



Annual Comprehensive Financial Report



**For the Fiscal Years Ended
June 30, 2023 and June 30, 2022**

Hilton Head Island, South Carolina

Hilton Head Public Service District

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Annual Comprehensive Financial Report

**For the Fiscal Years Ended
June 30, 2023 and June 30, 2022**

Prepared by:
Finance Department

HiltonHeadPSD

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Hilton Head Public Service District

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On the cover: Photo by Jack Alderman of black-bellied whistling ducks in Whooping Crane Pond Conservancy. Hilton Head PSD annually recycles approximately 1 billion gallons of highly treated wastewater into reclaimed water for wetland habitat renourishment and golf course irrigation.

INTRODUCTION SECTION



PSD Water Quality Supervisor, Sarah Hickman, speaks to students at the Hilton Head IB Elementary School's Rotary Act Club about water resources and the importance of water efficiency on Hilton Head Island. The PSD is involved in numerous outreach activities with students and the community to promote an awareness and understanding of the importance of conservation of Hilton Head Island's water resources.

COMMISSIONERS

Frank Turano, Chair
Jerry Cutrer, Vice-Chair
Stuart Bell, Treasurer
Patti Soltys, Secretary
Ibrahim Abdul-Malik
Michael Marks
Andy Paterno



EXECUTIVE STAFF

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

HILTON HEAD PUBLIC SERVICE DISTRICT

October 13, 2023

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, 2023. This is the fourteenth 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, 2023.

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, 2023. 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.

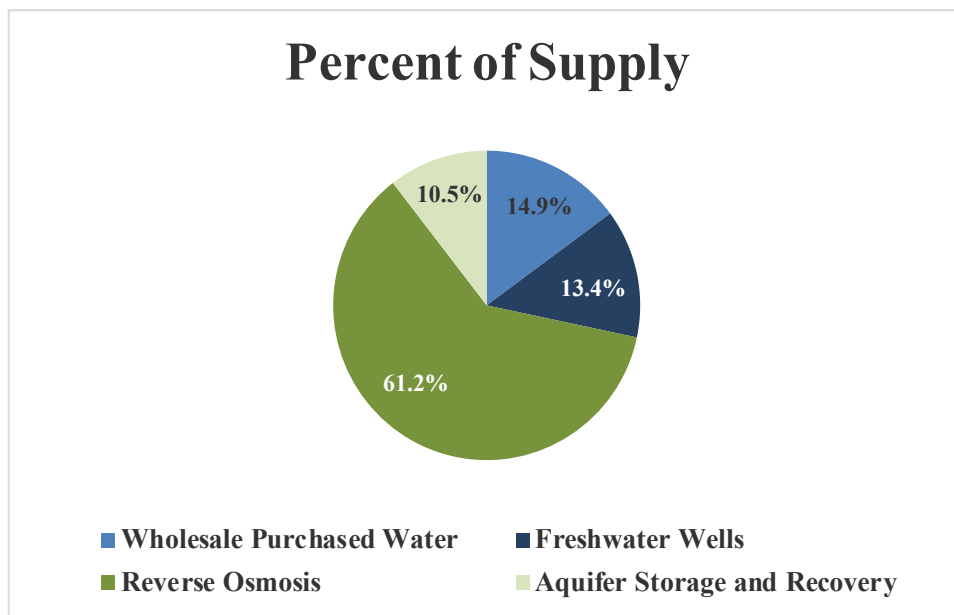
Profile of Hilton Head PSD

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.



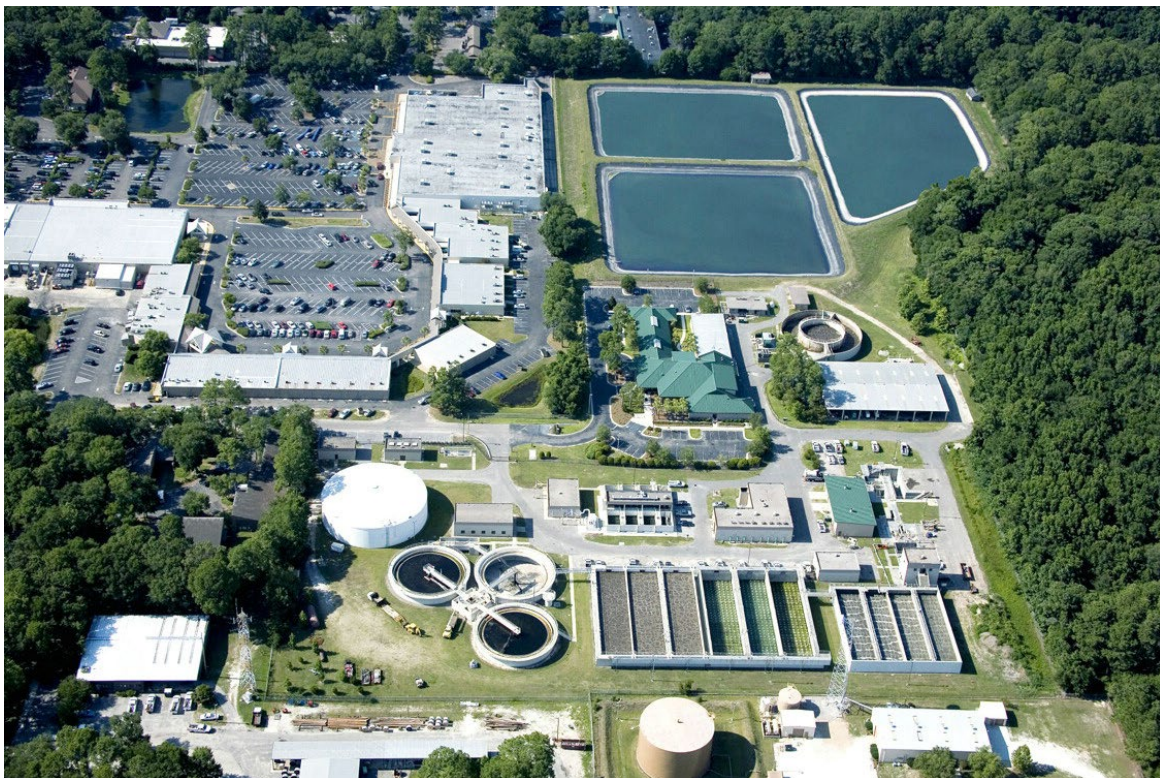
The PSD can provide a total water capacity of approximately 13 million gallons a day (mgd). It experiences an average demand of 6-7 mgd and a peak-day demand of 10-11 mgd. The PSD’s Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is 61.2% of water supplied in Fiscal Year 2023. The 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 14.9% of water supplied in fiscal year 2023. 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 13.4% of water supplied in Fiscal Year 2023.

The remaining 10.5% of water supplied in fiscal year 2023 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, 350 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.

While the District continued to see new growth, redevelopment, and development in its service area, the pace of the growth was at a slower pace than the previous fiscal year. The growth was not enough to keep

consumption on par with the previous fiscal year when coupled with increased rainfall. The PSD's water and irrigation customer count grew by 0.7% during fiscal year 2023, which was lower than its average customer growth rate of 1.1% per year over the last ten years.

While home sales and development slowed down slightly in the past fiscal year, real estate prices remained much higher than their pre-pandemic levels and the short-term rental market continued to take hold in areas that were previously residential. 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 two fiscal years, 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 continued to be affected by the inflationary pressures and supply chain issues felt across the nation during the last fiscal year. In particular, the District continued to see large increases in its biosolids handling and chemicals costs despite already seeing double digit increases in those areas in the previous fiscal year. The District also continued to experience some challenges sourcing inventory and parts and saw project costs come in at much higher levels than previously experienced.

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).

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

Millage

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

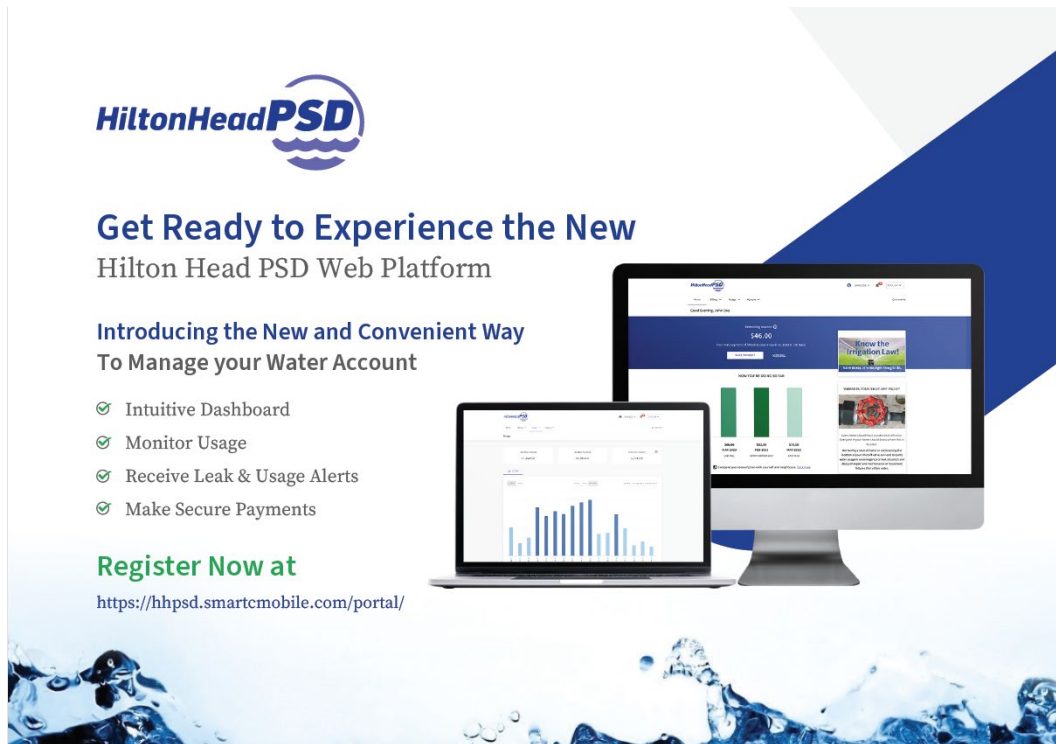
The limitations described above do not apply to the levy of debt service millage. Therefore, the District is also authorized to impose ad valorem property taxes, without limit as to rate or amount, to defray the debt service on general obligation bonds of the District. All such general obligation bonds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

Major Initiatives

Customer Payment and Usage Portal

The District launched a new customer payment and usage portal in June of 2023. This portal replaces the District's previously separate payment and usage portals into one combined customer experience platform with a single log-in. On the payment side, the new portal allows customers new payment options such as on demand ACH, Paypal, Google Pay, and Apple Pay which were previously unavailable. Customers with multiple accounts can now also link these accounts together under one login and pay the account balances in one payment instead of having to maintain separate logins and make separate payments for each account. After logging in to make a payment, customers can access hourly, daily, and monthly usage data by simply clicking the usage tab. The new portal also encourages water efficiency by allowing customers to sign up for e-mail or text leak alerts as well as to request email or text high usage alerts if usage exceeds a daily and/or monthly threshold set by the customer.

The PSD worked with the new portal provider to distribute bill inserts, emailers, postcards, newsletters, and other marketing materials, such as the one below, to promote customer engagement with the new portal.



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 underwent further updating in fiscal year 2022 and allows the utility to evaluate strategic locations for future water production and supply assets, as well as to identify future distribution system improvements. In fiscal year 2021, the District initiated a groundwater hydrogeologic modeling effort to determine current and future quality and capacity in the island’s underground aquifers, as well as a cost versus benefit analysis of differing future water supply options. The District finalized the cost benefit study during fiscal year 2022 and began planning a timeline to fund these projects.

In September 2022, the District submitted a grant application to the South Carolina Infrastructure Investment Program (SCIIP) to request American Rescue Plan Act (ARPA) funding to expand its RO plant from 4-MGD to 6-MGD and to build a second ASR facility. The District was pleased to be awarded the maximum \$10,000,000 grant amount in April 2023. The grant requires a local matching component which was estimated at around \$7,000,000 by the District’s engineers at the time of the grant application. The District is on track to bid out these projects in early 2024 and anticipates using a combination of available General Obligation debt capacity and cash reserves to fund the local match.

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 the past several fiscal years, the District continued to develop and expand an in house tracking and field inspection program aimed at capturing additional operational and financial data for the District's 120+ sewer lift stations. The goal of the Asset Management Plan is to provide predictability in the District's long-term CIP, avoid unanticipated repairs and outages, and maintain appropriate levels of service. Asset Management planning aids the District in designing stable rates and in managing financial burdens. It is an ongoing process that involves continuous updating and honing of asset condition assessments, and multi-year capital planning to ensure that the District's infrastructure, facilities, and equipment are operating effectively and efficiently. Fiscal years 2022 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.

In October of 2022, the District was excited to partner with Beaufort County to receive a sub-recipient allocation of \$1,000,000 from Beaufort County's ARPA allocation. The use of this allocation is restricted to two capital projects: a high service water distribution booster pump station and an emergency generator at the District's RO Plant. The new booster pump station will replace critical high service water distribution pumps which are over forty years old at the PSD's Leg-O-Mutton ground storage tank. The new water booster station will improve pumping capacity and allow the District to deliver water and re-pressurize the system in times of high demand and in response to natural disasters. Since the award of the grant, the District has spent local funds to engineer and bid this booster bump project in accordance with ARPA guidelines. The ARPA allocation will be spent on the actual construction and equipment needed for the project in the upcoming fiscal year. The emergency generator at the District's RO plant will also provide improved disaster resiliency and is anticipated to be bid and completed as part of the SCIIP grant RO expansion project.

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.

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.

Individual Awards



Two members of the District’s team earned statewide honors as outstanding utility professionals.

PSD Recycled Water Plant Supervisor Brian Fedorick (pictured left above) earned the Wastewater Operator of the Year Award from the Water Environment Association of South Carolina. Brian has improved efficiency at the PSD’s Recycled Water Plant by streamlining process-control testing, including introducing new data management programs.

PSD Project Manager Pete Schuelke (pictured right above) earned the Kelly A. Hunsucker System Protection Award from the South Carolina American Water Works Association. Pete’s work for the PSD has involved oversight of backflow prevention and water system connections including recently updating the utility’s cross-connection control standard operating procedures.

Financial Awards

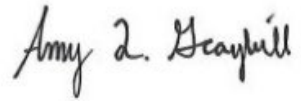
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its annual comprehensive financial report for the fiscal year ended June 30, 2022 (shown on page 13). This was the thirteenth 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, 2022

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 2022-23 Hilton Head Public Service District Commission



Frank Turano, Chair
District 3
Current Term: 2022-2026



Jerry Cutrer, Vice Chair
District 4
Current Term: 2020-2024



Stuart Bell, Treasurer
District 2
Current Term: 2020-2024

The 2022-23 Hilton Head Public Service District Commission *(continued)*



Patti Soltys, Secretary
District 3
Current Term: 2020-2024



Ibrahim Abdul-Malik
District 1
Current Term: 2022-2026



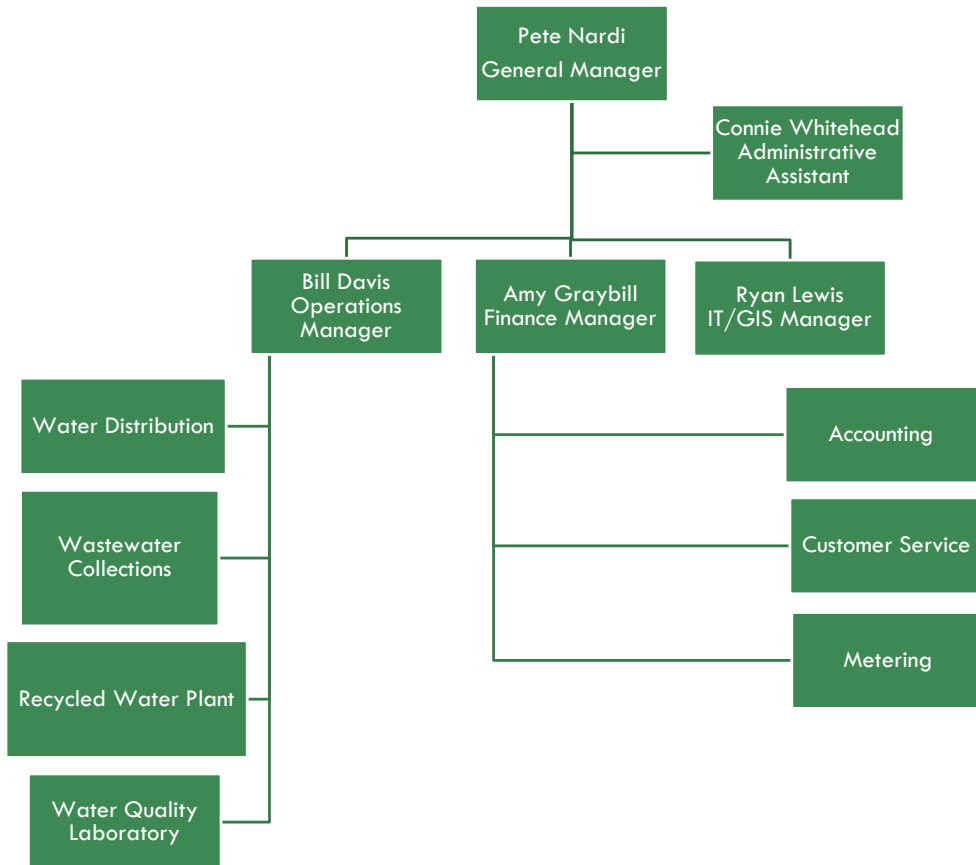
Michael Marks
District 4
Current Term: 2022-2026



Andy Paterno
District 4
Current Term: 2022-2024



Organizational Chart



FINANCIAL SECTION

For Fiscal Years Ended June 30, 2023 and June 30, 2022



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, 2023 and 2022, 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, 2023 and 2022, 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.

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

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

Required Supplementary Information

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

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The 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 13, 2023

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, 2023, 2022 and 2021. 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. However, the scale of this development slowed somewhat during FY 2023 with less capacity fees and connection fees collected from large scale developments during the current fiscal year than in prior years.
- Additionally, the District still continues to see connections related to its Master Sewer Plan. This project involved a partnership with the Town of Hilton Head to bring sewer to many previously unserved areas, a commitment from the PSD's Commission to continue to fund District infrastructure necessary to bring sewer to any remaining unserved landlocked parcels, and a partnership with a local non-profit, the Community Foundation of the Lowcountry, which raised funds for and administers the Project SAFE and Water Fund programs which provide grants to low-income homeowners to cover the cost of connecting to the District's water and sewer systems.

During the previous 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 provides sewer connection grants to low-income owners and renters not covered by Project SAFE. This new grant program brought a number of new Master Sewer Plan connections during the current fiscal year.

- Water Customer Growth: The District added 132 new water/irrigation customers to the system in fiscal year (FY) 2023. As of June 30, 2023, the District has a total of 19,656 equivalent dwelling units (EDUs). This is a 0.68% increase for FY 2023. For FY 2022 there was a 2.12% increase in total EDUs. The current EDUs include 18,549 water service units, 1,035 irrigation service units, and 72 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.
- Sewer Customer Growth: The District added 160 new sewer customers to the system in fiscal year 2023. As of June 30, 2023, sewer service EDUs total 17,726. This is a 0.91% increase for FY 2023 as compared to the FY 2022 increase of 2.88%.
- During FY 2023, the sewer to water customer percentage has increased from 95.34% to 95.56% percent since the end of fiscal year 2022.¹ This increase is related to the District's Master Sewer Plan construction projects, Project SAFE funded connections, and Town of Hilton Head sewer connection program as well as general development in the District.
- Billed consumption for FY 2023 decreased 100 million gallons from 2.087 billion gallons billed during FY 2022 to 1.987 billion gallons during FY 2023. This may be partially attributable to the timing of the rainfall. Total rainfall in fiscal year 2023 increased 3 inches to 55.9 inches compared to 52.9 inches in fiscal year 2022.² Spring/Summer³ rainfall increased 5.3 inches from 30.4 inches in fiscal year 2022 to 35.7 inches in fiscal year 2023. (See the Rainfall Comparison tables on page 91 in the Statistical section of this report for further data).
- Inflationary pressures led to increased costs particularly in biosolids disposal, chemicals, and operations parts and supplies. However, these increased costs were offset by strong interest revenues, growth in the District's tax base, and savings to budget in maintenance, administrative and payroll costs which led to the District ending the 2023 fiscal year with a \$1.6 million increase in net position and only a \$224,000 decrease in unrestricted cash. This decrease in unrestricted cash is partially attributable to supply chain issues which led to project delays in FY 2022; the District carried forward approximately \$685,000 worth of fiscal year 2022 budgeted capital projects into fiscal year 2023 for completion. The amount of budgeted capital projects carried over from fiscal year 2023 was only \$424,000.
- In April 2023, the District received the maximum \$10,000,000 SCIIP grant award for expanding its RO plant from 4 MGD to 6 MGD and to construct a second ASR facility. At the time of the grant award, the District and its engineers estimated that the District's matching contribution to these projects would be \$7,000,000 which it plans to fund from a combination of cash reserves and available GO debt capacity. The District is on track to bid out these projects in early 2024. Once actual project costs are determined from the bids, the District plans to finalize a list of projects, which may include other large-scale projects identified during in the District's FY 2024 budget, and complete a GO debt issuance. The District anticipates considering its current GO debt

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.

repayment schedule when structuring the new issuance so that millage rate impacts to the District's tax base are minimal.

- In October 2022, the District also received a \$1,000,000 subrecipient allocation of Beaufort County's ARPA allocation to build a new booster pump station at its Leg-O-Mutton ground storage tank and to install an emergency generator at its RO plant. The District received these funds in November and is holding them in a restricted bank account until actual construction costs are incurred. Since the award, the District has kicked in local funds to pay its engineers to design the booster pump station and prepare the related bid documents. The District anticipates bidding the booster pump project in late 2023. The RO Plant emergency generator is being designed and bid as a component of the SCIIP grant project.

Financial Highlights and Analysis of the District

The District's financial position remained stable during the past fiscal year; strong interest income and growth in the District's tax base offset negative inflationary effects and lower consumption which led to an increase in net position and a minor decrease in unrestricted 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, 2023, 2022, and 2021.⁴

Hilton Head Public Service District Condensed Statements of Net Position As of June 30, 2023, 2022, and 2021							
As of June 30,	2023	2022	2021	2022 to 2023	%	2021 to 2022	%
Assets				Increase (decrease)		Increase (decrease)	
Current assets	\$ 15,780,786	\$ 15,645,447	\$ 12,726,466	\$ 135,339	0.9%	\$ 2,918,981	22.9%
Restricted assets	2,196,596	887,721	680,403	1,308,875	147.4%	207,318	30.5%
Net Property Plant & Equipment	66,116,980	67,919,475	71,081,589	(1,802,495)	-2.7%	(3,162,114)	-4.4%
Other Noncurrent Assets	2,758,552	2,940,326	2,818,674	(181,774)	-6.2%	121,652	4.3%
Total Assets	<u>86,852,914</u>	<u>87,392,969</u>	<u>87,307,132</u>	<u>(540,055)</u>	<u>-0.6%</u>	<u>85,837</u>	<u>0.1%</u>
Deferred outflows of resources							
Deferred outflows related to pensions	766,566	930,224	955,687	(163,658)	-17.6%	(25,463)	-2.7%
Deferred outflows from refunding debt	534,639	860,101	1,185,563	(325,462)	-37.8%	(325,462)	-27.5%
Total Deferred outflows of resources	<u>1,301,205</u>	<u>1,790,325</u>	<u>2,141,250</u>	<u>(489,120)</u>	<u>-27.3%</u>	<u>(350,925)</u>	<u>-16.4%</u>
Total assets and deferred outflows of resources	<u>\$ 88,154,119</u>	<u>\$ 89,183,294</u>	<u>\$ 89,448,382</u>	<u>(1,029,175)</u>	<u>-1.2%</u>	<u>(265,088)</u>	<u>-0.3%</u>
Liabilities							
Current Liabilities	6,103,771	4,876,869	4,733,109	1,226,902	25.2%	143,760	3.0%
Noncurrent Liabilities, net of amortization	24,200,671	27,250,331	31,583,733	(3,049,660)	-11.2%	(4,333,402)	-13.7%
Total Liabilities	<u>30,304,442</u>	<u>32,127,200</u>	<u>36,316,842</u>	<u>(1,822,758)</u>	<u>-5.7%</u>	<u>(4,189,642)</u>	<u>-11.5%</u>
Deferred inflows of resources							
Deferred inflows related to pensions	186,965	854,175	326,700	(667,210)	-78.1%	527,475	161.5%
Deferred inflows related to lease revenue	1,280,617	1,469,454	1,088,708	(188,837)	-12.9%	380,746	35.0%
Total Deferred inflows of resources	<u>1,467,582</u>	<u>2,323,629</u>	<u>1,415,408</u>	<u>(856,047)</u>	<u>-36.8%</u>	<u>908,221</u>	<u>64.2%</u>
Total liabilities and deferred inflows of resources	<u>31,772,024</u>	<u>34,450,829</u>	<u>37,732,250</u>	<u>(2,678,805)</u>	<u>-7.8%</u>	<u>(3,281,421)</u>	<u>-8.7%</u>
Net Position							
Net investment in capital assets	43,634,968	42,602,561	42,457,546	1,032,407	2.4%	145,015	0.3%
Restricted for debt service and grants	2,196,596	887,721	680,403	1,308,875	147.4%	207,318	30.5%
Unrestricted	10,550,531	11,242,183	8,578,183	(691,652)	-6.2%	2,664,000	31.1%
Total Net Position	<u>56,382,095</u>	<u>54,732,465</u>	<u>51,716,132</u>	<u>1,649,630</u>	<u>3.0%</u>	<u>3,016,333</u>	<u>5.8%</u>
Total Liabilities and Net Position	<u>\$ 88,154,119</u>	<u>\$ 89,183,294</u>	<u>\$ 89,448,382</u>	<u>\$ (1,029,175)</u>	<u>-1.2%</u>	<u>\$ (265,088)</u>	<u>-0.3%</u>

⁴ FY 2022 financial statement line items have been restated to reflect the implementation of GASB 87.

Total assets and deferred outflows of resources were \$88.2 million, exceeding liabilities and deferred inflows of resources by \$56.4 million (net position). Of the total net position, \$10.5 million was unrestricted. Total net position increased by \$1.6 million or 3.0% compared to a \$3.0 million or 5.8% increase in fiscal year 2022. Unrestricted net position decreased \$692,000 or 6.2% compared to a \$2.7 million or 31.1% increase in fiscal year 2022.

Current and Restricted Assets

Of the total net position, \$15.8 million are current non-restricted assets available to support short-term operations. This current asset balance is \$135,000 higher than the June 30, 2022 balance of \$15.6 million which was \$2.9 million higher than the June 30, 2021 balance of \$12.7 million. The District increased its inventory during fiscal year 2022 and 2023 due to inflation and supply chain concerns and also saw timing related increases to accounts receivable and prepaid expenses at June 30, 2023. The FY 2022 increase was mostly attributable to an increase in cash and cash equivalents. Total unrestricted and restricted cash balances consisted of the following:

Cash Balances As of June 30,	2023	2022	2021	2022 to 2023	%	2021 to 2022	%
Unrestricted cash and cash equivalents	\$ 12,392,680	\$ 12,616,934	\$ 9,609,015	\$ (224,254)	-1.8%	\$ 3,007,919	31.3%
Cash and cash equivalents (restricted)	<u>2,196,596</u>	<u>887,721</u>	<u>680,403</u>	<u>1,308,875</u>	147.4%	<u>207,318</u>	30.5%
Total Cash	<u>\$ 14,589,276</u>	<u>\$ 13,504,655</u>	<u>\$ 10,289,418</u>	<u>\$ 1,084,621</u>	8.0%	<u>\$ 3,215,237</u>	31.2%

During fiscal year 2023, overall cash increased \$1.1 million or 8.0%. Unrestricted cash decreased \$224,000 or 1.8% bringing the District’s unrestricted cash to \$12.4 million at June 30, 2023 compared to \$12.6 million at June 30, 2022. Restricted cash increased \$1.3 million during fiscal year 2023 which was mostly related to the receipt of the \$1,000,000 subrecipient allocation of Beaufort County’s ARPA funds. During fiscal year 2022, overall cash increased \$3.2 million or 31.2% with a \$3.0 million (a 31.3%) increase in unrestricted cash and a \$207,000 (a 30.5%) increase in restricted cash. This increase in unrestricted cash was mostly related to growth fueled revenues as well as timing of capital project completion.

Capital Assets

As of June 30, 2023, the District has invested \$66.1 million (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 \$1.8 million during fiscal year 2023 with capital additions of \$3.3 million being offset by depreciation of \$5.1 million.

Projects/ additions completed during 2023 include:

- The District upgraded its Royal James and Port Royal reclaimed water irrigation/pump stations at a cost of \$341,000 and \$154,000, respectively. The Royal James project is included in Construction in Process at year end as parts were awaiting installation at fiscal year-end.
- Rehab of the District’s Screw Pumps totaled \$203,000.
- Various upgrades and improvements at the wastewater treatment plant including replacements of blowers, valves, actuators and building resurfacing and roof rehab totaled \$337,000.
- The District relined \$337,000 worth of gravity sewer mains in Indigo Run and Port Royal.

- Upgrades and improvements to the District’s existing lift stations totaled \$310,000. Other major collection system repairs and replacements including manhole coating and piping to lift stations totaled \$155,000.
- The District continued its meter change out program and \$236,000 of meters were replaced.
- Other major distribution system repairs and replacements totaled \$136,000.
- Developer contributions of hydrants, water systems, and sewer systems totaled \$126,000.
- The District spent \$637,000 on engineering related to the RO Expansion, ASR-2, and Leg-O-Mutton booster pump SCIIP and ARPA projects which is included in Construction in Process at year end.
- Upgrades to the District’s administrative building including new flooring and walling in cubicles to expand office space totaled \$124,000.
- Six service trucks totaled \$211,000 and other technology and operations equipment purchases totaled \$31,000.

Capital Assets

Year Ended June 30,	2023	2022	2021
Capital assets not being depreciated:			
Land	\$ 1,299,193	\$ 1,299,193	\$ 1,299,193
Construction in Progress	<u>1,049,989</u>	<u>37,206</u>	<u>45,310</u>
Total Capital Assets not being depreciated	2,349,182	1,336,399	1,344,503
Capital assets being depreciated:			
Waterworks System	64,629,846	64,210,835	63,581,847
Sewer Collection System	55,067,932	54,256,168	53,552,764
Office Building and Improvements	4,504,119	4,391,129	4,391,129
Wastewater Treatment Plant	36,971,939	36,279,760	35,840,545
Transportation Equipment	1,428,065	1,341,156	1,482,433
Operations Equipment	2,134,929	2,082,690	1,897,651
Office Furniture and Equipment	<u>674,988</u>	<u>682,901</u>	<u>722,428</u>
Sub Total	\$ 165,411,818	\$ 163,244,639	\$ 161,468,797
Less Accumulated depreciation	<u>(101,644,020)</u>	<u>(96,661,563)</u>	<u>(91,731,711)</u>
Total capital assets being depreciated, net	<u>63,767,798</u>	<u>66,583,076</u>	<u>69,737,086</u>
Property, Plant and Equipment, net	<u><u>\$ 66,116,980</u></u>	<u><u>\$ 67,919,475</u></u>	<u><u>\$ 71,081,589</u></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 47 and Note 13 - Construction and development commitments on page 54.

Liabilities and Debt Administration

As of June 30, 2023, the District’s current liabilities totaled \$6.1 million versus \$4.9 million at June 30, 2022 and \$4.7 million at June 30, 2021. The increase of \$1.2 million or 25.2% from fiscal year 2022 to fiscal year 2023 was mostly related to the receipt of the \$1,000,000 ARPA allocation which was reported as restricted unearned grant revenue at June 30, 2023. As previously noted, the District is paying for the engineering and necessary bid preparation documents on these projects from its own funds; these restricted funds will be spent on actual construction costs that have been bid out in accordance with all applicable ARPA guidelines in the upcoming fiscal year.

Non-current liabilities decreased \$3.0 million from \$27.3 million at 2022 fiscal year end to \$24.2 million at 2023 fiscal year end in accordance with debt payment schedules combined with increases 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 49 and Note 9 – Non-current liabilities on page 52.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. The District’s revenue bonds are secured by the revenues of the District. The District’s debt coverage ratio decreased from 282% in fiscal year 2022 to 243% in fiscal year 2023 which was related to a decrease in capacity fees received during fiscal 2023.

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>2023</u>	<u>2022</u>	<u>2021</u>
Net Income(loss) before capital contributions			
per Financial Statements	\$1,167,064	\$1,124,915	\$1,449,343
Capacity Fees	356,520	1,396,743	1,157,787
Add: Depreciation	5,140,534	5,142,783	5,188,028
Net Pension Expense	408,173	290,852	613,324
SCRS Retirement Contributions	(466,620)	(424,042)	(387,521)
Amortization	325,462	325,462	265,132
Bond Issuance Costs	37,500	-	225,650
Interest Expense (Bonds)	308,748	347,001	509,935
Assessments - Debt Service	222,184	209,221	200,485
Less: Property Taxes – Debt Service	<u>(1,583,535)</u>	<u>(1,522,142)</u>	<u>(1,499,844)</u>
Net Earnings Available for Debt Service	\$5,916,031	\$6,890,793	\$7,722,319
Debt Service on Revenue Bonds	\$2,437,980	\$2,440,269	\$2,686,001
Coverage of Debt Service by Net Earnings*	243%	282%	288%
Debt Coverage without Capacity Fees	228%	225%	244%

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,	2023	2022	2021	2022 to 2023		2021 to 2022	
				Inc/(Dec)	% Change	Inc/(Dec)	% Change
Operating Revenues							
Water Service Revenues	\$ 7,774,846	\$ 7,817,334	\$ 7,746,340	\$ (42,488)	-0.5%	\$ 70,994	0.9%
Sewer Service Revenues	6,051,117	6,013,685	5,852,395	37,432	0.6%	161,290	2.8%
Other Operating Revenues	864,080	700,048	1,412,487	164,032	23.4%	(712,439)	-50.4%
Total Operating Revenues	<u>14,690,043</u>	<u>14,531,067</u>	<u>15,011,222</u>	<u>158,976</u>	1.1%	<u>(480,155)</u>	-3.2%
Operating Expenses							
Payroll & Related Expenses	4,251,569	3,952,377	4,203,335	299,192	7.6%	(250,958)	-6.0%
Administrative Expenses	1,091,603	1,026,137	1,020,574	65,466	6.4%	5,563	0.5%
Operations Expenses	3,259,419	2,865,270	2,657,074	394,149	13.8%	208,196	7.8%
Maintenance Expenses	1,409,057	1,529,491	1,322,787	(120,434)	-7.9%	206,704	15.6%
Purchased Water	1,004,551	1,031,270	899,685	(26,719)	-2.6%	131,585	14.6%
Water Tap In Expenses	173,700	166,639	171,909	7,061	4.2%	(5,270)	-3.1%
Sewer Connection Expenses	325,863	198,236	200,934	127,627	64.4%	(2,698)	-1.3%
Professional Fees	287,305	248,636	203,678	38,669	15.6%	44,958	22.1%
Depreciation	5,140,534	5,142,783	5,188,028	(2,249)	0.0%	(45,245)	-0.9%
Total Operating Expenses	<u>16,943,601</u>	<u>16,160,839</u>	<u>15,868,004</u>	<u>782,762</u>	4.8%	<u>292,835</u>	1.8%
Net Operating Income	(2,253,558)	(1,629,772)	(856,782)	(623,786)	38.3%	(772,990)	90.2%
Non-operating Revenues							
Property Taxes - G.O. Debt Levy	1,583,535	1,522,142	1,499,844	61,393	4.0%	22,298	1.5%
Property Taxes - Operations Levy	1,155,522	1,086,204	1,071,896	69,318	6.4%	14,308	1.3%
Interest Income	604,314	109,605	102,306	494,709	451.4%	7,299	7.1%
Other Non-Operating Revenues	752,530	712,823	634,090	39,707	5.6%	78,733	12.4%
Total Non-operating Revenues	<u>4,095,901</u>	<u>3,430,774</u>	<u>3,308,136</u>	<u>665,127</u>	19.4%	<u>122,638</u>	3.7%
Non-operating Expenses	(675,279)	(676,087)	(1,002,011)	808	-0.1%	325,924	-32.5%
Increase in Net Position before Capital Contributions:	1,167,064	1,124,915	1,449,343	42,149	3.7%	(324,428)	-22.4%
Water Capacity Fee							
Water Capacity Fee	93,260	551,444	482,400	(458,184)	-83.1%	69,044	14.3%
Sewer Capacity Fee							
Sewer Capacity Fee	263,260	845,299	675,387	(582,039)	-68.9%	169,912	25.2%
Developer Contributions of Systems							
Developer Contributions of Systems	126,046	494,675	-	(368,629)	-74.5%	494,675	100.0%
Total Capital Contributions	<u>482,566</u>	<u>1,891,418</u>	<u>1,157,787</u>	<u>(1,408,852)</u>	<u>-74.5%</u>	<u>733,631</u>	<u>63.4%</u>
Change in net position	\$ 1,649,630	\$ 3,016,333	\$ 2,607,130	\$(1,366,703)	-45.3%	\$ 409,203	15.7%
Net position, beginning of the 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%
Net position, end of year	<u>\$ 56,382,095</u>	<u>\$ 54,732,465</u>	<u>\$ 51,716,132</u>	\$ 1,649,630	3.0%	\$ 3,016,333	5.8%

Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2023 total \$14,690,043 which is a \$158,976 or 1.1% increase from fiscal year 2022. Total operating revenues decreased 3.2% or \$480,155 from fiscal year 2021 to fiscal year 2022.

Selected highlights of significant FY 2023 increases or decreases are as follows:

- Water service revenues decreased \$42,488 from fiscal year 2022 to 2023 despite a rate increase in the upper tiers due to lower consumption, most likely related to rainy, cool weather patterns. Water service revenues increased \$70,994 or 0.9% from 2021 to 2022 due to customer growth as consumption stayed fairly static and there was no rate increase in those years.
- Despite no rate increases, sewer service revenues increased by \$37,432 or 0.6% during fiscal year 2023 and \$161,290 or 2.8% during fiscal year 2022 due to sewer customer growth. Sewer revenues are generally not as affected by lower consumption due to water only irrigation meters and the 10,000 monthly residential sewer cap.
- Other operating revenues include water and sewer connection fees, golf course irrigation, availability fees, service fees, disaster and insurance recoveries, and other miscellaneous items. These revenues increased \$164,032 or 23.4% from fiscal year 2022 to 2023 compared to a \$712,439 or 50.4% decrease from fiscal year 2021 to 2022. The fiscal year 2023 increase was mostly related to increased sewer connection fees related to more connections through the Town's ARPA sewer connection program and a miscellaneous class action settlement payment related to the District's electricity provider. 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 refunds as there were in the other fiscal years.

Departmental Expenses (Fiscal Year to Year Comparisons)

Total departmental expenses have increased \$782,762 or 4.8% compared to fiscal year 2022. For fiscal year 2022, departmental expenses increased \$292,835 or 1.8% compared to fiscal year 2021.

Selected highlights of significant FY 2023 increases or decreases are as follows:

- Payroll and related expenses increased \$299,192 or 7.6% in FY 2023 and decreased \$250,958 or 6.0% in FY 2022. In fiscal year 2023 and 2022, a non-cash decrease adjustment of \$58,447 and \$133,190, respectively, 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 of \$225,803 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, increases to employer health insurance premiums, increases to the employer retirement contribution rate, and the addition of one new position in each year.
- Operations expenses increased \$394,149 or 13.8% in FY 2023 and \$208,196 or 7.8% in FY 2022. These increases were mainly related to inflationary increases particularly in biosolids disposal and chemicals which incurred large year over year increases.

- Maintenance expenses decreased by \$120,434 or 7.9% in FY 2023 mainly due to lower tower maintenance expense associated with savings related to the timing of a switch in maintenance providers as well as lower treatment plant maintenance than the prior year. 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.
- Sewer connection expenses increased \$127,627 or 64.4% in fiscal year 2023 which is partially attributable to the Town's ARPA sewer grant program connections; these connection expenses are offset by the sewer connection fee revenue in other operating revenues.

Non-operating revenues (Fiscal Year to Year Comparisons)

Total non-operating revenues increased \$665,127 or 19.4% in FY 2023 compared to an increase of \$122,638 or 3.7% in FY 2022.

Selected highlights of significant increases or decreases are as follows:

- More GO and operating property tax revenue was collected in FY 2023 and FY 2022 due to increases in assessed taxable values each year.
- Interest income increased \$494,709 or 451.4% during FY 2023 due to overall increases in interest rates. District staff endeavored to keep all excess funds not needed for immediate operations in its South Carolina Local Government Investment Pool account to take advantage of rising interest rates.
- Other non-operating revenues include tower lease revenue, rental revenue, and gains on the sale of fixed assets. Year over year increases in this area are mostly related to tower lease and rental contract escalators.

Non-Operating Expenses (Fiscal Year to Year Comparisons)

Total non-operating expenses decreased \$808 or 0.1% in FY 2023 and \$325,924 or 32.5% in FY 2022 related to reductions in interest expense in accordance with debt payment schedules offset by bond issuance costs in FY 2023 and FY 2021.

Capital Contributions (Fiscal Year to Year Comparisons)

No significant large-scale developer capacity fee payments, which are due before construction begins, were received in FY 2023 as were received in FY 2022 and 2021. Developer contributions of systems were donated by these large-scale developers when their systems were completed in FY 2023 and 2022. No developer contributions of systems were received in FY 2021.

SUBSEQUENT EVENTS

On July 1, 2023, a rate increase was put into effect whereby the following volumetric water and sewer tier rate increases and fees were put into effect:

Residential Water	FY 2023	FY 2024	Commercial Water & Irrigation	FY 2023	FY 2024
Rates per 1,000 Gallons:	Current	Revised Rate	Rates per 1,000 Gallons:	Current	Revised Rate
Block 1 - 0 to 10,000 Gal	1.47	1.52	Block 1 - 0 to 10,000 Gal	1.69	1.69
Block 2 - 10,001 to 20,000 Gal	1.91	2.11	Block 2 - 10,001 to 20,000 Gal	2.06	2.11
Block 3 - 20,001 to 30,000 Gal	2.36	2.54	Block 3 - 20,001 to 30,000 Gal	2.53	2.54
Block 4 - All Over 30,000 Gal	2.98	3.38	Block 4 - All Over 30,000 Gal	3.18	3.38
Residential Irrigation	FY 2023	FY 2024	Residential & Commercial Sewer	FY 2023	FY 2024
Rates per 1,000 Gallons:	Current	Revised Rate	Rates per 1,000 Gallons:	Current	Revised Rate
Block 1 - 0 to 10,000 Gal	1.91	2.11	Residential sewer usage is capped at	2.00	2.16
Block 2 - 10,001 to 20,000 Gal	1.91	2.11	10,000 gallons per month. There is		
Block 3 - 20,001 to 30,000 Gal	2.36	2.54	no cap on commercial sewer usage.		
Block 4 - All Over 30,000 Gal	2.98	3.38			
Fees	FY 2023	FY 2024			
	Current	Revised Rate			
Sewer Connection Fee	100.00	150.00			
Backflow Inspection Fee	100.00	175.00			

The District’s Commission adopted this rate increase at the June Commission Meeting on June 28, 2023.

At its July 26, 2023 Commission Meeting, the District’s Commission adopted a resolution to petition Beaufort County Council to authorize the issuance of an amount not exceeding \$23,000,000 of general obligation bonds. On October 9, 2023, after all required readings and a public hearing, Beaufort County Council formally approved an ordinance approving the issuance. This authorization is valid for five years and need not be spent in its entirety. The District anticipates completing a GO debt issuance to fund larger capital projects, including the SCIIP grant matching project funds, in 2024 after bids are received on the SCIIP grant projects.

FINAL COMMENTS AND REQUESTS FOR INFORMATION

While development slowed during the past fiscal year, the recent real estate boom compounded 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 some growth in the coming years, the District recognizes that the current rate of growth is likely unsustainable in the long term due to the limited land space of its service area. Conservatism is maintained during the budget process so as not to rely on development that may not occur to fund operations. The District also recognizes that the coming years may bring staffing challenges due to the lack of affordable housing in the area. This issue is expected to be heightened when the U.S. 278 bridge replacement project takes off which is expected to negatively affect commuting for off-island workers.

The recent growth combined with the culmination of the District’s long range water planning studies has identified a need to expand the District’s water supply assets over the next five years to obtain additional capacity and disaster resiliency. The District was pleased to receive the \$10,000,000 SCIIP grant and the \$1,000,000 ARPA allocation from Beaufort County which will provide a great resource to address these issues. However, the District also recognizes additional local funding will be required to complete these projects and is planning to utilize its available GO debt capacity in the coming year to assist in meeting these needs.

The continued effects of inflation, supply chain issues, and vendor availability remain significant challenges for the District. As an asset intensive organization with aging infrastructure, large price increases and limited availability of parts and vendors are expected to continue to affect the District's ability to preventatively maintain its system.

Consideration of these risks as well as the overall industry and economic environment are considered during the District's annual budget and cost of service analysis to ensure that the PSD is poised to meet these challenges while providing its customers with a high level of customer service. The District always aims to take a conservative view towards budgeting to ensure long term sustainability while also maintaining a sensitivity towards the need to keep service affordable for the District's customer base which includes many of Hilton Head Island's full time workforce population.

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

AUDITED FINANCIAL STATEMENTS

For Fiscal Years Ended June 30, 2023 and June 30, 2022

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2023 AND 2022

	June 30	
	2023	2022
Assets		
Current Assets		
Cash and Cash Equivalents Available for Operations	\$ 12,392,680	\$ 12,616,934
Cash and Cash Equivalents in Banks (Restricted)	1,875,769	681,107
Cash and Cash Equivalents Held by Beaufort County Treasurer (Restricted)	320,827	206,614
Accounts Receivable - Trade, net	1,886,393	1,677,573
Accounts Receivable - Connection Grants	39,310	-
Lease Receivable, due within one year	328,120	343,003
Sewer and Capacity Assessments, due within one year	225,629	206,010
Inventory	585,326	548,020
Prepaid Expenses	323,328	253,907
Total current assets	17,977,382	16,533,168
Noncurrent Assets		
Property, Plant and Equipment		
Nondepreciable Assets	2,349,182	1,336,399
Depreciable Assets, net	63,767,798	66,583,076
Total Property, Plant and Equipment	66,116,980	67,919,475
Lease Receivable, due after one year	761,196	887,756
Sewer and Capacity Assessments, due after one year	1,997,356	2,052,570
Total Noncurrent Assets	68,875,532	70,859,801
Total Assets	86,852,914	87,392,969
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	766,566	930,224
Deferred Charges from Debt Refunding	534,639	860,101
Total Deferred Outflows of Resources	1,301,205	1,790,325
Total Assets and Deferred Outflows of Resources	\$ 88,154,119	\$ 89,183,294

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, 2023 AND 2022

Liabilities	June 30	
	2023	2022
Current Liabilities		
Payable from Unrestricted Assets:		
Accounts Payable-Trade	\$ 362,886	\$ 488,625
Accounts Payable-Construction	299,288	47,379
Finance Purchase Liabilities, due within one year	36,005	36,005
Notes Payable, due within one year	-	7,939
Customer Deposits	237,368	253,920
Unearned Revenue	15,658	8,336
Accrued Payroll & Other Liabilities	423,900	394,339
Total Current Liabilities Payable from Unrestricted Assets	1,375,105	1,236,543
Payable from Restricted Assets:		
Interest Payable	34,906	36,997
Unearned Grant Revenue	1,000,000	-
Notes Payable, due within one year	142,589	141,172
Bonds Payable, due within one year	3,551,171	3,462,157
Total Current Liabilities Payable from Restricted Assets	4,728,666	3,640,326
Total Current Liabilities	6,103,771	4,876,869
Noncurrent Liabilities		
Finance Purchase Liabilities, due after one year	80,921	116,926
Notes Payable, due after one year	1,786,583	1,929,172
Bonds Payable, due after one year	17,120,094	20,436,265
Net Pension Liability	5,213,073	4,767,968
Total Noncurrent Liabilities	24,200,671	27,250,331
Total Liabilities	30,304,442	32,127,200
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions	186,965	854,175
Deferred Inflows Related to Lease Revenue	1,280,617	1,469,454
Total Deferred Outflows of Resources	1,467,582	2,323,629
Total Liabilities and Deferred Inflows of Resources	31,772,024	34,450,829
Net Position		
Net Investment in Capital Assets	43,634,968	42,602,561
Restricted for Debt Service and Grants	2,196,596	887,721
Unrestricted	10,550,531	11,242,183
Total Net Position	56,382,095	54,732,465
Total Liabilities, Deferred Inflows of Resources & Net Position	\$ 88,154,119	\$ 89,183,294

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, 2023 AND 2022

	Fiscal Year Ended June 30	
	2023	2022
Operating Revenues		
Water Service	\$ 7,774,846	\$ 7,817,334
Sewer Service	6,051,117	6,013,685
Water Tap In Fees	239,996	214,342
Sewer Connection Fees	344,630	216,469
Golf Course Irrigation	167,553	155,994
Service Fees	19,913	26,118
Availability Fees	-	27,279
Disaster & Insurance Recovery, net	1,700	7,854
Other Operating Revenues	90,288	51,992
Total Operating Revenues	14,690,043	14,531,067
Departmental Expenses		
Payroll & Related Expenses	4,251,569	3,952,377
Administrative Expenses	1,091,603	1,026,137
Operations Expenses	3,259,419	2,865,270
Maintenance Expenses	1,409,057	1,529,491
Purchased Water	1,004,551	1,031,270
Water Tap In Expenses	173,700	166,639
Sewer Connection Expenses	325,863	198,236
Professional Fees	287,305	248,636
Total Departmental Expenses	11,803,067	11,018,056
Depreciation	5,140,534	5,142,783
Total Operating Expenses	16,943,601	16,160,839
Operating Income (Loss)	(2,253,558)	(1,629,772)
Non-operating Revenues		
Property Taxes - G.O. Debt Levy	1,583,535	1,522,142
Property Taxes - Operations Levy	1,155,522	1,086,204
Rental Income	86,094	83,965
Tower Lease Income	584,104	571,437
Interest Income - Leases	33,092	18,881
Interest Income	604,314	109,605
Gain on Disposal of Assets	49,240	38,540
Total Non-operating Revenues	\$ 4,095,901	\$ 3,430,774

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, 2023 AND 2022

	Fiscal Year Ended June 30	
	2023	2022
Non-operating Expenses		
Interest Expense	\$ 312,317	\$ 350,625
Bond Defeasance Amortization	325,462	325,462
Bond Issuance Costs	37,500	-
Total Non-operating Expenses	675,279	676,087
Total Non-operating Revenues/Expenses	3,420,622	2,754,687
Increase (Decrease) in Net Position, Before Capital Contributions	\$ 1,167,064	\$ 1,124,915
Water Capacity Fee	\$ 93,260	\$ 551,444
Sewer Capacity Fee	263,260	845,299
Developer Contributions of Systems	126,046	494,675
Total Capital Contributions	482,566	1,891,418
Change in net position	1,649,630	3,016,333
Net position, beginning of the year	54,732,465	51,716,132
Net position, end of year	\$ 56,382,095	\$ 54,732,465

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	Fiscal Year Ended June 30	
	2023	2022
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 14,333,372	\$ 14,887,346
Cash Paid to Suppliers	(9,101,296)	(8,408,872)
Cash Paid to Employees	(2,963,123)	(2,851,736)
Other Revenues	91,988	59,846
Net Cash Provided by Operating Activities	2,360,941	3,686,584
Cash Flows from Investing Activities		
Interest Income	604,314	109,605
Net Cash Provided by Investing Activities	604,314	109,605
Cash Flows from Noncapital Financing Activities:		
Property Taxes Collected - Operations Levy	1,155,522	1,086,204
Rental and Tower Lease Income	663,218	674,219
Sewer Assessments Collected	149,378	145,418
Sewer Assessments Financed	(53,549)	(33,754)
Net Cash Provided by Noncapital Financing Activities	1,914,569	1,872,087
Cash Flows from Capital and Related Financing Activities:		
Capacity Fees	223,480	1,396,743
Capacity Fee Assessments	72,806	63,803
Property Taxes Collected - G.O. Debt Levy	1,583,535	1,522,143
Interest Paid	(314,408)	(355,684)
Proceeds from Series 2023 FFA Bonds	235,000	-
Bond Issuance Costs	(37,500)	-
Principal Payments on Bonds and Notes	(3,647,273)	(3,585,088)
Proceeds from Restricted Capital Grant	1,000,000	-
Proceeds from Sale of Assets	49,240	38,540
Purchases of Property, Plant and Equipment	(2,960,083)	(1,533,496)
Net Cash Used by Capital and Related Financing Activities	(3,795,203)	(2,453,039)
Net Increase (Decrease) in Cash	1,084,621	3,215,237
Cash and Cash Equivalents at Beginning of Year	\$ 13,504,655	\$ 10,289,418
Cash and Cash Equivalents at End of Year	\$ 14,589,276	\$ 13,504,655

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, 2023 AND 2022

	Fiscal Year Ended June 30	
	2023	2022
Reconciliation of Operating Loss to Net Cash Provided		
by Operating Activities:		
Operating Loss	\$ (2,253,558)	\$ (1,629,772)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided</i>		
<i>by Operating Activities:</i>		
Depreciation	5,140,534	5,142,783
Decrease in Allowance for Doubtful Accounts	(8,000)	(14,054)
Difference Between GASB 68 and Actual Contributions	(58,447)	(133,190)
<i>Changes in Assets and Liabilities</i>		
Accounts Receivable - Trade	(200,821)	244,738
Accounts Receivable - Project SAFE	(39,310)	83,571
Inventories	(37,306)	(176,513)
Prepaid Assets	(69,421)	(14,830)
Accounts Payable - Trade	(125,739)	99,259
Customer Deposits	(16,552)	101,870
Other Accrued Liabilities	29,561	(17,278)
Net Cash Provided by Operating Activities	\$ 2,360,941	\$ 3,686,584
Schedule of Cash and Cash Equivalents		
<i>Available for Operations</i>		
Demand Deposits (interest and non-interest bearing)	\$ 1,149,379	\$ 2,482,559
SC Local Government Investment Pool	11,232,195	\$ 10,078,955
Held by Beaufort County Treasurer	11,106	55,420
Total Available for Operations	\$ 12,392,680	\$ 12,616,934
<i>Restricted</i>		
Cash in Banks	\$ 875,769	\$ 681,107
SC Local Government Investment Pool	1,000,000	-
Held by Beaufort County Treasurer	320,827	206,614
Total Restricted	\$ 2,196,596	\$ 887,721
Total Cash and Cash Equivalents	\$ 14,589,276	\$ 13,504,655
Supplemental Disclosures		
<i>Noncash Financing Activities:</i>		
Developer Contribution of Systems	\$ 126,046	\$ 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, 2023 AND 2022

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 assessment income are recognized when collected by the Beaufort County Treasurer.

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 1 - Summary of significant accounting policies (continued)

Cash and cash equivalents

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

Accounts receivable, allowance for doubtful accounts and bad debt expense

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.13% and 0.20% of water and sewer revenues for the years ended June 30, 2023 and 2022, respectively. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2023 and 2022, the balance of the allowance for doubtful accounts was \$20,000 and \$28,000, respectively. Bad debt expense for the years ended June 30, 2023 and 2022 was \$1,523 and \$10,782, respectively.

Inventory and prepaid items

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

Leases

The District is a lessor for several noncancellable leases for space on its water tower facilities to various cellular phone companies for the attachment of antennae. The District recognizes a lease receivable and a deferred inflow of resources in its financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses the annual escalator in the lease contract as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023 AND 2022

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>Useful Life (in Years)</u>
Waterworks System	5-50
Sewer Collection System	5-50
Office Building and Improvements	5-40
Wastewater Treatment Plant	5-50
Transportation Equipment	5
Operations Equipment	3-15
Office Furniture and Equipment	3-15

Repairs and maintenance are charged to expense as incurred.

Compensated absences

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 \$237,232 and \$240,691 at June 30, 2023 and 2022, respectively. These balances are expected to be used within one year and are therefore included in Accrued Payroll & Other Liabilities in the Statement of Net Position.

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.

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.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 1 - Summary of significant accounting policies (continued)

Deferred outflows/inflows of resources

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

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

Net position

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, 2022 financial statements have been reclassified in order to conform to the June 30, 2023 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 13, 2023, the date that the financial statements were available to be issued.

Note 2 - Cash, cash equivalents and investments

At June 30, 2023 and 2022, the bank balances of the District's demand deposit accounts totaled \$1,447,016 and \$2,302,196, respectively, and had a carrying balance totaling \$1,148,979 and \$2,482,158 respectively. A sum of \$400 is held in petty cash funds of the District. As of June 30, 2023 and 2022, 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.
2. The primary objective of all District investment activity is the preservation of capital and safety of principal. Each investment transaction shall ensure that capital losses are avoided, whether from security default, sale of instruments prior to maturity or erosion of market value.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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

Investment Policy (continued)

3. At all times, the District shall remain sufficiently liquid to meet cash flow requirements by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

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, 2023, 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, 2023 and 2022, were respectively comprised of \$12,232,196 and \$10,078,955 in funds held with the South Carolina Local Government Investment Pool (SCLGIP) and \$875,769 and \$681,107 restricted funds for debt service. At June 30, 2023 and 2022, 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. The cash flow needs of the District along with prevailing market conditions serve as a general guideline for making investment decisions. In this way, the portfolio will be able to take advantage of rising interest rates by re-investing maturing securities at higher yields. In falling rate environments, it will profit from having investments that were made at higher rates. Following this discipline ensures that the District will always have sufficient cash available for daily needs, preserve its principal, and earn a competitive yield without assuming unacceptable risks.

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.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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,	
	2023	2022
Unrestricted cash - Available for general operating purposes	\$ 11,106	\$ 55,420
Restricted cash - Bond principal retirement and interest payments	320,827	206,614
	<u>\$ 331,933</u>	<u>\$ 262,034</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, 2023 and 2022, the debt service reserves totaled \$1,196,596 and \$887,721, 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.

At June 30, 2023, the District also held \$1,000,000 in cash restricted for grants. During the year ended June 30, 2023, the District was awarded a \$1,000,000 subrecipient allocation of Beaufort County’s ARPA funding to be spent on a booster pump station at the District’s Leg-O-Mutton ground storage tank and an emergency generator at the District’s RO plant. The District is spending its own funds on engineering and bid preparation for these projects and will spend the restricted funds on the actual construction costs that have been bid in accordance with ARPA guidelines in upcoming fiscal years. Accordingly, these funds are recorded as Unearned Grant Revenue on the Statements of Net Position at June 30, 2023.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023 AND 2022

Note 5 - Accounts receivable

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

	2023	2022
Receivables from customers	\$ 1,192,483	\$ 998,498
Unbilled receivables from customers	664,991	676,478
Other receivables	28,919	2,597
	\$ 1,886,393	\$ 1,677,573

Receivables from customers are reported net of an allowance for doubtful accounts of \$20,000 and \$28,000 as of June 30, 2023 and 2022, respectively.

Accounts Receivable – Connection Grants represent amounts due from the Community Foundation of the Lowcountry (CFLC) which operates programs called the Water Fund and Project SAFE that provide grants for low- and moderate-income homeowners to connect to the public water and sewer system, respectively. The District provides funding to the CFLC in the form of Bucks for a Better Island, a program that rounds up customer bills to the next highest dollar. This account also represents amount due from the Town of Hilton Head which is operating a program to provide sewer connection grants for low- and moderate-income renters and homeowners that may not fully qualify for Project-SAFE to connection to the public sewer system.

Note 6 - Sewer assessments

The District has constructed various sewer collection systems, the cost of which is to be repaid by annual sewer assessments collected by the Beaufort County treasurer from the property owners that benefited from these systems. These assessments are being collected annually and are expected to be paid in full beginning 2016 through 2044. Assessments receivable totaled \$2,222,985 and \$2,258,580 as of June 30, 2023 and 2022, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2023 and 2022, \$58,773 and \$69,671, respectively, of the assessments collected was recognized as interest income.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 7 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2023 and 2022 was as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2023</u>
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	\$ -	\$ -	\$ -	\$ 1,299,193
Construction in progress	<u>37,206</u>	<u>1,052,189</u>	<u>-</u>	<u>(39,406)</u>	<u>1,049,989</u>
Total capital assets not being depreciated	<u>1,336,399</u>	<u>1,052,189</u>	<u>-</u>	<u>(39,406)</u>	<u>2,349,182</u>
<u>Capital assets being depreciated:</u>					
Waterworks System	64,210,835	379,605	-	39,406	64,629,846
Sewer Collection System	54,256,168	811,764	-	-	55,067,932
Office Building and Improvements	4,391,129	112,990	-	-	4,504,119
Wastewater Treatment Plant	36,279,760	694,040	(1,861)	-	36,971,939
Transportation Equipment	1,341,156	211,483	(124,574)	-	1,428,065
Operations Equipment	2,082,690	57,741	(5,502)	-	2,134,929
Office Furniture and Equipment	<u>682,901</u>	<u>18,227</u>	<u>(26,140)</u>	<u>-</u>	<u>674,988</u>
Total capital assets being depreciated	<u>163,244,639</u>	<u>2,285,850</u>	<u>(158,077)</u>	<u>39,406</u>	<u>165,411,818</u>
<u>Less accumulated depreciation for:</u>					
Waterworks System	(40,417,763)	(2,041,216)	-	-	(42,458,979)
Sewer Collection System	(24,354,404)	(2,655,868)	-	-	(27,010,272)
Office Building and Improvements	(2,537,674)	(102,677)	-	-	(2,640,351)
Wastewater Treatment Plant	(26,155,424)	(84,270)	1,861	-	(26,237,833)
Transportation Equipment	(1,008,782)	(147,742)	124,574	-	(1,031,950)
Operations Equipment	(1,531,162)	(99,060)	5,502	-	(1,624,720)
Office Furniture and Equipment	<u>(656,354)</u>	<u>(9,701)</u>	<u>26,140</u>	<u>-</u>	<u>(639,915)</u>
Total accumulated depreciation	<u>(96,661,563)</u>	<u>(5,140,534)</u>	<u>158,077</u>	<u>-</u>	<u>(101,644,020)</u>
Total assets being depreciated	<u>66,583,076</u>	<u>(2,854,684)</u>	<u>-</u>	<u>39,406</u>	<u>63,767,798</u>
Year End Totals	<u>\$ 67,919,475</u>	<u>\$ (1,802,495)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,116,980</u>

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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

	June 30, 2021	Additions	Disposals	Transfers	June 30, 2022
<u>Capital assets not being depreciated:</u>					
Land	\$ 1,299,193	\$ -	\$ -	\$ -	\$ 1,299,193
Construction in progress	45,310	37,206	-	(45,310)	37,206
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
Sewer Collection System	53,552,764	665,454	-	37,950	54,256,168
Office Building and Improvements	4,391,129	-	-	-	4,391,129
Wastewater Treatment Plant	35,840,545	439,215	-	-	36,279,760
Transportation Equipment	1,482,433	-	(141,277)	-	1,341,156
Operations Equipment	1,897,651	208,251	(23,212)	-	2,082,690
Office Furniture and Equipment	722,428	8,915	(48,442)	-	682,901
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)
Sewer Collection System	(22,475,633)	(1,878,771)	-	-	(24,354,404)
Office Building and Improvements	(2,438,046)	(99,628)	-	-	(2,537,674)
Wastewater Treatment Plant	(25,343,304)	(812,120)	-	-	(26,155,424)
Transportation Equipment	(1,019,211)	(130,848)	141,277	-	(1,008,782)
Operations Equipment	(1,481,953)	(72,421)	23,212	-	(1,531,162)
Office Furniture and Equipment	(694,519)	(10,277)	48,442	-	(656,354)
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>

Depreciation expense for the years ended June 30, 2023 and 2022 was \$5,140,534 and \$5,142,783, respectively. Transfers relate to construction in progress completed during the year.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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 among other things, require the District to provide certain financial information and meet certain financial tests. The District's bond resolutions require that the "net earnings" (as defined in the bond resolution) are equal to at least 120% of the annual principal and interest requirements of all series of revenue parity bonds outstanding in that year. For the years ended June 30, 2023 and 2022, the District's "net earnings" were 243% and 282%, 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, 2023 and 2022, the assets acquired through finance purchase in the amount of \$203,133 are included in transportation equipment with accumulated amortization of \$94,511 and \$54,500, respectively, included in accumulated depreciation on the statement of net position. Amortization expense totaled \$40,011 and \$40,011 for the years ended June 30, 2023 and 2022, 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 was obligated under a note dated November 30, 1988, with a balance of \$0 and \$7,939 at June 30, 2023 and 2022, 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 was 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, 2023 AND 2022

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 \$1,929,172 and \$2,070,344 at June 30, 2023 and 2022, respectively.

Bonds payable – Revenue – DBP

On August 21, 2017, the District issued \$515,000 of Series 2017A revenue bonds as a bank loan for purposes of funding sewer connections in certain previously unserved areas of the District. Interest on the bonds is payable semi-annually at 2.69% per annum. Principal payments are due annually on June 1st of each year beginning in 2018 and continuing through 2032. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20-year period and will be collected by the county treasurer. The 2017A revenue bonds outstanding amounted to \$331,265 and \$363,422 at June 30, 2023 and 2022, respectively.

On November 2, 2020, the District issued \$14,925,000 of Series 2020B revenue refunding bonds as a bank loan to take advantage of favorable interest rates and to restructure the payback period to reduce near term revenue debt service requirements. Proceeds were used to currently refund the 2017 SRF loan, the Series 2014A revenue bonds, the 2015A revenue refunding bonds, the 2015B revenue refunding bonds, and the Series 2020 revenue bonds. Proceeds in the amount of \$14,822,366 along with \$1,267,584 of the District's accrued debt service funds were used to pay the principal, accrued interest, and redemption premiums due on the refunded issuances as of November 2, 2020. The remaining proceeds were used to pay issuance costs. The refunding transaction resulted in a deferred amount on the refunding of \$1,001,304, which was recorded as a deferred outflow of resources and is being amortized over the 4.58 remaining life of the old bonds. The unamortized balance at June 30, 2023 and 2022 was \$418,727 and \$637,194, 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 \$12,505,000 and \$13,720,000 at June 30, 2023 and 2022, 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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 8 – Long-term obligations (continued)

Bonds payable – Revenue – DBP (continued)

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, 2023 and 2022, the outstanding balance of the 2012A defeased bonds was \$2,855,000 and \$2,975,000, 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, 2023 and 2022 was \$115,912 and \$222,907, 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 \$1,690,000 and \$2,520,000 at June 30, 2023 and 2022, respectively.

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

Bonds payable – General Obligation – DBP

On November 2, 2020, the District issued \$9,910,000 of general obligation refunding bonds as a bank loan to take advantage of favorable interest rates. Proceeds were used to refund the 2008 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 in the year of refunding. As a result of the refunding, the District reduced its total debt service requirements by \$837,279, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$658,550. Interest on the bonds is payable semi-annually at 1.25% per annum. Principal payments are due annually on May 1st of each year beginning in 2022 and continuing through 2028. The 2020 general obligation bonds outstanding amounted to \$5,910,000 and \$7,295,000 at June 30, 2023 and 2022, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023 AND 2022

Note 8 - Long-term obligations (continued)

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	
2024	\$ 3,693,760	\$ 281,121	\$ 36,005	\$ 3,653	\$ 4,014,539
2025	3,534,251	234,912	80,921	2,962	3,853,046
2026	3,582,289	193,256	-	-	3,775,545
2027	3,660,390	148,675	-	-	3,809,065
2028	2,908,562	103,097	-	-	3,011,659
2029 - 2033	4,736,016	143,133	-	-	4,879,149
2034 - 2036	485,169	9,596	-	-	494,765
Grand Total	<u>\$ 22,600,437</u>	<u>\$ 1,113,790</u>	<u>\$ 116,926</u>	<u>\$ 6,615</u>	<u>\$ 23,837,768</u>

Note 9 - Non-current liabilities

The non-current liability activity during fiscal years 2023 and 2022 was as follows:

	June 30, 2022	Additions	Reductions	June 30, 2023	Amounts due within one year
Revenue bonds - DBP	16,603,422	235,000	(2,077,157)	14,761,265	2,111,170
GO bonds - DBP	7,295,000	-	(1,385,000)	5,910,000	1,440,000
Notes payable - Revenue/other - DBP	2,078,283	-	(149,111)	1,929,172	142,589
Finance Purchase	152,931	-	(36,006)	116,925	36,005
Net pension liability	4,767,968	445,105	-	5,213,073	-
Subtotal	<u>\$ 30,897,604</u>	<u>\$ 680,105</u>	<u>\$ (3,647,274)</u>	<u>\$ 27,930,435</u>	<u>\$ 3,729,764</u>
Less current portion	<u>(3,647,273)</u>			<u>(3,729,764)</u>	
Noncurrent liabilities	<u>\$ 27,250,331</u>			<u>\$ 24,200,671</u>	

	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	<u>\$ 35,168,821</u>	<u>\$ -</u>	<u>\$ (4,271,217)</u>	<u>\$ 30,897,604</u>	<u>\$ 3,647,273</u>
Less current portion	<u>(3,585,088)</u>			<u>(3,647,273)</u>	
Noncurrent liabilities	<u>\$ 31,583,733</u>			<u>\$ 27,250,331</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023 AND 2022

Note 10 - Economic dependence

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

Note 11 - Lease arrangements

The District leases space on its water tower facilities to various cellular phone companies for attachment of antennae with agreements ranging from one years to ten years with interest rates between 3% and 5%. The District recognized \$617,196 and \$590,318 of revenue for the years ended June 30, 2023 and 2022, respectively, including lease revenue of \$584,104 and \$571,437, respectively, and interest revenue of \$33,092 and 18,881, respectively. Principal and interest payments due under non-cancellable terms are as follows:

Years ended	Principal	Interest	Total
June 30,			
2024	328,120	31,777	345,056
2025	284,539	22,836	307,375
2026	258,713	14,300	273,013
2027	88,986	6,538	95,524
2028	40,407	3,869	44,276
2029 - 2030	88,551	4,024	92,575
Grand Total	1,089,316	83,344	1,172,660

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 \$86,094 and \$83,965 for the years ended June 30, 2023 and 2022, 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 accidents. 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.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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

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, 2023 and 2022. During 2023 and 2022, 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, 2023 and 2022, \$9,171 and \$125,561, respectively, was received for non-disaster related insurance recoveries of which \$7,471, and \$125,561, respectively, were offset against the related repair expense. The remaining \$1,700 for the year ended June 30, 2023 is included in disaster and insurance recovery income on the statement of revenues, expenses, and changes in net position as the related asset replacement was not specifically identifiable to remove from the District's capital asset records.

On September 4, 2020, Hurricane Dorian impacted Beaufort County. Hilton Head Island received tropical storm wind gusts of 67 mph. There was no damage 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 years ended June 30, 2023 and 2022, \$0 and \$7,854, 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.

Note 13 - Construction and development commitments

Policy

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

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 \$1,053,370 and \$1,050,834 for the years ended June 30, 2023 and 2022, respectively, of which \$283,417 and \$254,677, respectively, were injected into the ASR system. Water withdrawn from the ASR system totaled \$234,598 and \$235,113 for the years ended June 30, 2023 and 2022, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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 \$126,046 and \$494,675 and payments of capacity fees totaling \$356,520 and \$1,396,743 were collected during the fiscal years ended June 30, 2023 and 2022, 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 \$108,627 and \$450,805 for the years ended June 30, 2023 and 2022, respectively, and are included as part of developer contributions of systems. In 2023 and 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 \$17,419 and \$43,870 were received under these agreements during the years ended June 30, 2023 and 2022, respectively, and are included as part of the developer contributions of systems.

Construction commitments

The District had outstanding engineering and construction contract commitments of \$1,618,272 and \$0 at June 30, 2023 and 2022, respectively.

Note 14 - Deferred compensation plans

Section 457/401(k) Plan

In April 2004, the District reactivated its Internal Revenue Code Section 457 retirement plan. All persons employed by the District on March 31, 2004 became eligible employees. In May 2012, the District also adopted a 401(k) Plan option. Under the Plan, all participants may make an elective deferral up to 100% of their annual compensation subject to the Internal Revenue Code maximum contribution limitations. The District makes a 6% matching contribution to each eligible participant's account who has not chosen to also participate in the South Carolina Retirement Plan. Employee contributions for the years ended June 30, 2023 and 2022 were \$105,206 and \$130,226, respectively. The matching contribution for the years ended June 30, 2023 and 2022 was \$6,240 and \$8,902, respectively. Participants are immediately vested in all contributions and earnings thereon.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 14 - Deferred compensation plans (continued)

South Carolina Retirement System

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

General Information about the Pension Plan

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 14 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

Contributions. Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. The Retirement Funding and Administration Act of 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. 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. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by 1 percentage point each year until reaching 18.41 percent for SCRS but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The board shall increase the employer contribution rates as necessary to meet the amortization period set in statute.

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

Required employee contribution rates for the years ended June 30, 2023 and 2022 were 9.00%. Required employer contribution rates for the years ended June 30, 2023 and 2022 were 17.41% and 16.41%, respectively. The District does not participate in the incidental death benefit program. The District's required contribution for the years ended June 30, 2023 and 2022 was \$466,620 and \$424,042, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

Net Pension Liability

At June 30, 2023 and 2022, the District reported a liability of \$5,213,073 and \$4,767,968, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021 rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2022, using generally accepted actuarial principles. There was no legislation enacted during the 2022 legislative session that had a material change in the benefit provisions for the SCRS. The District's proportion of the net pension liability was based on a projection of the District's contributions for the year ended June 30, 2022 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2022. At June 30, 2023 and 2022, the District's proportion was 0.0215 percent and 0.022 percent, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 14 - Deferred compensation plans (Continued)

Deferred Outflows/Inflows of Resources

For the year ended June 30, 2023, the District recognized pension expense of \$408,173. At June 30, 2023, 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	\$ 45,292	\$ 22,718
Net difference between projected and actual earnings on pension plan investments	8,040	-
Changes in proportion and differences between proportionate share of contributions	79,419	164,247
Assumption changes	167,195	-
District contributions subsequent to the measurement date	466,620	-
Total	<u>\$ 766,566</u>	<u>\$ 186,965</u>

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:

	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	<u>\$ 930,224</u>	<u>\$ 854,175</u>

The \$466,620 and \$424,042 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2023 and 2022, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2023 and 2023, 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, 2023 AND 2022

Note 14 - Deferred compensation plans (Continued)

Deferred Outflows/Inflows of Resources (continued)

As of June 30, 2023		As of June 30, 2022	
Year ended June 30,	Deferred Outflows (Inflows) of Resources	Year ended June 30,	Deferred Outflows (Inflows) of Resources
2024	\$ 51,385	2023	\$ (22,116)
2025	\$ 73,941	2023	\$ (44,063)
2026	\$ (148,299)	2024	\$ (22,648)
2027	\$ 135,954	2025	\$ (259,166)
2028	\$ -	2026	\$ -
2029 - 2030	\$ -	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, 2022 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, 2022, 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, 2023 AND 2022

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 2022 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

<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	46.0%	6.79%	3.12%
Bonds	26.0%	-0.35%	-0.09%
Private Equity ¹	9.0%	8.75%	0.79%
Private Debt ¹	7.0%	6.00%	0.42%
Real Assets	12.0%		
Real Estate ¹	9.0%	4.12%	0.37%
Infrastructure ¹	3.0%	5.88%	0.18%
Total Expected Return ²	100.0%		4.79%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			<u>7.04%</u>

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

² Portable Alpha Strategies, which 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.

Discount Rate

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023 AND 2022

Note 14 - Deferred compensation plans (Continued)

Sensitivity Analysis

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

	As of June 30, 2023			As of June 30, 2022		
	1% Decrease (6.0)%	Current Discount Rate (7.0)%	1% Increase (8.0)%	1% Decrease (6.0)%	Current Discount Rate (7.0)%	1% Increase (8.0)%
District's proportionate share of the net pension liability	<u>\$ 6,683,803</u>	<u>\$ 5,213,073</u>	<u>\$ 3,990,352</u>	<u>\$ 6,245,444</u>	<u>\$ 4,767,968</u>	<u>\$ 3,539,879</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 \$53,143 and \$53,906 to PEBA as of June 30, 2023 and 2022, respectively, representing required employer and employee contributions for the month of June 2023 and 2022, respectively, for the SCRS. These amounts are included in Accrued Payroll & Other Liabilities in the statements of net position and were paid in July 2023 and 2022, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023 AND 2022

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,	
	2023	2022
Net investment in capital assets		
Net property, plant and equipment in service	66,116,980	67,919,475
Less: Debt as disclosed in Notes 7 & 8	(22,717,363)	(26,129,636)
Deferred amount on refunding, net	534,639	860,101
Accounts payable for capital assets	(299,288)	(47,379)
	43,634,968	42,602,561
Restricted for debt service & capital grants	2,196,596	887,721
Unrestricted	10,550,531	11,242,183
Total net position	\$ 56,382,095	\$ 54,732,465

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of the District's South Carolina Retirement System Contributions
For the fiscal year ended June 30, 2023⁵ - Last ten years**

	<i>South Carolina Retirement System</i>									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 466,620	\$ 424,042	\$ 387,521	\$ 370,538	\$ 352,212	\$ 307,158	\$ 272,562	\$ 222,257	\$ 239,148	\$ 230,376
Contributions in relation to the contractually required contribution	466,620	424,042	387,521	370,538	352,212	307,158	272,562	222,257	239,148	230,376
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Hilton Head No. 1 PSD's covered payroll	\$ 2,680,184	\$ 2,584,048	\$ 2,514,738	\$ 2,404,535	\$ 2,444,222	\$ 2,290,514	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558
Contributions as a percentage of covered payroll	17.41%	16.41%	15.41%	15.41%	14.41%	13.41%	11.41%	10.91%	10.75%	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, 2023 - Last ten years**

	<i>South Carolina Retirement System</i>									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Measurement date	6/30/2022	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	0.021504%	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	\$ 5,213,073	\$ 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	\$ 2,584,048	\$ 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
Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered payroll during the measurement period	201.74056%	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	57.10000%	60.70000%	50.70000%	54.40000%	54.10000%	53.30000%	52.90000%	57.00000%	59.90000%	53.38821%

Source - South Carolina Retirement System

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, 2023

	Fiscal Year 2023		FY 23 Actual to FY 23 Budget Comparison	
	Actual	Budget	Dollars	%
			Favorable (Unfavorable)	
Operating Revenues				
Water Service	\$ 7,774,846	\$ 8,020,000	\$ (245,154)	-3.1%
Sewer Service	6,051,117	6,052,000	(883)	0.0%
Tap In Fees - Water	239,996	186,000	53,996	29.0%
Connection Fees - Sewer	344,630	180,000	164,630	91.5%
Golf Course Irrigation	167,553	135,000	32,553	24.1%
Disaster recovery, net	1,700	-	1,700	100.0%
Service Fees	19,913	20,100	(187)	-0.9%
Other Operating Revenues	90,288	45,000	45,288	100.6%
Total Operating Revenues	14,690,043	14,638,100	51,943	0.4%
Departmental Expenses				
Payroll & Related	4,251,569	4,531,400	279,831	6.2%
Administrative Expenses	1,091,603	1,172,500	80,897	6.9%
Operations	3,259,419	2,962,800	(296,619)	-10.0%
Maintenance	1,409,057	1,585,200	176,143	11.1%
Purchased Water	1,004,551	1,073,500	68,949	6.4%
Water Tap In Expenses	173,700	139,500	(34,200)	-24.5%
Sewer Connection Expenses	325,863	168,000	(157,863)	-94.0%
Professional Fees	287,305	258,900	(28,405)	-11.0%
Total Departmental Expenses	11,803,067	11,891,800	88,733	0.7%
Depreciation	5,140,534	5,190,000	49,466	1.0%
Total Operating Expenses	16,943,601	17,081,800	138,199	0.8%
Operating income (loss)	(2,253,558)	(2,443,700)	190,142	7.8%
Non-operating revenues				
Property taxes-G.O. Debt Levy	1,583,535	1,475,000	108,535	7.4%
Property taxes-Operations Levy	1,155,522	1,060,000	95,522	9.0%
Rental Income	86,095	85,000	1,095	1.3%
Tower Lease Income	584,104	595,500	(11,396)	-1.9%
Interest Income - Leases	33,091	-	33,091	100.0%
Interest Income	604,314	116,200	488,114	420.1%
Gain (Loss) of disposal of equipment	49,240	30,000	19,240	64.1%
Total Non-operating Revenues	4,095,901	3,361,700	734,201	21.8%
Non-operating Expenses				
Interest expense	312,317	322,600	10,283	3.2%
Bond Defeasance Amortization	325,462	325,500	38	0.0%
Bond Issuance Costs	37,500	45,000	7,500	0.0%
Total Non-operating Expenses	675,279	693,100	17,821	2.6%
Total Non-operating Revenues/Exp.	3,420,622	2,668,600	752,022	28.2%
Increase (decrease) in net position, before capital contributions	1,167,064	224,900	942,164	418.9%
Water Capacity Fee	93,260	114,000	(20,740)	-18.2%
Sewer Capacity Fee	263,260	156,000	107,260	68.8%
Developer Contributions of Systems	126,046	50,000	76,046	152.1%
Total Capital Contributions	482,566	320,000	162,566	50.8%
Change in net position	\$ 1,649,630	\$ 544,900	\$ 1,104,730	202.7%
Net position, beginning of the fiscal year	\$ 54,732,465			
Net position, June 30, 2023	\$ 56,382,095			

Notes to Budgetary Comparison Schedule

Budgetary Highlights

Operating Revenues: Actual operating revenues are \$14,690,043 versus budgeted operating revenues of \$14,638,100 which results in a variance of \$51,943 or 0.4% above budget.

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

- Water Service revenues are below budget by \$245,154 or 3.1%. This is due to lower consumption than expected related to heavy rainfall and weather patterns. Consumption levels were budgeted at prior year levels. However, billed water consumption for fiscal year (FY) 2023 declined 100.4 million gallons from 2,087.0 million gallons billed during FY 2022 to 1,986.6 million gallons billed during FY 2023. Heavy rainfall affected the District's service area during portions of both FY 2023 and 2022 with 55.9 inches recorded at the treatment plant during FY 2023 versus 52.9 inches during the previous fiscal year.
- Sewer Service revenues are below budget by \$883 or 0.0%. Lower consumption was offset by continued growth in sewer connections. These revenues are not as adversely affected by lower consumption due to no sewer component on irrigation-only meters and the 10,000 gallon residential sewer cap.
- Tap In Fees – Water and Connection Fees - Sewer are above budget due to more connections than expected including the town funded sewer connection program and higher average connection costs. These are offset by higher Water Tap In Expenses and Sewer Connection Expenses than budgeted.

Total Operating Expenses: Total operating expenses are \$138,199 or 0.8% under budget. The following is a summary of material variances for the Operating Expenses categories:

- Payroll & related expenses are under budget by \$279,831 or 6.2% which is related to the timing of filling positions. Additionally, this variance also contains the non-cash adjustment to pension expense of \$58,447 related to GASB accounting standards.
- Administrative expenses are under budget by \$80,897 or 6.9%. This is related to lower bad debts, insurance expense, computer supplies, and special functions than expected. The FY 2023 special functions budget contained a \$10,000 allocation for the Barnwell tabby project which did not occur during FY 2023. This will be carried forward for potential utilization in FY 2024.
- Operations expenses are over budget by \$296,619 or 10.0%. The District saw vendor/inflationary price increases, particularly in chemicals, that were higher than anticipated in the budget.

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.

- Maintenance is under budget by \$176,143 or 11.1% mainly due to lower tower maintenance and treatment plant maintenance than budgeted. The savings in tower maintenance is related to a switch in vendors for the upcoming fiscal year. The current vendor did not continue the contract for the current year.
- Purchased Water is under budget by \$68,949 or 6.4% related to the lower billed consumption slightly offset by BJWSA ending the off-peak rate period at its contractual end date of February this year instead of extending it to March as they have done in prior years.

Non-Operating Revenues: Actual non-operating revenues are \$4,095,901 versus budgeted non-operating revenues of \$3,361,700 which results in a variance of \$734,201 or 21.8% over budget. This is mostly related to Interest Income, which is \$488,114 over budget in line with higher market interest rates. Staff endeavors to keep all cash not needed for current operations in the SC Local Government Investment Pool which is currently seeing rates over 5.0%. Operations and GO Debt Property Tax levies also came in higher than anticipated due to market growth in the District's service area.

Capital Contributions: Capacity fees and developer contributions of systems came in \$162,566 over budget. This is due to higher sewer capacity fees than anticipated due to more sewer connections than anticipated as well as a non-cash developer contribution of system.

The change in net position for the period was \$1,649,630 which was \$1,104,730 higher than the budgeted change in net position of \$544,900. Operating income came in around \$190,000 higher than budgeted with higher tap in fees, lower payroll expenses, lower maintenance, and lower purchased water expenses offsetting lower water revenues, inflationary operations expense increases, and higher tap in expenses. Strong interest earnings and increases in the taxable values of the District brought non-operating revenues higher than anticipated with non-operating net income coming in around \$750,000 higher than budgeted. Higher sewer capacity fees than budgeted and a non-cash developer contribution of systems made up the remaining overage to budget.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

Summary Schedule of Debt

JUNE 30, 2023

Description	Rate	6/30/2021	Addition	Reduction	6/30/2022	Addition	Reduction	6/30/2023	Current
Revenue Bonds - DBP									
Series 2017A	2.69%	394,736	-	(31,314)	363,422	-	(32,157)	331,265	33,021
Series 2020B	1.21%	14,925,000	-	(1,205,000)	13,720,000	-	(1,215,000)	12,505,000	1,225,000
Series 2020C	0.94%	3,340,000	-	(820,000)	2,520,000	-	(830,000)	1,690,000	840,000
Series 2023	4.15%	-	-	-	-	235,000	-	235,000	13,149
Total Revenue Bonds - DBP		<u>18,659,736</u>	-	<u>(2,056,314)</u>	<u>16,603,422</u>	235,000	<u>(2,077,157)</u>	<u>14,761,265</u>	2,111,170
Notes Payable - Revenue/Other - DBP									
SCJEDA - Notes Payable	0.00%	25,939	-	(18,000)	7,939	-	(7,939)	-	-
SIRF Series 2014 Revenue Bonds	1.00%	2,210,113	-	(139,769)	2,070,344	-	(141,172)	1,929,172	142,589
Total Notes Payable - Revenue/Other		<u>2,236,052</u>	-	<u>(157,769)</u>	<u>2,078,283</u>	-	<u>(149,111)</u>	<u>1,929,172</u>	142,589
Total Revenue /Other Debt		<u>20,895,788</u>			<u>18,681,705</u>			<u>16,690,437</u>	
General Obligation Bonds - DBP									
Series 2020	1.25%	8,630,000	-	(1,335,000)	7,295,000	-	(1,385,000)	5,910,000	1,440,000
Total General Obligation Bonds - DBP		<u>8,630,000</u>	-	<u>(1,335,000)</u>	<u>7,295,000</u>	-	<u>(1,385,000)</u>	<u>5,910,000</u>	1,440,000
Finance Purchase Liabilities									
	Various	188,937	-	(36,006)	152,931	-	(36,005)	116,926	36,005
Total Long-Term Debt Liability		29,714,725	-	(3,585,089)	26,129,636	235,000	(3,647,273)	22,717,363	3,729,764
Less current portion		<u>(3,585,088)</u>			<u>(3,647,273)</u>			<u>(3,729,764)</u>	
Total Long Term Debt		<u>\$ 26,129,637</u>			<u>\$ 22,482,363</u>			<u>\$ 18,987,599</u>	

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
Schedule of Bond & Note Principal and Interest Payments
 JUNE 30, 2023

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		\$235,000 Revenue Bond 2023 FFA Dated Feb 24, 2023		BOND TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
	2024	8,911	33,022	151,311	1,225,000	15,886	840,000	73,875	1,440,000	12,380	13,149	262,363	3,551,171
2025	8,025	33,908	136,488	1,245,000	7,990	850,000	55,875	1,245,000	9,207	16,323	217,585	3,390,231	3,607,816
2026	7,110	34,823	121,423	2,085,000	-	-	40,313	1,300,000	8,529	17,000	177,375	3,436,823	3,614,198
2027	6,174	35,759	96,194	2,105,000	-	-	24,062	1,355,000	7,824	17,705	134,254	3,513,464	3,647,718
2028	5,212	36,721	70,725	2,135,000	-	-	7,125	570,000	7,089	18,440	90,151	2,760,161	2,850,312
2029	4,224	37,709	44,891	1,880,000	-	-	-	-	6,324	19,205	55,439	1,936,914	1,992,353
2030	3,210	38,723	22,143	1,830,000	-	-	-	-	5,527	20,003	30,880	1,888,726	1,919,606
2031	2,168	39,765	-	-	-	-	-	-	4,697	20,833	6,865	60,598	67,463
2032	1,098	40,835	-	-	-	-	-	-	3,832	21,697	4,930	62,532	67,462
2033	-	-	-	-	-	-	-	-	2,932	22,598	2,932	22,598	25,530
2034	-	-	-	-	-	-	-	-	1,994	23,535	1,994	23,535	25,529
2035	-	-	-	-	-	-	-	-	1,017	24,512	1,017	24,512	25,529
2036	-	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 46,132</u>	<u>\$ 331,265</u>	<u>\$ 643,175</u>	<u>\$ 12,505,000</u>	<u>\$ 23,876</u>	<u>\$ 1,690,000</u>	<u>\$ 201,250</u>	<u>\$ 5,910,000</u>	<u>\$ 71,352</u>	<u>\$ 235,000</u>	<u>\$ 985,785</u>	<u>\$ 20,671,265</u>	<u>\$ 21,657,050</u>
Current		<u>\$ (33,022)</u>		<u>\$ (1,225,000)</u>		<u>\$ (840,000)</u>		<u>\$ (1,440,000)</u>		<u>\$ (13,149)</u>		<u>\$ (3,551,171)</u>	
Noncurrent		<u>\$ 298,243</u>		<u>\$ 11,280,000</u>		<u>\$ 850,000</u>		<u>\$ 4,470,000</u>		<u>\$ 221,851</u>		<u>\$ 17,120,094</u>	

For the Year ending June 30,	\$2,921,430 SRF Revenue Note Dated July 23, 2014		NOTE TOTALS			BOND & NOTE TOTALS		
	Interest	Principal	Total Interest	Total Principal	Total	Total Interest	Total Principal	Total
	2024	18,758	142,589	18,758	142,589	161,347	281,121	3,693,760
2025	17,327	144,020	17,327	144,020	161,347	234,912	3,534,251	3,769,163
2026	15,881	145,466	15,881	145,466	161,347	193,256	3,582,289	3,775,545
2027	14,421	146,926	14,421	146,926	161,347	148,675	3,660,390	3,809,065
2028	12,946	148,401	12,946	148,401	161,347	103,097	2,908,562	3,011,659
2029	11,457	149,890	11,457	149,890	161,347	66,896	2,086,804	2,153,700
2030	9,952	151,395	9,952	151,395	161,347	40,832	2,040,121	2,080,953
2031	8,433	152,914	8,433	152,914	161,347	15,298	213,512	228,810
2032	6,898	154,449	6,898	154,449	161,347	11,828	216,981	228,809
2033	5,347	156,000	5,347	156,000	161,347	8,279	178,598	186,877
2034	3,782	157,566	3,782	157,566	161,348	5,776	181,101	186,877
2035	2,200	159,147	2,200	159,147	161,347	3,217	183,659	186,876
2036	603	120,409	603	120,409	121,012	603	120,409	121,012
	<u>\$ 128,005</u>	<u>\$ 1,929,172</u>	<u>\$ 128,005</u>	<u>\$ 1,929,172</u>	<u>\$ 2,057,177</u>	<u>\$ 1,113,790</u>	<u>\$ 22,600,437</u>	<u>\$ 23,714,227</u>
Current		<u>\$ (142,589)</u>		<u>\$ (142,589)</u>			<u>\$ (3,693,760)</u>	
Noncurrent		<u>\$ 1,786,583</u>		<u>\$ 1,786,583</u>			<u>\$ 18,906,677</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>	73-76
Revenue Capacity <i>These schedules contain information identifying the factors affecting the District's ability to generate revenue</i>	77-82
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>	83-87
Demographic and Economic Information <i>These schedules offer demographic and economic indicators showing the environment in which the District operates</i>	88-89
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>	90-93

Financial Trends

Statements of Revenues, Expenses, and Debt Service per Bond Covenants⁷

Last Ten Fiscal Years

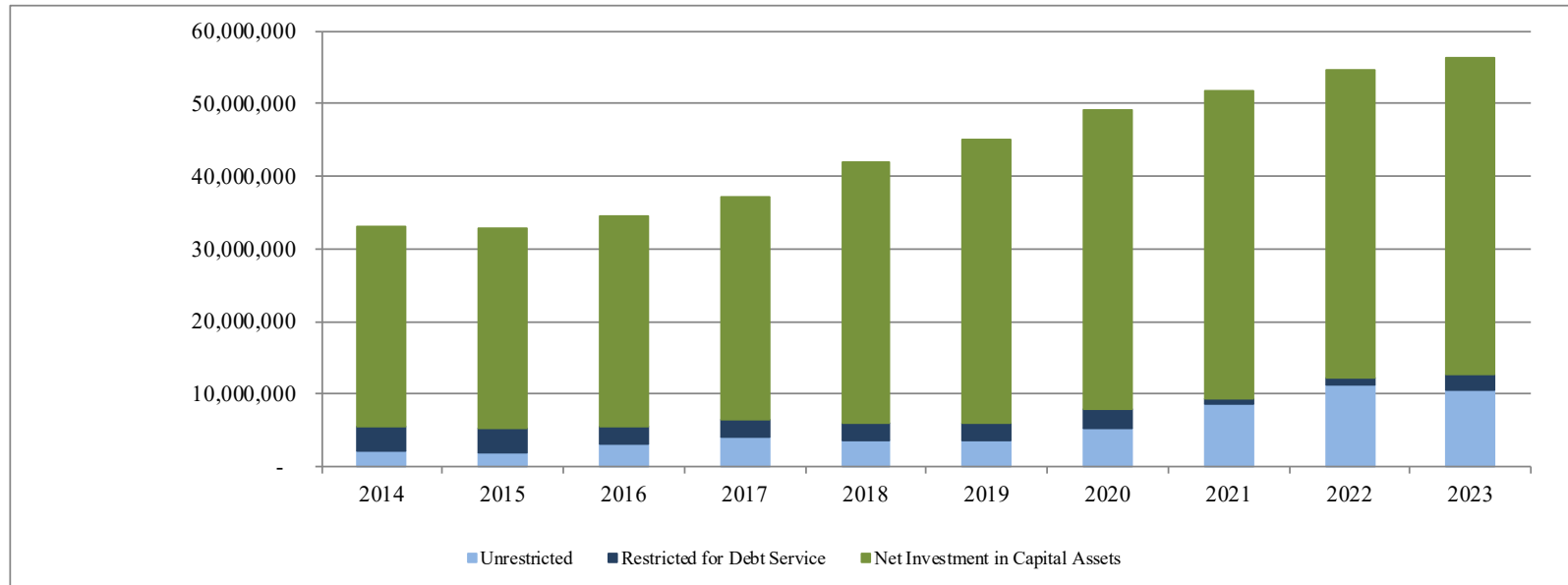
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating Revenues										
Water Service	\$5,777,606	\$5,727,692	\$6,009,410	\$6,680,175	\$6,586,002	\$7,148,606	\$7,735,802	\$7,746,340	\$7,817,334	\$7,774,846
Sewer Service	4,736,919	4,838,019	5,056,081	5,143,168	5,226,965	5,408,090	5,719,313	5,852,395	6,013,685	6,051,117
Water Tap In Fees	124,837	106,202	96,427	137,423	213,517	180,487	240,179	247,227	214,342	239,996
Sewer Connection Fees	117,505	84,543	109,984	219,483	229,355	278,737	242,418	212,488	216,469	344,630
Availability Fees	597,582	565,423	525,302	506,930	491,474	38,391	23,015	14,662	26,118	19,913
Service Fees	44,174	42,646	39,113	29,105	34,059	182,516	155,676	207,233	155,994	167,553
Golf Course Irrigation	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	1,700
Other Operating Revenues	17,771	21,264	284,775	28,676	53,566	48,281	91,432	265,862	51,992	90,288
Total Operating Revenues	\$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	\$14,690,043
Operating Expenses										
Payroll and Related Expenses	\$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	\$4,251,569
Administrative Expenses	790,982	797,358	767,276	877,410	961,211	957,919	1,006,662	1,020,574	1,026,137	1,091,603
Operations Expenses	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	3,259,419
Maintenance Expenses	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	1,409,507
Water Tap In Expenses	60,078	90,462	115,995	191,120	216,109	171,891	152,870	171,909	166,639	173,700
Sewer Connection Expenses	85,401	82,353	150,570	174,722	221,696	247,232	215,867	200,934	198,236	325,863
Purchased Water	817,166	987,407	746,550	1,238,997	1,343,588	1,387,939	892,181	899,685	1,031,270	1,004,551
Professional Fees	237,182	305,698	229,387	99,701	146,084	127,011	342,116	203,678	248,636	287,305
Depreciation	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	5,140,534
Total Operating Expenses	\$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	\$16,943,601
Operating Income (Loss)	(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)	(2,253,558)
Non-Operating Revenues (Expenses)										
Property Taxes-Debt Service	\$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	\$1,583,535
Property Taxes-Operations Levy	901,453	913,931	931,507	973,607	984,296	1,011,176	1,034,553	1,071,896	1,086,204	\$1,155,522
Interest Income	142,313	132,549	92,713	99,041	108,346	156,389	184,093	102,306	109,605	\$604,314
Interest Income - Leases	-	-	-	-	-	-	-	15,992.00	18,881	\$33,092
Tower Leases	531,703	508,185	471,540	531,964	462,986	485,678	625,067	537,442	571,437	\$86,094
Rental Income	80,096	80,579	78,552	79,115	79,068	79,757	79,758	78,156	83,965	\$584,104
Gain (Loss) on Disposal	-	-	1,500.00	3,500.00	95,716	15,000	-	2,500	38,540	49,240
Bond Issuance Costs	(38,685)	(67,329)	(119,950)	-	(69,609)	-	(42,056)	(225,650)	-	(37,500)
Amortization of Bond Costs	(223,222)	(223,222)	(243,693)	(256,428)	(256,428)	(256,428)	(256,428)	(265,132)	(325,462)	(325,462)
Interest Expense	(1,661,902)	(1,613,384)	(1,230,078)	(1,091,811)	(1,030,789)	(941,525)	(841,047)	(511,229)	(350,625)	(312,317)
Total Non-Operating Income (Loss)	\$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	\$3,420,622
Net Income (loss) before Capital per Financial Statements	(\$923,245)	(\$1,098,079)	\$225,930	\$310,587	(\$655,130)	\$11,599	\$1,403,473	\$1,449,343	\$1,124,915	\$1,167,064
Capacity Fees	477,179	631,652	585,744	565,093	565,672	878,264	864,478	1,157,787	1,396,743	356,520
Add: Depreciation	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	5,140,534
Net Pension Expense	-	288,870	298,810	251,759	514,614	382,374	560,016	613,324	290,852	408,173
SCRS Retirement Contributions	-	(241,688)	(222,257)	(272,562)	(307,158)	(352,212)	(367,120)	(387,521)	(424,042)	(466,620)
Amortization	223,222	223,222	243,693	247,787	256,428	256,428	256,428	265,132	325,462	325,462
Bond Issuance Costs	38,685	67,329	119,950	-	69,609	-	42,056	225,650	-	37,500
Interest Expense (Bonds)	1,661,902	1,613,384	1,230,078	1,100,452	1,030,789	941,525	841,047	509,935	347,001	308,748
Assessments - Debt Service	382,702	486,300	452,658	157,973	190,300	190,184	188,409	200,485	209,221	222,184
Less: Property Taxes - Debt Service	(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)	(1,583,535)
Net Earnings Available for Debt Service	\$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	\$5,916,031
Debt Service on Revenue Bonds	\$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	\$2,437,980
Required per Bond Covenants (120%)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Coverage of Debt Service by Net	148%	127%	175%	141%	124%	146%	183%	288%	282%	243%
Debt Coverage without Capacity Fees	134%	111%	158%	127%	110%	124%	162%	244%	225%	228%

⁷ Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. 2022 and onward reflect implementation of GASB 87.

Schedule of Changes in Net Position⁸

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating Income (Loss from operations)	\$ (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)	\$ (2,253,558)
Total Non-Operating Income (Loss)	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	3,420,622
Capital Contributions and Assessments	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	482,566
Changes in net position	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	1,649,630
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	36,163,837									
Net position at beginning of year, as restated	32,100,518	33,082,658	32,879,110	34,509,883	37,154,882	41,951,871	45,177,038	49,109,002	51,716,132	54,732,465
Net position at end of year	\$ 33,082,658	\$ 32,879,110	\$ 34,509,883	\$ 37,154,882	\$ 41,951,871	\$ 45,177,038	\$ 49,109,002	\$ 51,716,132	\$ 54,732,465	\$ 56,382,095

Net Position at End of Year



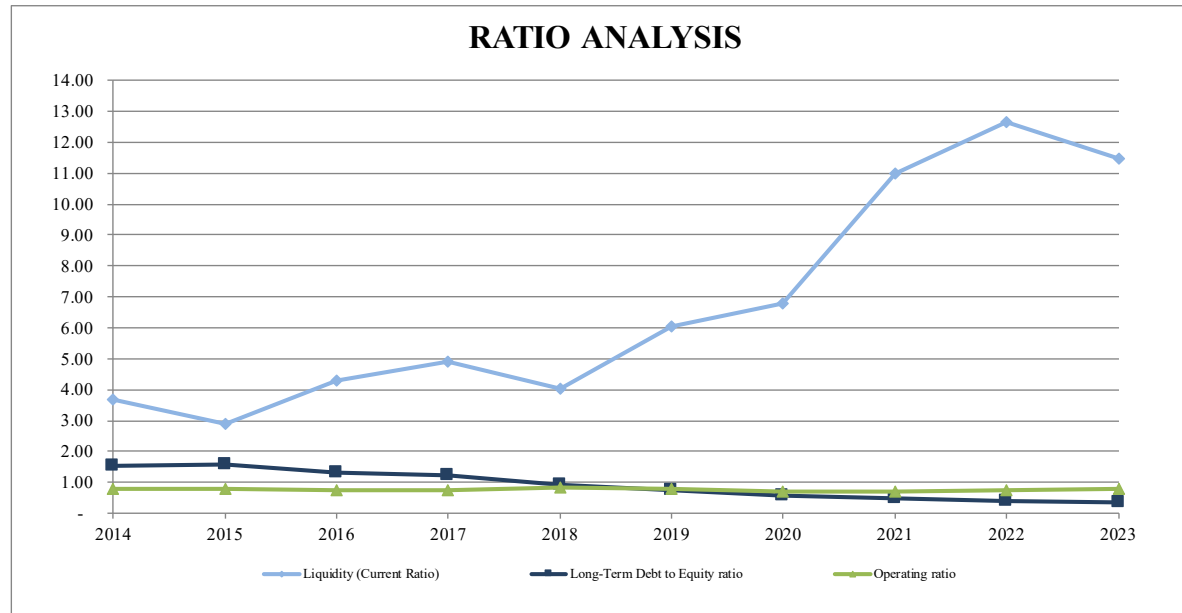
⁸ Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. 2022 and onward reflect implementation of GASB 87.

Net Position by Component⁹

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net position										
Net investment in capital assets	\$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	\$43,634,968
Restricted for debt service	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	2,196,596
Unrestricted	2,209,315	1,864,770	3,045,794	4,117,237	3,503,133	3,515,934	5,326,557	8,578,183	11,242,183	10,550,531
Net position	<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>	<u>\$56,382,095</u>

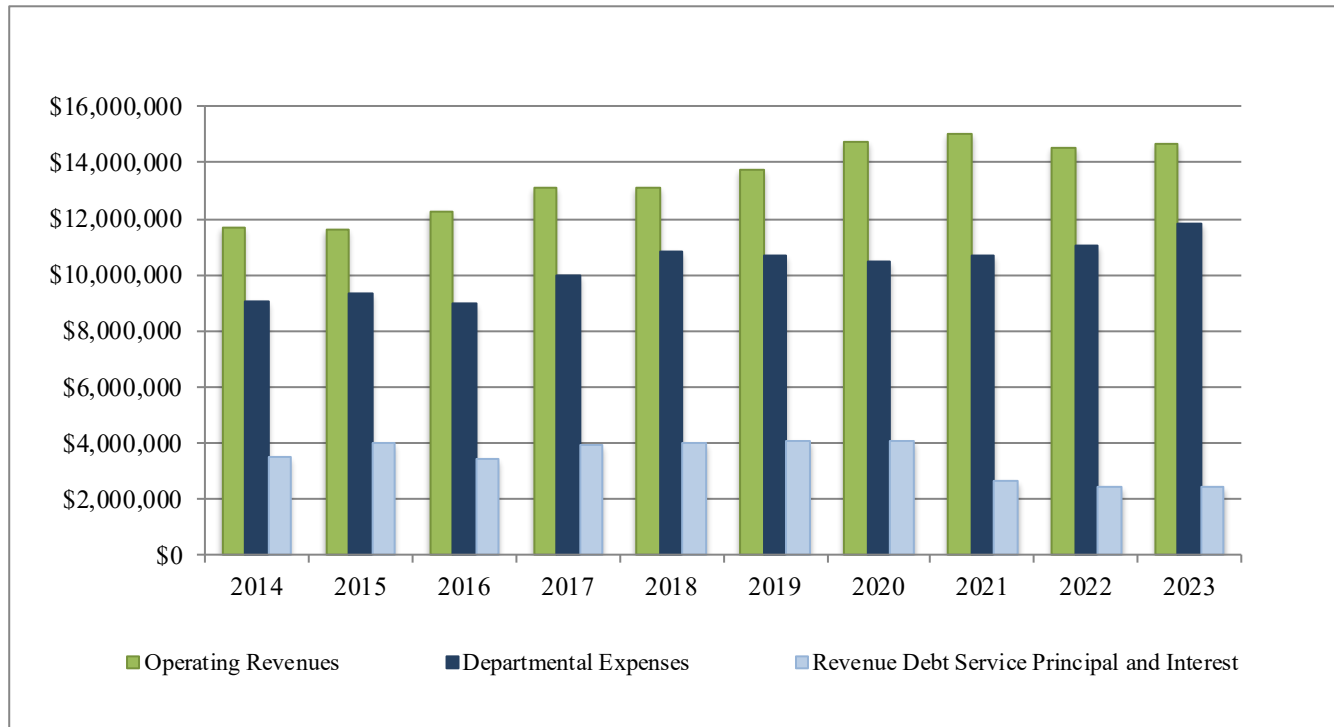
Ratio Analysis

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Liquidity (Current Ratio)	3.69	2.88	4.30	4.89	4.05	6.05	6.79	10.97	12.65	11.48
Long-Term Debt to Equity ratio	1.55	1.59	1.31	1.22	0.90	0.74	0.59	0.51	0.41	0.34
Operating ratio	0.77	0.80	0.73	0.76	0.83	0.78	0.71	0.71	0.76	0.80



⁹ Please note that fiscal years 2014 and onward reflect the implementation of GASB 68. Fiscal years 2022 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-End¹⁰

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

Year	Water	Percent Increase	Wastewater	Percent Increase	Ratio of Customers with Both Services
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%
2023	18,549	0.7%	17,726	0.9%	95.56%

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
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%
2023	12,158	5,400	2,098	19,656	0.68%

Wastewater Customer Statistics at Fiscal Year-End

Wastewater Customer Growth at Fiscal Year-end

Year	Residential	Master Metered Residential	Commercial	Total	Percent Increase
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%
2023	10,859	5,354	1,513	17,726	0.91%

¹⁰ These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

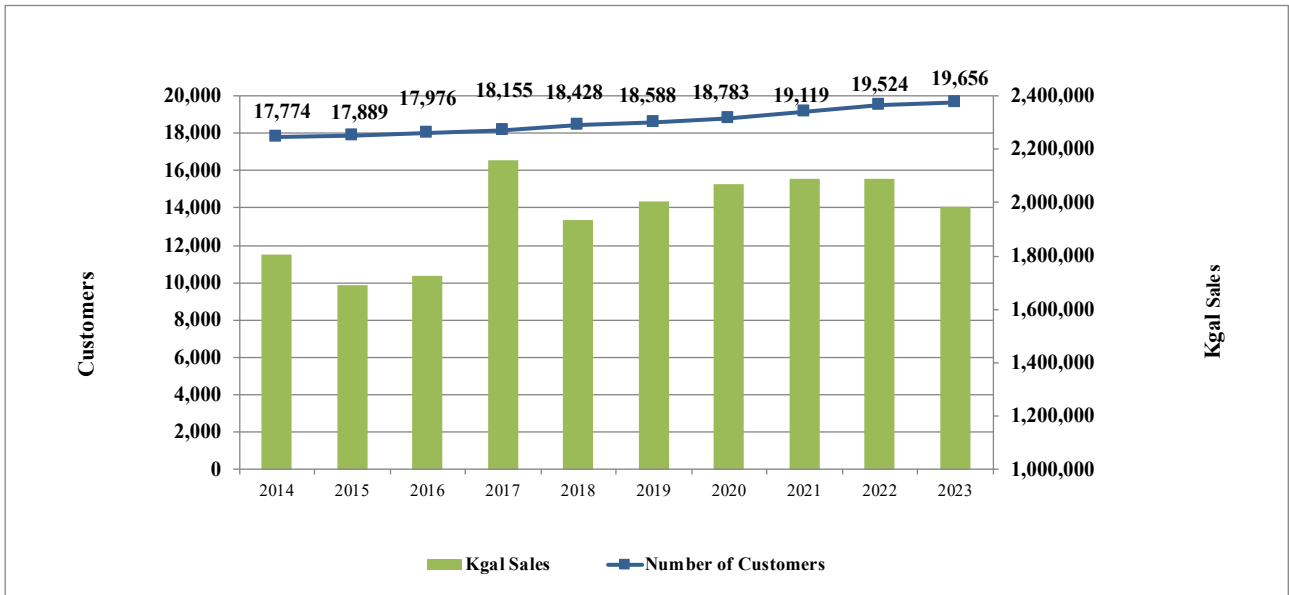
Year	Just Water Meters	Percent Increase	Wastewater	% Inc
2014	1,537,065	-4.3%	1,320,838	-5.2%
2015	1,439,514	-6.3%	1,274,826	-3.5%
2016	1,475,858	2.5%	1,275,251	0.0%
2017	1,819,663	23.3%	1,573,203	23.4%
2018	1,640,939	-9.8%	1,402,469	-10.9%
2019	1,680,080	2.4%	1,474,373	5.1%
2020	1,740,042	3.6%	1,526,212	3.5%
2021	1,789,282	2.8%	1,582,591	3.7%
2022	1,786,118	-0.2%	1,595,976	0.8%
2023	1,692,614	-5.2%	1,532,388	-4.0%

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

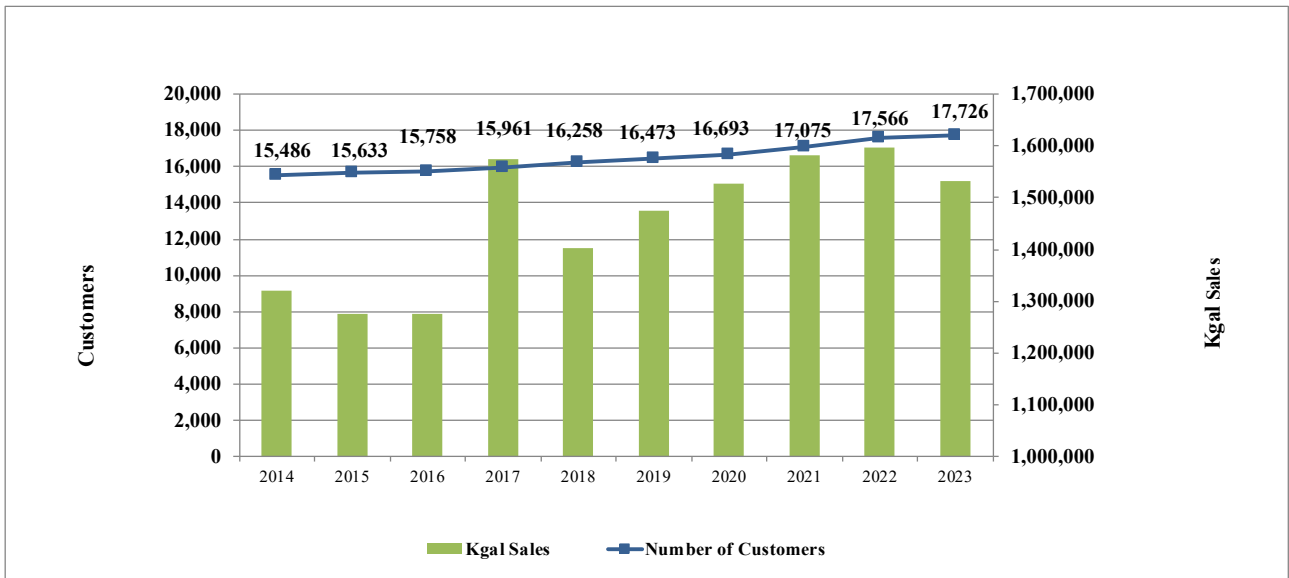
Reported in kgals (thousands of gallons)

Year	Water & Irrigation Meters	Percent Increase	Wastewater	% Inc
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%
2023	1,986,576	-4.8%	1,532,388	-4.0%

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



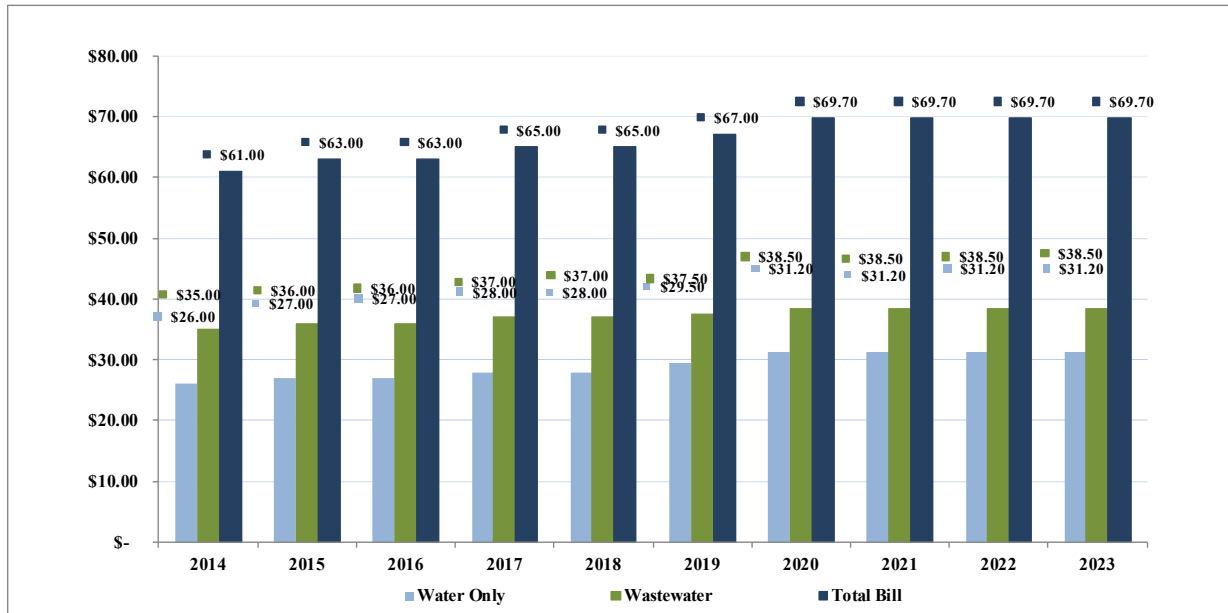
Sewer Customers vs. Wastewater Kgal Sales
Last Ten Fiscal Years



Water and Wastewater Rate Comparisons

Water Rate Comparison											
Effective Date											
		FY'14	FY'15 (1)	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Residential Water	Base Charge	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00	\$ 14.00	\$ 15.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50
	First 10,000 Gallons	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.47	\$ 1.47	\$ 1.47	\$ 1.47
	Next 10,001 to 20,000 gallons	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91
	Next 20,001 to 30,000 gallons	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.18	\$ 2.27	\$ 2.27	\$ 2.27	\$ 2.36
	Over 30,000 gallons	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.60	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.98
Residential Irrigation	Base Charge	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00	\$ 14.00	\$ 15.50	\$ 16.50	\$ 16.50	\$ 16.50	\$ 16.50
	First 10,000 Gallons Irrigation	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91
	Next 10,001 to 20,000 gallons	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.82	\$ 1.82	\$ 1.82	\$ 1.91
	Next 20,001 to 30,000 gallons	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.18	\$ 2.27	\$ 2.27	\$ 2.27	\$ 2.36
	Over 30,000 gallons	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.55	\$ 2.60	\$ 2.79	\$ 2.79	\$ 2.79	\$ 2.98
Commercial Water and Irrigation	Base Charge	\$ 17.00	\$ 18.00	\$ 18.00	\$ 19.00	\$ 19.00	\$ 20.50	\$ 21.50	\$ 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	\$ 2.01	\$ 2.04	\$ 2.04	\$ 2.04	\$ 2.06
	Next 20,001 to 30,000 gallons	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.51	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.53
	Over 30,000 gallons	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.97	\$ 3.07	\$ 3.07	\$ 3.07	\$ 3.18
(1) Effective January 1, 2015											
Wastewater Rate Comparison											
Effective Date											
		FY'14	FY'15 (1)	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Residential	Base Charge	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 17.50	\$ 18.50	\$ 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	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 17.50	\$ 18.50	\$ 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, 2015											

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



Water and Sewer Installation Fees

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Water meter installation fees (existing service lines)										
3/4" Meter	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640	\$1,020	\$1,020	\$1,020	\$1,180
1" Meter	850	850	850	850	850	850	1,280	1,280	1,280	1,500
2" Meter with meter box and backflow	2,330	2,330	2,330	2,330	2,330	2,330	2,720	2,720	2,720	3,440
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
Water meter installation fees (no existing service lines)										
3/4" Meter	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$1,210	\$1,210	\$1,210	\$1,390
1" Meter	1,080	1,080	1,080	1,080	1,080	1,080	1,450	1,450	1,450	1,710
2" 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
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
Sewer Installation Fees										
Sewer Connection Fee	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100
Sewer Installation Costs (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										
More information is available at: http://www.hhpsd.com/about-hhpsd/customer-service/										

Capacity Fees

The District requires developers to pay capacity fees in order to defray the cost of providing expanded service to the area to be developed per residential equivalency unit.	
Capacity Fee (per unit)	
Water Capacity (House)	\$2,400.00
Water Capacity (Mobile Home)	\$1,800.00
Sewer Capacity	\$3,040.00
* The same water and sewer capacity fees have been in effect since 2005.	

District Top Ten Water/Irrigation Customers

Fiscal year ended June 30, 2023

User Name	Type	2023 Billed Revenues	% of Total 2023 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 218,554	2.81%
Cypress of Hilton Head Association	Residential Homes	154,553	1.99%
Westin Resort	Resort	152,920	1.97%
Hilton Head Resort/Four Seasons	Resort	105,636	1.36%
Marriott Surfwatch	Resort	98,820	1.27%
Marriott Vacation Club	Resort	92,200	1.19%
Fiddler's Cove	Condo Complex	86,095	1.11%
Spa at Port Royal	Resort	76,031	0.98%
Marshside Owner's Association	Apartment Complex	73,994	0.95%
Island Links Resort	Island Links	57,518	0.74%
Remaining Customers		<u>6,658,525</u>	<u>85.64%</u>
		<u>\$ 7,774,846</u>	100.00%

District Top Ten Wastewater Customers

Fiscal year ended June 30, 2023

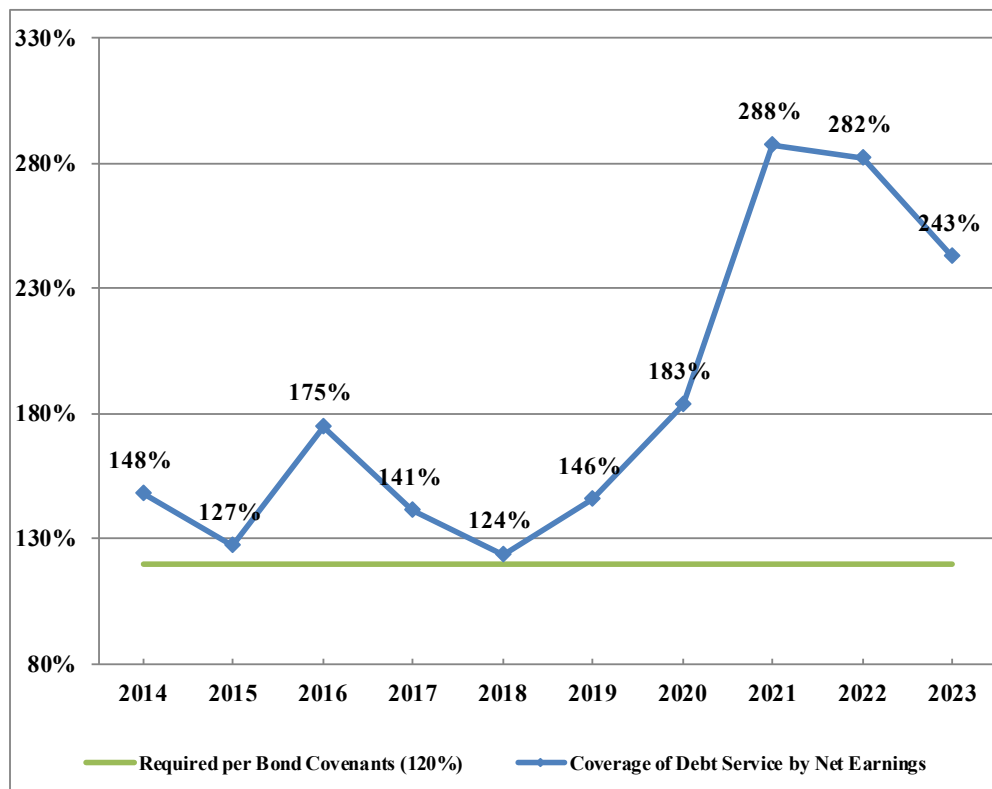
User Name	Type	2023 Billed Revenues	% of Total 2023 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 229,259	3.79%
Westin Resort	Resort	130,318	2.15%
Hilton Head Resort/Four Seasons	Resort	120,159	1.99%
Cypress of Hilton Head Association	Residential Homes	105,686	1.75%
Fiddler's Cove	Condo Complex	97,379	1.61%
Marriott Vacation Club	Resort	84,109	1.39%
Marshside Owner's Association	Apartment Complex	80,877	1.34%
Marriott Surfwatch	Resort	79,979	1.32%
Spa at Port Royal	Resort	74,437	1.23%
Island Links Resort	Resort	56,896	0.94%
Remaining Customers		<u>4,992,018</u>	<u>82.50%</u>
		<u>\$ 6,051,117</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
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
2023	5,910,000	14,761,265	1,929,172	-	-	116,926	22,717,363	-	22,717,363	1,156

Debt Service Coverage Analysis¹¹



The District's Millage History

Debt Type	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	4.61	4.57	4.31	4.40	4.05	4.10	4.20	4.20	4.20	4.10
Total	7.61	7.57	7.31	7.40	7.05	7.10	7.20	7.20	7.20	7.10

¹¹ Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding.

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		
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%
2023	2022	5,910,000	344,885,780	8,026,850,455	48,577,413	640,616,090	8,667,466,545	0.07%

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
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
2023	2022	344,885,780	48,577,413	393,463,193	31,477,055	5,910,000	25,567,055	19%	301	19,656

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 2023.

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 2023, 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 \$393,463,193 and thus the eight percent (8%) debt limit of the District is not less than \$31,477,055. The District presently has the following bonded indebtedness chargeable against this limit:

Originally Issued	Date	Original Amount	Outstanding Balance as of June 30, 2023
Series 2020	November 2, 2020	\$ 9,910,000	\$ 5,910,000

Overlapping Debt

<u>Government Unit</u>	<u>Tax Year 2022 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	\$ 442,462,600	17%	\$ 74,433,361
Beaufort County	164,609,853	17%	27,691,526
Town of Hilton Head	92,714,698	38%	35,074,286
Subtotal, overlapping debt			137,199,174
Hilton Head No.1 PSD direct debt			5,910,000
Total direct and overlapping debt			\$ 143,109,174

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
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
2023	2022	344,885,780	48,577,413	393,463,193

Source: Beaufort County Treasurer's Office

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

Tax Year 2022 Market Value for the District

Classification	Assessed Value of Taxable Property	Assessment Ratio	Appraised Value
1. Real Property and Mobile Homes	\$ 162,565,470	4.00%	\$ 4,359,512,200
2. Real Property and Mobile Homes	182,320,310	6.00%	3,667,338,255
3. Business Personal Property	2,911,490	10.50%	26,957,950
4. Merchant's Furniture, Fixtures and Equipment	1,678,244	10.50%	15,958,590
5. Motor Vehicles ⁽¹⁾	24,140,710	Various	377,085,080
6. Marine Equipment ⁽²⁾	3,892,072	Various	64,326,970
7. Airplanes	618,736	4.00%	10,299,670
8. Manufacturing Property	137,030	10.50%	1,305,040
9. Public Utilities	13,810,710	10.50%	131,530,590
10. Rental Property and Signs ⁽³⁾	1,388,421	Various	13,152,200
Total	\$ 393,463,193		\$ 8,667,466,545

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
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%
2022-2023	2,787,199	2,721,177	97.6%	28,304	2,749,481	98.6%

Source: Beaufort County Treasurer's Office

Tax Year 2022 - District Largest Taxpayers

Employer	Type of Business	2022 Assessed Value	2022-23 Amounts Paid
Hargray Telephone Company Inc	Utility	\$ 7,321,050	\$ 1,825,777
Marriot Ownership Resort Inc	Real Estate	6,068,280	1,606,695
Palmetto Electric Cooperative	Utility	4,944,880	1,205,843
SCG Hilton Head Property LLC	Real Estate	4,335,720	1,147,687
Hilton Head Health System LP	Medical	2,034,720	551,313
Barnwell Family Associates LLC	Real Estate	2,095,470	550,791
Bayshore Hilton Head LLC	Medical	1,482,120	397,742
Spectrum Southeast LLC	Utility	1,229,470	317,095
Swope Properties LLC	Real Estate	978,390	295,661
Hilton Head MP RK6 LLC	Real Estate	1,011,480	271,478
Source: Beaufort County Treasurer's Office.			

Demographic and Economic Information
Population per Capita Income

Year	Hilton Head		Beaufort County		South Carolina	
	Population	Per Capita	Population	Per Capita	Population	Per Capita
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
2022	38,069	61,752	196,371	43,463	5,282,634	32,823

Source: U.S. Census Bureau

Beaufort County Top Employers 2022

Employer	Employees	Type of Business
Agape Senior Primary Care Inc	*	Health Services
Bass Pro Outdoor World LLC	*	Retail
Beaufort County School District	*	Educational
Beaufort Memorial Hospital	*	Health Services
Brightview Landscape Services Inc	*	Landscaping
County of Beaufort	*	Government
Department of Defense	*	Government
Food Lion LLC	*	Grocery
Gregory M Parker Inc.	*	Gas Stations/Convenience Stores
Lowes Home Centers Inc.	*	Home Improvement
Marine Corps Community Services	*	Government
Marriott Resorts Hospitality Corporation	*	Hospitality
Montage Hotels and Resorts LLC	*	Hospitality
Palmetto Bluff Investments LLC	*	Hospitality
Publix Super Markets Inc.	*	Grocery
Sea Pines Resort LLC	*	Hospitality
Tenet Physician Services of Hilton Head	*	Health Services
TG Administration LLC	*	Recreation
The Kroger Company	*	Grocery
Wal-Mart Associates Inc.	*	Retail

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

Beaufort County Labor Force and Employment

Category	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Civilian Labor Force	67,239	69,435	71,661	72,535	74,104	75,517	79,798	77,127	73,502	76,398
Employment	62,946	65,493	67,748	69,081	71,113	73,082	77,165	72,961	70,873	73,997
Unemployment	4,293	3,942	3,913	3,454	2,991	2,435	2,633	4,166	2,629	2,401
Unemployment Rate	8.8%	7.9%	5.6%	5.0%	4.0%	3.4%	3.3%	5.4%	3.5%	3.1%

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

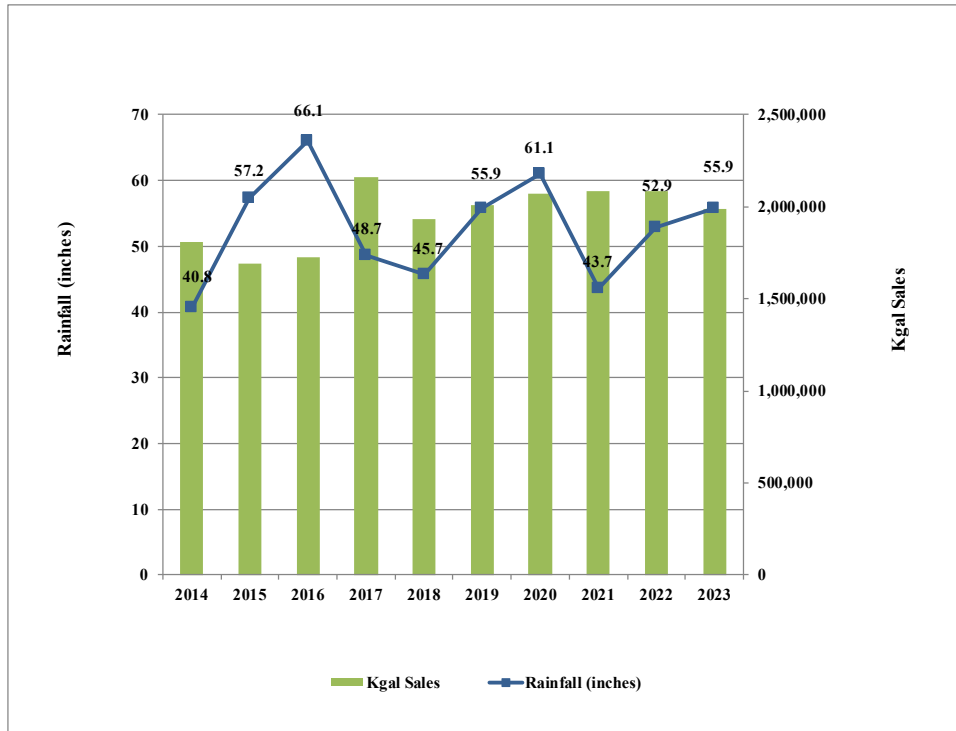
Year	Beaufort County	South Carolina	United States
2013	8.8%	7.6%	7.4%
2014	7.9%	6.5%	6.2%
2015	5.6%	6.0%	5.3%
2016	5.0%	5.0%	4.9%
2017	4.0%	4.3%	4.4%
2018	3.4%	3.4%	3.9%
2019	3.3%	2.9%	3.7%
2020	5.4%	6.2%	8.1%
2021	3.5%	4.0%	5.3%
2022	3.1%	3.2%	3.6%

Source: South Carolina Department of Employment and Workforce.

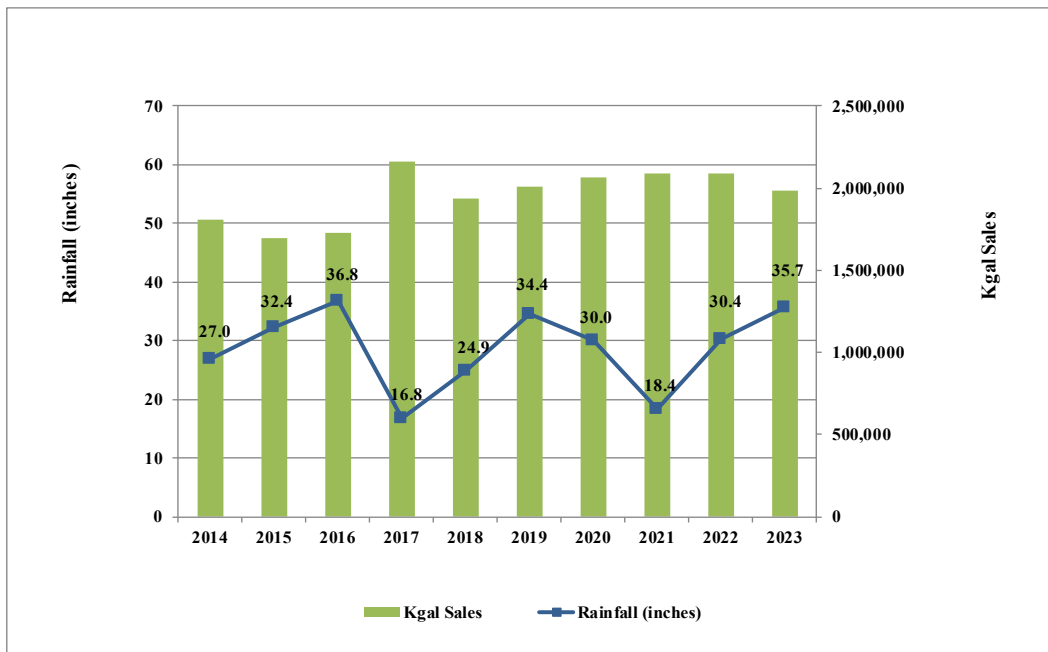
Other Operational and Capital Information
Full Time Equivalent Employees by Function

Fiscal Year	Executive Staff	Finance & Customer Service Staff	Operations Staff	Total
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
2023	5	9	24	38

Rainfall (inches) vs. Water/Irrigation Kgal Sales¹²



Summer Rainfall (Inches) vs. Water/Irrigation Kgal Sales¹³



¹² Rainfall measurements were recorded at the wastewater treatment plant.

¹³ Months included for each year are March through August.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2023</u>
Capital assets not being depreciated:					
Land	\$ 1,299,193	-	-	-	\$ 1,299,193
Construction in Progress	<u>1,629,185</u>	<u>23,495,143</u>	<u>(131,904)</u>	<u>(23,942,435)</u>	<u>1,049,989</u>
Total Capital Assets not being depreciated	2,928,378	23,495,143	(131,904)	(23,942,435)	2,349,182
Capital assets being depreciated:					
Waterworks System	55,763,179	2,562,083	(1,615,915)	7,920,499	64,629,846
Sewer Collection System	37,059,830	3,404,122	(767,238)	15,371,218	55,067,932
Office Building and Improvements	4,339,091	165,028	-	-	4,504,119
Waterwater Treatment Plan	34,711,422	2,426,185	(463,440)	297,772	36,971,939
Transportation Equipment	1,017,719	1,109,192	(698,846)	-	1,428,065
Operations Equipment	2,155,261	551,047	(571,379)	-	2,134,929
Office Furniture and Equipment	<u>663,460</u>	<u>212,866</u>	<u>(201,338)</u>	<u>-</u>	<u>674,988</u>
Sub Total	135,709,962	10,430,523	(4,318,156)	23,589,489	165,411,818
Less Accumulated depreciation	<u>(62,192,565)</u>	<u>(43,740,326)</u>	<u>4,288,871</u>	<u>-</u>	<u>(101,644,020)</u>
Total capital assets being depreciated, net	<u>73,517,397</u>	<u>(33,309,803)</u>	<u>(29,285)</u>	<u>23,589,489</u>	<u>63,767,798</u>
Year End Totals	<u>\$ 76,445,775</u>	<u>(9,814,660)</u>	<u>(161,189)</u>	<u>(352,946)</u>	<u>\$ 66,116,980</u>

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

Last Ten Fiscal Years

	<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>	<u>2023</u>
PP&E	\$ 137,009,155	\$ 138,683,537	\$ 146,346,818	\$ 147,901,161	\$ 155,357,839	\$ 156,261,306	\$ 161,887,889	\$ 162,767,990	\$ 164,543,832	\$ 166,711,011
Accumulated Depreciation	<u>(62,192,565)</u>	<u>(65,972,348)</u>	<u>(70,288,692)</u>	<u>(74,619,859)</u>	<u>(78,115,155)</u>	<u>(82,552,877)</u>	<u>(87,488,189)</u>	<u>(91,731,711)</u>	<u>(96,661,563)</u>	<u>(101,644,020)</u>
Net PP&E in Service	74,816,591	72,711,189	76,058,126	73,281,302	77,242,684	73,708,429	74,399,700	71,036,279	67,882,269	65,066,991
Construction in Progress	<u>1,629,185</u>	<u>5,926,019</u>	<u>785,002</u>	<u>1,457,297</u>	<u>513,974</u>	<u>2,802,108</u>	<u>57,707</u>	<u>45,310</u>	<u>37,206</u>	<u>1,049,989</u>
Net PP&E	<u>\$ 76,445,775</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>	<u>\$ 66,116,980</u>

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

Water Purchased from BJWSA Summary (Whole Dollars)										
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
All District Purchases from BJWSA	\$ 984,044	\$ 1,110,409	\$ 812,457	\$ 1,555,262	\$ 1,460,476	\$ 1,472,872	\$ 981,138	\$ 1,030,216	\$ 1,222,325	\$ 1,158,859
Broad Creek Purchases	(162,657)	(109,306)	(73,259)	(320,129)	(127,776)	(82,490)	(71,933)	(126,719)	(171,492)	(105,489)
Capitalized Purchased Water	-	-	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	(195,783)	(210,007)	(195,537)	(217,652)	(216,031)	(220,013)	(234,031)	(249,583)	(254,677)	(283,417)
Purchased Water Expense	\$ 625,603	\$ 791,096	\$ 543,661	\$ 1,017,482	\$ 1,116,669	\$ 1,170,368	\$ 675,174	\$ 653,914	\$ 796,156	\$ 769,953
Water Purchased from BJWSA Summary (KGals)										
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
All Kgals Purchased from BJWSA	776,286	852,633	538,925	1,125,264	1,039,001	985,829	603,904	638,084	754,288	672,322
Reclaimed Water Adjustment	-	-	-	-	-	-	-	-	-	-
Broad Creek Purchases	(110,869)	(67,224)	(44,304)	(251,213)	(80,844)	(49,207)	(44,896)	(70,811)	(92,463)	(61,000)
Capitalized Purchased Water	-	-	-	-	-	-	-	-	-	-
Prepaid Purchased Water Expense	(240,743)	(247,602)	(232,782)	(256,061)	(251,199)	(250,015)	(262,894)	(279,977)	(279,685)	(265,565)
Purchased Water (KGals)	424,674	537,807	261,839	617,990	706,958	686,607	296,114	287,296	382,140	345,757
Total Peak Purchases	457,223	437,997	391,043	643,858	590,557	617,696	435,925	442,909	505,588	446,256
Total Off-peak Purchases	319,063	414,636	147,882	481,406	448,444	368,133	167,979	195,175	248,700	226,066
Total Off-peak and Peak Purchases	776,286	852,633	538,925	1,125,264	1,039,001	985,829	603,904	638,084	754,288	672,322
BJWSA Rates Per Kgal Summary										
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rates Charged by BJWSA										
Peak Rate ²	\$ 1.58	\$ 1.74	\$ 1.76	\$ 1.78	\$ 1.82	\$ 1.86	\$ 1.91	\$ 1.95	\$ 1.97	\$ 2.07
Off Peak Rate	\$ 0.82	\$ 0.84	\$ 0.84	\$ 0.85	\$ 0.86	\$ 0.88	\$ 0.89	\$ 0.90	\$ 0.91	\$ 1.04
District Cost/Kgal Prior to Broad Creek Purchases³	\$ 1.30	\$ 1.51	\$ 1.38	\$ 1.41	\$ 1.49	\$ 1.62	\$ 1.61	\$ 1.61	\$ 1.62	\$ 1.72
Effective District Cost/Kgal After Broad Creek Purchases⁴	\$ 1.27	\$ 1.49	\$ 1.41	\$ 1.39	\$ 1.48	\$ 1.63	\$ 1.59	\$ 1.59	\$ 1.59	\$ 1.72
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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