

*TOWN OF HILTON HEAD ISLAND,
South Carolina*



*COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended
June 30, 2016*

Town of Hilton Head Island, South Carolina
COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED JUNE 30, 2016
Prepared by the Finance Department

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Town of Hilton Head Island, South Carolina Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016

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Introductory Section

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Transmittal Letter

For The Fiscal Year Ended June 30, 2016
The Town of Hilton Head Island, South Carolina

January 31, 2016

The Honorable Mayor, Members of the Town Council, and Citizens of the Town of Hilton Head Island, South Carolina:

The Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina, (the Town) for the fiscal year ended June 30, 2016, is submitted in accordance with South Carolina Code Ann., Section 5-7-240 that requires an annual audit of the books of account and financial records of the Town. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

In relation to the Town of Hilton Head Island's financial statements being presented fairly and in accordance with generally accepted accounting principles, Scott and Company, LLC, has issued an unmodified ("clean") opinion for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Town of Hilton Head Island Profile

The Town of Hilton Head Island, incorporated in 1983, is a barrier island on the Atlantic coast of South Carolina. The Island is located about 30 miles from Savannah, Georgia, and about 90 miles from Charleston, South Carolina. Approximately 54 square miles in area, the Island is about 12 miles long and 5 miles wide. A four-lane bridge over the Intercoastal Waterway connects the Island with the mainland. The Town has jurisdiction over the entire Island except for Mariner's Cove, Blue Heron Point, and Windmill Harbor. The Town is empowered to levy a property tax on both real and personal property located within its boundaries.

The Town of Hilton Head Island operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council (Council) consisting of a mayor and six (6) other members. The Council appoints the government's manager, who in turn appoints the heads of the various departments. The mayor and each member of council shall be elected for a term of office of four (4) years.

The annual budget serves as the foundation for the Town of Hilton Head Island's financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the Town's various funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. At the first Council meeting in May, the Town Manager submits to the Town Council

a proposed budget for the fiscal year commencing the following July 1. Town Council budget workshops are held for each budgeted fund to discuss proposed expenditures and the means of financing them. A public hearing is held prior to the budget's final adoption in order to obtain taxpayer comments. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year in accordance with the budget amendment policies included in the current fiscal year budget document.

Local Economy

Tourism is the largest "industry" in the Island's economy. There are approximately 2.6 million visitors annually. It hosts a major sports event in the Heritage golf tournament. The Island has established world-class accommodations. The peak summer population is approximately 150,000.

The Town has started to emerge from the recession with four straight years of increases. 2014-2015 total gross taxable sales were \$1.498 billion compared to \$1.349 billion for the prior fiscal year for Hilton Head Island. Gross taxable sales for Hilton Head Island were 34.7% of all gross taxable sales within Beaufort County during the most recent reported fiscal year. As one measure of the regional economy, Beaufort County gross taxable sales increased \$389 million from \$3.930 billion to \$4.3520 billion during the previous fiscal year. Hilton Head Island's taxable sales were 100.6% of the highest year totals from pre-recession 2006. Beaufort County's totals are 106.4% of 2007 levels.

Fiscal Year	Hilton Head Island	Beaufort County	HHI as a % of BC
2005-2006	\$ 1,488,937,859	\$ 3,887,259,912	38.3%
2006-2007	1,482,619,035	4,058,389,971	36.5%
2007-2008	1,433,153,280	4,004,958,326	35.8%
2008-2009	1,302,796,767	3,506,948,982	37.1%
2009-2010	1,241,262,336	3,402,899,679	36.5%
2010-2011	1,197,965,824	3,400,903,379	35.2%
2011-2012	1,262,790,386	3,683,443,341	34.3%
2012-2013	1,329,472,728	3,844,604,186	34.6%
2013-2014	1,349,120,078	3,930,141,179	34.3%
2014-2015	1,497,939,094	4,319,530,218	34.7%

Source SC Depart of Revenue Annual Reports <http://www.dor.sc.gov/resources-site/Publications>

Long Term Financial Planning

The Town of Hilton Head Island's three-year financial plan is based upon sound financial reserves and conservative revenue growth forecasts for the foreseeable future. The Town approaching build out, mainland development, and the national economy will be ongoing challenges for the Town as it strives to maintain its continued commitment to providing the highest quality essential services to the citizens of this community. The Finance Department plays a pivotal role in maintaining and recommending enhancements to the financial plan elements to ensure the continued fiscal stability of the Town. Achieving and maintaining fiscal stability requires many elements all working in concert with one another. The following identifies key elements of our financial plan.

Adopted Financial Policies

Financial policies establish the framework for the Town's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. These policies set the tone for all fiscal decisions made by staff and Town Council. The Town currently has financial policies governing operations, capital planning, debt management, reserves and financial reporting. Regular reviews and enhancement of these policies are done in conjunction with the financial plan development and are adopted annually by Town Council.

Financial Resource Planning

The Town's strategic financial planning begins with determining the Town's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Conservative financial forecasts coupled with financial trend analysis techniques and careful reserve analysis help preserve the fiscal wellbeing of the Town of Hilton Head Island. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the Town Council.

Multi-Year Operating Budget Planning

Multi-year budget planning encompasses long-range operating expenditure plans, which are linked to community expectations and broad goals of the Town Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our level of service objectives over time, given our financial capacity. While the Town is required to adopt an annual budget to meet State statutory requirements, the Town builds a three-year financial plan to help anticipate future impacts and ensure achievement of Town objectives.

Capital Improvement Project Planning

The Town's Capital Improvement Program is planned for ten years and developed using specific prioritization criteria. The impact of projects on operating costs are planned and considered in developing future operating budget plans. Pay-as-you-go funding sources are conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used, capital project plans are sized to conform to existing debt management policies.

Debt Management

All debt issued by the Town is for the purpose of financing capital infrastructure or long-lived costly assets. Each debt issuance is evaluated in respect to debt service as a percentage of operating expenditures, tax and revenue bases for the repayment of debt, the overall debt burden on the community, statutory limitations and factors affecting tax-exempt interest costs. In all cases, a long-term analysis is made considering the financial (debt) capacity that best fits the Town's ability to pay for capital projects. The size of the capital improvement program based on debt capacity in conjunction with conservatively estimated revenues (pay-as-you-go projects) helps stabilize per capita debt and lower annual debt service costs to the Town over the long-term.

The Town's credit ratings on its outstanding bonds are Aaa, AA+, and AA+, from the three major credit ratings agencies, Moody's Investor Service, Standard and Poor's Rating Group, and Fitch Ratings, respectively. These ratings reinforce confidence in our efforts to maintain a fiscally sound operation through uncertain economic times.

Major Initiatives

The Town has several initiatives in the works. The Town has a Tax Increment Financing District which is helping to construct a facility for the University of South Carolina at Beaufort among other projects. The Town is constructing a new Recreation Center upgrade. The Town is embarking on a Visioning process to map out its future for the next phase of the Town's growth. Since 2009, the Town has been proactive in expenditure controls as an on-going effort to maintain fiscal capacity in an environment of uncertain economic conditions. The results of the Town's efforts were quite successful; current year expenditures were approximately \$2.750 million less than the final budget.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue	\$ 29,393,462	\$ 30,190,253	\$ 796,791
Transfers In/Out, net	7,447,565	7,779,298	331,733
Expenditures	<u>39,118,222</u>	<u>36,367,444</u>	<u>2,750,778</u>
Revenues Over (Under) Expenditures	<u>\$ (2,277,195)</u>	<u>\$ 1,602,107</u>	<u>\$ 3,879,302</u>

Hurricane Matthew

The Town's proven record of fiscal strength and discipline is especially important given a major event subsequent to the end of the fiscal year: Hurricane Matthew. The Town was named part of a federal disaster area due to the storm, and is responding accordingly. The recovery effort will continue throughout the new fiscal year. The planning and preparation by the Town has proved invaluable during this experience. You can read more in detail on Hurricane Matthew in the Notes to the Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hilton Head Island for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the twenty seventh consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the GFOA Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2015. It was the eleventh year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

The preparation of this report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. I would also like to thank the leadership team of the Town, and its dedicated employees for their efforts to maintain the high quality of services our citizens expect while being prudent stewards of the Town's finances as the economy rebounds and service requests rise. I would also wish to thank the Town Council members for their continued fiscal responsibility through the fiscal downturn.

We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high degree of fiscal responsibility.

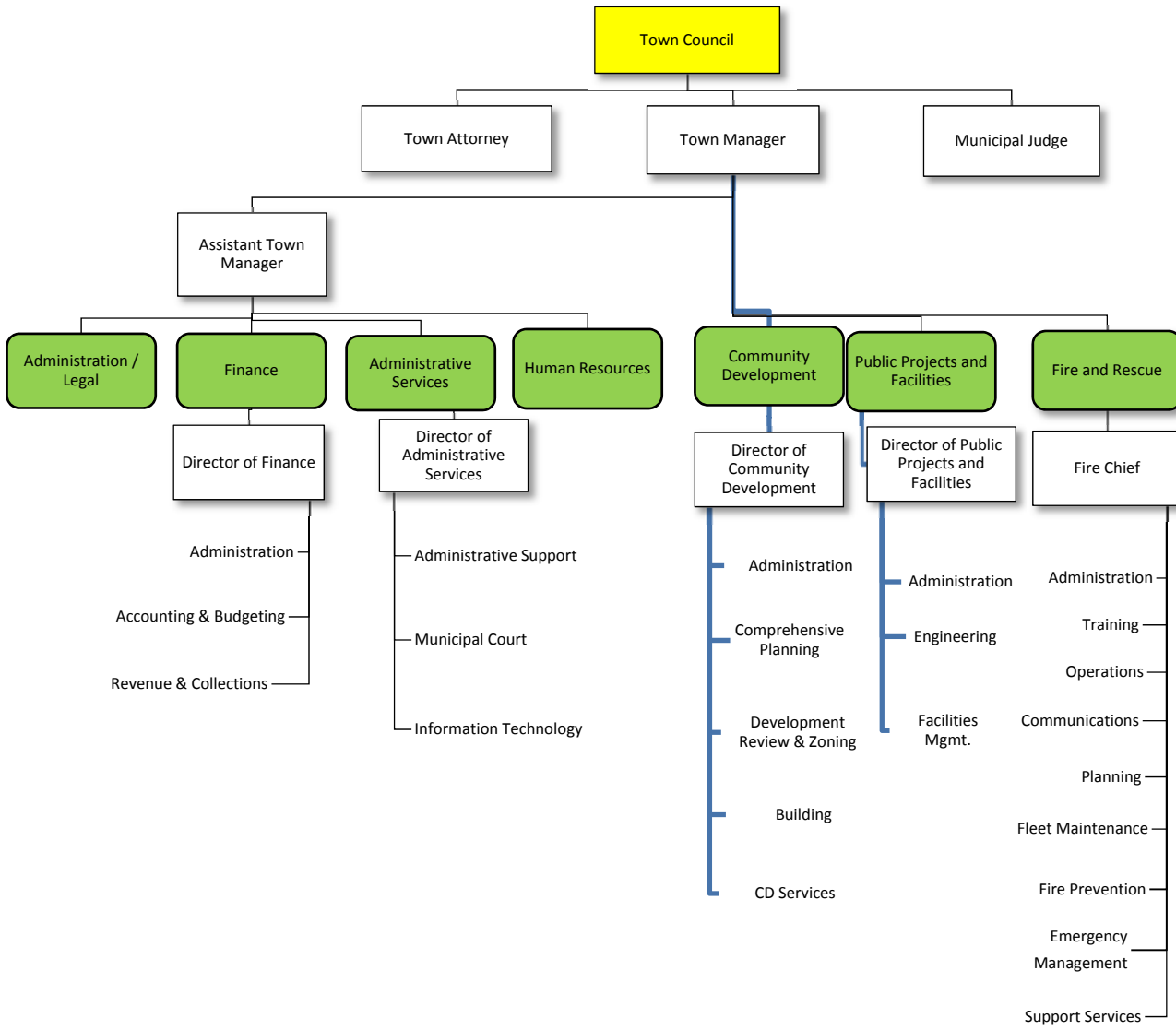
Respectfully submitted,

John M. Troyer

John M. Troyer, CPA
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

ORGANIZATIONAL CHART





TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA LIST OF ELECTED AND APPOINTED OFFICIALS

Mayor

The Honorable David Bennett

Town Council

William D. Harkins, Mayor Pro Tempore

David Ames

Marc A. Grant

Thomas W. Lennox

Kimberly W. Likins

John J. McCann

Administrative Staff

Stephen G. Riley, Town Manager

Gregory D. DeLoach, Assistant Town Manager Administration

John M. Troyer, Director of Finance

Charles F. Cousins, Director of Community Development

Scott Liggett, Director of Public Projects and Facilities

Brad Tadlock, Fire Chief



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Hilton Head Island
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Financial Section

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of Town Council
Town of Hilton Head Island, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison schedule of the general fund of the Town of Hilton Head Island, South Carolina, (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison schedule for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–14 and pension information on pages 69-70 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hilton Head Island, South Carolina's basic financial statements. The budgetary comparison schedules, the combining non-major governmental fund financial statements, the agency fund statement of changes in assets and liabilities, the introductory and statistical sections and schedule of municipal fines, assessments and surcharges are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, the combining non-major governmental fund financial statements, the agency fund statement of changes in assets and liabilities, and the schedule of municipal fines, assessments and surcharges are the responsibility of management and were derived from and relate 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, the combining non-major governmental fund financial statements, the agency fund statement of changes in assets and liabilities and the schedule of municipal fines, assessments and surcharges are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017 on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an intergral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town’s internal control over financial reporting and compliance.

Scott and Company LLC

Columbia, South Carolina
January 31, 2017

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

This section of the Town of Hilton Head Island's annual financial report represents its discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2016. The information in this section should be considered in conjunction with information provided in the transmittal letter and detailed financial statements contained elsewhere in this document.

Financial Highlights

- The Town's single largest source of revenue is real and personal property taxes derived from the assessed value of properties within the Town, as summarized below:

Fiscal Year	Taxable Assessed Value *	% Increase/Decrease	Tax Revenue **
2007	841,028,344	3.12%	\$15,305,712
2008	840,463,790	-0.07%	\$15,431,982
2009	832,732,387	-0.92%	\$16,159,800
2010	949,555,131	14.03%	\$17,145,943
2011	919,193,351	-3.20%	\$17,236,337
2012	927,151,628	0.87%	\$17,826,129
2013	840,326,016	-9.36%	\$17,679,567
2014	817,099,066	-2.76%	\$17,179,878
2015	907,022,430	11.01%	\$17,672,715
2016	918,731,530	1.3%	\$18,486,057

* Property in Beaufort County is reassessed once every five years.
** Tax revenue includes the collection of delinquent taxes.

- The millage rate approved by the Town Council determines the overall property tax levy and is summarized below:

Fiscal Year	Operating Millage	Debt Service Millage	Capital Projects Millage	Total Millage
2007	12.33	0.85	5.82	19.00
2008	12.33	0.85	5.82	19.00
2009	12.84	5.67	0.85	19.36
2010	11.78	6.01	0.75	18.54
2011	11.78	6.01	0.75	18.54
2012	12.57	6.01	0.75	19.33
2013	12.86	5.72	0.75	19.33
2014	13.88	6.14	0.81	20.83
2015	14.37	6.14	0.84	21.35
2016	15.20	6.14	0.84	22.18

In 2006, the South Carolina legislature enacted a new code section which placed limitations on annual millage rate increases. A local governing body may increase the imposed millage rate for general operating purposes above the rate imposed for the previous year only to the extent of the increase in the average of twelve monthly consumer price indices for the most recent twelve month period (January through December of the previous calendar year) plus the percentage increase in previous year population of the entity as determined by the South Carolina Revenue and Fiscal Affairs Office.

As the Town approaches build-out the impact of the stated imposed cap will have a significant impact on the Town's ability to continue funding services at their current level.

- At the close of fiscal year 2016, the assets of the Town exceeded liabilities by \$221,895,654. Of this amount, \$16,035,124 (Unrestricted Net Position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$10,361,201 for fiscal year 2016. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".
- At June 30, 2016, the Town's governmental funds reported combined ending fund balances of \$66,513,459.
- The Town's General Fund reported an ending fund balance of \$20,951,432 for fiscal year 2016. Of this ending General Fund balance, \$3,700,049 or 17.7% is available for spending at the government's discretion (Unassigned Fund Balance).

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the Town's financial statements. The Town's financial statements are broken down into three components (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Required and supplementary information is included in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the Town's finances in a similar manner to a private business.

The **statement of net position** presents information on the Town's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in the Town's net positions are an indicator of whether its financial position is improving or deteriorating.

The **statement of activities** presents information illustrating how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include public safety, community development, and facilities management among others. The business-type activity of the Town is its stormwater system.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, fiduciary fund, and proprietary fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than the government-wide statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains thirteen governmental funds. Eight are classified as major funds: General Fund, Tax Increment Financing (TIF) District, Accommodations Tax (State), Real Estate Transfer Fee, Beach Preservation Fee, Hospitality Fee, Debt Service Fund, and the Capital Projects Fund. Five are classified as non-major funds: Palmetto Electric Franchise Fee, Operating Grants, Home Grant, Federal Grants and Economic Development Incentive Fund. For reporting purposes on the fund financial statements, the special revenue funds are consolidated under the heading Non-major Governmental Funds.

The Town of Hilton Head Island adopts an annual budget for its General Fund, Capital Projects Fund, and the Debt Service Fund. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them.

Proprietary Funds

The Town maintains one type of **Proprietary Fund**, an enterprise fund. This fund is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide financial information related to the Town's stormwater system operations.

The Town adopts an annual budget for its Proprietary Fund. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them.

Fiduciary Funds

The Town maintains two **Fiduciary Funds**. The Firemen's Fund is used to account for certain funds held on behalf of the Town's firemen. The Airport Noise Abatement Fund is used to account for grants from the County and the Town toward a County project at the airport. The activities associated with these funds are excluded from the Town's financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, the report also contains certain required supplementary information and other supplementary information.

Economic Factors

The recovery of the economy continues to have a positive impact on revenues received by the Town; tourism, the Town's major business driver, reports strong increases.

Real Estate

Real estate related revenues, especially construction permits and real estate transfer fees, are 26% greater than last fiscal year. This positive trend is reflected in the 14% increase in real estate transfer fees. Construction activity on the Island is robust. Due to strong increases as many hotels and club houses underwent major renovations, this year's annual construction permit increase of 48% is significant, although not expected to be sustainable at this level.

	<u>Real Estate Transfer Fee</u>			<u>Construction Permits</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2014	2,468,881			1,377,939			3,846,820		
FY 2015	2,534,932	66,051	3%	1,380,846	2,907	0%	3,915,778	68,958	2%
FY 2016	2,887,147	352,215	14%	2,039,571	658,725	48%	4,926,718	1,010,940	26%

Tourism

Tourism-driven revenues continue to report strong increases over the prior year; it is also important to note that the dollar level of these revenues has rebounded to surpass all historical fiscal year heights. Currently, revenues from these sources are 6% higher than final amounts for the previous fiscal year.

	<u>ATAX/ Beach Preservation Fees</u>			<u>Hospitality Tax</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2014	13,332,955			5,633,430			18,966,385		
FY 2015	14,498,473	1,165,518	9%	6,155,004	521,574	9%	20,653,477	1,687,092	9%
FY 2016	15,372,534	874,061	6%	6,506,306	351,302	6%	21,878,840	1,225,363	6%

Government-Wide Financial Analysis

The analysis of the government-wide financial statements of the Town follows. The statements provide insight into whether the Town's financial position is better or worse as a result of this year's activities. The Town's net position, which is the difference between assets and liabilities, is one way to measure the Town's financial health. Over time, increases or decreases in the Town's net positions are one indicator of whether its financial health is improving or deteriorating. Non-financial factors must also be considered, such as changes in economic conditions, and new or changed government legislation or regulations.

Condensed Statements of Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 80,064,333	\$ 69,184,912	\$ 2,639,159	\$ 2,218,883	\$ 82,703,492	\$ 71,403,795
Deferred outflows of resources	3,407,522	3,405,699	805,993	895,548	4,213,515	4,301,247
Capital assets	243,952,531	243,865,033	13,863,210	14,433,537	257,815,741	258,298,570
Total assets and						
deferred outflows of resources	\$ 327,424,386	\$ 316,455,644	\$ 17,308,362	\$ 17,547,968	\$ 344,732,748	\$ 334,003,612
Current liabilities	\$ 25,931,323	\$ 16,890,687	\$ 1,118,898	\$ 1,230,222	\$ 27,050,221	\$ 18,120,909
Long term liabilities & deferred outflows	86,751,873	94,438,250	9,035,000	9,910,000	95,786,873	104,348,250
Total liabilities and						
deferred inflows of resources	\$ 112,683,196	\$ 111,328,937	\$ 10,153,898	\$ 11,140,222	\$ 122,837,094	\$ 122,469,159
Net position:						
Net investment in capital assets	\$ 169,753,952	\$ 163,062,329	\$ 4,759,203	\$ 4,569,085	\$ 174,513,155	\$ 167,631,414
Restricted	31,347,375	31,942,739	-	-	31,347,375	31,942,739
Unrestricted	13,639,863	10,121,639	2,395,261	1,838,661	16,035,124	11,960,300
Total net position	\$ 214,741,190	\$ 205,126,707	\$ 7,154,464	\$ 6,407,746	\$ 221,895,654	\$ 211,534,453

Net position amounted to \$221.9 million in fiscal year 2016 compared to \$211.5 million in fiscal year 2015. A significant portion of the Town's net position (\$174.5 million or 78.6 % of the Total net position) reflects its investment in capital assets (e.g. land, machinery, buildings, and equipment) net of any related debt that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Both the Government and Business-Type Activities total net positions and both unrestricted net positions increased in FY 2016. The Town of Hilton Head is dedicated to living within its means, which this fiscal year again demonstrated. Long Term liabilities and deferred outflows declined as no new debt was issued this fiscal year – while scheduled principal payments were made. Current liabilities increased primarily due to timing of payments related to the beach renourishment program which was at the height of activity at June 30, 2016.

While the statement of net position shows the change in financial position of net position, the condensed statement of activities (below) provides answers as to the nature and the source of the changes.

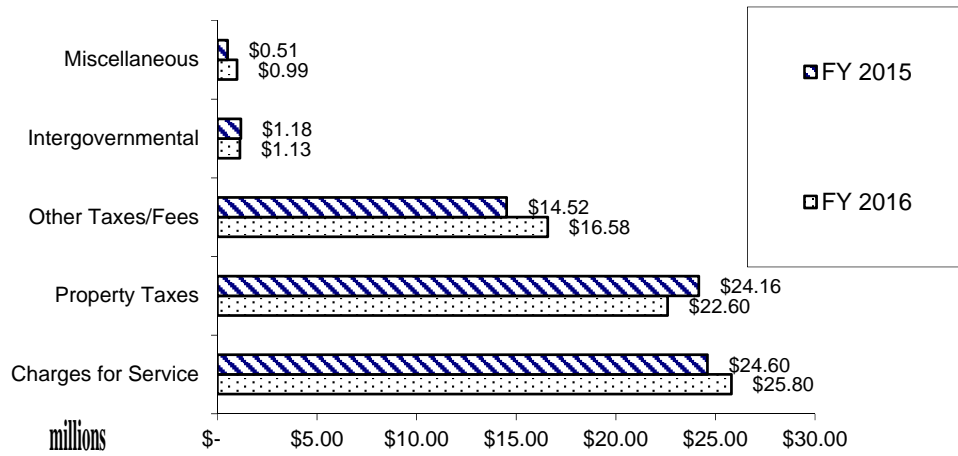
Condensed Statements of Activities

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Revenues:</u>						
Program Revenues:						
Charges for services	\$ 25,783,160	\$ 24,633,147	\$ 3,551,400	\$ 3,551,386	\$ 29,334,560	\$ 28,184,533
Operating grants and contributions	838,915	348,467	44,272	25,764	883,187	374,231
Capital grants and contributions	19,956	275,000	-	-	19,956	275,000
General Revenues:						
Property taxes	22,576,837	24,163,776	-	-	22,576,837	24,163,776
Other taxes	15,447,140	14,516,798	-	-	15,447,140	14,516,798
Other	<u>2,293,147</u>	<u>3,029,329</u>	<u>443</u>	<u>450</u>	<u>2,293,590</u>	<u>3,029,779</u>
Total Revenues	<u>66,959,155</u>	<u>66,966,517</u>	<u>3,596,115</u>	<u>3,577,600</u>	<u>70,555,270</u>	<u>70,544,117</u>
<u>Program Expenses:</u>						
Governmental Activities:						
General government	6,119,293	5,501,516	-	-	6,119,293	5,501,516
Management services	5,240,408	5,249,881	-	-	5,240,408	5,249,881
Community services	18,658,764	17,640,549	-	-	18,658,764	17,640,549
Public safety	19,802,724	16,529,019	-	-	19,802,724	16,529,019
Culture and recreation	2,652,668	2,429,893	-	-	2,652,668	2,429,893
Visitor and convention bureau	1,709,995	1,580,537	-	-	1,709,995	1,580,537
Administrative	212,356	197,833	-	-	212,356	197,833
Interest on long-term debt	3,042,722	3,396,216	-	-	3,042,722	3,396,216
Business-type Activities:						
Stormwater utility	<u>-</u>	<u>-</u>	<u>2,755,139</u>	<u>2,367,173</u>	<u>2,755,139</u>	<u>2,367,173</u>
Total Expenses	<u>57,438,930</u>	<u>52,525,444</u>	<u>2,755,139</u>	<u>2,367,173</u>	<u>60,194,069</u>	<u>54,892,617</u>
Excess before transfers	<u>9,520,225</u>	<u>14,441,073</u>	<u>840,976</u>	<u>1,210,427</u>	<u>10,361,201</u>	<u>15,651,500</u>
Transfers	<u>94,258</u>	<u>94,258</u>	<u>(94,258)</u>	<u>(94,258)</u>	<u>-</u>	<u>-</u>
Change in net position	9,614,483	14,535,331	746,718	1,116,169	10,361,201	15,651,500
Net position, beginning, restated	<u>205,126,707</u>	<u>190,591,376</u>	<u>6,407,746</u>	<u>5,291,577</u>	<u>211,534,453</u>	<u>195,882,953</u>
Net position, ending	<u>\$ 214,741,190</u>	<u>\$ 205,126,707</u>	<u>\$ 7,154,464</u>	<u>\$ 6,407,746</u>	<u>\$ 221,895,654</u>	<u>\$ 211,534,453</u>

Governmental activities increased the Town's net position by \$9.6 million. This increase was \$4.9 million less than the previous fiscal year's increase. The following highlight the significant changes from the previous year:

- Total revenues remained at \$67.0 million. This was primarily due to the renewal of the TIF agreement without the Beaufort County Schools participation – which dropped revenues from \$6.5 million to \$4.1 million. Without this decrease, revenues would have increased 3.6%. Expenses increased \$4.9 million or 9.3% increase in accordance with planned spending.
- Charges for services increased \$1.15 million or 4.6%.
- Property tax revenue, traditionally the Town's largest revenue source, decreased by \$1.6 million or approximately 6.6 %, primarily due to the TIF renewal without the participation of the School Board for the second term of the TIF. Without the \$2.5 million reduction in TIF revenues, Property taxes would have increased \$0.9 million over the prior year.
- Property taxes made up 33.7 % of the total revenue down from 36.1 % in the prior year.
- Total expenses in the Governmental Activities increased by \$4.9 million. The largest part of this increase is \$3.3 million in Public Safety. This is in accordance with budgetary planning.

Revenues by Source – Governmental Activities



Business-type activities increased the Town's net position by \$0.7 million which is less than the \$1.1 million in 2015. Stormwater revenues increased by \$20 thousand or approximately 0.0% (even) from the previous fiscal year.

Governmental Funds

The **General Fund**, which is the primary operating fund of the Town, recognized \$30.2 million in total revenues and \$8.8 million in other financing sources offset with \$36.4 million in expenditures and \$1.0 million in other financing uses. The Town continued its fiscal discipline that carried it through the "Great Recession" into fiscal year 2016. The results continue to be successful; expenditures were approximately \$2.7 million less than the final budget. In addition, revenues were \$796,791 more than budget.

Fund balance at the beginning of the year was \$19.3 million and, when combined with the current year, resulted in an end of year Fund Balance of \$21.0 million. Of this amount, \$3.7 million is unassigned fund balance, a growth of \$100 thousand this fiscal year.

The **Debt Service Fund** recognized \$5.3 million in total revenues and \$6.5 million in other financing sources offset with \$10.7 in expenditures and other financing uses. This resulted in expenditures more than revenues and other financing sources by \$1.1 million compared to the planned \$1.0 million. The Fund Balance at the beginning of the year was \$7.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$8.6 million. These results were consistent with the Town's expectations.

The **Capital Projects Fund** recognized \$1.7 million in total revenues and \$9.2 million in other financing sources offset with \$11.6 million in expenditures and \$2.5 million in other financing uses. This resulted in expenditures exceeding revenues and other financing sources by \$3.1 million. The Fund Balance at the beginning of the year was \$8.6 million and, when combined with the current year spending, resulted in an end of year Fund Balance of \$5.5 million. This is in accordance with the Town's Capital Plan as the Town used prior year bond proceeds and other funding sources accumulated in the beginning fund balance as well as the start of another beach renourishment project.

The **Tax Increment Financing District Fund (TIF)** recognized \$4.1 million in total revenues offset with \$2.7 million in other financing uses related to debt service payments and capital expenditures. This resulted in revenues greater than expenditures and other financing uses by \$1.4 million. Fund Balance at the beginning of the year was \$3.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$5.2 million. These results are consistent with the Town's plans – a temporary build-up of TIF funds as several TIF projects advance.

The **Accommodations Tax Fund** recognized \$5.7 million in total revenues offset with \$4.1 million in expenditures and \$1.6 million in other financing uses. This resulted in revenues exceeding expenditures by \$0.1 million. Fund Balance at the beginning of the year was \$2.8 million and, when combined with the current year resulted in end of year Fund Balance of \$2.9 million.

The **Real Estate Transfer Fee Fund** recognized \$2.9 million in total revenues offset with \$29 thousand in expenditures and \$2.2 million in other financing uses. This resulted in revenues exceeding expenditures by \$615 thousand. Fund balance at the beginning of the year was \$1.7 million and, when combined with the current year, resulted in an end of year Fund Balance of \$2.4 million.

The **Beach Preservation Fee Fund** recognized \$6.4 million in total revenues, offset with \$8.2 million in other financing uses. This resulted in reductions to fund balance of \$1.7 million which was the result of the start of another beach renourishment project. Fund Balance at the beginning of the year was \$16.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$14.8 million.

The **Hospitality Fee Fund** recognized \$6.5 million in total revenues offset with \$300 thousand in expenditures and \$5.0 million in other financing uses. This resulted in expenditures exceeding revenues and other financing uses by \$1.2 million. This is in line with the Town's expectations – using the funds as intended. The Fund Balance at the beginning of the year was \$700 thousand and, when combined with the current year, resulted in an end of year Fund Balance of \$1.9 million.

Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

Fund	2016			
	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Fund Balance	Changes in Fund Balance
General	\$ 38,956,303	\$ 37,354,196	\$ 20,951,432	\$ 1,602,107
Tax Increment Financing	4,091,602	2,657,266	5,215,850	1,434,336
Accommodations Tax (State)	5,725,569	5,658,720	2,901,469	66,849
Real Estate Transfer Fee	2,887,472	2,272,552	2,351,955	614,920
Beach Preservation Fee	6,436,292	8,186,247	14,765,811	(1,749,955)
Hospitality Fee	6,506,558	5,333,498	1,896,525	1,173,060
Debt Service	11,810,379	10,709,450	8,586,770	1,100,929
Capital Projects Fund	10,954,783	14,069,986	5,503,307	(3,115,203)
Non-Major Governmental Funds	4,199,638	3,212,960	4,340,340	986,678

Fund	2015			
	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Fund Balance	Changes in Fund Balance
General	\$ 36,799,403	\$ 35,485,477	\$ 19,349,325	\$ 1,313,926
Tax Increment Financing	6,487,077	8,621,747	3,781,514	(2,134,670)
Accommodations Tax (State)	5,294,083	5,048,618	2,834,620	245,465
Real Estate Transfer Fee	2,535,177	2,294,927	1,737,035	240,250
Beach Preservation Fee	8,042,664	6,105,039	16,515,766	1,937,625
Hospitality Fee	6,155,261	6,797,633	723,465	(642,372)
Debt Service	17,690,213	18,608,406	7,485,841	(918,193)
Capital Projects Fund	7,840,978	11,365,140	8,618,510	(3,524,162)
Non-Major Governmental Funds	2,967,278	2,358,576	3,353,662	608,702

GENERAL FUND BUDGETARY HIGHLIGHTS

Amendments to the budget occur throughout the year for a variety of reasons. These include reserves for encumbrances from prior year unexpended purchase orders which are added to the current year budget at the closing of the prior year, grants or other forms of financial aid which were received during the year but not anticipated in the original budget, appropriations of fund balances needed to offset unanticipated and unavoidable expenditures, and transfers of appropriation among departments, divisions, or object classes to address particular requirements not anticipated in the original budget. The Town Council approves and authorizes the annual budget and the level of object class totals within each department.

Original to revised expenditure budget variances:

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Variance From Original</u>
<u>General Fund by Function</u>			
General Government	\$ 1,958,889	\$ 1,971,189	\$ 12,300
Management Services	5,428,691	5,458,924	30,233
Public Safety	17,517,277	17,687,723	170,446
Community Services	8,150,885	8,567,840	416,955
Non-Departmental Townwide	4,796,532	4,657,761	(138,771)
Capital Outlay	934,980	774,785	(160,195)
	<u>\$ 38,787,254</u>	<u>\$ 39,118,222</u>	<u>\$ 330,968</u>

The General Fund revenues were more than the revised budget by \$796,791. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were below budget by \$301,421
- Local accommodations tax revenue was above budget by \$297,859
- Business license and franchise fee revenue were above budget by \$61,848
- Building permit revenue was above budget by \$643,753
- State shared revenue was above budget by \$12,322
- EMS and public safety revenue was above budget by \$69,495
- Fines and fees were below budget by \$9,757
- Investment income was below budget by \$246

The Town demonstrated fiscal conservatism by operating at less than the allowed budget for the General Fund operations. Actual General Fund expenditures were less than the revised budget by \$2.75 million.

The favorable variance can be primarily attributed to the continuation of the expenditure controls and fiscal discipline that enabled the Town to successfully navigate the Great Recession and these efforts continued through fiscal year 2016.

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2016 and 2015 amount to \$244.0 million and \$243.9 million respectively (net of accumulated depreciation). The Town's investment in capital assets for its business-type activities as of June 30, 2016 and 2015 amount to \$13.9 million and \$14.4 million respectively (net of accumulated depreciation). Capital assets include land, development rights, easements/right-of-ways, buildings, drainage systems, furniture, fixtures, equipment and vehicles.

Major capital asset transactions during the year include the following additions:

- Fire Station #2 Replacement \$155,666
- Office Park Road/USCB Project \$1,360,935
- Northwest Quadrant to Coligny \$523,375
- Sewer service to Gum Tree \$563,859
- Island Recreation Center Expansion \$385,384

Town of Hilton Head Island's Capital Assets (Net)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 161,476,238	\$ 161,632,796	\$ -	\$ -	\$ 161,476,238	\$ 161,632,796
Development rights	10,734,391	10,734,391	-	-	10,734,391	10,734,391
Easements/Right-of-Ways	3,548,960	3,548,960	-	-	3,548,960	3,548,960
Construction in progress	7,271,825	3,006,890	1,414,334	1,288,894	8,686,159	4,295,784
Buildings	21,961,080	23,180,381	-	-	21,961,080	23,180,381
Furniture, fixtures and equipment	1,116,757	1,515,960	-	-	1,116,757	1,515,960
Vehicles	3,205,041	3,656,766	-	-	3,205,041	3,656,766
Imp. Other than buildings - park developm	13,640,097	14,191,487	-	-	13,640,097	14,191,487
Infrastructure	<u>20,998,142</u>	<u>22,397,402</u>	<u>12,448,876</u>	<u>13,144,643</u>	<u>33,447,018</u>	<u>35,542,045</u>
	<u>\$ 243,952,531</u>	<u>\$ 243,865,033</u>	<u>\$ 13,863,210</u>	<u>\$ 14,433,537</u>	<u>\$ 257,815,741</u>	<u>\$ 258,298,570</u>

Additional information on the Town's capital assets can be found in Note 11 of this report.

Proprietary Fund

In fiscal year 2016, the Town received \$3,551,400 in stormwater fees and \$44,272 in grants while incurring \$2,755,139 in expenses associated with this program. Unrestricted net position at the end of the year was \$2,395,261 million.

LONG TERM OBLIGATIONS

General statutes limit the amount of general obligation debt that a unit of government can issue at eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The Town may incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote in a referendum as authorized by law.

The Town has an Aaa bond rating from Moody's Investor Service, AA+ bond rating from Standard and Poor's Corporation, and a AA+ bond rating from Fitch Ratings. These bond ratings are a clear indication of the sound financial condition of the Town.

Outstanding Long-Term Obligations

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 51,680,000	\$ 55,945,000	\$ -	\$ -	\$ 51,680,000	\$ 55,945,000
Revenue/Special Obligation Bonds:						
Beach preservation fees	7,380,000	9,685,000	-	-	7,380,000	9,685,000
Hospitality tax	19,415,000	20,265,000	-	-	19,415,000	20,265,000
Stormwater	-	-	<u>9,910,000</u>	<u>10,760,000</u>	<u>9,910,000</u>	<u>10,760,000</u>
	<u>\$ 78,475,000</u>	<u>\$ 85,895,000</u>	<u>\$ 9,910,000</u>	<u>\$ 10,760,000</u>	<u>\$ 88,385,000</u>	<u>\$ 96,655,000</u>

The Town plans to issue beach preservation special revenue bonds and GO bonds in early fiscal year 2018. Additional information on the Town's long-term debt can be found in Note 10 of this report.

BUDGET HIGHLIGHTS FOR FISCAL YEAR 2017

The **General Fund's** revenues for fiscal year 2017 are budgeted at \$39.6 million, an increase of \$440,407 or 1.1% compared to the prior year's revised budget. This includes the use of \$1,350,000 of fund balance – which was expected to be mostly offset with unspent funds in 2017, and \$663,643 in carried forward unspent funds to balance the budget. Collections from local accommodation taxes and business license revenue are expected to lead the increase in budgeted revenue. The Town will use these revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at \$39.6 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$48.9 million. The majority of the expenditures are budgeted for New Facilities including \$18.9 USCB Hospitality Program Building, \$11.35 Coligny/Pope Avenue Initiative, \$5.0 million in Recreation Center Expansion, and \$8.2 million in Roadway improvements. The Island-wide Beach maintenance project continues.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$13.57 million. There is a \$2,356,799 or 21.0% increase in debt service costs in fiscal year 2017 –which is expected after a temporary decrease in 2016. The Town plans to issue beach preservation fee special revenue bonds and GO bonds in early fiscal year 2018.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2016 on taxable property located within the Town of Hilton Head Island was adopted at 22.18 mills upon each one dollar of taxable property in the Town of Hilton Head Island. The assessment rate for the fiscal year beginning July 1, 2015 on taxable property located within the Town of Hilton Head Island was adopted at 22.18 mills upon each dollar of taxable property in the Town of Hilton Head Island.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Hilton Head Island, One Town Center Court, Hilton Island, South Carolina, 29928.



Basic Financial Statements

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TOWN OF HILTON HEAD ISLAND

STATEMENT OF NET POSITION

JUNE 30, 2016

Exhibit A

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 69,983,346	\$ 2,626,628	\$ 72,609,974
Investments	775,061	-	775,061
Accounts Receivable	6,522,885	-	6,522,885
Due from Employees	17,956	-	17,956
Due from Other Governments	2,777,489	127	2,777,616
Interfund Balances	(12,404)	12,404	-
Non Depreciable Capital Assets	183,031,414	1,414,334	184,445,748
Depreciable Capital Assets	60,921,117	12,448,876	73,369,993
Total assets	324,016,864	16,502,369	340,519,233
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	1,860,204	805,993	2,666,197
Deferred Pension Charges	1,547,318	-	1,547,318
Total deferred outflows of resources	3,407,522	805,993	4,213,515
Total assets and deferred outflows of resources	327,424,386	17,308,362	344,732,748
LIABILITIES			
Accounts Payable	9,879,349	159,976	10,039,325
Accrued Payroll and Related Payables	1,324,185	-	1,324,185
Due to Other Governments	1,940,212	-	1,940,212
Unearned Revenue	318,436	-	318,436
Irrigation and Pool Surety Bonds Payable	20,200	-	20,200
Court Bonds Payable	256	-	256
Performance Bonds Payable	68,236	-	68,236
Interest Payable	652,759	83,922	736,681
Long Term Obligations:			
Due Within One Year	11,727,690	875,000	12,602,690
Due in More than One Year (includes Net Pension Liability)	86,361,214	9,035,000	95,396,214
Total liabilities	112,292,537	10,153,898	122,446,435
DEFERRED INFLOW OF RESOURCES			
Deferred Pension Credits	390,659	-	390,659
Total deferred inflows of resources	390,659	-	390,659
Total liabilities and deferred inflows of resources	112,683,196	10,153,898	122,837,094
NET POSITION			
Net investment in capital assets	169,753,952	4,759,203	174,513,155
Restricted:			
Deposits in Escrow	66,025	-	66,025
Economic Development	5,215,850	-	5,215,850
Tourism Promotion	2,901,469	-	2,901,469
Environmental Conservation	2,351,955	-	2,351,955
Beach Nourishment and Restoration	2,764,811	-	2,764,811
Public Health and Safety	1,896,525	-	1,896,525
Debt Service Payments	8,586,770	-	8,586,770
Construction of Major Capital Facilities	3,230,307	-	3,230,307
Underground Electrical Service	4,333,663	-	4,333,663
Subtotal Restricted	31,347,375	-	31,347,375
Unrestricted	13,639,863	2,395,261	16,035,124
Total net position	\$ 214,741,190	\$ 7,154,464	\$ 221,895,654

The notes to the financial statements are an integral part of this statement.

**TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit B

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Primary Government		
					<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General Government	\$ 6,119,293	\$ 3,168,940	\$ -	\$ -	\$ (2,950,353)	\$ -	\$ (2,950,353)
Management Services	5,240,408	8,224,310	-	-	2,983,902	-	2,983,902
Community Services	18,658,764	12,903,821	-	19,956	(5,734,987)	-	(5,734,987)
Public Safety	19,802,724	1,486,087	675,259	-	(17,641,378)	-	(17,641,378)
Culture and Recreation	2,652,668	-	-	-	(2,652,668)	-	(2,652,668)
Visitor and Convention Bureau	1,709,995	-	-	-	(1,709,995)	-	(1,709,995)
Administration	212,356	-	163,656	-	(48,700)	-	(48,700)
Interest on Debt	3,042,722	-	-	-	(3,042,722)	-	(3,042,722)
Total governmental activities	<u>57,438,930</u>	<u>25,783,158</u>	<u>838,915</u>	<u>19,956</u>	<u>(30,796,901)</u>	<u>-</u>	<u>(30,796,901)</u>
Business-type activities:							
Stormwater	2,755,139	3,551,400	44,272	-	-	840,533	840,533
	<u>2,755,139</u>	<u>3,551,400</u>	<u>44,272</u>	<u>-</u>	<u>-</u>	<u>840,533</u>	<u>840,533</u>
Total primary government	<u>\$ 60,194,069</u>	<u>\$ 29,334,558</u>	<u>\$ 883,187</u>	<u>\$ 19,956</u>	<u>(30,796,901)</u>	<u>840,533</u>	<u>(29,956,368)</u>
General revenues:							
					22,576,837	-	22,576,837
					8,940,834	-	8,940,834
					6,506,306	-	6,506,306
					1,131,882	-	1,131,882
					268,397	-	268,397
					48,922	443	49,365
					843,946	-	843,946
					94,258	(94,258)	-
					<u>40,411,382</u>	<u>(93,815)</u>	<u>40,317,567</u>
					9,614,481	746,718	10,361,199
					<u>205,126,707</u>	<u>6,407,746</u>	<u>211,534,453</u>
					<u>\$ 214,741,188</u>	<u>\$ 7,154,464</u>	<u>\$ 221,895,652</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

Exhibit C

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-Major Governmental	Total Governmental
ASSETS										
Cash and Cash Equivalents	\$ 19,812,232	\$ 6,128,143	\$ 1,812,736	\$ 2,005,093	\$ 16,688,643	\$ 281,134	\$ 7,758,580	\$ 11,235,505	\$ 4,261,280	\$ 69,983,346
Investments	-	-	-	-	-	-	775,061	-	-	775,061
Accounts Receivable	2,711,334	-	-	-	2,069,505	1,609,239	-	-	132,807	6,522,885
Due from Employees	17,956	-	-	-	-	-	-	-	-	17,956
Interfund Receivables	7,387,060	2,971	-	-	7,663	6,152	53,983	4,282,892	662,199	12,402,920
Due from Other Governments	456,352	-	1,934,945	346,862	-	-	-	39,330	-	2,777,489
Total assets	\$ 30,384,934	\$ 6,131,114	\$ 3,747,681	\$ 2,351,955	\$ 18,765,811	\$ 1,896,525	\$ 8,587,624	\$ 15,557,727	\$ 5,056,286	\$ 92,479,657
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts Payable	1,999,432	-	605,792	-	-	-	-	7,269,621	4,504	9,879,349
Accrued Payroll and Employee Benefits	1,324,185	-	-	-	-	-	-	-	-	1,324,185
Due to Other Governments	1,027,321	912,891	-	-	-	-	-	-	-	1,940,212
Interfund Payables	4,984,348	2,373	240,420	-	4,000,000	-	854	2,546,293	641,036	12,415,324
Unearned Revenue	9,524	-	-	-	-	-	-	238,506	70,406	318,436
Irrigation and Pool Bonds	20,200	-	-	-	-	-	-	-	-	20,200
Court Bonds	256	-	-	-	-	-	-	-	-	256
Performance Bonds	68,236	-	-	-	-	-	-	-	-	68,236
Total liabilities	9,433,502	915,264	846,212	-	4,000,000	-	854	10,054,420	715,946	25,966,198
Fund balances:										
Restricted	66,025	5,215,850	2,901,469	2,351,955	2,765,811	1,896,525	8,586,770	3,230,307	4,333,663	31,348,375
Committed	15,171,715	-	-	-	12,000,000	-	-	-	-	27,171,715
Assigned	2,013,643	-	-	-	-	-	-	2,273,000	-	4,286,643
Unassigned	3,700,049	-	-	-	-	-	-	-	6,677	3,706,726
Total fund balances	20,951,432	5,215,850	2,901,469	2,351,955	14,765,811	1,896,525	8,586,770	5,503,307	4,340,340	66,513,459
Total liabilities and fund balances	\$ 30,384,934	\$ 6,131,114	\$ 3,747,681	\$ 2,351,955	\$ 18,765,811	\$ 1,896,525	\$ 8,587,624	\$ 15,557,727	\$ 5,056,286	\$ 92,479,657

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
 JUNE 30, 2016

Exhibit D

Amounts reported for governmental activities in the statement of net position are different because:

Ending fund balance - governmental funds	\$ 66,513,459
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	243,952,531
Deferred charges on refunding are not financial resources and, therefore, are not reported in the funds.	1,860,204
Differences between expected and actual retirement plan experience is not a current financial resource, therefore the changes are not reported in the governmental funds.	270,666
Differences between projected and actual retirement plan experience is not a current financial resource, therefore the changes are not reported in the governmental funds.	149,415
Contributions to the retirement plan after the measurement date are deferred outflows on the statement of net position, however this represents a use of current financial resources in the funds.	1,127,237
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(652,759)
Long-term liabilities, including bonds payable, and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds.	(98,088,904)
The Town's proportionate share of the deferred inflows of resources related to its participation in the State pension plan are not a current financial use of resources, therefore the amounts are not reported in the governmental funds.	<u>(390,659)</u>
Net position of governmental activities	<u><u>\$ 214,741,190</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit E

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fees	Beach Preservation Fees	Hospitality Fees	Debt Service	Capital Projects	Non-major Governmental	Total Governmental
REVENUES										
Real and Personal Property Tax	\$ 12,647,165	\$ 4,090,780	\$ -	\$ -	\$ -	\$ -	\$ 5,136,243	\$ 702,649	\$ -	\$ 22,576,837
Accommodations Tax	3,215,850	-	5,724,984	-	-	-	-	-	-	8,940,834
Hospitality Tax	-	-	-	-	-	6,506,306	-	-	-	6,506,306
Business License and Franchise Fees	9,143,437	-	-	-	-	-	-	-	-	9,143,437
Permits	2,039,571	-	-	-	-	-	-	-	-	2,039,571
Impact Fees	-	-	-	-	-	-	-	564,499	-	564,499
Lease	-	-	-	-	-	-	-	118,848	-	118,848
Real Estate Transfer Fees	-	-	-	2,887,147	-	-	-	-	-	2,887,147
Beach Preservation Fees	-	-	-	-	6,431,700	-	-	-	-	6,431,700
Electric Franchise Fees	-	-	-	-	-	-	-	-	2,671,984	2,671,984
State Shared Funds	812,322	-	-	-	-	-	-	319,560	-	1,131,882
Federal Reimbursement - BABS	-	-	-	-	-	-	163,656	-	-	163,656
Grants	146,760	-	-	-	-	-	-	19,956	540,176	706,892
EMS Revenue	1,383,496	-	-	-	-	-	-	-	-	1,383,496
Public Safety Revenue	53,781	-	-	-	-	-	-	-	-	53,781
Fines and Fees	210,243	-	-	-	-	-	-	-	-	210,243
Miscellaneous Revenue	535,174	-	-	-	-	-	-	-	-	535,174
Investment Income	2,454	822	585	325	4,592	252	36,914	2,252	726	48,922
Total revenues	30,190,253	4,091,602	5,725,569	2,887,472	6,436,292	6,506,558	5,336,813	1,727,764	3,212,886	66,115,209
EXPENDITURES										
Current:										
General Government	1,203,788	-	-	-	-	-	-	-	-	1,203,788
Management Services	4,947,486	-	-	-	-	-	-	-	-	4,947,486
Community Services	7,793,951	-	-	-	-	-	-	-	11,000	7,804,951
Public Safety	17,463,673	-	-	-	-	-	-	-	463,243	17,926,916
Non-Departmental	4,350,151	-	-	-	-	-	-	-	-	4,350,151
Culture and Recreation	-	-	2,352,668	-	-	300,000	-	-	-	2,652,668
Visitor and Convention Bureau	-	-	1,709,995	-	-	-	-	-	-	1,709,995
Administration	-	-	-	28,871	-	-	-	-	-	28,871
Debt service:										
Administrative charges	-	-	-	-	-	-	11,025	-	-	11,025
Interest	-	-	-	-	-	-	3,278,425	-	-	3,278,425
Principal Retirement	-	-	-	-	-	-	7,420,000	-	-	7,420,000
Capital outlay:										
Management Services	165,601	-	-	-	-	-	-	-	-	165,601
Community Services	-	-	-	-	-	-	-	11,567,398	1,664,087	13,231,485
Public Safety	412,782	-	-	-	-	-	-	-	-	412,782
Non-Departmental	30,012	-	-	-	-	-	-	-	-	30,012
Total expenditures	36,367,444	-	4,062,663	28,871	-	300,000	10,709,450	11,567,398	2,138,330	65,174,156
Excess (deficiency) of revenues over expenditures	(6,177,191)	4,091,602	1,662,906	2,858,601	6,436,292	6,206,558	(5,372,637)	(9,839,634)	1,074,556	941,053
OTHER FINANCING SOURCES (USES)										
Transfers Out	(986,752)	(2,657,266)	(1,596,057)	(2,243,681)	(8,186,247)	(5,033,498)	-	(2,502,588)	(1,074,630)	(24,280,719)
Proceeds from Sale of Land	-	-	-	-	-	-	-	1,078,410	-	1,078,410
Transfers In	8,766,050	-	-	-	-	-	6,473,566	8,148,609	986,752	24,374,977
Total other financing sources and uses	7,779,298	(2,657,266)	(1,596,057)	(2,243,681)	(8,186,247)	(5,033,498)	6,473,566	6,724,431	(87,878)	1,172,668
Net change in fund balance	1,602,107	1,434,336	66,849	614,920	(1,749,955)	1,173,060	1,100,929	(3,115,203)	986,678	2,113,721
Fund balance -- beginning	19,349,325	3,781,514	2,834,620	1,737,035	16,515,766	723,465	7,485,841	8,618,510	3,353,662	64,399,738
Fund balances -- ending	<u>\$ 20,951,432</u>	<u>\$ 5,215,850</u>	<u>\$ 2,901,469</u>	<u>\$ 2,351,955</u>	<u>\$ 14,765,811</u>	<u>\$ 1,896,525</u>	<u>\$ 8,586,770</u>	<u>\$ 5,503,307</u>	<u>\$ 4,340,340</u>	<u>\$ 66,513,459</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit F

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ 2,113,721
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
	Expenditures for capital assets	4,524,153
	Less current year depreciation	<u>(4,202,191)</u>
		321,962
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
		7,594,726
<p>Adjustment to compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(84,318)
<p>The disposal of capital assets provides current financial resources to governmental funds. However, in the statement of activities, the proceeds are netted against the original cost less accumulated depreciation.</p>		
		(234,464)
<p>Amortization of the deferred charge on bond refunding does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.</p>		
		(172,460)
<p>Changes in the Town's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the state pension plan for the current year are not a current financial use of resources, therefore the changes are not reported in the governmental funds.</p>		
		14,339
	Changes in long-term debt interest payable	<u>60,977</u>
Change in net position of governmental activities		<u>\$ 9,614,483</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit G

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 12,948,587	\$ 12,948,587	\$ 12,647,165	\$ (301,422)
Accommodations Tax	2,917,990	2,917,990	3,215,850	297,860
Business License and Franchise Fees	9,081,590	9,081,590	9,143,437	61,847
Permits	1,395,817	1,395,817	2,039,571	643,754
State Shared Funds	800,000	800,000	812,322	12,322
Grants	105,677	105,677	146,760	41,083
EMS Revenue	1,314,000	1,314,000	1,383,496	69,496
Public Safety Revenue	56,500	56,500	53,781	(2,719)
Municipal Court -- Fines and Fees	220,000	220,000	210,243	(9,757)
Miscellaneous Revenue	550,601	550,601	535,174	(15,427)
Investment Income	2,700	2,700	2,454	(246)
Total Revenues	<u>29,393,462</u>	<u>29,393,462</u>	<u>30,190,253</u>	<u>796,791</u>
Expenditures:				
Current:				
General Government	1,958,889	1,971,189	1,203,788	767,401
Management Services	5,428,691	5,458,924	4,947,486	511,438
Public Safety	17,517,277	17,687,723	17,463,673	224,050
Community Services	8,150,885	8,567,840	7,793,951	773,889
Non-Departmental	4,796,532	4,657,761	4,350,151	307,610
Capital Outlay	934,980	774,785	608,395	166,390
Total Expenditures	<u>38,787,254</u>	<u>39,118,222</u>	<u>36,367,444</u>	<u>2,750,778</u>
(Deficiency) Excess of revenues over (under) expenditures	<u>(9,393,792)</u>	<u>(9,724,760)</u>	<u>(6,177,191)</u>	<u>3,547,569</u>
Other financing sources				
Transfers In	7,922,565	8,439,027	8,766,050	327,023
Transfers Out	-	(991,462)	(986,752)	4,710
Total other financing sources	<u>7,922,565</u>	<u>7,447,565</u>	<u>7,779,298</u>	<u>331,733</u>
Appropriated Fund Balance/Net change in FB	<u>(1,471,227)</u>	<u>(2,277,195)</u>	<u>1,602,107</u>	<u>\$ 3,879,302</u>
Fund balance - beginning	<u>19,349,325</u>	<u>19,349,325</u>	<u>19,349,325</u>	
Fund balance - ending	<u>\$ 17,878,098</u>	<u>\$ 17,072,130</u>	<u>\$ 20,951,432</u>	

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

Exhibit H

	Stormwater Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,626,628
Due from other governments	127
Interfund receivables	45,782
Total current assets	2,672,537
Noncurrent assets:	
Capital assets depreciable	12,448,876
Capital assets non depreciable	1,414,334
Total noncurrent assets	13,863,210
Total assets	16,535,747
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on bond refunding	805,993
Total assets and deferred outflows of resources	\$ 17,341,740
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	\$ 159,976
Interfund payables	33,378
Interest payable	83,922
Current portion of long-term liabilities	875,000
Total current liabilities	1,152,276
Noncurrent liabilities:	
Long-term liabilities	9,035,000
Total noncurrent liabilities	9,035,000
Total liabilities	10,187,276
NET POSITION	
Net investment in capital assets	4,759,203
Unrestricted	2,395,261
Total net position	\$ 7,154,464

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit I

	Stormwater Fund
Operating revenues:	
Stormwater Fees	\$ 3,551,400
Federal Grant	44,272
	3,595,672
Operating expenses:	
Maintenance and Repair	883,096
Administrative - Salary/Benefits	358,116
Administrative - Operating	339,567
Depreciation	783,177
Total operating expenses	2,363,956
Operating Income	1,231,716
Nonoperating revenues (expenses):	
Investment Income	443
Administrative	(2,500)
Interest Expense	(388,683)
Total non operating (expenses)	(390,740)
Income before transfers	840,976
Transfers Out	(94,258)
Change in net position	746,718
Total net position - beginning	6,407,746
Total net position - ending	\$ 7,154,464

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit J

	Stormwater Fund
<u>OPERATING ACTIVITIES</u>	
Receipts from other governments	\$ 3,603,605
Payments to suppliers	(1,358,986)
Payments to employees	(566,835)
Net cash provided by operating activities	1,677,784
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of capital assets	(212,850)
Payment of interest expense	(299,128)
Nonoperating administrative expenses	(2,500)
Principal payment on bonds payable	(850,000)
Net cash used for capital and related financing activities	(1,364,478)
<u>INVESTING ACTIVITIES</u>	
Proceeds from income on investments	443
Net cash provided by investing activities	443
Net increase in cash and cash equivalents	313,749
Cash and cash equivalents, beginning of year	2,312,879
Cash and cash equivalents, end of year	\$ 2,626,628
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,231,716
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	783,177
Transfers Out to cover payroll provided by the Primary Government	(94,258)
(Increase) decrease in operating assets:	
Due from other governments	7,933
Due from other funds	(16,789)
Decrease in operating liabilities:	
Accounts payable	(136,324)
Due to other funds	(97,671)
Net cash provided by operating activities	\$ 1,677,784

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit K

ASSETS

Cash and Temporary Investments	\$ 96,633
Due from General Fund	<u>995,340</u>
Total Assets	<u><u>\$ 1,091,973</u></u>

LIABILITIES

Due to Firemen's Fund Association	\$ 96,633
Due to County Noise Abatement Project	<u>995,340</u>
Total Liabilities	<u><u>\$ 1,091,973</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Hilton Head Island, South Carolina, (*Town*) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies affecting their presentation.

Reporting Entity

This report includes all of the funds of the Town of Hilton Head Island, South Carolina, (the primary government) which was incorporated May 18, 1983, the Hilton Head Island Economic Development Corporation, and the Town of Hilton Head Island Public Facilities Corporation which are blended-component units of the Town. The Town's Charter provides for a Council-Manager form of government in accordance with Home Rule Act Number 283.

Component Units

In conformity with accounting principles generally accepted in the United States of America (GAAP), the financial statements of the Town of Hilton Head Island Public Facilities Corporation are shown as a blended component unit as the administration and governing bodies are primarily the same. The component unit provides services entirely to the Town and was created to facilitate the issuance of debt for acquisition of the Town's administration facilities. Separate financial statements are not prepared for the Town of Hilton Head Island Public Facilities Corporation. All debt transactions are recorded in the Debt Service Fund and capital projects transactions associated with the issuance of the debt are recorded in the Capital Projects Fund.

In conformity with accounting principles generally accepted in the United States of America (GAAP), the financial statements of the Hilton Head Island Economic Development Corporation are shown as a blended component unit as its principal objective is to benefit the Town economically. Separate financial statements are not prepared for the Hilton Head Island Economic Development Corporation. All transactions are recorded in the General Fund.

Basis of Presentation

Government-wide Financial Statements. The statement of net position and the statement of activities display information on all of the non-fiduciary activities of the government as a whole. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, generally, are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. These activities are usually reported in enterprise funds.

The statement of net position reports all financial and capital resources of the Town and reports the difference between assets and deferred outflows -- and liabilities and deferred inflows as net position not fund balance or equity. The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation – Government-wide Financial Statements (continued)

The Town implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016.

The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The Town previously reported its investments at fair value on a recurring basis, so the primary effect of the implementation of this Statement was additional disclosure, which can be found in Note 2.

Fund Financial Statements. Separate financial statements are provided for the governmental funds, proprietary fund, and fiduciary fund, even though the latter is excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund and the enterprise fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

1. The Town reports the following major governmental funds:

General. The General Fund is used to account for all financial sources except those required to be accounted for in another fund.

Tax Increment Financing District (Special Revenue Fund). This fund is used to account for incremental taxes charged to individuals. These revenues are used for expenditures related to economic development within the TIF districts.

Beach Preservation Fee (Special Revenue Fund). This fund is used to account for beach preservation fees. These revenues are used for expenditures related to nourishment and restoration of the Town's beaches.

Real Estate Transfer Fee (Special Revenue Fund). The fund accounts for a fee equal to one quarter of one percent (.0025%) of the purchase price upon the transfer of any real property situated within the corporate limits of the Town. These revenues are used for expenditures related to environmental conservation.

Accommodations Tax (State) (Special Revenue Fund). This fund is used to account for the Town's receipts from the two percent (2%) tax levied on rentals of transient accommodations within the corporate limit. These revenues are used for expenditures related to tourism promotion.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation -- Fund Financial Statements (continued)

Hospitality Fees (Special Revenue Fund). This fund is used to account for the Town's receipts from the 2% tax levied on the sale of prepared meals and beverages sold in establishments or sales of prepared meals and beverages sold in establishments licensed for on-premises consumption of alcoholic beverages, beer or wine. These financial resources are used for expenditures that enhance the health, safety and general welfare of the Town.

Debt Service. This fund is used for accumulating resources for the payment of interest and principal on general long-term obligation debt.

Capital Projects. This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. The Town reports the Operating Grants, Palmetto Electric Franchise Fees and the Home Grant Special Revenue Funds as non-major governmental funds.
3. The Town's agency funds are presented in the fiduciary fund financial statement. Since these assets cannot be used to address activities or obligations of the Town, the agency fund is not incorporated into the government-wide financial statements. The Town's agency funds are as follows:

The *Firemen's Fund* is used to account for resources held by the Town for its firemen in an agency capacity.

The *Airport Noise Abatement Fund* is used to account for resources held by the Town granted from Beaufort County and the Town toward a County Noise Abatement Project.

4. The Town's proprietary fund is presented in the enterprise fund financial statement. The Town's Stormwater Fund is used to account for the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits of Hilton Head Island in concert with Beaufort County and other water resource management programs. Costs are recovered through user charges in a manner similar to private business enterprises. This fund is a major fund.

Measurement Focus and Basis of Accounting

All funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Net Position. Net position represents the difference between assets, liabilities and deferred inflows/outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when constraints placed on net position are either: 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by laws of the State of South Carolina through constitutional provisions or enabling legislation. The remaining amounts are unrestricted.

Deferred Outflows/Inflows of Resources. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town only has only a few items that qualify for reporting in this category. A deferred charge on bond refunding is reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Also, the Town reports a deferred outflows for pension contributions after the measurement date and for the difference between expected and actual plan experience. The Town reports deferred inflows of resources for pension earnings above expectations. These topics are more fully discussed in Notes 17 and 20.

Net Position Flow Assumption. Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund statements, a low assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Additionally, the effect of interfund activity has been eliminated from the government-wide financial statements, except for the amounts due between the Town’s governmental activities and business-type activities.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Taxpayer-assessed income and gross receipts are recognized as revenue when in the hands of intermediary collecting governments (state shared revenues, sales and accommodation tax revenue). Business license revenues are recognized when measurable and available. Property tax revenues are recognized when received or available for payment of liabilities of the current period. The Town considers property taxes as available if collected within 60 days after year-end.

Property taxes, local accommodation taxes, beach preservation fees and hospitality taxes for the year ended June 30, 2016, include accruals for monies collected 60 days after June 30. Property taxes are levied based on assessed values and the property tax calendar as follows:

Property Tax Calendar

Assessment date	December 31, 2015
Property tax due	January 15, 2016
Delinquent date	January 16, 2016
Levy date	October 2016
Tax sale	First Monday in October

The County has no specific lien date.

Proprietary Fund Financial Statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the Town's Stormwater Fund are charges to the customers for sales and service. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates relate to the South Carolina Police Officers Retirement System administered by the South Carolina Public Benefit Authority.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund, Debt Service Fund, Capital Projects Fund and the Stormwater Fund. Budgets for the aforementioned funds are prepared in accordance with GAAP. The Town uses the following procedures in establishing budgetary data reflected in these financial statements:

1. The Town Manager submits to Town Council a proposed operating budget for the General Fund, Capital Projects Fund, Debt Service Fund and Stormwater Fund for the year which includes proposed expenditures and the means of financing them.
2. Public hearings are held for taxpayers' comments for the General Fund, Capital Projects Fund, Debt Service Fund and Stormwater Fund budgets.
3. The budgets are legally enacted and adopted by Town Council.
4. Budgetary transfers between departments and projects may be authorized by the Town Manager for up to \$100,000; however, large transfers and any revisions that alter the total expenditures of any fund must be approved by Town Council.

The expenditures may not legally exceed appropriations at the fund level except for additional funds received as grants or donations. Appropriations lapse at year-end.

Cash Equivalents

For purposes of this report, the Town considers both unrestricted and restricted demand deposits, money market accounts and certificates of deposits with a maturity date of three months or less when purchased to be cash equivalents.

For purposes of the statement of cash flows for the proprietary fund, cash equivalents are deposit accounts (including restricted assets) with a maturity date of three months or less, and other short-term highly liquid investments that are readily convertible to known amounts of cash.

Investments

Investments are stated at fair value which is equivalent to market value for all investments held in the debt service fund. All changes in fair value are recorded as investment income.

Due to and from Other Funds/ Internal Balances

Interfund receivables and payables in the fund financial statements and internal balances in the government-wide financial statements arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for the amounts due between the Town's governmental activities and business-type activities.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets used in the operations of governmental funds and not specifically related to activities reported in proprietary or fiduciary funds have been reported as assets in the governmental activities column of the government-wide financial statement. Capital assets are defined by the Town as assets including, but not limited to, land, buildings, machinery and equipment with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. The only exception to the \$5,000 threshold is software acquisition. Software and other associated intangibles with an initial individual cost of \$50,000 or more and an estimated useful life in excess of two years is capitalized.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Any donations of capital assets are recorded at fair value at date of donation. Purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized. Capital assets of the Town are depreciated over their useful lives on a straight-line basis as follows:

Building	25-30 years
Infrastructure	25 years
Vehicles	8-15 years
Furniture, fixtures, and equipment	5-20 years
Roads	25-30 years
Waterway	30 years
Dams	30-50 years
Software	10 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The Town has a policy to accrue compensated absences for employees when the obligation relating to the employee's rights to receive compensation is attributable to the employee's services already rendered, when the rights vest and accumulate and when the payment is payable. Vacation pay meets the above criteria for accrual, whereas sick pay does not. Sick pay does not vest until an employee is eligible to retire. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulative rights to receive sick pay benefits.

Upon retirement, the value of sick leave accruals is contributed to a retirement health savings plan.

The General Fund is used to liquidate the liability for compensated absences.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Town Council through approval of resolutions. Assigned fund balances is a limitation imposed by a designation of the Town Council. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements. The Town considers the funds to be liquidated in the following order: Restricted fund balance, Committed fund balance, Assigned fund balance and then Unassigned fund balance.

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Note 2. Cash, Cash Equivalents, and Investments

The following schedule reconciles deposits and investments within the footnotes to the statement of net position amount:

	Cash and Cash Equivalents	Investments	Total
Governmental Activities:			
General Fund	\$ 19,812,232	\$ -	\$ 19,812,232
Tax Increment Financing	6,128,143	-	6,128,143
Accommodations Tax	1,812,736	-	1,812,736
Real Estate Transfer Fees	2,005,093	-	2,005,093
Beach Preservation Fees	16,688,643	-	16,688,643
Debt Service	7,758,580	775,061	8,533,641
Hospitality Tax	281,134	-	281,134
Capital Projects	11,235,505	-	11,235,505
Town Franchise Fees	4,209,256	-	4,209,256
Home Grant	52,024	-	52,024
Total Governmental Activities	<u>\$ 69,983,346</u>	<u>\$ 775,061</u>	<u>\$ 70,758,407</u>
Business-Type Activities:			
Stormwater Utility Fees	<u>\$ 2,626,628</u>	<u>\$ -</u>	<u>\$ 2,626,628</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents, and Investments (continued)

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2016, the \$72,609,974 carrying balance and \$73,172,412 bank balance were held in various banks of which \$551,733 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of \$1,555 is held in petty cash funds of the Town.

Unrated investments (overnight funds) are invested in a money market "account" vs. a true "fund." That is, the funds are held by various banks in an interest-bearing depository account. As such, they are collateralized per Section 6-5-15 of the SC Code which outlines securing bank deposits.

Investments

At June 30, 2016, the Town had investments and maturities as shown below:

	Fair Value	Maturity < 1 Year
Federal National Mortgage Discount Note	\$ 775,061	\$ 775,061
Total	\$ 775,061	\$ 775,061

In accordance with the provisions of two South Carolina Statutes, S.C. Code Ann. § 6-5-10 and S.C. Code Ann. § 11-1-60, the Town is authorized to invest in the following instruments:

- Government National Mortgage Association (GNMA)
- Federal Home Loan Banks (FHLB)
- Small Business Administration (SBA)
- U.S. Maritime Administration (MA)
- Tennessee Valley Authority (TVA)
- U.S. Export-Import Bank (Eximbank)
- Farmers Home Administration (FHA)
- Federal Financing Bank (FFB)
- General Services Administration (GSA)
- Department of Housing and Urban Development (HUD)
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents, and Investments (continued)

Investments (continued)

The Town's primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Risk** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. **Credit Risk** – The Town will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities in compliance with the provisions of South Carolina statutes as bulleted in the aforementioned section.
 - b. **Interest Rate Risk** – The Town will minimize interest rate risk, which is the risk that the fair value of securities in the portfolio will fall due to changes in market interest rates, by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; thereby, avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. **Yield** – The Town's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the state investment pool, a money market mutual fund provided through Town's current banking institution or the average rate on Fed funds, whichever is higher. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein, and prudent investment principles.

At June 30, 2016, the Town had debt securities and quality ratings as shown below:

	<u>Fair Value</u>	<u>Quality Rating Aaa (Moody's)</u>
Federal National Mortgage Discount Note	<u>\$ 775,061</u>	<u>\$ 775,061</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents, and Investments (continued)

The Town measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1:* Quoted prices for identical investments in active markets;
- Level 2:* Observable inputs other than quoted market prices; and,
- Level 3:* Unobservable inputs.

At June 30, 2016, the Town had the following recurring fair value measurements.

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Federal National Mortgage Discount Note	\$ 775,061	\$ -	\$ 775,061	\$ -
Total	<u>\$ 775,061</u>	<u>\$ -</u>	<u>\$ 775,061</u>	<u>\$ -</u>

Debt securities classified in Level 2 are valued using observable inputs other than quoted market prices. Level 2 inputs are based primarily on prices from third-party vendors.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 3. Receivables

At June 30, 2016, the Town's receivable balances were as follows:

	Government-wide Financial Statements				
	Fund Financial Statements				
	General Fund	Beach Preservation Fee	Hospitality Fee	Non-Major Governmental	Total
Receivables:					
EMS Fees	\$ 291,129	\$ -	\$ -	\$ -	\$ 291,129
Local accommodations taxes	1,034,752	-	-	-	1,034,752
Business licenses	1,090,006	-	-	-	1,090,006
Other receivables	295,447	-	-	132,807	428,254
Beach preservation fees	-	2,069,505	-	-	2,069,505
Hospitality taxes	-	-	1,609,239	-	1,609,239
Total Receivables	\$ 2,711,334	\$ 2,069,505	\$ 1,609,239	\$ 132,807	\$ 6,522,885
Receivables from Employees:					
Cobra Insurance	\$ (18,394)	\$ -	\$ -	\$ -	\$ (18,394)
Computer Purchases*	36,350	-	-	-	36,350
Total Receivables from Employees	\$ 17,956	\$ -	\$ -	\$ -	\$ 17,956

*The computer loans are repaid over three (3) years with no interest due.

Note 4. Interfund Balances and Activities

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2016 for which payment was received/made after June 30, 2016.

Governmental activities and Proprietary Fund interfund receivables and payable balances at June 30, 2016 are as follows:

	General Fund	Increment Financing District	Accom. Tax Fund	Debt Service Fund	Beach Preservation Fees	Capital Projects Fund	Non-Major Governmental	Proprietary Fund	Total
<u>Due To:</u>									
General	\$ -	\$ 2,373	\$ 240,420	\$ 854	\$ 4,000,000	\$ 2,546,293	\$ 569,157	\$ 27,963	\$ 7,387,060
Tax Increment Financing District	2,971	-	-	-	-	-	-	-	2,971
Capital Project Fund	4,205,598	-	-	-	-	-	71,879	5,415	4,282,892
Hospitality Fee	6,152	-	-	-	-	-	-	-	6,152
Beach Preservation Fees	7,663	-	-	-	-	-	-	-	7,663
Non-Major Governmental	662,199	-	-	-	-	-	-	-	662,199
Proprietary Fund	45,782	-	-	-	-	-	-	-	45,782
Debt Service Fund	53,983	-	-	-	-	-	-	-	53,983
Total	\$ 4,984,348	\$ 2,373	\$ 240,420	\$ 854	\$ 4,000,000	\$ 2,546,293	\$ 641,036	\$ 33,378	\$ 12,448,702

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

The Town uses transfers to (1) move revenues from the fund that by statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move Town grant monies from grantor funds to grantee funds, and (3) transfer bond proceeds from the fund that by statute or budget requires to receive them to other funds authorized to execute the project.

Transfers in/out for the year ended June 30, 2016 are summarized below:

	<u>Recipient Fund</u>				<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Non-Major Governmental</u>	
<u>Transferring Fund</u>					
Tax Increment Financing District	\$ 169,398	\$ 2,487,868	\$ -	\$ -	\$ 2,657,266
General Fund	-	-	-	986,752	986,752
Accommodations Tax	1,596,057	-	-	-	1,596,057
Hospitality Fee	3,270,069	130,317	1,633,112	-	5,033,498
Beach Preservation Fees	1,111,138	4,543,672	2,531,437	-	8,186,247
Capital Projects	2,437,252	-	65,336	-	2,502,588
Non-Major Governmental	87,878	986,752	-	-	1,074,630
Real Estate Transfer Fee	-	-	2,243,681	-	2,243,681
Debt Service Fund	-	-	-	-	-
Total Governmental Funds	8,671,792	8,148,609	6,473,566	986,752	24,280,719
Proprietary Fund	94,258	-	-	-	94,258
Total All Funds	<u>\$ 8,766,050</u>	<u>\$ 8,148,609</u>	<u>\$ 6,473,566</u>	<u>\$ 986,752</u>	<u>\$ 24,374,977</u>

Note 5. Due To or From Other Governments

The amounts due to the Town from other governments are as follows:

<u>General Fund</u>	
Property Taxes - Beaufort County	\$ 186,127
Beaufort County - Oceanwoods Landscaping	4,725
E 911 - Beaufort County	47,224
Dispatch/ EMS 911 - Beaufort County	12,500
State of South Carolina - Aid to Sub-Division	200,081
State of South Carolina - TNC Local Fee	2,560
State of South Carolina - Manufacturer's Reimbursement	237
State of South Carolina - Merchant Inventory	2,898
	<u>\$ 456,352</u>

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 5. Due To or From Other Governments (continued)

<u>Capital Projects Fund</u>	
State Sunday Liquor Fees	\$ 39,330
	39,330
 <u>Accommodations Taxes</u>	
State of South Carolina	1,934,945
	1,934,945
 <u>Real Estate Transfer Fees</u>	
Beaufort County	346,862
	346,862
Total Due from Other Governments	\$ 2,777,489
 <u>Proprietary Fund</u>	
Beaufort County	127
	127

The amounts due from the Town to other governments are as follows:

<u>General Fund</u>	
Beaufort County -- Airport Noise Reduction Escrow	\$ 995,340
Beaufort County – Sherriff’s Office Escrow	4,718
Municipal Court State Fees - SC State Treasurer	25,414
State of South Carolina - Sales & Use Tax	1,849
	1,027,321
 <u>Tax Increment Financing District</u>	
Beaufort County	912,891
	912,891
Total Due to Other Governments	\$ 1,940,212

Note 6. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. As of June 30, 2016, fund balances for governmental funds are made up of the following:

- **Nonspendable Fund Balance** includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term receivables.
- **Restricted Fund Balance** includes amounts that can be spent only for the specific purpose stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with consent of the resource providers.
- **Committed Fund Balance** includes amounts that can only be used for the specific purposes determined by a formal action of the Town’s highest level of decision-making authority, Town Council. Commitments may be changed or lifted only by the Town Council taking the same formal action that imposes the original constraint.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 6. Fund Balances (continued)

- **Assigned Fund Balance** includes amounts intended to be used by the Town for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Town Council or (b) a body or official to which Town Council has delegated the authority to assign amounts to be used for specific purposes.
- **Unassigned Fund Balance** is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned. Hilton Head Island Town Council is the Town's highest level of decision-making that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

The Town considers restricted amounts to have been spent when an expenditure is incurred for the purpose for which both restricted and unrestricted amounts are available. When an expenditure is incurred for which committed, assigned or unassigned amounts could be used, the Town considers expenditures to be used in their respective order.

Fund balances for all the major and non-major funds as of June 30, 2016, were distributed as follows: (**The Home grant unassigned fund deficit, noted below, will be offset by future grant revenues.)

Classification/Fund	Purpose	Amount
Restricted		
General	Deposits in escrow	\$ 66,025
Tax Increment Financing District	Economic development	5,215,850
Accommodations Tax	Tourism promotion	2,901,469
Real Estate Transfer Fee	Environmental conservation	2,351,955
Beach Preservation Fee	Beach nourishment and restoration	2,765,811
Hospitality Fee	Public health and safety	1,896,525
Debt Service	Debt service payments	8,586,770
Capital Projects	Construction of major capital facilities	3,230,307
Palmetto Electric	Underground electrical service	4,333,663
Committed		
General	Disaster Recovery	15,171,715
Beach Preservation Fee	Beach renourishment	12,000,000
Assigned		
General	FY17 Budget	2,013,643
Capital Projects	FY17 Budget	2,273,000
Unassigned		
HOME grant**	HOME grant program	(9,982)
Federal and Operating Grants	Federal and Operating grants	16,659
General		3,700,049
Total Fund Balances		\$ 66,513,459

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 6. Fund Balances (continued)

Committed For Disaster Recovery – Town Council has established:

- **Committed for Operating Expenditures** – The Town will establish and maintain an **operating balance based on a range with a minimum of 25% up to a maximum of 30%** of the Town’s adopted fiscal year operating budget. The operating balance may be utilized for emergency purposes in post-disaster occurrences; to offset an early fiscal year tax revenue income stream deficiency; and to avoid emergency Town borrowing or use of tax anticipation notes. The Director of Finance is authorized to transfer the amount of undesignated fund balance above the 30% maximum into the debt service fund to maintain an account for the reduction of Town debt. This account shall be called debt defeasance. An annual report shall be given each year in conjunction with the budget. The Town has the full 30% committed in fund balance for an amount of \$11,884,093.
- **Committed for Advertising Expenditures** – The Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into an advertising account. These funds are committed for disaster management communications oriented programs. The fund will be used to provide post disaster advertising, a communications link to emergency agencies, and media programs to provide public notice. Funds may be distributed upon authorization by the Town Manager. The total amount of funds for this purpose will not exceed \$1 million, and the Town’s committed fund balance includes \$1 million for this at June 30, 2016. Annual interest earned on funds will also be deposited into the account.
- **Committed for General Expenditures** – Once the Advertising account reaches \$1 million, the Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster general account. These funds may be used for pre-disaster planning and post disaster recovery efforts (non-communication related activities or debt service payments). The total amount of funds will not exceed 15% of the General Fund’s annual operating revenue. The Town has \$1,887,622 in committed fund balance for this at June 30, 2016.
- **Committed for Dredging** – The final amount of committed general fund balance is \$400,000 for dredging of the Town’s waterways.
- **Committed for Beach Renourishment** – The Town will hold in an interest bearing account a portion of the amounts on deposit in the Town of Hilton Head Island Beach Preservation Fee Account. The amount to be held in this account shall not exceed \$12 million.

Note 7. Accounts Payable

Accounts payable consists of payments due, but unpaid at year-end.

	Government-Wide Financial Statements					
	Fund Financial Statements					
	General Fund	Accommodations Tax Fund	Capital Project Fund	Non- Major Funds	Proprietary Fund	Total
Payables:						
Accounts payable	\$ 1,999,432	\$ 605,792	\$ 7,269,621	\$ 4,504	\$ 159,976	\$ 10,039,325
Accrued payroll	1,324,185	-	-	-	-	1,324,185
Total payables	\$ 3,323,617	\$ 605,792	\$ 7,269,621	\$ 4,504	\$ 159,976	\$ 11,363,510

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 8. Unearned Revenue and Net Position

Unearned Revenue

The balance of unearned revenues in the fund financial statements and in the government-wide financial statements at year-end are composed of the following elements:

	Unearned Revenue
Revenues received in advance of being earned:	
General Fund	\$ 9,524
Capital Projects Fund	238,506
Nonmajor Governmental Fund - Home Grant	70,406
	\$ 318,436

The following is an explanation of each unearned revenue source:

1. General Fund
The unearned revenues in the General Fund are miscellaneous funds associated with the Town's Open Space Fund.
2. Capital Projects Fund
The unearned revenues in the Capital Projects Fund are primarily funds associated with a future parking solution in the Shelter Cove area.
3. Nonmajor Governmental Fund – Home Grant
The unearned revenue in the Home Grant Fund is revolving loan funds being held in reserve.

Net Position

Net position represents the difference between assets and liabilities and were as follows:

	Governmental Activities	Business-Type Activities
Net investment in capital assets		
Net capital assets	\$ 243,952,531	\$ 13,863,210
Less: General obligation bonds	(51,680,000)	-
Special obligation bonds	(26,795,000)	(9,910,000)
Bond premiums	(1,655,009)	-
Add: Deferred charges on refunding	1,860,204	805,993
Unspent bond proceeds	4,071,226	-
	169,753,952	4,759,203
Restricted for:		
Deposits in escrow	66,025	-
Economic development	5,215,850	-
Tourism promotion	2,901,469	-
Environmental conservation	2,351,955	-
Beach nourishment and restoration	2,764,811	-
Public health and safety	1,896,525	-
Debt service payments	8,586,770	-
Construction of major capital facilities	3,230,307	-
Underground electrical service	4,333,663	-
Subtotal Restricted	31,347,375	-
Unrestricted:	13,639,863	2,395,261
Total net position	\$ 214,741,190	\$ 7,154,464

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 9. Accommodations Tax Fund

Accommodations Tax Fund is a Special Revenue Fund to record Accommodations Tax receipts and grants approved by Town Council payable out of appropriations. Thirty percent (30%, FY 2016: \$1,709,995) and five percent (5%, \$284,999) of Accommodations Taxes after deducting a \$25,000 transfer to the General Fund is required to be transferred to the Hilton Head Island Chamber of Commerce Visitor and Convention Bureau and the General Fund, respectively. The remaining amounts are allocated to various projects approved by Town Council and these projects must be tourism-related.

Town Council has adopted a policy whereby the appropriations for an individual grant will lapse if the project is not underway by December 31 of the year following appropriation. The grant can be extended, by the Town Manager, for one additional calendar year. No appropriations lapsed during the fiscal year ended June 30, 2016.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2016:

<u>Grants</u>	<u>Appropriations</u>	<u>Expenditures</u>
HHI Wine and Food, Inc.	\$ 130,000	\$ 115,862
Art League of HHI	55,000	15,935
Arts Center of Coastal Carolina	396,000	396,000
DM Carmines Memorial Foundation Seafood Festival	10,000	10,000
Gullah Museum of HHI	30,000	1,500
Gullah Museum of HHI -- out-of-cycle	1,831	442
Harbour Town Merchants Association	12,000	-
HHI Chamber and VCB	385,000	144,990
HHI St. Patrick's Day Parade	14,740	-
Hilton Head Choral Society	35,000	17,082
Hilton Head Concours D'Elegance	165,000	54,246
Hilton Head Concours D'Elegance out-of-cycle	50,000	1,583
Hilton Head Dance Theatre	15,000	4,949
Hilton Head Island Recreation Assoc. Wingfest and Oyster Celebration	15,000	7,500
Hilton Head Symphony Orchestra	230,000	230,000
Lowcountry Golf Course Owners Association	50,000	25,000
Main Street Youth Theater	15,000	8,118
Memory Matters	12,000	7,400
Michelville Preservation Project	40,000	3,267
Michelville Preservation Project out-of-cycle	60,000	37,408
MLK Jr. Celebration	1,660	756
Native Island Business & Community	110,000	70,492
Shelter Cover Harbour Company	54,900	-
Skull Creek July 4th Celebration	12,000	-
The Coastal Discovery Museum	239,340	103,767
The Heritage Library	49,600	20,539
The Heritage Library -- History Day	9,100	-
The Sandbox	49,600	23,068
Transfer to General Fund -- Grant Approved	1,286,058	1,286,058
Total Grants	\$ 3,533,829	\$ 2,585,962

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 9. Accommodations Tax Fund (continued)

Town Council has approved amounts for calendar year 2017 grants as follows:

Arts Center of Hilton Head Island	\$ 400,000
Hilton Head Choral Society	35,000
Hilton Head Concours d'Elegance	215,000
HHI Recreation Association (Wing/Oyster Festivals)	20,000
HHI Wine and Food, Inc.	130,000
HHI Chamber and VCB	405,000
Hilton Head Symphony Orchestra	230,000
Lowcountry Golf Course Owners Association	50,000
Shelter Cove Harbour Company	76,800
The Coastal Discovery Museum	239,340
The Heritage Library -- History Day	15,000
The Sandbox	54,000
Town of Hilton Head Island	1,365,900
D.M. Carmines Mem. Foundation Seafood Festival	55,000
Gullah Museum of HHI	35,000
Harbour Town Merchants Association	16,705
Hilton Head Dance Theatre	15,000
Main Street Youth Theater	15,000
Michelville Preservation Project	110,000
Lean Ensemble Theatre	30,000
First Tee of the Low Country	20,000
Native Island Business & Community	110,000
Skull Creek July 4th Celebration	17,825
Art League of HHI	65,000
HHI St. Patrick's Day Parade	16,000
MLK Jr. Celebration	700
The Heritage Library	50,000
	<u>\$ 3,792,270</u>

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations

The Town issues three types of bonds: general obligation, tax increment financing (TIF), and special revenue obligation. The bonds are used for the acquisition and construction of major capital facilities, as well as the purchase of land. The Town presently has \$78.5 million in outstanding bonds associated with governmental type activities and \$9.9 million in outstanding bonds associated with business-type activities.

General obligation bonds are secured by the full faith, credit and taxing power of the Town.

Tax increment financing bonds are secured by incremental property tax revenues being derived from the economic development of the Town's TIF District.

Special obligation bonds are secured by the revenue flow from a specified source of revenue (e.g. hospitality tax, beach preservation fees, stormwater fees).

The aggregate amounts of maturities of long-term bonds due are as follows:

For the Year Ended June 30	Governmental Activities			Business-type Activities		
	Interest	Principal	Total	Interest	Principal	Total
2017	\$ 3,006,210	\$ 7,680,000	\$ 10,686,210	\$ 275,498	\$ 875,000	\$ 1,150,498
2018	2,724,597	7,965,000	10,689,597	251,173	900,000	1,151,173
2019	2,443,230	8,230,000	10,673,230	226,153	920,000	1,146,153
2020	2,193,668	5,920,000	8,113,668	200,577	950,000	1,150,577
2021	1,970,099	5,990,000	7,960,099	174,167	975,000	1,149,167
2022-2026	6,812,190	22,010,000	28,822,190	449,387	5,290,000	5,739,387
2027-2031	3,299,817	11,990,000	15,289,817	-	-	-
2032-2036	1,086,692	8,690,000	9,776,692	-	-	-
Total	\$ 23,536,503	\$ 78,475,000	\$ 102,011,503	\$ 1,576,955	\$ 9,910,000	\$ 11,486,955

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

Legal Debt Limit

Article Ten (X), Section Fourteen (14) of the South Carolina Constitution of 1895 as amended provides that a City or Town shall incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote of qualified electors of the political subdivision voting in a referendum authorized by law. There shall be no conditions or restrictions limiting the incurring of such indebtedness except:

- a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;
- b. The provisions of Article Ten (X) Section 14; and
- c. Such general obligation debt shall be issued within five years of the date of such referendum and shall mature within forty (40) years from the time such indebtedness shall be incurred.

In addition, Hilton Head Island's Town Council imposes an 80% cap on the debt limit.

Assessed Value as of March 28, 2016		\$ 918,731,530
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval		73,498,522
Council Imposed 80% Cap		58,798,818
Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds 2009A (Refunding of Series 1999A)	\$	3,800,000
General Obligation Bonds 2013A (Partial)		3,466,664
Total Amount Applicable to Debt Limit		7,266,664
Legal Debt Margin without a Referendum		\$ 51,532,154

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

GOVERNMENTAL ACTIVITIES

\$24,265,000 General Obligation Bonds Dated March 15, 2005

On March 15, 2005, the Town issued \$24,265,000 in general obligation bonds with an average interest rate of 4.38% to advance refund \$9,155,000 general obligation bonds dated November 1, 1999, and \$14,075,000 general obligation bonds dated March 1, 2001, at an aggregate average interest rate of 5.27%. The net proceeds of \$24,654,307 including \$822,369 in premiums (after payment of \$433,062 in issuance costs) were used to purchase United States government securities placed in an irrevocable trust for in substance defeasance. These general obligation bonds were refunded to reduce total debt service over the life of the bonds and to obtain an economic gain. A schedule for the amount due for this refunded issue is as follows:

<u>For the Year Ending June 30</u>	<u>Interest Rate by Year (%)</u>	Governmental Activities		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2017	5.000	\$ 551,265	\$ 1,875,000	\$ 2,426,265
2018	5.000	455,390	1,960,000	2,415,390
2019	5.000	355,015	2,055,000	2,410,015
2020	4.000	260,640	2,150,000	2,410,640
2021	various	174,693	2,095,000	2,269,693
2022-2025	various	272,882	3,075,000	3,347,882
		<u>\$ 2,069,885</u>	<u>\$ 13,210,000</u>	<u>\$ 15,279,885</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay the first \$1,260,000 annually. The remaining annual debt service requirement is funded by transfers of real estate transfer fees to the Debt Service Fund.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Obligations (continued)

\$12,215,000 General Obligation Bonds Dated March 4, 2008

On March 4, 2008, the Town issued \$12,215,000 in general obligation bonds refunding the remaining amount of the \$15,000,000 general obligation bonds dated April 1, 1988. The net proceeds of \$12,140,056 including a premium of \$154,397 (after payment of \$229,341 in issuance costs) were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds and to obtain an economic gain. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	5.000	\$ 313,562	\$ 775,000	\$ 1,088,562
2018	4.000	273,813	815,000	1,088,813
2019	4.250	236,338	855,000	1,091,338
2020	4.000	200,325	890,000	1,090,325
2021	various	161,178	925,000	1,086,178
2022-2024	various	218,116	3,045,000	3,263,116
		\$ 1,403,332	\$ 7,305,000	\$ 8,708,332

Transfers from the Real Estate Transfer Fee Fund to the Debt Service Fund are used to repay these bonds.

\$ 5,005,000 General Obligation Bonds Dated September 9, 2009

On September 9, 2009, the Town issued \$ 5,005,000 in general obligation bonds with an average interest rate of 2.72% to advance refund \$ 4,900,000 general obligation bonds dated November 16, 1999 with an average interest rate of 5.56%. The net proceeds of \$ 5,248,484 including a premium of \$ 34,061 (after payment of \$ 139,061 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds and to obtain an economic gain. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	2.750	\$ 113,820	\$ 375,000	\$ 488,820
2018	2.750	103,370	385,000	488,370
2019	2.750	92,645	395,000	487,645
2020	3.000	81,064	410,000	491,064
2021	various	68,404	420,000	488,404
2022-2025	various	128,565	1,815,000	1,943,565
		\$ 587,868	\$ 3,800,000	\$ 4,387,868

Ad Valorem tax revenues of the Debt Service Fund are used to repay these bonds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Obligations (continued)

\$12,000,000 General Obligation Bonds Dated February 3, 2010

On February 3, 2010, the Town issued \$12,000,000 in general obligation bonds to finance capital projects. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	4.000	\$ 485,343	\$ 470,000	\$ 955,343
2018	4.350	466,543	485,000	951,542
2019	4.450	445,445	500,000	945,445
2020	4.600	423,195	515,000	938,195
2021	various	399,505	530,000	929,505
2022-2026	various	1,594,710	2,715,000	4,309,710
2027-2031	various	966,215	2,195,000	3,161,215
2032-2035	various	303,404	2,105,000	2,408,404
		<u>\$ 5,084,360</u>	<u>\$ 9,515,000</u>	<u>\$ 14,599,360</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay these bonds.

\$12,385,000 General Obligation Bonds Dated August 3, 2011

On August 3, 2011, the Town issued \$12,385,000 in general obligation bonds with an average interest rate of 4.76% to advance refund \$11,210,000 general obligation bonds dated May 12, 2004, with an average interest rate of 3.28%. The net proceeds of \$12,281,450 including a premium of \$194,479 (after payment of \$298,029 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds and to obtain an economic gain. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	3.000	\$ 328,044	\$ 645,000	\$ 973,044
2018	3.000	308,694	660,000	968,694
2019	2.250	288,894	680,000	968,894
2020	2.750	273,594	690,000	963,594
2021	various	254,619	710,000	964,619
2022-2026	various	894,589	3,955,000	4,849,589
2027-2029	various	201,064	2,710,000	2,911,064
		<u>\$ 2,549,498</u>	<u>\$ 10,050,000</u>	<u>\$ 12,599,498</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay these bonds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Obligations (continued)

\$5,000,000 General Obligation Bonds Dated June 18, 2013

On June 18, 2013, the Town issued \$5,000,000 in general obligation bonds to finance land acquisition. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	5.000	\$ 172,306	\$ 155,556	\$ 327,862
2018	5.000	164,528	163,889	328,417
2019	2.000	156,333	172,222	328,555
2020	2.000	152,889	175,000	327,889
2021	various	149,389	180,556	329,945
2022-2026	various	612,639	1,033,334	1,645,973
2027-2031	various	386,585	1,258,333	1,644,918
2032-2035	various	121,890	1,194,446	1,316,336
		<u>\$ 1,916,559</u>	<u>\$ 4,333,336</u>	<u>\$ 6,249,895</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay these bonds.

\$4,000,000 General Obligation Bonds Dated June 18, 2013

On June 18, 2013, the Town issued \$4,000,000 in general obligation bonds to finance land acquisition. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	5.000	\$ 137,844	\$ 124,444	\$ 262,288
2018	5.000	131,622	131,111	262,733
2019	2.000	125,067	137,778	262,845
2020	2.000	122,311	140,000	262,311
2021	various	119,511	144,444	263,955
2022-2026	various	490,111	826,666	1,316,777
2027-2031	various	309,265	1,006,667	1,315,932
2032-2035	various	97,510	955,554	1,053,064
		<u>\$ 1,533,241</u>	<u>\$ 3,466,664</u>	<u>\$ 4,999,905</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay these bonds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Obligations (continued)

\$8,250,000 Special Obligation Bonds (Hospitality Fees) Dated October 26, 2011

On October 26, 2011, the Town issued \$8,250,000 in special obligation bonds (hospitality fee) with an average interest rate of 3.32% to advance refund \$8,625,000 in revenue bonds (hospitality fee) dated June 1, 2004 with an average interest rate of 4.86%. The net proceeds of \$8,129,802 including a premium of \$33,584 (after payment of \$150,484 in issuance costs) and funds on hand were used to purchase United States government securities. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds and to obtain an economic gain. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	2.250	202,794	425,000	627,794
2018	2.250	193,231	440,000	633,231
2019	various	182,731	450,000	632,731
2020	various	165,981	465,000	630,981
2021	various	148,531	480,000	628,531
2022-2026	various	503,908	2,635,000	3,138,908
2027-2028	various	67,918	1,190,000	1,257,918
		<u>\$ 1,465,094</u>	<u>\$ 6,085,000</u>	<u>\$ 7,550,094</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. At June 30, 2016, \$608,500 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Obligations (continued)

\$15,250,000 Special Obligation Bonds (Hospitality Fees) Dated October 26, 2011

On October 26, 2011, the Town issued \$15,250,000 in special obligation bonds (hospitality fee) to finance capital projects. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	3.000	559,319	440,000	999,319
2018	3.000	546,119	455,000	1,001,119
2019	4.000	532,469	470,000	1,002,469
2020	4.290	513,669	485,000	998,669
2021	various	494,269	505,000	999,269
2022-2026	various	2,096,670	2,910,000	5,006,670
2027-2031	various	1,368,770	3,630,000	4,998,770
2032-2036	4.125	563,888	4,435,000	4,998,888
		<u>\$ 6,675,173</u>	<u>\$ 13,330,000</u>	<u>\$ 20,005,173</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. At June 30, 2016, \$1,099,304 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

\$11,000,000 Special Obligation Bonds (Beach Preservation Fees) Dated November 18, 2011

On November 18, 2011, the Town issued \$11,000,000 in special obligation bonds (beach preservation fee) to finance beach renourishment projects. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2017	3.000	141,913	2,395,000	2,536,913
2018	2.000	81,288	2,470,000	2,551,288
2019	2.250	28,294	2,515,000	2,543,294
		<u>\$ 251,495</u>	<u>\$ 7,380,000</u>	<u>\$ 7,631,495</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. The Town has allowed the investment income to remain in the reserve. At June 30, 2016, \$1,100,000 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Beach Preservation fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

The Town has defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from the Town's long-term debt and the trust account assets are not included in these statements. At June 30, 2016, \$23,705,000 of bonds are considered defeased debt.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

BUSINESS-TYPE ACTIVITIES

\$13,810,000 Stormwater Bonds Dated December 1, 2010

On December 1, 2010, the Town issued \$13,810,000 in revenue bonds with an average interest rate of 2.78% to advance refund \$13,740,000 revenue bonds dated December 1, 2002 with an average interest rate of 4.85%. The net proceeds of \$14,894,433 (after payment of \$202,091 in issuance costs) and funds on hand were used to purchase United States government securities which were placed in an irrevocable trust for in substance defeasance. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds and to obtain an economic gain. A schedule of the amount due for this issue follows:

<u>For the Year Ending June 30</u>	<u>Interest Rate by Year (%)</u>	<u>Business-Type Activities</u>		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2017	2.780	\$ 275,498	\$ 875,000	\$ 1,150,498
2018	2.780	251,173	900,000	1,151,173
2019	2.780	226,153	920,000	1,146,153
2020	2.780	200,577	950,000	1,150,577
2021	2.780	174,167	975,000	1,149,167
2022-2026	2.780	449,387	5,290,000	5,739,387
		<u>\$ 1,576,955</u>	<u>\$ 9,910,000</u>	<u>\$ 11,486,955</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Obligations (continued)

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 55,945,000	\$ -	\$ 4,265,000	\$ 51,680,000	\$ 4,420,000
Special Obligation Bonds:					
Beach preservation fees	9,685,000	-	2,305,000	7,380,000	2,395,000
Hospitality tax	20,265,000	-	850,000	19,415,000	865,000
Premium on bonds	1,829,735	-	174,726	1,655,009	174,726
Total bonds and notes payable	<u>87,724,735</u>	<u>-</u>	<u>7,594,726</u>	<u>80,130,009</u>	<u>7,854,726</u>
Other liabilities:					
Compensated absences	4,218,943	2,350,943	2,266,625	4,303,261	3,872,964
Total other liabilities	<u>4,218,943</u>	<u>2,350,943</u>	<u>2,266,625</u>	<u>4,303,261</u>	<u>3,872,964</u>
Governmental activities long-term liabilities	<u>\$ 91,943,678</u>	<u>\$ 2,350,943</u>	<u>\$ 9,861,351</u>	<u>\$ 84,433,270</u>	<u>\$ 11,727,690</u>
Business-type Activities:					
Bonds and notes payable:					
Stormwater fees	\$ 10,760,000	\$ -	\$ 850,000	\$ 9,910,000	\$ 875,000
Total bonds and notes payable	<u>10,760,000</u>	<u>-</u>	<u>850,000</u>	<u>9,910,000</u>	<u>875,000</u>
Business-type activities long-term liabilities	<u>\$ 10,760,000</u>	<u>\$ -</u>	<u>\$ 850,000</u>	<u>\$ 9,910,000</u>	<u>\$ 875,000</u>

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

<u>Primary Government</u>	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 161,632,796	\$ 77,906	\$ (234,464)	\$ 161,476,238
Development Rights	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	3,548,960
Construction in progress	3,006,890	4,342,841	(77,906)	7,271,825
Total capital assets not being depreciated	<u>178,923,037</u>	<u>4,420,747</u>	<u>(312,370)</u>	<u>183,031,414</u>
Capital assets being depreciated:				
Buildings	33,503,095	-	-	33,503,095
Furniture, fixtures and equipment	6,297,699	133,102	(307,178)	6,123,623
Vehicles	7,183,055	48,210	-	7,231,265
Imp. other than buildings - park development	17,768,431	-	-	17,768,431
Infrastructure	36,259,883	-	-	36,259,883
Total capital assets being depreciated	<u>101,012,163</u>	<u>181,312</u>	<u>(307,178)</u>	<u>100,886,297</u>
Less accumulated depreciation for:				
Buildings	10,322,714	1,219,301	-	11,542,015
Furniture, fixtures and equipment	4,781,739	532,305	(307,178)	5,006,866
Vehicles	3,526,289	499,935	-	4,026,224
Imp. other than buildings - park development	3,576,944	551,390	-	4,128,334
Infrastructure	13,862,481	1,399,260	-	15,261,741
Total accumulated depreciation	<u>36,070,167</u>	<u>4,202,191</u>	<u>(307,178)</u>	<u>39,965,180</u>
Total capital assets being depreciated, net	<u>64,941,996</u>	<u>(4,020,879)</u>	<u>-</u>	<u>60,921,117</u>
Government activity capital assets, net	<u>\$ 243,865,033</u>	<u>\$ 399,868</u>	<u>\$ (312,370)</u>	<u>\$ 243,952,531</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 1,288,894	\$ 212,850	\$ (87,410)	\$ 1,414,334
Total capital assets not being depreciated	<u>1,288,894</u>	<u>212,850</u>	<u>(87,410)</u>	<u>1,414,334</u>
Capital assets being depreciated:				
Infrastructure	19,396,951	87,410	-	19,484,361
Total capital assets being depreciated	<u>19,396,951</u>	<u>87,410</u>	<u>-</u>	<u>19,484,361</u>
Less accumulated depreciation for:				
Infrastructure	6,252,308	783,177	-	7,035,485
Total accumulated depreciation	<u>6,252,308</u>	<u>783,177</u>	<u>-</u>	<u>7,035,485</u>
Total capital assets being depreciated, net	<u>13,144,643</u>	<u>(695,767)</u>	<u>-</u>	<u>12,448,876</u>
Business-type activity capital assets, net	<u>\$ 14,433,537</u>	<u>\$ (482,917)</u>	<u>\$ (87,410)</u>	<u>\$ 13,863,210</u>

Capital improvements by the Town for infrastructure owned and maintained by Beaufort County or the State of South Carolina are not capitalized but are expensed as incurred.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 11. Capital Assets (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 451,024
Management Services	188,245
Community Services	2,013,379
Public Safety	<u>1,549,543</u>
Total depreciation expense - governmental activities	<u>\$ 4,202,191</u>
Business-type activities:	
Stormwater	<u>\$ 783,177</u>
Total depreciation expense - business-type activities	<u>\$ 783,177</u>

Note 12. Capital Projects Fund

The Town has a Capital Projects Fund for the purpose of providing funds for future capital outlays.

Public facilities, capital improvements, and land acquisition projects are underway. The projects are being financed by contributions, grants, municipal improvement district assessments, Sunday permit fees, hospitality tax, and a property tax levy. For the year ended June 30, 2016, the following categories of projects were budgeted and expenditures were made as shown:

Beach Maintenance	\$ 7,034,654
Public Facilities	2,535,507
Park Development	506,922
Land and Related Acquisitions and Improvements	101,516
Facilities Improvements	273,355
Roadway Improvements	542,298
Pathways Improvements	573,146
Total	<u>\$ 11,567,398</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2016, the Town had contractual commitments of approximately \$26,086,905 in progress. Through June 30, 2016, approximately \$9,169,350 in costs had been incurred on these commitments. At June 30, 2016, the Town had outstanding contractual commitments totaling approximately \$16,917,555 for projects in progress.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 13. Contracted Commitments and Operating Leases (continued)

Operating Leases

The Town leases various Town-owned properties to entities for office space, recreational facilities and cellular towers. The leases range from one to five years under noncancelable operating leases. The minimum lease payments the Town will receive are as follows for the years ending June 30:

2017	\$	88,139
2018		42,916
2019		1,802
2020		1,801
2021		901
		<u>\$ 135,559</u>

At June 30, 2016, future minimum payment under noncancelable operating leases with remaining terms in excess of one year were as follows:

2017	\$	70,296
2018		47,239
2019		36,543
2020		1,234
		<u>\$ 155,312</u>

During the year, the Town incurred \$151,248 in lease expenses.

Note 14. Retirement Plans

ICMA Retirement Corporation Plan

The Town established a defined contribution 401(a) money purchase plan on February 15, 1984, effective for the fiscal year beginning July 1, 1984, for all full-time employees. That Plan was effective through December 31, 1996, at which time the funds were rolled over to a 401(k) plan effective January 1, 1997. The plan is administered by and the funds are held by the International City/County Management Association – Retirement Corporation (ICMA-RC), a retirement plan administrator. All full-time and part-time employees are covered by the plan except those covered by the Police Officers’ Retirement System (PORS) plan and are fully vested after five years of service. The plan calls for employer contributions to include a 5% automatic contribution, 100% match of the employee’s first 3% contribution and 50% match of the next 3% contributed. All plan amendments must be approved by the Town Manager or his designee.

For the years ended June 30, 2016, 2015 and 2014, employer contributions were based on a total payroll of \$8,502,776, \$8,154,046 and \$7,907,699 respectively. The amount contributed by the employer for the year ended June 30, 2016 was \$759,006 or 8.9% of covered payroll. During the years ended June 30, 2015 and 2014, \$714,502 and \$688,480 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$694,316 or 8.2% of covered payroll for year ended June 30, 2016. Employees who participate in the PORS plan made contributions of \$38,066 to the 401(k). No match was made for these contributions.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 14. Retirement Plans (continued)

PORS Plan

The Town is a member of the South Carolina Police Officers Retirement System (PORS). All full-time public safety employees whose principal duty is the prevention and control of property destruction by fire, excluding administrative staff, are eligible and must belong to the System, a cost sharing multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority.

The South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (reorganized into the State Fiscal Accountability Authority on July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

Detailed information regarding the fiduciary net position of the Plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

Plan Description

The South Carolina Police Officers Retirement System ("PORS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws.

To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. 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.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 14. Retirement Plans (continued)

PORS Plan

Benefits

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 55 or with 25 years of service regardless of age. 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 at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the PORS 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 5 percent of earnable compensation for PORS. 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 <u>employee</u> contribution rates are as follows:		
	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
PORS		
Employee Class Two	8.74%	8.41%
Employee Class Three	8.74%	8.41%
Required <u>employer</u> contribution rates are as follows:		
	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
PORS		
Employer Class Two	13.34%	13.01%
Employer Class Three	13.34%	13.01%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 14. Retirement Plans (continued)

PORS Plan

Actuarial Assumptions and Methods

Actuarial valuations 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 statute 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, 2015, and the next experience study is scheduled to be conducted after the June 30, 2016 annual valuation is complete.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for PORS.

	PORS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4% to 10.0%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using 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%

Net Pension Liability

The most recent annual actuarial valuation reports adopted by the PEBA Board and State Fiscal Accountability Authority are as of July 1, 2014. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to June 30, 2015, and financial information of the pension trust funds as of June 30, 2015, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 14. Retirement Plans (continued)

PORS Plan

Net Pension Liability (continued)

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position. For the year ended June 30, 2015, NP: amounts and the change in NPL amounts for PORS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employer's Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PORS	\$ 6,151,321,222	\$ 3,971,824,838	\$ 2,179,496,384	64.57%

At June 30, 2016, the Town reported a liability of \$13,655,634 for its proportionate share of the net pension liability for the PORS ("Plan"). The net pension liability was measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report as of July 1, 2014, that was projected forward to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the measurement dates of June 30, 2015 and 2014, the Town's PORS proportion was 0.62655% and 0.65013%, respectively.

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 PORS 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.

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

System	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Town's proportionate share of the net pension liability of the PORS	\$ 18,602,162	\$ 13,655,634	\$ 9,233,706

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

Note 14. Retirement Plans (continued)

PORS Plan

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook in 2016. 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.

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%		
Cash	2%	1.90%	0.04%
Short Duration	3%	2.00%	0.06%
Domestic Fixed Income	13%		
Core Fixed Income	7%	2.70%	0.19%
Mixed Credit	6%	3.80%	0.23%
Global Fixed Income	9%		
Global Fixed Income	3%	2.80%	0.08%
Emerging Markets Debt	6%	5.10%	0.31%
Global Public Equity	31%	7.10%	2.20%
Global Tactical Asset Allocation Alternatives	10%	4.90%	0.49%
Hedge Funds (Low Beta)	8%	4.30%	0.34%
Private Debt	7%	9.90%	0.69%
Private Equity	9%	9.90%	0.89%
Real Estate (Broad Market)	5%	6.00%	0.30%
Commodities	3%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 14. Retirement Plans (continued)

PORS Plan

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2016, the Town recognized pension expense of approximately \$1,112,808 for PORS. At June 30, 2016, the Town 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 Pension Plan Experience	\$ 270,666	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	149,415	-
Changes in Proportion and Differences Between the Town's Contributions and Proportionate Share of Contributions	-	390,659
The Town's Contributions Subsequent to the Measurement Date	1,127,237	-
	\$ 1,547,318	\$ 390,659

The Town reported \$1,127,237 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense as follows:

Year Ended June 30,	PORS
2017	\$ 60,446
2018	60,446
2019	72,400
2020	(222,714)
Total	\$ (29,422)

Retirement Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2016, employer contributions were based on a total payroll of \$16,670,342 of which \$16,380,982 or 98.26% of the total payroll was covered under the plan. Employer contributions were \$1,884,289 or 11.50% of covered payroll. Employee contributions were \$1,345,537 or 8.21% of covered payroll.

Note 15. Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the employee.

The plan is administered by and the funds are held by ICMA-RC, a retirement plan administrator.

Investments are managed by the plan's trustee under a range of investment options. The choice of the investment option(s) is made by the participants.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 16. Health Plans

In January 2001, the Town instituted medical expense reimbursement accounts whereby the Town contributes a set amount each year per employee. The employees submit reimbursement requests for medical expenses to Human Resources. Amounts not used during the calendar year are carried over to the next year, subject to a \$5,000 cap. The Town's liability under this plan totaled \$228,623 at June 30, 2016, and is included as a liability in the General Fund in the accrued payroll and employee payables. During the period ended June 30, 2016, the Town reimbursed \$153,770 in claims under this plan.

In January 2005, the Town instituted a preventive healthcare plan whereby employees were eligible for reimbursement of expenses associated with preventive care examinations and/or tests up to an established limit each year. Effective January 1, 2016, the Town discontinued this benefit. During the period ended June 30, 2016, the Town reimbursed \$17,160 in claims under this plan.

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ended June 30, 2016 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$74,982. During the period ended June 30, 2016, the Town reimbursed \$23,324 in claims under this plan.

Note 17. Other Post-Employment Benefits

In January 2002, the Town instituted a plan for reimbursement of future retiree medical expenses. Annually, the Town contributes one hundred percent of the value of the forfeited sick leave into individual retirement health savings accounts to pay retiree medical expenses. Upon retirement, the value of an employee's remaining sick leave and any available medical expense reimbursement balance are also contributed to this account. Employees who meet their retirement plan eligibility criteria are eligible for the benefit. The plan carries to survivor or dependent at death, but is used for future contributions credit if an employee leaves for a reason other than retirement. Seven (7) employees were eligible for the benefits for the period ended June 30, 2016.

The Town contributed \$104,093 during the year ended June 30, 2016.

In June of 2004, the Government Accounting Standards Board issued GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." Under this pronouncement, starting in fiscal year 2009, the Town is required to disclose the cost of this benefit for all its employees.

Retirees are eligible to enroll in the Town's health plans, which are described in Note 16. The cost to the retiree is equal to the active employee premium plus the employer premium, or 100% of the cost of coverage. Therefore, the Town has determined that the Town only has an implicit subsidy which is immaterial at fiscal year-end. It will take several years before the liability becomes material. The Town will continue to study its options and will wait for further guidance as health reform takes shape at the federal level.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 18. Contingencies

Arbitrage - State and local bonds issued after 1984 are subject to arbitrage restrictions as enacted by the Federal government. To retain the bond's tax exempt status, local governments must meet the regulations as adopted by the U.S. Treasury Department. The proceeds from the bond issue must not be invested, for more than a temporary period, in obligations producing a materially higher yield than the bond issue. To maintain tax exempt status, the yield earned at the materially higher rate over the bond cost must be remitted to the U.S. Treasury every five years. Exceptions to the regulations include the requirement that the local government expend all the bond proceeds within designated periods which could be up to three years.

Based on preliminary calculations by the Town's Management, the Town is not earning materially higher yields and it expects to expend all funds within the designated time.

Risk Management and Litigation - The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the State of South Carolina insurance fund and also purchases commercial insurance as its primary defense against losses arising from the above. The fund provides beneficial insurance rates with regular insurance coverage. The fund is not considered a risk pool. The amount of settlements has not exceeded insurance coverage over the past three fiscal years.

The Town has also designated a portion of its fund balance to defray the extraordinary costs it anticipates it would incur during a natural disaster. These anticipated costs are for employee overtime, disaster aid and the like. All risk management activities are accounted for in the general fund.

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. No amount for claims has been accrued at June 30, 2016.

Lawsuits - The Town has been named in several lawsuits concerning zoning, enforcement of Town ordinances and for performance. None of these suits claim any damages.

The Town has been named in several lawsuits concerning other matters asserting monetary damages. The cases are in preliminary stages and the possible outcome or damages are unknown at this time. The Town carries liability insurance, and these lawsuits should be covered. Management does not believe that any of these will have a material effect on the financial statements.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 19. Deferred Outflows of Resources

The advance refunding of governmental activity bonds can result in a difference between the reacquisition price and the net carrying amounts of the old debt. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight line basis over the shorter of either 1) the original life of the refunded bond or 2) the life of the refunding debt. The Town completed the following advance refundings:

Long Term Obligation	Original Amount of Deferred Charge	Final Maturity Date	Remaining Deferred Charge on Bond Refunding
General Obligation Bonds - March 1, 2005	\$ 1,105,601	03/01/2025	\$ 479,278
General Obligation Bonds - August 3, 2011	\$ 1,071,450	08/03/2029	773,825
General Obligation Bonds - September 9, 2009	\$ 143,484	09/09/2024	78,119
Special Obligation Bonds - October 26, 2011	\$ 769,428	10/26/2027	<u>528,982</u>
		Total Governmental Funds	<u>\$ 1,860,204</u>
Business-type Activitiy Bonds - December 1, 20	1,343,322	12/01/2025	<u>\$ 805,993</u>
		Total Business-type Activity Fund	<u>\$ 805,993</u>

Amortization of the deferred charge on governmental and business-type activity refundings of bond payable for the year ended June 30, 2016 was \$172,460 and \$89,554, respectively. See Note 14 for discussion of deferred outflows and inflows relating to the implementation of the new pension standard.

Note 20. Related Organizations

The Town has limited relationships with the following entities:

Hilton Head Island Recreation Association, Inc. - Hilton Head Island Recreation Association, Inc. is a not-for-profit organization that provides recreation facilities, sports leagues, day-care services and training classes to the residents of Hilton Head Island, South Carolina. The Town provides bookkeeping services to the Association at no charge. The Town has no day-to-day supervisory responsibilities and the Association maintains separate corporate powers, and, as such, the financial information for the Association has not been made a part of these financial statements. The Town contributed \$839,697 to the Association for the year ended June 30, 2016. The Association issues separate audited and/or reviewed financial statements.

Coastal Discovery Museum – The Coastal Discovery Museum is a not-for-profit, community based, educational institution dedicated to fostering greater knowledge and appreciation of the cultural heritage and natural history of South Carolina’s Low Country. The Town provides bookkeeping services to the Museum at no charge. The Town has no day-to-day supervisory responsibilities and the Museum maintains separate corporate powers, and as such, the financial information of the Museum has not been made a part of these financial statements. The Town contributed \$477,660 to the Museum for the year ended June 30, 2016. The Museum issues separate audited financial statements.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 21. Proprietary Fund Infrastructure Agreements

The Town has entered into a series of agreements with a number of Public Utility Districts (PUDs) and Homeowner Associations (HOAs). The Town is granted easements to the stormwater infrastructure in certain areas of the Town, and the Town takes responsibility for future maintenance. The Town is currently undergoing a system-wide mapping project to identify all the features within these agreements. Some are known to be impaired. Because of the uncertainty in the condition of the features, the Town has determined a fair valuation cannot be established. The Town has chosen the most conservative reporting position and not recorded any assets for stormwater features within these easements. The Town is recording assets when it incurs costs that meet the capitalization criteria which was \$212,850 for construction in progress and \$87,410 for infrastructure for a total of \$300,260 for the fiscal year ending June 30, 2016.

Note 22. Subsequent Events

In preparing the comprehensive annual financial report (CAFR) for the fiscal period June 30, 2016, the Town evaluated events and transactions for potential recognition or disclosure through January 31, 2017.

Subsequent to year-end, the Town issued Series 2016A, 2016B and 2016C Refunding Bonds in the amounts of \$13,080,000; \$5,770,000 and \$9,035,000 respectively. The proceeds of these bonds were to defease Bonds Series 2005A, Series 2008A and Series 2010BABs (Build America Bonds). The savings from the transactions were \$1,272,716; \$446,334; and \$1,281,272 respectively for a total of \$3,000,322 over the life of the bonds. The present value savings were \$1,219,122; \$430,002; and \$1,225,838 respectively for a total of \$2,874,962.

Subsequent to year-end, the Town issued a Bond Anticipation Note (BAN) Series 2016 in the amount of \$25,000,000. The proceeds of these bonds are planned to continue the Beach Renourishment Project, the Capital Plan and the Tax Increment Financing District projects until permanent financing is in place – which is expected to be in fiscal year ending June 2018.

Subsequent to year-end, the Town experienced damages from Hurricane Matthew. The Town has been declared a federal disaster area. The Town has estimated the total cost of the response to be approximately \$82 million. The Town has worked closely with FEMA throughout the response, and plans on applying for relief through federal disaster funds through FEMA and other agencies. The Town also plans on submitting to the State of South Carolina requests for relief through State funds. The funds are for debris removal, emergency response, beach renourishment and other activities related to the storm. At the time of this report, no reimbursements have been received from federal or state funds. At the time of publication, the Town has spent approximately \$12 million to date and it's potential share is estimated at \$26.7 million. This work is expected to last beyond June 30, 2017.

Required Supplementary Information

Schedules Related to the South Carolina Retirement System Participation

Schedule of Contributions – South Carolina Retirement System – Schedule A.

Schedule of Proportionate Share of Net Pension Liability – Schedule B.

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TOWN OF HILTON HEAD ISLAND
 Required Supplemental Information -
 Schedule of Contributions -
 South Carolina Police Officers Retirement System
 As of June 30, 2016, Last Ten Fiscal Years

Schedule A

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	<u>\$ 1,127,237</u>	<u>\$ 1,040,900</u>	<u>\$ 1,004,009</u>	<u>\$ 889,180</u>	<u>\$ 860,238</u>
Contributions in relation to the contractually required contribution	<u>1,127,237</u>	<u>1,040,900</u>	<u>1,004,009</u>	<u>889,180</u>	<u>860,238</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Town's covered - employee payroll	<u>8,204,054</u>	<u>7,762,118</u>	<u>7,819,385</u>	<u>7,472,105</u>	<u>7,570,521</u>
Contributions as a percentage of covered - employee payroll	<u>13.74%</u>	<u>13.41%</u>	<u>12.84%</u>	<u>11.90%</u>	<u>11.36%</u>
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	<u>\$ 881,261</u>	<u>\$ 798,806</u>	<u>\$ 815,787</u>	<u>\$ 796,220</u>	<u>\$ 691,685</u>
Contributions in relation to the contractually required contribution	<u>881,261</u>	<u>798,806</u>	<u>815,787</u>	<u>796,220</u>	<u>691,685</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The Town's covered - employee payroll	<u>7,755,527</u>	<u>7,500,522</u>	<u>7,659,969</u>	<u>7,730,290</u>	<u>6,715,389</u>
Contributions as a percentage of covered - employee payroll	<u>11.36%</u>	<u>10.65%</u>	<u>10.65%</u>	<u>10.30%</u>	<u>10.30%</u>

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
 Required Supplemental Information -
 Proportionate Share of the Net Pension Liability-
 South Carolina Police Officers Retirement System
 As of June 30, 2016, Last Three Fiscal Years

Schedule B

	<u>2016</u>	<u>2015</u>	<u>2014</u>
The Town's proportion of the net pension liability	<u>0.626550%</u>	<u>0.650130%</u>	<u>0.650130%</u>
The Town's proportionate share of the net pension liability	<u>11,994,845</u>	<u>12,446,267</u>	<u>13,477,016</u>
The Town's covered - employee payroll	<u>7,762,118</u>	<u>7,819,385</u>	<u>7,472,105</u>
The Town's proportionate share of the net pension liability as percentage of covered - employee payroll	<u>154.53%</u>	<u>159.17%</u>	<u>180.36%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>64.60%</u>	<u>67.55%</u>	<u>62.98%</u>

Note: The amounts above were determined as of June 30th of the preceding year.

Other Supplementary Information

Governmental Activities:

General Fund

The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Debt Service Fund

The Debt Service Fund account is used for accumulating resources for the payment of interest and principal on general long-term obligation debt.

Capital Projects Fund

The Capital Projects Funds account for all resources used for the acquisition or construction of general fixed assets and major capital improvements other than those financed by proprietary funds and trust funds.

Business-Type Activities:

Stormwater Fees

The Stormwater Fund is used to account for the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits of Hilton Head Island in concert with Beaufort County and other water resource management programs.

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TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 12,948,587	\$ 12,948,587	\$ 12,647,166	\$ (301,421)
Accommodations Tax:				
Local 1%	2,917,990	2,917,990	3,215,849	297,859
Business License and Franchise Fees:				
Business License - Town	3,635,900	3,635,900	3,866,698	230,798
Business License - MASC	4,632,940	4,632,940	4,357,613	(275,327)
Cable Television Franchise	787,000	787,000	890,697	103,697
Beach Franchise	25,750	25,750	28,430	2,680
Total	9,081,590	9,081,590	9,143,438	61,848
Permits:				
Construction	575,099	575,099	1,189,212	614,113
Development	6,180	6,180	20,902	14,722
Other	814,538	814,538	829,456	14,918
Total	1,395,817	1,395,817	2,039,570	643,753
State Shared Funds	800,000	800,000	812,322	12,322
Grants:				
Beaufort County Hazmat	11,677	11,677	11,677	-
Beaufort County E911	90,000	90,000	135,083	45,083
DHEC	4,000	4,000	-	(4,000)
Total	105,677	105,677	146,760	41,083
Miscellaneous Revenue:				
Beach Services	245,851	245,851	229,643	(16,208)
Donations	300	300	146	(154)
Municipal Court Fines and Fees	220,000	220,000	210,243	(9,757)
Other	259,200	259,200	268,241	9,041
Public Safety- EMS	1,314,000	1,314,000	1,383,496	69,496
Public Safety- County D/T	56,500	56,500	53,781	(2,719)
Town Codes	250	250	10	(240)
Victims Assistance	45,000	45,000	37,134	(7,866)
Total	2,141,101	2,141,101	2,182,694	41,593
Investment Income	2,700	2,700	2,454	(246)
Total Revenues	\$ 29,393,462	\$ 29,393,462	\$ 30,190,253	\$ 796,791

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive Negative
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 143,543	\$ 143,543	\$ 132,896	\$ 10,647
Operating	314,600	314,600	294,869	19,731
Town Council Initiatives	850,000	850,000	122,255	727,745
Total Town Council	<u>1,308,143</u>	<u>1,308,143</u>	<u>550,020</u>	<u>758,123</u>
Town Manager:				
Salaries and Benefits	625,596	637,896	637,828	68
Operating	25,150	25,150	15,940	9,210
Total Town Manager	<u>650,746</u>	<u>663,046</u>	<u>653,768</u>	<u>9,278</u>
Total General Government	<u>1,958,889</u>	<u>1,971,189</u>	<u>1,203,788</u>	<u>767,401</u>
Management Services:				
Finance - Administration:				
Salaries and Benefits	296,891	296,891	278,558	18,333
Operating	20,650	20,650	12,461	8,189
Total Finance - Administration	<u>317,541</u>	<u>317,541</u>	<u>291,019</u>	<u>26,522</u>
Finance - Accounting:				
Salaries and Benefits	519,019	507,419	505,701	1,718
Operating	89,750	101,350	101,297	53
Total Finance - Accounting	<u>608,769</u>	<u>608,769</u>	<u>606,998</u>	<u>1,771</u>
Finance - Revenue and Collections:				
Salaries and Benefits	833,130	819,493	561,175	258,318
Operating	31,900	45,785	43,684	2,101
Total Finance - Revenue and Collections	<u>865,030</u>	<u>865,278</u>	<u>604,859</u>	<u>260,419</u>
Administration - Legal :				
Salaries and Benefits	463,050	463,050	436,774	26,276
Operating	36,325	37,018	28,955	8,063
Total Administration - Legal	<u>499,375</u>	<u>500,068</u>	<u>465,729</u>	<u>34,339</u>
Administrative Services - Municipal Court:				
Salaries and Benefits	339,738	339,738	337,592	2,146
Operating	85,190	85,190	76,336	8,854
Total Administration - Municipal Court	<u>424,928</u>	<u>424,928</u>	<u>413,928</u>	<u>11,000</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services (continued):				
Administrative Services - Administrative Support :				
Salaries and Benefits	202,401	202,401	198,028	4,373
Operating	27,350	27,350	22,563	4,787
Total Administration - Administrative Support	<u>229,751</u>	<u>229,751</u>	<u>220,591</u>	<u>9,160</u>
Administrative Services - Information Technology:				
Salaries and Benefits	1,021,343	1,027,843	1,027,830	13
Operating	874,874	890,666	760,719	129,947
Total Administration - Information Technology	<u>1,896,217</u>	<u>1,918,509</u>	<u>1,788,549</u>	<u>129,960</u>
Human Resources:				
Salaries and Benefits	443,170	447,420	447,381	39
Operating	143,910	146,660	108,432	38,228
Total Human Resources	<u>587,080</u>	<u>594,080</u>	<u>555,813</u>	<u>38,267</u>
Total Management Services	<u>5,428,691</u>	<u>5,458,924</u>	<u>4,947,486</u>	<u>511,438</u>
Community Services:				
Community Development - Administration:				
Salaries and Benefits	461,895	461,895	459,659	2,236
Operating	32,862	32,862	19,418	13,444
Total CD - Administration	<u>494,757</u>	<u>494,757</u>	<u>479,077</u>	<u>15,680</u>
Community Development - CD Services:				
Salaries and Benefits	315,226	324,076	324,032	44
Operating	8,490	8,490	4,989	3,501
Total CD - CD Services	<u>323,716</u>	<u>332,566</u>	<u>329,021</u>	<u>3,545</u>
Community Development - Inspection/Compliance:				
Salaries and Benefits	668,687	736,172	736,074	98
Operating	23,770	23,770	18,884	4,886
Total CD - Inspection/Compliance	<u>692,457</u>	<u>759,942</u>	<u>754,958</u>	<u>4,984</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Community Services (continued):				
Community Development - Development, Review, Zoning:				
Salaries and Benefits	692,654	670,104	668,054	2,050
Operating	67,450	176,702	20,804	155,898
Total CD - DRZ	<u>760,104</u>	<u>846,806</u>	<u>688,858</u>	<u>157,948</u>
Community Development - Comprehensive Planning:				
Salaries and Benefits	513,488	513,488	509,972	3,516
Operating	15,820	15,820	10,820	5,000
Total CD - Comprehensive	<u>529,308</u>	<u>529,308</u>	<u>520,792</u>	<u>8,516</u>
Public Facilities - Administration:				
Salaries and Benefits	258,435	260,585	260,556	29
Operating	5,200	5,200	2,823	2,377
Total Public Facilities - Administration	<u>263,635</u>	<u>265,785</u>	<u>263,379</u>	<u>2,406</u>
Public Facilities - Engineering:				
Salaries and Benefits	451,139	448,989	439,144	9,845
Operating	634,400	872,512	484,478	388,034
Total Public Facilities - Engineering	<u>1,085,539</u>	<u>1,321,501</u>	<u>923,622</u>	<u>397,879</u>
Public Facilities - Facilities Management:				
Salaries and Benefits	1,045,756	1,045,756	1,012,728	33,028
Operating	2,955,613	2,971,419	2,821,515	149,904
Total Public Facilities - Facilities Management	<u>4,001,369</u>	<u>4,017,175</u>	<u>3,834,243</u>	<u>182,932</u>
Total Community Services	<u>8,150,885</u>	<u>8,567,840</u>	<u>7,793,950</u>	<u>773,890</u>
Public Safety:				
Fire Rescue - Administration:				
Salaries and Benefits	238,893	228,893	215,403	13,490
Operating	125,350	115,048	95,467	19,581
Total Fire Rescue - Administration	<u>364,243</u>	<u>343,941</u>	<u>310,870</u>	<u>33,071</u>
Fire Rescue - Fleet/Maintenance:				
Salaries and Benefits	348,289	327,989	310,460	17,529
Operating	262,100	262,100	237,476	24,624
Total Fire Rescue - Fleet/Maintenance	<u>610,389</u>	<u>590,089</u>	<u>547,936</u>	<u>42,153</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Fire Rescue - Operations:				
Salaries and Benefits	9,331,456	9,525,707	9,525,707	-
Operating	85,125	85,125	73,903	11,222
Total Fire Rescue - Operations	<u>9,416,581</u>	<u>9,610,832</u>	<u>9,599,610</u>	<u>11,222</u>
Fire Rescue - Communications:				
Salaries and Benefits	911,996	911,996	897,229	14,767
Operating	222,955	191,955	170,468	21,487
Total Fire Rescue - Communications	<u>1,134,951</u>	<u>1,103,951</u>	<u>1,067,697</u>	<u>36,254</u>
Fire Rescue - Training:				
Salaries and Benefits	591,877	598,827	598,811	16
Operating	123,400	128,352	128,050	302
Total Fire Rescue - Training	<u>715,277</u>	<u>727,179</u>	<u>726,861</u>	<u>318</u>
Fire Rescue - Planning:				
Salaries and Benefits	204,324	204,384	204,384	-
Total Fire Rescue - Planning	<u>204,324</u>	<u>204,384</u>	<u>204,384</u>	<u>-</u>
Fire Rescue - Emergency Management:				
Salaries and Benefits	96,403	97,403	97,397	6
Operating	44,350	44,350	43,546	804
Total Fire Rescue - Emergency Management	<u>140,753</u>	<u>141,753</u>	<u>140,943</u>	<u>810</u>
Fire Rescue - Bureau of Fire Prevention:				
Salaries and Benefits	557,035	567,535	567,527	8
Operating	39,090	39,090	32,174	6,916
Total Fire Rescue - Bureau of Fire Prevention	<u>596,125</u>	<u>606,625</u>	<u>599,701</u>	<u>6,924</u>
Fire Rescue - Support Services:				
Salaries and Benefits	234,744	234,744	231,841	2,903
Operating	333,150	358,701	320,866	37,835
Total Fire Rescue - Support Services	<u>567,894</u>	<u>593,445</u>	<u>552,707</u>	<u>40,738</u>
Fire Rescue - E911 Communications:				
Salaries and Benefits	264,444	266,194	266,174	20
Operating	27,280	27,280	17,981	9,299
Total Fire Rescue - E911 Communications	<u>291,724</u>	<u>293,474</u>	<u>284,155</u>	<u>9,319</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Sheriff/Other Public Safety				
Police Services/Contract	3,059,030	3,056,064	3,027,254	28,810
Stipend	118,000	118,000	111,500	6,500
Victims' Rights	64,664	64,664	64,664	-
Beach Services	233,322	233,322	225,391	7,931
Total Sheriff/Other Public Safety	<u>3,475,016</u>	<u>3,472,050</u>	<u>3,428,809</u>	<u>43,241</u>
Total Public Safety	<u>17,517,277</u>	<u>17,687,723</u>	<u>17,463,673</u>	<u>224,050</u>
Non-Departmental - Townwide:				
Personnel	340,673	167,673	167,127	546
Operating:	1,651,425	1,569,687	1,402,859	166,828
Operating Grants:				
Turtle Watch	42,450	42,450	41,748	702
Economic Development Corporation	436,984	509,574	486,235 A	23,339
Recreation Center-Operating Grant	657,748	657,748	657,748	-
Recreation Center-Capital Grant	179,500	200,099	121,619	78,480
Coastal Discovery Grant-Operating Grant	75,000	75,000	75,000	-
Coastal Discovery Grant-Capital Grant	62,700	82,672	59,323	23,349
Event Management & Hospitality Training	145,330	145,330	130,965	14,365
LTRA Grant	200,000	200,000	200,000	-
Multidisciplinary Court	50,000	50,000	50,000	-
Airport Noise Reduction	500,000	500,000	500,000	-
Solicitor Career Criminal Program	33,500	33,500	33,500	-
Community Foundation Grant - Public Art	37,500	37,500	37,500	-
Heritage Classic Foundation	383,722	383,722	383,722	-
LEPC Grant	-	2,806	2,806	-
Total Non-Departmental Townwide	<u>4,796,532</u>	<u>4,657,761</u>	<u>4,350,152</u>	<u>307,609</u>
Capital Outlay:				
Management Services :				
Public Facilities and Projects				
Equipment	27,000	27,000	24,717	2,283
Total Public Facilities and Projects	<u>27,000</u>	<u>27,000</u>	<u>24,717</u>	<u>2,283</u>
Administrative Services - Information Technology				
Specialized Equipment	124,980	141,480	140,884	596
Computer Software	-	50,000	-	50,000
Total Administrative Services - Information Technology	<u>124,980</u>	<u>191,480</u>	<u>140,884</u>	<u>50,596</u>
Total Management Services	<u>151,980</u>	<u>218,480</u>	<u>165,601</u>	<u>52,879</u>

A - The Town budgets its blended component unit, the Hilton Head Island Economic Development Corporation (EDC), as an operating grant for budgetary purposes. The EDC expenditures are also reported in the fund statements as non-departmental expenditures.

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety:				
Police Patrol/Communications	-	14,334	14,334	-
Total Police Patrol/Communications	<u>-</u>	<u>14,334</u>	<u>14,334</u>	<u>-</u>
Fire Rescue - Support Services:				
Specialized Equipment	741,000	499,971	398,448	101,523
Total Fire Rescue - Support Services	<u>741,000</u>	<u>499,971</u>	<u>398,448</u>	<u>101,523</u>
Total Public Safety	<u>741,000</u>	<u>514,305</u>	<u>412,782</u>	<u>101,523</u>
Townwide:				
Security Cameras	42,000	42,000	30,012	11,988
Total Townwide	<u>42,000</u>	<u>42,000</u>	<u>30,012</u>	<u>11,988</u>
Total Capital Outlay	<u>934,980</u>	<u>774,785</u>	<u>608,395</u>	<u>166,390</u>
Total Expenditures	<u>38,787,254</u>	<u>39,118,222</u>	<u>36,367,444</u>	<u>2,750,778</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Excess (deficiency) of Revenues Over (Under)				
Expenditures	<u>(9,393,792)</u>	<u>(9,724,760)</u>	<u>(6,177,191)</u>	<u>3,547,569</u>
<u>Other Financing Sources:</u>				
Transfers In:				
Beach Preservation Fee Fund	1,111,138	1,111,138	1,111,138	-
Capitol Projects Fund:				
Ad Valorem Taxes	1,413,000	1,413,000	1,413,000	-
Sunday Liquor Fees	37,500	37,500	37,500	-
Sale of Property	-	991,462	986,752	(4,710)
Hospitality Tax Fund	3,745,069	3,270,069	3,270,069	-
Tax Increment Financing Fund	169,398	169,398	169,398	-
State Accommodations Tax Fund	1,264,324	1,264,324	1,596,057	331,733
Electricity Franchise Fee Fund	87,878	87,878	87,878	-
Stormwater Utility Fund	94,258	94,258	94,258	-
Transfers Out:				
Economic Development Corporation -- Incentive Fund	-	(991,462)	(986,752)	4,710
Total Other Financing Sources	<u>7,922,565</u>	<u>7,447,565</u>	<u>7,779,298</u>	<u>331,733</u>
(Appropriated) Fund Balance /Net change in Fund Balance	(1,471,227)	(2,277,195)	1,602,107	<u>\$ 3,879,302</u>
Fund Balance - beginning	<u>19,349,325</u>	<u>19,349,325</u>	<u>19,349,325</u>	
Fund Balance - ending	<u>\$ 17,878,098</u>	<u>\$ 17,072,130</u>	<u>\$ 20,951,432</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 5,230,346	\$ 5,230,346	\$ 5,136,244	\$ (94,102)
Federal Reimbursement - BABS	163,391	163,391	163,656	265
Investment Income	36,905	36,905	36,913	8
Total Revenues	<u>5,430,642</u>	<u>5,430,642</u>	<u>5,336,813</u>	<u>(93,829)</u>
<u>Expenditures:</u>				
Administrative	11,025	11,025	11,025	-
Debt Service:				
Principal	7,420,000	7,420,000	7,420,000	-
Interest	3,784,676	3,784,676	3,278,425	506,251
Total Expenditures	<u>11,215,701</u>	<u>11,215,701</u>	<u>10,709,450</u>	<u>506,251</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,785,059)</u>	<u>(5,785,059)</u>	<u>(5,372,637)</u>	<u>412,422</u>
<u>Other Financing Sources</u>				
Transfers In:				
Beach Preservation Fees	2,828,938	2,828,938	2,531,437	(297,501)
Hospitality Tax	1,628,113	1,628,113	1,633,112	4,999
Real Estate Transfer Fees	2,294,953	2,294,953	2,243,681	(51,272)
Lease Revenue	65,336	65,336	65,336	-
Total Other Financing Sources	<u>6,817,340</u>	<u>6,817,340</u>	<u>6,473,566</u>	<u>(343,774)</u>
Net Change in Fund Balance	1,032,281	1,032,281	1,100,929	<u>\$ 68,648</u>
Fund Balance - beginning	<u>7,485,841</u>	<u>7,485,841</u>	<u>7,485,841</u>	
Fund Balance - ending	<u>\$ 8,518,122</u>	<u>\$ 8,518,122</u>	<u>\$ 8,586,770</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 715,552	\$ 715,552	\$ 702,649	\$ (12,903)
Grants	-	161,878	19,956	(141,922)
Other Revenue	-	200,000	-	(200,000)
Sunday Permit Fees	625,000	555,009	319,560	(235,449)
Lease Revenue	65,336	65,336	118,848	53,512
Impact Fees	35,000	35,000	564,499	529,499
Investment Income	2,000	2,000	2,252	252
Total Revenues	1,442,888	1,734,775	1,727,764	(7,011)
<u>Expenditures:</u>				
<u>Public Facilities:</u>				
Coligny/Pope Avenue Area Initiative	750,000	937	936	1
Northwest Quadrant - Coligny	-	901,513	523,375	378,138
Office Park Road/USCB	1,080,000	1,935,326	1,360,935	574,391
Sewer Service - Barker Field / Oakview	300,000	349,825	229	349,596
Sewer Service - Gum Tree Road	-	563,859	563,859	-
Sewer Service - Dillon Road	-	531,483	771	530,712
Sewer Service - Marshland Road Area	-	12,200	-	12,200
NW Quadrant Sandbox Museum	-	86,501	83,922	2,579
58 Shelter Cove Lane Building - Town Upfit	-	1,481	1,480	1
Total Public Facilities	2,130,000	4,383,125	2,535,507	1,847,618
<u>Park Development:</u>				
Island Recreation Center Expansion	5,250,000	5,719,670	385,354	5,334,316
Public Art Program	25,000	50,000	15,920	34,080
Rowing and Sailing Center	-	30,000	-	30,000
Park Upgrades	425,000	423,158	57,389	365,769
Shelter Cove Park Upgrades	-	637,514	48,259	589,255
Shelter Cove Park Parking	-	200,000	-	200,000
Total Park Development	5,700,000	7,060,342	506,922	6,553,420
<u>Land Acquisition:</u>				
Shelter Cove Park	-	11,411	11,411	-
Pineland Tract	-	4,434	4,433	1
T. Wright Parcel	-	197	197	-
Cordillo Tennis Courts	-	-	-	-
Potential Land Purchase Sites	-	18,653	18,652	1
Adventure Cove/Folly Field Parcels	-	8,875	8,874	1
Palmetto Bay Road Parcels	-	57,622	57,621	1
D. Berry Sale	-	327	327	-
Total Land Acquisition	-	101,519	101,515	4

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Beach Maintenance:				
Beach Management & Monitoring	500,000	279,315	140,710	138,605
Islandwide Beach Renourishment	20,000,000	22,929,510	6,893,944	16,035,566
Total Beach Maintenance	<u>20,500,000</u>	<u>23,208,825</u>	<u>7,034,654</u>	<u>16,174,171</u>
Facilities Improvements:				
Fire Station #2 Replacement	150,000	261,419	155,666	105,753
Fire Rescue Training Enhancements	40,000	39,742	39,742	-
Town Hall Renovations	-	123	123	-
Town Hall Office Space Configuration	50,000	170,557	77,825	92,732
Total Facilities Improvements	<u>240,000</u>	<u>471,841</u>	<u>273,356</u>	<u>198,485</u>
Roadway Improvements:				
Heritage Road Extension	2,850,000	-	-	-
Leamington/Fresh Market US 278	-	5,578	5,577	1
South Forest Beach Drive Improvements	75,000	80,367	61,805	18,562
Rhiner Drive	-	12,308	12,308	-
Wiley Road	-	40,918	38,388	2,530
Marshland Road Roundabout	-	9,256	7,765	1,491
Intersection Improvements Squire Pope	-	24,160	-	24,160
Extension of Lagoon Road	160,000	130,504	119,328	11,176
Miscellaneous Turn Lane Improvements	35,000	35,000	8,500	26,500
Private Dirt Roads Acquisition	100,000	46,541	-	46,541
Palmetto Dunes Swing About	-	106,065	8,158	97,907
Office Park Road Intersection Improvements	750,000	900,000	104,311	795,689
Reconstruction of Nassau Street	100,000	100,000	70,975	29,025
Lagoon Road - Pope Road	-	76,163	59,502	16,661
Outlaw Road	-	233	233	-
Intersection Improvements	125,000	-	-	-
Mathews Drive	-	764	764	-
Paving	-	179,937	29,600	150,337
Traffic Signal Mast Arms	100,000	140,000	-	140,000
Traffic Signal Spanish Wells	-	8,001	8,001	-
Honey Horn Improvements	-	7,083	7,083	-
Total Roadway Improvements	<u>4,295,000</u>	<u>1,902,878</u>	<u>542,298</u>	<u>1,360,580</u>
Debt Issue Costs:				
Debt Issue Costs	250,000	375,000	-	375,000
Total Debt Issue Costs	<u>250,000</u>	<u>375,000</u>	<u>-</u>	<u>375,000</u>

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Pathway Improvements:	50,000	-	-	-
US 278 Fresh Market Shoppes to Shelter Cove	-	52,130	34,130	18,000
Pathway Safety Shelter Cove	-	49,715	49,715	-
Pathway Safety Audubon Preserve	-	32,409	32,409	-
Pembroke Drive	-	578	578	-
Palmetto Dunes	-	336,167	336,095	72
Nature's Way	-	68,014	68,013	1
Mathews Dr./Marshland South	-	45,611	45,610	1
Pope Avenue (Off Road)	-	94,654	6,596	88,058
Total Pathway Improvements	<u>50,000</u>	<u>679,278</u>	<u>573,146</u>	<u>106,132</u>
Total Capital Outlay/Community Services	<u>32,915,000</u>	<u>37,807,808</u>	<u>11,567,398</u>	<u>26,240,410</u>
Total Expenditures	33,165,000	38,182,808	11,567,398	26,615,410
Excess of Revenues Over (Under) Expenditures	<u>(31,722,112)</u>	<u>(36,448,033)</u>	<u>(9,839,634)</u>	<u>26,608,399</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Property	-	1,067,587	1,078,410	10,823
Issuance of New Bonds:				
Bond Proceeds (Tax Increment Financing)	3,250,000	3,250,000	-	(3,250,000)
Bond Proceeds (Beach Preservation)	20,000,000	21,803,412	-	(21,803,412)
Bond Proceeds (Hospitality Fees)	150,000	-	-	-
Bond Proceeds (General Obligation)	5,550,000	5,564,707	-	(5,564,707)
Transfers In:				
Beach Preservation Fees	500,000	1,405,414	4,543,672	3,138,258
Hospitality Tax	190,000	431,307	130,317	(300,990)
Tax Increment Financing	2,515,000	1,108,586	2,487,868	1,379,282
General Fund	-	-	986,752	986,752
Transfers Out:				
General Fund	(1,450,500)	(2,441,962)	(2,437,252)	4,710
Debt Service	(65,336)	(65,336)	(65,336)	-
Total Other Financing Sources (Uses)	<u>30,639,164</u>	<u>32,123,715</u>	<u>6,724,431</u>	<u>(25,399,284)</u>
Net change in fund balance	(1,082,948)	(4,324,318)	(3,115,203)	<u>\$ 1,209,115</u>
Fund Balance - beginning	<u>8,618,510</u>	<u>8,618,510</u>	<u>8,618,510</u>	
Fund Balance - ending	<u>\$ 7,535,562</u>	<u>\$ 4,294,192</u>	<u>\$ 5,503,307</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Revenues:</u>				
Stormwater Utility Fees	\$ 3,574,134	\$ 3,574,134	\$ 3,551,400	\$ (22,734)
Federal Grant	-	-	44,272	44,272
Total Operating Revenues	<u>3,574,134</u>	<u>3,574,134</u>	<u>3,595,672</u>	<u>21,538</u>
<u>Operating Expenses:</u>				
<u>Planned Unit Developments:</u>				
Hilton Head Plantation:				
Stormwater Maintenance	50,000	67,707	41,425	26,282
Country Club Court	-	20,301	-	20,301
Bear Creek	50,000	15,413	9,125	6,288
Myrtle Bank Lane	-	32,000	31,257	743
Drainage Maintenance	-	6,000	5,562	438
Sinkhole Repair	-	9,500	9,200	300
Sweetwater Capital	40,000	40,000	25,590	14,410
Total Hilton Head Plantation	<u>140,000</u>	<u>190,921</u>	<u>122,159</u>	<u>68,762</u>
Indigo Run Plantation:				
Stormwater Maintenance	25,000	2,947	617	2,330
Inventory and Modeling	25,000	94,593	67,151	27,442
River Club	10,000	-	-	-
Channel Maintenance	-	8,933	8,933	-
Sunningdale to Sussex Channel Maintenance	10,000	-	-	-
Total Indigo Run Plantation	<u>70,000</u>	<u>106,473</u>	<u>76,701</u>	<u>29,772</u>
Long Cove Club:				
Stormwater Maintenance	20,000	17,000	6,455	10,545
Turnbridge Drive Maintenance	-	13,000	12,900	100
Total Long Cove Club	<u>20,000</u>	<u>30,000</u>	<u>19,355</u>	<u>10,645</u>
Leamington Plantation:				
Stormwater Maintenance	20,000	7,235	34	7,201
Inventory and Modeling	-	3,123	3,030	93
Capital and Infrastructure	15,000	14,500	11,375	3,125
Total Leamington Plantation	<u>35,000</u>	<u>24,858</u>	<u>14,439</u>	<u>10,419</u>

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Planned Unit Developments (continued):</u>				
Palmetto Dunes Plantation:				
Drainage/ Stormwater Maintenance	25,000	31,765	5,124	26,641
Inventory and Modeling	-	12,481	11,336	1,145
Total Palmetto Dunes Plantation	25,000	44,246	16,460	27,786
Palmetto Hall Plantation:				
Stormwater Maintenance	20,000	20,000	8,131	11,869
Sedge Fern Drive	-	45,193	45,193	-
Clyde Lane /Pipe Replacement	-	704	-	704
Total Palmetto Hall Plantation	20,000	65,897	53,324	12,573
Port Royal Plantation:				
Stormwater Maintenance	30,000	26,976	1,503	25,473
Silt Cleaning	50,000	50,000	24,971	25,029
Port Royal Channel Maintenance	-	6,600	6,600	-
Planters Row	10,000	12,255	12,255	-
Doubloon Pipe Cleaning	-	9,230	8,906	324
Inventory and Modeling	-	1,871	1,870	1
Total Port Royal Plantation	90,000	106,932	56,105	50,827
Shipyards Plantation:				
Stormwater Maintenance	25,000	41,825	10,323	31,502
Capital and Infrastructure Clipper Course	35,000	24,777	24,440	337
Galleon Fairways Flooding/Dredging	20,000	20,000	7,290	12,710
Shipyards Channel Maintenance	-	9,925	5,100	4,825
Shipyards Pump Station	25,000	36,805	18,805	18,000
Total Shipyards Plantation	105,000	133,332	65,958	67,374
Sea Pines Plantation:				
Stormwater Maintenance	50,000	52,303	23,618	28,685
Dredging Maintenance	-	13,000	10,348	2,652
Spotted Sandpiper Repairs	-	8,220	8,220	-
Duck Hawk Road	-	3,300	3,264	36
Baynard Cove -- Structure	13,000	4,446	4,445	1
Baynard Cove -- Gate	10,000	18,554	-	18,554
Club Course Sinkhole Repair	-	5,725	5,725	-
Lawton Canal Channel Maintenance	-	2,675	2,675	-
Sea Pines Pump Station	50,000	53,413	39,656	13,757
Harbour Town Hole 14 Failure	-	11,324	7,960	3,364
Inventory and Modeling	75,000	138,540	51,105	87,435
Total Sea Pines Plantation	198,000	311,500	157,016	154,484

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Planned Unit Developments (continued):</u>				
Wexford Plantation:				
Pump Station Access Easement	50,000	50,000	22,390	27,610
Stormwater Maintenance	20,000	16,022	-	16,022
Wexford Club Drive Flooding	-	21,500	18,086	3,414
Outfall Cleaning at Clubhouse	-	7,500	7,500	-
Powerline Easement Ditch	-	49,068	49,068	-
Wexford Pump Station	25,000	37,076	20,175	16,901
Total Wexford Plantation	<u>95,000</u>	<u>181,166</u>	<u>117,219</u>	<u>63,947</u>
Total Planned Unit Developments	<u>798,000</u>	<u>1,195,325</u>	<u>698,736</u>	<u>496,589</u>
<u>Non-Planned Unit Developments:</u>				
Stormwater Maintenance	100,000	75,882	68,847	7,035
Unaffiliated Watersheds Inventory & Modeling	50,000	69,258	16,689	52,569
Nassau / Tanglewood	50,000	25,710	16,290	9,420
Gum Tree Channel	-	47,122	46,166	956
Folly Field Beach Park Flooding	15,000	6,199	5,791	408
North Forest Drainage	-	-	-	-
LeMoynes Ave. Flooding	100,000	100,000	58	99,942
Mathews Drive Pathway Outflow	65,000	65,000	2,812	62,188
Lawton Woods Drainage	17,000	19,170	19,170	-
Channel Maintenance	75,000	100,401	96,851	3,550
Myrtle and Hickory Lanes	-	359	359	-
Gadson Drainage	-	9,432	3,432	6,000
Marshland Road Drainage	-	11,025	11,025	-
Mustang Lane Drainage	-	1,669	1,669	-
Pump Station	50,000	53,580	29,580	24,000
State Misc. (SCDOT)	30,000	50,838	38,907	11,931
Inventory and Modeling - Shelter Cove	-	16,728	15,800	928
Woodward Drive	-	2,100	-	2,100
Total Non-Planned Unit Development	<u>552,000</u>	<u>654,473</u>	<u>373,446</u>	<u>281,027</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive Negative
Operating Expenses (continued):				
Other Operating Expenses:				
Administrative Salaries/Benefits	370,797	370,797	358,116	12,681
Administrative Operating	657,200	622,879	339,567	283,312
Administrative Capital	28,000	28,000	23,764	4,236
Infrastructure Capitalized	-	-	-	-
Depreciation	-	-	-	-
Total Other Operating Expenses	<u>1,055,997</u>	<u>1,021,676</u>	<u>721,447</u>	<u>300,229</u>
 Total Operating Expenses	 2,405,997	 2,871,474	 1,793,629	 1,077,845
 Operating Income	 1,168,137	 702,660	 1,802,043	 1,099,383
Non-operating Income (Expenses):				
Investment Income	-	-	443	443
Administrative	(3,000)	(3,000)	(2,500)	500
Loss on Refunding	-	-	-	-
Principal	(850,000)	(850,000)	(850,000)	-
Interest Expense	(299,000)	(299,000)	(299,128)	(128)
Total Nonoperating Income (Expenses)	<u>(1,152,000)</u>	<u>(1,152,000)</u>	<u>(1,151,185)</u>	<u>815</u>
 Income (Loss) Before Transfers/Bond Proceeds	 16,137	 (449,340)	 650,858	 1,100,198
 Transfers Out	 (94,258)	 (94,258)	 (94,258)	 -
 Net Change in Fund Net Position	 (78,121)	 (543,598)	 556,600	 <u>\$ 1,100,198</u>
 Net Position - Beginning	 <u>6,407,746</u>	 <u>6,407,746</u>	 <u>6,407,746</u>	
 Net Position - Ending	 <u><u>\$ 6,329,625</u></u>	 <u><u>\$ 5,864,148</u></u>	 <u><u>\$ 6,964,346</u></u>	
 Reconciliation to GAAP Budget:				
	Original Budget	Final Budget	Actual	Variance With Final Positive Negative
Change in Fund Net Position per Budget (Schedule 4)	\$ (78,121)	\$ (543,598)	\$ 556,600	\$ 1,100,198
Depreciation	(783,177)	(783,177)	(783,177)	-
Principal on Debt	850,000	850,000	850,000	-
Amortization of Premium on Debt	(89,554)	(89,554)	(89,554)	-
Net Capital Additions	212,849	212,849	212,849	-
 Change in Net Position per Exhibit I	 <u>\$ 111,997</u>	 <u>\$ (353,480)</u>	 <u>\$ 746,718</u>	 <u>\$ 1,100,198</u>

See accompanying Independent Auditor's Report

Supplementary Information

Nonmajor Governmental Funds

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

1. **Palmetto Electric Franchise Fees** – This fund is used to account for franchise fees paid by Palmetto Electric Cooperative, Inc. These funds will be utilized to offset costs associated with the undergrounding (placement underground) of all existing and future non-transmission lines owned by Palmetto Electric pursuant to the terms and conditions of the Franchise Agreement and related Underground Service Agreement between the Town and Palmetto Electric.
2. **Operating Grants** – This fund was established to account for revenues and expenditures of the Town's operating grants.
3. **Home Grant** - Homeownership Assistance Program provides a no-interest, ten-year deferred loan to prospective, income-qualified homebuyers to meet down payment and closing cost requirements.
4. **Federal Grants** – This fund was established to account for revenues and expenditures of the Town's federal grants.
5. **Economic Development Incentive Fund** – This fund was established to account for revenues and expenditures of the Town's Economic Development Incentives.

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TOWN OF HILTON HEAD ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

Schedule 5

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Palmetto Electric Franchise Fees	Operating Grants	Home Grant	Federal Grants	Economic Development Incentive Fund	
ASSETS:						
Cash and Cash Equivalents	\$ 4,209,256	\$ -	\$ 52,024	\$ -	\$ -	\$ 4,261,280
Accounts Receivable	124,407	-	8,400	-	-	132,807
Interfund Receivables	-	264,222	-	397,977	-	662,199
Total assets	<u>\$ 4,333,663</u>	<u>\$ 264,222</u>	<u>\$ 60,424</u>	<u>\$ 397,977</u>	<u>\$ -</u>	<u>\$ 5,056,286</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ -	\$ -	\$ -	\$ 4,504	\$ -	\$ 4,504
Interfund Payables	-	263,023	-	378,013	-	641,036
Unearned Revenue	-	-	70,406	-	-	70,406
Total liabilities	<u>-</u>	<u>263,023</u>	<u>70,406</u>	<u>382,517</u>	<u>-</u>	<u>715,946</u>
Fund balances (deficit):						
Restricted	4,333,663	-	-	-	-	4,333,663
Unassigned	-	1,199	(9,982)	15,460	-	6,677
Total fund balances (deficit)	<u>4,333,663</u>	<u>1,199</u>	<u>(9,982)</u>	<u>15,460</u>	<u>-</u>	<u>4,340,340</u>
Total liabilities and fund balances	<u>\$ 4,333,663</u>	<u>\$ 264,222</u>	<u>\$ 60,424</u>	<u>\$ 397,977</u>	<u>\$ -</u>	<u>\$ 5,056,286</u>

TOWN OF HILTON HEAD ISLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

Schedule 6

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Palmetto Electric Franchise Fees	Operating Grants	Home Grant	Federal Grants	Economic Development Incentive Fund	
Revenues:						
Electric Franchise Fees	\$ 2,671,984	\$ -	\$ -	\$ -	\$ -	\$ 2,671,984
Grant Revenue	-	142,199	-	397,977	-	540,176
Investment Income	717	-	9	-	-	726
Total revenues	<u>2,672,701</u>	<u>142,199</u>	<u>9</u>	<u>397,977</u>	<u>-</u>	<u>3,212,886</u>
Expenditures:						
Current:						
Public Safety	-	91,728	-	371,517	-	463,245
Community Services	1,664,085	-	-	11,000	-	1,675,085
Total expenditures	<u>1,664,085</u>	<u>91,728</u>	<u>-</u>	<u>382,517</u>	<u>-</u>	<u>2,138,330</u>
Excess expenditures over revenues	1,008,616	50,471	9	15,460	-	1,074,556
Other Financing Uses:						
Transfers In	-	-	-	-	986,752	986,752
Transfers Out	(87,878)	-	-	-	(986,752)	(1,074,630)
Total other financing uses	<u>(87,878)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,878)</u>
Net change in fund balance	920,738	50,471	9	15,460	-	986,678
Fund balance - beginning	3,412,925	(49,272)	(9,991)	-	-	3,353,662
Fund balance (deficit) - ending	<u>\$ 4,333,663</u>	<u>\$ 1,199</u>	<u>\$ (9,982)</u>	<u>\$ 15,460</u>	<u>\$ -</u>	<u>\$ 4,340,340</u>

Supplementary Information

Agency Fund – This fund is used to account for assets which are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Firemen's Fund – This fund is used to account for the accumulation of resources primarily from the firemen's share of insurance proceeds remitted by the State of South Carolina to the Town firemen and expended for their benefit.

Airport Noise Abatement Fund – This fund is used to account for the custodial accumulation of resources granted from Beaufort County and the Town to assist in the efforts toward a County Noise Abatement Project.

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TOWN OF HILTON HEAD ISLAND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FIREMEN'S FUND AND AIRPORT NOISE ABATEMENT
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 7

FIREMEN'S FUND	Beginning Balance	Increases	Decreases	Ending Balance
ASSETS:				
Cash and Temporary Investments	\$ 35,637	\$ 630,227	\$ 569,231	\$ 96,633
LIABILITIES:				
Due to Firemen's Fund Association	\$ 35,637	\$ 630,227	\$ 569,231	\$ 96,633
AIRPORT NOISE ABATEMENT				
ASSETS:				
Due from General Fund	\$ -	\$ 1,000,000	\$ 4,660	\$ 995,340
LIABILITIES:				
Due to County Noise Abatement Project	\$ -	\$ 1,000,000	\$ 4,660	\$ 995,340
TOTAL				
ASSETS:				
Cash and Temporary Investments	\$ 35,637	\$ 630,227	\$ 569,231	\$ 96,633
Due from General Fund	-	1,000,000	4,660	995,340
TOTAL	\$ 35,637	\$ 1,630,227	\$ 573,891	\$ 1,091,973
LIABILITIES:				
Due to Firemen's Fund Association	\$ 35,637	\$ 630,227	\$ 569,231	\$ 96,633
Due to County Noise Abatement Project	-	1,000,000	4,660	995,340
TOTAL	\$ 35,637	\$ 1,630,227	\$ 573,891	\$ 1,091,973



**Statistical Section
(Unaudited)**

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Statistical Section

This part of the Town Hilton Head Island's comprehensive financial report represents detailed information as a context for understanding what the information in the financial statements note disclosures, and required supplementary information says about the Town's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well being have changed over time</i>	91-95
Revenue Capacity <i>These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.</i>	96-101
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's abilities to issue additional debt in the future.</i>	102-106
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments</i>	107-108
Operating Information <i>These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.</i>	109-112

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

Schedule 1
Town of Hilton Head Island, SC
Net Position by Component, Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Governmental activities										
Net investment in capital assets	\$ 93,895,834	\$ 98,661,331	\$ 114,310,240	\$ 126,379,257	\$ 137,940,358	\$ 127,695,520	\$ 134,730,092	\$ 147,652,780	\$ 163,062,329	\$ 169,753,952
Restricted	23,682,142	25,168,338	23,590,106	20,750,147	29,367,859	39,307,871	42,860,346	35,442,375	31,942,739	31,347,375
Unrestricted	35,803,517	34,433,182	27,448,750	27,806,762	19,070,840	12,610,400	15,130,825	19,969,187	10,121,639	13,639,863
Total governmental activities net position	<u>\$ 153,381,493</u>	<u>\$ 158,262,851</u>	<u>\$ 165,349,096</u>	174,936,166	186,379,057	179,613,791	192,721,263	203,064,342	205,126,707	214,741,190
Business-type activities										
Net investment in capital assets				(263,488)	1,969,503	587,800	1,985,756	3,320,300	4,569,085	4,759,203
Unrestricted				2,441,371	1,588,215	1,776,610	1,965,359	1,971,277	1,838,661	2,395,261
Total business-type activities net position				<u>2,177,883</u>	<u>3,557,718</u>	<u>2,364,410</u>	<u>3,951,115</u>	<u>5,291,577</u>	<u>6,407,746</u>	<u>7,154,464</u>
Total				<u>\$ 177,114,049</u>	<u>\$ 189,936,775</u>	<u>\$ 181,978,201</u>	<u>\$ 196,672,378</u>	<u>\$ 208,355,919</u>	<u>\$ 211,534,453</u>	<u>\$ 221,895,654</u>

Schedule 2
Town of Hilton Head Island, SC
Changes in Net Position, Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Expenses										
Governmental activities:										
General Government	\$ 3,376,831	\$ 3,777,076	\$ 3,823,670	\$ 5,821,050	\$ 5,590,651	\$ 4,353,125	\$ 4,457,904	\$ 5,014,153	\$ 5,501,516	\$ 6,119,293
Management Services	3,875,696	4,099,915	4,747,193	4,589,627	4,617,092	4,387,130	4,781,208	5,176,878	5,249,881	5,240,408
Community Services	24,378,607	18,498,051	14,003,774	8,502,048	8,592,108	30,544,682	13,292,741	15,914,686	15,337,540	18,658,764
Public Safety	16,207,323	17,528,471	17,717,708	17,068,317	17,332,968	16,535,835	16,425,512	14,130,095	16,529,019	19,802,724
Culture and Recreation	2,071,003	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594	1,907,032	1,962,094	2,429,893	2,652,668
Visitor & Convention Bureau	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019	1,341,508	1,473,482	1,580,537	1,709,995
Administration	1,813,259	2,884,106	2,204,684	2,695,438	3,280,258	3,611,539	1,797,946	1,779,235	2,500,842	212,356
Interest on Debt	5,727,606	5,669,171	5,566,777	4,329,058	4,414,431	3,658,811	4,051,860	4,114,335	3,396,216	3,042,722
Other Charges	295,486	235,742	-	-	-	-	-	-	-	-
Total governmental activities expenses	<u>\$ 58,926,486</u>	<u>\$ 55,629,379</u>	<u>\$ 50,911,720</u>	<u>45,390,500</u>	<u>46,175,688</u>	<u>65,397,735</u>	<u>48,055,711</u>	<u>49,564,958</u>	<u>52,525,444</u>	<u>57,438,930</u>
Business-type activities:										
Stormwater				1,397,226	1,616,827	4,449,857	1,757,863	1,997,630	2,367,173	2,755,139
Total Expenses				<u>\$ 46,787,726</u>	<u>\$ 47,792,515</u>	<u>\$ 69,847,592</u>	<u>\$ 49,813,574</u>	<u>\$ 51,562,588</u>	<u>\$ 54,892,617</u>	<u>\$ 60,194,069</u>
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General Government	\$ 592,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757	\$ 2,565,756	\$ 2,579,305	\$ 2,455,854	\$ 3,168,940
Management Services	7,668,657	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622	7,774,138	7,795,909	8,334,478	8,224,310
Community Services	7,497,902	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471	8,262,464	9,055,993	9,802,304	10,016,676
Public Safety	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780	1,163,678	1,505,579	1,486,087
Administration	3,676,835	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459	2,255,107	2,468,881	2,534,932	2,887,147
Operating grants and contributions	134,793	152,140	130,796	206,897	140,555	305,329	338,378	630,208	348,467	838,915
Capital grants and contributions	48,246	61,843	52,525	17,697	-	1,044,854	142,116	-	275,000	19,956
Total governmental activities program revenues	<u>\$ 21,032,700</u>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	<u>19,842,121</u>	<u>20,463,103</u>	<u>21,956,539</u>	<u>22,644,739</u>	<u>23,693,974</u>	<u>25,256,614</u>	<u>26,642,031</u>
Business-type activities:										
Charges for services:										
Stormwater				2,553,971	3,377,779	3,491,879	3,580,445	3,564,300	3,551,386	3,551,400
Operating grants and contributions				-	-	-	-	-	25,764	44,272
Total Program Revenues				<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>	<u>\$ 26,225,184</u>	<u>\$ 27,258,274</u>	<u>\$ 28,833,764</u>	<u>\$ 30,237,703</u>
Net (Expense)Revenue										
Total governmental activities net expense	<u>\$ (37,893,786)</u>	<u>\$ (34,608,091)</u>	<u>\$ (32,527,970)</u>	<u>(25,548,379)</u>	<u>(25,712,585)</u>	<u>(43,441,196)</u>	<u>(25,410,972)</u>	<u>(25,870,984)</u>	<u>(27,268,830)</u>	<u>(30,796,899)</u>
Total business-type activities net expense				<u>1,156,745</u>	<u>1,760,952</u>	<u>(957,978)</u>	<u>1,822,582</u>	<u>1,566,670</u>	<u>1,209,977</u>	<u>840,533</u>
Total Net (Expense) Revenue				<u>\$ (24,391,634)</u>	<u>\$ (23,951,633)</u>	<u>\$ (44,399,174)</u>	<u>\$ (23,588,390)</u>	<u>\$ (24,304,314)</u>	<u>\$ (26,058,853)</u>	<u>\$ (29,956,366)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property Taxes	\$ 19,290,776	\$ 19,859,691	\$ 21,993,646	\$ 23,454,455	\$ 23,605,422	\$ 23,974,619	\$ 24,242,142	\$ 23,613,446	\$ 24,163,776	\$ 22,576,837
Other Taxes	11,277,083	11,637,286	10,836,674	10,178,254	10,866,276	11,259,227	12,246,755	13,368,820	14,516,798	15,447,140
Intergovernmental	1,268,534	2,198,691	2,012,649	1,531,261	1,317,756	1,010,600	1,181,674	1,154,196	1,176,192	1,131,882
Investment earnings	4,236,702	2,521,431	876,095	356,176	260,608	124,415	87,660	69,810	50,763	48,922
Miscellaneous	3,679,894	3,921,488	3,895,151	584,455	1,105,414	307,069	760,213	(297,517)	1,896,632	1,206,601
Total governmental activities	<u>\$ 39,752,989</u>	<u>\$ 40,138,587</u>	<u>\$ 39,614,215</u>	<u>\$ 36,104,601</u>	<u>\$ 37,155,476</u>	<u>\$ 36,675,930</u>	<u>\$ 38,518,444</u>	<u>\$ 37,908,755</u>	<u>\$ 41,804,161</u>	<u>\$ 40,411,382</u>
Business-type activities:										
Investment earnings				83,128	8,612	-	253	394	450	443
Transfers				(302,763)	(389,729)	(235,330)	(236,130)	(74,163)	(94,258)	(94,258)
Total business-type activities				<u>\$ (219,635)</u>	<u>\$ (381,117)</u>	<u>\$ (235,330)</u>	<u>\$ (235,877)</u>	<u>\$ (73,769)</u>	<u>\$ (93,808)</u>	<u>\$ (93,815)</u>
Change in Net Position										
Governmental activities	<u>\$ 1,859,203</u>	<u>\$ 5,530,496</u>	<u>\$ 7,086,245</u>	<u>10,556,222</u>	<u>11,442,891</u>	<u>(6,765,266)</u>	<u>13,107,472</u>	<u>12,037,771</u>	<u>14,535,331</u>	<u>9,614,483</u>
Business-type activities				<u>937,110</u>	<u>1,379,835</u>	<u>(1,193,308)</u>	<u>1,586,705</u>	<u>1,492,901</u>	<u>1,116,169</u>	<u>746,718</u>
Total Change in Net Position				<u>\$ 11,493,332</u>	<u>\$ 12,822,726</u>	<u>\$ (7,958,574)</u>	<u>\$ 14,694,177</u>	<u>\$ 13,530,672</u>	<u>\$ 15,651,500</u>	<u>\$ 10,361,201</u>

Schedule 3
Town of Hilton Head Island, SC
Program Revenues by Function/Program, Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Function/Program										
Governmental activities:										
Charges for services:										
General Government	\$ 591,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757	\$ 2,565,756	\$ 2,579,305	\$ 2,455,854	\$ 3,168,940
Management Services	7,668,657	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622	7,774,138	7,795,909	8,334,478	8,224,310
Community Services	7,497,902	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471	8,262,464	9,055,993	9,802,304	10,016,676
Public Safety	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780	1,163,678	1,505,579	1,486,087
Administration	3,676,835	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459	2,255,107	2,468,881	2,534,932	2,887,147
Operating grants and contributions	134,793	152,140	130,796	206,897	140,555	305,329	338,378	630,208	348,467	838,915
Capital grants and contributions	48,246	61,843	52,525	17,697	-	1,044,854	142,116	-	275,000	19,956
Total governmental activities	<u>\$ 21,031,700</u>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	<u>\$ 19,842,121</u>	<u>\$ 20,463,103</u>	<u>\$ 21,956,539</u>	<u>\$ 22,644,739</u>	<u>\$ 23,693,974</u>	<u>\$ 25,256,614</u>	<u>\$ 26,642,031</u>
Business-type activities:										
Stormwater				2,553,971	3,377,779	3,491,879	3,580,445	3,564,300	3,551,386	3,551,400
Operating grants and contributions									25,764	44,272
Total Program Revenues				<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>	<u>\$ 26,225,184</u>	<u>\$ 27,258,274</u>	<u>\$ 28,833,764</u>	<u>\$ 30,237,703</u>

Schedule 4
Town of Hilton Head Island, SC
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Fund										
Reserved	\$ 157,080	\$ 283,748	\$ 164,731	\$ 145,008						
Unreserved	16,269,658	15,990,383	15,697,038	15,618,977						
Total General Fund	<u>\$ 16,426,738</u>	<u>\$ 16,274,131</u>	<u>\$ 15,861,769</u>	<u>\$ 15,763,985</u>						
All Other Governmental Funds										
Reserved	\$ 18,556,583	\$ 24,013,184	\$ 18,634,944	\$ 24,398,924						
Unreserved, reported in:										
Special revenue funds	27,088,384	26,375,485	21,814,650	22,479,639						
Capital projects funds	14,520,788	16,735,177	4,924,286	5,796,855						
Debt service funds	2,237,167	269,253	-	-						
Total All Other Governmental Funds	<u>\$ 62,402,922</u>	<u>\$ 67,393,099</u>	<u>\$ 45,373,880</u>	<u>\$ 52,675,418</u>						
General Fund										
Nonspendable					\$ 21,304	\$ 15,308	\$ 8,896	\$ 9,796	\$ -	\$ -
Restricted					98,163	98,182	65,985	65,998	66,011	66,025
Committed					11,366,314	11,865,342	12,366,509	13,593,096	14,232,879	15,171,715
Assigned					-	817,455	674,725	1,007,245	1,471,227	2,013,643
Unassigned					3,400,504	3,017,270	4,187,612	3,359,264	3,579,208	3,700,049
Total General Fund					<u>\$ 14,886,285</u>	<u>\$ 15,813,557</u>	<u>\$ 17,303,727</u>	<u>\$ 18,035,399</u>	<u>\$ 19,349,325</u>	<u>\$ 20,951,432</u>
All Other Governmental Funds										
Restricted					\$ 33,894,568	\$ 39,209,689	\$ 42,850,943	\$ 35,376,377	\$ 31,876,728	\$ 31,282,350
Committed					12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Assigned					-	3,293	554,229	1,902,756	1,232,948	2,273,000
Unassigned					-	(8,581)	(8,576)	(41,365)	(59,263)	6,677
Total All Other Governmental Funds					<u>\$ 45,894,568</u>	<u>\$ 51,204,401</u>	<u>\$ 55,396,596</u>	<u>\$ 49,237,768</u>	<u>\$ 45,050,413</u>	<u>\$ 45,562,027</u>

Schedule 5
Town of Hilton Head Island, SC
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues										
Taxes (see Schedule 6) ^a	\$ 30,567,859	\$ 31,496,978	\$ 32,830,320	\$ 33,632,709	\$ 34,471,698	\$ 35,233,846	\$ 36,488,897	\$ 36,982,266	\$ 38,675,584	\$ 38,023,977
Licenses, fees, and permits ^b	21,488,134	21,387,485	19,202,835	14,843,258	18,131,546	18,633,421	20,163,249	21,316,864	22,475,266	23,738,338
Fines and penalties	419,313	465,065	407,422	423,042	361,152	308,708	262,022	224,447	198,948	210,243
Charges for services	1,606,874	1,661,201	1,604,565	1,598,482	1,761,128	1,602,410	1,461,624	1,242,959	1,673,499	1,556,125
Intergovernmental	1,268,534	1,312,571	1,309,391	1,199,622	1,317,756	1,202,313	1,371,308	1,325,351	1,344,243	1,295,538
Investment earnings	4,236,702	2,521,430	876,095	356,179	260,606	124,417	87,660	69,810	50,763	48,922
Other revenues	1,198,272	2,615,149	1,702,252	5,404,922	602,262	1,420,411	797,171	1,000,494	972,240	1,242,066
Total revenues	<u>\$ 60,785,688</u>	<u>\$ 61,459,879</u>	<u>\$ 57,932,880</u>	<u>\$ 57,458,214</u>	<u>\$ 56,906,148</u>	<u>\$ 58,525,526</u>	<u>\$ 60,631,931</u>	<u>\$ 62,162,191</u>	<u>\$ 65,390,543</u>	<u>\$ 66,115,209</u>
Expenditures										
General Government	\$ 1,360,932	\$ 1,551,674	\$ 1,100,621	\$ 1,044,477	\$ 1,119,831	\$ 882,111	\$ 968,506	\$ 1,060,140	\$ 1,046,890	\$ 1,203,788
Management Services	3,651,665	3,921,014	4,563,007	4,497,250	4,528,244	4,303,518	4,512,873	4,818,850	4,986,727	4,947,486
Community Services	6,549,522	6,964,349	6,530,162	6,478,745	6,210,506	5,771,788	5,996,416	6,392,687	7,238,602	7,804,951
Public Safety	15,428,220	16,921,361	16,836,081	16,161,922	16,174,377	16,415,919	16,448,769	17,019,825	17,202,723	17,926,916
Non-Departmental	1,745,509	2,018,190	2,397,182	2,662,132	4,072,932	3,154,901	2,947,442	3,497,973	3,879,828	4,350,151
Accommodations Tax Grants	2,071,003	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594	1,907,032	1,962,094	2,429,893	2,652,668
Visitor & Convention Bureau	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019	1,341,508	1,473,482	1,580,537	1,709,995
Administration	1,948,281	2,884,106	2,088,285	2,361,361	2,944,586	3,208,001	1,335,906	1,481,219	2,317,333	28,871
Capital Outlay	35,090,202	23,255,954	27,050,704	10,505,379	8,479,627	26,380,099	13,597,119	13,428,124	11,527,089	13,839,880
Debt Service										
Principal	6,591,134	11,837,139	11,220,000	11,415,000	12,305,000	12,105,000	11,645,000	12,950,000	12,994,999	7,420,000
Interest	5,496,034	5,645,093	5,680,505	4,335,765	4,524,266	3,914,974	4,265,011	4,080,573	3,702,272	3,278,425
Fiscal charges	-	-	-	-	-	-	-	-	-	11,025
Debt issue costs	-	451,841	-	391,417	-	525,364	150,792	132,022	11,025	-
Total expenditures	<u>\$ 81,113,177</u>	<u>\$ 78,387,568</u>	<u>\$ 80,314,461</u>	<u>\$ 62,238,410</u>	<u>\$ 62,707,549</u>	<u>\$ 78,968,288</u>	<u>\$ 65,116,374</u>	<u>\$ 68,296,989</u>	<u>\$ 68,917,918</u>	<u>\$ 65,174,156</u>
Excess of revenues over (under) expenditures	(20,327,489)	(16,927,689)	(22,381,581)	(4,780,196)	(5,801,401)	(20,442,762)	(4,484,443)	(6,134,798)	(3,527,375)	941,053
Other Financing Sources (Uses)										
Bonds issued	\$ 19,000,000	\$ 34,215,000	\$ -	\$ 12,000,000	\$ -	\$ 26,250,000	\$ 9,000,000	\$ -	\$ -	\$ -
Other uses/sources	-	-	(50,000)	-	-	-	-	-	-	-
Refunding bonds issued	-	-	-	5,005,000	-	20,635,000	-	-	-	-
Debt Issue costs	(408,813)	-	-	-	-	-	-	-	-	-
Payments to escrow agent	-	(11,955,000)	-	(5,248,484)	-	(21,675,878)	-	-	-	-
Premium on bond issuance	303,951	154,397	-	155,632	-	970,485	664,056	-	-	-
Proceeds from sale of land and equipment	-	-	-	-	324,774	264,930	266,622	175,000	559,688	1,078,410
Reimbursement of prior year expenditures	-	-	-	-	-	-	-	458,479	-	-
Transfers in	24,612,718	13,676,941	22,593,584	19,037,120	20,268,594	22,476,082	23,329,394	24,269,122	27,861,903	24,374,977
Transfers out	(24,612,718)	(13,676,941)	(22,593,584)	(18,734,358)	(19,878,865)	(22,240,752)	(23,093,264)	(24,194,959)	(27,767,645)	(24,280,719)
Total other financing sources (uses)	<u>\$ 18,895,138</u>	<u>\$ 22,414,397</u>	<u>\$ (50,000)</u>	<u>\$ 12,214,910</u>	<u>\$ 714,503</u>	<u>\$ 26,679,867</u>	<u>\$ 10,166,808</u>	<u>\$ 707,642</u>	<u>\$ 653,946</u>	<u>\$ 1,172,668</u>
Net change in fund balances	<u>\$ (1,432,351)</u>	<u>\$ 5,486,708</u>	<u>\$ (22,431,581)</u>	<u>\$ 7,434,714</u>	<u>\$ (5,086,898)</u>	<u>\$ 6,237,105</u>	<u>\$ 5,682,365</u>	<u>\$ (5,427,156)</u>	<u>\$ (2,873,429)</u>	<u>\$ 2,113,721</u>
Debt Service as a Percentage of Noncapital Expenditures	19.3%	27.5%	29.1%	30.9%	30.6%	22.3%	28.8%	29.1%	28.1%	19.2%

Notes: ^aProperty Tax Reassessments performed in 2013.

^bStarting in 2005, the Town executed a contract with Palmetto Electric for the underground burial of electrical cable and began receiving franchise fees to help offset the associated costs billed to the Town for burial of existing cable. With the exception of this franchise agreement which terminates upon completion of the burial project for existing cable, all remaining licenses, permits, and fees are considered charges for service.

Schedule 6
Town of Hilton Head Island, SC
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property	Accommodations	Hospitality	Total
2007	19,290,776	6,168,555	5,108,528	30,567,859
2008	19,859,691	6,404,449	5,232,837	31,496,977
2009	21,993,646	6,010,356	4,826,318	32,830,320
2010	23,454,455	5,469,447	4,708,807	33,632,709
2011	23,605,422	5,948,685	4,917,591	34,471,698
2012	23,974,619	6,099,093	5,160,134	35,233,846
2013	24,242,142	6,995,760	5,250,995	36,488,897
2014	23,613,446	7,735,390	5,633,430	36,982,266
2015	24,163,776	8,361,794	6,155,004	38,680,574
2016	22,576,837	8,940,834	6,506,306	38,023,977
Change 2007-2016	17.0%	44.9%	27.4%	24.4%

Schedule 7

Town of Hilton Head Island, SC

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Tax Year	Real & Personal Property		Motor Vehicles		Total Taxable		Total Direct Tax Rate	Taxable Assessed Value as a Percentage of Estimated Actual Taxable Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2007	2006	805,913,661	15,508,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	19.00	5.26%
2008	2007	806,862,365	16,944,198,458	33,601,425	621,120,250	840,463,790	17,565,318,708	19.00	4.78%
2009	2008	802,241,286	16,847,155,290	30,491,101	563,626,104	832,732,387	17,410,781,394	19.36	4.78%
2010	2009	919,940,422	21,597,802,014	29,614,709	426,787,952	949,555,131	22,024,589,966	18.54	4.31%
2011	2010	888,578,642	20,861,509,207	29,614,709	412,914,300	918,193,351	21,274,423,507	18.54	4.32%
2012	2011	900,498,390	21,431,112,174	26,653,238	432,725,467	927,151,628	21,863,837,641	19.33	4.24%
2013	2012	808,486,334	16,988,790,235	31,839,682	495,902,719	840,326,016	17,484,692,954	19.33	4.81%
2014	2013	786,139,446	16,519,224,042	30,959,620	482,196,000	817,099,066	17,001,420,042	20.83	4.81%
2015	2014	870,403,050	16,565,140,739	36,619,380	553,832,220	907,022,430	17,118,972,959	21.35	5.30%
2016	2015	881,046,120	16,740,310,118	37,685,410	582,386,500	918,731,530	17,322,696,618	22.18	5.30%

Source: Beaufort County Assessor's Office.

Notes: Property in Beaufort County is reassessed once every five years on average. The county assesses at 6% and 4% percent of actual value for real property; 10.5% for personal property and 7.5% percent for motor vehicles. Tax rates are per \$1,000 of assessed value.

Schedule 8
Town of Hilton Head Island, SC
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per thousand of assessed value)

Fiscal Year	Tax Year	Town Direct Rates				Overlapping Rates ^a			
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Total Rate
2007	2006	12.33	0.85	5.82	19.00	108.70	49.10	6.75	183.55
2008	2007	12.33	0.85	5.82	19.00	122.80	51.90	7.20	200.90
2009	2008	12.84	5.67	0.85	19.36	130.60	51.90	7.85	209.71
2010	2009	11.78	6.01	0.75	18.54	114.69	45.96	7.67	186.86
2011	2010	11.78	6.01	0.75	18.54	116.59	47.54	8.16	190.83
2012	2011	12.57	6.01	0.75	19.33	118.26	47.54	8.31	193.44
2013	2012	12.86	5.72	0.75	19.33	129.16	56.30	8.45	213.24
2014	2013	13.88	6.14	0.81	20.83	129.16	56.30	8.45	214.74
2015	2014	14.37	6.14	0.84	21.35	135.21	56.86	8.81	222.23
2016	2015	15.20	6.14	0.84	22.18	135.21	59.15	8.75	225.29

Notes: The Town's basic property tax rate may be increased only by a majority vote of Town Council after sufficient public notice of the referendum has been provided to the citizens. Rates for debt service are set based on each year's requirements. The South Carolina legislature has also created laws that limit the millage rate increase for general operating purposes to the Jan. - Dec. of the prior year average CPI for the region plus estimated population growth.

^aOverlapping rates are those of local and county governments that apply to property owners within the Town of Hilton Head Island in addition to those imposed directly by the Town itself.

¹Water and sewage services are provided to the Town by Public Service Districts. The rates reported represent an average of the millage charges from the various providers. Service is on a fee-for-usage basis. The providers and districts served are:

- Hilton Head Number 1 Public Service District
- Broad Creek Public Service District
- South Island Public Service District

The County Public Schools rates are for not owner occupied residents. Beginning with Tax Year 2006 a 1% statewide sales tax was used to pay the operating expenses that would otherwise have been paid by owner occupied residents as a part of their millage rate.

Schedule 9
Town of Hilton Head Island, SC
Principal Property Taxpayers
Current Year and Ten Years Ago

Taxpayer	Tax Year 2015			Tax Year 2006		
	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
Marriott Ownership Resorts Inc	\$ 19,149,210	1	2.11%	\$ 18,425,470	1	2.26%
Palmetto Electric Co-op Inc	5,723,900	2	0.63%	6,902,501	2	0.85%
Columbia Properties Hilton Head LLC	4,764,090	3	0.53%	3,939,414	3	0.48%
Sea Pines Resort LLC	4,603,270	4	0.51%	3,798,538	4	0.47%
SCG Hilton Head Property LLC	4,260,000	5	0.47%	3,692,358	6	0.45%
Hargray Telephone Company Inc	2,976,910	6	0.33%	3,788,107	5	-
Shelter Cove Towne Center LLC	2,060,260	7	0.23%	1,500,000	9	-
HPT IHG-2 Properties Trust	1,440,000	8	0.16%	-	-	0.00%
Hilton Head Health System LP	1,423,500	9	0.16%	1,928,215	8	0.24%
Publix Super Market INC	1,244,060	10	0.14%	-	-	-
Greenwood Development	-	-	-	3,411,004	7	0.42%
Heritage Golf Port Royal LLC	-	-	-	1,179,490	10	0.14%
Total	\$ 47,645,200		5.19%	\$ 48,565,097		5.77%

Source: Beaufort County

Schedule 10
Town of Hilton Head Island, SC
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage
2007	19,790,118	19,014,954	96.08%	275,822	19,290,776	97.48%
2008	20,341,876	19,461,546	95.67%	398,145	19,859,691	97.63%
2009	22,753,654	21,085,178	92.67%	908,468	21,993,646	96.66%
2010	23,771,093	22,773,856	95.80%	680,599	23,454,455	98.67%
2011	24,569,917	22,860,455	93.04%	744,967	23,605,422	96.07%
2012	24,492,571	23,252,166	94.94%	722,453	23,974,619	97.89%
2013	24,492,438	23,619,196	96.43%	622,946	24,242,142	98.98%
2014	24,323,606	23,207,435	95.41%	406,011	23,613,446	97.08%
2015	24,844,827	23,885,817	96.14%	277,959	24,163,776	97.26%
2016	23,311,081	22,201,474	95.24%	375,364	22,576,838	96.85%

Source: Town of Hilton Head Island Finance Department

Schedule 11
Town of Hilton Head Island, SC
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Town Direct Rate</u>	<u>Beaufort County</u>	<u>South Carolina</u>
2007	0%	1%	6%
2008	0%	1%	6%
2009	0%	1%	6%
2010	0%	1%	6%
2011	0%	1%	6%
2012	0%	1%	6%
2013	0%	0%	6%
2014	0%	0%	6%
2015	0%	0%	6%
2016	0%	0%	6%

Note: All sales tax goes to the State for distribution.

Schedule 12
Town of Hilton Head Island, SC
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Revenue Bonds	Business Type Activity Bonds	Certificates of Participation	Capital Leases	Bond Premium	Charge on Refunding	Total	Percentage of Personal Income ^a	Per Capita ^a
2007	67,460,000	51,565,000	-	7,955,000	67,140	1,091,582	(1,202,912)	126,935,810	9.04%	3,746
2008	63,680,000	66,885,000	-	6,905,000	-	1,149,855	(1,094,455)	137,525,400	9.52%	4,055
2009	59,705,000	60,720,000	-	5,825,000	-	1,053,730	(985,999)	126,317,731	8.79%	3,688
2010	67,120,000	39,995,000	14,325,000	4,730,000	-	1,098,868	(1,013,055)	126,255,813	8.34%	3,403
2011	62,010,000	33,930,000	13,810,000	3,600,000	-	929,177	(2,148,800)	112,130,377	7.13%	2,983
2012	58,965,000	53,075,000	13,170,000	2,445,000	-	1,710,331	(3,714,344)	125,650,987	8.25%	3,275
2013	64,505,000	46,075,000	12,390,000	1,260,000	-	2,186,424	(3,452,296)	122,964,128	7.85%	3,205
2014	60,080,000	38,810,000	11,585,000	-	-	2,004,461	(3,190,250)	109,289,211	5.89%	2,773
2015	55,945,000	29,950,000	10,760,000	-	-	1,829,733	(2,928,212)	95,556,521	5.18%	2,387
2016	51,680,000	26,795,000	9,910,000	-	-	1,655,008	(2,666,197)	87,373,811	4.81%	2,157

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

^aSee Schedule 17 for personal income and population data. These ratios are calculated using data from the prior calendar year.

Schedule 13
Town of Hilton Head Island, SC
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value^a of Property	Per Capita^b
2006	70,725,513	0.48%	2,071
2007	67,007,347	0.42%	1,977
2008	63,441,166	0.36%	1,871
2009	59,518,350	0.34%	1,738
2010	66,998,519	0.30%	1,806
2011	61,943,135	0.29%	1,648
2012	58,088,744	0.27%	1,514
2013	64,348,465	0.37%	1,677
2014	59,955,995	0.35%	1,521
2015	55,846,475	0.33%	1,395
2016	51,606,956	0.30%	1,274

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

^aSee Schedule 7 for property value data.

^bSee Schedule 17 for personal income and population data. These ratios are calculated using data from the prior calendar year.

Schedule 14
Town of Hilton Head Island, SC
Direct and Overlapping Governmental Activities Debt
As of June 30, 2015

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^a</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
Beaufort County School District	\$ 329,294,621	48%	\$ 159,432,362
Beaufort County	222,157,019	48%	107,560,270
Broad Creek Public Service District	4,340,000	100%	4,340,000
Hilton Head No. 1 Public Service District	14,416,564	96%	13,839,901
Subtotal, overlapping debt			<u>285,172,533</u>
Town direct debt			<u>77,463,811</u>
Total direct and overlapping debt			<u><u>\$ 362,636,344</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the 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 Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Town of Hilton Head Island. This process recognizes that, when considering the Town's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident---and, therefore, responsible for repaying the debt---of each overlapping government.

^aFor debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the Town's boundaries dividing it by each unit's total taxable assessed value.

Schedule 15
Town of Hilton Head Island, SC
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

Legal Debt Margin Calculation for Tax Year 2015 - Fiscal Year 2016

Assessed value (as of December 31, 2015)	\$ 918,732
Debt Limit (8% of assessed value)	73,499
Debt applicable to limit:	
General Obligation Bonds:	
2009A	\$ 3,800
2013B	<u>3,468</u>
Total net debt applicable to limit	<u>7,268</u>
Legal Debt Margin (without a referendum)	<u><u>\$ 66,231</u></u>

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Debt limit	\$ 65,196	\$ 66,174	\$ 66,619	\$ 75,964	\$ 73,455	\$ 74,172	\$ 67,226	\$ 65,368	\$ 72,562	\$ 73,499
Total net debt applicable to limit	14,180	12,325	10,295	8,160	5,930	5,005	8,870	8,227	7,749	7,268
Legal debt margin	51,016	53,849	56,324	67,804	67,525	69,167	58,356	57,141	64,813	66,231
Total net debt applicable to the limit as a percentage of debt limit	21.75%	18.63%	15.45%	10.74%	8.07%	6.75%	13.19%	12.59%	10.68%	9.89%

Note: Article Ten (X), Section Fourteen (14), of the South Carolina Constitution of 1895 as amended provides that a City or Town shall incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote of the qualified electors of the political subdivision voting in a referendum authorized by law. There shall be no conditions or restrictions limiting the incurring of such indebtedness except:

- a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;
- b. The provisions of Article Ten (X), Section Fourteen (14); and
- c. Such general obligation debt shall be issued within five (5) years of the date of such referendum and shall mature within forty (40) years from the time such indebtedness shall be incurred.

^a Town Council imposed an eighty percent (80%) cap on the debt limit. With this cap, the debt limit for 2016 cannot exceed: \$ 58,050

Schedule 16
Town of Hilton Head Island, SC
Pledged Revenue Coverage
Last Ten Fiscal Years

Hospitality Tax Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2007	5,108,528	300,000	457,970	757,970	6.74
2008	5,232,837	305,000	448,970	753,970	6.94
2009	4,826,318	315,000	439,820	754,820	6.39
2010	4,708,807	325,000	428,007	753,007	6.25
2011	4,917,591	340,000	416,632	756,632	6.50
2012	5,160,134	775,000	503,346	1,278,346	4.04
2013	5,250,995	805,000	827,312	1,632,312	3.22
2014	5,633,430	820,000	811,213	1,631,213	3.45
2015	6,155,004	835,000	776,427	1,611,427	3.82
2016	6,506,306	850,000	778,113	1,628,113	4.00

Stormwater Revenue Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2007	1,351,871	520,000	727,596	1,247,596	1.08
2008	1,501,389	535,000	712,708	1,247,708	1.20
2009	1,572,183	550,000	697,369	1,247,369	1.26
2010	2,553,971	565,000	679,938	1,244,938	2.05
2011	3,377,779	515,000	660,665	1,175,665	2.87
2012	3,491,879	640,000	379,470	1,019,470	3.43
2013	3,580,445	780,000	366,077	1,146,077	3.12
2014	3,564,300	805,000	333,245	1,138,245	3.13
2015	3,551,386	825,000	321,877	1,146,877	3.10
2016	3,551,400	850,000	299,128	1,149,128	3.09

Tax Increment Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2007	3,985,064	675,000	326,314	1,001,314	3.98
2008	4,427,710	3,760,000	374,015	4,134,015	1.07
2009	5,833,846	3,140,000	824,163	3,964,163	1.47
2010	6,308,512	3,270,000	717,538	3,987,538	1.58
2011	6,369,085	3,405,000	606,461	4,011,461	1.59
2012	6,148,490	3,550,000	490,446	4,040,446	1.52
2013	6,562,575	3,695,000	369,432	4,064,432	1.61
2014	6,433,568	3,850,000	243,289	4,093,289	1.57
2015	6,486,071	4,009,999	112,477	4,122,476	1.57
2016	4,090,780	-	-	-	-

Beach Preservation Fee Revenue Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2007	4,426,889	-	-	-	-
2008	4,634,690	2,080,000	780,610	2,860,610	1.62
2009	4,210,460	2,160,000	679,810	2,839,810	1.48
2010	4,008,272	2,240,000	569,810	2,809,810	1.43
2011	4,768,381	2,320,000	570,073	2,890,073	1.65
2012	4,841,395	2,405,000	445,977	2,850,977	1.70
2013	4,998,132	2,500,000	608,854	3,108,854	1.61
2014	5,597,565	2,595,000	508,968	3,103,968	1.80
2015	6,136,679	4,015,000	363,838	4,378,838	1.40
2016	6,431,700	2,305,000	223,938	2,528,938	2.54

Schedule 17
Town of Hilton Head Island, SC
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Annual Unemployment Rate
2007	33,890	1,403,419	41,411	3.7%
2008	33,913	1,445,067	42,611	4.3%
2009	34,249	1,436,780	41,951	7.4%
2010	37,099	1,513,565	40,798	6.5%
2011	37,585	1,572,782	41,846	6.0%
2012	38,366	1,523,245	39,703	6.1%
2013	38,366	1,567,366	40,853	5.2%
2014	39,412	1,854,295	47,049	4.5%
2015	40,039	1,845,438	46,091	4.9%
2016	40,512	1,817,733	44,869	5.0%

Sources: Population provided by U.S. Census Bureau, Quick Facts;
Per Capital Personal Income provided by U.S. Census Bureau;
Unemployment Rate provided by U.S. Bureau of Labor Statistics

**Schedule 18
Town of Hilton Head Island, SC
Principal Employers
Current Year and Ten Years Ago**

<u>Employer</u>	<u>2016 Employees</u>	<u>2006 Employees</u>
SERG Group Restaurants	822	n/a
Sea Pines Resort	693	n/a
Hilton Head Medical Ctr and Clinics	546	600
Marriott Vacation Club Intl	500	n/a
Beaufort County School District	500	n/a
Salty Dog	370	n/a
Westin Hotel and Resorts	357	450
Cypress of Hilton Head	340	310
Kroger Super Markets	288	n/a
Omni Hilton Head Oceanfront Resort	272	n/a

Sources: Beaufort County Sched 18 (Principal Employers), Beaufort County website (Major Employers) and our historical reports. In many cases employment head counts were verified via telephone calls to the above companies.

Schedule 19
Town of Hilton Head Island, SC
Full-Time-Equivalent (FTE) Town Government Employees by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30,</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Town Manager	4.0	4.0	5.0	5.0	4.0	5.0	4.0	4.0	4.0	4.0
Human Resources	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services										
Finance	17.0	19.0	19.0	17.0	17.0	18.0	18.0	17.0	16.6	15.6
Administration	23.5	23.5	22.5	23.5	21.0	22.0	22.0	22.0	22.0	21.0
Community Services										
Community Development	36.0	36.0	36.0	30.0	27.0	27.0	27.0	25.0	25.0	25.0
Public Projects & Facilities	20.0	21.0	21.0	22.0	22.0	22.0	22.0	22.0	21.0	22.0
Public Safety										
Fire & Rescue	147.3	147.3	147.6	146.0	145.0	147.1	145.1	143.0	143.7	143.7
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Total	<u>258.8</u>	<u>261.8</u>	<u>262.1</u>	<u>254.5</u>	<u>247.0</u>	<u>252.1</u>	<u>249.1</u>	<u>244.0</u>	<u>243.3</u>	<u>242.3</u>

Source: Town of Hilton Head Island HR Dept.

Notes: A full-time equivalent is a measurement equal to one person working a full-time schedule for one year. A full-time employee of the Town is normally scheduled to work 1,950 hours per year (including vacation and sick leave). The primary exception would be Fire and Rescue shift personnel normally scheduled to work 2,923 hours per year (including vacation and sick leave).

^aThe police services for the Town are provided by the Beaufort County Sheriff's Department as contracted through Beaufort County.

Schedule 20
Town of Hilton Head Island, SC
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Management Services										
Business license accounts issued	5,409	5,638	5,644	5,549	5,718	5,802	5,997	6,434	6,291	5,908
Business license inspections	546	150	396	127	1,460	605	2,324	283	529	293
Business license audits	55	-	-	-	117	49	123	124	46	66
Hospitality tax accounts	357	343	356	325	359	373	419	437	440	461
Bed tax accounts	675	732	775	752	863	891	1,232	1,312	1,308	1,399
Beach passes issued	2,729	2,009	2,434	1,885	2,602	2,224	2,688	2,428	2,845	2,850
Number of court cases docketed	9,366	10,687	8,380	9,159	8,016	7,152	6,156	5,111	3,459	3,862
Number of court cases disposed	9,123	10,881	8,607	8,854	8,363	7,221	6,271	5,271	3,525	3,860
Number of search warrants issued	16	41	19	22	33	27	28	8	9	6
Number of arrest warrants issued	437	410	460	415	349	216	502	307	363	307
Number of bench warrants issued	531	894	693	777	576	610	363	389	353	312
Community Services										
Community Development										
Building inspections conducted	18,146	15,297	13,053	11,604	10,773	11,813	12,133	19,024	13,907	15,647
Building permits issued	168	104	63	51	68	89	130	212	156	144
Miscellaneous permits issued	4,233	5,121	4,470	4,913	4,805	4,345	4,619	5,070	5,390	5,015
Public Projects and Facilities										
# of capital improvement projects to manage	76	51	64	62	53	45	38	20	20	22
# of beach access/parks to maintain	8	8	8	8	8	8	8	8	8	8
Miles of pathways to maintain	51	53	55	56	57	58	60	62	64	64
Maintenance work orders	2,517	2,150	2,800	4,187	4,406	4,500	5,212	5,150	5,025	5,100
Public Safety										
Fire and Rescue service calls	6,030	6,246	6,088	5,957	6,034	5,796	6,291	6,518	6,809	7,119
Actual fires extinguished	139	153	151	127	80	130	166	81	93	105
Inspections	2,357	2,649	2,626	2,390	2,902	2,281	1,937	1,855	2,121	3,196
Telephone requests	73,475	75,099	77,352	72,361	61,435	65,522	66,710	55,841	50,789	49,842
Public training programs	687	614	791	520	609	518	493	415	514	418

Sources: Various Town departments.

Schedule 21
Town of Hilton Head Island, SC
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Government										
Town-owned parcels	113	116	183	185	182	175	142	168	223	224
Town-owned property acreage	1,142	n/a	n/a	n/a	n/a	1,202	1,319	1,321	1,312	1,307
Town-owned development rights	n/a	n/a	7	8	8	8	8	8	8	8
Town-owned easements	n/a	n/a	73	75	80	80	50	91	52	51
Management Services										
Town vehicles	38	38	39	40	39	38	38	38	36	38
Public Safety										
Emergency Apparatus Vehicles	24	24	24	24	24	24	25	28	28	28
Police Vehicles	-	-	-	-	-	-	-	-	-	-
General Vehicles	22	22	23	30	30	30	25	19	19	19
Fire Stations	7	7	7	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	22	22	22	23	22	22	22	23	23	23
Pathways (miles)	51	53	55	56	57	58	60	62	64	64
Beach access/parks	8	8	8	8	8	8	8	8	8	8

Sources: Various Town departments.

* All Town roads are deeded to Beaufort County

Notes: No capital asset indicators are available for the Planning/Building & Fire Codes function.
Police services currently contracted with Beaufort County Sheriff's Office.

Schedule 22
Town of Hilton Head Island, SC
Principal Stormwater Customers
Year Ended June 30, 2016

Customer	Type of Business	Equivalent Single Family Residential Units	Stormwater Fees Billed	Percentage of Total Billed
Town of Hilton Head Island	town government	709.70	\$ 77,144	2.13%
Beaufort County Schools	education	401.28	43,619	1.20%
Sea Pines Resort LLC	resort and golf	357.11	38,818	1.07%
Marriott Ownership Resorts	timeshare condominium	287.69	31,272	0.86%
Heritage Golf-Port Royal LLC	golf course & club	220.88	24,010	0.66%
Topper Golf World LLC-Palmetto Hall	golf course & club	209.21	22,741	0.63%
Shelter Cove Towne Centre	shopping center	195.10	21,207	0.58%
Beaufort County	aircraft transportation	176.20	19,153	0.53%
Publix Super Markets Inc	grocery store	146.71	15,947	0.44%
Swope Properties	shopping center	110.75	12,039	0.33%
Heritage Golf-Shipyard LLC	golf course & club	93.36	10,148	0.28%
Total			<u>\$ 316,098</u>	<u>8.72%</u>
Total Stormwater Fees Billed			<u>\$ 3,625,452</u>	

Equivalent Single Family Residential Units: This is the measurement that is used to calculate the storm water fees by parcel. The standard unit is 4,906 square feet which was derived from a sampling of Beaufort County houses to determine the average impervious square feet of the average home. Impervious areas are estimated by parcel by the County storm water personnel and those areas are divided by the standard to determine the number of equivalent single family residential units related to the parcel. After the calculation, the billing rate is applied to equivalent units to determine the fee to be billed.



Supplemental Financial Information

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Schedule 23
Town of Hilton Head Island, SC
Municipal Fines, Assessments and Surcharges
For the Year Ended June 30, 2016

Court Fines

Court fines collected	\$ 210,243
Court fines retained by the Town	<u>210,243</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>

Court Assessments

Court assessments collected	\$ 208,135
Court assessments retained by the Town	<u>23,033</u>
Court assessments remitted to the State Treasurer	<u><u>185,102</u></u>

Court Surcharges

Court surcharges collected	\$ 94,099
Court surcharges retained by the Town	<u>14,101</u>
Court surcharges remitted to the State Treasurer	<u><u>79,998</u></u>

Victims Services

Court assessments allocated to victim services	\$ 37,134
Victim Services expenditures	<u>64,664</u>
Funds available for carryforward	<u><u>(27,530)</u></u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of Town Council
Town of Hilton Head Island, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison schedule of the general fund of the Town of Hilton Head Island, South Carolina (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Hilton Head Island, South Carolina's basic financial statements, and have issued our report thereon dated January 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Scott and Company LLC

Columbia, South Carolina
January 31, 2017