



Hilton Head Public Service District Comprehensive Annual Financial Report



**For Fiscal Years Ended
June 30, 2014 and June 30, 2013**

Hilton Head No.1 Public Service District
 Comprehensive Annual Financial Report
 For Fiscal Years Ended June 30, 2014 and June 30, 2013

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On the cover: The PSD modeled the way in 2013-2014 by installing a water-efficient rain garden at our Water Resource Center. The garden is irrigated using a rain barrel and features native plants such as blue flag iris.

INTRODUCTION



Hilton Head PSD Chief Recycled Water Plant Operator Vince Malphrus, left, talks with members of the public about water efficiency as part of the PSD’s “Save the Water” campaign for Earth Day 2014.

A Letter from the General Manager: PSD Succession Planning Pays Off



Richard C. Cyr, PSD General Manager

The PSD during the past fiscal year underwent an extensive Succession Planning effort to identify its next general manager to succeed me upon my retirement from this position in June 2015. The process included our elected Commission's review of the PSD's current course and consideration of its future needs. As a result of this process, the Commission chose to pursue an internal candidate and selected our current Assistant General Manager, Pete Nardi, as the PSD's next General Manager starting January 1, 2015. At that time, I will begin formally working with Mr. Nardi on the leadership transition and the completion of a number of vital projects that have been initiated. The PSD takes great pride in its staff development and the Succession Planning process paid great dividends to the utility in ensuring a seamless leadership transition and the continuation of this utility's success in the years to come.

My tenure at the PSD, which began in June 2003, has been marked by significant improvements in our water supply and distribution and in the extension of our sanitary sewer system in many previously unserved areas. Important work on both of those fronts continued during the past fiscal year. We completed the planning for the addition of a fourth filter array at our Reverse Osmosis (RO) Water Treatment Facility. This project will provide an additional 1 million gallons of water a day from the RO facility, increasing its total capacity to 4 million gallons a day.

The PSD also worked with the Town of Hilton Head Island to install sewer in the Mid-Spanish Wells and Baygall neighborhoods, two traditionally Native Islander neighborhoods that had long desired sewer service. Our partnership with the Town is going strong as we prepare an update to the Master Sewer Plan that outlines the remaining infrastructure needed to complete access to the sewer system throughout the PSD's service area.

It has been both my pleasure and honor to lead the PSD for the past 12 years. I want to thank the utility's elected Commission, its staff members, our customers, and all of the organization's stakeholders for their support during this critical time in the PSD's history. I look forward to watching the organization continue its progress in the years to come. The team at Hilton Head PSD plays a vital role in our community's quality of life and truly embodies the utility's motto, *We're Always Working for You!*

All My Best,

A handwritten signature in black ink that reads "Richard C. Cyr". The signature is written in a cursive, flowing style.

Richard C. Cyr
General Manager
Hilton Head PSD

Board of Commissioners

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

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

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

The 2014 Hilton Head Public Service District Commission



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



Robert "Bob" Gentzler, Vice Chair, District 3
Current Term: 2010-2014
Chairman, Planning & Operations Committee



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



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



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



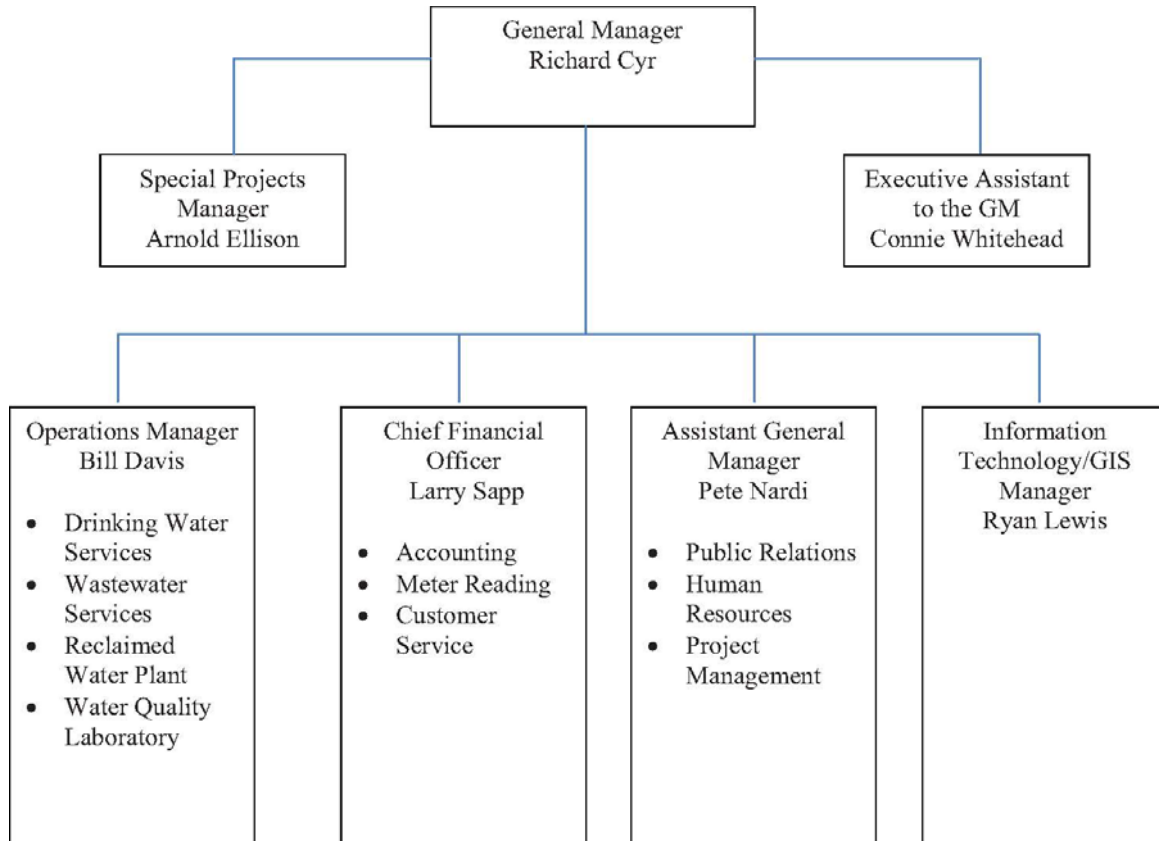
Frank Drehwing, District 4
Current Term: 2010-2014
Chairman, Long-Range Water Supply Committee
Community and Personnel Relations Committee



Herbert Ford, District 1
Current Term: 2010-2014
Planning & Operations Committee

Administrative Team

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



HILTON HEAD PUBLIC SERVICE DISTRICT

Vision, Mission & Strategic Goals

Vision Statement

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

Mission Statement

Hilton Head Public Service District's mission is to:

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

Strategic Goals

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

Hilton Head PSD Strategic Goals

Revised January 22, 2013

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

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

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

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

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

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

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

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

November 12, 2014

Management Letter of Transmittal

The Commission and staff of the PSD are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. This is the fifth report issued as a CAFR and it will be made available to the general public via the www.hhpsd.com web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island.

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

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

Profile of the Government

The Hilton Head Public Service District (PSD) is a special purpose district created by the South Carolina General Assembly in 1969 to provide water and sewer services to Hilton Head Island.

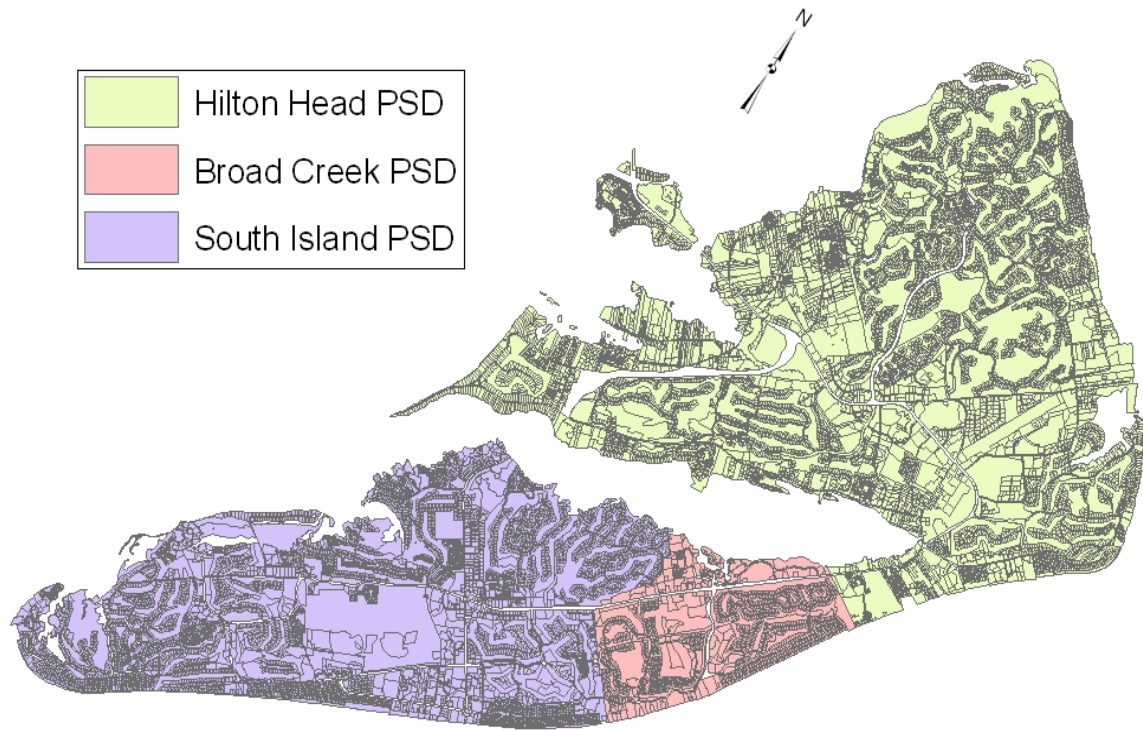
Residents of Hilton Head Island relied on private wells for their drinking water needs until 1957. At that time, a local development firm called the Hilton Head Water Company introduced a community waterworks system, installing water lines and drilling wells throughout the island. As the community expanded and development progressed, however, Hilton Head citizens became increasingly aware of the need for enhanced services, a need especially apparent in fire protection, water flow and sewer services.

Ten separate utilities, both public and private, provided water and wastewater services to the residents of the island at the time of the District's creation. Beginning in 1995, the District acquired the four utilities that now comprise its current service area, including Hilton Head Plantation Utilities, Hilton Head Island Rural Community Water District, Coastal Utilities and Hilton Head Utilities. In addition, the PSD acquired two small systems on the island previously served by the Beaufort-Jasper Water & Sewer Authority. Consolidation of the remaining island utilities formed the three public service districts currently serving Hilton Head Island – Hilton Head, Broad Creek, and South Island PSDs.

Today, Hilton Head PSD serves more than 17,000 customers in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort.

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

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



Fiscal Year '14 Projects & Events

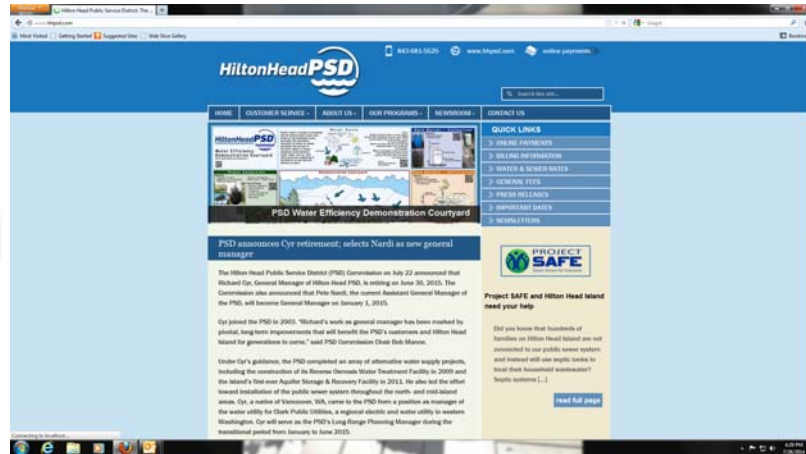
Hilton Head PSD completed a number of significant projects during Fiscal Year 2014, including:

- **Mid-Spanish Wells and Baygall Sewer Projects.** The PSD constructed sewer pump stations and installed sewer collector mains in the mid-Spanish Wells and Baygall neighborhoods. The projects provided immediate sewer access to more than 60 properties in total and opened up future access for numerous side streets in the project areas. These projects were funded in part by the Town of Hilton Head Island's Capital Improvement Program as part of the ongoing partnership between the Town and Hilton Head PSD to provide sewer access throughout the PSD's service area.



The PSD's new Mid-Spanish Wells, top, and Baygall sewer pump stations.

- **New hhpsd.com Website.** The PSD’s new hhpsd.com website was launched and won a Gold Award in the Government Website category in the Association of Marketing and Communication Professional’s annual MarCom Awards competition. There were more than 6,500 entrants total. The Gold Award is “presented to those entries judged to exceed the high standards of the industry norm.”



- **Wholesale Water Transmission Pipeline Relocation.** A portion of the PSD’s 24-inch water transmission pipeline that supplies treated wholesale water from the mainland was relocated as part of the Bluffton Fly-Over road construction project.



A crew works on the relocation of the PSD’s 24-inch water transmission pipeline in greater Bluffton.

Financial Information

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

Accounting System and Budgetary Control

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

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

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

Internal Accounting Controls

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

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

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

The Finance Committee of the Board of Commissioners serves as the Audit Committee of the District. It is composed 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 composed of the fees and charges established by the Commission, the governing body of the District, it is important that the District adopts policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

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

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

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

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. The most recent rate increase was put into effect January 1, 2013 when 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 Sewer Rate Comparison Table in the Statistical Section on page 83.

Millage

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

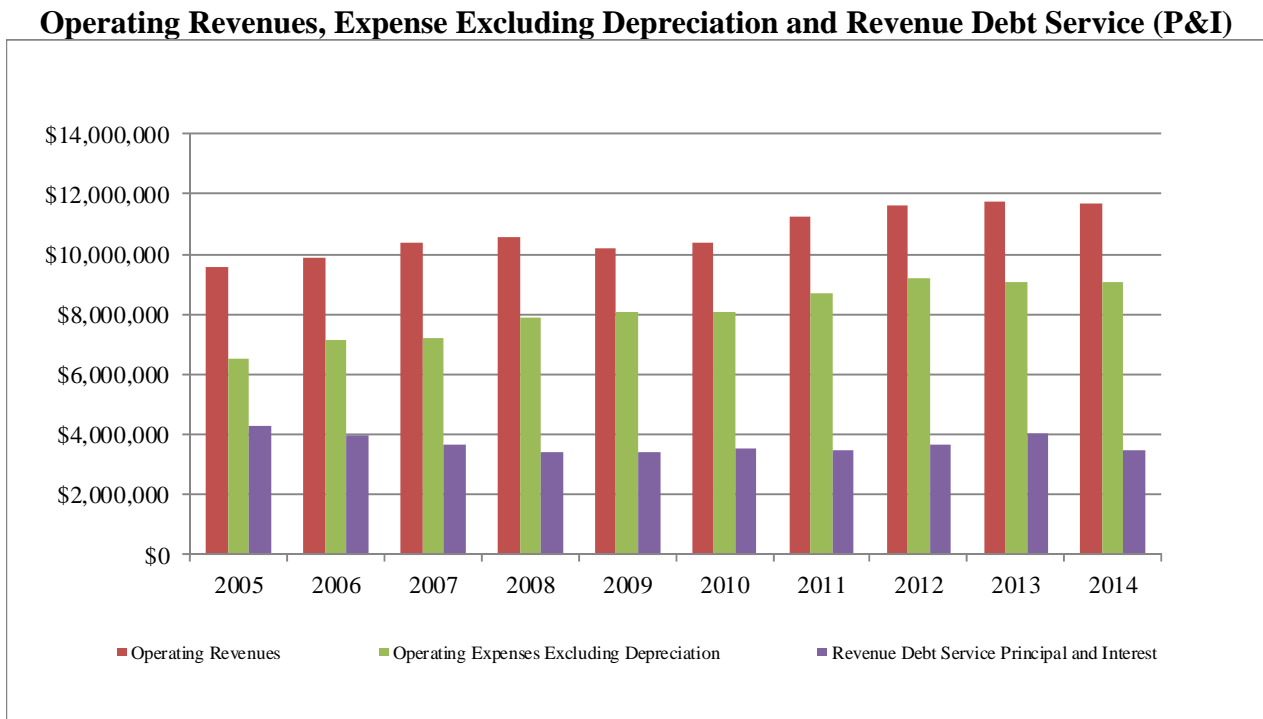
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside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

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

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

Financial Condition

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



Billed water consumption for fiscal year was down 130.0 million gallons or 6.7% less than fiscal year 2013 mainly due to cooler than usual weather conditions and increased rainfall. As such, water service revenues were down \$173,940 or 2.9% compared to last fiscal year despite a \$1.00 water base rate increase effective January 1, 2013. Despite lower water consumption, sewer revenues were up due to a rate increase which was effective as of January 1, 2013.² Total operating revenues have decreased 0.2% or \$25,525 compared fiscal year 2013, while departmental expenses decreased \$33,714 or 0.4%. Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 32.

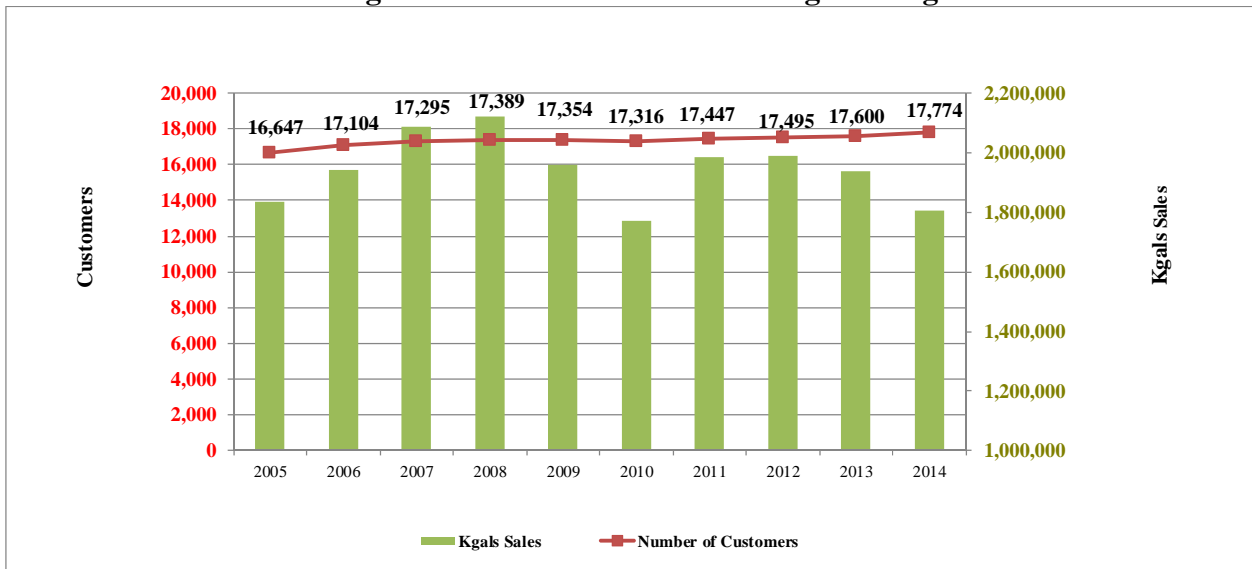
² Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

Billed water consumption for fiscal year 2013 was 50.9 million gallons or 2.6% less than fiscal year 2012, but combined water and sewer revenues increased by \$102,825 or 1.0% due to the water and sewer rate increase put into effect on January 1, 2013 (See Water and Wastewater Rate Comparison Table, page 83). While operating revenues increased by \$99,440 or 0.9% for fiscal year 2013, departmental expenses decreased \$122,339 or 1.3%.

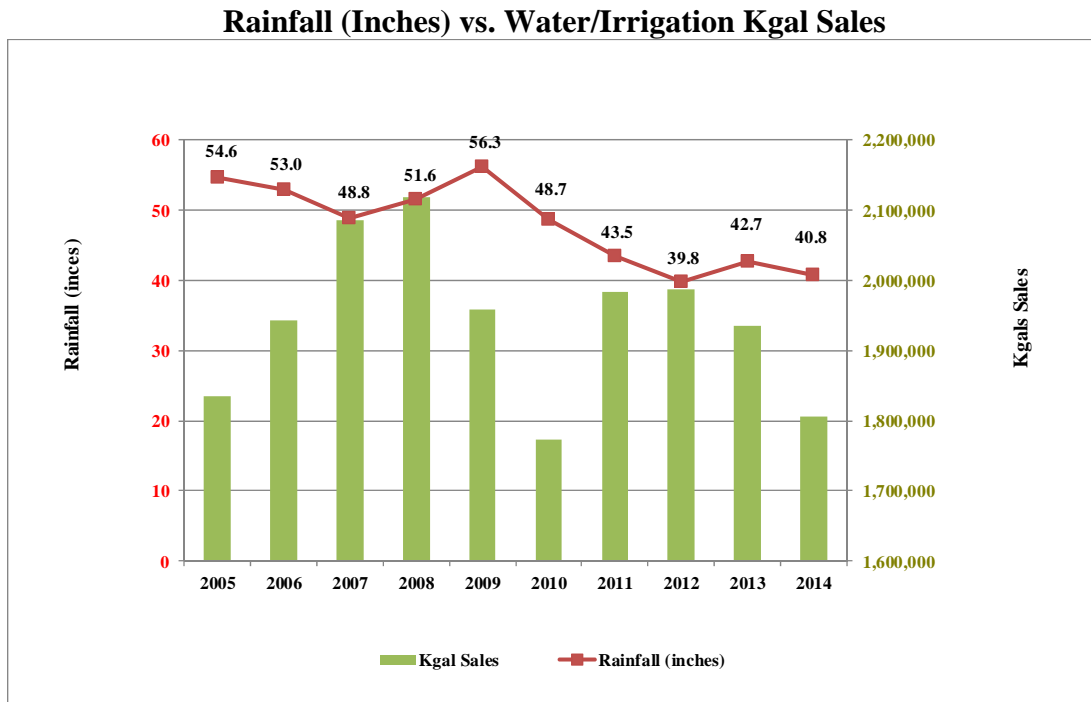
Billed water consumption for fiscal year 2012 was just slightly higher than fiscal year 2011, but combined water and sewer revenues increased by \$427,000 (rounded) or 4.2% due to a water and sewer rate increase put into effect on May 1, 2011. While operating revenues increased by \$358,000 (rounded) or 3.2% for fiscal year 2012, departmental expenses increased \$484,000 (rounded) or 5.6% mainly due to increased operations, payroll & related and professional fees expenses.

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

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.



Despite lower rainfall amounts for fiscal years 2010 through 2014, respective water consumption levels were also low when compared to past fiscal years with higher rainfall such as 2007 and 2008. As previously discussed, other seasonal factors such as temperature and economic influences such as new housing development, housing vacancies, and tourism occupancy levels also have a material effect on customer water consumption levels.

Independent Audit

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

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officer Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its comprehensive annual financial report for the fiscal year ended June 30, 2013 (Reference the following page). This was the fourth 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.

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



Larry Sapp, CGFO, Chief Financial Officer



Brian Cronin, Senior Accountant



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, 2013

Executive Director/CEO

FINANCIAL

For Fiscal Years Ended June 30, 2014 and June 30, 2013



Robinson Grant & Co., P.A.

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

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INDEPENDENT AUDITORS' REPORT

November 12, 2014

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

We have audited the accompanying financial statements of Hilton Head No. 1 Public Service District (the "District"), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Head No. 1 Public Service District as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Robinson Grant & Co., P.A.

Management's Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District's (the "District") annual financial statements presents our analysis of the District's financial performance during the fiscal years ending June 30, 2014, 2013 and 2012. 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 2014 were approximately \$87.8 million (See Table A-1, Page 27). Total assets including deferred outflows of resources were \$89.4 million, exceeding liabilities by \$37.1 million.
- On August 5, 2013, the District received three bids ranging from \$228,966 to \$306,661 for the installation of a lift Station in the Baygall service area within the District. The bid was awarded in the amount of \$228,966. This project was completed during fiscal year 2015.
- On October 10, 2013, the District received three bids ranging from \$497,378 to \$846,597 for the installation of sewer mains in the Baygall service area within the District. The bid was awarded in the amount of \$687,777. This project was completed during fiscal year 2015.
- On November 5, 2013, Standard and Poor's affirmed its 'AA+' rating, with a stable outlook on the District's general obligation bonds. Standard and Poor's also stated that they believe continued local economic growth and significant income improvement could lead them to consider raising the rating. However, they did not expect to change the rating within the outlook's two-year period. In Standard and Poor's opinion this rating reflected the District's:
 - ✓ Well-established tourism-centered local economy, resulting in very strong income and extremely strong market value per capita;
 - ✓ Very strong finances; and
 - ✓ Low-to-moderate debt with manageable capital needs.
- On June 27, 2014, the District received loan commitment letters from the South Carolina Water Quality Revolving Fund Authority for the purpose of funding an Automated Meter Reading/Advanced Metering Infrastructure project.
- On June 27, 2014, the District received loan commitment letters from the South Carolina Water Quality Revolving Fund Authority for the purpose of funding the Reverse Osmosis Treatment Plant Expansion, Windmill Harbour Booster Pump Station and our Bluffton Flyover Water Line Relocation projects.
- Water Customer Growth: The District added 174 new water/irrigation taps to the system in fiscal year 2014. As of June 30, 2014, the District has a total of 17,774 equivalent dwelling units (EDUs). This is a 1.0% increase for FY'14. For FY'13 there was a 0.6% increase in total EDUs. The current EDUs consist of 16,705 water service units, 1,018 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>
2014	10,846	4,850	2,078	17,774	1.0%
2013	10,679	4,850	2,071	17,600	0.6%
2012	10,565	4,850	2,080	17,495	0.3%
2011	10,527	4,843	2,077	17,447	0.8%
2010	10,415	4,843	2,058	17,316	-0.2%
2009	10,440	4,843	2,071	17,354	-0.2%
2008	10,525	4,834	2,030	17,389	0.5%
2007	10,463	4,822	2,010	17,295	1.1%

- Sewer Customer Growth: The District added 226 new sewer connections to the system in fiscal year 2014. As of June 30, 2014, sewer service EDUs total 15,486. This is a 1.5% increase for FY' 14 as compared to the FY' 13 increase of 1.0%.

Sewer Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
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%
2009	8,635	4,843	1,402	14,880	0.3%
2008	8,603	4,834	1,398	14,835	1.2%
2007	8,467	4,822	1,369	14,658	2.0%

- As shown in the table below, the sewer to water customer percentage has increased to 92.70% percent since the beginning of fiscal year 2014.³

Water / Sewer Connection Growth 06/30/14								
<u>Date</u>	<u>Water & Irrigation EDU's</u>	<u>Only Water EDU's</u>	<u>Inactive Water EDU's</u>	<u>Change in Water EDU's</u>	<u>Sewer EDU's</u>	<u>Inactive Sewer EDU's</u>	<u>Change in Sewer EDU's</u>	<u>% Sewer to Water EDU's</u>
06/30/13	17,600	16,540	323	N/A	15,260	165	N/A	92.26%
09/30/13	17,662	16,600	311	60	15,328	153	68	92.34%
12/31/13	17,702	16,640	312	40	15,375	155	47	92.40%
03/31/14	17,765	16,699	301	59	15,462	143	87	92.59%
06/30/14	17,774	16,705	307	6	15,486	145	24	92.70%
Total EDU's Added	174	165		165	226		226	

³ 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 28, 2014, the District paid off the series 2004B revenue bonds totaling \$200,940 in full. There was no prepayment penalty.
- On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$2,902,255. Proceeds are to be used to defray the costs of installing and implementing an automatic meter reading system. The note bears interest at a rate of 1.00% per annum. Eighty quarterly principal and interest payments of \$40,072 will be due beginning April 1, 2016. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.
- On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$3,750,000. Proceeds are to be used to defray the cost expanding the existing reverse osmosis treatment plan, 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. Eighty quarterly principal and interest payments of \$56,989 will be due beginning May 1, 2015. The notes are backed by general obligation debt.

Financial Analysis of the District

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

Condensed Statements of Net Position

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

TABLE A-1
Hilton Head Public Service District
Condensed Statements of Net Position as of June 30, 2014, 2013, and 2012

Year Ended June 30,	2014	2013	2012	2014 to 2013	%
Assets					
	Increase (decrease)				
Current assets	\$ 4,878,765	\$ 4,845,597	\$ 5,105,950	\$ 33,168	0.7%
Restricted assets	3,377,968	3,614,827	3,432,491	(236,859)	-6.6%
Net Property Plant & Equipment	76,445,775	77,923,407	80,998,121	(1,477,632)	-1.9%
Sewer Assessments, Long-term	2,576,762	2,619,897	3,042,577	(43,135)	-1.6%
Other	482,538	411,562	329,520	70,977	17.2%
Total Assets	<u>87,761,809</u>	<u>89,415,290</u>	<u>92,908,659</u>	<u>(1,653,481)</u>	<u>-1.8%</u>
Deferred outflows of resources					
Deferred outflows from refunding debt	<u>1,613,275</u>	<u>1,827,370</u>	<u>1,889,269</u>	<u>(214,095)</u>	<u>-11.7%</u>
Total assets and deferred outflows of resources	<u>\$ 89,375,084</u>	<u>\$ 91,242,660</u>	<u>\$ 94,797,928</u>	<u>(1,867,576)</u>	<u>-2.0%</u>
Liabilities					
Current Liabilities	5,231,462	4,733,847	5,146,421	497,615	10.5%
Noncurrent Liabilities, net of amortization	46,997,645	50,344,977	52,818,149	(3,347,332)	-6.6%
Total Liabilities	<u>52,229,108</u>	<u>55,078,824</u>	<u>57,964,570</u>	<u>(2,849,716)</u>	<u>-5.2%</u>
Net Position					
Invested in capital assets, net	27,495,374	27,016,214	26,621,121	479,160	1.8%
Restricted for capital activity/debt service	3,377,968	2,885,019	3,419,743	492,949	17.1%
Unrestricted	6,272,634	6,262,603	6,792,494	10,031	0.2%
Total Net Position	<u>37,145,976</u>	<u>36,163,836</u>	<u>36,833,358</u>	<u>982,140</u>	<u>2.7%</u>
Total Liabilities and Net Position	<u>\$ 89,375,084</u>	<u>\$ 91,242,660</u>	<u>\$ 94,797,928</u>	<u>\$ (1,867,576)</u>	<u>-2.0%</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) *invested in capital assets, net of related debt*; 2) *restricted for capital activity and debt service*; and 3) *unrestricted net assets*.

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

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

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

The total net position as of June 30, 2014 was \$37,145,976 representing a \$982,140 increase from the prior year. Fiscal year 2013 had a decrease in total net assets from fiscal year 2012 of \$669,522.

Change in Net Position			
Year Ended June 30,	2014	2013	2012
Invested in Capital assets, net	\$ 27,495,374	\$ 27,016,214	\$ 26,621,121
Restricted for capital activity and debt service	3,377,968	2,885,019	3,419,743
Unrestricted	<u>6,272,634</u>	<u>6,262,603</u>	<u>6,792,494</u>
Total Net Position	<u>\$ 37,145,976</u>	<u>\$ 36,163,836</u>	<u>\$ 36,833,358</u>

Of the total net assets, \$4,878,765 million are current non-restricted assets available to support short-term operations (see Table A-1, page 27). This current asset balance is \$33,168 higher than on June 30, 2013.

Capital Assets

As of June 30, 2014, the District has invested \$76,445,775 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below. Net Property Plant & Equipment has decreased \$1,477,632 during fiscal year 2014. More detailed information on capital asset activity can be found in Note 5 – Property, plant, equipment and depreciation on pages 51 and 52.

**TABLE A-2
Capital Assets**

Year Ended June 30,	2014	2013	2012
<u>Capital assets not being depreciated:</u>			
Land	\$ 1,299,194	\$ 1,299,194	\$ 1,299,194
Construction in Progress	<u>1,629,184</u>	<u>441,125</u>	<u>553,892</u>
Total Capital Assets not being depreciated	2,928,378	1,740,319	1,853,086
Capital assets being depreciated:			
Waterworks system	55,763,179	55,621,398	55,352,880
Sewage disposal system	37,059,830	36,153,741	35,040,328
Buildings	4,339,090	4,299,512	4,299,512
Sewage treatment facilities	34,711,422	34,711,422	34,711,422
Transportation equipment	1,017,719	988,429	915,148
Operations furniture and equipment	2,155,261	1,742,022	1,681,614
Office furniture and equipment	<u>663,460</u>	<u>643,679</u>	<u>701,878</u>
Sub Total	\$ 135,709,961	\$ 134,160,203	\$ 132,702,782
Less Accumulated depreciation	<u>(62,192,564)</u>	<u>(57,977,115)</u>	<u>(53,557,747)</u>
Total capital assets being depreciated, net	73,517,397	76,183,088	79,145,035
Property, Plant and Equipment, net	76,445,775	77,923,407	80,998,121

Non-current Liabilities and Debt Administration

As of June 30, 2014, (see Table A-1, page 27) the District had \$46,997,645 in non-current liabilities as compared to fiscal year end 2013 total of \$50,344,977. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 53 and Note 7 – Non-current liabilities on page 57.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District is in compliance with the necessary requirements at 148%.

TABLE A-3
Coverage of Debt Service⁴

Year Ended June 30,	2014	2013	2012
Net Income(loss) before capital contributions per Financial Statements	(\$923,245)	(\$1,222,859)	(\$1,436,694)
Capacity Fees	477,179	79,240	394,546
Add: Depreciation	4,481,885	4,557,446	4,459,807
Amortization	223,221	169,938	239,272
Bond Issuance Costs	38,685	226,335	31,250
Interest Expense (Bonds)	1,661,902	1,842,617	2,101,677
Assessments - Debt Service	382,702	415,758	396,027
Less: Property Taxes – Debt Service	<u>(1,167,016)</u>	<u>(1,195,990)</u>	<u>(1,233,107)</u>
Net Earnings Available for Debt Service	\$5,175,313	\$4,872,485	\$4,952,778
 Debt Service on Revenue Bonds	 3,504,184	 \$4,037,286	 \$3,660,650
 Coverage of Debt Service by Net Earnings	 148%	 121%	 135%
 Debt Coverage without Capacity Fees	 134%	 119%	 125%

⁴ 2013 and 2012 reflect implementation of GASB 63 and GASB 65.

Statements of Revenues, Expenses and Changes in Net Position

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

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

Year Ended June 30,				2014 to		2013	
	2014 Actual	2013 Actual	2012 Actual	2013 Actual	%	2012 Actual	%
Operating Revenues	\$ 11,714,003	\$ 11,739,528	\$ 11,640,088	\$ (25,525)	-0.2%	\$ 99,440	0.9%
Total Non-operating Revenues	<u>2,822,581</u>	<u>2,967,865</u>	<u>2,965,412</u>	<u>(145,284)</u>	<u>-4.9%</u>	<u>2,453</u>	<u>0.1%</u>
Total Revenues	14,536,585	14,707,393	14,605,500	(170,808)	-1.2%	101,893	0.7%
Departmental Expenses	9,054,136	9,087,850	9,210,188	33,714	0.4%	122,338	1.3%
Depreciation	4,481,885	4,557,446	4,459,807	75,561	1.7%	(97,639)	-2.2%
Total Non-operating Expenses	<u>1,923,808</u>	<u>2,284,955</u>	<u>2,372,199</u>	<u>361,147</u>	<u>15.8%</u>	<u>87,244</u>	<u>3.7%</u>
Total Expenses	15,459,829	<u>15,930,251</u>	<u>16,042,194</u>	<u>470,422</u>	<u>3.0%</u>	<u>111,943</u>	<u>0.7%</u>
Increase (decrease) in net assets before capital contributions	(923,245)	(1,222,859)	(1,436,694)	299,613	24.5%	213,836	14.9%
Capital Contributions:							
Water Capacity Fee	195,270	33,640	162,939	161,630	480.5%	(129,299)	-79.4%
Sewer Capacity Fee	281,909	45,600	231,607	236,309	518.2%	(186,007)	-80.3%
Developer Contributions of Systems	1,184,597	474,097	954,150	710,500	149.9%	(480,053)	-50.3%
Sewer Assessments	<u>243,609</u>	-	-	<u>243,609</u>	-	-	-
Total Capital Contributions	1,905,385	<u>553,337</u>	<u>1,348,696</u>	<u>1,352,048</u>	<u>244.3%</u>	<u>(795,359)</u>	<u>-59.0%</u>
Change in net position	\$ 982,140	\$ (669,522)	\$ (87,998)	\$ 1,651,661	-246.7%	\$ (581,524)	-660.8%
Net position, beginning of the year, as previously reported	\$ 36,163,836	\$ 36,833,358	37,913,644				
Cumulative adjustment - adoption of GASB Statement No. 65			<u>(992,288)</u>				
Net position, beginning of the year - as restated	<u>36,163,836</u>	<u>36,833,358</u>	<u>36,921,356</u>				
Net position, end of year	<u>37,145,976</u>	<u>36,163,836</u>	<u>36,833,358</u>				

Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2014 total \$11,714,003 which is almost 81% of total revenues (operating and non-operating) for the year. Total operating revenues have decreased 0.2% or \$25,525 compared to last year's revenues. Total operating revenues increased \$99,440 or 0.9% from fiscal year 2013 to fiscal year 2012.

Water service revenues were down \$173,940 or 2.9% compared to last fiscal year despite a \$1.00 water base rate increase effective January 1, 2013 due to lower billed water consumption. Fiscal year billed water consumption was down 130.0 million gallons or 6.7% when compared to last fiscal year mainly due to cooler than usual weather conditions and increased rainfall. Golf course irrigation revenue was also lower compared to last fiscal year due to these weather conditions. Availability fees were also lower this fiscal year due to increased water and sewer connections.

Despite lower water consumption, sewer revenues were up due to a rate increase which was effective as of January 1, 2013.⁵ In addition to higher sewer service revenues, other line items that have increased include the following (see Table A-5, page 34):

- Water Tap in fees increased \$62,912 or 102% due to increased tap ins.
- Sewer Connection Fees increased \$8,030 or 7.3% due to increased sewer connections.
- Service Fees increased by \$7,529 or 21% due to an increased effort to collect on delinquent account.

Total non-operating revenues were equal to \$2,822,581. The non-operating revenues received by the District were derived primarily from ad valorem property taxes, interest earnings, and tower leases. The District imposed an ad valorem tax of 3.00 mills for operational purposes and 3.52 mills for debt service. The Commission has the authority to set the rates charged for water and sewer services without approval of any other authority, although such rate-setting ability is subject to certain procedural requirements including the holding of public hearings and the posting of public notices.

Departmental Expenses (Fiscal Year to Year Comparisons)

Total departmental expenses have decreased \$33,714 or 0.4% compared to fiscal year 2013 (See Table A-5, page 34). For fiscal year 2013, departmental expenses increased \$122,338 or 1.3% from fiscal year 2012.

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

- Operations expenses have decreased \$19,125 or 1.1% due to lower bio-solids disposal costs, operations chemical costs and fuel/power costs associated with lower water consumption.
- Purchased water expense decreased by \$194,812 or 24%. For fiscal year 2014 there has been decreased customer water consumption, increased RO Plant production and increased ASR-1 withdrawal. Although well production was down 151.8 million gallons for fiscal year 2014, the RO plant increased production by 91.5 million gallons and ASR-1 withdrawal increased by 80.5 million gallons. The aggregate net increase from these 3 sources for fiscal year 2014 is 20.2 million gallons when compared to the same period last fiscal year.
- Despite higher RO plant production for fiscal year 2014, RO Plant expenses decreased \$74,627 or 12%. The District has been able to reduce the amount of anti-scaling chemical that it uses which has reduced costs.
- Professional Fees decreased by \$28,604 or 11%.
- Vehicle expenses decreased \$615 or 0.5%.

The above decreased expenses were offset by the following increases for expense line items.

⁵ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

- Payroll and Related expenses increased \$97,221 or 2.8% due to higher personal leave accrual and salaries.
- Maintenance expenses increased by \$87,189 or 8.4% due to increased meter, plant, SCADA, well and water/sewer system maintenance.
- Water tap in expenses increased by \$21,829 or 57% due to increased water tap ins. Note that these expenses are offset by higher tap in fees revenues.
- Sewer Connection expense has increased \$1,257 or 1.5%. These expenses are also offset by higher sewer connection fee revenues.
- ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. As stated previously ASR-1 withdrawal increased by 80.5 million gallons. As such, ASR water withdrawal expense increased \$60,777 or 45%. ASR-1 O&M which relates to power and chemical costs increased by \$9,880 or 32%.

TABLE A-5
Hilton Head PSD
Statement of Revenues, Expenses and Changes in Net Position
Year to Date as of June 30, 2014 and June 30, 2013
(With comparative amounts for the same period in prior fiscal year) FY 2014 to FY 2013

	FY 2014	FY 2013	Comparison	
	Actual	Actual	Dollars	%
Operating Revenues			Favorable (Unfavorable)	
Water Service	\$ 5,777,606	\$ 5,951,546	\$ (173,940)	-2.9%
Sewer Service	4,736,919	4,623,093	113,826	2.5%
Tap In Fees - Water	124,837	61,925	62,912	101.6%
Connection Fees - Sewer	117,505	109,475	8,030	7.3%
Service Fees	44,174	36,645	7,529	20.5%
Golf Course Irrigation	297,609	319,041	(21,431)	-6.7%
Availability Fees	597,582	623,076	(25,494)	-4.1%
Other Operating Revenues	17,771	14,727	3,044	20.7%
Total Operating Revenues	11,714,003	11,739,528	(25,525)	-0.2%
Departmental Expenses				
Payroll & Related	3,571,288	3,474,067	(97,221)	-2.8%
Administrative Expenses	789,686	783,770	(5,916)	-0.8%
Operations	1,667,542	1,686,667	19,125	1.1%
Maintenance	1,125,413	1,038,224	(87,189)	-8.4%
Water Tap In Expenses	60,078	38,249	(21,829)	-57.1%
Sewer Connection Expense	85,401	84,144	(1,257)	-1.5%
Purchased Water	622,629	817,441	194,812	23.8%
ASR-1 Water	194,537	133,760	(60,777)	-45.4%
RO Plant O&M	533,249	607,876	74,627	12.3%
ASR-1 O&M	40,747	30,867	(9,880)	-32.0%
Professional Fees	237,182	265,786	28,604	10.8%
Vehicle	126,384	126,999	615	0.5%
Total Departmental Expenses	9,054,136	9,087,850	33,714	0.4%
Depreciation	4,481,885	4,557,446	75,561	1.7%
Total Operating Expenses	13,536,021	13,645,295	109,274	0.8%
Operating income (loss)	(1,822,018)	(1,905,767)	83,750	4.4%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,167,016	1,195,990	(28,973)	-2.4%
Property taxes-Operations Levy	901,453	1,016,558	(115,105)	-11.3%
Rental Income	80,096	79,641	456	0.6%
Interest earned	142,313	168,990	(26,677)	-15.8%
Tower lease	531,703	506,687	25,016	4.9%
Gain (Loss) of disposal of equipment	-	-	-	-
Total Non-operating Revenues	2,822,582	2,967,865	(145,283)	-4.9%
Non-operating Expenses				
Interest expense-Bonds	1,661,902	1,842,617	180,715	9.8%
Bond Defeasance Amortization	214,095	206,847	(7,247)	-3.5%
Amortization of Bond Insurance Cost	9,157	9,157	(0)	0.0%
Bond Issuance Costs	38,685	226,335	187,649	82.9%
Bond Premium Amortization	(31)	-	31	-
Total Non-operating Expenses	1,923,808	2,284,956	361,148	15.8%
Total Non-operating Revenues/Exp.	898,773	682,909	215,864	31.6%
Increase (decrease) in net assets, before capital contributions	(923,245)	(1,222,858)	299,614	24.5%
Water Capacity Fee	195,270	33,640	161,630	480.5%
Sewer Capacity Fee	281,909	45,600	149,670	328.2%
Developer Contributions of Systems Assessments	1,184,597	474,097	(192,188)	-40.5%
	243,609	-	243,609	-
Total Capital Contributions	1,905,385	553,337	1,352,048	244.3%
Change in net position	\$ 982,140	\$ (669,522)	\$ 1,651,662	-246.7%
Net position, beginning of the year	\$ 36,163,836	36,833,358		
Net position, end of year	\$ 37,145,976	\$ 36,163,836		

Water and Sewer Revenues/Expenses: Fiscal Year 2014 vs. Fiscal Year 2013.
(Please reference Table A-6, page 36)

Water Revenues and Related Expenses:

- For FY' 14, total water operating revenues have decreased \$110,840 or 1.8% compared to FY' 13 due to the previously mentioned lower customer water consumption.
- Water departmental expenses decreased \$102,824 or 2.0%. Departmental expense decreases are explained in more detail on pages 32 and 33.
- Water operating loss for fiscal year 2014 is \$1,056,571 compared to the fiscal year 2013 loss of \$1,083,765. An improvement of \$27,195 or 2.5%.

Sewer Revenues and Related Expenses:

- Total sewer and related operating revenues have increased \$85,316 or 1.5% mainly due the previously discussed sewer rate increase which was put into effect January 1, 2013 and customer growth.
- Sewer departmental expenses increased \$69,110 or 1.7%. Departmental expenses are explained in more detail on page 32 and 33.
- Sewer operating loss for fiscal year 2014 is \$765,447 compared to the fiscal year 2013 loss of \$822,002, an improvement of \$56,565 or 6.9%.

TABLE A-6
Hilton Head PSD
Water vs. Sewer Fiscal Year to Year Comparison Schedule
Year to Date as of June 30, 2014
(With comparative amounts for the same period in prior fiscal year)

	FY 2014		FY 2013		FY 2014 to FY 2013	
	Actual	Actual	Dollars	%	Comparison	
					Favorable (Unfavorable)	
Operating Revenues						
Water						
Service	\$ 5,777,606	\$ 5,951,546	\$ (173,940)	-2.9%		
Tap In Fees	124,837	61,925	62,912	101.6%		
Service Fees	22,087	18,323	3,765	20.5%		
Availability Fees	119,516	124,615	(5,099)	-4.1%		
Other Operating Revenues	8,886	7,364	1,522	20.7%		
Total Water Operating Revenues	6,052,932	6,163,772	(110,840)	-1.8%		
Sewer						
Service	4,736,919	4,623,093	113,826	2.5%		
Connection Fees	117,505	109,475	8,030	7.3%		
Service Fees	22,087	18,323	3,765	20.5%		
Availability Fees	478,066	498,461	(20,395)	-4.1%		
Golf Course Irrigation	297,609	319,041	(21,431)	-6.7%		
Other Operating Revenues	8,885	7,364	1,522	20.7%		
Total Sewer Operating Revenues	5,661,072	5,575,756	85,316	1.5%		
Total Operating Revenues	11,714,003	11,739,528	(25,525)	-0.2%		
Departmental Expenses						
Water						
Payroll & Related	1,642,792	1,598,071	(44,722)	-2.8%		
Administrative Expenses	458,018	454,587	(3,431)	-0.8%		
Operations	717,043	725,267	8,224	1.1%		
Maintenance	596,469	550,259	(46,210)	-8.4%		
Water Tap in Expense	60,078	38,249	(21,829)	-57.1%		
Purchased Water	622,629	817,441	194,811	23.8%		
ASR-1 Water	194,537	133,760	(60,777)	-45.4%		
ASR-1 O&M	40,747	30,867	(9,880)	-32.0%		
RO Plant O&M	533,249	607,876	74,627	12.3%		
Professional Fees	97,245	108,972	11,727	10.8%		
Vehicle	58,137	58,419	283	0.5%		
Total Water Departmental Expenses	5,020,944	5,123,768	102,824	2.0%		
Sewer						
Payroll & Related	1,928,495	1,875,996	(52,499)	-2.8%		
Administrative	331,668	329,183	(2,485)	-0.8%		
Operations	950,499	961,400	10,901	1.1%		
Maintenance	528,944	487,965	(40,979)	-8.4%		
Sewer Connection Expense	85,401	84,144	(1,257)	-1.5%		
Professional Fees	139,938	156,814	16,876	10.8%		
Vehicle	68,247	68,579	332	0.5%		
Total Sewer Departmental Expense	4,033,192	3,964,082	(69,110)	-1.7%		
Operating Expenses before depreciation	9,054,136	9,087,850	33,713	0.4%		
Depreciation - Water	2,088,559	2,123,770	35,211	1.7%		
Depreciation - Sewer	2,393,326	2,433,676	40,350	1.7%		
Total Operating Expenses	13,536,021	13,645,295	75,561	0.6%		
Water Operating income (loss)	(1,056,571)	(1,083,765)	27,195	2.5%		
Sewer Operating income (loss)	(765,447)	(822,002)	56,555	6.9%		
Total Operating income (loss)	(1,822,018)	(1,905,768)	83,750	4.4%		
Non-operating revenues (expenses), net	898,773	682,909	215,864	-31.6%		
Increase (decrease) in net assets,						
before capital contributions	(923,245)	(1,222,859)	299,614	24.5%		
Capital Contributions	1,905,385	553,337	1,352,048	244.3%		
Change in net position	\$ 982,140	\$ (669,522)	\$ 1,651,662	-246.7%		
Net position, beginning of the year, as previously reported		37,913,644				
Cumulative adjustment - adoption of GASB Statement No. 65		(992,288)				
Net position, beginning of the year, as restated	36,163,836	36,833,358				
Net position, end of year	\$ 37,145,976	\$ 36,163,836				

CONTACTING THE DISTRICT'S FINANCE MANAGER

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

AUDITED FINANCIAL STATEMENTS
For Fiscal Years Ended June 30, 2014 and June 30, 2013

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2014</u>	<u>2013</u>
Current assets		
Cash available for operations	\$ 2,112,690	\$ 2,164,413
Cash in banks (restricted)	2,779,248	2,248,077
Cash held by Beaufort County Treasurer (restricted)	598,720	636,942
Cash held for construction (restricted)	-	729,808
Accounts receivable - trade, net	1,897,810	1,879,094
Sewer assessments, due within one year	420,610	390,225
Inventory	257,025	235,093
Prepaid expenses	190,631	176,772
Total current assets	<u>8,256,734</u>	<u>8,460,424</u>
Noncurrent assets		
Property, plant and equipment		
Nondepreciable assets	2,928,378	1,740,318
Depreciable assets, net	<u>73,517,397</u>	<u>76,183,089</u>
Total property, plant and equipment	76,445,775	77,923,407
Accounts receivable, project safe	392,782	312,689
Sewer assessments, due after one year	2,576,762	2,619,897
Prepaid insurance - bonds	86,992	96,149
Other assets	<u>2,764</u>	<u>2,724</u>
Total noncurrent assets	<u>79,505,075</u>	<u>80,954,866</u>
Total assets	87,761,809	89,415,290
Deferred outflows of resources		
Deferred outflows from refunding debt	<u>1,613,275</u>	<u>1,827,370</u>
Total assets and deferred outflows of resources	<u>\$ 89,375,084</u>	<u>\$ 91,242,660</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2014 AND 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current liabilities		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 419,381	\$ 400,791
Accounts payable - construction	23,427	159,653
Notes payable, due within one year	18,000	18,000
Customer deposits	160,300	154,085
Deferred revenue	259,929	253,904
Other accrued liabilities	439,389	400,252
Total current liabilities payable from unrestricted assets	<u>1,320,426</u>	<u>1,386,685</u>
Payable from restricted assets:		
Interest payable	299,441	309,273
Bonds payable, current portion	3,458,032	2,887,982
Notes payable, current portion	153,564	149,907
Total current liabilities payable from restricted assets	<u>3,911,037</u>	<u>3,347,162</u>
Total current liabilities	5,231,463	4,733,847
Noncurrent liabilities		
Bonds payable, net of current portion	44,435,847	47,611,615
Notes payable, net of current portion	2,561,798	2,733,362
Total noncurrent liabilities	<u>46,997,645</u>	<u>50,344,977</u>
Total liabilities	52,229,108	55,078,824
Net position		
Invested in capital assets, net of related liabilities	27,495,374	27,016,214
Restricted for debt service	3,377,968	2,885,019
Unrestricted	6,272,634	6,262,603
Total net position	<u>37,145,976</u>	<u>36,163,836</u>
Total liabilities and net position	<u>\$ 89,375,084</u>	<u>\$ 91,242,660</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues		
Water service	\$ 5,777,606	\$ 5,951,546
Sewer service	4,736,919	4,623,093
Tap in fees - water	124,837	61,925
Tap in fees - sewer	117,505	109,475
Availability charges	597,582	623,076
Golf course irrigation	297,609	319,041
Service fees and penalties	44,174	36,645
Other operating revenues	17,771	14,727
Total operating revenues	11,714,003	11,739,528
 Departmental Expenses		
Payroll and related expenses	3,571,288	3,474,067
Administrative expenses	789,686	783,768
Operations expenses	1,667,542	1,686,667
Maintenance expenses	1,125,413	1,038,224
Tap in expenses	145,479	122,394
Purchased water	622,629	817,441
RO plant expenses	533,249	607,876
ASR plant expenses	235,284	164,628
Professional fees	237,182	265,786
Vehicle expenses	126,384	126,999
Depreciation	4,481,885	4,557,446
Total departmental expenses	13,536,021	13,645,296
Loss from operations	(1,822,018)	(1,905,768)
 Non-operating revenues (expenses)		
Property taxes - debt service	1,167,016	1,195,990
Property taxes - operations	901,453	1,016,558
Rental and tower lease income	611,799	586,327
Interest earned	142,313	168,990
Bond issuance costs	(38,685)	(226,335)
Amortization of bond insurance	(9,157)	(9,157)
Amortization of bond defeasance	(214,095)	(206,847)
Interest expense	(1,661,871)	(1,842,617)
Total net non-operating income	898,773	682,909
Decrease in net position before capital contributions	\$ (923,245)	\$ (1,222,859)

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Capital Contributions		
Assessments	\$ 243,609	\$ -
Capacity fees	477,179	79,240
Developer contributions of systems	<u>1,184,597</u>	<u>474,097</u>
Total capital contributions	<u>1,905,385</u>	<u>553,337</u>
Change in net position	982,140	(669,522)
Net position, beginning of the year	<u>36,163,836</u>	<u>36,833,358</u>
Net position, end of year	<u>\$ 37,145,976</u>	<u>\$ 36,163,836</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 11,603,638	\$ 11,565,493
Cash paid to suppliers	(6,590,485)	(6,693,460)
Cash paid to employees	(2,441,715)	(2,349,820)
Other revenues	17,771	14,727
Net cash provided by operating activities	<u>2,589,209</u>	<u>2,536,940</u>
Cash flows from investing activities:		
Interest earned	<u>142,313</u>	<u>168,990</u>
Net cash provided by investing activities	142,313	168,990
Cash flow from noncapital financing activities:		
Property taxes collected - operations	901,453	1,016,558
Rental and tower lease income	617,784	636,501
Sewer assessment	<u>382,702</u>	<u>415,758</u>
Net cash provided by noncapital financing activities:	1,901,939	2,068,817
Cash flow from capital and related financing activities:		
Capacity fees	350,836	79,240
Property taxes collected - debt service	1,167,016	1,195,990
Interest paid	(1,671,734)	(2,074,269)
Proceeds from revenue bonds	282,294	13,090,000
Payoff of 2004 revenue bonds	-	(11,740,000)
Amount paid to defease debt	-	(866,163)
Bond issuance costs	(38,685)	(226,335)
Principal payments on bonds and notes	(3,055,888)	(3,377,824)
Purchases of property, plant and equipment	<u>(1,955,882)</u>	<u>(1,037,331)</u>
Net cash used by capital and related financing activities	<u>(4,922,043)</u>	<u>(4,956,692)</u>
Net increase (decrease) in cash	(288,582)	(181,945)
Cash and cash equivalents, at beginning of year	<u>5,779,240</u>	<u>5,961,185</u>
Cash and cash equivalents, at year end	<u>\$ 5,490,658</u>	<u>\$ 5,779,240</u>

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,822,018)	\$ (1,905,768)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,481,885	4,557,446
Increase in allowance for doubtful accounts	-	2,609
Changes in assets and liabilities		
Accounts receivable - trade	(18,716)	(72,177)
Inventories	(21,932)	5,845
Prepaid assets	(13,859)	(33,283)
Accounts receivable - project safe	(80,093)	(95,350)
Accounts payable - trade	18,590	26,911
Customer deposits	6,215	5,610
Other accrued liabilities	39,137	45,097
Net cash provided by operating activities	<u>\$ 2,589,209</u>	<u>\$ 2,536,940</u>
<u>Schedule of cash and cash equivalents</u>		
Available for operations		
Demand deposits (interest and non-interest bearing)	\$ 2,004,945	\$ 2,136,135
Held by Beaufort County Treasurer	<u>107,745</u>	<u>28,278</u>
Total available for operations	2,112,690	2,164,413
Restricted		
Cash in banks	2,779,248	2,248,077
Held by Beaufort County Treasurer	598,720	636,942
Held for construction	<u>-</u>	<u>729,808</u>
Total restricted	<u>3,377,968</u>	<u>3,614,827</u>
Total cash and cash equivalents	<u>\$ 5,490,658</u>	<u>\$ 5,779,240</u>
<u>Supplemental Disclosures</u>		
Noncash financing activities:		
Developer contribution of systems	\$ 1,184,597	\$ 474,097

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 invested in capital assets net of related debt, 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* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period. Currently, deferred losses on bond refundings are the only financial statement item that meets the definition of a deferred outflow of resources and, accordingly, they have been presented as such in the statements of net position. The District does not have any financial statement items that meet the definition of a deferred inflow of resources.

In 2013, the District implemented GASB Statement No. 65 which establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. The District's only financial statement item that was affected by the implementation of GASB Statement No. 65 was its unamortized bond issuance costs. Under that Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. Any such unamortized bond issuance costs that were incurred and capitalized in a previous year were written off by a cumulative adjustment to beginning net position in the 2013 financial statements.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 - Summary of significant accounting policies (continued)

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.

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: invested in capital assets, net of related liabilities; restricted for debt service; and unrestricted.

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 - Summary of significant accounting policies (continued)

Basis of Accounting (continued)

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

Cash and cash equivalents

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

Accounts receivable, allowance for doubtful accounts and bad debt expense

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.5475% of budgeted water and sewer revenues. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2014 and 2013 the balance of the allowance for doubtful accounts was \$59,944. Bad debt expense for the years ended June 30, 2014 and 2013 was \$46,940 and \$47,911, respectively.

Inventory

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

Property, plant and equipment

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Betterments and improvements over \$1,000 which extend the useful life of an asset are capitalized and depreciated over their estimated useful life. 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>Estimated life</u> <u>(in years)</u>
Waterworks system	5-40
Sewage disposal system	5-33
Building	40
Sewage treatment facilities	3-40
Transportation equipment	5
Operations furniture and equipment	3-7
Office furniture and equipment	4-10

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project which is being financed from the debt proceeds. No interest was capitalized for the years ended June 30, 2014 and 2013.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 - Summary of significant accounting policies (continued)

Prepaid insurance - bonds

Prepaid insurance costs connected to bond issuances are capitalized and amortized using the straight-line method over the life of the bonds commencing at the date of issuance. Amortization expense on prepaid bond insurance costs was \$9,157 for the years ended June 30, 2014 and 2013.

Bond discount and premium

The issue price of the 2004 revenue bonds exceeded its par value resulting in a bond premium of \$1,669,539. The bond premium was being amortized over the 17-year life of the 2004 revenue bonds. The unamortized portion of the premium was written off as a part of deferred outflows of debt refunding when the bonds were refunded in November 2012. The 2006 revenue bonds included two series of bonds, one issued at a premium of \$40,990 and one issued at a discount of \$197,849. The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two series of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. The 2010 general obligation bonds included two series of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2014 and 2013 was \$45,019 and \$45,050, respectively, which is included as a direct deduction from bonds payable, net of current portion on the balance sheets. Bond discount and premium amortization totaled \$31 and \$46,066 for the years ended June 30, 2014 and 2013, respectively, and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

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 \$303,410 and \$273,278 at June 30, 2014 and 2013, respectively.

Use of estimates

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

Reclassification

Certain accounts and amounts in the June 30, 2013 financial statements have been reclassified in order to conform to the June 30, 2014 presentation.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 12, 2014, the date that the financial statements were available to be issued.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 2 – Cash, cash equivalents and investments

At June 30, 2014, the bank balances of unrestricted and restricted accounts totaled \$5,014,095 and had a carrying balance totaling \$4,783,994. A sum of \$200 is held in petty cash funds of the District.

Custodial credit risk is the risk that, in the event of failure of a financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2014, none of the District’s deposits or investments were exposed to custodial credit risk. The amounts covered by federal depository insurance (FDIC), invested in money market accounts and collateralized were as follows:

	Unrestricted	Restricted under bond covenants	Total
FDIC insured	\$ 211,007	\$ -	\$ 211,007
Collateralized	2,023,840	2,779,248	4,803,088
Balance per bank at 06/30/14	<u>\$ 2,234,847</u>	<u>\$ 2,779,248</u>	<u>\$ 5,014,095</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The District’s investment policy limits investments to those that are very creditworthy. At June 30, 2014, the District’s investments were all in a Standard and Poor’s AAAM rated money market account that is collateralized by U.S. Treasury obligations. As of June 30, 2014 and 2013, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

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

Investment Policy

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

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

	As of June 30,	
	2014	2013
Unrestricted cash - Available for general operating purposes	\$ 107,745	\$ 28,278
Restricted cash - Bond principal retirement and interest payments	598,720	636,942
Total	\$ 706,465	\$ 665,220

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

Note 4 - Accounts receivable

Current trade accounts receivable include the following:

	As of June 30,	
	2014	2013
Receivables from customers	\$ 945,303	\$ 1,026,230
Unbilled receivables from customers	874,953	849,369
Other receivables	77,554	3,495
Total	\$ 1,897,810	\$ 1,879,094

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 4 - Accounts receivable (continued)

Long term project safe accounts receivable represent amounts due from the Community Foundation of the Lowcountry (CFLC) which operates a program called project safe that provides grants for low and moderate income homeowners to connect to the public sewer system. The District provides funding to the CFLC in the form of Bucks for a Better Island, a program that rounds up customer bills to the next highest dollar. The District expects repayment in full on these receivables.

Note 5 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2014 and 2013 was as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2014</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	441,125	2,816,247	-	(1,628,188)	1,629,184
Total capital assets not being depreciated	<u>1,740,319</u>	<u>2,816,247</u>	<u>-</u>	<u>(1,628,188)</u>	<u>2,928,378</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	55,621,398	-	(183,796)	325,577	55,763,179
Sewage disposal system	36,153,741	-	-	906,089	37,059,830
Buildings	4,299,512	-	-	39,579	4,339,091
Sewage treatment facilities	34,711,422	-	-	-	34,711,422
Transportation equipment	988,429	72,900	(43,610)	-	1,017,719
Operations furniture and equipment	1,742,022	82,275	(25,979)	356,943	2,155,261
Office furniture and equipment	643,679	32,831	(13,050)	-	663,460
Total capital assets being depreciated	<u>134,160,203</u>	<u>188,006</u>	<u>(266,435)</u>	<u>1,628,188</u>	<u>135,709,962</u>
<u>Less accumulated depreciation for:</u>					
Waterworks system	(23,150,569)	(2,109,676)	183,796	-	(25,076,449)
Sewage disposal system	(10,857,008)	(1,281,914)	-	-	(12,138,922)
Buildings	(1,532,916)	(116,425)	-	-	(1,649,341)
Sewage treatment facilities	(19,508,284)	(837,063)	-	-	(20,345,347)
Transportation equipment	(837,617)	(52,252)	43,610	-	(846,259)
Operations furniture and equipment	(1,469,404)	(74,181)	25,979	-	(1,517,606)
Office furniture and equipment	(621,317)	(10,374)	13,050	-	(618,641)
Total accumulated depreciation	<u>(57,977,115)</u>	<u>(4,481,885)</u>	<u>266,435</u>	<u>-</u>	<u>(62,192,565)</u>
Total capital assets being depreciated, net	<u>76,183,088</u>	<u>(4,293,879)</u>	<u>-</u>	<u>1,628,188</u>	<u>73,517,397</u>
Year end totals	<u>\$ 77,923,407</u>	<u>\$ (1,477,632)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,445,775</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2013</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	553,892	1,235,860	-	(1,348,627)	441,125
Total capital assets not being depreciated	<u>1,853,086</u>	<u>1,235,860</u>	<u>-</u>	<u>(1,348,627)</u>	<u>1,740,319</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	55,352,880	33,304	-	235,214	55,621,398
Sewage disposal system	35,040,328	-	-	1,113,413	36,153,741
Buildings	4,299,512	-	-	-	4,299,512
Sewage treatment facilities	34,711,422	-	-	-	34,711,422
Transportation equipment	915,148	103,460	(30,179)	-	988,429
Operations furniture and equipment	1,681,614	105,694	(45,286)	-	1,742,022
Office furniture and equipment	701,878	4,414	(62,613)	-	643,679
Total capital assets being depreciated	<u>132,702,782</u>	<u>246,872</u>	<u>(138,078)</u>	<u>1,348,627</u>	<u>134,160,203</u>
<u>Less accumulated depreciation for:</u>					
Waterworks system	(21,020,624)	(2,129,945)	-	-	(23,150,569)
Sewage disposal system	(9,609,363)	(1,247,645)	-	-	(10,857,008)
Buildings	(1,409,216)	(123,700)	-	-	(1,532,916)
Sewage treatment facilities	(18,578,578)	(929,706)	-	-	(19,508,284)
Transportation equipment	(807,566)	(60,230)	30,179	-	(837,617)
Operations furniture and equipment	(1,463,751)	(50,939)	45,286	-	(1,469,404)
Office furniture and equipment	(668,649)	(15,281)	62,613	-	(621,317)
Total accumulated depreciation	<u>(53,557,747)</u>	<u>(4,557,446)</u>	<u>138,078</u>	<u>-</u>	<u>(57,977,115)</u>
Total capital assets being depreciated, net	<u>79,145,035</u>	<u>(4,310,574)</u>	<u>-</u>	<u>1,348,627</u>	<u>76,183,088</u>
Year end totals	<u>\$ 80,998,121</u>	<u>\$ (3,074,714)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,923,407</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$4,481,885 and \$4,557,446, respectively. Transfers relate to construction in progress completed during the year.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 6 – Long-term obligations

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

Notes payable

The District is obligated under a note dated November 30, 1988, with a balance of \$151,939 and \$169,939 at June 30, 2014 and 2013, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date.

On 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, 2014 and 2013 amounted to \$375,155 and \$395,134, respectively.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.0% per annum. These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 were payable quarterly beginning January 1, 2009 through October 1, 2011. Effective November 21, 2011, the interest rate was reduced to 2.25% resulting in reduced principal and interest payments of \$45,350 to be paid quarterly from January 1, 2012 through October 1, 2028. The SRF loan balance outstanding at June 30, 2014 and 2013 amounted to \$2,206,268 and \$2,336,196, respectively.

Bonds payable

In May 2000, the District issued \$530,000 of Series 2000B revenue bonds for purposes of funding certain improvements within the District. The bonds were an obligation of the District, bore interest at the rate of 6.172% and were payable annually through May 2020 in the amount of \$46,856, which included interest. The bonds will be repaid by annual assessments to the owners in the Burkes Beach area over a 20 year period and will be collected by the county treasurer. In June 2010, the District made a \$342,069 payment to pay off these bonds. After the pay off, \$190,722 of these bonds were refinanced as series 2010A revenue bonds. The series 2010A bonds bear interest at a rate of 3.85% per annum. The first payment of principal and interest in the amount of \$23,219 was due May 26, 2011. Nine additional payments of principal and interest of \$23,301 are payable on May 26th of each year beginning in 2012 and continuing until 2020. The 2010A revenue bonds outstanding amounted to \$122,744 and \$140,630 at June 30, 2014 and 2013, respectively.

In April 2004, the District determined that a debt service savings could be achieved by issuing a series of 2004 revenue bonds in the amount of \$17,575,000 and applying the proceeds thereof to refund a portion of the callable maturities of the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. The 2004 revenue bonds bore varying interest rates of between 2% to 5%, and were payable semi-annually beginning August 1, 2004 through August 1, 2021. In November 2012, these bonds were advance refunded to achieve a debt service savings by the issuance of series 2012A revenue

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 6 – Long-term obligations (continued)

Bonds payable(continued)

bonds in the amount of \$12,275,000. Interest on the bonds is payable semi-annual at interest rates of between 0.542% and 2.839% per annum. Principal payments are due annually on August 1st of each year beginning in 2013 and continuing through 2024. The 2012A revenue bonds outstanding amounted to \$11,275,000 and \$12,275,000 at June 30, 2014 and 2013, respectively.

In August 2004, the District completed the issuance of series 2004B revenue bonds for \$430,000. The proceeds of the bonds are to be used first for funding the debt service requirement and the issuance costs of the bond. Proceeds are then to be used to reimburse the District for the cost of system improvements. A one time principal payment was made in September 2004 of \$103,978. Beginning May 2, 2005, the remaining balance of \$326,022 will be paid with 19 annual payments of \$26,275 which includes interest at a rate of 5.19% per annum. A final payment of \$26,126, including interest, is due on May 2, 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2004B bonds outstanding amounted to \$200,940 and \$216,004 at June 30, 2014 and 2013, respectively.

On February 2, 2006 the District issued \$18,770,000 of Series 2006 revenue bonds to refund the series 1998 revenue bonds in order to achieve savings on debt service. Interest on the bonds is payable semi-annually at varying interest rates of between 3.50% and 4.125% per annum. Principal payments are due annually on December 1st of each year beginning in 2006 and continuing until 2023. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2006 bonds outstanding amounted to \$16,235,000 and \$16,725,000 at June 30, 2014 and 2013, respectively.

In June 2007, the District issued \$930,000 of series 2007 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2007 bond bears interest at a rate of 4.22% per annum. Principal and interest of \$69,771 are payable on June 20th of each year beginning in 2008 and continuing until 2027. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2007 revenue bonds outstanding amounted to \$687,292 and \$726,407 at June 30, 2014 and 2013, respectively.

On October 3, 2007 the District issued \$7,350,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. Interest on the bonds is payable semi-annually beginning March 1, 2008 at varying interest rates of between 4.50% and 4.00% per annum. Principal payments on the bonds are due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$5,585,000 and \$5,910,000 at June 30, 2014 and 2013, respectively.

In July 2009, the District issued \$355,902 of series 2009A revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2009A bond bears interest at a rate of 4.55% per annum. Principal and interest of \$33,254 are payable on July 30th of each year beginning in 2010 and continuing until 2024. The bonds are payable from revenues derived from operation of the District's

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

system, and are secured by a lien upon these revenues. The 2009A revenue bonds outstanding amounted to \$282,862 and \$302,358 at June 30, 2014 and 2013, respectively.

In July 2009, the District issued \$1,781,694 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bear interest at a rate of 4.219% per annum. The first payment of principal and interest in the amount of \$159,413 was due March 1, 2010. Fourteen additional payments of principal and interest of \$160,040 are payable on March 1st of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$1,284,029 and \$1,385,610 at June 30, 2014 and 2013, respectively.

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds are to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds are due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2010B revenue bonds outstanding amounted to \$3,005,000 and \$3,140,000 at June 30, 2014 and 2013, respectively.

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$3,275,000 and \$3,445,000 at June 30, 2014 and 2013, respectively.

On April 27, 2011, the District issued \$384,402 of series 2011 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2011 bond bears interest at a rate of 3.91% per annum. Principal and interest of \$34,356 are payable on April 27th of each year beginning in 2012 and continuing until 2026. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$324,126 and \$344,994 at June 30, 2014 and 2013, respectively.

On August 24, 2011, the District issued \$6,003,544 of series 2011B refunding revenue bonds. Proceeds were used to refund the May 2000 loan agreement with the South Carolina Water Quality Revolving Fund Authority; the purpose of the original loan agreement was to fund the expansion of the wastewater treatment plant capacity by 3,200,000 gallons per day. The series 2011B bond bears interest at a rate of 2.89% per annum. Principal and interest of \$57,666 are payable on the 24th of each month beginning in September 2011 and continuing until August 2021. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$4,474,573 and \$5,028,544 at June 30, 2014, and 2013, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

On November 29, 2012, the District issued \$815,000 of series 2012B revenue bonds. Proceeds are to be 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-annual 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, 2014 and 2013, respectively.

On April 23, 2014, the District issued \$282,294 of Series 2014A revenue bonds for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 3.42% and are payable annual principal and interest payments of \$24,370.97 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 \$282,294 at June 30, 2014.

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

Years ended				
June 30,	Principal	Interest	Total	
2015	\$ 3,629,596	\$ 1,606,255	\$ 5,235,851	
2016	3,715,046	1,523,550	5,238,596	
2017	3,816,503	1,425,025	5,241,528	
2018	3,934,003	1,311,305	5,245,308	
2019	4,047,581	1,189,795	5,237,376	
2020-2024	22,429,376	3,746,990	26,176,366	
2025-2029	8,760,117	543,181	9,303,298	
2030	250,000	4,844	254,844	
	<u>\$ 50,582,222</u>	<u>\$ 11,350,945</u>	<u>\$ 61,933,167</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 6 – Long-term obligations (continued)

For those bonds due June 30,	Revenue bonds dated Feb. 2, 2006	General Obligation bonds dated Oct. 3, 2007	Revenue bonds dated Aug. 24, 2010	General Obligation bonds dated Sept. 28, 2010	Revenue bonds dated Nov. 29, 2012
2015	3.625%	4.000%	3.000%	2.000%	0.878%
2016	3.75% - 4.00%	4.000%	4.000%	2.000%	1.222%
2017	4.000%	4.000%	4.000%	2.250%	1.372%
2018	4.000%	4.000%	4.000%	3.000%	1.667%
2019	4.000%	4.000%	4.000%	3.000%	1.917%
2020 - 22	4.000%	4.000%	4.000%	3.000%	2.339%
2023	4.100%	4.000%	4.000%	3.000%	2.339%
2024	4.125%	4.000%	4.000%	3.000%	2.839%
2025	-	4.000%	4.000%	3.000%	-
2026 - 27	-	4.000%	4.000%	3.125%	-
2028	-	-	4.000%	3.250%	-
2029	-	-	3.875%	3.375%	-

Note 7 – Non-current liabilities

The non-current liability activity during fiscal years 2014 and 2013 was as follows:

	June 30, 2013	Additions	Reductions	June 30, 2014	Amounts due within one year
Revenue bonds	\$ 39,713,937	\$ 282,294	\$ (2,291,401)	\$ 37,704,830	\$ 2,842,165
GO bonds	10,740,609	-	(596,581)	10,144,028	615,867
Notes payable	2,901,270	-	(167,906)	2,733,364	171,564
Bond discount/premium	45,050	-	(31)	45,019	-
Sub Total	\$ 53,400,866	\$ 282,294	\$ (3,055,919)	\$ 50,627,241	\$ 3,629,596
Less current portion	(3,055,889)			(3,629,596)	
Noncurrent liabilities	\$ 50,344,977			\$ 46,997,645	

	June 30, 2012	Additions	Reductions	June 30, 2013	Amounts due within one year
Revenue bonds	\$ 41,004,952	\$ 13,090,000	\$ (14,381,015)	\$ 39,713,937	\$ 2,291,401
GO bonds	11,313,078	-	(572,469)	10,740,609	596,581
Notes payable	3,065,610	-	(164,340)	2,901,270	167,907
Bond discount/premium	812,333	-	(767,283)	45,050	-
Sub Total	\$ 56,195,973	\$ 13,090,000	\$ (15,885,107)	\$ 53,400,866	\$ 3,055,889
Less current portion	(3,377,824)			(3,055,889)	
Noncurrent liabilities	\$ 52,818,149			\$ 50,344,977	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 8 – Deferred amount on refunding

On February 2, 2006 the District issued revenue bonds amounting to \$18,770,000 with varying interest rates to advance refund series 1998 revenue bonds amounting to \$17,825,000 of principal which were to mature in 2024. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2006 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1.28 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$886,805. The District is amortizing the deferred loss on early retirement of \$1,133,015 over the 18-year life of the refunded bonds. The unamortized balance at June 30, 2014 and 2013 was \$598,273 and \$661,806, respectively.

In June 2010, the District issued revenue bonds amounting to \$190,722 with varying interest rates to advance refund series 2000B revenue bonds amounting to \$530,000 of principal which were to mature in 2020. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2010 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$84,295, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,268. The District is amortizing the deferred amount on early retirement of \$17,137 over the 10-year life of the refunded bonds. The unamortized balance at June 30, 2014 and 2013 was \$10,282 and \$11,996, respectively.

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, 2014 and 2013 was \$1,004,720 and \$1,153,568, respectively.

Note 9 – Restricted Assets

A reserve fund for debt service is mandated by bond covenants. At June 30, 2014 and 2013 the debt service reserves totaled \$3,377,968 and \$2,885,019, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 9 – Restricted Assets (continued)

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

At June 30, 2014 and 2013, the District had \$-0- and \$729,808, respectively, held by US Bank relating to the November 29, 2012 series 2012B revenue bond issuance. Use of these funds is restricted for waterworks and sewer system improvement.

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 \$591,203 and \$565,751 for the years ended June 30, 2014 and 2013, respectively.

The future minimum lease income is as follows:

Years ended		Amount
June 30,	Amount	
2015	\$	470,326
2016		296,191
2017		187,517
2018		63,405
2019		-
Thereafter		-
Total	\$	<u>1,017,439</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 – Insurance recoveries

The District records insurance recoveries as an offset to the related expense. The District received \$-0- and \$57,911 for insurance recoveries during the years ended June 30, 2014 and 2013, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 \$817,167 and \$951,201 for the years ended June 30, 2014 and 2013, respectively.

Expansion

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$1,184,597 and \$474,097 and payments of capacity fees totaling \$477,179 and \$79,240 were collected during the fiscal years ended June 30, 2014 and 2013, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District.

Construction commitments

The District had outstanding construction contract commitments of \$3,896,804 and \$676,261 at June 30, 2014 and 2013, respectively.

Note 14 - Sewer assessments

The District has constructed various sewer collection systems, the cost of which is to be repaid by annual sewer assessments collected by the Beaufort County treasurer from the property owners that benefited from these systems. These assessments are being collected annually and are expected to be paid in full beginning 2016 through 2034. Assessments receivable totaled \$2,997,372 and \$3,010,122 as of June 30, 2014 and 2013, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2014 and 2013, \$132,960 and \$159,149, respectively, of the assessments collected was recognized as interest income.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013 were \$197,903 and \$187,626, respectively. The matching contribution for the years ended June 30, 2014 and 2013 was \$8,876 and \$8,598, respectively.

South Carolina Retirement System

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

As a condition of employment, all employees are required to become members of the SCRS and contribute 7.5%, 7.0%, and 6.5% of compensation for the years ended June 30, 2014, 2013, and 2012, respectively. However, employees who worked for the District on the date of its admission into the Retirement System could elect non-membership within six-months. The District's required contributions for the years ended June 30, 2014, 2013 and 2012 were 10.45%, 10.45%, and 9.385%, respectively. The District's required contribution for the years ended June 30, 2014, 2013 and 2012 were \$230,630, \$222,189 and \$193,454, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

For the years ended June 30, 2014, 2013 and 2012, \$2,206,988, \$2,126,201, and \$2,061,190, respectively, of wages were subject to retirement. During the years ended June 30, 2014, 2013 and 2012, \$165,524, \$148,834, and \$133,978, respectively, were contributed to the system for the employees' share.

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 15 - Deferred compensation plans (continued)

South Carolina Retirement System (continued)

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

For each plan the maximum employee contributions are as follows:

Plan year	2014	2013
Under 50 years of age	\$ 17,500	\$ 17,500
50 years of age and over	\$ 23,000	\$ 23,000

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.

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,	
	2014	2013
Invested in capital assets, net of related liabilities		
Net property, plant and equipment in service	\$ 76,445,775	\$ 77,923,407
Less: Debt as disclosed in Notes 6 & 7	(50,582,222)	(53,355,817)
Cash for construction	-	729,808
Bond premium, net	(45,019)	(45,050)
Deferred amount on refunding, net	1,613,275	1,827,370
Prepaid insurance - bonds	86,992	96,149
Accounts payable for capital assets	(23,427)	(159,653)
	27,495,374	27,016,214
Restricted for debt service	3,377,968	2,885,019
Unrestricted	6,272,634	6,262,603
Total net position	\$ 37,145,976	\$ 36,163,836

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 18 – Subsequent Events

On July 28, 2014, the District paid off the series 2004B revenue bonds totaling \$200,940 in full. There was no prepayment penalty.

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$2,902,255. Proceeds are to be used to defray the costs of installing and implementing an automatic meter reading system. The note bears interest at a rate of 1.00% per annum. Eighty quarterly principal and interest payments of \$40,072 will be due beginning April 1, 2016. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$3,750,000. Proceeds are to be used to defray the cost expanding the existing reverse osmosis treatment plan, 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. Eighty quarterly principal and interest payments of \$56,989 will be due beginning May 1, 2015. The notes are backed by general obligation debt.

SUPPLEMENTAL FINANCIAL INFORMATION

Table A-1
Hilton Head PSD
Budgetary Comparison Schedule
Fiscal Year to Date as of June 30, 2014

(With comparative amounts for the same period in prior fiscal year)

	Fiscal Year 2014		FY 2014 to FY 2014 Budget	
	Actual	Budget	Dollars	%
Operating Revenues			Favorable (Unfavorable)	
Water Service	\$ 5,777,606	\$ 6,151,800	\$ (374,194)	-6.1%
Sewer Service	4,736,919	4,763,900	(26,981)	-0.6%
Tap In Fees - Water	124,837	57,800	67,037	116.0%
Connection Fees - Sewer	117,505	40,000	77,505	193.8%
Service Fees	44,174	41,000	3,174	7.7%
Golf Course Irrigation	297,609	339,900	(42,291)	-12.4%
Availability Fees	597,582	650,200	(52,618)	-8.1%
Other Operating Revenues	17,771	16,500	1,271	7.7%
Total Operating Revenues	11,714,003	12,061,100	(347,097)	-2.9%
Departmental Expenses				
Payroll & Related	3,571,288	3,608,600	37,312	1.0%
Administrative Expenses	789,686	790,400	714	0.1%
Operations	1,667,542	1,852,000	184,458	10.0%
Maintenance	1,125,413	1,154,800	29,387	2.5%
Water Tap In Expenses	60,078	52,000	(8,078)	-15.5%
Sewer Connection Expenses	85,401	36,000	(49,401)	-137.2%
Purchased Water	622,629	925,700	303,071	32.7%
ASR-1 Water	194,537	194,400	(137)	-0.1%
RO Plant O&M	533,249	622,600	89,351	14.4%
ASR-1 O&M	40,747	40,800	53	0.1%
Professional Fees	237,182	250,000	12,818	5.1%
Vehicle	126,384	130,400	4,016	3.1%
Total Departmental Expenses	9,054,136	9,657,700	603,564	6.2%
Depreciation	4,481,885	4,410,000	(71,885)	-1.6%
Total Operating Expenses	13,536,021	14,067,700	531,679	3.8%
Operating income (loss)	(1,822,018)	(2,006,600)	184,582	9.2%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,167,016	1,204,000	(36,984)	-3.1%
Property taxes-Operations Levy	901,453	930,400	(28,947)	-3.1%
Rental Income	80,096	80,600	(504)	-0.6%
Interest earned	142,313	163,700	(21,387)	-13.1%
Tower lease	531,703	553,200	(21,497)	-3.9%
Total Non-operating Revenues	2,822,581	2,931,900	(109,319)	-3.7%
Non-operating Expenses				
Interest expense-Bonds	1,661,902	1,757,470	95,568	5.4%
Bond Defeasance Amortization	214,095	238,000	23,905	10.0%
Amortization of Bond Insurance	9,157	-	(9,157)	N/A
Bond Issuance Costs	38,685	76,800	38,115	49.6%
Bond Premium Amortization	(31)	-	31	N/A
Total Non-operating Expenses	1,923,808	2,072,270	148,462	7.2%
Total Non-operating Revenues/Exp.	898,773	859,630	39,143	4.6%
Increase (decrease) in net assets, before capital contributions	(923,245)	(1,146,970)	223,725	19.5%
Water Capacity Fee	195,270	55,200	140,070	253.7%
Sewer Capacity Fee	281,909	254,800	27,109	10.6%
Developer Contributions of Systems	1,184,597	-	1,184,597	N/A
Assessments	243,609	-	243,609	N/A
Total Capital Contributions	1,905,385	310,000	1,595,385	514.6%
Change in net position	\$ 982,140	\$ (836,970)	\$ 1,819,110	217.3%
Net position, beginning of the fiscal year	\$ 36,163,836			
Net position, June 30, 2014	\$ 37,145,976			

Notes to Budgetary Comparison Schedule

Budgetary Highlights

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

Operating Revenues: Actual of \$11,714,003 vs. FY' 14 Budget of \$12,061,000 represents a variance of \$347,097 or 2.9% less than budget.

The following is a summary of material variances for the Operating Revenue categories:⁶

- Water service revenues are below budget by \$374,194 or 6.1% despite a \$1.00 water base rate increase effective January 1, 2013. Fiscal year billed water consumption was down 130.0 million gallons or 6.7% when compared to last fiscal year due to increased cooler than usual weather conditions and increased rainfall.
- Water tap in fees are \$67,037 or 116% above budget due to increased tap ins as discussed on pages 24 and 25.
- Sewer connection fees are \$77,505 or 194% above budget due to increased sewer connections as discussed on pages 24 and 25.
- Golf course irrigation revenues are \$42,291 or 12% below budget due to increased cooler than usual weather conditions and increased rainfall.

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$603,564 or 6.2% under budget. The following is a summary of material variances for the Departmental Expenses categories:¹

- Operations Expenses: Actual of \$1,667,542 vs. FY' 14 Budget of \$1,852,000 is \$184,458 or 10% lower than budget. This is mainly due to lower than expected power and operations chemical costs. Low water consumption has contributed to both lower power costs and lower chemical costs.
- Sewer Connection Expense: Sewer Connection Expenses are above budget by \$49,401 or 137% mainly due to the aforementioned increased sewer connections. Note that these expenses are offset by higher sewer connection fee revenues.
- Purchased Water Expense: Actual of \$622,629 vs. FY' 14 Budget of \$925,700 is \$303,071 or 33% below budget. BJWSA purchases (net of Broad Creek PSD usage and ASR-1 injection) are down 226.8 million gallons for fiscal year 2014 when compared to fiscal year 2013.

For fiscal year 2014 there has been decreased customer water consumption, increased RO Plant production and increased ASR-1 withdrawal. Although well production was down 151.8 million gallons for fiscal year 2014, the RO plant increased production by 91.5 million gallons and ASR-

⁶ In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for this report.

1 withdrawal increased by 80.5 million gallons. The aggregate net increase from these 3 sources for fiscal year 2014 is 20.2 million gallons when compared to the same period last fiscal year.

- RO Plant O&M: Actual of \$533,249 vs. FY' 14 Budget of \$622,600 is \$89,351 or 14% below budget. The District has been able to reduce the amount of anti-scaling chemical that it uses which has reduced costs.

Total Non-Operating Revenues: Actual of \$2,822,581 vs. FY' 14 Budget of \$2,931,900 represents a variance of \$109,319 or 3.7% below budget.

Total Non-Operating Expenses: Actual of \$1,923,808 vs. FY' 14 Budget of \$2,072,270 represents a variance of \$148,462 or 7.2% below budget. This variance is mainly due to lower than budgeted bond issuance costs. Bond issuance costs that were being amortized over the life of the bonds were written off with the implementation of GASB 65 which required bond issuance costs to be expensed.

Capital Contributions: Actual Capacity Fees of \$477,178 vs. FY' 14 Budget of \$310,000 represents a variance of \$167,178 above budget. Developer contributions of systems total \$1,184,597 and are a non-budgeted item. Assessments total \$243,609 and are also a non-budgeted item.

Bond Disclosure: The debt service calculation is in compliance with necessary requirements and is equal to 148% as of June 30, 2014.

Fiscal year 2014's net position was \$982,140 vs. FY' 14 Budget deficit of \$836,970 which represents a variance of \$1,819,110 above budget.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SUMMARY SCHEDULE OF DEBT
JUNE 30, 2014

<u>Description</u>	<u>Rate</u>	<u>06/30/2012</u>	<u>Addition</u>	<u>Reduction</u>	<u>6/30/2013</u>	<u>Addition</u>	<u>Reduction</u>	<u>06/30/2014</u>	<u>Current</u>
<u>Notes Payable</u>									
*SCJEDA - Notes Payable	0.00%	\$ 187,939	\$ -	\$ (18,000)	\$ 169,939	\$ -	\$ (18,000)	\$ 151,939	\$ 18,000
<u>Revenue Bonds</u>									
Series 2004	2.00% to 5.00%	13,125,000	-	(13,125,000)	-	-	-	-	-
Series 2004B	5.19%	230,324	-	(14,320)	216,004	-	(15,064)	200,940	15,846
Series 2006	3.50 to 4.13%	17,205,000	-	(480,000)	16,725,000	-	(490,000)	16,235,000	510,000
Series 2007	4.22%	763,940	-	(37,532)	726,408	-	(39,116)	687,292	40,767
Series 2009A	4.55%	321,006	-	(18,648)	302,358	-	(19,496)	282,862	20,383
Series 2010	2.00% to 4.00%	3,270,000	-	(130,000)	3,140,000	-	(135,000)	3,005,000	140,000
Series 2010A	3.85%	157,853	-	(17,223)	140,630	-	(17,886)	122,744	18,575
Series 2011	3.91%	365,076	-	(20,083)	344,993	-	(20,867)	324,126	21,683
Series 2011B	2.89%	5,566,753	-	(538,209)	5,028,544	-	(553,971)	4,474,573	570,194
Series 2012A	0.542% to 2.839%	-	12,275,000	-	12,275,000	-	(1,000,000)	11,275,000	1,490,000
Series 2012B	2.15%	-	815,000	-	815,000	-	-	815,000	-
Series 2014A	3.42%	-	-	-	-	282,294	-	282,294	14,717
Total Revenue Bonds		<u>41,004,952</u>	<u>13,090,000</u>	<u>(14,381,015)</u>	<u>39,713,937</u>	<u>282,294</u>	<u>(2,291,400)</u>	<u>37,704,831</u>	<u>2,842,165</u>
<u>State Revolving Fund Loans:</u>									
SRF - Series 2007 GO Bonds	2.25%	2,463,242	-	(127,046)	2,336,196	-	(129,928)	2,206,268	132,877
SIRF Series 2007 GO Bonds	3.50%	414,429	-	(19,295)	395,134	-	(19,979)	375,155	20,687
Total State Revolving Loans		<u>2,877,671</u>	<u>-</u>	<u>(146,341)</u>	<u>2,731,330</u>	<u>-</u>	<u>(149,907)</u>	<u>2,581,423</u>	<u>153,564</u>
<u>General Obligation Bonds:</u>									
Series 2007	4.00% to 4.50%	6,220,000	-	(310,000)	5,910,000	-	(325,000)	5,585,000	335,000
Series 2009	4.22%	1,483,078	-	(97,468)	1,385,610	-	(101,581)	1,284,029	105,867
Series 2010	2.00% to 3.38%	3,610,000	-	(165,000)	3,445,000	-	(170,000)	3,275,000	175,000
Total General Obligation Bonds		<u>11,313,078</u>	<u>-</u>	<u>(572,468)</u>	<u>10,740,610</u>	<u>-</u>	<u>(596,581)</u>	<u>10,144,029</u>	<u>615,867</u>
Total Long-Term Liabilities		\$ 55,383,640	\$ 13,090,000	\$ (15,117,824)	\$ 53,355,816	\$ 282,294	\$ (3,055,888)	\$ 50,582,222	\$ 3,629,596
Less current portion		<u>(3,377,824)</u>			<u>(3,055,889)</u>			<u>(3,629,596)</u>	
Bond discount/premium, net of amortization		812,333			45,050			45,019	
Total Long Term Debt		<u>\$ 52,818,149</u>			<u>\$ 50,344,977</u>			<u>\$ 46,997,645</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS
JUNE 30, 2014

For the Year ending June 30,	\$190,722 Series 2010A Revenue Bonds Dated June 16, 2010		\$430,000 Revenue Bond Dated August 10, 2004		\$18,770,000 Revenue Bonds Dated February 2, 2006		\$930,000 Revenue Bond Dated June 20, 2007		\$7,350,000 GO Bond Dated October 3, 2007		\$335,902 Series 2009A FFA Dated July 30, 2009		\$1,781,694 Series 2009 GO Bond Dated July 30, 2009		\$3,400,000 Revenue Bond Dated August 24, 2010	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
	2015	\$ 4,726	\$ 18,575	\$ 10,428	\$ 15,846	\$ 645,318	\$ 510,000	\$ 29,004	\$ 40,767	\$ 223,400	\$ 335,000	\$ 12,870	\$ 20,383	\$ 54,173	\$ 105,867	\$ 114,125
2016	4,010	19,290	9,606	16,669	625,574	525,000	27,283	42,488	210,000	350,000	11,943	21,311	49,707	110,333	109,925	140,000
2017	3,268	20,033	8,741	17,534	594,068	1,055,000	25,490	44,280	196,000	365,000	10,973	22,280	45,052	114,988	104,825	150,000
2018	2,497	20,804	7,831	18,444	551,061	1,100,000	23,622	46,149	181,400	380,000	9,959	23,294	40,200	119,839	98,725	155,000
2019	1,696	21,605	6,874	19,401	506,161	1,145,000	21,674	48,097	166,200	390,000	8,900	24,354	35,144	124,895	92,425	160,000
2020	864	22,437	5,867	19,900	459,461	1,190,000	19,645	50,126	150,600	405,000	7,791	25,462	29,875	130,165	85,925	165,000
2021	-	-	4,808	21,467	410,761	1,245,000	17,529	52,242	134,400	420,000	6,633	26,620	24,383	135,656	79,125	175,000
2022	-	-	3,694	22,581	325,361	3,025,000	15,325	54,446	117,600	440,000	5,422	27,832	18,660	141,380	72,025	180,000
2023	-	-	2,522	23,753	200,184	3,155,000	13,027	56,744	100,000	460,000	4,155	29,098	12,695	147,345	64,625	190,000
2024	-	-	1,289	24,837	67,753	3,285,000	10,632	59,138	81,600	480,000	2,831	30,422	6,479	153,561	56,925	195,000
2025	-	-	-	-	-	-	8,137	61,634	62,400	500,000	1,447	31,806	-	-	48,925	205,000
2026	-	-	-	-	-	-	5,536	64,235	42,400	520,000	-	-	-	-	40,625	210,000
2027	-	-	-	-	-	-	2,825	66,946	21,600	540,000	-	-	-	-	32,163	220,000
2028	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,444	230,000
2029	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,338	240,000
2030	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,844	250,000
	<u>\$ 17,060</u>	<u>\$ 122,743</u>	<u>\$ 61,660</u>	<u>\$ 200,940</u>	<u>\$ 4,385,702</u>	<u>\$ 16,235,000</u>	<u>\$ 219,729</u>	<u>\$ 687,292</u>	<u>\$ 1,687,600</u>	<u>\$ 5,585,000</u>	<u>\$ 82,925</u>	<u>\$ 282,862</u>	<u>\$ 316,369</u>	<u>\$ 1,284,029</u>	<u>\$ 1,042,988</u>	<u>\$ 3,005,000</u>
Current		<u>\$ 18,575</u>		<u>\$ 15,846</u>		<u>\$ 510,000</u>		<u>\$ 40,767</u>		<u>\$ 335,000</u>		<u>\$ 20,383</u>		<u>\$ 105,867</u>		<u>\$ 140,000</u>
Noncurrent		<u>\$ 104,168</u>		<u>\$ 185,093</u>		<u>\$ 15,725,000</u>		<u>\$ 646,525</u>		<u>\$ 5,250,000</u>		<u>\$ 262,479</u>		<u>\$ 1,178,162</u>		<u>\$ 2,865,000</u>

For the Year ending June 30,	\$3,970,000 GO Bond Dated September 25, 2010		\$6,003,544 Revenue Bond Dated August 24, 2011		\$384,000 Revenue Bond Dated April 27, 2011		\$12,275,000 Revenue Bond 2012 A Dated November 29, 2012		\$815,000 Revenue Bond 2012 B Dated November 29, 2012		\$282,294 Revenue Bond 2014 A Dated April 23, 2014		BOND TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
	2015	\$ 95,650	\$ 175,000	\$ 121,802	\$ 570,194	\$ 12,673	\$ 21,683	\$ 193,524	\$ 1,490,000	\$ 17,523	\$ -	\$ 9,654	\$ 14,717	\$ 1,544,869	\$ 3,458,032
2016	92,150	180,000	105,103	586,893	11,826	22,531	182,112	1,510,000	17,523	-	9,151	15,220	1,465,913	3,539,734	5,005,647
2017	88,550	185,000	87,916	604,080	10,945	23,412	169,251	1,020,000	17,523	-	8,631	15,740	1,371,232	3,637,346	5,008,579
2018	84,368	190,000	70,225	621,771	10,029	24,327	155,918	1,035,000	17,523	-	8,092	16,279	1,261,450	3,750,907	5,012,357
2019	78,688	195,000	52,015	639,981	9,078	25,278	140,067	1,050,000	17,523	-	7,536	16,835	1,143,980	3,860,446	5,004,427
2020	72,838	200,000	33,273	658,723	8,090	26,267	121,011	1,075,000	17,523	-	6,960	17,411	1,019,722	3,985,998	5,005,720
2021	66,838	205,000	13,982	678,014	7,063	27,294	97,726	1,110,000	17,523	-	6,364	18,007	887,135	4,114,301	5,001,435
2022	60,688	210,000	416	114,917	5,995	28,361	84,602	10,000	17,523	-	5,749	18,622	733,059	4,273,139	5,006,198
2023	54,388	220,000	-	-	4,887	29,470	82,757	120,000	17,523	-	5,112	19,259	561,874	4,450,669	5,012,543
2024	47,788	230,000	-	-	3,734	30,622	79,279	125,000	17,523	-	4,453	19,918	380,286	4,633,498	5,013,784
2025	40,888	240,000	-	-	2,537	31,819	38,752	2,730,000	8,761	815,000	3,772	20,599	215,619	4,635,859	4,851,477
2026	33,688	245,000	-	-	1,293	33,064	-	-	-	-	3,067	21,304	126,608	1,093,603	1,220,211
2027	26,031	255,000	-	-	-	-	-	-	-	-	2,339	22,032	84,958	1,103,978	1,188,936
2028	18,063	265,000	-	-	-	-	-	-	-	-	1,585	22,786	43,091	517,786	560,877
2029	9,450	280,000	-	-	-	-	-	-	-	-	806	23,565	24,594	543,565	568,159
2030	-	-	-	-	-	-	-	-	-	-	-	4,844	4,844	250,000	254,844
	<u>\$ 870,061</u>	<u>\$ 3,275,000</u>	<u>\$ 484,732</u>	<u>\$ 4,474,573</u>	<u>\$ 88,149</u>	<u>\$ 324,127</u>	<u>\$ 1,344,999</u>	<u>\$ 11,275,000</u>	<u>\$ 183,991</u>	<u>\$ 815,000</u>	<u>\$ 83,271</u>	<u>\$ 282,294</u>	<u>\$ 10,869,236</u>	<u>\$ 47,848,860</u>	<u>\$ 58,718,096</u>
Current		<u>\$ 175,000</u>		<u>\$ 570,194</u>		<u>\$ 21,683</u>		<u>\$ 1,490,000</u>		<u>\$ -</u>		<u>\$ 14,717</u>		<u>\$ 3,458,032</u>	
Noncurrent		<u>\$ 3,100,000</u>		<u>\$ 3,904,379</u>		<u>\$ 302,444</u>		<u>\$ 9,785,000</u>		<u>\$ 815,000</u>		<u>\$ 267,577</u>		<u>\$ 44,390,828</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS
JUNE 30, 2014

For the Year ending June 30,	\$530,000 SCJESA Note Dated November 30, 1988		\$2,887,826 SC SRF Loan Dated October 3, 2007		\$481,080 SIRF GO Bond Dated October 3, 2007		NOTE TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
	2015	-	18,000	48,525	132,877	12,861	20,687	61,386	171,564
2016	-	18,000	45,510	135,892	12,127	21,421	57,637	175,312	232,950
2017	-	18,000	42,427	138,975	11,368	22,180	53,794	179,156	232,950
2018	-	18,000	39,273	142,129	10,581	22,967	49,854	183,096	232,950
2019	-	18,000	36,048	145,354	9,767	23,781	45,815	187,135	232,950
2020	-	18,000	32,750	148,652	8,923	24,625	41,673	191,276	232,950
2021	-	18,000	29,377	152,025	8,050	25,498	37,427	195,523	232,950
2022	-	18,000	25,928	155,474	7,146	26,402	33,073	199,876	232,950
2023	-	7,939	22,500	158,902	6,210	27,339	28,709	194,179	222,889
2024	-	-	18,792	162,610	5,240	28,308	24,032	190,918	214,950
2025	-	-	15,102	166,300	4,236	29,312	19,338	195,611	214,950
2026	-	-	11,329	170,073	3,197	30,351	14,526	200,424	214,950
2027	-	-	7,470	173,932	2,120	31,428	9,590	205,360	214,950
2028	-	-	3,523	177,879	1,006	32,542	4,529	210,421	214,950
2029	-	-	254	45,197	73	8,315	326	53,511	53,838
	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 151,939</u>	<u>\$ 378,807</u>	<u>\$ 2,206,267</u>	<u>\$ 102,905</u>	<u>\$ 375,156</u>	<u>\$ 481,712</u>	<u>\$ 2,733,362</u>	<u>\$ 3,215,074</u>
Current		<u>\$ 18,000</u>		<u>\$ 132,877</u>		<u>\$ 20,687</u>		<u>\$ 171,564</u>	
Noncurrent		<u>\$ 133,939</u>		<u>\$ 2,073,391</u>		<u>\$ 354,469</u>		<u>\$ 2,561,798</u>	

STATISTICAL SECTION

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Statements of Revenues, Expenses, and Debt Service per Bond Covenants⁸

Last Ten Fiscal Years

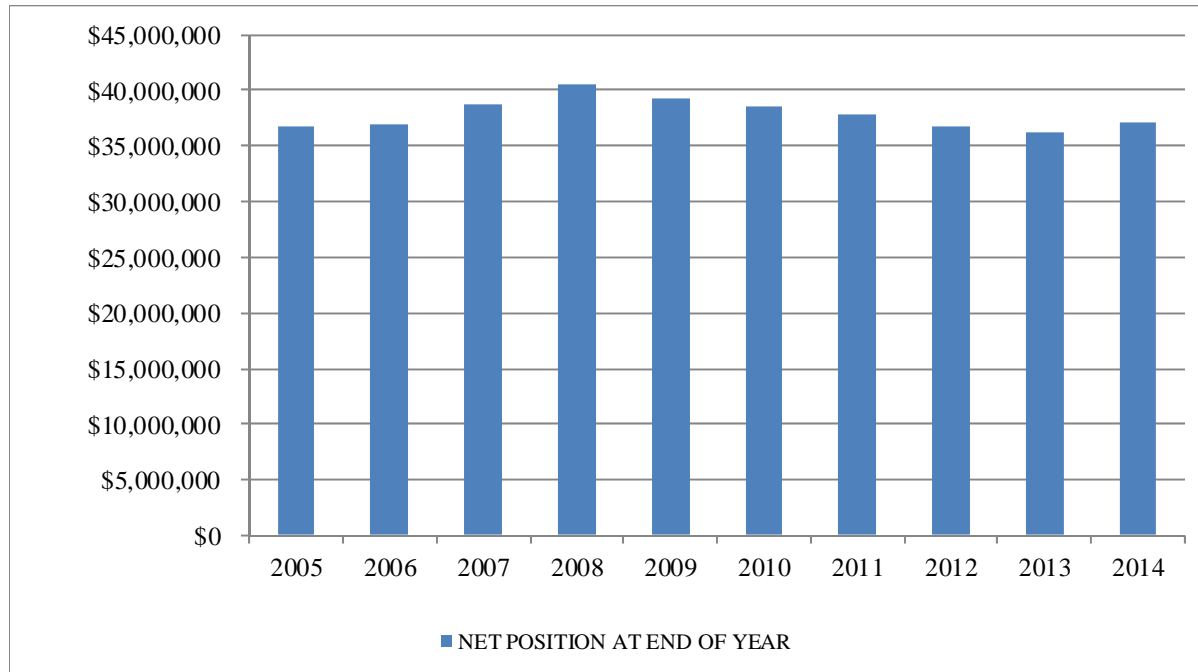
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Revenues										
Water service	\$4,870,847	\$5,162,771	\$5,465,028	\$5,518,049	\$5,307,260	\$5,308,798	\$5,836,921	\$5,949,379	\$5,951,546	\$5,777,606
Sewer service	3,525,405	3,655,945	3,941,776	4,059,860	3,959,087	4,034,068	4,208,115	4,522,434	4,623,093	\$4,736,919
Tap in fees - water	262,564	175,964	106,768	72,569	35,133	31,305	43,041	41,861	61,925	\$124,837
Tap in fees - sewer	294,286	72,493	19,600	11,284	2,330	117,367	71,614	83,425	109,475	\$117,505
Availability charges	400,503	546,788	504,303	540,104	547,354	570,169	610,332	638,137	623,076	\$597,582
Service fees and penalties	41,985	42,121	38,218	38,153	50,311	70,488	73,245	51,108	36,645	\$44,174
Golf course irrigation	157,944	216,700	261,616	301,856	243,274	230,583	358,105	338,205	319,041	\$297,609
Other operating Revenues	12,647	7,803	16,712	16,188	19,154	35,679	80,342	15,539	14,727	17,771
Total Operating Revenues	\$9,566,181	\$9,880,585	\$10,354,021	\$10,558,063	\$10,163,903	\$10,398,457	\$11,281,715	\$11,640,088	\$11,739,528	\$11,714,003
Operating Expenses										
Payroll and related expenses	\$2,478,636	\$2,656,204	\$2,797,439	\$3,038,152	\$3,227,906	\$3,229,296	\$3,293,800	\$3,392,515	\$3,474,067	\$3,571,288
Administrative expenses	493,016	500,965	494,394	544,208	697,194	692,053	792,437	923,287	783,768	\$789,686
Operations expenses	938,247	1,086,507	1,098,914	1,197,436	1,430,222	1,410,295	1,639,353	1,761,310	1,686,667	\$1,667,542
Maintenance expenses	630,142	637,588	626,455	733,394	677,372	768,575	1,103,787	987,389	1,038,224	\$1,125,413
Water Tap In Expenses	191,691	172,549	93,757	79,818	26,620	23,030	-	37,443	38,250	\$60,078
Sewer Connection Expense	21,039	19,249	16,473	3,512	3,900	128,227	-	78,775	84,144	\$85,401
Purchased water	1,394,283	1,645,206	1,671,703	1,596,183	1,356,803	746,571	1,024,455	1,028,789	817,441	\$622,629
ASR-1 Water	-	-	-	-	-	-	-	16,792	133,760	\$194,537
RO Plant O&M	-	-	-	-	127,852	674,039	581,270	604,539	607,876	\$533,249
ASR-1 O&M	-	-	-	-	-	-	-	5,275	30,868	\$40,747
Professional fees	243,961	291,336	294,484	532,391	410,736	269,207	171,575	243,600	265,786	\$237,182
Vehicle expenses	129,805	140,672	140,654	146,335	131,379	107,292	119,162	130,473	126,999	\$126,384
Depreciation	3,221,943	3,349,668	3,540,690	3,720,333	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	<u>\$4,481,885</u>
Total Operating Expenses	\$9,742,763	\$10,499,944	\$10,774,963	\$11,591,762	\$12,055,616	\$12,453,662	\$13,181,999	\$13,669,995	\$13,645,296	\$13,536,021
Operating Income (Loss from operations)	(\$176,582)	(\$619,359)	(\$420,942)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)	(\$2,029,907)	(\$1,905,768)	(\$1,822,018)
Non-operating revenues (expenses)										
Property taxes-debt service	\$320,228	\$269,130	\$125,052	\$409,292	\$817,751	\$967,418	\$1,235,347	\$1,233,107	\$1,195,990	\$1,167,016
Property taxes-operations	831,083	848,076	760,054	901,072	924,702	1,028,416	1,039,316	1,023,502	1,016,558	\$901,453
Rental income	58,039	80,852	87,011	84,546	84,496	82,150	81,493	80,235	79,641	80,096
Interest earned	354,611	538,646	508,389	437,209	269,950	256,948	234,668	205,100	168,990	142,313
Tower leases	426,723	454,800	472,207	599,135	471,303	448,673	465,355	423,468	506,687	531,703
Tower lease contract settlement	-	(\$275,000)	-	-	-	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-	-	-	(31,250)	(226,335)	(38,685)
Amortization of bond costs	(170,672)	(360,077)	(204,719)	(204,689)	(206,685)	(202,112)	(209,256)	(239,272)	(216,004)	(223,222)
Loss on disposal of equipment	-	-	-	(33,175)	2,000	161	7,672	-	-	-
Interest expense	<u>(2,368,340)</u>	<u>(1,911,202)</u>	<u>(1,888,236)</u>	<u>(1,860,432)</u>	<u>(1,911,438)</u>	<u>(2,208,372)</u>	<u>(2,300,439)</u>	<u>(2,101,677)</u>	<u>(1,842,617)</u>	<u>(1,661,902)</u>
Total Non-Operating Income (Loss)	(\$548,328)	(\$354,775)	(\$140,242)	\$332,958	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773
Net Income(loss) before capital contributions per Financial Statements	(\$724,911)	(\$974,134)	(\$561,184)	(\$700,741)	(\$1,439,634)	(\$1,681,923)	(\$1,346,128)	(\$1,436,694)	(\$1,222,859)	(\$923,245)
Capacity Fees	1,808,924	907,349	1,070,629	985,723	109,037	242,308	309,857	394,546	79,240	477,179
Add: Depreciation	3,221,943	3,349,668	3,540,690	3,720,333	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	4,481,885
Amortization	170,672	360,077	204,719	204,689	206,685	202,112	209,256	239,272	169,938	223,222
Bond Issuance Costs	-	-	-	-	-	-	-	31,250	226,335	38,685
Interest Expense (Bonds)	2,368,340	1,911,202	1,888,236	1,860,432	1,911,438	2,208,372	2,300,439	2,101,677	1,842,617	1,661,902
Assessments - Debt Service	244,854	244,956	365,377	419,060	508,381	537,759	550,586	396,027	415,758	382,702
Less: Property Taxes - Debt Service	<u>(320,228)</u>	<u>(269,130)</u>	<u>(125,052)</u>	<u>(409,292)</u>	<u>(817,751)</u>	<u>(967,418)</u>	<u>(1,235,347)</u>	<u>(1,233,107)</u>	<u>(1,195,990)</u>	<u>(1,167,016)</u>
Net Earnings Available for Debt Service	\$6,769,594	\$5,529,988	\$6,383,415	\$6,080,204	\$4,443,788	\$4,946,286	\$5,244,823	4,952,778	4,872,485	\$5,175,313
Debt Service on Revenue Bonds	\$4,290,731	\$3,944,189	\$3,637,421	\$3,441,126	\$3,438,347	\$3,523,871	\$3,477,484	\$3,660,650	\$4,037,286	\$3,504,185
Required per Bond Covenants	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Coverage of Debt Service by Net Earnings	158%	140%	175%	177%	129%	140%	151%	135%	121%	148%
Debt Coverage without Capacity Fees	116%	117%	146%	148%	126%	133%	142%	125%	119%	134%

⁸ 2012 onward reflect implementation of GASB 63 and GASB 65. 2011 and prior years have not been restated.

Schedule of Change in Net Position⁹

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Income (Loss from operations)	(\$176,582)	(\$619,359)	(\$420,942)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)	(\$2,029,907)	(\$1,905,768)	(\$1,822,018)
Total Non-Operating Income (Loss)	(\$548,328)	(\$354,775)	(\$140,242)	\$332,958	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773
Capital Contributions	<u>\$2,371,635</u>	<u>\$1,153,508</u>	<u>\$2,224,783</u>	<u>\$2,555,086</u>	<u>\$201,573</u>	<u>\$979,621</u>	<u>\$696,652</u>	<u>\$1,348,696</u>	<u>\$553,337</u>	<u>\$1,905,385</u>
Changes in net position	\$1,646,725	\$179,374	\$1,663,599	\$1,854,345	(\$1,238,061)	(\$702,302)	(\$649,476)	(\$87,998)	(\$669,522)	\$982,140
Effect of prior period adjustments on net position										
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>\$35,159,441</u>	<u>\$36,806,165</u>	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$36,921,356</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>
Net position at end of year	<u>\$36,806,166</u>	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$37,145,976</u>

Net Position at End of Year



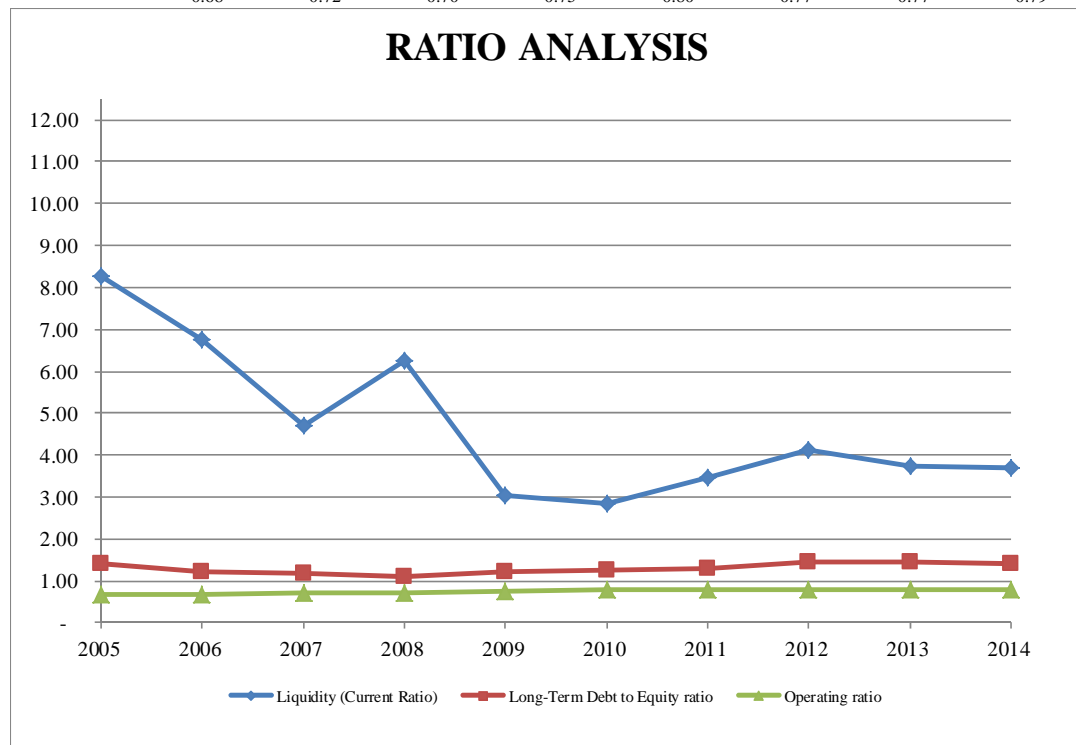
⁹ 2012 onward reflect implementation of GASB 63 and GASB 65. 2011 and prior years have not been restated.

Net Position by Component¹⁰

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net position										
Invested in capital assets, net of related liabilities	\$19,885,561	\$25,634,468	\$27,526,781	\$29,167,977	\$30,467,552	\$29,464,863	\$27,806,556	\$26,621,121	\$27,016,214	\$27,495,374
Restricted for debt service	5,442,647	2,176,688	2,708,532	2,334,594	2,446,988	2,378,848	2,779,466	3,419,743	2,885,019	3,377,968
Unrestricted	<u>11,477,957</u>	<u>9,174,383</u>	<u>8,413,825</u>	<u>9,000,912</u>	<u>6,350,882</u>	<u>6,719,409</u>	<u>7,327,622</u>	<u>6,792,494</u>	<u>6,262,603</u>	<u>6,272,634</u>
Net position	<u>\$36,806,165</u>	<u>\$36,985,539</u>	<u>\$38,649,138</u>	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,358</u>	<u>\$36,163,836</u>	<u>\$37,145,976</u>

Ratio Analysis

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Liquidity (Current Ratio)	8.25	6.78	4.69	6.26	3.04	2.86	3.46	4.12	3.72	3.69
Long-Term Debt to Equity ratio	1.22	1.16	1.10	1.22	1.26	1.27	1.43	1.43	1.39	1.27
Operating ratio	0.68	0.72	0.70	0.75	0.80	0.77	0.77	0.79	0.77	0.77



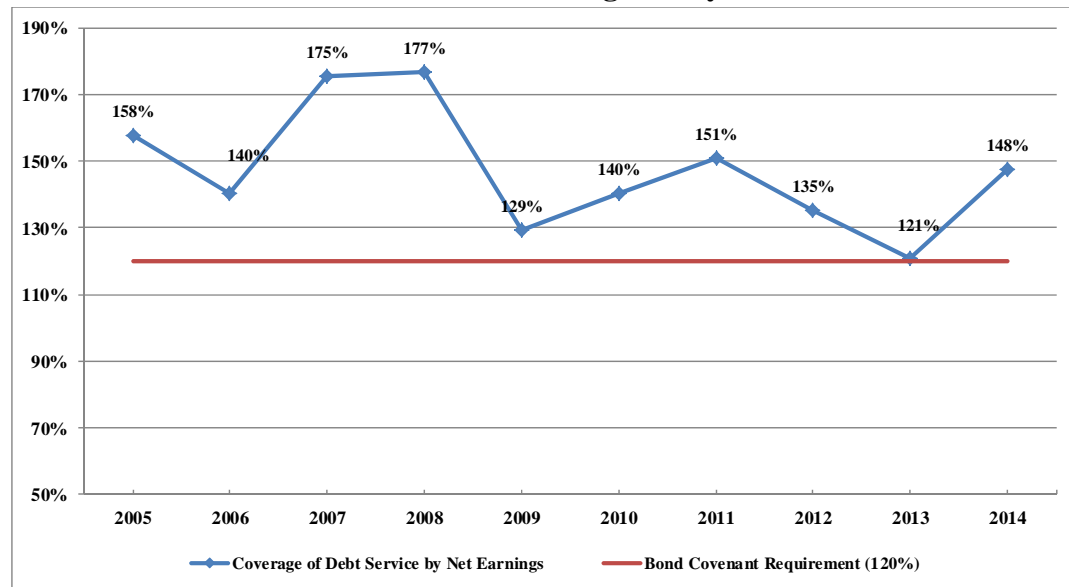
¹⁰ 2012 onward reflect implementation of GASB 63 and GASB 65.

Total Outstanding Debt by Type

Fiscal Year	GO Bonds	Revenue Bonds	SRF Revenue Loans*	SRF GO Loans	Notes Payable	Bond Premiums / discounts	Total Outstanding Debt	Average Debt Per Customer
2005	\$ 530,000	\$ 41,192,626	\$ 8,781,879	\$ -	\$ 313,939	\$ 1,540,641	\$ 52,359,085	\$ 3,151
2006	275,000	37,803,495	8,373,023	-	295,939	1,276,963	48,024,420	2,855
2007	-	37,972,665	7,949,668	-	277,939	1,175,275	47,375,547	2,739
2008	7,350,000	36,853,711	7,511,300	-	259,939	1,170,019	53,144,969	3,056
2009	7,085,000	35,388,165	7,057,386	3,276,237	241,939	1,063,321	54,112,048	3,118
2010	8,476,338	34,383,013	6,587,376	3,149,328	223,939	956,624	53,776,618	3,106
2011	11,866,601	36,906,574	6,100,698	3,018,480	205,939	922,848	59,021,140	30
2012	11,313,078	41,004,952	-	2,877,671	187,939	812,333	56,195,973	3,212
2013	10,740,609	39,713,937	-	2,731,331	169,939	45,050	53,400,866	3,034
2014	10,144,028	37,704,831	-	2,581,424	151,939	45,019	50,627,241	2,848

* Note: The Series 2000A SRF Revenue Loan was refunded in August 2011. Also, please reference the Summary Schedule of Debt on page 68 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 Analysis¹¹



¹¹ 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. Details for the debt service coverage calculations for fiscal years' 2011 through 2013 can be found on page 30.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	June 30, 2005	Additions	Disposals	Transfers	Fiscal Year 2011 Reclassifications*	June 30, 2014
Capital assets not being depreciated:						
Land	\$ 377,514	921,679	-	-	-	\$ 1,299,194
Construction in Progress	<u>928,301</u>	<u>44,011,249</u>	<u>-</u>	<u>(43,310,365)</u>	<u>-</u>	<u>1,629,184</u>
Total Capital Assets not being depreciated	1,305,815	44,932,928	-	(43,310,365)	-	2,928,378
Capital assets being depreciated:						
Waterworks system	38,509,325	520,455	(1,200,532)	17,676,069	257,862	55,763,179
Sewage disposal system	12,627,048	1,328,249	(119,253)	21,627,532	1,596,254	37,059,830
Buildings	4,181,565	81,227	(2,452)	93,608	(14,858)	4,339,090
Sewage treatment facilities	36,554,381	65,015	(3,560)	22,667	(1,927,081)	34,711,422
Transportation equipment	663,199	677,806	(547,494)	-	224,208	1,017,719
Operations furniture and equipment	2,067,139	327,721	(423,273)	419,131	(235,457)	2,155,261
Office furniture and equipment	<u>854,435</u>	<u>189,711</u>	<u>(479,757)</u>	<u>-</u>	<u>99,072</u>	<u>663,460</u>
Sub Total	95,457,092	3,190,183	(2,776,321)	39,839,007	-	135,709,961
Less Accumulated depreciation	<u>(28,027,341)</u>	<u>(37,304,882)</u>	<u>3,139,660</u>	<u>-</u>	<u>-</u>	<u>(62,192,564)</u>
Total capital assets being depreciated, net	<u>67,429,751</u>	<u>(34,114,699)</u>	<u>363,339</u>	<u>39,839,007</u>	<u>-</u>	<u>73,517,397</u>
Year End Totals	<u>\$ 68,735,566</u>	<u>10,818,229</u>	<u>363,339</u>	<u>(3,471,358)</u>	<u>-</u>	<u>\$ 76,445,775</u>

* During Fiscal Year 2012 Capital Assets items were revisited to verify that all assets were designated in the correct categories for Fiscal Year 2011.

It was determined at that time that certain assets should be moved from one category to another with an effective date of June 30, 2011.

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
PP&E	\$ 95,834,607	\$ 96,222,163	\$ 101,306,310	\$ 107,539,856	\$ 121,309,803	\$ 124,015,092	\$ 126,932,175	\$ 134,001,976	\$ 135,459,397	\$ 137,039,159
Accumulated Depreciation	<u>(28,027,340)</u>	<u>(29,642,022)</u>	<u>(33,057,250)</u>	<u>(36,681,713)</u>	<u>(40,512,192)</u>	<u>(44,736,215)</u>	<u>(49,097,940)</u>	<u>(53,557,747)</u>	<u>(57,977,115)</u>	<u>(62,222,569)</u>
Net PP&E in Service	67,807,266	66,580,141	68,249,059	70,858,143	80,797,611	79,278,877	77,834,235	80,444,229	77,482,282	74,816,591
Construction in Progress	<u>928,300</u>	<u>3,005,393</u>	<u>2,720,938</u>	<u>4,542,373</u>	<u>641,980</u>	<u>1,236,180</u>	<u>3,514,449</u>	<u>553,892</u>	<u>441,125</u>	<u>1,625,744</u>
Net PP&E	<u>\$ 68,735,566</u>	<u>\$ 69,585,534</u>	<u>\$ 70,969,998</u>	<u>\$ 75,400,516</u>	<u>\$ 81,439,592</u>	<u>\$ 80,515,057</u>	<u>\$ 81,348,684</u>	<u>\$ 80,998,121</u>	<u>\$ 77,923,407</u>	<u>\$ 76,442,335</u>

Customer Statistics at Fiscal Year-End¹²

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

Year	Water	Percent Increase	Wastewater	Percent Increase	Ratio of Customers with Both Services
2005	15,766	6.8%	13,870	2.8%	88.0%
2006	16,168	2.5%	14,374	3.6%	88.9%
2007	16,344	1.1%	14,658	2.0%	89.7%
2008	16,392	0.3%	14,835	1.2%	90.5%
2009	16,355	-0.2%	14,880	0.3%	91.0%
2010	16,321	-0.2%	14,891	0.1%	91.2%
2011	16,395	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%

¹² These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

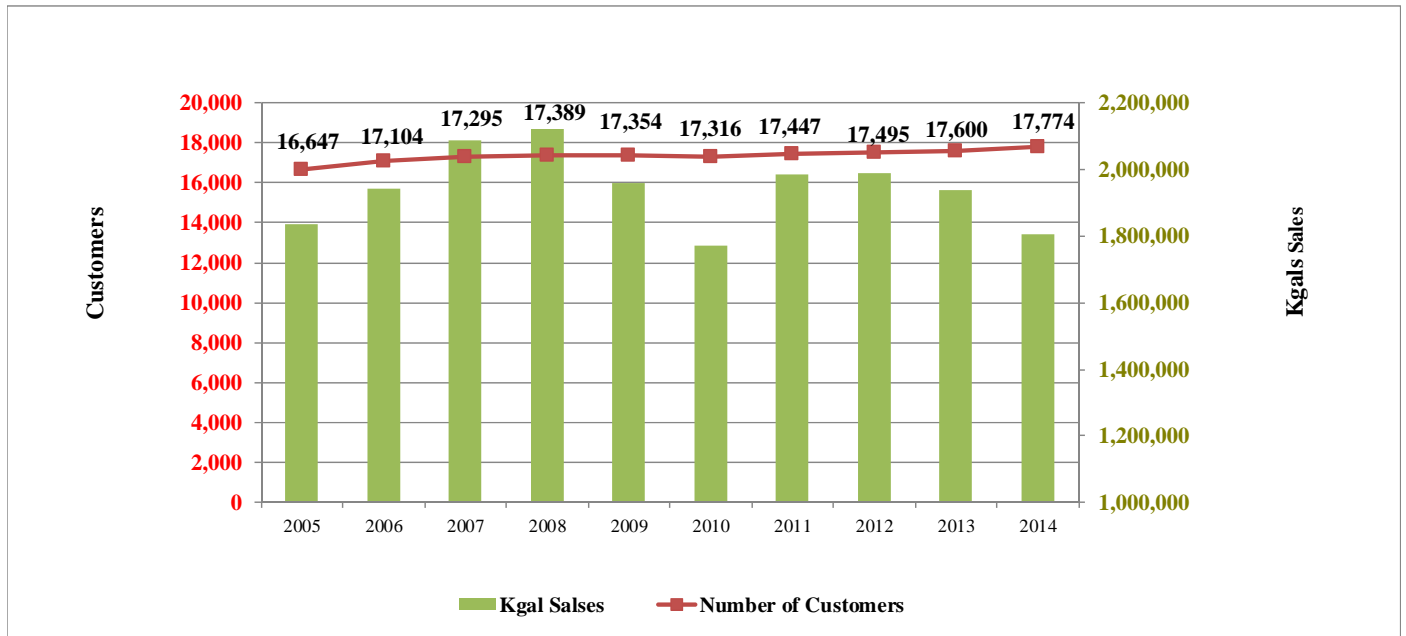
Year	Water	Percent Increase	Wastewater	% Inc
2005	1,545,367	-0.6%	1,313,400	-0.1%
2006	1,619,616	4.8%	1,378,504	5.0%
2007	1,721,661	6.3%	1,490,636	8.1%
2008	1,745,767	1.4%	1,523,113	2.2%
2009	1,629,557	-6.7%	1,432,874	-5.9%
2010	1,486,416	-8.8%	1,279,144	-10.7%
2011	1,644,020	10.6%	1,426,486	11.5%
2012	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%

Billings at Fiscal Year-End (Water and Irrigation)

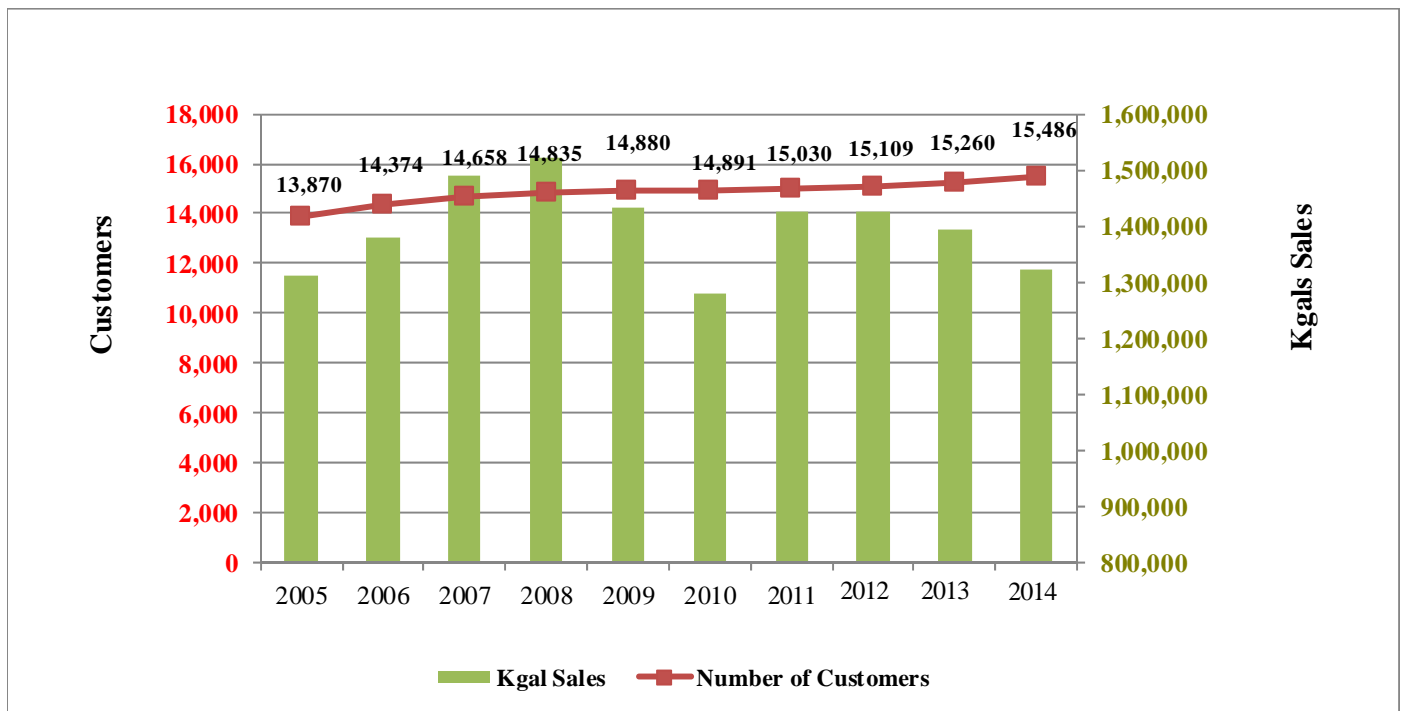
Reported in kgals (thousands of gallons)

BILLED WATER AND WASTEWATER				
Year	Water / Irrigation	Percent Increase	Wastewater	% Inc
2005	1,834,200	-1.4%	1,313,400	-0.1%
2006	1,943,868	6.0%	1,378,504	5.0%
2007	2,086,348	7.3%	1,490,636	8.1%
2008	2,119,295	1.6%	1,523,113	2.2%
2009	1,957,926	-7.6%	1,432,874	-5.9%
2010	1,773,200	-9.4%	1,279,144	-10.7%
2011	1,983,289	11.8%	1,426,486	11.5%
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%

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



Sewer Customers vs. Wastewater Kgal Sales



Water Rate Comparison

Effective Date

		FY'05	FY'06	FY'07	FY'08	FY'09*	FY'10**	FY'11***	FY'12	FY'13****	FY'14
Residential	Base Charge	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 11.00	\$ 11.00	\$ 12.00	\$ 12.00
	First 5,000 Gallons	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25						
	Next 6,000 to 17,000 gallons	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50						
	Next 18,000 to 32,000 gallons	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75						
	Over 32,000 gallons	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00						
	First 10,000 Gallons Water					\$ 1.36	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
	First 10,000 Gallons Irrigation					\$ 1.36	\$ 1.40	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 11,000 to 20,000 gallons					\$ 1.64	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 21,000 to 30,000 gallons					\$ 1.91	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20
	Over 30,000 gallons					\$ 2.18	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55
Commercial	Base Charge	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00
	First 5,000 Gallons	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50						
	Next 6,000 to 17,000 gallons	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75						
	Next 18,000 to 32,000 gallons	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00						
	Over 32,000 gallons	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25						
	First 10,000 Gallons					\$ 1.64	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
	Next 11,000 to 20,000 gallons					\$ 1.91	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99
	Next 21,000 to 30,000 gallons					\$ 2.18	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51
	Over 30,000 gallons					\$ 2.45	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87

*Effective August 1, 2008

**Effective October 1, 2009

***Effective May 1, 2011

****Effective January 1, 2013

Wastewater Rate Comparison

Effective Date

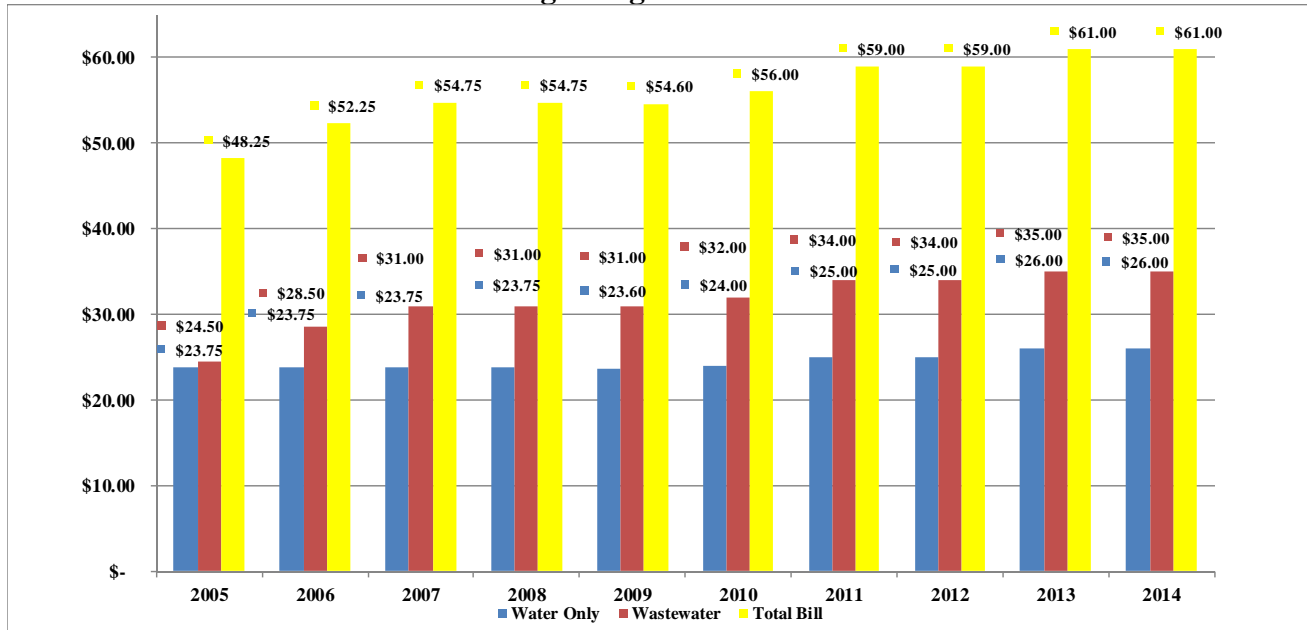
		FY'05	FY'06*	FY'07**	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13***	FY'14
Residential	Base Charge	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00
	Per 1,000 gallons with Cap*	\$ 1.25	\$ 1.65	\$ 1.90	\$ 1.90	\$ 1.90	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Commercial	Base	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00
	Per 1,000 gallons (No Cap)	\$ 1.25	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.60	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00

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

**Per Thousand Increase Effective August 1, 2006

***Effective January 1, 2013

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



Water and Sewer Installation Fees

Water meter installation fees (existing service lines)	2005	2006	2007	2008	2009**	2010	2011	2012	2013***	2014
3/4" Meter	\$ 355	355	355	355	430	430	430	430	640	640
1" Meter	490	490	490	490	570	570	570	570	850	850
2" Meter with meter box and backflow	1,186	1,186	1,186	1,186	2,090	2,090	2,090	2,090	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)	2005	2006	2007	2008	2009**	2010	2011	2012	2013***	2014
3/4" Meter	\$ 355	355	355	355	430	430	430	430	640	640
1" Meter	490	490	490	490	570	570	570	570	850	850
2" Meter with meter box and backflow	1,186	1,186	1,186	1,186	2,090	2,090	2,090	2,090	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
* T&M equals Time and Materials										
** Rate change 10/1/2009										
*** Rate change 7/1/2013										
Sewer Installation Fees for fiscal years 2005 through 2014:										
A. Sewer Service Installation Fee Individual 4 Inch Lateral: \$1,200										
B. Main Extensions, Laterals above 4 Inches, and Mains Greater than 6 feet in depth: Time and Materials										
Sewer Inspection Fee:										
The PSD charges a one-time Sewer Inspection Fee of \$100 to new customers at the time										
More information is available at: http://www.hhpsd.com/fees										

Population per Capita Income

Last Ten Available Years

Year	Hilton Head		Beaufort County		South Carolina	
	Population	Per Capita	Population	Per Capita	Population	Per Capita
2004	34,600	34,550	130,993	34,643	4,210,921	28,057
2005	34,761	34,750	134,910	37,474	4,270,150	29,354
2006	34,156	37,212	139,333	39,840	4,357,847	31,111
2007	33,890	41,411	143,614	43,183	4,444,110	32,350
2008	33,913	42,611	147,616	45,427	4,528,996	33,157
2009	34,249	41,951	150,415	46,790	4,589,872	32,376
2010	37,099	40,798	155,215	31,081	4,635,835	32,688
2011	37,099	41,846	162,233	32,116	4,673,348	34,183
2012	37,675	39,703	164,684	32,731	4,723,723	35,056
2013	39,412	41,049	171,838	43,688	4,774,839	35,831

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

Beaufort County Top Employers 2013

Employer	Employees	Percentage of Total County Employment	Type of Business
Department of Defense	7,352	12.2%	Military
Beaufort County School District	3,159	5.3%	Educational Services
Beaufort Memorial Hospital	1,404	2.3%	Health Services
County of Beaufort	1,128	1.9%	Government
Marine Corps Community Services	789	1.3%	Military
Hilton Head Health System	700	1.2%	Health Services
Sea Pines Resort	479	0.8%	Hospitality
CareCore National	419	0.7%	Health Services
Wal-Mart	400	0.7%	Retail
University of South Carolina Beaufort	389	0.6%	Educational Services

Source: Beaufort County Regional Chamber of Commerce

Beaufort County Labor Force and Employment

Category	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Civilian Labor Force	65,162	63,521	61,954	63,382	62,940	63,780	64,019	62,759	61,381	58,830
Employment	61,582	58,500	56,264	57,647	57,344	60,421	61,256	59,786	58,372	55,914
Unemployment	3,580	5,021	5,690	5,735	5,596	3,359	2,763	2,973	3,009	2,916
Unemployment Rate	5.49%	7.90%	9.18%	9.05%	8.89%	5.27%	4.32%	4.74%	4.90%	4.96%

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

Year	County	South Carolina	United States
2013	5.6%	6.7%	6.1%
2012	7.9%	9.1%	8.1%
2011	9.2%	10.4%	8.9%
2010	9.0%	11.2%	9.6%
2009	8.9%	11.5%	9.3%
2008	5.3%	6.8%	5.8%
2007	4.3%	5.6%	4.6%
2006	4.7%	6.4%	4.6%
2005	4.9%	6.8%	5.1%
2004	5.0%	6.8%	5.5%

Source: South Carolina Department of Employment and Workforce

The District's Millage History

Debt Type	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	1.10	1.00	0.50	1.50	2.70	2.82	3.61	3.52	3.90	3.52
Total	4.10	4.00	3.50	4.50	5.70	5.82	6.61	6.52	6.90	6.52

Sources: Beaufort County Auditor and Treasurer

Ratio of (net) General Bonded Debt

Fiscal Year	Tax Year	General Obligation Debt	Real & Personal Property		Motor Vehicle		Total Estimated Actual Values	Ratio of (net) General bonded debt
			Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2014	2013	\$ 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	2009	11,625,667	360,750,834	6,456,014,121	28,860,067	144,247,638	6,600,261,759	0.18%
2009	2008	10,361,238	321,010,415	5,817,101,577	25,680,833	286,269,571	6,103,371,148	0.17%
2008	2007	7,350,000	305,542,479	-	24,443,398	-	-	0.00%
2007	2006	-	302,219,576	5,694,066,431	24,177,566	364,651,496	6,058,717,927	0.00%
2006	2005	275,000	293,306,326	-	23,464,506	-	-	0.00%
2005	2004	540,000	290,780,804	-	23,262,464	-	-	0.00%

Source: Beaufort County Auditor and the District Official Statement

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

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

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

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

(5) The County was unable to provide tax data for tax years 2005, 2006 and 2007.

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
2014	2013 (4)	\$ 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%	815
2012	2011	336,927,670	33,032,570	369,960,240	29,596,819	\$ 14,190,749	15,406,070	48%	863
2011	2010	337,319,400	43,129,020	380,448,420	30,435,874	\$ 14,885,081	15,550,793	49%	908
2010 (2)	2009 (2)	322,448,420	38,302,414	360,750,834	28,860,067	\$ 11,625,667	17,234,400	40%	712
2009	2008	281,804,999	39,205,416	321,010,415	25,680,833	\$ 10,361,238	15,319,596	40%	634
2008	2007	266,386,512	39,155,967	305,542,479	24,443,398	\$ 7,350,000	17,093,398	30%	448
2007	2006	260,107,171	42,112,405	302,219,576	24,177,566	-	24,177,566	0%	-
2006	2005	249,949,026	43,357,300	293,306,326	23,464,506	\$ 275,000	23,189,506	1%	17
2005 (3)	2004 (3)	246,696,930	44,083,874	290,780,804	23,262,464	\$ 540,000	22,722,464	2%	34

Source: Beaufort County Auditor

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

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

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

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

The above table shows the then outstanding principal, authorized debt limit, available debt limit and other information regarding the District's general obligation indebtedness from FY 2005 through FY 2014.

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 2013, 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 \$335,764,500 and thus the eight percent (8%) debt limit of the District is not less than \$26,861,160. The District presently has outstanding the following bonded indebtedness chargeable against this limit:

Originally Issued	Date	Amount
Series 2007	October 3, 2007	\$7,350,000
Series 2008A	January 23, 2008	\$2,876,532
Series 2008B	April 14, 2008	\$480,480
Series 2009	July 30, 2009	\$1,781,694
Series 2010	August 24, 2010	<u>\$3,970,000</u>
	Total Indebtedness - GO Bonds	\$16,458,706

General Obligation Outstanding Debt

As of June 30, 2014, the outstanding aggregate principal amounts due on the GO Bonds was \$12,725,452 and includes: (A) \$5,585,000 in outstanding principal due on the 2007 Bonds; (B) \$2,206,267 in outstanding principal due the 2008A Bond; (C) \$375,156 in outstanding principal due on the 2008B Bond; (D) \$1,284,029 in outstanding principal due on the 2009 Bond; (E) \$3,275,000 in outstanding principal due on the 2010 Bonds.

Overlapping Debt

Jurisdiction	Tax Year 2013 Assessed Value (Capped)	Tax Year 2013 Assessed Value (Capped) of the District	Outstanding General Obligation Debt	Amount Applicable to the District for Fiscal Year 2014
County of Beaufort	1,731,714,980	335,764,500	228,825,745	\$ 41,188,634
Beaufort County School District	1,731,714,980	335,764,500	284,485,621	51,207,412
Town of Hilton Head	817,099,066	335,764,500	60,080,000	21,028,000
Sub Total of Overlapping Debt				\$ 113,424,046
Hilton Head No. 1 PSD direct debt				12,725,452
Total Direct and overlapping debt				\$ 126,149,497.88

Sources: Beaufort County Assessor's Office.

Debt outstanding provided by each governmental unit.

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

Assessed Values of the District

Fiscal Year	Tax Year	Real Property	Personal Property(1)	Total
2014	2013	\$300,452,700	\$ 35,311,800	\$ 335,764,500
2013	2012	335,101,410	36,096,060	371,197,470
2012	2011	336,927,670	33,032,570	369,960,240
2011	2010	337,319,400	43,129,020	380,448,420
2010 (2)	2009 (2)	322,448,420	38,302,414	360,750,834
2009	2008	281,804,999	39,205,416	321,010,415
2008	2007	266,386,512	39,155,967	305,542,479
2007	2006	260,107,171	42,112,405	302,219,576
2006	2005	249,949,026	43,357,300	293,306,326
2005	2004	246,696,930	44,083,874	290,780,804

Source: Beaufort County Auditor

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

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

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

Calendar Year 2013 Market Value for the District

Classification	Assessed Value	Assessment Ratio	Market Value
1. Real Property and Mobile Homes	\$ 120,559,780	4.00%	\$ 3,032,755,300
2. Real Property and Mobile Homes	179,892,920	6.00%	3,278,339,856
3. Business Personal Property	2,223,390	10.50%	21,173,400
4. Merchant's Furniture, Fixtures and Equipment	1,254,550	10.50%	11,846,260
5. Motor Vehicles ⁽¹⁾	35,311,800	Various	442,155,020
6. Marine Equipment ⁽²⁾	981,470	Various	16,313,290
7. Airplanes	28,480	0.00%	457,620
8. Manufacturing Property	206,040	10.50%	1,962,250
9. Public Utilities	8,918,710	10.50%	84,940,100
10. Rental Property and Signs ⁽³⁾	2,860,820	Various	19,201,540

Figures do not include Merchant's Inventory, motor carrier reimbursement or manufacturer's depreciation reimbursement. There is Source: Beaufort County Auditor.

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

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

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

Tax Collection Record for the District

Fiscal Year	Taxes Subject to Collection**	Current Collections	Current % Collected	Delinquent Taxes Collected***	Total Collections	Total % Collected
2013-2014	\$ 57,332,809	\$ 54,957,102	95.9%	\$ 825,387	\$ 55,782,489	97.3%
2012-2013	55,541,177	54,613,687	98.3	114,378	54,728,065	98.5
2011-12	55,424,959	52,849,333	95.4	163,278	53,012,611	95.6
2010-11	59,167,642	56,320,727	95.2	161,774	56,482,501	95.5
2009-10	57,172,896	52,623,858	92.0	491,840	53,115,698	92.9
2008-09	56,329,331	54,777,459	97.2	869,821	55,647,279	98.8
2007-08	51,252,916	50,333,765	98.2	652,019	50,985,784	99.5
2006-07	54,353,422	52,223,375	96.1	424,257	52,647,631	96.8
2005-06	49,747,721	46,454,422	93.3	617,181	47,071,603	94.6
2004-05*	50,467,835	44,421,691	88.0	422,203	44,843,894	88.8

Source: Beaufort County Auditor and Treasurer.

* Lower collections due to unresolved appeals.

** Vehicle Collections do not include Road Paving and Renewal

*** Delinquent Taxes Collected are from 17 Mar-30 Jun 2013

District Largest Taxpayers

Employer	Type of Business	2013 Assessed Value	2013-14 Amounts Paid
Marriott Ownership Resorts Inc	Real Estate	6,259,520	1,344,151
SCG Hilton Head Property LLC	Real Estate	4,260,000	928,581
Palmetto Electric Coop, Inc	Utility	4,699,070	919,447
Hargray Telephone Company Inc	Utility	3,073,120	651,785
Hilton Head Health Systems LP	Medical	1,423,500	313,668
Festival Centre (E&A) LLC	Golf	1,255,120	288,225
Heritage Golf Port Royal LLC	Golf	1,126,620	259,814
Indigo Asset Corp	Property	770,750	204,038
Time Warner Cable Southeast LLC	Utility	804,440	172,036
SVG LLC	Property	635,170	143,762
Source: Beaufort County Auditor.			

District Top Ten Water/Irrigation Users

Fiscal year ended June 30, 2014

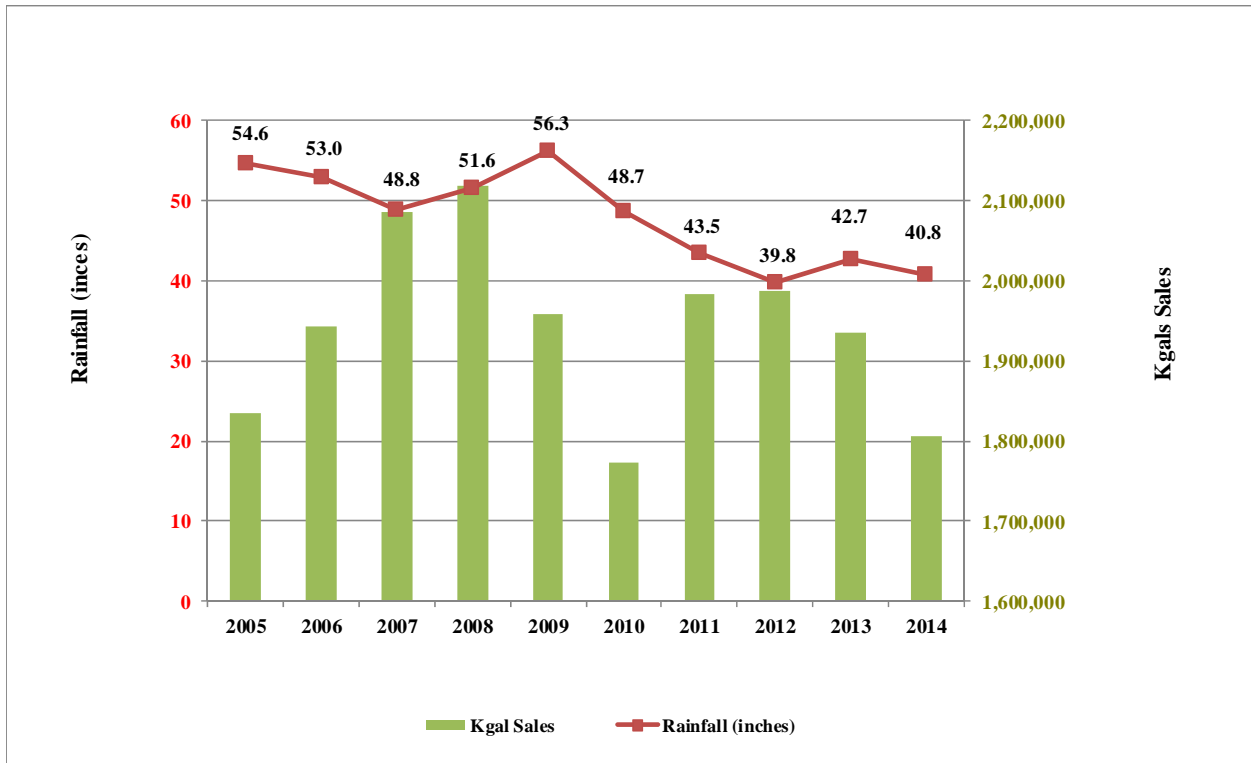
User Name	Type	2014 Billed Revenues	% of Total 2014 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 177,738	3.08%
Cypress of Hilton Head Association	Residential Homes	142,576	2.47%
Westin Resort	Resort	117,627	2.04%
Hilton Head Resort/Four Seasons	Resort	98,074	1.70%
Fiddlers Cove	Resort	74,255	1.29%
Marriott Vacation Club	Resort	70,273	1.22%
Marriott Surfwatch	Resort	59,335	1.03%
Spa at Port Royal	Resort	54,338	0.94%
Marshside Owner's Association	Apartment Complex	50,105	0.87%
Hilton Head Health Systems	Medical	44,803	0.78%
Remaining Customers		<u>4,888,482</u>	<u>84.61%</u>
		<u>\$ 5,777,606</u>	100.00%

District Top Ten Wastewater Users

Fiscal year ended June 30, 2014

User Name	Type	2014 Billed Revenues	% of Total 2014 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 161,107	3.40%
Hilton Head Resort/Four Seasons	Resort	126,626	2.67%
Westin Resort	Resort	111,214	2.35%
Fiddler's Cove	Resort	88,894	1.88%
Marriott Vacation Club	Resort	78,187	1.65%
Cypress of Hilton Head Association	Residential Homes	73,958	1.56%
Spa at Port Royal	Resort	65,637	1.39%
Marriott Surfwatch	Resort	63,720	1.35%
Marshside Owner's Association	Resort	52,786	1.11%
IMC	Apartment Complex	52,770	1.11%
Remaining Customers		<u>3,862,020</u>	<u>81.53%</u>
		<u>\$ 4,736,919</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 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
All District Purchases from BJWSA	\$ 1,394,283	\$ 1,580,406	\$ 1,593,943	\$ 1,518,423	\$ 1,364,990	\$ 934,368	\$ 1,199,029	\$ 1,472,568	\$ 1,183,047	\$ 984,044	
Reclaimed Water Adjustment ³	-	64,800	77,760	77,760	77,760	25,920	-	-	-	-	
Broad Creek Purchases	-	-	-	-	(85,947)	(213,717)	(174,574)	(192,363)	(170,383)	(162,657)	
Capitalized Purchased Water	-	-	-	-	-	-	-	(171,887)	-	-	
Prepaid Purchased Water Expense	-	-	-	-	-	-	-	(79,529)	(195,222)	(195,783)	
Purchased Water Expense	\$ 1,394,283	\$ 1,645,206	\$ 1,671,703	\$ 1,596,183	\$ 1,356,803	\$ 746,571	\$ 1,024,455	\$ 1,028,789	\$ 817,441	\$ 625,603	

Water Purchased from BJWSA Summary (KGals)											
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
All Kgals Purchased from BJWSA	1,124,422	1,089,935	1,390,980	1,047,188	863,918	679,724	877,933	1,240,631	1,003,131	776,286	
Reclaimed Water Adjustment	-	-	-	-	(54,397)	(208,191)	(178,539)	(192,469)	(152,148)	(110,869)	
Broad Creek Purchases	-	-	-	-	-	-	-	(217,579)	-	-	
Capitalized Purchased Water	-	-	-	-	-	-	-	(79,413)	(244,028)	(240,743)	
Prepaid Purchased Water Expense	-	-	-	-	-	-	-	-	-	-	
Purchased Water (KGals)	1,124,422	1,089,935	1,390,980	1,047,188	809,521	471,533	699,394	751,170	606,955	424,674	
Total Peak Purchases	1,124,422	1,089,935	822,794	1,047,188	863,918	511,537	648,537	623,380	487,874	457,223	
Total Off-peak Purchases	-	-	568,186	-	-	168,187	229,396	617,251	515,257	319,063	
Total Off-peak and Peak Purchases	1,124,422	1,089,935	1,390,980	1,047,188	863,918	679,724	877,933	1,240,631	1,003,131	776,286	

BJWSA Rates Per Kgal Summary											
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
Rates Charged by BJWSA											
Peak Rate	\$ 1.24	\$ 1.45	\$ 1.45	\$ 1.45	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	
Off Peak Rate	\$ -	\$ -	\$ 0.71	\$ -	\$ -	\$ 0.75	\$ 0.76	\$ 0.79	\$ 0.80	\$ 0.82	
District Cost/Kgal Prior to Broad Creek Purchases⁴	\$ 1.24	\$ 1.45	\$ 1.15	\$ 1.45	\$ 1.58	\$ 1.37	\$ 1.37	\$ 1.19	\$ 1.18	\$ 1.27	
Effective District Cost/Kgal After Broad Creek Purchases⁵	N/A	N/A	N/A	N/A	\$ 1.58	\$ 1.53	\$ 1.46	\$ 1.22	\$ 1.19	\$ 1.23	

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

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

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

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

⁵ During off-peak months, the District pays the peak rate for the first 1 million gallons purchased from BJWSA and the off-peak rate for any amount purchased over one million gallons. However, the District charges the Broad Creek PSD the off-peak rate for all of the water that they purchase during off-peak months. During peak months Broad Creek PSD is charged the peak price. As such, this calculation backs out Broad Creek PSD payments to the District and the Kgals that Broad Creek purchased to arrive at the District's Effective Cost/Kgal for its own water usage.



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