



Hilton Head Public Service District Comprehensive Annual Financial Report



**For Fiscal Years Ending
June 30, 2015 and June 30, 2014**

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On the cover: The PSD in Fiscal Year 2015 added 1 million gallons of capacity a day at our Reverse Osmosis Water Treatment Facility. The facility now provides 4 million gallons of water a day.

INTRODUCTION



Hilton Head PSD Operations Superintendent Jim Hewitt checks the PSD's Sodium Hypochlorite – liquid chlorine – generator at our Fire Station Well. The generator, which was installed in Fiscal Year 2015, provides a safer and more cost-effective water treatment method than chlorine gas.

A Letter from the General Manager: Facing Our Next Challenges



J. Pete Nardi, PSD General Manager

It is my pleasure and honor to present for your review Hilton Head Public Service District's Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR). This report is the result of a great deal of effort and expertise on the part of our Finance team at the PSD. Finance Manager Larry Sapp and Senior Accountant Brian Cronin lead this effort. Mr. Sapp provides decades of experience in the financial management of local government and small business. He is a Certified Government Finance Officer and serves in both a national and state-level leadership role for the Government Finance Officers Association. Mr. Cronin is a degreed accountant whose experience has included providing business appraisals for Fortune 500 corporations and working in resort finance on Hilton Head Island. Very few organizations the size of Hilton Head PSD prepare a CAFR, and even fewer prepare a report as comprehensive and informative as the one you'll read in the pages to follow. That is a testament to the hard work and commitment of Mr. Sapp, Mr. Cronin and the PSD Finance team.

Our small but strong utility continues to rise to both local and industry-wide challenges. We have partnered with the Town of Hilton Head Island on a Five-Year Sewer Plan that will see the Town provide \$3.5 million for much-needed sewer infrastructure in our service area. The management of these critical projects for the island's future is a key focus for the PSD. Simultaneously, like utilities around the country, we are serving more customers with fewer staff members while maintaining stable rates for our customers. At all times, protection of public health and our island environment are at the forefront of our work.

The challenges we face are daunting but achievable – thanks to the outstanding team at Hilton Head PSD. In my first year as PSD General Manager and 11th year with the utility, I have been consistently impressed with and grateful for the dedication of our PSD team – from our elected Board of Commissioners to our famously-friendly Customer Service team and the field technicians who answer the call 24 hours a day. The team at Hilton Head PSD is a major part of the quality of life on our island. We strive each day to embody our utility's motto, *We're Always Working for You!*

All My Best,

A handwritten signature in black ink, appearing to read "J. Pete Nardi".

J. Pete Nardi
General Manager/CEO
Hilton Head PSD

Board of Commissioners

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

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

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

The 2015 Hilton Head Public Service District Commission



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



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



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



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



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



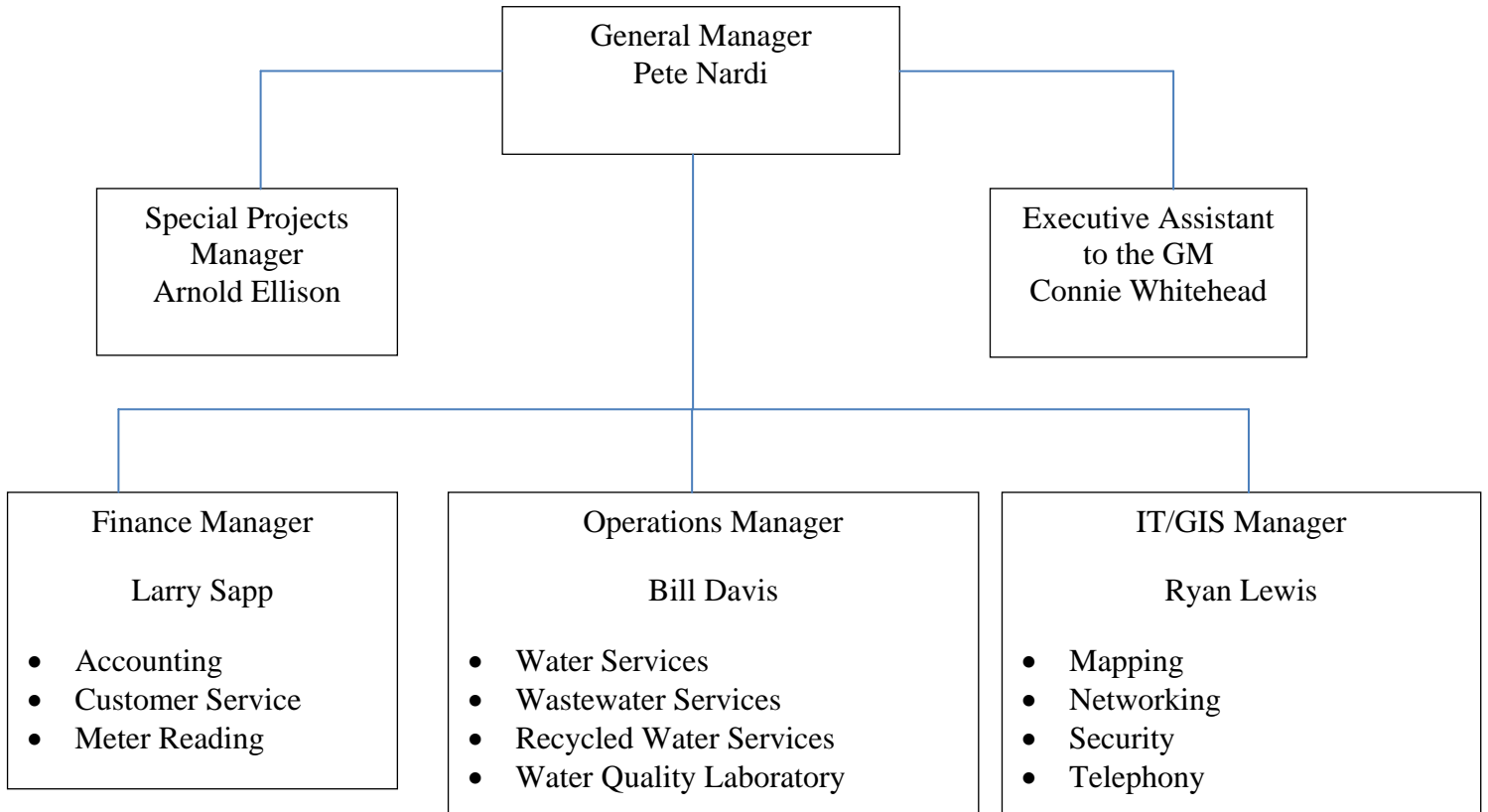
Frank Drehwing, District 4
Current Term: 2014-2018
Chairman, Long-Range Water Supply Committee
Community and Personnel Relations Committee



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

Administrative Team

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



HILTON HEAD PUBLIC SERVICE DISTRICT

Vision, Mission & Strategic Goals

Vision Statement

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

Mission Statement

Hilton Head Public Service District's mission is to:

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

Strategic Goals

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

Hilton Head PSD Strategic Goals

Revised November 17, 2015

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

Goal No. 2 – Recycled Water Services: Provide for all of the District's wastewater collection, treatment and distribution services in a cost-effective manner while enhancing and protecting the Island's environment.

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

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

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

Goal No. 6 – Organizational Excellence and Leadership: Achieve organizational excellence and leadership.

Goal No. 7 – Asset Management: Acquire, maintain, protect and secure the District’s property, data bases, plant and equipment assets (investment in the future).

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



November 25, 2015

Management Letter of Transmittal

The Commission and staff of the PSD are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This is the fifth report issued as a CAFR and it will be made available to the general public via the www.hhpsd.com web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island.

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

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

Profile of the Government

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

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

Today, Hilton Head PSD serves more than 16,000 customers in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort. The utility's service area includes many of the

neighborhoods where the island's 40,000 full-time residents reside, including the traditional Native Islander neighborhoods as well as the large-scale subdivisions of Hilton Head Plantation, Indigo Run, Port Royal Plantation, and Palmetto Hall Plantation.

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

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

Financial Information

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

Accounting System and Budgetary Control

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

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

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

Internal Accounting Controls

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

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

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

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

Rates and Charges

The District maintains and administers a revenue system that assures a reliable, equitable and sufficient revenue stream to support the District services. Since the principal revenue stream for the District is comprised of the fees and charges established by the Commission, the governing body of the District, it is important that the District adopts policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

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

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

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

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. The most recent rate increase was put into effect January 1, 2015, when both the water and sewer base rates were increased by \$1.00. For a summary of the District's historical and present water and sewer rates, please reference the Water and Sewer Rate Comparison Table in the Statistical Section on page 85.

Millage

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

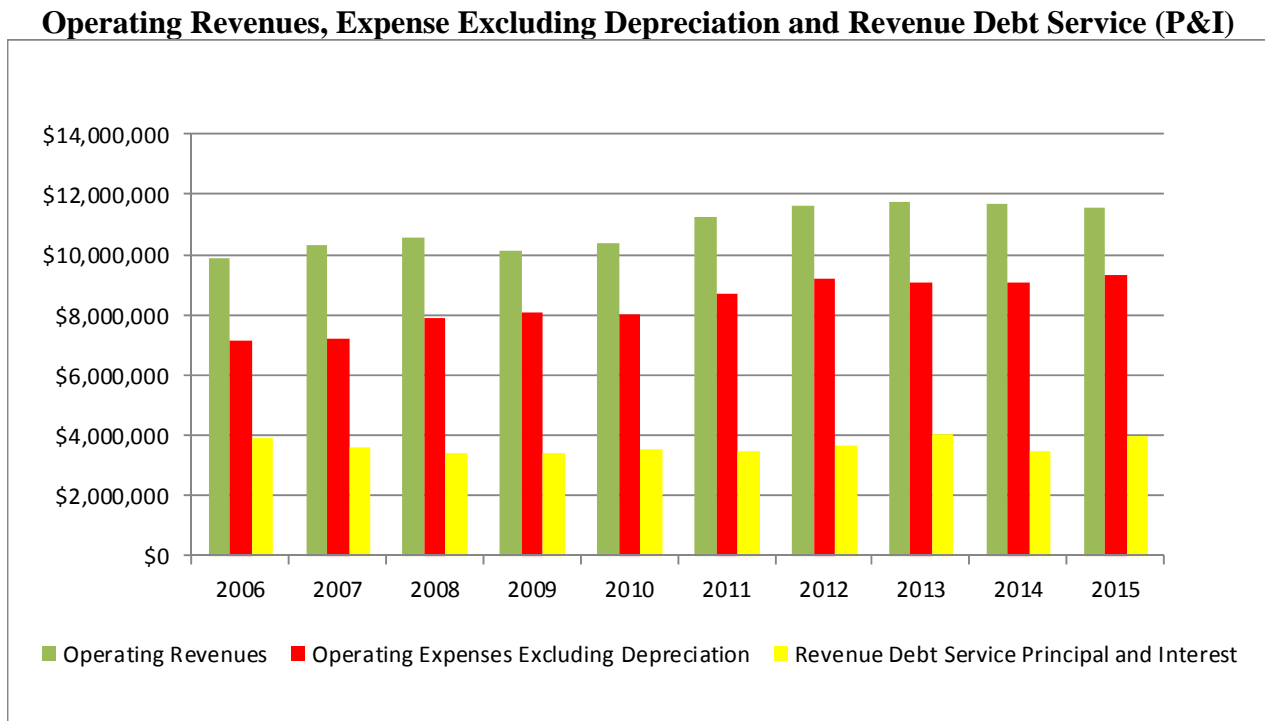
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside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

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

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

Financial Condition

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



Billed water consumption for fiscal year 2015 was down 114.0 million gallons or 6.3% less than fiscal year 2014 mainly due to cooler than usual weather conditions and increased rainfall. The District had the most inches of summer and spring rainfall since 1997.² As such, water service revenues were down \$49,913 or 0.9% compared to last fiscal year despite a \$1.00 water base rate increase effective January 1, 2015. Despite lower water consumption, sewer revenues were up \$101,000 or 2.1% due to a rate increase which was effective as of January 1, 2015.³ Total operating revenues have decreased 1.1% or \$123,281 compared to fiscal year 2014, while departmental expenses increased \$272,510 or 3.0%. Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 30.

² This covers the fiscal year months of July, August, September, April, May and June. Rainfall measurements are taken at the District’s wastewater treatment plant.

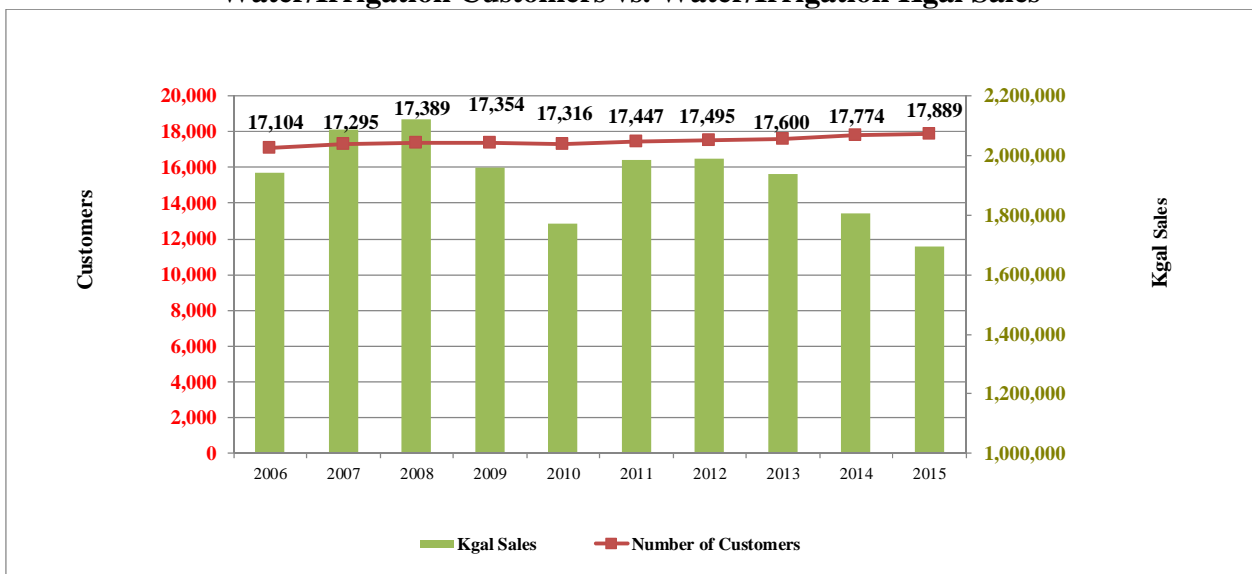
³ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

Billed water consumption for fiscal year 2014 was down 130.0 million gallons or 6.7% less than fiscal year 2013 also due to cooler than usual weather conditions and increased rainfall. As such, water service revenues were down \$173,940 or 2.9% compared to fiscal year 2013 despite a \$1.00 water base rate increase effective January 1, 2013. Despite lower water consumption, sewer revenues for fiscal year 2014 were up due to a rate increase which was effective as of January 1, 2013.⁴ Total operating revenues have decreased 0.2% or \$25,525 compared to fiscal year 2013, while departmental expenses decreased \$33,714 or 0.4%.

Billed water consumption for fiscal year 2013 was 50.9 million gallons or 2.6% less than fiscal year 2012, but combined water and sewer revenues increased by \$102,825 or 1.0% due to the water and sewer rate increase put into effect on January 1, 2013 (See Water and Wastewater Rate Comparison Table, page 85). While operating revenues increased by \$99,440 or 0.9% for fiscal year 2013, departmental expenses decreased \$122,339 or 1.3%.

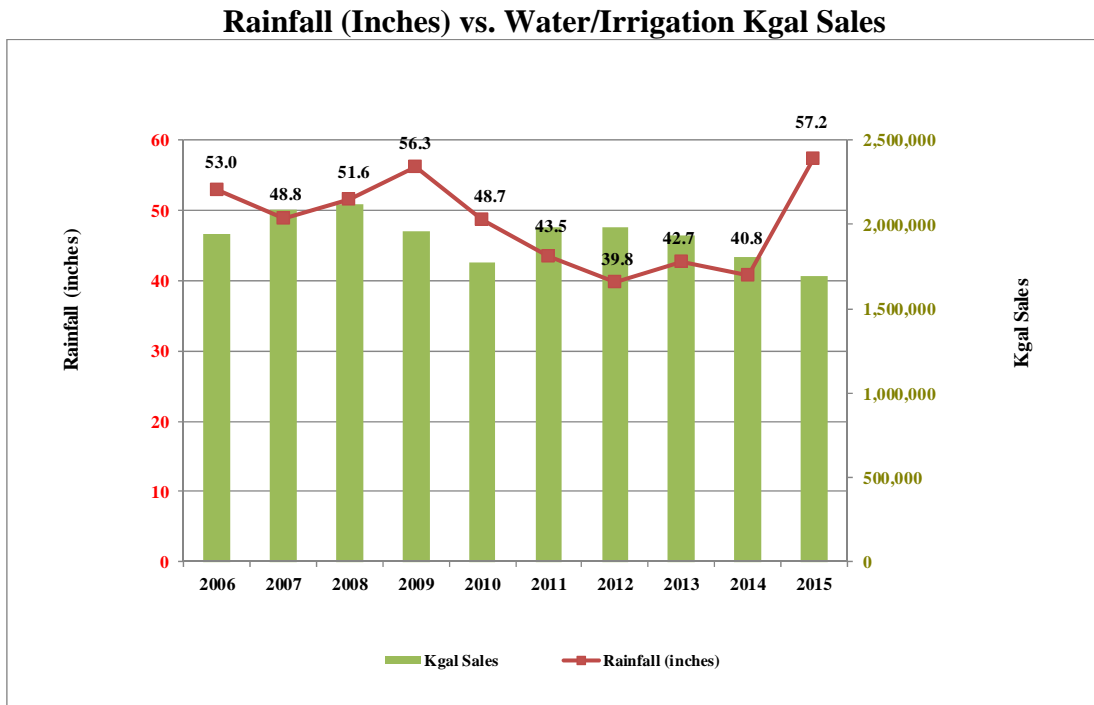
The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equates to more water consumed, there is no evident direct relationship between the District’s customer counts and overall consumption levels due to the other variables that influence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

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



⁴ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

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



For fiscal year 2015, the District had the most rainfall since fiscal year 2003. As stated previously, the District also had the most inches of spring/summer rainfall since 1997.⁵ Despite lower rainfall amounts for fiscal years 2010 through 2014, respective water consumption levels were also low when compared to past fiscal years with higher rainfall such as 2007 and 2008. While rainfall is a definite factor for water consumption, additional factors such as water efficiency fixtures, temperature and economic influences such as new housing development, housing vacancies, and tourism occupancy levels also have a material effect on customer water consumption levels. In recent years, there also seems to be a trend toward lower water consumption in general which is likely due to water efficient appliances and fixtures.

Independent Audit

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

⁵ This covers the fiscal year months of July, August, September, April, May and June. Rainfall measurements are taken at the District’s wastewater treatment plant.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its comprehensive annual financial report for the fiscal year ended June 30, 2014 (reference the following page). This was the fifth year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Final Comments

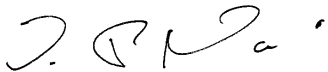
Management has developed policies and procedures that direct personnel actions toward the Board's adopted mission of providing high quality water and sewer service to all properties within the District and provide those services at a reasonable cost. Further, the Board has adopted the District's Strategic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



Larry Sapp, CGFO, Chief Financial Officer



Brian Cronin, Senior Accountant



Pete Nardi, General Manager



Government Finance Officers Association

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

Presented to

**Hilton Head Public Service District
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL

For Fiscal Years Ended June 30, 2015 and June 30, 2014



Robinson Grant & Co., P.A.

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

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INDEPENDENT AUDITORS' REPORT

November 25, 2015

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

We have audited the accompanying financial statements of Hilton Head No. 1 Public Service District (the "District"), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Head No. 1 Public Service District as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 1 and 15 to the financial statements, in 2015 the District adopted the new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Robinson Grant & Co., P.A.

Management's Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District's (the "District") annual financial statements presents our analysis of the District's financial performance during the fiscal years ending June 30, 2015, 2014 and 2013. Please read it in conjunction with the unaudited financial statements contained in this section.

Financial Highlights

- The District implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ended June 30, 2015. The implementation of the statement required the District to record beginning net pension liability and the effects on unrestricted net position of contributions made by the District during the measurement period (fiscal year ended June 30, 2014). To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as restatement to ending net position as of June 30, 2014. As a result, ending unrestricted net position for the District for the year ended June 30, 2014, decreased by \$4,063,319. This decrease resulted in the cumulative restatement of unrestricted net position to a balance of \$2,209,315 for the year ended June 30, 2014.
- Total assets at the end of the fiscal year 2015 were approximately \$89.9 million (See Table A-1, Page 25). Total assets including deferred outflows of resources were \$91.6 million, exceeding liabilities by \$32.9 million.
- On July 28, 2014, the District paid off the series 2004B revenue bonds totaling \$200,940 in full. There was no prepayment penalty.
- On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$2,902,255. Proceeds were used to defray the costs of installing and implementing an Advanced Metering Infrastructure (AMI). The note bears interest at a rate of 1.00% per annum. Eighty quarterly principal and interest payments of \$40,072 will be due beginning April 1, 2016. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.
- On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$3,750,000. Proceeds were used to defray the cost of expanding the existing Reverse Osmosis Treatment Facility, installing an additional booster pump station, and relocating a major water line within the district. The note bears interest at a rate of 2.00% per annum. Eighty quarterly principal and interest payments of \$56,989 will be due beginning May 1, 2015. The notes are backed by general obligation debt.

- **Water Customer Growth:** The District added 115 new water/irrigation taps to the system in fiscal year 2015. As of June 30, 2015, the District has a total of 17,889 equivalent dwelling units (EDUs). This is a 0.6% increase for FY' 15. For FY' 14 there was a 1.0% increase in total EDUs. The current EDUs consist of 16,816 water service units, 1,022 irrigation service units, and 51 miscellaneous water units such as dock meters, hydrants, pool meters, and golf course water coolers.

Water & Irrigation Customers

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

- **Sewer Customer Growth:** The District added 147 new sewer connections to the system in fiscal year 2015. As of June 30, 2015, sewer service EDUs total 15,633. This is a 0.9% increase for FY' 15 as compared to the FY' 14 increase of 1.5%.

Sewer Customers

| <u>Fiscal Year</u> | <u>Residential</u> | <u>Master Metered Residential</u> | <u>Commercial</u> | <u>Total</u> | <u>% Growth</u> |
|--------------------|--------------------|-----------------------------------|-------------------|--------------|-----------------|
| 2015 | 9,305 | 4,851 | 1,477 | 15,633 | 0.9% |
| 2014 | 9,175 | 4,850 | 1,461 | 15,486 | 1.5% |
| 2013 | 8,976 | 4,850 | 1,434 | 15,260 | 1.0% |
| 2012 | 8,847 | 4,850 | 1,412 | 15,109 | 0.5% |
| 2011 | 8,775 | 4,843 | 1,412 | 15,030 | 0.9% |
| 2010 | 8,653 | 4,843 | 1,395 | 14,891 | 0.1% |
| 2009 | 8,635 | 4,843 | 1,402 | 14,880 | 0.3% |
| 2008 | 8,603 | 4,834 | 1,398 | 14,835 | 1.2% |
| 2007 | 8,467 | 4,822 | 1,369 | 14,658 | 2.0% |

- As shown in the table below, the sewer to water customer percentage has increased to 92.97% percent since the beginning of fiscal year 2015.⁶

⁶ This percentage is based solely on water customers and does not include irrigation, dock meters, hydrants, pool meters, and golf course water coolers etc.

| Water / Sewer Connection Growth 06/30/15 | | | | | | | | |
|---|---|-----------------------------|---------------------------------|----------------------------------|------------------------|---------------------------------|----------------------------------|-----------------------------------|
| <u>Date</u> | <u>Water & Irrigation EDU's</u> | <u>Only Water EDU's</u> | <u>Inactive Water EDU's</u> | <u>Change in Water EDU's</u> | <u>Sewer EDU's</u> | <u>Inactive Sewer EDU's</u> | <u>Change in Sewer EDU's</u> | <u>% Sewer to Water EDU's</u> |
| 06/30/14 | 17,774 | 16,705 | 307 | N/A | 15,486 | 145 | N/A | 92.70% |
| 09/30/14 | 17,809 | 16,736 | 329 | 31 | 15,543 | 145 | 57 | 92.87% |
| 12/31/14 | 17,856 | 16,783 | 319 | 47 | 15,586 | 135 | 43 | 92.87% |
| 03/31/15 | 17,851 | 16,781 | 314 | -2 | 15,594 | 147 | 8 | 92.93% |
| 06/30/15 | <u>17,889</u> | <u>16,816</u> | 310 | <u>35</u> | <u>15,633</u> | 139 | <u>39</u> | 92.97% |
| Total EDU's Added | <u>115</u> | <u>111</u> | | <u>111</u> | <u>147</u> | | <u>147</u> | |

Subsequent Events

- On September 3, 2015, the District issued series 2015A revenue refunding bonds in the amount of \$19,846,000 and series 2015B revenue refunding bonds in the amount of \$2,721,000 to advance refund the District's series 2006 refunding revenue bonds, series 2007 revenue bonds, series 2009A revenue bonds, series 2010A revenue bonds, series 2011 revenue bonds, series 2011B revenue bonds, and a portion of the 2010B revenue bonds. The 2015A bonds bear interest at a rate of 1.93% and are payable in 20 semi-annual principal and interest installments of various amounts beginning on December 1, 2015, and continuing through June 1, 2025. The 2015B bonds bear interest at a rate of 2.29% and are payable in 29 semi-annual principal and interest installments of various amounts beginning on December 1, 2015, and continuing through December 1, 2029.

Financial Analysis of the District

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

Condensed Statements of Net Position

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

TABLE A-1
Hilton Head Public Service District
Condensed Statements of Net Position as of June 30, 2015, 2014, and 2013⁷

| Year Ended June 30, | 2015 | 2014 | 2013 | 2015 to 2014 | % |
|---|----------------------|----------------------|----------------------|---------------------|--------------|
| Assets | | | | | |
| Current assets | \$ 5,271,093 | \$ 4,878,765 | \$ 4,845,597 | \$ 392,326 | 8.0% |
| Restricted assets | 3,426,411 | 3,377,968 | 3,614,827 | 48,443 | 1.4% |
| Net Property Plant & Equipment | 78,637,208 | 76,445,775 | 77,923,407 | 2,191,433 | 2.9% |
| Sewer Assessments, Long-term | 2,067,292 | 2,576,762 | 2,619,897 | (509,470) | -19.8% |
| Other | 484,674 | 482,538 | 411,562 | 2,136 | 0.4% |
| Total Assets | 89,886,678 | 87,761,809 | 89,415,290 | 2,124,870 | 2.4% |
| Deferred outflows of resources | | | | | |
| Deferred outflows from defined benefits contributions | 241,688 | 230,484 | | | |
| Deferred outflows from defined benefit actuarial experience | 116,786 | - | | | |
| Deferred outflows from refunding debt | 1,399,180 | 1,613,275 | 1,827,370 | (214,095) | -13.3% |
| | <u>1,757,654</u> | <u>1,843,759</u> | <u>1,827,370</u> | <u>(86,105)</u> | <u>-4.7%</u> |
| Total assets and deferred outflows of resources | \$ 91,644,332 | \$ 89,605,568 | \$ 91,242,660 | 2,038,765 | 2.3% |
| Liabilities | | | | | |
| Current Liabilities | 6,218,441 | 5,231,463 | 4,733,847 | 986,979 | 18.9% |
| Noncurrent Liabilities, net of amortization | 52,199,309 | 51,291,448 | 50,344,977 | 907,860 | 1.8% |
| Total Liabilities | 58,417,750 | 56,522,911 | 55,078,824 | 1,894,839 | 3.4% |
| Deferred inflows of resources | | | | | |
| Deferred inflows from defined benefit investment experience | 347,473 | - | - | 347,473 | |
| Net Position | | | | | |
| Net investment in capital assets | 27,588,236 | 27,495,374 | 27,016,214 | 92,862 | 0.3% |
| Restricted for debt service | 3,426,103 | 3,377,968 | 2,885,019 | 48,135 | 1.4% |
| Unrestricted | 1,864,770 | 2,209,315 | 6,262,603 | (344,545) | -15.6% |
| Total Net Position | 32,879,109 | 33,082,657 | 36,163,836 | (203,547) | -0.6% |
| Total Liabilities and Net Position | \$ 91,644,332 | \$ 89,605,568 | \$ 91,242,660 | \$ 2,038,764 | 2.3% |

⁷ Please note that fiscal year 2015 and fiscal year 2014 reflect the implementation of GASB 68.

Net Position

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

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

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

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

The total net position as of June 30, 2015, was \$32,879,109, representing a \$203,548 decrease from the prior year. Fiscal year 2014 had a decrease in total net assets from fiscal year 2013 of \$3,081,179.⁸

| Year Ended June 30, | Change in Net Position | | |
|----------------------------------|------------------------|----------------------|----------------------|
| | 2015 | 2014 | 2013 |
| Net investment in capital assets | \$ 27,588,236 | \$ 27,495,374 | \$ 27,016,214 |
| Restricted for debt service | \$ 3,426,103 | \$ 3,377,968 | \$ 2,885,019 |
| Unrestricted | \$ 1,864,770 | \$ 2,209,315 | \$ 6,262,603 |
| Total Net Position | <u>\$ 32,879,109</u> | <u>\$ 33,082,657</u> | <u>\$ 36,163,836</u> |

Of the total net assets, \$5,271,093 million are current non-restricted assets available to support short-term operations (see Table A-1, page 25). This current asset balance is \$392,328 higher than on June 30, 2014.

⁸ Please note that fiscal year 2015 and fiscal year 2014 reflect the implementation of GASB 68.

Capital Assets

As of June 30, 2015, the District has invested \$78,637,208 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below. Net Property Plant & Equipment has increased \$2,191,433 during fiscal year 2015. More detailed information on capital asset activity can be found in Note 5 – Property, plant, equipment and depreciation on pages 49 and 50.

**TABLE A-2
Capital Assets**

| Year Ended June 30, | 2015 | 2014 | 2013 |
|--|---------------------|---------------------|---------------------|
| <u>Capital assets not being depreciated:</u> | | | |
| Land | \$ 1,299,194 | \$ 1,299,194 | \$ 1,299,194 |
| Construction in Progress | <u>5,926,019</u> | <u>1,629,184</u> | <u>441,125</u> |
| Total Capital Assets not being depreciated | 7,225,213 | 2,928,378 | 1,740,319 |
| Capital assets being depreciated: | | | |
| Waterworks system | 55,813,320 | 55,763,179 | 55,621,398 |
| Sewage disposal system | 38,672,883 | 37,059,830 | 36,153,741 |
| Buildings | 4,339,091 | 4,339,090 | 4,299,512 |
| Sewage treatment facilities | 34,711,422 | 34,711,422 | 34,711,422 |
| Transportation equipment | 1,017,719 | 1,017,719 | 988,429 |
| Operations furniture and equipment | 2,080,981 | 2,155,261 | 1,742,022 |
| Office furniture and equipment | <u>748,927</u> | <u>663,460</u> | <u>643,679</u> |
| Sub Total | \$ 137,384,343 | \$ 135,709,961 | \$ 134,160,203 |
| Less Accumulated depreciation | <u>(65,972,348)</u> | <u>(62,192,564)</u> | <u>(57,977,115)</u> |
| Total capital assets being depreciated, net | 71,411,995 | 73,517,397 | 76,183,088 |
| Property, Plant and Equipment, net | 78,637,208 | 76,445,775 | 77,923,407 |

Non-current Liabilities and Debt Administration

As of June 30, 2015, (see Table A-1, page 25) the District had \$52,199,309 in non-current liabilities as compared to fiscal year end 2014 total of \$51,291,448. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 50 and Note 7 – Non-current liabilities on page 55.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District is in compliance with the necessary requirements at 127%.

TABLE A-3
Coverage of Debt Service⁹

| Year Ended June 30, | 2015 | 2014 | 2013 |
|---|--------------------|--------------------|--------------------|
| Net Income(loss) before capital contributions per Financial Statements | (\$1,098,079) | (\$923,245) | (\$1,222,859) |
| Capacity Fees | 631,652 | 477,179 | 79,240 |
| Add: Depreciation | 4,485,346 | 4,481,885 | 4,557,446 |
| Net Pension Expense | 288,870 | | |
| SCRS Retirement Contributions | (241,688) | | |
| Amortization | 223,221 | 223,221 | 169,938 |
| Bond Issuance Costs | 67,329 | 38,685 | 226,335 |
| Interest Expense (Bonds) | 1,613,384 | 1,661,902 | 1,842,617 |
| Assessments - Debt Service | 486,300 | 382,702 | 415,758 |
| Less: Property Taxes – Debt Service | <u>(1,391,881)</u> | <u>(1,167,016)</u> | <u>(1,195,990)</u> |
| Net Earnings Available for Debt Service | \$5,064,453 | \$5,175,313 | \$4,872,485 |
| Debt Service on Revenue Bonds | 3,987,537 | \$3,504,184 | \$4,037,286 |
| Coverage of Debt Service by Net Earnings | 127% | 148% | 121% |
| Debt Coverage without Capacity Fees | 111% | 134% | 119% |

⁹ Please note that fiscal year 2015 and fiscal year 2014 reflect the implementation of GASB 68..

Statements of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses, and Changes in Net Positions provides information regarding the nature and source of these changes as presented below:¹⁰

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

| Year Ended June 30, | 2015 | | 2014 | | 2013 | | 2015 to | | 2014 | |
|--|----------------------|----------------------|----------------------|--------------------|-------------|------------------|-------------|---|------|--|
| | Actual | Actual | Actual | Actual | 2014 Actual | % | 2013 Actual | % | | |
| Operating Revenues | \$ 11,590,723 | \$ 11,714,003 | \$ 11,739,528 | \$ (123,280) | -1.1% | \$ (25,525) | -0.2% | | | |
| Total Non-operating Revenues | <u>3,027,124</u> | <u>2,822,581</u> | <u>2,967,865</u> | <u>204,543</u> | 7.2% | <u>(145,284)</u> | -4.9% | | | |
| Total Revenues | 14,617,847 | 14,536,585 | 14,707,393 | 81,262 | 0.6% | (170,808) | -1.2% | | | |
| Departmental Expenses | 9,326,646 | 9,054,136 | 9,087,850 | (272,510) | -3.0% | 33,714 | 0.4% | | | |
| Depreciation | 4,485,346 | 4,481,885 | 4,557,446 | (3,461) | -0.1% | 75,561 | 1.7% | | | |
| Total Non-operating Expenses | <u>1,903,934</u> | <u>1,923,808</u> | <u>2,284,955</u> | <u>19,874</u> | 1.0% | <u>361,147</u> | 15.8% | | | |
| Total Expenses | <u>15,715,926</u> | <u>15,459,829</u> | <u>15,930,251</u> | <u>(256,097)</u> | -1.7% | <u>470,422</u> | 3.0% | | | |
| Increase (decrease) in net assets before capital contributions | (1,098,079) | (923,245) | (1,222,859) | (174,834) | -18.9% | 299,613 | 24.5% | | | |
| Capital Contributions: | | | | | | | | | | |
| Water Capacity Fee | 282,528 | 195,270 | 33,640 | 87,259 | 44.7% | 161,630 | 480.5% | | | |
| Sewer Capacity Fee | 349,123 | 281,909 | 45,600 | 67,214 | 23.8% | 236,309 | 518.2% | | | |
| Developer Contributions of Systems | 262,880 | 1,184,597 | 474,097 | (921,717) | -77.8% | 710,500 | 149.9% | | | |
| Sewer Assessments | - | 243,609 | - | (243,609) | - | 243,609 | - | | | |
| Total Capital Contributions | <u>894,531</u> | <u>1,905,385</u> | <u>553,337</u> | <u>(1,010,854)</u> | -53.1% | <u>1,352,048</u> | 244.3% | | | |
| Change in net position | (203,548) | 982,140 | (669,522) | (1,185,687) | -120.7% | 1,651,661 | 246.7% | | | |
| Net position, beginning of the year, as previously reported | | 36,163,836 | 36,833,358 | | | | | | | |
| Cumulative adjustment - adoption of GASB Statement No. 68 | | <u>(4,063,319)</u> | | | | | | | | |
| Net position, beginning of the year - as restated | <u>33,082,657</u> | <u>32,100,517</u> | | | | | | | | |
| Net position, end of year | <u>\$ 32,879,109</u> | <u>\$ 33,082,657</u> | <u>\$ 36,163,836</u> | | | | | | | |

Operating Revenues (Fiscal Year to Year Comparisons)

Operating revenues for fiscal year 2015 total \$11,590,723, which is over 79% of total revenues (operating and non-operating) for the year. Total operating revenues have decreased 1.1% or \$123,280 compared to last year's revenues. Total operating revenues decreased \$25,525 or 0.2% from fiscal year 2014 to fiscal year 2013.

Water service revenues were down \$49,913 or 0.9% compared to last fiscal year despite a \$1.00 water base rate increase effective January 1, 2015 due to lower billed water consumption. Fiscal year billed water consumption was down 114 million gallons or 6.3% when compared to last fiscal year mainly due to cooler

¹⁰ Please note that table A-4 and A-5 reflect the implementation of GASB 68 and the associated restatement of fiscal year 2014 and fiscal year 2015 as illustrated on page 40.

than usual weather conditions and increased rainfall. Despite lower water consumption, sewer revenues were up \$101,100 or 2.1% due to a rate increase, which was effective as of January 1, 2015.¹¹

Water Tap in fees decreased \$18,635 or 15% due to decreased tap ins. Sewer Connection Fees also decreased \$32,962 or 28% due to decreased sewer connections.

Golf course irrigation revenue was \$92,626 or 31% lower compared to last fiscal year due to the aforementioned weather conditions. Availability fees were also lower this fiscal year due to additional water and sewer connections on existing homes.

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

Departmental Expenses (Fiscal Year to Year Comparisons)

Total departmental expenses have increased \$272,510 or 3.0% compared to fiscal year 2014 (See Table A-5, page 32). For fiscal year 2014, departmental expenses decreased \$33,714 or 0.4% from fiscal year 2013.

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

- Operations expenses have decreased \$96,428 or 5.8% mainly due to lower fuel/power costs associated with lower water consumption.
- Maintenance expenses decreased by \$119,173 or 11% due to decreased meter, generator, lift station, SCADA, well and water/sewer system maintenance.
- Sewer Connection expense decreased \$3,048 or 3.6% due to fewer connections as compared to last fiscal year. These expenses are also offset by higher sewer connection fee revenues.
- Vehicle expenses decreased \$8,597 or 6.8%. This is due to lower fuel prices as well as the implementation of the District's advanced metering infrastructure system which has reduced vehicle usage.

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

- Payroll and Related expenses increased \$141,725 or 4.0% mainly due increased salaries, increased insurance costs and to the newly added SCRS pension expense associated with GASB 68.
- Water tap in expenses increased by \$30,384 or 51%. Although the number of water tap ins is lower when compared to last fiscal year, a higher percentage of the connections for this fiscal year

¹¹ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

have been for locations with non-existing service lines and also for larger meters. Note that these expenses are offset by tap in fees revenues.

- Purchased water expense increased by \$168,467 or 27% despite lower customer water consumption. This is mainly due to the entire RO Plant being shut down for the installation of skid 4 as well as subsequent RO raw-water well work during fiscal year 2015. Due to this work RO Plant production was down 140.2 million gallons compared to fiscal year 2014. Upper Floridan Aquifer (UFA) well withdrawal was also reduced 27 million gallons.
- ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. ASR water withdrawal expense increased slightly by \$1,773 or 0.9%.
- Despite lower RO plant production for fiscal year 2015, RO Plant expenses increased \$84,776 or 16%. This is due to the added operating expense associated with installation of skid 4 which was completed in 2015.
- Professional Fees increased by \$68,516 or 29%. This added expense is mainly related to the Energy Service Company (ESCO) study completed by an outside consultant.

TABLE A-5
Hilton Head PSD
Statement of Revenues, Expenses and Changes in Net Position
Year to Date as of June 30, 2015 and June 30, 2014
(With comparative amounts for the same period in prior fiscal year)

| | FY 2015 | | FY 2014 | | FY 2015 to FY 2014 | |
|--|----------------------|----------------------|-----------------------|----------------|-------------------------|--|
| | Actual | Actual | Dollars | % | Comparison | |
| | | | | | Favorable (Unfavorable) | |
| Operating Revenues | | | | | | |
| Water Service | \$ 5,727,692 | \$ 5,777,606 | \$ (49,913) | -0.9% | | |
| Sewer Service | 4,838,019 | 4,736,919 | 101,100 | 2.1% | | |
| Tap In Fees - Water | 106,202 | 124,837 | (18,635) | -14.9% | | |
| Connection Fees - Sewer | 84,543 | 117,505 | (32,962) | -28.1% | | |
| Service Fees | 42,646 | 44,174 | (1,528) | -3.5% | | |
| Golf Course Irrigation | 204,934 | 297,609 | (92,676) | -31.1% | | |
| Availability Fees | 565,423 | 597,582 | (32,159) | -5.4% | | |
| Other Operating Revenues | 21,264 | 17,771 | 3,493 | 19.7% | | |
| Total Operating Revenues | 11,590,723 | 11,714,004 | (123,281) | -1.1% | | |
| Departmental Expenses | | | | | | |
| Payroll & Related | 3,713,013 | 3,571,288 | (141,725) | -4.0% | | |
| Administrative Expenses | 793,893 | 789,686 | (4,207) | -0.5% | | |
| Operations | 1,571,114 | 1,667,542 | 96,428 | 5.8% | | |
| Maintenance | 1,006,240 | 1,125,413 | 119,173 | 10.6% | | |
| Water Tap In Expenses | 90,462 | 60,078 | (30,384) | -50.6% | | |
| Sewer Connection Expense | 82,353 | 85,401 | 3,048 | 3.6% | | |
| Purchased Water | 791,096 | 622,629 | (168,467) | -27.1% | | |
| ASR-1 Water | 196,311 | 194,537 | (1,773) | -0.9% | | |
| RO Plant O&M | 618,024 | 533,249 | (84,776) | -15.9% | | |
| ASR-1 O&M | 40,656 | 40,747 | 91 | 0.2% | | |
| Professional Fees | 305,698 | 237,182 | (68,516) | -28.9% | | |
| Vehicle | 117,787 | 126,384 | 8,597 | 6.8% | | |
| Total Departmental Expenses | 9,326,646 | 9,054,136 | (272,510) | -3.0% | | |
| Depreciation | 4,485,346 | 4,481,884 | (3,462) | -0.1% | | |
| Total Operating Expenses | 13,811,992 | 13,536,020 | (275,972) | -2.0% | | |
| Operating income (loss) | (2,221,269) | (1,822,017) | (399,253) | -21.9% | | |
| Non-operating revenues | | | | | | |
| Property taxes-G.O. Debt Levy | 1,391,881 | 1,167,016 | 224,865 | 19.3% | | |
| Property taxes-Operations Levy | 913,930 | 901,453 | 12,478 | 1.4% | | |
| Rental Income | 80,579 | 80,096 | 483 | 0.6% | | |
| Interest earned | 132,549 | 142,313 | (9,765) | -6.9% | | |
| Tower lease | 508,185 | 531,703 | (23,518) | -4.4% | | |
| Gain (Loss) of disposal of equipment | - | - | - | - | | |
| Total Non-operating Revenues | 3,027,124 | 2,822,582 | 204,543 | 7.2% | | |
| Non-operating Expenses | | | | | | |
| Interest expense-Bonds | 1,613,384 | 1,661,871 | 48,487 | 2.9% | | |
| Bond Defeasance Amortization | 214,095 | 214,095 | (0) | 0.0% | | |
| Amortization of Bond Insurance Cost | 9,157 | 9,157 | 0 | 0.0% | | |
| Bond Issuance Costs | 67,329 | 38,685 | (28,644) | -74.0% | | |
| Bond Premium Amortization | (31) | - | 31 | - | | |
| Total Non-operating Expenses | 1,903,934 | 1,923,808 | 19,874 | 1.0% | | |
| Total Non-operating Revenues/Exp. | 1,123,190 | 898,773 | 224,417 | 25.0% | | |
| Increase (decrease) in net assets, before capital contributions | (1,098,079) | (923,245) | (174,835) | -18.9% | | |
| Water Capacity Fee | 282,528 | 195,269 | 87,259 | 44.7% | | |
| Sewer Capacity Fee | 349,123 | 281,909 | 619 | 0.2% | | |
| Developer Contributions of Systems Assessments | 262,880 | 1,184,597 | (835,474) | -70.5% | | |
| | - | 243,609 | (243,609) | - | | |
| Total Capital Contributions | 894,531 | 1,905,385 | (1,010,853) | -53.1% | | |
| Change in net position | \$ (203,548) | \$ 982,140 | \$ (1,185,688) | -120.7% | | |
| Net position, beginning of the year, as previously reported | | 36,163,836 | | | | |
| Cumulative adjustment - adoption of GASB Statement No. 65 | | (4,063,319) | | | | |
| Net position, beginning of the year, as restated | \$ 33,082,657 | 32,100,517 | | | | |
| Net position, end of year | \$ 32,879,109 | \$ 33,082,657 | | | | |

Water and Sewer Revenues/Expenses: Fiscal Year 2015 vs. Fiscal Year 2014.
(Please reference Table A-6, page 34)¹²

Water Revenues and Related Expenses:

- For FY' 15, total water operating revenues have decreased \$73,997 or 1.2% compared to FY' 14 due to the previously mentioned lower customer water consumption.
- Water departmental expenses increased \$272,453 or 5.4%. Departmental expenses are explained in more detail on pages 30 and 31.
- Water operating loss for fiscal year 2015 is \$1,404,635 compared to the fiscal year 2014 loss of \$1,056,570. A difference of \$348,064 or 33%.

Sewer Revenues and Related Expenses:

- Total sewer and related operating revenues have decreased \$49,283 or 0.9% mainly due to decreased golf course irrigation revenue, availability fee revenue, and sewer connection fee revenue.
- Sewer departmental expenses increased just \$57. Departmental expenses are explained in more detail on page 30 and 31.
- Sewer operating loss for fiscal year 2015 is \$816,635 compared to the fiscal year 2014 loss of \$765,447. A difference of \$51,189 or 6.7%.

¹² Please note that table A-4 and A-5 reflect the implementation of GASB 68 and the associated restatement of fiscal year 2014 and fiscal year 2015 as illustrated on page 40.

TABLE A-6
Hilton Head PSD
Water vs. Sewer Fiscal Year to Year Comparison Schedule
Year to Date as of June 30, 2015

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

| | FY 2015 | | FY 2014 | | FY 2015 to FY 2014 | |
|--|----------------------|----------------------|--------------------|---------------|--------------------|---|
| | Actual | | Actual | | Comparison | |
| | | | | | Dollars | % |
| Operating Revenues | | | | | | |
| Water | | | | | | |
| Service | \$ 5,727,692 | \$ 5,777,606 | \$ (49,913) | -0.9% | | |
| Tap In Fees | 106,202 | 124,837 | (18,635) | -14.9% | | |
| Service Fees | 21,323 | 22,087 | (764) | -3.5% | | |
| Availability Fees | 113,085 | 119,516 | (6,432) | -5.4% | | |
| Other Operating Revenues | 10,632 | 8,886 | 1,746 | 19.7% | | |
| Total Water Operating Revenues | 5,978,934 | 6,052,932 | (73,997) | -1.2% | | |
| Sewer | | | | | | |
| Service | 4,838,019 | 4,736,919 | 101,100 | 2.1% | | |
| Connection Fees | 84,543 | 117,505 | (32,962) | -28.1% | | |
| Service Fees | 21,323 | 22,087 | (764) | -3.5% | | |
| Availability Fees | 452,338 | 478,066 | (25,728) | -5.4% | | |
| Golf Course Irrigation | 204,934 | 297,609 | (92,676) | -31.1% | | |
| Other Operating Revenues | 10,632 | 8,886 | 1,746 | 19.7% | | |
| Total Sewer Operating Revenues | 5,611,789 | 5,661,072 | (49,283) | -0.9% | | |
| Total Operating Revenues | 11,590,723 | 11,714,004 | (123,281) | -1.1% | | |
| Departmental Expenses | | | | | | |
| Water | | | | | | |
| Payroll & Related | 1,707,986 | 1,642,792 | (65,193) | -4.0% | | |
| Administrative Expenses | 460,458 | 458,018 | (2,440) | -0.5% | | |
| Operations | 675,579 | 717,043 | 41,464 | 5.8% | | |
| Maintenance | 533,307 | 596,469 | 63,162 | 10.6% | | |
| Water Tap in Expense | 90,462 | 60,078 | (30,384) | -50.6% | | |
| Purchased Water | 791,096 | 622,629 | (168,467) | -27.1% | | |
| ASR-1 Water | 196,311 | 194,537 | (1,773) | -0.9% | | |
| ASR-1 O&M | 40,656 | 40,747 | 91 | 0.2% | | |
| RO Plant O&M | 618,024 | 533,249 | (84,776) | -15.9% | | |
| Professional Fees | 125,336 | 97,245 | (28,091) | -28.9% | | |
| Vehicle | 54,182 | 58,137 | 3,954 | 6.8% | | |
| Total Water Departmental Expenses | 5,293,397 | 5,020,944 | (272,453) | -5.4% | | |
| Sewer | | | | | | |
| Payroll & Related | 2,005,027 | 1,928,495 | (76,531) | -4.0% | | |
| Administrative | 333,435 | 331,668 | (1,767) | -0.5% | | |
| Operations | 895,535 | 950,499 | 54,964 | 5.8% | | |
| Maintenance | 472,933 | 528,944 | 56,011 | 10.6% | | |
| Sewer Connection Expense | 82,353 | 85,401 | 3,048 | 3.6% | | |
| Professional Fees | 180,362 | 139,938 | (40,424) | -28.9% | | |
| Vehicle | 63,605 | 68,247 | 4,642 | 6.8% | | |
| Total Sewer Departmental Expense | 4,033,249 | 4,033,192 | (57) | 0.0% | | |
| Operating Expenses before depreciation | 9,326,646 | 9,054,136 | (272,510) | -3.0% | | |
| Depreciation - Water | 2,090,172 | 2,088,558 | (1,614) | -0.1% | | |
| Depreciation - Sewer | 2,395,175 | 2,393,326 | (1,849) | -0.1% | | |
| Total Operating Expenses | 13,811,993 | 13,536,020 | (275,973) | -2.0% | | |
| Water Operating income (loss) | (1,404,635) | (1,056,570) | (348,064) | -32.9% | | |
| Sewer Operating income (loss) | (816,635) | (765,447) | (51,189) | -6.7% | | |
| Total Operating income (loss) | (2,221,269) | (1,822,017) | (399,252) | -21.9% | | |
| Non-operating revenues (expenses), net | 1,123,190 | 898,773 | 224,417 | -25.0% | | |
| Increase (decrease) in net assets, | | | | | | |
| before capital contributions | (1,098,079) | (923,245) | (174,835) | -18.9% | | |
| Capital Contributions | 894,531 | 1,905,385 | (1,010,853) | -53.1% | | |
| Change in net position | \$ (203,548) | \$ 982,140 | \$ (1,185,688) | -120.7% | | |
| Net position, beginning of the year, as previously reported | | 36,163,836 | | | | |
| Cumulative adjustment - adoption of GASB Statement No. 68 | | (4,063,319) | | | | |
| Net position, beginning of the year, as restated | 33,082,657 | 32,100,517 | | | | |
| Net position, end of year | \$ 32,879,109 | \$ 33,082,657 | | | | |

CONTACTING THE DISTRICT'S FINANCE MANAGER

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

AUDITED FINANCIAL STATEMENTS
For Fiscal Years Ended June 30, 2015 and June 30, 2014

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Current assets | | |
| Cash available for operations | \$ 2,492,212 | \$ 2,112,690 |
| Cash in banks (restricted) | 2,662,676 | 2,779,248 |
| Cash held by Beaufort County Treasurer (restricted) | 763,736 | 598,720 |
| Accounts receivable - trade, net | 1,806,053 | 1,897,810 |
| Sewer and capacity assessments, due within one year | 443,780 | 420,610 |
| Inventory | 316,211 | 257,025 |
| Prepaid expenses | 212,836 | 190,631 |
| Total current assets | <u>8,697,504</u> | <u>8,256,734</u> |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Nondepreciable assets | 7,225,213 | 2,928,378 |
| Depreciable assets, net | <u>71,411,995</u> | <u>73,517,397</u> |
| Total property, plant and equipment | 78,637,208 | 76,445,775 |
| Accounts receivable - Project SAFE | 403,954 | 392,782 |
| Sewer and capacity assessments, due after one year | 2,067,292 | 2,576,762 |
| Prepaid insurance - bonds | 77,834 | 86,992 |
| Other assets | 2,886 | 2,764 |
| Total noncurrent assets | <u>81,189,174</u> | <u>79,505,075</u> |
| Total assets | 89,886,678 | 87,761,809 |
| Deferred outflows of resources | | |
| Deferred outflows from defined benefit contributions | 241,688 | 230,484 |
| Deferred outflows from defined benefit actuarial experience | 116,786 | - |
| Deferred outflows from refunding debt | <u>1,399,180</u> | <u>1,613,275</u> |
| Total deferred outflows of resources | <u>1,757,654</u> | <u>1,843,759</u> |
| Total assets and deferred outflows of resources | <u>\$ 91,644,332</u> | <u>\$ 89,605,568</u> |

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2015 AND 2014

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Current liabilities | | |
| Payable from unrestricted assets: | | |
| Accounts payable - trade | \$ 586,645 | \$ 419,381 |
| Accounts payable - construction | 562,108 | 23,427 |
| Notes payable, due within one year | 18,000 | 18,000 |
| Customer deposits | 154,560 | 160,300 |
| Deferred revenues | 230,390 | 259,929 |
| Other accrued liabilities | <u>502,910</u> | <u>439,389</u> |
| Total current liabilities payable from unrestricted assets | 2,054,613 | 1,320,426 |
| Payable from restricted assets: | | |
| Interest payable | 295,757 | 299,441 |
| Bonds payable, current portion | 3,523,065 | 3,458,032 |
| Notes payable, current portion | <u>345,006</u> | <u>153,564</u> |
| Total current liabilities payable from restricted assets | <u>4,163,828</u> | <u>3,911,037</u> |
| Total current liabilities | 6,218,441 | 5,231,463 |
| Noncurrent liabilities | | |
| Bonds payable, net of current portion | 40,727,658 | 44,435,847 |
| Notes payable, net of current portion | 7,350,149 | 2,561,798 |
| Net pension liability | <u>4,121,502</u> | <u>4,293,803</u> |
| Total noncurrent liabilities | <u>52,199,309</u> | <u>51,291,448</u> |
| Total liabilities | 58,417,750 | 56,522,911 |
| Deferred inflows of resources | | |
| Deferred inflows from defined benefit investment experience | <u>347,473</u> | <u>-</u> |
| Net position | | |
| Net investment in capital assets | 27,588,236 | 27,495,374 |
| Restricted for debt service | 3,426,103 | 3,377,968 |
| Unrestricted | <u>1,864,770</u> | <u>2,209,315</u> |
| Total net position | <u>32,879,109</u> | <u>33,082,657</u> |
| Total liabilities and net position | <u>\$ 91,644,332</u> | <u>\$ 89,605,568</u> |

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|--|----------------|--------------|
| Operating Revenues | | |
| Water service | \$ 5,727,692 | \$ 5,777,606 |
| Sewer service | 4,838,019 | 4,736,919 |
| Tap in fees - water | 106,202 | 124,837 |
| Tap in fees - sewer | 84,543 | 117,505 |
| Availability charges | 565,423 | 597,582 |
| Golf course irrigation | 204,934 | 297,609 |
| Service fees and penalties | 42,646 | 44,174 |
| Other operating revenues | 21,264 | 17,771 |
| Total operating revenues | 11,590,723 | 11,714,003 |
| Departmental Expenses | | |
| Payroll and related expenses | 3,713,013 | 3,571,288 |
| Administrative expenses | 793,893 | 789,686 |
| Operations expenses | 1,571,114 | 1,667,542 |
| Maintenance expenses | 1,006,240 | 1,125,413 |
| Tap in expenses | 172,815 | 145,479 |
| Purchased water | 791,096 | 622,629 |
| RO plant expenses | 618,024 | 533,249 |
| ASR plant expenses | 236,966 | 235,284 |
| Professional fees | 305,698 | 237,182 |
| Vehicle expenses | 117,787 | 126,384 |
| Depreciation | 4,485,346 | 4,481,885 |
| Total departmental expenses | 13,811,992 | 13,536,021 |
| Loss from operations | (2,221,269) | (1,822,018) |
| Non-Operating Revenues (Expenses) | | |
| Property taxes - debt service | 1,391,881 | 1,167,016 |
| Property taxes - operations | 913,930 | 901,453 |
| Rental and tower lease income | 588,764 | 611,799 |
| Interest earned | 132,549 | 142,313 |
| Bond issuance costs | (67,329) | (38,685) |
| Amortization of bond insurance | (9,157) | (9,157) |
| Amortization of bond defeasance | (214,095) | (214,095) |
| Interest expense | (1,613,353) | (1,661,871) |
| Total net non-operating income | 1,123,190 | 898,773 |
| Decrease in net position before capital contributions | \$ (1,098,079) | \$ (923,245) |

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, 2015 AND 2014

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Capital Contributions | | |
| Assessments | \$ - | \$ 243,609 |
| Capacity fees | 631,651 | 477,179 |
| Developer contributions of systems | 262,880 | 1,184,597 |
| Total capital contributions | 894,531 | 1,905,385 |
| Change in net position | (203,548) | 982,140 |
| Net position, beginning of the year - as previously reported | | 36,163,836 |
| Cumulative adjustment - adoption of GASB Statement No. 68 | | (4,063,319) |
| Net position, beginning of the year - as restated | 33,082,657 | 32,100,517 |
| Net position, end of year | \$ 32,879,109 | \$ 33,082,657 |

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|--|---------------|---------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 11,644,304 | \$ 11,603,638 |
| Cash paid to suppliers | (6,579,135) | (6,508,815) |
| Cash paid to employees | (2,550,935) | (2,523,385) |
| Other revenues | 21,264 | 17,771 |
| Net cash provided by operating activities | 2,535,498 | 2,589,209 |
| Cash flows from investing activities: | | |
| Interest earned | 132,549 | 142,313 |
| Net cash provided by investing activities | 132,549 | 142,313 |
| Cash flows from noncapital financing activities: | | |
| Property taxes collected - operations | 913,930 | 901,453 |
| Rental and tower lease income | 559,104 | 617,784 |
| Sewer assessments collected | 434,762 | 382,702 |
| Net cash provided by noncapital financing activities | 1,907,796 | 1,901,939 |
| Cash flows from capital and related financing activities: | | |
| Capacity fees | 631,651 | 308,029 |
| Capacity fee assessments | 51,538 | 42,807 |
| Property taxes collected - debt service | 1,391,881 | 1,167,016 |
| Interest paid | (1,617,068) | (1,671,734) |
| Proceeds from revenue bonds | - | 282,294 |
| Proceeds from SRF notes | 5,189,595 | - |
| Payoff of 2004B revenue bonds | (200,940) | - |
| Bond issuance costs | (67,329) | (38,685) |
| Principal payments on bonds and notes | (3,651,988) | (3,055,888) |
| Purchases of property, plant and equipment | (5,875,217) | (1,955,882) |
| Net cash used by capital and related financing activities | (4,147,877) | (4,922,043) |
| Net increase (decrease) in cash | 427,966 | (288,582) |
| Cash and cash equivalents, at beginning of year | 5,490,658 | 5,779,240 |
| Cash and cash equivalents, at year end | \$ 5,918,624 | \$ 5,490,658 |

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (2,221,269) | \$ (1,822,018) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 4,485,346 | 4,481,885 |
| Increase in allowance for doubtful accounts | - | - |
| Difference between GASB 68 pension expense and actual contributions | 47,182 | - |
| Changes in assets and liabilities | | |
| Accounts receivable - trade, net | 91,757 | (18,716) |
| Inventories | (59,186) | (21,932) |
| Prepaid assets | (22,205) | (13,859) |
| Accounts receivable - Project SAFE | (11,172) | (80,093) |
| Accounts payable - trade | 167,264 | 18,590 |
| Customer deposits | (5,740) | 6,215 |
| Other accrued liabilities | 63,521 | 39,137 |
| Net cash provided by operating activities | <u>\$ 2,535,498</u> | <u>\$ 2,589,209</u> |
| <u>Schedule of cash and cash equivalents</u> | | |
| Available for operations | | |
| Demand deposits (interest and non-interest bearing) | \$ 2,475,608 | \$ 2,004,945 |
| Held by Beaufort County Treasurer | <u>16,604</u> | <u>107,745</u> |
| Total available for operations | 2,492,212 | 2,112,690 |
| Restricted | | |
| Cash in banks | 2,662,676 | 2,779,248 |
| Held by Beaufort County Treasurer | 763,736 | 598,720 |
| Held for construction | - | - |
| Total restricted | <u>3,426,412</u> | <u>3,377,968</u> |
| Total cash and cash equivalents | <u>\$ 5,918,624</u> | <u>\$ 5,490,658</u> |
| <u>Supplemental Disclosures</u> | | |
| Noncash financing activities: | | |
| Developer contribution of systems | \$ 262,880 | \$ 1,184,597 |
| Financed capacity fees | \$ - | \$ 169,149 |

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies

General

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

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

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

In 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which revises and establishes new financial reporting requirements for most state and local governments that provide their employees with pension benefits. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The District has recorded the obligation required under this standard through a cumulative adjustment of \$4,063,319 to beginning net position in the 2014 financial statements which consists of addition of the June 30, 2014 net pension liability of \$4,293,803 offset by the addition of the June 30, 2014 deferred outflow of resources related to pension contributions remitted after the measurement date of \$230,484.

In 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period. Currently, the District has several items that meet the definition of a deferred outflow of resources. These include deferred losses on bond refundings, outflows related to defined benefit pension contributions remitted after the measurement date, and outflows relating to changes in defined benefit actuarial experience. The District currently has one financial statement item that meets the definition of a deferred inflow of resources: outflows related to changes in defined benefit investment experience.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Fund accounting

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues are charges to customers for sales and services provided to them. The District also recognizes as operating income tap fees, availability fees, and other revenues related to operations. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Net position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for debt service; and unrestricted.

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

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

Basis of accounting

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Basis of Accounting (continued)

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

Cash and cash equivalents

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

Accounts receivable, allowance for doubtful accounts and bad debt expense

The District carries accounts receivable at cost less an allowance for doubtful accounts which is based on historical collection experience and approximates 0.5475% of budgeted water and sewer revenues. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2015 and 2014 the balance of the allowance for doubtful accounts was \$59,944. Bad debt expense for the years ended June 30, 2015 and 2014 was \$47,553 and \$46,940, respectively.

Inventory

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

Property, plant and equipment

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

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

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project that is being financed from the debt proceeds. No interest was capitalized for the years ended June 30, 2015 and 2014.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Prepaid insurance - bonds

Prepaid insurance costs connected to bond issuances are capitalized and amortized using the straight-line method over the life of the bonds commencing at the date of issuance. Amortization expense on prepaid bond insurance costs was \$9,157 for the years ended June 30, 2015 and 2014.

Bond discount and premium

The issue price of the 2004 revenue bonds exceeded its par value resulting in a bond premium of \$1,669,539. The bond premium was being amortized over the 17-year life of the 2004 revenue bonds. The unamortized portion of the premium was written off as a part of deferred outflows of debt refunding when the bonds were refunded in November 2012. The 2006 revenue bonds included two series of bonds, one issued at a premium of \$40,990 and one issued at a discount of \$197,849. The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two series of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. The 2010 general obligation bonds included two series of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2015 and 2014 was \$44,987 and \$45,019, respectively, which is included as a direct deduction from bonds payable, net of current portion on the balance sheets. Bond discount and premium amortization totaled \$31 for the years ended June 30, 2015 and 2014 and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

Compensated absences

The District accounts for compensated absences by accruing a liability for future absences according to the guidelines of GASB Statement No. 16, *Accounting for Compensated Absences*, which amounted to \$334,254 and \$303,410 at June 30, 2015 and 2014, respectively.

Pensions

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

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.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Reclassification

Certain accounts and amounts in the June 30, 2014 financial statements have been reclassified in order to conform to the June 30, 2015 presentation.

Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 25, 2015, the date that the financial statements were available to be issued.

Note 2 – Cash, cash equivalents and investments

At June 30, 2015, the bank balances of unrestricted and restricted accounts totaled \$5,177,024 and had a carrying balance totaling \$5,138,086. A sum of \$200 is held in petty cash funds of the District.

Custodial credit risk is the risk that, in the event of failure of a financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2015, none of the District's deposits or investments were exposed to custodial credit risk. The amounts covered by federal depository insurance (FDIC), invested in money market accounts and collateralized were as follows:

| | Unrestricted | Restricted under bond covenants | Total |
|-----------------------------------|---------------------|------------------------------------|---------------------|
| FDIC insured | \$ 323,993 | \$ - | \$ 323,993 |
| Collateralized | 2,190,355 | 2,662,676 | 4,853,031 |
| Balance per bank at June 30, 2015 | <u>\$ 2,514,348</u> | <u>\$ 2,662,676</u> | <u>\$ 5,177,024</u> |

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The District's investment policy limits investments to those that are very creditworthy. At June 30, 2015, the District's investments were all in a Standard and Poor's AAAM rated money market account that is collateralized by U.S. Treasury obligations. As of June 30, 2015 and 2014, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

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

Investment Policy

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

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

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

Note 3 - Cash held by the Beaufort County Treasurer

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

| | As of June 30, | |
|---|-------------------|-------------------|
| | 2015 | 2014 |
| Unrestricted cash - Available for general operating purposes | \$ 16,604 | \$ 107,745 |
| Restricted cash - Bond principal retirement and interest payments | <u>763,736</u> | <u>598,720</u> |
| Total | <u>\$ 780,340</u> | <u>\$ 706,465</u> |

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 4 - Accounts receivable

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

| | 2015 | 2014 |
|-------------------------------------|--------------|--------------|
| Receivables from customers | \$ 880,059 | \$ 945,303 |
| Unbilled receivables from customers | 868,280 | 874,953 |
| Other receivables | 57,714 | 77,554 |
| | \$ 1,806,053 | \$ 1,897,810 |

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

Note 5 - Property, plant, equipment and depreciation

Capital asset activity during the year ended June 30, 2015 and 2014 was as follows:

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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

Depreciation expense for the years ended June 30, 2015 and 2014 was \$4,485,346 and \$4,481,885, respectively. Transfers relate to construction in progress completed during the year.

Note 6 – Long-term obligations

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

Notes payable

The District is obligated under a note dated November 30, 1988, with a balance of \$133,939 and \$151,939 at June 30, 2015 and 2014, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Notes payable (continued)

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2015 and 2014 amounted to \$354,468 and \$375,155, respectively.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.0% per annum. These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 were payable quarterly beginning January 1, 2009 through October 1, 2011. Effective November 21, 2011, the interest rate was reduced to 2.25% resulting in reduced principal and interest payments of \$45,350 to be paid quarterly from January 1, 2012 through October 1, 2028. The SRF loan balance outstanding at June 30, 2015 and 2014 amounted to \$2,073,392 and \$2,206,268, respectively.

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$2,902,255. Proceeds are to be used to defray the costs of installing and implementing an Advanced Meter Reading Infrastructure. The note bears interest at a rate of 1.00% per annum. During the year ended June 30, 2015, draws of \$2,563,810 were taken on this loan. The current repayment agreement calls for eighty quarterly principal and interest payments of \$40,072 that will be due beginning April 1, 2016. This repayment schedule is subject to change after all draws have been made on this note. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$3,750,000. Proceeds are to be used to defray the cost expanding the existing Reverse Osmosis Treatment Facility, installing an additional booster pump station, and relocating a major water line within the district. The note bears interest at a rate of 2.00% per annum. During the year ended June 30, 2015, draws of \$2,625,785 were taken on this loan. Eighty quarterly principal and interest payments of \$56,989 are due beginning May 1, 2015, but this repayment schedule is subject to change after all draws have been made on this note. The balance outstanding at June 30, 2015 was \$2,587,546. The notes are backed by general obligation debt.

Bonds payable

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

until 2020. The 2010A revenue bonds outstanding amounted to \$104,169 and \$122,744 at June 30, 2015 and 2014, respectively.

In April 2004, the District determined that a debt service savings could be achieved by issuing a series of 2004 revenue bonds in the amount of \$17,575,000 and applying the proceeds thereof to refund a portion of the callable maturities of the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. The 2004 revenue bonds bore varying interest rates of between 2% to 5%, and were payable semi-annually beginning August 1, 2004 through August 1, 2021. In November 2012, these bonds were advance refunded to achieve a debt service savings by the issuance of series 2012A revenue bonds in the amount of \$12,275,000. Interest on the bonds is payable semi-annually at interest rates of between 0.542% and 2.839% per annum. Principal payments are due annually on August 1st of each year beginning in 2013 and continuing through 2024. The 2012A revenue bonds outstanding amounted to \$9,875,000 and \$11,275,000 at June 30, 2015 and 2014, respectively.

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

On February 2, 2006, the District issued \$18,770,000 of Series 2006 revenue bonds to refund the series 1998 revenue bonds in order to achieve savings on debt service. Interest on the bonds is payable semi-annually at varying interest rates of between 3.50% and 4.125% per annum. Principal payments are due annually on December 1st of each year beginning in 2006 and continuing until 2023. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2006 bonds outstanding amounted to \$15,725,000 and \$16,235,000 at June 30, 2015 and 2014, respectively.

In June 2007, the District issued \$930,000 of series 2007 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2007 bond bears interest at a rate of 4.22% per annum. Principal and interest of \$69,771 are payable on June 20th of each year beginning in 2008 and continuing until 2027. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2007 revenue bonds outstanding amounted to \$646,525 and \$687,292 at June 30, 2015 and 2014, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

On October 3, 2007 the District issued \$7,350,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. Interest on the bonds is payable semi-annually beginning March 1, 2008 at varying interest rates of between 4.50% and 4.00% per annum. Principal payments on the bonds are due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$5,250,000 and \$5,585,000 at June 30, 2015 and 2014, respectively.

In July 2009, the District issued \$355,902 of series 2009A revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2009A bond bears interest at a rate of 4.55% per annum. Principal and interest of \$33,254 are payable on July 30th of each year beginning in 2010 and continuing until 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2009A revenue bonds outstanding amounted to \$262,479 and \$282,862 at June 30, 2015 and 2014, respectively.

In July 2009, the District issued \$1,781,694 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bear interest at a rate of 4.219% per annum. The first payment of principal and interest in the amount of \$159,413 was due March 1, 2010. Fourteen additional payments of principal and interest of \$160,040 are payable on March 1st of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$1,178,162 and \$1,284,029 at June 30, 2015 and 2014, respectively.

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds are to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds are due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2010B revenue bonds outstanding amounted to \$2,865,000 and \$3,005,000 at June 30, 2015 and 2014, respectively.

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$3,100,000 and \$3,275,000 at June 30, 2015 and 2014, respectively.

On April 27, 2011, the District issued \$384,402 of series 2011 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2011 bond bears interest at a rate of 3.91% per annum. Principal and interest of \$34,356 are payable on April 27th of each year beginning in 2012 and continuing until 2026. The bonds are payable from revenues derived from operation of the District's

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$302,443 and \$324,126 at June 30, 2015 and 2014, respectively.

On August 24, 2011, the District issued \$6,003,544 of series 2011B refunding revenue bonds. Proceeds were used to refund the May 2000 loan agreement with the South Carolina Water Quality Revolving Fund Authority; the purpose of the original loan agreement was to fund the expansion of the wastewater treatment plant capacity by 3,200,000 gallons per day. The series 2011B bond bears interest at a rate of 2.89% per annum. Principal and interest of \$57,666 are payable on the 24th of each month beginning in September 2011 and continuing until August 2021. The bonds are payable from revenues derived from operation of the District’s system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$3,904,379 and \$4,474,573 at June 30, 2015 and 2014, respectively.

On November 29, 2012, the District issued \$815,000 of series 2012B revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2012B bond bears interest at a rate of 2.15% per annum. Interest only payments are due semi-annually from February 1, 2013 through August 1, 2024. The principal balance is due in full on August 1, 2024. The bonds are payable from revenues derived from operation of the District’s system, and are secured by a lien upon these revenues. The 2012B revenue bonds outstanding amounted to \$815,000 at June 30, 2015 and 2014, respectively.

On April 23, 2014, the District issued \$282,294 of Series 2014A revenue bonds for purposes of funding sewer connections in certain previously unserved areas of the District. The bonds are an obligation of the District, bear interest at the rate of 3.42% and are payable annual principal and interest payments of \$24,371 through April 2029. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20 year period and will be collected by the county treasurer. The 2014A revenue bonds outstanding amounted to \$267,578 and \$282,294 at June 30, 2015 and 2014, respectively

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

| Years ended | June 30, | Principal | Interest | Total |
|-------------|----------|----------------------|----------------------|----------------------|
| 2016 | \$ | 3,886,071 | \$ 1,594,278 | \$ 5,480,349 |
| 2017 | | 4,089,054 | 1,514,441 | 5,603,495 |
| 2018 | | 4,210,155 | 1,397,141 | 5,607,296 |
| 2019 | | 4,327,363 | 1,271,981 | 5,599,344 |
| 2020 | | 4,460,715 | 1,139,923 | 5,600,638 |
| 2021-2025 | | 24,583,029 | 3,257,361 | 27,840,390 |
| 2026-2030 | | 5,900,095 | 532,838 | 6,432,933 |
| 2031-2035 | | 1,805,450 | 78,779 | 1,884,229 |
| 2036 | | 119,618 | 598 | 120,216 |
| | | <u>\$ 53,381,550</u> | <u>\$ 10,787,340</u> | <u>\$ 64,168,890</u> |

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

The debt table on the preceding page includes expected additional draws of \$338,445 and \$1,124,215 on 2014 SRF revenue bonds and 2014 SRF GO bonds, respectively, that were not yet taken at June 30, 2015.

| For those bonds due June 30, | Revenue bonds dated Feb. 2, 2006 | General Obligation bonds dated Oct. 3, 2006 | Revenue bonds dated Aug. 24, 2010 | General Obligation bonds dated Sept. 28, 2010 | Revenue bonds dated Nov. 29, 2012 |
|------------------------------------|--|---|---|---|---|
| 2016 | 3.75% - 4.00% | 4.000% | 4.000% | 2.000% | 1.222% |
| 2017 | 4.000% | 4.000% | 4.000% | 2.250% | 1.372% |
| 2018 | 4.000% | 4.000% | 4.000% | 3.000% | 1.667% |
| 2019 | 4.000% | 4.000% | 4.000% | 3.000% | 1.917% |
| 2020-2022 | 4.000% | 4.000% | 4.000% | 3.000% | 2.339% |
| 2023 | 4.100% | 4.000% | 4.000% | 3.000% | 2.339% |
| 2024 | 4.125% | 4.000% | 4.000% | 3.000% | 2.839% |
| 2025 | - | 4.000% | 4.000% | 3.000% | - |
| 2026-2027 | - | 4.000% | 4.000% | 3.125% | - |
| 2028 | - | - | 4.000% | 3.250% | - |
| 2029 | - | - | 3.875% | 3.375% | - |

Note 7 – Non-current liabilities

The non-current liability activity during fiscal years 2015 and 2014 was as follows:

| | June 30, 2014 | Additions | Reductions | June 30, 2015 | Amounts due within one year |
|-------------------------------|----------------------|--------------|----------------|----------------------|--------------------------------|
| Revenue bonds | \$ 37,704,831 | \$ - | \$ (3,027,258) | \$ 34,677,573 | \$ 2,882,732 |
| GO Bonds | 10,144,029 | - | (615,867) | 9,528,162 | 640,333 |
| Notes payable - GO debt | 2,581,423 | 2,625,785 | (191,802) | 5,015,406 | 312,190 |
| Notes payable - Revenue/other | 151,939 | 2,563,810 | (18,000) | 2,697,749 | 50,816 |
| Bond discount/premium | 45,019 | - | (31) | 44,988 | - |
| Net pension liability | 4,293,803 | - | (172,301) | 4,121,502 | - |
| Subtotal | \$ 54,921,044 | \$ 5,189,595 | \$ (4,025,259) | \$ 56,085,380 | \$ 3,886,071 |
| Less current portion | (3,629,596) | | | (3,886,071) | |
| Noncurrent liabilities | <u>\$ 51,291,448</u> | | | <u>\$ 52,199,309</u> | |
| | June 30, 2013 | Additions | Reductions | June 30, 2014 | Amounts due within one year |
| Revenue bonds | \$ 39,713,937 | \$ 282,294 | \$ (2,291,400) | \$ 37,704,831 | \$ 2,842,165 |
| GO Bonds | 10,740,609 | - | (596,580) | \$ 10,144,029 | 615,867 |
| Notes payable - GO debt | 2,731,330 | - | (149,907) | \$ 2,581,423 | 153,564 |
| Notes payable - Revenue/other | 169,939 | - | (18,000) | \$ 151,939 | 18,000 |
| Bond discount/premium | 45,050 | - | (31) | \$ 45,019 | - |
| Net pension liability | - | 4,293,803 | - | \$ 4,293,803 | - |
| Subtotal | \$ 53,400,865 | \$ 4,576,097 | \$ (3,055,918) | \$ 54,921,044 | \$ 3,629,596 |
| Less current portion | (3,055,889) | | | (3,629,596) | |
| Noncurrent liabilities | <u>\$ 50,344,976</u> | | | <u>\$ 51,291,448</u> | |

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 8 – Deferred amount on refunding

On February 2, 2006, the District issued revenue bonds amounting to \$18,770,000 with varying interest rates to advance refund series 1998 revenue bonds amounting to \$17,825,000 of principal which were to mature in 2024. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2006 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1.28 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$886,805. The District is amortizing the deferred loss on early retirement of \$1,133,015 over the 18-year life of the refunded bonds. The unamortized balance at June 30, 2015 and 2014 was \$534,739 and \$598,273, respectively.

In June 2010, the District issued revenue bonds amounting to \$190,722 with varying interest rates to advance refund series 2000B revenue bonds amounting to \$530,000 of principal which were to mature in 2020. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2010 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$84,295, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,268. The District is amortizing the deferred amount on early retirement of \$17,137 over the 10-year life of the refunded bonds. The unamortized balance at June 30, 2015 and 2014 was \$8,569 and \$10,282, respectively.

In November 2012, the District issued revenue bonds amounting to \$12,275,000 with varying interest rates to advance refund series 2004 revenue bonds amounting to \$17,575,000 which had varying interest rates and a balance of \$11,740,000 at the time of the refunding. The 2004 bonds previously refunded revenue bonds totaling \$18,110,000. The 2004 revenue bonds were set to mature in 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2012A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$527,149, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$206,473. The District is amortizing the deferred amount on early retirement of \$1,240,395 over the 8.33 year remaining life of the refunded bonds. The unamortized balance at June 30, 2015 and 2014 was \$855,872 and \$1,004,720, respectively.

Note 9 – Restricted Assets

A reserve fund for debt service is mandated by bond covenants. At June 30, 2015 and 2014 the debt service reserves totaled \$3,426,103 and \$3,377,968, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 9 – Restricted Assets (continued)

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

Note 10 - Lease arrangements

The District is currently leasing office space, land use and space on its water tower facilities to various cellular phone companies for attachment of antennae. Original lease terms range from one to five year periods, with renewal options. Rental income in connection with these leases was \$568,138 and \$591,203 for the years ended June 30, 2015 and 2014, respectively.

The future minimum lease income is as follows:

| Years ended | |
|-------------|-------------------|
| June 30, | Amount |
| 2016 | \$ 403,235 |
| 2017 | 158,529 |
| 2018 | 38,917 |
| 2019 | - |
| 2020 | - |
| Thereafter | - |
| Total | <u>\$ 600,681</u> |

Note 11 - Economic dependence

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

Note 12 – Insurance recoveries

The District records insurance recoveries as an offset to the related expense. The District received \$-0- for insurance recoveries during the years ended June 30, 2015 and 2014, respectively.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 13 - Construction and development commitments

Policy

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

Regulatory mandates

The District, as well as some other water authorities on Hilton Head Island, South Carolina, has entered into contracts for additional water supply sources to meet its future needs due to restrictions placed on the District by the South Carolina Department of Health and Environmental Control. The restrictions and contract for water supply have a significant financial impact on the District. During the years ended June 30, 1998 and June 30, 2003, the District signed agreements with Beaufort-Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum amount of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$1,001,103 and \$817,167 for the years ended June 30, 2015 and 2014, respectively.

Expansion

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$262,880 and \$1,184,597 and payments of capacity fees totaling \$631,651 and \$477,179 were collected during the fiscal years ended June 30, 2015 and 2014, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District.

Construction commitments

The District had outstanding construction contract commitments of \$1,110,430 and \$3,896,804 at June 30, 2015 and 2014, respectively.

Note 14 - Sewer assessments

The District has constructed various sewer collection systems, the cost of which is to be repaid by annual sewer assessments collected by the Beaufort County treasurer from the property owners that benefited from these systems. These assessments are being collected annually and are expected to be paid in full beginning 2016 through 2034. Assessments receivable totaled \$2,511,072 and \$2,997,372 as of June 30, 2015 and 2014, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2015 and 2014, \$122,375 and \$132,960, respectively, of the assessments collected was recognized as interest income.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans

Section 457/401(k) Plan

In April 2004, the District reactivated its Internal Revenue Code Section 457 retirement plan. All persons employed by the District on March 31, 2004 became eligible employees. In May 2012, the District also adopted a 401(k) Plan option. Under the Plan, all participants may make an elective deferral up to 100% of their annual compensation subject to Internal Revenue Code maximum contribution limitations. The District makes a 6% matching contribution to each eligible participant's account who has not chosen to also participate in the South Carolina Retirement Plan. Employee contributions for the years ended June 30, 2015 and 2014 were \$184,735 and \$197,903, respectively. The matching contribution for the years ended June 30, 2015 and 2014 was \$9,628 and \$8,876, respectively. Participants are immediately vested in all contributions and earnings thereon.

South Carolina Retirement System

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

General Information about the Pension Plan

Plan Description. SCRS is a cost-sharing multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority (PEBA) that was established effective July 1, 1945 pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions that elect participation. PEBA issues a publically available financial report that can be obtained at www.peba.sc.gov.

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

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

Contributions. Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year. Required employee contribution rates for the years ended June 30, 2015 and 2014 were 8.0% and 7.5%, respectively. Required employer contribution rates for the years ended June 30, 2015 and 2014 were 10.75% and 10.45%, respectively. The incidental death benefit employer contribution rate for the years ended June 30, 2015 and 2014 was 0.15%. The District's required contribution for the years ended June 30, 2015 and 2014 were \$241,688 and \$230,484, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

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

At June 30, 2015 and 2014, the District reported a liability of \$4,121,502 and \$4,293,803, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013, using membership data as of July 1, 2013, projected forward to the end of the fiscal year and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's contributions for the year ended June 30, 2014 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2014. At June 30, 2014, the District's proportion was 0.239 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$288,870. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 116,786 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 347,473 |
| District contributions subsequent to the measurement date | 241,688 | - |
| Total | \$ 358,474 | \$ 347,473 |

For the year ended June 30, 2014, the District recognized pension expense of \$230,434. At June 30, 2014, 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 | \$ - | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | - |
| District contributions subsequent to the measurement date | 230,484 | - |
| Total | \$ 230,484 | \$ - |

The \$241,688 and \$230,630 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2015 and 2014, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016 and 2015, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30, | |
|----------------------------|----------|
| 2016 | (41,905) |
| 2017 | (41,905) |
| 2018 | (41,905) |
| 2019 | (41,905) |
| 2020 | (63,067) |
| Thereafter | - |

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

Actuarial Assumptions. Actuarial assumptions involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state status requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 valuation is complete.

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|----------------------------------|
| Inflation | 2.75 percent |
| Salary Increases | levels off at 3.5 percent |
| Investment rate of return | 7.5 percent, including inflation |
| Benefit adjustments | lesser of 1 percent or \$500 |

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

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

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 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 2.75 percent inflation component.

| Asset Class | Target Asset Allocation | Long Term Expected | |
|----------------------------------|------------------------------------|---|--|
| | | Arithmetic Real Rate of Return | Portfolio Real Rate of Return |
| Short Term | 5.0% | | |
| Cash | 2.0% | 0.3 | 0.01 |
| Short Duration | 3.0% | 0.6 | 0.02 |
| Domestic Fixed Income | 13.0% | | |
| Core Fixed Income | 7.0% | 1.1 | 0.08 |
| High Yield | 2.0% | 3.5 | 0.07 |
| Bank Loans | 4.0% | 2.8 | 0.11 |
| Global Fixed Income | 9.0% | | |
| Global Fixed Income | 3.0% | 0.8 | 0.02 |
| Emerging Markets Debt | 6.0% | 4.1 | 0.25 |
| Global Public Equity | 31.0% | 7.8 | 2.42 |
| Global Tactical Asset Allocation | 10.0% | 5.1 | 0.51 |
| Alternatives | 32.0% | | |
| Hedge Funds (Low Beta) | 8.0% | 4 | 0.32 |
| Private Debt | 7.0% | 10.2 | 0.71 |
| Private Equity | 9.0% | 10.2 | 0.92 |
| Real Estate (Broad Market) | 5.0% | 5.9 | 0.29 |
| Commodities | 3.0% | 5.1 | 0.15 |
| Total Expected Real Return | <u>100.0%</u> | | <u>5.88</u> |
| Inflation for Acturial Purposes | | | <u>2.75</u> |
| Total Expected Nomical Return | | | <u>8.63</u> |

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of net the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate:

| | 1% | Current | 1% |
|---|---------------------|---------------------|--------------------|
| | Decrease | Discount | Increase |
| | (6.5%) | Rate (7.5%) | (8.5%) |
| District's proportionate share of the net pension liability | <u>\$ 5,333,479</u> | <u>\$ 4,121,502</u> | <u>\$3,110,366</u> |

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

Note 16 - Other commitments and contingencies

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 17 - Net position

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

| | As of June 30, | |
|--|----------------------|----------------------|
| | 2015 | 2014 |
| Net investment in capital assets | | |
| Net property, plant and equipment in service | \$ 78,637,208 | \$ 76,445,775 |
| Less: Debt as disclosed in Notes 6 & 7 | (51,918,891) | (50,582,222) |
| Bond premium, net | (44,987) | (45,019) |
| Deferred amount on refunding, net | 1,399,180 | 1,613,275 |
| Prepaid insurance - bonds | 77,834 | 86,992 |
| Accounts payable for capital assets | (562,108) | (23,427) |
| | <u>27,588,236</u> | <u>27,495,374</u> |
| Restricted for debt service | 3,426,103 | 3,377,968 |
| Unrestricted, as previously reported | | 6,272,634 |
| Cumulative adjustment - adoption of GASB No. 68 | | <u>(4,063,319)</u> |
| Unrestricted, as restated | <u>1,864,770</u> | <u>2,209,315</u> |
| Total net position | <u>\$ 32,879,109</u> | <u>\$ 33,082,657</u> |

Note 18 – Subsequent Events

On September 3, 2015, the District issued series 2015A revenue refunding bonds in the amount of \$19,846,000 and series 2015B revenue refunding bonds in the amount of \$2,721,000 to advance refund the District's series 2006 refunding revenue bonds, series 2007 revenue bonds, series 2009A revenue bonds, series 2010A revenue bonds, series 2011 revenue bonds, series 2011B revenue bonds, and a portion of the 2010B revenue bonds. The 2015A bonds bear interest at a rate of 1.93% and are payable in 20 semi-annual principal and interest installments of various amounts beginning on December 1, 2015 and continuing through June 1, 2025. The 2015B bonds bear interest at a rate of 2.29% and are payable in 29 semi-annual principal and interest installments of various amounts beginning on December 1, 2015 and continuing through December 1, 2029.

SUPPLEMENTAL FINANCIAL INFORMATION

Table A-1
Hilton Head PSD
Budgetary Comparison Schedule
Fiscal Year to Date as of June 30, 2015

| | Fiscal Year 2015 | | FY 15 Actual to FY 15 Budget | |
|--|----------------------|--------------------|--------------------------------|----------------|
| | Actual | Budget | Comparison | |
| | | | Dollars | % |
| Operating Revenues | | | Favorable (Unfavorable) | |
| Water Service | \$ 5,727,692 | \$ 6,344,900 | \$ (617,208) | -9.7% |
| Sewer Service | 4,838,019 | 4,918,300 | (80,281) | -1.6% |
| Tap In Fees - Water | 106,202 | 57,800 | 48,402 | 83.7% |
| Connection Fees - Sewer | 84,543 | 40,000 | 44,543 | 111.4% |
| Service Fees | 42,646 | 41,000 | 1,646 | 4.0% |
| Golf Course Irrigation | 204,934 | 339,900 | (134,966) | -39.7% |
| Availability Fees | 565,423 | 596,300 | (30,877) | -5.2% |
| Other Operating Revenues | 21,264 | 16,500 | 4,764 | 28.9% |
| Total Operating Revenues | 11,590,723 | 12,354,700 | (763,977) | -6.2% |
| Departmental Expenses | | | | |
| Payroll & Related | 3,713,013 | 3,675,100 | (37,913) | -1.0% |
| Administrative Expenses | 793,893 | 775,500 | (18,393) | -2.4% |
| Operations | 1,571,114 | 1,772,700 | 201,586 | 11.4% |
| Maintenance | 1,006,240 | 1,044,600 | 38,360 | 3.7% |
| Water Tap In Expenses | 90,462 | 52,000 | (38,462) | -74.0% |
| Sewer Connection Expenses | 82,353 | 36,000 | (46,353) | -128.8% |
| Purchased Water | 791,096 | 635,100 | (155,996) | -24.6% |
| ASR-1 Water | 196,311 | 199,200 | 2,889 | 1.5% |
| RO Plant O&M | 618,024 | 687,200 | 69,176 | 10.1% |
| ASR-1 O&M | 40,656 | 52,000 | 11,344 | 21.8% |
| Professional Fees | 305,698 | 266,000 | (39,698) | -14.9% |
| Vehicle | 117,787 | 130,400 | 12,613 | 9.7% |
| Total Departmental Expenses | 9,326,646 | 9,325,800 | (846) | 0.0% |
| Depreciation | 4,485,346 | 4,531,000 | 45,654 | 1.0% |
| Total Operating Expenses | 13,811,992 | 13,856,800 | 44,808 | 0.3% |
| Operating income (loss) | (2,221,269) | (1,502,100) | (719,169) | -47.9% |
| Non-operating revenues | | | | |
| Property taxes-G.O. Debt Levy | 1,391,881 | 1,204,000 | 187,881 | 15.6% |
| Property taxes-Operations Levy | 913,930 | 902,800 | 11,130 | 1.2% |
| Rental Income | 80,579 | 80,600 | (21) | 0.0% |
| Interest earned | 132,549 | 156,000 | (23,451) | -15.0% |
| Tower lease | 508,185 | 553,200 | (45,015) | -8.1% |
| Total Non-operating Revenues | 3,027,124 | 2,896,600 | 130,524 | 4.5% |
| Non-operating Expenses | | | | |
| Interest expense-Bonds | 1,613,384 | 1,555,676 | (57,708) | -3.7% |
| Bond Defeasance Amortization | 214,095 | 214,100 | 5 | 0.0% |
| Amortization of Bond Insurance | 9,157 | 9,200 | 43 | 0.5% |
| Bond Issuance Costs | 67,329 | 0 | (67,329) | N/A |
| Bond Premium Amortization | (31) | (6) | 25 | 420.0% |
| Total Non-operating Expenses | 1,903,934 | 1,778,970 | (124,964) | -7.0% |
| Total Non-operating Revenues/Exp. | 1,123,190 | 1,117,630 | 5,560 | 0.5% |
| Increase (decrease) in net assets, before capital contributions | (1,098,079) | (384,470) | (713,609) | -185.6% |
| Water Capacity Fee | 282,528 | 55,200 | 227,328 | 411.8% |
| Sewer Capacity Fee | 349,123 | 254,800 | 94,323 | 37.0% |
| Developer Contributions of Systems | 262,880 | - | 262,880 | N/A |
| Assessments | - | - | - | 0.0% |
| Total Capital Contributions | 894,531 | 310,000 | 584,531 | 188.6% |
| Change in net position | \$ (203,548) | \$ (74,470) | \$ (129,078) | -173.3% |
| Net position, beginning of the fiscal year | \$ 33,082,657 | | | |
| Net position, June 30, 2015 | \$ 32,879,109 | | | |

Notes to Budgetary Comparison Schedule

Budgetary Highlights

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

Operating Revenues: Actual of \$11,590,723 vs. FY' 15 Budget of \$12,354,700 represents a variance of \$763,977 or 6.2% below budget. These are the lowest operating revenues reported since FY' 11 despite two rate increases since that period.

The following is a summary of material variances for the Operating Revenue categories:¹³

- Water service revenues are below budget by \$617,208 or 9.7%. Fiscal year billed water consumption was down 114 million gallons or 6.3% when compared to the same period for fiscal year 2014. This is the lowest water consumption the District has had in over ten years.
- Sewer service revenues are below budget by \$80,281 or 1.6% due to the aforementioned lower water usage.
- Water connections fees are \$48,402 or 84% above budget despite the fact that there were more meter connections last fiscal year (see page 23 “Water Customer Growth”). In addition to water tap in fees being budgeted conservatively for fiscal year 2015, a higher percentage of the connections for this fiscal year have been for locations with non-existing service lines and also for larger meters.
- Sewer connection fees are \$44,543 or 111% above budget due to increased sewer connections related to Project SAFE and new connections.
- Golf course irrigation revenues are \$134,966 or 40% below budget due to cooler than usual weather conditions and increased rainfall (57.2 inches vs. 40.8 inches when comparing fiscal year 2015 to fiscal year 2014).

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$846 above budget. The following is a summary of material variances for the Departmental Expenses categories: 1

- Operations Expense: Actual of \$1,571,114 vs. FY' 15 Budget of \$1,772,700 is \$201,586 or 11% below budget. This is mainly due to lower than expected customer consumption levels and corresponding lower chemicals and fuel/power expenses.
- Water Tap in Expense: This line item is above budget by \$38,462 or 74% above budget. This expense is offset by water tap in fees that have been collected to date.
- Sewer Connection Expense: This line item is above budget by \$46,353 or 129%. This is due to a large number of Project SAFE connections and new connections. This expense is offset by sewer connection fees that have been collected to date.

¹³ In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for this report.

- Purchased Water Expense: Actual of \$791,096 vs. FY' 15 Budget of \$635,100 is \$155,996 or 25% above budget. This is mainly due to the entire RO Plant being shut down for the installation of skid 4 as well as subsequent RO raw-water well work. RO Plant production was down 140.2 million gallons compared to fiscal year 2014. UFA well withdrawal was reduced 27.3 million gallons.
- RO Plant O&M: Actual of \$618,024 vs. FY' 15 Budget of \$687,200 is \$69,176 or 10% below budget due to lower than expected chemical, power and SCADA maintenance expenses.
- Professional Fees: Actual of \$305,698 vs. FY' 15 Budget of \$266,000 is \$39,698 or 15% above budget. This is related to costs associated with the Energy Service Company (ESCO) study completed by an outside consultant.

Total Non-Operating Revenues: Actual of \$3,027,124 vs. FY' 15 Budget of \$2,896,600 represents a variance of \$130,524 or 4.5% above budget mainly due to higher GO Debt Levy collections. Tower lease revenues are below budget due to the loss of one of the District's tower leases.

Total Non-Operating Expenses: Actual of \$1,903,934 vs. FY' 15 Budget of \$1,778,970 represents a variance of \$124,964 or 7.0% above budget. This variance relates to bond issuance costs associated with the SRF Revenue and GO bonds that closed during the first quarter of FY 2015 with the South Carolina Water Quality Revolving Fund Authority. In addition, there was additional interest expense associated with the Series SRF GO bonds debt service payments that started in May of 2015.

Capital Contributions: Actual Capacity Fees of \$631,651 vs. FY' 15 Budget of \$310,000 represents a variance of \$321,651 above budget. Developer Contributions of Systems are a non-budgeted item and totaled \$262,880

- Bond Disclosure: The debt service calculation is in compliance with necessary requirements and is equal to 127% as of June 30, 2015.

Fiscal year 2015's change in net position was a loss of \$203,548 vs. FY' 15 Budget deficit of \$74,470 which represents a variance of \$129,078 below budget.

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SUMMARY SCHEDULE OF DEBT
JUNE 30, 2015

| <u>Description</u> | <u>Rate</u> | <u>06/30/2013</u> | <u>Addition</u> | <u>Reduction</u> | <u>6/30/2014</u> | <u>Addition</u> | <u>Reduction</u> | <u>06/30/2015</u> | <u>Current</u> |
|--|------------------|----------------------|-----------------|--------------------|----------------------|------------------|--------------------|----------------------|------------------|
| Revenue Bonds | | | | | | | | | |
| Series 2004B | 5.19% | 216,004 | - | (15,064) | 200,940 | - | (200,940) | - | - |
| Series 2006 | 3.50 to 4.13% | 16,725,000 | - | (490,000) | 16,235,000 | - | (510,000) | 15,725,000 | 525,000 |
| Series 2007 | 4.22% | 726,408 | - | (39,116) | 687,292 | - | (40,767) | 646,525 | 42,487 |
| Series 2009A | 4.55% | 302,358 | - | (19,496) | 282,862 | - | (20,383) | 262,479 | 21,311 |
| Series 2010 | 2.00% to 4.00% | 3,140,000 | - | (135,000) | 3,005,000 | - | (140,000) | 2,865,000 | 140,000 |
| Series 2010A | 3.85% | 140,630 | - | (17,886) | 122,744 | - | (18,575) | 104,169 | 19,290 |
| Series 2011 | 3.91% | 344,993 | - | (20,867) | 324,126 | - | (21,683) | 302,443 | 22,531 |
| Series 2011B | 2.89% | 5,028,544 | - | (553,971) | 4,474,573 | - | (570,194) | 3,904,379 | 586,893 |
| Series 2012A | 0.542% to 2.839% | 12,275,000 | - | (1,000,000) | 11,275,000 | - | (1,490,000) | 9,785,000 | 1,510,000 |
| Series 2012B | 2.15% | 815,000 | - | - | 815,000 | - | - | 815,000 | - |
| Series 2014A | 3.42% | - | 282,294 | - | 282,294 | - | (14,716) | 267,578 | 15,220 |
| Total Revenue Bonds | | <u>39,713,937</u> | <u>282,294</u> | <u>(2,291,400)</u> | <u>37,704,831</u> | <u>-</u> | <u>(3,027,258)</u> | <u>34,677,573</u> | <u>2,882,732</u> |
| General Obligation Bonds: | | | | | | | | | |
| Series 2007 | 4.00% to 4.50% | 5,910,000 | - | (325,000) | 5,585,000 | - | (335,000) | 5,250,000 | 350,000 |
| Series 2009 | 4.22% | 1,385,610 | - | (101,581) | 1,284,029 | - | (105,867) | 1,178,162 | 110,333 |
| Series 2010 | 2.00% to 3.38% | 3,445,000 | - | (170,000) | 3,275,000 | - | (175,000) | 3,100,000 | 180,000 |
| Total General Obligation Bonds | | <u>10,740,610</u> | <u>-</u> | <u>(596,581)</u> | <u>10,144,029</u> | <u>-</u> | <u>(615,867)</u> | <u>9,528,162</u> | <u>640,333</u> |
| Notes Payable - GO Debt: | | | | | | | | | |
| SRF - Series 2007 GO Bonds | 2.25% | 2,336,196 | - | (129,928) | 2,206,268 | - | (132,876) | 2,073,392 | 135,892 |
| SIRF Series 2007 GO Bonds | 3.50% | 395,134 | - | (19,979) | 375,155 | - | (20,687) | 354,468 | 21,421 |
| SRF - Series 2014 GO Bonds | 2.00% | - | - | - | - | 2,625,785 | (38,239) | 2,587,546 | 154,877 |
| Total Notes Payable - GO Debt | | <u>2,731,330</u> | <u>-</u> | <u>(149,907)</u> | <u>2,581,423</u> | <u>2,625,785</u> | <u>(191,802)</u> | <u>5,015,406</u> | <u>312,190</u> |
| Notes Payable - Revenue/Other | | | | | | | | | |
| *SCJEDA - Notes Payable | 0.00% | \$ 169,939 | \$ - | \$ (18,000) | \$ 151,939 | \$ - | \$ (18,000) | \$ 133,939 | \$ 18,000 |
| SIRF Series 2014 Revenue Bonds | 1.00% | - | - | - | - | 2,563,810 | - | 2,563,810 | 32,816 |
| Total Notes Payable - Revenue/Other | | <u>169,939</u> | <u>-</u> | <u>(18,000)</u> | <u>151,939</u> | <u>2,563,810</u> | <u>(18,000)</u> | <u>2,697,749</u> | <u>50,816</u> |
| Total Long-Term Liabilities | | \$ 53,355,816 | \$ 282,294 | \$ (3,055,888) | \$ 50,582,222 | \$ 5,189,595 | \$ (3,852,927) | \$ 51,918,890 | \$ 3,886,071 |
| Less current portion | | <u>(3,055,889)</u> | | | <u>(3,629,596)</u> | | | <u>(3,886,071)</u> | |
| Bond discount/premium, net of amortization | | 45,050 | | | 45,019 | | | 44,988 | |
| Total Long Term Debt | | <u>\$ 50,344,977</u> | | | <u>\$ 46,997,645</u> | | | <u>\$ 48,077,807</u> | |

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS
JUNE 30, 2015

| For the Year ending June 30, | \$190,722 Series 2010A Revenue Bonds Dated June 16, 2010 | | \$18,770,000 Revenue Bonds Dated February 2, 2006 | | \$930,000 Revenue Bond Dated June 20, 2007 | | \$7,350,000 GO Bond Dated October 3, 2007 | | \$335,902 Series 2009A FFA Dated July 30, 2009 | | \$1,781,694 Series 2009 GO Bond Dated July 30, 2009 | | \$3,400,000 Revenue Bond Dated August 24, 2010 | |
|------------------------------------|--|-------------------|---|----------------------|--|-------------------|---|---------------------|--|-------------------|---|---------------------|--|---------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal |
| | 2016 | 4,010 | 19,290 | 625,574 | 525,000 | 27,283 | 42,487 | 210,000 | 350,000 | 11,943 | 21,311 | 49,707 | 110,333 | 109,925 |
| 2017 | 3,268 | 20,033 | 594,068 | 1,055,000 | 25,490 | 44,280 | 196,000 | 365,000 | 10,973 | 22,280 | 45,052 | 114,988 | 104,825 | 150,000 |
| 2018 | 2,497 | 20,804 | 551,061 | 1,100,000 | 23,622 | 46,149 | 181,400 | 380,000 | 9,959 | 23,294 | 40,200 | 119,839 | 98,725 | 155,000 |
| 2019 | 1,696 | 21,605 | 506,161 | 1,145,000 | 21,674 | 48,097 | 166,200 | 390,000 | 8,900 | 24,354 | 35,144 | 124,895 | 92,425 | 160,000 |
| 2020 | 864 | 22,437 | 459,461 | 1,190,000 | 19,645 | 50,126 | 150,600 | 405,000 | 7,791 | 25,462 | 29,875 | 130,165 | 85,925 | 165,000 |
| 2021 | - | - | 410,761 | 1,245,000 | 17,529 | 52,242 | 134,400 | 420,000 | 6,633 | 26,620 | 24,383 | 135,656 | 79,125 | 175,000 |
| 2022 | - | - | 325,361 | 3,025,000 | 15,325 | 54,446 | 117,600 | 440,000 | 5,422 | 27,832 | 18,660 | 141,380 | 72,025 | 180,000 |
| 2023 | - | - | 200,184 | 3,155,000 | 13,027 | 56,744 | 100,000 | 460,000 | 4,155 | 29,098 | 12,695 | 147,345 | 64,625 | 190,000 |
| 2024 | - | - | 67,753 | 3,285,000 | 10,632 | 59,138 | 81,600 | 480,000 | 2,831 | 30,422 | 6,479 | 153,561 | 56,925 | 195,000 |
| 2025 | - | - | - | - | 8,137 | 61,634 | 62,400 | 500,000 | 1,447 | 31,806 | - | - | 48,925 | 205,000 |
| 2026 | - | - | - | - | 5,536 | 64,235 | 42,400 | 520,000 | - | - | - | - | 40,625 | 210,000 |
| 2027 | - | - | - | - | 2,825 | 66,947 | 21,600 | 540,000 | - | - | - | - | 32,163 | 220,000 |
| 2028 | - | - | - | - | - | - | - | - | - | - | - | - | 23,444 | 230,000 |
| 2029 | - | - | - | - | - | - | - | - | - | - | - | - | 14,337 | 240,000 |
| 2030 | - | - | - | - | - | - | - | - | - | - | - | - | 4,844 | 250,000 |
| | <u>\$ 12,334</u> | <u>\$ 104,169</u> | <u>\$ 3,740,384</u> | <u>\$ 15,725,000</u> | <u>\$ 190,725</u> | <u>\$ 646,525</u> | <u>\$ 1,464,200</u> | <u>\$ 5,250,000</u> | <u>\$ 70,054</u> | <u>\$ 262,479</u> | <u>\$ 262,195</u> | <u>\$ 1,178,162</u> | <u>\$ 928,863</u> | <u>\$ 2,865,000</u> |
| Current | | <u>\$ 19,290</u> | | <u>\$ 525,000</u> | | <u>\$ 42,487</u> | | <u>\$ 350,000</u> | | <u>\$ 21,311</u> | | <u>\$ 110,333</u> | | <u>\$ 140,000</u> |
| Noncurrent | | <u>\$ 84,879</u> | | <u>\$ 15,200,000</u> | | <u>\$ 604,038</u> | | <u>\$ 4,900,000</u> | | <u>\$ 241,168</u> | | <u>\$ 1,067,829</u> | | <u>\$ 2,725,000</u> |

| For the Year ending June 30, | \$3,970,000 GO Bond Dated September 25, 2010 | | \$6,003,544 Revenue Bond Dated August 24, 2011 | | \$384,000 Revenue Bond Dated April 27, 2011 | | \$12,275,000 Revenue Bond 2012 A Dated November 29, 2012 | | \$815,000 Revenue Bond 2012 B Dated November 29, 2012 | | \$282,294 Revenue Bond 2014 A Dated April 23, 2014 | | BOND TOTALS | | |
|------------------------------------|--|---------------------|--|---------------------|---|-------------------|--|---------------------|---|-------------------|--|-------------------|---------------------|----------------------|----------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Total | Total | Total |
| | 2016 | 92,150 | 180,000 | 105,103 | 586,893 | 11,826 | 22,531 | 182,112 | 1,510,000 | 17,523 | - | 9,151 | 15,220 | 1,456,307 | 3,523,065 |
| 2017 | 88,550 | 185,000 | 87,916 | 604,080 | 10,945 | 23,412 | 169,251 | 1,020,000 | 17,523 | - | 8,631 | 15,740 | 1,362,492 | 3,619,813 | 4,982,305 |
| 2018 | 84,368 | 190,000 | 70,225 | 621,771 | 10,029 | 24,327 | 155,918 | 1,035,000 | 17,523 | - | 8,092 | 16,279 | 1,253,618 | 3,732,463 | 4,986,081 |
| 2019 | 78,688 | 195,000 | 52,015 | 639,981 | 9,078 | 25,278 | 140,067 | 1,050,000 | 17,523 | - | 7,536 | 16,835 | 1,137,107 | 3,841,045 | 4,978,152 |
| 2020 | 72,837 | 200,000 | 33,273 | 658,723 | 8,090 | 26,266 | 121,011 | 1,075,000 | 17,523 | - | 6,960 | 17,411 | 1,013,855 | 3,965,590 | 4,979,445 |
| 2021 | 66,838 | 205,000 | 13,982 | 678,014 | 7,063 | 27,294 | 97,726 | 1,110,000 | 17,523 | - | 6,364 | 18,007 | 882,327 | 4,092,833 | 4,975,160 |
| 2022 | 60,687 | 210,000 | 416 | 114,917 | 5,995 | 28,361 | 84,602 | 10,000 | 17,523 | - | 5,749 | 18,622 | 729,365 | 4,250,558 | 4,979,923 |
| 2023 | 54,388 | 220,000 | - | - | 4,887 | 29,470 | 82,757 | 120,000 | 17,523 | - | 5,112 | 19,259 | 559,353 | 4,426,916 | 4,986,269 |
| 2024 | 47,787 | 230,000 | - | - | 3,734 | 30,622 | 79,279 | 125,000 | 17,523 | - | 4,453 | 19,918 | 378,996 | 4,608,661 | 4,987,657 |
| 2025 | 40,888 | 240,000 | - | - | 2,537 | 31,819 | 38,752 | 2,730,000 | 8,761 | 815,000 | 3,772 | 20,599 | 215,619 | 4,635,858 | 4,851,477 |
| 2026 | 33,687 | 245,000 | - | - | 1,293 | 33,063 | - | - | - | - | 3,067 | 21,304 | 126,608 | 1,093,602 | 1,220,210 |
| 2027 | 26,031 | 255,000 | - | - | - | - | - | - | - | - | 2,339 | 22,032 | 84,958 | 1,103,979 | 1,188,937 |
| 2028 | 18,062 | 265,000 | - | - | - | - | - | - | - | - | 1,585 | 22,786 | 43,091 | 517,786 | 560,877 |
| 2029 | 9,450 | 280,000 | - | - | - | - | - | - | - | - | 806 | 23,566 | 24,593 | 543,566 | 568,159 |
| 2030 | - | - | - | - | - | - | - | - | - | - | - | - | 4,844 | 250,000 | 254,844 |
| | <u>\$ 774,411</u> | <u>\$ 3,100,000</u> | <u>\$ 362,930</u> | <u>\$ 3,904,379</u> | <u>\$ 75,477</u> | <u>\$ 302,443</u> | <u>\$ 1,151,475</u> | <u>\$ 9,785,000</u> | <u>\$ 166,468</u> | <u>\$ 815,000</u> | <u>\$ 73,617</u> | <u>\$ 267,578</u> | <u>\$ 9,273,133</u> | <u>\$ 44,205,735</u> | <u>\$ 53,478,868</u> |
| Current | | <u>\$ 180,000</u> | | <u>\$ 586,893</u> | | <u>\$ 22,531</u> | | <u>\$ 1,510,000</u> | | <u>\$ -</u> | | <u>\$ 15,220</u> | | <u>\$ 3,523,065</u> | |
| Noncurrent | | <u>\$ 2,920,000</u> | | <u>\$ 3,317,486</u> | | <u>\$ 279,912</u> | | <u>\$ 8,275,000</u> | | <u>\$ 815,000</u> | | <u>\$ 252,358</u> | | <u>\$ 40,682,670</u> | |

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT
SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS
 JUNE 30, 2015

| For the Year ending June 30, | \$530,000 SCJESA Note Dated November 30, 1988 | | \$2,887,826 SC SRF Loan Dated October 3, 2007 | | \$481,080 SIRF GO Bond Dated October 3, 2007 | | \$2,902,255 SIRF Revenue Bonds Dated July 23, 2014 | | \$3,750,000 SRF GO Bond Dated September 10, 2014 | | NOTE TOTALS | | |
|------------------------------------|---|-------------------|---|---------------------|--|-------------------|--|---------------------|--|---------------------|---------------------|---------------------|----------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Total Interest | Total Principal | Total |
| | 2016 | - | 18,000 | 45,510 | 135,892 | 12,127 | 21,421 | 7,256 | 32,816 | 73,078 | 154,877 | 137,971 | 363,006 |
| 2017 | - | 18,000 | 42,427 | 138,975 | 11,368 | 22,180 | 28,200 | 132,088 | 69,958 | 157,998 | 151,953 | 469,241 | 621,194 |
| 2018 | - | 18,000 | 39,273 | 142,128 | 10,581 | 22,967 | 26,874 | 133,414 | 66,774 | 161,182 | 143,502 | 477,691 | 621,193 |
| 2019 | - | 18,000 | 36,048 | 145,353 | 9,767 | 23,781 | 25,535 | 134,753 | 63,526 | 164,430 | 134,876 | 486,317 | 621,193 |
| 2020 | - | 18,000 | 32,750 | 148,652 | 8,923 | 24,625 | 24,183 | 136,105 | 60,213 | 167,743 | 126,069 | 495,125 | 621,194 |
| 2021 | - | 18,000 | 29,377 | 152,025 | 8,050 | 25,498 | 22,816 | 137,472 | 56,833 | 171,123 | 117,076 | 504,118 | 621,194 |
| 2022 | - | 18,000 | 25,928 | 155,474 | 7,146 | 26,402 | 21,436 | 138,852 | 53,384 | 174,571 | 107,894 | 513,299 | 621,193 |
| 2023 | - | 7,939 | 22,500 | 158,902 | 6,210 | 27,339 | 20,043 | 140,245 | 49,867 | 178,089 | 98,620 | 512,514 | 611,134 |
| 2024 | - | - | 18,792 | 162,610 | 5,240 | 28,308 | 18,635 | 141,653 | 46,278 | 181,677 | 88,945 | 514,248 | 603,193 |
| 2025 | - | - | 15,102 | 166,300 | 4,236 | 29,312 | 17,213 | 143,075 | 42,617 | 185,338 | 79,168 | 524,025 | 603,193 |
| 2026 | - | - | 11,329 | 170,073 | 3,197 | 30,351 | 15,777 | 144,511 | 38,883 | 189,073 | 69,186 | 534,008 | 603,194 |
| 2027 | - | - | 7,470 | 173,932 | 2,120 | 31,428 | 14,326 | 145,962 | 35,073 | 192,883 | 58,989 | 544,205 | 603,194 |
| 2028 | - | - | 3,523 | 177,879 | 1,006 | 32,542 | 12,861 | 147,427 | 31,186 | 196,770 | 48,576 | 554,618 | 603,194 |
| 2029 | - | - | 254 | 45,197 | 73 | 8,314 | 11,382 | 148,906 | 27,221 | 200,735 | 38,930 | 403,152 | 442,082 |
| 2030 | - | - | - | - | - | - | 9,887 | 150,401 | 23,176 | 204,779 | 33,063 | 355,180 | 388,243 |
| 2031 | - | - | - | - | - | - | 8,377 | 151,911 | 19,050 | 208,906 | 27,427 | 360,817 | 388,244 |
| 2032 | - | - | - | - | - | - | 6,852 | 153,436 | 14,840 | 213,115 | 21,692 | 366,551 | 388,243 |
| 2033 | - | - | - | - | - | - | 5,312 | 154,976 | 10,546 | 217,410 | 15,858 | 372,386 | 388,244 |
| 2034 | - | - | - | - | - | - | 3,757 | 156,531 | 6,165 | 221,791 | 9,922 | 378,322 | 388,244 |
| 2035 | - | - | - | - | - | - | 2,186 | 158,103 | 1,696 | 169,271 | 3,882 | 327,374 | 331,256 |
| 2036 | - | - | - | - | - | - | 598 | 119,618 | - | - | 598 | 119,618 | 120,216 |
| | <u>\$ -</u> | <u>\$ 133,939</u> | <u>\$ 330,283</u> | <u>\$ 2,073,392</u> | <u>\$ 90,044</u> | <u>\$ 354,468</u> | <u>\$ 303,506</u> | <u>\$ 2,902,255</u> | <u>\$ 790,364</u> | <u>\$ 3,711,761</u> | <u>\$ 1,514,197</u> | <u>\$ 9,175,815</u> | <u>\$ 10,690,012</u> |
| Draws not made at 06/30/2015 | | | | | | | | \$ 338,445 | | \$ 1,124,215 | | \$ 1,462,660 | |
| Current | | \$ 18,000 | | \$ 135,892 | | \$ 21,421 | | \$ 32,816 | | \$ 154,877 | | \$ 363,006 | |
| Noncurrent | | \$ 115,939 | | \$ 1,937,500 | | \$ 333,047 | | \$ 2,530,994 | | \$ 2,432,669 | | \$ 7,350,149 | |

STATISTICAL SECTION

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Statements of Revenues, Expenses, and Debt Service per Bond Covenants¹⁵

Last Ten Fiscal Years

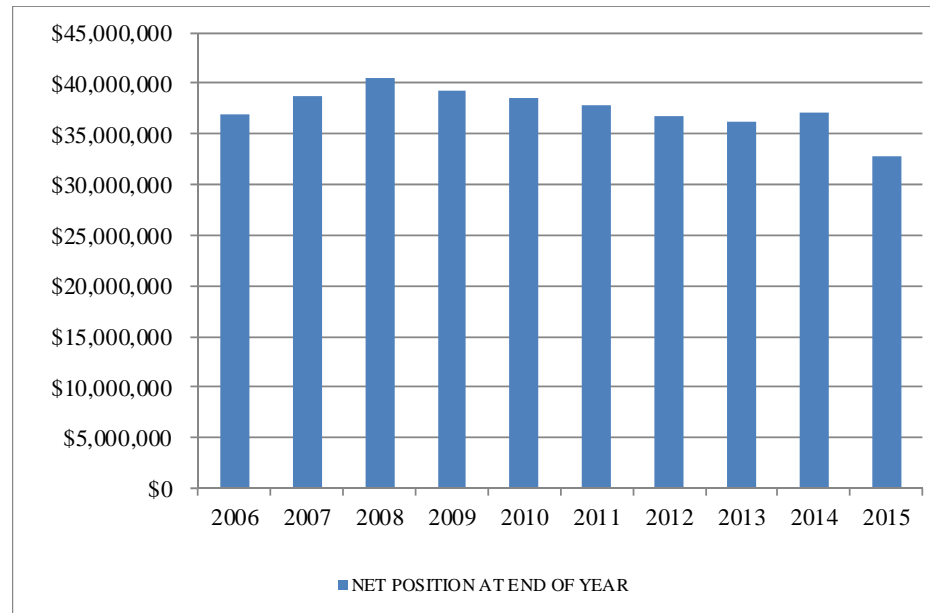
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Operating Revenues | | | | | | | | | | |
| Water service | \$5,162,771 | \$5,465,028 | \$5,518,049 | \$5,307,260 | \$5,308,798 | \$5,836,921 | \$5,949,379 | \$5,951,546 | \$5,777,606 | \$5,727,692 |
| Sewer service | 3,655,945 | 3,941,776 | 4,059,860 | 3,959,087 | 4,034,068 | 4,208,115 | 4,522,434 | 4,623,093 | \$4,736,919 | \$4,838,019 |
| Tap in fees - water | 175,964 | 106,768 | 72,569 | 35,133 | 31,305 | 43,041 | 41,861 | 61,925 | \$124,837 | \$106,202 |
| Tap in fees - sewer | 72,493 | 19,600 | 11,284 | 2,330 | 117,367 | 71,614 | 83,425 | 109,475 | \$117,505 | \$84,543 |
| Availability charges | 546,788 | 504,303 | 540,104 | 547,354 | 570,169 | 610,332 | 638,137 | 623,076 | \$597,582 | \$565,423 |
| Service fees and penalties | 42,121 | 38,218 | 38,153 | 50,311 | 70,488 | 73,245 | 51,108 | 36,645 | \$44,174 | \$42,646 |
| Golf course irrigation | 216,700 | 261,616 | 301,856 | 243,274 | 230,583 | 358,105 | 338,205 | 319,041 | \$297,609 | \$204,934 |
| Other operating Revenues | 7,803 | 16,712 | 16,188 | 19,154 | 35,679 | 80,342 | 15,539 | 14,727 | 17,771 | 21,264 |
| Total Operating Revenues | \$9,880,585 | \$10,354,021 | \$10,558,063 | \$10,163,903 | \$10,398,457 | \$11,281,715 | \$11,640,088 | \$11,739,528 | \$11,714,003 | \$11,590,723 |
| Operating Expenses | | | | | | | | | | |
| Payroll and related expenses | \$2,656,204 | \$2,797,439 | \$3,038,152 | \$3,227,906 | \$3,229,296 | \$3,293,800 | \$3,392,515 | \$3,474,067 | \$3,571,288 | \$3,713,013 |
| Administrative expenses | 500,965 | 494,394 | 544,208 | 697,194 | 692,053 | 792,437 | 923,287 | 783,768 | \$789,686 | \$793,893 |
| Operations expenses | 1,086,507 | 1,098,914 | 1,197,436 | 1,430,222 | 1,410,295 | 1,639,353 | 1,761,310 | 1,686,667 | \$1,667,542 | \$1,571,114 |
| Maintenance expenses | 637,588 | 626,455 | 733,394 | 677,372 | 768,575 | 1,103,787 | 987,389 | 1,038,224 | \$1,125,413 | \$1,006,240 |
| Water Tap In expenses | 172,549 | 93,757 | 79,818 | 26,620 | 23,030 | - | 37,443 | 38,250 | \$60,078 | \$90,462 |
| Sewer Connection expense | 19,249 | 16,473 | 3,512 | 3,900 | 128,227 | - | 78,775 | 84,144 | \$85,401 | \$82,353 |
| Purchased water | 1,645,206 | 1,671,703 | 1,596,183 | 1,356,803 | 746,571 | 1,024,455 | 1,028,789 | 817,441 | \$622,629 | \$791,096 |
| ASR-1 Water | - | - | - | - | - | - | 16,792 | 133,760 | \$194,537 | \$196,311 |
| RO Plant O&M | - | - | - | 127,852 | 674,039 | 581,270 | 604,539 | 607,876 | \$533,249 | \$618,024 |
| ASR-1 O&M | - | - | - | - | - | - | 5,275 | 30,866 | \$40,747 | \$40,656 |
| Professional fees | 291,336 | 294,484 | 532,391 | 410,736 | 269,207 | 171,575 | 243,600 | 265,786 | \$237,182 | \$305,698 |
| Vehicle expenses | 140,672 | 140,654 | 146,335 | 131,379 | 107,292 | 119,162 | 130,473 | 126,999 | \$126,384 | \$117,787 |
| Depreciation | 3,349,668 | 3,540,690 | 3,720,333 | 3,965,632 | 4,405,077 | 4,456,160 | 4,459,807 | 4,557,446 | \$4,481,885 | \$4,485,346 |
| Total Operating Expenses | \$10,499,944 | \$10,774,963 | \$11,591,762 | \$12,055,616 | \$12,453,662 | \$13,181,999 | \$13,669,995 | \$13,645,296 | \$13,536,021 | \$13,811,992 |
| Operating Income (Loss from operations) | (\$619,359) | (\$420,942) | (\$1,033,699) | (\$1,891,713) | (\$2,055,205) | (\$1,900,284) | (\$2,029,907) | (\$1,905,768) | (\$1,822,018) | (\$2,221,269) |
| Non-operating revenues (expenses) | | | | | | | | | | |
| Property taxes-debt service | \$269,130 | \$125,052 | \$409,292 | \$817,751 | \$967,418 | \$1,235,347 | \$1,233,107 | \$1,195,990 | \$1,167,016 | \$1,391,881 |
| Property taxes-operations | 848,076 | 760,054 | 901,072 | 924,702 | 1,028,416 | 1,039,316 | 1,023,502 | 1,016,558 | \$901,453 | \$913,930 |
| Rental income | 80,852 | 87,011 | 84,546 | 84,496 | 82,150 | 81,493 | 80,235 | 79,641 | 80,096 | 80,579 |
| Interest earned | 538,646 | 508,389 | 437,209 | 269,950 | 256,948 | 234,668 | 205,100 | 168,990 | 142,313 | 132,549 |
| Tower leases | 454,800 | 472,207 | 599,135 | 471,303 | 448,673 | 465,355 | 423,468 | 506,687 | 531,703 | 508,185 |
| Tower lease contract settlement | (\$275,000) | - | - | - | - | - | - | - | - | - |
| Bond Issuance Costs | - | - | - | - | - | - | (31,250) | (226,335) | (38,685) | (67,329) |
| Amortization of bond costs | (360,077) | (204,719) | (204,689) | (206,685) | (202,112) | (209,256) | (239,272) | (216,004) | (223,222) | (223,222) |
| Loss on disposal of equipment | - | - | (33,175) | 2,000 | 161 | 7,672 | - | - | - | - |
| Interest expense | (1,911,202) | (1,888,236) | (1,860,432) | (1,911,438) | (2,208,372) | (2,300,439) | (2,101,677) | (1,842,617) | (1,661,902) | (1,613,384) |
| Total Non-Operating Income (Loss) | (\$354,775) | (\$140,242) | \$332,958 | \$452,079 | \$373,282 | \$554,156 | \$593,213 | \$682,909 | \$898,773 | \$1,123,190 |
| Net Income (loss) before capital contributions per Financial Statements | (\$974,134) | (\$561,184) | (\$700,741) | (\$1,439,634) | (\$1,681,923) | (\$1,346,128) | (\$1,436,694) | (\$1,222,859) | (\$923,245) | (\$1,098,079) |
| Capacity Fees | 907,349 | 1,070,629 | 985,723 | 109,037 | 242,308 | 309,857 | 394,546 | 79,240 | 477,179 | 631,652 |
| Add: Depreciation | 3,349,668 | 3,540,690 | 3,720,333 | 3,965,632 | 4,405,077 | 4,456,160 | 4,459,807 | 4,557,446 | 4,481,885 | 4,485,346 |
| Net Pension Expense | - | - | - | - | - | - | - | - | - | 288,870 |
| SCRS Retirement Contributions | - | - | - | - | - | - | - | - | - | (241,688) |
| Amortization | 360,077 | 204,719 | 204,689 | 206,685 | 202,112 | 209,256 | 239,272 | 169,938 | 223,222 | 223,222 |
| Bond Issuance Costs | - | - | - | - | - | - | 31,250 | 226,335 | 38,685 | 67,329 |
| Interest Expense (Bonds) | 1,911,202 | 1,888,236 | 1,860,432 | 1,911,438 | 2,208,372 | 2,300,439 | 2,101,677 | 1,842,617 | 1,661,902 | 1,613,384 |
| Assessments - Debt Service | 244,956 | 365,377 | 419,060 | 508,381 | 537,759 | 550,586 | 396,027 | 415,758 | 382,702 | 486,300 |
| Less: Property Taxes - Debt Service | (269,130) | (125,052) | (409,292) | (817,751) | (967,418) | (1,235,347) | (1,233,107) | (1,195,990) | (1,167,016) | (1,391,881) |
| Net Earnings Available for Debt Service | \$5,529,988 | \$6,383,415 | \$6,080,204 | \$4,443,788 | \$4,946,286 | \$5,244,823 | 4,952,778 | 4,872,485 | \$5,175,313 | \$5,064,454 |
| Debt Service on Revenue Bonds | \$3,944,189 | \$3,637,421 | \$3,441,126 | \$3,438,347 | \$3,523,871 | \$3,477,484 | \$3,660,650 | \$4,037,286 | \$3,504,185 | \$3,987,537 |
| Required per Bond Covenants | 120% | 120% | 120% | 120% | 120% | 120% | 120% | 120% | 120% | 120% |
| Coverage of Debt Service by Net Earnings | 140% | 175% | 177% | 129% | 140% | 151% | 135% | 121% | 148% | 127% |

¹⁵ Please note that fiscal year 2015 and fiscal year 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

Schedule of Change in Net Position¹⁶

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Income (Loss from operations) | (\$619,359) | (\$420,942) | (\$1,033,699) | (\$1,891,713) | (\$2,055,205) | (\$1,900,284) | (\$2,029,907) | (\$1,905,768) | (\$1,822,018) | (\$2,221,269) |
| Total Non-Operating Income (Loss) | (\$354,775) | (\$140,242) | \$332,958 | \$452,079 | \$373,282 | \$554,156 | \$593,213 | \$682,909 | \$898,773 | \$1,123,190 |
| Capital Contributions | <u>\$1,153,508</u> | <u>\$2,224,783</u> | <u>\$2,555,086</u> | <u>\$201,573</u> | <u>\$979,621</u> | <u>\$696,652</u> | <u>\$1,348,696</u> | <u>\$553,337</u> | <u>\$1,905,385</u> | <u>\$894,531</u> |
| Changes in net position | \$179,374 | \$1,663,599 | \$1,854,345 | (\$1,238,061) | (\$702,302) | (\$649,476) | (\$87,998) | (\$669,522) | \$982,140 | (\$203,548) |
| Effect of prior period adjustments on net position | | | | | | | | | | |
| Cumulative adjustment - adoption of GASB Statement No. 68 | | | | | | | | | (\$4,063,319) | |
| Cumulative adjustment - adoption of GASB Statement No. 65 | | | | | | | (\$992,288) | | | |
| Net position at beginning of year, as previously reported | | | | | | | <u>\$37,913,644</u> | | | |
| Net position at beginning of year as previously reported | <u>\$36,806,165</u> | <u>\$36,985,539</u> | <u>\$38,649,138</u> | <u>\$40,503,483</u> | <u>\$39,265,422</u> | <u>\$38,563,120</u> | <u>\$36,921,356</u> | <u>\$36,833,358</u> | <u>\$36,163,836</u> | <u>\$33,082,657</u> |
| Net position at end of year | <u>\$36,985,539</u> | <u>\$38,649,138</u> | <u>\$40,503,483</u> | <u>\$39,265,422</u> | <u>\$38,563,120</u> | <u>\$37,913,644</u> | <u>\$36,833,358</u> | <u>\$36,163,836</u> | <u>\$33,082,657</u> | <u>\$32,879,109</u> |

Net Position at End of Year



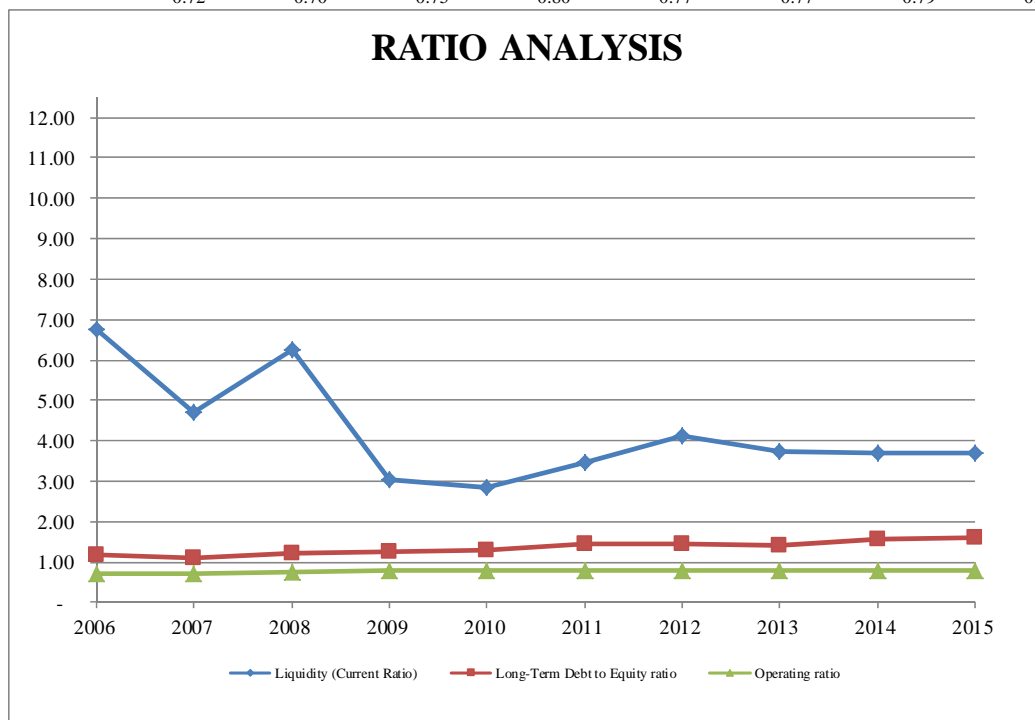
¹⁶ Please note that table A-4 and A-5 reflect the implementation of GASB 68 and the associated restatement of fiscal year 2014 and fiscal year 2015 as illustrated on page 40.

Net Position by Component¹⁷

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Net position | | | | | | | | | | |
| Net investment in capital assets | \$25,634,468 | \$27,526,781 | \$29,167,977 | \$30,467,552 | \$29,464,863 | \$27,806,556 | \$26,621,121 | \$27,016,214 | \$27,495,374 | \$27,588,236 |
| Restricted for debt service | 2,176,688 | 2,708,532 | 2,334,594 | 2,446,988 | 2,378,848 | 2,779,466 | 3,419,743 | 2,885,019 | 3,377,968 | 3,426,103 |
| Unrestricted | 9,174,383 | 8,413,825 | 9,000,912 | 6,350,882 | 6,719,409 | 7,327,622 | 6,792,494 | 6,262,603 | 2,209,315 | 1,864,770 |
| Net position | <u>\$36,985,539</u> | <u>\$38,649,138</u> | <u>\$40,503,483</u> | <u>\$39,265,422</u> | <u>\$38,563,120</u> | <u>\$37,913,644</u> | <u>\$36,833,358</u> | <u>\$36,163,836</u> | <u>\$33,082,657</u> | <u>\$32,879,109</u> |

Ratio Analysis

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|
| Liquidity (Current Ratio) | 6.78 | 4.69 | 6.26 | 3.04 | 2.86 | 3.46 | 4.12 | 3.72 | 3.69 | 3.69 |
| Long-Term Debt to Equity ratio | 1.16 | 1.10 | 1.22 | 1.26 | 1.27 | 1.43 | 1.43 | 1.39 | 1.55 | 1.59 |
| Operating ratio | 0.72 | 0.70 | 0.75 | 0.80 | 0.77 | 0.77 | 0.79 | 0.77 | 0.77 | 0.80 |



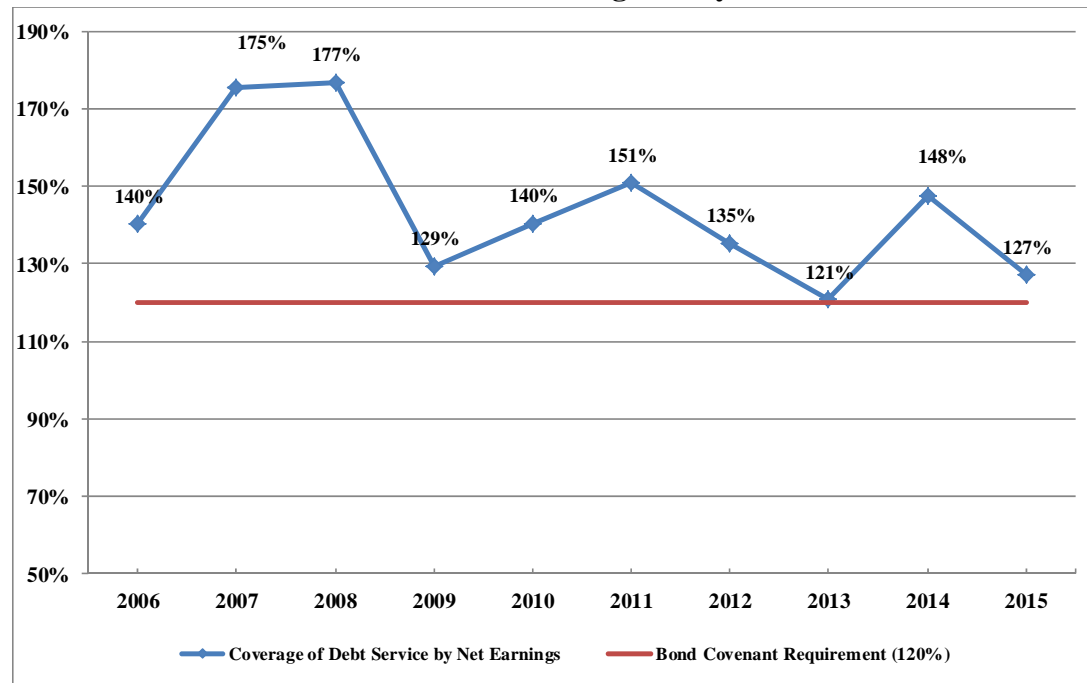
¹⁷ Please note that fiscal year 2014 and fiscal year 2015 reflect the implementation of GASB 68.

Total Outstanding Debt by Type

| Fiscal Year | GO Bonds | Revenue Bonds | SRF Revenue Loans* | SRF GO Loans | Notes Payable | Bond Premiums / discounts | Total Outstanding Debt | Average Debt Per Customer |
|-------------|------------|---------------|--------------------|--------------|---------------|---------------------------|------------------------|---------------------------|
| 2006 | 275,000 | 37,803,495 | 8,373,023 | - | 295,939 | 1,276,963 | 48,024,420 | 2,855 |
| 2007 | - | 37,972,665 | 7,949,668 | - | 277,939 | 1,175,275 | 47,375,547 | 2,739 |
| 2008 | 7,350,000 | 36,853,711 | 7,511,300 | - | 259,939 | 1,170,019 | 53,144,969 | 3,056 |
| 2009 | 7,085,000 | 35,388,165 | 7,057,386 | 3,276,237 | 241,939 | 1,063,321 | 54,112,048 | 3,118 |
| 2010 | 8,476,338 | 34,383,013 | 6,587,376 | 3,149,328 | 223,939 | 956,624 | 53,776,618 | 3,106 |
| 2011 | 11,866,601 | 36,906,574 | 6,100,698 | 3,018,480 | 205,939 | 922,848 | 59,021,140 | 3,383 |
| 2012 | 11,313,078 | 41,004,952 | - | 2,877,671 | 187,939 | 812,333 | 56,195,973 | 3,212 |
| 2013 | 10,740,609 | 39,713,937 | - | 2,731,331 | 169,939 | 45,050 | 53,400,866 | 3,034 |
| 2014 | 10,144,028 | 37,704,831 | - | 2,581,424 | 151,939 | 45,019 | 50,627,241 | 2,848 |
| 2015 | 9,528,162 | 34,677,573 | 2,563,810 | 5,015,406 | 133,939 | 44,988 | 51,963,879 | 2,905 |

* Note: The Series 2000A SRF Revenue Loan was refunded in August 2011. Also, please reference the Summary Schedule of Debt on page 71 for supporting documentation. GASB 63 was implemented in fiscal year 2012 and deferred refunding are now reported as deferred outflows from refunding debt. Total GO debt is equal to \$14,543,568 for fiscal year 2015 (\$9,528,162+5,015,406).

Debt Service Coverage Analysis¹⁸



¹⁸ Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding.

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

| | June 30, 2006 | Additions | Disposals | Fiscal Year 2011 | | June 30, 2015 |
|--|---------------|--------------|-------------|------------------|--------------------|---------------|
| | | | | Transfers | Reclassifications* | |
| Capital assets not being depreciated: | | | | | | |
| Land | \$ 379,915 | 919,278 | - | - | - | \$ 1,299,194 |
| Construction in Progress | 3,005,394 | 46,549,944 | - | (43,629,319) | - | 5,926,019 |
| Total Capital Assets not being depreciated | 3,385,309 | 47,469,222 | - | (43,629,319) | - | 7,225,213 |
| Capital assets being depreciated: | | | | | | |
| Waterworks system | 37,828,847 | 487,520 | (798,717) | 18,037,809 | 257,862 | 55,813,320 |
| Sewage disposal system | 14,128,989 | 1,322,826 | - | 21,624,814 | 1,596,254 | 38,672,883 |
| Buildings | 4,196,734 | 81,227 | - | 75,987 | (14,858) | 4,339,091 |
| Sewage treatment facilities | 36,575,668 | 65,015 | (2,400) | 220 | (1,927,081) | 34,711,422 |
| Transportation equipment | 648,495 | 582,804 | (437,787) | - | 224,208 | 1,017,719 |
| Operations furniture and equipment | 1,852,424 | 327,135 | (282,252) | 419,131 | (235,457) | 2,080,981 |
| Office furniture and equipment | 611,091 | 264,506 | (225,741) | - | 99,072 | 748,927 |
| Sub Total | 95,842,248 | 3,131,032 | (1,746,897) | 40,157,961 | - | 137,384,343 |
| Less Accumulated depreciation | (29,642,022) | (43,669,863) | 5,580,210 | 1,759,328 | - | (65,972,348) |
| Total capital assets being depreciated, net | 66,200,226 | (40,538,831) | 3,833,313 | 41,917,289 | - | 71,411,995 |
| Year End Totals | \$ 69,585,535 | 6,930,391 | 3,833,313 | (1,712,030) | - | \$ 78,637,208 |

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

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

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

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| PP&E | \$ 96,222,163 | \$ 101,306,310 | \$ 107,539,856 | \$ 121,309,803 | \$ 124,015,092 | \$ 126,932,175 | \$ 134,001,976 | \$ 135,459,397 | \$ 137,009,155 | \$ 138,683,537 |
| Accumulated Depreciation | (29,642,022) | (33,057,250) | (36,681,713) | (40,512,192) | (44,736,215) | (49,097,940) | (53,557,747) | (57,977,115) | (62,192,564) | (65,972,348) |
| Net PP&E in Service | 66,580,141 | 68,249,059 | 70,858,143 | 80,797,611 | 79,278,877 | 77,834,235 | 80,444,229 | 77,482,282 | 74,816,591 | 72,711,189 |
| Construction in Progress | 3,005,393 | 2,720,938 | 4,542,373 | 641,980 | 1,236,180 | 3,514,449 | 553,892 | 441,125 | 1,629,184 | 5,926,019 |
| Net PP&E | \$ 69,585,534 | \$ 70,969,998 | \$ 75,400,516 | \$ 81,439,592 | \$ 80,515,057 | \$ 81,348,684 | \$ 80,998,121 | \$ 77,923,407 | \$ 76,445,775 | \$ 78,637,208 |

Customer Statistics at Fiscal Year-End¹⁹

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

| Year | Water | Percent Increase | Wastewater | Percent Increase | Ratio of Customers with Both Services |
|-------------|--------------|-------------------------|-------------------|-------------------------|--|
| 2006 | 16,168 | 2.5% | 14,374 | 3.6% | 88.9% |
| 2007 | 16,344 | 1.1% | 14,658 | 2.0% | 89.7% |
| 2008 | 16,392 | 0.3% | 14,835 | 1.2% | 90.5% |
| 2009 | 16,355 | -0.2% | 14,880 | 0.3% | 91.0% |
| 2010 | 16,321 | -0.2% | 14,891 | 0.1% | 91.2% |
| 2011 | 16,395 | 0.5% | 15,030 | 0.9% | 91.7% |
| 2012 | 16,441 | 0.3% | 15,109 | 0.5% | 91.9% |
| 2013 | 16,540 | 0.6% | 15,260 | 1.0% | 92.3% |
| 2014 | 16,705 | 1.0% | 15,486 | 1.5% | 92.7% |
| 2015 | 16,867 | 1.0% | 15,633 | 0.9% | 92.7% |

¹⁹ 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 |
|-------------|--------------------------|-------------------------|-------------------|--------------|
| 2006 | 1,619,616 | 4.8% | 1,378,504 | 5.0% |
| 2007 | 1,721,661 | 6.3% | 1,490,636 | 8.1% |
| 2008 | 1,745,767 | 1.4% | 1,523,113 | 2.2% |
| 2009 | 1,629,557 | -6.7% | 1,432,874 | -5.9% |
| 2010 | 1,486,416 | -8.8% | 1,279,144 | -10.7% |
| 2011 | 1,644,020 | 10.6% | 1,426,486 | 11.5% |
| 2012 | 1,656,442 | 0.8% | 1,425,564 | -0.1% |
| 2013 | 1,605,369 | -3.1% | 1,393,724 | -2.2% |
| 2014 | 1,537,065 | -4.3% | 1,320,838 | -5.2% |
| 2015 | 1,439,514 | -10.3% | 1,274,826 | -8.5% |

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

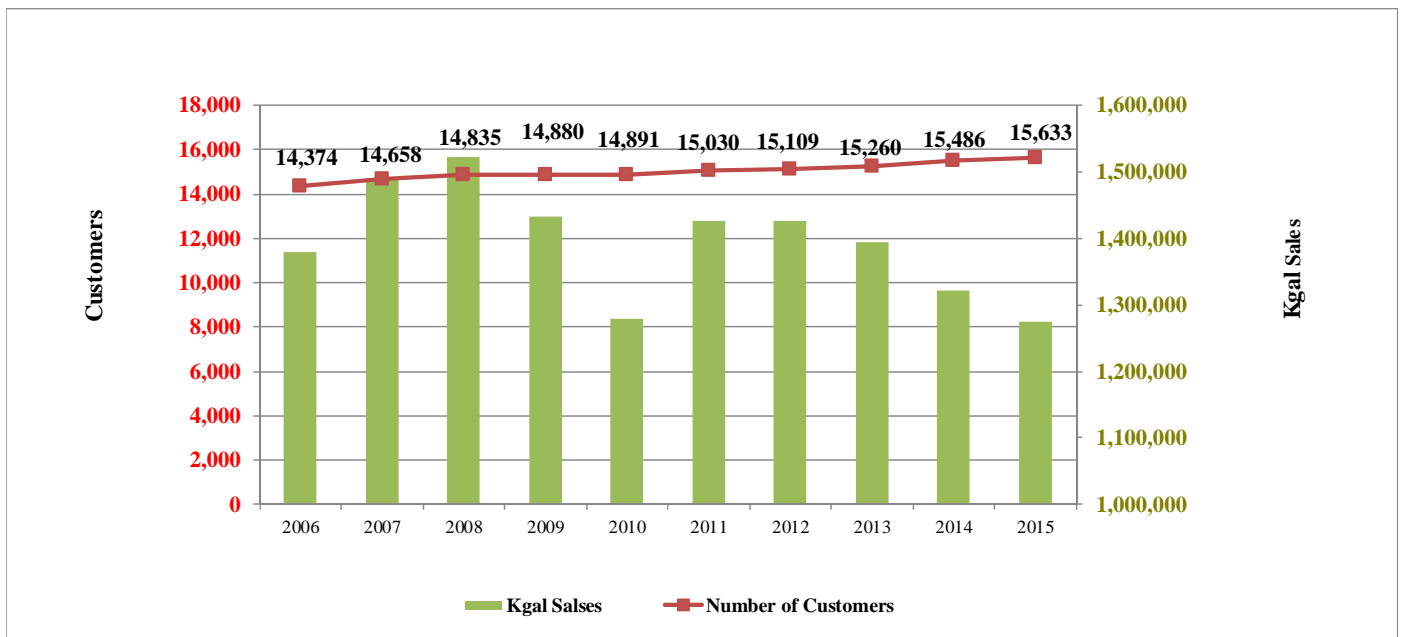
Reported in kgals (thousands of gallons)

| Year | Water & Irrigation Meters | Percent Increase | Wastewater | % Inc |
|-------------|--------------------------------------|-------------------------|-------------------|--------------|
| 2006 | 1,943,868 | 6.0% | 1,378,504 | 5.0% |
| 2007 | 2,086,348 | 7.3% | 1,490,636 | 8.1% |
| 2008 | 2,119,295 | 1.6% | 1,523,113 | 2.2% |
| 2009 | 1,957,926 | -7.6% | 1,432,874 | -5.9% |
| 2010 | 1,773,200 | -9.4% | 1,279,144 | -10.7% |
| 2011 | 1,983,289 | 11.8% | 1,426,486 | 11.5% |
| 2012 | 1,986,913 | 0.2% | 1,425,564 | -0.1% |
| 2013 | 1,935,918 | -2.6% | 1,393,724 | -2.2% |
| 2014 | 1,806,920 | -6.7% | 1,320,838 | -5.2% |
| 2015 | 1,692,874 | -5.9% | 1,274,826 | -8.5% |

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



Sewer Customers vs. Wastewater Kgal Sales



Water Rate Comparison

Effective Date

| | | FY'05 | FY'06 | FY'07 | FY'08 | FY'09* | FY'10** | FY'11*** | FY'12 | FY'13**** | FY'14 | FY'15***** |
|-------------|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|------------|
| Residential | Base Charge | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 11.00 | \$ 11.00 | \$ 12.00 | \$ 12.00 | \$ 13.00 |
| | First 5,000 Gallons | \$ 1.25 | \$ 1.25 | \$ 1.25 | \$ 1.25 | | | | | | | |
| | Next 6,000 to 17,000 gallons | \$ 1.50 | \$ 1.50 | \$ 1.50 | \$ 1.50 | | | | | | | |
| | Next 18,000 to 32,000 gallons | \$ 1.75 | \$ 1.75 | \$ 1.75 | \$ 1.75 | | | | | | | |
| | Over 32,000 gallons | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 | | | | | | | |
| | First 10,000 Gallons Water | | | | | \$ 1.36 | \$ 1.40 | \$ 1.40 | \$ 1.40 | \$ 1.40 | \$ 1.40 | \$ 1.40 |
| | First 10,000 Gallons Irrigation | | | | | \$ 1.36 | \$ 1.40 | \$ 1.71 | \$ 1.71 | \$ 1.71 | \$ 1.71 | \$ 1.71 |
| | Next 11,000 to 20,000 gallons | | | | | \$ 1.64 | \$ 1.71 | \$ 1.71 | \$ 1.71 | \$ 1.71 | \$ 1.71 | \$ 1.71 |
| | Next 21,000 to 30,000 gallons | | | | | \$ 1.91 | \$ 2.20 | \$ 2.20 | \$ 2.20 | \$ 2.20 | \$ 2.20 | \$ 2.20 |
| | Over 30,000 gallons | | | | | \$ 2.18 | \$ 2.55 | \$ 2.55 | \$ 2.55 | \$ 2.55 | \$ 2.55 | \$ 2.55 |
| Commercial | Base Charge | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 16.00 | \$ 16.00 | \$ 17.00 | \$ 17.00 | \$ 18.00 |
| | First 5,000 Gallons | \$ 1.50 | \$ 1.50 | \$ 1.50 | \$ 1.50 | | | | | | | |
| | Next 6,000 to 17,000 gallons | \$ 1.75 | \$ 1.75 | \$ 1.75 | \$ 1.75 | | | | | | | |
| | Next 18,000 to 32,000 gallons | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 | | | | | | | |
| | Over 32,000 gallons | \$ 2.25 | \$ 2.25 | \$ 2.25 | \$ 2.25 | | | | | | | |
| | First 10,000 Gallons | | | | | \$ 1.64 | \$ 1.69 | \$ 1.69 | \$ 1.69 | \$ 1.69 | \$ 1.69 | \$ 1.69 |
| | Next 11,000 to 20,000 gallons | | | | | \$ 1.91 | \$ 1.99 | \$ 1.99 | \$ 1.99 | \$ 1.99 | \$ 1.99 | \$ 1.99 |
| | Next 21,000 to 30,000 gallons | | | | | \$ 2.18 | \$ 2.51 | \$ 2.51 | \$ 2.51 | \$ 2.51 | \$ 2.51 | \$ 2.51 |
| | Over 30,000 gallons | | | | | \$ 2.45 | \$ 2.87 | \$ 2.87 | \$ 2.87 | \$ 2.87 | \$ 2.87 | \$ 2.87 |

*Effective August 1, 2008

**Effective October 1, 2009

***Effective May 1, 2011

****Effective January 1, 2013

*****Effective January 1, 2015

Wastewater Rate Comparison

Effective Date

| | | FY'05 | FY'06* | FY'07** | FY'08 | FY'09 | FY'10 | FY'11*** | FY'12 | FY'13**** | FY'14 | FY'15***** |
|-------------|-----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|------------|
| Residential | Base Charge | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 14.00 | \$ 14.00 | \$ 15.00 | \$ 15.00 | \$ 16.00 |
| | Per 1,000 gallons with Cap* | \$ 1.25 | \$ 1.65 | \$ 1.90 | \$ 1.90 | \$ 1.90 | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 |
| Commercial | Base | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 14.00 | \$ 14.00 | \$ 15.00 | \$ 15.00 | \$ 16.00 |
| | Per 1,000 gallons (No Cap) | \$ 1.25 | \$ 1.50 | \$ 1.50 | \$ 1.50 | \$ 1.50 | \$ 1.60 | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ 2.00 |

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

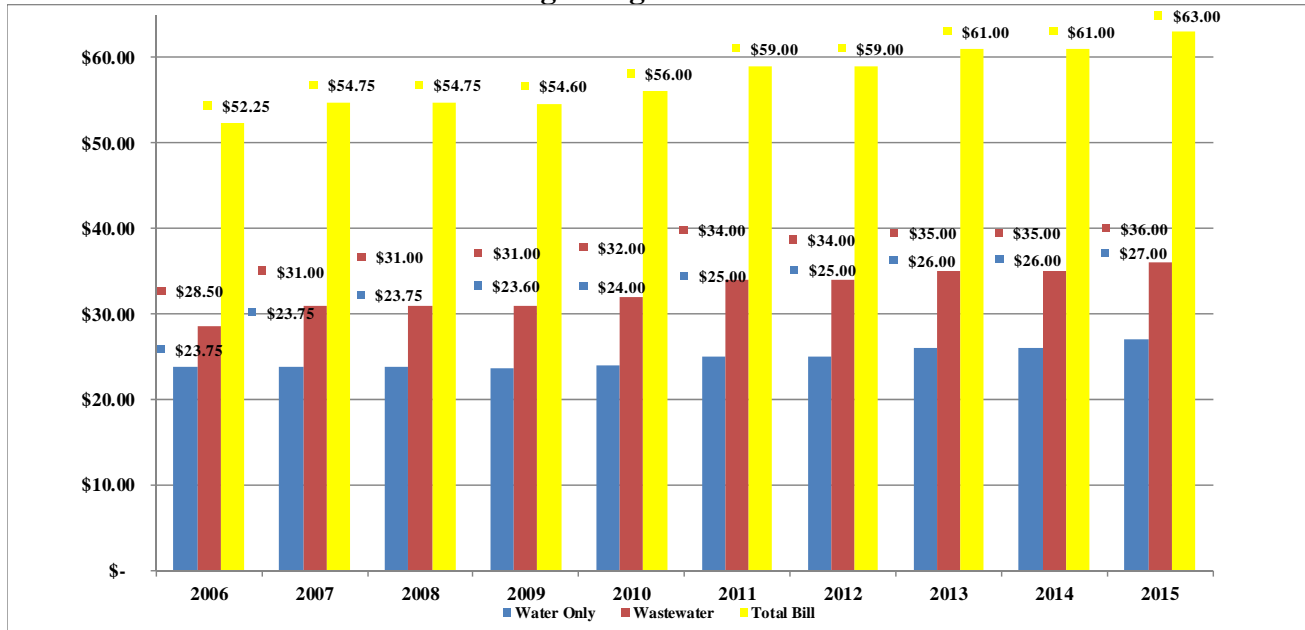
**Per Thousand Increase Effective August 1, 2006

***Effective January 1, 2011

****Effective January 1, 2013

*****Effective January 1, 2015

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



Water and Sewer Installation Fees

| Water meter installation fees (existing service lines) | 2006 | 2007 | 2008 | 2009** | 2010 | 2011 | 2012 | 2013*** | 2014 | 2015 |
|--|-------|-------|-------|--------|-------|-------|-------|---------|-------|-------|
| 3/4" Meter | 355 | 355 | 355 | 430 | 430 | 430 | 430 | 640 | 640 | 640 |
| 1" Meter | 490 | 490 | 490 | 570 | 570 | 570 | 570 | 850 | 850 | 850 |
| 2" Meter with meter box and backflow | 1,186 | 1,186 | 1,186 | 2,090 | 2,090 | 2,090 | 2,090 | 2,330 | 2,330 | 2,330 |
| 3" Meter with meter box and backflow (Time and Material)* | T&M | T&M | T&M | T&M | T&M | T&M | T&M | T&M | T&M | T&M |
| Water meter installation fees (no existing service lines) | 2006 | 2007 | 2008 | 2009** | 2010 | 2011 | 2012 | 2013*** | 2014 | 2015 |
| 3/4" Meter | 355 | 355 | 355 | 430 | 430 | 430 | 430 | 640 | 640 | 640 |
| 1" Meter | 490 | 490 | 490 | 570 | 570 | 570 | 570 | 850 | 850 | 850 |
| 2" Meter with meter box and backflow | 1,186 | 1,186 | 1,186 | 2,090 | 2,090 | 2,090 | 2,090 | 2,330 | 2,330 | 2,330 |
| 3" Meter with meter box and backflow (Time and Material)* | T&M | T&M | T&M | T&M | T&M | T&M | T&M | T&M | T&M | T&M |

* T&M equals Time and Materials

** Rate change 10/1/2009

*** Rate change 7/1/2013

Sewer Installation Fees for fiscal years 2005 through 2015:

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

B. Main Extensions, Laterals above 4 Inches, and Mains Greater than 6 feet in depth: Time and Materials

Sewer Inspection Fee:

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

More information is available at: <http://www.hhpsd.com/fees>

Population per Capita Income

Last Ten Available Years

| Year | Hilton Head | | Beaufort County | | South Carolina | |
|------|-------------|------------|-----------------|------------|----------------|------------|
| | Population | Per Capita | Population | Per Capita | Population | Per Capita |
| 2005 | 34,761 | \$ 34,750 | 134,910 | \$ 37,474 | 4,270,150 | \$ 29,354 |
| 2006 | 34,156 | 37,212 | 139,333 | 39,840 | 4,357,847 | 31,111 |
| 2007 | 33,890 | 41,411 | 143,614 | 43,183 | 4,444,110 | 32,350 |
| 2008 | 33,913 | 42,611 | 147,616 | 45,427 | 4,528,996 | 33,157 |
| 2009 | 34,249 | 41,951 | 150,415 | 46,790 | 4,589,872 | 32,376 |
| 2010 | 37,099 | 40,798 | 155,215 | 31,081 | 4,635,835 | 32,688 |
| 2011 | 37,099 | 41,846 | 162,233 | 32,116 | 4,673,348 | 34,183 |
| 2012 | 37,675 | 39,703 | 164,684 | 32,731 | 4,723,723 | 35,056 |
| 2013 | 39,412 | 41,049 | 171,838 | 32,891 | 4,774,839 | 35,831 |
| 2014 | 40,039 | 47,049 | 175,852 | 32,503 | 4,832,482 | 36,677 |

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

Beaufort County Top Employers 2014

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

Source: Beaufort County Regional Chamber of Commerce

Beaufort County Labor Force and Employment

| Category | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Civilian Labor Force | 65,449 | 65,162 | 63,521 | 61,954 | 63,382 | 62,940 | 63,780 | 64,019 | 62,759 | 61,381 |
| Employment | 61,723 | 61,513 | 58,500 | 56,264 | 57,647 | 57,344 | 60,421 | 61,256 | 59,786 | 58,372 |
| Unemployment | 3,726 | 3,649 | 5,021 | 5,690 | 5,735 | 5,596 | 3,359 | 2,763 | 2,973 | 3,009 |
| Unemployment Rate | 5.69% | 5.60% | 7.90% | 9.18% | 9.05% | 8.89% | 5.27% | 4.32% | 4.74% | 4.90% |

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

| Year | County | South Carolina | United States |
|------|--------|----------------|---------------|
| 2014 | 5.7% | 6.4% | 6.2% |
| 2013 | 5.6% | 6.7% | 6.1% |
| 2012 | 7.9% | 9.1% | 8.1% |
| 2011 | 9.2% | 10.4% | 8.9% |
| 2010 | 9.0% | 11.2% | 9.6% |
| 2009 | 8.9% | 11.5% | 9.3% |
| 2008 | 5.3% | 6.8% | 5.8% |
| 2007 | 4.3% | 5.6% | 4.6% |
| 2006 | 4.7% | 6.4% | 4.6% |
| 2005 | 4.9% | 6.8% | 5.1% |
| 2004 | 5.0% | 6.8% | 5.5% |

Source: South Carolina Department of Employment and Workforce

The District's Millage History

| Debt Type | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 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 | 3.52 | 3.90 | 3.52 | 3.61 | 2.82 | 2.70 | 1.50 | 0.50 | 1.00 |
| Total | 7.61 | 6.52 | 6.90 | 6.52 | 6.61 | 5.82 | 5.70 | 4.50 | 3.50 | 4.00 |

Ratio of (net) General Bonded Debt²⁰

| Fiscal Year | Tax Year | General Obligation Debt | Real & Personal Property | | Motor Vehicle | | Total Estimated Actual Values | Ratio of (net) General bonded debt |
|-------------|----------|-------------------------------|--------------------------|------------------------|----------------|------------------------|----------------------------------|---|
| | | | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | | |
| 2015 | 2014 | \$ 14,543,567 | \$ 300,997,070 | \$ 6,304,695,756 | \$ 43,355,970 | \$ 532,878,920 | \$ 6,837,574,676 | 0.21% |
| 2014 (2) | 2013 (2) | 12,725,452 | 300,452,700 | 6,311,095,156 | 35,311,800 | 442,155,020 | 6,753,250,176 | 0.19% |
| 2013 | 2012 | 13,471,940 | 371,197,470 | 8,175,132,303 | 29,695,798 | 275,031,590 | 8,450,163,893 | 0.16% |
| 2012 | 2011 | 14,190,749 | 369,960,240 | 8,383,249,241 | 29,596,819 | 213,787,160 | 8,597,036,401 | 0.17% |
| 2011 | 2010 | 14,885,081 | 380,448,420 | 8,049,155,174 | 30,435,874 | 169,536,890 | 8,218,692,064 | 0.18% |
| 2010 (1) | 2009 (1) | 11,625,667 | 360,750,834 | 6,456,014,121 | 28,860,067 | 144,247,638 | 6,600,261,759 | 0.18% |
| 2009 | 2008 | 10,361,238 | 321,010,415 | 5,817,101,577 | 25,680,833 | 286,269,571 | 6,103,371,148 | 0.17% |
| 2008 | 2007 | 7,350,000 | 305,542,479 | - | 24,443,398 | - | - | 0.00% |
| 2007 | 2006 | - | 302,219,576 | 5,694,066,431 | 24,177,566 | 364,651,496 | 6,058,717,927 | 0.00% |
| 2006 | 2005 | 275,000 | 293,306,326 | - | 23,464,506 | - | - | 0.00% |

Source: Beaufort County Auditor and the District Official Statement

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

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

²⁰ Total General Obligation debt equals GO Bonds and Notes Payable-GO Debt located on page 55.

General Obligation Outstanding Debt

| Fiscal Year | Tax Year | Real Property | Personal Property(1) | Total Assessed Value of the District (1) | 8% Debt Limit Value | Total Outstanding GO Debt | Available Debt Limit | Percent of Debt Limit | Average Debt Per Customer |
|-------------|----------|----------------|----------------------|--|---------------------|---------------------------|----------------------|-----------------------|---------------------------|
| 2015 | 2014 | \$ 300,997,070 | \$ 43,355,970 | \$ 344,353,040 | \$ 27,548,243 | \$ 14,543,567 | \$ 13,004,676 | 53% | 813 |
| 2014 | 2013 (3) | 300,452,700 | 35,311,800 | 335,764,500 | 26,861,160 | 12,725,452 | 14,135,708 | 47% | 716 |
| 2013 | 2012 | 335,101,410 | 36,096,060 | 371,197,470 | 29,695,798 | 13,471,940 | 16,223,857 | 45% | 765 |
| 2012 | 2011 | 336,927,670 | 33,032,570 | 369,960,240 | 29,596,819 | 14,190,749 | 15,406,070 | 48% | 811 |
| 2011 | 2010 | 337,319,400 | 43,129,020 | 380,448,420 | 30,435,874 | 14,885,081 | 15,550,793 | 49% | 853 |
| 2010 | 2009 (2) | 322,448,420 | 38,302,414 | 360,750,834 | 28,860,067 | 11,625,667 | 17,234,400 | 40% | 671 |
| 2009 | 2008 | 281,804,999 | 39,205,416 | 321,010,415 | 25,680,833 | 10,361,238 | 15,319,596 | 40% | 597 |
| 2008 | 2007 | 266,386,512 | 39,155,967 | 305,542,479 | 24,443,398 | 7,350,000 | 17,093,398 | 30% | 423 |
| 2007 | 2006 | 260,107,171 | 42,112,405 | 302,219,576 | 24,177,566 | - | 24,177,566 | 0% | - |
| 2006 | 2005 | 249,949,026 | 43,357,300 | 293,306,326 | 23,464,506 | 275,000 | 23,189,506 | 1% | 16 |

Source: Beaufort County Auditor

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

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

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

The above table shows the then outstanding principal, authorized debt limit, available debt limit and other information regarding the District's general obligation indebtedness from FY 2006 through FY 2015.

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 2014, 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 \$344,353,040 and thus the eight percent (8%) debt limit of the District is not less than \$27,548,243. The District presently has the following bonded indebtedness chargeable against this limit:

| Originally Issued | Date | Original Amount | Outstanding Balance as of June 30, 2015 |
|-------------------------------|--------------------|-----------------|---|
| Series 2007 | October 3, 2007 | \$ 7,350,000 | \$ 5,250,000 |
| SRF - Series 2007 | January 23, 2008 | 2,876,532 | 2,073,392 |
| SIRF - Series 2007 | April 14, 2008 | 480,480 | 354,467 |
| Series 2009 | July 30, 2009 | 1,781,694 | 1,178,162 |
| Series 2010 | August 24, 2010 | 3,970,000 | 3,100,000 |
| SRF - Series 2014 | September 10, 2014 | 3,750,000 | 2,587,546 |
| Total Indebtedness - GO Bonds | | \$ 20,208,706 | \$ 14,543,567 |

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

General Obligation Outstanding Debt

As of June 30, 2015, the outstanding aggregate principal amounts due on the GO Bonds was \$14,543,567 and includes: (A) \$5,250,000 in outstanding principal due on the 2007 Bonds; (B) \$2,073,392 in outstanding principal due the 2008A Bond; (C) \$354,467 in outstanding principal due on the 2008B Bond; (D) \$1,178,162 in outstanding principal due on the 2009 Bond; (E) \$3,100,000 in outstanding principal due on the 2010 Bonds and \$2,587,546 in outstanding principal due on the 2014 Bonds.

Overlapping Debt

| Jurisdiction | Tax Year 2014 Assessed Value (Capped) | Tax Year 2014 Assessed Value (Capped) of the District | Outstanding General Obligation Debt | Amount Applicable to the District for Fiscal Year 2015 |
|-----------------------------------|---|--|---|--|
| County of Beaufort | \$ 1,681,210,972 | \$ 344,353,040 | \$ 233,933,174 | \$ 47,915,224 |
| Beaufort County School District | 1,705,780,158 | 344,353,040 | 357,440,621 | 72,158,047 |
| Town of Hilton Head | 824,825,305 | 344,353,040 | 55,945,000 | 23,356,256 |
| Sub Total of Overlapping Debt | | | | \$ 143,429,526 |
| Hilton Head No. 1 PSD direct debt | | | | 14,543,567 |
| Total Direct and overlapping debt | | | | \$ 157,973,093.19 |

Sources: Beaufort County Assessor's Office.

Debt outstanding provided by each governmental unit.

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

Assessed Values of the District

| Fiscal Year | Tax Year | Real Property | Personal Property(1) | Total |
|-------------|-----------------|---------------|----------------------|----------------|
| 2015 | 2014 (3) | \$300,997,070 | \$ 43,355,970 | \$ 344,353,040 |
| 2014 | 2013 | 300,452,700 | 35,311,800 | 335,764,500 |
| 2013 | 2012 | 335,101,410 | 36,096,060 | 371,197,470 |
| 2012 | 2011 | 336,927,670 | 33,032,570 | 369,960,240 |
| 2011 | 2010 | 337,319,400 | 43,129,020 | 380,448,420 |
| 2010 (2) | 2009 (2) | 322,448,420 | 38,302,414 | 360,750,834 |
| 2009 | 2008 | 281,804,999 | 39,205,416 | 321,010,415 |
| 2008 | 2007 | 266,386,512 | 39,155,967 | 305,542,479 |
| 2007 | 2006 | 260,107,171 | 42,112,405 | 302,219,576 |
| 2006 | 2005 | 249,949,026 | 43,357,300 | 293,306,326 |

Source: Beaufort County Auditor

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

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

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

Tax Year 2014 Market Value for the District

| Classification | Assessed Value | Assessment Ratio | Market Value |
|---|----------------|------------------|------------------|
| 1. Real Property and Mobile Homes | \$ 121,291,000 | 4.00% | \$ 3,047,185,700 |
| 2. Real Property and Mobile Homes | 179,706,070 | 6.00% | 3,257,510,056 |
| 3. Business Personal Property | 1,631,470 | 10.50% | 14,896,470 |
| 4. Merchant's Furniture, Fixtures and Equipment | 6,407,290 | 10.50% | 60,595,020 |
| 5. Motor Vehicles ⁽¹⁾ | 22,328,510 | Various | 333,579,230 |
| 6. Marine Equipment ⁽²⁾ | 918,190 | Various | 15,241,900 |
| 7. Airplanes | 11,460 | 0.00% | 191,000 |
| 8. Manufacturing Property | 214,120 | 10.50% | 2,039,250 |
| 9. Public Utilities | 8,922,480 | 10.50% | 84,976,000 |
| 10. Rental Property and Signs ⁽³⁾ | 2,922,450 | Various | 21,360,050 |

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

Source: Beaufort County Auditor.

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

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

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

Tax Collection Record for the District

| Fiscal Year | Taxes Subject to Collection | Current Collections | Current % Collected | Delinquent Taxes Collected | Total Collections | Total % Collected |
|-------------|-----------------------------|---------------------|---------------------|----------------------------|-------------------|-------------------|
| 2014-2015 | \$ 60,702,084 | \$ 57,349,775 | 94.5% | \$ 735,673 | \$ 58,085,448 | 95.7% |
| 2013-2014 | 57,332,809 | 54,957,102 | 95.9 | 825,387 | 55,782,489 | 97.3 |
| 2012-2013 | 55,541,177 | 54,613,687 | 98.3 | 114,378 | 54,728,065 | 98.5 |
| 2011-12 | 55,424,959 | 52,849,333 | 95.4 | 163,278 | 53,012,611 | 95.6 |
| 2010-11 | 59,167,642 | 56,320,727 | 95.2 | 161,774 | 56,482,501 | 95.5 |
| 2009-10 | 57,172,896 | 52,623,858 | 92.0 | 491,840 | 53,115,698 | 92.9 |
| 2008-09 | 56,329,331 | 54,777,459 | 97.2 | 869,821 | 55,647,279 | 98.8 |
| 2007-08 | 51,252,916 | 50,333,765 | 98.2 | 652,019 | 50,985,784 | 99.5 |
| 2006-07 | 54,353,422 | 52,223,375 | 96.1 | 424,257 | 52,647,631 | 96.8 |
| 2005-06 | 49,747,721 | 46,454,422 | 93.3 | 617,181 | 47,071,603 | 94.6 |

Source: Beaufort County Auditor and Treasurer.

Tax Year 2014 - District Largest Taxpayers

| Employer | Type of Business | 2014 Assessed Value | 2014-15 Amounts Paid |
|----------------------------------|-------------------------|----------------------------|-----------------------------|
| Marriott Ownership Resorts Inc | Real Estate | \$ 6,259,520 | \$ 1,393,748 |
| SCG Hilton Head Property LLC | Real Estate | 4,260,000 | 961,979 |
| Palmetto Electric Coop, Inc | Utility | 4,618,300 | 932,525 |
| Hargray Telephone Company Inc | Utility | 2,915,470 | 638,362 |
| Hilton Head Health Systems LP | Medical | 1,423,500 | 324,828 |
| Festival Centre (E&A) LLC | Golf | 1,031,340 | 248,603 |
| Heritage Golf Port Royal LLC | Golf | 893,180 | 214,227 |
| Indigo Asset Corp | Property | 789,760 | 194,237 |
| Time Warner Cable Southeast LLC | Utility | 831,010 | 185,897 |
| SVG LLC | Property | 651,460 | 143,992 |
| Source: Beaufort County Auditor. | | | |

District Top Ten Water/Irrigation Users

Fiscal year ended June 30, 2015

| User Name | Type | 2015 Billed Revenues | % of Total 2015 Billed Revenues |
|------------------------------------|-------------------|----------------------|---------------------------------|
| Hilton Head Beach & Tennis | Resort | \$ 174,029 | 3.04% |
| Westin Resort | Resort | 116,410 | 2.03% |
| Cypress of Hilton Head Association | Residential Homes | 112,440 | 1.96% |
| Hilton Head Resort/Four Seasons | Resort | 92,958 | 1.62% |
| Fiddlers Cove | Resort | 73,776 | 1.29% |
| Marriott Vacation Club | Resort | 69,986 | 1.22% |
| Marriott Surfwatch | Resort | 61,997 | 1.08% |
| Spa at Port Royal | Resort | 59,293 | 1.04% |
| Marshside Owner's Association | Apartment Complex | 52,668 | 0.92% |
| IMC | Apartment Complex | 46,268 | 0.81% |
| Remaining Customers | | <u>4,867,867</u> | <u>84.99%</u> |
| | | <u>\$ 5,727,692</u> | 100.00% |

District Top Ten Wastewater Users

Fiscal year ended June 30, 2015

| User Name | Type | 2015 Billed Revenues | % of Total 2015 Billed Revenues |
|------------------------------------|-------------------|----------------------|---------------------------------|
| Hilton Head Beach & Tennis | Resort | \$ 199,568 | 4.12% |
| Hilton Head Resort/Four Seasons | Resort | 119,375 | 2.47% |
| Westin Resort | Resort | 116,784 | 2.41% |
| Fiddler's Cove | Resort | 85,395 | 1.77% |
| Marriott Vacation Club | Resort | 82,739 | 1.71% |
| Cypress of Hilton Head Association | Residential Homes | 69,091 | 1.43% |
| Spa at Port Royal | Resort | 67,414 | 1.39% |
| Marriott Surfwatch | Resort | 58,713 | 1.21% |
| IMC | Apartment Complex | 55,437 | 1.15% |
| Marshside Owners Association | Apartment Complex | 52,786 | 1.09% |
| Remaining Customers | | <u>3,930,717</u> | <u>81.25%</u> |
| | | <u>\$ 4,838,019</u> | 100.00% |

Rainfall (inches) vs. Water/Irrigation Kgal Sales



**Schedule of the Hilton Head No. 1 PSD SCRS Contributions
For the fiscal year ended June 30, 2015²¹**

| | SCRS | | | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Contractually required contribution | \$ 239,148 | \$ 230,376 | \$ 222,013 | \$ 185,953 | \$ 171,769 | \$ 168,516 | \$ 162,220 | \$ 143,821 | \$ 116,922 | \$ 99,919 |
| Contributions in relation to the contractually required contribution | 239,148 | 230,376 | 222,013 | 185,953 | 171,769 | 168,516 | 162,220 | 143,821 | 116,922 | 99,919 |
| Contribution deficiency (excess) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hilton Head No. 1 PSD's covered-employee payroll | \$ 2,224,629 | \$ 2,204,558 | \$ 2,124,527 | \$ 1,981,382 | \$ 1,858,973 | \$ 1,823,765 | \$ 1,755,623 | \$ 1,587,430 | \$ 1,452,452 | \$ 1,323,429 |
| Contributions as a percentage of covered-employee payroll | 10.75% | 10.45% | 10.45% | 9.39% | 9.24% | 9.24% | 9.24% | 9.06% | 8.05% | 7.55% |

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

**Schedule of the Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability
For the fiscal year ended June 30, 2015**

| | SCRS | |
|--|--------------|--------------|
| | 2015 | 2014 |
| Hilton Head No. 1 PSD's proportion of the net pension liability | 0.023939% | 0.023939% |
| Hilton Head No. 1 PSD's proportionate share of the net pension liability | \$ 4,121,502 | \$ 4,063,319 |
| Hilton Head No. 1 PSD's covered payroll during the measurement period | \$ 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-employee payroll during the measurement period | 186.95369% | 191.25760% |
| * Plan fiduciary net position as a percentage of the total pension liability | 59.90000% | 56.38821% |

*Amounts provided by Hilton Head No. 1 PSD
These inputs are based on FY 2014 Plan reporting schedules and will need to be updated in Year 2 of implementation.
* Source - SCRS Note 3 - Net Pension Liability Fiscal Year Ending June 30, 2014*

²¹ GASB 68 was implemented for fiscal year 2015 and fiscal year 2014.

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

| Water Purchased from BJWSA Summary (Whole Dollars) | | | | | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|-------------------|-------------------|----|----|
| | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | |
| All District Purchases from BJWSA | \$ 1,580,406 | \$ 1,593,943 | \$ 1,518,423 | \$ 1,364,990 | \$ 934,368 | \$ 1,199,029 | \$ 1,472,568 | \$ 1,183,047 | \$ 984,044 | \$ 1,110,409 | | |
| Reclaimed Water Adjustment ³ | 64,800 | 77,760 | 77,760 | 77,760 | 25,920 | - | - | - | - | - | | |
| Broad Creek Purchases | - | - | - | (85,947) | (213,717) | (174,574) | (192,363) | (170,383) | (162,657) | (109,306) | | |
| Capitalized Purchased Water | - | - | - | - | - | - | (171,887) | - | - | - | | |
| Prepaid Purchased Water Expense | - | - | - | - | - | - | (79,529) | (195,222) | (195,783) | (210,007) | | |
| Purchased Water Expense | \$ 1,645,206 | \$ 1,671,703 | \$ 1,596,183 | \$ 1,356,803 | \$ 746,571 | \$ 1,024,455 | \$ 1,028,789 | \$ 817,441 | \$ 625,603 | \$ 791,096 | | |

| Water Purchased from BJWSA Summary (KGal) | | | | | | | | | | | | |
|---|------------------|------------------|------------------|----------------|----------------|----------------|------------------|------------------|----------------|----------------|----|----|
| | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | |
| All Kgal Purchased from BJWSA | 1,089,935 | 1,390,980 | 1,047,188 | 863,918 | 679,724 | 877,933 | 1,240,631 | 1,003,131 | 776,286 | 852,633 | | |
| Reclaimed Water Adjustment | - | - | - | (54,397) | (208,191) | (178,539) | (192,469) | (152,148) | (110,869) | (67,224) | | |
| Broad Creek Purchases | - | - | - | - | - | - | (217,579) | - | - | - | | |
| Capitalized Purchased Water | - | - | - | - | - | - | (79,413) | (244,028) | (240,743) | (247,602) | | |
| Prepaid Purchased Water Expense | - | - | - | - | - | - | - | - | - | - | | |
| Purchased Water (KGal) | 1,089,935 | 1,390,980 | 1,047,188 | 809,521 | 471,533 | 699,394 | 751,170 | 606,955 | 424,674 | 537,807 | | |
| Total Peak Purchases | 1,089,935 | 822,794 | 1,047,188 | 863,918 | 511,537 | 648,537 | 623,380 | 487,874 | 457,223 | 437,997 | | |
| Total Off-peak Purchases | - | 568,186 | - | - | 168,187 | 229,396 | 617,251 | 515,257 | 319,063 | 414,636 | | |
| Total Off-peak and Peak Purchases | 1,089,935 | 1,390,980 | 1,047,188 | 863,918 | 679,724 | 877,933 | 1,240,631 | 1,003,131 | 776,286 | 852,633 | | |

| BJWSA Rates Per Kgal Summary | | | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----|----|
| | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY | FY |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | |
| Rates Charged by BJWSA | | | | | | | | | | | | |
| Peak Rate | \$ 1.45 | \$ 1.45 | \$ 1.45 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.74 | | |
| Off Peak Rate | \$ - | \$ 0.71 | \$ - | \$ - | \$ 0.75 | \$ 0.76 | \$ 0.79 | \$ 0.80 | \$ 0.82 | \$ 0.84 | | |
| District Cost/Kgal Prior to Broad Creek Purchases ⁴ | \$ 1.45 | \$ 1.15 | \$ 1.45 | \$ 1.58 | \$ 1.37 | \$ 1.37 | \$ 1.19 | \$ 1.18 | \$ 1.27 | \$ 1.30 | | |
| Effective District Cost/Kgal After Broad Creek Purchases ⁵ | N/A | N/A | N/A | \$ 1.58 | \$ 1.53 | \$ 1.46 | \$ 1.22 | \$ 1.19 | \$ 1.23 | \$ 1.27 | | |

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

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

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

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

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



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