



# Comprehensive Annual Financial Report



**Fiscal Year Ending  
June 30, 2013**

Hilton Head No.1 Public Service District  
 Comprehensive Annual Financial Report  
 For Fiscal Years Ended June 30, 2013 and June 30, 2012

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**On the cover: Hilton Head PSD’s Aquifer Storage & Recovery (ASR) Well inside Hilton Head Plantation.**



# INTRODUCTION



**The Hilton Head PSD Water Resource Center & Recycled Water Plant, 21 Oak Park Drive,  
Hilton Head Island, SC**

## Board of Commissioners

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

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

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

### The 2013 Hilton Head Public Service District Commission



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



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



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



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



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



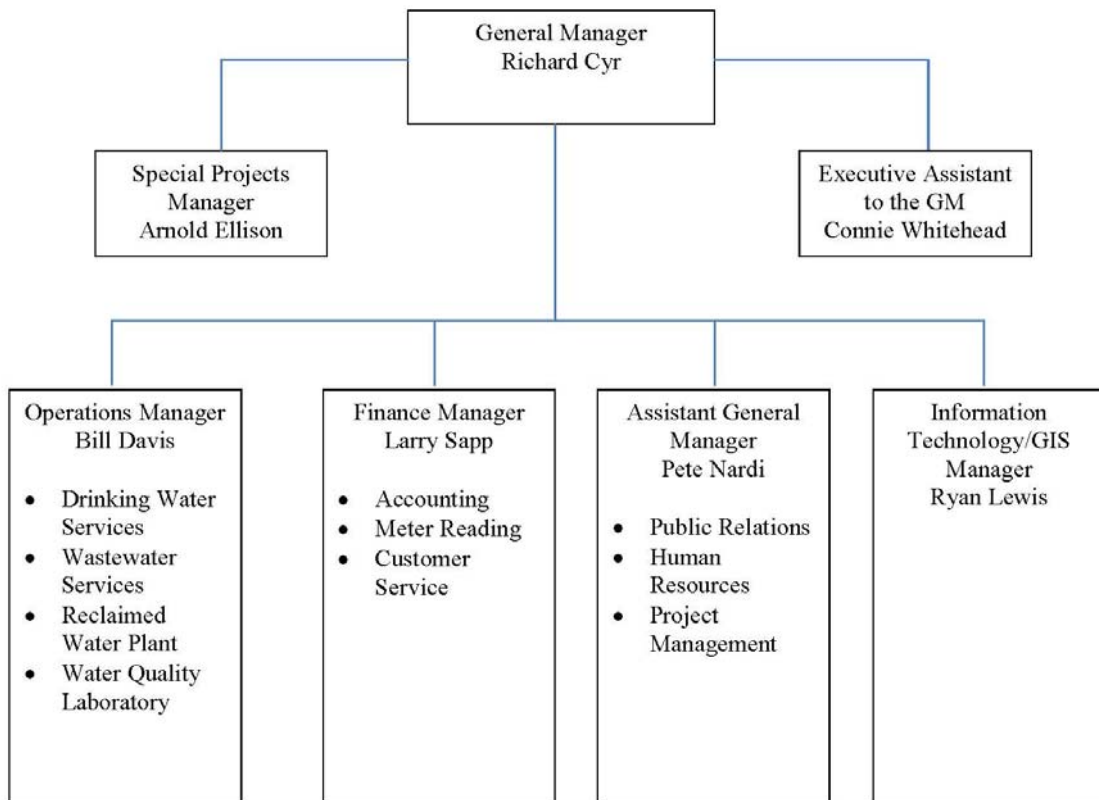
**Frank Drehwing**, District 4  
Current Term: 2010-2014  
Chairman, Long-Range Water Supply Committee  
Community and Personnel Relations Committee



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

# Administrative Team

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



# A Message from the General Manager



**Richard C. Cyr**

This Comprehensive Annual Financial Report provides a detailed view of Hilton Head Public Service District's financial performance and offers an array of information about our water and recycled water services.

Strategic planning remains at the heart of the District's business. Our elected Board of Commissioners annually reviews our strategic goals and directives and looks for ways to improve our services to our customers and our stewardship of Hilton Head Island's natural resources.

The District annually conducts a cost-of-service rate analysis to make sure that our charges reflect the utility's costs to operate and maintain our systems. A structured, annual review of our rates allows us to phase in adjustments that are reasonable for our customers.

We believe in a prudent and planned approach to developing and maintaining our water sources for generations to come. One example of this is our development of capacity in our Reverse Osmosis Water Treatment Facility in 1-million-gallon-per-day increments, as opposed to overbuilding capacity just to meet peak demands in the future.

We've partnered with our wholesale water provider to obtain an off-peak rate for wholesale water in the winter months of low demand. We store the off-peak water in our Aquifer Storage & Recovery Well and withdraw and retreat the water during the summer months of higher demand and increased wholesale rates. This allows us to meet peak demands without overbuilding capacity, demonstrating a symbiotic relationship among our water production facilities.

Ours is a 24/7, 365-days a year operation. The District's dedicated staff truly embodies our motto: *We're Always Working for You.*

Best Regards,

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

Richard C. Cyr  
General Manager  
Hilton Head PSD



# **HILTON HEAD PUBLIC SERVICE DISTRICT**

## **Vision, Mission & Strategic Goals**

### **Vision Statement**

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

### **Mission Statement**

Hilton Head Public Service District's mission is to:

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

### **Strategic Goals**

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

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

Revised January 22, 2013

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

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

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

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

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

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

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



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

## **The PSD At-a-Glance**

- Provides an average of 6 million gallons of water per day.
- Experiences a peak demand of 11 million gallons of water a day in the summer.
- Provides water from three different sources:
  - The PSD’s Reverse Osmosis (RO) Water Treatment Facility on Jenkins Island treats brackish groundwater from the 600-foot-deep Middle Floridan Aquifer. The RO plant provides 3 million gallons of fresh water a day and is expandable to provide 6 million gallons a day.
  - Water is purchased wholesale from the Beaufort-Jasper Water & Sewer Authority and is delivered to the island via a 24 inch pipeline underneath the Intracoastal Waterway.
    - Wholesale water also is stored in the PSD’s Aquifer Storage & Recovery (ASR) Well inside Hilton Head Plantation. The ASR well stores the treated water during the winter months of low demand and withdraws it for retreatment and distribution during the summer months of higher demand, when wholesale water rates are more expensive. The ASR well provides 2 million gallons of water a day during the summer months.
  - The 150-foot-deep fresh water Upper Floridan Aquifer is the island’s traditional source of water but it is being lost to the phenomenon of saltwater intrusion into the fresh water aquifer.
- Can provide a total of 2.8 billion gallons of water per year.
- Uses five elevated water storage tanks and three ground-level tanks with a collective capacity of 8.4 million gallons.
- Maintains more than 220 miles of water lines throughout our service area.
- Maintains more than 200 miles of sewer mains throughout our service area.
- Maintains more than 120 sewer lift stations located throughout our service area.
- Operates a Recycled Water Plant with a capacity to treat and recycle 6.4 million gallons of highly treated effluent per day.
- Recycles more than 1 billion gallons of highly treated effluent a year for beneficial use in golf course irrigation and wetlands nourishment. No effluent is discharged to area waterways.
- Provides recycled water to 11 golf courses for use in irrigation.
- Provides recycled water to four wetlands in Hilton Head Plantation and Palmetto Hall as part of a state-monitored wetlands nourishment program.
- Uses three storage lagoons capable of holding up to 30 million gallons of recycled water.

# Management Letter of Transmittal

December 17, 2013

The Commission and staff of the PSD are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This is the fourth 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 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

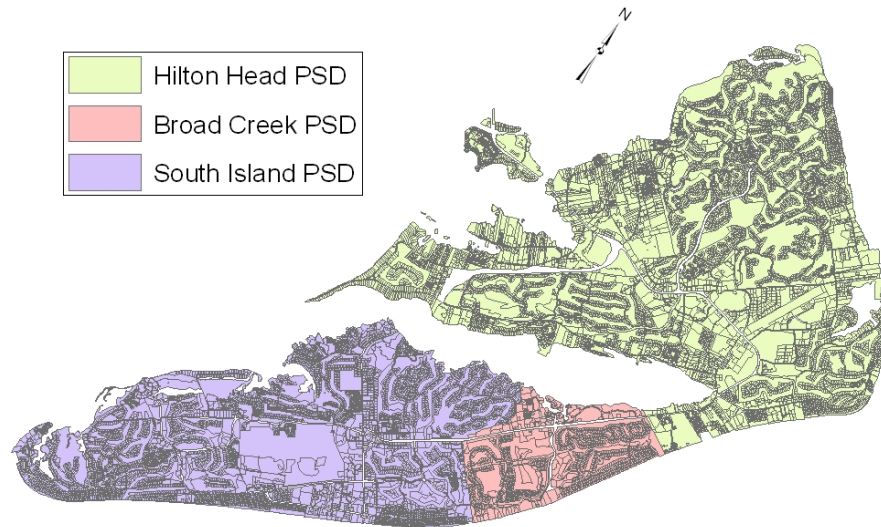
Residents of Hilton Head Island relied on private wells for their water needs until 1957. At that time, a local development firm called the Hilton Head Water Company introduced a community waterworks system, installing water lines and drilling wells throughout the island. However, as the community expanded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

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

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

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

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



## Water Customers

With few exceptions, water services are available to all parcels of property presently located within the boundaries of the District. The number of water and irrigation customers has grown from 4,059 water taps (3,833 residential and 226 commercial) in 1988 to 17,600 water taps (comprising 10,679 residential taps, 4,850 master metered residential and 2,071 commercial water taps) in 2013. More information on customer counts and growth can be found in the Financial Highlights section of the Management's Discussion and Analysis.

## Where Does the Water Come From?

The PSD has multiple sources of water, which allows us to select from the most economical options for our customers and also provides us with resiliency in the face of a natural disaster such as a hurricane. Let's look at the sources and treatment techniques for the PSD's water.

## Reverse Osmosis (RO) Water Treatment Facility

The PSD's Reverse Osmosis (RO) Water Treatment Facility provides more than 40 percent of our water supply. Reverse osmosis is a pressure-driven membrane separation process that removes ions, salts, and other dissolved solids and nonvolatile organic compounds. The separation capability of the process is controlled by the diffusion rate of solutes through a barrier and by sieving. The membranes are comprised of synthetic polymers similar to Nylon. The polymers are permeable to water but reject particulate matter such as salts and other minerals. The process produces fresh water and yields a concentrate of the rejected solids.

The PSD's RO Plant, located across U.S. 278 from Windmill Harbour, began operations in April 2009. It provides customers with 3 million gallons of water a day (MGD), about half of the average daily demand for water. In 2013, the PSD began preparations to expand the plant's production to 4 million gallons a day. The RO Plant's construction was necessary to replace water supply lost to saltwater intrusion. The plant uses state-of-the-art filtration to produce a very high-quality water. In fact, it's the same process used to produce many brand-name bottled waters and other beverages. The RO plant is expandable to provide 6 million gallons of water a day. The PSD has the capability to expand the plant in 1-MGD phases, thereby allowing the plant's capacity to incrementally increase as it is needed to replace water supply lost as a result of saltwater intrusion. This avoids costly over-building of capacity just to meet peak demands – a common dilemma for many utilities.

The RO Plant is fed by three wells drilled into the 600-foot-deep Middle Floridan Aquifer. The wells are pumped at a rate of approximately 1,500 gallons per minute (gpm) and the plant operates 24/7. The groundwater in this aquifer is brackish and requires filtration in the RO Plant. For every 3 MGD of water produced by the plant, 1 MGD of concentrate is diffused into the saltwater background of Skull Creek via a pipeline at the end of Jenkins Island Road. Scientific research and monitoring has shown that the Middle Floridan Aquifer is a very abundant and long-term source of water for the island's future.

## **Wholesale Water**

The PSD purchases water from the Beaufort-Jasper Water & Sewer Authority (BJWSA). BJWSA has state-of-the-art water treatment plants in Chelsea and Purrysburg on the mainland. The wholesale water enters the PSD's water storage tanks and distribution lines via a 24 inch pipeline located beneath the Intracoastal Waterway. Wholesale water provides about 30 percent of our water supply.

- **Aquifer Storage & Recovery (ASR) Well**

The PSD constructed the island's first-ever Aquifer Storage & Recovery (ASR) well inside Hilton Head Plantation in 2011. The well both stores and withdraws water. During the winter months of low water demand, the PSD takes advantage of a reduced wholesale water rate from BJWSA and stores wholesale water in the Middle Floridan Aquifer using the ASR well. Then, in the summer months when water demand and the wholesale water rate increase, the ASR well is used to withdraw and re-treat 2 MGD of water.

The ASR process involved the PSD injecting 240 million gallons of treated water into the 600-foot-deep Middle Floridan Aquifer to build a bubble of fresh water in the brackish aquifer. The fresh water displaces the brackish water and a buffer zone is created at the edges of the fresh water bubble. When the ASR well is used to withdraw water, the water is drawn from the center of the fresh water bubble.

## **The Upper Floridan Aquifer**

The Upper Floridan Aquifer is a limestone, freshwater aquifer located 50 to 150 feet underground. It is one of the largest aquifers in the world, and stretches from the Beaufort area southward through the Florida Everglades. Groundwater from this aquifer requires little treatment. The PSD utilizes automatic feeders that supply precise amounts of chloramines at our wells to treat the groundwater. The PSD treats Upper Floridan

Aquifer water with chloramines directly at our well sites. Unfortunately, this aquifer has been impacted by saltwater intrusion. The District has lost six Upper Floridan wells to saltwater intrusion since 2000 and anticipates losing five of the six remaining wells by 2020.

## **Saltwater Intrusion & Hilton Head's Response**

The water supply coming from our Upper Floridan wells continues to be threatened by saltwater intrusion. Extensive scientific research conducted by the states of South Carolina and Georgia, the U.S. Geological Survey and the PSD have shown that the intrusion is advancing at a rate of about 400 feet per year across Hilton Head and all Upper Floridan wells on the island will eventually be lost to the intrusion. The PSD has lost six of its 12 Upper Floridan wells since 2000 and anticipates losing five of the remaining six wells by 2024.

Studies and monitoring have shown that the over-pumping of this aquifer in the Savannah, Ga., region has reversed the flow of the groundwater bringing saltwater from Port Royal Sound into the Upper Floridan Aquifer at Hilton Head Island. Some naturally-occurring plumes of saltwater also have impacted the Upper Floridan.

Hilton Head Island's withdrawals from the Upper Floridan Aquifer have been capped by the State of South Carolina since 1997. In that same year, Hilton Head and Broad Creek PSDs spent \$16 million to construct a 24-inch water supply transmission line and related distribution equipment to bring treated Savannah River surface water to the island. The PSD's RO Plant and ASR well were needed to replace water supply lost as a result of saltwater intrusion into the Upper Floridan. The island's three PSDs estimate that they have collectively spent \$129 million combating saltwater intrusion since 1998 – including the development of alternative water supplies and purchasing more treated Savannah River surface water. The three utilities estimate that another \$80 million may be spent in the next 20 years to continue replacing lost supply.

### **Saltwater Intrusion Timeline:**

- 1995 – South Carolina Department of Health and Environmental Control (DHEC) declares capacity use zone.
- 1999 – Pipeline from mainland provides treated surface water.
- 2000 – PSD begins losing wells to saltwater intrusion.
- 2004-2006 – PSD undertakes series of feasibility studies to determine alternative supply options.
- 2009 – PSD opens its Reverse Osmosis (RO) Plant.
- 2011 – PSD builds island's first-ever Aquifer Storage & Recovery (ASR) well.
- 2013 – PSD plans to add an additional 1 million gallons per day capacity to RO Plant.

## **Recycled Water & the Wastewater Treatment Process**

All treated wastewater is recycled on Hilton Head Island. No effluent is discharged to waterways. Hilton Head PSD annually recycles more than 1 billion gallons of wastewater into beneficial recycled water. It then plays a vital role in the island's economy and ecology by providing irrigation water for 11 golf courses – thereby conserving precious water. Recycled water also is used to nourish wetlands in Palmetto Hall and Hilton Head Plantation. Renowned wetlands biologist Todd Ballantine monitors the wetlands for the PSD



and reports that these unique habitats for plants and wildlife would cease to exist without the benefit of recycled water.

The recycled water process mimics, at an accelerated rate, the naturally occurring process of water purification. In the initial phase of treatment, screens and grit chambers remove large solids as well as sand and gravel, protecting the remaining treatment infrastructure from excessive wear and damage. The wastewater then flows to the aeration basin where microbes biologically break down or consume the organic matter. After aeration, the water flows to the sedimentation tank, or clarifier, where the water is separated from microorganisms and solids that settle by gravity. The water then receives a chlorine injection to destroy any remaining bacteria or microorganisms. Finally, the water undergoes tertiary, or advanced, treatment that removes extremely fine solids and particles. The bio-solids produced by the process are dewatered and disposed of in a sanitary landfill.

The recycled water is then stored at the PSD's Recycled Water Plant on Oak Park drive, pumped to designated lagoons and tanks at golf courses, or sent to the wetlands.

The recycled water system is presently comprised of a public sewer system and the PSD's Recycled Water Plant. Approximately 30% of the sewer and recycled water system infrastructure is less than ten years old, 44% is ten to twenty years old, 20% is 20 to 30 years old, and the remaining 6% is over 30 years old. At present, the sewer system is comprised of approximately 110 lift stations, 709,870 linear feet of gravity sewer lines (ranging in size from 4 inches to 42 inches in diameter), and 434,972 linear feet of force main, including effluent force mains ranging in size from 1-1/4 inches to 16 inches in diameter.

The PSD's Recycled Water Plant is a 6.4 MGD complete mix activated sludge treatment plant with aerobic digestion and sludge dewatering. The plant produces recycled water of less than 5 parts per million (ppm) of biological oxygen demand, 5 ppm of suspended solids, and 5 ppm of ammonia-nitrogen, as required by its National Pollutant Discharge Elimination System permit. The plant features sodium hypochlorite disinfection, which is a safer alternative to chlorine gas disinfection. It also features a state-of-the-art large-solids removal screen, as well as lime injection for pH control.

## **Sewer Customers**

The number of sewer customers has grown from 3,310 customers (3,210 residential and 100 commercial) in 1988 to 15,260 customers (comprising 8,976 residential, 4,850 master metered residential, and 1,434 commercial) on June 30, 2013. More information on water and sewer customer counts and growth can be found in the Financial Highlights Section of the Management's Discussion and Analysis.

## *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>1</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

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<sup>1</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 composed of three members of the Board. Generally, this Committee meets with management regularly to review the financial status of the District. Additionally, the Committee meets with management and the independent external auditors to ensure that both parties are fulfilling their obligations with regard to auditing, controls, and other financial reporting factors.

### *Rates and Charges*

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

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

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

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

In compliance with the District's financial policies, water and sewer rate increases are minimized whenever possible. However, both water and sewer rate increases have been necessary in the past to sustain necessary revenues to support related water and sewer expenses. The most recent rate increase was put into effect January 1, 2013 when both the water and sewer base rates were increased by \$1.00. For a summary of the District's historical and present water and sewer rates, please reference the Water and Sewer Rate Comparison Table in the Statistical Section on page 84.

## *Millage*

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

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

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

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

*Financial Condition*

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

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



Billed water consumption for fiscal 2013 was 50.9 million gallons or 2.6% less than fiscal year 2012, but combined water and sewer revenues increased by \$102,825 or 1.0% due to the water and sewer rate increase put into effect on January 1, 2013 (See Water and Wastewater Rate Comparison Table, page 84). While operating revenues increased by \$99,440 or 0.9% for fiscal year 2013, departmental expenses decreased \$122,339 or 1.3%. 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 2012 was just slightly higher than fiscal year 2011, but combined water and sewer revenues increased by \$427,000 (rounded) or 4.2% due to a water and sewer rate increase put into effect on May 1, 2011. While operating revenues increased by \$358,000 (rounded) or 3.2% for fiscal year 2012, departmental expenses increased \$484,000 (rounded) or 5.6 percent mainly due to increased operations, payroll & related and professional fees expenses.



Fiscal year 2011 billed consumption rebounded to its highest level since fiscal year 2008 resulting in higher revenues. Water/irrigation consumption increased 11.8% or 210 million gallons for fiscal year 2011 when compared to fiscal year 2010. Higher consumption levels and resulting higher revenues for fiscal year 2011 were mainly due to more seasonable weather and higher island occupancy rates for both housing and, to a higher degree, tourism. The combined home, villa and hotel occupancy percentage increased by 1 percent for Hilton Head Island for fiscal year 2011 when compared to fiscal year 2010.<sup>2</sup> Combined with more seasonable weather was the fact that the District’s area also had 5.2 less inches of rainfall compared to fiscal year 2010. Only a very small portion of increased revenues for fiscal year 2011 can be attributed to the water and sewer rate increase (reference page 84 of the Statistical Section) put into effect on May 1, 2011.

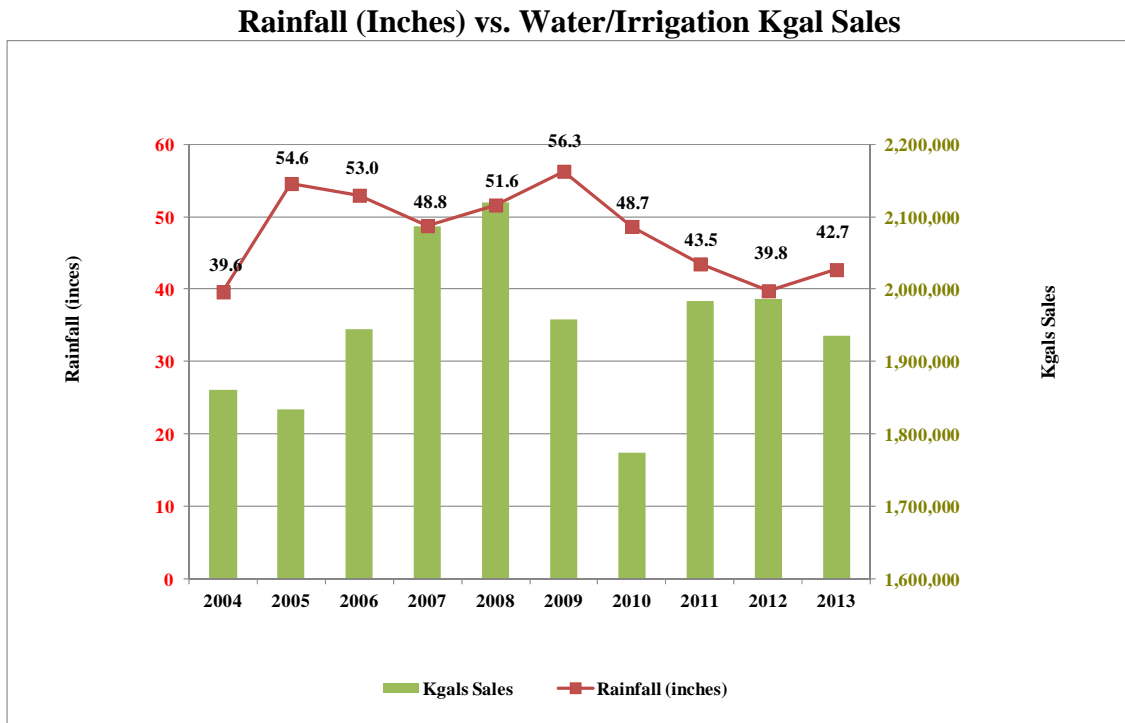
The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equates to more water consumed, there is no evident direct relationship between the District’s customer counts and overall consumption levels due to the other variables that influence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

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



<sup>2</sup> Source: The Hilton Head Chamber of Commerce, <http://www.thinkhiltonheadisland.org/article-details?hhaid=54>.

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



Despite lower rainfall amounts for fiscal years 2010 through 2013, respective water consumption levels were also low when compared to past fiscal years with higher rainfall such as 2007 and 2008. As previously discussed, other seasonal factors such as temperature and economic influences such as new housing development, housing vacancies, and tourism occupancy levels also have a material effect on customer water consumption levels.

*Independent Audit*

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

*Certificate of Achievement for Excellence in Financial Reporting*

The Government Finance Officer Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hilton Head Public Service District for its comprehensive annual financial report for the fiscal year ended June 30, 2012 (Reference the following page). This was the third year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

*Final Comments*

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

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



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Larry Sapp, CGFO, Finance Manager



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Brian Cronin, Senior Accountant



Government Finance Officers Association

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Achievement  
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in Financial  
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Presented to

**Hilton Head  
Public Service District  
South Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

# **FINANCIAL**

**For Fiscal Years Ended June 30, 2013 and June 30, 2012**





# Robinson Grant & Co., P.A.

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

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## **INDEPENDENT AUDITORS' REPORT**

November 4, 2013

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, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hilton Head No. 1 Public Service District as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 1 and Note 18 to the financial statements, the District adopted and changed its method of accounting for bond issuance costs in 2013 as required by Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

*Robinson Grant & Co., P.A.*

## Management's Discussion and Analysis

This section of the Hilton Head No. 1 Public Service District's (the "District") annual financial statements presents our analysis of the District's financial performance during the fiscal years ending June 30, 2013, 2012 and 2011. Please read it in conjunction with the unaudited financial statements contained in this section.

### *Financial Highlights*

- The District has adopted Government Accounting Standard Board (GASB) statements numbers 63 and 65. GASB 63 requires that certain defined transactions that do not qualify as assets or liabilities be reported as "deferred outflows of resources" or "deferred inflows of resources." The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as "Net position." The District has reported deferred outflows from refunding debt in fiscal year 2013 of \$ 1,827,370 and \$1,889,269 in fiscal year 2012. GASB 65 requires certain defined transactions such as bond issue costs be reclassified; instead of being capitalized, bond issue costs should be expensed in the year in which they occur. Unamortized bond issuance costs of prior debt issuance totaling \$992,288 were written off and the net position was restated in fiscal year 2012. Additionally, 2012 deferred outflows from refunding were reduced by \$95,612 from the amount previously reported to adjust for the inclusion of bond issuance costs in the calculation of deferred loss on refunding of a refunding completed during the year ended June 30, 2012. Bond issuance costs totaled \$266,335 and \$31,250 for the years ended June 30, 2013 and 2012, respectively, and are shown as an expense on the statement of revenues, expenses and changes in net position in accordance with GASB No. 65.
- Total assets at the end of the fiscal year 2013 were approximately \$89.4 million, exceeding liabilities by \$36.2 million (See Table A-1, Page 28). Total assets including deferred outflows of resources were 91.2 million.
- On October 23, 2012 the Board approved a motion to set a rate hearing for November 13, 2012. The associated rate change increased the water base rate by \$1.00 for each billing unit and also increased the sewer base rate by \$1.00 for each sewer billing unit. The effective date of this rate change was January 1, 2013.
- On October 23, 2012 the Board adopted a resolution providing for the issuance and sale of waterworks and sewer system refunding revenue bonds, the Series 2004 Revenue Bonds, designated Series 2012A (taxable) in the principal amount not exceeding fourteen million dollars (\$14,000,000), and waterworks and sewer system improvement revenue bonds to be designated Series 2012B (tax exempt), in the principal amount of not exceeding one million dollars (\$1,000,000), to fund two new lift stations. The closing date was November 29, 2012. (See Note 6, pages 55 through 57 under Notes to Financial Statements)
- Water Customer Growth: The District added 105 new water/irrigation taps to the system in fiscal year 2013. As of June 30, 2013, the District has a total of 17,600 equivalent dwelling units (EDUs). This is a 0.6% increase for FY'13. For FY'12 there was a 0.3% increase in total EDUs. The current EDUs consist of 16,540 water service units, 1,009 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> |
|--------------------|--------------------|-----------------------------------|-------------------|--------------|-----------------|
| 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 151 new sewer connections to the system in fiscal year 2013. As of June 30, 2013, sewer service EDUs total 15,260. This is a 1.0% increase for FY' 13 as compared to the FY' 12 increase of 0.5% or 79 EDUs.

Sewer Customers

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

- As shown in the table below, the sewer to water customer percentage has increased to 92.26% percent since the beginning of fiscal year 2012.<sup>3</sup>

| <b>Water / Sewer Connection Growth 06/30/13</b> |                                   |                    |                             |                              |                    |                             |                              |                              |
|---|-----------------------------------|--------------------|-----------------------------|------------------------------|--------------------|-----------------------------|------------------------------|------------------------------|
| <u>Date</u>                                     | <u>All Water/Irrigation EDU's</u> | <u>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>%Water to Sewer EDU's</u> |
| 06/30/12  | 17,495                            | 16,441             | 327                         | N/A                          | 15,109             | 166                         | N/A                          | 91.90%                       |
| 09/30/12  | 17,550                            | 16,495             | 320                         | 54                           | 15,163             | 160                         | 54                           | 91.92%                       |
| 12/31/12  | 17,553                            | 16,497             | 326                         | 2                            | 15,167             | 167                         | 4                            | 91.94%                       |
| 03/31/13  | 17,589                            | 16,534             | 313                         | 37                           | 15,216             | 156                         | 49                           | 92.03%                       |
| 06/30/13  | <u>17,600</u>                     | 16,540             | 323                         | <u>6</u>                     | 15,260             | 165                         | <u>44</u>                    | 92.26%                       |
| <b>Total EDU's Added</b>                        | <b><u>105</u></b>                 |                    |                             | <b><u>99</u></b>             |                    |                             | <b><u>151</u></b>            |                              |

<sup>3</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*

- On August 5, 2013 the District received three bids ranging from \$228,966 to \$306,661 for the installation of a lift Station in the Baygall service area within the District. The low bid was awarded to JS Construction and this project is estimated to be completed during fiscal year 2014.
- On October 10, 2013 the District received three bids ranging from \$497,378 to \$846,597 for the installation of sewer mains in the Baygall service area within the District. The low bid was awarded to Jordan Construction and this project is estimated to be completed during fiscal year 2014.
- Standard and Poor's affirmed its 'AA+' rating, with a stable outlook on the District's general obligation bonds. Standard and Poor's also stated that they believe continued local economic growth and significant income improvement could lead them to consider raising the rating. However, they did not expect to change the rating within the outlook's two-year period. In Standard and Poor's opinion this rating reflected the District's:
  - ✓ Well-established tourism-centered local economy, resulting in very strong income and extremely strong market value per capita;
  - ✓ Very strong finances; and
  - ✓ Low-to-moderate debt with manageable capital needs.

## Financial Analysis of the District

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

### Condensed Statements of Net Position

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

**TABLE A-1**  
**Hilton Head Public Service District**  
**Condensed Statements of Net Position as of June 30, 2013, 2012, and 2011<sup>4</sup>**

| Year Ended June 30,                                    | 2013                 | 2012                 | 2011                 | 2013 to 2012          | %            |
|--|----------------------|----------------------|----------------------|-----------------------|--------------|
| <b>Assets</b>  |                      |                      |                      |                       |              |
|  |                      |                      |                      | Increase (decrease)   |              |
| Current assets   | \$ 5,158,286         | \$ 5,323,289         | \$ 5,398,683         | \$ (165,004)          | -3.1%        |
| Restricted assets                                      | 3,614,827            | 3,432,491            | 5,578,182            | 182,336               | 5.3%         |
| Net Property Plant & Equipment                         | 77,923,407           | 80,998,121           | 81,348,684           | (3,074,714)           | -3.8%        |
| Sewer Assessments, Long-term                           | 2,619,897            | 3,042,577            | 3,459,654            | (422,680)             | -13.9%       |
| Other  | 98,873               | 112,181              | 1,121,928            | (13,308)              | -11.9%       |
| <b>Total Assets</b>                                    | <u>89,415,290</u>    | <u>92,908,659</u>    | <u>96,907,131</u>    | <u>(3,493,369)</u>    | <u>-3.8%</u> |
| <b>Deferred outflows of resources</b>                  |                      |                      |                      |                       |              |
| <b>Deferred outflows from refunding debt</b>           | <u>1,827,370</u>     | <u>1,889,269</u>     | <u>-</u>             | <u>(61,899)</u>       | <u>-3.3%</u> |
| <b>Total assets and deferred outflows of resources</b> | <u>\$ 91,242,660</u> | <u>\$ 94,797,928</u> | <u>\$ 96,907,131</u> | <u>(3,555,268)</u>    | <u>-3.8%</u> |
| <b>Liabilities</b>                                     |                      |                      |                      |                       |              |
| Current Liabilities                                    | 4,733,847            | 5,146,421            | 4,770,476            | (412,574)             | -8.0%        |
| Noncurrent Liabilities, net of amortization            | 50,344,977           | 52,818,149           | 54,223,011           | (2,473,172)           | -4.7%        |
| <b>Total Liabilities</b>                               | <u>55,078,824</u>    | <u>57,964,570</u>    | <u>58,993,487</u>    | <u>(2,885,746)</u>    | <u>-5.0%</u> |
| <b>Net Position</b>                                    |                      |                      |                      |                       |              |
| Invested in capital assets, net                        | 27,016,214           | 26,621,121           | 27,806,556           | 395,093               | 1.5%         |
| Restricted for capital activity/debt service           | 2,885,019            | 3,419,743            | 2,779,466            | (534,724)             | -15.6%       |
| Unrestricted   | 6,262,603            | 6,792,494            | 7,327,622            | (529,890)             | -7.8%        |
| <b>Total Net Position</b>                              | <u>36,163,836</u>    | <u>36,833,358</u>    | <u>37,913,644</u>    | <u>(669,522)</u>      | <u>-1.8%</u> |
| <b>Total Liabilities and Net Position</b>              | <u>\$ 91,242,660</u> | <u>\$ 94,797,928</u> | <u>\$ 96,907,131</u> | <u>\$ (3,555,268)</u> | <u>-3.8%</u> |

<sup>4</sup> 2013 and 2012 reflect implementation of GASB 63 and GASB 65. 2011 has not been restated.

## Net Position

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

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

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

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

The total net position as of June 30, 2013 was \$36,163,836 representing a \$669,522 decrease from the prior year. Fiscal year 2012 had a decrease in total net assets from fiscal year 2011 of \$1,080,286.

|  | <b>Change in Net Position</b> |                      |                      |
|--|-------------------------------|----------------------|----------------------|
| <b>Year Ended June 30,</b>                       | <b>2013</b>                   | <b>2012</b>          | <b>2011</b>          |
| Invested in Capital assets, net                  | \$ 27,016,214                 | \$ 26,621,121        | \$ 27,806,556        |
| Restricted for capital activity and debt service | 2,885,019                     | 3,419,743            | 2,779,466            |
| Unrestricted                                     | <u>6,262,603</u>              | <u>6,792,494</u>     | <u>7,327,622</u>     |
| Total Net Position                               | <u>\$ 36,163,836</u>          | <u>\$ 36,833,358</u> | <u>\$ 37,913,644</u> |

Of the total net assets, \$5,158,286 million are current non-restricted assets available to support short-term operations (see Table A-1, page 28). This current asset balance is \$165,003 lower than on June 30, 2012.

*Capital Assets*

As of June 30, 2013, the District has invested \$77,923,407 (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 \$3,074,714 during fiscal year 2013. More detailed information on capital asset activity can be found in Note 5 – Property, plant, equipment and depreciation on page 52 and 53.

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

| Year Ended June 30,                                 | 2013           | 2012           | 2011           |
|---|----------------|----------------|----------------|
| <b><u>Capital assets not being depreciated:</u></b> |                |                |                |
| Land  | \$ 1,299,194   | \$ 1,299,194   | \$ 1,299,194   |
| Construction in Progress                            | 441,125        | 553,892        | 3,514,449      |
| Total Capital Assets not being depreciated          | 1,740,319      | 1,853,086      | 4,813,643      |
| <b>Capital assets being depreciated:</b>            |                |                |                |
| Waterworks system                                   | 55,621,398     | 55,352,880     | 51,387,113     |
| Sewage disposal system                              | 36,153,741     | 35,040,328     | 31,986,552     |
| Buildings   | 4,299,512      | 4,299,512      | 4,299,512      |
| Sewage treatment facilities                         | 34,711,422     | 34,711,422     | 34,711,422     |
| Transportation equipment                            | 988,429        | 915,148        | 915,148        |
| Operations furniture and equipment                  | 1,742,022      | 1,681,614      | 1,639,985      |
| Office furniture and equipment                      | 643,679        | 701,878        | 693,249        |
| Sub Total   | \$ 134,160,203 | \$ 132,702,782 | \$ 125,632,981 |
| Less Accumulated depreciation                       | (57,977,115)   | (53,557,747)   | (49,097,940)   |
| Total capital assets being depreciated, net         | 76,183,089     | 79,145,035     | 76,535,041     |
| Property, Plant and Equipment, net                  | 77,923,407     | 80,998,121     | 81,348,684     |



*Non-current Liabilities and Debt Administration*

As of June 30, 2013, (see Table A-1, page 28) the District had \$50,344,977 in non-current liabilities as compared to fiscal year end 2012 total of \$52,818,149. More detailed information on long term debt obligation can be found in Note 6 – Long term obligations on page 54 and Note 7 – Non-current liabilities on page 58.

Bond covenants require that the District maintain and collect rates and charges which together with income are reasonably expected to yield annual net earnings equal to at least the sum of one hundred twenty percent (120%) of annual principal and interest requirements for all revenue bonds outstanding. As shown in the following table, the District is in compliance with the necessary requirements at 126%.

**TABLE A-3**  
**Coverage of Debt Service<sup>5</sup>**

| <b>Year Ended June 30,</b>  | <b>2013</b>        | <b>2012</b>        | <b>2011</b>        |
|---|--------------------|--------------------|--------------------|
| Net Income(loss) before capital contributions<br>per Financial Statements | (\$1,222,859)      | (\$1,436,694)      | (\$1,346,128)      |
| Capacity Fees   | 79,240             | 394,546            | 309,857            |
| Add: Depreciation   | 4,557,446          | 4,459,807          | 4,456,160          |
| Amortization  | 216,003            | 239,272            | 209,256            |
| Bond Issuance Costs   | 226,335            | 31,250             | -                  |
| Interest Expense (Bonds)  | 1,842,617          | 2,101,677          | 2,300,439          |
| Assessments - Debt Service  | 574,907            | 542,991            | 550,586            |
| Less: Property Taxes – Debt Service                                       | <u>(1,195,990)</u> | <u>(1,233,107)</u> | <u>(1,235,347)</u> |
| Net Earnings Available for Debt Service                                   | \$5,077,699        | \$5,099,742        | \$5,244,822        |
| <br>Debt Service on Revenue Bonds   | <br>4,037,286      | <br>\$3,660,650    | <br>\$3,477,484    |
| <br><b>Coverage of Debt Service by Net Earnings</b>                       | <br><b>126%</b>    | <br><b>139%</b>    | <br><b>151%</b>    |
| <br><b>Debt Coverage without Capacity Fees</b>                            | <br><b>124%</b>    | <br><b>129%</b>    | <br><b>142%</b>    |

<sup>5</sup> 2013 and 2012 reflect implementation of GASB 63 and GASB 65. 2011 has not been restated.

*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>6</sup>

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

| Year Ended June 30,  | 2013                 |                      | 2012                 |               | 2011        |                  | 2013 to      |        | 2012   |   |
|--|----------------------|----------------------|----------------------|---------------|-------------|------------------|--------------|--------|--------|---|
|  | Actual               | Actual               | Actual               | Actual        | Actual      | Actual           | %            | Actual | Actual | % |
| Operating Revenues   | \$ 11,739,528        | \$ 11,640,088        | \$ 11,281,715        | \$ 99,440     | 0.9%        | \$ 358,373       | 3.2%         |        |        |   |
| Total Non-operating Revenues                                   | <u>2,967,865</u>     | <u>2,965,412</u>     | <u>3,063,851</u>     | <u>2,453</u>  | <u>0.1%</u> | <u>(98,439)</u>  | <u>-3.2%</u> |        |        |   |
| Total Revenues   | <b>14,707,393</b>    | 14,605,500           | 14,345,566           | 101,893       | 0.7%        | 259,934          | 1.8%         |        |        |   |
| Departmental Expenses  | <b>9,087,850</b>     | 9,210,188            | 8,725,839            | 122,338       | 1.3%        | (484,349)        | -5.6%        |        |        |   |
| Depreciation   | <b>4,557,446</b>     | 4,459,807            | 4,456,160            | (97,639)      | -2.2%       | (3,647)          | -0.1%        |        |        |   |
| Total Non-operating Expenses                                   | <u>2,284,955</u>     | <u>2,372,199</u>     | <u>2,509,695</u>     | <u>87,244</u> | <u>3.7%</u> | <u>137,496</u>   | <u>5.5%</u>  |        |        |   |
| Total Expenses   | <b>15,930,251</b>    | 16,042,194           | 15,691,694           | 111,943       | 0.7%        | (350,500)        | -2.2%        |        |        |   |
| Increase (decrease) in net assets before capital contributions | <b>(1,222,859)</b>   | (1,436,694)          | (1,346,128)          | 213,835       | 14.9%       | (90,566)         | -6.7%        |        |        |   |
| Capital Contributions:   |                      |                      |                      |               |             |                  |              |        |        |   |
| Water Capacity Fee   | <b>33,640</b>        | 162,939              | 148,815              | (129,299)     | -79.4%      | 14,124           | 9.5%         |        |        |   |
| Sewer Capacity Fee   | <b>45,600</b>        | 231,607              | 161,042              | (186,007)     | -80.3%      | 70,565           | 43.8%        |        |        |   |
| Developer Contributions of Systems                             | <b>474,097</b>       | 954,150              | 42,393               | (480,053)     | -50.3%      | 911,758          | N/A          |        |        |   |
| Sewer Assessments  | <u>-</u>             | <u>-</u>             | <u>344,402</u>       | <u>-</u>      | <u>N/A</u>  | <u>(344,402)</u> | <u>N/A</u>   |        |        |   |
| Total Capital Contributions                                    | <b>553,337</b>       | 1,348,696            | 696,652              | (795,359)     | -59.0%      | 652,044          | 93.6%        |        |        |   |
| Change in net position   | <b>\$ (669,522)</b>  | \$ (87,998)          | \$ (649,476)         | \$ (581,524)  | 660.8%      | \$ 561,478       | 86.5%        |        |        |   |
| Net position, beginning of the year, as previously reported    |                      | 37,913,644           | 38,563,120           |               |             |                  |              |        |        |   |
| Cumulative adjustment - adoption of GASB Statement No. 65      |                      | <u>(992,288)</u>     |                      |               |             |                  |              |        |        |   |
| Net position, beginning of the year - as restated              | <b>36,833,358</b>    | <u>36,921,356</u>    |                      |               |             |                  |              |        |        |   |
| Net position, end of year                                      | <b>\$ 36,163,836</b> | <b>\$ 36,833,358</b> | <b>\$ 37,913,644</b> |               |             |                  |              |        |        |   |

*Operating Revenues (Fiscal Year to Year Comparisons)*

Operating revenues for fiscal year 2013 total \$11,739,528 which is almost 80% of total revenues (operating and non-operating) for the year. Total operating revenues have increased 0.9% or \$99,440 compared to last year's revenues mainly due to increased sewer service revenues which were \$100,659 or 2.2% higher than fiscal year 2012. Total operating revenues increased \$358,373 or 3.2% from fiscal year 2012 to fiscal year 2011.

Higher sewer revenues were mainly due to a rate increase which was effective as of January 1, 2013. In addition to higher sewer service revenues, other line items that have contributed to this year's \$99,440 operating revenue increase include the following (see Table A-5, page 35):

- Water Service revenues increased \$2,166.

<sup>6</sup> 2013 and 2012 reflect implementation of GASB 63 and GASB 65. 2011 has not been restated.

- Water Tap in fees increased \$20,064 or 48%.
- Sewer Connection Fees increased \$26,050 or 31%.

The aforementioned increased operating revenue line items were somewhat offset by lower service fees, golf course irrigation revenue, and availability fees.

Total non-operating revenues were equal to \$2,988,865. 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 3.0 mills for operational purposes and 3.90 mills for debt service. The Commission has the authority to set the rates charged for water and sewer services without approval of any other authority, although such rate-setting ability is subject to certain procedural requirements including the holding of public hearings and the posting of public notices.

*Departmental Expenses (Fiscal Year to Year Comparisons)*

Total departmental expenses have decreased \$122,338 or 1.3% compared to fiscal year 2012 (See Table A-5, page 35). For fiscal year 2012, departmental expenses increased \$493,506 or 5.7% from fiscal year 2011.

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

- Administrative expenses have decreased \$139,516 or 15% mainly due to decreased bad debt expense. During the fiscal year 2011 audit staff completed a review of all delinquent accounts. During fiscal year 2012 performed the associated bad debt write off.
- Operations expenses have decreased \$74,644 or 4.2% due to lower bio-solids disposal costs, operations chemical costs and fuel/power costs associated with lower water consumption. Quality analysis was also reduced due to fewer monitoring reports necessary for fiscal year 2013.
- Purchased water expense decreased by 211,349 or 20%. This is mainly due to the decreased customer water consumption, increased RO Plant production, and increased ASR-1 withdrawal for fiscal year 2013. The RO plant increased production by 72.65 million gallons and ASR-1 withdrawal increased by 146.94 million gallons when compared to fiscal year 2012.
- Vehicle expenses decreased \$3,474 or 2.7% due to decreased fuel and maintenance costs.

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

- Payroll and Related expenses increased \$81,552 or 2.4%.
- Maintenance expenses increased by \$50,835 or 5.1%.
- Water tap in expenses increased by \$806 or 2.2%.
- Sewer Connection expense has increased \$5,369 or 6.8%.

- ASR water expense relates to water that has been drawn out of the ASR well for customer use. This was the first full year of operation for the ASR well with 168.2 million gallons being withdrawn. As such, ASR water expense increased \$116,968.
- RO Plant expenses increased just \$3,336 or 0.6%.
- ASR O&M covers the chemical and power expense associated with the ASR well. Due to a full fiscal year's operation on the ASR well this expense increased \$15,500 or 101%.
- Professional Fees increased \$22,186 or 9.1% due to higher professional engineering fees associated with the wastewater treatment plant evaluation and the Middle Floridan capacity analysis.

**TABLE A-5**  
**Hilton Head PSD**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year to Date as of June 30, 2013 and June 30, 2012**  
(With comparative amounts for the same period in prior fiscal year)

|  | FY 2013              |                      | FY 2012             |               | FY 2013 to FY 2012      |  |
|--|----------------------|----------------------|---------------------|---------------|-------------------------|--|
|  | Actual               | Actual               | Dollars             | %             | Comparison              |  |
|  |                      |                      |                     |               | Favorable (Unfavorable) |  |
| <b>Operating Revenues</b>  |                      |                      |                     |               |                         |  |
| Water Service  | \$ 5,951,546         | \$ 5,949,379         | \$ 2,166            | 0.0%          |                         |  |
| Sewer Service  | 4,623,093            | 4,522,434            | 100,659             | 2.2%          |                         |  |
| Tap In Fees - Water  | 61,925               | 41,861               | 20,064              | 47.9%         |                         |  |
| Connection Fees - Sewer  | 109,475              | 83,425               | 26,050              | 31.2%         |                         |  |
| Service Fees   | 36,645               | 51,108               | (14,463)            | -28.3%        |                         |  |
| Golf Course Irrigation   | 319,041              | 338,205              | (19,164)            | -5.7%         |                         |  |
| Availability Fees  | 623,076              | 638,137              | (15,061)            | -2.4%         |                         |  |
| Other Operating Revenues   | 14,727               | 15,539               | (812)               | -5.2%         |                         |  |
| <b>Total Operating Revenues</b>  | <b>11,739,528</b>    | <b>11,640,088</b>    | <b>99,440</b>       | <b>0.9%</b>   |                         |  |
| <b>Departmental Expenses</b>   |                      |                      |                     |               |                         |  |
| Payroll & Related  | 3,474,067            | 3,392,515            | (81,552)            | -2.4%         |                         |  |
| Administrative Expenses  | 783,768              | 923,286              | 139,518             | 15.1%         |                         |  |
| Operations   | 1,686,667            | 1,761,310            | 74,644              | 4.2%          |                         |  |
| Maintenance  | 1,038,224            | 987,389              | (50,835)            | -5.1%         |                         |  |
| Water Tap In Expenses  | 38,249               | 37,443               | (806)               | -2.2%         |                         |  |
| Sewer Connection Expense   | 84,143               | 78,776               | (5,368)             | -6.8%         |                         |  |
| Purchased Water  | 817,441              | 1,028,789            | 211,349             | 20.5%         |                         |  |
| ASR-1 Water  | 133,760              | 16,793               | (116,968)           | -696.5%       |                         |  |
| RO Plant O&M   | 607,876              | 604,539              | (3,336)             | -0.6%         |                         |  |
| ASR-1 O&M  | 30,868               | 5,275                | (25,592)            | -485.1%       |                         |  |
| Professional Fees  | 265,786              | 243,600              | (22,186)            | -9.1%         |                         |  |
| Vehicle  | 126,999              | 130,473              | 3,474               | 2.7%          |                         |  |
| <b>Total Departmental Expenses</b>                                     | <b>9,087,850</b>     | <b>9,210,188</b>     | <b>122,339</b>      | <b>1.3%</b>   |                         |  |
| Depreciation   | 4,557,446            | 4,459,807            | (97,639)            | -2.2%         |                         |  |
| <b>Total Operating Expenses</b>  | <b>13,645,296</b>    | <b>13,669,995</b>    | <b>24,700</b>       | <b>0.2%</b>   |                         |  |
| <b>Operating income (loss)</b>   | <b>(1,905,768)</b>   | <b>(2,029,907)</b>   | <b>124,139</b>      | <b>6.1%</b>   |                         |  |
| <b>Non-operating revenues</b>  |                      |                      |                     |               |                         |  |
| Property taxes-G.O. Debt Levy  | 1,195,990            | 1,233,107            | (37,117)            | -3.0%         |                         |  |
| Property taxes-Operations Levy   | 1,016,558            | 1,023,502            | 172,487             | 16.9%         |                         |  |
| Rental Income  | 79,641               | 80,235               | 936,322             | 1167.0%       |                         |  |
| Interest earned  | 168,990              | 205,100              | (125,459)           | -61.2%        |                         |  |
| Tower lease  | 506,687              | 423,468              | 83,219              | 19.7%         |                         |  |
| Gain (Loss) of disposal of equipment                                   | -                    | -                    | -                   | N/A           |                         |  |
| <b>Total Non-operating Revenues</b>                                    | <b>2,967,865</b>     | <b>2,965,412</b>     | <b>2,453</b>        | <b>0.1%</b>   |                         |  |
| <b>Non-operating Expenses</b>  |                      |                      |                     |               |                         |  |
| Interest expense-Bonds   | 1,842,617            | 2,101,677            | 259,060             | 12.3%         |                         |  |
| Bond Defeasance Amortization   | 206,847              | 230,115              | 23,269              | 10.1%         |                         |  |
| Amortization of Bond Insurance   | 9,157                | 9,157                | -                   | 0.0%          |                         |  |
| Bond Issuance Costs  | 226,335              | 31,250               | (195,085)           | -624.3%       |                         |  |
| <b>Total Non-operating Expenses</b>                                    | <b>2,284,955</b>     | <b>2,372,199</b>     | <b>87,244</b>       | <b>3.7%</b>   |                         |  |
| <b>Total Non-operating Revenues/Exp.</b>                               | <b>682,909</b>       | <b>593,213</b>       | <b>89,697</b>       | <b>15.1%</b>  |                         |  |
| <b>Increase (decrease) in net assets, before capital contributions</b> | <b>(1,222,859)</b>   | <b>(1,436,694)</b>   | <b>213,836</b>      | <b>14.9%</b>  |                         |  |
| Water Capacity Fee   | 33,640               | 162,939              | (129,299)           | -79.4%        |                         |  |
| Sewer Capacity Fee   | 45,600               | 231,607              | (197,967)           | -85.5%        |                         |  |
| Developer Contributions of Systems                                     | 474,097              | 954,150              | (908,550)           | -95.2%        |                         |  |
| Assessments  | -                    | -                    | -                   | N/A           |                         |  |
| <b>Total Capital Contributions</b>                                     | <b>553,337</b>       | <b>1,348,696</b>     | <b>(795,359)</b>    | <b>-59.0%</b> |                         |  |
| <b>Change in net position</b>  | <b>\$ (669,522)</b>  | <b>\$ (87,998)</b>   | <b>\$ (581,523)</b> | <b>660.8%</b> |                         |  |
| <b>Net position, beginning of the year, as previously reported</b>     |                      | 37,913,644           |                     |               |                         |  |
| <b>Cumulative adjustment - adoption of GASB Statement No. 65</b>       |                      | (992,288)            |                     |               |                         |  |
| <b>Net position, beginning of the year, as restated</b>                | <b>\$ 36,833,358</b> | <b>36,921,356</b>    |                     |               |                         |  |
| <b>Net position, end of year</b>                                       | <b>\$ 36,163,836</b> | <b>\$ 36,833,358</b> |                     |               |                         |  |

*Water and Sewer Revenues/Expenses: Fiscal Year 2013 vs. Fiscal Year 2012.*

(Please reference Table A-6, page 37)

**Water Revenues and Related Expenses:**

- For FY' 13, total water operating revenues have increased \$11,581 or 0.2% compared to FY' 12. Despite lower customer water consumption, water service revenues increased due to the previously discussed water rate increase which was put into effect January 1, 2013. Also, water tap in fees increased \$20,064. However, these increases were slightly offset by lower service fees, availability fees and lower collections of other miscellaneous operating revenues.
- Water departmental expenses decreased \$105,708 or 2.0%. Departmental expense decreases are explained in more detail on pages 33 and 34.
- Water operating loss for fiscal year 2013 is \$1,083,765 compared to the fiscal year 2012 loss of \$1,155,554. A difference of \$71,789 or 6.2%.

**Sewer Revenues and Related Expenses:**

- Total sewer and related operating revenues have increased \$87,859 or 1.6% mainly due the previously discussed sewer rate increase which was put into effect January 1, 2013. Also, sewer connection fees increased \$26,050. Theses increase was partially offset by lower service fees, availability fees, golf course irrigation and a lower other miscellaneous revenues category.
- Sewer departmental expenses decreased 0.4% or \$16,631. Departmental expenses are explained in more detail on page 33 and 34.
- Sewer operating loss for fiscal year 2013 is \$822,002 compared to the fiscal year 2012 loss of \$874,352, a difference of \$52,350 or 6.0%.

**TABLE A-6**  
**Hilton Head PSD**  
**Water vs. Sewer Fiscal Year to Year Comparison Schedule**  
**Year to Date as of June 30, 2013**

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

|  | FY 2013              |                      | FY 2012          |               | FY 2013 to FY 2012 |   |
|--|----------------------|----------------------|------------------|---------------|--------------------|---|
|  | Actual               | Actual               | Actual           | Actual        | Dollars            | % |
| <b>Operating Revenues</b>  |                      |                      |                  |               |                    |   |
| <b>Water</b>   |                      |                      |                  |               |                    |   |
| Service  | \$ 5,951,546         | \$ 5,949,379         | \$ 2,166         | 0.0%          |                    |   |
| Tap In Fees  | 61,925               | 41,861               | 20,064           | 47.9%         |                    |   |
| Service Fees   | 18,323               | 25,554               | (7,232)          | -28.3%        |                    |   |
| Availability Fees  | 124,615              | 127,627              | (3,012)          | -2.4%         |                    |   |
| Other Operating Revenues   | 7,364                | 7,770                | (406)            | -5.2%         |                    |   |
| <b>Total Water Operating Revenues</b>                              | <b>6,163,772</b>     | <b>6,152,191</b>     | <b>11,581</b>    | <b>0.2%</b>   |                    |   |
| <b>Sewer</b>   |                      |                      |                  |               |                    |   |
| Service  | 4,623,093            | 4,522,434            | 100,659          | 2.2%          |                    |   |
| Connection Fees  | 109,475              | 83,425               | 26,050           | 31.2%         |                    |   |
| Service Fees   | 18,323               | 25,554               | (7,232)          | -28.3%        |                    |   |
| Availability Fees  | 498,461              | 510,510              | (12,049)         | -2.4%         |                    |   |
| Golf Course Irrigation   | 319,041              | 338,205              | (19,164)         | -5.7%         |                    |   |
| Other Operating Revenues   | 7,364                | 7,770                | (406)            | -5.2%         |                    |   |
| <b>Total Sewer Operating Revenues</b>                              | <b>5,575,756</b>     | <b>5,487,897</b>     | <b>87,859</b>    | <b>1.6%</b>   |                    |   |
| <b>Total Operating Revenues</b>                                    | <b>11,739,528</b>    | <b>11,640,088</b>    | <b>99,440</b>    | <b>0.9%</b>   |                    |   |
| <b>Departmental Expenses</b>                                       |                      |                      |                  |               |                    |   |
| <b>Water</b>   |                      |                      |                  |               |                    |   |
| Payroll & Related  | 1,598,071            | 1,560,557            | (37,514)         | -2.4%         |                    |   |
| Administrative Expenses  | 454,586              | 535,506              | 80,920           | 15.1%         |                    |   |
| Operations   | 725,267              | 757,363              | 32,097           | 4.2%          |                    |   |
| Maintenance  | 550,259              | 523,316              | (26,943)         | -5.1%         |                    |   |
| Water Tap in Expense   | 38,249               | 37,443               | (806)            | -2.2%         |                    |   |
| Purchased Water  | 817,441              | 1,028,789            | 211,349          | 20.5%         |                    |   |
| ASR-1 Water  | 133,760              | 16,792               | (116,968)        | -696.6%       |                    |   |
| ASR-1 O&M  | 30,868               | 5,275                | (25,592)         | -485.1%       |                    |   |
| RO Plant O&M   | 607,876              | 604,539              | (3,336)          | -0.6%         |                    |   |
| Professional Fees  | 108,972              | 99,876               | (9,096)          | -9.1%         |                    |   |
| Vehicle  | 58,419               | 60,018               | 1,598            | 2.7%          |                    |   |
| <b>Total Water Departmental Expenses</b>                           | <b>5,123,767</b>     | <b>5,229,475</b>     | <b>105,708</b>   | <b>2.0%</b>   |                    |   |
| <b>Sewer</b>   |                      |                      |                  |               |                    |   |
| Payroll & Related  | 1,875,996            | 1,831,958            | (44,038)         | -2.4%         |                    |   |
| Administrative   | 329,183              | 387,780              | 58,597           | 15.1%         |                    |   |
| Operations   | 961,400              | 1,003,947            | 42,547           | 4.2%          |                    |   |
| Maintenance  | 487,965              | 464,073              | (23,893)         | -5.1%         |                    |   |
| Sewer Connection Expense   | 84,143               | 78,776               | (5,368)          | -6.8%         |                    |   |
| Professional Fees  | 156,814              | 143,724              | (13,090)         | -9.1%         |                    |   |
| Vehicle  | 68,579               | 70,455               | 1,876            | 2.7%          |                    |   |
| <b>Total Sewer Departmental Expense</b>                            | <b>3,964,082</b>     | <b>3,980,713</b>     | <b>16,631</b>    | <b>0.4%</b>   |                    |   |
| <b>Operating Expenses before depreciation</b>                      | <b>9,087,850</b>     | <b>9,210,188</b>     | <b>122,338</b>   | <b>1.3%</b>   |                    |   |
| Depreciation - Water   | 2,123,770            | 2,078,270            | (45,500)         | -2.2%         |                    |   |
| Depreciation - Sewer   | 2,433,676            | 2,381,537            | (52,139)         | -2.2%         |                    |   |
| <b>Total Operating Expenses</b>                                    | <b>13,645,296</b>    | <b>13,669,995</b>    | <b>(97,639)</b>  | <b>-0.7%</b>  |                    |   |
| <b>Water Operating income (loss)</b>                               | <b>(1,083,765)</b>   | <b>(1,155,554)</b>   | <b>71,790</b>    | <b>6.2%</b>   |                    |   |
| <b>Sewer Operating income (loss)</b>                               | <b>(822,002)</b>     | <b>(874,352)</b>     | <b>52,351</b>    | <b>6.0%</b>   |                    |   |
| <b>Total Operating income (loss)</b>                               | <b>(1,905,768)</b>   | <b>(2,029,907)</b>   | <b>124,139</b>   | <b>6.1%</b>   |                    |   |
| Non-operating revenues (expenses), net                             | 682,909              | 593,213              | 89,697           | -15.1%        |                    |   |
| <b>Increase (decrease) in net assets,</b>                          |                      |                      |                  |               |                    |   |
| <b>before capital contributions</b>                                | <b>(1,222,859)</b>   | <b>(1,436,694)</b>   | <b>213,835</b>   | <b>14.9%</b>  |                    |   |
| <b>Capital Contributions</b>                                       | <b>553,337</b>       | <b>1,348,696</b>     | <b>(795,359)</b> | <b>-59.0%</b> |                    |   |
| Change in net position   | \$ (669,522)         | \$ (87,998)          | \$ (581,523)     | 660.8%        |                    |   |
| <b>Net position, beginning of the year, as previously reported</b> |                      | 37,913,644           |                  |               |                    |   |
| <b>Cumulative adjustment - adoption of GASB Statement No. 65</b>   |                      | (992,288)            |                  |               |                    |   |
| <b>Net position, beginning of the year, as restated</b>            | <b>36,833,358</b>    | <b>36,921,356</b>    |                  |               |                    |   |
| <b>Net position, end of year</b>                                   | <b>\$ 36,163,836</b> | <b>\$ 36,833,358</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 [hhpsd.com](http://hhpsd.com).



**AUDITED FINANCIAL STATEMENTS**  
**For Fiscal Years Ended June 30, 2013 and June 30, 2012**

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF NET POSITION

AS OF JUNE 30, 2013 AND 2012

### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

|  | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| <b>Current assets</b>                                  |                      |                      |
| Cash available for operations                          | \$ 2,164,413         | \$ 2,528,695         |
| Cash in banks (restricted)                             | 2,248,077            | 2,780,037            |
| Cash held by Beaufort County Treasurer (restricted)    | 636,942              | 639,706              |
| Cash held for construction (restricted)                | 729,808              | 12,747               |
| Accounts receivable - trade, net                       | 2,191,783            | 2,026,865            |
| Sewer assessments, due within one year                 | 390,225              | 383,303              |
| Inventory  | 235,093              | 240,938              |
| Prepaid expenses                                       | 176,772              | 143,489              |
| Total current assets                                   | <u>8,773,113</u>     | <u>8,755,780</u>     |
| <b>Noncurrent assets</b>                               |                      |                      |
| Property, plant and equipment                          |                      |                      |
| Nondepreciable assets                                  | 1,740,318            | 1,853,085            |
| Depreciable assets, net                                | <u>76,183,089</u>    | <u>79,145,036</u>    |
| Total property, plant and equipment                    | 77,923,407           | 80,998,121           |
| Sewer assessments, due after one year                  | 2,619,897            | 3,042,577            |
| Prepaid insurance - bonds                              | 96,149               | 105,306              |
| Other assets   | <u>2,724</u>         | <u>6,875</u>         |
| Total noncurrent assets                                | <u>80,642,177</u>    | <u>84,152,879</u>    |
| <b>Total assets</b>                                    | 89,415,290           | 92,908,659           |
| <b>Deferred outflows of resources</b>                  |                      |                      |
| Deferred outflows from refunding debt                  | <u>1,827,370</u>     | <u>1,889,269</u>     |
| <b>Total assets and deferred outflows of resources</b> | <u>\$ 91,242,660</u> | <u>\$ 94,797,928</u> |

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF NET POSITION

AS OF JUNE 30, 2013 AND 2012

### LIABILITIES AND NET POSITION

|  | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| <b>Current liabilities</b>                                 |                      |                      |
| Payable from unrestricted assets:                          |                      |                      |
| Accounts payable - trade                                   | \$ 374,947           | \$ 352,761           |
| Accounts payable - construction                            | 159,653              | 188,348              |
| Notes payable, due within one year                         | 18,000               | 18,000               |
| Customer deposits  | 154,085              | 148,475              |
| Deferred revenue   | 253,904              | 207,881              |
| Other accrued liabilities                                  | 426,096              | 376,274              |
| Total current liabilities payable from unrestricted assets | <u>1,386,685</u>     | <u>1,291,739</u>     |
| Payable from restricted assets:                            |                      |                      |
| Interest payable   | 309,273              | 494,858              |
| Bonds payable, current portion                             | 2,887,982            | 3,213,484            |
| Notes payable, current portion                             | 149,907              | 146,340              |
| Total current liabilities payable from restricted assets   | <u>3,347,162</u>     | <u>3,854,682</u>     |
| Total current liabilities                                  | 4,733,847            | 5,146,421            |
| <b>Noncurrent liabilities</b>                              |                      |                      |
| Bonds payable, net of current portion                      | 47,611,615           | 49,916,880           |
| Notes payable, net of current portion                      | 2,733,362            | 2,901,269            |
| Total noncurrent liabilities                               | <u>50,344,977</u>    | <u>52,818,149</u>    |
| Total liabilities  | 55,078,824           | 57,964,570           |
| <b>Net position</b>  |                      |                      |
| Invested in capital assets, net of related liabilities     | 27,016,214           | 26,621,121           |
| Restricted for debt service                                | 2,885,019            | 3,419,743            |
| Unrestricted   | 6,262,603            | 6,792,494            |
| Total net position   | <u>36,163,836</u>    | <u>36,833,358</u>    |
| <b>Total liabilities and net position</b>                  | <u>\$ 91,242,660</u> | <u>\$ 94,797,928</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, 2013 AND 2012**

|  | <u>2013</u>           | <u>2012</u>           |
|--|-----------------------|-----------------------|
| <b>Operating Revenues</b>                                    |                       |                       |
| Water service  | \$ 5,951,546          | \$ 5,949,379          |
| Sewer service  | 4,623,093             | 4,522,434             |
| Tap in fees - water  | 61,925                | 41,861                |
| Tap in fees - sewer  | 109,475               | 83,425                |
| Availability charges   | 623,076               | 638,137               |
| Golf course irrigation                                       | 319,041               | 338,205               |
| Service fees and penalties                                   | 36,645                | 51,108                |
| Other operating revenues                                     | 14,727                | 15,539                |
| Total operating revenues                                     | <u>11,739,528</u>     | <u>11,640,088</u>     |
| <b>Departmental Expenses</b>                                 |                       |                       |
| Payroll and related expenses                                 | 3,474,067             | 3,392,515             |
| Administrative expenses                                      | 783,768               | 923,286               |
| Operations expenses  | 1,686,667             | 1,761,310             |
| Maintenance expenses   | 1,038,224             | 987,389               |
| Tap in expenses  | 122,394               | 116,219               |
| Purchased water  | 817,441               | 1,028,789             |
| RO plant expenses  | 607,876               | 604,539               |
| ASR plant expenses   | 164,628               | 22,068                |
| Professional fees  | 265,786               | 243,600               |
| Vehicle expenses   | 126,999               | 130,473               |
| Depreciation   | 4,557,446             | 4,459,807             |
| Total departmental expenses                                  | <u>13,645,296</u>     | <u>13,669,995</u>     |
| Loss from operations   | (1,905,768)           | (2,029,907)           |
| <b>Non-operating revenues (expenses)</b>                     |                       |                       |
| Property taxes - debt service                                | 1,195,990             | 1,233,107             |
| Property taxes - operations                                  | 1,016,558             | 1,023,502             |
| Rental and tower lease income                                | 586,327               | 503,703               |
| Interest earned  | 168,990               | 205,100               |
| Bond issuance costs  | (226,335)             | (31,250)              |
| Amortization of bond insurance                               | (9,157)               | (9,157)               |
| Amortization of bond defeasance                              | (206,847)             | (230,115)             |
| Interest expense   | (1,842,617)           | (2,101,677)           |
| Total net non-operating income                               | <u>682,909</u>        | <u>593,213</u>        |
| <b>Decrease in net position before capital contributions</b> | <u>\$ (1,222,859)</u> | <u>\$ (1,436,694)</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, 2013 AND 2012**

|  | <b>2013</b>              | <b>2012</b>              |
|--|--------------------------|--------------------------|
| <b>Capital Contributions</b>                                     |                          |                          |
| Assessments  | \$ -                     | \$ -                     |
| Capacity fees  | 79,240                   | 394,546                  |
| Developer contributions of systems                               | 474,097                  | 954,150                  |
| Total capital contributions                                      | 553,337                  | 1,348,696                |
| <br>Change in net position                                       | <br>(669,522)            | <br>(87,998)             |
| <br>Net position, beginning of the year - as previously reported |                          | <br>37,913,644           |
| Cumulative adjustment - adoption of GASB Statement No. 65        |                          | (992,288)                |
| Net position, beginning of the year - as restated                | 36,833,358               | 36,921,356               |
| <br>Net position, end of year                                    | <br><u>\$ 36,163,836</u> | <br><u>\$ 36,833,358</u> |

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

|  | <u>2013</u>         | <u>2012</u>         |
|--|---------------------|---------------------|
| <b>Cash flows from operating activities:</b>                   |                     |                     |
| Cash received from customers                                   | \$ 11,565,493       | \$ 11,849,228       |
| Cash paid to suppliers   | (6,693,460)         | (6,910,505)         |
| Cash paid to employees   | (2,349,820)         | (2,319,811)         |
| Other revenues   | 14,727              | 15,539              |
| Net cash provided by operating activities                      | <u>2,536,940</u>    | <u>2,634,451</u>    |
| <b>Cash flows from investing activities</b>                    |                     |                     |
| Interest earned  | <u>168,990</u>      | <u>205,100</u>      |
| Net cash provided by investing activities                      | 168,990             | 205,100             |
| <b>Cash flow from noncapital financing activities:</b>         |                     |                     |
| Property taxes collected - operations                          | 1,016,558           | 1,023,502           |
| Rental and tower lease income                                  | 636,501             | 573,209             |
| Sewer assessment   | <u>415,758</u>      | <u>396,027</u>      |
| Net cash provided by noncapital financing activities:          | 2,068,817           | 1,992,738           |
| <b>Cash flow from capital and related financing activities</b> |                     |                     |
| Capacity fees  | 79,240              | 394,546             |
| Property taxes collected - debt service                        | 1,195,990           | 1,233,107           |
| Interest paid  | (2,074,269)         | (2,265,652)         |
| Proceeds from revenue bonds                                    | 13,090,000          | 6,003,544           |
| Payoff of 2004 revenue bonds                                   | (11,740,000)        | -                   |
| Amount paid to defease debt                                    | (866,163)           | -                   |
| Payoff of SRF Note Payable                                     | -                   | (6,100,698)         |
| Bond issuance costs  | (226,335)           | (31,250)            |
| Principal payments on bonds and notes                          | (3,377,824)         | (2,617,498)         |
| Purchases of property, plant and equipment                     | <u>(1,037,331)</u>  | <u>(3,512,586)</u>  |
| Net cash used by capital and related financing activities      | <u>(4,956,692)</u>  | <u>(6,896,487)</u>  |
| <b>Net increase (decrease) in cash</b>                         | (181,945)           | (2,064,198)         |
| Cash and cash equivalents at beginning of year                 | <u>5,961,185</u>    | <u>8,025,383</u>    |
| Cash and cash equivalents at year end                          | <u>\$ 5,779,240</u> | <u>\$ 5,961,185</u> |

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

# HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

|  | <u>2013</u>         | <u>2012</u>         |
|--|---------------------|---------------------|
| <b>Reconciliation of operating loss to net cash provided<br/>by operating activities:</b>        |                     |                     |
| Operating loss   | \$ (1,905,768)      | \$ (2,029,907)      |
| <b>Adjustments to reconcile operating loss to net cash provided<br/>by operating activities:</b> |                     |                     |
| Depreciation   | 4,557,446           | 4,459,807           |
| Increase in allowance for doubtful accounts  | 2,609               | 10,335              |
| Changes in assets and liabilities  |                     |                     |
| Accounts receivable - trade  | (167,527)           | 209,449             |
| Inventories  | 5,845               | (3,078)             |
| Prepaid assets   | (33,283)            | (38,769)            |
| Accounts payable - trade   | 22,186              | (25,085)            |
| Customer deposits  | 5,610               | 4,895               |
| Other accrued liabilities  | 49,822              | 46,804              |
| Net cash provided by operating activities  | <u>2,536,940</u>    | <u>2,634,451</u>    |
| <b><u>Schedule of cash and cash equivalents</u></b>  |                     |                     |
| Available for operations   |                     |                     |
| Demand deposits (interest and non-interest bearing)  | 2,136,135           | 2,341,376           |
| Held by Beaufort County Treasurer  | 28,278              | 187,319             |
| Total available for operations   | 2,164,413           | 2,528,695           |
| Restricted   |                     |                     |
| Cash in banks  | 2,248,077           | 2,780,037           |
| Held by Beaufort County Treasurer  | 636,942             | 639,706             |
| Held for construction  | 729,808             | 12,747              |
| Total restricted   | <u>3,614,827</u>    | <u>3,432,490</u>    |
| Total cash and cash equivalents  | <u>\$ 5,779,240</u> | <u>\$ 5,961,185</u> |
| <b><u>Supplemental Disclosures</u></b>   |                     |                     |
| Noncash financing activities:  |                     |                     |
| Developer contribution of systems  | \$ 474,097          | \$ 954,150          |

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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

**General**

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

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

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

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period. Currently, deferred losses on bond refundings are the only financial statement item that meets the definition of a deferred outflow of resources and, accordingly, they have been presented as such in the statements of net position. Deferred losses on bond refundings were previously reported as a reduction in long-term debt. The District does not have any financial statement items that meet the definition of a deferred inflow of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. The District's only financial statement item that was affected by the implementation of GASB Statement No. 65 was its unamortized bond issuance costs. Under that Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. Any such unamortized bond issuance costs that were incurred and capitalized in a previous year should be written off by a cumulative adjustment to beginning net position. See Note 18 for more information pertaining to the District's write-off of the unamortized portion of bond issuance costs.



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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

**Fund accounting**

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

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

**Net position**

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

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

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

**Basis of accounting**

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

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

**Basis of Accounting (continued)**

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

**Cash and cash equivalents**

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

**Accounts receivable, allowance for doubtful accounts and bad debt expense**

The District carries accounts receivable at cost less an allowance for doubtful accounts. Management charges off to expense any balances that are determined to be uncollectible. At June 30, 2013 and 2012, the balance of the allowance for doubtful accounts was \$59,944 and \$57,335 respectively. Bad debt expense for the years ended June 30, 2013 and 2012 was \$47,911 and \$210,601, respectively.

**Inventory**

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

**Property, plant and equipment**

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

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

Repairs and maintenance are charged to expense as incurred. During the period of construction, construction period interest in excess of the interest earned on bond proceeds is capitalized into the project which is being financed from the debt proceeds. No interest was capitalized for the years ended June 30, 2013 and 2012.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

**Prepaid insurance - bonds**

Prepaid insurance costs connected to bond issuances are capitalized and amortized using the straight-line method over the life of the bonds commencing at the date of issuance. Amortization expense on prepaid bond insurance costs was \$9,157 for the years ended June 30, 2013 and 2012.

**Bond discount and premium**

The issue price of the 2004 revenue bonds exceeded its par value resulting in a bond premium of \$1,669,539. The bond premium was being amortized over the 17-year life of the 2004 revenue bonds. The unamortized portion of the premium was written off as a part of deferred outflows of debt refunding when the bonds were refunded in November 2012. The 2006 revenue bonds included two series of bonds, one issued at a premium of \$40,990 and one issued at a discount of \$197,849. The 2007 general obligation bonds included two series of bonds, one issued at a premium of \$108,661 and one issued at a discount of \$8,471. The 2010 revenue bonds included two series of bonds, one issued at a premium of \$126,097 and one issued at a discount of \$66,931. The 2010 general obligation bonds included two series of bonds, one issued at a premium of \$53,282 and one issued at a discount of \$36,097. The net unamortized bond premium at June 30, 2013 and 2012 was \$45,050 and \$812,333, respectively, which is included as a direct deduction from bonds payable, net of current portion on the balance sheets. Bond discount and premium amortization totaled \$46,066 and \$110,515 for the years ended June 30, 2013 and 2012, respectively, and is included as a reduction in interest expense on the statements of revenues, expenses and changes in net assets.

**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 \$273,278 and \$239,855 at June 30, 2013 and 2012, respectively.

**Use of estimates**

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

**Reclassification**

Certain accounts and amounts in the June 30, 2012 financial statements have been reclassified in order to conform to the June 30, 2013 presentation.

**Date of Management's Review**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 4, 2013, the date that the financial statements were available to be issued.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

At June 30, 2013, the bank balances of unrestricted and restricted accounts totaled \$5,191,447 and had a carrying balance totaling \$5,113,820. 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, 2013, 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<br>bond covenants | Total        |
|------------------------------|--------------|------------------------------------|--------------|
| FDIC insured                 | \$ 738,312   | \$ -                               | \$ 738,312   |
| Collateralized               | 1,475,250    | 2,977,885                          | 4,453,135    |
| Balance per bank at 06/30/13 | \$ 2,213,562 | \$ 2,977,885                       | \$ 5,191,447 |

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, 2013, 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, 2013 and 2012, all investments of the District were redeemable on demand without penalty and are, therefore, classified as cash and cash equivalents.

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

**Investment Policy**

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

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

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

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

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

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

|   | As of June 30, |            |
|---|----------------|------------|
|   | 2013           | 2012       |
| Unrestricted cash - Available for general operating purposes      | \$ 28,278      | \$ 187,319 |
| Restricted cash - Available for construction                      | -              | 12,747     |
| Restricted cash - Bond principal retirement and interest payments | 636,942        | 639,706    |
| Total   | \$ 665,220     | \$ 839,772 |

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

**Note 4 - Accounts receivable-trade**

Accounts receivable include the following:

|                                     | As of June 30, |              |
|-------------------------------------|----------------|--------------|
|                                     | 2013           | 2012         |
| Receivables from customers          | \$ 1,026,230   | \$ 913,005   |
| Unbilled receivables from customers | 849,369        | 894,746      |
| Other receivables                   | 316,184        | 219,115      |
| Total                               | \$ 2,191,783   | \$ 2,026,866 |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

Capital asset activity during the year ended June 30, 2013 and 2012 was as follows:

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

|  | <u>June 30, 2011</u> | <u>Additions</u>   | <u>Disposals</u> | <u>Transfers</u>   | <u>June 30, 2012</u> |
|--|----------------------|--------------------|------------------|--------------------|----------------------|
| <u>Capital assets not being depreciated:</u> |                      |                    |                  |                    |                      |
| Land   | \$ 1,299,194         | \$ -               | \$ -             | \$ -               | \$ 1,299,194         |
| Construction in progress                     | 3,514,449            | 3,989,514          | -                | (6,950,071)        | 553,892              |
| Total capital assets not being depreciated   | <u>4,813,643</u>     | <u>3,989,514</u>   | <u>-</u>         | <u>(6,950,071)</u> | <u>1,853,086</u>     |
| <u>Capital assets being depreciated:</u>     |                      |                    |                  |                    |                      |
| Waterworks system                            | 51,387,113           | 43,604             | -                | 3,922,163          | 55,352,880           |
| Sewage disposal system                       | 31,986,552           | 25,868             | -                | 3,027,908          | 35,040,328           |
| Buildings                                    | 4,299,512            | -                  | -                | -                  | 4,299,512            |
| Sewage treatment facilities                  | 34,711,422           | -                  | -                | -                  | 34,711,422           |
| Transportation equipment                     | 915,148              | -                  | -                | -                  | 915,148              |
| Operations furniture and equipment           | 1,639,985            | 41,629             | -                | -                  | 1,681,614            |
| Office furniture and equipment               | 693,249              | 8,629              | -                | -                  | 701,878              |
| Total capital assets being depreciated       | <u>125,632,981</u>   | <u>119,730</u>     | <u>-</u>         | <u>6,950,071</u>   | <u>132,702,782</u>   |
| <u>Less accumulated depreciation for:</u>    |                      |                    |                  |                    |                      |
| Waterworks system                            | (19,031,726)         | (1,988,898)        | -                | -                  | (21,020,624)         |
| Sewage disposal system                       | (8,462,968)          | (1,146,395)        | -                | -                  | (9,609,363)          |
| Buildings                                    | (1,284,406)          | (124,810)          | -                | -                  | (1,409,216)          |
| Sewage treatment facilities                  | (17,509,307)         | (1,069,271)        | -                | -                  | (18,578,578)         |
| Transportation equipment                     | (736,923)            | (70,643)           | -                | -                  | (807,566)            |
| Operations furniture and equipment           | (1,422,054)          | (41,697)           | -                | -                  | (1,463,751)          |
| Office furniture and equipment               | (650,556)            | (18,093)           | -                | -                  | (668,649)            |
| Total accumulated depreciation               | <u>(49,097,940)</u>  | <u>(4,459,807)</u> | <u>-</u>         | <u>-</u>           | <u>(53,557,747)</u>  |
| Total capital assets being depreciated, net  | <u>76,535,041</u>    | <u>(4,340,077)</u> | <u>-</u>         | <u>6,950,071</u>   | <u>79,145,035</u>    |
| Year end totals                              | \$ 81,348,684        | \$ (350,563)       | \$ -             | \$ -               | \$ 80,998,121        |

Depreciation expense for the years ended June 30, 2013 and 2012 was \$4,557,446 and \$4,459,807, respectively. Transfers relate to construction in progress completed during the year.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 6 – Long-term obligations**

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

Notes payable

The District is obligated under a note dated November 30, 1988, with a balance of \$169,939 and \$187,939 at June 30, 2013 and 2012, respectively, payable to the South Carolina Jobs-Economic Authority (Authority). The proceeds of the note were for expansion of water lines within the District. The note is without interest, payable at \$1,500 per month. Since this obligation was acquired pursuant to the purchase of an existing utility system, the Authority may have the right to renegotiate the terms of the note, including the interest rate and maturity date.

On April 14, 2008 the District executed a loan with the South Carolina State Infrastructure Revolving Loan Fund (SIRF) in the amount of \$481,080 at an interest rate of 3.50% per annum. The proceeds of this loan were used only to pay the costs of constructing new water wells. Principal and interest of \$8,387 are payable quarterly beginning January 1, 2009 through October 1, 2028. The SIRF loan balance outstanding at June 30, 2013 and 2012 amounted to \$395,134 and \$414,429, respectively.

On October 3, 2008, the District finalized a State Revolving Fund (SRF) loan in the amount of \$2,887,826 at an interest rate of 3.0% per annum. These funds were used as part of the financing for the new reverse osmosis plant. Principal and interest of \$48,135 were payable quarterly beginning January 1, 2009 through October 1, 2011. Effective November 21, 2011, the interest rate was reduced to 2.25% resulting in reduced principal and interest payments of \$45,350 to be paid quarterly from January 1, 2012 through October 1, 2028. The SRF loan balance outstanding at June 30, 2013 and 2012 amounted to \$2,336,196 and \$2,463,242, respectively.

Bonds payable

In May 2000, the District issued \$530,000 of Series 2000B revenue bonds for purposes of funding certain improvements within the District. The bonds were an obligation of the District, bore interest at the rate of 6.172% and were payable annually through May 2020 in the amount of \$46,856, which included interest. The bonds will be repaid by annual assessments to the owners in the Burkes Beach area over a 20 year period and will be collected by the county treasurer. In June 2010, the District made a \$342,069 payment to pay off these bonds. After the pay off, \$190,722 of these bonds were refinanced as series 2010A revenue bonds. The series 2010A bonds bear interest at a rate of 3.85% per annum. The first payment of principal and interest in the amount of \$23,219 was due May 26, 2011. Nine additional payments of principal and interest of \$23,301 are payable on May 26<sup>th</sup> of each year beginning in 2012 and continuing until 2020. The 2010A revenue bonds outstanding amounted to \$140,630 and \$157,853 at June 30, 2013 and 2012, respectively.

In April 2004, the District determined that a debt service savings could be achieved by issuing a series of 2004 revenue bonds in the amount of \$17,575,000 and applying the proceeds thereof to refund a portion of the callable maturities of the 1995 revenue bonds and all of the callable maturities of the 1996 revenue bonds. The 2004 revenue bonds bore varying interest rates of between 2% to 5%, and were payable semi-annually beginning August 1, 2004 through August 1, 2021. The 2004 revenue bonds outstanding amounted to \$13,125,000 at June 30, 2012. In November 2012, these bonds were advance



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

**Bonds payable(continued)**

refunded to achieve a debt service savings by the issuance of series 2012A revenue bonds in the amount of \$12,275,000. Interest on the bonds is payable semi-annual at interest rates of between 0.542% and 2.839% per annum. Principal payments are due annually on August 1<sup>st</sup> of each year beginning in 2013 and continuing through 2024. The 2012A revenue bonds outstanding amounted to \$12,275,000 at June 30, 2013.

In August 2004, the District completed the issuance of series 2004B revenue bonds for \$430,000. The proceeds of the bonds are to be used first for funding the debt service requirement and the issuance costs of the bond. Proceeds are then to be used to reimburse the District for the cost of system improvements. A one time principal payment was made in September 2004 of \$103,978. Beginning May 2, 2005, the remaining balance of \$326,022 will be paid with 19 annual payments of \$26,275 which includes interest at a rate of 5.19% per annum. A final payment of \$26,126, including interest, is due on May 2, 2024. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2004B bonds outstanding amounted to \$216,004 and \$230,325 at June 30, 2013 and 2012, respectively.

On February 2, 2006 the District issued \$18,770,000 of Series 2006 revenue bonds to refund the series 1998 revenue bonds in order to achieve savings on debt service. Interest on the bonds is payable semi-annually at varying interest rates of between 3.50% and 4.125% per annum. Principal payments are due annually on December 1<sup>st</sup> of each year beginning in 2006 and continuing until 2023. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2006 bonds outstanding amounted to \$16,725,000 and \$17,205,000 at June 30, 2013 and 2012, respectively.

In June 2007, the District issued \$930,000 of series 2007 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2007 bond bears interest at a rate of 4.22% per annum. Principal and interest of \$69,771 are payable on June 20<sup>th</sup> of each year beginning in 2008 and continuing until 2027. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2007 revenue bonds outstanding amounted to \$726,407 and \$763,940 at June 30, 2013 and 2012, respectively.

On October 3, 2007 the District issued \$7,350,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. Interest on the bonds is payable semi-annually beginning March 1, 2008 at varying interest rates of between 4.50% and 4.00% per annum. Principal payments on the bonds are due annually beginning March 1, 2009 through March 1, 2027. The 2007 general obligation bonds outstanding amounted to \$5,910,000 and \$6,220,000 at June 30, 2013 and 2012, respectively.

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

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

Bonds payable (continued)

system, and are secured by a lien upon these revenues. The 2009A revenue bonds outstanding amounted to \$302,358 and \$321,006 at June 30, 2013 and 2012, respectively.

In July 2009, the District issued \$1,781,694 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new water well and reverse osmosis plant. The bonds bear interest at a rate of 4.219% per annum. The first payment of principal and interest in the amount of \$159,413 was due March 1, 2010. Fourteen additional payments of principal and interest of \$160,040 are payable on March 1<sup>st</sup> of each year beginning in 2011 and continuing until 2024. The 2009 general obligation bonds outstanding amounted to \$1,385,610 and \$1,483,078 at June 30, 2013 and 2012, respectively.

On August 24, 2010, the District issued \$3,400,000 of series 2010B revenue bonds. Proceeds are to be used to defray the costs of system improvements. Interest on the bonds is payable semi-annually beginning December 1, 2010 at varying interest rates of between 2.00% and 4.00% per annum. Principal payments on the bonds are due annually beginning December 1, 2011 through December 1, 2029. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2010B revenue bonds outstanding amounted to \$3,140,000 and \$3,270,000 at June 30, 2013 and 2012, respectively.

On September 28, 2010 the District issued \$3,970,000 of general obligation bonds. Proceeds are to be used to defray the cost of constructing, furnishing and equipping a new Aquifer Storage and Recovery well. Interest on the bonds is payable semi-annually beginning March 1, 2011 at varying interest rates of between 2.00% and 3.375% per annum. Principal payments on the bonds are due annually beginning March 1, 2011 through March 1, 2029. The 2010 general obligation bonds outstanding amounted to \$3,445,000 and \$3,610,000 at June 30, 2013 and 2012, respectively.

On April 27, 2011, the District issued \$384,402 of series 2011 revenue bonds. Proceeds are to be used to defray the costs of system improvements. The series 2011 bond bears interest at a rate of 3.91% per annum. Principal and interest of \$34,356 are payable on April 27<sup>th</sup> of each year beginning in 2012 and continuing until 2026. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$344,994 and \$365,076 at June 30, 2013 and 2012, respectively.

On August 24, 2011, the District issued \$6,003,544 of series 2011B refunding revenue bonds. Proceeds were used to refund the May 2000 loan agreement with the South Carolina Water Quality Revolving Fund Authority; the purpose of the original loan agreement was to fund the expansion of the wastewater treatment plant capacity by 3,200,000 gallons per day. The series 2011B bond bears interest at a rate of 2.89% per annum. Principal and interest of \$57,666 are payable on the 24<sup>th</sup> of each month beginning in September 2011 and continuing until August 2021. The bonds are payable from revenues derived from operation of the District's system, and are secured by a lien upon these revenues. The 2011 revenue bonds outstanding amounted to \$5,028,544 and \$5,566,753 at June 30, 2013, and 2012, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

Bonds payable (continued)

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

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

| Years ended     | Principal            | Interest             | Total                |
|-----------------|----------------------|----------------------|----------------------|
| <u>June 30,</u> |                      |                      |                      |
| 2014            | \$ 3,055,889         | \$ 1,671,734         | \$ 4,727,623         |
| 2015            | 3,614,879            | 1,596,600            | 5,211,479            |
| 2016            | 3,699,826            | 1,514,399            | 5,214,225            |
| 2017            | 3,800,763            | 1,416,394            | 5,217,157            |
| 2018            | 3,917,724            | 1,303,232            | 5,220,956            |
| 2019-2023       | 21,562,407           | 4,500,744            | 26,063,151           |
| 2024-2028       | 12,880,817           | 907,362              | 13,788,179           |
| 2029-2030       | 823,511              | 28,958               | 852,469              |
|                 | <u>\$ 53,355,816</u> | <u>\$ 12,939,423</u> | <u>\$ 66,295,239</u> |

| For those<br>bonds due<br>June 30, | Revenue<br>bonds dated<br>Feb. 2, 2006 | General Obligation<br>bonds dated<br>Oct. 3, 2007 | Revenue<br>bonds dated<br>Aug. 24, 2010 | General Obligation<br>bonds dated<br>Sept. 28, 2010 | Revenue<br>bonds dated<br>Nov. 29, 2012 |
|------------------------------------|--|---|---|---|---|
| 2014                               | 3.625%                                 | 4.000%  | 3.000%                                  | 2.000%  | 0.642%                                  |
| 2015                               | 3.625%                                 | 4.000%  | 3.000%                                  | 2.000%  | 0.878%                                  |
| 2016                               | 3.75% - 4.00%                          | 4.000%  | 4.000%                                  | 2.000%  | 1.222%                                  |
| 2017                               | 4.000%                                 | 4.000%  | 4.000%                                  | 2.250%  | 1.372%                                  |
| 2018                               | 4.000%                                 | 4.000%  | 4.000%                                  | 3.000%  | 1.667%                                  |
| 2019                               | 4.000%                                 | 4.000%  | 4.000%                                  | 3.000%  | 1.917%                                  |
| 2020 - 22                          | 4.000%                                 | 4.000%  | 4.000%                                  | 3.000%  | 2.339%                                  |
| 2023                               | 4.100%                                 | 4.000%  | 4.000%                                  | 3.000%  | 2.339%                                  |
| 2024                               | 4.125%                                 | 4.000%  | 4.000%                                  | 3.000%  | 2.839%                                  |
| 2025                               | -                                      | 4.000%  | 4.000%                                  | 3.000%  | -                                       |
| 2026 - 27                          | -                                      | 4.000%  | 4.000%                                  | 3.125%  | -                                       |
| 2028                               | -                                      | -   | 4.000%                                  | 3.250%  | -                                       |
| 2029                               | -                                      | -   | 3.875%                                  | 3.375%  | -                                       |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
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**Note 7 – Non-current liabilities**

The non-current liability activity during fiscal years 2013 and 2012 was as follows:

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

|                        | June 30,<br>2011     | Additions           | Reductions            | June 30,<br>2012     | Amounts due<br>within one<br>year |
|------------------------|----------------------|---------------------|-----------------------|----------------------|-----------------------------------|
| Revenue bonds          | \$ 36,906,574        | \$ 6,003,544        | \$ (1,905,166)        | \$ 41,004,952        | \$ 2,641,015                      |
| GO bonds               | 11,866,601           | -                   | (553,523)             | 11,313,078           | 572,469                           |
| Notes payable          | 9,325,117            | -                   | (6,259,507)           | 3,065,610            | 164,340                           |
| Bond discount/premium  | 922,848              | -                   | (110,515)             | 812,333              | -                                 |
| Sub Total              | <u>\$ 59,021,140</u> | <u>\$ 6,003,544</u> | <u>\$ (8,828,711)</u> | <u>\$ 56,195,973</u> | <u>\$ 3,377,824</u>               |
| Less current portion   | <u>(2,678,744)</u>   |                     |                       | <u>(3,377,824)</u>   |                                   |
| Noncurrent liabilities | <u>\$ 56,342,396</u> |                     |                       | <u>\$ 52,818,149</u> |                                   |

**Note 8 – Deferred amount on refunding**

In April 2004, the District issued revenue bonds amounting to \$17,575,000 with varying interest rates to advance refund a portion of the 1995 and 1996 revenue bonds amounting to \$18,110,000 which had varying interest rates. The 1995 bond previously refunded general obligation and revenue bonds totaling \$6,170,000. The 1995 and 1996 revenue bonds were set to mature in 2020 and 2016, respectively. Part of 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 2004 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 \$1,906,345, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,232,494. The District is amortizing the deferred amount on early retirement of \$2,234,714 over the 17-year average life of the refunded bonds. The unamortized balance at June 30, 2012 was \$1,150,220. In November 2012, the 2004 bonds were advance refunded by the issuance of series 2012A revenue bonds.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

On February 2, 2006 the District issued revenue bonds amounting to \$18,770,000 with varying interest rates to advance refund series 1998 revenue bonds amounting to \$17,825,000 of principal which were to mature in 2024. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2006 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$1.28 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$886,805. The District is amortizing the deferred loss on early retirement of \$1,133,015 over the 18-year life of the refunded bonds. The unamortized balance at June 30, 2013 and 2012 was \$661,806 and \$725,370, respectively.

In June 2010, the District issued revenue bonds amounting to \$190,722 with varying interest rates to advance refund series 2000B revenue bonds amounting to \$530,000 of principal which were to mature in 2020. Part of the proceeds of the new revenue bond issuance was used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2010 advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$84,295, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,268. The District is amortizing the deferred amount on early retirement of \$17,137 over the 10-year life of the refunded bonds. The unamortized balance at June 30, 2013 and 2012 was \$11,996 and \$13,710, respectively.

In November 2012, the District issued revenue bonds amounting to \$12,275,000 with varying interest rates to advance refund series 2004 revenue bonds amounting to \$17,575,000 which had varying interest rates and a balance of \$11,740,000 at the time of the refunding. The 2004 bonds previously refunded revenue bonds totaling \$18,110,000. The 2004 revenue bonds were set to mature in 2021. The proceeds of the new revenue bond issue were used to purchase funds within an irrevocable trust with an escrow agent to provide debt service payments on the previously existing debt issues. The 2012A advance refunding met the requirements of an in-substance debt defeasance, and those bonds were removed from the books of the District. As a result of the advance refunding, the District reduced its total debt service requirements by \$527,149, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$206,473. The District is amortizing the deferred amount on early retirement of \$1,240,395 over the 8.33 year remaining life of the refunded bonds. The unamortized balance at June 30, 2013 was \$1,153,568.

**Note 9 – Restricted Assets**

A reserve fund for debt service is mandated by bond covenants. At June 30, 2013 and 2012 the debt service reserves totaled \$2,885,019 and \$3,419,743, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 9 – Restricted Assets (continued)**

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

At June 30, 2013 and 2012, the District had \$729,808 and \$12,747, respectively, held by US Bank and the Beaufort County Treasurer relating to the November 29, 2012 series 2012B revenue bond issuance and September 28, 2010 GO bond issuance, respectively. Use of these funds is restricted for waterworks and sewer system improvement and constructing, furnishing and equipping a new Aquifer Storage and Recovery well, respectively.

**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 \$565,751 and \$482,532 for the years ended June 30, 2013 and 2012, respectively.

The future minimum lease income is as follows:

| Years ended |                     |
|-------------|---------------------|
| June 30,    | Amount              |
| 2014        | \$ 529,215          |
| 2015        | 384,409             |
| 2016        | 276,622             |
| 2017        | 187,053             |
| 2018        | 63,405              |
| Thereafter  | -                   |
| Total       | <u>\$ 1,440,704</u> |

**Note 11 - Economic dependence**

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

**Note 12 – Insurance recoveries**

The District records insurance recoveries as an offset to the related expense. The District received \$57,911 and \$-0- for insurance recoveries during the years ended June 30, 2013 and 2012, respectively.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 13 - Construction and development commitments**

**Policy**

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

**Regulatory mandates**

The District, as well as some other water authorities on Hilton Head Island, South Carolina, has entered into contracts for additional water supply sources to meet its future needs due to restrictions placed on the District by the South Carolina Department of Health and Environmental Control. The restrictions and contract for water supply have a significant financial impact on the District. During the years ended June 30, 1998 and June 30, 2003, the District signed agreements with Beaufort Jasper Water & Sewer Authority (BJWSA) to provide an additional water supply for the District's service area. Since completion of the water supply construction, the District is required under the agreement to purchase a minimum amount of water per day, based upon BJWSA's operation and maintenance cost for providing the water. Purchases from BJWSA amounted to \$951,201 and \$1,045,581 for the years ended June 30, 2013 and 2012, respectively.

**Expansion**

As part of an overall funding plan for expansion of the District's present facilities, the District has entered into various contracts with developers and others. Under these contracts, contributions of capital assets valued at \$474,097 and \$954,150 and payments of capacity fees totaling \$79,240 and \$394,546 were collected during the fiscal years ended June 30, 2013 and 2012, respectively. All developer contract commitments entered into prior to the current expansion program have been substantially met. The District extended its boundaries to include those undeveloped areas on the northern part of the island under developer contracts. The cost of expansion is allocated to the developers based upon capacity requested. The infrastructure necessary to connect or serve the developers' property will be constructed by the developers and contributed to the District at no cost to the District.

**Construction commitments**

The District had outstanding construction contract commitments of \$676,261 and \$0 at June 30, 2013 and 2012, 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 2026. Assessments receivable totaled \$3,010,122 and \$3,425,880 as of June 30, 2013 and 2012, respectively. A portion of the annual receipts is recognized as interest income each year. For the years ended June 30, 2013 and 2012, \$159,149 and \$184,358, respectively, of the assessments collected was recognized as interest income.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**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, 2013 and 2012 were \$187,626 and \$169,878, respectively. The matching contribution for the years ended June 30, 2013 and 2012 was \$8,598 and \$15,851, respectively.

**South Carolina Retirement System**

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

As a condition of employment, all employees are required to become members of the SCRS and contribute 7.0%, 6.5%, and 6.5% of compensation for the years ended June 30, 2013, 2012, and 2011, respectively. However, employees who worked for the District on the date of its admission into the Retirement System could elect non-membership within six-months. The District's required contributions for the years ended June 30, 2013, 2012 and 2011 were 10.45%, 9.385%, and 9.24%, respectively. The District's matching contribution for the years ended June 30, 2013, 2012 and 2011 were \$222,189, \$193,454 and \$171,769, respectively. For each of the years, the District contributed 100% of the required contribution to the SCRS.

For the years ended June 30, 2013, 2012 and 2011, \$2,126,201, \$2,061,190, and \$1,858,973, respectively, of wages were subject to retirement. During the years ended June 30, 2013, 2012 and 2011, \$148,834, \$133,978, and \$120,833, respectively, were contributed to the system for the employees' share.

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

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



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

**South Carolina Retirement System (continued)**

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

For each plan the maximum employee contribution are as follows:

| Plan year                | 2013      | 2012      |
|--------------------------|-----------|-----------|
| Under 50 years of age    | \$ 17,500 | \$ 17,000 |
| 50 years of age and over | \$ 23,000 | \$ 22,500 |

**Note 16 - Other commitments and contingencies**

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

**Note 17 - Net position**

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

|   | As of June 30, |               |
|---|----------------|---------------|
|   | 2013           | 2012          |
| <b>Invested in capital assets, net of related liabilities</b> |                |               |
| Net property, plant and equipment in service                  | \$ 77,923,407  | \$ 80,998,121 |
| Less: Debt as disclosed in Notes 6 & 7                        | (53,355,817)   | (55,383,640)  |
| Cash for construction   | 729,808        | 12,746        |
| Bond premium, net   | (45,050)       | (812,333)     |
| Deferred amount on refunding, net                             | 1,827,370      | 1,889,269     |
| Prepaid insurance - bonds                                     | 96,149         | 105,306       |
| Accounts payable for capital assets                           | (159,653)      | (188,348)     |
|   | 27,016,214     | 26,621,121    |
| <b>Restricted for debt service</b>                            | 2,885,019      | 3,419,743     |
| <b>Unrestricted</b>   | 6,262,603      | 6,792,494     |
| Total net position  | \$ 36,163,836  | \$ 36,833,358 |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**Note 18 – Restatement of Beginning Net Position – Bond Issuance Costs**

In accordance with the District's adoption of GASB Statement No. 65, bond issuance costs, excluding those related to prepaid insurance costs, are expensed as incurred. Pursuant to the adoption of this statement, its unamortized bond issuance costs that were incurred and capitalized from 2000 to 2011 were written off as an adjustment to beginning net position. The cumulative adjustment totaled \$992,288. Additionally, 2012 deferred outflows from refunding were reduced by \$95,612 from the amount previously reported to adjust for the inclusion of bond issuance costs in the calculation of deferred loss on refunding of a refunding completed during the year ended June 30, 2012. Bond issuance costs totaled \$226,335 and \$31,250 for the years ended June 30, 2013 and 2012, respectively, and are shown as an expense on the statement of revenues, expenses and changes in net position in accordance with GASB No. 65.

# **SUPPLEMENTAL FINANCIAL INFORMATION**

**Table A-1**  
**Hilton Head PSD**  
**Budgetary Comparison Schedule**  
**Year to Date as of June 30, 2013**

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

|   | Fiscal Year 2013        |                      | FY 2013 to FY 2013 Budget |               |
|---|-------------------------|----------------------|---------------------------|---------------|
|   | Actual                  | Budget               | Dollars                   | %             |
|   | Favorable (Unfavorable) |                      |                           |               |
| <b>Operating Revenues</b>                               |                         |                      |                           |               |
| Water Service   | \$ 5,951,546            | \$ 6,110,400         | \$ (158,854)              | -2.6%         |
| Sewer Service   | 4,623,093               | 4,540,600            | 82,493                    | 1.8%          |
| Tap In Fees - Water                                     | 61,925                  | 35,000               | 26,925                    | 76.9%         |
| Connection Fees - Sewer                                 | 109,475                 | 25,000               | 84,475                    | 337.9%        |
| Service Fees  | 36,645                  | 48,000               | (11,355)                  | -23.7%        |
| Golf Course Irrigation                                  | 319,041                 | 346,700              | (27,659)                  | -8.0%         |
| Availability Fees                                       | 623,076                 | 650,200              | (27,124)                  | -4.2%         |
| Other Operating Revenues                                | 14,727                  | 17,200               | (2,473)                   | -14.4%        |
| <b>Total Operating Revenues</b>                         | <b>11,739,528</b>       | <b>11,773,100</b>    | <b>(33,572)</b>           | <b>-0.3%</b>  |
| <b>Departmental Expenses</b>                            |                         |                      |                           |               |
| Payroll & Related                                       | 3,474,067               | 3,559,300            | 85,233                    | 2.4%          |
| Administrative Expenses                                 | 783,768                 | 817,100              | 33,332                    | 4.1%          |
| Operations  | 1,686,667               | 1,765,400            | 78,733                    | 4.5%          |
| Maintenance   | 1,038,224               | 1,025,400            | (12,824)                  | -1.3%         |
| Water Tap In Expenses                                   | 38,249                  | 29,200               | (9,049)                   | -31.0%        |
| Sewer Connection Expenses                               | 84,143                  | 20,800               | (63,343)                  | -304.5%       |
| Purchased Water   | 817,441                 | 877,000              | 59,559                    | 6.8%          |
| ASR-1 Water   | 133,760                 | 178,700              | 44,940                    | 25.1%         |
| RO Plant O&M  | 607,876                 | 598,000              | (9,876)                   | -1.7%         |
| ASR-1 O&M   | 30,868                  | 38,300               | 7,432                     | 19.4%         |
| Professional Fees                                       | 265,786                 | 267,000              | 1,214                     | 0.5%          |
| Vehicle   | 126,999                 | 140,800              | 13,801                    | 9.8%          |
| <b>Total Departmental Expenses</b>                      | <b>9,087,850</b>        | <b>9,317,000</b>     | <b>229,150</b>            | <b>2.5%</b>   |
| Depreciation  | 4,557,446               | 4,455,200            | (102,246)                 | -2.3%         |
| <b>Total Operating Expenses</b>                         | <b>13,645,296</b>       | <b>13,772,200</b>    | <b>126,904</b>            | <b>0.9%</b>   |
| <b>Operating income (loss)</b>                          | <b>(1,905,768)</b>      | <b>(1,999,100)</b>   | <b>93,332</b>             | <b>4.7%</b>   |
| <b>Non-operating revenues</b>                           |                         |                      |                           |               |
| Property taxes-G.O. Debt Levy                           | 1,195,990               | 1,204,000            | (8,010)                   | -0.7%         |
| Property taxes-Operations Levy                          | 1,016,558               | 1,039,300            | (22,742)                  | -2.2%         |
| Rental Income   | 79,641                  | 95,500               | (15,859)                  | -16.6%        |
| Interest earned   | 168,990                 | 299,400              | (130,410)                 | -43.6%        |
| Tower lease   | 506,687                 | 509,600              | (2,913)                   | -0.6%         |
| <b>Total Non-operating Revenues</b>                     | <b>2,967,865</b>        | <b>3,147,800</b>     | <b>(179,935)</b>          | <b>-5.7%</b>  |
| <b>Non-operating Expenses</b>                           |                         |                      |                           |               |
| Interest expense-Bonds                                  | 1,842,617               | 1,954,200            | 111,583                   | 5.7%          |
| Bond Defeasance Amortization                            | 206,847                 | 241,600              | 34,753                    | 14.4%         |
| Amortization of Bond Insurance                          | 9,157                   | -                    | (9,157)                   | N/A           |
| Amortization of Debt Expenses                           | -                       | 82,600               | (143,735)                 | -174.0%       |
| Bond Premium Amortization                               | 226,335                 | -                    | (226,335)                 | N/A           |
| <b>Total Non-operating Expenses</b>                     | <b>2,284,955</b>        | <b>2,278,400</b>     | <b>(6,555)</b>            | <b>-0.3%</b>  |
| <b>Total Non-operating Revenues/Exp.</b>                | <b>682,909</b>          | <b>869,400</b>       | <b>(186,491)</b>          | <b>-21.5%</b> |
| <b>Increase (decrease) in net assets,</b>               |                         |                      |                           |               |
| <b>before capital contributions</b>                     | <b>(1,222,859)</b>      | <b>(1,129,700)</b>   | <b>(93,159)</b>           | <b>8.2%</b>   |
| Water Capacity Fee                                      | 33,640                  | 50,000               | (16,360)                  | -32.7%        |
| Sewer Capacity Fee                                      | 45,600                  | 230,700              | (185,100)                 | -80.2%        |
| Developer Contributions of Systems                      | 474,097                 | -                    | 474,097                   | N/A           |
| <b>Total Capital Contributions</b>                      | <b>553,337</b>          | <b>280,700</b>       | <b>272,637</b>            | <b>97.1%</b>  |
| <b>Change in net position</b>                           | <b>\$ (669,522)</b>     | <b>\$ (849,000)</b>  | <b>\$ 179,478</b>         | <b>21.1%</b>  |
| <b>Net position, beginning of the year, as restated</b> | <b>\$ 36,833,358</b>    | <b>\$ 36,833,358</b> |                           |               |
| <b>Net position, end of year</b>                        | <b>\$ 36,163,836</b>    | <b>\$ 35,984,358</b> |                           |               |

## Notes to Budgetary Comparison Schedule

### *Budgetary Highlights*

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

Operating Revenues: Actual of \$11,739,528 vs. FY' 13 Budget of \$11,773,100 represents a variance of \$33,572 or 0.3% less than budget.

The following is a summary of material variances for the Operating Revenue categories:<sup>7</sup>

- Water service revenues are below budget by \$158,854 or 2.6% despite a \$1.00 water base rate increase effective January 1, 2013. Fiscal year billed water consumption is down 50.9 million gallons or 2.6% when compared to last fiscal year.
- Sewer service revenues are above budget by \$82,493 or 1.8% due a \$1.00 sewer base rate increase effective January 1, 2013. While water consumption levels were down for fiscal year 2013, sewer service revenues are typically not as adversely affected due to the sewer cap at 10,000 gallons per months.
- Water tap in fees are \$26,925 or 77% over budget. As discussed on pages 25 & 26 in the Financial Highlights section, water and irrigation customer counts have increased significantly as compared to last fiscal year.
- Sewer connection fees are \$84,475 or 338% above budget. As discussed on page 26 in the Financial Highlights section, sewer connections have also been much higher for this fiscal year when compared to the last fiscal year.

Total Departmental Expenses (excludes depreciation): Total departmental expenses are \$229,150 or 2.5% under budget. The following is a summary of material variances for the Departmental Expenses categories:<sup>1</sup>

- Payroll and Related Expenses: Actual of \$3,474,067 vs. FY' 13 Budget of \$3,559,300 is \$85,233 or 2.4% lower than budget. This is mainly due to reduced staff. (Note: As of March 31, 2013 the Board Honorarium's have been moved from Administrative expenses to Payroll and related expenses.)
- Operations Expense: Actual of \$1,686,667 vs. FY' 13 Budget of \$1,765,400 is \$78,733 or 4.5% lower than budget. There has been lower than anticipated operations chemical and power costs due to lower water consumption.
- Water Tap In and Sewer Connection Expense: Both Water Tap In and Sewer Connection Expenses are above budget. This is mainly due to a significant increase for both customer water tap ins and sewer connections as compared to last fiscal year.

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<sup>7</sup> In most cases, a variance of more than \$50,000 or 10 percent constitutes a material variance for this report.

- Purchased Water Expense: Actual of \$817,441 vs. FY'13 Budget of \$877,000 is \$59,559 or 6.8% below budget. This is mainly due to the decreased customer water consumption for the year, increased RO Plant production, and increased ASR-1 withdrawal. For fiscal year 2013, the RO plant increased production by 72.65 million gallons and ASR-1 withdrawal increased by 146.94 million gallons when compared to fiscal year 2012.
- ASR-1 Water Expense: ASR-1 water expense relates to water that has been drawn out of the ASR well for customer use. Actual of \$133,760 vs. FY'13 Budget of \$178,700 is \$44,940 below budget. The amount of water withdrawn from the ASR-1 well was lower than anticipated (Actual 168.2 million gallons vs. Budgeted 240.0 million gallons).
- ASR-1 O&M: This line item covers the chemical and power expense associated with the ASR-1 well. Actual of \$30,867 vs. FY'13 Budget of \$38,300 is \$7,433 or 19% below budget due to lower than expected water withdrawal from the ASR-1 well.

Total Non-Operating Revenues: Actual of \$2,967,865 vs. FY'13 Budget of \$3,147,800 represents a variance of \$179,935 or 5.7% below budget. This variance is mainly due to lower than budgeted interest income.

Total Non-Operating Expenses: Actual of \$2,284,955 vs. FY'13 Budget of \$2,278,400 represents a variance of \$6,555 or 0.3% below budget. Lower than expected bond interest expense due to the refunding of the Series 2004 bonds in November 2012 was offset by higher amortization of debt expenses associated with the implementation of GASB Statement No.65.

Capital Contributions: Actual Capacity Fees of \$79,240 vs. FY'13 Budget of \$280,700 represents a variance of \$201,460 below budget. The developer contribution of systems category has a balance of \$474,097. During September the District was reimbursed funds from the Town of Hilton Head related to the Stoney sewer extension project and the William Hilton Parkway low pressure sewer project. Both developer contributions of systems and assessments are non-budgeted items.

Bond Disclosure: The debt service calculation is in compliance with necessary requirements and is equal to 126% as of June 30, 2013.

Fiscal year 2013's decrease in net assets was \$669,522, which was \$179,478 under the projected decrease in net assets of \$849,000.

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**

SUMMARY SCHEDULE OF DEBT

JUNE 30, 2013

| <u>Description</u>                         | <u>Rate</u>      | <u>06/30/2011</u>           | <u>Addition</u>  | <u>Reduction</u>   | <u>6/30/2012</u>            | <u>Addition</u>   | <u>Reduction</u>    | <u>06/30/2013</u>           | <u>Current</u>   |
|--|------------------|-----------------------------|------------------|--------------------|-----------------------------|-------------------|---------------------|-----------------------------|------------------|
| <b>Notes Payable</b>                       |                  |                             |                  |                    |                             |                   |                     |                             |                  |
| *SCJEDA - Notes Payable                    | 0.00%            | \$ 205,939                  | \$ -             | \$ (18,000)        | \$ 187,939                  | \$ -              | \$ (18,000)         | \$ 169,939                  | \$ 18,000        |
| <b>Revenue Bonds</b>                       |                  |                             |                  |                    |                             |                   |                     |                             |                  |
| Series 2004                                | 2.00% to 5.00%   | 13,900,000                  | -                | (775,000)          | 13,125,000                  | -                 | (13,125,000)        | -                           | -                |
| Series 2004B                               | 5.19%            | 243,939                     | -                | (13,615)           | 230,324                     | -                 | (14,320)            | 216,004                     | 15,064           |
| Series 2006                                | 3.50 to 4.13%    | 17,665,000                  | -                | (460,000)          | 17,205,000                  | -                 | (480,000)           | 16,725,000                  | 490,000          |
| Series 2007                                | 4.22%            | 799,953                     | -                | (36,013)           | 763,940                     | -                 | (37,532)            | 726,408                     | 39,116           |
| Series 2009A                               | 4.55%            | 338,842                     | -                | (17,836)           | 321,006                     | -                 | (18,648)            | 302,358                     | 19,496           |
| Series 2010                                | 2.00% to 4.00%   | 3,400,000                   | -                | (130,000)          | 3,270,000                   | -                 | (130,000)           | 3,140,000                   | 135,000          |
| Series 2010A                               | 3.85%            | 174,438                     | -                | (16,585)           | 157,853                     | -                 | (17,223)            | 140,630                     | 17,887           |
| Series 2011                                | 3.91%            | 384,402                     | -                | (19,326)           | 365,076                     | -                 | (20,083)            | 344,993                     | 20,867           |
| Series 2011B                               | 2.89%            | -                           | 6,003,544        | (436,791)          | 5,566,753                   | -                 | (538,209)           | 5,028,544                   | 553,971          |
| Series 2012A                               | 0.542% to 2.839% | -                           | -                | -                  | -                           | 12,275,000        | -                   | 12,275,000                  | 1,000,000        |
| Series 2012B                               | 2.15%            | -                           | -                | -                  | -                           | 815,000           | -                   | 815,000                     | -                |
| <b>Total Revenue Bonds</b>                 |                  | <b>36,906,574</b>           | <b>6,003,544</b> | <b>(1,905,166)</b> | <b>41,004,952</b>           | <b>13,090,000</b> | <b>(14,381,015)</b> | <b>39,713,937</b>           | <b>2,291,401</b> |
| <b>State Revolving Fund Loans:</b>         |                  |                             |                  |                    |                             |                   |                     |                             |                  |
| SRF - Series 2000A Revenue Bond            | 3.50%            | 6,100,698                   | -                | (6,100,698)        | -                           | -                 | -                   | -                           | -                |
| SRF - Series 2007 GO Bonds                 | 2.25% / 3.00%    | 2,585,417                   | -                | (122,175)          | 2,463,242                   | -                 | (127,046)           | 2,336,196                   | 129,928          |
| SIRF Series 2007 GO Bonds                  | 3.50%            | 433,063                     | -                | (18,634)           | 414,429                     | -                 | (19,295)            | 395,134                     | 19,979           |
| <b>Total State Revolving Loans</b>         |                  | <b>9,119,178</b>            | <b>-</b>         | <b>(6,241,507)</b> | <b>2,877,671</b>            | <b>-</b>          | <b>(146,341)</b>    | <b>2,731,330</b>            | <b>149,907</b>   |
| <b>General Obligation Bonds:</b>           |                  |                             |                  |                    |                             |                   |                     |                             |                  |
| Series 2007                                | 4.00% to 4.50%   | 6,520,000                   | -                | (300,000)          | 6,220,000                   | -                 | (310,000)           | 5,910,000                   | 325,000          |
| Series 2009                                | 4.22%            | 1,576,601                   | -                | (93,523)           | 1,483,078                   | -                 | (97,468)            | 1,385,610                   | 101,581          |
| Series 2010                                | 2.00% to 3.38%   | 3,770,000                   | -                | (160,000)          | 3,610,000                   | -                 | (165,000)           | 3,445,000                   | 170,000          |
| <b>Total General Obligation Bonds</b>      |                  | <b>11,866,601</b>           | <b>-</b>         | <b>(553,523)</b>   | <b>11,313,078</b>           | <b>-</b>          | <b>(572,468)</b>    | <b>10,740,610</b>           | <b>596,581</b>   |
| Total Long-Term Liabilities                |                  | \$ 58,098,292               | \$ 6,003,544     | \$ (8,718,196)     | \$ 55,383,640               | \$ 13,090,000     | \$ (15,117,824)     | \$ 53,355,816               | \$ 3,055,889     |
| Less current portion                       |                  | <u>(2,678,744)</u>          |                  |                    | <u>(3,377,824)</u>          |                   |                     | <u>(3,055,889)</u>          |                  |
| Bond discount/premium, net of amortization |                  | 922,848                     |                  |                    | 812,333                     |                   |                     | 45,050                      |                  |
| <b>Total Long Term Debt</b>                |                  | <b><u>\$ 56,342,396</u></b> |                  |                    | <b><u>\$ 52,818,149</u></b> |                   |                     | <b><u>\$ 50,344,977</u></b> |                  |

**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF BOND PRINCIPAL AND INTEREST PAYMENTS**  
**JUNE 30, 2013**

| For the<br>Year ending<br>June 30, | \$190,722<br>Series 2010A Revenue Bond:<br>Dated June 16, 2010 |                   | \$430,000<br>Revenue Bond<br>Dated August 10, 2004 |                   | \$18,770,000<br>Revenue Bonds<br>Dated February 2, 2006 |                      | \$930,000<br>Revenue Bond<br>Dated June 20, 2007 |                   | \$7,350,000<br>GO Bond<br>Dated October 3, 2007 |                     | \$335,902<br>Series 2009A FFA<br>Dated July 30, 2009 |                   | \$1,781,694<br>Series 2009 GO Bond<br>Dated July 30, 2009 |                     |
|------------------------------------|--|-------------------|--|-------------------|---|----------------------|--|-------------------|---|---------------------|--|-------------------|---|---------------------|
|                                    | Interest   | Principal         | Interest   | Principal         | Interest  | Principal            | Interest   | Principal         | Interest  | Principal           | Interest   | Principal         | Interest  | Principal           |
|                                    | 2014   | 5,414             | 17,886   | 11,211            | 15,064  | 663,443              | 490,000  | 30,654            | 39,116  | 236,400             | 325,000  | 13,757            | 19,496  | 58,459              |
| 2015                               | 4,726  | 18,575            | 10,428   | 15,846            | 645,318   | 510,000              | 29,004   | 40,767            | 223,400   | 335,000             | 12,870   | 20,383            | 54,173  | 105,867             |
| 2016                               | 4,010  | 19,290            | 9,606  | 16,669            | 625,574   | 525,000              | 27,283   | 42,487            | 210,000   | 350,000             | 11,943   | 21,311            | 49,707  | 110,333             |
| 2017                               | 3,268  | 20,033            | 8,741  | 17,534            | 594,068   | 1,055,000            | 25,490   | 44,280            | 196,000   | 365,000             | 10,973   | 22,280            | 45,052  | 114,988             |
| 2018                               | 2,497  | 20,804            | 7,831  | 18,444            | 551,061   | 1,100,000            | 23,622   | 46,149            | 181,400   | 380,000             | 9,959  | 23,294            | 40,200  | 119,839             |
| 2019                               | 1,696  | 21,605            | 6,874  | 19,401            | 506,161   | 1,145,000            | 21,674   | 48,097            | 166,200   | 390,000             | 8,900  | 24,354            | 35,144  | 124,895             |
| 2020                               | 864  | 22,437            | 5,867  | 20,408            | 459,461   | 1,190,000            | 19,645   | 50,126            | 150,600   | 405,000             | 7,791  | 25,462            | 29,875  | 130,165             |
| 2021                               | -  | -                 | 4,808  | 21,467            | 410,761   | 1,245,000            | 17,529   | 52,242            | 134,400   | 420,000             | 6,633  | 26,620            | 24,383  | 135,656             |
| 2022                               | -  | -                 | 3,694  | 22,581            | 325,361   | 3,025,000            | 15,325   | 54,446            | 117,600   | 440,000             | 5,422  | 27,832            | 18,660  | 141,380             |
| 2023                               | -  | -                 | 2,522  | 23,753            | 200,184   | 3,155,000            | 13,027   | 56,744            | 100,000   | 460,000             | 4,155  | 29,098            | 12,695  | 147,345             |
| 2024                               | -  | -                 | 1,289  | 24,837            | 67,753  | 3,285,000            | 10,632   | 59,138            | 81,600  | 480,000             | 2,831  | 30,422            | 6,479   | 153,561             |
| 2025                               | -  | -                 | -  | -                 | -   | -                    | 8,137  | 61,634            | 62,400  | 500,000             | 1,447  | 31,806            | -   | -                   |
| 2026                               | -  | -                 | -  | -                 | -   | -                    | 5,536  | 64,235            | 42,400  | 520,000             | -  | -                 | -   | -                   |
| 2027                               | -  | -                 | -  | -                 | -   | -                    | 2,825  | 66,946            | 21,600  | 540,000             | -  | -                 | -   | -                   |
| 2028                               | -  | -                 | -  | -                 | -   | -                    | -  | -                 | -   | -                   | -  | -                 | -   | -                   |
| 2029                               | -  | -                 | -  | -                 | -   | -                    | -  | -                 | -   | -                   | -  | -                 | -   | -                   |
| 2030                               | -  | -                 | -  | -                 | -   | -                    | -  | -                 | -   | -                   | -  | -                 | -   | -                   |
|                                    | <u>\$ 22,474</u>   | <u>\$ 140,630</u> | <u>\$ 72,871</u>                                   | <u>\$ 216,004</u> | <u>\$ 5,049,144</u>                                     | <u>\$ 16,725,000</u> | <u>\$ 250,383</u>                                | <u>\$ 726,407</u> | <u>\$ 1,924,000</u>                             | <u>\$ 5,910,000</u> | <u>\$ 96,682</u>                                     | <u>\$ 302,358</u> | <u>\$ 374,827</u>   | <u>\$ 1,385,610</u> |
| Current                            |  | <u>\$ 17,886</u>  |  | <u>\$ 15,064</u>  |   | <u>\$ 490,000</u>    |  | <u>\$ 39,116</u>  |   | <u>\$ 325,000</u>   |  | <u>\$ 19,496</u>  |   | <u>\$ 101,581</u>   |
| Noncurrent                         |  | <u>\$ 122,743</u> |  | <u>\$ 200,940</u> |   | <u>\$ 16,235,000</u> |  | <u>\$ 687,291</u> |   | <u>\$ 5,585,000</u> |  | <u>\$ 282,862</u> |   | <u>\$ 1,284,029</u> |

| For the<br>Year ending<br>June 30, | \$3,400,000<br>Revenue Bond<br>Dated August 24, 2010 |                     | \$3,970,000<br>GO Bond<br>Dated September 25, 2010 |                     | \$6,003,544<br>Revenue Bond<br>Dated August 24, 2011 |                     | \$384,000<br>Revenue Bond<br>Dated April 27, 2011 |                   | \$12,275,000<br>Revenue Bond 2012 A<br>Dated November 29, 2012 |                      | \$815,000<br>Revenue Bond 2012 B<br>Dated November 29, 2012 |                   | <b>BOND TOTALS</b>   |                      |                      |
|------------------------------------|--|---------------------|--|---------------------|--|---------------------|---|-------------------|--|----------------------|---|-------------------|----------------------|----------------------|----------------------|
|                                    | Interest   | Principal           | Interest   | Principal           | Interest   | Principal           | Interest  | Principal         | Interest   | Principal            | Interest  | Principal         | Total<br>Interest    | Total<br>Principal   | Total                |
|                                    | 2014   | 118,250             | 135,000  | 99,050              | 170,000  | 138,025             | 553,971   | 13,489            | 20,867   | 201,017              | 1,000,000   | 17,523            | -                    | 1,606,692            | 2,887,982            |
| 2015                               | 114,125  | 140,000             | 95,650   | 175,000             | 121,802  | 570,194             | 12,673  | 21,683            | 193,524  | 1,490,000            | 17,523  | -                 | 1,535,215            | 3,443,315            | 4,978,530            |
| 2016                               | 109,925  | 140,000             | 92,150   | 180,000             | 105,103  | 586,893             | 11,826  | 22,531            | 182,112  | 1,510,000            | 17,523  | -                 | 1,456,762            | 3,524,514            | 4,981,276            |
| 2017                               | 104,825  | 150,000             | 88,550   | 185,000             | 87,916   | 604,080             | 10,945  | 23,412            | 169,251  | 1,020,000            | 17,523  | -                 | 1,362,601            | 3,621,607            | 4,984,208            |
| 2018                               | 98,725   | 155,000             | 84,368   | 190,000             | 70,225   | 621,771             | 10,029  | 24,327            | 155,918  | 1,035,000            | 17,523  | -                 | 1,253,358            | 3,734,628            | 4,987,987            |
| 2019                               | 92,425   | 160,000             | 78,688   | 195,000             | 52,015   | 639,981             | 9,078   | 25,278            | 140,067  | 1,050,000            | 17,523  | -                 | 1,136,444            | 3,843,611            | 4,980,056            |
| 2020                               | 85,925   | 165,000             | 72,838   | 200,000             | 33,273   | 658,723             | 8,090   | 26,267            | 121,011  | 1,075,000            | 17,523  | -                 | 1,012,762            | 3,968,587            | 4,981,350            |
| 2021                               | 79,125   | 175,000             | 66,838   | 205,000             | 13,982   | 678,014             | 7,063   | 27,294            | 97,726   | 1,110,000            | 17,523  | -                 | 880,771              | 4,096,293            | 4,977,064            |
| 2022                               | 72,025   | 180,000             | 60,688   | 210,000             | 416  | 114,917             | 5,995   | 28,361            | 84,602   | 10,000               | 17,523  | -                 | 727,310              | 4,254,517            | 4,981,827            |
| 2023                               | 64,625   | 190,000             | 54,388   | 220,000             | -  | -                   | 4,887   | 29,470            | 82,757   | 120,000              | 17,523  | -                 | 556,762              | 4,431,409            | 4,988,172            |
| 2024                               | 56,925   | 195,000             | 47,788   | 230,000             | -  | -                   | 3,734   | 30,622            | 79,279   | 125,000              | 17,523  | -                 | 375,833              | 4,613,580            | 4,989,413            |
| 2025                               | 48,925   | 205,000             | 40,888   | 240,000             | -  | -                   | 2,537   | 31,819            | 38,752   | 2,730,000            | 8,761   | 815,000           | 211,847              | 4,615,260            | 4,827,106            |
| 2026                               | 40,625   | 210,000             | 33,688   | 245,000             | -  | -                   | 1,293   | 33,064            | -  | -                    | -   | -                 | 123,541              | 1,072,299            | 1,195,840            |
| 2027                               | 32,163   | 220,000             | 26,031   | 255,000             | -  | -                   | -   | -                 | -  | -                    | -   | -                 | 82,619               | 1,081,946            | 1,164,565            |
| 2028                               | 23,444   | 230,000             | 18,063   | 265,000             | -  | -                   | -   | -                 | -  | -                    | -   | -                 | 41,506               | 495,000              | 536,506              |
| 2029                               | 14,338   | 240,000             | 9,450  | 280,000             | -  | -                   | -   | -                 | -  | -                    | -   | -                 | 23,788               | 520,000              | 543,788              |
| 2030                               | 4,844  | 250,000             | -  | -                   | -  | -                   | -   | -                 | -  | -                    | -   | -                 | 4,844                | 250,000              | 254,844              |
|                                    | <u>\$ 1,161,238</u>                                  | <u>\$ 3,140,000</u> | <u>\$ 969,111</u>                                  | <u>\$ 3,445,000</u> | <u>\$ 622,757</u>                                    | <u>\$ 5,028,544</u> | <u>\$ 101,638</u>                                 | <u>\$ 344,994</u> | <u>\$ 1,546,015</u>  | <u>\$ 12,275,000</u> | <u>\$ 201,509</u>   | <u>\$ 815,000</u> | <u>\$ 12,392,657</u> | <u>\$ 50,454,547</u> | <u>\$ 62,847,203</u> |
| Current                            |  | <u>\$ 135,000</u>   |  | <u>\$ 170,000</u>   |  | <u>\$ 553,971</u>   |   | <u>\$ 20,867</u>  |  | <u>\$ 1,000,000</u>  |   | <u>\$ -</u>       |                      | <u>\$ 2,887,982</u>  |                      |
| Noncurrent                         |  | <u>\$ 3,005,000</u> |  | <u>\$ 3,275,000</u> |  | <u>\$ 4,474,573</u> |   | <u>\$ 324,127</u> |  | <u>\$ 11,275,000</u> |   | <u>\$ 815,000</u> |                      | <u>\$ 47,566,565</u> |                      |



**HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT**  
**SCHEDULE OF NOTE PRINCIPAL AND INTEREST PAYMENTS**  
 JUNE 30, 2013

DRAFT

| For the<br>Year ending<br>June 30, | \$530,000<br>SCJESA Note |            | \$2,887,826<br>SC SRF Laon |              | \$481,080<br>SIRF GO Bond |            | NOTE TOTALS |              |              |
|------------------------------------|--------------------------|------------|----------------------------|--------------|---------------------------|------------|-------------|--------------|--------------|
|                                    | Dated November 30, 1988  |            | Dated October 3, 2007      |              | Dated October 3, 2007     |            | Total       | Total        | Total        |
|                                    | Interest                 | Principal  | Interest                   | Principal    | Interest                  | Principal  | Interest    | Principal    | Total        |
| 2014                               | -                        | 18,000     | 51,473                     | 129,928      | 13,569                    | 19,979     | 65,043      | 167,907      | 232,950      |
| 2015                               | -                        | 18,000     | 48,525                     | 132,877      | 12,861                    | 20,687     | 61,386      | 171,564      | 232,950      |
| 2016                               | -                        | 18,000     | 45,510                     | 135,892      | 12,127                    | 21,421     | 57,637      | 175,312      | 232,950      |
| 2017                               | -                        | 18,000     | 42,427                     | 138,975      | 11,368                    | 22,180     | 53,794      | 179,156      | 232,950      |
| 2018                               | -                        | 18,000     | 39,273                     | 142,129      | 10,581                    | 22,967     | 49,854      | 183,096      | 232,950      |
| 2019                               | -                        | 18,000     | 36,048                     | 145,354      | 9,767                     | 23,781     | 45,815      | 187,135      | 232,950      |
| 2020                               | -                        | 18,000     | 32,750                     | 148,652      | 8,923                     | 24,625     | 41,673      | 191,276      | 232,950      |
| 2021                               | -                        | 18,000     | 29,377                     | 152,025      | 8,050                     | 25,498     | 37,427      | 195,523      | 232,950      |
| 2022                               | -                        | 18,000     | 25,928                     | 155,474      | 7,146                     | 26,402     | 33,073      | 199,876      | 232,950      |
| 2023                               | -                        | 7,939      | 22,500                     | 158,902      | 6,210                     | 27,339     | 28,709      | 194,179      | 222,889      |
| 2024                               | -                        | -          | 18,792                     | 162,610      | 5,240                     | 28,308     | 24,032      | 190,918      | 214,950      |
| 2025                               | -                        | -          | 15,102                     | 166,300      | 4,236                     | 29,312     | 19,338      | 195,611      | 214,950      |
| 2026                               | -                        | -          | 11,329                     | 170,073      | 3,197                     | 30,351     | 14,526      | 200,424      | 214,950      |
| 2027                               | -                        | -          | 7,470                      | 173,932      | 2,120                     | 31,428     | 9,590       | 205,360      | 214,950      |
| 2028                               | -                        | -          | 3,523                      | 177,879      | 1,006                     | 32,542     | 4,529       | 210,421      | 214,950      |
| 2029                               | -                        | -          | 254                        | 45,197       | 73                        | 8,315      | 326         | 53,511       | 53,838       |
|                                    | -                        | -          | -                          | -            | -                         | -          | -           | -            | -            |
|                                    | \$ -                     | \$ 169,939 | \$ 430,280                 | \$ 2,336,196 | \$ 116,474                | \$ 395,134 | \$ 546,754  | \$ 2,901,269 | \$ 3,448,024 |
| Current                            |                          | \$ 18,000  |                            | \$ 129,928   |                           | \$ 19,979  |             | \$ 167,907   |              |
| Noncurrent                         |                          | \$ 151,939 |                            | \$ 2,206,267 |                           | \$ 375,156 |             | \$ 2,733,362 |              |

# STATISTICAL SECTION

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## Statements of Revenues, Expenses, and Debt Service per Bond Covenants<sup>9</sup>

### Last Ten Fiscal Years

|   | 2004                 | 2005               | 2006                | 2007                | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 |
|---|----------------------|--------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Operating Revenues</b>   |                      |                    |                     |                     |                      |                      |                      |                      |                      |                      |
| Water service   | \$4,992,011          | \$4,870,847        | \$5,162,771         | \$5,465,028         | \$5,518,049          | \$5,307,260          | \$5,308,798          | \$5,836,921          | \$5,949,379          | \$5,951,546          |
| Sewer service   | 3,503,456            | 3,525,405          | 3,655,945           | 3,941,776           | 4,059,860            | 3,959,087            | 4,034,068            | 4,208,115            | 4,522,434            | 4,623,093            |
| Tap in fees - water   | 264,670              | 262,564            | 175,964             | 106,768             | 72,569               | 35,133               | 31,305               | 43,041               | 41,861               | 61,925               |
| Tap in fees - sewer   | 272,536              | 294,286            | 72,493              | 19,600              | 11,284               | 2,330                | 117,367              | 71,614               | 83,425               | 109,475              |
| Availability charges  | 443,559              | 400,503            | 546,788             | 504,303             | 540,104              | 547,354              | 570,169              | 610,332              | 638,137              | 623,076              |
| Service fees and penalties  | 32,199               | 41,985             | 42,121              | 38,218              | 38,153               | 50,311               | 70,488               | 73,245               | 51,108               | 36,645               |
| Golf course irrigation  | 181,379              | 157,944            | 216,700             | 261,616             | 301,856              | 243,274              | 230,583              | 358,105              | 338,205              | 319,041              |
| Other operating Revenues  | 29,181               | 12,647             | 7,803               | 16,712              | 16,188               | 19,154               | 35,679               | 80,342               | 15,539               | 14,727               |
| <b>Total Operating Revenues</b>   | <b>\$9,718,991</b>   | <b>\$9,566,181</b> | <b>\$9,880,585</b>  | <b>\$10,354,021</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>Operating Expenses</b>   |                      |                    |                     |                     |                      |                      |                      |                      |                      |                      |
| Payroll and related expenses  | \$2,569,086          | \$2,478,636        | \$2,656,204         | \$2,797,439         | \$3,038,152          | \$3,227,906          | \$3,229,296          | \$3,293,800          | \$3,392,515          | \$3,474,067          |
| Administrative expenses   | 471,599              | 493,016            | 500,965             | 494,394             | 544,208              | 697,194              | 692,053              | 792,437              | 923,287              | 783,768              |
| Operations expenses   | 857,153              | 938,247            | 1,086,507           | 1,098,914           | 1,197,436            | 1,430,222            | 1,410,295            | 1,639,353            | 1,761,310            | 1,686,667            |
| Maintenance expenses  | 683,354              | 630,142            | 637,588             | 626,455             | 733,394              | 677,372              | 768,575              | 1,012,323            | 987,389              | 1,038,224            |
| Water Tap In Expenses   | 118,665              | 191,691            | 172,549             | 93,757              | 79,818               | 26,620               | 23,030               | 64,774               | 37,443               | 38,250               |
| Sewer Connection Expense  | 22,177               | 21,039             | 19,249              | 16,473              | 3,512                | 3,900                | 128,227              | 26,690               | 78,775               | 84,144               |
| Purchased water   | 1,225,760            | 1,394,283          | 1,645,206           | 1,671,703           | 1,596,183            | 1,356,803            | 746,571              | 1,024,455            | 1,028,789            | 817,441              |
| ASR-1 Water   | -                    | -                  | -                   | -                   | -                    | -                    | -                    | -                    | 16,792               | 133,760              |
| RO Plant O&M  | -                    | -                  | -                   | -                   | -                    | 127,852              | 674,039              | 581,270              | 604,539              | 607,876              |
| ASR-1 O&M   | -                    | -                  | -                   | -                   | -                    | -                    | -                    | -                    | 5,275                | 30,868               |
| Professional fees   | 408,970              | 243,961            | 291,336             | 294,484             | 532,391              | 410,736              | 269,207              | 171,575              | 243,600              | 265,786              |
| Vehicle expenses  | 105,783              | 129,805            | 140,672             | 140,654             | 146,335              | 131,379              | 107,292              | 119,162              | 130,473              | 126,999              |
| Depreciation  | 3,208,842            | 3,221,943          | 3,349,668           | 3,540,690           | 3,720,333            | 3,965,632            | 4,405,077            | 4,456,160            | 4,459,807            | 4,557,446            |
| <b>Total Operating Expenses</b>   | <b>\$9,671,389</b>   | <b>\$9,742,763</b> | <b>\$10,499,944</b> | <b>\$10,774,963</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>Operating Income (Loss from operations)</b>                                | <b>\$47,602</b>      | <b>(\$176,582)</b> | <b>(\$619,359)</b>  | <b>(\$420,942)</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>Non-operating revenues (expenses)</b>                                      |                      |                    |                     |                     |                      |                      |                      |                      |                      |                      |
| Property taxes-debt service   | \$378,626            | \$320,228          | \$269,130           | \$125,052           | \$409,292            | \$817,751            | \$967,418            | \$1,235,347          | \$1,233,107          | \$1,195,990          |
| Property taxes-operations   | 566,682              | 831,083            | 848,076             | 760,054             | 901,072              | 924,702              | 1,028,416            | 1,039,316            | 1,023,502            | 1,016,558            |
| Sewer Assessments   | -                    | -                  | -                   | -                   | -                    | -                    | -                    | -                    | -                    | -                    |
| Rental income   | 18,395               | 58,039             | 80,852              | 87,011              | 84,546               | 84,496               | 82,150               | 81,493               | 80,235               | 79,641               |
| Interest earned   | 116,629              | 354,611            | 538,646             | 508,389             | 437,209              | 269,950              | 256,948              | 234,668              | 205,100              | 168,990              |
| Tower leases  | 415,892              | 426,723            | 454,800             | 472,207             | 599,135              | 471,303              | 448,673              | 465,355              | 423,468              | 506,687              |
| Tower lease contract settlement   | -                    | -                  | (\$275,000)         | -                   | -                    | -                    | -                    | -                    | -                    | -                    |
| Bond Issuance Costs   | -                    | -                  | -                   | -                   | -                    | -                    | -                    | -                    | (31,250)             | (226,335)            |
| Amortization of bond costs  | (150,479)            | (170,672)          | (360,077)           | (204,719)           | (204,689)            | (206,685)            | (202,112)            | (209,256)            | (239,272)            | (216,004)            |
| Loss on disposal of equipment   | 1,450                | -                  | -                   | -                   | (33,175)             | 2,000                | 161                  | 7,672                | -                    | -                    |
| Interest expense  | (2,357,062)          | (2,368,340)        | (1,911,202)         | (1,888,236)         | (1,860,432)          | (1,911,438)          | (2,208,372)          | (2,300,439)          | (2,101,677)          | (1,842,617)          |
| <b>Total Non-Operating Income (Loss)</b>                                      | <b>(\$1,009,867)</b> | <b>(\$548,328)</b> | <b>(\$354,775)</b>  | <b>(\$140,242)</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>Net Income(loss) before capital contributions per Financial Statements</b> | <b>(\$962,265)</b>   | <b>(\$724,911)</b> | <b>(\$974,134)</b>  | <b>(\$561,184)</b>  | <b>(\$700,741)</b>   | <b>(\$1,439,634)</b> | <b>(\$1,681,923)</b> | <b>(\$1,346,128)</b> | <b>(\$1,436,694)</b> | <b>(\$1,222,859)</b> |
| Capacity Fees   | 1,337,085            | 1,808,924          | 907,349             | 1,070,629           | 985,723              | 109,037              | 242,308              | 309,857              | 394,546              | 79,240               |
| Add: Depreciation   | 3,208,842            | 3,221,943          | 3,349,668           | 3,540,690           | 3,720,333            | 3,965,632            | 4,405,077            | 4,456,160            | 4,459,807            | 4,557,446            |
| Amortization  | 150,479              | 170,672            | 360,077             | 204,719             | 204,689              | 206,685              | 202,112              | 209,256              | 239,272              | 216,004              |
| Bond Issuance Costs   | -                    | -                  | -                   | -                   | -                    | -                    | -                    | -                    | 31,250               | 226,335              |
| Interest Expense (Bonds)  | 2,357,062            | 2,368,340          | 1,911,202           | 1,888,236           | 1,860,432            | 1,911,438            | 2,208,372            | 2,300,439            | 2,101,677            | 1,842,617            |
| Assessments - Debt Service  | 427,784              | 244,854            | 244,956             | 365,377             | 419,060              | 508,381              | 537,759              | 550,586              | 542,991              | 574,907              |
| Less: Property Taxes - Debt Service   | (378,626)            | (320,228)          | (269,130)           | (125,052)           | (409,292)            | (817,751)            | (967,418)            | (1,235,347)          | (1,233,107)          | (1,195,990)          |
| <b>Net Earnings Available for Debt Service</b>                                | <b>\$6,140,361</b>   | <b>\$6,769,594</b> | <b>\$5,529,988</b>  | <b>\$6,383,415</b>  | <b>\$6,080,204</b>   | <b>\$4,443,788</b>   | <b>\$4,946,286</b>   | <b>\$5,244,823</b>   | <b>5,099,742</b>     | <b>\$5,077,700</b>   |
| <b>Debt Service on Revenue Bonds</b>  | <b>\$4,181,197</b>   | <b>\$4,290,731</b> | <b>\$3,944,189</b>  | <b>\$3,637,421</b>  | <b>\$3,441,126</b>   | <b>\$3,438,347</b>   | <b>\$3,523,871</b>   | <b>\$3,477,484</b>   | <b>\$3,660,650</b>   | <b>\$4,037,286</b>   |
| <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 Earnings</b>                               | <b>147%</b>          | <b>158%</b>        | <b>140%</b>         | <b>175%</b>         | <b>177%</b>          | <b>129%</b>          | <b>140%</b>          | <b>151%</b>          | <b>139%</b>          | <b>126%</b>          |
| <b>Debt Coverage without Capacity Fees</b>                                    | <b>115%</b>          | <b>116%</b>        | <b>117%</b>         | <b>146%</b>         | <b>148%</b>          | <b>126%</b>          | <b>133%</b>          | <b>142%</b>          | <b>129%</b>          | <b>124%</b>          |

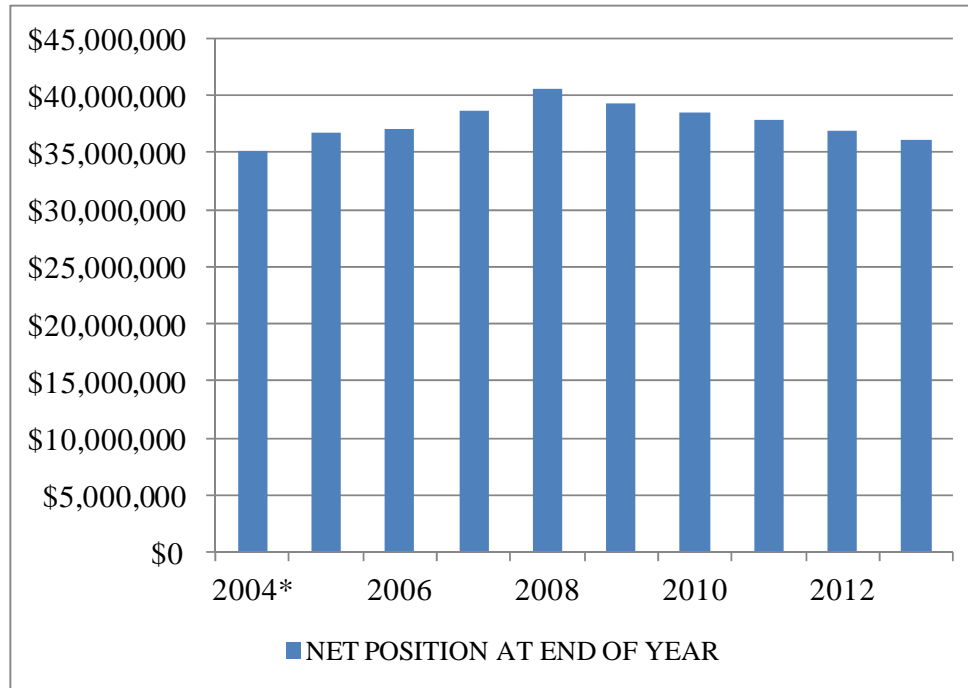
<sup>9</sup> 2013 and 2012 reflect implementation of GASB 63 and GASB 65. 2011 and prior years have not been restated.

### Schedule of Change in Net Position<sup>10</sup>

|   | 2004*               | 2005                | 2006                | 2007                | 2008                | 2009                | 2010                | 2011                | 2012                | 2013                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Income (Loss from operations)                   | \$47,602            | (\$176,582)         | (\$619,359)         | (\$420,942)         | (\$1,033,699)       | (\$1,891,713)       | (\$2,055,205)       | (\$1,900,284)       | (\$2,029,907)       | (\$1,905,768)       |
| Total Non-Operating Income (Loss)                         | (\$1,009,867)       | (\$548,328)         | (\$354,775)         | (\$140,242)         | \$332,958           | \$452,079           | \$373,282           | \$554,156           | \$593,213           | \$682,909           |
| Capital Contributions                                     | <u>\$2,111,131</u>  | <u>\$2,371,635</u>  | <u>\$1,153,508</u>  | <u>\$2,224,783</u>  | <u>\$2,555,086</u>  | <u>\$201,573</u>    | <u>\$979,621</u>    | <u>\$696,652</u>    | <u>\$1,348,696</u>  | <u>\$553,337</u>    |
| Changes in net position                                   | \$1,148,866         | \$1,646,725         | \$179,374           | \$1,663,599         | \$1,854,345         | (\$1,238,061)       | (\$702,302)         | (\$649,476)         | (\$87,998)          | (\$669,522)         |
| Effect of prior period adjustments on net position        | \$5,200,344         |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Cumulative adjustment - adoption of GASB Statement No. 65 |                     |                     |                     |                     |                     |                     |                     |                     | (\$992,288)         |                     |
| Net position at beginning of year, as previously reported | \$28,810,231        |                     |                     |                     |                     |                     |                     |                     | \$37,913,644        |                     |
| Net position at beginning of year as previously reported  | <u>\$34,010,575</u> | <u>\$35,159,441</u> | <u>\$36,806,165</u> | <u>\$36,985,539</u> | <u>\$38,649,138</u> | <u>\$40,503,483</u> | <u>\$39,265,422</u> | <u>\$38,563,120</u> | <u>\$36,921,356</u> | <u>\$36,833,358</u> |
| Net position at end of year                               | <u>\$35,159,441</u> | <u>\$36,806,166</u> | <u>\$36,985,539</u> | <u>\$38,649,138</u> | <u>\$40,503,483</u> | <u>\$39,265,422</u> | <u>\$38,563,120</u> | <u>\$37,913,644</u> | <u>\$36,833,358</u> | <u>\$36,163,836</u> |

\* GASB 34 was implemented in 2004

#### Net Position at End of Year



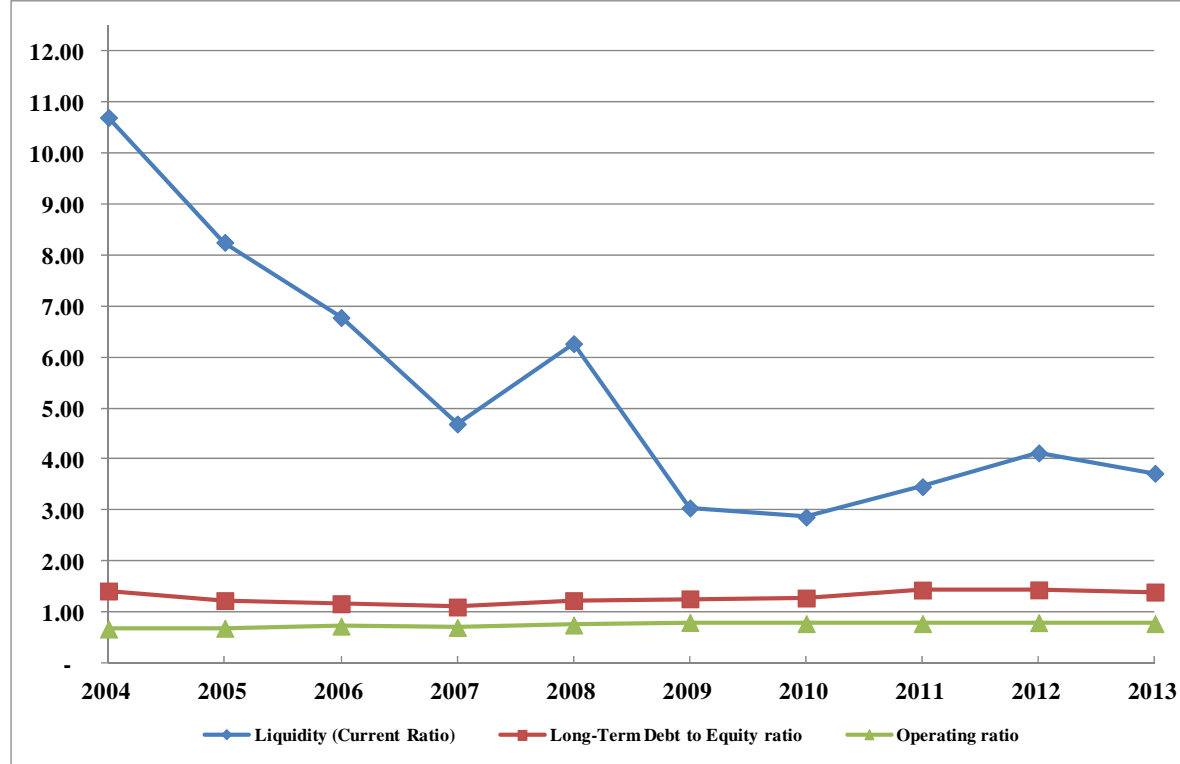
<sup>10</sup> 2013 and 2012 reflect implementation of GASB 63 and GASB 65. 2011 and prior years have not been restated.

## Net Position by Component<sup>11</sup>

|  | 2004                | 2005                | 2006                | 2007                | 2008                | 2009                | 2010                | 2011                | 2012                | 2013                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Net position</b>                                    |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Invested in capital assets, net of related liabilities | \$18,511,205        | \$19,885,561        | \$25,634,468        | \$27,526,781        | \$29,167,977        | \$30,467,552        | \$29,464,863        | \$27,806,556        | \$26,621,121        | \$27,016,214        |
| Restricted for debt service                            | 2,097,137           | 5,442,647           | 2,176,688           | 2,708,532           | 2,334,594           | 2,446,988           | 2,378,848           | 2,779,466           | 3,419,743           | 2,885,019           |
| Unrestricted   | <u>14,551,099</u>   | <u>11,477,957</u>   | <u>9,174,383</u>    | <u>8,413,825</u>    | <u>9,000,912</u>    | <u>6,350,882</u>    | <u>6,719,409</u>    | <u>7,327,622</u>    | <u>6,792,494</u>    | <u>6,262,603</u>    |
| Net position   | <u>\$35,159,441</u> | <u>\$36,806,165</u> | <u>\$36,985,539</u> | <u>\$38,649,138</u> | <u>\$40,503,483</u> | <u>\$39,265,422</u> | <u>\$38,563,120</u> | <u>\$37,913,644</u> | <u>\$36,833,358</u> | <u>\$36,163,836</u> |

## Ratio Analysis

|                                | 2004  | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------------|-------|------|------|------|------|------|------|------|------|------|
| Liquidity (Current Ratio)      | 10.70 | 8.25 | 6.78 | 4.69 | 6.26 | 3.04 | 2.86 | 3.46 | 4.12 | 3.72 |
| Long-Term Debt to Equity ratio | 1.41  | 1.22 | 1.16 | 1.10 | 1.22 | 1.26 | 1.27 | 1.43 | 1.43 | 1.39 |
| Operating ratio                | 0.66  | 0.68 | 0.72 | 0.70 | 0.75 | 0.80 | 0.77 | 0.77 | 0.79 | 0.77 |



<sup>11</sup> 2013 and 2012 reflect implementation of GASB 63 and GASB 65. 2011 and prior years have not been restated.

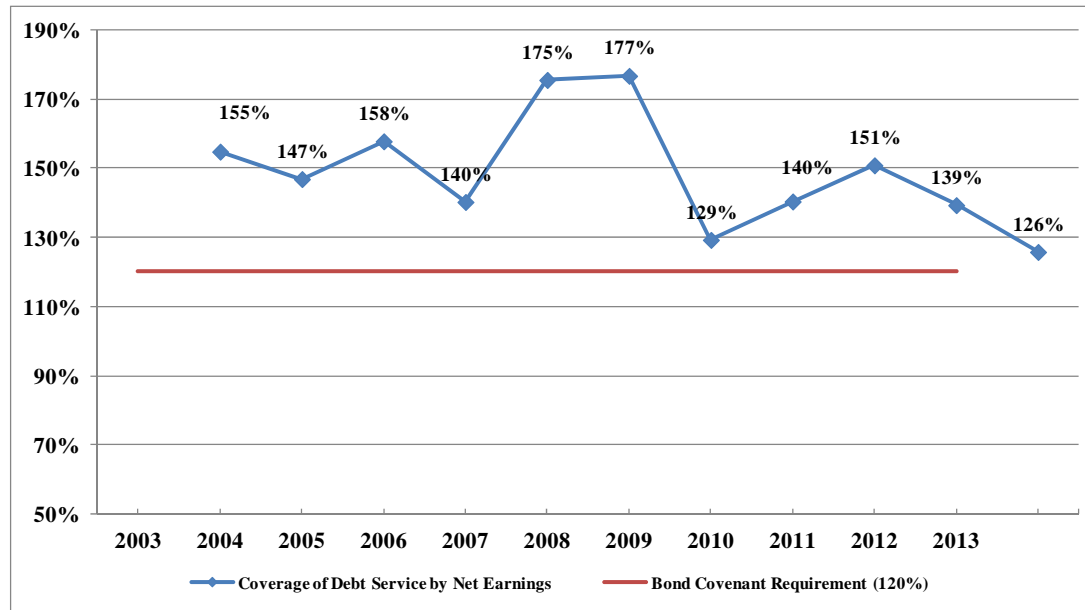
**Total Outstanding Debt by Type**

| <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>Average Debt Per Customer</b> |
|--------------------|-----------------|----------------------|---------------------------|---------------------|----------------------|-------------------------------|----------------------------------|
| 2004               | 795,000         | 42,282,972           | 9,176,733                 |                     | 331,939              | 52,586,644                    | 3,243                            |
| 2005               | 530,000         | 41,192,626           | 8,781,879                 |                     | 313,939              | 50,818,444                    | 3,058                            |
| 2006               | 275,000         | 37,803,495           | 8,373,023                 |                     | 295,939              | 46,747,457                    | 2,779                            |
| 2007               | -               | 37,972,665           | 7,949,668                 |                     | 277,939              | 46,200,272                    | 2,671                            |
| 2008               | 7,350,000       | 36,853,711           | 7,511,300                 |                     | 259,939              | 51,974,950                    | 2,989                            |
| 2009               | 7,085,000       | 35,388,165           | 7,057,386                 | 3,276,237           | 241,939              | 53,048,727                    | 3,057                            |
| 2010               | 8,476,338       | 34,383,013           | 6,587,376                 | 3,149,328           | 223,939              | 52,819,994                    | 3,050                            |
| 2011               | 11,866,601      | 36,906,574           | 6,100,698                 | 3,018,480           | 205,939              | 58,098,292                    | 3,330                            |
| 2012               | 11,313,078      | 41,004,952           | -                         | 2,877,671           | 187,939              | 55,383,640                    | 3,166                            |
| 2013               | 10,740,609      | 39,713,937           | -                         | 2,731,330           | 169,939              | 53,355,815                    | 3,032                            |

\* Note: The Series 2000A SRF Revenue Loan was refunded in August 2011. Also, please reference the Summary Schedule of Debt on page 69 for supporting documentation.



### Debt Service Coverage Analysis<sup>12</sup>



<sup>12</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. Details for the debt service coverage calculations for fiscal years' 2011 through 2013 can be found on page 31.

## Schedule of Changes in Capital Assets

Last Ten Fiscal Years

|  | June 30, 2004        | Additions           | Disposals        | Fiscal Year 2011    |                    | June 30, 2013        |
|--|----------------------|---------------------|------------------|---------------------|--------------------|----------------------|
|  |                      |                     |                  | Transfers           | Reclassifications* |                      |
| <b>Capital assets not being depreciated:</b> |                      |                     |                  |                     |                    |                      |
| Land   | \$ 368,614           | 930,579             | -                | -                   | -                  | \$ 1,299,194         |
| Construction in Progress                     | <u>306,918</u>       | <u>41,195,002</u>   | <u>-</u>         | <u>(41,060,796)</u> | <u>-</u>           | <u>441,125</u>       |
| Total Capital Assets not being depreciated   | 675,532              | 42,125,581          | -                | (41,060,796)        | -                  | 1,740,319            |
| <b>Capital assets being depreciated:</b>     |                      |                     |                  |                     |                    |                      |
| Waterworks system                            | 37,539,223           | 1,498,524           | (1,024,703)      | 17,350,492          | 257,862            | 55,621,398           |
| Sewage disposal system                       | 11,496,324           | 2,308,867           | (119,253)        | 20,871,549          | 1,596,254          | 36,153,741           |
| Buildings                                    | 4,155,053            | 81,227              | (2,452)          | 80,542              | (14,858)           | 4,299,512            |
| Sewage treatment facilities                  | 36,522,658           | 92,670              | (3,560)          | 26,736              | (1,927,081)        | 34,711,422           |
| Transportation equipment                     | 691,086              | 718,367             | (645,232)        | -                   | 224,208            | 988,429              |
| Operations furniture and equipment           | 2,033,499            | 279,086             | (397,294)        | 62,188              | (235,457)          | 1,742,022            |
| Office furniture and equipment               | <u>854,435</u>       | <u>156,880</u>      | <u>(466,707)</u> | <u>-</u>            | <u>99,072</u>      | <u>643,679</u>       |
| Sub Total                                    | 93,292,278           | 5,135,619           | (2,659,201)      | 38,391,507          | -                  | 134,160,203          |
| Less Accumulated depreciation                | <u>(24,905,146)</u>  | <u>(35,945,193)</u> | <u>2,873,225</u> | <u>-</u>            | <u>-</u>           | <u>(57,977,115)</u>  |
| Total capital assets being depreciated, net  | <u>68,387,132</u>    | <u>(30,809,574)</u> | <u>214,024</u>   | <u>38,391,507</u>   | <u>-</u>           | <u>76,183,088</u>    |
| Year End Totals                              | <u>\$ 69,062,665</u> | <u>11,316,007</u>   | <u>214,024</u>   | <u>(2,669,288)</u>  | <u>-</u>           | <u>\$ 77,923,407</u> |

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

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

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

|                          | 2004                 | 2005                 | 2006                 | 2007                 | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013                 |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| PP&E                     | \$ 93,660,892        | \$ 95,834,607        | \$ 96,222,163        | \$ 101,306,310       | \$ 107,539,856       | \$ 121,309,803       | \$ 124,015,092       | \$ 126,932,175       | \$ 134,001,976       | \$ 135,459,397       |
| Accumulated Depreciation | <u>(24,905,146)</u>  | <u>(28,027,340)</u>  | <u>(29,642,022)</u>  | <u>(33,057,250)</u>  | <u>(36,681,713)</u>  | <u>(40,512,192)</u>  | <u>(44,736,215)</u>  | <u>(49,097,940)</u>  | <u>(53,557,747)</u>  | <u>(57,977,115)</u>  |
| Net PP&E in Service      | 68,755,747           | 67,807,266           | 66,580,141           | 68,249,059           | 70,858,143           | 80,797,611           | 79,278,877           | 77,834,235           | 80,444,229           | 77,482,282           |
| Construction in Progress | <u>306,918</u>       | <u>928,300</u>       | <u>3,005,393</u>     | <u>2,720,938</u>     | <u>4,542,373</u>     | <u>641,980</u>       | <u>1,236,180</u>     | <u>3,514,449</u>     | <u>553,892</u>       | <u>441,125</u>       |
| Net PP&E                 | <u>\$ 69,062,665</u> | <u>\$ 68,735,566</u> | <u>\$ 69,585,534</u> | <u>\$ 70,969,998</u> | <u>\$ 75,400,516</u> | <u>\$ 81,439,592</u> | <u>\$ 80,515,057</u> | <u>\$ 81,348,684</u> | <u>\$ 80,998,121</u> | <u>\$ 77,923,407</u> |

### Customer Statistics at Fiscal Year-End<sup>13</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> |
|-------------|--------------|-------------------------|-------------------|-------------------------|--|
| 2004        | 14,764       | 1.6%                    | 13,497            | 2.2%                    | 91.4%  |
| 2005        | 15,766       | 6.8%                    | 13,870            | 2.8%                    | 88.0%  |
| 2006        | 16,168       | 2.5%                    | 14,374            | 3.6%                    | 88.9%  |
| 2007        | 16,344       | 1.1%                    | 14,658            | 2.0%                    | 89.7%  |
| 2008        | 16,392       | 0.3%                    | 14,835            | 1.2%                    | 90.5%  |
| 2009        | 16,355       | -0.2%                   | 14,880            | 0.3%                    | 91.0%  |
| 2010        | 16,321       | -0.2%                   | 14,891            | 0.1%                    | 91.2%  |
| 2011        | 16,395       | 0.5%                    | 15,030            | 0.9%                    | 91.7%  |
| 2012        | 16,441       | 0.3%                    | 15,109            | 0.5%                    | 91.9%  |
| 2013        | 16,540       | 0.6%                    | 15,260            | 1.0%                    | 92.3%  |

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<sup>13</sup> These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

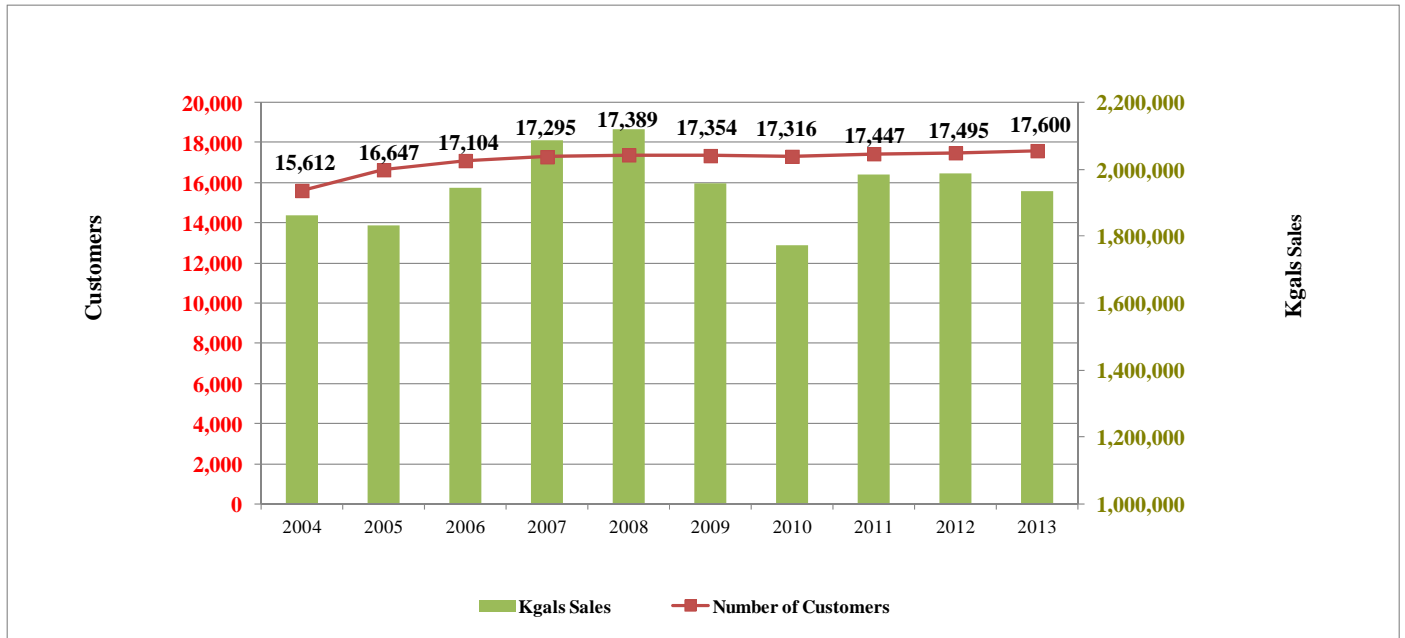
| <b>Year</b> | <b>Water</b> | <b>Percent Increase</b> | <b>Wastewater</b> | <b>% Inc</b> |
|-------------|--------------|-------------------------|-------------------|--------------|
| 2003        | 1,488,689    | -6.6%                   | 1,255,115         | -5.7%        |
| 2004        | 1,553,989    | 4.4%                    | 1,314,219         | 4.7%         |
| 2005        | 1,545,367    | -0.6%                   | 1,313,400         | -0.1%        |
| 2006        | 1,619,616    | 4.8%                    | 1,378,504         | 5.0%         |
| 2007        | 1,721,661    | 6.3%                    | 1,490,636         | 8.1%         |
| 2008        | 1,745,767    | 1.4%                    | 1,523,113         | 2.2%         |
| 2009        | 1,629,557    | -6.7%                   | 1,432,874         | -5.9%        |
| 2010        | 1,486,416    | -8.8%                   | 1,279,144         | -10.7%       |
| 2011        | 1,644,020    | 10.6%                   | 1,426,486         | 11.5%        |
| 2012        | 1,656,442    | 0.8%                    | 1,425,564         | -0.1%        |
| 2013        | 1,605,369    | -3.1%                   | 1,393,724         | -2.2%        |

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

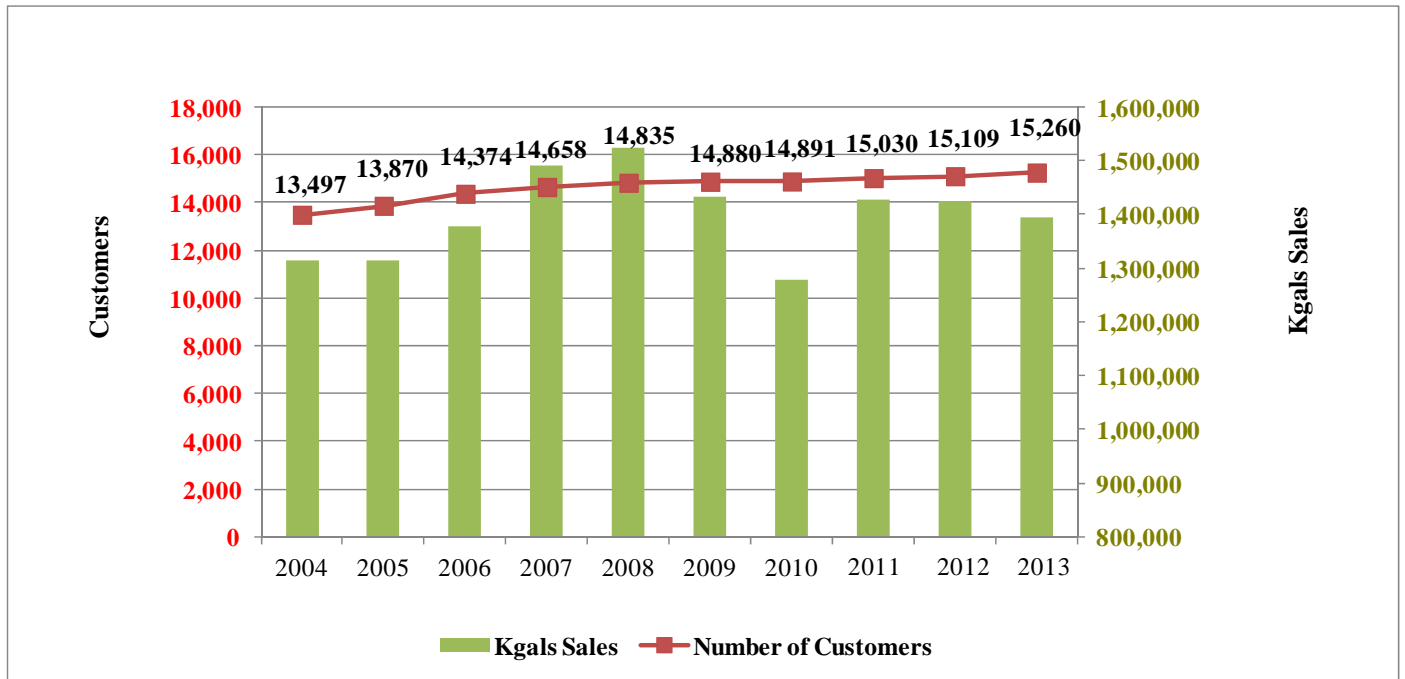
Reported in kgals (thousands of gallons)

| <b>BILLED WATER AND WASTEWATER</b> |                           |                         |                   |              |
|------------------------------------|---------------------------|-------------------------|-------------------|--------------|
| <b>Year</b>                        | <b>Water / Irrigation</b> | <b>Percent Increase</b> | <b>Wastewater</b> | <b>% Inc</b> |
| 2004                               | 1,861,014                 | 6.1%                    | 1,314,219         | 4.7%         |
| 2005                               | 1,834,200                 | -1.4%                   | 1,313,400         | -0.1%        |
| 2006                               | 1,943,868                 | 6.0%                    | 1,378,504         | 5.0%         |
| 2007                               | 2,086,348                 | 7.3%                    | 1,490,636         | 8.1%         |
| 2008                               | 2,119,295                 | 1.6%                    | 1,523,113         | 2.2%         |
| 2009                               | 1,957,926                 | -7.6%                   | 1,432,874         | -5.9%        |
| 2010                               | 1,773,200                 | -9.4%                   | 1,279,144         | -10.7%       |
| 2011                               | 1,983,289                 | 11.8%                   | 1,426,486         | 11.5%        |
| 2012                               | 1,986,913                 | 0.2%                    | 1,425,564         | -0.1%        |
| 2013                               | 1,935,918                 | -2.6%                   | 1,393,724         | -2.2%        |

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



### Sewer Customers vs. Wastewater Kgal Sales



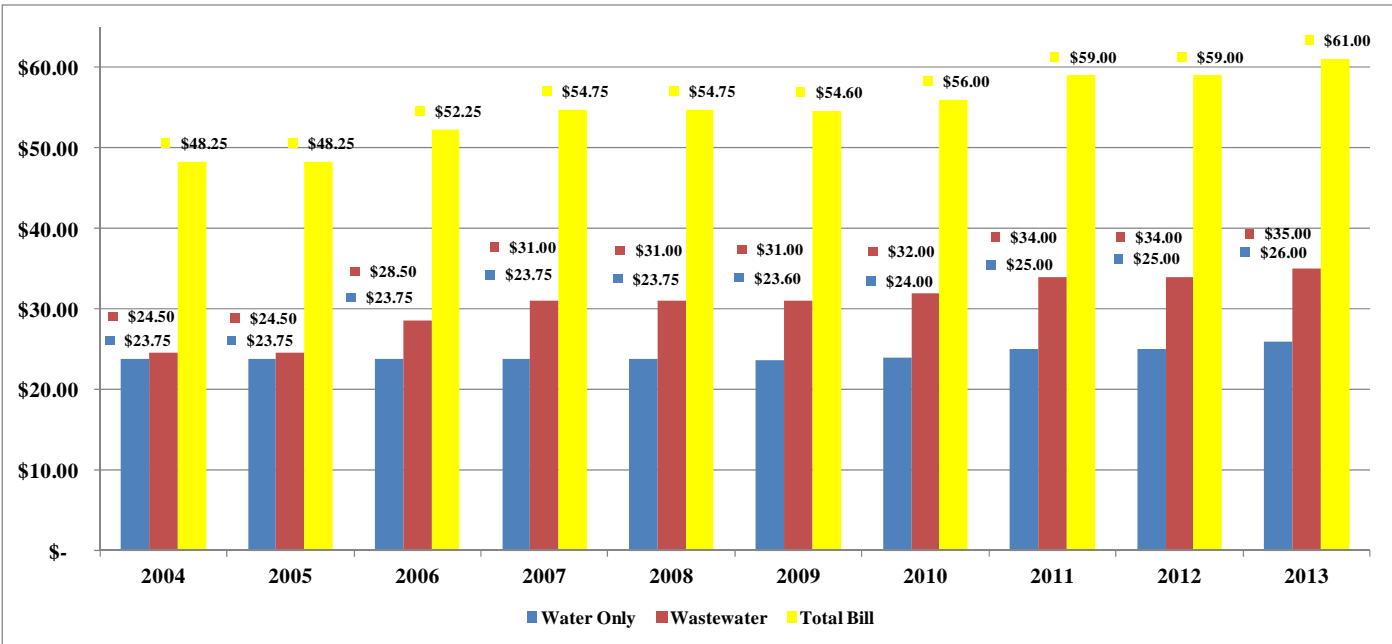
| Water Rate Comparison |                                 |                |          |          |          |          |          |          |          |          |           |
|-----------------------|---------------------------------|----------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
|                       |                                 | Effective Date |          |          |          |          |          |          |          |          |           |
|                       |                                 | FY'04          | FY'05    | FY'06    | FY'07    | FY'08    | FY'09*   | FY'10**  | FY'11*** | FY'12    | FY'13**** |
| Residential           | Base Charge                     | \$ 10.00       | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 11.00 | \$ 11.00 | \$ 12.00  |
|                       | First 5,000 Gallons             | \$ 1.25        | \$ 1.25  | \$ 1.25  | \$ 1.25  | \$ 1.25  |          |          |          |          |           |
|                       | Next 6,000 to 17,000 gallons    | \$ 1.50        | \$ 1.50  | \$ 1.50  | \$ 1.50  | \$ 1.50  |          |          |          |          |           |
|                       | Next 18,000 to 32,000 gallons   | \$ 1.75        | \$ 1.75  | \$ 1.75  | \$ 1.75  | \$ 1.75  |          |          |          |          |           |
|                       | Over 32,000 gallons             | \$ 2.00        | \$ 2.00  | \$ 2.00  | \$ 2.00  | \$ 2.00  |          |          |          |          |           |
|                       | First 10,000 Gallons Water      |                |          |          |          |          | \$ 1.36  | \$ 1.40  | \$ 1.40  | \$ 1.40  | \$ 1.40   |
|                       | First 10,000 Gallons Irrigation |                |          |          |          |          | \$ 1.36  | \$ 1.40  | \$ 1.71  | \$ 1.71  | \$ 1.71   |
|                       | Next 11,000 to 20,000 gallons   |                |          |          |          |          | \$ 1.64  | \$ 1.71  | \$ 1.71  | \$ 1.71  | \$ 1.71   |
|                       | Next 21,000 to 30,000 gallons   |                |          |          |          |          | \$ 1.91  | \$ 2.20  | \$ 2.20  | \$ 2.20  | \$ 2.20   |
|                       | Over 30,000 gallons             |                |          |          |          |          | \$ 2.18  | \$ 2.55  | \$ 2.55  | \$ 2.55  | \$ 2.55   |
| Commercial            | Base Charge                     | \$ 15.00       | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 15.00 | \$ 16.00 | \$ 16.00 | \$ 17.00  |
|                       | First 5,000 Gallons             | \$ 1.50        | \$ 1.50  | \$ 1.50  | \$ 1.50  | \$ 1.50  |          |          |          |          |           |
|                       | Next 6,000 to 17,000 gallons    | \$ 1.75        | \$ 1.75  | \$ 1.75  | \$ 1.75  | \$ 1.75  |          |          |          |          |           |
|                       | Next 18,000 to 32,000 gallons   | \$ 2.00        | \$ 2.00  | \$ 2.00  | \$ 2.00  | \$ 2.00  |          |          |          |          |           |
|                       | Over 32,000 gallons             | \$ 2.25        | \$ 2.25  | \$ 2.25  | \$ 2.25  | \$ 2.25  |          |          |          |          |           |
|                       | First 10,000 Gallons            |                |          |          |          |          | \$ 1.64  | \$ 1.69  | \$ 1.69  | \$ 1.69  | \$ 1.69   |
|                       | Next 11,000 to 20,000 gallons   |                |          |          |          |          | \$ 1.91  | \$ 1.99  | \$ 1.99  | \$ 1.99  | \$ 1.99   |
|                       | Next 21,000 to 30,000 gallons   |                |          |          |          |          | \$ 2.18  | \$ 2.51  | \$ 2.51  | \$ 2.51  | \$ 2.51   |
| Over 30,000 gallons   |                                 |                |          |          |          | \$ 2.45  | \$ 2.87  | \$ 2.87  | \$ 2.87  | \$ 2.87  |           |

\*Effective August 1, 2008  
 \*\*Effective October 1, 2009  
 \*\*\*Effective May 1, 2011  
 \*\*\*\*Effective January 1, 2013

| Wastewater Rate Comparison |                             |                |          |          |          |          |          |          |          |          |          |
|----------------------------|-----------------------------|----------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                            |                             | Effective Date |          |          |          |          |          |          |          |          |          |
|                            |                             | FY'04          | FY'05    | FY'06*   | FY'07**  | FY'08    | FY'09    | FY'10    | FY'11    | FY'12    | FY'13*** |
| Residential                | Base Charge                 | \$ 12.00       | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 14.00 | \$ 14.00 | \$ 15.00 |
|                            | Per 1,000 gallons with Cap* | \$ 1.25        | \$ 1.25  | \$ 1.65  | \$ 1.90  | \$ 1.90  | \$ 1.90  | \$ 2.00  | \$ 2.00  | \$ 2.00  | \$ 2.00  |
| Commercial                 | Base                        | \$ 12.00       | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 12.00 | \$ 14.00 | \$ 14.00 | \$ 15.00 |
|                            | Per 1,000 gallons (No Cap)  | \$ 1.25        | \$ 1.25  | \$ 1.50  | \$ 1.50  | \$ 1.50  | \$ 1.50  | \$ 1.60  | \$ 2.00  | \$ 2.00  | \$ 2.00  |

\*For years prior to FY'06, the effective sewer cap for residential customers was 32,000 gallons. From FY'06 to the present date the sewer cap is lowered to 10,000 gallons.  
 \*\*Per Thousand Increase Effective August 1, 2006  
 \*\*\*Effective January 1, 2013

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



## Population per Capita Income

Last Ten Available Years

| Year | Hilton Head |            | Beaufort County |            | South Carolina |            |
|------|-------------|------------|-----------------|------------|----------------|------------|
|      | Population  | Per Capita | Population      | Per Capita | Population     | Per Capita |
| 2003 | 34,578      | \$ 32,768  | 128,559         | \$ 33,817  | 4,150,297      | \$ 26,876  |
| 2004 | 34,600      | 34,550     | 130,993         | 34,643     | 4,210,921      | 28,057     |
| 2005 | 34,761      | 34,750     | 134,910         | 37,474     | 4,270,150      | 29,354     |
| 2006 | 34,156      | 37,212     | 139,333         | 39,840     | 4,357,847      | 31,111     |
| 2007 | 33,890      | 41,411     | 143,614         | 43,183     | 4,444,110      | 32,350     |
| 2008 | 33,913      | 42,611     | 147,616         | 45,427     | 4,528,996      | 33,157     |
| 2009 | 34,249      | 41,951     | 150,415         | 46,790     | 4,589,872      | 32,376     |
| 2010 | 37,099      | 40,798     | 155,215         | 31,081     | 4,635,835      | 32,688     |
| 2011 | 37,099      | 41,846     | 162,233         | 32,116     | 4,673,348      | 34,183     |
| 2012 | 37,675      | 39,703     | 164,684         | 32,731     | 4,723,723      | 35,056     |

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

## Beaufort County Top Employers 2011<sup>14</sup>

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

Source: Beaufort County Regional Chamber of Commerce

## Beaufort County Labor Force and Employment

| Category             | 2012   | 2011   | 2010   | 2009   | 2008   | 2007   | 2006   | 2005   | 2004   | 2003   |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Civilian Labor Force | 63,521 | 61,954 | 63,382 | 62,940 | 63,780 | 64,019 | 62,759 | 61,381 | 58,830 | 55,921 |
| Employment           | 58,500 | 56,264 | 57,647 | 57,344 | 60,421 | 61,256 | 59,786 | 58,372 | 55,914 | 53,259 |
| Unemployment         | 5,021  | 5,690  | 5,735  | 5,596  | 3,359  | 2,763  | 2,973  | 3,009  | 2,916  | 2,662  |
| Unemployment Rate    | 7.90%  | 9.18%  | 9.05%  | 8.89%  | 5.27%  | 4.32%  | 4.74%  | 4.90%  | 4.96%  | 4.76%  |

Source: South Carolina Department of Employment and Workforce

<sup>14</sup> At the time this report was prepared, employer data for 2012 was not available.

### Unemployment Rate Comparison

| Year | County | South Carolina | United States |
|------|--------|----------------|---------------|
| 2012 | 7.9%   | 9.1%           | 8.1%          |
| 2011 | 9.2%   | 10.4%          | 8.9%          |
| 2010 | 9.0%   | 11.2%          | 9.6%          |
| 2009 | 8.9%   | 11.5%          | 9.3%          |
| 2008 | 5.3%   | 6.8%           | 5.8%          |
| 2007 | 4.3%   | 5.6%           | 4.6%          |
| 2006 | 4.7%   | 6.4%           | 4.6%          |
| 2005 | 4.9%   | 6.8%           | 5.1%          |
| 2004 | 5.0%   | 6.8%           | 5.5%          |
| 2003 | 4.8%   | 6.7%           | 6.0%          |

Source: South Carolina Department of Employment and Workforce

### The District's Millage History

| Debt Type    | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------|------|------|------|------|------|------|------|------|------|------|
| Operations   | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Debt Service | 2.00 | 1.10 | 1.00 | 0.50 | 1.50 | 2.70 | 2.82 | 3.61 | 3.52 | 3.90 |
| Total        | 5.00 | 4.10 | 4.00 | 3.50 | 4.50 | 5.70 | 5.82 | 6.61 | 6.52 | 6.90 |

Sources: Beaufort County Auditor and Treasurer



### General Obligation Outstanding Debt

| Fiscal Year         | Tax Year            | Total Assessed Value of the District <sup>(1)</sup> | 8% Debt Limit Value | Total Outstanding GO Debt | Available Debt Limit | Percent of Debt Limit | Average Debt Per Customer |
|---------------------|---------------------|---|---------------------|---------------------------|----------------------|-----------------------|---------------------------|
| 2013                | 2012                | \$ 371,197,470                                      | \$ 29,695,798       | \$ 13,471,940             | 16,223,857           | 45%                   | \$ 815                    |
| 2012                | 2011                | 369,960,240   | 29,596,819          | \$ 14,190,749             | 15,406,070           | 48%                   | 863                       |
| 2011                | 2010                | 380,448,420   | 30,435,874          | \$ 14,885,081             | 15,550,793           | 49%                   | 908                       |
| 2010 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 360,750,834   | 28,860,067          | \$ 11,625,667             | 17,234,400           | 40%                   | 712                       |
| 2009                | 2008                | 321,010,415   | 25,680,833          | \$ 10,361,238             | 15,319,596           | 40%                   | 634                       |
| 2008                | 2007                | 305,542,479   | 24,443,398          | \$ 7,350,000              | 17,093,398           | 30%                   | 448                       |
| 2007                | 2006                | 302,219,576   | 24,177,566          | -                         | 24,177,566           | 0%                    | -                         |
| 2006                | 2005                | 293,306,326   | 23,464,506          | \$ 275,000                | 23,189,506           | 1%                    | 17                        |
| 2005 <sup>(3)</sup> | 2004 <sup>(3)</sup> | 290,780,804   | 23,262,464          | \$ 540,000                | 22,722,464           | 2%                    | 34                        |
| 2004                | 2003                | 191,567,665   | 15,325,413          | \$ 790,000                | 14,535,413           | 5%                    | 54                        |

Source: Beaufort County Auditor

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

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

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

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 2004 through FY 2013.

#### 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 2012, 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 \$371,197,470, and thus the eight percent (8%) debt limit of the District is not less than \$29,695,798. The District presently has outstanding the following bonded indebtedness chargeable against this limit: (1) its originally issued \$7,350,000 General Obligation Bonds, Series 2007 dated October 3, 2007 (the "*2007 Bonds*"); (2) its originally issued \$2,876,532 General Obligation Bond, Series 2008A dated January 23, 2008 (the "*2008A Bond*"); (3) its originally issued \$480,480 General Obligation Bond, Series 2008B dated April 14, 2008 (the "*2008B Bond*"); and (4) its originally issued \$1,781,694 General Obligation Bond, Series 2009 dated July 30, 2009 (the "*2009 Bond*") and (5) it originally issued \$3,970,000 General Obligation Bond, Series 2010 dated August 24, 2010 (the "*2010 Bonds*" and together with the 2007 Bonds, the 2008A Bond, the 2008B Bond and the 2009 Bond, the "*GO Bonds*").

#### General Obligation Outstanding Debt

As of June 30, 2013, the outstanding aggregate principal amounts due on the GO Bonds was \$13,471,940 and includes: (A) \$5,910,000 in outstanding principal due on the 2007 Bonds; (B) \$2,336,196 in outstanding principal due the 2008A Bond; (C) \$395,134 in outstanding principal due on the 2008B Bond; (D) \$1,385,610 in outstanding principal due on the 2009 Bond; (E) \$3,445,000 in outstanding principal due on the 2010 Bonds.

### Overlapping Debt

| Jurisdiction                      | Tax Year 2012<br>Assessed Value<br>(Capped) | Tax Year 2012<br>Assessed Value<br>(Capped) of the<br>District | Outstanding<br>General<br>Obligation Debt | Amount Applicable<br>to the District for<br>Fiscal Year 2013 |
|-----------------------------------|---|--|---|--|
| County of Beaufort                | 1,784,716,360                               | 337,807,193  | 219,235,000                               | \$ 41,216,180  |
| Beaufort County School District   | 1,816,555,384                               | 337,807,193  | 350,074,621                               | 67,179,320   |
| Town of Hilton Head               | 911,898,478                                 | 337,807,193  | 64,505,000                                | 22,576,750   |
| Sub Total of Overlapping Debt     |   |  |   | \$ 130,972,250   |
| Hilton Head No. 1 PSD direct debt |   |  |   | 13,471,940   |
| Total Direct and overlapping debt |   |  |   | \$ 144,444,190   |

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'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 <sup>(1)</sup> | Total          |
|---------------------|---------------------|----------------|----------------------------------|----------------|
| 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 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 322,448,420    | 38,302,414                       | 360,750,834    |
| 2009                | 2008                | 281,804,999    | 39,205,416                       | 321,010,415    |
| 2008                | 2007                | 266,386,512    | 39,155,967                       | 305,542,479    |
| 2007                | 2006                | 260,107,171    | 42,112,405                       | 302,219,576    |
| 2006                | 2005                | 249,949,026    | 43,357,300                       | 293,306,326    |
| 2005 <sup>(3)</sup> | 2004 <sup>(3)</sup> | 246,696,930    | 44,083,874                       | 290,780,804    |
| 2004                | 2003                | 145,111,702    | 46,455,963                       | 191,567,665    |

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 2004.

### Calendar Year 2012 Market Value for the District

| Classification                                  | Assessed Value | Assessment Ratio | Market Value     |
|---|----------------|------------------|------------------|
| 1. Real Property and Mobile Homes               | \$ 135,983,020 | 4.00%            | \$ 3,990,697,148 |
| 2. Real Property and Mobile Homes               | 199,118,390    | 6.00%            | 4,184,435,155    |
| 3. Business Personal Property                   | 2,247,310      | 10.50%           | 21,374,810       |
| 4. Merchant's Furniture, Fixtures and Equipment | 1,196,820      | 10.50%           | 11,323,090       |
| 5. Motor Vehicles <sup>(1)</sup>                | 18,319,540     | Various          | 275,031,590      |
| 6. Marine Equipment <sup>(2)</sup>              | 1,027,360      | Various          | 17,133,670       |
| 7. Airplanes                                    | 34,470         | 0.00%            | 574,600          |
| 8. Manufacturing Property                       | 193,150        | 10.50%           | 1,839,550        |
| 9. Public Utilities                             | 8,456,610      | 10.50%           | 80,539,140       |
| 10. Rental Property and Signs <sup>(3)</sup>    | 4,620,800      | Various          | 42,939,740       |

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.

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

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

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

### Tax Collection Record for the District

| Fiscal Year | Taxes Subject to Collection** | Current Collections | Current % Collected | Delinquent Taxes Collected*** | Total Collections | Total % Collected |
|-------------|-------------------------------|---------------------|---------------------|-------------------------------|-------------------|-------------------|
| 2012-2013   | \$ 60,145,229                 | \$ 55,872,000       | 92.9%               | \$ 1,221,095                  | \$ 57,093,095     | 94.9%             |
| 2011-12     | 58,495,370                    | 55,509,769          | 94.9%               | 163,278                       | 55,673,047        | 95.2%             |
| 2010-11     | 59,167,642                    | 56,320,727          | 95.2%               | 161,774                       | 56,482,501        | 95.5%             |
| 2009-10     | 57,172,896                    | 52,623,858          | 92.0%               | 491,840                       | 53,115,698        | 92.9%             |
| 2008-09     | 56,329,331                    | 54,777,459          | 97.2%               | 869,821                       | 55,647,279        | 98.8%             |
| 2007-08     | 51,252,916                    | 50,333,765          | 98.2%               | 652,019                       | 50,985,784        | 99.5%             |
| 2006-07     | 54,353,422                    | 52,223,375          | 96.1%               | 424,257                       | 52,647,631        | 96.9%             |
| 2005-06     | 49,747,721                    | 46,454,422          | 93.4%               | 617,181                       | 47,071,603        | 94.6%             |
| 2004-05*    | 50,467,835                    | 44,421,691          | 88.0%               | 422,203                       | 44,843,894        | 88.9%             |
| 2003-04     | 44,449,943                    | 41,178,415          | 92.6%               | 395,576                       | 41,573,991        | 93.5%             |

Source: Beaufort County Auditor and Treasurer.

\* Lower collections due to unresolved appeals.

\*\* Vehicle Collections do not include Road Paving and Renewal

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

### District Largest Taxpayers

| Employer                            | Type of Business | 2012 Assessed Value | 2012-13 Amounts Paid |
|-------------------------------------|------------------|---------------------|----------------------|
| 1. Marriott Ownership Resorts, Inc. | Real Estate      | \$7,474,080         | \$1,462,645          |
| 2. Palmetto Electric Coop, Inc      | Utility          | 4,581,160           | \$857,724            |
| 3. SCG Hilton Head Property LLC     | Real Estate      | 4,260,000           | \$845,255            |
| 4. Hargray Telephone Company, Inc   | Utility          | 2,512,310           | \$482,086            |
| 5. Hilton Head Health System LP     | Medical          | 1,883,720           | \$374,156            |
| 7. Heritage Golf Port Royal LLC     | Golf             | 1,135,900           | \$239,575            |
| 7. Festival Centre (E&A) LLC        | Golf             | 1,003,500           | \$215,907            |
| 8. Indigo Run Asset Corp.           | Property         | 784,540             | \$171,166            |
| 9. Time Warner NY Cable LLC         | Utility          | 668,200             | \$129,537            |
| 10. SVG LLC                         | Property         | 582,580             | \$121,155            |
| Source: Beaufort County Auditor.    |                  |                     |                      |

### District Top Ten Water/Irrigation Users

Fiscal year ended June 30, 2013

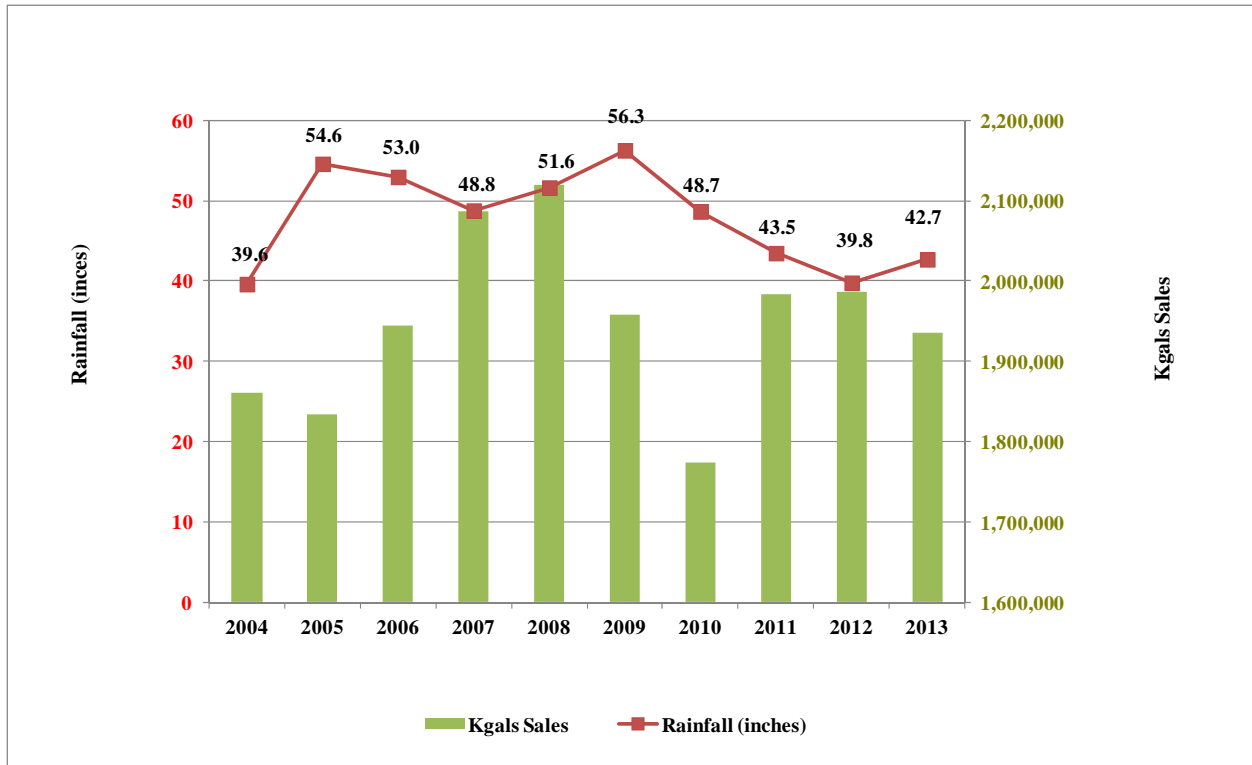
| User Name                          | Type              | 2013 Billed Revenues | % of Total 2013 Billed Revenues |
|------------------------------------|-------------------|----------------------|---------------------------------|
| Hilton Head Beach & Tennis         | Resort            | \$ 172,631           | 2.90%                           |
| Cypress of Hilton Head Association | Residential Homes | 171,039              | 2.87%                           |
| Westin Resort                      | Resort            | 125,744              | 2.11%                           |
| Hilton Head Resort/Four Seasons    | Resort            | 95,398               | 1.60%                           |
| Marriott Vacation Club             | Resort            | 87,927               | 1.48%                           |
| Marriott Surfwatch                 | Resort            | 80,063               | 1.35%                           |
| Fiddlers Cove                      | Resort            | 75,100               | 1.26%                           |
| Marshside Owner's Association      | Apartment Complex | 54,538               | 0.92%                           |
| Spa at Port Royal                  | Resort            | 51,224               | 0.86%                           |
| Hilton Head Health Systems         | Medical           | 42,317               | 0.71%                           |
| Remaining Customers                |                   | <u>4,995,566</u>     | <u>83.94%</u>                   |
|                                    |                   | <u>\$ 5,951,546</u>  | 100.00%                         |

### District Top Ten Wastewater Users

Fiscal year ended June 30, 2013

| User Name                            | Type              | 2013 Billed Revenues | % of Total 2013 Billed Revenues |
|--------------------------------------|-------------------|----------------------|---------------------------------|
| Hilton Head Beach & Tennis           | Resort            | \$ 190,914           | 4.13%                           |
| Hilton Head Resort/Four Seasons      | Resort            | 124,312              | 2.69%                           |
| Hilton Head Westin Resort            | Resort            | 108,196              | 2.34%                           |
| Fiddler's Cove                       | Resort            | 89,678               | 1.94%                           |
| Marriott Vacation Club               | Resort            | 82,418               | 1.78%                           |
| Cypress of Hilton Head Island Assoc. | Residential Homes | 79,699               | 1.72%                           |
| Spa at Port Royal                    | Resort            | 64,702               | 1.40%                           |
| Marriott Surfwatch                   | Resort            | 61,482               | 1.33%                           |
| Marshside Owners Association         | Resort            | 49,882               | 1.08%                           |
| IMC                                  | Apartment Complex | 47,088               | 1.02%                           |
| Remaining Customers                  |                   | <u>3,724,722</u>     | <u>80.57%</u>                   |
|                                      |                   | <u>\$ 4,623,093</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                  | FY                  | FY                  | FY                  | FY                  | FY                  | FY                | FY                  | FY                  | FY                | FY |
|  | 2004                | 2005                | 2006                | 2007                | 2008                | 2009                | 2010              | 2011                | 2012                | 2013              |    |
| <b>All District Purchases from BJWSA</b>           | \$ 1,225,760        | \$ 1,394,283        | \$ 1,580,406        | \$ 1,593,943        | \$ 1,518,423        | \$ 1,364,990        | \$ 934,368        | \$ 1,199,029        | \$ 1,472,568        | \$ 1,183,047      |    |
| Reclaimed Water Adjustment <sup>3</sup>            | -                   | -                   | 64,800              | 77,760              | 77,760              | 77,760              | 25,920            | -                   | -                   | -                 |    |
| Broad Creek Purchases                              | -                   | -                   | -                   | -                   | -                   | (85,947)            | (213,717)         | (174,574)           | (192,363)           | (170,383)         |    |
| Capitalized Purchased Water                        | -                   | -                   | -                   | -                   | -                   | -                   | -                 | -                   | (171,887)           | -                 |    |
| Prepaid Purchased Water Expense                    | -                   | -                   | -                   | -                   | -                   | -                   | -                 | -                   | (79,529)            | (195,222)         |    |
| <b>Purchased Water Expense</b>                     | <b>\$ 1,225,760</b> | <b>\$ 1,394,283</b> | <b>\$ 1,645,206</b> | <b>\$ 1,671,703</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> |    |

### Water Purchased from BJWSA Summary (KGals)

|  | FY             | FY               | FY               | FY               | FY               | FY             | FY             | FY             | FY               | FY               | FY |
|--|----------------|------------------|------------------|------------------|------------------|----------------|----------------|----------------|------------------|------------------|----|
|  | 2004           | 2005             | 2006             | 2007             | 2008             | 2009           | 2010           | 2011           | 2012             | 2013             |    |
| <b>All Kgals Purchased from BJWSA</b>    | 988,516        | 1,124,422        | 1,089,935        | 1,390,980        | 1,047,188        | 863,918        | 679,724        | 877,933        | 1,240,631        | 1,003,131        |    |
| Reclaimed Water Adjustment               | -              | -                | -                | -                | -                | -              | -              | -              | -                | -                |    |
| Broad Creek Purchases                    | -              | -                | -                | -                | -                | (54,397)       | (208,191)      | (178,539)      | (192,469)        | (152,148)        |    |
| Capitalized Purchased Water              | -              | -                | -                | -                | -                | -              | -              | -              | (217,579)        | -                |    |
| Prepaid Purchased Water Expense          | -              | -                | -                | -                | -                | -              | -              | -              | (79,413)         | (244,028)        |    |
| <b>Purchased Water Expense</b>           | <b>988,516</b> | <b>1,124,422</b> | <b>1,089,935</b> | <b>1,390,980</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>   |    |
| Total Peak Purchases                     | 988,516        | 1,124,422        | 1,089,935        | 822,794          | 1,047,188        | 863,918        | 511,537        | 648,537        | 623,380          | 487,874          |    |
| Total Off-peak Purchases                 | -              | -                | -                | 568,186          | -                | -              | 168,187        | 229,396        | 617,251          | 515,257          |    |
| <b>Total Off-peak and Peak Purchases</b> | <b>988,516</b> | <b>1,124,422</b> | <b>1,089,935</b> | <b>1,390,980</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> |    |

### BJWSA Rates Per Kgal Summary

|   | FY      | FY      | FY      | FY      | FY      | FY      | FY      | FY      | FY      | FY      | FY      |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|   | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    | 2013    |         |
| <b>Rates Charged by BJWSA</b>   |         |         |         |         |         |         |         |         |         |         |         |
| Peak Rate   | \$ 1.24 | \$ 1.24 | \$ 1.45 | \$ 1.45 | \$ 1.45 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.58 | \$ 1.58 |
| Off Peak Rate   | \$ -    | \$ -    | \$ -    | \$ 0.71 | \$ -    | \$ -    | \$ 0.75 | \$ 0.76 | \$ 0.79 | \$ 0.80 | \$ 0.80 |
| <b>District Cost/Kgal Prior to Broad Creek Purchases<sup>4</sup></b>        | \$ 1.24 | \$ 1.24 | \$ 1.45 | \$ 1.15 | \$ 1.45 | \$ 1.58 | \$ 1.37 | \$ 1.37 | \$ 1.19 | \$ 1.18 |         |
| <b>Effective District Cost/Kgal After Broad Creek Purchases<sup>5</sup></b> | N/A     | N/A     | N/A     | N/A     | N/A     | \$ 1.58 | \$ 1.53 | \$ 1.46 | \$ 1.22 | \$ 1.19 |         |

<sup>1</sup> Nov 2006 - Feb 2007 there was an off-Peak Rate of \$0.71/kgal applied to all consumption.

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

<sup>3</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>4</sup> Combined peak and off-peak purchases calculated as all District purchases from BJWSA divided by all Kgals purchased from BJWSA.

<sup>5</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.



[www.hhpsd.com](http://www.hhpsd.com)

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