



# **2017 Comprehensive Annual Financial Report**



**For Fiscal Years Ending  
June 30, 2017 and June 30, 2016**

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



# **Hilton Head Public Service District**

## **Comprehensive Annual Financial Report**

**For Fiscal Years Ending  
June 30, 2017 and June 30, 2016**

Prepared by:  
Finance Department

# TABLE OF CONTENTS

<b>INTRODUCTION</b> .....	<b>4</b>
<b>Board of Commissioners</b> .....	<b>5</b>
<b>Vision &amp; Mission Statement</b> .....	<b>6</b>
<b>Strategic Goals</b> .....	<b>7</b>
<b>Management Letter of Transmittal</b> .....	<b>8</b>
<i>Profile of the Government</i> .....	<b>8</b>
<i>A Letter from the General Manager</i> .....	<b>11</b>
<i>Financial Information</i> .....	<b>12</b>
 <b>FINANCIAL</b> .....	 <b>21</b>
<b>Independent Auditors’ Report</b> .....	<b>22</b>
<b>Management’s Discussion and Analysis</b> .....	<b>24</b>
<b><i>Financial Highlights</i></b> .....	<b>24</b>
<i>Subsequent Events</i> .....	<b>26</b>
<b><i>Financial Analysis of the District</i></b> .....	<b>27</b>
<i>Condensed Statements of Net Position</i> .....	<b>27</b>
<i>Net Position</i> .....	<b>28</b>
<i>Capital Assets</i> .....	<b>29</b>
<i>Non-current Liabilities and Debt Administration</i> .....	<b>30</b>
<i>Statement of Revenues, Expenses and Changes in Net Position</i> .....	<b>31</b>
<b>Audited Financial Statements</b> .....	<b>39</b>
<i>Statements of Net Position</i> .....	<b>40</b>
<i>Statements of Revenues, Expenses and Changes in Net Position</i> .....	<b>42</b>
<i>Statements of Cash Flows</i> .....	<b>44</b>
<i>Notes to Financial Statements</i> .....	<b>46</b>
<b>Required Supplementary Information</b> .....	<b>72</b>
<i>Schedule A - Hilton Head No. 1 PSD SCRS<sup>1</sup> Contributions</i> .....	<b>73</b>
<i>Schedule B - Hilton Head No. 1 PSD's Proportionate Share of the NPL<sup>2</sup></i> ...	<b>73</b>
<b>Supplemental Financial Information</b> .....	<b>74</b>
<i>Budgetary Comparison Schedule</i> .....	<b>75</b>
<i>Notes to Budgetary Comparison Schedule</i> .....	<b>76</b>
<i>Summary Schedule of Debt</i> .....	<b>78</b>
<i>Schedule of Bond Principal and Interest Payments</i> .....	<b>79</b>
<i>Schedule of Note Principal and Interest Payments</i> .....	<b>80</b>

---

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

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

<b>STATISTICAL .....</b>	<b>81</b>
<b>Statistical Section Table of Contents .....</b>	<b>82</b>

***Financial Trends***

<i>Statements of Revenues, Expenses, and Debt Service per Bond Covenants .....</i>	<i>83</i>
<i>Schedule of Change in Net Position .....</i>	<i>84</i>
<i>Net Position at End of Year .....</i>	<i>84</i>
<i>Net Position by Component .....</i>	<i>85</i>
<i>Ratio Analysis .....</i>	<i>85</i>
<i>Total Outstanding Debt by Debt Type .....</i>	<i>86</i>
<i>Debt Service Coverage Analysis .....</i>	<i>87</i>

***Capital Assets***

<i>Schedule of Changes in Capital Assets .....</i>	<i>88</i>
<i>Schedule of Net Property, Plant &amp; Equipment .....</i>	<i>88</i>

***Demographic and Economic Information***

<i>Customer Statistics at Fiscal Year-End .....</i>	<i>89</i>
<i>Billings at Fiscal Year-End (Just Water, No Irrigation) .....</i>	<i>90</i>
<i>Billings at Fiscal Year-End (Water and Irrigation) .....</i>	<i>90</i>
<i>Water/Irrigation Customers vs. Water/Irrigation Kgal Sales .....</i>	<i>91</i>
<i>Sewer Customers vs. Wastewater Kgal Sales .....</i>	<i>91</i>
<i>Water and Wastewater Rate Comparisons .....</i>	<i>92</i>
<i>Water/Wastewater Bill History (Residential Customers Using 10 Kgals/Month) .....</i>	<i>93</i>
<i>Water and Sewer Installation Fees .....</i>	<i>93</i>
<i>Capacity Fees .....</i>	<i>93</i>
<i>Population per Capita Income .....</i>	<i>94</i>
<i>Beaufort County Top Employers 2016 .....</i>	<i>94</i>
<i>Beaufort County Labor Force and Employment .....</i>	<i>94</i>
<i>Unemployment Rate Comparison .....</i>	<i>95</i>

***Debt Capacity***

<i>The District's Millage History .....</i>	<i>95</i>
<i>Ratio of (net) General Obligation Bonded Debt .....</i>	<i>95</i>
<i>General Obligation Outstanding Debt .....</i>	<i>96</i>
<i>Overlapping Debt .....</i>	<i>97</i>
<i>Assessed Values of the District .....</i>	<i>97</i>
<i>Tax Year 2016 Market Value for the District .....</i>	<i>98</i>
<i>Tax Collection Record for the District .....</i>	<i>98</i>
<i>Tax Year 2016 - District Largest Taxpayers .....</i>	<i>99</i>

***Other Operational Information***

*District Ten Top Water/Irrigation Users..... 100*  
*District Ten Top Wastewater Users ..... 100*  
*Rainfall (Inches) vs. Water/Irrigation Kgal Sales..... 101*  
*Beaufort-Jasper Water and Sewer Authority Purchased Water Expense Summary.... 102*

**On the cover: Construction of the new Oakview sewer lift station. The PSD secured a \$1.3-million loan from the South Carolina Water Quality Revolving Fund at 1.9% interest over 20 years to construct two new sewer lift stations and upgrade two existing lift stations as part of the Master Sewer Plan initiative.**

# INTRODUCTION



**PSD Water Quality Laboratory Chemist Scott Moffatt leads a group of sixth-graders from Hilton Head Island Middle School on a tour of the Hilton Head PSD Recycled Water Plant as part of their environmental science and engineering studies. The PSD annually recycles about 1 billion gallons of treated wastewater into beneficial recycled water that is used for golf course irrigation and wetlands nourishment.**

## Board of Commissioners

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

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

The Commission normally meets on the fourth 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 2017 Hilton Head Public Service District Commission



**W. Robert "Bob" Manne**, Chair, District 4  
Current Term: 2016-2020  
Chairman, Community & Personnel Relations Committee  
Long Range Water Supply Committee



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



**Gary Kratz**, Treasurer, District 4  
Current Term: 2016-2020  
Finance Committee  
Long Range Water Supply Committee



**David McCoy**, Secretary, District 2  
Current Term: 2016-2020  
Chairman, Finance Committee



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



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



**Patti Soltys**, District 3  
Current Term: 2016-2020  
Planning & Operations Committee  
Community & Personnel Relations Committee

## **HILTON HEAD PUBLIC SERVICE DISTRICT**

### **Vision & Mission Statement**

**Revised January 6, 2017**

#### **Vision Statement**

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

#### **Mission Statement**

Hilton Head Public Service District's mission is to:

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

## **Strategic Goals**

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

### **Hilton Head PSD Strategic Goals**

Revised January 6, 2017

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

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

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

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

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

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

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

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

## COMMISSIONERS

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



## EXECUTIVE STAFF

J. Pete Nardi, General Manager  
Larry M. Sapp, Chief Financial Officer  
William C. Davis, Operations Manager

# HILTON HEAD PUBLIC SERVICE DISTRICT

December 1, 2017

## Management Letter of Transmittal

The Commission and staff of the Hilton Head Public Service District (PSD) are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This is the eighth report issued as a CAFR and it will be made available to the general public via the [www.hhpsd.com](http://www.hhpsd.com) web site. It also can be viewed in person at the PSD's Customer Service Center at 21 Oak Park Drive off Mathews Drive, on Hilton Head Island.

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

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

## Profile of the Government

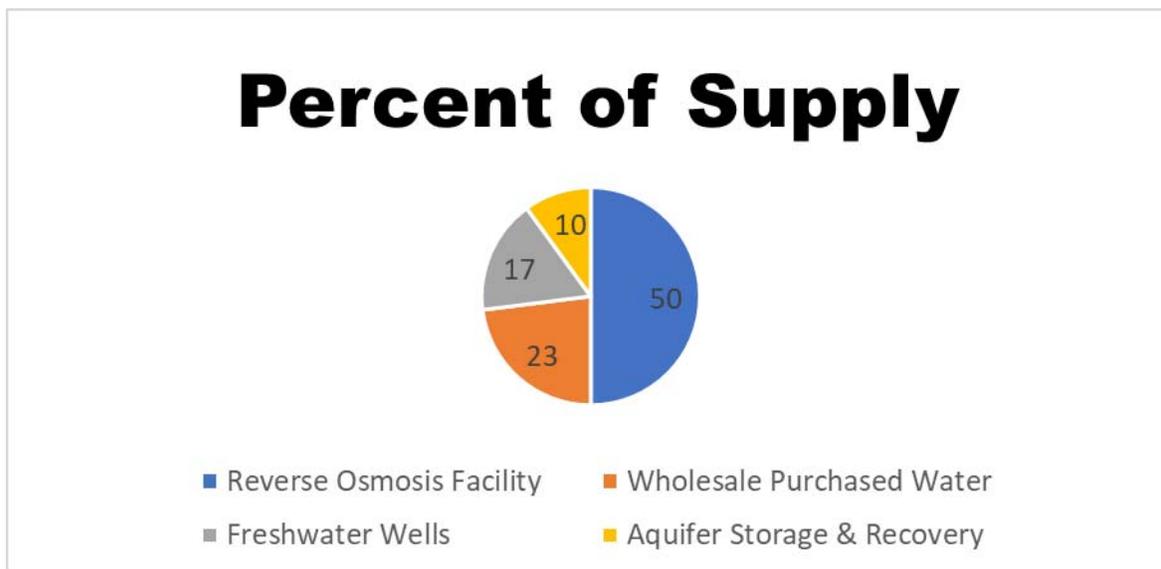
The PSD is a special purpose district created by the South Carolina General Assembly in 1969 to provide water and sewer services to Hilton Head Island. The PSD provides:

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

Residents of Hilton Head Island relied on private wells for their drinking water needs until 1957. At that time, a local development firm called the Hilton Head Water Company introduced a community waterworks

system, installing water lines and drilling wells throughout the island. Ten separate utilities, both public and private, provided water and wastewater services to the residents of the island at the time of the PSD's creation. Beginning in 1995, the PSD acquired the four utilities that now comprise its current service area. In addition, the PSD acquired two small systems on the island previously served by a mainland utility. Consolidation of the remaining island utilities formed the three public service districts currently serving Hilton Head Island – Hilton Head, Broad Creek, and South Island PSDs.

The PSD serves more than 18,000 customers in the north- and mid-island areas of Hilton Head Island, from Jenkins Island to the Hilton Head Resort. The utility's service area includes many of the neighborhoods where the island's 40,000 full-time residents reside, including the traditional Native Islander neighborhoods as well as the large-scale subdivisions of Hilton Head Plantation, Indigo Run, Port Royal Plantation, and Palmetto Hall Plantation.



The PSD can provide a maximum water demand of 13 million gallons a day (mgd). It experiences an average demand of 5-6 mgd and a peak demand of 9-10 mgd. The PSD's Reverse Osmosis (RO) Water Treatment Facility provides 4 mgd, which is about 50% of water supplied in Fiscal Year 2017. The RO Facility's source of water is brackish groundwater from the 600-foot-deep Middle Floridan Aquifer, pumped from three wells. The brackish water is treated in the RO Facility, which began operations in 2009 in response to the loss of fresh groundwater wells caused by saltwater intrusion into the shallower Upper Floridan Aquifer.

About 23% of water supplied in 2017 was purchased on a wholesale basis from the Beaufort-Jasper Water & Sewer Authority (BJWSA) on the mainland. The treated wholesale water is conveyed to the PSD via its 24" pipeline buried under the Intracoastal Waterway. Fresh groundwater from the PSD's remaining Upper Floridan wells provided about 17% of water supplied in Fiscal Year 2017.

The remaining 10% of water supplied in Fiscal Year 2017 came from the PSD's Aquifer Storage & Recovery (ASR) Facility. It is the island's first-ever ASR facility and began operations in 2011. In the winter months of lower demand, the facility stores approximately 260 million gallons of treated tap water in the Middle Floridan Aquifer. It then withdraws and re-treats the water during the summer months of higher demand, providing 2 mgd of supply. The stored water is purchased at a reduced, "off-peak" rate from BJWSA. The

ASR Facility recovers the stored water in the summer months of higher demand and the full wholesale rate from BJWSA, saving customers' money.

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



**The PSD Recycled Water Plant**

## ***A Letter from the General Manager:*** **Our Resilient Utility Points Forward**



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

It is once again my pleasure and honor to present for your review the Hilton Head Public Service District (PSD) Fiscal Year 2017 Comprehensive Annual Financial Report (CAFR). The fiscal year reviewed in this report was an unforgettable one for our utility and community. It was a year that saw us simultaneously recover from disaster while pushing forward with our organization's strategic goals.

The PSD's service area was struck by Hurricane Matthew in October 2016. The catastrophic winds and flooding resulted in tens of millions of dollars in damages to the Hilton Head Island community. Our water and sewer systems suffered power outages. Hundreds of individual customer water lines were broken by uprooted trees and powerful winds toppled trees that smashed electrical panels and fences on our sewer lift stations. Our PSD team and utility systems proved remarkably resilient through it all. Our outstanding Operations first-responders, led by Operations Manager Bill Davis, quickly restored service and enabled the PSD to serve as a rock for the island's recovery. Our excellent financial team, led by Finance Manager Larry Sapp, worked diligently to replenish our financial resources impacted by the storm by working with the Federal Emergency Management Agency and our insurance carriers.

We didn't let Matthew stop us from carrying out our strategic goals. The PSD pushed forward with our Master Sewer Plan initiative that is providing sanitary sewer service to hundreds of customers on scores of roads in partnership with the Town of Hilton Head Island and the Community Foundation of the Lowcountry's Project SAFE (Sewer Access for Everyone) charitable fund. This partnership earned a 2017 U.S. Department of Housing and Urban Development Secretary's Award for Public-Philanthropic Partnerships. In presenting the award, HUD Secretary Ben Carson said the effort is "an inspiring reminder that when philanthropy and government work together and lead together in cross-sector partnerships, their collaborations can achieve incredible results for the communities we collectively serve."

Our resilient utility weathered the storm and kept pointing forward this year. The future's challenges always will be met with our incredible commitment to serving our community.

All My Best,

A handwritten signature in black ink that reads "J. Pete Nardi". The signature is written in a cursive, slightly stylized font.

J. Pete Nardi  
General Manager/CEO  
Hilton Head PSD

## *Financial Information*

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

### *Accounting System and Budgetary Control*

The District's financial accounting system is based on the full accrual basis in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP). The accounts of the District are organized on the basis of a proprietary fund type enterprise fund. The fund is accounted for by a set of self-balancing accounts that comprise its assets, 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.<sup>3</sup> A system of internal controls is established and monitored by management. The Finance Manager reviews controls and procedures on a continuing basis and immediately reports any concerns to the General Manager / Finance Committee for resolution. As part of this initiative, the Finance Manager oversees the documentation and

---

<sup>3</sup> Government Finance Officers Association of the United States and Canada (GFOA), *GAAFR – Governmental Accounting, Auditing, and Financial Reporting* (Chicago, IL 60601-1210: GFOA), p. 592 and p. 735.

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

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

### *Rates and Charges*

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

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

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

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

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. On June 28, 2016, the District's Board adopted a water and sewer rate increase to be effective July 1, 2016 whereby both the water and sewer base rates were increased by \$1.00. For a summary of the District's historical and present water and sewer rates, please reference the Water and Sewer Rate Comparison Table in the Statistical Section on page 92.

## *Millage*

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

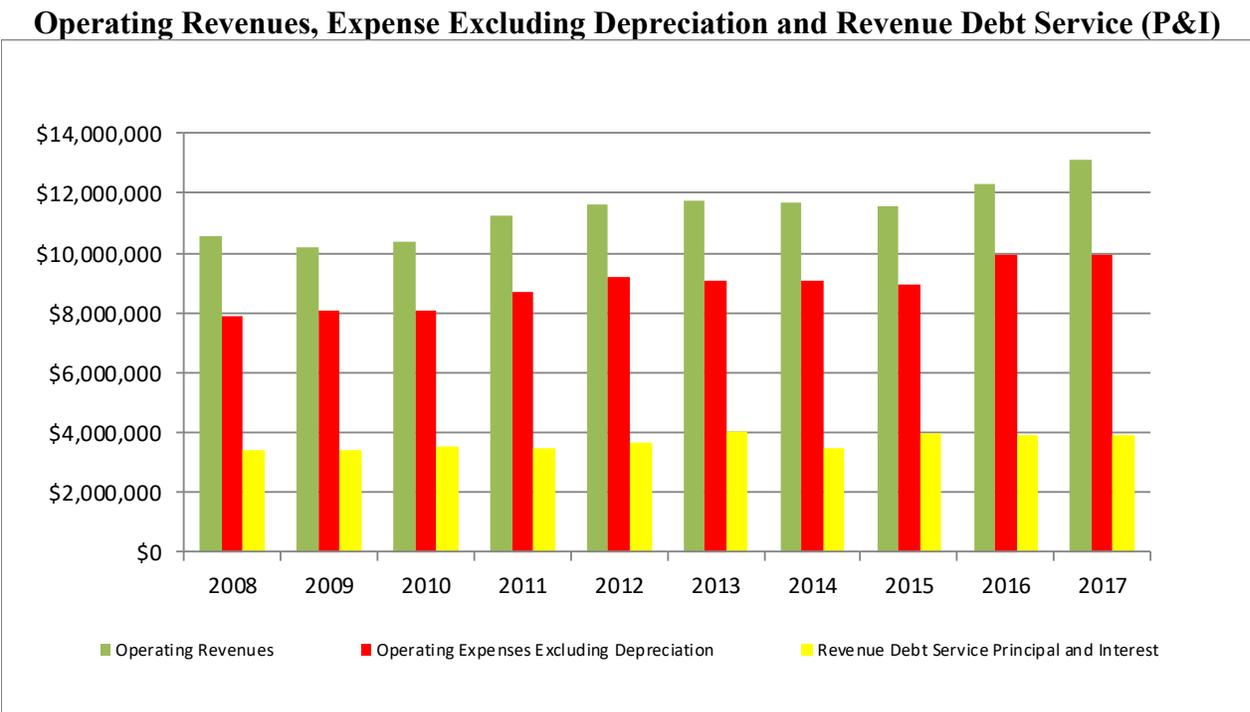
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside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

this section, “capital equipment” means an article of nonexpendable, tangible, personal property, to include communication software when purchased with a computer, having a useful life of more than one year and an acquisition cost of fifty thousand dollars or more for each unit.

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

*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.



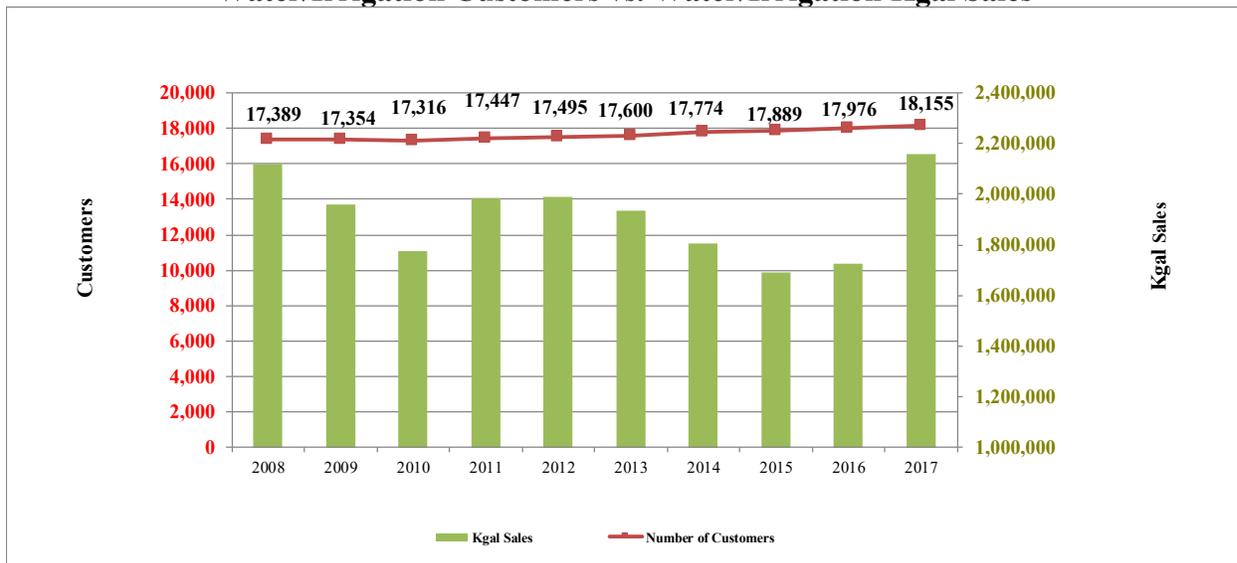
Billed water consumption for fiscal year 2017 was 434.9 million gallons or 25% higher than fiscal year 2016 due to much dryer weather. As mentioned previously, the District also had a full year water rate increase that was effective July 1, 2016. Further, after Hurricane Matthew there was widespread turf restoration which resulted in higher irrigation. As such, water service revenues were \$6,680,175, an increase of \$670,766 or 11.2% compared to last fiscal year. Sewer revenues were up \$87,087 or 1.7%. For fiscal year 2016, billed water consumption was 31.6 million gallons or 1.9% higher than fiscal year 2015. There was also a full fiscal year of the \$1.00 water base rate increase that was put into effect on January 1, 2015. As such, water service revenues were up \$281,717 or 4.9% when compared fiscal year 2015. Fiscal year 2016 sewer revenues were up \$218,062 or 4.5% due to increased consumption and a full fiscal year of the \$1.00 sewer base rate increase effective January 1, 2015. Total fiscal year 2016 operating revenues increased \$694,713 or

6.0% compared to fiscal year 2015, while departmental expenses decreased \$371,145 or 4.0%. Departmental expenses are covered in more detail in the Management Discussion and Analysis section of this report on page 33.

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. 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 effective January 1, 2015.<sup>4</sup> Fiscal year 2015 total operating revenues decreased 1.1%, or \$123,281 compared to fiscal year 2014, while departmental expenses increased \$272,510 or 3.0%.

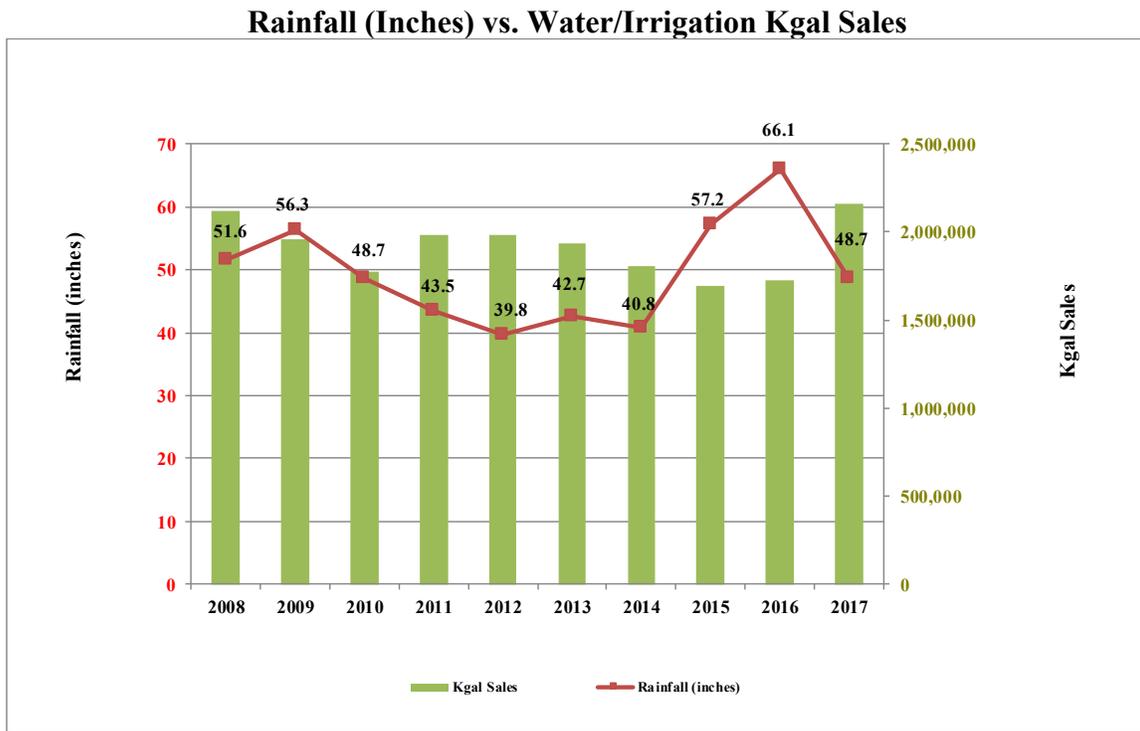
The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equate to more water consumed, there is no evident direct relationship between the District’s customer counts and overall consumption levels due to the other variables that influence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

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



<sup>4</sup> 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.

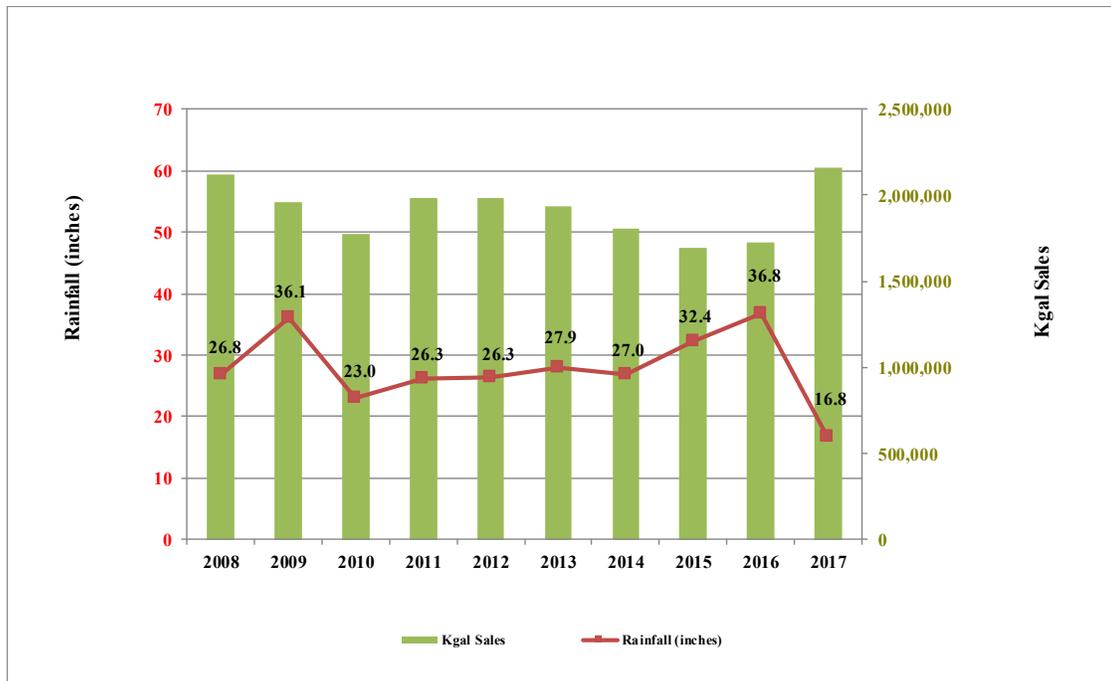
The following chart is a comparison of rainfall amounts in relation to water and irrigation Kgal sales.



While fiscal year 2017 had 48.7 inches of rainfall, it should be noted that almost 11 inches of that total was due to Hurricane Matthew. Billed water usage totaled 2,159.321 Mgals and increased 434.87 million gallons or 25% for fiscal year 2017. This was the most water the District has ever billed for a fiscal year mainly due to dryer weather. Another factor was Hurricane Matthew, both during and after Hurricane Matthew there were multiple “customer side of meter” water line breaks which increased billed usage. Further, after Hurricane Matthew many customers had new landscaping and plantings added to replenish properties that were damaged. This resulted in higher than usual irrigation to get these new plantings started.

Low spring/summer rainfall also played a major factor in the high amount of water that was billed for fiscal 2017. While there is some correlation evident between annual rainfall and consumption when viewing the previous graph, the relationship between rainfall and consumption becomes more evident when viewing the following graph, that takes into account the spring and summer month rainfall amounts for each fiscal year.<sup>5</sup> The last time the District recorded lower summer rainfall than fiscal year 2017 was for fiscal year 2000.

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



<sup>5</sup> Months included for each year are March through August.

### *Independent Audit*

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

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

The Government Finance 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, 2016 (reference the following page). This was the seventh 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.



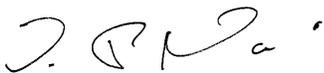
---

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, 2016**

Executive Director/CEO

# **FINANCIAL**

**For Fiscal Years Ended June 30, 2017 and June 30, 2016**



# Robinson Grant & Co., P.A.

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

Mailing Address for Hilton Head and Bluffton:  
POST OFFICE DRAWER 22959  
HILTON HEAD ISLAND, SC 29925-2959

5 BELFAIR VILLAGE DRIVE  
BLUFFTON, SC 29910  
(843) 815-6161  
FAX (843) 815-6165  
www.robinsongrant.com

806 BOUNDARY STREET  
POST OFFICE BOX 1406  
BEAUFORT, SC 29901-1406  
(843) 524-3003  
FAX (843) 524-1372

## **INDEPENDENT AUDITORS' REPORT**

December 1, 2017

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information schedules 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, 2017, 2016 and 2015. Please read it in conjunction with the unaudited financial statements contained in this section.

### *Financial Highlights*

- Total assets at the end of the fiscal year 2017 were approximately \$86.8 million (See Table A-1, Page 27). Total assets including deferred outflows of resources were \$89.0 million, exceeding liabilities by \$37.2 million.
- Water Customer Growth: The District added 179 new water/irrigation taps to the system in fiscal year 2017. As of June 30, 2017, the District has a total of 18,155 equivalent dwelling units (EDUs). This is a 1.0% increase for FY’17. For FY’16 there was a 0.5% increase in total EDUs. The current EDUs include 17,076 water service units, 1,028 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>
2017	11,226	4,907	2,022	18,155	1.0%
2016	11,060	4,907	2,009	17,976	0.5%
2015	10,997	4,851	2,041	17,889	0.6%
2014	10,846	4,850	2,078	17,774	1.0%
2013	10,679	4,850	2,071	17,600	0.6%
2012	10,565	4,850	2,080	17,495	0.3%
2011	10,527	4,843	2,077	17,447	0.8%
2010	10,415	4,843	2,058	17,316	-0.2%
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 203 new sewer connections to the system in fiscal year 2017. As of June 30, 2017, sewer service EDUs total 15,961. This is a 1.3% increase for FY’17 as compared to the FY’16 increase of 0.8%.

Sewer Customers

<u>Fiscal Year</u>	<u>Residential</u>	<u>Master Metered Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>% Growth</u>
2017	9,588	4,907	1,466	15,961	1.3%
2016	9,431	4,907	1,420	15,758	0.8%
2015	9,305	4,851	1,477	15,633	0.9%
2015	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 93.47% percent since the beginning of fiscal year 2017.<sup>6</sup>

<b>Water / Sewer Connection Growth 06/30/17</b>								
<u>Date</u>	<u>Water &amp; 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>
06/30/16	17,976	16,899	307	-	15,758	126	-	93.25%
09/30/16	18,064	16,984	316	85	15,851	137	93	93.33%
12/31/16	18,074	16,994	330	10	15,871	148	20	93.39%
03/31/17	18,108	17,033	334	39	15,910	152	39	93.41%
06/30/17	<u>18,155</u>	<u>17,076</u>	334	<u>43</u>	<u>15,961</u>	148	<u>51</u>	93.47%
<b>Total EDU's Added</b>	<b>179</b>	<b>177</b>		<b>177</b>	<b>203</b>		<b>203</b>	

- On July 1, 2016, a rate increase was put into effect whereby both the water and sewer base rates were increased by \$1.00. The District’s Board adopted this rate increase on June 28, 2016 at the June Commission meeting.
- The District was impacted by Hurricane Matthew overnight Friday October 7, 2016 and into the early morning hours of Saturday October 8, 2016. Hurricane Matthew was a Category II storm as it passed Hilton Head Island. The eye wall was reported to be only 5 miles off of the coast. During the hurricane, the District received over 13 inches of rain, with some rain gauges showing as much as 16 inches and wind gusts up to 89 mph. After the impact of the storm staff began working with FEMA and the South Carolina Insurance Reserve Fund related to damages from the storm and to obtain expense reimbursements. As of June 30, 2017, the District incurred total direct costs for cleanup and repairs to property, system, and landscaping as well as professional fees totaling \$509,454. These costs were netted against the reimbursements of \$568,146 which resulted in disaster recovery income of \$58,691 on the statement of revenues, expenses, and changes in net position. Of the total insurance proceeds received as of the date of this report, \$552,366 were received after year end and are reported as an insurance receivable on the statement of net position accordingly. Additional information on recovery effort information can be found on page 62 in Note 12, Disaster Recovery / Insurance.

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

## *Subsequent Events*

- Series 2017A Revenue Bond - On August 21, 2017, the District issued \$515,000 of Series 2017A 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 2.69% per annum and are payable annual principal and interest payments of \$41,932.75. These bonds will be due in annual payments starting June 2018 through June 3032. The bonds are payable from revenues derived from operations of the District's systems and are secured by a lien upon these revenues and the collection of annual assessments to the owners in the areas that were connected over a 20-year period and will be collected by the county treasurer.
- Series 2017B Revenue – State Water Pollution Control Revolving Fund Loan: On August 23, 2017, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$1,397,774. Proceeds are to be used to defray the certain improvements to its wastewater system. The improvements consist of (i) pump station construction and upgrades; and (ii) installation of related improvements and appurtenances (collectively, the "Project"). Upon completion, the Project will be a part of and will constitute a portion of the District's waterworks and sewer system (together, the "System"). The note bears interest at a rate of 1.90% per annum. Eighty quarterly principal and interest payments of \$21,042.60 will be due beginning March 1, 2018. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.
- On August 23, 2017, the District's centrifuge equipment caught on fire. The District has submitted a claim for insurance reimbursement. As of the date of this report, this claim is under review by the South Carolina Insurance Reserve fund.
- On September 11, 2017 the District was impacted by then Tropical Storm Irma. The District was very fortunate the impacts were minimal. The island received roughly seven (7) inches of rain, six (6) feet of Storm Surge, and wind gusts of just over 48 mph. Additionally, the closest point to monitor the tides were at Ft. Pulaski Georgia and measured a high tide of 12.24 feet, approximately six (6) inches below Hurricane Matthew. As of the date of this report, there were no damages to insured assets and a financial impact to the District has not been completed related to FEMA CAT-B forced account labor. The District had no claims to be submitted with the South Carolina Insurance Reserve Fund and the District has been approved for public assistance in the form of FEMA reimbursement but cannot estimate the amount of insurance proceeds or FEMA reimbursement expected.

## Financial Analysis of the District

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

### Condensed Statements of Net Position

The following comparative condensed statements of net position show changes in financial position from previous fiscal years as of June 30, 2017, 2016, and 2015.<sup>7</sup>

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

Year Ended June 30,	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2016 to 2017</u>	<u>%</u>
<b>Assets</b>				Increase (decrease)	
Current assets	\$ 7,895,323	\$ 6,642,875	\$ 5,271,093	\$ 1,252,448	18.9%
Restricted assets	2,406,220	2,482,528	3,426,411	(76,308)	-3.1%
Net Property Plant & Equipment	74,738,599	76,843,129	78,637,208	(2,104,531)	-2.7%
Sewer Assessments, Long-term	1,730,234	1,890,736	2,067,292	(160,502)	-8.5%
Other	45,010	250,629	484,674	(205,620)	-82.0%
<b>Total Assets</b>	<u>86,815,386</u>	<u>88,109,897</u>	<u>89,886,678</u>	<u>(1,294,512)</u>	<u>-1.5%</u>
<b>Deferred outflows of resources</b>					
Deferred outflows related to pensions	691,435	330,809	330,809	360,626	109.0%
Deferred outflows from refunding debt	1,493,873	1,750,301	1,399,180	(256,428)	-14.7%
	<u>2,185,308</u>	<u>2,081,110</u>	<u>1,729,989</u>	<u>104,198</u>	<u>5.0%</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 89,000,694</u>	<u>\$ 90,191,007</u>	<u>\$ 91,644,332</u>	<u>(1,190,313)</u>	<u>-1.3%</u>
<b>Liabilities</b>					
Current Liabilities	6,160,923	5,995,566	6,218,441	165,357	2.8%
Noncurrent Liabilities, net of amortization	45,257,260	49,603,079	52,199,309	(4,345,819)	-8.8%
<b>Total Liabilities</b>	<u>51,418,183</u>	<u>55,598,645</u>	<u>58,417,750</u>	<u>(4,180,462)</u>	<u>-7.5%</u>
<b>Deferred inflows of resources</b>					
Deferred inflows related to pensions	427,630	82,480	82,480	345,150	418.5%
	<u>51,845,813</u>	<u>55,681,125</u>	<u>58,500,230.01</u>	<u>(3,835,312)</u>	
<b>Net Position</b>					
Net investment in capital assets	30,631,424	28,981,560	27,588,236	1,649,864	5.7%
Restricted for debt service	2,406,220	2,482,528	3,426,103	(76,308)	-3.1%
Unrestricted	4,117,237	3,045,794	1,864,770	1,071,443	35.2%
<b>Total Net Position</b>	<u>37,154,881</u>	<u>34,509,882</u>	<u>32,879,109</u>	<u>2,644,999</u>	<u>7.7%</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 89,000,694</u>	<u>\$ 90,191,007</u>	<u>\$ 91,644,332</u>	<u>\$ (1,190,313)</u>	<u>-1.3%</u>

<sup>7</sup> Please note that fiscal years 2017, 2016, and 2015 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 position*.

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

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

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

The total net position as of June 30, 2017, was \$37,154,881, representing a \$2,644,999 increase from the prior year. Fiscal year 2016 had an increase in total net position from fiscal year 2015 of \$1,630,773<sup>8</sup>

	<b>Net Position</b>		
<b>Year Ended June 30,</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Invested in Capital assets, net	\$ 30,631,424	\$ 28,981,560	\$ 27,588,236
Restricted for capital activity and debt service	2,406,220	2,482,528	3,426,103
Unrestricted	<u>4,117,237</u>	<u>3,045,794</u>	<u>1,864,770</u>
Total Net Position	<u>\$ 37,154,881</u>	<u>\$ 34,509,882</u>	<u>\$ 32,879,109</u>

Of the total net position, \$7,895,323 million are current non-restricted assets available to support short-term operations (see Table A-1, page 27). This current asset balance is \$1,252,448 higher than on June 30, 2016.

---

<sup>8</sup> Please note that fiscal years 2017, 2016 and 2015 reflect the implementation of GASB 68.

## Capital Assets

As of June 30, 2017, the District has invested \$74,738,599 (net of accumulated depreciation) in water and sewer equipment and a broad range of infrastructure as shown in Table A-2 below. Net Property Plant & Equipment has decreased \$2,104,530 during fiscal year 2017. More detailed information on capital asset activity can be found in Note 5 - Property, plant, equipment and depreciation on pages 52 and 53 and Sewer Master Plan Commitments made for capital expenditures can be found in Note 12 – Construction and development commitments / Expansion on page 62.

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

Year Ended June 30,	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Capital assets not being depreciated:</u>			
Land	\$ 1,299,193	\$ 1,299,194	\$ 1,299,194
Construction in Progress	<u>1,457,297</u>	<u>785,002</u>	<u>5,926,019</u>
Total Capital Assets not being depreciated	2,756,490	2,084,196	7,225,213
<b>Capital assets being depreciated:</b>			
Waterworks system	62,618,555	62,262,580	55,813,320
Sewage disposal system	40,891,189	39,645,717	38,672,883
Buildings	4,339,091	4,339,091	4,339,091
Sewage treatment facilities	34,727,539	34,727,539	34,711,422
Transportation equipment	1,170,788	1,098,157	1,017,719
Operations furniture and equipment	2,076,253	2,198,499	2,080,981
Office furniture and equipment	<u>778,553</u>	<u>776,042</u>	<u>748,927</u>
Sub Total	\$ 146,601,968	\$ 145,047,625	\$ 137,384,343
Less Accumulated depreciation	<u>(74,619,859)</u>	<u>(70,288,692)</u>	<u>(65,972,348)</u>
Total capital assets being depreciated, net	71,982,109	74,758,933	71,411,995
Property, Plant and Equipment, net	74,738,599	76,843,129	78,637,208

*Non-current Liabilities and Debt Administration*

As of June 30, 2017, (see Table A-1, page 27) the District had \$45,257,260 in non-current liabilities as compared to fiscal year end 2016 total of \$49,603,079. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 53 and Note 7 – Non-current liabilities on page 59.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. The District’s revenue bonds are secured by the revenues of the District. As shown in the following table, the District is in compliance with the necessary requirements at 141%.

**TABLE A-3  
Coverage of Debt Service<sup>9</sup>**

<b>Year Ended June 30,</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Net Income(loss) before capital contributions per Financial Statements	\$310,587	\$225,930	(\$1,098,079)
Capacity Fees	565,093	585,744	631,652
Add: Depreciation	4,576,123	4,482,776	4,485,346
Net Pension Expense	251,759	298,810	288,870
SCRS Retirement Contributions	(272,562)	(222,257)	(241,688)
Amortization	247,787	243,692	223,221
Bond Issuance Costs	-	119,950	67,329
Interest Expense (Bonds)	1,100,452	1,230,078	1,613,384
Assessments - Debt Service	157,973	452,658	486,300
Less: Property Taxes – Debt Service	<u>(1,403,497)</u>	<u>(1,396,680)</u>	<u>(1,391,881)</u>
Net Earnings Available for Debt Service	\$5,533,715	\$6,020,702	\$5,064,453
 Debt Service on Revenue Bonds	 3,923,462	 \$3,441,323	 \$3,987,537
 <b>Coverage of Debt Service by Net Earnings*</b>	 <b>141%</b>	 <b>175%</b>	 <b>127%</b>
 <b>Debt Coverage without Capacity Fees</b>	 <b>127%</b>	 <b>158%</b>	 <b>111%</b>

<sup>9</sup> Please note that fiscal years 2017, 2016 and 2015 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:<sup>10</sup>

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

Year Ended June 30,	2017		2016		2015		2016 to 2017 Actual		2015 2016 Actual	
	Actual	Actual	Actual	Actual	Inc/(Dec)	% Change	Inc/(Dec)	% Change		
Operating Revenues	\$ 13,088,588	\$ 12,285,436	\$ 11,590,723	\$ 803,153	6.5%	\$ 694,713	6.0%			
Total Non-operating Revenues	<u>3,090,725</u>	<u>2,972,492</u>	<u>3,027,124</u>	<u>118,233</u>	4.0%	<u>(54,633)</u>	<u>-1.8%</u>			
Total Revenues	<u>16,179,314</u>	<u>15,257,928</u>	<u>14,617,847</u>	<u>921,386</u>	6.0%	<u>640,080</u>	<u>4.4%</u>			
Departmental Expenses	9,944,364	8,955,501	9,326,646	(988,863)	-11.0%	371,145	4.0%			
Depreciation	4,576,123	4,482,776	4,485,346	(93,347)	-2.1%	2,570	0.1%			
Total Non-operating Expenses	<u>1,348,239</u>	<u>1,593,721</u>	<u>1,903,934</u>	<u>245,482</u>	<u>15.4%</u>	<u>310,212</u>	<u>16.3%</u>			
Total Expenses	<u>15,868,727</u>	<u>15,031,999</u>	<u>15,715,926</u>	<u>(836,728)</u>	<u>-5.6%</u>	<u>683,928</u>	<u>4.4%</u>			
Increase (decrease) in net assets before capital contributions	310,587	225,929	(1,098,079)	84,659	-37.5%	1,324,008	120.6%			
Capital Contributions:										
Water Capacity Fee	208,423	273,256	282,528	(64,833)	-23.7%	(9,272)	-3.3%			
Sewer Capacity Fee	356,670	312,488	349,123	44,182	14.1%	(36,635)	-10.5%			
Developer Contributions of Systems	1,769,319	819,099	262,880	950,220	116.0%	556,220	211.6%			
Sewer Assessments	-	-	-	-	-	-	-			
Total Capital Contributions	<u>2,334,412</u>	<u>1,404,843</u>	<u>894,531</u>	<u>929,569</u>	<u>66.2%</u>	<u>510,312</u>	<u>57.0%</u>			
Change in net position	\$ 2,644,999	\$ 1,630,772	\$ (203,548)	\$ 1,014,227	62.2%	\$ 1,834,320	901.2%			
Net position, beginning of the year - as restated	<u>34,509,882</u>	<u>\$ 32,879,109</u>	<u>33,082,657</u>							
Net position, end of year	<u>\$ 37,154,881</u>	<u>\$ 34,509,882</u>	<u>\$ 32,879,109</u>							

### Operating Revenues (Fiscal Year to Year Comparisons)

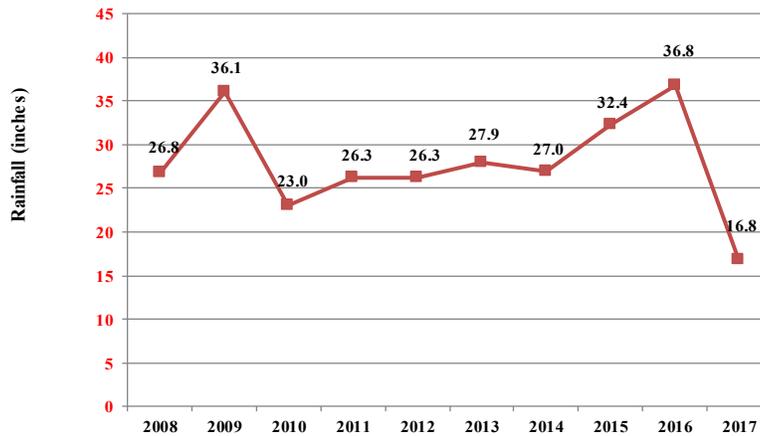
Operating revenues for fiscal year 2017 total \$13,088,588, which is over 80% of total revenues (operating and non-operating) for the year. Total operating revenues have increased 6.5% or \$803,153 compared to last year's revenues. Total operating revenues increased \$694,713 or 6.0% from fiscal year 2015 to fiscal year 2016.

- Water service revenues were up \$670,766 or 11.2% compared to last fiscal year due to a full year \$1.00 water rate increase effective July 1, 2016, and due to higher billed water consumption. Fiscal year billed water consumption was up 434.8 million gallons or 25% when compared to last fiscal year. For the spring and summer months there was significantly less rainfall for fiscal year 2017 compared to the last 16 fiscal years.<sup>11</sup> The last time the District recorded lower spring/summer rainfall than fiscal year 2017 was for fiscal year 2000. Below is a graph of spring/summer rainfall amounts for the last 10 fiscal years. Also, after Hurricane Matthew there was widespread turf restoration which resulted in higher irrigation.

<sup>10</sup> Please note that fiscal years 2017, 2016, and 2015 reflect the implementation of GASB 68.

<sup>11</sup> Rainfall measurements were recorded at the wastewater treatment plant. Spring/summer months included for each fiscal year are July through August and March through June.

## Fiscal Year Spring/Summer Rainfall



- Sewer revenues were up \$87,087 or 1.7% due to a full year \$1.00 sewer rate increase effective July 1, 2016, and due to higher billed water consumption.

Water Tap in fees increased \$40,996 or 42.5% due to the high number of water connections for the fiscal year mainly due to new construction and Project SAFE approved water connections. Sewer Connection Fees increased \$109,499 or 100% due to increased sewer connections. There were a large number of sewer connections related to new construction and Project SAFE connections.

Service fees were 10,008 or 26% less than last year. After Hurricane Matthew customer penalties were waived until January 2017.

Golf course irrigation revenue was \$120,594 or 73% higher compared to last fiscal year due to less rainfall.

Availability fees were lower this fiscal year due to additional water and sewer connections on existing homes.

Disaster recovery, net is the result of Hurricane Matthew related reimbursements less the expenditures incurred due to the storm. The District expended \$509,454 related to Hurricane Mathew expenditures and applied for FEMA and Insurance reimbursements. The District received reimbursements in the amount of \$568,145 for a total of Disaster Recovery net revenue in the amount of \$58,691.

Other operating revenues are \$28,676 or 90% less than last year. During fiscal year 2016, the District achieved sales and use tax exempt status for the wastewater treatment plant resulting in a \$188,136 sales tax reimbursement payment from the Palmetto Electric Cooperative in addition to a South Carolina Department of Revenue Sales and Use Tax refund.

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

Total non-operating revenues were equal to \$3,090,725 as compared to \$2,972,492 for fiscal year 2016, an increase of \$118,733 or 4.0% mainly due to increased tower lease and operation levy revenues. 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. 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 4.31 mills for debt service.

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

Total departmental expenses have decreased \$988,864 or 11.0% compared to fiscal year 2016 (See Table A-5, page 35). For fiscal year 2016, departmental expenses decreased \$371,145 or 4.0% from fiscal year 2015.

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

- Payroll and Related expenses increased \$395,602 or 12%. This is due to increased employee hours worked due to Hurricane Matthew and the addition of 3 new employees hired during 2017.
- Administrative expenses increased by \$114,972 or 15% mainly due to switching the District's quarterly billed customers to monthly billing. This resulted in higher bank administration fees and postage.
- Operations expenses increased \$234,817 or 15%. This is mainly due to higher chemical and power costs associated with the aforementioned higher water consumption.
- Water tap in expenses increased by \$75,125 or 65% mainly due to new construction and Water Fund approved water connections.
- Sewer Connection expense increased \$24,152 or 16% mainly due to new construction and Project SAFE approved sewer connections.
- Purchased water expense increased by \$473,821 or 87%. This is due to increased water consumption. As mentioned previously, billed water consumption was up 434.9 million gallons compared to last fiscal year.
- ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. ASR water withdrawal expense increased \$18,626 or 9.2%. ASR operating and maintenance expenses also increased by \$3,907 or 9.6%.
- Vehicle expense increased by \$3,465 or 4.1%.

The following expenses decreased for fiscal year 2017 when compared to fiscal year 2016.

- Maintenance expenses decreased by \$187,607 or 15%. Last fiscal year there was extra maintenance and repair costs associated with the large-scale gravity sewer repairs and the Hargray fiber optic cable install project.
- RO plant expenses decreased \$31,901 or 4.4% due to a reduction of chemical costs.
- ASR operating and maintenance expenses decreased by \$2,521 or 5.7%.
- Professional Fees decreased by \$129,686 or 57%. During fiscal year 2016 the ASR-2 project was terminated and the associated engineering costs were moved from capital improvement to professional fees.

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

Total non-operating expenses were \$1,348,239 as compared to \$1,593,721 for fiscal year 2016, a decrease of \$245,482 or 15%. This variance mainly relates to lower interest expense. Also, during fiscal year 2016 there was bond issuance cost associated with the refunding of bonds that closed September 3, 2015.

**TABLE A-5**  
**Hilton Head PSD**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year to Date as of June 30, 2017 and June 30, 2016**  
**(With comparative amounts for the same period in prior fiscal year)**

	FY 2017	FY 2016	FY 2017 to FY 2016	
	Actual	Actual	Dollars	%
<b>Operating Revenues</b>			<b>Favorable (Unfavorable)</b>	
Water Service	\$ 6,680,175	\$ 6,009,410	\$ 670,766	11.2%
Sewer Service	5,143,168	5,056,081	87,087	1.7%
Tap In Fees - Water	137,423	96,427	40,996	42.5%
Connection Fees - Sewer	219,483	109,984	109,499	99.6%
Service Fees	29,105	39,113	(10,008)	-25.6%
Golf Course Irrigation	284,937	164,344	120,594	73.4%
Availability Fees	506,930	525,302	(18,372)	-3.5%
Disaster recovery, net	58,691	-	58,691	N/A
Other Operating Revenues	28,676	284,775	(256,098)	-89.9%
<b>Total Operating Revenues</b>	<b>13,088,588</b>	<b>12,285,436</b>	<b>803,153</b>	<b>6.5%</b>
<b>Departmental Expenses</b>				
Payroll & Related	3,689,699	3,294,097	(395,602)	-12.0%
Administrative Expenses	871,478	756,506	(114,972)	-15.2%
Operations	1,798,365	1,563,548	(234,817)	-15.0%
Maintenance	1,059,412	1,247,020	187,607	15.0%
Water Tap In Expenses	191,120	115,995	(75,125)	-64.8%
Sewer Connection Expense	174,722	150,570	(24,152)	-16.0%
Purchased Water	1,017,482	543,661	(473,821)	-87.2%
ASR-1 Water	221,515	202,890	(18,626)	-9.2%
RO Plant O&M	691,148	723,049	31,901	4.4%
ASR-1 O&M	42,042	44,563	2,521	5.7%
Professional Fees	99,701	229,387	129,686	56.5%
Vehicle	87,680	84,215	(3,465)	-4.1%
<b>Total Departmental Expenses</b>	<b>9,944,364</b>	<b>8,955,500</b>	<b>(988,864)</b>	<b>-11.0%</b>
Depreciation	4,576,123	4,482,776	(93,347)	-2.1%
<b>Total Operating Expenses</b>	<b>14,520,487</b>	<b>13,438,276</b>	<b>(1,082,212)</b>	<b>-8.1%</b>
<b>Operating income (loss)</b>	<b>(1,431,899)</b>	<b>(1,152,840)</b>	<b>(279,059)</b>	<b>-24.2%</b>
<b>Non-operating revenues</b>				
Property taxes-G.O. Debt Levy	1,403,497	1,396,680	6,817	0.5%
Property taxes-Operations Levy	973,607	931,507	42,100	4.5%
Rental Income	79,115	78,552	563	0.7%
Interest earned	99,041	92,713	6,329	6.8%
Tower lease	531,964	471,539	60,425	12.8%
Gain (Loss) of disposal of equipment	3,500	1,500.00	2,000	133.3%
<b>Total Non-operating Revenues</b>	<b>3,090,725</b>	<b>2,972,492</b>	<b>118,233</b>	<b>4.0%</b>
<b>Non-operating Expenses</b>				
Interest expense-Bonds	1,100,452	1,222,872	122,420	10.0%
Bond Defeasance Amortization	256,428	249,373	(7,055)	-2.8%
Amortization of Bond Insurance Cost	-	1,526	1,526	100.0%
Bond Issuance Costs	-	119,950	119,950	100.0%
Bond Premium Amortization	(8,641)	-	8,641	-
<b>Total Non-operating Expenses</b>	<b>1,348,239</b>	<b>1,593,721</b>	<b>245,482</b>	<b>15.4%</b>
<b>Total Non-operating Revenues/Exp.</b>	<b>1,742,486</b>	<b>1,378,771</b>	<b>363,715</b>	<b>26.4%</b>
<b>Increase (decrease) in net position, before capital contributions</b>	<b>310,588</b>	<b>225,930</b>	<b>84,657</b>	<b>-37.5%</b>
Water Capacity Fee	208,423	273,256	(64,833)	-23.7%
Sewer Capacity Fee	356,670	312,488	(104,065)	-33.3%
Developer Contributions of Systems Assessments	1,769,319	819,099	(462,429)	-56.5%
	-	-	-	-
<b>Total Capital Contributions</b>	<b>2,334,412</b>	<b>1,404,843</b>	<b>929,569</b>	<b>66.2%</b>
<b>Change in net position</b>	<b>\$ 2,644,999</b>	<b>\$ 1,630,773</b>	<b>\$ 1,014,226</b>	<b>62.2%</b>
<b>Net position, beginning of the year, as restated</b>	<b>\$ 34,509,882</b>	<b>32,879,109</b>		
<b>Net position, end of year</b>	<b>\$ 37,154,881</b>	<b>\$ 34,509,882</b>		

*Water and Sewer Revenues/Expenses: Fiscal Year 2017 vs. Fiscal Year 2016.*  
(Please reference Table A-6, page 37)<sup>12</sup>

Water Revenues and Related Expenses:

- For FY'17, total water operating revenues have increased \$604,379 or 9.5% compared to FY'16 due to the previously mentioned higher customer water consumption.
- Water departmental expenses increased \$731,733 or 14.5%. Departmental expenses are explained in more detail on pages 33 and 34.
- Water operating loss for fiscal year 2017 is \$937,275 compared to the fiscal year 2016 loss of \$766,382. A difference of \$170,893 or 22%.

Sewer Revenues and Related Expenses:

- Total sewer and related operating revenues have increased \$198,774 or 3.4% mainly due to increased sewer service revenue, connection fees, and other golf course irrigation.
- Sewer departmental expenses increased \$257,092 or 6.6%. Departmental expenses are explained in more detail on page 33 and 34.
- Sewer operating loss for fiscal year 2017 is \$494,624 compared to the fiscal year 2016 loss of \$386,459. A difference of \$108,165 or 28%.

---

<sup>12</sup> Please note that fiscal years 2017, 2016 and 2015 reflect the implementation of GASB 68.

**TABLE A-6**  
**Hilton Head PSD**  
**Water vs. Sewer Fiscal Year to Year Comparison Schedule**  
**Year to Date as of June 30, 2017**  
(With comparative amounts for the same period in prior fiscal year)

	FY 2017	FY 2016	FY 2017 to FY 2016	
			Comparison	
	Actual	Actual	Dollars	%
<b>Operating Revenues</b>				
<b>Water</b>				
Service	\$ 6,680,175	\$ 6,009,410	\$ 670,765	11.2%
Tap In Fees	137,423	96,427	40,996	42.5%
Service Fees	14,553	19,557	(5,004)	-25.6%
Availability Fees	101,386	105,060	(3,674)	-3.5%
Disaster recovery, net	29,346	-	29,346	N/A
Other Operating Revenues	14,338	142,387	(128,049)	-89.9%
<b>Total Water Operating Revenues</b>	<b>6,977,220</b>	<b>6,372,841</b>	<b>604,379</b>	<b>9.5%</b>
<b>Sewer</b>				
Service	5,143,168	5,056,081	87,087	1.7%
Connection Fees	219,483	109,984	109,499	99.6%
Service Fees	14,553	19,557	(5,004)	-25.6%
Availability Fees	405,544	420,241	(14,698)	-3.5%
Golf Course Irrigation	284,937	164,344	120,594	73.4%
Disaster recovery, net	29,346	-	29,346	N/A
Other Operating Revenues	14,338	142,387	(128,049)	-89.9%
<b>Total Sewer Operating Revenues</b>	<b>6,111,369</b>	<b>5,912,594</b>	<b>198,774</b>	<b>3.4%</b>
<b>Total Operating Revenues</b>	<b>13,088,589</b>	<b>12,285,435</b>	<b>803,154</b>	<b>6.5%</b>
<b>Departmental Expenses</b>				
<b>Water</b>				
Payroll & Related	1,697,262	1,515,285	(181,977)	-12.0%
Administrative Expenses	505,457	438,774	(66,684)	-15.2%
Operations	773,297	672,326	(100,971)	-15.0%
Maintenance	561,489	660,921	99,432	15.0%
Water Tap in Expense	191,120	115,995	(75,125)	-64.8%
Purchased Water	1,017,482	543,661	(473,821)	-87.2%
ASR-1 Water	221,515	202,890	(18,626)	-9.2%
ASR-1 O&M	42,042	44,563	2,521	5.7%
RO Plant O&M	691,148	723,049	31,901	4.4%
Professional Fees	40,877	94,049	53,171	56.5%
Vehicle	40,333	38,739	(1,594)	-4.1%
<b>Total Water Departmental Expenses</b>	<b>5,782,022</b>	<b>5,050,249</b>	<b>(731,773)</b>	<b>-14.5%</b>
<b>Sewer</b>				
Payroll & Related	1,992,437	1,778,812	(213,625)	-12.0%
Administrative	366,021	317,733	(48,288)	-15.2%
Operations	1,025,068	891,222	(133,846)	-15.0%
Maintenance	497,924	586,099	88,175	15.0%
Sewer Connection Expense	174,722	150,570	(24,152)	-16.0%
Professional Fees	58,823	135,338	76,515	56.5%
Vehicle	47,347	45,476	(1,871)	-4.1%
<b>Total Sewer Departmental Expense</b>	<b>4,162,343</b>	<b>3,905,251</b>	<b>(257,092)</b>	<b>-6.6%</b>
<b>Operating Expenses before depreciation</b>	<b>9,944,365</b>	<b>8,955,500</b>	<b>(988,865)</b>	<b>-11.0%</b>
Depreciation - Water	2,132,473	2,088,974	(43,500)	-2.1%
Depreciation - Sewer	2,443,650	2,393,803	(49,847)	-2.1%
<b>Total Operating Expenses</b>	<b>14,520,489</b>	<b>13,438,277</b>	<b>(93,347)</b>	<b>-0.7%</b>
<b>Water Operating income (loss)</b>	<b>(937,275)</b>	<b>(766,382)</b>	<b>(170,893)</b>	<b>-22.3%</b>
<b>Sewer Operating income (loss)</b>	<b>(494,624)</b>	<b>(386,459)</b>	<b>(108,165)</b>	<b>-28.0%</b>
<b>Total Operating income (loss)</b>	<b>(1,431,899)</b>	<b>(1,152,842)</b>	<b>(279,058)</b>	<b>-24.2%</b>
Non-operating revenues (expenses), net	1,742,486	1,378,771	363,715	-26.4%
<b>Increase (decrease) in net position, before capital contributions</b>	<b>310,587</b>	<b>225,930</b>	<b>84,657</b>	<b>-37.5%</b>
<b>Capital Contributions</b>	<b>2,334,412</b>	<b>1,404,843</b>	<b>929,569</b>	<b>66.2%</b>
Change in net position	\$ 2,644,999	\$ 1,630,773	\$ 1,014,226	62.2%
<b>Net position, beginning of the year, as restated</b>	<b>34,509,882</b>	<b>32,879,109</b>		
<b>Net position, end of year</b>	<b>\$ 37,154,881</b>	<b>\$ 34,509,882</b>		

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

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

**AUDITED FINANCIAL STATEMENTS**  
**For Fiscal Years Ended June 30, 2017 and June 30, 2016**

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF NET POSITION

AS OF JUNE 30, 2017 AND 2016

### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
<b>Current assets</b>		
Cash available for operations	\$ 4,460,211	\$ 3,668,819
Cash in banks (restricted)	1,711,518	1,782,031
Cash held by Beaufort County Treasurer (restricted)	694,702	700,497
Accounts receivable - trade, net	2,207,040	2,183,433
Disaster recovery insurance receivable	552,366	-
Sewer and capacity assessments, due within one year	170,207	167,678
Inventory	307,994	434,554
Prepaid expenses	197,505	188,391
Total current assets	<u>10,301,543</u>	<u>9,125,403</u>
<b>Noncurrent assets</b>		
Property, plant and equipment		
Nondepreciable assets	2,756,490	2,084,196
Depreciable assets, net	<u>71,982,109</u>	<u>74,758,933</u>
Total property, plant and equipment	74,738,599	76,843,129
Accounts receivable - Project SAFE	41,944	247,743
Sewer and capacity assessments, due after one year	1,730,234	1,890,736
Other assets	<u>3,066</u>	<u>2,886</u>
Total noncurrent assets	<u>76,513,843</u>	<u>78,984,494</u>
<b>Total assets</b>	86,815,386	88,109,897
<b>Deferred outflows of resources</b>		
Deferred outflows related to pensions	691,435	330,809
Deferred outflows from refunding debt	<u>1,493,873</u>	<u>1,750,301</u>
Total deferred outflows of resources	<u>2,185,308</u>	<u>2,081,110</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 89,000,694</u>	<u>\$ 90,191,007</u>

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF NET POSITION (CONTINUED)

AS OF JUNE 30, 2017 AND 2016

### LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2017</u>	<u>2016</u>
<b>Current liabilities</b>		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 430,983	\$ 527,931
Accounts payable - construction	444,536	221,839
Notes payable, due within one year	18,000	18,000
Customer deposits	153,080	154,530
Deferred revenues	231,156	223,132
Other accrued liabilities	337,944	399,111
Total current liabilities payable from unrestricted assets	<u>1,615,699</u>	<u>1,544,543</u>
Payable from restricted assets:		
Interest payable	231,375	244,148
Bonds payable, current portion	3,866,116	3,782,728
Notes payable, current portion	447,733	424,147
Total current liabilities payable from restricted assets	<u>4,545,224</u>	<u>4,451,023</u>
Total current liabilities	6,160,923	5,995,566
<b>Noncurrent liabilities</b>		
Bonds payable, net of current portion	33,199,474	37,074,233
Notes payable, net of current portion	7,625,189	8,090,923
Net pension liability	4,432,597	4,437,923
Total noncurrent liabilities	<u>45,257,260</u>	<u>49,603,079</u>
Total liabilities	51,418,183	55,598,645
<b>Deferred inflows of resources</b>		
Deferred inflows related to pensions	427,630	82,480
<b>Net position</b>		
Net investment in capital assets	30,631,424	28,981,560
Restricted for debt service	2,406,220	2,482,528
Unrestricted	4,117,237	3,045,794
Total net position	<u>37,154,881</u>	<u>34,509,882</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$ 89,000,694</u>	<u>\$ 90,191,007</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, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Water service	\$ 6,680,175	\$ 6,009,410
Sewer service	5,143,168	5,056,081
Tap in fees - water	137,423	96,427
Tap in fees - sewer	219,483	109,984
Availability charges	506,930	525,302
Golf course irrigation	284,937	164,344
Service fees and penalties	29,105	39,113
Disaster recovery, net	58,691	-
Other operating revenues	28,676	284,775
Total operating revenues	13,088,588	12,285,436
<b>Departmental Expenses</b>		
Payroll and related expenses	3,689,699	3,294,097
Administrative expenses	871,478	756,507
Operations expenses	1,798,365	1,563,548
Maintenance expenses	1,059,412	1,247,020
Tap in expenses	365,842	266,565
Purchased water	1,017,482	543,661
RO plant expenses	691,148	723,049
ASR plant expenses	263,557	247,452
Professional fees	99,701	229,387
Vehicle expenses	87,680	84,215
Depreciation	4,576,123	4,482,776
Total departmental expenses	14,520,487	13,438,277
Loss from operations	(1,431,899)	(1,152,841)
<b>Non-Operating Revenues (Expenses)</b>		
Property taxes - debt service	1,403,497	1,396,680
Property taxes - operations	973,607	931,507
Rental and tower lease income	611,080	550,092
Interest earned	99,041	92,713
Gain on disposal of assets	3,500	1,500
Bond issuance costs	-	(119,950)
Amortization of bond insurance	-	(1,526)
Amortization of bond defeasance	(256,428)	(249,373)
Interest expense	(1,091,811)	(1,222,872)
Total net non-operating income	1,742,486	1,378,771
<b>Increase (decrease) in net position before capital contributions</b>	<b>\$ 310,587</b>	<b>\$ 225,930</b>

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Capital Contributions</b>		
Capacity fees	\$ 565,093	\$ 585,744
Developer contributions of systems	1,769,319	819,099
Total capital contributions	2,334,412	1,404,843
Change in net position	2,644,999	1,630,773
Net position, beginning of the year	34,509,882	32,879,109
Net position, end of year	\$ 37,154,881	\$ 34,509,882

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 12,629,597	\$ 11,779,462
Cash paid to suppliers	(7,264,459)	(6,634,090)
Cash paid to employees	(2,741,377)	(2,366,825)
Other revenues	87,367	284,775
Net cash provided by operating activities	<u>2,711,128</u>	<u>3,063,322</u>
<b>Cash flows from investing activities:</b>		
Interest earned	<u>99,041</u>	<u>92,713</u>
Net cash provided by investing activities	99,041	92,713
<b>Cash flows from noncapital financing activities:</b>		
Property taxes collected - operations	973,607	931,507
Rental and tower lease income	618,925	542,835
Sewer assessments collected	<u>122,329</u>	<u>410,120</u>
Net cash provided by noncapital financing activities	1,714,861	1,884,462
<b>Cash flows from capital and related financing activities:</b>		
Capacity fees	565,093	585,744
Capacity fee assessments	35,644	42,538
Property taxes collected - debt service	1,403,497	1,396,680
Interest paid	(1,113,225)	(1,281,687)
Proceeds from SRF notes	-	1,147,651
Proceeds from 2015A & B revenue refunding bonds	-	22,567,000
Amount paid to defease debt	-	(481,193)
Payoff of refunded bonds	-	(22,747,042)
Bond issuance costs	-	(119,950)
Principal payments on bonds and notes	(4,224,878)	(3,612,729)
Proceeds from sale of capital assets	3,500	1,500
Purchases of property, plant and equipment	<u>(479,577)</u>	<u>(2,306,286)</u>
Net cash used by capital and related financing activities	<u>(3,809,946)</u>	<u>(4,807,774)</u>
<b>Net increase (decrease) in cash</b>	<b>715,084</b>	<b>232,723</b>
Cash and cash equivalents, at beginning of year	<u>6,151,347</u>	<u>5,918,624</u>
Cash and cash equivalents, at year end	<u>\$ 6,866,431</u>	<u>\$ 6,151,347</u>

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (1,431,899)	\$ (1,152,841)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>		
Depreciation	4,576,123	4,482,776
Increase in allowance for doubtful accounts	-	-
Increase (decrease) in pension expense due to GASB 68	(20,803)	79,093
Abandoned construction in progress costs expensed	-	131,904
Changes in assets and liabilities		
Accounts receivable - trade, net	(23,607)	(377,380)
Disaster recovery insurance receivable	(552,366)	-
Inventories	126,560	(118,343)
Prepaid assets	(9,114)	24,445
Accounts receivable - Project SAFE	205,799	156,211
Accounts payable - trade	(96,948)	(58,714)
Customer deposits	(1,450)	(30)
Other accrued liabilities	(61,167)	(103,799)
Net cash provided by operating activities	<u>\$ 2,711,128</u>	<u>\$ 3,063,322</u>
<b>Schedule of cash and cash equivalents</b>		
Available for operations		
Demand deposits (interest and non-interest bearing)	\$ 4,350,817	\$ 3,563,759
Held by Beaufort County Treasurer	<u>109,394</u>	<u>105,060</u>
Total available for operations	4,460,211	3,668,819
Restricted		
Cash in banks	1,711,518	1,782,031
Held by Beaufort County Treasurer	<u>694,702</u>	<u>700,497</u>
Total restricted	<u>2,406,220</u>	<u>2,482,528</u>
Total cash and cash equivalents	<u>\$ 6,866,431</u>	<u>\$ 6,151,347</u>
<b>Supplemental Disclosures</b>		
Noncash financing activities:		
Developer contribution of systems	\$ 1,769,319	\$ 819,099
Capitalized Interest	\$ -	\$ 35,487

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

#### **General**

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

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

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

In 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net 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.

#### **Fund accounting**

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

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

#### **Net position**

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

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

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

#### **Basis of accounting**

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

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

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

#### **Cash and cash equivalents**

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, 2017 and 2016, the balance of the allowance for doubtful accounts was \$59,944. Bad debt expense for the years ended June 30, 2017 and 2016 was \$50,250 and \$24,294, respectively.

#### **Inventory**

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

#### **Property, plant and equipment**

Property, plant and equipment are recorded at cost when constructed or purchased. Assets contributed to the District by developers are capitalized at the developers' cost to construct the water and sewer system. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition cost rather than fair value. Betterments and improvements over \$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	5-50
Sewage disposal system	5-33
Building	40
Sewage treatment facilities	3-40
Transportation equipment	5
Operations furniture and equipment	3-7
Office furniture and equipment	4-10

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project that is being financed from the debt proceeds. Interest capitalized for the years ended June 30, 2017 and 2016 totaled \$-0- and \$35,487, respectively.

#### **Bond discount and premium**

The 2006 revenue bonds included two maturities of bonds, one issued at a premium of \$40,990 and one issued at a discount of \$197,849. The unamortized portion of the premium and discount was written off as a part of deferred outflows of debt refunding when the bonds were refunded in September 2015. The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two maturities of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. Sixty-seven percent of the unamortized portion of the premium and discount was written off as a part of deferred outflows of debt refunding when sixty-seven percent of the bonds were refunded in September 2015. The 2010 general obligation bonds included two maturities of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2017 and 2016 was \$72,133 and \$80,774, respectively, which is included as a direct deduction from bonds payable, net of current portion on the statements of net position. Bond discount and premium amortization totaled \$8,641 and \$7,207 for the years ended June 30, 2017 and 2016, respectively, and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net position.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **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. The unamortized portion of the prepaid insurance costs was written off as a part of deferred outflows from debt refunding when the underlying bonds were refunded in September 2015. Amortization expense on prepaid bond insurance costs was \$-0- and \$1,526, respectively, for the years ended June 30, 2017 and 2016. All other bond issuance costs are reported as an expense of the current period.

#### **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 \$286,942 and \$256,890 at June 30, 2017 and 2016, 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.

#### **Reclassification**

Certain accounts and amounts in the June 30, 2016 financial statements have been reclassified in order to conform to the June 30, 2017 presentation.

#### **Date of Management's Review**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 1, 2017, the date that the financial statements were available to be issued.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 2 – Cash, cash equivalents and investments

At June 30, 2017, the bank balances of unrestricted and restricted accounts totaled \$6,235,880 and had a carrying balance totaling \$6,062,135. 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, 2017, 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	\$ 441,289	\$ -	\$ 441,289
Collateralized	4,083,073	1,711,518	5,794,591
Balance per bank at June 30, 2017	<u>\$ 4,524,362</u>	<u>\$ 1,711,518</u>	<u>\$ 6,235,880</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, 2017, 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, 2017 and 2016, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

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

### Investment Policy

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

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

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

### **Note 3 - Cash held by the Beaufort County Treasurer**

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

	As of June 30,	
	2017	2016
Unrestricted cash - Available for general operating purposes	\$ 109,394	\$ 105,060
Restricted cash - Bond principal retirement and interest payments	<u>694,702</u>	<u>700,497</u>
Total	<u>\$ 804,096</u>	<u>\$ 805,557</u>

### **Note 4 - Accounts receivable**

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

	2017	2016
Receivables from customers	\$ 1,262,735	\$ 816,634
Unbilled receivables from customers	462,616	1,200,477
Other receivables	<u>481,689</u>	<u>166,322</u>
	<u>\$ 2,207,040</u>	<u>\$ 2,183,433</u>

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.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 5 - Property, plant, equipment and depreciation**

Capital asset activity during the year ended June 30, 2017 and 2016 was as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2017</u>
<b><u>Capital assets not being depreciated:</u></b>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	<u>785,002</u>	<u>2,356,805</u>	<u>-</u>	<u>(1,684,511)</u>	<u>1,457,296</u>
Total capital assets not being depreciated	2,084,196	2,356,805	-	(1,684,511)	2,756,490
<b><u>Capital assets being depreciated:</u></b>					
Waterworks system	62,262,580	-	(60,706)	416,681	62,618,555
Sewage disposal system	39,645,717	-	(22,358)	1,267,830	40,891,189
Buildings	4,339,091	-	-	-	4,339,091
Sewage treatment facilities	34,727,539	-	-	-	34,727,539
Transportation equipment	1,098,157	97,629	(25,000)	-	1,170,786
Operations furniture and equipment	2,198,499	-	(122,247)	-	2,076,252
Office furniture and equipment	<u>776,042</u>	<u>17,159</u>	<u>(14,648)</u>	<u>-</u>	<u>778,553</u>
Total capital assets being depreciated	145,047,625	114,788	(244,959)	1,684,511	146,601,965
<b><u>Less accumulated depreciation for:</u></b>					
Waterworks system	(28,517,712)	(2,107,061)	60,706	-	(30,564,067)
Sewage disposal system	(14,814,393)	(1,421,223)	22,358	-	(16,213,258)
Buildings	(1,875,067)	(112,863)	-	-	(1,987,930)
Sewage treatment facilities	(22,009,049)	(738,668)	-	-	(22,747,717)
Transportation equipment	(883,744)	(69,870)	25,000	-	(928,614)
Operations furniture and equipment	(1,562,826)	(90,025)	122,247	-	(1,530,604)
Office furniture and equipment	<u>(625,901)</u>	<u>(36,413)</u>	<u>14,648</u>	<u>-</u>	<u>(647,666)</u>
Total accumulated depreciation	<u>(70,288,692)</u>	<u>(4,576,123)</u>	<u>244,959</u>	<u>-</u>	<u>(74,619,856)</u>
Total capital assets being depreciated, net	<u>74,758,933</u>	<u>(4,461,335)</u>	<u>-</u>	<u>1,684,511</u>	<u>71,982,109</u>
Year end totals	<u>\$ 76,843,129</u>	<u>\$ (2,104,530)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,738,599</u>

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

	June 30, 2015	Additions	Disposals	Transfers	June 30, 2016
<b><u>Capital assets not being depreciated:</u></b>					
Land	\$ 1,299,194	\$ -	\$ -	\$ -	\$ 1,299,194
Construction in progress	<u>5,926,019</u>	<u>2,073,890</u>	<u>(131,904)</u>	<u>(7,083,003)</u>	<u>785,002</u>
Total capital assets not being depreciated	7,225,213	2,073,890	(131,904)	(7,083,003)	2,084,196
<b><u>Capital assets being depreciated:</u></b>					
Waterworks system	55,813,320	188,294	-	6,260,966	62,262,580
Sewage disposal system	38,672,883	150,797	-	822,037	39,645,717
Buildings	4,339,091	-	-	-	4,339,091
Sewage treatment facilities	34,711,422	22,201	(6,084)	-	34,727,539
Transportation equipment	1,017,719	150,646	(70,208)	-	1,098,157
Operations furniture and equipment	2,080,981	161,488	(43,970)	-	2,198,499
Office furniture and equipment	<u>748,927</u>	<u>73,285</u>	<u>(46,170)</u>	<u>-</u>	<u>776,042</u>
Total capital assets being depreciated	137,384,343	746,711	(166,432)	7,083,003	145,047,625
<b><u>Less accumulated depreciation for:</u></b>					
Waterworks system	(26,504,124)	(2,013,588)	-	-	(28,517,712)
Sewage disposal system	(13,459,380)	(1,355,013)	-	-	(14,814,393)
Buildings	(1,762,204)	(112,863)	-	-	(1,875,067)
Sewage treatment facilities	(21,180,215)	(834,918)	6,084	-	(22,009,049)
Transportation equipment	(902,374)	(51,578)	70,208	-	(883,744)
Operations furniture and equipment	(1,521,525)	(85,271)	43,970	-	(1,562,826)
Office furniture and equipment	<u>(642,526)</u>	<u>(29,545)</u>	<u>46,170</u>	<u>-</u>	<u>(625,901)</u>
Total accumulated depreciation	<u>(65,972,348)</u>	<u>(4,482,776)</u>	<u>166,432</u>	<u>-</u>	<u>(70,288,692)</u>
Total capital assets being depreciated, net	<u>71,411,995</u>	<u>(3,736,065)</u>	<u>-</u>	<u>7,083,003</u>	<u>74,758,933</u>
Year end totals	<u>\$ 78,637,208</u>	<u>\$ (1,662,175)</u>	<u>\$ (131,904)</u>	<u>\$ -</u>	<u>\$ 76,843,129</u>

During the year ended June 30, 2016, the PSD decided not to move forward on one of its construction in progress projects. Accordingly, the planning, design, and engineering costs capitalized into construction in progress totaling \$131,904 were removed and reclassified into professional fees on the statement of revenues, expenses, and changes in net position.

Depreciation expense for the years ended June 30, 2017 and 2016 was \$4,576,123 and \$4,482,776, 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:

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 6 – Long-term obligations (continued)**

#### Notes payable – Revenue/Other

The District is obligated under a note dated November 30, 1988, with a balance of \$97,939 and \$115,939 at June 30, 2017 and 2016, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date. This note is not part of parity debt and is excluded from the debt coverage calculation.

On July 23, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$2,921,430. Proceeds were used to defray the costs of installing and implementing an Advanced Meter Reading Infrastructure. The note bears interest at a rate of 1.00% per annum. Principal and interest of \$40,337 are payable quarterly beginning April 1, 2016 through January 1, 2036. The loan had a balance of \$2,755,435 and \$2,888,397 at June 30, 2017 and 2016, respectively. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

#### Notes payable – General Obligation

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2017 and 2016 amounted to \$310,867 and \$333,047, respectively. The notes are backed by general obligation debt.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.0% per annum. These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 were payable quarterly beginning January 1, 2009 through October 1, 2011. Effective November 21, 2011, the interest rate was reduced to 2.25% resulting in reduced principal and interest payments of \$45,350 to be paid quarterly from January 1, 2012 through October 1, 2028. The SRF loan balance outstanding at June 30, 2017 and 2016 amounted to \$1,798,525 and \$1,937,500, respectively. The notes are backed by general obligation debt.

On September 10, 2014, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority. The total proceeds from this note were \$3,451,303. Proceeds were used to defray the cost expanding the existing Reverse Osmosis Treatment Facility, installing an additional booster pump station, and relocating a major water line within the district. The note bears interest at a rate of 2.00% per annum. Five quarterly principal and interest payments of \$56,989 were due beginning May 1, 2015, one quarterly principal and interest payment of \$29,753 was due on August 1, 2016, and seventy-four quarterly principal and interest payments of \$52,450 are due beginning on November 1, 2016. The balance outstanding at June 30, 2017 and 2016 was \$3,128,156 and \$3,258,187, respectively. The notes are backed by general obligation debt.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 6 – Long-term obligations (continued)**

#### Bonds payable - Revenue

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 bore 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 were payable on May 26<sup>th</sup> of each year beginning in 2012 and continuing until 2020. 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 3, 2015, the outstanding balance of \$106,168 on these bonds was refunded through the issuance of Series 2015 A and B revenue bonds.

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 was payable semi-annually at varying interest rates of between 3.50% and 4.125% per annum. Principal payments were due annually on December 1st of each year beginning in 2006 and continuing until 2023. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. On September 3, 2015, the outstanding balance of \$15,725,000 on these bonds was refunded through the issuance of Series 2015 A and B revenue bonds.

In June 2007, the District issued \$930,000 of series 2007 revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2007 bond bore interest at a rate of 4.22% per annum. Principal and interest of \$69,771 were payable on June 20th of each year beginning in 2008 and continuing until 2027. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. On September 3, 2015, the outstanding balance of \$646,525 on these bonds was refunded through the issuance of Series 2015 A and B revenue bonds.

In July 2009, the District issued \$355,902 of series 2009A revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2009A bond bore interest at a rate of 4.55% per annum. Principal and interest of \$33,254 were payable on July 30th of each year beginning in 2010 and continuing until 2024. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. On September 3, 2015, the outstanding balance of \$241,168 on these bonds was refunded through the issuance of Series 2015 A and B revenue bonds.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 6 – Long-term obligations (continued)**

#### **Bonds payable - Revenue (continued)**

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds were to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds were due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. On September 3, 2015, sixty-seven percent of outstanding balance of \$2,865,000 of these bonds, \$1,920,000, was refunded through the issuance of Series 2015 A and B revenue bonds. Principal payments on the remaining balance of \$945,000 are due annually beginning on December 1, 2016 through December 1, 2020 and interest payments remain payable semi-annually through December 1, 2020. The interest rate on the remaining bonds is 4.00% per annum. The 2010 revenue bonds outstanding at June 30, 2017 and 2016 amounted to \$655,000 and \$805,000, respectively.

On April 27, 2011, the District issued \$384,402 of series 2011 revenue bonds. Proceeds were to be used to defray the costs of system improvements. The series 2011 bond bore interest at a rate of 3.91% per annum. Principal and interest of \$34,356 were payable on April 27th of each year beginning in 2012 and continuing until 2026. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. On September 3, 2015, the outstanding balance of \$302,443 on these bonds was refunded through the issuance of Series 2015 A and B revenue bonds.

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 bonds bore interest at a rate of 2.89% per annum. Principal and interest of \$57,666 were payable on the 24th of each month beginning in September 2011 and continuing until August 2021. The bonds were payable from revenues derived from operation of the District's system, and were secured by a lien upon these revenues. On September 3, 2015, the outstanding balance of \$3,807,737 on these bonds was refunded through the issuance of Series 2015 A and B revenue bonds.

On November 29, 2012, the District issued \$12,275,000 of series 2012A refunding revenue bonds. Proceeds were used to refunding the series 2004 revenue bonds which refunded the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. Interest on the bonds is payable semi-annually at interest rates of between 0.542% and 2.839% per annum. Principal payments are due annually on August 1st of each year beginning in 2013 and continuing through 2024. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2012A revenue bonds outstanding amounted to \$7,255,000 and \$8,275,000 at June 30, 2017 and 2016, respectively.

On November 29, 2012, the District issued \$815,000 of series 2012B revenue bonds. Proceeds were used to defray the costs of system improvements. The series 2012B bond bears interest at a rate of 2.15% per annum. Interest only payments are due semi-annually from February 1, 2013 through August 1, 2024. The principal balance is due in full on August 1, 2024. The bonds are payable from revenues derived from

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 6 – Long-term obligations (continued)**

#### Bonds payable - Revenue (continued)

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, 2017 and 2016.

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 in annual principal and interest payments of \$24,371 through April 2029. The bonds will be repaid by annual assessments to the owners in the areas that were connected over a 20 year period and will be collected by the county treasurer. The 2014A revenue bonds outstanding amounted to \$236,617 and \$252,358 at June 30, 2017 and 2016, respectively

On September 3, 2015, the District issued \$19,846,000 of Series A refunding revenue bonds and \$2,721,000 of Series B refunding revenue bonds. Proceeds were used to refund the series 2006 refunding revenue bonds, series 2007 revenue bonds, series 2009A revenue bonds, series 2010A refunding revenue bonds, series 2011 revenue bonds, series 2011B refunding revenue bonds, and sixty seven percent of the outstanding 2010B revenue bonds. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The series 2015A bonds bear interest at a rate of 1.93% per annum and principal and interest payments are due semi-annually beginning in December 2015 and continuing until June 2025. The 2015A revenue bonds outstanding amounted to \$17,236,000 and \$19,083,000 at June 30, 2017 and 2016, respectively. The series 2015B bonds bear interest at a rate of 2.29% per annum and principal and interest payments are due semi-annually beginning in December 2015 and continuing until December 2029. The 2015B revenue bonds outstanding amounted to \$2,573,000 and \$2,658,000 at June 30, 2017 and 2016, respectively.

#### Bonds payable – General Obligation

In July 2009, the District issued \$1,781,694 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. 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 \$952,840 and \$1,067,829 at June 30, 2017 and 2016, respectively. The bonds are backed by general obligation debt.

On October 3, 2007, the District issued \$7,350,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. 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 \$4,535,000 and \$4,900,000 at June 30, 2017 and 2016, respectively. The bonds are backed by general obligation debt.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 6 – Long-term obligations (continued)**

Bonds payable – General Obligation (continued)

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds were to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$2,735,000 and \$2,920,000 at June 30, 2017 and 2016, respectively. The bonds are backed by general obligation debt.

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

Year Ended June 30,	Principal	Interest	Total
2018	\$ 4,331,849	\$ 1,030,988	\$ 5,362,837
2019	4,421,839	935,423	5,357,262
2020	4,523,240	834,696	5,357,936
2021	4,639,059	727,575	5,366,634
2022	4,748,313	625,539	5,373,852
2023-2027	17,978,903	1,486,150	19,465,053
2028-2032	3,288,051	274,778	3,562,829
2033-2036	1,153,125	28,871	1,181,996
	<u>\$ 45,084,379</u>	<u>\$ 5,944,020</u>	<u>\$ 51,028,399</u>

For those bonds due June 30,	General Obligation bonds dated Oct. 3, 2007	General Obligation bonds dated Sept. 28, 2010	2012A Revenue bonds dated Nov. 29, 2012
2018	4.000%	3.000%	1.667%
2019	4.000%	3.000%	1.917%
2020-2023	4.000%	3.000%	2.339%
2024	4.000%	3.000%	2.839%
2025	4.000%	3.000%	0.000%
2026-2027	4.000%	3.125%	0.000%
2028	4.000%	3.250%	0.000%

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 7 – Non-current liabilities**

The non-current liability activity during fiscal years 2017 and 2016 was as follows:

	June 30, 2016	Additions	Reductions	June 30, 2017	Amounts due within one year
Revenue bonds	\$31,888,358	\$ -	\$ (3,117,741)	\$28,770,617	\$ 3,176,278
GO bonds	8,887,829	-	(664,989)	8,222,840	689,838
Notes payable - GO debt	5,528,734	-	(291,186)	5,237,548	313,438
Notes payable - Revenue/other	3,004,336	-	(150,962)	2,853,374	152,295
Bond discount/premium	80,774	-	(8,641)	72,133	-
Net pension liability	4,437,923	-	(5,326)	4,432,597	-
Subtotal	\$53,827,954	\$ -	\$ (4,238,845)	\$49,589,109	\$ 4,331,849
Less current portion	(4,224,875)			(4,331,849)	
Noncurrent liabilities	<u>\$49,603,079</u>			<u>\$45,257,260</u>	

	June 30, 2015	Additions	Reductions	June 30, 2016	Amounts due within one year
Revenue bonds	\$34,677,573	\$22,567,000	\$(25,356,215)	\$31,888,358	\$ 3,117,740
GO bonds	9,528,162	-	(640,333)	8,887,829	664,988
Notes payable - GO debt	5,015,406	825,518	(312,190)	5,528,734	291,186
Notes payable - Revenue/other	2,697,749	357,620	(51,033)	3,004,336	150,961
Bond discount/premium	44,988	42,992	(7,206)	80,774	-
Net pension liability	4,121,502	316,421	-	4,437,923	-
Subtotal	\$56,085,380	\$24,109,551	\$(26,366,977)	\$53,827,954	\$ 4,224,875
Less current portion	(3,886,071)			(4,224,875)	
Noncurrent liabilities	<u>\$52,199,309</u>			<u>\$49,603,079</u>	

**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 was amortizing the deferred amount on early retirement of \$1,133,015 over the 18-year life of the refunded bonds. The unamortized portion of the deferred amount on refunding, \$524,150, was written off as a part of deferred outflows from debt refunding on the refunding debt when the bonds were refunded in September 2015.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 8 – Deferred amount on refunding (continued)**

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 was amortizing the deferred amount on early retirement of \$17,137 over the 10-year life of the refunded bonds. The unamortized portion of the deferred loss on refunding, \$8,283, was written off as a part of deferred outflows from debt refunding on the refunding debt when the bonds were refunded in September 2015.

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, 2017 and 2016 was \$558,178 and \$707,025, respectively.

In September 2015, the District issued series 2015A revenue bonds amounting to \$19,846,000 with a 1.93% interest rate to advance refund \$15,725,000 of the \$18,770,000 series 2006 refunding revenue bonds which had varying interest rates and a maturity of December 2023, \$241,168 of the \$335,902 series 2009A revenue bonds which had an interest rate of 4.55% and a maturity date of July 2024, \$104,168 of the \$190,722 series 2010A revenue bonds which had an interest rate of 3.85% and a maturity date of May 2020, \$205,000 of the \$3,400,000 series 2010B revenue bonds which had an interest rate of 4.00% and a maturity date of December 2024, and \$3,807,737 of the \$6,003,544 series 2011B revenue bonds which had an interest rate of 2.89% and a maturity date of August 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1,814,453, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,718,876. The District is amortizing the deferred amount on early retirement of \$866,883 over the 9.75 year life of the refunded bonds. The unamortized balance at June 30, 2017 and 2016 was \$703,879 and \$792,790, respectively.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 8 – Deferred amount on refunding (continued)**

In September 2015, the District issued series 2015B revenue bonds amounting to \$2,721,000 with a 2.29% interest rate to advance refund \$646,524 of the \$930,000 series 2007 revenue bonds which had an interest rate of 4.22% and a maturity of June 2027, \$1,715,000 of the \$3,400,000 series 2010B revenue bonds which had varying interest rates and a maturity date of December 2029, and \$302,444 of the \$384,000 series 2011 revenue bonds which had an interest rate of 3.91% and a maturity date of April 2026. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2015B advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$336,864, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$298,448. The District is amortizing the deferred amount on early retirement of \$266,044 over the 14.25 year life of the refunded bonds. The unamortized balance at June 30, 2017 and 2016 was \$231,816 and \$250,486, respectively.

### **Note 9 – Restricted Assets**

A reserve fund for debt service is mandated by bond covenants. At June 30, 2017 and 2016, the debt service reserves totaled \$2,406,220 and \$2,482,528, respectively. The District also holds funds, as mandated by bond covenants, for operation and maintenance, and depreciation and contingencies. The operating and maintenance fund is intended to provide for the payment of the operations and maintenance expenses. The depreciation and contingency fund is intended to provide a reasonable reserve for the depreciation of the system, for contingencies and for improvements, betterment and extensions of the system.

### **Note 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 \$592,140 and \$531,510 for the years ended June 30, 2017 and 2016, respectively. The future minimum lease income is as follows:

Years ended	
June 30,	Amount
2018	\$ 331,774
2019	133,923
2020	112,463
2021	108,376
2022	32,097
Thereafter	-
Total	<u>\$ 718,633</u>

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 11 - Economic dependence**

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

### **Note 12 – Disaster Recovery / Insurance recoveries**

The District records insurance recoveries as an offset to the related expense. The District received \$517 and \$3,184 for non-hurricane related insurance recoveries during the years ended June 30, 2017 and 2016, respectively.

In October 2016, Hurricane Matthew made landfall in the District's service area and caused damage to the District's property and systems. The District has received \$568,146 for insurance recoveries and FEMA reimbursement related to expenses incurred as a result of the hurricane attributable to the year ended June 30, 2017. Of this amount, \$224,897 was received for expenses that were not directly identifiable such as administrative and maintenance payroll related to storm recovery and claim administration as well as per diem payments for usage of District equipment in clean-up efforts. The remaining \$343,249 was reimbursement for direct expenses incurred. The District incurred an additional \$166,205 of direct expenses during the year ended June 30, 2017, including professional fees related to claim submission, for which it had not yet received reimbursement as of the date of this report. Although the District expects reimbursement for a portion of these expenses, an estimate of the amount of reimbursement to be received cannot be estimated as of the date of this report. Given this uncertainty, in accordance with generally accepted accounting principles, no accrual has been recorded for these items. These funds, if received, will be reported as disaster recovery income in the financial statements for the year ended June 30, 2018 net of any additional hurricane related expenditures incurred in the year ended June 30, 2018.

As discussed above, during the year ended June 30, 2017 the district incurred total direct costs for clean up and repairs to property, system, and landscaping as well as professional fees totaling \$509,454. These costs were netted against the reimbursements of \$568,146 which resulted in disaster recovery income of \$58,691 on the statement of revenues, expenses, and changes in net position. Of the total insurance proceeds received as of the date of this report, \$552,366 were received after year end and are reported as an insurance receivable on the statement of net position accordingly. Management evaluated the District's property, plant, and equipment after the storm and none of the required repairs were considered significant enough to trigger an impairment loss on any of the district's assets.

### **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.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **Note 13 - Construction and development commitments (Continued)**

#### **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 \$1,235,134 and \$739,198 for the years ended June 30, 2017 and 2016, respectively, of which \$217,652 and \$195,537, respectively, were injected into the ASR system.

#### **Expansion**

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$1,769,319 and \$819,099 and payments of capacity fees totaling \$565,093 and \$585,744 were collected during the fiscal years ended June 30, 2017 and 2016, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District. In 2017, the District entered into an agreement with the Town of Hilton Head Island whereby the Town will reimburse the District up to \$5,606,315 for the engineering and construction costs related to the first two years of the District's Sewer Master Plan Document which lays out a five year plan to connect substantially all previously unserved areas to the sewer system. Reimbursements of \$963,585 have already been received as of June 30, 2017 and are included as part of the developer contributions of capital assets disclosed above.

#### **Construction commitments**

The District had outstanding construction contract commitments of \$5,390,320 and \$248,214 at June 30, 2017 and 2016, 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 \$1,900,441 and \$2,058,414 as of June 30, 2017 and 2016, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2017 and 2016, \$80,002 and \$83,335, respectively, of the assessments collected was recognized as interest income.

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### **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, 2017 and 2016 were \$149,259 and \$160,619, respectively. The matching contribution for the years ended June 30, 2017 and 2016 was \$11,272 and \$9,642, 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](http://www.peba.sc.gov).

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

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

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

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, 2017 and 2016 were 8.66% and 8.16%, respectively. Required employer contribution rates for the years ended June 30, 2017 and 2016 were 11.41% and 10.91%, respectively. The incidental death benefit employer contribution rate for the years ended June 30, 2017 and 2016 was 0.15%. The District's required contribution for the years ended June 30, 2017 and 2016 was \$272,562 and \$222,257, 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, 2017 and 2016, the District reported a liability of \$4,432,597 and \$4,437,923, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, using membership data as of July 1, 2015, projected forward to the end of the fiscal year and financial information of the pension trust funds as of June 30, 2016, 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, 2016 to the pension plan relative to the contributions of all participating employers for the year ended June 30, 2016. At June 30, 2017 and 2016, the District's proportion was 0.0208 percent and 0.0234 percent, respectively.

For the year ended June 30, 2017, the District recognized pension expense of \$251,759. At June 30, 2017, 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, 2017 AND 2016

### 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	\$ 45,949	\$ 4,814
Net difference between projected and actual earnings on pension plan investments	372,924	-
Changes in proportion and differences between and proportionate share of contributions	-	422,816
District contributions subsequent to the measurement date	272,562	-
Total	\$ 691,435	\$ 427,630

For the year ended June 30, 2016, the District recognized pension expense of \$298,810. At June 30, 2016, 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	\$ 78,847	\$ 7,936
Net difference between projected and actual earnings on pension plan investments	29,705	-
Changes in proportion and differences between and proportionate share of contributions	-	74,544
District contributions subsequent to the measurement date	222,257	-
Total	\$ 330,809	\$ 82,480

The \$272,562 and \$222,257 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date as of June 30, 2017 and 2016, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Deferred Outflows (Inflows) of Resources
2018	(40,016)
2019	(64,033)
2020	25,530
2021	70,026
2022	-
Thereafter	-

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### 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. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016 actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017 measurement date.

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actual cost method	Early age normal
Salary Increases	3.5% to 12.5% (varies by service), including inflation
Investment rate of return	7.5 percent, including inflation
Inflation	2.75%
Benefit adjustments	lesser of 1% 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 and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### 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 long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital market outlook at the end of the third quarter 2015. The long-term expected rates of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation and is summarized in the table below. 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.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Rish Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	<u>100.0%</u>		<u>5.10%</u>
Inflation for Actuarial Purposes			<u>2.75%</u>
Total Expected Nomical Return			<u><u>7.85%</u></u>

*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 the funding policy specified in the South Carolina State Code of Laws will remain unchanged in futures. 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.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

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

*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:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
District's proportionate share of the net pension liability	\$ 5,529,550	\$ 4,432,597	\$3,519,435

*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, 2017 AND 2016

### **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:

Net investment in capital assets	As of June 30,	
	2017	2016
Net property, plant and equipment in service	\$ 74,738,599	\$ 76,843,129
Less: Debt as disclosed in Notes 6 & 7	(45,084,379)	(49,309,257)
Bond premium, net	(72,133)	(80,774)
Deferred amount on refunding, net	1,493,873	1,750,301
Prepaid insurance - bonds	-	-
Accounts payable for capital assets	(444,536)	(221,839)
	<u>30,631,424</u>	<u>28,981,560</u>
Restricted for debt service	2,406,220	2,482,528
Unrestricted	<u>4,117,237</u>	<u>3,045,794</u>
Total net position	<u>\$ 37,154,881</u>	<u>\$ 34,509,882</u>

### **Note 18 – Subsequent events**

On August 21, 2017, the District issued \$515,000 of Series 2017A 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 2.69% per annum and are payable in annual principal and interest payments of \$41,933 starting June 2018 through June 3032. The bonds are payable from revenues derived from operations of the District's systems and are secured by a lien upon these revenues and the collection of annual assessments to the owners in the areas that were connected over a 20-year period which will be collected by the county treasurer.

On August 23, 2017, the District signed a promissory note to the South Carolina Water Quality Revolving Fund Authority in the amount of \$1,397,774. Proceeds are to be used to defray the cost of certain improvements to its wastewater system. The improvements consist of (i) pump station construction and upgrades; and (ii) installation of related improvements and appurtenances (collectively, the "Project"). Upon completion, the Project will be a part of and will constitute a portion of the District's waterworks and sewer system (together, the "System"). The note bears interest at a rate of 1.90% per annum. Eighty quarterly principal and interest payments of \$21,043 will be due beginning March 1, 2018. The notes are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues.

On August 23, 2017, the District's centrifuge equipment caught on fire. As of the date of this report, the District is still in the process of assessing the total financial impact of the damage to the District. A claim has been submitted to the South Carolina Insurance Reserve Fund which is under review.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 18 – Subsequent events (continued)**

On September 11, 2017, Tropical Storm Irma moved up the coast of South Carolina. Hilton Head Island received tropical storm wind gusts of 48 mph or higher and the rainfall around 7 inches. As of the date of this report, there were no damages to insured assets and a financial impact to the District has not been completed related to FEMA CAT-B forced account labor. The District had no claims to be submitted with the South Carolina Insurance Reserve Fund and the District has been approved for public assistance in the form of FEMA reimbursement but cannot estimate the amount of FEMA reimbursement expected.

## Required Supplementary Information

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

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

**Schedule A - Hilton Head No. 1 PSD South Carolina Retirement System Contributions  
For the fiscal year ended June 30, 2017<sup>13</sup> - Last ten years**

	South Carolina Retirement System									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 272,562	\$ 222,257	\$ 239,148	\$ 230,376	\$ 222,013	\$ 185,953	\$ 171,769	\$ 168,516	\$ 162,220	\$ 143,821
Contributions in relation to the contractually required contribution	272,562	222,257	239,148	230,376	222,013	185,953	171,769	168,516	162,220	143,821
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	0	0
Hilton Head No. 1 PSD's covered-employee payroll	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558	\$ 2,124,527	\$ 1,981,382	\$ 1,858,973	\$ 1,823,765	\$ 1,755,623	\$ 1,587,430
Contributions as a percentage of covered-employee payroll	11.41%	10.91%	10.75%	10.45%	10.45%	9.39%	9.24%	9.24%	9.24%	9.06%

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

**Schedule B - Hilton Head No. 1 PSD's Proportionate Share of the Net Pension Liability  
For the fiscal year ended June 30, 2017 - Last ten years\***

	South Carolina Retirement System			
	2017	2016	2015	2014
Measurement date	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Hilton Head No. 1 PSD's proportion of the net pension liability	0.020752%	0.023400%	0.023939%	0.023939%
Hilton Head No. 1 PSD's proportionate share of the net pension liability	\$ 4,432,957	\$ 4,437,923	\$ 4,121,502	\$ 4,063,319
Hilton Head No. 1 PSD's covered payroll	\$ 2,388,802	\$ 2,037,186	\$ 2,224,629	\$ 2,204,558
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	185.57240%	217.84573%	185.26694%	184.31445%
Plan fiduciary net position as a percentage of the total pension liability	52.90000%	57.00000%	59.90000%	53.38821%

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

<sup>13</sup> GASB 68 was implemented for fiscal year 2015 and 2014.

# **SUPPLEMENTAL FINANCIAL INFORMATION**

**Table A-7**  
**Hilton Head PSD**  
**Budgetary Comparison Schedule**  
**Fiscal Year to Date as of June 30, 2017**

	Fiscal Year 2017		FY 17 Actual to FY 17 Budget Comparison	
	Actual	Budget	Dollars	%
<b>Operating Revenues</b>			<b>Favorable (Unfavorable)</b>	
Water Service	\$ 6,680,175	\$ 5,950,900	\$ 729,275	12.3%
Sewer Service	5,143,168	5,120,400	22,768	0.4%
Tap In Fees - Water	137,423	57,800	79,623	137.8%
Connection Fees - Sewer	219,483	40,000	179,483	448.7%
Service Fees	29,105	42,700	(13,595)	-31.8%
Golf Course Irrigation	284,937	237,000	47,937	20.2%
Availability Fees	506,930	532,400	(25,470)	-4.8%
Disaster recovery, net	58,691	-	58,691	N/A
Other Operating Revenues	28,676	16,900	11,776	69.7%
<b>Total Operating Revenues</b>	<b>13,088,588</b>	<b>11,998,100</b>	<b>1,090,488</b>	<b>9.1%</b>
<b>Departmental Expenses</b>				
Payroll & Related	3,689,699	3,382,700	(306,999)	-9.1%
Administrative Expenses	871,478	821,120	(50,358)	-6.1%
Operations	1,798,365	1,614,700	(183,665)	-11.4%
Maintenance	1,059,412	1,096,700	37,288	3.4%
Water Tap In Expenses	191,120	52,000	(139,120)	-267.5%
Sewer Connection Expenses	174,722	60,000	(114,722)	-191.2%
Purchased Water	1,017,482	649,700	(367,782)	-56.6%
ASR-1 Water	221,515	206,400	(15,115)	-7.3%
RO Plant O&M	691,148	734,800	43,652	5.9%
ASR-1 O&M	42,042	43,600	1,558	3.6%
Professional Fees	99,701	122,800	23,099	18.8%
Vehicle	87,680	91,400	3,720	4.1%
<b>Total Departmental Expenses</b>	<b>9,944,365</b>	<b>8,875,920</b>	<b>(1,068,445)</b>	<b>-12.0%</b>
<b>Depreciation</b>	<b>4,576,123</b>	<b>4,444,000</b>	<b>(132,123)</b>	<b>-3.0%</b>
<b>Total Operating Expenses</b>	<b>14,520,488</b>	<b>13,319,920</b>	<b>(1,200,568)</b>	<b>-9.0%</b>
<b>Operating income (loss)</b>	<b>(1,431,899)</b>	<b>(1,321,820)</b>	<b>(110,079)</b>	<b>-8.3%</b>
<b>Non-operating revenues</b>				
Property taxes-G.O. Debt Levy	1,403,497	1,397,000	6,497	0.5%
Property taxes-Operations Levy	973,607	971,500	2,107	0.2%
Rental Income	79,115	80,600	(1,485)	-1.8%
Interest earned	99,041	104,300	(5,259)	-5.0%
Tower lease	531,964	454,400	77,564	17.1%
Gain (Loss) of disposal of equipment	3,500	-	3,500	
<b>Total Non-operating Revenues</b>	<b>3,090,725</b>	<b>3,007,800</b>	<b>82,925</b>	<b>2.8%</b>
<b>Non-operating Expenses</b>				
Interest expense-Bonds	1,100,452	1,065,500	(34,952)	-3.3%
Bond Defeasance Amortization	256,428	262,400	5,972	2.3%
Bond Issuance Costs	-	25,000	25,000	0.0%
Bond Premium Amortization	(8,641)	(6,500)	2,141	32.9%
<b>Total Non-operating Expenses</b>	<b>1,348,239</b>	<b>1,346,400</b>	<b>(1,839)</b>	<b>-0.1%</b>
<b>Total Non-operating Revenues/Exp.</b>	<b>1,742,486</b>	<b>1,661,400</b>	<b>81,086</b>	<b>4.9%</b>
<b>Increase (decrease) in net position, before capital contributions</b>	<b>310,587</b>	<b>339,580</b>	<b>(28,993)</b>	<b>-8.5%</b>
Water Capacity Fee	208,423	110,000	98,423	89.5%
Sewer Capacity Fee	356,670	254,800	101,870	40.0%
Developer Contributions of Systems	1,769,319	-	1,769,319	
<b>Total Capital Contributions</b>	<b>2,334,412</b>	<b>364,800</b>	<b>1,969,612</b>	<b>539.9%</b>
<b>Change in net position</b>	<b>\$ 2,644,999</b>	<b>\$ 704,380</b>	<b>\$ 1,940,619</b>	<b>275.5%</b>
<b>Net position, beginning of the fiscal year</b>	<b>\$ 34,509,882</b>			
<b>Net position, June 30, 2017</b>	<b>\$ 37,154,881</b>			

## Notes to Budgetary Comparison Schedule

### *Budgetary Highlights*

Operating Revenues: Actual of \$13,088,588 vs. FY'17 Budget of \$11,998,100 represents a variance of \$1,090,488 or 9.1% above budget.

The following is a summary of material variances for the Operating Revenue categories:<sup>14</sup>

- Water service revenues are above budget by \$729,275 or 12.3% due to less rainfall and warmer weather. As discussed previously, for the spring and summer months there was significantly less rainfall for fiscal year 2017 compared to the last 16 fiscal years.<sup>15</sup> Also, after Hurricane Matthew there was widespread turf restoration which resulted in higher irrigation.
- Sewer service revenues are above budget by \$22,768 or 0.4% due to higher water consumption.<sup>16</sup>
- Water tap in fees are \$79,633 or 138% above budget due to the high number of water connections for the fiscal year mainly due to new construction and Water Fund SAFE approved water connections.
- Sewer connection fees are \$179,483 or 449% over budget. There have been a large number of sewer connections related to new construction and Project SAFE connections.
- Service fees are \$13,595 or 32% below budget. After Hurricane Matthew customer penalties were waived until January 2017.
- Golf course irrigation (recycled water) revenues are \$47,937 or 20% above budget due to the aforementioned less rainfall.
- Disaster recovery, net is the result of Hurricane Matthew related reimbursements less the expenditures incurred due to the storm. The District expended \$509,454 related to Hurricane Mathew expenditures and applied for FEMA and Insurance reimbursements. The District received reimbursements in the amount of \$568,145 for a total of Disaster Recovery net revenue in the amount of \$58,691.
- Other operating revenues are \$11,776 or 70% above budget due to Palmetto Electric capital credit payments that were received in December 2016 and also Hargray reimbursements that were received for various repairs performed by the District caused by the installation of Hargray's fiber optic lines.

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$1,068,445 or 12% over budget. The following is a summary of material variances for the Departmental Expenses categories:

---

<sup>14</sup> In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for the District's quarterly and annual reports.

<sup>15</sup> Rainfall measurements were recorded at the wastewater treatment plant. Spring/summer months included for each fiscal year are July through August and March through June.

<sup>16</sup> A residential sewer service customer's billed consumption is capped at 10,000 gallons per month. Therefore, sewer service revenues are not as significantly impacted by higher water consumption when compared to water service revenues.

- Payroll and Related Expense: Actual of \$3,689,699 vs. FY'17 Budget of \$3,382,700 is \$306,999 or 9.1% over budget. This is due to increased employee hours worked due to Hurricane Matthew and the addition of 3 new employees hired during 2017.
- Administration Expenses: Actual of \$871,478 vs. FY'17 Budget of \$807,500 is \$50,358 or 6.1% over budget. This is mainly due to switching the District's quarterly billed customers to monthly billing. This resulted in higher bank administration fees and postage.
- Operations Expenses: Actual of \$1,798,365 vs. FY'17 Budget of \$1,614,700 is \$183,665 or 11% over budget. This is mainly due to higher chemical and power costs associated with the aforementioned higher water consumption.
- Water Tap in expenses: Actual of 191,120 vs. FY 2017 Budget of \$52,000 is \$139,120 or 267% over budget mainly due to new construction and Water Fund SAFE approved water connections.
- Sewer Connection Expenses: Actual of \$174,722 vs. FY 2017 Budget of \$60,000 is over budget by \$114,722 or 191% mainly due to new construction and Project SAFE approved connections.
- Purchased Water Expense: Actual of \$1,017,482 vs. FY'17 Budget of \$649,700 is \$367,782 or 57% above budget. This is due to increased water consumption. Billed water consumption was up 434.9 million gallons compared to last fiscal year. Also, during the aftermath of Hurricane Matthew additional purchased water was needed to pressurize the water system.

Total Non-Operating Revenues: Actual of \$3,090,725 vs. FY'17 Budget of \$3,007,800 represents a variance of \$82,925 or 2.8% over budget.

Total Non-Operating Expenses: Actual of \$1,348,239 vs. FY'17 Budget of \$1,346,400 represents a variance of \$1,839 or 0.1% over budget.

Capital Contributions: Actual Capacity Fees of \$565,093 vs. FY'17 Budget of \$364,800 represents a variance of \$200,293 or 55% above budget. Developer Contributions of Systems are a non-budgeted item totaling \$1,769,329 related to the Town of Hilton Head Master Sewer Plan projects and other developer projects.

Fiscal year 2017's change in net position was an increase of \$2,644,998 vs. FY'17 Budget increase of \$704,380 which represents a variance of \$1,940,618 above budget which is mainly related to collection of capacity fees and developer contributions of systems in the amount of \$2,334,412.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
SUMMARY SCHEDULE OF DEBT  
JUNE 30, 2017

Description	Rate	06/30/2015	Addition	Reduction	6/30/2016	Addition	Reduction	06/30/2017	Current
<b><u>Revenue Bonds</u></b>									
Series 2006	3.50 to 4.13%	\$ 15,725,000	\$ -	\$ (15,725,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2007	4.22%	646,525	-	(646,525)	-	-	-	-	-
Series 2009A	4.55%	262,479	-	(262,479)	-	-	-	-	-
Series 2010	2.00% to 4.00%	2,865,000	-	(2,060,000)	805,000	-	(150,000)	655,000	155,000
Series 2010A	3.85%	104,169	-	(104,169)	-	-	-	-	-
Series 2011	3.91%	302,443	-	(302,443)	-	-	-	-	-
Series 2011B	2.89%	3,904,379	-	(3,904,379)	-	-	-	-	-
Series 2012A	0.542% to 2.839%	9,785,000	-	(1,510,000)	8,275,000	-	(1,020,000)	7,255,000	1,035,000
Series 2012B	2.15%	815,000	-	-	815,000	-	-	815,000	-
Series 2014A	3.42%	267,578	-	(15,220)	252,358	-	(15,741)	236,617	16,278
Series 2015A	1.93%	-	19,846,000	(763,000)	19,083,000	-	(1,847,000)	17,236,000	1,885,000
Series 2015B	2.29%	-	2,721,000	(63,000)	2,658,000	-	(85,000)	2,573,000	85,000
<b>Total Revenue Bonds</b>		34,677,573	22,567,000	(25,356,215)	31,888,358	-	(3,117,741)	28,770,617	3,176,278
<b><u>Notes Payable - Revenue/Other</u></b>									
*SCJEDA - Notes Payable	0.00%	133,939	-	(18,000)	115,939	-	(18,000)	97,939	18,000
SRF Series 2014 Revenue Bonds	1.00%	2,563,810	357,620	(33,033)	2,888,397	-	(132,962)	2,755,435	134,295
<b>Total Notes Payable - Revenue/Other</b>		2,697,749	357,620	(51,033)	3,004,336	-	(150,962)	2,853,374	152,295
<b>Total Revenue/Other Debt</b>		37,375,322			34,892,694			31,623,991	
<b><u>General Obligation Bonds:</u></b>									
Series 2007	4.00% to 4.50%	5,250,000	-	(350,000)	4,900,000	-	(365,000)	4,535,000	380,000
Series 2009	4.22%	1,178,162	-	(110,333)	1,067,829	-	(114,989)	952,840	119,838
Series 2010	2.00% to 3.38%	3,100,000	-	(180,000)	2,920,000	-	(185,000)	2,735,000	190,000
<b>Total General Obligation Bonds</b>		9,528,162	-	(640,333)	8,887,829	-	(664,989)	8,222,840	689,838
<b><u>Notes Payable - GO Debt:</u></b>									
SRF - Series 2007 GO Bonds	2.25%	2,073,392	-	(135,892)	1,937,500	-	(138,975)	1,798,525	142,128
SIRF Series 2007 GO Bonds	3.50%	354,468	-	(21,421)	333,047	-	(22,180)	310,867	22,967
SRF - Series 2014 GO Bonds	2.00%	2,587,546	825,518	(154,877)	3,258,187	-	(130,031)	3,128,156	148,343
<b>Total Notes Payable - GO Debt</b>		5,015,406	825,518	(312,190)	5,528,734	-	(291,186)	5,237,548	313,438
<b>Total GO Debt</b>		14,543,568			14,416,563			13,460,388	
Total Long-Term Liabilities		51,918,890	23,750,138	(26,359,771)	49,309,257	-	(4,224,878)	45,084,379	4,331,849
Less current portion		(3,886,071)			(4,224,875)			(4,331,849)	
Bond discount/premium, net of amortization		44,988			80,774			72,133	
<b>Total Long Term Debt</b>		\$ 48,077,807			\$ 45,165,156			\$ 40,824,663	

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS**  
 JUNE 30, 2017

For the Year ending June 30,	\$3,400,000 Revenue Bond Dated August 24, 2010		\$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		\$19,846,000 Revenue Bond 2015 A Dated September 3, 2015		\$2,721,000 Revenue Bond 2015 B Dated September 3, 2015	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2018	\$ 23,100	\$ 155,000	\$ 155,918	\$ 1,035,000	\$ 17,523	\$ -	\$ 8,092	\$ 16,278	\$ 323,565	\$ 1,885,000	\$ 58,441	\$ 85,000
2019	16,800	160,000	140,067	1,050,000	17,523	-	7,536	16,835	287,010	1,923,000	56,471	88,000
2020	10,300	165,000	121,011	1,075,000	17,523	-	6,960	17,411	249,713	1,958,000	54,445	90,000
2021	3,500	175,000	97,726	1,110,000	17,523	-	6,364	18,007	211,769	1,992,000	52,372	92,000
2022	-	-	84,602	10,000	17,523	-	5,749	18,622	167,688	3,156,000	49,246	272,000
2023	-	-	82,757	120,000	17,523	-	5,112	19,259	106,970	3,119,000	42,960	280,000
2024	-	-	79,279	125,000	17,523	-	4,453	19,918	46,484	3,177,000	36,514	285,000
2025	-	-	38,752	2,730,000	8,761	815,000	3,772	20,599	376	26,000	31,213	72,000
2026	-	-	-	-	-	-	3,067	21,304	-	-	28,270	299,000
2027	-	-	-	-	-	-	2,339	22,032	-	-	21,537	277,000
2028	-	-	-	-	-	-	1,585	22,786	-	-	15,412	238,000
2029	-	-	-	-	-	-	806	23,566	-	-	9,939	244,000
2030	-	-	-	-	-	-	-	-	-	-	2,874	251,000
	<u>\$ 53,700</u>	<u>\$ 655,000</u>	<u>\$ 800,112</u>	<u>\$ 7,255,000</u>	<u>\$ 131,422</u>	<u>\$ 815,000</u>	<u>\$ 55,835</u>	<u>\$ 236,617</u>	<u>\$ 1,393,575</u>	<u>\$ 17,236,000</u>	<u>\$ 459,694</u>	<u>\$ 2,573,000</u>
Current		<u>\$ 155,000</u>		<u>\$ 1,035,000</u>		<u>\$ -</u>		<u>\$ 16,278</u>		<u>\$ 1,885,000</u>		<u>\$ 85,000</u>
Noncurrent		<u>\$ 500,000</u>		<u>\$ 6,220,000</u>		<u>\$ 815,000</u>		<u>\$ 220,339</u>		<u>\$ 15,351,000</u>		<u>\$ 2,488,000</u>

For the Year ending June 30,	\$7,350,000 GO Bond Dated October 3, 2007		\$1,781,694 Series 2009 GO Bond Dated July 30, 2009		\$3,970,000 GO Bond Dated September 25, 2010		<b>BOND TOTALS</b>		
	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
2018	\$ 181,400	\$ 380,000	\$ 40,200	\$ 119,838	\$ 84,368	\$ 190,000	\$ 892,607	\$ 3,866,116	\$ 4,758,723
2019	166,200	390,000	35,144	124,895	78,688	195,000	805,439	3,947,730	4,753,169
2020	150,600	405,000	29,875	130,165	72,837	200,000	713,264	4,040,576	4,753,840
2021	134,400	420,000	24,383	135,656	66,838	205,000	614,875	4,147,663	4,762,538
2022	117,600	440,000	18,660	141,380	60,687	210,000	521,755	4,248,002	4,769,757
2023	100,000	460,000	12,695	147,345	54,388	220,000	422,405	4,365,604	4,788,009
2024	81,600	480,000	6,479	153,561	47,787	230,000	320,119	4,470,479	4,790,598
2025	62,400	500,000	-	-	40,888	240,000	186,162	4,403,599	4,589,761
2026	42,400	520,000	-	-	33,687	245,000	107,424	1,085,304	1,192,728
2027	21,600	540,000	-	-	26,031	255,000	71,507	1,094,032	1,165,539
2028	-	-	-	-	18,062	265,000	35,059	525,786	560,845
2029	-	-	-	-	9,450	280,000	20,195	547,566	567,761
2030	-	-	-	-	-	-	2,874	251,000	253,874
	<u>\$ 1,058,200</u>	<u>\$ 4,535,000</u>	<u>\$ 167,436</u>	<u>\$ 952,840</u>	<u>\$ 593,711</u>	<u>\$ 2,735,000</u>	<u>\$ 4,713,685</u>	<u>\$ 36,993,457</u>	<u>\$ 41,707,142</u>
Current		<u>\$ 380,000</u>		<u>\$ 119,838</u>		<u>\$ 190,000</u>	Plus: Net Premium/Discount	72,133	
Noncurrent		<u>\$ 4,155,000</u>		<u>\$ 833,002</u>		<u>\$ 2,545,000</u>	Less: Current	<u>\$ 3,866,116</u>	
								<u>\$ 33,199,474</u>	

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS**  
 JUNE 30, 2017

For the Year ending June 30,	\$530,000 SCJEDA Note Dated November 30, 1988		\$2,887,826 SRF GO Note Dated October 3, 2007		\$481,080 SIRF GO Note Dated October 3, 2007		\$2,921,430 SRF Revenue Note Dated July 23, 2014		\$3,750,000 SRF GO Note Dated September 10, 2014		NOTE TOTALS		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total Interest	Total Principal	Total
	2018	\$ -	\$ 18,000	\$ 39,273	\$ 142,128	\$ 10,581	\$ 22,967	\$ 27,052	\$ 134,295	\$ 61,455	\$ 148,343	\$ 138,361	\$ 465,733
2019	-	18,000	36,048	145,353	9,767	23,781	25,704	135,643	58,466	151,332	129,985	474,109	604,094
2020	-	18,000	32,750	148,652	8,923	24,625	24,342	137,005	55,417	154,382	121,432	482,664	604,096
2021	-	18,000	29,377	152,025	8,050	25,498	22,967	138,380	52,306	157,493	112,700	491,396	604,096
2022	-	18,000	25,928	155,474	7,146	26,402	21,578	139,769	49,132	160,666	103,784	500,311	604,095
2023	-	7,939	22,500	158,902	6,210	27,339	20,175	141,172	45,895	163,904	94,780	499,256	594,036
2024	-	-	18,792	162,610	5,240	28,308	18,758	142,589	42,592	167,206	85,382	500,713	586,095
2025	-	-	15,102	166,300	4,236	29,312	17,327	144,020	39,223	170,576	75,888	510,208	586,096
2026	-	-	11,329	170,073	3,197	30,351	15,881	145,466	35,785	174,013	66,192	519,903	586,095
2027	-	-	7,470	173,932	2,120	31,428	14,421	146,926	32,279	177,519	56,290	529,805	586,095
2028	-	-	3,523	177,879	1,006	32,542	12,946	148,401	28,702	181,096	46,177	539,918	586,095
2029	-	-	254	45,197	73	8,314	11,457	149,890	25,053	184,746	36,837	388,147	424,984
2030	-	-	-	-	-	-	9,952	151,395	21,330	188,468	31,282	339,863	371,145
2031	-	-	-	-	-	-	8,433	152,914	17,532	192,266	25,965	345,180	371,145
2032	-	-	-	-	-	-	6,898	154,449	13,658	196,140	20,556	350,589	371,145
2033	-	-	-	-	-	-	5,347	156,000	9,706	200,093	15,053	356,093	371,146
2034	-	-	-	-	-	-	3,782	157,566	5,674	204,125	9,456	361,691	371,147
2035	-	-	-	-	-	-	2,200	159,147	1,560	155,788	3,760	314,935	318,695
2036	-	-	-	-	-	-	603	120,408	-	-	603	120,408	121,011
	<u>\$ -</u>	<u>\$ 97,939</u>	<u>\$ 242,346</u>	<u>\$ 1,798,525</u>	<u>\$ 66,549</u>	<u>\$ 310,867</u>	<u>\$ 269,823</u>	<u>\$ 2,755,435</u>	<u>\$ 595,765</u>	<u>\$ 3,128,156</u>	<u>\$ 1,174,483</u>	<u>\$ 8,090,922</u>	<u>\$ 9,265,405</u>
Current		<u>\$ 18,000</u>		<u>\$ 142,128</u>		<u>\$ 22,967</u>		<u>\$ 134,295</u>		<u>\$ 148,343</u>		<u>\$ 465,733</u>	
Noncurrent		<u>\$ 79,939</u>		<u>\$ 1,656,397</u>		<u>\$ 287,900</u>		<u>\$ 2,621,140</u>		<u>\$ 2,979,813</u>		<u>\$ 7,625,189</u>	

# **STATISTICAL SECTION**

## Statistical Section

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

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

## Statements of Revenues, Expenses, and Debt Service per Bond Covenants<sup>17</sup>

### Last Ten Fiscal Years

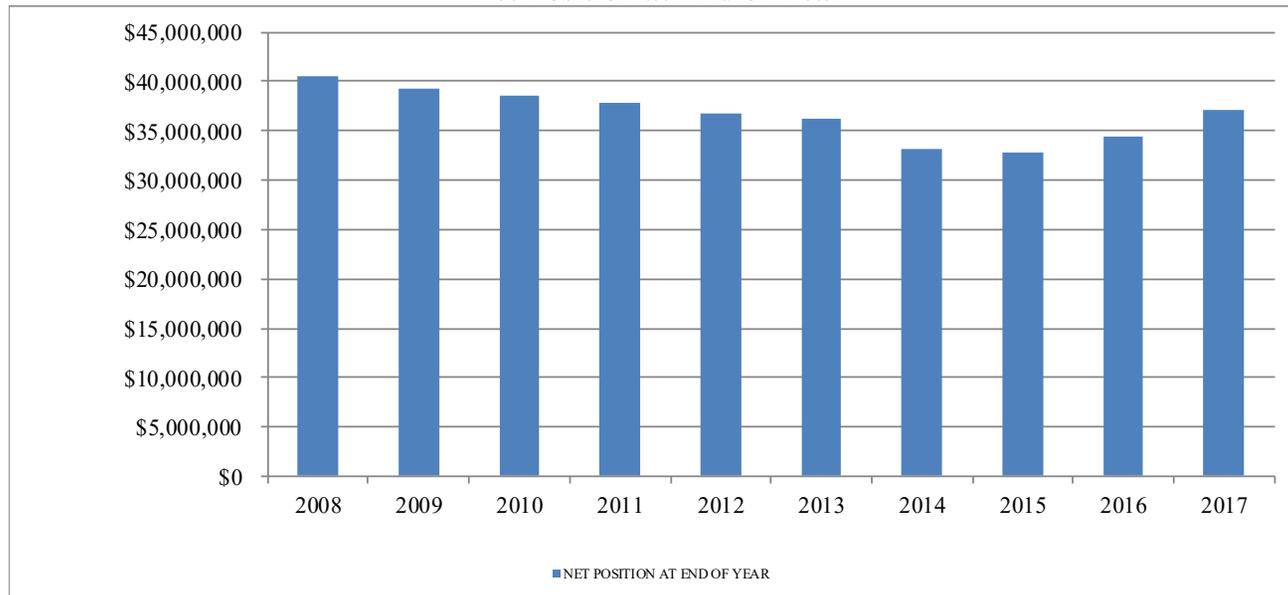
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Operating Revenues</b>										
Water service	\$5,518,049	\$5,307,260	\$5,308,798	\$5,836,921	\$5,949,379	\$5,951,546	\$5,777,606	\$5,727,692	\$6,009,410	\$6,680,175
Sewer service	4,059,860	3,959,087	4,034,068	4,208,115	4,522,434	4,623,093	\$4,736,919	\$4,838,019	\$5,056,081	\$5,143,168
Tap in fees - water	72,569	35,133	31,305	43,041	41,861	61,925	\$124,837	\$106,202	\$96,427	\$137,423
Tap in fees - sewer	11,284	2,330	117,367	71,614	83,425	109,475	\$117,505	\$84,543	\$109,984	\$219,483
Availability charges	540,104	547,354	570,169	610,332	638,137	623,076	\$597,582	\$565,423	\$525,302	\$506,930
Service fees and penalties	38,153	50,311	70,488	73,245	51,108	36,645	\$44,174	\$42,646	\$39,113	\$29,105
Golf course irrigation	301,856	243,274	230,583	358,105	338,205	319,041	\$297,609	\$204,934	\$164,344	\$284,937
Disaster recovery, net	-	-	-	-	-	-	-	-	-	\$58,691
Other operating Revenues	16,188	19,154	35,679	80,342	15,539	14,727	17,771	21,264	284,775	\$28,676
<b>Total Operating Revenues</b>	<b>\$10,558,063</b>	<b>\$10,163,903</b>	<b>\$10,398,457</b>	<b>\$11,281,715</b>	<b>\$11,640,088</b>	<b>\$11,739,528</b>	<b>\$11,714,003</b>	<b>\$11,590,723</b>	<b>\$12,285,436</b>	<b>\$13,088,588</b>
<b>Operating Expenses</b>										
Payroll and related expenses	\$3,038,152	\$3,227,906	\$3,229,296	\$3,293,800	\$3,392,515	\$3,474,067	\$3,571,288	\$3,713,013	\$3,294,097	\$3,689,699
Administrative expenses	544,208	697,194	692,053	792,437	923,287	783,768	\$789,686	\$793,893	\$756,507	\$871,478
Operations expenses	1,197,436	1,430,222	1,410,295	1,639,353	1,761,310	1,686,667	\$1,667,542	\$1,571,114	\$1,563,548	\$1,798,365
Maintenance expenses	733,394	677,372	768,575	1,103,787	987,389	1,038,224	\$1,125,413	\$1,006,240	\$1,247,020	\$1,059,412
Water Tap In expenses	79,818	26,620	23,030	-	37,443	38,250	\$60,078	\$90,462	\$115,995	\$191,120
Sewer Connection expense	3,512	3,900	128,227	-	78,775	84,144	\$85,401	\$82,353	\$150,570	\$174,722
Purchased water	1,596,183	1,356,803	746,571	1,024,455	1,028,789	817,441	\$622,629	\$791,096	\$543,661	\$1,017,482
ASR-1 Water	-	-	-	-	16,792	133,760	\$194,537	\$196,311	\$202,890	\$221,515
RO Plant O&M	-	127,852	674,039	581,270	604,539	607,876	\$533,249	\$618,024	\$723,049	\$691,148
ASR-1 O&M	-	-	-	-	5,275	30,868	\$40,747	\$40,656	\$44,562	\$42,042
Professional fees	532,391	410,736	269,207	171,575	243,600	265,786	\$237,182	\$305,698	\$229,387	\$99,701
Vehicle expenses	146,335	131,379	107,292	119,162	130,473	126,999	\$126,384	\$117,787	\$84,215	\$87,680
Depreciation	3,720,333	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	<u>\$4,481,885</u>	<u>\$4,485,346</u>	<u>\$4,482,776</u>	<u>\$4,576,123</u>
<b>Total Operating Expenses</b>	<b>\$11,591,762</b>	<b>\$12,055,616</b>	<b>\$12,453,662</b>	<b>\$13,181,999</b>	<b>\$13,669,995</b>	<b>\$13,645,296</b>	<b>\$13,536,021</b>	<b>\$13,811,992</b>	<b>\$13,438,277</b>	<b>\$14,520,488</b>
<b>Operating Income (Loss)</b>	<b>(1,033,699)</b>	<b>(1,891,713)</b>	<b>(2,055,205)</b>	<b>(1,900,284)</b>	<b>(2,029,907)</b>	<b>(1,905,768)</b>	<b>(1,822,017)</b>	<b>(2,221,269)</b>	<b>(1,152,841)</b>	<b>(1,431,899)</b>
<b>Non-operating revenues (expenses)</b>										
Property taxes-debt service	\$409,292	\$817,751	\$967,418	\$1,235,347	\$1,233,107	\$1,195,990	\$1,167,016	\$1,391,881	\$1,396,680	\$1,403,497
Property taxes-operations	901,072	924,702	1,028,416	1,039,316	1,023,502	1,016,558	\$901,453	\$913,930	\$931,507	\$973,607
Rental income	84,546	84,496	82,150	81,493	80,235	79,641	80,096	80,579	78,552	\$79,115
Interest earned	437,209	269,950	256,948	234,668	205,100	168,990	142,313	132,549	92,713	\$99,041
Tower leases	599,135	471,303	448,673	465,355	423,468	506,687	531,703	508,185	471,540	\$531,964
Bond Issuance Costs	-	-	-	-	(31,250)	(226,335)	(38,685)	(67,329)	(119,950)	-
Amortization of bond costs	(204,689)	(206,685)	(202,112)	(209,256)	(239,272)	(216,004)	(223,222)	(223,222)	(243,693)	(247,787)
Loss on disposal of equipment	(33,175)	2,000	161	7,672	-	-	-	-	1,500	3,500
Interest expense	<u>(1,860,432)</u>	<u>(1,911,438)</u>	<u>(2,208,372)</u>	<u>(2,300,439)</u>	<u>(2,101,677)</u>	<u>(1,842,617)</u>	<u>(1,661,902)</u>	<u>(1,613,384)</u>	<u>(1,230,078)</u>	<u>(1,100,452)</u>
<b>Total Non-Operating Income (Loss)</b>	<b>\$332,958</b>	<b>\$452,079</b>	<b>\$373,282</b>	<b>\$554,156</b>	<b>\$593,213</b>	<b>\$682,909</b>	<b>\$898,773</b>	<b>\$1,123,190</b>	<b>\$1,378,771</b>	<b>\$1,742,486</b>
<b>Net Income (loss) before capital per Financial Statements</b>	<b>(\$700,741)</b>	<b>(\$1,439,634)</b>	<b>(\$1,681,923)</b>	<b>(\$1,346,128)</b>	<b>(\$1,436,695)</b>	<b>(\$1,222,859)</b>	<b>(\$923,245)</b>	<b>(\$1,098,079)</b>	<b>\$225,930</b>	<b>\$310,587</b>
Capacity Fees	985,723	109,037	242,308	309,857	394,546	79,240	477,179	631,652	585,744	565,093
Add: Depreciation	3,720,333	3,965,632	4,405,077	4,456,160	4,459,807	4,557,446	4,481,885	4,485,346	4,482,776	4,576,123
Net Pension Expense	-	-	-	-	-	-	-	288,870	298,810	251,759
SCRS Retirement Contributions	-	-	-	-	-	-	-	(241,688)	(222,257)	(272,562)
Amortization	204,689	206,685	202,112	209,256	239,272	169,938	223,222	223,222	243,693	247,787
Bond Issuance Costs	-	-	-	-	31,250	226,335	38,685	67,329	119,950	-
Interest Expense (Bonds)	1,860,432	1,911,438	2,208,372	2,300,439	2,101,677	1,842,617	1,661,902	1,613,384	1,230,078	1,100,452
Assessments - Debt Service	419,060	508,381	537,759	550,586	396,027	415,758	382,702	486,300	452,658	157,973
Less: Property Taxes - Debt Service	<u>(409,292)</u>	<u>(817,751)</u>	<u>(967,418)</u>	<u>(1,235,347)</u>	<u>(1,233,107)</u>	<u>(1,195,990)</u>	<u>(1,167,016)</u>	<u>(1,391,881)</u>	<u>(1,396,680)</u>	<u>(1,403,497)</u>
	\$6,080,204	\$4,443,788	\$4,946,286	\$5,244,823	\$4,952,778	\$4,872,485	\$5,175,313	\$5,064,454	\$6,020,702	\$5,533,715
<b>Net Earnings Available for Debt Service</b>										
Debt Service on Revenue Bonds	\$3,441,126	\$3,438,347	\$3,523,871	\$3,477,484	\$3,660,650	\$4,037,286	\$3,504,185	\$3,987,537	\$3,441,323	\$3,923,462
<b>Required per Bond Covenants</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>
<b>Coverage of Debt Service by Net</b>	<b>177%</b>	<b>129%</b>	<b>140%</b>	<b>151%</b>	<b>135%</b>	<b>121%</b>	<b>148%</b>	<b>127%</b>	<b>175%</b>	<b>141%</b>

<sup>17</sup> Please note that fiscal years 2017, 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

## Schedule of Change in Net Position<sup>18</sup>

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Income (Loss from operations)	(\$1,033,699)	(\$1,891,713)	(\$2,055,205)	(\$1,900,284)	(\$2,029,907)	(\$1,905,768)	(\$1,822,017)	(\$2,221,269)	(\$1,152,841)	(\$1,431,899)
Total Non-Operating Income (Loss)	\$332,958	\$452,079	\$373,282	\$554,156	\$593,213	\$682,909	\$898,773	\$1,123,190	\$1,378,771	\$1,742,486
Capital Contributions	<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>	<u>\$1,404,843</u>	<u>\$2,334,412</u>
Changes in net position	\$1,854,345	(\$1,238,061)	(\$702,302)	(\$649,476)	(\$87,999)	(\$669,522)	\$982,140	(\$203,548)	\$1,630,772	\$2,644,999
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>\$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>	<u>\$32,879,109</u>	<u>\$34,509,882</u>
Net position at end of year	<u>\$40,503,483</u>	<u>\$39,265,422</u>	<u>\$38,563,120</u>	<u>\$37,913,644</u>	<u>\$36,833,357</u>	<u>\$36,163,836</u>	<u>\$33,082,657</u>	<u>\$32,879,109</u>	<u>\$34,509,881</u>	<u>\$37,154,881</u>

### Net Position at End of Year



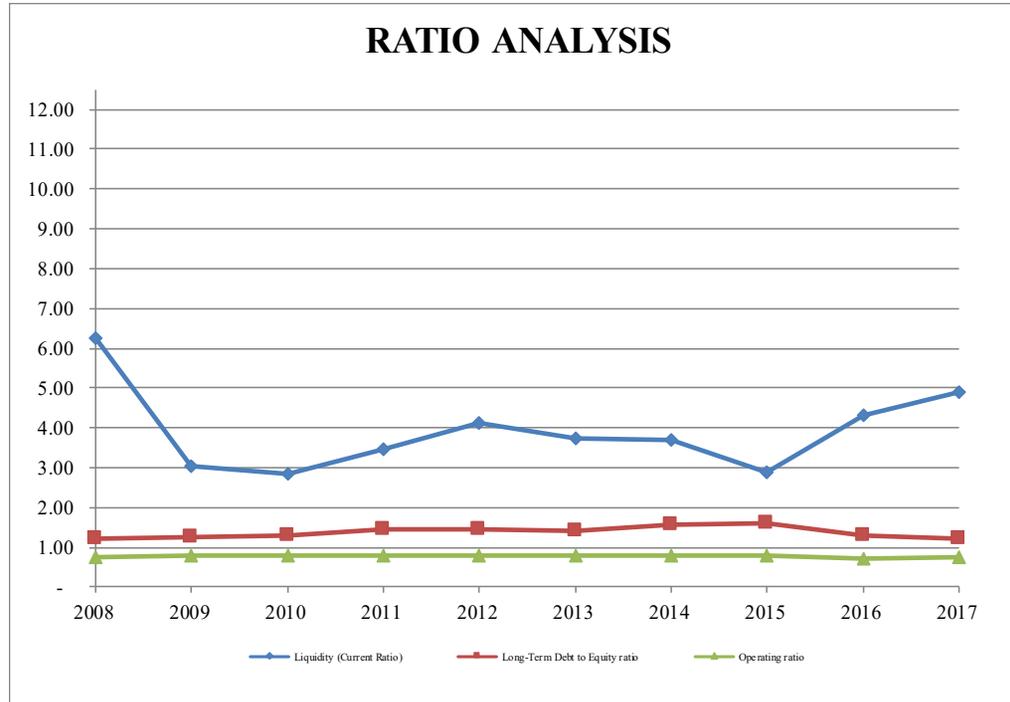
<sup>18</sup> Please note that fiscal years 2017, 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

### Net Position by Component<sup>19</sup>

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>
<b>Net position</b>										
Net investment in capital assets	\$29,167,977	\$30,467,552	\$29,464,863	\$27,806,556	\$26,621,121	\$27,016,214	\$27,495,374	\$27,588,236	\$28,981,560	\$30,631,424
Restricted for debt service	2,334,594	2,446,988	2,378,848	2,779,466	3,419,743	2,885,019	3,377,968	3,426,103	2,482,528	2,406,220
Unrestricted	9,000,912	6,350,882	6,719,409	7,327,622	6,792,494	6,262,603	2,209,315	1,864,770	3,045,794	4,117,237
Net position	<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>	<u>\$34,509,882</u>	<u>\$37,154,881</u>

### Ratio Analysis

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Liquidity (Current Ratio)</b>	6.26	3.04	2.86	3.46	4.12	3.72	3.69	2.88	4.30	4.89
<b>Long-Term Debt to Equity ratio</b>	1.22	1.26	1.27	1.43	1.43	1.39	1.55	1.59	1.31	1.22
<b>Operating ratio</b>	0.75	0.80	0.77	0.77	0.79	0.77	0.77	0.80	0.73	0.76



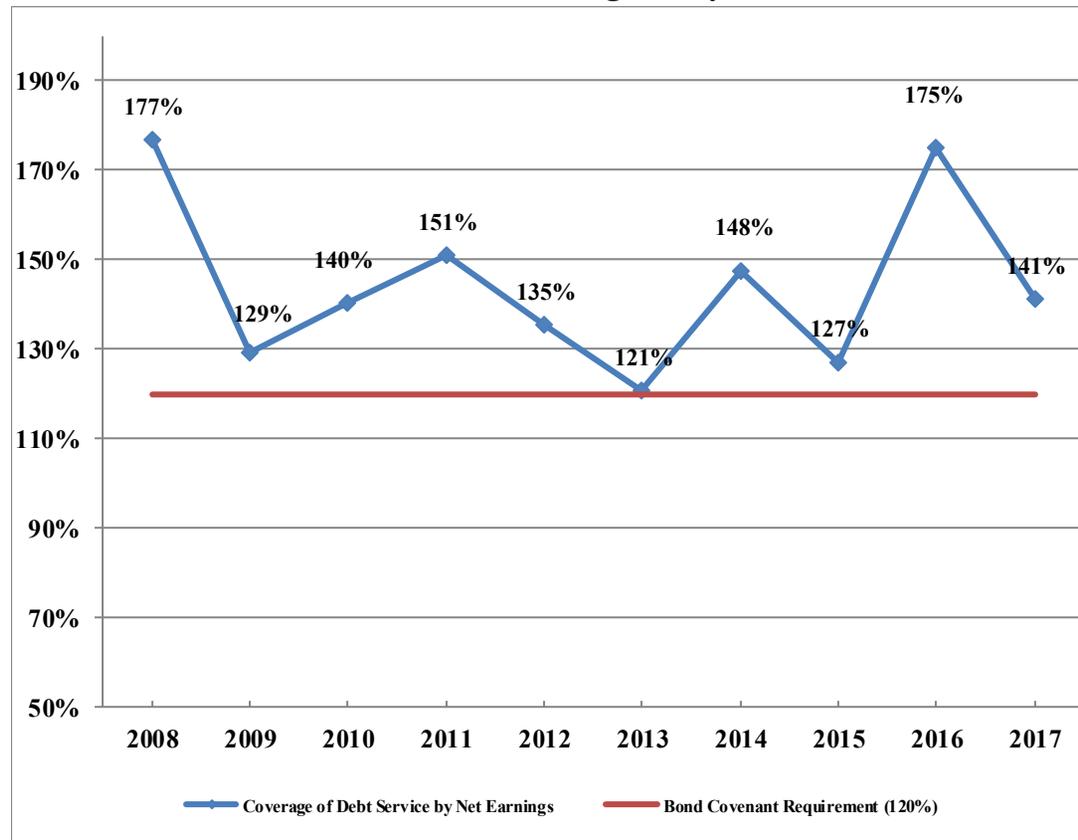
<sup>19</sup> Please note that fiscal years 2017, 2016, 2015 and 2014 reflect the implementation of GASB 68. 2012 and onward reflect implementation of GASB 63 and GASB 65.

**Total Outstanding Debt by Debt Type**

<b>Fiscal Year</b>	<b>GO Bonds</b>	<b>Revenue Bonds</b>	<b>SRF Revenue Loans*</b>	<b>SRF GO Loans</b>	<b>Notes Payable</b>	<b>Total Outstanding Debt</b>	<b>Bond Premiums / discounts</b>	<b>Total Outstanding Debt Net of Amortization</b>	<b>Average Debt Per Customer</b>
2008	7,350,000	36,853,711	7,511,300	-	259,939	51,974,950	1,170,019	53,144,969	3,056
2009	7,085,000	35,388,165	7,057,386	3,276,237	241,939	53,048,727	1,063,321	54,112,048	3,118
2010	8,476,338	34,383,013	6,587,376	3,149,328	223,939	52,819,994	956,624	53,776,618	3,106
2011	11,866,601	36,906,574	6,100,698	3,018,480	205,939	58,098,292	922,848	59,021,140	3,383
2012	11,313,078	41,004,952	-	2,877,671	187,939	55,383,640	812,333	56,195,973	3,212
2013	10,740,609	39,713,937	-	2,731,331	169,939	53,355,816	45,050	53,400,866	3,034
2014	10,144,028	37,704,831	-	2,581,424	151,939	50,582,222	45,019	50,627,241	2,848
2015	9,528,162	34,677,573	2,563,810	5,015,406	133,939	51,918,891	44,988	51,963,879	2,905
2016	8,887,829	31,888,358	2,888,397	5,528,734	115,939	49,309,257	80,774	49,390,031	2,748
2017	8,222,841	28,770,618	2,755,436	5,237,548	97,939	45,084,382	72,133	45,156,515	2,487

Reference Note 6 on page 54 and Summary Schedule of Debt on page 76 and 77 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 \$13,460,389 (GO Bonds + SRF GO Loans) or (\$8,222,841+\$5,237,548).

### Debt Service Coverage Analysis<sup>20</sup>



<sup>20</sup> Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding.

## Schedule of Changes in Capital Assets

Last Ten Fiscal Years

	June 30, 2008	Additions	Disposals	Transfers	Fiscal Year 2011 Reclassifications	June 30, 2017
<b>Capital assets not being depreciated:</b>						
Land	\$ 1,141,629	157,564	-	-	-	\$ 1,299,193
Construction in Progress	<u>4,542,372</u>	<u>51,265,096</u>	<u>(131,904)</u>	<u>(54,218,267)</u>	-	<u>1,457,297</u>
Total Capital Assets not being depreciated	5,684,001	51,422,660	(131,904)	(54,218,267)	-	2,756,491
<b>Capital assets being depreciated:</b>						
Waterworks system	41,538,636	3,313	(859,423)	21,678,167	257,862	62,618,555
Sewage disposal system	20,705,613	249,867	(22,358)	18,361,813	1,596,254	40,891,189
Buildings	4,269,460	52,726	-	31,762	(14,858)	4,339,091
Sewage treatment facilities	36,636,614	26,270	(8,484)	220	(1,927,081)	34,727,539
Transportation equipment	725,390	561,822	(340,631)	-	224,208	1,170,788
Operations furniture and equipment	1,901,359	463,454	(472,233)	419,131	(235,457)	2,076,253
Office furniture and equipment	<u>621,157</u>	<u>256,475</u>	<u>(198,150)</u>	<u>-</u>	<u>99,072</u>	<u>778,553</u>
Sub Total	106,398,228	1,613,928	(1,901,280)	40,491,093	-	146,601,967
Less Accumulated depreciation	<u>(36,681,713)</u>	<u>(50,892,707)</u>	<u>5,776,234</u>	<u>7,178,328</u>	-	<u>(74,619,859)</u>
Total capital assets being depreciated, net	<u>69,716,515</u>	<u>(49,278,779)</u>	<u>3,874,954</u>	<u>47,669,420</u>	-	<u>71,982,108</u>
Year End Totals	<u>\$ 75,400,516</u>	<u>2,143,881</u>	<u>3,743,050</u>	<u>(6,548,847)</u>	-	<u>\$ 74,738,599</u>

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PP&E	\$ 107,539,856	\$ 121,309,803	\$ 124,015,092	\$ 126,932,175	\$ 134,001,976	\$ 135,459,397	\$ 146,346,819	\$ 138,683,537	\$ 146,346,818	\$ 147,901,161
Accumulated Depreciation	<u>(36,681,713)</u>	<u>(40,512,192)</u>	<u>(44,736,215)</u>	<u>(49,097,940)</u>	<u>(53,557,747)</u>	<u>(57,977,115)</u>	<u>(62,192,564)</u>	<u>(65,972,348)</u>	<u>(70,288,692)</u>	<u>(74,619,859)</u>
Net PP&E in Service	70,858,143	80,797,611	79,278,877	77,834,235	80,444,229	77,482,282	84,154,255	72,711,189	76,058,127	73,281,302
Construction in Progress	<u>4,542,373</u>	<u>641,980</u>	<u>1,236,180</u>	<u>3,514,449</u>	<u>553,892</u>	<u>441,125</u>	<u>1,629,184</u>	<u>5,926,019</u>	<u>785,002</u>	<u>1,457,297</u>
Net PP&E	<u>\$ 75,400,516</u>	<u>\$ 81,439,592</u>	<u>\$ 80,515,057</u>	<u>\$ 81,348,684</u>	<u>\$ 80,998,121</u>	<u>\$ 77,923,407</u>	<u>\$ 85,783,439</u>	<u>\$ 78,637,208</u>	<u>\$ 76,843,129</u>	<u>\$ 74,738,599</u>

### Customer Statistics at Fiscal Year-End<sup>21</sup>

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

<b>Year</b>	<b>Water</b>	<b>Percent Increase</b>	<b>Wastewater</b>	<b>Percent Increase</b>	<b>Ratio of Customers with Both Services</b>
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%
2016	16,899	0.2%	15,758	0.8%	93.2%
2017	17,076	1.0%	15,961	1.3%	93.5%

---

<sup>21</sup> These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

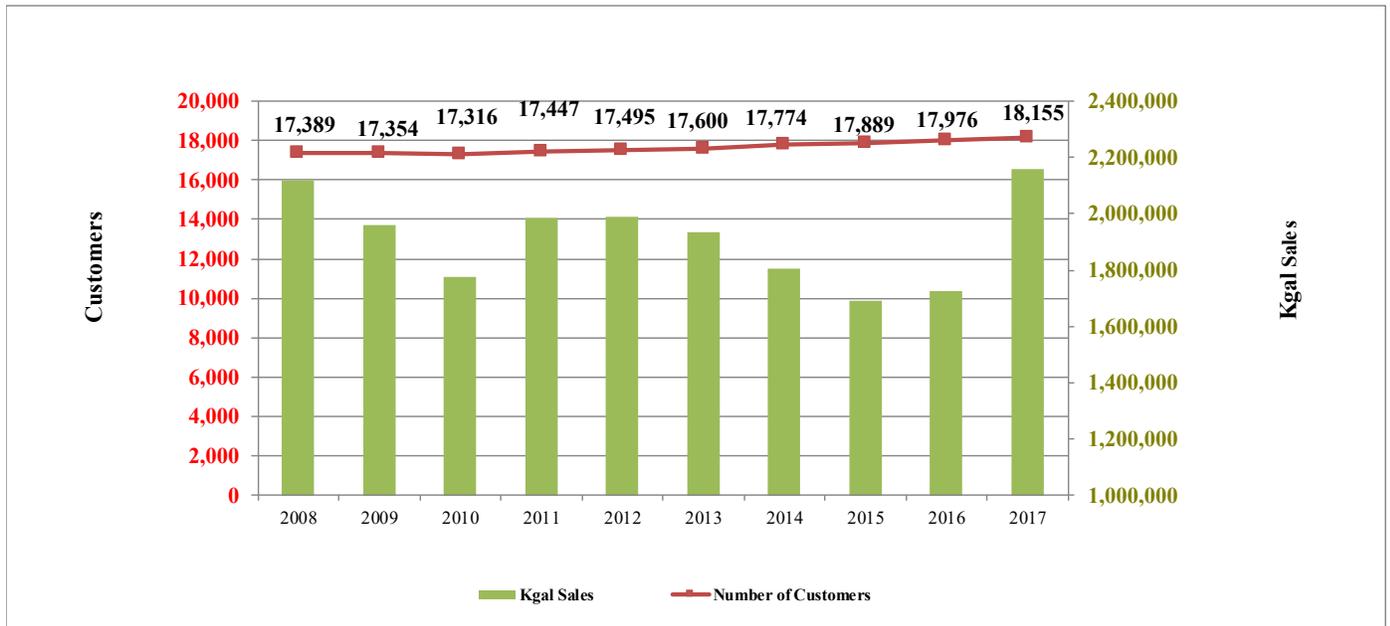
<b>Year</b>	<b>Just Water Meters</b>	<b>Percent Increase</b>	<b>Wastewater</b>	<b>% Inc</b>
2008	1,745,767	1.4%	1,523,113	2.2%
2009	1,629,557	-6.7%	1,432,874	-5.9%
2010	1,486,416	-8.8%	1,279,144	-10.7%
2011	1,644,020	10.6%	1,426,486	11.5%
2012	1,656,442	0.8%	1,425,564	-0.1%
2013	1,605,369	-3.1%	1,393,724	-2.2%
2014	1,537,065	-4.3%	1,320,838	-5.2%
2015	1,439,514	-6.3%	1,274,826	-3.5%
2016	1,475,858	2.5%	1,275,251	0.03%
2017	1,819,663	23.3%	1,573,203	23.4%

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

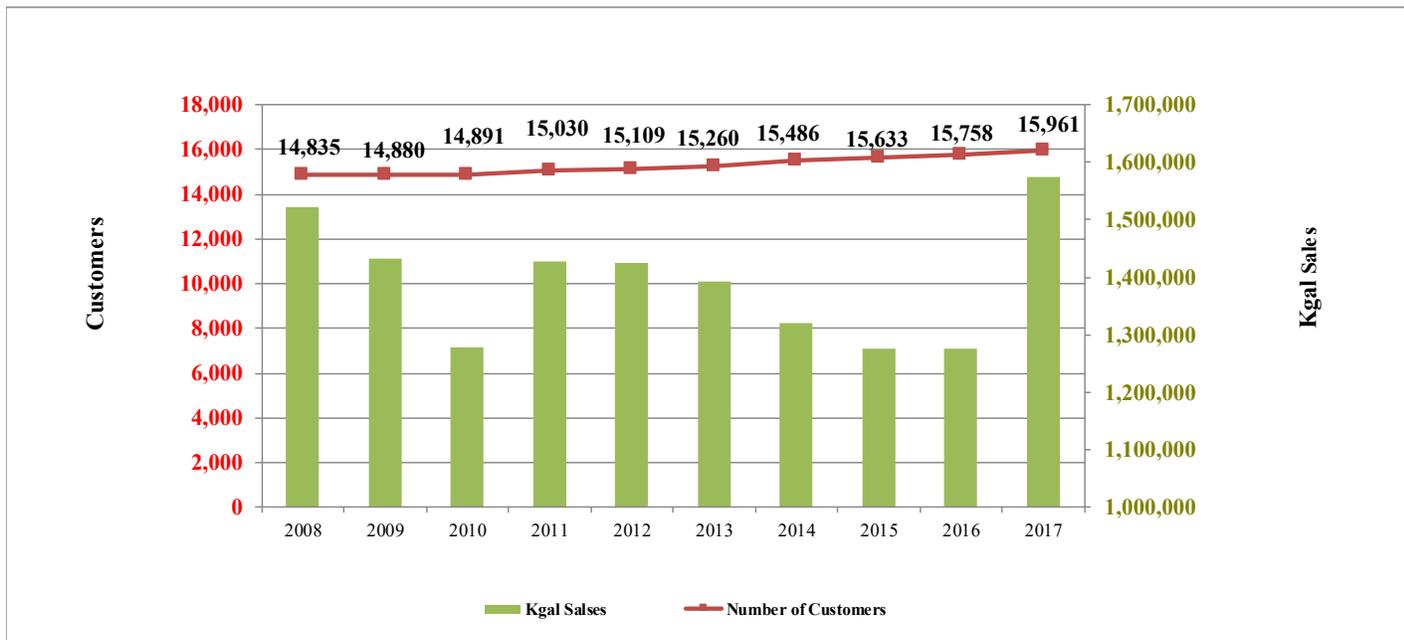
Reported in kgals (thousands of gallons)

<b>Year</b>	<b>Water &amp; Irrigation Meters</b>	<b>Percent Increase</b>	<b>Wastewater</b>	<b>% Inc</b>
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	-6.3%	1,274,826	-3.5%
2016	1,724,451	1.9%	1,275,251	0.03%
2017	2,159,321	25.2%	1,573,203	23.4%

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



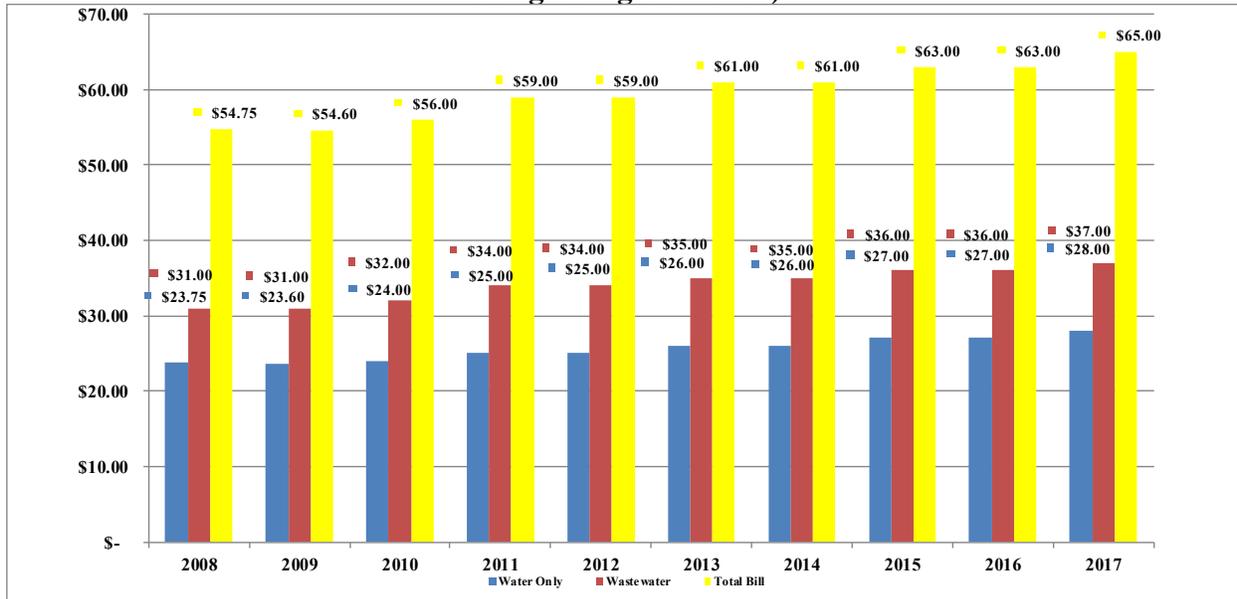
### Sewer Customers vs. Wastewater Kgal Sales



## Water and Wastewater Rate Comparisons

<b>Water Rate Comparison</b>											
Effective Date											
		FY'08	FY'09*	FY'10**	FY'11***	FY'12	FY'13****	FY'14	FY'15*****	FY'16	FY'17*****
Residential	Base Charge	\$ 10.00	\$ 10.00	\$ 10.00	\$ 11.00	\$ 11.00	\$ 12.00	\$ 12.00	\$ 13.00	\$ 13.00	\$ 14.00
	First 5,000 Gallons	\$ 1.25									
	Next 5,001 to 17,000 gallons	\$ 1.50									
	Next 17,001 to 32,000 gallons	\$ 1.75									
	Over 32,000 gallons	\$ 2.00									
	First 10,000 Gallons Water		\$ 1.36	\$ 1.40	\$ 1.40	\$ 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	\$ 1.71	\$ 1.71
	Next 10,001 to 20,000 gallons		\$ 1.64	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71	\$ 1.71
	Next 20,001 to 30,000 gallons		\$ 1.91	\$ 2.20	\$ 2.20	\$ 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	\$ 2.55	\$ 2.55
Commercial	Base Charge	\$ 15.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00	\$ 17.00	\$ 18.00	\$ 18.00	\$ 19.00
	First 5,000 Gallons	\$ 1.50									
	Next 5,001 to 17,000 gallons	\$ 1.75									
	Next 17,001 to 32,000 gallons	\$ 2.00									
	Over 32,000 gallons	\$ 2.25									
	First 10,000 Gallons		\$ 1.64	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69	\$ 1.69
	Next 10,001 to 20,000 gallons		\$ 1.91	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.99
	Next 20,001 to 30,000 gallons		\$ 2.18	\$ 2.51	\$ 2.51	\$ 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	\$ 2.87	\$ 2.87
	*Effective October 1, 2008										
**Effective May 1, 2011											
***Effective January 1, 2011											
****Effective January 1, 2013											
*****Effective January 1, 2015											
*****Effective July 1, 2016											
<b>Wastewater Rate Comparison</b>											
Effective Date											
		FY'08	FY'09	FY'10*	FY'11**	FY'12	FY'13***	FY'14	FY'15****	FY'16	FY'17*****
Residential	Base Charge	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00
	Per 1,000 gallons with Cap*	\$ 1.90	\$ 1.90	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Commercial	Base	\$ 12.00	\$ 12.00	\$ 12.00	\$ 14.00	\$ 14.00	\$ 15.00	\$ 15.00	\$ 16.00	\$ 16.00	\$ 17.00
	Per 1,000 gallons (No Cap)	\$ 1.50	\$ 1.50	\$ 1.60	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
*Effective May 1, 2011											
**Effective January 1, 2011											
***Effective January 1, 2013											
****Effective January 1, 2015											
*****Effective July 1, 2016											

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



## Water and Sewer Installation Fees

<b>Water meter installation fees (existing service lines)</b>	2008	2009**	2010	2011	2012	2013***	2014	2015	2016	2017
3/4" Meter	\$ 355	\$ 430	\$ 430	\$ 430	\$ 430	\$ 640	\$ 640	\$ 640	\$ 640	\$ 640
1" Meter	490	570	570	570	570	850	850	850	850	850
2" Meter with meter box and backflow	1,186	2,090	2,090	2,090	2,090	2,330	2,330	2,330	2,330	2,330
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
<b>Water meter installation fees (no existing service lines)</b>	2008	2009**	2010	2011	2012	2013***	2014	2015	2016	2017
3/4" Meter	\$ 355	\$ 430	\$ 430	\$ 430	\$ 430	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020
1" Meter	490	570	570	570	570	1,080	1,080	1,080	1,080	1,080
2" Meter with meter box and backflow	1,186	2,090	2,090	2,090	2,090	T&M	T&M	T&M	T&M	T&M
3" Meter with meter box and backflow (Time and Material)*	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M	T&M
* T&M equals Time and Materials										
** Rate change 10/1/2009										
*** Rate change 7/1/2013										
<b>Sewer Installation Fees for fiscal years 2007 through</b>										
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										
<b>Sewer Inspection Fee:</b>										
The PSD charges a one-time Sewer Inspection Fee of \$100 to new customers at the time they connect to the sewer system. The fee covers the cost of the PSD inspecting the new connection to make sure it meets PSD requirements.										
More information is available at: <a href="http://www.hhpsd.com/fees">http://www.hhpsd.com/fees</a>										

## Capacity Fees

The District requires developers to pay capacity fees in order to defray the cost of providing expanded service to the area to be developed per residential equivalency unit.

Water Capacity Fee per residential equivalency unit	\$2,400
Sewer Capacity Fee per residential equivalency unit	\$3,040

The District offers a one-year, interest free, payment plan for all capacity fees. The installments are placed on a customer's utility bill.

\* The same water and sewer capacity fee rates have been in effect since 2005.

## Population per Capita Income

Last Ten Available Years

Year	Hilton Head		Beaufort County		South Carolina	
	Population	Per Capita	Population	Per Capita	Population	Per Capita
2007	33,890	\$41,411	143,614	\$43,183	4,444,110	\$32,350
2008	33,913	42,611	147,316	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	168,049	32,891	4,774,839	35,831
2014	40,039	47,049	171,838	32,503	4,832,482	36,677
2015	40,512	45,116	175,852	32,290	4,896,146	38,302
2016	N/A*	N/A	179,859	32,401	4,961,119	39,465

\* Information not available

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

## Beaufort County Top Employers 2016

Employer	Employees	Type of Business
Beaufort County School District	*	Educational
Beaufort Memorial Hospital	*	Health Services
County of Beaufort	*	Government
Marine Corps Community Services	*	Government
Publix Super Markets, Inc	*	Retail
Sea Pines Resort	*	Resort
Wal-Mart	*	Retail
University of South Carolina Beaufort	*	Educational Services
Care Core National LLC	*	Health Services
Temet Physicians Services of Hilton Head	*	Health Services

\* South Carolina Employment Security Commission would provide only the top twenty employers. Specific information related to those employers was deemed confidential by the South Carolina Employment Security Commission.

## Beaufort County Labor Force and Employment

Category	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Civilian Labor Force	76,650	72,218	65,449	65,162	63,521	61,954	63,382	62,940	63,780	64,019
Employment	72,664	67,467	61,723	61,513	58,500	56,264	57,647	57,344	60,421	61,256
Unemployment	3,986	4,751	3,726	3,649	5,021	5,690	5,735	5,596	3,359	2,763
Unemployment Rate	5.20%	6.58%	5.69%	5.60%	7.90%	9.18%	9.05%	8.89%	5.27%	4.32%

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

## Unemployment Rate Comparison

Year	County	South Carolina	United States
2016	5.2%	5.4%	4.9%
2015	6.0%	6.6%	5.3%
2014	5.7%	5.3%	6.2%
2013	5.6%	8.1%	6.1%
2012	7.9%	9.4%	8.1%
2011	9.2%	11.2%	8.9%
2010	9.0%	11.5%	9.6%
2009	8.9%	12.1%	9.3%
2008	5.3%	6.5%	5.8%
2007	4.3%	5.5%	4.6%

Source: South Carolina Department of Employment and Workforce

## The District's Millage History

Debt Type	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	<u>4.31</u>	<u>4.57</u>	<u>4.61</u>	<u>3.52</u>	<u>3.90</u>	<u>3.52</u>	<u>3.61</u>	<u>2.82</u>	<u>2.70</u>	<u>1.50</u>
Total	7.31	7.57	7.61	6.52	6.90	6.52	6.61	5.82	5.70	4.50

## Ratio of (net) General Obligation Bonded Debt<sup>22</sup>

Fiscal Year	Tax Year	General Obligation Debt	Real Property		Motor Vehicle & Other		Total Estimated Actual Values	Ratio of (net) General bonded debt
			Assessed Value at 4% & 6%	Estimated Actual Value	Assessed Value Various Rates	Estimated Actual Value		
2017	2016	\$ 13,460,389	\$ 307,474,970	\$ 6,463,601,255	\$ 41,091,500	\$ 501,946,760	\$ 6,965,548,015	0.19%
2016	2015	14,416,563	304,425,280	6,382,251,455	44,258,230	555,082,470	6,937,333,925	0.21%
2015	2014	14,543,567	300,997,070	6,304,695,756	43,355,970	532,878,920	6,837,574,676	0.21%
2014 (2)	2013 (2)	12,725,452	300,452,700	6,311,095,156	35,311,800	442,155,020	6,753,250,176	0.19%
2013	2012	13,471,940	371,197,470	8,175,132,303	29,695,798	275,031,590	8,450,163,893	0.16%
2012	2011	14,190,749	369,960,240	8,383,249,241	29,596,819	213,787,160	8,597,036,401	0.17%
2011	2010	14,885,081	380,448,420	8,049,155,174	30,435,874	169,536,890	8,218,692,064	0.18%
2010 (1)	2009 (1)	11,625,667	360,750,834	6,456,014,121	28,860,067	144,247,638	6,600,261,759	0.18%
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	N/A (3)	24,443,398	N/A	N/A	N/A

Source: Beaufort County Auditor and the District Official Statement Reference page 97 Assessed Values of the District

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

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

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

<sup>22</sup> Total General Obligation debt equals GO Bonds and GO Notes Payable.

## General Obligation Outstanding Debt

Fiscal Year	Tax Year	Real Property	Personal Property(1)	Total Assessed Value of the District (1)	8% Debt Limit Value	Total Outstanding GO Debt	Available Debt Limit	Percent of Debt Limit	Average Debt Per Customer
2017	2016	\$ 279,296,444	\$ 43,789,784	\$ 323,086,228	\$ 25,846,898	\$ 13,460,389	\$ 12,386,509	52%	741
2016	2015	279,205,512	44,629,650	323,835,162	25,906,813	14,416,563	11,490,250	56%	802
2015	2014	300,997,070	43,355,970	344,353,040	27,548,243	14,543,567	13,004,676	53%	813
2014	2013 (3)	300,452,700	35,311,800	335,764,500	26,861,160	12,725,452	14,135,708	47%	716
2013	2012	335,101,410	36,096,060	371,197,470	29,695,798	13,471,940	16,223,857	45%	765
2012	2011	336,927,670	33,032,570	369,960,240	29,596,819	14,190,749	15,406,070	48%	811
2011	2010	337,319,400	43,129,020	380,448,420	30,435,874	14,885,081	15,550,793	49%	853
2010	2009 (2)	322,448,420	38,302,414	360,750,834	28,860,067	11,625,667	17,234,400	40%	671
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

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

(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 2008 through FY 2017.

### 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 2016, 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 \$323,086,228 and thus the eight percent (8%) debt limit of the District is not less than \$25,846,898. The District presently has the following bonded indebtedness chargeable against this limit:

Originally Issued	Date	Original Amount	Outstanding Balance as of June 30, 2017
Series 2007	October 3, 2007	\$ 7,350,000	\$ 4,535,000
SRF - Series 2007	January 23, 2008	2,876,532	1,798,525
SIRF - Series 2007	April 14, 2008	480,480	310,867
Series 2009	July 30, 2009	1,781,694	952,840
Series 2010	August 24, 2010	3,970,000	2,735,000
SRF - Series 2014	September 10, 2014	3,750,000	3,128,156
Total Indebtedness - GO Bonds		\$ 20,208,706	\$ 13,460,388

Source for Outstanding balance. Reference Summary Schedule of Debt on page 78.

### General Obligation Outstanding Debt

As of June 30, 2017, the outstanding aggregate principal amounts due on the GO Bonds was \$13,460,389 and includes: (A) \$4,535,000 in outstanding principal due on the 2007 Bonds; (B) \$1,798,525 in outstanding principal due on the SRF 2007 Bond; (C) \$310,867 in outstanding principal due on the SIRF 2007 Bond; (D) \$952,840 in outstanding principal due on the 2009 Bond; (E) \$2,735,000 in outstanding principal due on the 2010 Bond and (F) \$3,128,156 in outstanding principal due on the SRF 2014 Bond.

### Overlapping Debt

Jurisdiction	Tax Year 2016 Assessed Value (Capped)	Tax Year 2016 Assessed Value (Capped) of the District	Outstanding General Obligation Debt	Amount Applicable to the District for Fiscal Year 2017
County of Beaufort	\$ 1,818,984,430	\$ 323,086	\$ 263,450,823	\$ 46,793,876
Beaufort County School District	1,818,984,430	323,086	309,770,621	\$ 55,021,153
Town of Hilton Head	926,635,510	323,086	114,880,000	\$ 40,054,742
Sub Total of Overlapping Debt				141,869,771
Hilton Head No. 1 PSD direct debt				13,460,389
Total Direct and overlapping debt				\$ 155,330,160.47

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
<b>2017</b>	<b>2016</b>	<b>\$ 279,296,444</b>	<b>\$ 43,789,784</b>	<b>\$ 323,086,228</b>
2016	2015	304,425,280	44,258,230	348,683,510
2015	2014	300,997,070	43,355,970	344,353,040
2014	2013 (3)	300,452,700	35,311,800	335,764,500
2013	2012	335,101,410	36,096,060	371,197,470
2012	2011	336,927,670	33,032,570	369,960,240
2011	2010	337,319,400	43,129,020	380,448,420
2010 (2)	2009 (2)	322,448,420	38,302,414	360,750,834
2009	2008	281,804,999	39,205,416	321,010,415
2008	2007	266,386,512	39,155,967	305,542,479

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 2016 Market Value for the District

Classification	Assessed Value	Assessment Ratio	Market Value
1. Real Property and Mobile Homes	\$ 129,178,460	4.00%	\$ 3,243,472,100
2. Real Property and Mobile Homes	178,296,510	6.00%	3,220,129,155
3. Business Personal Property	6,987,800	10.50%	64,737,600
4. Merchant's Furniture, Fixtures and Equipment	1,322,480	10.50%	12,569,970
5. Motor Vehicles <sup>(1)</sup>	18,565,460	Various	282,999,580
6. Marine Equipment <sup>(2)</sup>	1,770,710	Various	29,033,800
7. Airplanes	151,620	0.00%	2,526,880
8. Manufacturing Property	179,510	10.50%	1,709,640
9. Public Utilities	9,057,100	10.50%	86,258,100
10. Rental Property and Signs <sup>(3)</sup>	3,056,820	Various	22,111,190

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
2016-2017	\$ 61,258,283	\$ 57,974,087	94.6%	\$ 1,004,279	\$ 58,978,366	96.3%
2015-2016	59,813,690	56,772,652	94.9%	998,112	57,770,764	96.6%
2014-2015	60,702,084	57,349,775	94.5%	735,673	58,085,448	95.7%
2013-2014	57,332,809	54,957,102	95.9	825,387	55,782,489	97.3
2012-2013	55,541,177	54,613,687	98.3	114,378	54,728,065	98.5
2011-12	55,424,959	52,849,333	95.4	163,278	53,012,611	95.6
2010-11	59,167,642	56,320,727	95.2	161,774	56,482,501	95.5
2009-10	57,172,896	52,623,858	92.0	491,840	53,115,698	92.9
2008-09	56,329,331	54,777,459	97.2	869,821	55,647,279	98.8
2007-08	51,252,916	50,333,765	98.2	652,019	50,985,784	99.5

Source: Beaufort County Auditor and Treasurer.

**Tax Year 2016 - District Largest Taxpayers**

<b>Employer</b>	<b>Type of Business</b>	<b>2016 Assessed Value</b>	<b>2016-17 Amounts Paid</b>
Marriott Ownership Resorts Inc	Real Estate	\$ 6,259,520	\$ 1,393,748
Palmetto Electric Coop, Inc	Utility	4,899,880	932,525
SCG Hilton Head Property LLC	Real Estate	4,260,000	961,979
Hargray Telephone Company Inc	Utility	2,522,920	638,362
Hilton Head Health Systems LP	Medical	1,423,550	324,828
Time Warner Cable Southeast LLC	Utility	1,038,110	246,582
Heritage Golf Port Royal LLC	Golf	889,760	233,546
SNR 27 Indigo Pines Owner LLC	Real Estate	977,460	231,119
Indigo Run	Real Estate	891,970	226,046
PS SouthEast Two LLC	Real Estate	732,520	183,886
Source: Beaufort County Auditor.			

### District Top Ten Water/Irrigation Users

Fiscal year ended June 30, 2017

User Name	Type	2017 Billed Revenues	% of Total 2017 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 172,530	2.58%
Cypress of Hilton Head Association	Residential Homes	133,294	2.00%
Westin Resort	Resort	87,473	1.31%
Fiddlers Cove	Resort	80,115	1.20%
Marriott Surfwatch	Resort	77,564	1.16%
Spa at Port Royal	Resort	75,451	1.13%
Marshside Owner's Association	Apartment Complex	68,854	1.03%
Hilton Head Resort/Four Seasons	Resort	65,878	0.99%
IMC	Apartment Complex	48,996	0.73%
Marriott Vacation Club	Resort	46,125	0.69%
Remaining Customers		<u>5,823,895</u>	<u>87.18%</u>
		<u>\$ 6,680,175</u>	100.00%

### District Top Ten Wastewater Users

Fiscal year ended June 30, 2017

User Name	Type	2017 Billed Revenues	% of Total 2017 Billed Revenues
Hilton Head Beach & Tennis	Resort	\$ 189,382	3.68%
Westin Resort	Resort	103,048	2.00%
Hilton Head Resort/Four Seasons	Resort	96,609	1.88%
Fiddler's Cove	Resort	91,348	1.78%
Cypress of Hilton Head Association	Residential Homes	83,380	1.62%
Spa at Port Royal	Resort	77,050	1.50%
Marriott Surfwatch	Resort	72,604	1.41%
Marriott Vacation Club	Resort	71,032	1.38%
IMC	Apartment Complex	58,171	1.13%
Marshside Owners Association	Apartment Complex	52,786	1.03%
Remaining Customers		<u>4,247,757</u>	<u>82.59%</u>
		<u>\$ 5,143,168</u>	100.00%

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



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

Water Purchased from BJWSA Summary (Whole Dollars)												
	FY 2008	FY 2009	FY 2010 <sup>1</sup>	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
All District Purchases from BJWSA	\$ 1,518,423	\$ 1,364,990	\$ 934,368	\$ 1,199,029	\$ 1,472,568	\$ 1,183,047	\$ 984,044	\$ 1,110,409	\$ 812,457	\$ 1,555,262		
Reclaimed Water Adjustment <sup>2</sup>	77,760	77,760	25,920	-	-	-	-	-	-	-		
Broad Creek Purchases	-	(85,947)	(213,717)	(174,574)	(192,363)	(170,383)	(162,657)	(109,306)	(73,259)	(320,129)		
Capitalized Purchased Water	-	-	-	-	(171,887)	-	-	-	-	-		
Prepaid Purchased Water Expense	-	-	-	-	(79,529)	(195,222)	(195,783)	(210,007)	(195,537)	(217,652)		
<b>Purchased Water Expense</b>	<b>\$ 1,596,183</b>	<b>\$ 1,356,803</b>	<b>\$ 746,571</b>	<b>\$ 1,024,455</b>	<b>\$ 1,028,789</b>	<b>\$ 817,441</b>	<b>\$ 625,603</b>	<b>\$ 791,096</b>	<b>\$ 543,661</b>	<b>\$ 1,017,482</b>		

Water Purchased from BJWSA Summary (KGals)												
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
All Kgals Purchased from BJWSA	1,047,188	863,918	679,724	877,933	1,240,631	1,003,131	776,286	852,633	538,925	1,125,264		
Reclaimed Water Adjustment	-	-	-	-	-	-	-	-	-	-		
Broad Creek Purchases	-	(54,397)	(208,191)	(178,539)	(192,469)	(152,148)	(110,869)	(67,224)	(44,304)	(251,213)		
Capitalized Purchased Water	-	-	-	-	(217,579)	-	-	-	-	-		
Prepaid Purchased Water Expense	-	-	-	-	(79,415)	(244,028)	(240,743)	(247,602)	(232,782)	(256,061)		
<b>Purchased Water (KGals)</b>	<b>1,047,188</b>	<b>809,521</b>	<b>471,533</b>	<b>699,394</b>	<b>751,170</b>	<b>606,955</b>	<b>424,674</b>	<b>537,807</b>	<b>261,839</b>	<b>617,990</b>		
Total Peak Purchases	1,047,188	863,918	511,537	648,537	623,380	487,874	457,223	437,997	391,043	643,858		
Total Off-peak Purchases	-	-	168,187	229,396	617,251	515,257	319,063	414,636	147,882	481,406		
<b>Total Off-peak and Peak Purchases</b>	<b>1,047,188</b>	<b>863,918</b>	<b>679,724</b>	<b>877,933</b>	<b>1,240,631</b>	<b>1,003,131</b>	<b>776,286</b>	<b>852,633</b>	<b>538,925</b>	<b>1,125,264</b>		

BJWSA Rates Per Kgal Summary												
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
Rates Charged by BJWSA												
Peak Rate	\$ 1.45	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.74	\$ 1.76	\$ 1.78		
Off Peak Rate	\$ -	\$ -	\$ 0.75	\$ 0.76	\$ 0.79	\$ 0.80	\$ 0.82	\$ 0.84	\$ 0.84	\$ 0.85		
District Cost/Kgal Prior to Broad Creek Purchases <sup>3</sup>	\$ 1.45	\$ 1.58	\$ 1.37	\$ 1.37	\$ 1.19	\$ 1.18	\$ 1.27	\$ 1.30	\$ 1.51	\$ 1.38		
Effective District Cost/Kgal After Broad Creek Purchases <sup>4</sup>	N/A	\$ 1.58	\$ 1.53	\$ 1.46	\$ 1.22	\$ 1.19	\$ 1.23	\$ 1.27	\$ 1.49	\$ 1.41		

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

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

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

<sup>4</sup> During off-peak months, the District pays the peak rate for the first 1 million gallons purchased from BJWSA and the off-peak rate for any amount purchased over one million gallons. However, the District charges the Broad Creek PSD the off-peak rate for all of the water that they purchase during off-peak months. During peak months Broad Creek PSD is charged the peak price. As such, this calculation backs out Broad Creek PSD payments to the District and the Kgals that Broad Creek purchased to arrive at the District's Effective Cost/Kgal for its own water usage.



P.O. Box 21264  
Hilton Head Island, SC 29925  
843.681.5525  
[www.hhpsd.com](http://www.hhpsd.com)

Hilton Head No. 1 Public Service District  
21 Oak Park Drive