



Hilton Head Public Service District Comprehensive Annual Financial Report



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

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

INTRODUCTION



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

A Letter from the General Manager: Facing Our Next Challenges



J. Pete Nardi, PSD General Manager

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

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

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

All My Best,

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

J. Pete Nardi
General Manager/CEO
Hilton Head PSD

Board of Commissioners

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

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

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

The 2015 Hilton Head Public Service District Commission



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



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



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



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



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



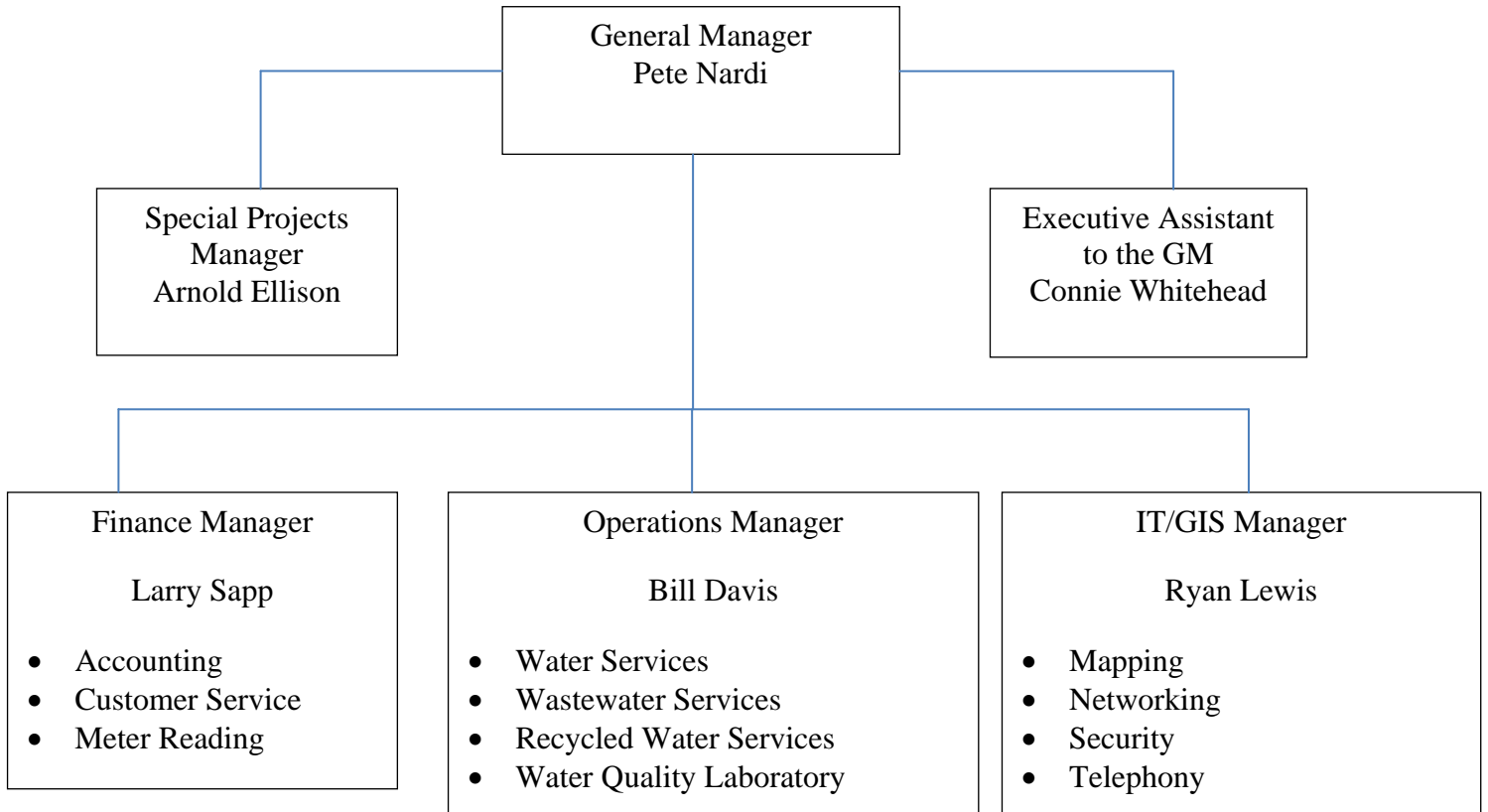
Frank Drehwing, District 4
Current Term: 2014-2018
Chairman, Long-Range Water Supply Committee
Community and Personnel Relations Committee



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

Administrative Team

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



HILTON HEAD PUBLIC SERVICE DISTRICT

Vision, Mission & Strategic Goals

Vision Statement

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

Mission Statement

Hilton Head Public Service District's mission is to:

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

Strategic Goals

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

Hilton Head PSD Strategic Goals

Revised November 17, 2015

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

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

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

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

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

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

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

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



November 25, 2015

Management Letter of Transmittal

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

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

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

Profile of the Government

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

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

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

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

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

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

Financial Information

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

Accounting System and Budgetary Control

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

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

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

Internal Accounting Controls

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

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

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

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

Rates and Charges

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

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

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

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

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

Millage

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

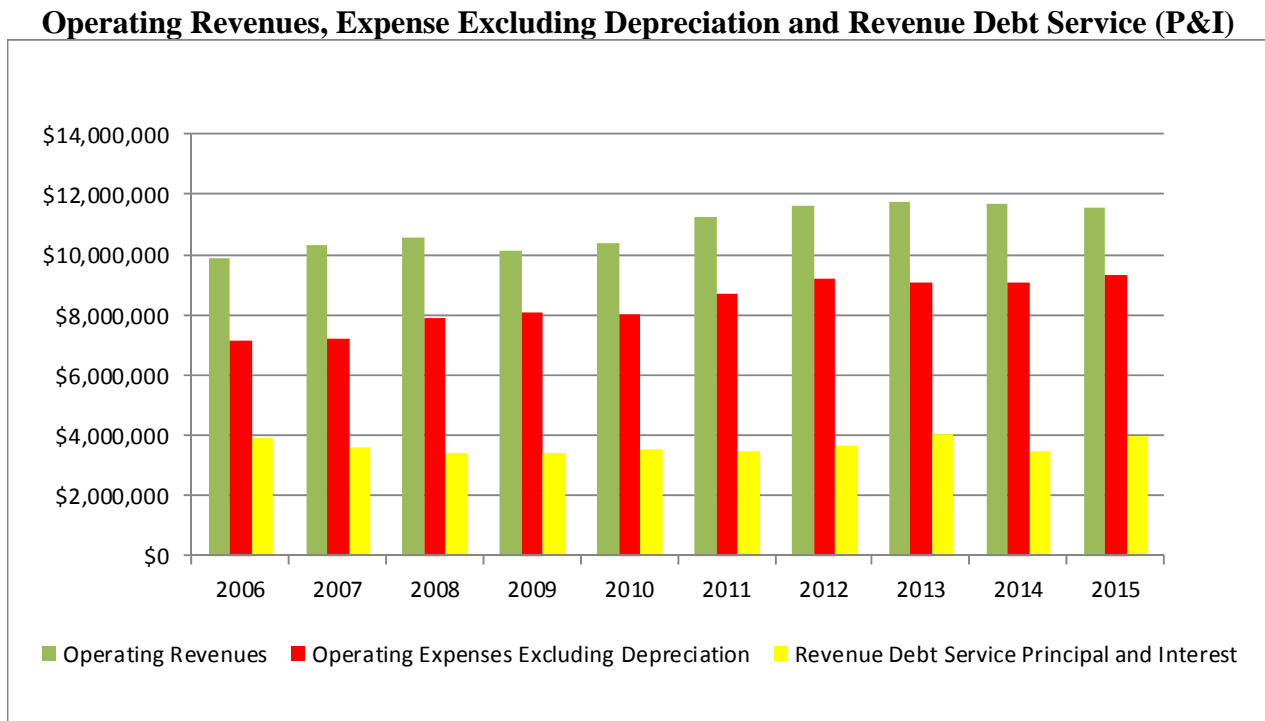
1. a deficiency of the preceding year;
2. any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
3. compliance with a court order or decree;
4. taxpayer closure due to circumstances outside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

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

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

Financial Condition

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



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

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

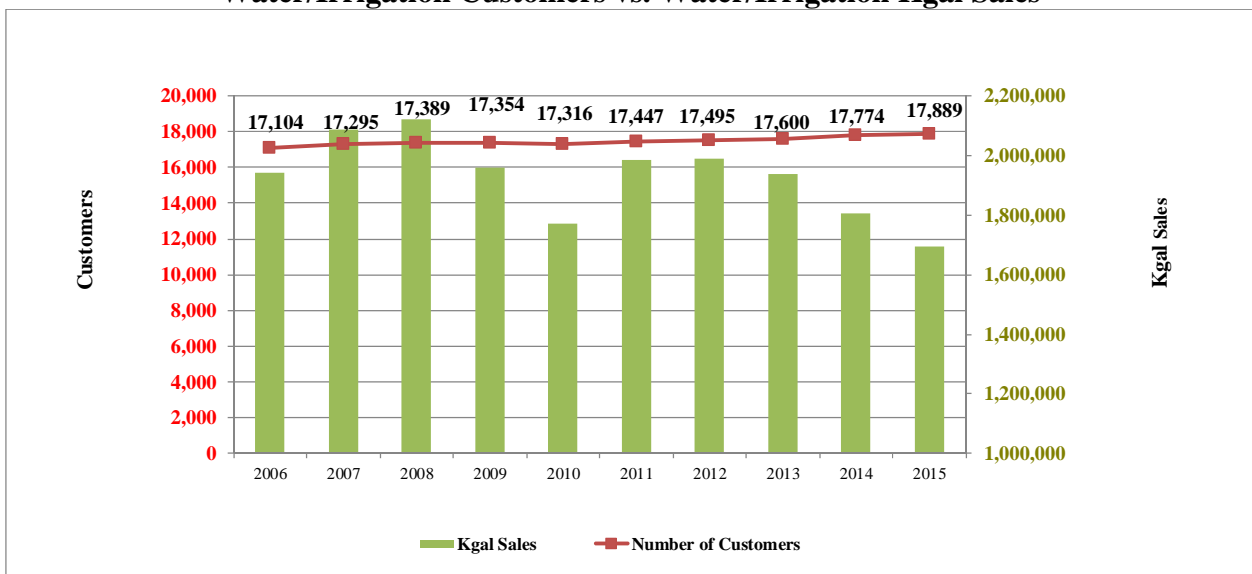
³ Residential sewer service customers billed consumption is capped at 10,000 gallons per month. Therefore sewer service revenues are not necessarily as adversely affected by lower water consumption compared to water service revenues.

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

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

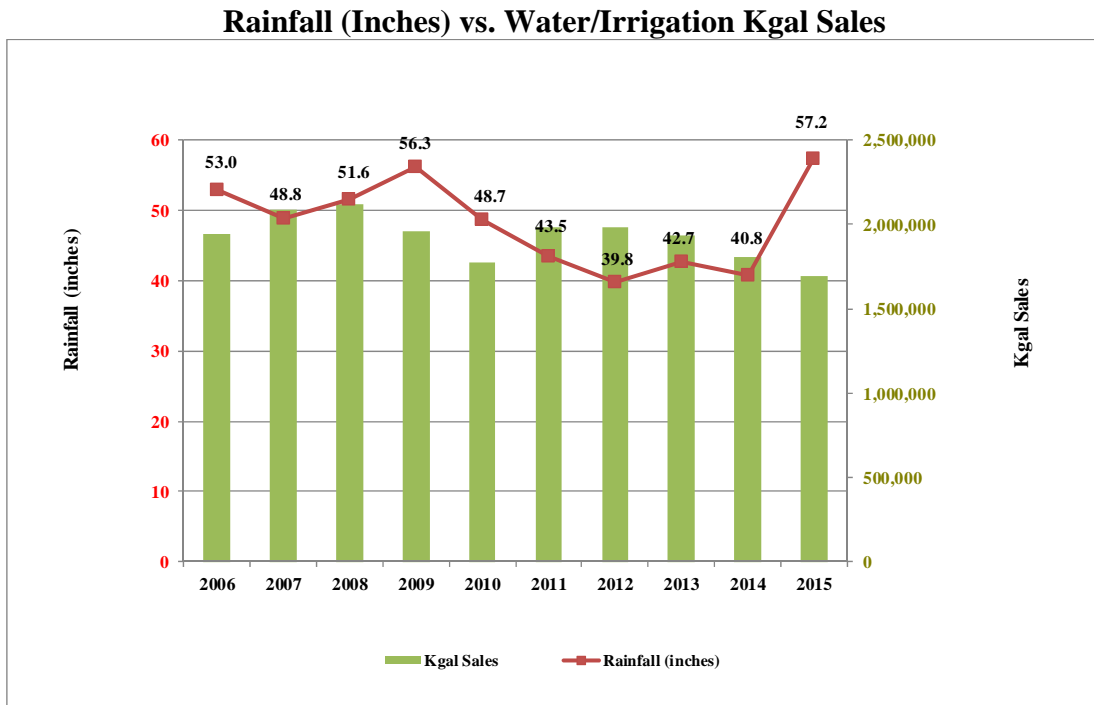
The following table shows customer counts in relation to water and irrigation Kgal sales. While typically more customers equates to more water consumed, there is no evident direct relationship between the District’s customer counts and overall consumption levels due to the other variables that influence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

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



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

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



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

Independent Audit

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

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

Certificate of Achievement for Excellence in Financial Reporting

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

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

Final Comments

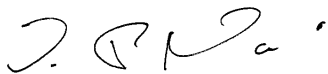
Management has developed policies and procedures that direct personnel actions toward the Board's adopted mission of providing high quality water and sewer service to all properties within the District and provide those services at a reasonable cost. Further, the Board has adopted the District's Strategic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



Larry Sapp, CGFO, Chief Financial Officer



Brian Cronin, Senior Accountant



Pete Nardi, General Manager



Government Finance Officers Association

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

Presented to

**Hilton Head Public Service District
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL

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



Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

November 25, 2015

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Robinson Grant & Co., P.A.

Management's Discussion and Analysis

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

Financial Highlights

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

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

Water & Irrigation Customers

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

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

Sewer Customers

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

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

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

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

Subsequent Events

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

Financial Analysis of the District

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

Condensed Statements of Net Position

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

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

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

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

Net Position

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

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

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

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

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

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

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

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

Capital Assets

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

TABLE A-2
Capital Assets

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

Non-current Liabilities and Debt Administration

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

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

TABLE A-3
Coverage of Debt Service⁹

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

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

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

Operating Revenues (Fiscal Year to Year Comparisons)

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

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

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

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

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

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

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

Departmental Expenses (Fiscal Year to Year Comparisons)

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

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

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

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

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

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

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

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

TABLE A-5
Hilton Head PSD
Statement of Revenues, Expenses and Changes in Net Position
Year to Date as of June 30, 2015 and June 30, 2014

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

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

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

Water Revenues and Related Expenses:

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

Sewer Revenues and Related Expenses:

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

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

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

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

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

CONTACTING THE DISTRICT'S FINANCE MANAGER

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2015 AND 2014

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

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

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

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

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

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies

General

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

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Fund accounting

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

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

Net position

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

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

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

Basis of accounting

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Basis of Accounting (continued)

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

Cash and cash equivalents

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

Accounts receivable, allowance for doubtful accounts and bad debt expense

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

Inventory

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

Property, plant and equipment

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Prepaid insurance - bonds

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

Bond discount and premium

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

Compensated absences

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

Pensions

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

Use of estimates

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1 - Summary of significant accounting policies (continued)

Reclassification

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

Date of Management's Review

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

Note 2 – Cash, cash equivalents and investments

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

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

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

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

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

Investment Policy

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

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

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

Note 3 - Cash held by the Beaufort County Treasurer

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

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

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

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

Note 4 - Accounts receivable

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

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

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

Note 5 - Property, plant, equipment and depreciation

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

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

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

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

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

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

Note 6 – Long-term obligations

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

Notes payable

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Notes payable (continued)

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

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

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

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

Bonds payable

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

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

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

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

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

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

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

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

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

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

Note 6 – Long-term obligations (continued)

Bonds payable (continued)

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

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

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

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

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

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

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

Note 6 – Long-term obligations (continued)

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

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

Note 7 – Non-current liabilities

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 8 – Deferred amount on refunding

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

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

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

Note 9 – Restricted Assets

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 9 – Restricted Assets (continued)

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

Note 10 - Lease arrangements

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

The future minimum lease income is as follows:

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

Note 11 - Economic dependence

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

Note 12 – Insurance recoveries

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 13 - Construction and development commitments

Policy

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

Regulatory mandates

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

Expansion

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

Construction commitments

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

Note 14 - Sewer assessments

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans

Section 457/401(k) Plan

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

South Carolina Retirement System

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

General Information about the Pension Plan

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

General Information about the Pension Plan (Continued)

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

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

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

For the year ended June 30, 2014, the District recognized pension expense of \$230,434. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	-	-
District contributions subsequent to the measurement date	230,484	-
Total	\$ 230,484	\$ -

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

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

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

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

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

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

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 15 - Deferred compensation plans (Continued)

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

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

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

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

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

Note 16 - Other commitments and contingencies

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

HILTON HEAD NO. 1 PUBLIC SERVICE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 17 - Net position

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

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

Note 18 – Subsequent Events

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

SUPPLEMENTAL FINANCIAL INFORMATION

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

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

Notes to Budgetary Comparison Schedule

Budgetary Highlights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STATISTICAL SECTION

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

Last Ten Fiscal Years

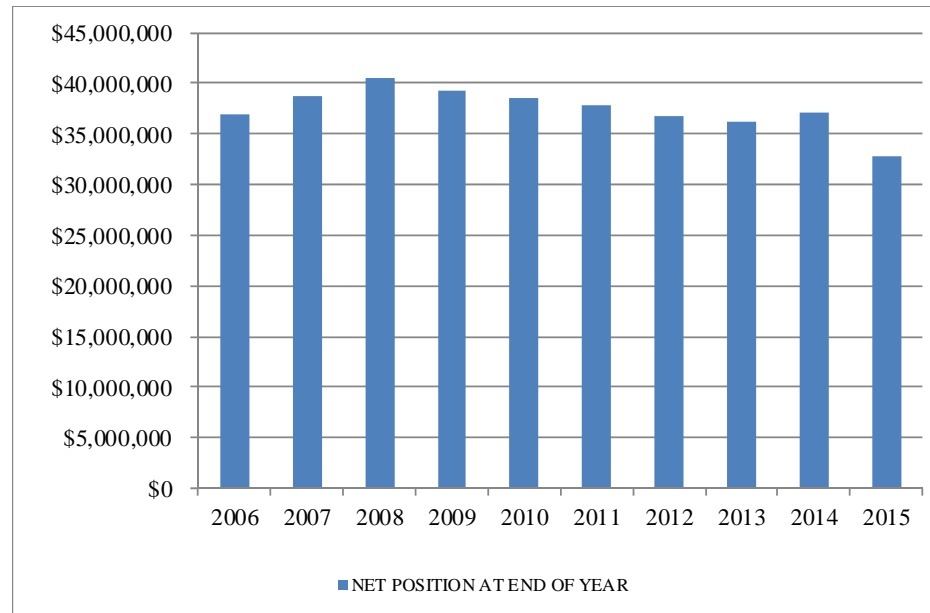
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Operating Revenues										
Water service	\$5,162,771	\$5,465,028	\$5,518,049	\$5,307,260	\$5,308,798	\$5,836,921	\$5,949,379	\$5,951,546	\$5,777,606	\$5,727,692
Sewer service	3,655,945	3,941,776	4,059,860	3,959,087	4,034,068	4,208,115	4,522,434	4,623,093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

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

Schedule of Change in Net Position¹⁶

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

Net Position at End of Year



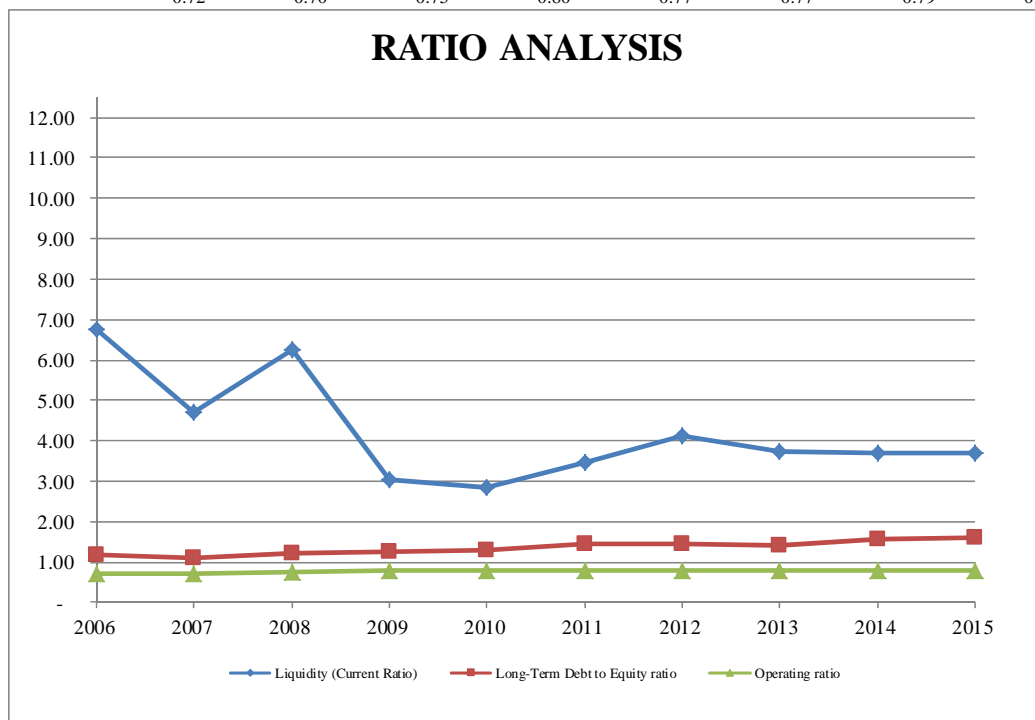
¹⁶ Please note that table A-4 and A-5 reflect the implementation of GASB 68 and the associated restatement of fiscal year 2014 and fiscal year 2015 as illustrated on page 40.

Net Position by Component¹⁷

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

Ratio Analysis

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



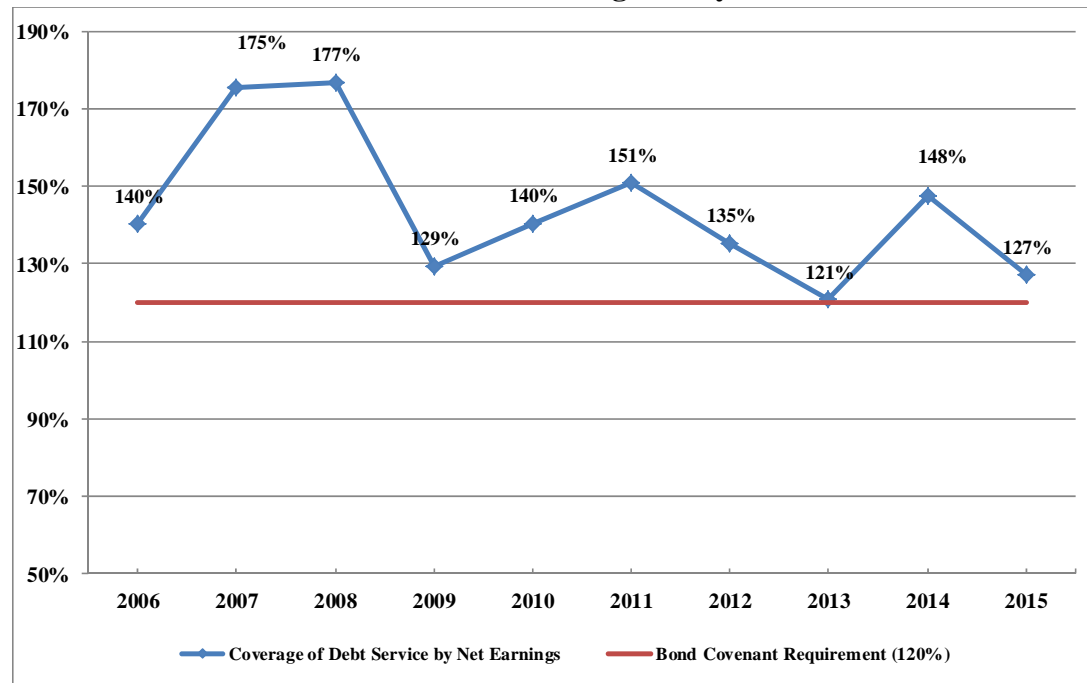
¹⁷ Please note that fiscal year 2014 and fiscal year 2015 reflect the implementation of GASB 68.

Total Outstanding Debt by Type

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

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

Debt Service Coverage Analysis¹⁸



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

Schedule of Changes in Capital Assets

Last Ten Fiscal Years

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

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

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

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

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

Customer Statistics at Fiscal Year-End¹⁹

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

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

¹⁹ These totals do not include irrigation meters.

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

Reported in kgals (thousands of gallons)

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

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

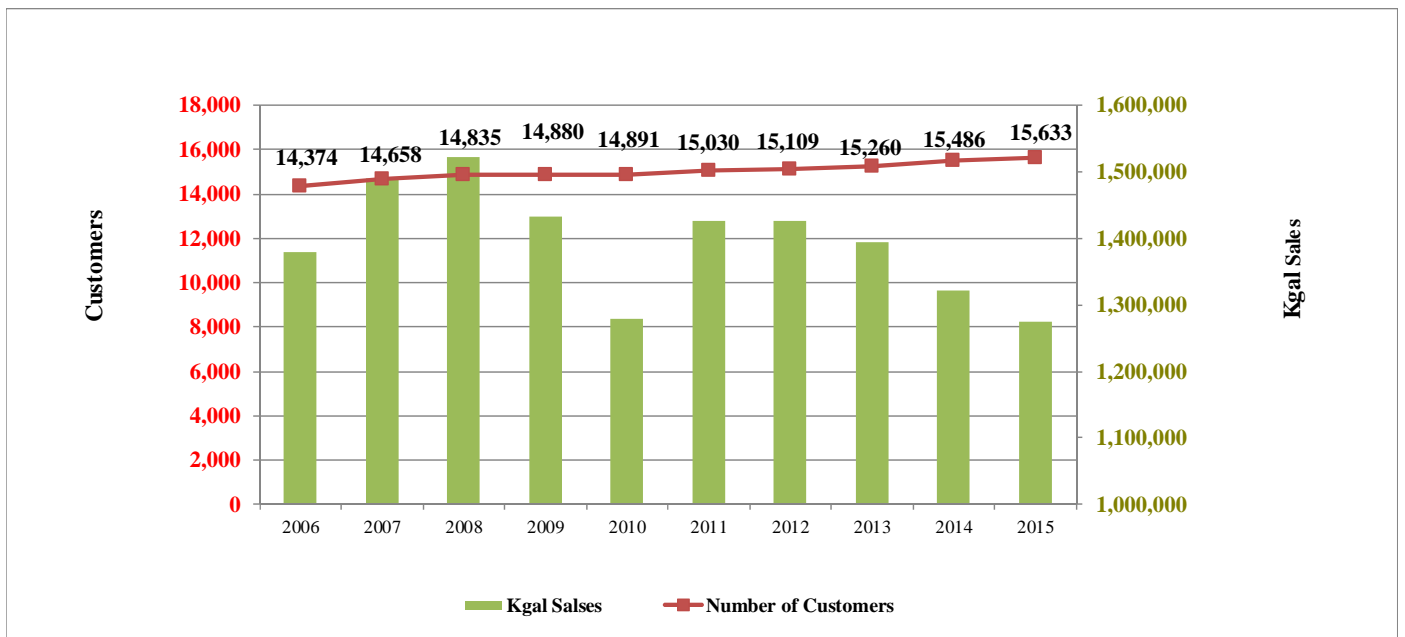
Reported in kgals (thousands of gallons)

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

Water/Irrigation Customers vs. Water/Irrigation Kgal Sales



Sewer Customers vs. Wastewater Kgal Sales



Water Rate Comparison

Effective Date

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

*Effective August 1, 2008

**Effective October 1, 2009

***Effective May 1, 2011

****Effective January 1, 2013

*****Effective January 1, 2015

Wastewater Rate Comparison

Effective Date

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

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

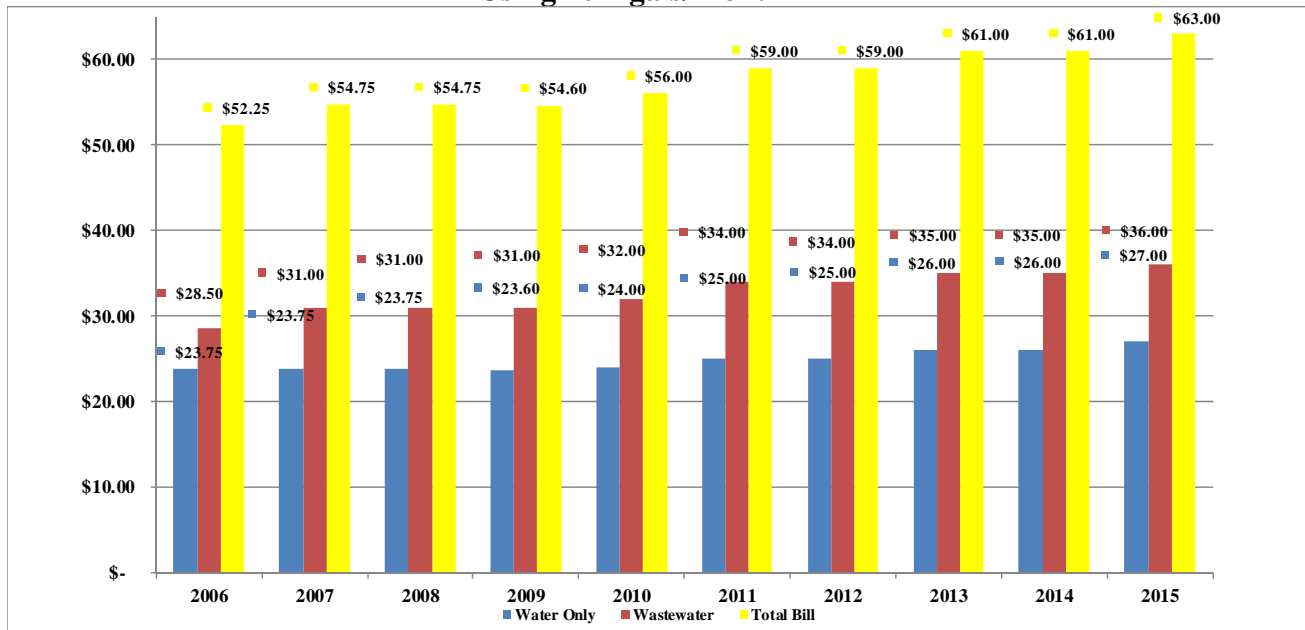
**Per Thousand Increase Effective August 1, 2006

***Effective January 1, 2011

****Effective January 1, 2013

*****Effective January 1, 2015

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



Water and Sewer Installation Fees

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

* T&M equals Time and Materials

** Rate change 10/1/2009

*** Rate change 7/1/2013

Sewer Installation Fees for fiscal years 2005 through 2015:

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

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

Sewer Inspection Fee:

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

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

Population per Capita Income

Last Ten Available Years

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

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

Beaufort County Top Employers 2014

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

Source: Beaufort County Regional Chamber of Commerce

Beaufort County Labor Force and Employment

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

Source: South Carolina Department of Employment and Workforce

Unemployment Rate Comparison

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

Source: South Carolina Department of Employment and Workforce

The District's Millage History

Debt Type	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operations	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Debt Service	4.61	3.52	3.90	3.52	3.61	2.82	2.70	1.50	0.50	1.00
Total	7.61	6.52	6.90	6.52	6.61	5.82	5.70	4.50	3.50	4.00

Ratio of (net) General Bonded Debt²⁰

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

Source: Beaufort County Auditor and the District Official Statement

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

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

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

General Obligation Outstanding Debt

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

Source: Beaufort County Auditor

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

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

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

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

General Obligation Debt Limit

Section 14 of Article X of the Constitution of the State of South Carolina (the "State") provides that subsequent to November 30, 1977, the special purpose districts of the State may issue bonded indebtedness in an amount not exceeding eight percent (8%) of the assessed value of all taxable property therein. The assessed value of all taxable property located within the District for the year 2014, which is the last completed assessment thereof, exclusive of properties subject to a fee in lieu of tax, is a sum of not less than \$344,353,040 and thus the eight percent (8%) debt limit of the District is not less than \$27,548,243. The District presently has the following bonded indebtedness chargeable against this limit:

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

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

General Obligation Outstanding Debt

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

Overlapping Debt

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

Sources: Beaufort County Assessor's Office.

Debt outstanding provided by each governmental unit.

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

Assessed Values of the District

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

Source: Beaufort County Auditor

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

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

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

Tax Year 2014 Market Value for the District

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

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

Source: Beaufort County Auditor.

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

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

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

Tax Collection Record for the District

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

Source: Beaufort County Auditor and Treasurer.

Tax Year 2014 - District Largest Taxpayers

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

District Top Ten Water/Irrigation Users

Fiscal year ended June 30, 2015

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

District Top Ten Wastewater Users

Fiscal year ended June 30, 2015

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

Rainfall (inches) vs. Water/Irrigation Kgal Sales



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

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

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

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

	SCRS	
	2015	2014
Hilton Head No. 1 PSD's proportion of the net pension liability	0.023939%	0.023939%
Hilton Head No. 1 PSD's proportionate share of the net pension liability	\$ 4,121,502	\$ 4,063,319
Hilton Head No. 1 PSD's covered payroll during the measurement period	\$ 2,204,558	\$ 2,124,527
Hilton Head No. 1 PSD's proportionate share of the net pension liability as a percentage of its covered-employee payroll during the measurement period	186.95369%	191.25760%
* Plan fiduciary net position as a percentage of the total pension liability	59.90000%	56.38821%

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

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

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

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

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

BJWSA Rates Per Kgal Summary												
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015	2015
Rates Charged by BJWSA												
Peak Rate	\$ 1.45	\$ 1.45	\$ 1.45	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.74
Off Peak Rate	\$ -	\$ 0.71	\$ -	\$ -	\$ 0.75	\$ 0.76	\$ 0.79	\$ 0.80	\$ 0.82	\$ 0.84	\$ 0.84	\$ 0.84
District Cost/Kgal Prior to Broad Creek Purchases⁴	\$ 1.45	\$ 1.15	\$ 1.45	\$ 1.58	\$ 1.37	\$ 1.37	\$ 1.19	\$ 1.18	\$ 1.27	\$ 1.30		
Effective District Cost/Kgal After Broad Creek Purchases⁵	N/A	N/A	N/A	\$ 1.58	\$ 1.53	\$ 1.46	\$ 1.22	\$ 1.19	\$ 1.23	\$ 1.27		

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

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

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

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

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



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