | 126,999       | 126,384      | 117,787       | 84,215       | 87,680       | 108,149      | 112,192      |
| Depreciation  | 4,405,077     | 4,456,160     | 4,459,807     | 4,557,446     | 4,481,885    | 4,485,346     | 4,482,776    | 4,576,123    | 4,733,613    | 4,946,397    |
| Total Operating Expenses                                  | \$12,453,662  | \$13,181,999  | \$13,669,995  | \$13,645,296  | \$13,536,021 | \$13,811,992  | \$13,438,277 | \$14,520,488 | \$15,595,458 | \$15,644,621 |
| Operating Income (Loss)                                   | (2,055,205)   | (1,900,284)   | (2,029,907)   | (1,905,768)   | (1,822,017)  | (2,221,269)   | (1,152,841)  | (1,431,899)  | (2,470,039)  | (1,910,381)  |
| <b>Non-Operating Revenues (Expenses)</b>                  |               |               |               |               |              |               |              |              |              |              |
| Property Taxes-Debt Service                               | \$967,418     | \$1,235,347   | \$1,233,107   | \$1,195,990   | \$1,167,016  | \$1,391,881   | \$1,396,680  | \$1,403,497  | \$1,441,325  | \$1,371,933  |
| Property Taxes-Operations Levy                            | 1,028,416     | 1,039,316     | 1,023,502     | 1,016,558     | \$901,453    | \$913,930     | \$931,507    | \$973,607    | \$984,296    | \$1,011,176  |
| Interest Income   | 256,948       | 234,668       | 205,100       | 168,990       | 142,313      | 132,549       | 92,713       | 99,041       | 108,346      | \$156,389    |
| Tower Leases  | 448,673       | 465,355       | 423,468       | 506,687       | 531,703      | 508,185       | 471,540      | 531,964      | 462,986      | \$485,678    |
| Rental Income   | 82,150        | 81,493        | 80,235        | 79,641        | 80,096       | 80,579        | 78,552       | 79,115       | 79,068       | \$79,757     |
| Bond Issuance Costs                                       | -             | -             | (31,250)      | (226,335)     | (38,685)     | (67,329)      | (119,950)    | -            | (69,609)     | -            |
| Amortization of Bond Costs                                | (202,112)     | (209,256)     | (239,272)     | (216,004)     | (223,222)    | (223,222)     | (243,693)    | (256,428)    | (256,428)    | (256,428)    |
| Gain (Loss) on Disposal                                   | 161           | 7,672         | -             | -             | -            | -             | 1,500        | 3,500        | 95,716       | 15,000       |
| Interest Expense  | (2,208,372)   | (2,300,439)   | (2,101,677)   | (1,842,617)   | (1,661,902)  | (1,613,384)   | (1,230,078)  | (1,403,497)  | (1,030,789)  | (941,525)    |
| Total Non-Operating Income (Loss)                         | \$373,282     | \$554,156     | \$593,213     | \$682,909     | \$898,773    | \$1,123,190   | \$1,378,771  | \$1,742,486  | \$1,814,909  | \$1,921,980  |
| Net Income (loss) before Capital per Financial Statements | (\$1,681,923) | (\$1,346,128) | (\$1,436,695) | (\$1,222,859) | (\$923,245)  | (\$1,098,079) | \$225,930    | \$310,587    | (\$655,130)  | \$11,599     |
| Capacity Fees   | 242,308       | 309,857       | 394,546       | 79,240        | 477,179      | 631,652       | 585,744      | 565,093      | 565,672      | 878,264      |
| Add: Depreciation   | 4,405,077     | 4,456,160     | 4,459,807     | 4,557,446     | 4,481,885    | 4,485,346     | 4,482,776    | 4,576,123    | 4,733,613    | 4,946,397    |
| Net Pension Expense                                       | -             | -             | -             | -             | -            | 288,870       | 298,810      | 251,759      | 514,614      | 382,374      |
| SCRS Retirement Contributions                             | -             | -             | -             | -             | -            | (241,688)     | (222,257)    | (272,562)    | (307,158)    | (352,212)    |
| Amortization  | 202,112       | 209,256       | 239,272       | 169,938       | 223,222      | 223,222       | 243,693      | 256,428      | 256,428      | 256,428      |
| Bond Issuance Costs                                       | -             | -             | 31,250        | 226,335       | 38,685       | 67,329        | 119,950      | -            | 69,609       | -            |
| Interest Expense (Bonds)                                  | 2,208,372     | 2,300,439     | 2,101,677     | 1,842,617     | 1,661,902    | 1,613,384     | 1,230,078    | 1,403,497    | 1,030,789    | 941,525      |
| Assessments - Debt Service                                | 537,759       | 550,586       | 596,027       | 415,758       | 382,702      | 486,300       | 452,658      | 157,973      | 190,300      | 190,184      |
| Less: Property Taxes - Debt Service                       | (967,418)     | (1,235,347)   | (1,233,107)   | (1,195,990)   | (1,167,016)  | (1,391,881)   | (1,396,680)  | (1,403,497)  | (1,441,325)  | (1,371,933)  |
| Net Earnings Available for Debt Service                   | \$4,946,286   | \$5,244,823   | \$4,952,778   | \$4,872,485   | \$5,175,313  | \$5,064,454   | \$6,020,702  | 5,534,814    | \$4,957,414  | \$5,882,626  |
| Debt Service on Revenue Bonds                             | \$3,523,871   | \$3,477,484   | \$3,660,650   | \$4,037,286   | \$3,504,185  | \$3,987,537   | \$3,441,323  | \$3,923,462  | \$4,008,312  | \$4,040,662  |
| <b>Required per Bond Covenants</b>                        | <b>120%</b>   | <b>120%</b>   | <b>120%</b>   | <b>120%</b>   | <b>120%</b>  | <b>120%</b>   | <b>120%</b>  | <b>120%</b>  | <b>120%</b>  | <b>120%</b>  |
| <b>Coverage of Debt Service by Net</b>                    | <b>140%</b>   | <b>151%</b>   | <b>135%</b>   | <b>121%</b>   | <b>148%</b>  | <b>127%</b>   | <b>175%</b>  | <b>141%</b>  | <b>124%</b>  | <b>146%</b>  |
| <b>Debt Coverage without Capacity Fees</b>                | <b>133%</b>   | <b>142%</b>   | <b>125%</b>   | <b>119%</b>   | <b>134%</b>  | <b>111%</b>   | <b>158%</b>  | <b>127%</b>  | <b>110%</b>  | <b>124%</b>  |

<sup>10</sup> Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

### Schedule of Change in Net Position<sup>11</sup>

|   | <u>2010</u>         | <u>2011</u>         | <u>2012</u>         | <u>2013</u>         | <u>2014</u>         | <u>2015</u>         | <u>2016</u>         | <u>2017</u>         | <u>2018</u>         | <u>2019</u>         |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Income (Loss from operations)                   | (\$2,055,205)       | (\$1,900,284)       | (\$2,029,907)       | (\$1,905,768)       | (\$1,822,017)       | (\$2,221,269)       | (\$1,152,841)       | (\$1,431,899)       | (\$2,470,039)       | (\$1,910,381)       |
| Total Non-Operating Income (Loss)                         | \$373,282           | \$554,156           | \$593,213           | \$682,909           | \$898,773           | \$1,123,190         | \$1,378,771         | \$1,742,486         | \$1,814,909         | \$1,921,980         |
| Capital Contributions and Assessments                     | <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>  | <u>\$2,334,412</u>  | <u>\$5,452,119</u>  | <u>\$3,213,569</u>  |
| Changes in net position                                   | (\$702,302)         | (\$649,476)         | (\$87,999)          | (\$669,522)         | \$982,140           | (\$203,548)         | \$1,630,772         | \$2,644,999         | \$4,796,990         | \$3,225,168         |
| 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>\$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> | <u>\$34,509,881</u> | <u>\$37,154,881</u> | <u>\$41,951,871</u> |
| Net position at end of year                               | <u>\$38,563,120</u> | <u>\$37,913,644</u> | <u>\$36,833,357</u> | <u>\$36,163,836</u> | <u>\$33,082,657</u> | <u>\$32,879,109</u> | <u>\$34,509,881</u> | <u>\$37,154,881</u> | <u>\$41,951,871</u> | <u>\$45,177,039</u> |

### Net Position at End of Year



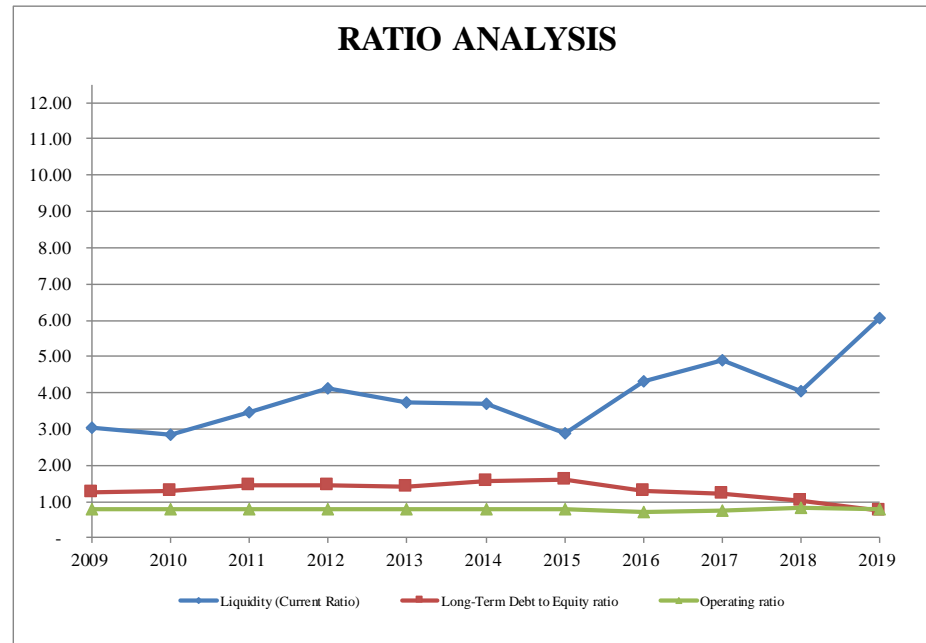
<sup>11</sup> Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

## Net Position by Component<sup>12</sup>

|                                  | <u>2010</u>         | <u>2011</u>         | <u>2012</u>         | <u>2013</u>         | <u>2014</u>         | <u>2015</u>         | <u>2016</u>         | <u>2017</u>         | <u>2018</u>         | <u>2019</u>         |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Net position</b>              |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Net investment in capital assets | \$29,464,863        | \$27,806,556        | \$26,621,121        | \$27,016,214        | \$27,495,374        | \$27,588,236        | \$28,981,560        | \$30,631,424        | \$36,023,464        | \$39,248,405        |
| Restricted for debt service      | 2,378,848           | 2,779,466           | 3,419,743           | 2,885,019           | 3,377,968           | 3,426,103           | 2,482,528           | 2,406,220           | 2,425,274           | 2,412,700           |
| Unrestricted                     | <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>    | <u>4,117,237</u>    | <u>3,503,133</u>    | <u>3,515,934</u>    |
| Net position                     | <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> | <u>\$37,154,881</u> | <u>\$41,951,871</u> | <u>\$45,177,039</u> |

## Ratio Analysis

|                                       | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Liquidity (Current Ratio)</b>      | 2.86        | 3.46        | 4.12        | 3.72        | 3.69        | 2.88        | 4.30        | 4.89        | 4.05        | 6.05        |
| <b>Long-Term Debt to Equity ratio</b> | 1.27        | 1.43        | 1.43        | 1.39        | 1.55        | 1.59        | 1.31        | 1.22        | 1.03        | 0.74        |
| <b>Operating ratio</b>                | 0.77        | 0.77        | 0.79        | 0.77        | 0.77        | 0.80        | 0.73        | 0.76        | 0.83        | 0.78        |



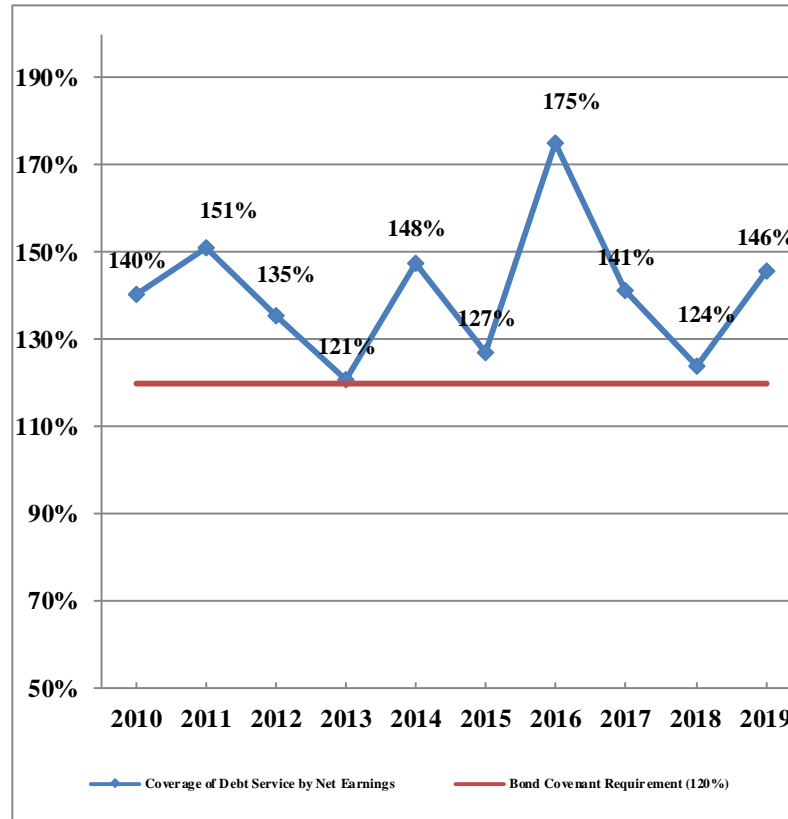
<sup>12</sup> Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. Fiscal years 2012 and onward reflect implementation of GASB 63 and GASB 65.

### Total Outstanding Debt by Debt Type

| <b>Fiscal Year</b> | <b>GO Bonds</b> | <b>Revenue Bonds</b> | <b>SRF Revenue Loans*</b> | <b>SRF GO Loans</b> | <b>Notes Payable</b> | <b>Total Outstanding Debt</b> | <b>Bond Premiums / discounts</b> | <b>Total Outstanding Debt Net of Amortization</b> | <b>Average Debt Per Customer</b> |
|--------------------|-----------------|----------------------|---------------------------|---------------------|----------------------|-------------------------------|----------------------------------|---|----------------------------------|
| 2019               | 6,823,102       | 22,811,429           | 3,692,024                 | 4,603,642           | 61,939               | 37,992,136                    | 54,851                           | 38,046,987  | 2,047                            |
| 2018               | 7,533,001       | 26,078,181           | 3,769,233                 | 4,924,110           | 79,939               | 42,384,464                    | 63,492                           | 42,447,956  | 2,303                            |
| 2017               | 8,222,841       | 28,770,617           | 2,755,436                 | 5,237,548           | 97,939               | 45,084,382                    | 72,133                           | 45,156,515  | 2,487                            |
| 2016               | 8,887,829       | 31,888,358           | 2,888,397                 | 5,528,734           | 115,939              | 49,309,257                    | 80,774                           | 49,390,031  | 2,748                            |
| 2015               | 9,528,162       | 34,677,573           | 2,563,810                 | 5,015,406           | 133,939              | 51,918,891                    | 44,988                           | 51,963,879  | 2,905                            |
| 2014               | 10,144,028      | 37,704,831           | -                         | 2,581,424           | 151,939              | 50,582,222                    | 45,019                           | 50,627,241  | 2,848                            |
| 2013               | 10,740,609      | 39,713,937           | -                         | 2,731,331           | 169,939              | 53,355,816                    | 45,050                           | 53,400,866  | 3,034                            |
| 2012               | 11,313,078      | 41,004,952           | -                         | 2,877,671           | 187,939              | 55,383,640                    | 812,333                          | 56,195,973  | 3,212                            |
| 2011               | 11,866,601      | 36,906,574           | 6,100,698                 | 3,018,480           | 205,939              | 58,098,292                    | 922,848                          | 59,021,140  | 3,383                            |
| 2010               | 8,476,338       | 34,383,013           | 6,587,376                 | 3,149,328           | 223,939              | 52,819,994                    | 956,624                          | 53,776,618  | 3,106                            |

Reference Note 7 on page 56 and Summary Schedule of Debt on pages 79 for supporting documentation. GASB 63 was implemented in fiscal year 2012 and deferred refunding are now reported as deferred outflows from refunding debt.

### Debt Service Coverage Analysis<sup>13</sup>



<sup>13</sup> 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, 2010        | Additions           | Disposals        | Transfers           | Fiscal Year 2011<br>Reclassifications | June 30, 2019        |
|--|----------------------|---------------------|------------------|---------------------|---------------------------------------|----------------------|
| <b>Capital assets not being depreciated:</b> |                      |                     |                  |                     |                                       |                      |
| Land   | \$ 1,299,194         | -                   | -                | -                   | -                                     | \$ 1,299,194         |
| Construction in Progress                     | <u>1,236,180</u>     | <u>34,328,205</u>   | <u>(131,904)</u> | <u>(32,630,373)</u> | -                                     | <u>2,802,108</u>     |
| Total Capital Assets not being depreciated   | 2,535,374            | 34,328,205          | (131,904)        | (32,630,373)        | -                                     | 4,101,302            |
| <b>Capital assets being depreciated:</b>     |                      |                     |                  |                     |                                       |                      |
| Waterworks system                            | 50,684,177           | 630,397             | (1,244,331)      | 12,528,912          | 257,862                               | 62,857,016           |
| Sewage disposal system                       | 27,948,640           | 541,268             | (466,162)        | 19,453,406          | 1,596,254                             | 49,073,406           |
| Buildings                                    | 4,314,370            | -                   | -                | 39,579              | (14,858)                              | 4,339,091            |
| Sewage treatment facilities                  | 36,638,501           | 267,609             | (447,601)        | 251,533             | (1,927,081)                           | 34,782,963           |
| Transportation equipment                     | 687,913              | 859,886             | (454,873)        | -                   | 224,208                               | 1,317,134            |
| Operations furniture and equipment           | 1,861,500            | 473,692             | (610,706)        | 356,943             | (235,457)                             | 1,845,972            |
| Office furniture and equipment               | <u>580,797</u>       | <u>238,775</u>      | <u>(172,113)</u> | <u>-</u>            | <u>99,072</u>                         | <u>746,530</u>       |
| Sub Total                                    | 122,715,898          | 3,011,627           | (3,395,786)      | 32,630,373          | -                                     | 154,962,112          |
| Less Accumulated depreciation                | <u>(44,736,215)</u>  | <u>(41,179,553)</u> | <u>3,362,890</u> | <u>-</u>            | <u>-</u>                              | <u>(82,552,877)</u>  |
| Total capital assets being depreciated, net  | <u>77,979,683</u>    | <u>(38,167,926)</u> | <u>(32,896)</u>  | <u>32,630,373</u>   | <u>-</u>                              | <u>72,409,235</u>    |
| Year End Totals                              | <u>\$ 80,515,057</u> | <u>(3,839,721)</u>  | <u>(164,800)</u> | <u>-</u>            | <u>-</u>                              | <u>\$ 76,510,537</u> |

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

|                          | 2010                 | 2011                 | 2012                 | 2013                 | 2014                 | 2015                 | 2016                 | 2017                 | 2018                 | 2019                 |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| PP&E                     | \$ 124,015,092       | \$ 126,932,175       | \$ 134,001,976       | \$ 135,459,397       | \$ 137,039,159       | \$ 138,683,537       | \$ 146,346,818       | \$ 147,901,161       | \$ 155,357,834       | \$ 156,261,306       |
| Accumulated Depreciation | <u>(44,736,215)</u>  | <u>(49,097,940)</u>  | <u>(53,557,747)</u>  | <u>(57,977,115)</u>  | <u>(62,222,569)</u>  | <u>(65,972,348)</u>  | <u>(70,288,692)</u>  | <u>(74,619,859)</u>  | <u>(78,115,155)</u>  | <u>(82,552,877)</u>  |
| Net PP&E in Service      | 79,278,877           | 77,834,235           | 80,444,229           | 77,482,282           | 74,816,590           | 72,711,189           | 76,058,127           | 73,281,302           | 77,242,680           | 73,708,429           |
| Construction in Progress | <u>1,236,180</u>     | <u>3,514,449</u>     | <u>553,892</u>       | <u>441,125</u>       | <u>1,625,744</u>     | <u>5,926,019</u>     | <u>785,002</u>       | <u>1,457,297</u>     | <u>513,974</u>       | <u>2,802,108</u>     |
| Net PP&E                 | <u>\$ 80,515,057</u> | <u>\$ 81,348,684</u> | <u>\$ 80,998,121</u> | <u>\$ 77,923,407</u> | <u>\$ 76,442,334</u> | <u>\$ 78,637,208</u> | <u>\$ 76,843,129</u> | <u>\$ 74,738,599</u> | <u>\$ 77,756,658</u> | <u>\$ 76,510,537</u> |

### Customer Statistics at Fiscal Year-End<sup>14</sup>

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

| <b>Year</b> | <b>Water</b> | <b>Percent Increase</b> | <b>Wastewater</b> | <b>Percent Increase</b> | <b>Ratio of Customers with Both Services</b> |
|-------------|--------------|-------------------------|-------------------|-------------------------|--|
| 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%  |
| 2017        | 17,076       | 1.0%                    | 15,961            | 1.3%                    | 93.5%  |
| 2018        | 17,345       | 1.6%                    | 16,258            | 1.9%                    | 93.7%  |
| 2019        | 17,503       | 2.5%                    | 16,473            | 1.3%                    | 94.1%  |

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<sup>14</sup> These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

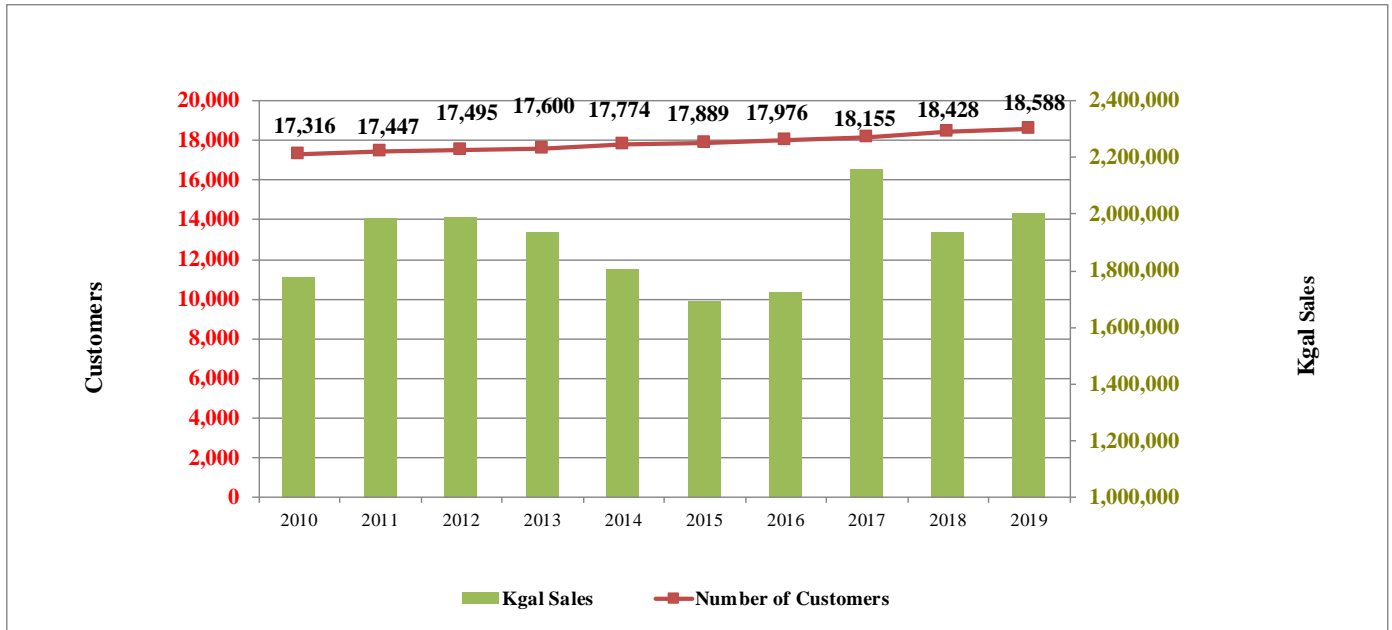
| <b>Year</b> | <b>Just Water Meters</b> | <b>Percent Increase</b> | <b>Wastewater</b> | <b>% Inc</b> |
|-------------|--------------------------|-------------------------|-------------------|--------------|
| 2010        | 1,486,416                | -8.8%                   | 1,279,144         | -10.7%       |
| 2011        | 1,644,020                | 10.6%                   | 1,426,486         | 11.5%        |
| 2012        | 1,656,442                | 0.8%                    | 1,425,564         | -0.1%        |
| 2013        | 1,605,369                | -3.1%                   | 1,393,724         | -2.2%        |
| 2014        | 1,537,065                | -4.3%                   | 1,320,838         | -5.2%        |
| 2015        | 1,439,514                | -6.3%                   | 1,274,826         | -3.5%        |
| 2016        | 1,475,858                | 2.5%                    | 1,275,251         | 0.03%        |
| 2017        | 1,819,663                | 23.3%                   | 1,573,203         | 23.4%        |
| 2018        | 1,640,939                | -9.8%                   | 1,402,469         | -10.9%       |
| 2019        | 1,680,080                | 2.4%                    | 1,474,373         | 5.1%         |

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

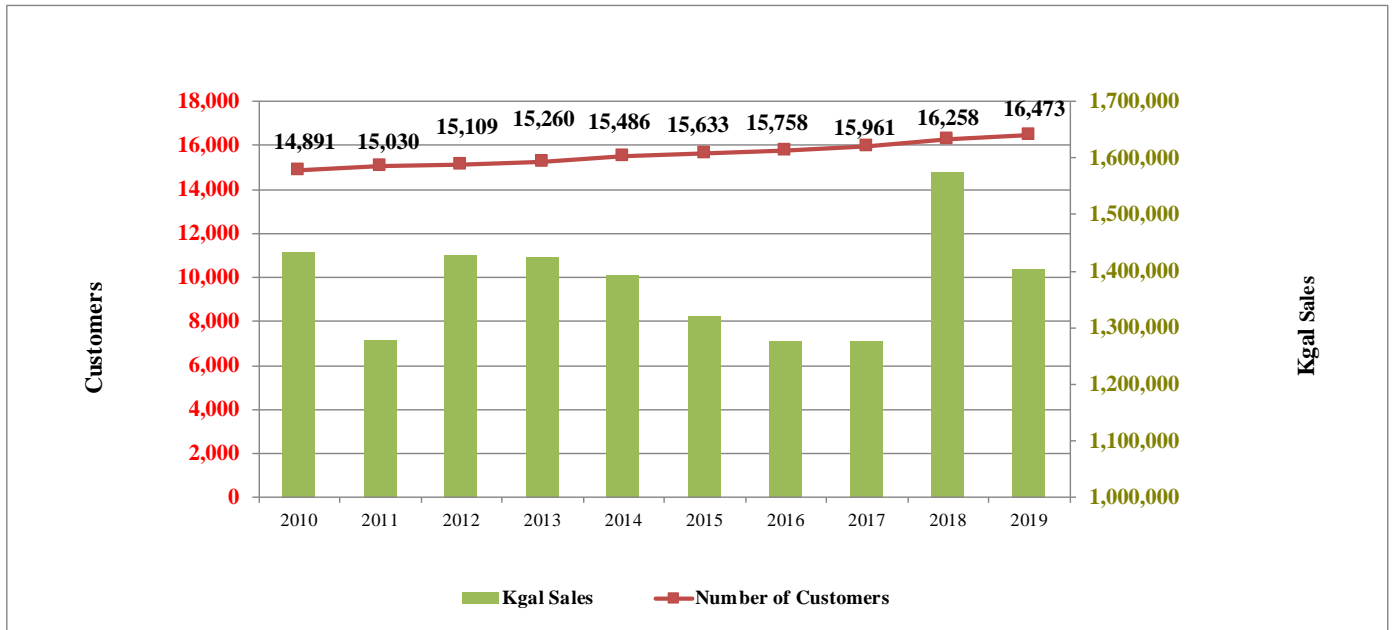
Reported in kgals (thousands of gallons)

| <b>Year</b> | <b>Water &amp; Irrigation Meters</b> | <b>Percent Increase</b> | <b>Wastewater</b> | <b>% Inc</b> |
|-------------|--------------------------------------|-------------------------|-------------------|--------------|
| 2010        | 1,773,200                            | -9.4%                   | 1,279,144         | -10.7%       |
| 2011        | 1,983,289                            | 11.8%                   | 1,426,486         | 11.5%        |
| 2012        | 1,986,913                            | 0.2%                    | 1,425,564         | -0.1%        |
| 2013        | 1,935,918                            | -2.6%                   | 1,393,724         | -2.2%        |
| 2014        | 1,806,920                            | -6.7%                   | 1,320,838         | -5.2%        |
| 2015        | 1,692,874                            | -6.3%                   | 1,274,826         | -3.5%        |
| 2016        | 1,724,451                            | 1.9%                    | 1,275,251         | 0.03%        |
| 2017        | 2,159,321                            | 25.2%                   | 1,573,203         | 23.4%        |
| 2018        | 1,933,031                            | -10.5%                  | 1,402,469         | -10.9%       |
| 2019        | 2,006,513                            | 3.8%                    | 1,474,373         | 5.1%         |

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



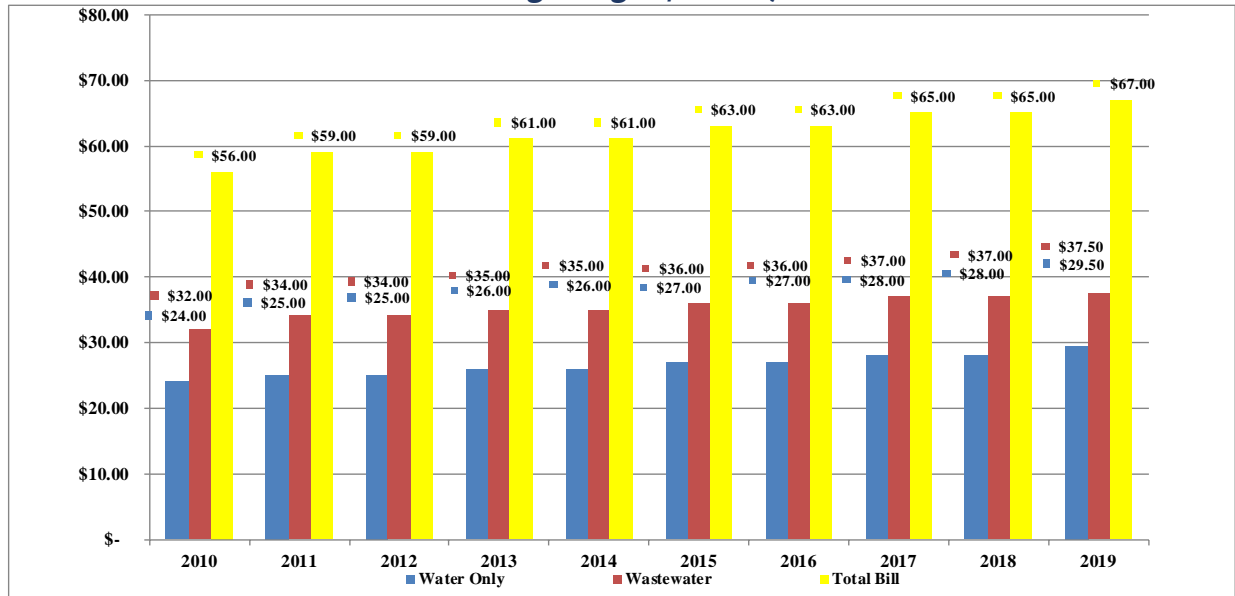
### Sewer Customers vs. Wastewater Kgal Sales



## Water and Wastewater Rate Comparisons

| <b>Water Rate Comparison</b>   |                                    |           |           |          |           |          |           |          |          |          |          |
|--|------------------------------------|-----------|-----------|----------|-----------|----------|-----------|----------|----------|----------|----------|
| Effective Date   |                                    |           |           |          |           |          |           |          |          |          |          |
|  |                                    | FY'10 (1) | FY'11 (2) | FY'12    | FY'13 (3) | FY'14    | FY'15 (4) | FY'16    | FY'17    | FY'18    | FY'19    |
| Residential Water  | Base Charge                        | \$ 10.00  | \$ 11.00  | \$ 11.00 | \$ 12.00  | \$ 12.00 | \$ 13.00  | \$ 13.00 | \$ 14.00 | \$ 14.00 | \$ 15.50 |
|  | First 10,000 Gallons               | \$ 1.40   | \$ 1.40   | \$ 1.40  | \$ 1.40   | \$ 1.40  | \$ 1.40   | \$ 1.40  | \$ 1.40  | \$ 1.40  | \$ 1.40  |
|  | Next 10,001 to 20,000 gallons      | \$ 1.71   | \$ 1.71   | \$ 1.71  | \$ 1.71   | \$ 1.71  | \$ 1.71   | \$ 1.71  | \$ 1.71  | \$ 1.71  | \$ 1.72  |
|  | Next 20,001 to 30,000 gallons      | \$ 2.20   | \$ 2.20   | \$ 2.20  | \$ 2.20   | \$ 2.20  | \$ 2.20   | \$ 2.20  | \$ 2.20  | \$ 2.20  | \$ 2.18  |
|  | Over 30,000 gallons                | \$ 2.55   | \$ 2.55   | \$ 2.55  | \$ 2.55   | \$ 2.55  | \$ 2.55   | \$ 2.55  | \$ 2.55  | \$ 2.55  | \$ 2.60  |
| Residential Irrigation   | Base Charge                        | \$ 10.00  | \$ 11.00  | \$ 11.00 | \$ 12.00  | \$ 12.00 | \$ 13.00  | \$ 13.00 | \$ 14.00 | \$ 14.00 | \$ 15.50 |
|  | First 10,000 Gallons Irrigation    | \$ 1.40   | \$ 1.71   | \$ 1.71  | \$ 1.71   | \$ 1.71  | \$ 1.71   | \$ 1.71  | \$ 1.71  | \$ 1.71  | \$ 1.72  |
|  | Next 10,001 to 20,000 gallons      | \$ 1.71   | \$ 1.71   | \$ 1.71  | \$ 1.71   | \$ 1.71  | \$ 1.71   | \$ 1.71  | \$ 1.71  | \$ 1.71  | \$ 1.72  |
|  | Next 20,001 to 30,000 gallons      | \$ 2.20   | \$ 2.20   | \$ 2.20  | \$ 2.20   | \$ 2.20  | \$ 2.20   | \$ 2.20  | \$ 2.20  | \$ 2.20  | \$ 2.18  |
|  | Over 30,000 gallons                | \$ 2.55   | \$ 2.55   | \$ 2.55  | \$ 2.55   | \$ 2.55  | \$ 2.55   | \$ 2.55  | \$ 2.55  | \$ 2.55  | \$ 2.60  |
| Commercial Water and Irrigation  | Base Charge                        | \$ 15.00  | \$ 16.00  | \$ 16.00 | \$ 17.00  | \$ 17.00 | \$ 18.00  | \$ 18.00 | \$ 19.00 | \$ 19.00 | \$ 20.50 |
|  | First 10,000 Gallons               | \$ 1.69   | \$ 1.69   | \$ 1.69  | \$ 1.69   | \$ 1.69  | \$ 1.69   | \$ 1.69  | \$ 1.69  | \$ 1.69  | \$ 1.69  |
|  | Next 10,001 to 20,000 gallons      | \$ 1.99   | \$ 1.99   | \$ 1.99  | \$ 1.99   | \$ 1.99  | \$ 1.99   | \$ 1.99  | \$ 1.99  | \$ 1.99  | \$ 2.01  |
|  | Next 20,001 to 30,000 gallons      | \$ 2.51   | \$ 2.51   | \$ 2.51  | \$ 2.51   | \$ 2.51  | \$ 2.51   | \$ 2.51  | \$ 2.51  | \$ 2.51  | \$ 2.52  |
|  | Over 30,000 gallons                | \$ 2.87   | \$ 2.87   | \$ 2.87  | \$ 2.87   | \$ 2.87  | \$ 2.87   | \$ 2.87  | \$ 2.87  | \$ 2.87  | \$ 2.97  |
| (1) Effective May 1, 2011<br>(2) Effective January 1, 2011<br>(3) Effective January 1, 2013<br>(4) Effective January 1, 2015 |                                    |           |           |          |           |          |           |          |          |          |          |
| <b>Wastewater Rate Comparison</b>  |                                    |           |           |          |           |          |           |          |          |          |          |
| Effective Date   |                                    |           |           |          |           |          |           |          |          |          |          |
|  |                                    | FY'10 (1) | FY'11 (2) | FY'12    | FY'13 (3) | FY'14    | FY'15 (4) | FY'16    | FY'17    | FY'18    | FY'19    |
| Residential  | Base Charge                        | \$ 12.00  | \$ 14.00  | \$ 14.00 | \$ 15.00  | \$ 15.00 | \$ 16.00  | \$ 16.00 | \$ 17.00 | \$ 17.00 | \$ 17.50 |
|  | Per 1,000 gallons with 10 kgal Cap | \$ 2.00   | \$ 2.00   | \$ 2.00  | \$ 2.00   | \$ 2.00  | \$ 2.00   | \$ 2.00  | \$ 2.00  | \$ 2.00  | \$ 2.00  |
| Commercial   | Base Charge                        | \$ 12.00  | \$ 14.00  | \$ 14.00 | \$ 15.00  | \$ 15.00 | \$ 16.00  | \$ 16.00 | \$ 17.00 | \$ 17.00 | \$ 17.50 |
|  | Per 1,000 gallons (No Cap)         | \$ 1.60   | \$ 2.00   | \$ 2.00  | \$ 2.00   | \$ 2.00  | \$ 2.00   | \$ 2.00  | \$ 2.00  | \$ 2.00  | \$ 2.00  |
| (1) Effective May 1, 2011<br>(2) Effective January 1, 2011<br>(3) Effective January 1, 2013<br>(4) 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)   | 2010   | 2011   | 2012   | 2013***  | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     |
|--|--------|--------|--------|----------|----------|----------|----------|----------|----------|----------|
| 3/4" Meter   | \$ 430 | \$ 430 | \$ 430 | \$ 640   | \$ 640   | \$ 640   | \$ 640   | \$ 640   | \$ 640   | \$ 640   |
| 1" Meter   | 570    | 570    | 570    | 850      | 850      | 850      | 850      | 850      | 850      | 850      |
| 2" Meter with meter box and backflow   | 2,090  | 2,090  | 2,090  | 2,330    | 2,330    | 2,330    | 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)  | 2010   | 2011   | 2012   | 2013***  | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     |
| 3/4" Meter   | \$ 430 | \$ 430 | \$ 430 | \$ 1,020 | \$ 1,020 | \$ 1,020 | \$ 1,020 | \$ 1,020 | \$ 1,020 | \$ 1,020 |
| 1" Meter   | 570    | 570    | 570    | 1,080    | 1,080    | 1,080    | 1,080    | 1,080    | 1,080    | 1,080    |
| 2" Meter with meter box and backflow   | 2,090  | 2,090  | 2,090  | T&M      | T&M      | T&M      | T&M      | T&M      | T&M      | T&M      |
| 3" Meter with meter box and backflow (Time and Material)*  | T&M    | T&M    | T&M    | T&M      | T&M      | T&M      | T&M      | T&M      | T&M      | T&M      |
| * T&M equals Time and Materials  |        |        |        |          |          |          |          |          |          |          |
| ** Rate change 10/1/2009   |        |        |        |          |          |          |          |          |          |          |
| *** Rate change 7/1/2013   |        |        |        |          |          |          |          |          |          |          |
| <b>Sewer Installation Fees for fiscal years 2007 through 2016:</b>   |        |        |        |          |          |          |          |          |          |          |
| A. Sewer Service Installation Fee Individual 4 Inch Lateral: \$1,200   |        |        |        |          |          |          |          |          |          |          |
| 6 feet in depth: Time and Materials  |        |        |        |          |          |          |          |          |          |          |
| <b>Sewer Inspection Fee:</b>   |        |        |        |          |          |          |          |          |          |          |
| 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: <a href="http://www.hpsd.com/fees">http://www.hpsd.com/fees</a>  |        |        |        |          |          |          |          |          |          |          |

### 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. The District offers a one-year, interest free, payment plan for all capacity fees. The installments are placed on a customer's utility bill. |            |
|--|------------|
| Capacity Fee (per unit)  |            |
| Water Capacity (House)   | \$2,400.00 |
| Water Capacity (Mobile Home)   | \$1,800.00 |
| Sewer Capacity   | \$3,040.00 |
| * The same water and sewer capacity fees have been in effect since 2005.   |            |

## Population per Capita Income

Last Ten Available Years

| Year | Hilton Head |            | Beaufort County |            | South Carolina |            |
|------|-------------|------------|-----------------|------------|----------------|------------|
|      | Population  | Per Capita | Population      | Per Capita | Population     | Per Capita |
| 2008 | 33,913      | \$42,611   | 147,316         | \$45,427   | 4,528,996      | \$26,421   |
| 2009 | 34,249      | 41,951     | 150,415         | 46,790     | 4,589,872      | 25,180     |
| 2010 | 37,099      | 40,798     | 155,215         | 31,081     | 4,635,835      | 24,359     |
| 2011 | 37,585      | 41,846     | 162,233         | 32,116     | 4,673,348      | 24,109     |
| 2012 | 38,366      | 39,703     | 164,684         | 32,731     | 4,723,723      | 24,457     |
| 2013 | 38,375      | 40,853     | 168,049         | 32,891     | 4,774,839      | 24,407     |
| 2014 | 40,039      | 47,049     | 171,838         | 32,503     | 4,832,482      | 24,936     |
| 2015 | 40,456      | 46,091     | 175,852         | 32,290     | 4,896,146      | 25,951     |
| 2016 | 40,512      | 44,869     | 179,859         | 32,401     | 4,961,119      | 27,016     |
| 2017 | 40,500      | 47,454     | 186,844         | 33,877     | 5,024,369      | 25,521     |
| 2018 | 39,639      | 50,289     | 188,714         | 34,966     | 5,084,127      | 27,909     |

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

## Beaufort County Top Employers 2018

| Employer                                 | Employees | Type of Business   |
|--|-----------|--------------------|
| Atlantic Personnel Inc.                  | *         | Employment Company |
| Beaufort County School District          | *         | Educational        |
| Beaufort Memorial Hospital               | *         | Health Services    |
| Carecore National LLC                    | *         | Health Services    |
| County of Beaufort                       | *         | Government         |
| Cypress Club Inc.                        | *         | Property           |
| Department of Defense                    | *         | Government         |
| Hargray Communications                   | *         | Telecommunications |
| Lowes Home Centers Inc.                  | *         | Home Improvement   |
| Marine Corps Community Services          | *         | Government         |
| Marriott Resorts Hospitality Corporation | *         | Hospitality        |
| Montage Hotels and Resorts LLC           | *         | Hospitality        |
| Publix Super Markets Inc.                | *         | Retail             |
| Sea Pines Resorrt LLC                    | *         | Hospitality        |
| Technical College of the Lowcountry      | *         | Educational        |
| Tenet Physician Services of Hilton Head  | *         | Health Services    |
| The Greenery Inc.                        | *         | Retail             |
| Town of Hilton Head Island               | *         | Government         |
| University of South Carolina             | *         | Educational        |
| Wal-Mart Associates Inc.                 | *         | Retail             |

\* South Carolina Department of Employment & Workforce would provide only the top twenty employers.

## Beaufort County Labor Force and Employment

| Category             | 2018   | 2017   | 2016   | 2015   | 2014   | 2013   | 2012   | 2011   | 2010   | 2009   |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Civilian Labor Force | 75,517 | 74,104 | 72,535 | 71,661 | 69,435 | 67,239 | 65,919 | 65,469 | 65,336 | 62,884 |
| Employment           | 73,082 | 71,113 | 69,081 | 67,748 | 65,493 | 62,946 | 60,939 | 59,777 | 59,684 | 57,398 |
| Unemployment         | 2,435  | 2,991  | 3,454  | 3,913  | 3,942  | 4,293  | 4,980  | 5,692  | 5,652  | 5,486  |
| Unemployment Rate    | 3.2%   | 4.00%  | 4.80%  | 5.50%  | 5.70%  | 6.40%  | 7.60%  | 8.70%  | 8.70%  | 8.70%  |

Source: South Carolina Department of Employment and Workforce and Federal Reserve Economic Data

## Unemployment Rate Comparison

| Year | County | South Carolina | United States |
|------|--------|----------------|---------------|
| 2018 | 3.2%   | 3.4%           | 3.9%          |
| 2017 | 4.0%   | 4.3%           | 4.4%          |
| 2016 | 4.8%   | 5.0%           | 4.9%          |
| 2015 | 5.5%   | 6.0%           | 5.3%          |
| 2014 | 5.7%   | 6.5%           | 6.2%          |
| 2013 | 6.4%   | 7.6%           | 7.4%          |
| 2012 | 7.6%   | 9.2%           | 8.1%          |
| 2011 | 8.7%   | 10.6%          | 8.9%          |
| 2010 | 8.7%   | 11.2%          | 9.6%          |

Source: South Carolina Department of Employment and Workforce and the Bureau of Labor Statistics.

## The District's Millage History

| Debt Type    | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--------------|------|------|------|------|------|------|------|------|------|------|
| Operations   | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Debt Service | 4.10 | 4.05 | 4.40 | 4.31 | 4.57 | 4.61 | 3.52 | 3.90 | 3.52 | 3.61 |
| Total        | 7.10 | 7.05 | 7.40 | 7.31 | 7.57 | 7.61 | 6.52 | 6.90 | 6.52 | 6.61 |

## Ratio of (net) General Obligation Bonded Debt<sup>15</sup>

| Fiscal Year | Tax Year | General Obligation Debt | Real Property             |                        | Motor Vehicle & Other        |                        | Total Estimated Actual Values | Ratio of (net) General bonded debt |
|-------------|----------|-------------------------|---------------------------|------------------------|------------------------------|------------------------|-------------------------------|------------------------------------|
|             |          |                         | Assessed Value at 4% & 6% | Estimated Actual Value | Assessed Value Various Rates | Estimated Actual Value |                               |                                    |
| 2019        | 2018     | \$ 11,426,744           | \$ 330,973,070            | \$ 7,245,166,055       | \$ 44,296,700                | \$ 560,559,700         | \$ 7,805,725,755              | 0.15%                              |
| 2018        | 2017     | 12,457,111              | 313,474,250               | 6,593,452,555          | 47,948,390                   | 605,907,660            | 7,199,360,215                 | 0.17%                              |
| 2017        | 2016     | 13,460,389              | 307,474,970               | 6,463,601,255          | 41,091,500                   | 501,946,760            | 6,965,548,015                 | 0.19%                              |
| 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%                              |

Source: Beaufort County Treasurer and the District Official Statement Reference page 98 Assessed Values of the District

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

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

(3) The estimated actual values were not available for fiscal year 2008.

<sup>15</sup> Total General Obligation debt equals GO Bonds and GO Notes Payable.

## 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 |
|-------------|----------|----------------|----------------------|--|---------------------|---------------------------|----------------------|-----------------------|---------------------------|
| 2019        | 2018     | \$ 330,973,070 | \$ 44,296,700        | \$ 375,269,770                           | \$ 30,021,582       | \$ 11,426,744             | \$ 18,594,838        | 38%                   | \$ 615                    |
| 2018        | 2017     | 313,474,250    | 47,948,390           | 361,422,640                              | 28,913,811          | 12,457,111                | 16,456,700           | 43%                   | 676                       |
| 2017        | 2016     | 307,474,970    | 41,091,500           | 348,566,470                              | 27,885,318          | 13,460,389                | 14,424,929           | 48%                   | 741                       |
| 2016        | 2015     | 304,425,280    | 44,258,230           | 348,683,510                              | 27,894,681          | 14,416,563                | 13,478,118           | 52%                   | 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                       |

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 2010 through FY 2019.

### 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 2018, 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 \$375,269,770 and thus the eight percent (8%) debt limit of the District is not less than \$30,021,582. 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, 2019</u> |
|--------------------------|--------------------------------------|------------------------|--|
| Series 2007              | October 3, 2007                      | \$ 7,350,000           | \$ 3,765,000                                   |
| SRF - Series 2007        | January 23, 2008                     | 2,876,532              | 1,511,042                                      |
| SIRF - Series 2007       | April 14, 2008                       | 480,480                | 264,119  |
| Series 2009              | July 30, 2009                        | 1,781,694              | 708,102  |
| Series 2010              | August 24, 2010                      | 3,970,000              | 2,350,000                                      |
| SRF - Series 2014        | September 10, 2014                   | 3,750,000              | 2,828,481                                      |
|                          | <b>Total Indebtedness - GO Bonds</b> | <b>\$ 20,208,706</b>   | <b>\$ 11,426,744</b>                           |

Source for Outstanding balance. Reference Summary Schedule of Debt on page 79.

### General Obligation Outstanding Debt

As of June 30, 2019, the outstanding aggregate principal amounts due on the GO Bonds was \$11,426,746 and includes: (A) \$3,765,000 in outstanding principal due on the 2007 Bonds; (B) \$1,511,042 in outstanding principal due on the SRF 2007 Bond; (C) \$264,119 in outstanding principal due on the SIRF 2007 Bond; (D) \$708,102 in outstanding principal due on the 2009 Bond; (E) \$2,350,000 in outstanding principal due on the 2010 Bond and (F) \$2,828,481 in outstanding principal due on the SRF 2014 Bond.

## Overlapping Debt

| <b>Government Unit</b>   | <b>Tax Year<br/>2018<br/>Debt<br/>Outstanding</b> | <b>Estimated<br/>Percentage<br/>Applicable<sup>a</sup></b> | <b>Estimated<br/>Share of<br/>Direct and<br/>Overlapping<br/>Debt</b> |
|--|---|--|---|
| <b>Debt repaid with property taxes</b>   |   |  |   |
| Beaufort County School District  | \$ 276,393,221                                    | 18%  | \$ 50,628,416   |
| Beaufort County  | 213,830,070                                       | 18%  | 39,380,872  |
| Town of Hilton Head  | 141,344,265                                       | 40%  | 56,724,389  |
| <b>Subtotal, overlapping debt</b>  |   |  | <b>146,733,677</b>  |
| <b>Hilton Head No.1 PSD direct debt</b>  |   |  | <b>11,426,744</b>   |
| <b>Total direct and overlapping debt</b>   |   |  | <b>\$ 158,160,421</b>   |
| <p><b>Sources:</b> Assessed value data used to estimate applicable percentages provided by the Beaufort County Auditor/Treasurer's Office. Debt outstanding provided by each governmental unit.</p> <p><b>Notes:</b> Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Hilton Head No.1 Public Service District. This process recognizes that, when considering 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.</p> <p><sup>a</sup>For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the District's boundaries dividing it by each unit's total taxable assessed value.</p> |   |  |   |

## Assessed Values of the District

| <b>Fiscal Year</b> | <b>Tax Year</b> | <b>Real Property</b>  | <b>Personal Property(1)</b> | <b>Total</b>       |
|--------------------|-----------------|-----------------------|-----------------------------|--------------------|
| <b>2019</b>        | <b>2018</b>     | <b>\$ 330,973,070</b> | <b>\$ 44,296,700</b>        | <b>375,269,770</b> |
| 2018               | 2017            | 313,474,250           | 47,948,390                  | 361,422,640        |
| 2017               | 2016            | 307,474,970           | 41,091,500                  | 348,566,470        |
| 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        |

Source: Beaufort County Treasurer

(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 2018 Market Value for the District

| Classification                                  | Assessed Value | Assessment Ratio | Market Value  |
|---|----------------|------------------|---------------|
| 1. Real Property and Mobile Homes               | 146,277,940    | 4.00%            | 3,810,508,400 |
| 2. Real Property and Mobile Homes               | 184,695,130    | 6.00%            | 3,434,657,655 |
| 3. Business Personal Property                   | 4,209,380      | 10.50%           | 39,845,990    |
| 4. Merchant's Furniture, Fixtures and Equipment | 1,103,610      | 10.50%           | 10,483,630    |
| 5. Motor Vehicles <sup>(1)</sup>                | 22,327,630     | Various          | 342,227,270   |
| 6. Marine Equipment <sup>(2)</sup>              | 2,559,270      | Various          | 40,713,940    |
| 7. Airplanes                                    | 133,140        | 4.00%            | 2,218,750     |
| 8. Manufacturing Property                       | 184,170        | 10.50%           | 1,754,020     |
| 9. Public Utilities                             | 10,945,300     | 10.50%           | 104,240,970   |
| 10. Rental Property and Signs <sup>(3)</sup>    | 2,834,200      | Various          | 19,075,130    |

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 Treasurer's Office.

(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 |
|------------------|-----------------------------|---------------------|---------------------|----------------------------|-------------------|-------------------|
| <b>2018-2019</b> | \$ 67,160,792               | \$ 64,263,785       | 96%                 | \$ 901,174                 | \$ 65,164,959     | 97.0%             |
| 2017-2018        | 67,237,267                  | 63,969,971          | 95%                 | 842,101                    | 64,812,072        | 96.4%             |
| 2016-2017        | 61,258,283                  | 57,974,087          | 95%                 | 1,004,279                  | 58,978,366        | 96.3%             |
| 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%             |

Source: Beaufort County Treasurer.

### Tax Year 2018 - District Largest Taxpayers

| Employer                                    | Type of Business | 2018<br>Assessed<br>Value | 2018-19<br>Amounts Paid |
|---|------------------|---------------------------|-------------------------|
| Marriot Ownership Resort INC                | Real Estate      | \$ 6,084,710              | \$ 1,440,686            |
| Palmetto Electric Coop                      | Utility          | 4,761,100                 | 1,040,535               |
| SCG Hilton Head Property LLC                | Real Estate      | 4,335,720                 | 1,021,930               |
| Hargray Telephone Company                   | Utility          | 4,193,300                 | 976,549                 |
| Barnwell Family Associates LLC              | Real Estate      | 2,095,470                 | 494,663                 |
| Bayshore Hilton Head                        | Medical          | 1,793,100                 | 423,141                 |
| Time Warner Cable Southeast                 | Cable            | 1,220,570                 | 282,794                 |
| Hilton Head Health System LP                | Medical          | 1,104,280                 | 269,740                 |
| Swope Properties LLC                        | Real Estate      | 978,390                   | 241,254                 |
| Heritage Golf Port Royal                    | Golf             | 904,140                   | 235,607                 |
| Source: Beaufort County Treasurer's Office. |                  |                           |                         |

### District Top Ten Water/Irrigation Customers

Fiscal year ended June 30, 2019

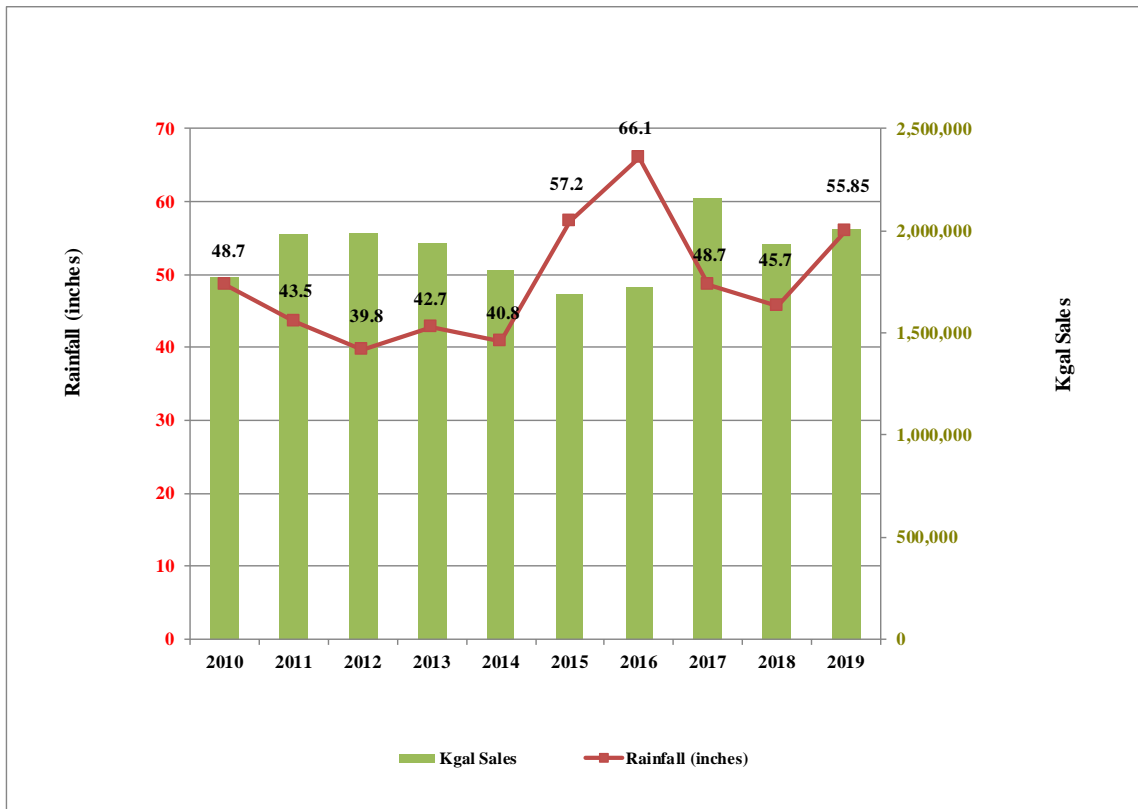
| User Name                          | Type              | 2019 Billed Revenues | % of Total 2018 Billed Revenues |
|------------------------------------|-------------------|----------------------|---------------------------------|
| Hilton Head Beach & Tennis         | Resort            | \$ 201,824           | 2.82%                           |
| Westin Resort                      | Resort            | 134,799              | 1.89%                           |
| Cypress of Hilton Head Association | Residential Homes | 108,023              | 1.51%                           |
| Hilton Head Resort/Four Seasons    | Resort            | 99,626               | 1.39%                           |
| Marriott Surfwatch                 | Resort            | 89,459               | 1.25%                           |
| Spa at Port Royal                  | Resort            | 83,259               | 1.16%                           |
| Fiddlers Cove                      | Condo Complex     | 83,258               | 1.16%                           |
| Marriott Vacation Club             | Resort            | 72,210               | 1.01%                           |
| Marshside Owner's Association      | Apartment Complex | 69,679               | 0.97%                           |
| IMC                                | Apartment Complex | 45,640               | 0.64%                           |
| Remaining Customers                |                   | <u>6,160,828</u>     | <u>86.18%</u>                   |
|                                    |                   | <u>\$ 7,148,606</u>  | 100.00%                         |

### District Top Ten Wastewater Customers

Fiscal year ended June 30, 2019

| User Name                          | Type              | 2019 Billed Revenues | % of Total 2018 Billed Revenues |
|------------------------------------|-------------------|----------------------|---------------------------------|
| Hilton Head Beach & Tennis         | Resort            | \$ 209,142           | 3.87%                           |
| Westin Resort                      | Resort            | 125,358              | 2.32%                           |
| Hilton Head Resort/Four Seasons    | Resort            | 118,439              | 2.19%                           |
| Fiddler's Cove                     | Condo Complex     | 94,014               | 1.74%                           |
| Marriott Vacation Club             | Resort            | 73,866               | 1.37%                           |
| Spa at Port Royal                  | Resort            | 73,448               | 1.36%                           |
| Marriott Surfwatch                 | Resort            | 72,421               | 1.34%                           |
| Marshside Owners Association       | Apartment Complex | 70,243               | 1.30%                           |
| Cypress of Hilton Head Association | Residential Homes | 68,322               | 1.26%                           |
| IMC                                | Apartment Complex | 55,180               | 1.02%                           |
| Remaining Customers                |                   | <u>4,447,656</u>     | <u>82.24%</u>                   |
|                                    |                   | <u>\$ 5,408,090</u>  | 100.00%                         |

## Rainfall (inches) vs. Water/Irrigation Kgal Sales



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

### Water Purchased from BJWSA Summary (Whole Dollars)

|  | FY<br>2010 <sup>1</sup> | FY<br>2011          | FY<br>2012          | FY<br>2013        | FY<br>2014        | FY<br>2015        | FY<br>2016        | FY<br>2017          | FY<br>2018          | FY<br>2019          |
|--|-------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| <b>All District Purchases from BJWSA</b> | \$ 934,368              | \$ 1,199,029        | \$ 1,472,568        | \$ 1,183,047      | \$ 984,044        | \$ 1,110,409      | \$ 812,457        | \$ 1,555,262        | \$ 1,460,476        | \$ 1,472,872        |
| Reclaimed Water Adjustment <sup>2</sup>  | 25,920                  | -                   | -                   | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Broad Creek Purchases                    | (213,717)               | (174,574)           | (192,363)           | (170,383)         | (162,657)         | (109,306)         | (73,259)          | (320,129)           | (127,776)           | (82,490)            |
| Capitalized Purchased Water              | -                       | -                   | (171,887)           | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Prepaid Purchased Water Expense          | -                       | -                   | (79,529)            | (195,222)         | (195,783)         | (210,007)         | (195,537)         | (217,652)           | (216,031)           | (220,013)           |
| <b>Purchased Water Expense</b>           | <b>\$ 746,571</b>       | <b>\$ 1,024,455</b> | <b>\$ 1,028,789</b> | <b>\$ 817,441</b> | <b>\$ 625,603</b> | <b>\$ 791,096</b> | <b>\$ 543,661</b> | <b>\$ 1,017,482</b> | <b>\$ 1,116,669</b> | <b>\$ 1,170,368</b> |

### Water Purchased from BJWSA Summary (KGals)

|  | FY<br>2010     | FY<br>2011     | FY<br>2012       | FY<br>2013       | FY<br>2014     | FY<br>2015     | FY<br>2016     | FY<br>2017       | FY<br>2018       | FY<br>2019     |
|--|----------------|----------------|------------------|------------------|----------------|----------------|----------------|------------------|------------------|----------------|
| <b>All Kgals Purchased from BJWSA</b>    | <b>679,724</b> | <b>877,933</b> | <b>1,240,631</b> | <b>1,003,131</b> | <b>776,286</b> | <b>852,633</b> | <b>538,925</b> | <b>1,125,264</b> | <b>1,039,001</b> | <b>985,829</b> |
| Reclaimed Water Adjustment               | -              | -              | -                | -                | -              | -              | -              | -                | -                | -              |
| Broad Creek Purchases                    | (208,191)      | (178,539)      | (192,469)        | (152,148)        | (110,869)      | (67,224)       | (44,304)       | (251,213)        | (80,844)         | (49,207)       |
| Capitalized Purchased Water              | -              | -              | (217,579)        | -                | -              | -              | -              | -                | -                | -              |
| Prepaid Purchased Water Expense          | -              | -              | (79,413)         | (244,028)        | (240,743)      | (247,602)      | (232,782)      | (256,061)        | (251,199)        | (250,015)      |
| <b>Purchased Water (KGals)</b>           | <b>471,533</b> | <b>699,394</b> | <b>751,170</b>   | <b>606,955</b>   | <b>424,674</b> | <b>537,807</b> | <b>261,839</b> | <b>617,990</b>   | <b>706,958</b>   | <b>686,607</b> |
| Total Peak Purchases                     | 511,537        | 648,537        | 623,380          | 487,874          | 457,223        | 437,997        | 391,043        | 643,858          | 590,557          | 617,696        |
| Total Off-peak Purchases                 | 168,187        | 229,396        | 617,251          | 515,257          | 319,063        | 414,636        | 147,882        | 481,406          | 448,444          | 368,133        |
| <b>Total Off-peak and Peak Purchases</b> | <b>679,724</b> | <b>877,933</b> | <b>1,240,631</b> | <b>1,003,131</b> | <b>776,286</b> | <b>852,633</b> | <b>538,925</b> | <b>1,125,264</b> | <b>1,039,001</b> | <b>985,829</b> |

### BJWSA Rates Per Kgal Summary

|   | FY<br>2010 | FY<br>2011 | FY<br>2012 | FY<br>2013 | FY<br>2014 | FY<br>2015 | FY<br>2016 | FY<br>2017 | FY<br>2018 | FY<br>2019 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Rates Charged by BJWSA</b>   |            |            |            |            |            |            |            |            |            |            |
| Peak Rate   | \$ 1.58    | \$ 1.58    | \$ 1.58    | \$ 1.58    | \$ 1.58    | \$ 1.74    | \$ 1.76    | \$ 1.78    | \$ 1.82    | \$ 1.86    |
| Off Peak Rate   | \$ 0.75    | \$ 0.76    | \$ 0.79    | \$ 0.80    | \$ 0.82    | \$ 0.84    | \$ 0.84    | \$ 0.85    | \$ 0.86    | \$ 0.88    |
| <b>District Cost/Kgal Prior to Broad Creek Purchases<sup>3</sup></b>        |            |            |            |            |            |            |            |            |            |            |
|   | \$ 1.37    | \$ 1.37    | \$ 1.19    | \$ 1.18    | \$ 1.27    | \$ 1.30    | \$ 1.51    | \$ 1.38    | \$ 1.41    | \$ 1.49    |
| <b>Effective District Cost/Kgal After Broad Creek Purchases<sup>4</sup></b> |            |            |            |            |            |            |            |            |            |            |
|   | \$ 1.53    | \$ 1.46    | \$ 1.22    | \$ 1.19    | \$ 1.23    | \$ 1.27    | \$ 1.49    | \$ 1.41    | \$ 1.39    | \$ 1.48    |

<sup>1</sup> Off-peak rate agreement signed September, 2009 and the rate increases every year based on CPI.

<sup>2</sup> This adjustment adds the potable water expense associated with providing reclaimed water to golf courses at a reduced rate in exchange for potable water withdrawal rights to certain wells.

<sup>3</sup> Combined peak and off-peak purchases calculated as all District purchases from BJWSA divided by all Kgals purchased from BJWSA.

<sup>4</sup> 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.



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