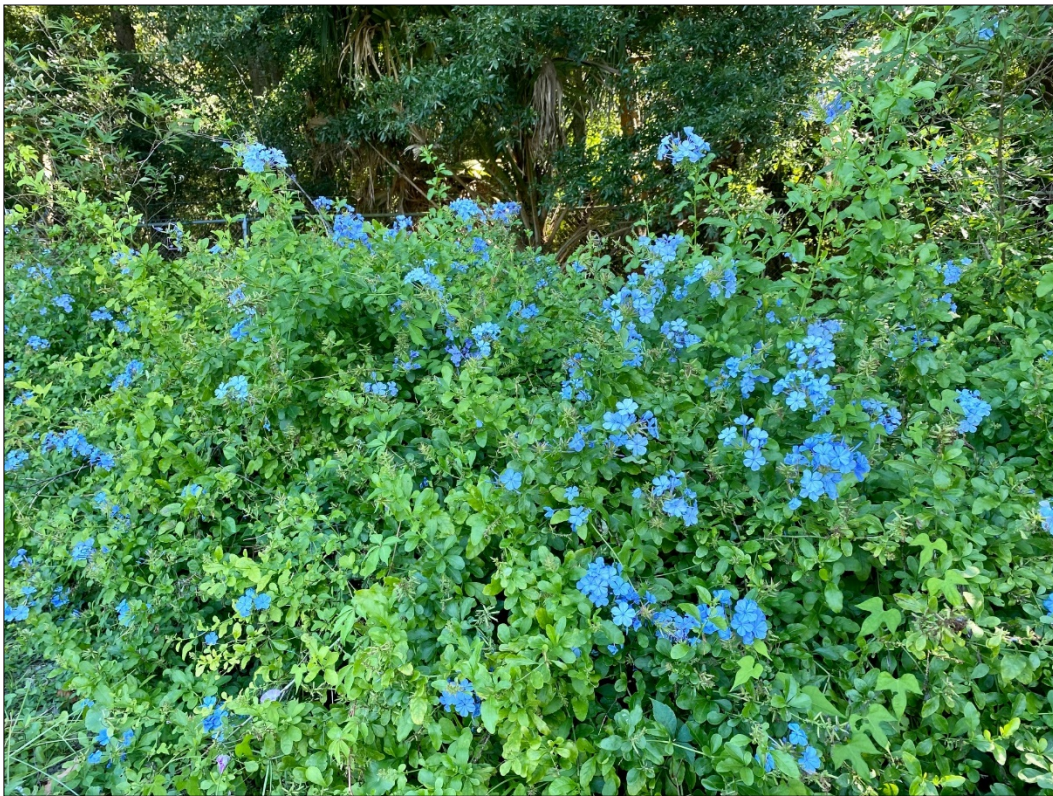




Annual Comprehensive Financial Report



**For the Fiscal Years Ended
June 30, 2022 and June 30, 2021**

Hilton Head Island, South Carolina

Hilton Head Public Service District

Hilton Head Island, South Carolina

Annual Comprehensive Financial Report

**For the Fiscal Years Ended
June 30, 2022 and June 30, 2021**

Prepared by:
Finance Department

HiltonHeadPSD

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Hilton Head Public Service District

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On the cover: The butterfly garden at Hilton Head PSD's Recycled Water Plant. The Recycled Water Plant at Oak Park Drive was recertified as an Audubon International Cooperative Sanctuary in 2022. The certification is earned by demonstrating environmental stewardship.

INTRODUCTION SECTION



Hilton Head PSD replaced 80 tons of anthracite filter medium at its Recycled Water Plant in 2022. Filtration is one of the final stages of wastewater treatment at the PSD’s plant, which annually recycles more than 1 billion gallons of highly-treated wastewater into beneficial reuse water for golf irrigation and wetlands nourishment.

COMMISSIONERS

Frank Turano, Chair
Jerry Cutrer, Vice-Chair
Stuart Bell, Treasurer
Patti Soltys, Secretary
Frank Drehwing
Herbert Ford
Andy Paterno



EXECUTIVE STAFF

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

HILTON HEAD PUBLIC SERVICE DISTRICT

October 11, 2022

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

Letter of Transmittal

The management and staff of the Hilton Head Public Service District (PSD or District) are pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022. This is the thirteenth report issued as an ACFR and it will be made available to the general public via the www.hhpsd.com web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island. The District is required to publish a complete set of annual audited financial statements; this report fulfills that requirement for the fiscal year ended June 30, 2022.

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

Greene Finney Cauley LLP, Certified Public Accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2022. The independent auditors' report is located at the front of the financial section of this report.

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

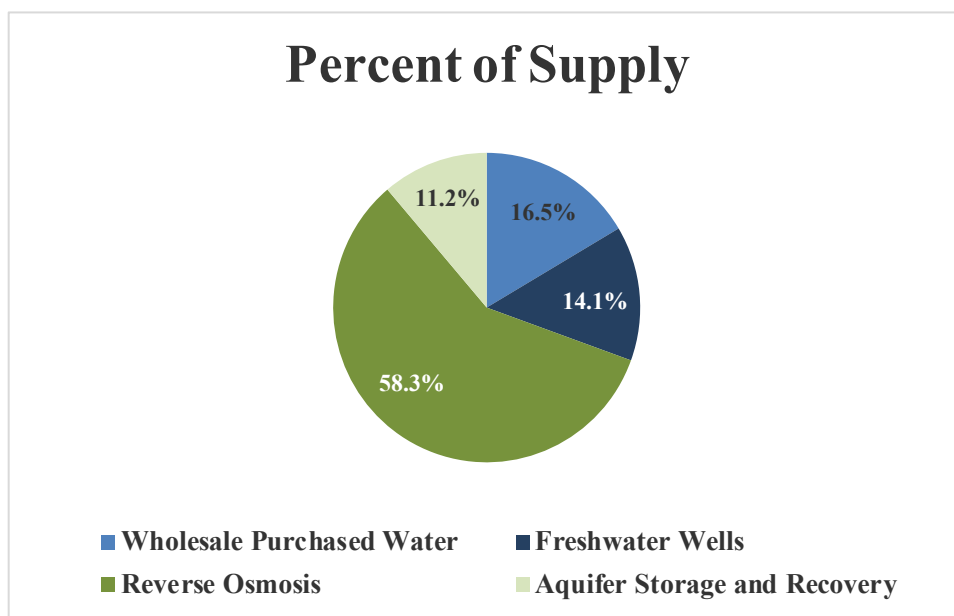
Profile of Hilton Head PSD

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

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

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

The PSD serves a population of more than 25,500 in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort. The utility’s service area includes many of the neighborhoods where the island’s 40,000 full-time residents reside, including the traditional Native Islander neighborhoods as well as the large-scale subdivisions of Hilton Head Plantation, Indigo Run, Port Royal, and Palmetto Hall.



The PSD can provide a total water capacity of approximately 13 million gallons a day (mgd). It experiences an average demand of 6-7 mgd and a peak-day demand of 10-11 mgd. The PSD’s Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is 58.3% of water supplied in Fiscal Year 2022. The RO Facility’s source of water is brackish groundwater from the 600-foot-deep Middle Floridan Aquifer, pumped from three wells. The brackish water is treated in the RO Facility, which began operations in 2009 in response to the loss of fresh groundwater wells caused by saltwater intrusion into the shallower Upper Floridan Aquifer.

Water purchased on a wholesale basis from the Beaufort-Jasper Water & Sewer Authority (BJWSA) on the mainland represented 16.5% of water supplied in fiscal year 2022. The treated drinking water is conveyed to the PSD via its 24” pipeline buried under the Intracoastal Waterway. Fresh groundwater from the PSD’s remaining Upper Floridan wells provided 14.1% of water supplied in Fiscal Year 2022.

The remaining 11.2% of water supplied in fiscal year 2022 came from the PSD’s Aquifer Storage & Recovery (ASR) Facility. It is the island’s first-ever ASR facility and began operations in 2011. In the winter months of lower demand, the facility stores approximately 250 million gallons of treated tap water in the Middle Floridan Aquifer. It then withdraws and re-treats the water during the summer months of

higher demand, providing 2 mgd of supply. The stored water is purchased at a reduced, “off-peak” rate from BJWSA. The PSD’s ASR Facility recovers the stored water in the summer months of higher demand when the full wholesale rate from BJWSA is in effect, saving customers’ money. The United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2020 recognized the PSD’s ASR Facility as an outstanding worldwide example of a managed aquifer recharge program.

In addition to its RO plant, ASR, and Upper Floridan wells, the PSD maintains over 220 miles of water distribution mains, 200 miles of sewer collection mains, 5 elevated storage tanks, 3 ground-level storage tanks, 1,500 hydrants, 120 sewer lift stations, 13,250 customer water meters, 250 customer Low Pressure Sewer (LPS) systems, and a tertiary-treatment, return activated sludge (RAS) recycled water treatment plant. The recycled water treatment plant can treat 6.4 mgd of wastewater. Average flow into the treatment plant is 3 mgd. The PSD is a 100% recycled water utility. All treated wastewater is recycled for golf course irrigation or interior wetlands nourishment – no treated wastewater is discharged to any receiving bodies of water.



The PSD Customer Service Center and Recycled Water Plant

Local Economy

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

Despite the COVID pandemic, the District continued to see new growth, redevelopment, and development in its service area which kept consumption on par with the previous fiscal year despite increased rainfall.

The PSD's water and irrigation customer count grew by 2.1% during fiscal year 2022, which was higher than its average customer growth rate of 1.1% per year over the last ten years.

Like many other communities across the nation, during the past fiscal year Hilton Head saw increased home sales and higher average selling prices which drove development, including in the short-term rental market, in the District's service area. These real estate market conditions have brought challenges for workers seeking affordable housing. The Town of Hilton Head has identified this workforce housing shortage as one of its most pressing challenges. In the past fiscal year, it has developed programs aimed to help native islanders develop their land and created a program using American Rescue Plan Act (ARPA) funding to assist low-income renters and homeowners with connecting to the public sewer system. Public private housing partnerships are also being investigated across Beaufort County. As the majority of undeveloped land on Hilton Head Island is in the District's service area, the District has already begun to see development in relation to these programs and expects this to continue in the upcoming fiscal years.

The District and its service area were affected by the inflationary pressures and supply chain issues felt across the nation during the last fiscal year. According to the U.S. Bureau of Labor Statistics, inflation increased 9.1% over the prior year for the year ended June 30, 2022, which was the largest increase in 40 years. In particular, the District saw even higher increases in its biosolids, chemicals, and vehicle fuel costs. The District also experienced some challenges sourcing inventory and parts. As needed parts became available, the District built up its inventory and a number of fiscal year 2022 capital projects were carried over into fiscal year 2023 for completion due to these delays.

Long Term Financial Planning

The District has developed and adopted a comprehensive set of financial policies that are consistent with the District's goals and objectives. Financial policies are an integral part of the development of service, providing of capital, and establishing of financial plans and the annual budget. They provide the basis for decision-making and ensure the District's ongoing financial stability. The financial policies of the District provide the structure and direction for financial reporting, planning, and decision making by management and the Board. The District's financial accounting system is based on the full accrual basis in accordance with generally accepted accounting principles in the United States of America (GAAP). The accounts of the District are organized on the basis of a proprietary fund type enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis with costs recovered primarily through user charges.

The District operates on a current funding basis and is required by state law to adopt a balanced operating budget by June 30 of each year. Expenditures are budgeted and controlled so as not to exceed current revenues plus the planned use of Fund Balances accumulated through prior years. In addition to its annual operating budget, the District also prepares a five year capital improvement program, cash flow projection, and debt coverage projection to bring a longer term perspective into the current financial planning.

Rates and Charges

The District maintains and administers a revenue system that assures a reliable, equitable and sufficient revenue stream to support the District's services. Since the principal revenue stream for the District is comprised of the fees and charges established by the Commission, the governing body of the District, it

is important that the District adopts policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

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

Cost of service includes direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital. The District may choose not to recover all costs, but it must identify such costs. Reasons for not recovering full costs are identified and explained. The District also examines rates and charges levied by other water and sewer systems for like services in establishing rates, fees and charges. These fees (water and sewer user fees, capacity fees, tap fees, etc.) are reviewed through the District's annual cost of service process. In projecting revenues - and where judgment is required - conservatism is the rule.

Millage

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

The limitations described above do not apply to the levy of debt service millage. Therefore, the District is also authorized to impose ad valorem property taxes, without limit as to rate or amount, to defray the debt service on general obligation bonds of the District. All such general obligation bonds are approved by the Beaufort County Council pursuant to South Carolina general law. Absent a referendum, the outstanding par amount of general obligation bonds issued by the PSD shall not exceed eight percent (8%) of the assessed value of all taxable property in the PSD.

Major Initiatives

Long Term Water Supply Planning & Modeling

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

The District finalized the cost benefit study during fiscal year 2022 and began planning a timeline to fund these projects. In September 2022, the District submitted a grant application to the South Carolina Infrastructure Investment Program (SCIIP) to request American Rescue Plan Act (ARPA) funding to expand its RO plant from 4-MGD to 6-MGD and to build a second ASR facility. In conjunction with these efforts, the PSD is closely monitoring the U.S. 278 Corridor Project being led by the South Carolina Department of Transportation (SCDOT). The PSD's 24" water pipeline, which is the sole delivery mechanism of its purchased water supply from BJWSA, is expected to be required to be relocated as a part of this project. While the District believes the majority of the cost of the basic relocation will be covered by the SCDOT under the Utility Relocation Act, the PSD will be considering various options relating to relocating the line, including implications for increased wholesale water capacity and disaster resiliency.

Asset Management Planning

During fiscal year 2020, the District completed an Asset Management Plan to accompany its five-year Capital Improvement Program (CIP) that is presented annually as a part of the District's budget. The plan ranks approximately 100 major assets of the District on the basis of probability and consequence of failure, condition, replacement value, and expected useful life, among other categories. It includes assets such as the RO and ASR facilities, multiple features and equipment within the wastewater treatment plant, sewer lift stations, drinking water production wells, ground-level water storage tanks and elevated water towers, and many more. During fiscal year 2021 and 2022, the District continued to develop and expand an in house tracking and field inspection program aimed at capturing additional operational and financial data for the District's 120+ sewer lift stations. The goal of the Asset Management Plan is to provide predictability in the District's long-term CIP, avoid unanticipated repairs and outages, and maintain appropriate levels of service. Asset Management planning aids the District in designing stable rates and in managing financial burdens. It is an ongoing process that involves continuous updating and honing of asset condition assessments, and multi-year capital planning to ensure that the District's infrastructure, facilities, and equipment are operating effectively and efficiently. Fiscal years 2022 and 2023 have involved the identification, replacement or relining of ductile iron sewer mains, which can be among the most vulnerable of buried assets as they age.

Awards and Acknowledgements

Organizational Awards

The District has earned the Directors Award from the Partnership for Safe Water for completing a rigorous self-assessment and peer-reviewed program for the optimization of our drinking water distribution system.

The District has earned the South Carolina Department of Health and Environmental Control (DHEC) Facility of Excellence award for the outstanding operation of our wastewater treatment plant, as well as DHEC's Laboratory of Excellence recognition for our in-house Water Quality Laboratory.

Financial Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its annual comprehensive financial report for the fiscal year ended June 30, 2021 (reference the following page). This was the twelfth year that the District achieved this prestigious award. To be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized

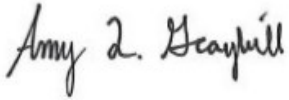
annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully Submitted,



Amy Graybill, CPA, Finance Manager



Pete Nardi, General Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

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

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

Board of Commissioners

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

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

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

The 2021-22 Hilton Head Public Service District Commission



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



Jerry Cutrer, Vice Chair, District 4
Current Term: 2021-2024



Stuart Bell, Treasurer, District 2
Current Term: 2021-2024



Patti Soltys, Secretary, District 3
Current Term: 2021-2024



Frank Drehwing, District 4
Current Term: 2018-2022



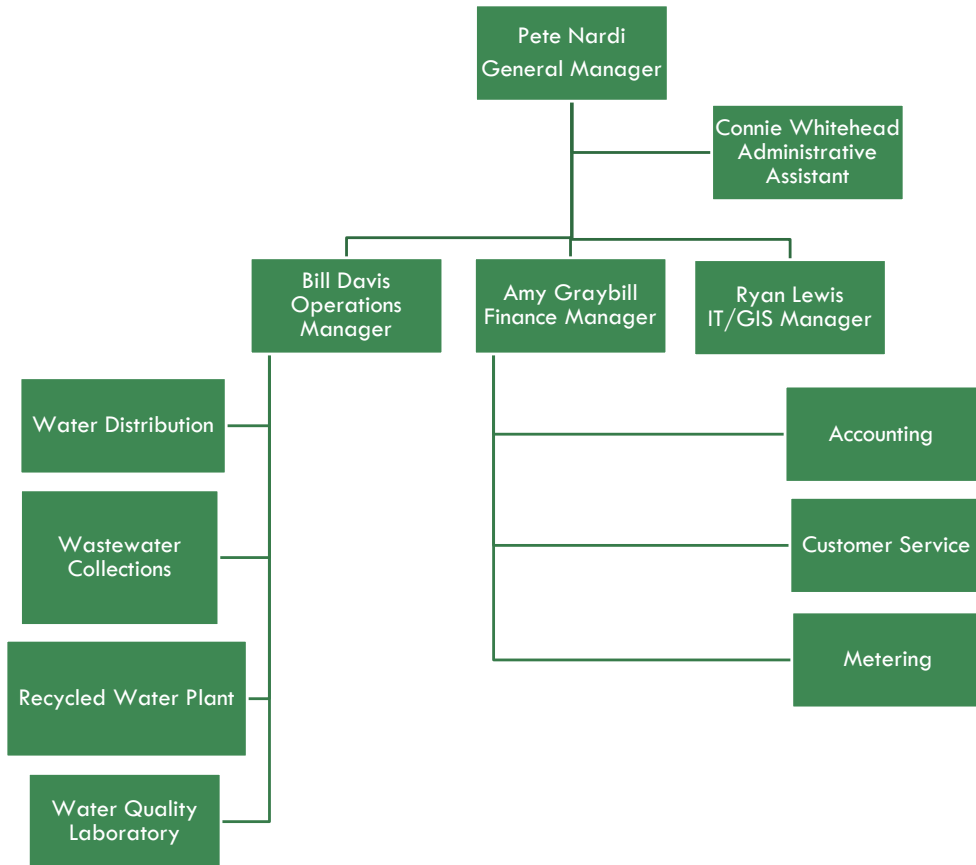
Herbert Ford, District 1
Current Term: 2018-2022



Andy Paterno, District 4
Current Term: 2022-2024



Organizational Chart



FINANCIAL SECTION

For Fiscal Years Ended June 30, 2022 and June 30, 2021



Greene Finney Cauley, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinion

We have audited the financial statements of Hilton Head No.1 Public Service District (the "District") as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Hilton Head No.1 Public Service District as of June 30, 2022 and 2021, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 in the notes to the financial statements, for the year ended June 30, 2022 the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 87 "Leases". Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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APPOINTMENT ONLY

In performing an audit in accordance with GAAS, we

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

Greene Finney Cauley, LLP

Greene Finney Cauley, LLP
Mauldin, South Carolina
October 11, 2022

Management's Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District's (the "District") annual financial statements presents management's analysis of the District's financial performance during the fiscal years ending June 30, 2022, 2021 and 2020. To enhance the reader's understanding, management encourages considering the information contained in the MD&A in conjunction with the financial statements as presented in the financial section of this report, the transmittal letter, and statistical information.

Overview of the Financial Statements

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

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

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

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

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

General Trends and Significant Events

- The District continued to see growth from development and redevelopment in its service area. While this trend has been ongoing for the District for the last several years, it was further fueled by the national real estate market boom during fiscal year 2022. Additionally, the District still continues to see connections related to its recently completed Master Sewer Plan projects which involved a partnership with the Town of Hilton Head to bring sewer to many previously unserved areas, a commitment from the PSD's Commission to continue to fund District infrastructure necessary to bring sewer to any remaining unserved landlocked parcels, and a partnership with a local non-profit, the Community Foundation of the Lowcountry, which raised funds for and administers the Project SAFE and Water Fund programs which provide grants to low-income homeowners to cover the cost of connecting to the District's water and sewer systems. During the past fiscal year, the Town of Hilton Head also developed programs aimed at assisting native

islanders in developing their property and developed a grant program using ARPA funds that will provide sewer connection grants to low-income owners and renters not covered by Project SAFE.

- Water Customer Growth: The District added 405 new water/irrigation customers to the system in fiscal year (FY) 2022. As of June 30, 2022, the District has a total of 19,524 equivalent dwelling units (EDUs). This is a 2.12% increase for FY 2022. For FY 2021 there was a 1.79% increase in total EDUs. The current EDUs include 18,424 water service units, 1,033 irrigation service units, and 67 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.
- Sewer Customer Growth: The District added 491 new sewer customers to the system in fiscal year 2022. As of June 30, 2022, sewer service EDUs total 17,566. This is a 2.88% increase for FY 2022 as compared to the FY 2021 increase of 2.29%.
- During FY 2022, the sewer to water customer percentage has increased from 94.69% to 95.34% percent since the end of fiscal year 2021.¹ This increase is related to the District's Master Sewer Plan construction projects and Project SAFE funded connections as well as general development in the District.
- Despite increased rainfall, billed consumption for FY 2022 was 2.087 billion gallons which was only slightly lower than the 2.088 billion gallons which was billed during FY 2021; this may be partially attributable to customer growth as well as timing of the rainfall. Total rainfall in fiscal year 2022 increased 9.23 inches to 52.88 inches compared to 43.65 inches in fiscal year 2021.² Spring/Summer³ rainfall totaled 19.7 inches in fiscal year 2022 compared to 18.4 inches in fiscal year 2021. (See the Rainfall Comparison tables on page 93 in the Statistical section of this report for further data).
- Inflationary pressures led to increased costs particularly in biosolids disposal, chemicals, and vehicle fuel. However, these increased costs were offset by growth fueled revenues and savings to budget in administrative and payroll costs which led to the District ending the 2022 fiscal year with a \$3 million increase in net position and a \$3.2 million increase in unrestricted cash. However, this increase in unrestricted cash is partially attributable to supply chain issues which led to project delays; the District carried forward approximately \$685,000 worth of fiscal year 2022 budgeted capital projects into fiscal year 2023 for completion.
- These statements reflect the adoption of GASB Statement No. 87 "Leases" which requires retrospective application. Although there was no change to the previously reported net position, the June 30, 2021 financial statements have been restated to reflect adoption of this statement. More details can be found in the Notes to the Financial Statements on page 37.

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

² Rainfall measurements were recorded at the wastewater treatment plant.

³ Months included for each year are March through August.

Financial Highlights and Analysis of the District

The District's financial position improved during the past fiscal year; continued growth and development offset negative inflationary effects and led to strong year-over-year increases in net position and cash.

Condensed Statements of Net Position

The comparative condensed statements of net position below show changes in financial position from previous fiscal years as of June 30, 2022, 2021, and 2020.⁴

Hilton Head Public Service District Condensed Statements of Net Position As of June 30, 2022, 2021, and 2020							
As of June 30,	<u>2022</u>	<u>2021</u>	<u>2020</u>	2021 to 2022	%	2020 to 2021	%
Assets				Increase (decrease)		Increase (decrease)	
Current assets	\$ 15,645,447	\$ 12,726,466	\$ 9,005,307	\$ 2,918,981	22.9%	\$ 3,721,159	41.3%
Restricted assets	887,721	680,403	2,570,882	207,318	30.5%	(1,890,479)	-73.5%
Net Property Plant & Equipment	67,919,475	71,081,589	74,457,407	(3,162,114)	-4.4%	(3,375,818)	-4.5%
Other Noncurrent Assets	2,940,326	2,818,674	2,295,863	121,652	4.3%	522,811	22.8%
Total Assets	<u>87,392,969</u>	<u>87,307,132</u>	<u>88,329,459</u>	<u>85,837</u>	<u>0.1%</u>	<u>(1,022,327)</u>	<u>-1.2%</u>
Deferred outflows of resources							
Deferred outflows related to pensions	930,224	955,687	789,558	(25,463)	-2.7%	166,129	21.0%
Deferred outflows from refunding debt	860,101	1,185,563	724,588	(325,462)	-27.5%	460,975	63.6%
Total Deferred outflows of resources	<u>1,790,325</u>	<u>2,141,250</u>	<u>1,514,146</u>	<u>(350,925)</u>	<u>-16.4%</u>	<u>627,104</u>	<u>41.4%</u>
Total assets and deferred outflows of resources	<u>\$ 89,183,294</u>	<u>\$ 89,448,382</u>	<u>\$ 89,843,605</u>	<u>(265,088)</u>	<u>-0.3%</u>	<u>(395,223)</u>	<u>-0.4%</u>
Liabilities							
Current Liabilities	4,876,869	4,733,109	6,229,830	143,760	3.0%	(1,496,721)	-24.0%
Noncurrent Liabilities, net of amortization	27,250,331	31,583,733	34,296,029	(4,333,402)	-13.7%	(2,712,296)	-7.9%
Total Liabilities	<u>32,127,200</u>	<u>36,316,842</u>	<u>40,525,859</u>	<u>(4,189,642)</u>	<u>-11.5%</u>	<u>(4,209,017)</u>	<u>-10.4%</u>
Deferred inflows of resources							
Deferred inflows related to pensions	854,175	326,700	208,744	527,475	161.5%	117,956	56.5%
Deferred inflows related to lease revenue	1,469,454	1,088,708	-	380,746	35.0%	1,088,708	100.0%
Total Deferred inflows of resources	<u>2,323,629</u>	<u>1,415,408</u>	<u>208,744</u>	<u>908,221</u>	<u>64.2%</u>	<u>1,206,664</u>	<u>578.1%</u>
Total liabilities and deferred inflows of resources	<u>34,450,829</u>	<u>37,732,250</u>	<u>40,734,603</u>	<u>(3,281,421)</u>	<u>-8.7%</u>	<u>(3,002,353)</u>	<u>-7.4%</u>
Net Position							
Net investment in capital assets	42,602,561	42,457,546	41,211,563	145,015	0.3%	1,245,983	3.0%
Restricted for debt service	887,721	680,403	2,570,882	207,318	30.5%	(1,890,479)	-73.5%
Unrestricted	11,242,183	8,578,183	5,326,557	2,664,000	31.1%	3,251,626	61.0%
Total Net Position	<u>54,732,465</u>	<u>51,716,132</u>	<u>49,109,002</u>	<u>3,016,333</u>	<u>5.8%</u>	<u>2,607,130</u>	<u>5.3%</u>
Total Liabilities and Net Position	<u>\$ 89,183,294</u>	<u>\$ 89,448,382</u>	<u>\$ 89,843,605</u>	<u>\$ (265,088)</u>	<u>-0.3%</u>	<u>\$ (395,223)</u>	<u>-0.4%</u>

Total assets and deferred outflows of resources were \$89.2 million, exceeding liabilities and deferred inflows of resources by \$54.7 million (net position). Of the total net position, \$11.2 million was unrestricted. Total net position increased by \$3.0 million or 5.8% compared to a \$2.6 million or 5.3% increase in fiscal year 2021. Unrestricted net position increased \$2.7 million or 31.1% compared to a \$3.2 million or 61.0% increase in fiscal year 2021.

⁴ FY 2021 financial statement line items have been restated to reflect the implementation of GASB 87.

Current and Restricted Assets

Of the total net position, \$15.6 million are current non-restricted assets available to support short-term operations. This current asset balance is \$2.9 million higher than the June 30, 2021 balance of \$12.7 million which was \$3.7 million higher than the June 30, 2020 balance of \$9.0 million; these increases are mostly attributable to an increase in cash and cash equivalents. The District also increased its inventory during fiscal year 2022 due to supply chain concerns. Total unrestricted and restricted cash balances consisted of the following:

Cash Balances As of June 30,	2022	2021	2020	2021 to 2022	%	2020 to 2021	%
Unrestricted cash and cash equivalents	\$ 12,616,934	\$ 9,609,015	\$ 6,404,660	\$ 3,007,919	31.3%	\$ 3,204,355	50.0%
Cash and cash equivalents restricted for debt service	887,721	680,403	2,570,882	207,318	30.5%	(1,890,479)	-73.5%
Total Cash	<u>\$ 13,504,655</u>	<u>\$ 10,289,418</u>	<u>\$ 8,975,542</u>	<u>\$ 3,215,237</u>	31.2%	<u>\$ 1,313,876</u>	14.6%

During fiscal year 2022, overall cash increased \$3.2 million or 31.2%. Unrestricted cash increased \$3.0 million or 31.3% bringing the District’s unrestricted cash up to \$12.6 million at June 30, 2022 compared to \$9.6 million at June 30, 2021 while restricted cash increased \$0.2 million. This increase was mostly related to growth fueled revenues but is also partially timing related as the District is carrying approximately \$685,000 of its FY 2022 budgeted capital projects into FY 2023 for completion. During fiscal year 2021, overall cash increased \$1.3 million or 14.6% with a \$3.2 million (a 50.0%) increase in unrestricted cash offset by a \$1.9 million (a 73.5%) decrease in restricted cash. This shift from restricted cash (restricted assets) to unrestricted cash was mainly related to the November 2020 debt refinancing which significantly altered the District’s debt repayment schedule. Additionally, capacity fee collections from large and small developments in the District’s service area have remained strong in all three of the past fiscal years.

Capital Assets

As of June 30, 2022, the District has invested \$67,919,475 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown on the following page. Net Property Plant & Equipment has decreased \$3,162,114 during fiscal year 2022. During fiscal year 2022, capital additions of \$1,980,669 were offset by depreciation of \$5,142,783.

Projects/ additions completed during 2022 include:

- Various upgrades and improvements at the wastewater treatment plant including replacements of filters, blowers, and grit removal units totaled \$461,714.
- The PSD continued funding \$16,670 worth of Master Sewer Plan projects.
- The District relined \$242,700 worth of gravity sewer mains in Indigo Run. Upgrades and improvements to the District’s existing lift stations totaled \$160,795. Other major collection system repairs and replacements totaled \$135,740.
- The District continued its meter change out program and \$298,133 of meters were replaced. Other major distribution system repairs and replacements totaled \$92,208.
- Developer contributions of hydrants, lift station upgrades, distribution system upgrades, and water and sewer systems totaled \$494,675.
- Other operations equipment purchases totaled \$78,034.

Capital Assets

Year Ended June 30,	<u>2022</u>	<u>2021</u>	<u>2020</u>
Capital assets not being depreciated:			
Land	\$ 1,299,193	\$ 1,299,193	\$ 1,299,193
Construction in Progress	37,206	45,310	57,708
Total Capital Assets not being depreciated	1,336,399	1,344,503	1,356,901
Capital assets being depreciated:			
Waterworks system	64,210,835	63,581,847	63,597,046
Sewage disposal system	54,256,168	53,552,764	53,523,184
Buildings	4,391,129	4,391,129	4,391,129
Sewage treatment facilities	36,279,760	35,840,545	35,143,163
Transportation equipment	1,341,156	1,482,433	1,319,843
Operations furniture and equipment	2,082,690	1,897,651	1,861,596
Office furniture and equipment	682,901	722,428	752,734
Sub Total	\$ 163,244,639	\$ 161,468,797	\$ 160,588,695
Less Accumulated depreciation	(96,661,563)	(91,731,711)	(87,488,189)
Total capital assets being depreciated, net	66,583,076	69,737,086	73,100,506
Property, Plant and Equipment, net	<u>\$ 67,919,475</u>	<u>\$ 71,081,589</u>	<u>\$ 74,457,407</u>

More detailed information on capital asset activity and developer contributions of systems can be found in Note 7 – Property, plant, equipment, and depreciation on page 44 and Note 13 - Construction and development commitments on page 56.

Liabilities and Debt Administration

As of June 30, 2022, the District’s current liabilities totaled \$4.9 million versus \$4.7 million at June 30, 2021 compared to \$6.2 million at June 30, 2020. The decrease of \$1.5 million or 24% from fiscal year 2020 to fiscal year 2021 was related to the debt restructuring done in November 2020 which reduced annual revenue debt service requirements.

Non-current liabilities decreased \$4.3 million from \$31.6 million at 2021 fiscal year end to \$27.3 million at 2022 fiscal year end in accordance with debt payment schedules combined with decreases in net pension liability values provided by the state pension system. More detailed information on long term debt obligations can be found in Note 8 – Long term obligations on page 46 and Note 9 – Non-current liabilities on page 54.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. The District’s revenue bonds are secured by the revenues of the District. Due to the reduction of annual revenue debt service related to the 2020 debt restructuring, the District’s debt coverage ratio increased from 183% to 288% from fiscal year 2020 to fiscal year 2021. The District ended fiscal year 2022 with a coverage ratio of 282%

Ratios for the prior three fiscal years are above the 120% required by the District's bond covenants as shown below:

Coverage of Debt Service

Year Ended June 30,	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net Income(loss) before capital contributions			
per Financial Statements	\$1,124,915	\$1,449,343	\$1,403,473
Capacity Fees	1,396,743	1,157,787	864,478
Add: Depreciation	5,142,783	5,188,028	5,044,727
Net Pension Expense	290,852	613,324	560,016
SCRS Retirement Contributions	(424,042)	(387,521)	(367,120)
Amortization	325,462	265,132	256,428
Bond Issuance Costs	-	225,650	42,056
Interest Expense (Bonds)	347,001	509,935	841,047
Assessments - Debt Service	209,221	200,485	188,409
Less: Property Taxes – Debt Service	<u>(1,522,142)</u>	<u>(1,499,844)</u>	<u>(1,414,091)</u>
Net Earnings Available for Debt Service	\$6,890,792	\$7,722,319	\$7,419,423
Debt Service on Revenue Bonds	\$2,440,269	\$2,686,001	\$4,048,243
Coverage of Debt Service by Net Earnings*	282%	288%	183%
Debt Coverage without Capacity Fees	225%	244%	162%

Statements of Revenues, Expenses and Changes in Net Position

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

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

Year Ended June 30,				2021 to 2022		2020 to 2021	
	2022	2021	2020	Inc/(Dec)	% Change	Inc/(Dec)	% Change
Operating Revenues							
Water Service Revenues	\$ 7,817,334	\$ 7,746,340	\$ 7,735,802	\$ 70,994	0.9%	\$ 10,538	0.1%
Sewer Service Revenues	6,013,685	5,852,395	5,719,313	161,290	2.8%	133,082	2.3%
Other Operating Revenues	700,048	1,412,487	1,291,824	(712,439)	-50.4%	120,663	9.3%
Total Operating Revenues	<u>14,531,067</u>	<u>15,011,222</u>	<u>14,746,939</u>	<u>(480,155)</u>	-3.2%	<u>264,283</u>	1.8%
Operating Expenses							
Payroll & Related Expenses	3,952,377	4,203,335	4,062,153	(250,958)	-6.0%	141,182	3.5%
Administrative Expenses	1,026,137	1,020,574	1,006,662	5,563	0.5%	13,912	1.4%
Operations Expenses	2,865,270	2,657,074	2,608,109	208,196	7.8%	48,965	1.9%
Maintenance Expenses	1,529,491	1,322,787	1,216,812	206,704	15.6%	105,975	8.7%
Purchased Water	1,031,270	899,685	892,181	131,585	14.6%	7,504	0.8%
Water Tap In Expenses	166,639	171,909	152,870	(5,270)	-3.1%	19,039	12.5%
Sewer Connection Expenses	198,236	200,934	215,867	(2,698)	-1.3%	(14,933)	-6.9%
Professional Fees	248,636	203,678	342,116	44,958	22.1%	(138,438)	-40.5%
Depreciation	5,142,783	5,188,028	5,044,727	(45,245)	-0.9%	143,301	2.8%
Total Operating Expenses	<u>16,160,839</u>	<u>15,868,004</u>	<u>15,541,497</u>	<u>292,835</u>	1.8%	<u>326,507</u>	2.1%
Net Operating Income	(1,629,772)	(856,782)	(794,558)	(772,990)	90.2%	(62,224)	7.8%
Non-operating Revenues							
Property Taxes - G.O. Debt Levy	1,522,142	1,499,844	1,414,091	22,298	1.5%	85,753	6.1%
Property Taxes - Operations Levy	1,086,204	1,071,896	1,034,553	14,308	1.3%	37,343	3.6%
Other Non-Operating Revenues	822,428	736,396	888,918	86,032	11.7%	(152,522)	-17.2%
Total Non-operating Revenues	<u>3,430,774</u>	<u>3,308,136</u>	<u>3,337,562</u>	<u>122,638</u>	<u>3.7%</u>	<u>(29,426)</u>	<u>-0.9%</u>
Non-operating Expenses	(676,087)	(1,002,011)	(1,139,531)	325,924	-32.5%	137,520	-12.1%
Increase in Net Position before Capital Contributions:	1,124,915	1,449,343	1,403,473	(324,428)	-22.4%	45,870	3.3%
Capital Contributions:							
Water Capacity Fee	551,444	482,400	294,324	69,044	14.3%	188,076	63.9%
Sewer Capacity Fee	845,299	675,387	570,154	169,912	25.2%	105,233	18.5%
Developer Contributions of Systems	494,675	-	1,664,012	494,675	100.0%	(1,664,012)	-100.0%
Total Capital Contributions	<u>1,891,418</u>	<u>1,157,787</u>	<u>2,528,490</u>	<u>733,631</u>	<u>63.4%</u>	<u>(1,370,703)</u>	<u>-54.2%</u>
Change in net position	\$ 3,016,333	\$ 2,607,130	\$ 3,931,963	\$ 409,203	15.7%	\$ (1,324,833)	-33.7%
Net position, beginning of the year	\$ 51,716,132	\$ 49,109,002	\$ 45,177,039	\$ 2,607,130	5.3%	\$ 3,931,963	8.7%
Net position, end of year	<u>\$ 54,732,465</u>	<u>\$ 51,716,132</u>	<u>\$ 49,109,002</u>	\$ 3,016,333	5.8%	\$ 2,607,130	5.3%

Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2022 total \$14,531,067 which is a \$480,155 or 3.2% decrease from fiscal year 2021. Total operating revenues increased 1.8% or \$264,283 from fiscal year 2020 to fiscal year 2021.

Selected highlights of significant FY 2022 increases or decreases are as follows:

- Water service revenues increased \$70,994 or 0.9% from 2021 to 2022 due to customer growth as consumption stayed fairly static at 2.087 billion gallons billed in fiscal year 2022 compared to 2.088 billion gallons billed in fiscal year 2021; water service revenues remained fairly static from fiscal year 2020 to 2021. There was no rate increase in either year.
- Despite no rate increases, sewer service revenues increased by \$161,290 or 2.8% during fiscal year 2022 and \$133,082 or 2.3% during fiscal year 2021 due to sewer customer growth.
- Other operating revenues include water and sewer connection fees, golf course irrigation, availability fees, service fees, disaster and insurance recoveries, and other miscellaneous items. These revenues decreased \$712,439 or 50.4% from fiscal year 2021 to 2022 compared to a \$120,663 or 9.3% increase from fiscal year 2020 to 2021. The fiscal year 2022 decrease was related to discontinuation of the District's availability fee, lower golf irrigation caused by a rainy fall, and no large miscellaneous class action settlement payments or sales tax refunds. The fiscal year 2021 increase was mostly related to increased golf irrigation caused by drier weather, a miscellaneous class action settlement payment related to the District's electricity provider, and sales tax refunds received related to sales tax paid on exempt wastewater treatment purchases which were offset by decreases in sewer connection fees, availability fees, and disaster & insurance recoveries.

Departmental Expenses (Fiscal Year to Year Comparisons)

Total departmental expenses have increased \$292,835 or 1.8% compared to fiscal year 2021. For fiscal year 2021, departmental expenses increased \$326,507 or 2.1% compared to fiscal year 2020.

Selected highlights of significant FY 2022 increases or decreases are as follows:

- Payroll and Related expenses decreased \$250,958 or 6.0% in FY 2022 and increased \$141,182 or 3.5% in FY 2021. In fiscal year 2022, a non-cash decrease adjustment was necessary to bring pension expense to the South Carolina Retirement Systems (SCRS) actuarially determined amount. In fiscal year 2021, a non-cash increase adjustment was needed to bring pension expense to the SCRS actuarially determined amount. Additionally, these decreases and increases were offset and added to by merit salary increases and the addition of one new position in each year.
- Operations expenses increased \$208,196 or 7.8% in FY 2022 and \$48,965 or 1.9% in FY 2021. The FY 2022 increases were mainly related to inflationary increases in chemicals, biosolids, and vehicle fuel. The FY 2021 increases were mainly related to cost and volume increases in biosolids disposal as well as increased fuel and power costs.
- Maintenance expenses increased by \$206,704 or 15.6% in FY 2022 mainly driven by inflationary increases, increased preventative maintenance efforts, and performance of a satellite leak detection project. Maintenance expenses increased by \$105,975 or 8.7% in FY 2021 mainly due to increased lift station and RO plant preventative maintenance efforts.
- Purchased water increased \$131,585 or 14.6% in fiscal year 2022 due to more water purchased early in the fiscal year while maintenance work was done at the RO plant combined with a rate increase.

- Professional fees increased \$44,958 or 22.1% in FY 2022 while they decreased \$138,438 or 40.5% in FY 2021. More was spent in engineering in fiscal year 2022 than 2021 on future water supply modeling and groundwater permitting. The FY 2021 decrease was mostly due to several years of legal and engineering fees related to District funded master sewer plan projects that were initially expected to be capitalized into the cost of one large District funded project but were reclassified to expense in fiscal year 2020 when it was determined that these projects would be done on an as needed basis over a number of years.

Non-operating revenues (Fiscal Year to Year Comparisons)

Total non-operating revenues increased \$122,638 or 3.7% in FY 2022 while FY 2021 saw a decrease of \$29,426 or 0.9%.

Selected highlights of significant increases or decreases are as follows:

- More GO and operating property tax revenue was collected in FY 2022 and FY 2021 due to increases in assessed values year over year.
- Other non-operating revenues increased \$86,032 or 11.7% from FY 2021 to FY 2022 due to tower lease revenue contract escalators, interest income rates increasing towards the end of FY 2022, and an increase in the gain on sale of fixed assets related to the sale of the vehicles replaced by the six vehicles leased at the end of FY 2021. Other non-operating revenues decreased \$152,522 or 17.2% from FY 2020 to FY 2021 due to a one-time tower lease CPI related payment which was received in FY 2020 that was not repeated as well as due to a decline in interest rates.

Non-Operating Expenses (Fiscal Year to Year Comparisons)

Total non-operating expenses decreased \$325,924 or 32.5% in FY 2022 and decreased \$137,520 or 12.1% in FY 2021. The District did not incur any bond issuance costs in FY 2022 and interest expense was \$166,046 lower than FY 2021. In FY 2021, a reduction in interest expense of \$335,347, which was largely attributable to the November 2020 debt restructuring, was offset by \$225,650 in bond issuance costs related to the restructuring.

Capital Contributions (Fiscal Year to Year Comparisons)

Water and sewer capacity fees remained strong in all three fiscal years presented. Fees paid by large scale developers made up most of these revenues each year. Developer contributions of systems significantly declined from 2020 to 2021 but picked back up in 2022. This is related to the completion of the Town funded MSP sewer projects in FY 2020 as well as a number of private developer contributions of water and sewer systems in FY 2020 and FY 2022. No developer contributions were received in FY 2021.

SUBSEQUENT EVENTS

On July 1, 2022, a rate increase was put into effect whereby the following volumetric water tier rate increases and fees were put into effect:

Residential Water			Residential Irrigation		
	FY 2022	FY 2023		FY 2022	FY 2023
Rates per 1,000 Gallons:	<u>Current</u>	<u>Revised Rate</u>	Rates per 1,000 Gallons:	<u>Current</u>	<u>Revised Rate</u>
Block 1 - 0 to 10,000 Gal	1.47	1.47	Block 1 - 0 to 10,000 Gal	1.82	1.91
Block 2 - 10,001 to 20,000 Gal	1.82	1.91	Block 2 - 10,001 to 20,000 Gal	1.82	1.91
Block 3 - 20,001 to 30,000 Gal	2.27	2.36	Block 3 - 20,001 to 30,000 Gal	2.27	2.36
Block 4 - All Over 30,000 Gal	2.79	2.98	Block 4 - All Over 30,000 Gal	2.79	2.98
Commerical Water & Irrigation			Meter Install Fees		
	FY 2022	FY 2023		FY 2022	FY 2023
Rates per 1,000 Gallons:	<u>Current</u>	<u>Revised Rate</u>	(Existing Service Line)	<u>Current</u>	<u>Revised Rate</u>
Block 1 - 0 to 10,000 Gal	1.69	1.69	3/4" Meter	1,020.00	1,180.00
Block 2 - 10,001 to 20,000 Gal	2.04	2.06	1" Meter	1,280.00	1,500.00
Block 3 - 20,001 to 30,000 Gal	2.52	2.53	2" Meter & Backflow	2,720.00	3,440.00
Block 4 - All Over 30,000 Gal	3.07	3.18	Any other size	Time and Materials	
Meter Install Fees			Fees		
	FY 2022	FY 2023		FY 2022	FY 2023
(No Existing Service Line)	<u>Current</u>	<u>Revised Rate</u>		<u>Current</u>	<u>Revised Rate</u>
3/4" Meter	1,210.00	1,390.00	Hydrant Meter Set Fee	-	200.00
1" Meter	1,450.00	1,710.00			
Any other size	Time and Materials				

The District’s Commission adopted this rate increase at the June Commission Meeting on June 22, 2022.

FINAL COMMENTS AND REQUESTS FOR INFORMATION

Despite the impacts of COVID-19, the District continues to see 1-2% growth in its service area which has been further spurred by the general real estate boom and the growing need for affordable housing in the District’s service area. While there are still areas of the District’s service area that contain potential for development or redevelopment and the District expects to continue to see growth in the coming years, the District recognizes that the current rate of growth is likely unsustainable in the long term due to the limited land space of its service area. Conservatism is maintained during the budget process so as not to rely on development that may not occur to fund operations.

This growth combined with the culmination of the District’s long range water planning studies has identified a need to expand the District’s water supply assets over the next five years to obtain additional capacity and disaster resiliency. The District is exploring options to fund these projects through a combination of cash reserves and debt issuance which may be expedited should the District receive any of the ARPA grant funding it requested in September 2022 through the SCIIP program.

The District always aims to take a conservative view towards budgeting to ensure long term sustainability while also maintaining a sensitivity towards the need to keep service affordable for the District’s customer base which includes many of Hilton Head Island’s full time workforce population.

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

AUDITED FINANCIAL STATEMENTS

For Fiscal Years Ended June 30, 2022 and June 30, 2021

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2022 AND 2021

	June 30	
	2022	2021
Assets		
Current Assets		
Cash and Cash Equivalents Available for Operations	\$ 12,616,934	\$ 9,609,015
Cash and Cash Equivalents in Banks (Restricted)	681,107	559,803
Cash and Cash Equivalents Held by Beaufort County Treasurer (Restricted)	206,614	120,600
Accounts Receivable - Trade, net	1,677,573	1,961,617
Accounts Receivable - Project SAFE	-	83,571
Lease Receivable, due within one year	343,003	256,221
Sewer and Capacity Assessments, due within one year	206,010	205,458
Inventory	548,020	371,507
Prepaid Expenses	253,907	239,077
Total current assets	16,533,168	13,406,869
Noncurrent Assets		
Property, Plant and Equipment		
Nondepreciable Assets	1,336,399	1,344,503
Depreciable Assets, net	66,583,076	69,737,086
Total Property, Plant and Equipment	67,919,475	71,081,589
Lease Receivable, due after one year	887,756	590,085
Sewer and Capacity Assessments, due after one year	2,052,570	2,228,589
Total Noncurrent Assets	70,859,801	73,900,263
Total Assets	87,392,969	87,307,132
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	930,224	955,687
Deferred Charges from Debt Refunding	860,101	1,185,563
Total Deferred Outflows of Resources	1,790,325	2,141,250
Total Assets and Deferred Outflows of Resources	\$ 89,183,294	\$ 89,448,382

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION (continued)
AS OF JUNE 30, 2022 AND 2021

Liabilities	June 30	
	2022	2021
Current Liabilities		
Payable from Unrestricted Assets:		
Accounts Payable-Trade	\$ 488,625	\$ 389,366
Accounts Payable-Construction	47,379	94,881
Finance Purchase Liabilities, due within one year	36,005	36,005
Notes Payable, due within one year	7,939	18,000
Customer Deposits	253,920	205,409
Unearned Revenue	8,336	4,692
Other Accrued Liabilities	394,339	411,617
Total Current Liabilities Payable from Unrestricted Assets	1,236,543	1,159,970
Payable from Restricted Assets:		
Interest Payable	36,997	42,056
Notes Payable, due within one year	141,172	139,769
Bonds Payable, due within one year	3,462,157	3,391,314
Total Current Liabilities Payable from Restricted Assets	3,640,326	3,573,139
Total Current Liabilities	4,876,869	4,733,109
Noncurrent Liabilities		
Finance Purchase Liabilities, due after one year	116,926	152,932
Bonds Payable, due after one year	20,436,265	23,898,422
Notes Payable, due after one year	1,929,172	2,078,283
Net Pension Liability	4,767,968	5,454,096
Total Noncurrent Liabilities	27,250,331	31,583,733
Total Liabilities	32,127,200	36,316,842
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	854,175	326,700
Deferred Inflows Related to Lease Revenue	1,469,454	1,088,708
Total Deferred Outflows of Resources	2,323,629	1,415,408
Total Liabilities and Deferred Inflows of Resources	34,450,829	37,732,250
Net Position		
Net Investment in Capital Assets	42,602,561	42,457,546
Restricted for Debt Service	887,721	680,403
Unrestricted	11,242,183	8,578,183
Total Net Position	54,732,465	51,716,132
Total Liabilities, Deferred Inflows of Resources & Net Position	\$ 89,183,294	\$ 89,448,382

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, 2022 AND 2021

	Fiscal Year Ended June 30	
	2022	2021
Operating Revenues		
Water Service	\$ 7,817,334	\$ 7,746,340
Sewer Service	6,013,685	5,852,395
Water Tap In Fees	214,342	247,227
Sewer Connection Fees	216,469	212,488
Golf Course Irrigation	155,994	207,233
Service Fees	26,118	14,662
Availability Fees	27,279	420,187
Disaster & Insurance Recovery, net	7,854	44,828
Other Operating Revenues	51,992	265,862
Total Operating Revenues	14,531,067	15,011,222
Departmental Expenses		
Payroll & Related Expenses	3,952,377	4,203,335
Administrative Expenses	1,026,137	1,020,574
Operations Expenses	2,865,270	2,657,074
Maintenance Expenses	1,529,491	1,322,787
Purchased Water	1,031,270	899,685
Water Tap In Expenses	166,639	171,909
Sewer Connection Expenses	198,236	200,934
Professional Fees	248,636	203,678
Total Departmental Expenses	11,018,056	10,679,976
Depreciation	5,142,783	5,188,028
Total Operating Expenses	16,160,839	15,868,004
Operating Income (Loss)	(1,629,772)	(856,782)
Non-operating Revenues		
Property Taxes - G.O. Debt Levy	1,522,142	1,499,844
Property Taxes - Operations Levy	1,086,204	1,071,896
Tower Lease Income	571,437	537,442
Rental Income	83,965	78,156
Interest Income - Leases	18,881	15,992
Interest Income	109,605	102,306
Gain on Disposal of Assets	38,540	2,500
Total Non-operating Revenues	\$ 3,430,774	\$ 3,308,136

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (continued)
 FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Fiscal Year Ended June 30	
	2022	2021
Non-operating Expenses		
Interest Expense	\$ 350,625	\$ 511,229
Bond Defeasance Amortization	325,462	265,132
Bond Issuance Costs	-	225,650
Total Non-operating Expenses	676,087	1,002,011
Total Non-operating Revenues/Expenses	2,754,687	2,306,125
Increase (Decrease) in Net Position, Before Capital Contributions	\$ 1,124,915	\$ 1,449,343
Water Capacity Fee	\$ 551,444	\$ 482,400
Sewer Capacity Fee	845,299	675,387
Developer Contributions of Systems	494,675	-
Total Capital Contributions	1,891,418	1,157,787
Change in net position	3,016,333	2,607,130
Net position, beginning of the year	51,716,132	49,109,002
Net position, end of year	\$ 54,732,465	\$ 51,716,132

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Fiscal Year Ended June 30	
	2022	2021
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 14,887,346	\$ 14,431,096
Cash Paid to Suppliers	(8,408,872)	(7,630,250)
Cash Paid to Employees	(2,851,736)	(2,806,876)
Other Revenues	59,846	310,690
Net Cash Provided by Operating Activities	3,686,584	4,304,660
Cash Flows from Investing Activities		
Interest Income	109,605	102,306
Net Cash Provided by Investing Activities	109,605	102,306
Cash Flows from Noncapital Financing Activities:		
Property Taxes Collected - Operations Levy	1,086,204	1,071,896
Rental and Tower Lease Income	674,219	674,777
Sewer Assessments Collected	145,418	134,433
Sewer Assessments Financed	(33,754)	(134,215)
Net Cash Provided by Noncapital Financing Activities	1,872,087	1,746,891
Cash Flows from Capital and Related Financing Activities:		
Capacity Fees	1,396,743	1,157,787
Capacity Fee Assessments	63,803	66,052
Property Taxes Collected - G.O. Debt Levy	1,522,143	1,499,845
Interest Paid	(355,684)	(644,483)
Proceeds from Series 2021 B & C Revenue Bonds	-	19,095,000
Payoff of refunded revenue bonds	-	(19,338,744)
Amount paid to defease revenue bonds	-	(763,425)
Proceeds from Series 2021 GO Bonds	-	9,910,000
Payoff of refunded GO Bods	-	(10,241,589)
Amount paid to defease GO Bonds	-	(5,780)
Bond Issuance Costs	-	(225,650)
Principal Payments on Bonds and Notes	(3,585,088)	(3,729,206)
Proceeds from Sale of Assets	38,540	2,500
Purchases of Property, Plant and Equipment	(1,533,496)	(1,622,288)
Net Cash Used by Capital and Related Financing Activities	(2,453,039)	(4,839,981)
Net Increase (Decrease) in Cash	3,215,237	1,313,876
Cash and Cash Equivalents at Beginning of Year	\$ 10,289,418	\$ 8,975,542
Cash and Cash Equivalents at End of Year	\$ 13,504,655	\$ 10,289,418

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF CASH FLOW (continued)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	Fiscal Year Ended June 30	
	2022	2021
Reconciliation of Operating Loss to Net Cash Provided		
by Operating Activities:		
Operating Loss	\$ (1,629,772)	\$ (856,782)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided</i>		
<i>by Operating Activities:</i>		
Depreciation	5,142,783	5,188,028
Decrease in Allowance for Doubtful Accounts	(14,054)	-
Difference Between GASB 68 and Actual Contributions	(133,190)	225,803
<i>Changes in Assets and Liabilities</i>		
Accounts Receivable - Trade	298,098	(265,028)
Accounts Receivable - Project SAFE	83,571	(52,317)
Inventories	(176,513)	779
Prepaid Assets	(14,830)	26,068
Accounts Payable - Trade	99,259	(12,447)
Customer Deposits	48,511	47,909
Other Accrued Liabilities	(17,278)	2,647
Net Cash Provided by Operating Activities	\$ 3,686,584	\$ 4,304,660

Schedule of Cash and Cash Equivalents

Available for Operations

Demand Deposits (interest and non-interest bearing)	\$ 2,482,558	\$ 4,991,585
SC Local Government Investment Pool	10,078,955	\$ 4,557,012
Held by Beaufort County Treasurer	55,420	60,419
Total Available for Operations	\$ 12,616,934	\$ 9,609,015

Restricted

Cash in Banks	\$ 681,107	\$ 559,803
Held by Beaufort County Treasurer	206,614	120,600
Total Restricted	\$ 887,721	\$ 680,403

Total Cash and Cash Equivalents	\$ 13,504,655	\$ 10,289,418
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Supplemental Disclosures

Noncash Financing Activities:

Financed Vehicle Purchase	\$ -	\$ 200,031
Developer Contribution of Systems	\$ 494,675	\$ -

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

NOTES TO FINANCIAL STATEMENTS

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 1 - Summary of significant accounting policies

General

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

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

Fund accounting

The accounts of the District are organized on the basis of a single proprietary fund type - enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenues and expenses. The fund is established to account for water and sewer operations that are financed and operated in a manner similar to private business enterprises, where the intent is to provide goods and services to the general public on a continuing basis, financed and recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for sales and services provided to them. The District also recognizes as operating income tap fees, 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.

Basis of accounting

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

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

Fees and payments due under developer contracts are treated as capital contributions and are recognized in the period received. Tap fees and connection fees are recognized as income in the period the customer connects to the system or in the period a related front foot assessment is finalized.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 1 - Summary of significant accounting policies (continued)

Change in Accounting Principle

The District adopted GASB Statement No. 87 “Leases” (“GASB No. 87” or “Statement”) for the year ended June 30, 2022. The objective of GASB No. 87 is to better meet the information needs of financial users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The adoption of GASB No. 87 has resulted in no impact to the District’s net position but has resulted in the addition of a lease receivable and corresponding deferred inflow of resources on the District’s financial statements; as required by the Statement, GASB No. 87 was adopted retrospectively and the related financial statement line items were restated for the earliest period presented. Accordingly, for the year ended June 30, 2021, the previously reported Unearned Revenue current liability financial statement line item of \$247,094 was reduced by \$242,402 to \$4,692 which represents the unearned interest revenue under the new GASB No. 87, a lease receivable of \$846,306 (with \$256,221 reported as current and \$590,085 reported as long term) was added, and a deferred inflow of resources of \$1,088,708 was added.

Cash and cash equivalents

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

Accounts receivable, allowance for doubtful accounts and bad debt expense

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.2% and 0.356% of water and sewer revenues for the years ended June 30, 2022 and 2021, respectively. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2022 and 2021, the balance of the allowance for doubtful accounts was \$28,000 and \$42,054, respectively. Bad debt expense for the years ended June 30, 2022 and 2021 was \$10,782 and \$17,076, respectively.

Inventory and prepaid items

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1 - Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition cost rather than fair value. Betterments and improvements over \$5,000 which extend the useful life of an asset are capitalized and depreciated over their estimated useful life. Depreciation of all property, plant and equipment is provided by the straight-line method and estimated useful lives of assets in service are as follows:

<u>Description</u>	<u>(in years)</u>
Waterworks system	5-50
Sewage disposal system	5-40
Building	40
Sewage treatment facilities	5-40
Transportation equipment	5
Operations furniture and equipment	3-7
Office furniture and equipment	4-10

Repairs and maintenance are charged to expense as incurred.

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 \$240,691 and \$274,863 at June 30, 2022 and 2021, respectively. These balances are expected to be used within one year and are therefore included in Other Accrued Liabilities in the Statement of Net Position.

Long-term Obligations

Long-term debt and other obligations financed by the District are reported as liabilities in the statements of net position. If material, bond premiums and discounts, as well as deferred refunding costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed in the year incurred.

Pensions

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 1 - Summary of significant accounting policies (continued)

Deferred outflows/inflows of resources

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

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

Net position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for debt service; and unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds of other restricted cash and investments is excluded from the determination. Restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net position not included in the above categories.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 1 - Summary of significant accounting policies (continued)

Claims and judgements

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

Reclassification

Certain accounts and amounts in the June 30, 2021 financial statements have been reclassified in order to conform to the June 30, 2022 presentation.

Use of estimates

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

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 11, 2022, the date that the financial statements were available to be issued.

Note 2 - Cash, cash equivalents and investments

At June 30, 2022 and 2021, the bank balances of the District's demand deposit accounts totaled \$2,302,196 and \$5,008,145, respectively, and had a carrying balance totaling \$2,482,158 and \$4,991,185 respectively. A sum of \$400 is held in petty cash funds of the District. As of June 30, 2022 and 2021, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

Investment Policy

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

1. The District will invest in very creditworthy, highly liquid investments with maturities of one year or less and in intermediate-term securities of high credit quality with maturities no greater than five years. The District will only invest in those securities specified under South Carolina Code Section 6-5-10. These include collateralized money market accounts and certificates of deposits, U.S. Treasury Bills and Notes, high quality obligations of certain U.S. agencies and instrumentalities, and the local government investment pool.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

Investment Policy (continued)

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

Custodial credit risk for deposits is the risk that, in the event of failure of a financial institution, the District's deposits may not be returned. The District's policy is to request collateral for all bank deposits in excess of amounts of up to \$250,000 per custodian with major banking institutions which are insured by the Federal Deposit Insurance Corporation. As of June 30, 2022, the District's deposits were fully collateralized and thus were not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The District's investment policy limits investments to those that are very creditworthy. Investments at June 30, 2022 and 2021, were respectively comprised of \$10,078,955 and \$4,557,012 in funds held with the South Carolina Local Government Investment Pool (SCLGIP) and \$681,107 and \$559,803 restricted funds for debt service. At June 30, 2022 and 2021, the District's restricted funds for debt service were all in Standard and Poor's AAAM rated money market funds collateralized by U.S. Treasury obligations.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. There may be times when the District has more or less of its funds in particular investment vehicles due to cash flow needs, prevailing market conditions, and other factors. 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.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

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

Note 3 - Cash held by the Beaufort County Treasurer

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

	As of June 30,	
	2022	2021
Unrestricted cash - Available for general operating purposes	\$ 55,420	\$ 60,419
Restricted cash - Bond principal retirement and interest payments	206,614	120,600
	<u>\$ 262,034</u>	<u>\$ 181,019</u>

Note 4 – Restricted assets

A reserve fund for debt service is mandated by bond covenants. The debt service funds are used to segregate resources accumulated for debt service payments coming due over the next twelve months. At June 30, 2022 and 2021, the debt service reserves totaled \$879,715 and \$680,403, respectively. The District also holds funds, as mandated by bond covenants, for operation and maintenance, and depreciation and contingencies. The operating and maintenance fund is intended to provide for the payment of the operations and maintenance expenses. The depreciation and contingency fund is intended to provide a reasonable reserve for the depreciation of the system, for contingencies and for improvements, betterment and extensions of the system.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 5 - Accounts receivable

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

	2022	2021
Receivables from customers	\$ 998,498	\$ 1,348,304
Unbilled receivables from customers	676,478	609,899
Other receivables	2,597	3,414
	\$ 1,677,573	\$ 1,961,617

Receivables from customers are reported net of an allowance for doubtful accounts of \$28,000 and \$42,054 as of June 30, 2022 and 2021, respectively.

Project SAFE accounts receivable represent amounts due from the Community Foundation of the Lowcountry (CFLC) which operates programs called the Water Fund and Project SAFE that provide grants for low- and moderate-income homeowners to connect to the public water and sewer system, respectively. The District provides funding to the CFLC in the form of Bucks for a Better Island, a program that rounds up customer bills to the next highest dollar.

Note 6 - Sewer assessments

The District has constructed various sewer collection systems, the cost of which is to be repaid by annual sewer assessments collected by the Beaufort County treasurer from the property owners that benefited from these systems. These assessments are being collected annually and are expected to be paid in full beginning 2016 through 2041. Assessments receivable totaled \$2,258,580 and \$2,434,047 as of June 30, 2022 and 2021, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2022 and 2021, \$69,671 and \$70,116, respectively, of the assessments collected was recognized as interest income.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 7 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2022 and 2021 was as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2022</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	\$ -	\$ -	-	\$ 1,299,193
Construction in progress	<u>45,310</u>	<u>37,206</u>	<u>-</u>	<u>(45,310)</u>	<u>37,206</u>
Total capital assets not being depreciated	<u>1,344,503</u>	<u>37,206</u>	<u>-</u>	<u>(45,310)</u>	<u>1,336,399</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	63,581,847	621,628	-	7,360	64,210,835
Sewage disposal system	53,552,764	665,454	-	37,950	54,256,168
Buildings	4,391,129	-	-	-	4,391,129
Sewage treatment facilities	35,840,545	439,215	-	-	36,279,760
Transportation equipment	1,482,433	-	(141,277)	-	1,341,156
Operations furniture and equipment	1,897,651	208,251	(23,212)	-	2,082,690
Office furniture and equipment	<u>722,428</u>	<u>8,915</u>	<u>(48,442)</u>	<u>-</u>	<u>682,901</u>
Total capital assets being depreciated	<u>161,468,797</u>	<u>1,943,463</u>	<u>(212,931)</u>	<u>45,310</u>	<u>163,244,639</u>
<u>Less accumulated depreciation for:</u>					
Waterworks system	(38,279,045)	(2,138,718)	-	-	(40,417,763)
Sewage disposal system	(22,475,634)	(1,878,771)	-	-	(24,354,405)
Buildings	(2,438,046)	(99,628)	-	-	(2,537,674)
Sewage treatment facilities	(25,343,304)	(812,120)	-	-	(26,155,424)
Transportation equipment	(1,019,211)	(130,848)	141,277	-	(1,008,782)
Operations furniture and equipment	(1,481,953)	(72,421)	23,212	-	(1,531,162)
Office furniture and equipment	<u>(694,519)</u>	<u>(10,277)</u>	<u>48,442</u>	<u>-</u>	<u>(656,354)</u>
Total accumulated depreciation	<u>(91,731,711)</u>	<u>(5,142,783)</u>	<u>212,931</u>	<u>-</u>	<u>(96,661,563)</u>
Total assets being depreciated	<u>69,737,086</u>	<u>(3,199,320)</u>	<u>-</u>	<u>45,310</u>	<u>66,583,076</u>
Year End Totals	<u>\$ 71,081,589</u>	<u>\$ (3,162,114)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,919,475</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

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

	<u>June 30, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2021</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	\$ -	\$ -	-	\$ 1,299,193
Construction in progress	57,708	200,402	-	(212,800)	45,310
Total capital assets not being depreciated	<u>1,356,901</u>	<u>200,402</u>	<u>-</u>	<u>(212,800)</u>	<u>1,344,503</u>
<u>Capital assets being depreciated:</u>					
Waterworks system	63,597,046	540,181	(555,380)	-	63,581,847
Sewage disposal system	53,523,184	164,095	(301,076)	166,561	53,552,764
Buildings	4,391,129	-	-	-	4,391,129
Sewage treatment facilities	35,143,163	665,121	(13,978)	46,239	35,840,545
Transportation equipment	1,319,843	203,132	(40,542)	-	1,482,433
Operations furniture and equipment	1,861,596	39,279	(3,224)	-	1,897,651
Office furniture and equipment	752,734	-	(30,306)	-	722,428
Total capital assets being depreciated	<u>160,588,695</u>	<u>1,611,808</u>	<u>(944,506)</u>	<u>212,800</u>	<u>161,468,797</u>
<u>Less accumulated depreciation for:</u>					
Waterworks system	(36,645,674)	(2,188,751)	555,380	-	(38,279,045)
Sewage disposal system	(20,878,224)	(1,898,486)	301,076	-	(22,475,634)
Buildings	(2,326,451)	(111,595)	-	-	(2,438,046)
Sewage treatment facilities	(24,561,857)	(795,425)	13,978	-	(25,343,304)
Transportation equipment	(932,744)	(127,009)	40,542	-	(1,019,211)
Operations furniture and equipment	(1,433,966)	(51,211)	3,224	-	(1,481,953)
Office furniture and equipment	(709,274)	(15,551)	30,306	-	(694,519)
Total accumulated depreciation	<u>(87,488,189)</u>	<u>(5,188,028)</u>	<u>944,506</u>	<u>-</u>	<u>(91,731,711)</u>
Total assets being depreciated	<u>73,100,506</u>	<u>(3,576,220)</u>	<u>-</u>	<u>212,800</u>	<u>69,737,086</u>
Year End Totals	<u>\$ 74,457,407</u>	<u>\$ (3,375,818)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,081,589</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$5,142,783 and \$5,188,028, respectively. Transfers relate to construction in progress completed during the year.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations

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

Revenue bonds and State Revolving Loans payable are collateralized by an irrevocable pledge of income and revenues derived from the operations of the systems and are secured by a lien upon those revenues. The District's debt instruments contain various covenants and restrictions, which amount other things, require the District to provide certain financial information and meet certain financial tests. The District's bond resolutions require that the "net earnings" (as defined in the bond resolution) are equal to at least 120% of the annual principal and interest requirements of all series of revenue parity bonds outstanding in that year. For the years ended June 30, 2022 and 2021, the District's "net earnings" were 282% and 288%, respectively, of its annual principal and interest requirements of all series of revenue parity bonds.

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

During 2021, the District entered into several finance purchase agreements for vehicles with payment terms of four years with interest rates varying from 2.69% to 2.79%, secured by the underlying vehicles. As of June 30, 2022 and 2021, the assets acquired through finance purchase in the amount of \$203,133 are included in transportation equipment with accumulated amortization of \$54,500 and \$14,489, respectively, included in accumulated depreciation on the statement of net position. Amortization expense totaled \$40,011 and \$14,489 for the years ended June 30, 2022 and 2021, respectively, and is included in depreciation expense on the statement of revenues, expenses, and changes in net position.

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

Notes payable – Revenue/Other – DBP

The District is obligated under a note dated November 30, 1988, with a balance of \$7,939 and \$25,939 at June 30, 2022 and 2021, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date. This note is not part of parity debt and is excluded from the debt coverage calculation.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations (continued)

Notes payable – Revenue/Other – DBP (continued)

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$2,921,430. Proceeds were used to defray the costs of installing and implementing an Advanced Meter Reading Infrastructure. The note bears interest at a rate of 1.00% per annum. Principal and interest of \$40,337 are payable quarterly beginning April 1, 2016 through January 1, 2036. The loan had a balance of \$2,070,344 and \$2,210,113 at June 30, 2022 and 2021, respectively.

On August 23, 2017, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$1,287,051 which were used to defray the cost of certain improvements to its wastewater system consisting of (i) pump station construction and upgrades; and (ii) installation of related improvements and appurtenances. The note bore interest at a rate of 1.90% per annum. Eighty quarterly principal and interest payments of \$19,376 were payable beginning March 1, 2018. The loan had a balance of \$1,151,558 at June 30, 2020. This note was currently refunded by the issuance of the Series 2020B revenue refunding bonds on November 2, 2020, and the remaining balance of \$1,137,652 was paid in full.

Notes payable – General Obligation - DBP

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 were payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2020 amounted to \$239,494. This note was currently refunded by the issuance of the Series 2020 GO refunding bonds on November 2, 2020, and the remaining balance of \$233,203 was paid in full.

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, 2020 amounted to \$1,362,390. This note was currently refunded by the issuance of the Series 2020 GO refunding bonds on November 2, 2020, and the remaining balance of \$1,324,703 was paid in full.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations (continued)

Notes payable – General Obligation – DBP (continued)

On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$3,451,303. Proceeds were used to defray the cost of expanding the existing Reverse Osmosis Treatment Facility, installing an additional booster pump station, and relocating a major water line within the district. The note bore interest at a rate of 2.00% per annum. Five quarterly principal and interest payments of \$56,989 were due beginning May 1, 2015, one quarterly principal and interest payment of \$29,753 was due on August 1, 2016, and seventy-four quarterly principal and interest payments of \$52,450 were due beginning on November 1, 2016. The balance outstanding at June 30, 2020 was \$2,674,099. This note was currently refunded by the issuance of the Series 2020 GO refunding bonds on November 2, 2020, and the remaining balance of \$2,595,745 was paid in full.

Bonds payable – Revenue – PT

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds were to be used to defray the costs of system improvements. Interest on the bonds was payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds were due annually beginning December 1, 2011 through December 1, 2029. On September 3, 2015, sixty-seven percent of outstanding balance of \$2,865,000 of these bonds, \$1,920,000, was refunded through the issuance of Series 2015 A and B revenue bonds. Principal payments on the remaining balance of \$945,000 were due annually beginning on December 1, 2016 through December 1, 2020 and interest payments were payable semi-annually through December 1, 2020. The interest rate on the remaining bonds was 4.00% per annum. The 2010 revenue bonds outstanding at June 30, 2020 amounted to \$175,000.

On November 29, 2012, the District issued \$12,275,000 of series 2012A refunding revenue bonds to take advantage of favorable interest rates. The proceeds were used 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 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 until the debt was called or defeased. The 2012A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. At June 30, 2020, the outstanding balance of the 2012A defeased bonds was \$0 as all of the bonds had been called. 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 was amortizing the deferred amount on early retirement of \$1,240,395 as a deferred outflow of resources over the 8.33 year remaining life of the refunded bonds. The unamortized balance at June 30, 2020 was \$111,634. Interest on the bonds was payable semi-annually at interest rates of between 0.542% and 2.839% per annum. Principal payments were due annually on August 1st of each year beginning in 2013 and continuing through 2024. The 2012A revenue bonds outstanding amounted to \$4,095,000 at June 30, 2020. These bonds were advance refunded through the issuance of the Series 2020C revenue refunding bonds on November 2, 2020.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations (continued)

Bonds payable – Revenue – PT (continued)

On November 29, 2012, the District issued \$815,000 of series 2012B revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2012B bond bore interest at a rate of 2.15% per annum. Interest only payments were due semi-annually from February 1, 2013 through August 1, 2024. The principal balance was due in full on August 1, 2024. The 2012B revenue bonds outstanding amounted to \$815,000 at June 30, 2020. These bonds were advance refunded through the issuance of the Series 2020C revenue refunding bonds on November 2, 2020.

Bonds payable - Revenue – DBP

On April 23, 2014, the District issued \$282,294 of Series 2014A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds were an obligation of the District, bore interest at the rate of 3.42% and were payable in annual principal and interest payments of \$24,371 through April 2029. The bonds are to be repaid by annual assessments to the owners in the areas that were connected over a 20-year period which will be collected by the county treasurer. The 2014A revenue bonds outstanding amounted to \$186,093 at June 30, 2020. These bonds were currently refunded by the issuance of the Series 2020B revenue refunding bonds on November 2, 2020 and the remaining balance of \$186,092 was paid in full.

On September 3, 2015, the District issued \$19,846,000 of Series A refunding revenue bonds as bank loans to take advantage of favorable interest rates. Proceeds were used to advance refund \$15,725,000 of the series 2006 refunding revenue bonds, \$241,168 of 2009A revenue bonds, \$104,168 of series 2010A revenue bonds, \$205,000 of series 2010B revenue bonds, and \$3,807,737 of series 2011B revenue bonds. 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 until the debt was called or defeased. The 2015A advance refunding met the requirements of an in-substance debt defeasance; accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2020, all of the debt defeased by the series 2015A bonds had been called except for the Series 2010B, which has an outstanding balance of \$205,000 which was called December 1, 2020. As a result of the advance refunding, the District reduced its total debt service requirements by \$1,814,453, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,718,876. The District was amortizing the deferred amount on early retirement of \$866,883 as a deferred outflow of resources over the 9.75 year life of the refunded bonds. The unamortized balance at June 30, 2020 was \$437,146. The series 2015A bonds bore interest at a rate of 1.93% per annum and principal and interest payments were due semi-annually beginning in December 2015 and continuing until June 2025. The 2015A revenue bonds outstanding amounted to \$11,470,000 at June 30, 2020. The Series 2015A bonds were currently refunded through the issuance of the Series 2020B revenue refunding bonds on November 2, 2020 and the remaining balance of \$11,470,000 was paid in full.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations (continued)

Bonds payable – Revenue – DBP (continued)

On September 3, 2015, the District issued \$2,721,000 of Series B refunding revenue bonds as bank loans to take advantage of favorable interest rates. Proceeds were used to advance refunded \$646,524 of series 2007 revenue bonds, \$1,715,000 of series 2010B revenue bonds, and \$302,444 of series 2011 revenue bonds. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015B advance refunding met the requirements of an in-substance debt defeasance; accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2020, all of the debt defeased by the series 2015B bonds had been called except for the Series 2010B, which has an outstanding balance of \$1,715,000 which was called December 1, 2020. As a result of the advance refunding, the District reduced its total debt service requirements by \$336,864, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$298,448. The District was amortizing the deferred amount on early retirement of \$266,044 as a deferred outflow of resources over the 14.25 year life of the refunded bonds. The unamortized balance at June 30, 2020 was \$175,808. The series 2015B bonds bore interest at a rate of 2.29% per annum and principal and interest payments were due semi-annually beginning in December 2015 and continuing until December 2029. The 2015B revenue bonds outstanding amounted to \$2,310,000 at June 30, 2020. The Series 2015B bonds were currently refunded through the issuance of the Series 2020B revenue refunding bonds on November 2, 2020 and the remaining balance of \$2,310,000 was paid in full.

On August 21, 2017, the District issued \$515,000 of Series 2017A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. Interest on the bonds is payable semi-annually at 2.69% per annum. Principal payments are due annually on June 1st of each year beginning in 2018 and continuing through 2032. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20-year period and will be collected by the county treasurer. The 2017A revenue bonds outstanding amounted to \$363,422 and \$394,736 at June 30, 2022 and 2021, respectively.

On March 26, 2020, the District issued \$435,000 of Series 2020 revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. Interest on the bonds was payable semi-annually at 2.67% per annum. Principal payments were due annually on June 1st of each year beginning in 2022 and continuing through 2035. The bonds are to be repaid by annual assessments to the owners in the areas that were connected over a 20-year period which will be collected by the county treasurer. The 2020 revenue bonds outstanding amounted to \$435,000 at June 30, 2020. These bonds were currently refunded through the issuance of the Series 2020B revenue refunding bonds and the remaining balance of \$435,000 was paid in full.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations (continued)

Bonds payable – Revenue – DBP (continued)

On November 2, 2020, the District issued \$14,925,000 of Series 2020B revenue refunding bonds as a bank loan to take advantage of favorable interest rates and to restructure the payback period to reduce near term revenue debt service requirements. Proceeds were used to currently refund the 2017 SRF loan, the Series 2014A revenue bonds, the 2015A revenue refunding bonds, the 2015B revenue refunding bonds, and the Series 2020 revenue bonds. Proceeds in the amount of \$14,822,366 along with \$1,267,584 of the District's accrued debt service funds were used to pay the principal, accrued interest, and redemption premiums due on the refunded issuances as of November 2, 2020. The remaining proceeds were used to pay issuance costs. The refunding transaction resulted in a deferred amount on the refunding of \$1,001,304, which was recorded as a deferred outflow of resources and is being amortized over the 4.58 remaining life of the old bonds. The unamortized balance at June 30, 2022 and 2021 was \$637,194 and \$855,660, respectively. As a result of the refunding, the District increased its total debt service requirements by \$590,721, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$108,592. Interest on the bonds is payable semi-annually at 1.21% per annum. Principal payments are due annually on June 1st of each year beginning in 2021 and continuing through 2030. The Series 2020B revenue refunding bonds outstanding amounted to \$13,720,000 and \$14,925,000 at June 30, 2022 and 2021, respectively.

On November 2, 2020, the District issued \$4,170,000 of Series 2020C revenue refunding bonds as a bank loan to take advantage of favorable interest rates and to restructure the payback period to reduce near term revenue debt service requirements. Proceeds were used to advance refund the Series 2012A revenue refunding bonds and the Series 2012B revenue bonds. Proceeds in the amount of \$4,137,349 along with \$28,001 of the District's accrued debt service funds were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues until the debt is called or defeased. The remaining proceeds were used to pay issuance costs. The 2015A advance refunding met the requirements of an in-substance debt defeasance; accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2022 and 2021, the outstanding balance of the 2012A defeased bonds was \$2,975,000 and \$2,985,000, respectively, and the outstanding balance of the 2012B defeased bonds was \$815,000 for both years. The refunding transaction resulted in a deferred amount on the refunding of \$401,233, which was recorded as a deferred outflow of resources and is being amortized over the 3.75 remaining life of the old bonds. The unamortized balance at June 30, 2022 and 2021 was \$222,907 and \$329,903, respectively. As a result of the refunding, the District increased its total debt service requirements by \$101,037, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$134,165. Interest on the bonds is payable semi-annually at 0.94% per annum. Principal payments are due annually on June 1st of each year beginning in 2021 and continuing through 2025. The Series 2020C revenue refunding bonds outstanding amounted to \$2,520,000 and \$3,340,000 at June 30, 2022 and 2021, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 8 – Long-term obligations (continued)

Bonds payable – General Obligation – PT

On October 3, 2007, the District issued \$7,350,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. Interest on the bonds was 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 were due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$3,360,000 at June 30, 2020. These bonds were currently refunded by the issuance of the Series 2020 GO refunding bonds on November 2, 2020 and the remaining balance of \$3,360,000 was paid in full.

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds was 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 were due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$2,150,000 at June 30, 2020. These bonds were currently refunded by the issuance of the Series 2020 GO refunding bonds on November 2, 2020 and the remaining balance of \$2,150,000 was paid in full.

Bonds payable – General Obligation – DBP

In July 2009, the District issued \$1,781,694 of general obligation bonds as a bank loan. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bore 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 were payable on March 1st of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$577,937 at June 30, 2020. These bonds were currently refunded by the issuance of the Series 2020 GO refunding bonds on November 2, 2020 and the remaining balance of \$577,937 was paid in full.

On November 2, 2020, the District issued \$9,910,000 of general obligation refunding bonds as a bank loan to take advantage of favorable interest rates. Proceeds were used to refund the 2008 SIRF GO loan, the 2008 SRF GO loan, the 2014 SRF GO loan, the 2007 GO bonds, the 2009 GO bonds, and the 2010 GO bonds. Proceeds in the amount of \$9,836,204 along with \$467,616 of the District's accrued debt service funds were used to pay the principal, accrued interest, and redemption premiums due on the refunded issuances as of November 2, 2020. The remaining proceeds were used to pay issuance costs. The refunding transaction resulted in a deferred amount on the refunding of (\$37,319), which was deemed immaterial to amortize and was recorded as a reduction of bond defeasance amortization expense for the year ended June 30, 2021. As a result of the refunding, the District reduced its total debt service requirements by \$837,279, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$658,550. Interest on the bonds is payable semi-annually at 1.25% per annum. Principal payments are due annually on May 1st of each year beginning in 2021 and continuing through 2028. The 2020 general obligation bonds outstanding amounted to \$7,295,000 and \$8,630,000 at June 30, 2022 and 2021, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 8 - Long-term obligations (continued)

Bond discount and premium

The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two maturities of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. Sixty-seven percent of the unamortized portion of the premium and discount was written off as a part of deferred outflows of debt refunding when sixty-seven percent of the bonds were refunded in September 2015. The 2010 general obligation bonds included two maturities of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The unamortized portion of all of these discounts and premiums were written off as a part of the deferred outflows of debt refunding when the bonds were refunded in November 2020. The net unamortized bond premium at June 30, 2020 was \$46,210, which was included as a direct deduction from bonds payable, net of current portion on the statements of net position. Bond discount and premium amortization totaled \$3,111 for the year ended June 30, 2021, and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

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

Year Ended June 30,	Direct Borrowing/Placement		Finance Purchase		Total
	Principal	Interest	Principal	Interest	
2023	\$ 3,611,268	\$ 310,838	\$ 36,005	\$ 3,653	\$ 3,961,764
2024	3,680,611	268,741	36,005	3,653	3,989,010
2025	3,517,928	225,705	80,921	2,962	3,827,516
2026	3,565,289	184,727	-	-	3,750,016
2027	3,642,685	140,851	-	-	3,783,536
2028 - 2032	7,365,802	210,482	-	-	7,576,284
2033 - 2036	593,122	11,932	-	-	605,054
Grand Total	<u>\$ 25,976,705</u>	<u>\$ 1,353,276</u>	<u>\$ 152,931</u>	<u>\$ 10,268</u>	<u>\$ 27,493,180</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 9 – Non-current liabilities

The non-current liability activity during fiscal years 2022 and 2021 was as follows:

	June 30, 2021	Additions	Reductions	June 30, 2022	Amounts due within one year
Revenue bonds - DBP	18,659,736	-	(2,056,314)	16,603,422	2,077,157
GO bonds - DBP	8,630,000	-	(1,335,000)	7,295,000	1,385,000
Notes payable - Revenue/other - DBP	2,236,052	-	(157,769)	2,078,283	149,111
Finance Purchase	188,937	-	(36,006)	152,931	36,005
Net pension liability	5,454,096	-	(686,128)	4,767,968	-
Subtotal	\$ 35,168,821	\$ -	\$ (4,271,217)	\$ 30,897,604	\$ 3,647,273
Less current portion	(3,585,088)			(3,647,273)	
Noncurrent liabilities	<u>\$ 31,583,733</u>			<u>\$ 27,250,331</u>	

	June 30, 2020	Additions	Reductions	June 30, 2021	Amounts due within one year
Revenue bonds - PT	\$ 5,085,000	\$ -	\$ (5,085,000)	\$ -	\$ -
Revenue bonds - DBP	14,826,323	19,095,000	(15,261,587)	18,659,736	2,056,314
GO bonds -PT	5,510,000	-	(5,510,000)	-	-
GO bonds - DBP	577,937	9,910,000	(1,857,937)	8,630,000	1,335,000
Notes payable - GO debt - DBP	4,275,983	-	(4,275,983)	-	-
Notes payable - Revenue/other - DBP	3,543,989	-	(1,307,937)	2,236,052	157,769
Bond discount/premium	46,210	-	(46,210)	-	-
Finance Purchase	-	200,031	(11,094)	188,937	36,005
Net pension liability	5,180,120	273,976	-	5,454,096	-
Subtotal	\$ 39,045,562	\$ 29,479,007	\$ (33,355,748)	\$ 35,168,821	\$ 3,585,088
Less current portion	(4,749,533)			(3,585,088)	
Noncurrent liabilities	<u>\$ 34,296,029</u>			<u>\$ 31,583,733</u>	

Note 10 - Economic dependence

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 11 - Lease arrangements

The District leases space on its water tower facilities to various cellular phone companies for attachment of antennae with agreements ranging from one years to ten years with interest rates between 3% and 5%. The District recognized \$590,318 and \$553,434 of revenue for the years ended June 30, 2022 and 2021, respectively, including lease revenue of \$571,437 and \$537,442, respectively, and interest revenue of \$18,881 and 15,992, respectively.

The District is also currently renting office space and land use to third parties. These agreements have clauses that allow either party to cancel without cause with less than a year's notice. Rental income in connection with these arrangements was \$83,965 and \$78,156 for the years ended June 30, 2022 and 2021, respectively.

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

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; job related injuries or illnesses to employees; natural disasters and employee health and accident. To insure against casualty risks the Authority is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments in South Carolina.

The District acquires insurance from the State Accident Fund for job related injury and illness (Workers' Compensation) to its employees. Workers' Compensation is insured under a retrospectively rated policy where premiums paid are estimated throughout the year and adjusted subsequent to the policy period based on actual experience. Medical insurance coverage, encompassing health, dental, life and other medical benefits to employees and their dependents, was obtained via the State's group insurance program. There were no significant reductions in insurance coverage from the previous year and no settlements have exceeded insurance coverage for the fiscal years ended June 30, 2022 and 2021.

During 2022 and 2021, the District did not experience any material uninsured claims. Accordingly, there was no liability or expense recorded for other actual claims and management does not believe any provision for unasserted claims is necessary.

During the year ended June 30, 2022 and 2021, \$125,561 and \$13,633, respectively, was received for non-disaster related insurance recoveries of which \$125,561, and \$651, respectively, were offset against the related repair expense. The remaining \$12,982 for the year ended June 30, 2021 is included in disaster and insurance recovery income on the statement of revenues, expenses, and changes in net position as the related repairs were not completed during the fiscal year.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 12 – Risk Management, disaster recovery, and insurance recoveries (continued)

On September 4, 2020, Hurricane Dorian impacted Beaufort County. Hilton Head Island received tropical storm wind gusts of 67 mph. There were no damages to insured assets. The District was approved for and received \$32,987 of federal FEMA and SC Emergency Management Division assistance for expenses that were not directly identifiable such as administrative and maintenance payroll related to storm preparation and claim administration as well as per diem payments for usage of District equipment in preparation efforts. For the year ended June 30, 2022 and 2021, \$7,854 and \$1,571, respectively, has been included in disaster and insurance recovery income on the statement of revenues, expenses, and changes in net position related to this event.

On March 27, 2020, the Governor of South Carolina declared a state of emergency related to the COVID-19 Pandemic. During the year ended June 30, 2021, the District received FEMA assistance in the amount of \$13,850 and CARES act funding of \$16,425 for emergency protective costs including building disinfection and personal protective equipment related to the COVID-19 pandemic which have been included in disaster and insurance recovery income on the statement of revenues, expenses, and changes in net position.

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 year June 30, 2015, the District signed its current agreement with Beaufort-Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum of 1 million gallons of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$1,050,834 and \$903,497 for the years ended June 30, 2022 and 2021, respectively, of which \$254,677 and \$249,583, respectively, were injected into the ASR system. Water withdrawn from the ASR system totaled \$235,113 and \$245,771 for the years ended June 30, 2022 and 2021, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 13 - Construction and development commitments (continued)

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 \$494,675 and \$0 and payments of capacity fees totaling \$1,396,743 and \$905,787 were collected during the fiscal years ended June 30, 2022 and 2021, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District; these contributions totaled \$450,805 for the year ended June 30, 2022 and are included as part of developer contributions of systems. In 2022, the District entered into an agreement with the Town of Hilton Head Island whereby the Town will reimburse the District one-half of the cost of installing new fire hydrants, up to \$50,000 per year. Reimbursements of \$43,870 were received under this agreement during the year ended June 30, 2022 and are included as part of the developer contributions of systems.

Construction commitments

The District had no outstanding construction contract commitments at June 30, 2022 or 2021.

Note 14 - Deferred compensation plans

Section 457/401(k) Plan

In April 2004, the District reactivated its Internal Revenue Code Section 457 retirement plan. All persons employed by the District on March 31, 2004 became eligible employees. In May 2012, the District also adopted a 401(k) Plan option. Under the Plan, all participants may make an elective deferral up to 100% of their annual compensation subject to 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, 2022 and 2021 were \$130,226 and \$130,293, respectively. The matching contribution for the years ended June 30, 2022 and 2021 was \$8,902 and \$11,009, respectively. Participants are immediately vested in all contributions and earnings thereon.

South Carolina Retirement System

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

General Information about the Pension Plan

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 14 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

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

Benefits Provided. Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions. Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 14 - Deferred compensation plans (Continued)

General Information about the Pension Plan - Contributions (Continued)

Additionally, the Board is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

Required employee contribution rates for the years ended June 30, 2022 and 2021 were 9.00%. Required employer contribution rates for the years ended June 30, 2022 and 2021 were 16.41% and 15.41%, respectively. The District does not participate in the incidental death benefit program. The District's required contribution for the years ended June 30, 2022 and 2021 was \$424,042 and \$387,521, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

Net Pension Liability

At June 30, 2022 and 2021, the District reported a liability of \$4,767,968 and \$5,454,096, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020 rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2021, using generally accepted actuarial principles. There was no legislation enacted during the 2021 legislative session that had a material change in the benefit provisions for the SCRS. In FY 2021, the Board adopted updated demographic assumptions. Also, the General Assembly permitted the investment return assumption at July 1, 2021 to decrease from 7.25% to 7.00% as provided by Section 9-16-335 in South Carolina State Code. The District's proportion of the net pension liability was based on a projection of the District's contributions for the year ended June 30, 2021 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2021. At June 30, 2022 and 2021, the District's proportion was 0.022 percent and 0.0213 percent, respectively.

Deferred Outflows/Inflows of Resources

For the year ended June 30, 2022, the District recognized pension expense of \$290,852. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 14 - Deferred compensation plans (Continued)

Deferred Outflows/Inflows of Resources (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 81,217	\$ 6,435
Net difference between projected and actual earnings on pension plan investments	-	692,610
Changes in proportion and differences between proportionate share of contributions	163,982	155,130
Assumption changes	260,983	-
District contributions subsequent to the measurement date	424,042	-
Total	\$ 930,224	\$ 854,175

For the year ended June 30, 2021, the District recognized pension expense of \$613,324. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 62,933	\$ 20,624
Net difference between projected and actual earnings on pension plan investments	401,194	-
Changes in proportion and differences between proportionate share of contributions	97,357	306,076
Assumption changes	6,682	-
District contributions subsequent to the measurement date	387,521	-
Total	\$ 955,687	\$ 326,700

The \$424,042 and \$387,521 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2022 and 2021, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2023 and 2022, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 14 - Deferred compensation plans (Continued)

Deferred Outflows/Inflows of Resources (continued)

As of June 30, 2022			As of June 30, 2021		
Year ended June 30,	Deferred Outflows (Inflows) of Resources		Year ended June 30,	Deferred Outflows (Inflows) of Resources	
2023	\$ (22,116)		2022	\$ (16,914)	
2024	\$ (44,063)		2023	\$ 89,181	
2025	\$ (22,648)		2024	\$ 66,822	
2026	\$ (259,166)		2025	\$ 102,377	
2027	\$ -		2026	\$ -	
Thereafter	\$ -		Thereafter	\$ -	

Actuarial Assumptions

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

The total pension liability as of June 30, 2021 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020. Assumptions used in the determination of the June 30, 2021, total pension liability are as follows:

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 14 - Deferred compensation plans (Continued)

Long-term Expected Rate of Return

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

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2021 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

<u>Allocation/Exposure</u>	<u>Policy Target</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Public Equity ¹	46.0%	6.87%	3.16%
Bonds	26.0%	0.27%	0.07%
Private Equity ^{1,2}	9.0%	9.68%	0.87%
Private Debt ²	7.0%	5.47%	0.38%
Real Assets	12.0%		
Real Estate ²	9.0%	6.01%	0.54%
Infrastructure ²	3.0%	5.08%	0.15%
Total Expected Return ³	100.0%		5.18%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			<u>7.43%</u>

¹ The target weight to Private Equity will be equal to its actual weight, reported by the custodial bank, as of prior month end. When flows have occurred, flow adjusted weights are used to more accurately reflect the impact of the asset class weight. Private Equity and Public Equity combine for 55 percent of entire portfolio.

² Staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

³ Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 20% of total assets.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 14 - Deferred compensation plans (Continued)

Discount Rate

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

Sensitivity Analysis

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

	As of June 30, 2022			As of June 30, 2021		
	1% Decrease (6.0)%	Current Discount Rate (7.0)%	1% Increase (8.0)%	1% Decrease (6.25)%	Current Discount Rate (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension liability	<u>\$ 6,245,444</u>	<u>\$ 4,767,968</u>	<u>\$ 3,539,879</u>	<u>\$ 6,525,865</u>	<u>\$ 5,454,096</u>	<u>\$ 4,057,015</u>

Pension plan fiduciary net position

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

Payable to Plan

The District reported a payable of a \$53,906 and \$44,478 to PEBA as of June 30, 2022 and 2021, respectively, representing required employer and employee contributions for the month of June 2022 and 2021, respectively, for the SCRS. These amounts are included in Other Accrued Liabilities in the statements of net position and were paid in July 2022 and 2021, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

Note 15 - Net position

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

	As of June 30,	
	2022	2021
Net investment in capital assets		
Net property, plant and equipment in service	67,919,475	71,081,589
Less: Debt as disclosed in Notes 7 & 8	(26,129,636)	(29,714,724)
Deferred amount on refunding, net	860,101	1,185,563
Accounts payable for capital assets	(47,379)	(94,881)
	42,602,561	42,457,547
Restricted for debt service	887,721	680,403
Unrestricted	11,242,183	8,578,182
Total net position	\$ 54,732,465	\$ 51,716,132

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of the District's South Carolina Retirement System Contributions
For the fiscal year ended June 30, 2022⁵ - Last ten years**

	<i>South Carolina Retirement System</i>									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 424,042	\$ 387,521	\$ 370,538	\$ 352,212	\$ 307,158	\$ 272,562	\$ 222,257	\$ 239,148	\$ 230,376	\$ 222,013
Contributions in relation to the contractually required contribution	424,042	387,521	370,538	352,212	307,158	272,562	222,257	239,148	230,376	222,013
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Hilton Head No. 1 PSD's covered payroll	\$ 2,584,048	\$ 2,514,738	\$ 2,404,535	\$ 2,444,222	\$ 2,290,514	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558	\$ 2,124,527
Contributions as a percentage of covered payroll	16.41%	15.41%	15.41%	14.41%	13.41%	11.41%	10.91%	10.75%	10.45%	10.45%

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

**Schedule of the District's Proportionate Share of the Net Pension Liability
For the fiscal year ended June 30, 2022 - Last ten years***

	<i>South Carolina Retirement System</i>									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Measurement date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	
Hilton Head No. 1 PSD's proportion of the net pension liability	0.022032%	0.021345%	0.022686%	0.021859%	0.023369%	0.020752%	0.023400%	0.023939%	0.023939%	
Hilton Head No. 1 PSD's proportionate share of the net pension liability	\$ 4,767,968	\$ 5,454,096	\$ 5,180,120	\$ 4,897,854	\$ 5,260,737	\$ 4,432,597	\$ 4,437,923	\$ 4,121,502	\$ 4,063,319	
Hilton Head No. 1 PSD's covered payroll	\$ 2,514,738	\$ 2,404,535	\$ 2,444,222	\$ 2,290,514	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558	\$ 2,124,527	
Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered payroll during the measurement period	189.60101%	226.82539%	211.93329%	213.83209%	220.22491%	217.58429%	199.49048%	186.95367%	191.25758%	
Plan fiduciary net position as a percentage of the total pension liability	60.70000%	50.70000%	54.40000%	54.10000%	53.30000%	52.90000%	57.00000%	59.90000%	53.38821%	

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

⁵ GASB 68 was implemented for fiscal year 2015 and 2014.

SUPPLEMENTAL FINANCIAL INFORMATION

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Budgetary Comparison Schedule FOR THE YEAR ENDING JUNE 30, 2022

	Fiscal Year 2022		FY 22 Actual to FY 22 Budget Comparison	
	Actual	Budget	Dollars	%
	Favorable (Unfavorable)			
Operating Revenues				
Water Service	\$ 7,817,334	\$ 7,640,000	\$ 177,334	2.3%
Sewer Service	6,013,685	5,780,000	233,685	4.0%
Tap In Fees - Water	214,342	181,500	32,842	18.1%
Connection Fees - Sewer	216,469	150,000	66,469	44.3%
Golf Course Irrigation	155,994	150,000	5,994	4.0%
Availability Fees	27,279	-	27,279	100.0%
Disaster recovery, net	7,854	-	7,854	100.0%
Service Fees	26,118	30,000	(3,882)	-12.9%
Other Operating Revenues	51,992	45,000	6,992	15.5%
Total Operating Revenues	14,531,067	13,976,500	554,567	4.0%
Departmental Expenses				
Payroll & Related	3,952,377	4,370,800	418,423	9.6%
Administrative Expenses	1,026,137	1,130,800	104,663	9.3%
Operations	2,865,270	2,663,820	(201,450)	-7.6%
Maintenance	1,529,491	1,515,900	(13,591)	-0.9%
Purchased Water	1,031,270	888,800	(142,470)	-16.0%
Water Tap In Expenses	166,639	136,100	(30,539)	-22.4%
Sewer Connection Expenses	198,236	140,000	(58,236)	-41.6%
Professional Fees	248,636	253,600	4,964	2.0%
Total Departmental Expenses	11,018,056	11,099,820	81,764	0.7%
Depreciation	5,142,783	5,200,000	57,217	1.1%
Total Operating Expenses	16,160,839	16,299,820	138,981	0.9%
Operating income (loss)	(1,629,772)	(2,323,320)	693,548	29.9%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,522,142	1,445,000	77,142	5.3%
Property taxes-Operations Levy	1,086,204	1,040,000	46,204	4.4%
Tower Lease Income	571,437	560,000	11,437	2.0%
Rental Income	83,965	82,500	1,465	1.8%
Interest Income - Leases	18,881	-	18,881	100.0%
Interest Income	109,605	94,000	15,605	16.6%
Gain (Loss) of disposal of equipment	38,540	30,000	8,540	0.0%
Total Non-operating Revenues	3,430,774	3,251,500	179,274	5.5%
Non-operating Expenses				
Interest expense	350,625	354,380	3,755	1.1%
Bond Defeasance Amortization	325,462	325,500	38	0.0%
Bond Issuance Costs	-	-	-	0.0%
Total Non-operating Expenses	676,087	679,880	3,793	0.6%
Total Non-operating Revenues/Exp.	2,754,687	2,571,620	183,067	7.1%
Increase (decrease) in net position, before capital contributions	1,124,915	248,300	876,615	353.0%
Water Capacity Fee	551,444	110,000	441,444	401.3%
Sewer Capacity Fee	845,299	152,000	693,299	456.1%
Developer Contributions of Systems	494,675	-	494,675	100.0%
Total Capital Contributions	1,891,418	262,000	1,629,418	621.9%
Change in net position	\$ 3,016,333	\$ 510,300	\$ 2,506,033	491.1%
Net position, beginning of the fiscal year	\$ 51,716,132			
Net position, June 30, 2022	\$ 54,732,465			

Notes to Budgetary Comparison Schedule

Budgetary Highlights

Operating Revenues: Actual operating revenues are \$14,531,067 versus budgeted operating revenues of \$13,976,500 which results in a variance of \$554,567 or 4.0% above budget.

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

- Water Service revenues are above budget by \$177,334 or 2.3% and Sewer Service revenues are above budget by \$233,685 or 4.0%.⁷ This is due to customer growth as well as higher consumption than budgeted. Consumption was budgeted at the rolling 12-month average at the time of budget preparation which was around 2 billion gallons. Actual billed consumption was 2.087 billion gallons which was slightly lower than the actual 2.088 billion gallons billed during FY 21.
- Water Tap In Fees and Sewer Connection Fees are over budget due to continued growth. These are offset by higher Water Tap In Expenses and Sewer Connection Expenses in the departmental expense section.

Total Operating Expenses: Total operating expenses excluding depreciation are \$81,764 or 0.7% under budget. The following is a summary of selected material variances for the Operating Expenses categories:

- Payroll & Related expenses are under budget by \$418,423 or 9.6% due to timing of filling vacancies as well as reorganization of staff responsibilities. Additionally, this includes a \$133,190 non-cash adjustment to reduce pension expense down to the actuarially determined amount in accordance with GASB Net Pension Liability standards.
- Administrative Expenses are under budget by \$104,663 or 9.3% partially due to lower insurance expense than expected due to savings identified during the insurance appraisal conducted last year and the annual coverage review. Additionally, there was lower bad debt expense due to increased communications with non-payors and lower computer and office supplies than anticipated.
- Operations Expenses are over budget by \$201,450 or 7.6% mainly due to inflationary increases particularly in bio-solids disposal, chemicals, and vehicle fuel.
- Purchased Water is over budget by \$142,470 or 16.0%. More water was purchased early in the year due to membrane maintenance and replacement work at the RO plant and billed consumption later in the second through fourth quarters was higher than the same time period of the previous year.

⁶ In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for the District's quarterly and annual reports. Water and Sewer Service variances are typically discussed regardless of their variances given that they are the two main drivers for the District's overall revenue.

⁷ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore, sewer service revenues are not as positively, or negatively, affected by higher, or lower, water consumption compared to water service revenues.

Non-Operating Revenues: Actual non-operating revenues are \$3,430,774 versus budgeted non-operating revenues of \$3,251,500 which results in a variance of \$179,274 or 5.5% over budget mainly related to higher tax collections by Beaufort County to date than anticipated. Additionally, interest income began to pick up in the fourth quarter of FY 22.

Capital Contributions: Water and sewer capacity fees are over budget due to continued growth and receipt of several larger private developer project payments. During FY 2022, \$494,675 of developer contributions of systems were recorded related to the Gardner Drive apartments project and the Town's 50% share of the new hydrants placed on Evelina Road and Orage Lane as a part of the joint hydrant program.

The change in net position for the period was \$3,016,333 which was \$2,506,033 higher than the budgeted change in net position of \$510,300 due to growth fueled revenues and savings in payroll and administrative expenses which were offset by inflationary increases.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Summary Schedule of Debt

JUNE 30, 2022

Description	Rate	6/30/2020	Addition	Reduction	6/30/2021	Addition	Reduction	6/30/2022	Current
Revenue Bonds - PT									
Series 2010B	2% to 4%	\$ 175,000	\$ -	\$ (175,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2012 A	0.542% to 2.839%	4,095,000	-	(4,095,000)	-	-	-	-	-
Series 2012 B	2.15%	815,000	-	(815,000)	-	-	-	-	-
Total Revenue Bonds - PT		5,085,000	-	(5,085,000)	-	-	-	-	-
Revenue Bonds - DBP									
Series 2014A	3.42%	186,093	-	(186,093)	-	-	-	-	-
Series 2015A	1.93%	11,470,000	-	(11,470,000)	-	-	-	-	-
Series 2015B	2.29%	2,310,000	-	(2,310,000)	-	-	-	-	-
Series 2017A	2.69%	425,230	-	(30,494)	394,736	-	(31,314)	363,422	32,157
Series 2020	2.67%	435,000	-	(435,000)	-	-	-	-	-
Series 2020B	1.21%	-	14,925,000	-	14,925,000	-	(1,205,000)	13,720,000	1,215,000
Series 2020C	0.94%	-	4,170,000	(830,000)	3,340,000	-	(820,000)	2,520,000	830,000
Total Revenue Bonds - DBP		14,826,323	19,095,000	(15,261,587)	18,659,736	-	(2,056,314)	16,603,422	2,077,157
Notes Payable - Revenue/Other - DBP									
SCJEDA - Notes Payable	0.00%	43,939	-	(18,000)	25,939	-	(18,000)	7,939	7,939
SIRF Series 2014 Revenue Bonds	1.00%	2,348,492	-	(138,379)	2,210,113	-	(139,769)	2,070,344	141,172
SIRF Series 2017B Revenue Bonds	1.90%	1,151,558	-	(1,151,558)	-	-	-	-	-
Total Notes Payable - Revenue/Other		3,543,989	-	(1,307,937)	2,236,052	-	(157,769)	2,078,283	149,111
Total Revenue /Other Debt		23,455,312			20,895,788			18,681,705	
General Obligation Bonds - PT									
Series 2007	4.00% to 4.50%	3,360,000	-	(3,360,000)	-	-	-	-	-
Series 2010	2.00% to 3.375%	2,150,000	-	(2,150,000)	-	-	-	-	-
Total General Obligation Bonds - PT		5,510,000	-	(5,510,000)	-	-	-	-	-
General Obligation Bonds - DBP									
Series 2009	4.219%	577,937	-	(577,937)	-	-	-	-	-
Series 2020	1.25%	-	9,910,000	(1,280,000)	8,630,000	-	(1,335,000)	7,295,000	1,385,000
Total General Obligation Bonds - PT		577,937	9,910,000	(1,857,937)	8,630,000	-	(1,335,000)	7,295,000	1,385,000
Notes Payable - GO Debt - DBP									
SRF - Series 2007 GO Bonds	3.94%	1,362,390	-	(1,362,390)	-	-	-	-	-
SIRF Series 2007 GO Bonds	3.50%	239,494	-	(239,494)	-	-	-	-	-
SRF - Series 2014 GO Bonds	2.00%	2,674,099	-	(2,674,099)	-	-	-	-	-
Total Notes Payable - GO Debt - DBP		4,275,983	-	(4,275,983)	-	-	-	-	-
Total GO Debt		10,363,921			8,630,000			7,295,000	
Finance Purchase Liabilities									
	Various	-	200,031	(11,094)	188,937	-	(36,006)	152,931	36,005
Total Long-Term Debt Liability		33,819,232	19,295,031	(32,029,538)	29,714,725	-	(3,585,089)	26,129,636	3,647,273
Less current portion		(4,749,533)			(3,585,088)			(3,647,273)	
Bond discount/premium, net of amortization		46,210			-			-	
Total Long Term Debt		\$ 29,115,909			\$ 26,129,637			\$ 22,482,363	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Schedule of Bond & Note Principal and Interest Payments

JUNE 30, 2022

For the Year ending June 30,	\$515,000 Revenue Bond 2017 A Dated August 21, 2017		\$14,925,000 Revenue Bond 2020 B Dated November 2, 2020		\$4,170,000 Revenue Bond 2020 C Dated November 2, 2020		\$9,910,000 GO Bond Dated November 2, 2020		BOND TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
	2023	9,776	32,157	166,012	1,215,000	23,688	830,000	91,187	1,385,000	290,663	3,462,157
2024	8,911	33,022	151,311	1,225,000	15,886	840,000	73,875	1,440,000	249,983	3,538,022	3,788,005
2025	8,025	33,908	136,488	1,245,000	7,990	850,000	55,875	1,245,000	208,378	3,373,908	3,582,286
2026	7,110	34,823	121,423	2,085,000	-	-	40,313	1,300,000	168,846	3,419,823	3,588,669
2027	6,174	35,759	96,194	2,105,000	-	-	24,062	1,355,000	126,430	3,495,759	3,622,189
2028	5,212	36,721	70,725	2,135,000	-	-	7,125	570,000	83,062	2,741,721	2,824,783
2029	4,224	37,709	44,891	1,880,000	-	-	-	-	49,115	1,917,709	1,966,824
2030	3,210	38,723	22,143	1,830,000	-	-	-	-	25,353	1,868,723	1,894,076
2031	2,168	39,765	-	-	-	-	-	-	2,168	39,765	41,933
2032	1,098	40,835	-	-	-	-	-	-	1,098	40,835	41,933
2033	-	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 55,908</u>	<u>\$ 363,422</u>	<u>\$ 809,187</u>	<u>\$ 13,720,000</u>	<u>\$ 47,564</u>	<u>\$ 2,520,000</u>	<u>\$ 292,437</u>	<u>\$ 7,295,000</u>	<u>\$ 1,205,096</u>	<u>\$ 23,898,422</u>	<u>\$ 25,103,518</u>
Current		<u>\$ (32,157)</u>		<u>\$ (1,215,000)</u>		<u>\$ (830,000)</u>		<u>\$ (1,385,000)</u>		<u>\$ (3,462,157)</u>	
Noncurrent		<u>\$ 331,265</u>		<u>\$ 12,505,000</u>		<u>\$ 1,690,000</u>		<u>\$ 5,910,000</u>		<u>\$ 20,436,265</u>	

For the Year ending June 30,	\$530,000 SCJEDA Note Dated November 30, 1988		\$2,921,430 SRF Revenue Note Dated July 23, 2014		NOTE TOTALS			BOND & NOTE TOTALS		
	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total	Total Interest	Total Principal	Total
	2023	-	7,939	20,175	141,172	20,175	149,111	169,286	310,838	3,611,268
2024	-	-	18,758	142,589	18,758	142,589	161,347	268,741	3,680,611	3,949,352
2025	-	-	17,327	144,020	17,327	144,020	161,347	225,705	3,517,928	3,743,633
2026	-	-	15,881	145,466	15,881	145,466	161,347	184,727	3,565,289	3,750,016
2027	-	-	14,421	146,926	14,421	146,926	161,347	140,851	3,642,685	3,783,536
2028	-	-	12,946	148,401	12,946	148,401	161,347	96,008	2,890,122	2,986,130
2029	-	-	11,457	149,890	11,457	149,890	161,347	60,572	2,067,599	2,128,171
2030	-	-	9,952	151,395	9,952	151,395	161,347	35,305	2,020,118	2,055,423
2031	-	-	8,433	152,914	8,433	152,914	161,347	10,601	192,679	203,280
2032	-	-	6,898	154,449	6,898	154,449	161,347	7,996	195,284	203,280
2033	-	-	5,347	156,000	5,347	156,000	161,347	5,347	156,000	161,347
2034	-	-	3,782	157,566	3,782	157,566	161,348	3,782	157,566	161,348
2035	-	-	2,200	159,147	2,200	159,147	161,347	2,200	159,147	161,347
2036	-	-	603	120,409	603	120,409	121,012	603	120,409	121,012
	<u>\$ -</u>	<u>\$ 7,939</u>	<u>\$ 148,180</u>	<u>\$ 2,070,344</u>	<u>\$ 148,180</u>	<u>\$ 2,078,283</u>	<u>\$ 2,226,463</u>	<u>\$ 1,353,276</u>	<u>\$ 25,976,705</u>	<u>\$ 27,329,981</u>
Current		<u>\$ (7,939)</u>		<u>\$ (141,172)</u>		<u>\$ (149,111)</u>			<u>\$ (3,611,268)</u>	
Noncurrent		<u>\$ -</u>		<u>\$ 1,929,172</u>		<u>\$ 1,929,172</u>			<u>\$ 22,365,437</u>	

STATISTICAL SECTION

Statistical Section

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

Statistical Section Table of Contents

	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and position have changed over time</i>	75-78
Revenue Capacity <i>These schedules contain information identifying the factors affecting the District's ability to generate revenue</i>	79-84
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future</i>	85-89
Demographic and Economic Information <i>These schedules offer demographic and economic indicators showing the environment in which the District operates</i>	90-91
Other Operational and Capital Information <i>These schedules contain operational, capital, and service information to convey how the District's financial reports relate to its service</i>	92-95

Financial Trends

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

Last Ten Fiscal Years

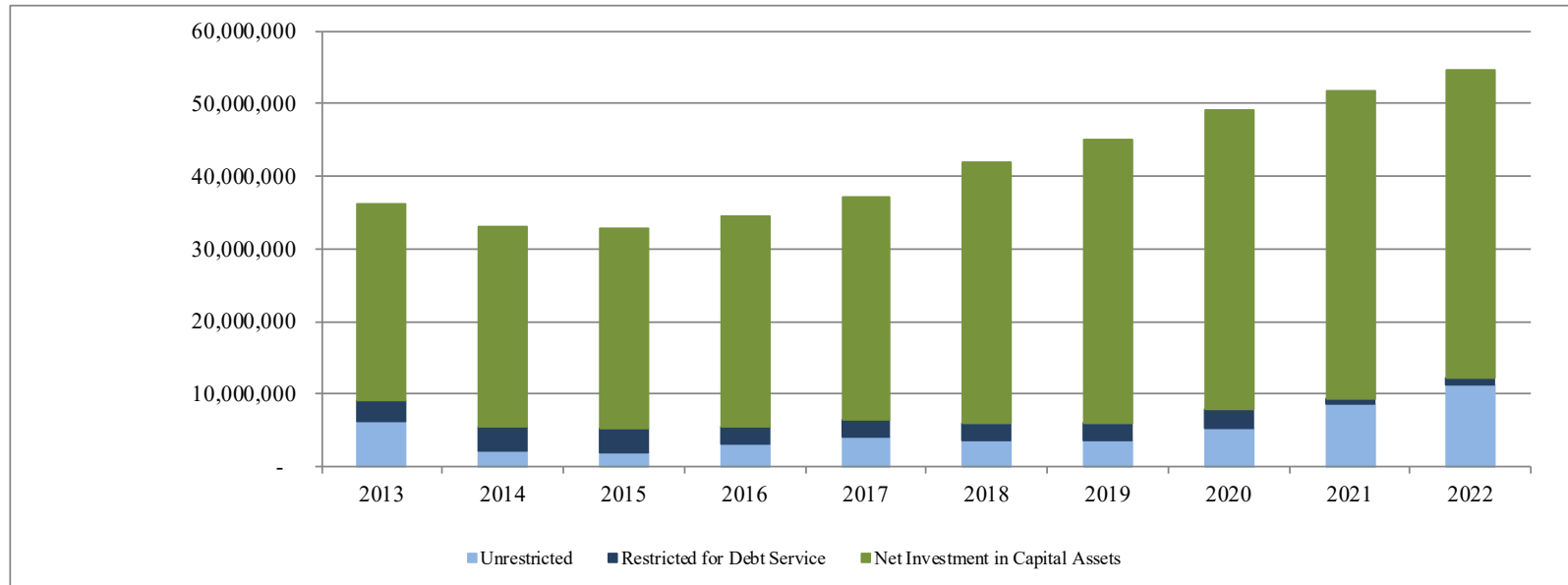
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating Revenues										
Water Service	\$5,951,546	\$5,777,606	\$5,727,692	\$6,009,410	\$6,680,175	\$6,586,002	\$7,148,606	\$7,735,802	\$7,746,340	\$7,817,334
Sewer Service	4,623,093	4,736,919	4,838,019	5,056,081	5,143,168	5,226,965	5,408,090	5,719,313	5,852,395	6,013,685
Water Tap In Fees	61,925	124,837	106,202	96,427	137,423	213,517	180,487	240,179	247,227	214,342
Sewer Connection Fees	109,475	117,505	84,543	109,984	219,483	229,355	278,737	242,418	212,488	216,469
Availability Fees	623,076	597,582	565,423	525,302	506,930	491,474	38,391	23,015	14,662	26,118
Service Fees	36,645	44,174	42,646	39,113	29,105	34,059	182,516	155,676	207,233	155,994
Golf Course Irrigation	319,041	297,609	204,934	164,344	284,937	175,015	445,190	452,602	420,187	27,279
Disaster Recovery, net	-	-	-	-	58,691	115,466	3,942	86,502	44,828	7,854
Other Operating Revenues	14,727	17,771	21,264	284,775	28,676	53,566	48,281	91,432	265,862	51,992
Total Operating Revenues	\$11,739,528	\$11,714,004	\$11,590,723	\$12,285,435	\$13,088,589	\$13,125,419	\$13,734,240	\$14,746,939	\$15,011,222	\$14,531,067
Operating Expenses										
Payroll and Related Expenses	\$3,474,067	\$3,571,288	\$3,713,013	\$3,294,097	\$3,689,699	\$3,951,862	\$3,889,589	\$4,062,153	\$4,203,335	\$3,952,377
Administrative Expenses	790,873	790,982	797,358	767,276	877,410	961,211	957,919	1,006,662	1,020,574	1,026,137
Operations Expenses	2,341,008	2,320,288	2,248,966	2,308,426	2,509,332	2,570,764	2,500,471	2,608,108	2,657,074	2,865,270
Maintenance Expenses	1,142,520	1,171,750	1,101,389	1,343,199	1,163,384	1,450,531	1,416,172	1,216,813	1,322,787	1,529,491
Water Tap In Expenses	38,250	60,078	90,462	115,995	191,120	216,109	171,891	152,870	171,909	166,639
Sewer Connection Expenses	84,144	85,401	82,353	150,570	174,722	221,696	247,232	215,867	200,934	198,236
Purchased Water	951,201	817,166	987,407	746,550	1,238,997	1,343,588	1,387,939	892,181	899,685	1,031,270
Professional Fees	265,786	237,182	305,698	229,387	99,701	146,084	127,011	342,116	203,678	248,636
Depreciation	4,557,446	4,481,885	4,485,346	4,482,776	4,576,123	4,733,613	4,946,397	5,044,727	5,188,028	5,142,783
Total Operating Expenses	\$13,645,295	\$13,536,020	\$13,811,992	\$13,438,276	\$14,520,488	\$15,595,458	\$15,644,621	\$15,541,497	\$15,868,004	\$16,160,839
Operating Income (Loss)	(1,905,767)	(1,822,017)	(2,221,269)	(1,152,841)	(1,431,899)	(2,470,040)	(1,910,381)	(794,558)	(856,782)	(1,629,772)
Non-Operating Revenues (Expenses)										
Property Taxes-Debt Service	\$1,195,990	\$1,167,016	\$1,391,881	\$1,396,680	\$1,403,497	\$1,441,325	\$1,371,933	\$1,414,091	\$1,499,844	\$1,522,142
Property Taxes-Operations Levy	1,016,558	901,453	913,931	931,507	973,607	984,296	1,011,176	1,034,553	1,071,896	\$1,086,204
Interest Income	168,990	142,313	132,549	92,713	99,041	108,346	156,389	184,093	102,306	\$109,605
Interest Income - Leases	-	-	-	-	-	-	-	-	15,992	\$18,881
Tower Leases	506,687	531,703	508,185	471,540	531,964	462,986	485,678	625,067	537,442	\$571,437
Rental Income	79,640	80,096	80,579	78,552	79,115	79,068	79,757	79,758	78,156	\$83,965
Gain (Loss) on Disposal	-	-	-	1,500,000	3,500	95,716	15,000	-	2,500	38,540
Bond Issuance Costs	(226,335)	(38,685)	(67,329)	(119,950)	-	(69,609)	-	(42,056)	(225,650)	-
Amortization of Bond Costs	(216,004)	(223,222)	(223,222)	(243,693)	(256,428)	(256,428)	(256,428)	(256,428)	(265,132)	(325,462)
Interest Expense	(1,842,617)	(1,661,902)	(1,613,384)	(1,230,078)	(1,091,811)	(1,030,789)	(941,525)	(841,047)	(511,229)	(350,625)
Total Non-Operating Income (Loss)	\$682,909	\$898,772	\$1,123,190	\$1,378,770	\$1,742,486	\$1,814,909	\$1,921,980	\$2,198,031	\$2,306,125	\$2,754,687
Net Income (loss) before Capital per Financial Statements	(\$1,222,858)	(\$923,245)	(\$1,098,079)	\$225,930	\$310,587	(\$655,130)	\$11,599	\$1,403,473	\$1,449,343	\$1,124,915
Capacity Fees	79,240	477,179	631,652	585,744	565,093	565,672	878,264	864,478	1,157,787	1,396,743
Add: Depreciation	4,557,446	4,481,885	4,485,346	4,482,776	4,576,123	4,733,613	4,946,397	5,044,727	5,188,028	5,142,783
Net Pension Expense	-	-	288,870	298,810	251,759	514,614	382,374	560,016	613,324	290,852
SCRS Retirement Contributions	-	-	(241,688)	(222,257)	(272,562)	(307,158)	(352,212)	(367,120)	(387,521)	(424,042)
Amortization	169,938	223,222	223,222	243,693	247,787	256,428	256,428	256,428	265,132	325,462
Bond Issuance Costs	226,335	38,685	67,329	119,950	-	69,609	-	42,056	225,650	-
Interest Expense (Bonds)	1,842,617	1,661,902	1,613,384	1,230,078	1,100,452	1,030,789	941,525	841,047	509,935	347,001
Assessments - Debt Service	415,758	382,702	486,300	452,658	157,973	190,300	190,184	188,409	200,485	209,221
Less: Property Taxes - Debt Service	(1,195,990)	(1,167,016)	(1,391,881)	(1,396,680)	(1,403,497)	(1,441,325)	(1,371,933)	(1,414,091)	(1,499,844)	(1,522,142)
Net Earnings Available for Debt Service	\$4,872,486	\$5,175,314	\$5,064,454	\$6,020,702	\$5,533,715	\$4,957,413	\$5,882,626	\$7,419,423	\$7,722,320	\$6,890,792
Debt Service on Revenue Bonds	\$4,037,286	\$3,504,185	\$3,987,537	\$3,441,323	\$3,923,462	\$4,008,312	\$4,040,662	\$4,048,243	\$2,686,001	\$2,440,269
Required per Bond Covenants (120%)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Coverage of Debt Service by Net	121%	148%	127%	175%	141%	124%	146%	183%	288%	282%
Debt Coverage without Capacity Fees	119%	134%	111%	158%	127%	110%	124%	162%	244%	225%

⁸ Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. 2021 and onward reflect implementation of GASB 87.

Schedule of Changes in Net Position⁹

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating Income (Loss from operations)	\$ (1,905,767)	\$ (1,822,017)	\$ (2,221,269)	\$ (1,152,841)	\$ (1,431,899)	\$ (2,470,040)	\$ (1,910,381)	\$ (794,558)	\$ (856,782)	\$ (1,629,772)
Total Non-Operating Income (Loss)	682,909	898,772	1,123,190	1,378,770	1,742,486	1,814,909	1,921,980	2,198,031	2,306,125	2,754,687
Capital Contributions and Assessments	553,337	1,905,385	894,531	1,404,843	2,334,412	5,452,120	3,213,568	2,528,490	1,157,787	1,891,418
Changes in net position	(669,521)	982,140	(203,548)	1,630,773	2,644,999	4,796,990	3,225,167	3,931,963	2,607,130	3,016,333
Effect of prior period adjustments on net position										
Cumulative adjustment - adoption of GASB Statement No. 68		(4,063,319)								
Cumulative adjustment - adoption of GASB Statement No. 65										
Net position at beginning of year, as previously reported		36,163,836								
Net position at beginning of year, as restated	36,833,357	32,100,517	33,082,658	32,879,110	34,509,882	37,154,881	41,951,871	45,177,039	49,109,002	51,716,132
Net position at end of year	\$ 36,163,836	\$ 33,082,658	\$ 32,879,110	\$ 34,509,882	\$ 37,154,881	\$ 41,951,871	\$ 45,177,039	\$ 49,109,002	\$ 51,716,132	\$ 54,732,465

Net Position at End of Year



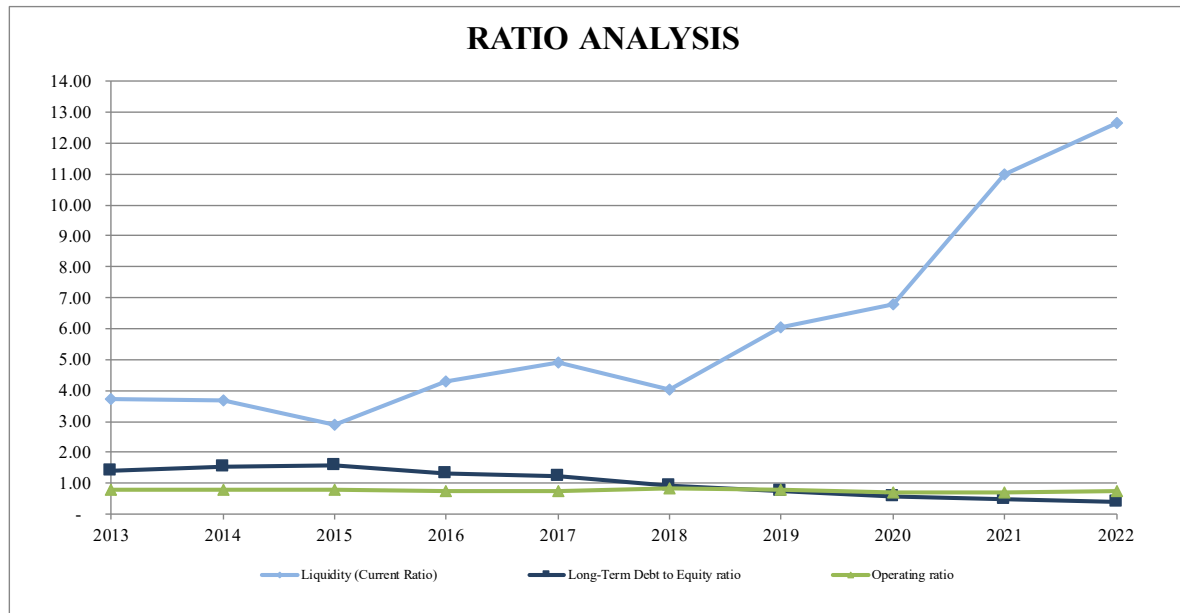
⁹ Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. 2021 and onward reflect implementation of GASB 87.

Net Position by Component¹⁰

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net position										
Net investment in capital assets	\$27,016,214	\$27,495,374	\$27,588,236	\$28,981,560	\$30,631,424	\$36,023,464	\$39,248,405	\$41,211,563	\$42,457,546	\$42,602,561
Restricted for debt service	2,885,019	3,377,968	3,426,103	2,482,528	2,406,220	2,425,274	2,412,700	2,570,882	680,403	887,721
Unrestricted	<u>6,262,603</u>	<u>2,209,315</u>	<u>1,864,770</u>	<u>3,045,794</u>	<u>4,117,237</u>	<u>3,503,133</u>	<u>3,515,934</u>	<u>5,326,557</u>	<u>8,578,183</u>	<u>11,242,183</u>
Net position	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,110</u>	<u>\$34,509,882</u>	<u>\$37,154,881</u>	<u>\$41,951,871</u>	<u>\$45,177,039</u>	<u>\$49,109,002</u>	<u>\$51,716,132</u>	<u>\$54,732,465</u>

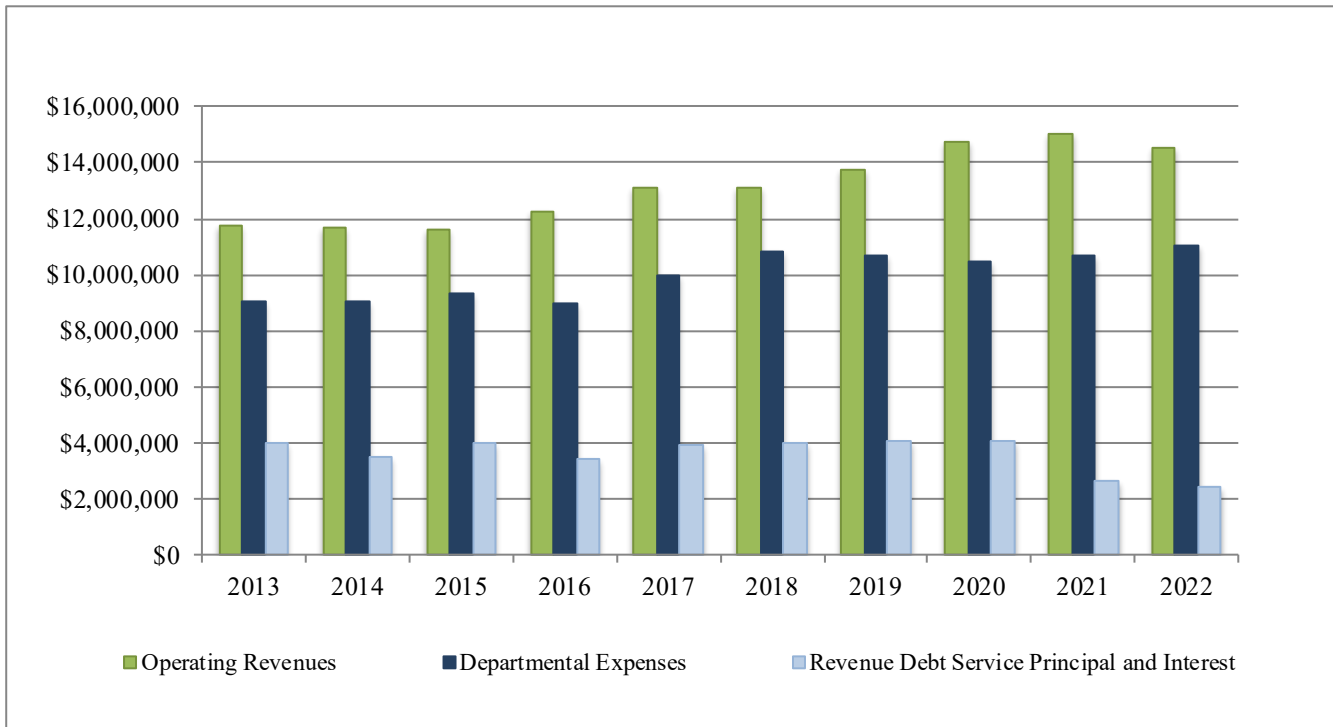
Ratio Analysis

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Liquidity (Current Ratio)	3.72	3.69	2.88	4.30	4.89	4.05	6.05	6.79	10.97	12.65
Long-Term Debt to Equity ratio	1.39	1.55	1.59	1.31	1.22	0.90	0.74	0.59	0.51	0.41
Operating ratio	0.77	0.77	0.80	0.73	0.76	0.83	0.78	0.71	0.71	0.76



¹⁰ Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. Fiscal years 2021 and onward reflect implementation of GASB 87.

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



Revenue Capacity

Customer Statistics at Fiscal Year-End¹¹

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

Year	Water	Percent Increase	Wastewater	Percent Increase	Ratio of Customers with Both Services
2013	16,540	0.6%	15,260	1.0%	92.26%
2014	16,705	1.0%	15,486	1.5%	92.70%
2015	16,867	1.0%	15,633	0.9%	92.68%
2016	16,899	0.2%	15,758	0.8%	93.25%
2017	17,076	1.0%	15,961	1.3%	93.47%
2018	17,345	1.6%	16,258	1.9%	93.73%
2019	17,503	0.9%	16,473	1.3%	94.12%
2020	17,693	1.1%	16,693	1.3%	94.35%
2021	18,033	1.9%	17,075	2.3%	94.69%
2022	18,424	2.2%	17,566	2.9%	95.34%

Water & Irrigation Customer Statistics at Fiscal Year-End

Water & Irrigation Customer Growth at Fiscal Year-end

Year	Residential	Master Metered Residential	Commercial	Total	Percent Increase
2013	10,679	4,850	2,071	17,600	0.60%
2014	10,846	4,850	2,078	17,774	0.99%
2015	10,997	4,851	2,041	17,889	0.65%
2016	11,060	4,907	2,009	17,976	0.49%
2017	11,226	4,907	2,022	18,155	1.00%
2018	11,492	4,907	2,029	18,428	1.50%
2019	11,627	4,907	2,054	18,588	0.87%
2020	11,812	4,907	2,064	18,783	1.05%
2021	12,186	4,907	2,026	19,119	1.79%
2022	12,073	5,397	2,054	19,524	2.12%

Wastewater Customer Statistics at Fiscal Year-End

Wastewater Customer Growth at Fiscal Year-end

Year	Residential	Master Metered Residential	Commercial	Total	Percent Increase
2013	8,976	4,850	1,434	15,260	1.00%
2014	9,175	4,850	1,461	15,486	1.48%
2015	9,305	4,851	1,477	15,633	0.95%
2016	9,431	4,907	1,420	15,758	0.80%
2017	9,588	4,907	1,466	15,961	1.29%
2018	9,882	4,907	1,469	16,258	1.86%
2019	10,097	4,907	1,469	16,473	1.32%
2020	10,311	4,907	1,475	16,693	1.34%
2021	10,699	4,907	1,469	17,075	2.29%
2022	10,739	5,351	1,476	17,566	2.88%

¹¹ These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

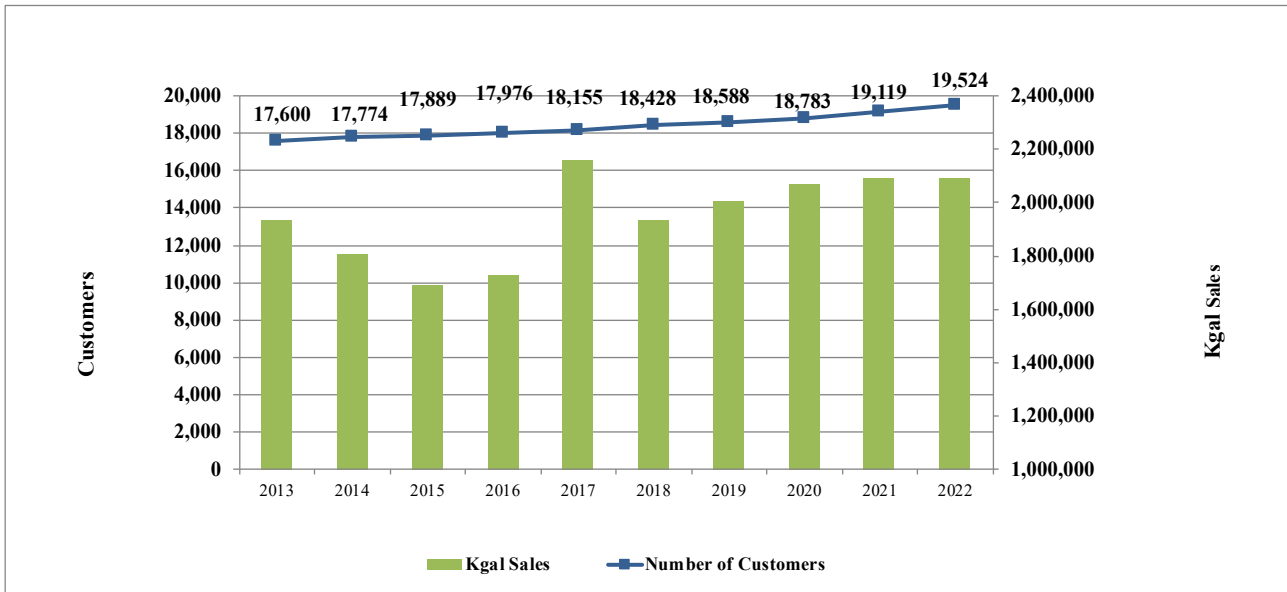
Year	Just Water Meters	Percent Increase	Wastewater	% Inc
2013	1,605,369	-3.1%	1,393,724	-2.2%
2014	1,537,065	-4.3%	1,320,838	-5.2%
2015	1,439,514	-6.3%	1,274,826	-3.5%
2016	1,475,858	2.5%	1,275,251	0.0%
2017	1,819,663	23.3%	1,573,203	23.4%
2018	1,640,939	-9.8%	1,402,469	-10.9%
2019	1,680,080	2.4%	1,474,373	5.1%
2020	1,740,042	3.6%	1,526,212	3.5%
2021	1,789,282	2.8%	1,582,591	3.7%
2022	1,786,118	-0.2%	1,595,976	0.8%

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

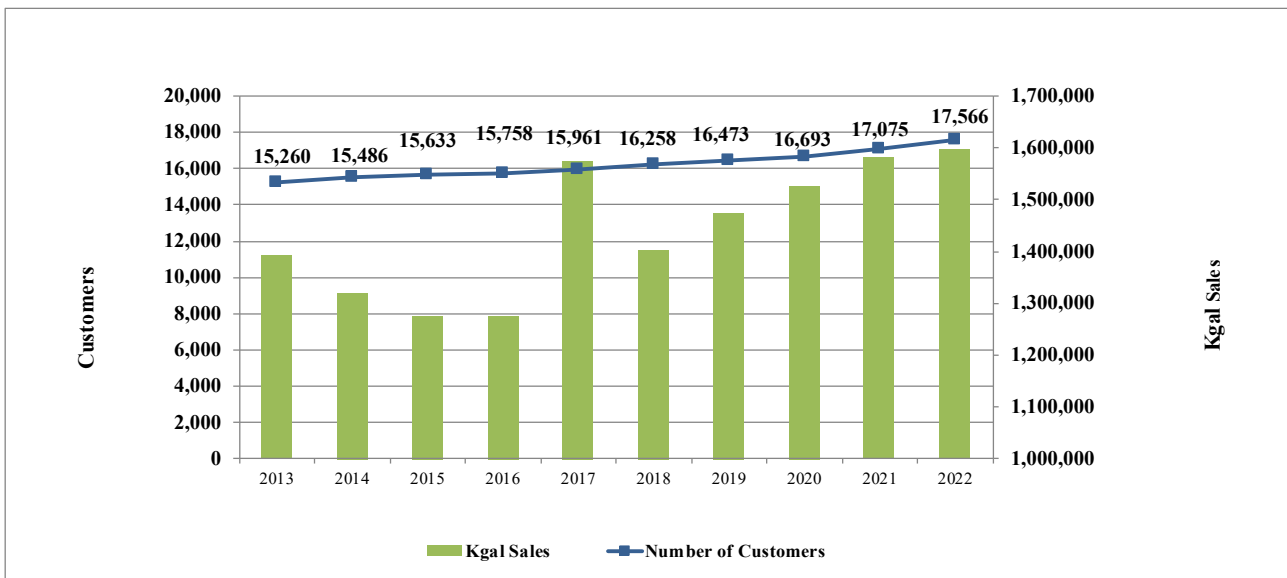
Reported in kgals (thousands of gallons)

Year	Water & Irrigation Meters	Percent Increase	Wastewater	% Inc
2013	1,935,918	-2.6%	1,393,724	-2.2%
2014	1,806,920	-6.7%	1,320,838	-5.2%
2015	1,692,874	-6.3%	1,274,826	-3.5%
2016	1,724,451	1.9%	1,275,251	0.0%
2017	2,159,321	25.2%	1,573,203	23.4%
2018	1,933,031	-10.5%	1,402,469	-10.9%
2019	2,006,513	3.8%	1,474,373	5.1%
2020	2,068,280	3.1%	1,526,212	3.5%
2021	2,087,714	0.9%	1,582,591	3.7%
2022	2,087,003	0.0%	1,595,976	0.8%

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



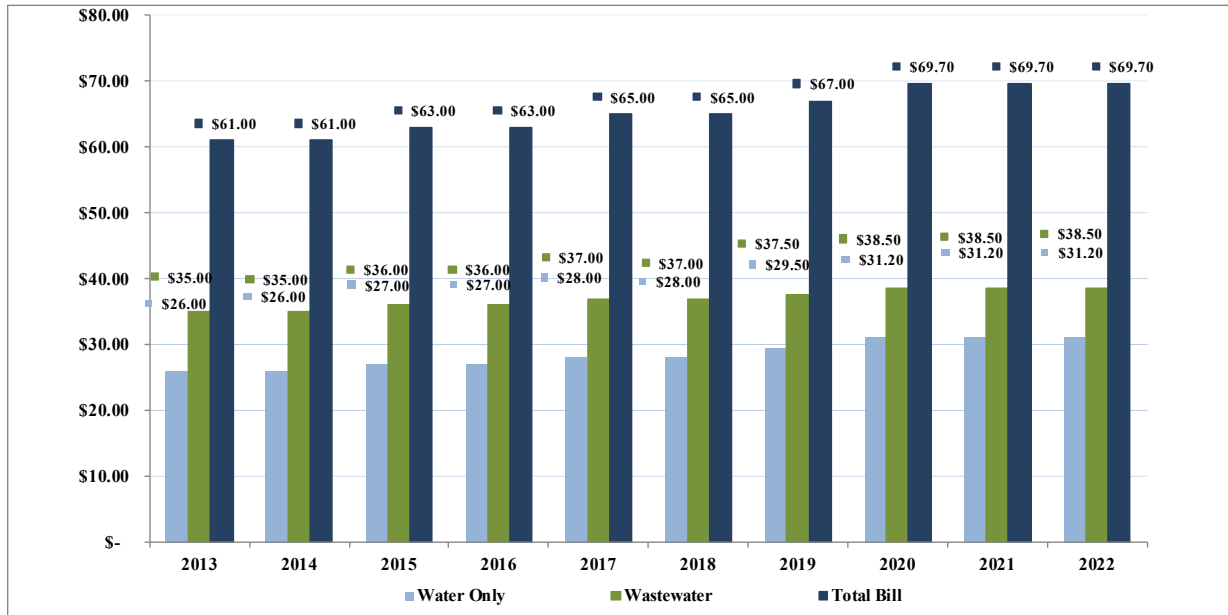
Sewer Customers vs. Wastewater Kgal Sales
Last Ten Fiscal Years



Water and Wastewater Rate Comparisons

Water Rate Comparison											
Effective Date											
		FY'13 (1)	FY'14	FY'15 (2)	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22
Residential Water	Base Charge	\$ 12.00	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00	\$ 14.00	\$ 15.50	\$ 16.50	\$ 16.50	\$ 16.50
	First 10,000 Gallons	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.47	\$ 1.47	\$ 1.47
	Next 10,001 to 20,000 gallons	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82
	Next 20,001 to 30,000 gallons	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.18	\$ 2.27	\$ 2.27	\$ 2.27
	Over 30,000 gallons	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.60	\$ 2.79	\$ 2.79	\$ 2.79
Residential Irrigation	Base Charge	\$ 12.00	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00	\$ 14.00	\$ 15.50	\$ 16.50	\$ 16.50	\$ 16.50
	First 10,000 Gallons Irrigation	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82
	Next 10,001 to 20,000 gallons	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82
	Next 20,001 to 30,000 gallons	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.18	\$ 2.27	\$ 2.27	\$ 2.27
	Over 30,000 gallons	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.60	\$ 2.79	\$ 2.79	\$ 2.79
Commercial Water and Irrigation	Base Charge	\$ 17.00	\$ 17.00	\$ 18.00	\$ 18.00	\$ 19.00	\$ 19.00	\$ 20.50	\$ 21.50	\$ 21.50	\$ 21.50
	First 10,000 Gallons	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
	Next 10,001 to 20,000 gallons	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 2.01	\$ 2.04	\$ 2.04	\$ 2.04
	Next 20,001 to 30,000 gallons	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.52
	Over 30,000 gallons	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.97	\$ 3.07	\$ 3.07	\$ 3.07
(1) Effective January 1, 2011											
(2) Effective January 1, 2013											
(3) Effective January 1, 2015											
Wastewater Rate Comparison											
Effective Date											
		FY'13 (1)	FY'14	FY'15 (2)	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22
Residential	Base Charge	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 17.50	\$ 18.50	\$ 18.50	\$ 18.50
	Per 1,000 gallons with 10 kgal Cap	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Commercial	Base Charge	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 17.50	\$ 18.50	\$ 18.50	\$ 18.50
	Per 1,000 gallons (No Cap)	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
(1) Effective January 1, 2013											
(2) Effective January 1, 2015											

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



Water and Sewer Installation Fees

	2013**	2014	2015	2016	2017	2018	2019	2020	2021	2022
Water meter installation fees (existing service lines)										
3/4" Meter	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640	\$1,020	\$1,020	\$1,020
1" Meter	850	850	850	850	850	850	850	1,280	1,280	1,280
2" Meter with meter box and backflow	2,330	2,330	2,330	2,330	2,330	2,330	2,330	2,720	2,720	2,720
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
Water meter installation fees (no existing service lines)										
3/4" Meter	\$ 1,020	\$ 1,020	\$ 1,020	\$1,020	\$1,020	\$1,020	\$1,020	\$1,210	\$1,210	\$1,210
1" Meter	1,080	1,080	1,080	1,080	1,080	1,080	1,080	1,450	1,450	1,450
2" Meter with meter box and backflow	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M

* T&M equals Time and Materials

** Rate change 7/1/2013

Sewer Installation Fees for fiscal years 2007 through 2016:

A. Sewer Service Installation Fee Individual 4 Inch Lateral: \$1,200

B. Main Extensions, Laterals above 4 Inches, and Mains Greater than 6

Sewer Inspection Fee:

The PSD charges a one-time Sewer Inspection Fee of \$100 to new customers at the time they connect to the sewer system. The fee covers the cost of the PSD inspecting the new connection to make sure it meets PSD requirements.

More information is available at: <http://www.hhpsd.com/about-hhpsd/customer-service/>

Capacity Fees

The District requires developers to pay capacity fees in order to defray the cost of providing expanded service to the area to be developed per residential equivalency unit. The District offers a one-year, interest free, payment plan for all capacity fees. The installments are placed on a customer's utility bill.

Capacity Fee (per unit)

Water Capacity (House)	\$2,400.00
Water Capacity (Mobile Home)	\$1,800.00
Sewer Capacity	\$3,040.00

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

District Top Ten Water/Irrigation Customers

Fiscal year ended June 30, 2022

User Name	Type	2022 Billed Revenues	% of Total 2022 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 223,050	2.85%
Cypress of Hilton Head Association	Residential Homes	144,212	1.84%
Westin Resort	Resort	141,276	1.81%
Hilton Head Resort/Four Seasons	Resort	105,050	1.34%
Marriott Surfwatch	Resort	97,381	1.25%
Marriott Vacation Club	Resort	93,498	1.20%
Fiddler's Cove	Condo Complex	82,967	1.06%
Spa at Port Royal	Resort	78,572	1.01%
Marshside Owner's Association	Apartment Complex	66,683	0.85%
Cotton Hope	Apartment Complex	56,341	0.72%
Remaining Customers		<u>6,728,303</u>	<u>86.07%</u>
		<u>\$ 7,817,334</u>	100.00%

District Top Ten Wastewater Customers

Fiscal year ended June 30, 2022

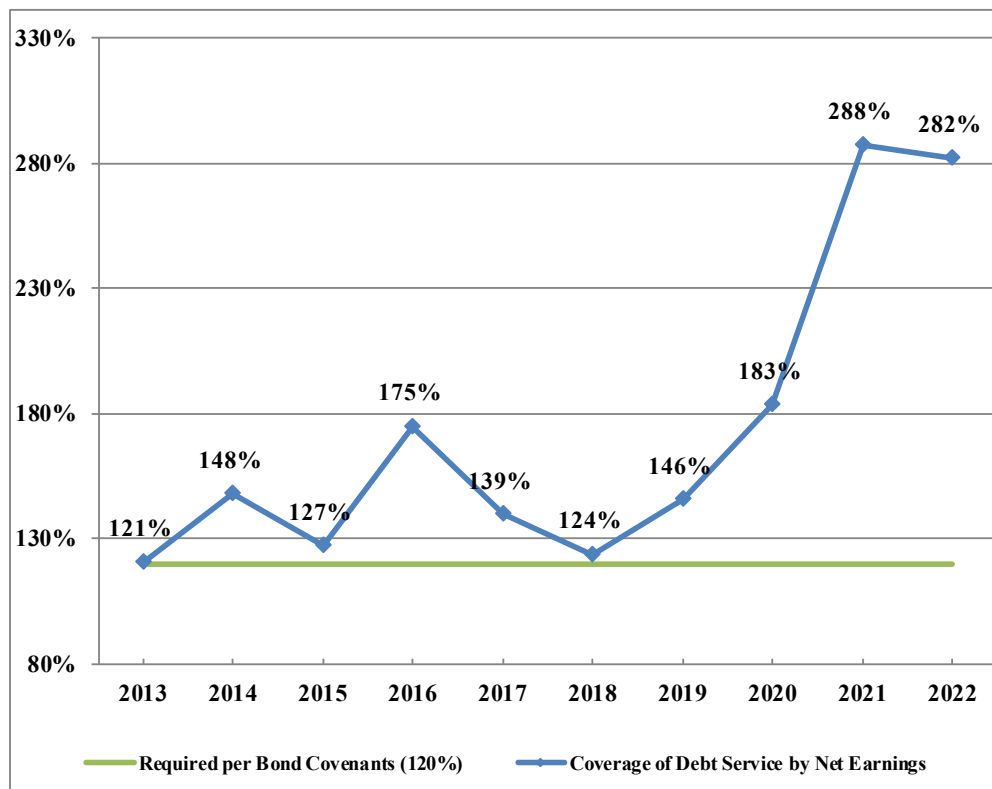
User Name	Type	2022 Billed Revenues	% of Total 2022 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 229,197	3.81%
Westin Resort	Resort	131,769	2.19%
Hilton Head Resort/Four Seasons	Resort	119,263	1.98%
Cypress of Hilton Head Association	Residential Homes	96,980	1.61%
Fiddler's Cove	Condo Complex	92,928	1.55%
Marriott Vacation Club	Resort	84,145	1.40%
Marriott Surfwatch	Resort	81,043	1.35%
Marshside Owner's Association	Apartment Complex	79,163	1.32%
Spa at Port Royal	Resort	75,974	1.26%
Cotton Hope	Apartment Complex	59,481	0.99%
Remaining Customers		<u>4,963,743</u>	<u>82.54%</u>
		<u>\$ 6,013,685</u>	100.00%

Debt Capacity

Total Outstanding Debt by Debt Type

Fiscal Year	GO Bonds	Revenue Bonds	SRF Revenue Loans *	SRF GO Loans	Notes Payable	Finance Purchase Payable	Total Outstanding Debt	Bond Premiums / discounts	Total Outstanding Debt Net of Amortization	Average Debt Per Customer
2013	10,740,609	39,713,937	-	2,731,331	169,939	-	53,355,816	45,050	53,400,866	3,034
2014	10,144,028	37,704,831	-	2,581,424	151,939	-	50,582,222	45,019	50,627,241	2,848
2015	9,528,162	34,677,573	2,563,810	5,015,406	133,939	-	51,918,891	44,988	51,963,879	2,905
2016	8,887,829	31,888,358	2,888,397	5,528,734	115,939	-	49,309,257	80,774	49,390,031	2,748
2017	8,222,841	28,770,617	2,755,436	5,237,548	97,939	-	45,084,381	72,133	45,156,514	2,487
2018	7,533,001	26,078,181	3,769,233	4,924,110	79,939	-	42,384,464	63,492	42,447,956	2,303
2019	6,823,102	22,811,429	3,692,024	4,603,642	61,939	-	37,992,136	54,851	38,046,987	2,047
2020	6,087,937	19,911,323	3,500,050	4,275,983	43,939	-	33,819,232	46,210	33,865,442	1,803
2021	8,630,000	18,659,736	2,210,113	-	25,939	188,937	29,714,725	-	29,714,725	1,554
2022	7,295,000	16,603,422	2,070,344	-	7,939	152,931	26,129,636	-	26,129,636	1,338

Debt Service Coverage Analysis¹²



The District's Millage History

Debt Type	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	<u>3.52</u>	<u>4.61</u>	<u>4.57</u>	<u>4.31</u>	<u>4.40</u>	<u>4.05</u>	<u>4.10</u>	<u>4.20</u>	<u>4.20</u>	<u>4.20</u>
Total	6.52	7.61	7.57	7.31	7.40	7.05	7.10	7.20	7.20	7.20

¹² Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding.

Ratio of (net) General Obligation Bonded Debt

Fiscal Year	Tax Year	General Obligation Debt	Real Property		Motor Vehicle & Other		Total Estimated Appraised Values	Ratio of (net) General bonded debt
			Assessed Taxable Value at 4% & 6%	Estimated Appraised Value	Assessed Value Various Rates	Estimated Appraised Value		
2013	2012	\$ 13,471,940	\$ 310,941,545	\$ 8,175,842,216	\$ 34,838,110	\$ 439,098,920	\$ 8,614,941,136	0.16%
2014	2013	12,725,452	271,113,330	6,240,477,456	34,209,810	443,934,190	6,684,411,646	0.19%
2015	2014	14,543,568	273,689,810	6,292,159,456	37,841,050	486,066,160	6,778,225,616	0.21%
2016	2015	14,416,563	276,766,480	6,374,778,755	40,419,860	527,077,690	6,901,856,445	0.21%
2017	2016	13,460,389	280,372,310	6,463,470,955	46,618,080	578,551,170	7,042,022,125	0.19%
2018	2017	12,457,111	286,061,400	6,593,162,755	47,799,978	597,464,630	7,190,627,385	0.17%
2019	2018	11,426,744	305,078,770	7,236,129,455	47,973,493	587,625,970	7,823,755,425	0.15%
2020	2019	10,363,920	311,484,940	7,345,163,455	42,889,611	547,543,940	7,892,707,395	0.13%
2021	2020	8,630,000	316,904,720	7,456,241,055	44,538,724	559,478,160	8,015,719,215	0.11%
2022	2021	7,295,000	325,289,700	7,639,145,155	43,972,915	560,692,390	8,199,837,545	0.09%

Source: Beaufort County Treasurer.
 (1) The County implemented its county-wide reassessment in tax years 2013 and 2018.

General Obligation Outstanding Debt

Fiscal Year	Tax Year	Taxable Assessed Value of Real Property	Taxable Assessed Value of Personal Property	Total Taxable Assessed Value of the District	8% Debt Limit Value	Total Outstanding GO Debt	Available Debt Limit	Percent of Debt Limit	Average Debt Per Customer	Number of Customers
2013	2012	\$ 310,941,545	\$ 34,838,110	\$ 345,779,655	\$ 27,662,372	\$ 13,471,940	\$ 14,190,432	49%	765	17,600
2014	2013	271,113,330	34,209,810	305,323,140	24,425,851	12,725,452	11,700,399	52%	716	17,774
2015	2014	273,689,810	37,841,050	311,530,860	24,922,469	14,543,568	10,378,900	58%	813	17,889
2016	2015	276,766,480	40,419,860	317,186,340	25,374,907	14,416,563	10,958,344	57%	802	17,976
2017	2016	280,372,310	46,618,080	326,990,390	26,159,231	13,460,389	12,698,842	51%	741	18,155
2018	2017	286,061,400	47,799,978	333,861,378	26,708,910	12,457,111	14,251,799	47%	676	18,428
2019	2018	305,078,770	47,973,493	353,052,263	28,244,181	11,426,744	16,817,437	40%	615	18,588
2020	2019	311,484,940	42,889,611	354,374,551	28,349,964	10,363,920	17,986,044	37%	552	18,783
2021	2020	316,904,720	44,538,724	361,443,444	28,915,476	8,630,000	20,285,476	30%	451	19,119
2022	2021	325,289,700	43,972,915	369,262,615	29,541,009	7,295,000	22,246,009	25%	374	19,524

Source: Beaufort County Treasurer's Office

The above table shows the then outstanding principal, authorized debt limit, available debt limit and other information regarding the District's general obligation indebtedness from FY 2013 through FY 2022.

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 2022, 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 \$369,292,615 and thus the eight percent (8%) debt limit of the District is not less than \$29,541,009. The District presently has the following bonded indebtedness chargeable against this limit:

Originally Issued	Date	Original Amount	Outstanding Balance as of June 30, 2022
Series 2020	November 2, 2020	\$ 9,910,000	\$ 7,295,000

Overlapping Debt

<u>Government Unit</u>	<u>Tax Year 2021 Debt Outstanding</u>	<u>Estimated Percentage Applicable^a</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
Beaufort County School District	\$ 487,466,700	17%	\$ 82,322,335
Beaufort County	186,534,853	17%	31,501,607
Town of Hilton Head	109,554,935	37%	41,066,231
Subtotal, overlapping debt			154,890,173
Hilton Head No.1 PSD direct debt			7,295,000
Total direct and overlapping debt			\$ 162,185,173

Sources: Assessed value data used to estimate applicable percentages provided by the Beaufort County Treasurer'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 District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Hilton Head No.1 Public Service District. This process recognizes that, when considering the District's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident---and, therefore, responsible for repaying the debt---of each overlapping government.

^aFor debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the District's boundaries dividing it by each unit's total taxable assessed value.

Assessed Values of Taxable Property of the District

Fiscal Year	Tax Year	Real Property	Personal Property	Total
2013	2012	\$ 310,941,545	\$ 34,838,110	345,779,655
2014	2013	271,113,330	34,209,810	305,323,140
2015	2014	273,689,810	37,841,050	311,530,860
2016	2015	276,766,480	40,419,860	317,186,340
2017	2016	280,372,310	46,618,080	326,990,390
2018	2017	286,061,400	47,799,978	333,861,378
2019	2018	305,078,770	47,973,493	353,052,263
2020	2019	311,484,940	42,889,611	354,374,551
2021	2020	316,904,720	44,538,724	361,443,444
2022	2021	325,289,700	43,972,915	369,262,615

Source: Beaufort County Treasurer's Office

The County implemented its county-wide reassessment in tax years 2013 and 2018

Tax Year 2021 Market Value for the District

Classification	Assessed Value of Taxable Property	Assessment Ratio	Appraised Value
1. Real Property and Mobile Homes	\$ 155,077,630	4.00%	\$ 4,177,786,400
2. Real Property and Mobile Homes	170,212,070	6.00%	3,461,358,755
3. Business Personal Property	2,962,380	10.50%	27,260,040
4. Merchant's Furniture, Fixtures and Equipment	1,431,152	10.50%	13,591,510
5. Motor Vehicles ⁽¹⁾	22,913,270	Various	358,339,460
6. Marine Equipment ⁽²⁾	1,897,650	Various	28,727,240
7. Airplanes	292,152	4.00%	4,830,990
8. Manufacturing Property	212,690	10.50%	2,025,640
9. Public Utilities	11,544,730	10.50%	109,949,800
10. Rental Property and Signs ⁽³⁾	2,718,891	Various	15,967,710
Total	\$ 369,262,615		\$ 8,199,837,545

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

Source: Beaufort County Treasurer's Office

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

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

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

Tax Collection Record for the District

Fiscal Year	Taxes Subject to Collection	Current Collections	Current % Collected	Delinquent Taxes Collected	Total Collections	Total % Collected
2012-2013	\$ 2,229,530	\$ 2,128,104	95.5%	\$ 90,515	\$ 2,218,619	99.5%
2013-2014	2,082,170	2,011,134	96.6%	62,078	2,073,212	99.6%
2014-2015	2,332,346	2,248,505	96.4%	63,889	2,312,394	99.1%
2015-2016	2,359,833	2,259,929	95.8%	73,254	2,333,183	98.9%
2016-2017	2,347,367	2,253,133	96.0%	65,734	2,318,867	98.8%
2017-2018	2,436,930	2,348,903	96.4%	61,866	2,410,769	98.9%
2018-2019	2,463,280	2,377,954	96.5%	62,786	2,440,740	99.1%
2019-2020	2,497,764	2,403,056	96.2%	69,007	2,472,063	99.0%
2020-2021	2,566,458	2,469,818	96.2%	74,939	2,544,757	99.2%
2021-2022	2,645,453	2,571,183	97.2%	35,099	2,606,282	98.5%

Source: Beaufort County Treasurer's Office

Tax Year 2021 - District Largest Taxpayers

Employer	Type of Business	2021 Assessed Value	2021-22 Amounts Paid
Marriot Ownership Resort Inc	Real Estate	\$ 6,068,280	\$ 1,612,485
Hargray Telephone Company Inc	Utility	4,659,320	1,196,677
Palmetto Electric Cooperative	Utility	4,824,950	1,165,285
SCG Hilton Head Property LLC	Real Estate	4,335,720	1,155,356
Barnwell Family Associates LLC	Real Estate	2,095,470	552,834
Hilton Head Health System LP	Medical	1,847,340	506,277
Bayshore Hilton Head LLC	Medical	1,490,650	402,007
Spectrum Southeast LLC	Utility	1,350,150	347,552
Swope Properties LLC	Real Estate	978,390	300,052
BOKF Real Estate Holding LLC	Real Estate	911,030	270,070

Source: Beaufort County Treasurer's Office.

Demographic and Economic Information
Population per Capita Income

	<i>Hilton Head</i>		<i>Beaufort County</i>		<i>South Carolina</i>	
Year	Population	Per Capita	Population	Per Capita	Population	Per Capita
2012	38,366	\$ 39,703	164,684	\$ 32,891	4,723,723	\$ 24,457
2013	38,375	40,853	168,049	32,725	4,774,839	24,407
2014	40,039	47,049	171,838	32,503	4,832,482	24,936
2015	40,456	46,091	175,852	32,290	4,896,146	25,951
2016	40,512	44,869	179,859	32,401	4,961,119	27,016
2017	40,500	47,454	183,149	33,877	5,024,369	25,521
2018	39,639	50,289	186,844	34,966	5,084,127	27,909
2019	39,861	51,773	188,715	36,306	5,148,714	27,986
2020	37,661	56,942	187,117	38,946	5,118,425	29,426
2021	38,076	60,988	191,748	41,070	5,190,705	30,727

Source: U.S. Census Bureau

Beaufort County Top Employers 2021

Employer	Employees	Type of Business
Beaufort County School District	*	Educational
Beaufort Memorial Hospital	*	Health Services
County of Beaufort	*	Government
Department of Defense	*	Government
Food Lion LLC	*	Grocery
Gregory M Parker Inc.	*	Gas Stations/Convenience Stores
Hargray Communications Group Inc.	*	Telecommunications
HES Facilities LLC	*	Facilities Maintenance
Lowes Home Centers Inc.	*	Home Improvement
Marine Corps Community Services	*	Government
Marriott Resorts Hospitality Corporation	*	Hospitality
Montage Hotels and Resorts LLC	*	Hospitality
Publix Super Markets Inc.	*	Grocery
Sea Pines Resort LLC	*	Hospitality
Sitel Operating Corporation	*	Computer/Telecommunications Support
Tenet Physician Services of Hilton Head	*	Health Services
TG Administration LLC	*	Recreation
The Kroger Company	*	Grocery
University of South Carolina	*	Educational
Wal-Mart Associates Inc.	*	Retail

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

Beaufort County Labor Force and Employment

Category	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Civilian Labor Force	65,919	67,239	69,435	71,661	72,535	74,104	75,517	79,798	77,127	73,502
Employment	60,939	62,946	65,493	67,748	69,081	71,113	73,082	77,165	72,961	70,873
Unemployment	4,980	4,293	3,942	3,913	3,454	2,991	2,435	2,633	4,166	2,629
Unemployment Rate	8.8%	8.8%	7.9%	5.6%	5.0%	4.0%	3.4%	3.3%	5.4%	3.5%

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

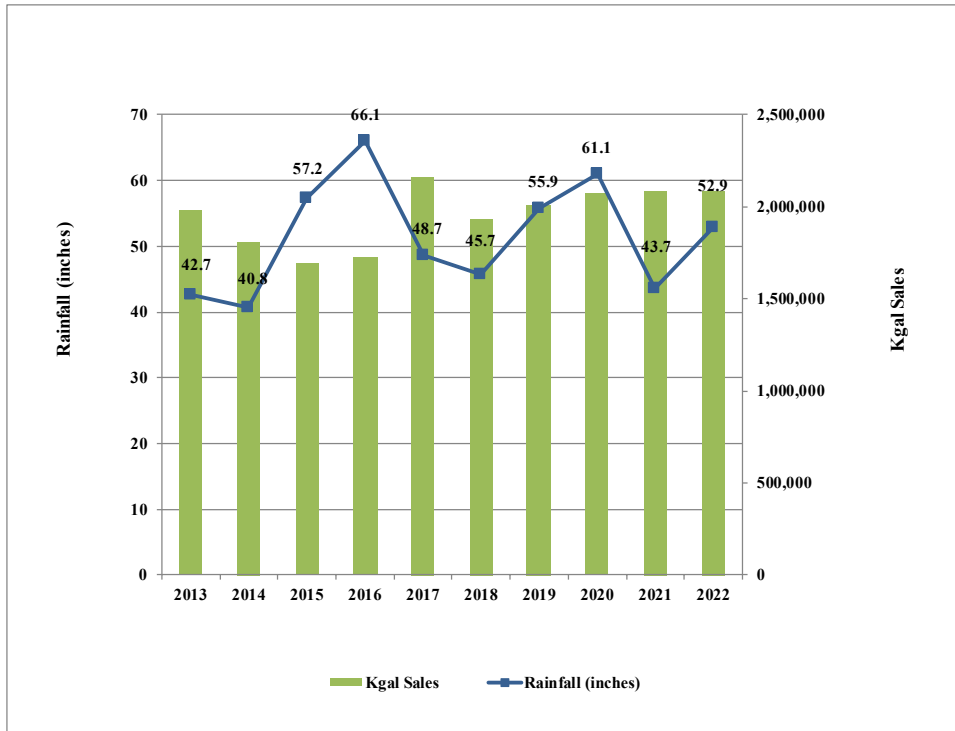
Year	Beaufort County	South Carolina	United States
2012	8.8%	9.2%	8.1%
2013	8.8%	7.6%	7.4%
2014	7.9%	6.5%	6.2%
2015	5.6%	6.0%	5.3%
2016	5.0%	5.0%	4.9%
2017	4.0%	4.3%	4.4%
2018	3.4%	3.4%	3.9%
2019	3.3%	2.9%	3.7%
2020	5.4%	6.2%	8.1%
2021	3.5%	4.0%	5.3%

Source: South Carolina Department of Employment and Workforce.

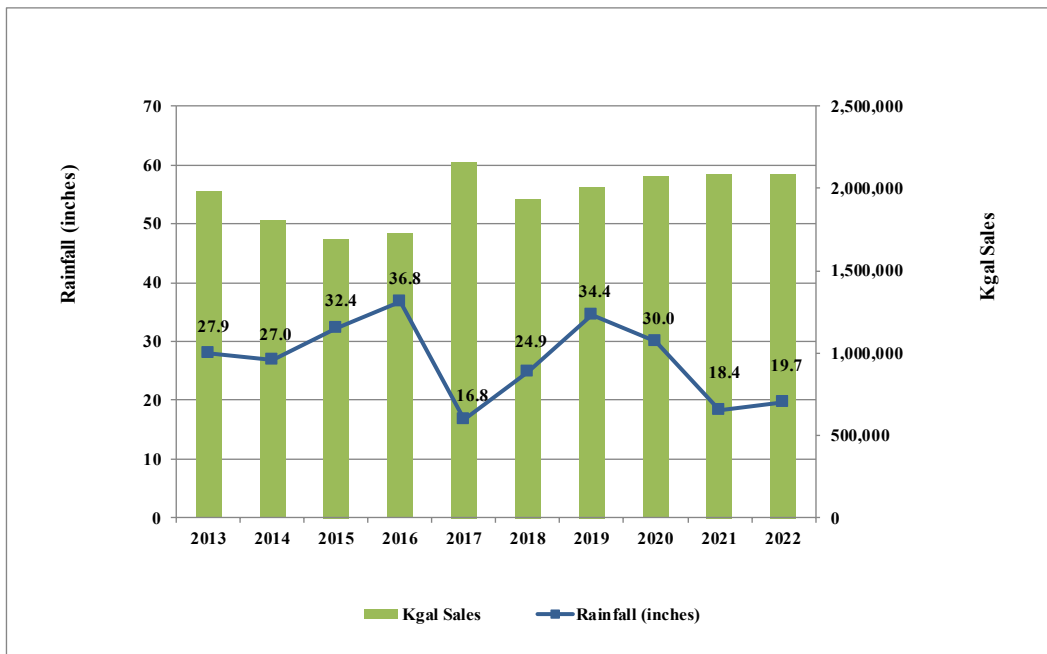
Other Operational and Capital Information
Full Time Equivalent Employees by Function

Fiscal Year	Executive Staff	Finance & Customer Service Staff	Operations Staff	Total
2013	8	10	20	38
2014	8	9	21	38
2015	8	9	20	37
2016	7	9	19	35
2017	6	8	22	36
2018	6	8	22	36
2019	6	8	21	35
2020	5	8	23	36
2021	5	8	24	37
2022	5	9	24	38

Rainfall (inches) vs. Water/Irrigation Kgal Sales¹³



Summer Rainfall (Inches) vs. Water/Irrigation Kgal Sales¹⁴



¹³ Rainfall measurements were recorded at the wastewater treatment plant.

¹⁴ Months included for each year are March through August.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2022</u>
Capital assets not being depreciated:					
Land	\$ 1,299,193	-	-	-	\$ 1,299,193
Construction in Progress	441,126	25,259,201	(131,904)	(25,531,217)	37,206
Total Capital Assets not being depreciated	1,740,319	25,259,201	(131,904)	(25,531,217)	1,336,399
Capital assets being depreciated:					
Waterworks system	55,621,398	2,182,478	(1,799,711)	8,206,670	64,210,835
Sewage disposal system	36,153,741	2,592,358	(767,238)	16,277,307	54,256,168
Buildings	4,299,512	52,038	-	39,579	4,391,129
Sewage treatment facilities	34,711,422	1,732,145	(461,579)	297,772	36,279,760
Transportation equipment	988,429	970,609	(617,882)	-	1,341,156
Operations furniture and equipment	1,742,022	575,581	(591,856)	356,943	2,082,690
Office furniture and equipment	643,679	227,470	(188,248)	-	682,901
Sub Total	134,160,203	8,332,679	(4,426,514)	25,178,271	163,244,639
Less Accumulated depreciation	(57,977,115)	(43,081,677)	4,397,229	-	(96,661,563)
Total capital assets being depreciated, net	76,183,088	(34,748,998)	(29,285)	25,178,271	66,583,076
Year End Totals	<u>\$ 77,923,407</u>	<u>(9,489,797)</u>	<u>(161,189)</u>	<u>(352,946)</u>	<u>\$ 67,919,475</u>

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

Last Ten Fiscal Years

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
PP&E	\$ 135,459,396	\$ 137,039,159	\$ 138,683,537	\$ 146,346,818	\$ 147,901,161	\$ 155,357,839	\$ 156,261,306	\$ 161,887,889	\$ 162,767,990	\$ 164,543,832
Accumulated Depreciation	(57,977,115)	(62,222,569)	(65,972,348)	(70,288,692)	(74,619,859)	(78,115,155)	(82,552,877)	(87,488,189)	(91,731,711)	(96,661,563)
Net PP&E in Service	77,482,281	74,816,590	72,711,189	76,058,126	73,281,302	77,242,684	73,708,429	74,399,700	71,036,279	67,882,269
Construction in Progress	441,126	1,625,744	5,926,019	785,002	1,457,297	513,974	2,802,108	57,707	45,310	37,206
Net PP&E	<u>\$ 77,923,407</u>	<u>\$ 76,442,334</u>	<u>\$ 78,637,208</u>	<u>\$ 76,843,128</u>	<u>\$ 74,738,599</u>	<u>\$ 77,756,658</u>	<u>\$ 76,510,537</u>	<u>\$ 74,457,407</u>	<u>\$ 71,081,589</u>	<u>\$ 67,919,475</u>

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

Water Purchased from BJWSA Summary (Whole Dollars)										
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
All District Purchases from BJWSA	\$ 1,183,047	\$ 984,044	\$ 1,110,409	\$ 812,457	\$ 1,555,262	\$ 1,460,476	\$ 1,472,872	\$ 981,138	\$ 1,030,216	\$ 1,222,325
Broad Creek Purchases	(170,383)	(162,657)	(109,306)	(73,259)	(320,129)	(127,776)	(82,490)	(71,933)	(126,719)	(171,492)
Capitalized Purchased Water	-	-	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	(195,222)	(195,783)	(210,007)	(195,537)	(217,652)	(216,031)	(220,013)	(234,031)	(249,583)	(254,677)
Purchased Water Expense	\$ 817,441	\$ 625,603	\$ 791,096	\$ 543,661	\$ 1,017,482	\$ 1,116,669	\$ 1,170,368	\$ 675,174	\$ 653,914	\$ 796,156
Water Purchased from BJWSA Summary (KGalS)										
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
All KgalS Purchased from BJWSA	1,003,131	776,286	852,633	538,925	1,125,264	1,039,001	985,829	603,904	638,084	754,288
Reclaimed Water Adjustment	-	-	-	-	-	-	-	-	-	-
Broad Creek Purchases	(152,148)	(110,869)	(67,224)	(44,304)	(251,213)	(80,844)	(49,207)	(44,896)	(70,811)	(92,463)
Capitalized Purchased Water	-	-	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	(244,028)	(240,743)	(247,602)	(232,782)	(256,061)	(251,199)	(250,015)	(262,894)	(279,977)	(279,685)
Purchased Water (KGalS)	606,955	424,674	537,807	261,839	617,990	706,958	686,607	296,114	287,296	382,140
Total Peak Purchases	487,874	457,223	437,997	391,043	643,858	590,557	617,696	435,925	442,909	505,588
Total Off-peak Purchases	515,257	319,063	414,636	147,882	481,406	448,444	368,133	167,979	195,175	248,700
Total Off-peak and Peak Purchases	1,003,131	776,286	852,633	538,925	1,125,264	1,039,001	985,829	603,904	638,084	754,288
BJWSA Rates Per Kgal Summary										
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2015	FY 2016	FY 2017	FY 2018	FY 2021	FY 2022
Rates Charged by BJWSA										
Peak Rate ²	\$ 1.58	\$ 1.58	\$ 1.74	\$ 1.76	\$ 1.78	\$ 1.82	\$ 1.86	\$ 1.91	\$ 1.95	\$ 1.97
Off Peak Rate	\$ 0.80	\$ 0.82	\$ 0.84	\$ 0.84	\$ 0.85	\$ 0.86	\$ 0.88	\$ 0.89	\$ 0.90	\$ 0.91
District Cost/Kgal Prior to Broad Creek Purchases³	\$ 1.27	\$ 1.30	\$ 1.51	\$ 1.38	\$ 1.41	\$ 1.49	\$ 1.62	\$ 1.61	\$ 1.61	\$ 1.62
Effective District Cost/Kgal After Broad Creek Purchases⁴	\$ 1.23	\$ 1.27	\$ 1.49	\$ 1.41	\$ 1.39	\$ 1.48	\$ 1.63	\$ 1.59	\$ 1.59	\$ 1.59
¹ Off-peak rate agreement signed on September, 2009 and the rate increases every fiscal year based on CPI.										
² The FY 2021 peak rate did not go into effect until January 1, 2021. All other peak rates were effective the entire fiscal year.										
³ Combined peak and off-peak purchases calculated as all District purchases from BJWSA divided by all KgalS purchased from BJWSA.										
⁴ During off-peak months, the District pays the peak rate for the first 1 million gallons purchased from BJWSA and the off-peak rate for any amount purchased over one million gallons. However, the District charges the Broad Creek PSD the off-peak rate for all of the water that they purchase during off-peak months. During peak months Broad Creek PSD is charged the peak price. As such, this calculation backs out Broad Creek PSD payments to the District and the KgalS that Broad Creek purchased to arrive at the District's Effective Cost/Kgal for its own water usage.										



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