

*Town of Hilton Head Island,
South Carolina*



COMPREHENSIVE ANNUAL FINANCIAL REPORT

*Fiscal Year Ended
June 30, 2018*

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TOWN OF HILTON HEAD ISLAND, SC COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2018

ELECTED OFFICIALS



From Left to Right: John McCann, William D. Harkins, Kimberly W. Likins (Mayor Pro Tempore), David G. Bennett (Mayor), Marc A. Grant, Thomas W. Lennox, and David Ames

ADMINISTRATIVE STAFF

Stephen G. Riley
Gregory DeLoach
Bradley Tadlock
John Troyer
Charles F. Cousins
Scott Liggett

Town Manager
Assistant Town Manager
Fire Rescue Chief
Director of Finance
Director of Community Development
Director of Public Projects and Facilities

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TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

FOR THE YEAR ENDED JUNE 30, 2018

INTRODUCTORY SECTION (UNAUDITED)

	<u>Page Number</u>
Transmittal Letter	1
Organizational Chart	5
Listing of Elected and Appointed Officials	6
GFOA Certificate of Achievement for Excellence in Financial Reporting	7

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT 11

Management's Discussion and Analysis (Unaudited) 13

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:

Statement of Net Position	31
Statement of Activities	32

Fund Financial Statements:

Balance Sheet - Governmental Funds	34
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	37
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	40
Statement of Net Position - Proprietary Fund	41
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	42
Statement of Cash Flows - Proprietary Fund	43
Statement of Assets and Liabilities - Fiduciary Funds - Agency Funds	44

Notes to the Financial Statements 45

REQUIRED SUPPLEMENTARY INFORMATION:

Budgetary Comparison Schedule:

Required Supplementary Information - General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	92
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(Continued)

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL SECTION (CONTINUED)

	<u>Page Number</u>
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED):	
<u>Pension Schedules:</u>	
Schedule of the Town of Hilton Head Island's Proportionate Share of the Net Pension Liability South Carolina Police Officers Retirement System	94
Schedule of the Town of Hilton Head Island's Contributions - South Carolina Police Officers Retirement System	95
SUPPLEMENTARY INFORMATION:	
<u>Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgets and Actual:</u>	
General Fund	100
Debt Service Fund	106
Capital Projects Fund	107
Proprietary Fund	110
<u>Combining and Individual Fund Financial Schedules:</u>	
Combining Balance Sheet - Nonmajor Governmental Funds	116
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	118
Combining Schedule of Changes in Assets and Liabilities - Fiduciary Fund - Agency Fund	122
Uniform Schedule of Fines, Assessments, and Surcharges (Per Act 96)	123

STATISTICAL SECTION (UNAUDITED)

Financial Trends Information

Net Position by Component - Last Ten Fiscal Years - Accrual Basis	128
Changes in Net Position - Last Ten Fiscal Years - Accrual Basis	129
Program Revenues by Function/Program - Last Ten Fiscal Years - Accrual Basis	131
Fund Balances of Governmental Funds - Last Ten Fiscal Years - Modified Accrual Basis	132
Changes in Fund Balances of Governmental Funds - Last Ten Fiscal Years - Modified Accrual Basis	133

Revenue Capacity Information

General Governmental Tax Revenues by Source - Last Ten Fiscal Years - Modified Accrual Basis	134
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	135

(Continued)

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

TABLE OF CONTENTS

FOR THE YEAR ENDED JUNE 30, 2018

STATISTICAL SECTION (UNAUDITED) (CONTINUED)

	<u>Page Number</u>
<u>Revenue Capacity Information (Continued)</u>	
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	136
Principal Property Taxpayers - Current Year and Nine Years Ago	137
Property Tax Levies and Collections - Last Ten Fiscal Years	138
Direct and Overlapping Governments Sales Tax Rates - Last Ten Fiscal Years	139
<u>Debt Capacity Information</u>	
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	140
Ratios of Net General Bonded Debt Outstanding - Last Ten Fiscal Years	141
Direct and Overlapping Governmental Activities Debt - Outstanding at Year End	142
Legal Debt Margin Information - Last Ten Fiscal Years	143
Pledged-Revenue Coverage - Last Ten Fiscal Years	144
<u>Demographic and Economic Information</u>	
Demographic and Economic Statistics - Last Ten Fiscal Years	145
Principal Employers - Current Year and Nine Years Ago	146
<u>Operating Information</u>	
Full-Time Equivalent Town Government Employees by Function - Last Ten Calendar Years	147
Operating Indicators by Function/Program - Last Ten Fiscal Years	148
Capital Asset Statistics by Function - Last Ten Fiscal Years	149
Principal Stormwater Customers - Current Year	150

COMPLIANCE SECTION

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 <i>Government Auditing Standards</i>	151
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Introductory Section

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Transmittal Letter

For The Fiscal Year Ended June 30, 2018
The Town of Hilton Head Island, South Carolina

November 27, 2018

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, 2018, 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, Greene Finney, LLP, has issued an unmodified ("clean") opinion for the year ended June 30, 2018. 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 effects and response to Hurricane Matthew. 2017-2018 total gross taxable sales were \$1.642 billion compared to \$1.609 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 \$113 million from \$4.617 billion to \$4.731 billion during the previous fiscal year. Hilton Head Island’s taxable sales were 126.1% of the totals from 2009. Beaufort County’s totals are 135.9% of 2009 levels. Hilton Head is growing and our neighbors are growing even faster – which is good for all of us in the regional economy.

Fiscal Year	Hilton Head Island	Beaufort County	HHI as a % of BC
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%
2015-2016	1,550,271,152	4,421,420,044	35.1%
2016-2017	1,609,775,746	4,617,923,914	34.9%
2017-2018	1,642,934,775	4,731,079,626	34.7%

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 as well as a major park facility and road work among other projects. The Town is constructing a new Recreation Center upgrade. The Town has partnered on a major initiative to provide sewer to all residents of the island. The Town is embarking on a Visioning process to map out its future for the next phase of the Town’s growth.

	FY 2018 - General Fund -- from Schedule A		
	Final Budget	Actual	Variance
Revenue	\$ 31,474,861	\$ 34,644,613	\$ 3,169,752
Transfers In/(Out), net	7,444,528	5,618,378	(1,826,150)
Expenditures	<u>40,977,766</u>	<u>37,524,918</u>	<u>3,452,848</u>
Revenues Over (Under) Expenditures	<u>\$ (2,058,377)</u>	<u>\$ 2,738,073</u>	<u>\$ 4,796,450</u>

Hurricanes Matthew and Irma

The Town's forethought and planning proved to be an especially important factor to respond to a major event in Fiscal 2017: Hurricane Matthew and another in Fiscal 2018: Hurricane Irma. The Town was named part of a federal disaster area due to the storms, and responded accordingly. The Town has made great strides in recovery which continues throughout the new fiscal year. The Town continues to work closely with FEMA and State officials to ensure maximum allowable reimbursements. 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.

Municipal Court

Subsequent to year-end, Town Council voted to repeal the ordinances creating and governing the Town's Municipal Court. It is expected that Fiscal 2019 will be required to wind-down operations. This change will save the Town approximately \$197,000 per year.

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, 2017. This was the twenty ninth 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, 2017. It was the thirteenth year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

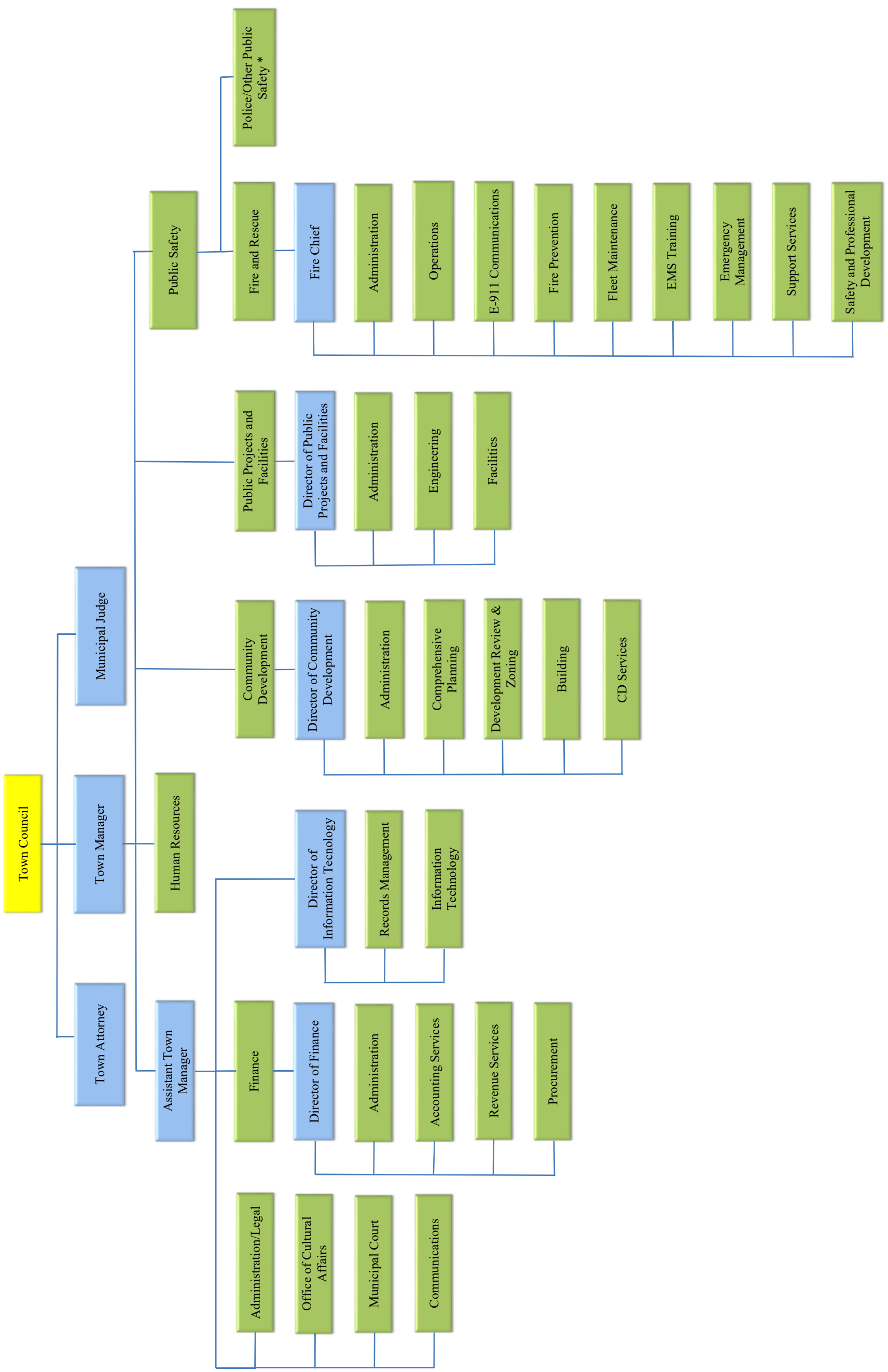
The preparation of this report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. I would also like to thank the leadership team of the Town, and its dedicated employees for their efforts to maintain the high quality of services our citizens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

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 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

LISTING OF ELECTED AND APPOINTED OFFICIALS

As of June 30, 2018

MAYOR

The Honorable David Bennett

MAYOR PRO TEMPORE

Kimberly W. Likins

COUNCIL MEMBERS

David Ames
Marc A. Grant
William D. Harkins
Thomas W. Lennox
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, 2017

Christopher P. Morrill

Executive Director/CEO

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Financial Section

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Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of Town Council
Town of Hilton Head Island
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, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina, (the "Town") as of and for the year ended June 30, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, supplementary information, and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section 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 November 27, 2018 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 integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
November 27, 2018

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

As management of the Town of Hilton Head Island ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018 ("2018" or "FY 2018") as compared to fiscal year ended June 30, 2017 ("2017" or "FY 2017"). The intent of this discussion and analysis is to look at the Town's financial performance as a whole. We would encourage readers to not only consider the information presented here but also the information provided in the letter of transmittal, financial statements and notes to the financial statements to enhance their understanding of the Town's overall improved financial position.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by approximately \$217,428,000 (net position), including \$209,115,000 in net position for governmental activities and \$8,314,000 in net position for business-type activities. Unrestricted net position was approximately \$9,603,000, including unrestricted net position of \$6,200,000 and \$3,403,000 for governmental and business-type activities, respectively.
- The Town's total net position increased by approximately \$25,122,000 and \$1,527,000 for its governmental and business-type activities, respectively, for a total increase in net position of \$26,649,000 compared to the prior year net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$140,011,000, an increase of \$69,463,000 over the prior year fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$3,352,000 or 9% of total General Fund expenditures for the year ended June 30, 2018 and 8% of budgeted General Fund expenditures for the year ended June 30, 2019. Unrestricted fund balance for the General Fund, which includes committed, assigned, and unassigned fund balance was approximately \$18,775,000 or 50% of total General Fund expenditures for the year ended June 30, 2018 and 47% of budgeted General Fund expenditures for the year ended June 30, 2019.
- The Town's total capital assets increased approximately \$4,187,000 during the current fiscal year, including increases of \$3,716,000 and \$471,000 for its governmental and business-type activities, respectively. Capital asset additions for governmental activities of \$11,904,000 exceeded depreciation expense of \$3,947,000 and net disposals of \$4,242,000. Capital asset additions for business-type activities of \$1,538,000 exceeded depreciation expense of \$1,068,000.
- The Town's total long-term obligations, not including the net pension liability, increased by approximately \$53,914,000 during the current fiscal year, including increases of \$51,659,000 and \$2,255,000 for governmental and business-type activities, respectively. The Town issued \$103,915,000 in new debt for governmental activities, received premiums of \$5,640,000, and made principal payments of \$56,830,000. Compensated absences for governmental activities decreased by \$143,000 and the Town recognized \$924,000 in amortization of premiums. The Town issued \$3,200,000 in new debt for business-type activities and made \$945,000 in principal payments.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – *Introductory Section*, *Financial Section* (which includes management's discussion and analysis, the financial statements, required supplementary information, and supplementary information), and *Statistical Section*.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's financial statements. The Town's financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the financial statements, this report contains supplementary information that will enhance the reader's understanding of the financial condition of the Town.

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The *fund financial statements* are designed for a more detailed look at the Town's finances.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Government-Wide Financial Statements

The *statement of net position* presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Government-wide financial statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The Town's governmental activities include general government, management services, community services, public safety, culture and recreation, Visitors and Convention Bureau, and administration. Taxes (including business licenses), building permits, impact assessments, other charges for services, and state and federal grant funds finance most of these activities. The Town's business-type activities relate to the operations of the stormwater program. The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. 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. The Town, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into three categories: governmental funds, proprietary and fiduciary funds.

Governmental Funds – *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can be readily converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using the *modified accrual basis of accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between *governmental activities* (reported in the statement of net position and the statement of activities) and *governmental funds* is described in a reconciliation that is a part of the fund financial statements.

The Town maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Tax Increment Financing Fund, Accommodations Tax Fund, Real Estate Transfer Fees Fund, Beach Preservation Fees Fund, Hospitality Fees Fund, Debt Service Fund, Capital Projects Fund, and Natural Disasters Fund – as they are considered major funds. Information from the other governmental funds is combined into aggregated presentations. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules elsewhere in this report. The governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds – The Town maintains one proprietary fund. *Enterprise funds* are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has one enterprise fund to account for its stormwater operations. The proprietary fund financial statements can be found as listed in the table of contents.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

Fund Financial Statements (Continued)

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town’s own programs. Agency Funds are one type of Fiduciary Fund.

Agency Funds are used to account for assets the Town holds on behalf of others. The Town maintains two agency 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. Agency funds are custodial in nature and do not present results of operations. The financial statement of the fiduciary funds can be found as listed in the table of contents.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as listed in the table of contents.

Other Information – In addition to the financial statements and accompanying notes, this report includes certain required supplementary information. Regarding the Town’s major funds, the Town adopts an annual budget for its General Fund, as required by South Carolina Constitution, Article 10, Section 7, as well as adopting budgets for the Debt Service Fund, Capital Projects Fund, and Stormwater Fund. A required budgetary comparison schedule for the General Fund has been provided to demonstrate compliance with the budget. Budgetary comparison schedules are not required to be presented for Debt Service, Capital Projects, or enterprise funds. Required pension schedules have been included which provide relevant information regarding the Town’s participation in the South Carolina Police Officers Retirement System (“PORS”). Required supplementary information can be found as listed in the table of contents.

Supplementary information, including combining information for the non-major governmental funds, the budgetary comparison schedules for the other major and non-major budgeted funds, and the uniform schedule of fines, assessments and surcharges (per Act 96), is presented immediately following the required supplementary information. These schedules can be found as listed in the table of contents.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Financial Statements (Continued)

	Fund Financial Statements			
	Town-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Town (except fiduciary funds)	The activities of the Town that are not proprietary or fiduciary	Activities the Town operates similar to private businesses: extended day program	Instances in which the Town is the trustee or agent for someone else’s resources such as the Pupil Activity Fund
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table provides a summary of the Town's net position at June 30, 2018 compared to June 30, 2017:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Assets:						
Current and Other Assets	\$ 156,975,028	90,540,483	6,580,220	2,677,670	163,555,248	\$ 93,218,153
Capital Assets, Net	251,256,546	247,540,588	13,268,210	12,797,167	264,524,756	260,337,755
Total Assets	408,231,574	338,081,071	19,848,430	15,474,837	428,080,004	353,555,908
Deferred Outflows of Resources:						
Deferred Charges on Bond Refunding	1,565,803	1,747,381	626,884	716,438	2,192,687	2,463,819
Deferred Pension Charges	4,281,169	3,248,775	-	-	4,281,169	3,248,775
Total Deferred Outflows of Resources	5,846,972	4,996,156	626,884	716,438	6,473,856	5,712,594
Liabilities:						
Long-Term Liabilities	173,393,854	121,735,285	11,290,000	9,035,000	184,683,854	130,770,285
Net Pension Liability	17,694,659	15,674,333	-	-	17,694,659	15,674,333
Other Liabilities	13,525,099	21,179,419	871,697	369,527	14,396,796	21,548,946
Total Liabilities	204,613,612	158,589,037	12,161,697	9,404,527	216,775,309	167,993,564
Deferred Inflows of Resources:						
Deferred Gain on Bond Refunding	61,430	65,043	-	-	61,430	65,043
Deferred Pension Credits	288,669	430,358	-	-	288,669	430,358
Total Deferred Inflows of Resources	350,099	495,401	-	-	350,099	495,401
Net Position:						
Net Investment in Capital Assets	123,118,927	135,840,935	4,911,086	4,478,605	128,030,013	140,319,540
Restricted	79,795,435	49,430,348	-	-	79,795,435	49,430,348
Unrestricted	6,200,473	(1,278,494)	3,402,531	2,308,143	9,603,004	1,029,649
Total Net Position	\$ 209,114,835	183,992,789	8,313,617	6,786,748	217,428,452	\$ 190,779,537

The Town's current and other assets at June 30, 2018 increased by approximately \$70,337,000 (76%) from the prior year, including increases of \$66,435,000 (73%) and \$3,903,000 (146%) in its governmental and business-type activities, respectively. These increases were primarily due to unspent bond proceeds as well as increases related to the results of current year operations.

The Town's capital assets at June 30, 2018 (net of accumulated depreciation), increased by approximately \$4,187,000 (2%), including increases of \$3,716,000 (2%) and \$471,000 (4%) for governmental and business-type activities, respectively. As noted previously, capital asset additions for governmental activities of \$11,904,000 exceeded depreciation expense of \$3,947,000 and net disposals of \$4,242,000. Capital asset additions for business-type activities of \$1,538,000 exceeded depreciation expense of \$1,068,000. Capital asset additions for governmental activities consisted of \$11,642,000 in construction in progress additions, including infrastructure and the recreation center expansion, \$132,000 in furniture, fixtures and equipment additions, and \$131,000 in vehicles. Capital asset additions for business-type activities included \$1,528,000 in construction in progress additions related to infrastructure and \$10,000 in infrastructure additions.

The Town completed approximately \$3,509,000 in on-going capital projects which were reclassified from construction in progress as follows: \$3,031,000 transferred to infrastructure related to various road projects, \$381,000 transferred to park development related to the rowing and sailing center and Crossing Park drainage, and \$96,000 transferred to furniture, fixtures, and equipment related to thermal imagers. The Town reported disposals from construction in progress of approximately \$4,233,000 related to work performed on State and County owned infrastructure.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Deferred outflows of resources (resources that will be used in a future period) increased by approximately \$761,000 (13%), including an increase of \$851,000 (17%) for governmental activities partially offset by a \$90,000 (13%) decrease in business-type activities. The increase in governmental activities is due to an increase of \$1,032,000 in deferred pension charges as a result of actuarial assumption changes for the PORS partially offset by a decrease of \$182,000 in deferred charges on refunding as a result of current year amortization. The decrease in business-type activities is due to amortization of outstanding deferred charges on refunding in the current year.

Long-term liabilities increased by approximately \$53,914,000 (41%), including increases of \$51,659,000 (42%) and \$2,255,000 (25%) for governmental and business-type activities, respectively. As noted previously, the Town issued \$103,915,000 in new debt for governmental activities, received premiums of \$5,640,000, and made principal payments of \$56,830,000. Compensated absences for governmental activities decreased by \$143,000 and the Town recognized \$924,000 in amortization of premiums. The Town issued \$3,200,000 in new debt for business-type activities and made \$945,000 in principal payments.

The net pension liability increased by approximately \$2,020,000 (13%), which was all related to governmental activities, due to the PORS' total net pension liability increasing. The State funding of the pension program has had challenges that have been addressed by increasing the required contribution amounts and improving investment earnings. Until the State funding of the pension program is improved, the Town will experience an increase in its net pension liability. This liability is not controlled by the Town.

Other liabilities decreased by approximately \$7,155,000 (33%), including a decrease of \$7,654,000 (36%) in governmental activities partially offset by an increase of \$502,000 (136%) in business-type activities. The decrease in governmental activities is primarily due to a decrease in accounts payable related to debris removal from Hurricane Matthew in the prior year. The increase in business-type activities is primarily due to an increase in accounts payable related to work completed on ongoing infrastructure projects as of June 30, 2018.

Deferred inflows of resources decreased by approximately \$145,000 (29%), which was all related to governmental activities, due to a \$4,000 decrease in deferred gain on bond refunding as a result of current year amortization and a \$142,000 decrease in deferred pension credits as a result of a decrease in the Town's change in proportionate share for its participation in the PORS.

The Town's total net position increased by approximately \$25,122,000 and \$1,527,000 for its governmental and business-type activities, respectively, for a total increase in net position of \$26,649,000 compared to the prior year net position.

Assets and deferred outflows exceeded liabilities and deferred inflows of resources (net position) by \$217,428,000, including \$209,115,000 in net position for governmental activities and \$8,314,000 in net position for business-type activities. The largest portion of the Town's net position, or \$128,030,000 (59%), which includes \$123,119,000 (59%) and \$4,911,000 (59%) for governmental and business-type activities, respectively, reflects its investment in capital assets (i.e., land, buildings, furniture and equipment, infrastructure, etc.) less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to 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 generally be used to liquidate these liabilities.

An additional portion of the Town's net position of approximately \$79,795,000 (38%), which was all related to governmental activities, represents resources that are subject to external restrictions on how they may be used. This portion of the net position is restricted primarily for special revenue programs which are restricted by the revenue source (i.e. tax increment financing revenues, accommodation taxes, real estate transfer fees, beach preservation fees, hospitality taxes, etc.). The remaining balance is unrestricted net position of \$9,603,000 (4%), including \$6,200,000 (3%) and \$3,403,000 (41%) for governmental and business-type activities, respectively.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table shows the changes in the Town's net position for FY 2018 compared to FY 2017.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 29,822,042	26,301,066	4,775,637	3,583,005	34,597,679	\$ 29,884,071
Operating Grants and Contributions	32,450,642	12,923,774	-	-	32,450,642	12,923,774
Capital Grants and Contributions	194,510	1,330,261	-	-	194,510	1,330,261
General Revenues:						
Property Taxes	29,312,409	23,111,039	-	-	29,312,409	23,111,039
Other Taxes	16,731,696	16,223,664	-	-	16,731,696	16,223,664
Other	3,083,003	2,118,648	19,696	1,202	3,102,699	2,119,850
Total Revenues	<u>111,594,302</u>	<u>82,008,452</u>	<u>4,795,333</u>	<u>3,584,207</u>	<u>116,389,635</u>	<u>85,592,659</u>
Expenses:						
Governmental Activities:						
General Government	5,182,132	9,177,681	-	-	5,182,132	9,177,681
Management Services	5,682,232	5,030,374	-	-	5,682,232	5,030,374
Community Services	38,440,753	28,419,138	-	-	38,440,753	28,419,138
Public Safety	25,913,844	63,979,026	-	-	25,913,844	63,979,026
Culture and Recreation	2,729,719	2,583,815	-	-	2,729,719	2,583,815
Visitor and Convention Bureau	1,888,500	1,831,924	-	-	1,888,500	1,831,924
Administrative	34,635	517,130	-	-	34,635	517,130
Interest and Other Charges	6,725,441	2,312,765	-	-	6,725,441	2,312,765
Business-Type Activities:						
Stormwater	-	-	3,143,464	2,856,923	3,143,464	2,856,923
Total Expenses	<u>86,597,256</u>	<u>113,851,853</u>	<u>3,143,464</u>	<u>2,856,923</u>	<u>89,740,720</u>	<u>116,708,776</u>
Change in Net Position Before Transfers	24,997,046	(31,843,401)	1,651,869	727,284	26,648,915	(31,116,117)
Transfers	<u>125,000</u>	<u>1,095,000</u>	<u>(125,000)</u>	<u>(1,095,000)</u>	<u>-</u>	<u>-</u>
Change in Net Position	25,122,046	(30,748,401)	1,526,869	(367,716)	26,648,915	(31,116,117)
Net Position- Beginning of Year	<u>183,992,789</u>	<u>214,741,190</u>	<u>6,786,748</u>	<u>7,154,464</u>	<u>190,779,537</u>	<u>221,895,654</u>
Net Position - End of Year	<u>\$ 209,114,835</u>	<u>183,992,789</u>	<u>8,313,617</u>	<u>6,786,748</u>	<u>217,428,452</u>	<u>\$ 190,779,537</u>

Revenues exceeded expenses by approximately \$26,649,000 for the year ended June 30, 2018, including \$25,122,000 and \$1,527,000 in governmental and business-type activities, respectively. Total revenues increased from the prior year by \$30,797,000 (36%), including increases of \$29,586,000 (36%) in governmental activities and \$1,211,000 in business-type activities. The increase in governmental activities revenues is primarily due to an increase of \$19,601,000 in FEMA reimbursements from Hurricane Matthew as well as a \$6,201,000 increase in property taxes due to an additional 5 mills for disaster recovery and a \$3,521,000 increase in charges for services primarily due to an increase in business license revenue. The increase in business-type activities is due to an increase in stormwater fees. Overall, the increase in the Town's net position was \$26,649,000, the year following Hurricane Matthew, compared to a decrease of \$31,116,000 in the prior year, the year of Hurricane Matthew. The Town is not back to where it was prior to Hurricane Matthew, but significant recovery has been made from the effects of Hurricane Matthew response.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Total expenses decreased from the prior year by approximately \$26,968,000 (23%), including a decrease of \$27,255,000 (24%) in governmental activities partially offset by an increase of \$287,000 (10%) in business-type activities. The decrease in governmental activities is primarily due to a decrease of \$42,986,000 in natural disaster-related expenditures partially offset by a \$9,737,000 increase in expenditures related to ongoing projects. The increase in business-type activities is primarily due to increases in repairs and maintenance expenditures related to dredging.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted previously, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of FY 2018, the Town's governmental funds reported combined ending fund balance of approximately \$140,011,000, which represents an increase of \$69,463,000 in comparison with the prior year. Approximately 2% of this total amount \$3,352,000 constitutes General Fund unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is assigned, committed, or restricted as shown below:

<u>Classification/Fund</u>	<u>Purpose</u>	<u>Amount</u>
Restricted:		
General	Deposits in escrow	\$ 66,129
Tax Increment Financing District	Economic development	8,692,393
Accommodations Tax	Tourism promotion	3,269,872
Real Estate Transfer Fee	Environmental conservation	4,508,965
Beach Preservation Fee	Beach renourishment	6,792,959
Hospitality Fee	Public health and safety	6,422,605
Debt Service	Debt service payments	10,932,575
Capital Projects	Construction of major capital facilities	40,133,221
Natural Disasters	Response to natural disasters	27,163,076
Palmetto Electric	Underground electrical service	7,161,641
HOME Grant	HOME grant program	97
Federal & Operating Grants	Federal and operating grants	20,609
Road Usage Fee	Road projects	991,676
Committed:		
General	Disaster recovery	13,278,518
Beach Preservation Fee	Beach renourishment	5,080,403
Assigned:		
General	FY19 budget	569,851
General	Town Council initiatives	500,000
General	Approved carryforward	625,154
General	Workforce housing and transportation	449,261
Unassigned:		
General		3,352,382
Total Fund Balance		<u>\$ 140,011,387</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds (Continued)

The General Fund is the operating fund of the Town. At the end of FY 2018, the total fund balance was approximately \$18,841,000. As a measure of the General Fund's liquidity, it may be useful to compare total unassigned fund balance to total General Fund expenditures. At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$3,352,000 or 9% of total General Fund expenditures for the year ended June 30, 2018 and 8% of budgeted General Fund expenditures for the year ended June 30, 2019. Unrestricted fund balance, which includes committed, assigned, and unassigned fund balance was approximately \$18,775,000 or 50% of total General Fund expenditures for the year ended June 30, 2018 and 47% of budgeted General Fund expenditures for the year ended June 30, 2019. Some of the highlights for the increase in fund balance for the General Fund are as follows:

- General Fund revenues increased by approximately \$3,782,000 (12%) over the prior year primarily due to the following:
 - \$1,162,000 (9%) increase in real and personal property taxes due to an operating millage increase from 15.2 mills in the prior year to 16.38 miles in the current year as well as an increase in assessed values.
 - \$1,907,000 (21%) increase in business licenses due to a settlement from Expedia as well as increased enforcement by the Town and increased business activity on the island.
- General Fund expenditures increased by approximately \$1,094,000 (3%) over the prior year primarily due to the following:
 - \$1,052,000 increase in salaries due to merit increases and changes in staffing.
 - \$525,000 increase in fringe benefits due to increased salaries and mandated fringe benefit rates.
 - \$403,000 decrease in capital outlay due to the purchase of fire equipment in the prior year.

Fund balance for the Tax Increment Financing District Fund ("TIF") increased approximately \$800,000 as a result of revenues of \$4,632,000 exceeding other financing uses of \$6,100,000. TIF fund revenues increased \$435,000 (10%) due to a \$430,000 increase in real and personal property taxes. Other financing uses increased \$2,311,000 due to increased transfers to the Debt Service fund to make revenue bond payments.

Fund balance for the Accommodations Tax Fund increased \$223,000 as a result of revenues of \$6,324,000 exceeding expenditures and other financing uses of \$3,832,000. Accommodations Tax Fund revenues increased \$191,000 (3%) due to an increase of \$189,000 in accommodations tax revenues. Expenditures and other financing uses remained fairly consistent with the prior year with increases of \$70,000 (2%) and \$44,000 (3%), respectively.

Fund balance for the Real Estate Transfer Fee Fund increased \$1,597,000 as a result of revenues of \$3,466,000 exceeding expenditures and other financing uses of \$1,869,000. Real Estate Transfer Fees Fund revenues increased \$685,000 (25%) due to an increase in real estate transfer fees of \$683,000 (25%) related to increased property sales on the island. Expenditures increased \$7,000 (25%) and other financing sources decreased \$359,000 (16%) due to a decrease in transfers to the Debt Service Fund to make revenue bond payments.

Fund balance for the Beach Preservation Fee Fund increased \$6,793,000 as a result of revenues and other financing sources of \$11,900,000 exceeding expenditures and other financing uses of \$5,107,000. Revenues increased \$227,000 (3%) due to a \$227,000 increase in beach preservation fees. Other financing sources increased \$4,810,000 (100%) due to the premium received on the issuance of a revenue bond. Expenditures increased less than \$1,000 and other financing uses decreased \$11,443,000 (69%) to a decrease in transfers to the Natural Disasters Fund to partially fund storm cleanup expenditures.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds (Continued)

Fund balance for the Hospitality Fee Fund increased \$3,267,000 due to revenues of \$6,870,000 exceeding expenditures and other financing uses of \$3,603,000. Hospitality Fee Fund revenues increased \$208,000 (3%) due to a \$206,000 (3%) increase in hospitality fees. Expenditures increased \$133,000 (106%) due to the contributions to the Heritage Classic being fully funded by the Hospitality Fee Fund in the year ended June 30, 2018 and other financing uses decreased \$1,932,000 (37%) due to a decrease in transfers to the General Fund.

Fund balance for the Debt Service Fund increased \$1,046,000 due to revenues and other financing sources of \$17,493,000 exceeding expenditures and other financing uses of \$16,446,000. Debt Service Fund revenues remained fairly consistent with the prior year with a decrease of \$10,000 (less than 1%) and other financing sources decreased \$23,725,000 primarily due to the issuance of \$27,885,000 in refunding bonds with a \$1,574,000 premium in the prior year partially offset by increased transfers in from other funds to make revenue bond payments. Expenditures increased \$5,185,000 (47%) due to scheduled changes in principal and interest payments. Other financing uses decreased \$28,667,000 primarily due to a \$28,966,000 payment to the refunding escrow agent in the prior year related to the refunding.

Fund balance for the Capital Projects Fund increased \$28,133,000 due to revenues and other financing sources of \$89,951,000 exceeding expenditures and other financing uses of \$61,818,000. Capital Projects Fund revenues decreased \$793,000 (28%) primarily due to a \$1,066,000 decrease in grant revenues as a result of a beach renourishment grant received in the prior year partially offset by a \$258,000 increase in investment income. Other financing sources increased \$59,512,000 primarily due to a \$60,915,000 increase in bond proceeds. Expenditures increased \$36,783,000 (153%) due to increased capital activity as bond proceeds were spent. Other financing uses increased \$290,000 primarily due to an increase in transfers to the Debt Service Fund.

Fund balance for the Natural Disasters Fund increased \$22,709,000 due to revenues and other financing sources of \$50,304,000 exceeding expenditures and other financing uses of \$27,595,000. Natural Disasters Fund revenue increased \$19,549,000 (154%) due to increases of \$14,813,000 and \$4,314,000 in grants and real and personal property taxes, respectively. The increase in grants is a result of increased FEMA reimbursements related to Hurricane Matthew. The increase in real and personal property taxes is due to the Town implementing 5.0 mills for disaster recovery in the current year. Other financing sources decreased \$22,088,000 primarily due to a \$20,150,000 decrease in transfers in and a \$2,000,000 decrease in bond proceeds as less funds were needed in the current year to fund storm cleanup. Expenditures decreased \$22,294,000 (46%) due to less debris removal and other cleanup expenditures partially offset by a \$20,416,000 increase in principal and interest expenditures as the BAN was repaid in the current year. Other financing uses increased \$1,499,000 due to increased transfers to the Debt Service Fund to make revenue bond payments.

The following table shows the revenues and other financing sources, expenditures and other financing uses, fund balances, and changes in fund balances for the Town's governmental funds for the years ended June 30, 2018 and June 30, 2017:

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds (Continued)

Fund	Year Ended June 30, 2018			
	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Fund Balance	Changes in Fund Balance
General	\$ 40,310,746	37,572,673	18,841,295	\$ 2,738,073
Tax Increment Financing	4,632,343	3,832,175	8,692,393	800,168
Accommodations Tax (State)	6,323,551	6,100,469	3,269,872	223,082
Real Estate Transfer Fee	3,466,189	1,869,000	4,508,965	1,597,189
Beach Preservation Fee	11,899,590	5,106,631	11,873,362	6,792,959
Hospitality Fee	6,870,260	3,603,457	6,422,605	3,266,803
Debt Service	17,492,669	16,446,244	10,932,575	1,046,425
Capital Projects	89,951,278	61,817,937	40,133,221	28,133,341
Natural Disasters	50,304,268	27,595,118	27,163,076	22,709,150
Non-Major Governmental	4,043,844	1,887,595	8,174,023	2,156,249
Total Governmental Funds	\$ 235,294,738	165,831,299	140,011,387	\$ 69,463,439

Fund	Year Ended June 30, 2017			
	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Fund Balance	Changes in Fund Balance
General	\$ 38,770,673	43,618,883	16,103,222	\$ (4,848,210)
Tax Increment Financing	4,197,412	1,521,037	7,892,225	2,676,375
Accommodations Tax (State)	6,132,281	5,986,960	3,046,790	145,321
Real Estate Transfer Fee	2,781,154	2,221,333	2,911,776	559,821
Beach Preservation Fee	6,863,225	16,548,633	5,080,403	(9,685,408)
Hospitality Fee	6,662,517	5,403,240	3,155,802	1,259,277
Debt Service	41,227,589	39,928,209	9,886,150	1,299,380
Capital Projects	31,232,782	24,736,209	11,999,880	6,496,573
Natural Disasters	52,843,491	48,389,565	4,453,926	4,453,926
Non-Major Governmental	3,643,484	1,966,050	6,017,774	1,677,434
Total Governmental Funds	\$ 194,354,608	190,320,119	70,547,948	\$ 4,034,489

Enterprise Fund

The information discussed previously related to business-type activities relates solely to the Stormwater Fund. See the previous discussion for detailed information regarding changes in the Stormwater Fund.

Fiduciary Funds

The Firemen's Fund and the Airport Noise Abatement Fund comprise the fiduciary funds held by the Town. 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 Fiduciary Funds had amounts held in custody for others of approximately \$47,000 at June 30, 2018.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

General Fund Budgetary Highlights

During the fiscal year, the Town prepared three General Fund budget amendments. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once more exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in expenditures that become necessary to maintain services. The amendments to the General Fund budget in the current year were to provide \$445,399 for purchase order or contract commitments that carried forward from the previous year; to roll forward \$261,086 from the previous fiscal year for planned projects or programs which were not started or completed at year end; and lastly, to make necessary adjustments in a mid-year revision that reduced the Operating budget by \$250,000 and increased the Personnel budget by an equal offsetting amount. The total increase from the original to the revised General Fund budget was \$706,485.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets for its governmental and business-type activities as of June 30, 2018, amounted to approximately \$264,525,000 and \$260,338,000, respectively, (net of accumulated depreciation). These capital assets include land, construction in progress, buildings, improvements, furniture, fixtures, and equipment, vehicles, and infrastructure.

The capital assets (net of accumulated depreciation) as of June 30, 2018, and 2017 were as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 164,479,645	161,476,238	-	-	164,479,645	\$ 161,476,238
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	17,735,049	13,835,278	1,527,650	-	19,262,699	13,835,278
Buildings	16,884,523	20,741,779	-	-	16,884,523	20,741,779
Furniture, Fixtures and Equipment	851,972	996,460	-	-	851,972	996,460
Vehicles	3,290,062	3,730,078	-	-	3,290,062	3,730,078
Improvements Other Than						
Buildings - Park Development	12,598,635	12,929,360	-	-	12,598,635	12,929,360
Infrastructure	21,133,309	19,548,044	11,740,560	12,797,167	32,873,869	32,345,211
Total	\$ 251,256,546	247,540,588	13,268,210	12,797,167	264,524,756	\$ 260,337,755

The overall increase in the Town's capital assets for the period ending June 30, 2017, was approximately \$4,187,000 (2%), including increases of \$3,716,000 and \$471,000 for its governmental and business-type activities, respectively. Capital asset additions for governmental activities of \$11,904,000 exceeded depreciation expense of \$3,947,000 and net disposals of \$4,242,000. Capital asset additions for business-type activities of \$1,538,000 exceeded depreciation expense of \$1,068,000.

Additional information on the Town's capital assets can be found in Notes I and III of the notes to the financial statements.

Debt

As of June 30, 2018, the Town's governmental and business-type activities had total outstanding long-term obligations of \$161,965,000 and \$11,290,000, respectively. Of the Town's total, \$86,080,000 was general obligation debt, which is backed by the full faith and credit of the Town. The Town's total long-term obligations as of June 30, 2018, and 2017 were as follows:

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Debt (Continued)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
General Obligation Bonds	\$ 86,080,000	46,345,000	-	-	86,080,000	\$ 46,345,000
GO Bond Anticipation Notes (BANs)	-	45,000,000	-	-	-	45,000,000
Tax Increment Financing Bonds	25,640,000	-	-	-	25,640,000	-
Revenue/Special Obligation Bonds:						
Beach Preservation Fees	32,590,000	4,985,000	-	-	32,590,000	4,985,000
Hospitality Tax	17,655,000	18,550,000	-	-	17,655,000	18,550,000
Stormwater	-	-	11,290,000	9,035,000	11,290,000	9,035,000
Total Long- Term Obligations	<u>\$ 161,965,000</u>	<u>114,880,000</u>	<u>11,290,000</u>	<u>9,035,000</u>	<u>173,255,000</u>	<u>\$ 123,915,000</u>

The Town also has a net pension liability that is discussed in Note IV.B in the notes to the financial statements.

The overall increase in the Town's debt for the current fiscal year was \$49,340,000 (40%). Major events during the current fiscal year included the following:

- The Town issued \$45,310,000 in general obligation bonds, \$30,075,000 in beach preservation fee special obligation bonds, \$28,530,000 in tax increment financing bonds, and \$3,200,000 in stormwater revenue bonds.
- The Town made principal payments of \$57,775,000, including the full repayment of two bond anticipation notes.
- The Town began the year with two bond anticipation notes – one \$25,000,000 BAN for the capital plan and another \$20,000,000 for temporary Hurricane response for a total of \$45,000,000. The \$25,000,000 BAN was repaid in the current fiscal year with permanent financing for the capital plan and the \$20,000,000 BAN was repaid in the current fiscal year with reimbursements from FEMA.

Additional information regarding the Town's long-term obligations can be found in Note III in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES FOR THE TOWN

The Town has again made significant strides forward in the aftermath of Hurricane Matthew of October 2016. The Town has collected approximately \$40 million of an expected \$44 million in reimbursements from the federal and state governments for hurricane response efforts. The Town continues to work closely with federal and state officials to help facilitate additional reimbursements. The total spend for Hurricane Matthew has been approximately \$52 million with an eventual estimate of \$56 million. Most of the recovery work is finished.

In September 2017, Hurricane Irma also impacted the Town. The Town did not incur anywhere near as much damage from Irma as Matthew. The Town has worked closely with federal and state officials to file for qualifying reimbursements. The cost of Hurricane Irma was much less than Hurricane Matthew. The cost of the response for Hurricane Irma is projected to total approximately \$4 million.

The Town implemented a number of financial responses in the wake of Hurricane Matthew. The Town issued a \$20 million Bond Anticipation Note to help finance the recovery efforts pending federal and state reimbursements. This note has been repaid. The Town also issued \$18 million in taxable Disaster Reserve bonds to restore reserves used for Hurricane Matthew to prepare for the next storm. These bonds were financed with property taxes of 5 mills for 5 years. The Town has certainly benefitted from the foresight of its officials in building reserves and preparing for events like Matthew and Irma. Town Council has shown leadership in making the necessary and appropriate responses to keep the Town hurricane ready operationally and financially.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES FOR THE TOWN (CONTINUED)

Real Estate Revenues

Real Estate related revenues, especially construction permits and real estate transfer fees, were 19% greater than last year. We had previously noted FY 2016 had unusually high activity for both revenue types – which was not expected to continue at that level. FY 2017 was another strong year, especially compared to the more normal FY 2015 but not quite as high as FY 2016. FY 2018 exceeded expectations and the activity remains strong. These are indicative of a strong local real estate market.

Fiscal Year	Real Estate Transfer Fee		Construction Permits		Total Real Estate Revenues		
	Actual	Percentage Change	Actual	Percentage Change	Actual	\$ Amount Inc.(Dec.)	Percentage Change
2015	2,534,932	3%	1,380,846	0%	3,915,778	68,958	2%
2016	2,887,147	14%	2,039,571	48%	4,926,718	1,010,940	26%
2017	2,780,312	-4%	1,697,438	-17%	4,477,750	(448,968)	-9%
2018	3,463,489	25%	1,880,231	11%	5,343,720	865,970	19%

Tourism Revenues

Tourism related revenues, especially Accommodations Taxes, Beach Preservation Fees and Hospitality Taxes continue to grow although at more moderate paces. See the chart below for more information.

Fiscal Year	ATAX/Beach Preservation Fees		Hospitality Tax		Total Tourism Revenues		
	Actual	Percentage Change	Actual	Percentage Change	Actual	\$ Amount Inc.(Dec.)	Percentage Change
2015	14,498,473	9%	6,155,004	9%	20,653,477	1,687,092	9%
2016	15,372,534	6%	6,506,306	6%	21,878,840	1,225,363	6%
2017	16,422,549	7%	6,661,873	2%	23,084,422	1,205,582	6%
2018	16,951,729	3%	6,867,787	3%	23,819,516	735,094	3%

Budgets and tax rates for Fiscal 2019

Town Council adopted a \$79,644,829 budget for FY 2019. This budget is less than the \$89,341,036 adopted for FY 2018. This is the second year in a row with a decline for the total budget. The primary reason for the decline is that the Town had adopted aggressive Capital Improvements Plans in FY 2015 and FY 2016. With the hurricanes, a number of projects were delayed for limitations of both operational resources and financial resources. As the Town progresses on the responses to the hurricanes, the capital projects are now moving forward. The Town has limited new projects while the projects in the pipeline are being completed. Currently, the Town is working on capital projects to provide sewer service availability to all areas of the Island, a new campus for USC Beaufort, road projects in the Coligny area, a new destination park, and stormwater improvements among a number of other projects. These significant projects are expected to be completed in FY 2019 and FY 2020. The Town intends to focus its efforts at completing these projects well, before undertaking significant new projects.

Town Council built the budget based on the same tax rate for FY 2019 as FY 2018 – which was then rolled back from 28.36 mills to 27.72 mills to offset the effects from the County reappraisal. The Town is in the second year of the 5 mills for 5 years to repay the Disaster Reserve restoration bonds issued after Hurricane Matthew.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

REQUESTS FOR TOWN INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's financial situation. Questions concerning any of the information should be addressed to the Director of Finance, Town of Hilton Head Island, One Town Center Court, Hilton Head Island, South Carolina, 29928.

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Basic Financial Statements

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TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 140,435,775	4,245,981	\$ 144,681,756
Cash and Cash Equivalents - Restricted	-	2,305,992	2,305,992
Investments	769,443	-	769,443
Accounts Receivable	7,142,871	3,468	7,146,339
Due from Employees	20,352	-	20,352
Due from Other Governments	8,589,033	42,333	8,631,366
Internal Balances	17,554	(17,554)	-
Capital Assets:			
Non-Depreciable	196,498,045	1,527,650	198,025,695
Depreciable, Net	54,758,501	11,740,560	66,499,061
TOTAL ASSETS	408,231,574	19,848,430	428,080,004
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Bond Refunding	1,565,803	626,884	2,192,687
Deferred Pension Charges	4,281,169	-	4,281,169
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,846,972	626,884	6,473,856
LIABILITIES			
Accounts Payable	8,193,562	787,775	8,981,337
Accrued Payroll and Related Payables	2,725,605	-	2,725,605
Due to Other Governments	818,061	-	818,061
Unearned Revenue	271,723	-	271,723
Irrigation and Pool Surety Bonds Payable	23,000	-	23,000
Court Bonds Payable	26,282	-	26,282
Performance Bonds Payable	18,523	-	18,523
Accrued Interest Payable	1,448,343	83,922	1,532,265
Noncurrent Liabilities:			
Net Pension Liability	17,694,659	-	17,694,659
Due Within One Year	17,869,295	1,200,000	19,069,295
Due In More Than One Year	155,524,559	10,090,000	165,614,559
TOTAL LIABILITIES	204,613,612	12,161,697	216,775,309
DEFERRED INFLOWS OF RESOURCES			
Deferred Gain on Bond Refunding	61,430	-	61,430
Deferred Pension Credits	288,669	-	288,669
TOTAL DEFERRED INFLOWS OF RESOURCES	350,099	-	350,099
NET POSITION			
Net Investment in Capital Assets	123,118,927	4,911,086	128,030,013
Restricted	79,795,435	-	79,795,435
Unrestricted	6,200,473	3,402,531	9,603,004
TOTAL NET POSITION	\$ 209,114,835	8,313,617	\$ 217,428,452

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Governmental Activities:							
General Government	\$ 5,182,132	2,045,077	-	-	(3,137,055)	-	\$ (3,137,055)
Management Services	5,682,232	11,196,245	-	-	5,514,013	-	5,514,013
Community Services	38,440,753	11,385,333	129,511	194,510	(26,731,399)	-	(26,731,399)
Public Safety	25,913,844	1,731,897	32,321,131	-	8,139,184	-	8,139,184
Culture and Recreation	2,729,719	-	-	-	(2,729,719)	-	(2,729,719)
Visitor and Convention Bureau	1,888,500	-	-	-	(1,888,500)	-	(1,888,500)
Administration	34,635	3,463,489	-	-	3,428,854	-	3,428,854
Interest and Other Charges	6,725,441	-	-	-	(6,725,441)	-	(6,725,441)
Total Governmental Activities	86,597,256	29,822,041	32,450,642	194,510	(24,130,063)	-	(24,130,063)
Business-Type Activities:							
Stormwater	3,143,464	4,775,637	-	-	-	1,632,173	1,632,173
Total Business-Type Activities	3,143,464	4,775,637	-	-	-	1,632,173	1,632,173
Total Primary Government	\$ 89,740,720	34,597,678	32,450,642	194,510	(24,130,063)	1,632,173	(22,497,890)
General Revenues:							
Taxes:							
Property Taxes					29,312,409	-	29,312,409
Accommodation Taxes					9,863,909	-	9,863,909
Hospitality Taxes					6,867,787	-	6,867,787
State Shared Funds					1,128,623	-	1,128,623
Impact Fees					476,677	-	476,677
Other Revenue					714,675	-	714,675
Investment Income					763,029	19,696	782,725
Transfers					125,000	(125,000)	-
Total General Revenues and Transfers					49,252,109	(105,304)	49,146,805
CHANGE IN NET POSITION					25,122,046	1,526,869	26,648,915
NET POSITION - Beginning of Year					183,992,789	6,786,748	190,779,537
NET POSITION, End of Year					\$ 209,114,835	8,313,617	\$ 217,428,452

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

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TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	GENERAL FUND	TAX INCREMENT FINANCING FUND	ACCOMMODATIONS TAX FUND	REAL ESTATE TRANSFER FEES FUND
ASSETS				
Cash and Cash Equivalents	\$ 31,958,551	8,642,101	1,891,668	4,139,139
Investments	-	-	-	-
Accounts Receivable	3,105,773	-	-	-
Due from Employees	20,352	-	-	-
Interfund Receivables	1,146,474	10,519	-	-
Due from Other Governments	865,717	39,773	2,254,419	369,826
TOTAL ASSETS	\$ 37,096,867	8,692,393	4,146,087	4,508,965
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 1,045,883	-	691,832	-
Accrued Payroll, Benefits, and Other Liabilities	1,553,000	-	-	-
Due to Other Governments	818,061	-	-	-
Interfund Payables	14,643,854	-	184,383	-
Unearned Revenue	1,316	-	-	-
Irrigation and Pool Bonds	23,000	-	-	-
Court Bonds	26,282	-	-	-
Performance Bonds	18,523	-	-	-
TOTAL LIABILITIES	18,129,919	-	876,215	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	125,653	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	125,653	-	-	-
FUND BALANCES				
Restricted	66,129	8,692,393	3,269,872	4,508,965
Committed	13,278,518	-	-	-
Assigned	2,144,266	-	-	-
Unassigned	3,352,382	-	-	-
TOTAL FUND BALANCES	18,841,295	8,692,393	3,269,872	4,508,965
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 37,096,867	8,692,393	4,146,087	4,508,965

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

BEACH PRESERVATION FEE FUND	HOSPITALITY FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NATURAL DISASTERS FUND	OTHER NON- MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
9,408,613	2,605,762	10,060,986	46,351,224	18,128,417	7,249,314	\$ 140,435,775
-	-	769,443	-	-	-	769,443
2,399,914	1,610,481	-	26,703	-	-	7,142,871
-	-	-	-	-	-	20,352
65,410	2,206,362	102,646	1,428,798	11,459,136	799,403	17,218,748
-	-	47,101	22,444	4,707,687	282,066	8,589,033
11,873,937	6,422,605	10,980,176	47,829,169	34,295,240	8,330,783	\$ 174,176,222
575	-	-	6,130,208	273,924	51,140	\$ 8,193,562
-	-	-	1,152,316	20,289	-	2,725,605
-	-	-	-	-	-	818,061
-	-	500	206,980	2,130,264	35,213	17,201,194
-	-	-	200,000	-	70,407	271,723
-	-	-	-	-	-	23,000
-	-	-	-	-	-	26,282
-	-	-	-	-	-	18,523
575	-	500	7,689,504	2,424,477	156,760	29,277,950
-	-	47,101	6,444	4,707,687	-	4,886,885
-	-	47,101	6,444	4,707,687	-	4,886,885
6,792,959	6,422,605	10,932,575	40,133,221	27,163,076	8,174,023	116,155,818
5,080,403	-	-	-	-	-	18,358,921
-	-	-	-	-	-	2,144,266
-	-	-	-	-	-	3,352,382
11,873,362	6,422,605	10,932,575	40,133,221	27,163,076	8,174,023	140,011,387
11,873,937	6,422,605	10,980,176	47,829,169	34,295,240	8,330,783	\$ 174,176,222

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TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 140,011,387
Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:	
Revenues which will be collected in the future but are not available soon enough to pay for the current period's expenditures are considered unavailable revenue in the funds.	4,886,885
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets was \$298,495,529 and the accumulated depreciation was \$47,238,983.	251,256,546
The Town's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State retirement plan are not recorded in the governmental funds but are recorded in the Statement of Net Position.	(13,702,159)
Interest is recorded as an expenditure when due and payable in the governmental funds. Interest is recorded in the government-wide statements when it is incurred. This amount represents the amount of interest incurred but not yet due and payable at year-end.	(1,448,343)
Bond deferred charges on refunding are recorded as expenditures in the year they are incurred in the governmental funds, but are amortized over the lives of the bonds in the government-wide statements. This amount represents net bond deferred charges on refunding at year-end.	1,565,803
Bond deferred gains on refunding are recorded as revenues in the year they are incurred in the governmental funds, but are amortized over the lives of the bonds in the government-wide statements. This amount represents net bond deferred gains on refunding at year-end.	(61,430)
Long-term liabilities, including bonds payable, are not due or payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of the following:	
Long-Term Debt and Premiums	(169,315,264)
Compensated Absences	(4,078,590)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ 209,114,835

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	GENERAL FUND	TAX INCREMENT FINANCING FUND	ACCOMMODATIONS TAX FUND	REAL ESTATE TRANSFER FEES FUND
REVENUES				
Real and Personal Property Tax	\$ 14,133,876	4,624,900	-	-
Accommodations Tax	3,543,910	-	6,319,999	-
Hospitality Tax	-	-	-	-
Business License and Franchise Fees	11,196,245	-	-	-
Permits	1,880,231	-	-	-
Impact Fees	-	-	-	-
Lease	-	-	-	-
Real Estate Transfer Fees	-	-	-	3,463,489
Beach Preservation Fees	-	-	-	-
Electric Franchise Fees	-	-	-	-
State Shared Funds	838,323	-	-	-
Grants	168,267	-	-	-
Road Usage Fees	-	-	-	-
EMS Revenue	1,678,566	-	-	-
Public Safety Revenue	53,331	-	-	-
Fines and Fees	164,849	-	-	-
Miscellaneous Revenue	680,003	-	-	-
Investment Income	307,012	7,443	3,552	2,700
TOTAL REVENUES	34,644,613	4,632,343	6,323,551	3,466,189
EXPENDITURES				
Current:				
General Government	1,348,800	-	-	-
Management Services	5,604,443	-	-	-
Community Services	7,923,985	-	-	-
Public Safety	17,994,878	-	-	-
Non-Departmental	3,826,433	-	-	-
Culture and Recreation	-	-	2,472,219	-
Visitor and Convention Bureau	-	-	1,888,500	-
Administration	-	-	-	34,635
Debt Service:				
Administrative Charges	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Capital Outlay:				
Management Services	210,488	-	-	-
Community Services	600,000	-	-	-
Public Safety	15,891	-	-	-
TOTAL EXPENDITURES	37,524,918	-	4,360,719	34,635
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,880,305)	4,632,343	1,962,832	3,431,554
OTHER FINANCING SOURCES (USES)				
Transfers In	5,666,133	-	-	-
Transfers Out	(47,755)	(3,832,175)	(1,739,750)	(1,834,365)
Proceeds from the Sale of Capital Assets	-	-	-	-
Bonds Issued	-	-	-	-
Premium on Bonds Issued	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	5,618,378	(3,832,175)	(1,739,750)	(1,834,365)
NET CHANGE IN FUND BALANCES	2,738,073	800,168	223,082	1,597,189
FUND BALANCES - Beginning of Year	16,103,222	7,892,225	3,046,790	2,911,776
FUND BALANCES - End of Year	\$ 18,841,295	8,692,393	3,269,872	4,508,965

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

BEACH PRESERVATION FEE FUND	HOSPITALITY FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NATURAL DISASTERS FUND	OTHER NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
-	-	5,297,023	724,681	4,314,374	-	\$ 29,094,854
-	-	-	-	-	-	9,863,909
-	6,867,787	-	-	-	-	6,867,787
-	-	-	-	-	-	11,196,245
-	-	-	-	-	-	1,880,231
-	-	-	476,677	-	-	476,677
-	-	-	108,091	-	-	108,091
-	-	-	-	-	-	3,463,489
7,087,820	-	-	-	-	-	7,087,820
-	-	-	-	-	2,859,836	2,859,836
-	-	-	290,300	-	-	1,128,623
-	-	-	194,510	27,485,162	127,884	27,975,823
-	-	-	-	-	1,050,823	1,050,823
-	-	-	-	-	-	1,678,566
-	-	-	-	-	-	53,331
-	-	-	-	-	-	164,849
-	-	-	94	313,337	-	993,434
2,237	2,473	38,770	264,390	129,151	5,301	763,029
7,090,057	6,870,260	5,335,793	2,058,743	32,242,024	4,043,844	106,707,417
-	-	-	-	-	-	1,348,800
-	-	-	-	-	-	5,604,443
-	-	-	-	-	1,629,281	9,553,266
-	-	-	-	5,346,539	109,167	23,450,584
575	-	-	-	-	-	3,827,008
-	257,500	-	-	-	-	2,729,719
-	-	-	-	-	-	1,888,500
-	-	-	-	-	-	34,635
-	-	623,723	1,143,765	333,106	-	2,100,594
-	-	11,830,000	25,000,000	20,000,000	-	56,830,000
-	-	3,693,591	1,000,000	416,000	-	5,109,591
-	-	-	-	-	-	210,488
-	-	-	33,631,906	-	-	34,231,906
-	-	-	-	-	-	15,891
575	257,500	16,147,314	60,775,671	26,095,645	1,738,448	146,935,425
7,089,482	6,612,760	(10,811,521)	(58,716,928)	6,146,379	2,305,396	(40,228,008)
-	-	11,688,617	1,666,124	-	-	19,020,874
(5,106,056)	(3,345,957)	(298,930)	(1,042,266)	(1,499,473)	(149,147)	(18,895,874)
-	-	-	11,001	-	-	11,001
-	-	-	85,915,000	18,000,000	-	103,915,000
4,809,533	-	468,259	300,410	62,244	-	5,640,446
(296,523)	(3,345,957)	11,857,946	86,850,269	16,562,771	(149,147)	109,691,447
6,792,959	3,266,803	1,046,425	28,133,341	22,709,150	2,156,249	69,463,439
5,080,403	3,155,802	9,886,150	11,999,880	4,453,926	6,017,774	70,547,948
11,873,362	6,422,605	10,932,575	40,133,221	27,163,076	8,174,023	\$ 140,011,387

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 69,463,439
Amounts reported for the governmental activities in the Statement of Activities are different because of the following:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	4,886,885
Changes in the Town's proportionate shares of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State retirement plans for the current year are not reported in the governmental funds but are reported in the Statement of Activities.	(846,243)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	56,830,000
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.	(103,915,000)
Bond deferred gains and losses are expenditures in the year they are incurred in governmental funds, but are amortized over the lives of the bonds in the Statement of Activities. This amount represents the amortization of deferred charges for the year.	(177,965)
Premiums on issuance of debt must be deferred and amortized over the life of the respective debt in the Statement of Activities. However, proceeds from premiums are reported as an other financing source in the year they are received in the governmental funds. This represents the amount which current year premiums exceeded amortization of premiums in the current year.	(4,716,278)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and payable and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due and payable. This represents the change in accrued interest during the current year.	(261,459)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	142,709
Governmental funds report only proceeds received from the sale of capital assets without any consideration for the net book value of the assets that were sold. The Statement of Activities reports gains or losses based on the proceeds and the net book value of the assets sold.	(4,241,828)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets that are considered capital asset additions is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions of \$11,904,432 exceeded depreciation expense of \$3,946,646 in the current period.	7,957,786
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 25,122,046

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUND

JUNE 30, 2018

	STORMWATER FUND
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 4,245,981
Cash and Cash Equivalents, Restricted	2,305,992
Due from Other Governments	42,333
Accounts Receivable	3,468
Total Current Assets	<u>6,597,774</u>
Non-Current Assets:	
Capital Assets:	
Non-Depreciable	1,527,650
Depreciable, Net	11,740,560
Total Non-Current Assets	<u>13,268,210</u>
TOTAL ASSETS	<u>19,865,984</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charges on Bond Refunding	626,884
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>626,884</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	787,775
Interfund Payables	17,554
Accrued Interest Payable	83,922
Current Portion of Bonds Payable	1,200,000
Total Current Liabilities	<u>2,089,251</u>
Non-Current Liabilities:	
Bonds Payable	10,090,000
Total Non-Current Liabilities	<u>10,090,000</u>
TOTAL LIABILITIES	<u>12,179,251</u>
NET POSITION	
Net Investment in Capital Assets	4,911,086
Unrestricted	3,402,531
TOTAL NET POSITION	<u>\$ 8,313,617</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	<u>STORMWATER FUND</u>
OPERATING REVENUES	
Stormwater Fees	\$ 4,775,637
TOTAL OPERATING REVENUES	<u>4,775,637</u>
OPERATING EXPENSES	
Maintenance and Repair	889,006
Administrative - Salary and Benefits	381,779
Administrative - Operating	351,034
Depreciation	1,067,092
TOTAL OPERATING EXPENSES	<u>2,688,911</u>
OPERATING INCOME	2,086,726
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	19,696
Administrative	(10,000)
Interest Expense	(355,422)
Cost of Issue	(89,131)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(434,857)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,651,869
Transfers Out	(125,000)
CHANGE IN NET POSITION	1,526,869
NET POSITION, Beginning of Year	<u>6,786,748</u>
NET POSITION, End of Year	<u>\$ 8,313,617</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	STORMWATER FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Charges for Fees and Services	\$ 4,772,169
Payments to Suppliers	(737,870)
Payments to Employees	(381,779)
Cash Payments for Interfund Services	(106,479)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,546,041</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds for Non-Capital Purposes	(1,000,000)
Receipts from Non-Operating Grants and Contributions	4,479
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	<u>(995,521)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(1,538,135)
Bond and Note Payments	(945,000)
Proceeds from Issuance of Debt	3,200,000
Nonoperating Administrative Expenses	(10,000)
Interest and Fiscal Charges Paid on Bonds	(354,999)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>351,866</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Income Received on Investments	19,696
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>19,696</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,922,082
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,629,891</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 6,551,973</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	\$ 2,086,726
Adjustments to Reconcile Operating Income to Net	
Transfers Out for Interfund Services	(125,000)
Cash Provided by (Used in) Operating Activities:	
Depreciation Expense	1,067,092
(Increase) Decrease in Assets:	
Accounts Receivable	(3,468)
Interfund Receivables	24,231
Increase (Decrease) in Liabilities:	
Accounts Payable	502,170
Interfund Payables	(5,710)
Net Cash Provided By Operating Activities	<u>\$ 3,546,041</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

STATEMENT OF ASSETS AND LIABILITIES

FIDUCIARY FUNDS - AGENCY FUNDS

JUNE 30, 2018

	AGENCY FUNDS
ASSETS	
Cash and Temporary Investments	\$ 58,731
Accounts Receivable	152
TOTAL ASSETS	<u>\$ 58,883</u>
LIABILITIES	
Accounts Payable	\$ 11,680
Due to Firemen's Fund Association	47,203
TOTAL LIABILITIES	<u>\$ 58,883</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The Town of Hilton Head Island (the “Town”) was organized under a charter originally granted by the State of South Carolina in 1983. The Town of Hilton Head Island operates under the Council-Manager form of government in accordance with Home Rule Act Number 283. Town Council (“Council”) is composed of a Mayor and six council members elected from single member wards. All legislative powers of the Town are vested in Council. Each member of Council, including the Mayor, has one vote in each matter. Under the Town’s form of government, the Council hires a Manager who acts as the chief executive officer.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town’s accounting policies are described below.

As required by GAAP, the financial statements must present the Town’s financial information with any of its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the Town both appoints a voting majority of the entity’s governing body, and either 1) the Town is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the Town. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Town and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on the Town.

In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the Town having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Town; and (c) issue bonded debt without approval by the Town. An entity has a financial benefit or burden relationship with the Town if, for example, any one of the following conditions exists: (a) the Town is legally entitled to or can otherwise access the entity’s resources, (b) the Town is legally obligated or has otherwise assumed the obligation to finance the deficits or, or provide financial support to, the entity, or (c) the Town is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above for being fiscally independent if excluding it would cause the Town’s financial statements to be misleading.

Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Town. Based on the criteria above, the Town has one blended component unit and no discretely presented component units.

The Town of Hilton Head Island Public Facilities Corporation (the “Corporation”), a blended component unit, is a not-for-profit 501(c)(3) organization created to facilitate the issuance of debt for acquisition of the Town’s administration facilities. The Town appoints the Corporation’s board members and the Corporation provides services entirely to the Town. Because the Corporation is so closely related to the Town, it is, in effect, the same as the primary government. The Corporation’s financial information is reported in the Debt Service Fund and Capital Projects Fund of the Town. Separate financial statements for the Corporation are not issued.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

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 approximately \$1,295,000 to the Association for the year ended June 30, 2018. 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 approximately \$631,000 to the Museum for the year ended June 30, 2018. The Museum issues separate audited financial statements.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity (except for interfund services provided and used between functions) has been removed from these financial statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support. The Town business-type activities consist of the stormwater operations.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

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 when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared (see further detail below). Governmental fund financial statements therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

Governmental **fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, intergovernmental revenues, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal period. For this purpose, the Town generally considers its revenues to be available if they are collected within 30 days of the end of the current fiscal period with the exception of certain reimbursement expenditure grants for which a twelve-month availability period is generally used.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, capital lease expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable.

Capital asset acquisitions are reported as capital outlay expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Fund financial statements report detailed information about the Town. The focus of governmental fund financial statements is on major funds rather than by fund type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

When both restricted and unrestricted resources are available for use, it is the Town's practice to use restricted resources first, then unrestricted resources as they are needed.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The Town uses the following fund categories:

Governmental fund types are those through which most governmental functions of the Town are financed. The Town's expendable financial resources and related assets and liabilities (except for those accounted for in the fiduciary funds) are accounted for through governmental funds. The Town's governmental fund types and funds are as follows:

The **General Fund, a major fund** and a budgeted fund, is the general operating fund of the Town and accounts for all revenues and expenditures of the Town except those required to be accounted for in other funds. All general tax revenues and other receipts that (a) are not allocated by law or contractual agreement to other funds or (b) that have not been restricted, committed, or assigned to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Special revenue funds are used to account for and report the proceeds of specific revenue sources (that are expected to continue to comprise a substantial portion of the inflows of the fund) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Town has the following special revenue funds:

- i. **The Tax Increment Financing ("TIF") District Fund, a major fund** and an unbudgeted fund is used to account for and report the proceeds from incremental taxes charged to individuals that are restricted for expenditures related to economic development within the TIF districts.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

- ii. **The Beach Preservation Fee Fund, a major fund** and an unbudgeted fund is used to account for and report the proceeds from the beach preservation fees that are restricted for expenditures related to nourishment and restoration of the Town's beaches.
- iii. **The Real Estate Transfer Fee Fund, a major fund** and an unbudgeted fund is used to account for and report the proceeds from the fee equal to one quarter of one percent (0.0025%) of the purchase price upon the transfer of any real property situated within the corporate limits of the Town that is restricted for expenditures related to environmental conservation.
- iv. **The Accommodations Tax Fund, a major fund** and an unbudgeted fund is used to account for and report the proceeds from the state-imposed two percent (2%) tax levied on rentals of transient accommodations within the corporate limit that are restricted for expenditures related to tourism promotion.
- v. **The Hospitality Fees Fund, a major fund** and an unbudgeted fund is used to account for and report the proceeds from the two percent (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-premise consumption of alcoholic beverages, beer or wine that are restricted for expenditures that enhance the health, safety, and general welfare of the Town.
- vi. **The Natural Disasters Fund, a major fund** and an unbudgeted fund, is used to account for and report financial resources that are restricted, committed, or assigned for expenditures related to the Town's response to a natural disaster.
- vii. The Town also reports the Palmetto Electric Franchise Fees Fund, the Operating Grants Fund, the Home Grant Fund, the Federal Grants Fund, and the Road Usage Fee Fund as unbudgeted non-major special revenue funds.

Debt service funds are used to account for the accumulation of resources and payments of long-term bond principal and interest from government resources. The Debt Service Fund, a major fund and a budgeted fund, is used to account for and report the accumulation of financial resources that are restricted for the payment of all long-term debt principal, interest and related costs for the Town.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned for (a) the acquisition, construction, or renovation of major capital facilities, (b) ongoing major improvement projects which usually span more than one year, and (c) major equipment or other capital asset acquisitions which are not financed by another fund. The Capital Projects Fund, a major fund and a budgeted fund, is used to account for and report financial resources that are restricted, committed, or assigned for expenditures of capital outlay related to equipment, site acquisitions, construction renovation of capital facilities, and other capital assets for the Town except for those financed in the Enterprise Fund.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The Town has one enterprise fund and has no internal service funds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

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 of enterprise funds are primarily charges for services and fees. Operating expenses for enterprise funds include the expense for providing goods and services, administrative expenses, maintenance, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating items. Proprietary fund types include the following fund:

The Stormwater Fund, a major enterprise fund and a budgeted fund is used to account for and report the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits 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.

Fiduciary Fund Types include *Agency Funds*. An agency fund is generally used to account for miscellaneous assets that the government holds on behalf of others. The Town's agency funds are custodial in nature and do not present results of operations. The Town has two unbudgeted agency funds which include the Firemen's Fund and the Airport Noise Abatement Fund. The Firemen's fund is used by the Town to account for the receipt and disbursement of funds from the State related to the payment of one percent of the premiums received by out of state fire insurance companies. 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.

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

1. Cash, Cash Equivalents, and Investments

The Town considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Pooled Investment Fund ("Pool") to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) that are not purchased from the pool are reported as investments.

The Town's investment policy is designed to operate within existing statutes (which are identical for all funds, fund types and component units within the State of South Carolina). The statutes of the State of South Carolina authorize the Town to invest in the following:

- (a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
- (b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
- (c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

- (d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
- (e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (f) Repurchase agreements when collateralized by securities as set forth in this section.
- (g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The Town's cash and investment objectives are safety, liquidity and yield. The Town reports its cash and investments at fair value which is normally determined by quoted market prices. The Town currently or in the past year has primarily used the following investments in its operating activities:

- South Carolina Local Government Investment Pool ("SCLGIP") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The SCLGIP is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and GASB Statement No. 72 "Fair Value Measurement and Application", investments are carried at fair value determined annually based upon (a) quoted market prices for identical or similar investments or (b) observable inputs other than quoted market prices. The total fair value of the SCLGIP is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by Pool participants at any time and may be withdrawn upon 24 hours' notice. Financial statements for the Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, P.O. Box 11778, Columbia, SC 29211-1960.
- US securities are generally treasury notes, treasury bonds, treasury bills, and related securities which are debt obligations of the U.S. government (lending money to the federal government for a specified period of time). These debt obligations are backed by the "full faith and credit" of the government, and thus by its ability to raise tax revenues and print currency, U.S. Treasury securities are considered the safest of all investments.
- Government mutual funds are generally open-ended funds that invest in short term debt securities (including obligations of the United States and related agencies) that generally have a weighted average maturity of less than one year and do not invest more than 5% in any one issuer, except for government securities and repurchase agreements.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

2. *Receivables and Payables*

During the course of its operations, the Town has numerous transactions occurring between funds. These transactions include expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers in (out). To the extent that certain transactions between funds had not been paid or received as of year-end, balances of interfund receivables or payables have been recorded.

Property taxes receivable represent current real and personal property as well as delinquent real and personal property taxes for the past ten years, less an allowance for amounts estimated to be uncollectible. All net property taxes receivable at year end, except those collected within 30 days, are recorded as unavailable revenue (a component of deferred inflows of resources) and thus not recognized as revenue until collected in the governmental funds.

Property taxes are assessed and collected by Beaufort County under a joint billing and collection agreement. Real property and all personal property taxes other than vehicle property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied and billed in October on all property other than vehicles and are payable without penalty until January 15th of the following year. Penalties are assessed on unpaid taxes on the following dates: January 16th – 3%, February 1st – an additional 7%, and March 16th – an additional 5%. On March 16th, the property tax bills are transferred to the delinquent tax collection office of Beaufort County and the properties are subject to sale. Vehicle property taxes attach a lien and are levied throughout the year depending on when the vehicles' license tags expire. Other personal property taxes are levied in October and are payable by December 31.

The Town records receivables related to federal, state, and local grants when the reimbursable expenditure is incurred, less an allowance for amounts estimated to be uncollectible (if any). All trade, property taxes, grants, and other receivables are shown net of an allowance for uncollectibles.

3. *Inventories and Prepaid Items*

Inventories and prepaid items, if any, in the governmental funds are accounted for using the purchase method (expensed when paid).

4. *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 are capitalized.

Capital assets are recorded at historical cost or estimated historical cost if not purchased or constructed. Donated capital assets are recorded at estimated acquisition value (as estimated by the Town) at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest costs during construction are not capitalized in the Town's governmental funds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

4. Capital Assets (Continued)

Capital assets are depreciated on the straight-line method using the following estimated useful lives:

Category	Estimated Useful Life in Years
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

5. 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. The entire compensated absence liability and expense is reported on the government-wide financial statements. Governmental funds will only recognize a liability for compensated absences if they are significant and have matured, for example, as a result of employee resignations or retirements.

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.

6. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method (as it approximates the effective interest method) if material. Debt is reported net of applicable bond premiums and discounts. Issuance costs are expensed in the period incurred.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current financial resources. However, claims and judgments, debt and capital leases, compensated absences, contractually required pension contributions, special termination benefits and other similar long-term liabilities that will eventually be paid from governmental funds are not reported as a liability in the fund financial statements until due and payable.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized immediately. The face amount of debt or capital leases issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

7. *Deferred Outflows and Inflows of Resources*

As defined by GASB Concept Statement No. 4 “*Elements of Financial Statements*”, deferred outflows of resources and deferred inflows of resources are the consumption of net assets by the government that are applicable to a future reporting period and an acquisition of net position by the government that are applicable to a future reporting period, respectively.

In addition to assets, the Statement of Net Position and the Balance Sheet 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 currently has two types of deferred outflows of resources: (1) The Town reports *deferred charges on bond refundings* in its Statement of Net Position. *Deferred charges on bond refundings*, which are the differences between the reacquisition prices and the net carrying amounts of the defeased debt, are deferred and amortized over the shorter of the life of the refunding or refunded bonds. Amortization of *deferred charges on bond refundings* is included in interest expense in the Statement of Activities. (2) The Town also reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Police Officers Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently has three types of deferred inflows of resources: (1) The Town reports *unavailable revenue* only in the governmental funds balance sheet. These items are deferred and recognized as an inflow of resources (revenues) in the period the amounts become available. (2) The Town reports *deferred gains on bond refundings* in its Statement of Net Position. *Deferred gains on bond refundings*, which are the differences between the reacquisition prices and the net carrying amounts of the defeased debt, are deferred and amortized over the shorter of the life of the refunding or refunded bonds. Amortization of *deferred gains on bond refundings* is included in interest expense in the Statement of Activities. (3) The Town also reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Police Officers Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

8. *Fund Balance*

In accordance with GASB Statement No. 54 “*Fund Balance Reporting and Governmental Fund Type Definitions*” (“GASB #54”), the Town classifies its governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because they are not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

8. Fund Balance (Continued)

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision making authority (Town Council) before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed amounts for the Town consist of amounts passed and approved by resolution by Town Council (“Council”).

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted nor committed and that such assignments are made before the report issuance date. The Town reserves the right to assign fund balance by a simple majority vote of Council.

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts of restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Town generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the Town generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. See Note III.E for more information on fund balance.

9. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. 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 improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. See Note III.E for more information on net position.

10. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the year to control expenditures. Encumbrances do not constitute expenditures or liabilities. For budget purposes encumbrances and unused expenditure appropriations lapse at year end.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

11. Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note IV.B and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Town recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Town's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Town's fiscal year-end.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

12. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

13. Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1, that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity (Continued)

13. Fair Value (Continued)

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The Town believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

14. Comparative Data

Comparative data (i.e. presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town’s deposits might not be recovered. The Town does not have a formal deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of June 30, 2018, none of the Town’s bank balances of approximately \$77,722,000 (with a carrying value of approximately \$76,555,000) were exposed to custodial credit risk.

Investments

As of June 30, 2018, the Town had the following investments and maturities:

Investment Type	Fair Value Level ⁽¹⁾	Credit Rating [^]	Fair Value	Investment Maturity in Years
SC Local Government Investment Pool	N/A ⁽²⁾	NR, NR	\$ 46,352,921	< 1 year
Open-Ended Mutual Fund Investing in Governmental Securities	Level 1	AAA _m , Aaa-mf	24,138,179	< 1 year
United States Treasury Bonds	Level 1	N/A*	769,443	< 1 year
Total			\$ 71,260,543	

⁽¹⁾ See Note I.C.13 for the details of the Town's fair value hierarchy

⁽²⁾ Investments that have a net asset value are not subject to the fair value hierarchy.

* Credit ratings are not required for obligations of the US government.

[^] If available, credit ratings are for Standard & Poor's and Moody's Investors Services.

NR - Not Rated

Interest Rate Risk: Interest rate risk is limiting investment maturities to help manage exposure to fair value losses from increasing interest rates. The Town’s policy is to minimize interest rate risk by (1) 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 and (2) investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s investment policy minimizes credit risk by limiting investments to the types of securities in compliance with the provisions of South Carolina statutes as discussed previously.

Concentration of Credit Risk for Investments: The Town places no limit on the amount the Town may invest in any one issuer. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

Certain cash, cash equivalents and investments of the Town are legally restricted for specified purposes. The major types of restrictions at June 30, 2018 were (a) those imposed by the revenue source (i.e. hospitality tax, accommodation taxes, impact assessment fees, etc.) and (b) unspent capital lease and bond proceeds.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Reconciliation to the Financial Statements

The following table reconciles the amounts reported as deposits and investments in the notes to the financial statements to cash and cash equivalents and investments reported in the financial statements:

Financial Statements	
<u>Statement of Net Position</u>	
Cash and Cash Equivalents	\$ 144,681,756
Cash and Cash Equivalents - Restricted	2,305,992
Investments	769,443
 <u>Statement of Assets and Liabilities - Fiduciary Funds - Agency Funds</u>	
Cash and Cash Equivalents - Restricted	58,731
Total	\$ 147,815,922
Notes	
Deposits and Cash on Hand	\$ 76,555,379
Investments	71,260,543
Total	\$ 147,815,922

B. Receivables and Unavailable and Unearned Revenues

Property Taxes

The Town's fiscal year 2018 real and business personal property taxes (which were for tax year 2017) were levied on September 30, 2017, and were due beginning on this date based on the assessed valuation as of January 1, 2017. Property taxes were considered late on January 16, 2018. Motor vehicle property tax is levied and collected on a portion of taxable vehicles monthly. Assessed values are established by the Beaufort County Tax Assessor and the South Carolina Tax Commission. The Town's current operating, debt service, capital projects, and natural disasters millage rates were 16.38 mills, 6.14 mills, 0.84 mills, and 5.00, respectively. In addition, the Town charges a \$25 road usage fee per vehicle registered at addresses within the Town. Town property taxes and road usage fees are billed and collected by Beaufort County under a joint billing and collection agreement.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Receivables and Unavailable and Unearned Revenues (Continued)

The Town’s governmental activities receivables and allowances at June 30, 2018 consisted of the following:

	Government-wide Financial Statements					Total Governmental
	Fund Financial Statements					
	General Fund	Beach Preservation Fee	Hospitality Fee	Capital Projects	Non-Major Governmental	
Receivables:						
EMS fees	\$ 1,604,111	-	-	-	-	\$ 1,604,111
Local accommodations taxes	1,199,957	-	-	-	-	1,199,957
Business licenses	1,357,567	-	-	-	-	1,357,567
Other receivables	44,535	-	-	26,703	8,000	79,238
Franchise fees	176,103	-	-	-	-	176,103
Beach preservation fees	-	2,399,914	-	-	-	2,399,914
Hospitality fees	-	-	1,610,481	-	-	1,610,481
Less: EMS allowance	(1,276,500)	-	-	-	-	(1,276,500)
Less: Other allowance	-	-	-	-	(8,000)	(8,000)
Total Receivables	\$ 3,105,773	2,399,914	1,610,481	26,703	-	\$ 7,142,871
Receivables from employees:						
Cobra insurance	\$ (13,900)	-	-	-	-	\$ (13,900)
Computer purchases*	34,252	-	-	-	-	34,252
Total Receivables	\$ 20,352	-	-	-	-	\$ 20,352

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

	Government-Wide Financial Statements - Business-Type Activities	
	Enterprise Fund Financial Statements	
	Stormwater Fund	
Receivables:		
Other receivables	\$ 3,468	
Total Receivables	\$ 3,468	

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Receivables and Unavailable and Unearned Revenues (Continued)

Due From Other Governments

The amounts due from other governments to the Town as of June 30, 2018 are as follows:

	Government-Wide Financial Statements - Governmental Activities								
	Governmental Fund Financial Statements								
	General Fund	Tax Increment Financing	Accommodations Taxes	Real Estate Transfer Fees	Debt Service Fund	Capital Projects Fund	Natural Disasters	Non-Major Governmental	Total
Due from other governments:									
Beaufort County:									
Property Taxes	\$ 659,417	-	-	-	68,221	9,317	51,141	-	\$ 788,096
Other	51,276	-	-	-	-	-	-	-	51,276
Road Usage Fees	-	-	-	-	-	-	-	192,273	192,273
Real Estate Transfer Fees	-	-	-	369,826	-	-	-	-	369,826
Tax Increment Financing	-	39,773	-	-	-	-	-	-	39,773
Grants	-	-	-	-	-	-	-	89,793	89,793
Less: Property Tax Allowance	(54,467)	-	-	-	(21,120)	(2,873)	(12,785)	-	(91,245)
State of South Carolina:									
Aid to Subdivisions	209,491	-	-	-	-	-	-	-	209,491
Sunday Liquor Fees	-	-	-	-	-	16,000	-	-	16,000
Accommodations Taxes	-	-	2,254,419	-	-	-	-	-	2,254,419
Federal Government:									
FEMA	-	-	-	-	-	-	4,669,331	-	4,669,331
Total	<u>\$ 865,717</u>	<u>39,773</u>	<u>2,254,419</u>	<u>369,826</u>	<u>47,101</u>	<u>22,444</u>	<u>4,707,687</u>	<u>282,066</u>	<u>\$ 8,589,033</u>

	Government-Wide Financial Statements - Business-Type Activities	
	Enterprise Fund Financial Statements	
	Stormwater Fund	
Beaufort County:		
Stormwater Fees	\$ 42,333	
Total	<u>\$ 42,333</u>	

Unavailable and Unearned Revenues

Governmental funds report as a component of deferred inflows of resources (a) revenues that are not considered to be available to liquidate liabilities (unavailable revenue) and (b) revenues that have been received but are intended to finance future periods (deferred revenue). Governmental funds also defer revenue recognition and report liabilities in connection with resources that have been received but not yet earned (unearned revenue).

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Receivables and Unavailable, Deferred, and Unearned Revenues (Continued)

Unavailable and Unearned Revenues (Continued)

At June 30, 2018, the various components of unavailable and unearned revenues were as follows:

Fund	Deferred Inflows of Resources		Liabilities	Total
	Unavailable	Unearned	Unearned	
Advance - Tree Replacement	General	\$ -	1,316	\$ 1,316
Advance - Shelter Cove Parking	Capital Projects	-	200,000	200,000
Advance - Revolving Fund Loans	Non-Major Governmental	-	70,407	70,407
Delinquent Taxes Receivable	General Fund	125,653	-	125,653
Delinquent Taxes Receivable	Debt Service	47,101	-	47,101
Delinquent Taxes Receivable	Capital Projects	6,444	-	6,444
Delinquent Taxes Receivable	Natural Disasters	38,356	-	38,356
Grants Receivable - FEMA	Natural Disasters	4,669,331	-	4,669,331
Total		\$ 4,886,885	271,723	\$ 5,158,608

C. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables

Interfund balances at June 30, 2018, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
<u>Major Governmental Funds:</u>		
General Fund	\$ 1,146,474	\$ 14,643,854
Tax Increment Financing	10,519	-
Accommodations Tax	-	184,383
Beach Preservation Fees	65,410	-
Hospitality Fees Fund	2,206,362	-
Debt Service Fund	102,646	500
Capital Projects Fund	1,428,798	206,980
Natural Disasters Fund	11,459,136	2,130,264
<u>Other Non-Major Governmental Funds:</u>		
Operating Grants	-	35,213
Road Usage Fee	799,403	-
<u>Proprietary Funds:</u>		
Stormwater Fund	-	17,554
Totals	\$ 17,218,748	\$ 17,218,748

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2018 for which payment was received/made after June 30, 2018.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

C. Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Fund	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 5,666,133	\$ 47,755
Tax Increment Financing Fund	-	3,832,175
Accommodations Tax Fund	-	1,739,750
Real Estate Transfer Fee Fund	-	1,834,365
Beach Preservation Fees Fund	-	5,106,056
Hospitality Fees Fund	-	3,345,957
Debt Service Fund	11,688,617	298,930
Capital Projects Fund	1,666,124	1,042,266
Natural Disasters Fund	-	1,499,473
Other Non-Major Governmental Funds:		
Palmetto Electric Franchise Fees Fund	-	90,000
Road Usage Fee Fund	-	59,147
Proprietary Fund:		
Stormwater Fund	-	125,000
Totals	<u>\$ 19,020,874</u>	<u>\$ 19,020,874</u>

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.

D. Due to Other Governments

Amounts due to other government as of June 30, 2018 are as follows:

	General Fund	Accommodations Tax	Total
Due to Other Governments:			
Beaufort County:			
Sheriff's Office Contract Services	\$ 797,641	-	\$ 797,641
Sheriff's Office Escrow	728	-	728
Hilton Head Island-Bluffton Chamber of Commerce:			
30% Accommodations Tax	-	676,326	676,326
State of South Carolina:			
Municipal Court State Fees	13,810	-	13,810
Sales and Use Tax	5,882	-	5,882
Totals	<u>\$ 818,061</u>	<u>676,326</u>	<u>\$ 1,494,387</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Fund Balances and Net Position

Fund Balances

Fund balances for all major and non-major funds as of June 30, 2018 were distributed as follows:

Classification/Fund	Purpose	Amount
Restricted:		
General	Deposits in escrow	\$ 66,129
Tax Increment Financing District	Economic development	8,692,393
Accommodations Tax	Tourism promotion	3,269,872
Real Estate Transfer Fee	Environmental conservation	4,508,965
Beach Preservation Fee	Beach renourishment	6,792,959
Hospitality Fee	Public health and safety	6,422,605
Debt Service	Debt service payments	10,932,575
Capital Projects	Construction of major capital facilities	40,133,221
Natural Disasters	Response to natural disasters	27,163,076
Palmetto Electric	Underground electrical service	7,161,641
HOME Grant	HOME grant program	97
Federal & Operating Grants	Federal and operating grants	20,609
Road Usage Fee	Road projects	991,676
Committed:		
General	Disaster recovery	13,278,518
Beach Preservation Fee	Beach renourishment	5,080,403
Assigned:		
General	FY19 budget	569,851
General	Town Council initiatives	500,000
General	Approved carryforward	625,154
General	Workforce housing and transportation	449,261
Unassigned:		
General		3,352,382
Total Fund Balance		<u>\$ 140,011,387</u>

In relation to fund balance committed to Disaster Recovery, the 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. If the Town had the full 30% committed in fund balance it would be approximately \$12,077,000. At June 30, 2018 the amount was approximately \$10,064,000.
- 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 \$1,000,000, and the Town’s committed fund balance includes \$1,000,000 for this at June 30, 2018. Annual interest earned on funds will also be deposited into the account.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

E. Fund Balances and Net Position (Continued)

Fund Balances (Continued)

- Committed for General Disaster Recovery 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 approximately \$2,214,000 in committed fund balance for this purpose at June 30, 2018.

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. At June 30, 2018 the balance was approximately \$5,080,000.

Net Position

The Town has reported unrestricted net position of approximately \$12,993,000, which includes approximately \$17,695,000 related to the Town’s its proportionate share of the net pension liability. The Town does not anticipate funding this liability and will continue to contribute to the pension plan at State required contribution rates.

	Governmental Activities	Business-Type Activities
Net investment in capital assets		
Net capital assets	\$ 251,256,546	\$ 13,268,210
Less:		
Outstanding long-term debt	(161,965,000)	(11,290,000)
Bond premiums	(7,350,264)	-
Deferred gains on refunding	(61,430)	-
Add:		
Deferred charges on refunding	1,565,803	626,884
Unspent bond proceeds	39,673,272	2,305,992
Subtotal Net investment in capital assets	123,118,927	4,911,086
Restricted for:		
Deposits in escrow	66,129	-
Economic development	8,692,393	-
Tourism promotion	3,269,872	-
Environmental conservation	4,508,965	-
Beach renourishment	6,792,959	-
Public health and safety	6,422,605	-
Debt service payments	9,531,333	-
Construction of major capital facilities	471,278	-
Natural disasters	31,865,878	-
Underground electrical service	7,161,641	-
Federal and operating grants	20,609	-
HOME grant	97	-
Road projects	991,676	-
Subtotal Restricted	79,795,435	-
Unrestricted	6,200,473	3,402,531
Total net position	\$ 209,114,835	\$ 8,313,617

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

F. 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 (approximately \$1,889,000) and five percent (approximately \$315,000) of Accommodations Taxes after deducting a \$25,000 transfer to the General Fund are 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. One appropriation lapsed during the fiscal year ended June 30, 2018 in the amount of \$100,000.

Town Council has approved amounts for calendar year 2018 as follows:

<u>Grants</u>	<u>Appropriations</u>
Arts Center of Hilton Head Island	\$ 400,000
Airport of Hilton Head Island	100,000
Hilton Head Choral Society	40,000
Hilton Head Concours d'Elegance	220,000
Hilton Head Recreation Assoc. (Wing/Oyster Festivals)	25,000
Hilton Head Wine & Food Association	130,000
HHI-Bluffton Chamber of Commerce and VCB	485,000
Hilton Head Symphony Orchestra	250,000
Lowcountry Golf Course Owners Association	50,000
Shelter Cove Harbour Comp.	76,800
The Coastal Discovery Museum	279,000
The Heritage Library - History Day	16,900
The Sandbox	50,500
Town of Hilton Head Island	1,400,000
David Carmines Memorial Foundation Seafood Festival	91,000
Gullah Museum of Hilton Head Island	50,000
Harbour Town Merchants Assoc.	20,000
Hilton Head Dance Theatre	15,000
Main Street Youth Theater	15,000
Mitchelville Preservation Project	160,000
Lean Ensemble Theatre	30,000
First Tee of the Low Country	45,000
Native Island Business & Community	110,000
Skull Creek July 4th Celebration	16,250
Art League of Hilton Head Island	65,000
Hilton Head Island St. Patrick's Day Parade	17,580
Boys & Girls Club Pedal Event	18,300
The Heritage Library	60,000
	<u>\$ 4,236,330</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

G. Capital Assets

Capital asset activity for the Town’s governmental activities for the year ended June 30, 2018, was as follows:

<u>Primary Government</u>	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Non-Depreciable:					
Land	\$ 161,476,238	-	-	3,003,407	\$ 164,479,645
Development Rights	10,734,391	-	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	-	3,548,960
Construction In Progress	13,835,278	11,641,963	4,233,311	(3,508,881)	17,735,049
Total Capital Assets, Non-Depreciable	<u>189,594,867</u>	<u>11,641,963</u>	<u>4,233,311</u>	<u>(505,474)</u>	<u>196,498,045</u>
Capital Assets, Depreciable:					
Buildings	33,503,095	-	-	(3,003,407)	30,499,688
Furniture, Fixtures and Equipment	6,182,476	131,574	216,596	96,190	6,193,644
Vehicles	8,135,483	130,895	403,231	-	7,863,147
Improvements Other Than Buildings:					
Park Development	17,768,431	-	-	381,283	18,149,714
Infrastructure	36,259,883	-	-	3,031,408	39,291,291
Total Capital Assets, Depreciable	<u>101,849,368</u>	<u>262,469</u>	<u>619,827</u>	<u>505,474</u>	<u>101,997,484</u>
Less: Accumulated Depreciation for:					
Buildings	12,761,316	853,849	-	-	13,615,165
Furniture, Fixtures and Equipment	5,186,016	371,941	216,285	-	5,341,672
Vehicles	4,405,405	562,705	395,025	-	4,573,085
Improvements Other Than Buildings:					
Park Development	4,839,071	712,008	-	-	5,551,079
Infrastructure	16,711,839	1,446,143	-	-	18,157,982
Total Accumulated Depreciation	<u>43,903,647</u>	<u>3,946,646</u>	<u>611,310</u>	<u>-</u>	<u>47,238,983</u>
Total Capital Assets, Depreciable, Net	<u>57,945,721</u>	<u>(3,684,177)</u>	<u>8,517</u>	<u>505,474</u>	<u>54,758,501</u>
Total Capital Assets, Net	<u>\$ 247,540,588</u>	<u>7,957,786</u>	<u>4,241,828</u>	<u>-</u>	<u>\$ 251,256,546</u>

Capital asset depreciation expense for governmental activities was charged to functions/programs as follows:

Functions/Programs	Depreciation
General Government	\$ 82,178
Management Services	129,962
Community Services	2,202,415
Public Safety	1,532,091
Total	<u>\$ 3,946,646</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

G. Capital Assets (Continued)

Capital asset activity for the Town’s business-type activities for the year ended June 30, 2018, was as follows:

Primary Government (continued)	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities					
Capital Assets, Non-Depreciable:					
Construction In Progress	\$ -	1,527,650	-	-	\$ 1,527,650
Total Capital Assets, Non-Depreciable	-	1,527,650	-	-	1,527,650
Capital Assets, Depreciable:					
Infrastructure	20,898,695	10,485	-	-	20,909,180
Total Capital Assets, Depreciable	20,898,695	10,485	-	-	20,909,180
Less: Accumulated Depreciation for:					
Infrastructure	8,101,528	1,067,092	-	-	9,168,620
Total Accumulated Depreciation	8,101,528	1,067,092	-	-	9,168,620
Total Capital Assets, Depreciable, Net	12,797,167	(1,056,607)	-	-	11,740,560
Total Capital Assets, Net	\$ 12,797,167	471,043	-	-	\$ 13,268,210

Capital asset depreciation expense for business-type activities was charged to functions/programs as follows:

Functions/Programs	Depreciation
Stormwater	\$ 1,067,092
Total	\$ 1,067,092

Improvements by the Town to roads and other infrastructure owned by the federal, state, or local governments are not capitalized but are expensed as incurred as community services expenditures.

H. Long-Term Obligations

The Town issues bonds to provide funds for the acquisition and construction of major capital facilities as well as the purchase of land. General Obligation Bonds (“GOB”) are direct obligations and pledge the full faith and credit of the Town. Tax Increment Financing Bonds (“TIFB”) are considered a special obligation of the Town payable solely from ad valorem taxes generated by improvements to real property within the redevelopment project area. The full faith, credit, and taxing powers of the Town are not pledged for the payment of the TIFB nor the interest thereon. Special Obligation Bonds (“SOB”) are considered a special obligation of the Town payable from a specified revenue source, such as hospitality tax, beach preservation fees, stormwater fees, etc. The full faith, credit and taxing powers of the Town are not pledged for the payment of the SOB nor the interest thereon.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Details on the Town’s outstanding debt issues as of June 30, 2018 are as follows:

General Obligation 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
2019	2.750	\$ 92,645	395,000	\$ 487,645
2020	3.000	81,064	410,000	491,064
2021	3.100	68,404	420,000	488,404
2022	3.250	54,906	430,000	484,906
2023	3.375	40,409	445,000	485,409
2024-2025	3.500	33,250	940,000	973,250
		<u>\$ 370,678</u>	<u>3,040,000</u>	<u>\$ 3,410,678</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
2019	2.250	\$ 288,894	680,000	\$ 968,894
2020	2.750	273,594	690,000	963,594
2021	4.000	254,619	710,000	964,619
2022	3.000	226,219	740,000	966,219
2023	3.000	204,019	765,000	969,019
2024-2028	various	630,352	4,225,000	4,855,352
2029	3.750	35,063	935,000	970,063
		<u>\$ 1,912,760</u>	<u>8,745,000</u>	<u>\$ 10,657,760</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 THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

General Obligation Bonds (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
2019	2.000	\$ 156,333	172,222	\$ 328,555
2020	2.000	152,889	175,000	327,889
2021	4.000	149,389	180,556	329,945
2022	5.000	142,167	186,111	328,278
2023	5.000	132,861	197,222	330,083
2024-2028	various	520,139	1,125,001	1,645,140
2029-2033	various	288,390	1,355,556	1,643,946
2034-2035	4.000	37,556	622,223	659,779
		<u>\$ 1,579,724</u>	<u>4,013,891</u>	<u>\$ 5,593,615</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
2019	2.000	\$ 125,067	137,778	\$ 262,845
2020	2.000	122,311	140,000	262,311
2021	4.000	119,511	144,444	263,955
2022	5.000	113,733	148,889	262,622
2023	5.000	106,289	157,778	264,067
2024-2028	various	416,111	899,999	1,316,110
2029-2033	various	230,710	1,084,444	1,315,154
2034-2035	4.000	30,044	497,777	527,821
		<u>\$ 1,263,776</u>	<u>3,211,109</u>	<u>\$ 4,474,885</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 THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

General Obligation Bonds (Continued)

\$13,080,000 General Obligation Bonds Dated September 14, 2016

On September 14, 2016, the Town issued \$13,080,000 in general obligation bonds with a net interest rate of 0.999% to advance refund \$13,210,000 general obligation bonds dated March 15, 2005. The net proceeds of \$13,593,831 including \$513,831 in premiums (after payment of \$209,846 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 by \$1,272,716 over the life of the bonds and to obtain a present value economic gain of \$1,219,122. A schedule for the amount due for this refunded issue is as follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2019	4.000	\$ 165,300	2,010,000	\$ 2,175,300
2020	1.500	109,463	2,085,000	2,194,463
2021	1.500	80,775	1,740,000	1,820,775
2022	4.000	52,425	765,000	817,425
2023	1.500	31,050	810,000	841,050
2024-2025	1.500	25,088	1,665,000	1,690,088
		<u>\$ 464,101</u>	<u>9,075,000</u>	<u>\$ 9,539,101</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.

\$9,035,000 General Obligation Bonds Dated September 14, 2016

On September 14, 2016, the Town issued \$9,035,000 in general obligation bonds with a net interest rate of 1.98% to advance refund \$9,515,000 general obligation bonds dated February 3, 2010. The net proceeds of \$9,708,531 including \$673,531 in premiums (after payment of \$173,384 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 by \$1,281,272 and to obtain a present value economic gain of \$1,225,838. A schedule for the amount due for this refunded issue is as follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2019	4.000	\$ 248,238	135,000	\$ 383,238
2020	4.000	242,838	125,000	367,838
2021	4.000	237,838	550,000	787,838
2022	4.000	215,838	585,000	800,838
2023	1.500	192,438	605,000	797,438
2024-2028	various	613,290	2,700,000	3,313,290
2029-2033	various	294,940	2,535,000	2,829,940
2034-2035	various	40,263	1,105,000	1,145,263
		<u>\$ 2,085,683</u>	<u>8,340,000</u>	<u>\$ 10,425,683</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 THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

General Obligation Bonds (Continued)

\$5,770,000 General Obligation Bonds Dated September 14, 2016

On September 14, 2016, the Town issued \$5,770,000 in general obligation bonds with a net interest rate of 1.629% to advance refund \$5,715,000 general obligation bonds dated March 4, 2008. The net proceeds of \$6,156,989 including \$386,989 in premiums (after payment of \$102,706 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 by \$446,334 and to obtain a present value economic gain of \$430,003. A schedule for the amount due for this refunded issue is as follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2019	4.000	\$ 167,900	835,000	\$ 1,002,900
2020	4.000	133,800	870,000	1,003,800
2021	4.000	98,200	910,000	1,008,200
2022	4.000	61,500	925,000	986,500
2023	2.000	32,350	1,065,000	1,097,350
2024	2.000	10,850	1,085,000	1,095,850
		<u>\$ 504,600</u>	<u>5,690,000</u>	<u>\$ 6,194,600</u>

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

\$27,310,000 General Obligation Bonds Dated September 21, 2017

On September 21, 2017, the Town issued \$27,310,000 in general obligation bonds to fund the Capital Improvements Plan. 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
2019	5.000	\$ 926,069	-	\$ 926,069
2020	5.000	926,069	-	926,069
2021	5.000	926,069	-	926,069
2022	5.000	926,069	640,000	1,566,069
2023	5.000	894,069	570,000	1,464,069
2024-2028	various	3,955,245	3,990,000	7,945,245
2029-2033	various	3,172,471	4,660,000	7,832,471
2034-2038	3.000	2,439,665	5,390,000	7,829,665
2039-2043	various	1,560,695	6,270,000	7,830,695
2044-2047	3.250	477,751	5,790,000	6,267,751
		<u>\$ 16,204,172</u>	<u>27,310,000</u>	<u>\$ 43,514,172</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 THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

General Obligation Bonds (Continued)

\$18,000,000 General Obligation Bonds Dated September 21, 2017

On September 21, 2017, the Town issued \$18,000,000 in general obligation bonds to replenish reserves used to respond to Hurricane Matthew. 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
2019	2.000	\$ 336,565	3,200,000	\$ 3,536,565
2020	2.000	272,565	3,265,000	3,537,565
2021	2.000	207,265	3,330,000	3,537,265
2022	2.000	140,665	3,395,000	3,535,665
2023	2.100	72,765	3,465,000	3,537,765
		<u>\$ 1,029,825</u>	<u>16,655,000</u>	<u>\$ 17,684,825</u>

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

Special Obligation Bonds

\$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
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	3.125	134,056	495,000	629,056
2023	3.250	118,588	510,000	628,588
2024-2028	various	319,185	2,820,000	3,139,185
		<u>\$ 1,069,072</u>	<u>5,220,000</u>	<u>\$ 6,289,072</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, 2018, approximately \$610,000 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 THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Special Obligation Bonds (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
2019	4.000	\$ 532,469	470,000	\$ 1,002,469
2020	4.000	513,669	485,000	998,669
2021	4.500	494,269	505,000	999,269
2022	4.500	471,544	530,000	1,001,544
2023	5.000	447,694	555,000	1,002,694
2024-2028	various	1,813,770	3,190,000	5,003,770
2029-2033	various	1,064,701	3,930,000	4,994,701
2034-2036	4.125	231,619	2,770,000	3,001,619
		<u>\$ 5,569,735</u>	<u>12,435,000</u>	<u>\$ 18,004,735</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, 2018, approximately \$1,073,000 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.

\$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
2019	2.250	\$ 28,294	2,515,000	\$ 2,543,294
		<u>\$ 28,294</u>	<u>2,515,000</u>	<u>\$ 2,543,294</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, 2018, approximately \$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.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Special Obligation Bonds (Continued)

\$30,075,000 Special Obligation Bonds (Beach Preservation Fees) Dated September 28, 2017

On September 28, 2017, the Town issued \$30,075,000 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
2019	3.000	\$ 1,402,150	1,360,000	\$ 2,762,150
2020	4.000	1,328,850	2,645,000	3,973,850
2021	4.000	1,220,850	2,755,000	3,975,850
2022	5.000	1,094,125	2,865,000	3,959,125
2023	5.000	947,375	3,005,000	3,952,375
2024-2028	5.000	2,266,125	17,445,000	19,711,125
		<u>\$ 8,259,475</u>	<u>30,075,000</u>	<u>\$ 38,334,475</u>

Beach Preservation fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

\$28,530,000 Special Obligation Bonds Tax Increment Financing (TIF) Dated July 27, 2017

On July 27, 2017, the Town issued \$30,075,000 in special obligation bonds (tax increment financing) to fund TIF projects within the Capital Improvement Plans. 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
2019	1.780	\$ 456,392	3,470,000	\$ 3,926,392
2020	1.780	394,626	3,535,000	3,929,626
2021	1.780	331,703	3,595,000	3,926,703
2022	1.780	267,712	3,660,000	3,927,712
2023	1.780	202,564	3,725,000	3,927,564
2024-2025	1.780	204,967	7,655,000	7,859,967
		<u>\$ 1,857,964</u>	<u>25,640,000</u>	<u>\$ 27,497,964</u>

TIF revenues 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 THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Revenue Bonds

\$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:

For the Year Ending June 30	Interest Rate by Year (%)	Business-Type Activities		
		Interest	Principal	Total
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	2.780	147,062	1,000,000	1,147,062
2023	2.780	119,262	1,030,000	1,149,262
2024-2026	2.780	183,063	3,260,000	3,443,063
		<u>\$ 1,050,284</u>	<u>8,135,000</u>	<u>\$ 9,185,284</u>

\$3,200,000 Stormwater Bonds Dated January 31, 2018

On January 31, 2018, the Town issued \$3,200,000 in revenue bonds to fund Stormwater projects. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Business-Type Activities		
		Interest	Principal	Total
2019	2.710	\$ 85,501	280,000	\$ 365,501
2020	2.710	77,913	285,000	362,913
2021	2.710	70,189	295,000	365,189
2022	2.710	62,195	300,000	362,195
2023	2.710	54,065	310,000	364,065
2024-2028	2.710	139,296	1,685,000	1,824,296
		<u>\$ 489,159</u>	<u>3,155,000</u>	<u>\$ 3,644,159</u>

Payments on these special revenue bonds will be funded with Stormwater revenues.

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:

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Legal Debt Limit (Continued)

- 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 or a minimum of \$20,000,000. Below is the calculation of the legal debt limit as of June 30, 2018:

Assessed Value	\$ 938,429,230
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval	<u>75,074,338</u>
Council Imposed 80% Cap or Minimum of \$20,000,000	55,074,338
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds 2009A (Refunding of Series 1999A)	(3,040,000)
General Obligation Bonds 2013A (Partial)	(3,211,109)
General Obligation Bonds 2017A	(27,310,000)
General Obligation Bonds 2017B	<u>(16,655,000)</u>
Total Amount Applicable to Debt Limit	(50,216,109)
Legal Debt Margin without a Referendum	<u><u>\$ 4,858,229</u></u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Presented below is a summary of changes in long-term obligations for the Town's governmental activities for the year ended June 30, 2018:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Debt:					
General Obligation Bonds:					
GOB - March 2008 (\$12.215M)	\$ 815,000	-	815,000	-	\$ -
GOB - September 2009 (\$5.005M)	3,425,000	-	385,000	3,040,000	395,000
GOB - August 2011 (\$12.385M)	9,405,000	-	660,000	8,745,000	680,000
GOB - June 2013 (\$5.0M)	4,177,779	-	163,888	4,013,891	172,222
GOB - June 2013 (\$4.0M)	3,342,221	-	131,112	3,211,109	137,778
GOB - September 2016 (\$13.08M)	10,990,000	-	1,915,000	9,075,000	2,010,000
GOB - September 2016 (\$9.035M)	8,500,000	-	160,000	8,340,000	135,000
GOB - September 2016 (\$5.77M)	5,690,000	-	-	5,690,000	835,000
GOB - September 2017 (\$27.31M)	-	27,310,000	-	27,310,000	-
GOB - September 2017 (\$18.0M)	-	18,000,000	1,345,000	16,655,000	3,200,000
Total General Obligation Bonds	46,345,000	45,310,000	5,575,000	86,080,000	7,565,000
Bond Anticipation Notes:					
BAN - October 2016 (\$25.0M)	25,000,000	-	25,000,000	-	-
BAN - May 2017 (\$20.0M)	20,000,000	-	20,000,000	-	-
Total Bond Anticipation Notes	45,000,000	-	45,000,000	-	-
Special Obligation Bonds:					
SOB - October 2011 (\$8.25M)	5,660,000	-	440,000	5,220,000	450,000
SOB - October 2011 (\$15.25M)	12,890,000	-	455,000	12,435,000	470,000
SOB - November 2011 (\$11.0M)	4,985,000	-	2,470,000	2,515,000	2,515,000
SOB - September 2017 (\$30.075M)	-	30,075,000	-	30,075,000	1,360,000
Total Special Obligation Bonds	23,535,000	30,075,000	3,365,000	50,245,000	4,795,000
Tax Increment Financing Bonds:					
TIFB - July 2017 (\$28.53M)	-	28,530,000	2,890,000	25,640,000	3,470,000
Total Tax Increment Financing Bonds	-	28,530,000	2,890,000	25,640,000	3,470,000
Subtotal	114,880,000	103,915,000	56,830,000	161,965,000	15,830,000
Premiums on Bonds	2,633,986	5,640,446	924,168	7,350,264	-
Total Debt	117,513,986	109,555,446	57,754,168	169,315,264	15,830,000
Compensated Absences	4,221,299	2,165,217	2,307,926	4,078,590	2,039,295
Total Long-Term Obligations	\$ 121,735,285	111,720,663	60,062,094	173,393,854	\$ 17,869,295

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

H. Long-Term Obligations (Continued)

Presented below is a summary of changes in long-term obligations for the Town’s business-type activities for the year ended June 30, 2018:

Long-Term Obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Debt:					
Revenue Bonds:					
December 2010 (\$13.81M)	\$ 9,035,000	-	900,000	8,135,000	\$ 920,000
January 2018 (\$3.2M)	-	3,200,000	45,000	3,155,000	280,000
Total Revenue Bonds	9,035,000	3,200,000	945,000	11,290,000	1,200,000
Total Long-Term Obligations	\$ 9,035,000	3,200,000	945,000	11,290,000	\$ 1,200,000

Presented below is a summary of debt service requirements to maturity by year for the Town’s governmental and business-type activities as of June 30, 2018:

For the Year Ended June 30	Governmental Activities			Business-type Activities		
	Interest	Principal	Total	Interest	Principal	Total
2019	\$ 5,109,047	15,830,000	20,939,047	311,654	1,200,000	\$ 1,511,654
2020	4,717,719	14,890,000	19,607,719	278,490	1,235,000	1,513,490
2021	4,337,423	15,320,000	19,657,423	244,356	1,270,000	1,514,356
2022	3,900,959	15,365,000	19,265,959	209,257	1,300,000	1,509,257
2023	3,422,471	15,875,000	19,297,471	173,327	1,340,000	1,513,327
2024-2028	10,808,372	47,740,000	58,548,372	322,359	4,945,000	5,267,359
2029-2033	5,086,275	14,500,000	19,586,275	-	-	-
2034-2038	2,779,147	10,385,000	13,164,147	-	-	-
2039-2043	1,560,695	6,270,000	7,830,695	-	-	-
2044-2047	477,751	5,790,000	6,267,751	-	-	-
Total	\$ 42,199,859	161,965,000	204,164,859	1,539,443	11,290,000	\$ 12,829,443

Defeased Debt

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, 2018, there were no outstanding defeased debt as all defeased debt has been redeemed as of June 30, 2018.

IV. OTHER INFORMATION

A. 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.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

A. Contingencies (Continued)

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, 2018.

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.

B. Retirement Plans

Great-West Life and Annuity Retirement 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 Great-West Life & Annuity Company, a retirement plan administrator. All full-time and part-time employees are covered by the plan except those covered by the South Carolina 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 4% contribution and 50% match of the next 4% contributed. All plan amendments must be approved by the Town Manager or his designee.

For the years ended June 30, 2018, 2017, and 2016, employer contributions were based on a total payroll of approximately \$8,761,000, \$8,753,000, and \$8,503,000, respectively. The amount contributed by the employer for the year ended June 30, 2018 was approximately \$894,000 or 10.2% of covered payroll. During the years ended June 30, 2017 and 2016, approximately \$835,000 and \$759,000 were contributed to the plan by the employer, respectively. Employee contributions to the plan were approximately \$850,000 or 9.7% of covered payroll for year ended June 30, 2018.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan

The Town participates in the State of South Carolina’s retirement plan, which is administered by the South Carolina Public Employee Benefit Authority (“PEBA”), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors (“PEBA Board”), 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 State Fiscal Accountability Authority (“SFAA”), 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. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (“RSIC”) as co-trustees of the Retirement Trust Funds.

The PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the System’ Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits’ link on the PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The 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.

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under the system is presented below.

- PORS – 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 the PORS. Magistrates are required to participate in the 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.

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/current annual salary. A brief summary of benefit terms for the system is presented below.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan (Continued)

Plan Benefits (Continued)

- PORS – 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.

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the percentage rate in the PORS (“Plan”) 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 total employer contribution rate that exceeds 5 percent for PORS. An increase in the contribution rates adopted by the PEBA 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 PEBA Board are insufficient to maintain a thirty-year amortization schedule of the unfunded liability of the plan, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

If the most recent annual actuarial valuation of the System for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the PEBA Board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 5 percent differential between the PORS employer and employee contribution rates. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the PEBA Board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act of 2017 increases employer contribution rates to 16.24 percent for the PORS, effective July 1, 2017. It also removes the 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9.75 percent for the PORS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 21.24 percent for the PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan (Continued)

Plan Contributions (Continued)

As noted earlier, both employees and the Town are required to contribute to the Plan at rates established and as amended by the PEBA. The Town’s contributions are actuarially determined but are communicated to and paid by the Town as a percentage of the employees’ annual eligible compensation. Required employer and employee contribution rates for the past three years are as follows:

	PORS Rates		
	2016	2017	2018
Employer Contribution Rate: [^]			
Retirement	13.34%	13.84%	15.84%
Incidental Death Benefit	0.20%	0.20%	0.20%
Accidental Death Contributions	0.20%	0.20%	0.20%
	<u>13.74%</u>	<u>14.24%</u>	<u>16.24%</u>
Employee Contribution Rate	<u>8.74%</u>	<u>9.24%</u>	<u>9.75%</u>

[^] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

The required contributions and percentages of amounts contributed by the Town to the Plan for the past three years were as follows:

Year Ended June 30,	PORS Contributions	
	Required	% Contributed
2018	\$ 1,332,702	100%
2017	1,238,850	100%
2016	\$ 1,127,237	100%

Eligible payrolls of the Town covered under the Plan for the past three years were as follows:

Year Ended June 30,	PORS Payroll	
2018	\$	8,206,297
2017		8,698,094
2016	\$	8,204,054

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan 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 regarding the net pension liability 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. An experience report on the System was most recently issued as of July 1, 2015.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan (Continued)

Actuarial Assumptions and Methods (Continued)

The June 30, 2017 total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2016 valuations for the PORs.

	<u>PORS</u>
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return*	7.25%
Projected Salary Increases*	3.5% to 9.5% (varies by service)
Benefit Adjustments	Lesser of 1% or \$500 annually

* Includes inflation at 2.25%.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (“2016 PRSC”), was developed using the System's mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the following table. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Allocation/Exposure	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.07%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Commodities	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

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

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 No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2017, for the PORS, are presented in the following table:

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan (Continued)

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

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PORS	\$ 7,013,684,001	4,274,123,178	\$ 2,739,560,823	60.9%

The total pension liability is calculated by the Systems' actuary, and each Plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the Plan's funding requirements.

At June 30, 2018, the Town reported a liability of approximately \$17,695,000 for its proportionate share of the net pension liability for the PORS. The net pension liability was measured as of June 30, 2017, 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 of July 1, 2016 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 June 30, 2017 measurement date, the Town's PORS proportion was 0.64589 percent, which was an increase of 0.02793 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of approximately \$2,178,000 for the PORS. At June 30, 2018, the Town reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
PORS		
Differences Between Expected and Actual Experience	\$ 157,786	\$ -
Change in Assumptions	1,679,386	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	630,534	-
Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions	480,760	288,669
Employer Contributions Subsequent to the Measurement Date	1,332,703	-
Total PORS	<u>\$ 4,281,169</u>	<u>\$ 288,669</u>

Approximately \$1,333,000 that was reported as deferred outflows of resources related to the Town's contributions subsequent to the measurement date to the PORS will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the PORS will increase (decrease) pension expense as follows:

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

State Retirement Plan (Continued)

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

Year Ended June 30,	PORS
2019	\$ 717,718
2020	1,021,284
2021	796,845
2022	123,950
Total	<u>\$ 2,659,797</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.25 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 Code of Laws. Based on those assumptions, each System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

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 7.25 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.25 percent) or 1% point higher (8.25 percent) than the current rate:

System	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
The Town’s proportionate share of the net pension liability of the PORS	\$ 23,891,156	17,694,659	\$ 12,813,761
Total	<u>\$ 23,891,156</u>	<u>17,694,659</u>	<u>\$ 12,813,761</u>

Plan’s Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plan administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the PORS. The CAFR is publicly available through the Retirement Benefits’ link on the PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Payable to Plan

The Town reported a payable of approximately \$174,000 to the PEBA as of June 30, 2018, representing required employer and employee contributions for the month of June 2018 for the PORS. This amount is included in Accounts Payable on the financial statements and was paid in July 2018.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

C. Health Plans

In January 2001, the Town instituted a medical expense reimbursement plan whereby the Town contributes a set amount each year per employee. The employees submit reimbursement requests for qualified 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 approximately \$268,000 at June 30, 2018, and is included as a liability in the General Fund in accrued payroll, benefits, and other liabilities. During the fiscal year ended June 30, 2018, the Town reimbursed approximately \$173,000 in claims under this plan.

In January 2005, the Town also instituted a preventive dental care reimbursement 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 are forfeited at the end of the year. For the period ended June 30, 2018 the limit was \$150 per covered individual, and the Town's liability under this plan totaled approximately \$69,000 at June 30, 2018, and is included in the General Fund in accounts payable. During the fiscal year ended June 30, 2018, the Town reimbursed \$18,000 in claims under this plan.

D. Contract Commitments and Operating Leases

Commitments

At June 30, 2018, the Town had remaining construction commitments of approximately \$12,387,000 related to ongoing capital activities, including infrastructure improvements, college campus construction, the recreation center expansion, and various sewer projects.

Operating Leases

The Town leases various office equipment under non-cancelable operating leases. The Town made rental payments of approximately \$41,000 during the year ended June 30, 2018. The future minimum rentals under these leases are as follows:

Year Ending June 30,	Future Minimum Rental Payments
2019	\$ 64,037
2020	21,524
2021	5,025
2022	3,319
2023	2,489
	<u>\$ 96,394</u>

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 non-cancelable operating leases. The future minimum rentals under these leases are as follows:

Year Ending June 30,	Future Minimum Rental Payments
2019	\$ 498,600
2020	498,600
2021	510,120
2022	362,250
2023	47,610
	<u>\$ 1,917,180</u>

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

E. 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 & the funds are held by Great-West, 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.

F. Postemployment Benefits Other than Pensions

Plan Description

In February 2002, the Town instituted a defined contribution plan, the Town of Hilton Head Island Retirement Health Savings Plan ("Plan"), whereby the Town contributes funds to each eligible employee's Health Reimbursement Account ("HRA"). The Town has established a Retirement Plan Advisory Committee consisting of members of the Town's Executive Steering Committee and Senior Staff, which have the authority to establish and amend the benefit terms and contribution rates of the Plan. The Plan is administered through a qualified trust managed by Educators Benefit Consultants, LLC.

Plan Benefits

The Town contributes 100% of forfeited sick leave (hours in excess of the maximum allowed to be accrued as of the end of the calendar year) on an annual basis while actively employed by the Town and 100% of any remaining MedFlex (Town sponsored HRA) balance no later than 60 days after retirement or after the date that the employee is deemed totally or permanently disabled (as defined by PORS or the Town's long-term disability insurance carrier). The Town also contributes 100% of the employee's accumulated sick leave balance upon (1) retirement, (2) the date which the participant is deemed totally or permanently disabled (as defined by PORS or the Town's long-term disability carrier), or (3) death if retirement-eligible. The surviving spouse and/or surviving eligible dependents of the deceased participant are immediately eligible to maintain the account and utilize it to fund eligible medical benefits. If the participant's account balance has not been fully utilized upon the death of the eligible spouse, the account balance may continue to be utilized to pay benefits to eligible dependents. Upon death of all eligible dependents the account balance is forfeited. If there are no living spouse or dependents at the time of death of the participant, the account balance is forfeited. Participants who are eligible to retire but who are (1) involuntarily terminated and not offered the option to retire in lieu of termination, (2) involuntarily terminated after declining the option to retire in lieu of termination, or (3) retirement eligible but die while actively employed by the Town are not eligible to receive employer contributions the balance in their account is forfeited. Forfeitures revert back to the employer for use to offset future employer contributions or other purposes permitted by law.

Participants are 100% vested upon the death, disability or retirement from the Town as follows: (1) upon death of the participant, benefits are payable to the surviving spouse and dependents as described previously; (2) a participant who becomes totally and permanently disabled (as defined by PORS or the Town's long-term disability insurance carrier) is eligible to receive plan benefits; and (3) a participant retires after meeting qualifications as follows: (i) to qualify for retirement under PORS, Class Two members must have 25 years of service credit or be at least 55 with 5 years of earned service credit. Class Three members must have 27 years of service credit or be at least 55 with 8 years or earned service credit; (ii) to qualify for retirement under the Town's retirement plan, an employee must have 25 years of service with the Town or be at least age 55 with 5 years of service with the Town.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

IV. OTHER INFORMATION (CONTINUED)

F. Postemployment Benefits Other than Pensions (Continued)

Plan Contributions

The Town contributed approximately \$550,000, including both the retirement and annual contributions, to the trust during the year ended June 30, 2018. The Town does not have a liability related to the defined contribution plan as of June 30, 2018. No contributions other than employer contributions are required nor accepted.

G. 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 there were none in the fiscal year ending June 30, 2018.

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Required Supplementary Information

Budgetary Comparison Schedule

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgets and Actual – General Fund – Schedule A

Schedules Related to the South Carolina Retirement System Participation

Schedule of the Town of Hilton Head Island's Proportionate Share of Net Pension Liability – Schedule B

Schedule of the Town of Hilton Head Island's Contributions – Police Officers Retirement System – Schedule C

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Real and Personal Property Taxes	\$ 13,473,000	13,473,000	14,133,876	\$ 660,876
Accommodations Tax	3,312,968	3,312,968	3,543,910	230,942
Business License and Franchise Fees	9,983,007	9,983,007	11,196,245	1,213,238
Permits	1,443,239	1,443,239	1,880,231	436,992
State Shared Funds	812,000	812,000	838,323	26,323
Grants	148,677	148,677	168,267	19,590
EMS Revenue	1,490,000	1,490,000	1,678,566	188,566
Public Safety Revenue	54,000	54,000	53,331	(669)
Fines and Fees	220,000	220,000	164,849	(55,151)
Miscellaneous Revenue	535,470	535,470	680,003	144,533
Investment Income	2,500	2,500	307,012	304,512
TOTAL REVENUES	31,474,861	31,474,861	34,644,613	3,169,752
EXPENDITURES				
Current:				
General Government	1,932,770	2,054,439	1,348,800	705,639
Management Services	6,080,178	6,192,916	5,604,443	588,473
Community Services	8,861,452	9,061,123	7,923,985	1,137,138
Public Safety	18,479,958	18,504,556	17,994,878	509,678
Non-Departmental	4,031,356	4,098,068	3,826,433	271,635
Capital Outlay	933,322	1,066,664	826,379	240,285
TOTAL EXPENDITURES	40,319,036	40,977,766	37,524,918	3,452,848
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,844,175)	(9,502,905)	(2,880,305)	6,622,600
OTHER FINANCING SOURCES (USES)				
Transfers In	7,492,283	7,492,283	5,666,133	(1,826,150)
Transfers Out	-	(47,755)	(47,755)	-
TOTAL OTHER FINANCING SOURCES (USES)	7,492,283	7,444,528	5,618,378	(1,826,150)
NET CHANGE IN FUND BALANCES	(1,351,892)	(2,058,377)	2,738,073	4,796,450
FUND BALANCES - Beginning of Year	16,103,222	16,103,222	16,103,222	-
FUND BALANCES - End of Year	\$ 14,751,330	14,044,845	18,841,295	\$ 4,796,450

Notes to Schedule:

This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The Town's original and final budget reflected the use of appropriated fund balance of \$1,351,892 and \$2,058,377, respectively. Actual performance was better than budget and no fund balance was used.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2018

A. BASIS OF ACCOUNTING

The budgetary comparison schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

B. BUDGETARY INFORMATION

The Town's procedures in establishing the budgetary data reflected in the budgetary comparison schedule are as follows:

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 through passage of an ordinance by July 1.
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.

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF THE TOWN OF HILTON HEAD ISLAND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA POLICE OFFICERS RETIREMENT SYSTEM**LAST FIVE FISCAL YEARS**

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Town of Hilton Head Island's Proportion of the Net Pension Liability	0.64589%	0.62151%	0.55035%	0.65013%	0.65013%
Town of Hilton Head Island's Proportionate Share of the Net Pension Liability	\$ 17,694,659	15,764,333	11,994,845	12,446,267	\$ 13,477,016
Town of Hilton Head Island's Covered Payroll	\$ 8,698,094	8,204,054	7,762,118	7,819,385	\$ 7,472,105
Town of Hilton Head Island's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	203.431%	192.153%	154.531%	159.172%	180.364%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.940%	60.445%	64.569%	67.549%	62.979%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of the preceding fiscal year.

The Town adopted GASB #68 during the year ended June 30, 2015. Information is not available for earlier years.

The discount rate was lowered from 7.50% to 7.25% for the year ended June 30, 2018.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

SCHEDULE C

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF THE TOWN OF HILTON HEAD ISLAND'S CONTRIBUTIONS
SOUTH CAROLINA POLICE OFFICERS RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

	Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 1,332,703	1,238,850	1,127,237	1,040,900	1,004,009	889,180	860,238	881,261	798,806	\$ 815,787
Contributions in Relation to the Contractually Required Contribution	1,332,703	1,238,850	1,127,237	1,040,900	1,004,009	889,180	860,238	881,261	798,806	815,787
Contribution Deficiency (Excess)	\$ -	-	-	-	-	-	-	-	-	\$ -
Town of Hilton Head Island's Covered Payroll	\$ 8,206,297	8,698,094	8,204,054	7,762,118	7,819,385	7,472,105	7,570,521	7,755,527	7,500,522	\$ 7,659,969
Contributions as a Percentage of Covered Payroll	16.24%	14.24%	13.74%	13.41%	12.84%	11.90%	11.36%	11.36%	10.65%	10.65%

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Supplemental Financial Information

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Supplementary Information

Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budgets and Actual

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 and general long-term obligation debt.

Capital Projects Fund

The Capital Projects Funds account for all resources used for the acquisition or construction of 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.

BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Real and Personal Property Taxes	\$ 13,473,000	13,473,000	14,133,876	\$ 660,876
Accommodations Tax - Local 1%	3,312,968	3,312,968	3,543,910	230,942
Business License and Franchise Fees:				
Business License - Town	4,620,576	4,620,576	5,335,475	714,899
Business License - MASC	4,405,590	4,405,590	4,934,335	528,745
Business License - Transportation	-	-	12,534	12,534
Cable Television Franchise Fee	926,681	926,681	878,815	(47,866)
Beach Franchise Fee	30,160	30,160	35,086	4,926
Total Business License and Franchise Fees	<u>9,983,007</u>	<u>9,983,007</u>	<u>11,196,245</u>	<u>1,213,238</u>
Permits:				
Construction	592,076	592,076	983,581	391,505
Development	12,863	12,863	13,653	790
Other	838,300	838,300	882,997	44,697
Total Permits	<u>1,443,239</u>	<u>1,443,239</u>	<u>1,880,231</u>	<u>436,992</u>
State Shared Funds	812,000	812,000	838,323	26,323
Grants:				
Beaufort County Hazmat	11,677	11,677	7,794	(3,883)
Beaufort County E911	137,000	137,000	158,844	21,844
CDBG	-	-	1,629	1,629
Total Grants	<u>148,677</u>	<u>148,677</u>	<u>168,267</u>	<u>19,590</u>
Public Safety - EMS Revenue	1,490,000	1,490,000	1,678,566	188,566
Public Safety - County D/T Revenue	54,000	54,000	53,331	(669)
Municipal Court Fines and Fees	220,000	220,000	164,849	(55,151)
Miscellaneous Revenue:				
Beach Services	230,000	230,000	252,649	22,649
Donations	200	200	25	(175)
Other	267,070	267,070	401,215	134,145
Town Codes	200	200	10	(190)
Victims Assistance	38,000	38,000	26,104	(11,896)
Total Miscellaneous Revenue	<u>535,470</u>	<u>535,470</u>	<u>680,003</u>	<u>144,533</u>
Investment Income	2,500	2,500	307,012	304,512
TOTAL REVENUES	<u>31,474,861</u>	<u>31,474,861</u>	<u>34,644,613</u>	<u>3,169,752</u>
EXPENDITURES				
Current:				
General Government:				
Town Council:				
Salaries and Benefits	158,596	158,596	146,795	11,801
Operating	368,050	368,050	323,544	44,506
Town Council Initiatives	740,000	851,669	214,799	636,870
Total Town Council	<u>\$ 1,266,646</u>	<u>1,378,315</u>	<u>685,138</u>	<u>\$ 693,177</u>

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Town Manager:				
Salaries and Benefits	\$ 637,374	647,374	645,904	\$ 1,470
Operating	28,750	28,750	17,758	10,992
Total Town Manager	666,124	676,124	663,662	12,462
Total General Government	1,932,770	2,054,439	1,348,800	705,639
Management Services:				
Finance - Administration:				
Salaries and Benefits	295,007	295,007	294,471	536
Operating	24,750	24,750	15,316	9,434
Total Finance - Administration	319,757	319,757	309,787	9,970
Financing - Accounting:				
Salaries and Benefits	546,463	546,463	448,170	98,293
Operating	119,000	119,000	118,196	804
Total Financing - Accounting	665,463	665,463	566,366	99,097
Finance - Revenue and Collections:				
Salaries and Benefits	803,254	803,254	703,969	99,285
Operating	41,020	41,020	20,426	20,594
Total Finance - Revenue and Collections	844,274	844,274	724,395	119,879
Finance - Procurement:				
Salaries and Benefits	28,000	28,000	26,514	1,486
Operating	-	-	-	-
Total Finance - Procurement	28,000	28,000	26,514	1,486
Administration - Legal:				
Salaries and Benefits	505,086	505,086	501,393	3,693
Operating	40,832	40,867	26,727	14,140
Total Administration - Legal	545,918	545,953	528,120	17,833
Administrative Services - Municipal Court:				
Salaries and Benefits	307,442	307,442	295,485	11,957
Operating	91,430	97,210	74,607	22,603
Total Administrative Services - Municipal Court	398,872	404,652	370,092	34,560
Administrative Services - Office of Cultural Affairs:				
Salaries and Benefits	128,553	104,553	102,653	1,900
Operating	54,300	54,300	34,405	19,895
Total Administrative Services - Office of Cultural Affairs	182,853	158,853	137,058	21,795
Administrative Services - Administrative Support:				
Salaries and Benefits	240,058	240,058	238,366	1,692
Operating	17,210	25,210	23,470	1,740
Total Administrative Services - Administrative Support	257,268	265,268	261,836	3,432
Administrative Services - Information Technology:				
Salaries and Benefits	1,130,746	1,130,746	1,115,108	15,638
Operating	1,043,791	1,142,714	942,838	199,876
Total Administrative Services - Information Technology	\$ 2,174,537	2,273,460	2,057,946	\$ 215,514

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Human Resources:				
Salaries and Benefits	\$ 474,126	474,126	482,304	\$ (8,178)
Operating	189,110	189,110	118,054	71,056
Total Human Resources	663,236	663,236	600,358	62,878
Communications:				
Salaries and Benefits	-	24,000	21,971	2,029
Operating	-	-	-	-
Total Communications	-	24,000	21,971	2,029
Total Management Services	6,080,178	6,192,916	5,604,443	588,473
Community Services:				
Community Development - Administration:				
Salaries and Benefits	477,880	479,380	479,644	(264)
Operating	36,070	36,070	26,398	9,672
Total Community Development - Administration	513,950	515,450	506,042	9,408
Community Development - CD Services:				
Salaries and Benefits	368,924	384,924	386,625	(1,701)
Operating	7,970	7,970	6,205	1,765
Total Community Development - CD Services	376,894	392,894	392,830	64
Community Development - Inspection/Compliance:				
Salaries and Benefits	646,616	645,116	631,119	13,997
Operating	79,765	79,765	47,344	32,421
Total Community Development - Inspection/Compliance	726,381	724,881	678,463	46,418
Community Development - Development, Review, Zoning:				
Salaries and Benefits	709,313	693,313	673,684	19,629
Operating	105,870	133,038	24,725	108,313
Total Community Development - Development, Review, Zoning	815,183	826,351	698,409	127,942
Community Development - Comprehensive Planning:				
Salaries and Benefits	640,650	640,650	622,063	18,587
Operating	63,635	63,635	11,335	52,300
Total Community Development - Comprehensive Planning	704,285	704,285	633,398	70,887
Public Facilities - Administration:				
Salaries and Benefits	284,104	284,104	279,140	4,964
Operating	5,500	5,500	3,197	2,303
Total Public Facilities - Administration	289,604	289,604	282,337	7,267
Public Facilities - Engineering:				
Salaries and Benefits	484,692	484,692	480,216	4,476
Operating	587,300	747,416	387,151	360,265
Total Public Facilities - Engineering	1,071,992	1,232,108	867,367	364,741
Public Facilities - Facilities Management:				
Salaries and Benefits	1,105,283	1,105,283	1,030,937	74,346
Operating	3,257,880	3,270,267	2,834,202	436,065
Total Public Facilities - Facilities Management	4,363,163	4,375,550	3,865,139	510,411
Total Community Services	\$ 8,861,452	9,061,123	7,923,985	\$ 1,137,138

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Public Safety:				
Fire Rescue - Administration:				
Salaries and Benefits	\$ 246,265	246,265	243,720	\$ 2,545
Operating	131,750	131,750	123,484	8,266
Total Fire Rescue - Administration	378,015	378,015	367,204	10,811
Fire Rescue - Fleet/Maintenance:				
Salaries and Benefits	329,013	329,013	292,609	36,404
Operating	266,450	285,888	233,015	52,873
Total Fire Rescue - Fleet/Maintenance	595,463	614,901	525,624	89,277
Fire Rescue - Operations:				
Salaries and Benefits	9,887,435	9,887,435	9,831,633	55,802
Operating	78,700	43,700	40,181	3,519
Total Fire Rescue - Operations	9,966,135	9,931,135	9,871,814	59,321
Fire Rescue - Communications:				
Salaries and Benefits	1,000,225	1,000,225	989,269	10,956
Operating	160,765	228,345	169,366	58,979
Total Fire Rescue - Communications	1,160,990	1,228,570	1,158,635	69,935
Fire Rescue - Training:				
Salaries and Benefits	577,383	577,383	565,395	11,988
Operating	76,975	76,975	75,391	1,584
Total Fire Rescue - Training	654,358	654,358	640,786	13,572
Fire Rescue - Planning:				
Salaries and Benefits	212,109	212,109	186,890	25,219
Operating	110,675	110,675	106,354	4,321
Total Fire Rescue - Planning	322,784	322,784	293,244	29,540
Fire Rescue - Emergency Management:				
Salaries and Benefits	104,423	104,423	103,209	1,214
Operating	53,600	55,600	29,776	25,824
Total Fire Rescue - Emergency Management	158,023	160,023	132,985	27,038
Fire Rescue - Bureau of Fire Prevention:				
Salaries and Benefits	552,064	552,064	523,591	28,473
Operating	72,930	42,930	35,183	7,747
Total Fire Rescue - Bureau of Fire Prevention	624,994	594,994	558,774	36,220
Fire Rescue - Support Services:				
Salaries and Benefits	249,741	249,741	238,453	11,288
Operating	412,700	413,017	370,699	42,318
Total Fire Rescue - Support Services	662,441	662,758	609,152	53,606
Fire Rescue - E911 Communications:				
Salaries and Benefits	206,459	206,459	206,047	412
Operating	27,980	27,980	21,308	6,672
Total Fire Rescue - E911 Communications	\$ 234,439	234,439	227,355	\$ 7,084

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Sheriff/Other Public Safety:				
Police Services/Contract	\$ 3,281,097	3,281,360	3,198,865	\$ 82,495
Stipend	120,000	120,000	93,150	26,850
Victims' Rights	63,542	63,542	63,542	-
Beach Services	257,677	257,677	253,748	3,929
Total Sheriff/Other Public Safety	3,722,316	3,722,579	3,609,305	113,274
Total Public Safety	18,479,958	18,504,556	17,994,878	509,678
Non-Departmental - Townwide:				
Non-Grant Expenditures:				
Personnel	351,010	601,010	617,350	(16,340)
Operating	2,117,811	1,903,698	1,695,145	208,553
Total Non-Grant Expenditures	2,468,821	2,504,708	2,312,495	192,213
Operating Grants:				
Recreation Center - Operating Grant	707,052	707,052	707,052	-
Coastal Discovery Grant - Operating Grant	75,000	75,000	75,000	-
Coastal Discovery Grant - Capital Grant	57,000	84,583	26,120	58,463
Coastal Discovery Grant - Mitchellville Grant	110,000	110,000	94,826	15,174
Event Management and Hospitality Training	110,000	110,000	109,298	702
LTRA Grant	259,153	259,153	259,153	-
Multidisciplinary Court	50,000	50,000	50,000	-
Solicitor Career Criminal Program	118,500	118,500	118,500	-
Community Foundation Grant	50,000	50,000	50,000	-
LEPC	10,830	14,072	13,989	83
Beaufort County EDC	15,000	15,000	10,000	5,000
Total Operating Grants	1,562,535	1,593,360	1,513,938	79,422
Total Non-Departmental - Townwide	4,031,356	4,098,068	3,826,433	271,635
Capital Outlay:				
Management Services:				
Administrative Support:				
Equipment	113,000	113,000	97,697	15,303
Total Administrative Support	113,000	113,000	97,697	15,303
Administrative Services - Information Technology:				
Specialized Equipment	40,000	40,000	-	40,000
Computer Software	87,822	173,185	112,791	60,394
Total Administrative Services - Information Technology	127,822	213,185	112,791	100,394
Total Management Services	240,822	326,185	210,488	115,697
Community Development:				
Community Development - Administration:				
Dredging	600,000	600,000	600,000	-
Total Community Development - Administration	600,000	600,000	600,000	-
Total Community Development	\$ 600,000	600,000	600,000	\$ -

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Public Safety:				
Police Patrol:				
Specialized Equipment	\$ 6,000	6,000	-	\$ 6,000
Total Police Patrol	6,000	6,000	-	6,000
Fire Rescue - Support Services:				
Specialized Equipment	50,500	98,479	15,891	82,588
Total Fire Rescue - Support Services	50,500	98,479	15,891	82,588
Total Public Safety	56,500	104,479	15,891	88,588
Townwide:				
Security Cameras	36,000	36,000	-	36,000
Total Townwide	36,000	36,000	-	36,000
Total Capital Outlay	933,322	1,066,664	826,379	240,285
TOTAL EXPENDITURES	40,319,036	40,977,766	37,524,918	3,452,848
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,844,175)	(9,502,905)	(2,880,305)	6,622,600
OTHER FINANCING SOURCES (USES)				
Transfers In:				
Beach Preservation Fee Fund	1,361,138	1,361,138	1,361,138	-
Capital Projects Fund:				
Ad Valorem Taxes	628,000	628,000	628,000	-
Sunday Liquor Fees	50,000	50,000	50,000	-
Hospitality Tax Fund	3,492,245	3,492,245	1,492,245	(2,000,000)
Tax Increment Financing Fund	180,000	180,000	180,000	-
State Accommodations Tax Fund	1,565,900	1,565,900	1,739,750	173,850
Electricity Franchise Fee Fund	90,000	90,000	90,000	-
Stormwater Utility Fund	125,000	125,000	125,000	-
Transfers Out:				
Capital Projects Fund	-	(47,755)	(47,755)	-
TOTAL OTHER FINANCING SOURCES (USES)	7,492,283	7,444,528	5,618,378	(1,826,150)
NET CHANGE IN FUND BALANCES	(1,351,892)	(2,058,377)	2,738,073	4,796,450
FUND BALANCES - Beginning of Year	16,103,222	16,103,222	16,103,222	-
FUND BALANCES - End of Year	\$ 14,751,330	14,044,845	18,841,295	\$ 4,796,450

Notes to Schedule:

This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The Town's original and final budget reflected the use of appropriated fund balance of \$1,351,892 and \$2,058,377, respectively. Actual performance was better than budget and no fund balance was used.

BUDGET (GAAP BASIS) AND ACTUAL - DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Real and Personal Property Taxes	\$ 5,337,600	5,337,600	5,297,023	\$ (40,577)
Federal Reimbursement - BABS	169,870	169,870	-	(169,870)
Investment Income	36,000	36,000	38,770	2,770
TOTAL REVENUES	5,543,470	5,543,470	5,335,793	(207,677)
EXPENDITURES				
Administrative	40,000	40,000	14,175	25,825
Cost of Issue	750,000	750,000	609,548	140,452
Debt Service:				
Principal	7,595,000	11,830,000	11,830,000	-
Interest	15,765,000	11,530,000	3,693,591	7,836,409
TOTAL EXPENDITURES	24,150,000	24,150,000	16,147,314	8,002,686
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(18,606,530)	(18,606,530)	(10,811,521)	7,795,009
OTHER FINANCING SOURCES (USES)				
Transfers In:				
Beach Preservation Fees	5,986,288	5,986,288	3,037,325	(2,948,963)
Hospitality Tax	2,324,350	2,324,350	1,634,350	(690,000)
Real Estate Transfer Fees	2,260,263	2,260,263	1,834,365	(425,898)
Lease Revenue	65,000	65,000	65,336	336
TIF Taxes	5,535,000	5,535,000	3,318,838	(2,216,162)
Natural Disasters Fund	4,200,000	4,200,000	1,499,473	(2,700,527)
Capital Projects	-	298,932	298,930	(2)
Transfers Out:				
Capital Projects	-	(298,932)	(298,930)	2
Bond Premiums	-	-	468,259	468,259
Payments to Escrow Agent	(50,000)	(50,000)	-	50,000
TOTAL OTHER FINANCING SOURCES (USES)	20,320,901	20,320,901	11,857,946	(8,462,955)
NET CHANGE IN FUND BALANCES	1,714,371	1,714,371	1,046,425	(667,946)
FUND BALANCES - Beginning of Year	9,886,150	9,886,150	9,886,150	-
FUND BALANCES - End of Year	\$ 11,600,521	11,600,521	10,932,575	\$ (667,946)

BUDGET (GAAP BASIS) AND ACTUAL - CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
REVENUES				
Real and Personal Property Taxes	\$ 688,949	688,949	724,681	\$ 35,732
Grants	-	-	194,510	194,510
Other Revenue	-	-	94	94
Sunday Permit Fees	350,000	350,000	290,300	(59,700)
Lease Revenue	65,000	65,000	108,091	43,091
Impact Fees	-	-	476,677	476,677
Investment Income	-	-	264,390	264,390
TOTAL REVENUES	1,103,949	1,103,949	2,058,743	954,794
EXPENDITURES				
Community Services and Capital Outlay:				
Public Facilities and Equipment:				
Coligny/Pope Avenue Area Initiative	-	9,370,611	951	9,369,660
Northwest Quadrant - Coligny/Sandbox	-	1,484,465	-	1,484,465
Office Park Road/USCB	-	19,322,255	9,493,010	9,829,245
Fire Hydrant Project	100,000	100,000	-	100,000
Sewer Service Projects	2,526,000	4,743,928	4,486,614	257,314
Total Public Facilities and Equipment	2,626,000	35,021,259	13,980,575	21,040,684
Park Development:				
Island Recreation Center Expansion	734,000	10,861,758	8,770,708	2,091,050
Rowing and Sailing Center	-	30,000	24,995	5,005
Park Upgrades	300,000	300,000	3,900	296,100
Shelter Cove Community Park	-	589,254	-	589,254
Chaplain Irrigation	-	40,716	12,522	28,194
Crossing Park - Field Drains	-	113,647	-	113,647
Cordillo Court Tennis Courts	200,000	200,000	4,975	195,025
Shelter Cove Park Parking	-	200,000	-	200,000
Total Park Development	1,234,000	12,335,375	8,817,100	3,518,275
Land Development:				
Miscellaneous	20,000	20,000	490	19,510
Total Land Development	20,000	20,000	490	19,510
Beach Maintenance:				
Beach Management & Monitoring	500,000	693,501	313,974	379,527
Dune Fencing and Planting	300,000	317,380	317,380	-
Islandwide Beach Renourishment	7,750,000	8,180,040	6,874,745	1,305,295
Total Beach Maintenance	8,550,000	9,190,921	7,506,099	1,684,822
Facilities Improvements:				
Fire Station #2 Replacement	-	3,842,848	735	3,842,113
Airport Runway Extension	150,000	150,000	-	150,000
Equipment - Apparatus and Vehicle Replacement	\$ 2,085,000	2,085,000	125,039	\$ 1,959,961

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	
Arts Center Lighting	\$ -	488,750	38,409	\$ 450,341
Recreation Center Upfits	-	781,755	447,786	333,969
Town Hall Renovations	-	59,379	31,733	27,646
Total Facilities Improvements	2,235,000	7,407,732	643,702	6,764,030
Roadway Improvements:				
Marshland Road Roundabout	-	449	140	309
Reconstruction of Nassau Street	-	2,231,866	3,575	2,228,291
South Forest Beach Drive Improvements	-	340,957	-	340,957
Traffic Signal Pembroke US 278	-	140,000	-	140,000
Palmetto Dunes Swing About	-	110,409	57,758	52,651
Office Park Road Intersection Improvements	-	3,086,173	1,833,651	1,252,522
Shelter Cove at Town Center	125,000	125,000	998	124,002
Bluffton Beautification	-	511,250	-	511,250
Intersection Improvements Squire Pope	-	24,160	-	24,160
Rhiner Drive	-	330,107	319,918	10,189
Wiley Road	-	365,572	336,171	29,401
Extension of Lagoon Road	-	1,854,626	13,917	1,840,709
Private Dirt Roads Acquisition	650,000	635,466	38,356	597,110
Lagoon Road - Pope Road	-	1,136,583	6,714	1,129,869
Blazing Star Paving	-	5,000	-	5,000
Turn Lane Improvements - Whipple at Queen's Folly	-	22,702	18,582	4,120
Turn Lane Improvements - Whipple at Beach City	-	71,135	36,681	34,454
Total Roadway Improvements	775,000	10,991,455	2,666,461	8,324,994
Pathway Improvements:				
Pathway Improvements	100,000	269,231	17,479	251,752
Total Pathway Improvements	100,000	269,231	17,479	251,752
Total Community Services and Capital Outlay	15,540,000	75,235,973	33,631,906	41,604,067
Debt Service:				
Principal	-	25,000,000	25,000,000	-
Interest	-	1,000,000	1,000,000	-
Debt Issue Costs	641,000	1,230,458	1,143,765	86,693
Total Debt Service	641,000	27,230,458	27,143,765	86,693
TOTAL EXPENDITURES	16,181,000	102,466,431	60,775,671	41,690,760
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(15,077,051)	(101,362,482)	(58,716,928)	42,645,554
OTHER FINANCING SOURCES (USES)				
Issuance of New Bonds:				
Bond Proceeds (Tax Increment Financing)	275,000	275,000	28,530,000	28,255,000
Bond Proceeds (Beach Preservation)	\$ 7,875,000	7,875,000	30,075,000	\$ 22,200,000

(Continued)

BUDGET (GAAP BASIS) AND ACTUAL - CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGETS AND ACTUAL

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Bond Proceeds (General Obligation)	\$ 5,736,000	5,736,000	27,310,000	\$ 21,574,000
Bond Premium (General Obligation)	-	-	300,410	300,410
Proceeds from the Sale of Land	195,000	195,000	-	(195,000)
Proceeds from the Sale of Assets	-	-	11,001	11,001
Transfers In:				
Beach Preservation Fees	800,000	1,440,922	707,592	(733,330)
Hospitality Tax	325,000	2,115,225	219,362	(1,895,863)
Tax Increment Financing	-	5,930,996	333,338	(5,597,658)
General Fund	-	47,755	47,755	-
Debt Service	-	298,932	298,930	(2)
Road Usage Fees	650,000	859,690	59,147	(800,543)
Transfers Out:				
General Fund	(743,000)	(678,000)	(678,000)	-
Debt Service	-	(363,932)	(364,266)	(334)
TOTAL OTHER FINANCING SOURCES (USES)	15,113,000	23,732,588	86,850,269	63,117,681
NET CHANGE IN FUND BALANCES	35,949	(77,629,894)	28,133,341	105,763,235
FUND BALANCES - Beginning of Year	11,999,880	11,999,880	11,999,880	-
FUND BALANCES - End of Year	\$ 12,035,829	(65,630,014)	40,133,221	\$ 105,763,235

Notes to Schedule:

This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The Town's final budget reflected the use of appropriated fund balance of \$77,629,894. Actual performance was better than budget and no fund balance was used.

BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
OPERATING REVENUES				
Stormwater Utility Fees	\$ 4,800,000	4,800,000	4,775,637	\$ (24,363)
TOTAL OPERATING REVENUES	4,800,000	4,800,000	4,775,637	(24,363)
OPERATING EXPENSES				
Planned Unit Developments:				
Hilton Head Plantation:				
Stormwater Maintenance	5,000	21,479	21,478	1
Inventory and Modeling	50,000	50,000	-	50,000
Pipe and Inlet Cleaning	9,000	1,580	1,580	-
Pineland Road	10,000	10,000	-	10,000
Flagship Lane Sinkhole Repair	-	18,000	10,203	7,797
Pine Island/Barrier Beach	100,000	100,000	100,000	-
Old Fort Outfall - Capital	250,000	250,000	-	250,000
Sparrow Lane Outfall	-	50,244	3,150	47,094
Pipe Lining - Seabrook Drive	7,000	7,000	2,731	4,269
Deerfield Road	-	5,756	5,756	-
Oyster Reef Cove	10,000	-	-	-
Dolphin Head and Seabrook	25,000	25,000	-	25,000
Glenmore Place Flooding	30,000	14,880	14,879	1
Sea Otter Pipe Replacement	-	22,000	-	22,000
Total Hilton Head Plantation	496,000	575,939	159,777	416,162
Indigo Run Plantation:				
Stormwater Maintenance	50,000	18,462	-	18,462
Berwick Drive	5,000	-	-	-
Channel Cleaning	8,000	23,940	-	23,940
Ditch Cleaning	5,000	-	-	-
Indigo Run Drive/Branford Inlet	8,000	2,060	2,060	-
Total Indigo Run Plantation	76,000	44,462	2,060	42,402
Long Cove Club:				
Stormwater Maintenance	15,000	15,000	-	15,000
Drainage Maintenance	10,000	10,000	-	10,000
Total Long Cove Club	25,000	25,000	-	25,000
Leamington Plantation:				
Matthew Repair Work	40,000	20,000	-	20,000
Stormwater Maintenance	12,000	12,000	-	12,000
Total Leamington Plantation	52,000	32,000	-	32,000
Palmetto Dunes Plantation:				
Drainage/Stormwater Maintenance	86,000	96,000	23,374	72,626
Matthew Repair Work	120,000	121,008	-	121,008
Shelter Cove Lane Capital and Infrastructure	10,000	10,000	10,051	(51)
Total Palmetto Dunes Plantation	\$ 216,000	227,008	33,425	\$ 193,583

(Continued)

BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Palmetto Hall Plantation:				
Stormwater Maintenance	\$ 30,000	15,000	-	\$ 15,000
Matthew Repair Work	16,000	-	-	-
Capital and Infrastructure Arthur Hills Course	50,000	-	-	-
Total Palmetto Hall Plantation	96,000	15,000	-	15,000
Port Royal Plantation:				
Inventory and Modeling	40,000	40,000	-	40,000
Port Royal Channel Maintenance	305,000	486,793	258,494	228,299
Ft. Walker Dr Capital	45,000	45,000	-	45,000
Total Port Royal Plantation	390,000	571,793	258,494	313,299
Shipyards Plantation:				
The Cottages Capital and Infrastructure	-	1,500	1,500	-
Galleon Fairways Flooding/Dredging	12,000	12,000	-	12,000
Windward Village	10,000	10,000	-	10,000
Shipyards Channel Maintenance	10,000	10,000	9,958	42
Shipyards Pump Station	25,000	42,476	24,886	17,590
Total Shipyards Plantation	57,000	75,976	36,344	39,632
Sea Pines Plantation:				
Stormwater Maintenance	-	333	333	-
Sea Pines Channel Maintenance	10,000	-	-	-
Spotted Sandpiper Capital	140,000	140,000	-	140,000
Baynard Park	11,000	11,000	-	11,000
March Drive	26,000	-	-	-
Baynard Park Deck	8,000	-	-	-
Sea Pines Pump Station	200,000	200,000	11,848	188,152
Ruddy Turnstone Capital	30,000	30,000	-	30,000
Harbor Town 14 Weir	-	3,608	-	3,608
Ocean Course Capital	24,000	24,000	-	24,000
Lighthouse Road to Forest Drive Channel	26,000	25,667	22,591	3,076
Club Course Drainage	60,000	60,000	38,821	21,179
Lighthouse Lane Drainage Improvements	10,000	32,000	3,533	28,467
Wren Drive	55,000	55,000	-	55,000
Oyster Landing	11,000	19,000	-	19,000
Lawton Canal	40,000	9,316	9,316	-
Total Sea Pines Plantation	651,000	609,924	86,442	523,482
Wexford Plantation:				
Wexford Club Drive Flooding	160,000	174,080	-	174,080
Pipe and Inlet Cleaning	20,000	20,000	7,840	12,160
Wexford Pump Station	25,000	36,019	37,974	(1,955)
Total Wexford Plantation	205,000	230,099	45,814	184,285
Contingency:				
Contingency - Planned Unit Developments	100,000	13,799	10,799	3,000
Total Contingency	100,000	13,799	10,799	3,000
Total Planned Unit Developments	\$ 2,364,000	2,421,000	633,155	\$ 1,787,845

(Continued)

BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
Non-Planned Unit Developments:				
Stormwater Maintenance:				
Drainage Maintenance	\$ 8,000	8,192	2,448	\$ 5,744
Channel Cleaning and Maintenance	12,000	1,000	1,000	-
Palmetto Headlands	8,000	44,952	44,952	-
Gum Tree Channel	60,000	75,000	2,070	72,930
Arrow Road	16,000	16,000	70	15,930
Jarvis Creek Channel Maintenance	8,000	8,000	-	8,000
Gum Tree and Wildhorse	8,000	16,000	-	16,000
Muddy Creek Channel	8,000	-	-	-
Model and Map Point Comfort and Sea Pines	30,000	30,000	-	30,000
LeMoyne Ave. Flooding	-	16,094	-	16,094
Northridge/Matthew	-	245	245	-
Mathews Drive Pathway Outflow	20,000	40,000	-	40,000
Lawton Woods Drainage	1,500,000	1,543,342	-	1,543,342
Gadson Drainage	-	315	315	-
Mustang Lane	-	595	595	-
Unaffiliated Watersheds Inventory and Modeling	200,000	200,000	3,210	196,790
Street Sweeping	88,000	89,550	89,550	-
Yacht Cove Outfall Flap Gate and Weir	16,000	13,540	13,435	105
5 Yacht Cove Pipe Replacement	-	18,628	18,627	1
Pump Station	50,000	50,000	43,553	6,447
Jarvis Pump Station	1,070,000	1,070,000	-	1,070,000
Sparkleberry/Folly Field	6,000	17,933	17,933	-
Ibis Channel	3,000	-	-	-
First Baptist/Prov. Pres.	3,000	-	-	-
SCDOT Repairs	-	17,340	17,340	-
Contingency	175,000	79,387	508	78,879
Total Non-Planned Unit Developments	3,289,000	3,356,113	255,851	3,100,262
Other Operating Expenses:				
Administrative Salaries/Benefits	544,000	544,000	381,779	162,221
Administrative Operating	390,000	453,747	351,034	102,713
Administrative Capital Outlay	32,000	32,000	-	32,000
Total Other Operating Expenses	966,000	1,029,747	732,813	296,934
TOTAL OPERATING EXPENSES	6,619,000	6,806,860	1,621,819	5,185,041
OPERATING INCOME	(1,819,000)	(2,006,860)	3,153,818	(5,160,678)
NON-OPERATING INCOME (EXPENSES):				
Investment Income	450	450	19,696	19,246
Administrative	(3,000)	(3,000)	(2,500)	500
Principal	(900,000)	(900,000)	-	900,000
Interest Expense	(251,000)	(251,000)	(265,867)	(14,867)
Debt Issue Costs	-	-	(89,131)	(89,131)
Other Charges	-	-	(7,500)	(7,500)
TOTAL NON-OPERATING INCOME (EXPENSES)	\$ (1,153,550)	(1,153,550)	(345,302)	\$ 808,248

(Continued)

BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL		
INCOME BEFORE TRANSFERS/BOND PROCEEDS	\$ (2,972,550)	(3,160,410)	2,808,516	\$ 5,968,926
Bond Proceeds	3,100,000	3,100,000	-	(3,100,000)
Transfers Out	(125,000)	(125,000)	(125,000)	-
NET INCOME (LOSS)	2,450	(185,410)	2,683,516	2,868,926
RECONCILIATION TO GAAP BASIS:				
Non-Budgeted Revenues (Expenses)				
Depreciation	-	-	(1,067,092)	1,067,092
Amortization Expense - Loss on Refunding	-	-	(89,555)	(89,555)
NET CHANGE IN FUND NET POSITION	2,450	(185,410)	1,526,869	3,846,463
NET POSITION - Beginning of Year	6,786,748	6,786,748	6,786,748	-
NET POSITION - End of Year	\$ 6,789,198	6,601,338	8,313,617	\$ 3,846,463

The Town's final budget reflected the use of appropriated net position of \$185,410. Actual performance was better than budget and no net position was used.

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Supplementary Information

Combining and Individual Fund Financial Schedules

Non-Major 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. **Road Usage Fee** – This fund was established to account for revenues and expenditures of the Town’s Road Usage Fee.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>PALMETTO ELECTRIC FRANCHISE FEES</u>	<u>OPERATING GRANTS</u>
ASSETS		
Cash and Cash Equivalents	\$ 7,178,810	-
Due from Other Governments	-	89,793
Interfund Receivables	-	-
TOTAL ASSETS	<u>\$ 7,178,810</u>	<u>89,793</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 17,169	33,971
Interfund Payables	-	35,213
Unearned Revenue	-	-
TOTAL LIABILITIES	<u>17,169</u>	<u>69,184</u>
FUND BALANCES		
Restricted:		
Underground Electrical Service	7,161,641	-
Federal and Operating Grants	-	20,609
HOME Grant Program	-	-
Road Improvements	-	-
TOTAL FUND BALANCES	<u>7,161,641</u>	<u>20,609</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,178,810</u>	<u>89,793</u>

SPECIAL REVENUE FUNDS					TOTAL NONMAJOR GOVERNMENTAL FUNDS
HOME GRANT	FEDERAL GRANTS	ROAD USAGE FEE			
70,504	-	-	\$	7,249,314	
-	-	192,273		282,066	
-	-	799,403		799,403	
70,504	-	991,676	\$	8,330,783	
-	-	-	\$	51,140	
-	-	-		35,213	
70,407	-	-		70,407	
70,407	-	-		156,760	
-	-	-		7,161,641	
-	-	-		20,609	
97	-	-		97	
-	-	991,676		991,676	
97	-	991,676		8,174,023	
70,504	-	991,676	\$	8,330,783	

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	PALMETTO ELECTRIC FRANCHISE FEES	OPERATING GRANTS
REVENUES		
Electric Franchise Fees	\$ 2,859,836	-
Grant Revenue	-	127,884
Road Usage Fees	-	-
Investment Income	5,244	-
TOTAL REVENUES	2,865,080	127,884
EXPENDITURES		
Current:		
Public Safety	-	109,167
Community Services	1,629,281	-
TOTAL EXPENDITURES	1,629,281	109,167
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,235,799	18,717
OTHER FINANCING SOURCES (USES)		
Transfers Out	(90,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(90,000)	-
NET CHANGE IN FUND BALANCES	1,145,799	18,717
FUND BALANCE - Beginning of Year	6,015,842	1,892
FUND BALANCE - End of Year	\$ 7,161,641	20,609

SPECIAL REVENUE FUNDS					TOTAL NONMAJOR GOVERNMENTAL FUNDS
HOME GRANT	FEDERAL GRANTS	ROAD USAGE FEE			
-	-	-	\$		2,859,836
-	-	-			127,884
-	-	1,050,823			1,050,823
57	-	-			5,301
57	-	1,050,823			4,043,844
-	-	-			109,167
-	-	-			1,629,281
-	-	-			1,738,448
57	-	1,050,823			2,305,396
-	-	(59,147)			(149,147)
-	-	(59,147)			(149,147)
57	-	991,676			2,156,249
40	-	-			6,017,774
97	-	991,676	\$		8,174,023

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Supplementary Information

Agency Funds – These funds are used to account for assets which are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

1. **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.
2. **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.

COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - FIDUCIARY FUND - AGENCY FUNDS

YEAR ENDED JUNE 30, 2018

	<u>BALANCE AT JUNE 30, 2017</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE AT JUNE 30, 2018</u>
FIREMEN'S FUND:				
ASSETS				
Cash and Temporary Investments	\$ 61,844	593,809	596,922	\$ 58,731
Accounts Receivable - Due from General Fund	-	152	-	152
TOTAL ASSETS	<u>\$ 61,844</u>	<u>593,961</u>	<u>596,922</u>	<u>\$ 58,883</u>
LIABILITIES				
Accounts Payable - Due to General Fund	\$ -	11,680	-	\$ 11,680
Due to Firemen's Fund Association	61,844	593,809	608,450	47,203
TOTAL LIABILITIES	<u>\$ 61,844</u>	<u>605,489</u>	<u>608,450</u>	<u>\$ 58,883</u>
AIRPORT NOISE ABATEMENT:				
ASSETS				
Accounts Receivable - Due From General Fund	\$ 758,419	-	758,419	\$ -
TOTAL ASSETS	<u>\$ 758,419</u>	<u>-</u>	<u>758,419</u>	<u>\$ -</u>
LIABILITIES				
Due to County Noise Abatement Project	\$ 758,419	-	758,419	\$ -
TOTAL LIABILITIES	<u>\$ 758,419</u>	<u>-</u>	<u>758,419</u>	<u>\$ -</u>
TOTAL COMBINED FUNDS:				
ASSETS				
Cash and Temporary Investments	\$ 61,844	593,809	596,922	\$ 58,731
Accounts Receivable - Due From General Fund	758,419	152	758,419	152
TOTAL ASSETS	<u>\$ 820,263</u>	<u>593,961</u>	<u>1,355,341</u>	<u>\$ 58,883</u>
LIABILITIES				
Accounts Payable - Due to General Fund	\$ -	11,680	-	\$ 11,680
Due to Firemen's Fund Association	61,844	593,809	608,450	47,203
Due to County Noise Abatement Project	758,419	-	758,419	-
TOTAL LIABILITIES	<u>\$ 820,263</u>	<u>605,489</u>	<u>1,366,869</u>	<u>\$ 58,883</u>

UNIFORM SCHEDULE OF FINES, ASSESSMENTS, AND SURCHARGES (PER ACT 96)

YEAR ENDED JUNE 30, 2018

FOR THE STATE TREASURER'S OFFICE:

COUNTY / MUNICIPAL FUNDS COLLECTED BY CLERK OF COURT	General Sessions	Magistrate Court	Municipal Court	Total
Court Fines and Assessments:				
Court fines and assessments collected	\$ -	-	404,635	\$ 404,635
Court fines and assessments remitted to State Treasurer	-	-	(213,681)	(213,681)
Total Court Fines and Assessments retained	-	-	190,954	190,954
Surcharges and Assessments retained for victim services:				
Surcharges collected and retained	-	-	8,048	8,048
Assessments retained	-	-	18,056	18,056
Total Surcharges and Assessments retained for victim services	\$ -	-	26,104	\$ 26,104

FOR THE DEPARTMENT OF CRIME VICTIM COMPENSATION (DCVC)

VICTIM SERVICE FUNDS COLLECTED	Municipal	County	Total
Carryforward from Previous Year – Beginning Balance	\$ (25,017)	-	\$ (25,017)
Victim Service Revenue:			
Victim Service Fines Retained by City/County Treasurer	-	-	-
Victim Service Assessments Retained by City/County Treasurer	18,056	-	18,056
Victim Service Surcharges Retained by City/County Treasurer	8,048	-	8,048
Interest Earned	-	-	-
Grant Funds Received			
Grant from:	-	-	-
General Funds Transferred to Victim Service Fund	-	-	-
Contribution Received from Victim Service Contracts:			
(1) Town of	-	-	-
(2) Town of	-	-	-
(3) City of	-	-	-
Total Funds Allocated to Victim Service Fund + Beginning Balance (A)	\$ 1,087	-	\$ 1,087
Expenditures for Victim Service Program:	<u>Municipal</u>	<u>County</u>	<u>Total</u>
Salaries and Benefits	\$ -	-	\$ -
Operating Expenditures	-	-	-
Victim Service Contract(s):			
(1) Beaufort County Sheriff's Office	63,542	-	63,542
(2) Entity's Name	-	-	-
Victim Service Donation(s):			
(1) Domestic Violence Shelter:	-	-	-
(2) Rape Crisis Center:	-	-	-
(3) Other local direct crime victims service agency:	-	-	-
Transferred to General Fund	-	-	-
Total Expenditures from Victim Service Fund/Program (B)	63,542	-	63,542
Total Victim Service Funds Retained by Municipal/County Treasurer (A-B)	(62,455)	-	(62,455)
Less: Prior Year Fund Deficit Repayment	-	-	-
Carryforward Funds – End of Year	\$ (62,455)	-	\$ (62,455)

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Statistical Section

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STATISTICAL SECTION

This part of the Town of Hilton Head Island’s (“Town”) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes, and required supplementary information says about the Town’s overall financial health.

Contents	Page
Financial Trends Information <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>	128
Revenue Capacity Information <i>These schedules contain information to help the reader assess the Town’s most significant local revenue source, the property tax.</i>	134
Debt Capacity Information <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 ability to issue additional debt in the future.</i>	140
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.</i>	145
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s financial report relates to the services the Town provides and the activities it performs.</i>	147

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

Schedule 1

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS
(accrual basis of accounting)

UNAUDITED

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental Activities										
Net Investment in Capital Assets	\$ 123,118,927	135,840,935	169,753,952	163,062,329	147,652,780	134,730,092	127,695,520	137,940,358	126,379,257	\$ 114,310,240
Restricted	73,002,476	49,430,348	31,347,375	31,942,739	35,442,375	42,860,346	39,307,871	29,367,859	20,750,147	23,590,106
Unrestricted	12,993,432	(1,278,494)	13,639,863	10,121,639	19,969,187	15,130,825	12,610,400	19,070,840	27,806,762	27,448,750
Total Governmental Activities Net Position	209,114,835	183,992,789	214,741,190	205,126,707	203,064,342	192,721,263	179,613,791	186,379,057	174,936,166	165,349,096
Business-Type Activities										
Net Investment in Capital Assets	4,911,086	4,478,605	4,759,203	4,569,085	3,320,300	1,985,756	587,800	1,969,503	(263,488)	-
Unrestricted	3,402,531	2,308,143	2,395,261	1,838,661	1,971,277	1,965,359	1,776,610	1,588,215	2,441,371	-
Total Business-Type Activities Net Position	8,313,617	6,786,748	7,154,464	6,407,746	5,291,577	3,951,115	2,364,410	3,557,718	2,177,883	-
Total	\$ 217,428,452	190,779,537	221,895,654	211,534,453	208,355,919	196,672,378	181,978,201	189,936,775	177,114,049	\$ 165,349,096

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS
(accrual basis of accounting)

UNAUDITED

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Expenses										
Governmental Activities:										
General Government	\$ 5,182,132	9,177,681	6,119,293	5,501,516	5,014,153	4,457,904	4,353,125	5,590,651	5,821,050	\$ 3,823,670
Management Services	5,682,232	5,030,374	5,240,408	5,249,881	5,176,878	4,781,208	4,387,130	4,617,092	4,589,627	4,747,193
Community Services	38,440,753	28,419,138	18,658,764	15,337,540	15,914,686	13,292,741	30,544,682	8,592,108	8,502,048	14,003,774
Public Safety	25,913,844	63,979,026	19,802,724	16,529,019	14,130,095	16,425,512	16,535,835	17,332,968	17,068,317	17,717,708
Culture and Recreation	2,729,719	2,583,815	2,652,668	2,429,893	1,962,094	1,907,032	1,210,594	1,295,954	1,355,384	1,697,468
Visitor & Convention Bureau	1,888,500	1,831,924	1,709,995	1,580,537	1,473,482	1,341,508	1,096,019	1,052,226	1,029,578	1,150,446
Administration	34,635	517,130	212,356	2,500,842	1,779,235	1,797,946	3,611,539	3,280,258	2,695,438	2,204,684
Interest on Debt	6,725,441	2,312,765	3,042,722	3,396,216	4,114,335	4,051,860	3,658,811	4,414,431	4,329,058	5,566,777
Total Governmental Activities Expenses	86,597,256	113,851,853	57,438,930	52,523,444	49,564,958	48,055,711	65,397,735	46,175,688	45,390,500	50,911,720
Business-Type Activities:										
Stormwater	3,143,464	2,856,923	2,755,139	2,367,173	1,997,630	1,757,863	4,449,857	1,616,827	1,397,226	-
Total Business-Type Activities Expenses	3,143,464	2,856,923	2,755,139	2,367,173	1,997,630	1,757,863	4,449,857	1,616,827	1,397,226	-
Total Primary Governmental Expenses	\$ 89,740,720	116,708,776	60,194,069	54,892,617	51,562,588	49,813,574	69,847,592	47,792,515	46,787,726	\$ 50,911,720
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$ 2,045,077	1,943,264	3,168,940	2,455,854	2,579,305	2,565,756	3,799,757	3,950,975	3,886,767	\$ 608,137
Management Services	11,196,245	9,289,682	8,224,310	8,334,478	7,795,909	7,774,138	7,254,622	6,900,425	7,103,499	7,459,058
Community Services	11,385,333	10,806,905	10,016,676	9,802,304	9,055,993	8,262,464	6,189,471	6,008,094	6,345,242	6,867,736
Public Safety	1,731,897	1,480,903	1,486,087	1,505,579	1,163,678	1,306,780	1,457,047	1,623,810	274,007	1,416,505
Administration	3,463,489	2,780,312	2,887,147	2,534,932	2,468,881	2,255,107	1,905,459	1,839,244	2,008,012	1,848,993
Operating Grants and Contributions	32,450,642	12,923,774	838,915	348,467	630,208	338,378	305,329	140,555	206,897	130,796
Capital Grants and Contributions	194,510	1,330,261	19,956	275,000	-	142,116	1,044,854	-	17,697	52,525
Total Governmental Activities Program Revenues	62,467,193	40,555,101	26,642,031	25,256,614	23,693,974	22,644,739	21,956,539	20,463,103	19,842,121	18,383,750
Business-Type Activities:										
Charges for Services:										
Stormwater	4,775,637	3,583,005	3,551,400	3,551,386	3,564,300	3,580,445	3,491,879	3,377,779	2,553,971	-
Operating Grants and Contributions	-	-	44,272	25,764	-	-	-	-	-	-
Total Business-Type Activities Program Revenues	4,775,637	3,583,005	3,595,672	3,577,150	3,564,300	3,580,445	3,491,879	3,377,779	2,553,971	-
Total Program Revenues	67,242,830	44,138,106	30,237,703	28,833,764	27,258,274	26,225,184	25,448,418	23,840,882	22,396,092	18,383,750
Total Governmental Activities (Expense)	(24,130,063)	(73,296,752)	(30,796,899)	(27,268,830)	(25,870,984)	(25,410,972)	(43,441,196)	(25,712,585)	(25,548,379)	(32,527,970)
Total Business-Type Activities (Expense)	1,632,173	726,082	840,533	1,209,977	1,566,670	1,822,582	(957,978)	1,760,952	1,156,745	-
Total Primary Government Net (Expense)	\$ (22,497,890)	(72,570,670)	(29,956,366)	(26,058,853)	(24,304,314)	(23,588,390)	(44,399,174)	(23,951,633)	(24,391,634)	\$ (32,527,970)

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

(accrual basis of accounting)

UNAUDITED

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Revenues and Other Changes in Net Position										
Governmental Activities										
Taxes:										
Property Taxes	\$ 29,312,409	23,111,039	22,576,837	24,163,776	23,613,446	24,242,142	23,974,619	23,605,422	23,454,455	\$ 21,993,646
Other Taxes	16,731,696	16,223,664	15,447,140	14,516,798	13,368,820	12,246,755	11,259,227	10,866,276	10,178,254	10,836,674
Intergovernmental	1,128,623	1,185,671	1,131,882	1,176,192	1,154,196	1,181,674	1,010,600	1,317,756	1,531,261	2,012,649
Investment Earnings	763,029	57,785	48,922	50,763	69,810	87,660	124,415	260,608	356,176	876,095
Miscellaneous Revenue	1,191,352	875,192	1,206,601	1,896,632	(297,517)	760,213	307,069	1,105,414	584,455	3,895,151
Transfers	125,000	1,095,000	-	-	-	-	-	-	-	-
Total Governmental Activities General Revenues	49,252,109	42,548,351	40,411,382	41,804,161	37,908,755	38,518,444	36,675,930	37,155,476	36,104,601	39,614,215
Business-Type Activities										
Investment Earnings	19,696	1,202	443	450	394	253	-	8,612	83,128	-
Transfers	(125,000)	(1,095,000)	(94,258)	(94,258)	(74,163)	(236,130)	(235,330)	(389,729)	(302,763)	-
Total Business-Type Activities General Revenues	(105,304)	(1,093,798)	(93,815)	(93,808)	(73,769)	(235,877)	(235,330)	(381,117)	(219,635)	-
Total Primary Government General Revenues	49,146,805	41,454,553	40,317,567	41,710,353	37,834,986	38,282,567	36,440,600	36,774,359	35,884,966	39,614,215
Change in Net Position										
Governmental Activities	25,122,046	(30,748,401)	9,614,483	14,535,331	12,037,771	13,107,472	(6,765,266)	11,442,891	10,556,222	7,086,245
Business-Type Activities	1,526,869	(367,716)	746,718	1,116,169	1,492,901	1,586,705	(1,193,308)	1,379,835	937,110	-
Total Primary Government	\$ 26,648,915	(31,116,117)	10,361,201	15,651,500	13,530,672	14,694,177	(7,958,574)	12,822,726	11,493,332	\$ 7,086,245

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

PROGRAM REVENUES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS
(accrual basis of accounting)

UNAUDITED

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$ 2,045,077	1,943,264	3,168,940	2,455,854	2,579,305	2,565,756	3,799,757	3,950,975	3,886,767	\$ 608,137
Management Services	11,196,245	9,289,682	8,224,310	8,334,478	7,795,909	7,774,138	7,254,622	6,900,425	7,103,499	7,459,058
Community Services	11,385,333	10,806,905	10,016,676	9,802,304	9,055,993	8,262,464	6,189,471	6,008,094	6,345,242	6,867,736
Public Safety	1,731,897	1,480,903	1,486,087	1,505,579	1,163,678	1,306,780	1,457,047	1,623,810	274,007	1,416,505
Administration	3,463,489	2,780,312	2,887,147	2,534,932	2,468,881	2,255,107	1,905,459	1,839,244	2,008,012	1,848,993
Operating Grants and Contributions	32,450,642	12,923,774	838,915	348,467	630,208	338,378	305,329	140,555	206,897	130,796
Capital Grants and Contributions	194,510	1,330,261	19,956	275,000	-	142,116	1,044,854	-	17,697	52,525
Total Governmental Activities Program Revenues	62,467,193	40,555,101	26,642,031	25,256,614	23,693,974	22,644,739	21,956,539	20,463,103	19,842,121	18,383,750
Business-Type Activities:										
Charges for Services:										
Stormwater	4,775,637	3,583,005	3,551,400	3,551,386	3,564,300	3,580,445	3,491,879	3,377,779	2,553,971	-
Operating Grants and Contributions	-	-	44,272	25,764	-	-	-	-	-	-
Total Business-Type Activities Program Revenues	4,775,637	3,583,005	3,595,672	3,577,150	3,564,300	3,580,445	3,491,879	3,377,779	2,553,971	-
Total Program Revenues	\$ 67,242,830	44,138,106	30,237,703	28,833,764	27,258,274	26,225,184	25,448,418	23,840,882	22,396,092	\$ 18,383,750

FUND BALANCES OF GOVERNMENTAL FUNDS

LAST-TEN FISCAL YEARS

(modified accrual basis of accounting)

UNAUDITED

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Fund										
Pre-GASB #54 ¹										
Reserved	\$ -	-	-	-	-	-	-	-	145,008	\$ 164,731
Unreserved	-	-	-	-	-	-	-	-	15,618,977	15,697,038
Post-GASB #54 ¹										
Nonspendable	-	-	-	-	9,796	8,896	15,308	21,304	-	-
Restricted	66,129	66,025	66,025	66,011	65,998	65,985	98,182	98,163	-	-
Committed	13,278,518	11,515,420	15,171,715	14,232,879	13,593,096	12,366,509	11,865,342	11,366,314	-	-
Assigned	2,144,266	821,728	2,013,643	1,471,227	1,007,245	674,725	817,455	-	-	-
Unassigned	3,352,382	3,700,049	3,700,049	3,579,208	3,359,264	4,187,612	3,017,270	3,400,504	-	-
Total General Fund	\$ 18,841,295	16,103,222	20,951,432	19,349,325	18,035,399	17,303,727	15,813,557	14,886,285	15,763,985	\$ 15,861,769
All Other Governmental Funds										
Pre-GASB #54 ¹										
Reserved	\$ -	-	-	-	-	-	-	-	24,398,924	\$ 18,634,944
Unreserved, Reported In:										
Special Revenue Funds	-	-	-	-	-	-	-	-	22,479,639	21,814,650
Capital Projects Funds	-	-	-	-	-	-	-	-	5,796,855	4,924,286
Post-GASB #54 ¹										
Restricted	109,296,730	49,362,392	31,282,350	31,876,728	35,376,377	42,850,943	39,209,689	33,894,568	-	-
Committed	11,873,362	5,080,404	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	-	-
Assigned	-	-	2,273,000	1,232,948	1,902,756	554,229	3,293	-	-	-
Unassigned	-	1,932	6,677	(59,263)	(41,365)	(8,576)	(8,581)	-	-	-
Total All Other Governmental Funds	\$ 121,170,092	54,444,728	45,562,027	45,050,413	49,237,768	55,396,596	51,204,401	45,894,568	52,675,418	\$ 45,373,880

Note: Certain amounts which were presented in prior year comprehensive annual financial reports have been restated due to prior period adjustments.

Note 1: The Town implemented GASB #54 "Fund Balance Reporting and Governmental Fund Type Definitions" ("GASB #54") in 2011. GASB #54 established new fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Town has elected to apply GASB #54 prospectively - and thus has provided fund balance information before ("Pre") and after ("Post") its implementation.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

UNAUDITED

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
Taxes (see Schedule 6) ^a	\$ 45,826,550	39,334,703	38,023,977	38,675,584	36,982,266	36,488,897	35,233,846	34,471,698	33,632,709	\$ 32,830,320
Licenses, Fees, and Permits ^b	28,015,121	24,465,801	23,738,338	22,475,266	21,316,864	20,163,249	18,633,421	18,131,546	14,843,258	19,202,835
Fines and Penalties	164,849	245,826	210,243	198,948	224,447	262,022	308,708	361,152	423,042	407,422
Charges for Services	1,786,657	1,536,927	1,556,125	1,673,499	1,242,959	1,461,624	1,602,410	1,761,128	1,598,482	1,604,565
Intergovernmental	29,157,777	15,492,218	1,295,538	1,344,243	1,325,351	1,371,308	1,202,313	1,317,756	1,199,622	1,309,391
Investment Earnings	763,029	57,785	48,922	50,763	69,810	87,660	124,417	260,606	356,179	876,095
Other Revenues	993,434	858,358	1,242,066	972,240	1,000,494	797,171	1,420,411	602,262	5,404,922	1,702,252
Total Revenues	106,707,417	81,991,618	66,115,209	65,390,543	62,162,191	60,631,931	58,525,526	56,906,148	57,458,214	57,932,880
Expenditures										
General Government	1,348,800	4,419,410	1,203,788	1,046,890	1,060,140	968,506	882,111	1,119,831	1,044,477	1,100,621
Management Services	5,604,443	4,990,115	4,947,486	4,986,727	4,518,850	4,512,873	4,303,518	4,528,244	4,497,250	4,563,007
Community Services	9,553,266	8,730,949	7,804,951	7,238,602	6,392,687	5,996,416	5,771,788	6,210,506	6,478,745	6,530,162
Public Safety	23,450,584	62,181,211	17,926,916	17,202,723	17,019,825	16,448,769	16,415,919	16,174,377	16,161,922	16,836,081
Non-Departmental	3,827,008	4,358,634	4,350,151	3,879,828	3,497,973	2,947,442	3,154,901	4,072,932	2,662,132	2,397,182
Accommodations, Tax Grants	2,729,719	2,583,815	2,652,668	2,429,893	1,962,094	1,907,032	1,210,594	1,355,384	1,697,468	1,697,468
Visitor & Convention Bureau	1,888,500	1,831,924	1,709,995	1,580,537	1,473,482	1,341,508	1,096,019	1,052,226	1,029,578	1,150,446
Administration	34,635	27,817	28,871	2,317,333	1,481,219	1,335,906	3,208,001	2,944,586	2,361,361	2,088,285
Capital Outlay	34,458,285	25,222,144	13,859,880	11,527,089	13,428,124	13,597,119	26,380,099	8,479,627	10,505,379	27,050,704
Debt Service										
Principal	56,830,000	8,040,000	7,420,000	12,994,999	12,950,000	11,645,000	12,105,000	12,305,000	11,415,000	11,220,000
Interest	5,109,591	2,432,746	3,278,425	3,702,272	4,080,573	4,265,011	3,914,974	4,524,266	4,335,765	5,680,505
Fiscal Charges	14,175	-	11,025	-	-	-	-	-	-	-
Issuance Costs	2,086,419	472,186	-	11,025	132,022	150,792	525,364	-	391,417	-
Total Expenditures	146,935,425	125,308,076	65,174,156	68,917,918	68,296,989	65,116,374	78,968,288	62,707,549	62,238,410	80,314,461
Excess of Revenues Over (Under) Expenditures	(40,228,008)	(43,316,458)	941,053	(3,527,375)	(6,134,798)	(4,484,443)	(20,442,762)	(5,801,401)	(4,780,196)	(22,381,581)
Other Financing Sources (Uses)										
Transfers In	19,020,874	37,140,890	24,374,977	27,861,903	24,269,122	23,329,394	22,476,082	20,268,594	19,037,120	22,593,584
Transfers Out	(18,895,874)	(36,045,890)	(24,280,719)	(27,767,645)	(24,194,959)	(23,093,264)	(22,240,752)	(19,878,865)	(18,734,358)	(22,593,584)
Sale of Capital Assets	11,001	-	1,078,410	559,688	175,000	266,622	264,930	324,774	-	-
Bonds Issued	103,915,000	45,000,000	-	-	-	9,000,000	26,250,000	-	12,000,000	-
Refunding Bonds Issue	-	27,885,000	-	-	-	-	20,635,000	-	5,005,000	-
Premium on Bonds Issued	5,640,446	2,337,101	-	-	-	664,056	970,485	-	155,632	-
Others Uses/Sources	-	(28,966,152)	-	-	-	-	(21,675,878)	-	(5,248,484)	(50,000)
Payments to Escrow Agent	-	-	-	-	-	-	-	-	-	-
Reimbursement of Prior Year Expenditures	-	-	-	-	458,479	-	-	-	-	-
Total Other Financing Sources (Uses)	109,691,447	47,350,949	1,172,668	653,946	707,642	10,166,808	26,679,867	714,503	12,214,910	(50,000)
Net Change in Fund Balance	\$ 69,463,439	4,034,491	2,113,721	(2,873,429)	(5,427,156)	5,682,365	6,237,105	(5,086,898)	7,434,714	\$ (22,431,581)
Capital Expenditures	\$ 11,904,432	7,876,100	4,602,059	29,850,953	12,105,520	9,374,396	4,743,426	7,656,183	9,960,852	\$ 22,288,391
Debt Service as a Percentage Of Noncapital Expenditures	45.87%	8.92%	17.66%	42.74%	30.31%	28.54%	21.58%	30.57%	30.13%	29.13%

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.

GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

UNAUDITED

Fiscal Year Ended June 30	Property Tax	Accommodations Tax	Hospitality Tax	Total
2018	\$ 29,094,854	9,863,909	6,867,787	\$ 45,826,550
2017	23,111,039	9,561,791	6,661,873	39,334,703
2016	22,576,837	8,940,834	6,506,306	38,023,977
2015	24,158,786	8,361,794	6,155,004	38,675,584
2014	23,613,446	7,735,390	5,633,430	36,982,266
2013	24,242,142	6,995,760	5,250,995	36,488,897
2012	23,974,619	6,099,093	5,160,134	35,233,846
2011	23,605,422	5,948,685	4,917,591	34,471,698
2010	23,454,455	5,469,447	4,708,807	33,632,709
2009	\$ 21,993,646	6,010,356	4,826,318	\$ 32,830,320
Change 2009-2018	32.29%	64.12%	42.30%	39.59%

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

Schedule 7

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year Ended June 30	Tax Year	Real and Personal Property		Motor Vehicles		Total Taxable		Total Direct Tax Rate	Assessed Value as a Percentage of Actual Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2018	2017	\$ 896,643,630	17,036,670,488	41,785,600	645,750,420	938,429,230	\$ 17,682,420,908	28.36	5.31%
2017	2016	886,106,320	16,836,456,410	40,547,190	626,612,158	926,653,510	17,463,068,568	22.18	5.31%
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%
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%
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%
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%
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%
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%
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%
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%

Source: Beaufort County Assessor's Office & Town Finance Department Extrapolations.

Notes:

Property in Beaufort County is reassessed once every five years on average. The County assesses at 6% and 4% of actual value for real property, 10.5% for personal property, and 6.0% for motor vehicles.

Tax rates are per \$1,000 of assessed value.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Town of Hilton Head Island					Overlapping Rates ^a					Direct & Overlapping Rates
	Operating Millage	Debt Service Millage	Capital Improvements Program Millage	Natural Disasters Millage	Total Town Millage	Total County Millage	Total School Millage	Public Service Districts Millage ¹	Total		
2018	16.38	6.14	0.84	5.00	28.36	63.39	145.21	8.70	8.70	245.66	
2017	15.20	6.14	0.84	-	22.18	61.27	143.21	8.66	8.66	235.32	
2016	15.20	6.14	0.84	-	22.18	59.15	135.21	8.75	8.75	225.29	
2015	14.37	6.14	0.84	-	21.35	56.86	135.21	8.81	8.81	222.23	
2014	13.88	6.14	0.81	-	20.83	56.30	129.16	8.45	8.45	214.74	
2013	12.86	5.72	0.75	-	19.33	56.30	129.16	8.45	8.45	213.24	
2012	12.57	6.01	0.75	-	19.33	47.54	118.26	8.31	8.31	193.44	
2011	11.78	6.01	0.75	-	18.54	47.54	116.59	8.16	8.16	190.83	
2010	11.78	6.01	0.75	-	18.54	45.96	114.69	7.67	7.67	186.86	
2009	12.84	5.67	0.85	-	19.36	51.90	130.60	7.85	7.85	209.71	

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 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. Prior to Tax Year 2006 the owner occupied and not owner occupied rates were the same.

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

UNAUDITED

Taxpayer	Tax Year 2017			Tax Year 2008		
	Taxable Assessed Value	Rank	Percentage of	Taxable Assessed Value	Rank	Percentage of
			Total Town Taxable Assessed Value			Total Town Taxable Assessed Value
Marriott Ownership Resorts Inc	\$ 19,495,980	1	2.08%	\$ 18,718,480	1	2.25%
Palmetto Electric Co-op Inc	5,746,900	2	0.61%	7,150,484	2	0.86%
Columbia Properties Hilton Head LLC	4,764,090	3	0.51%	3,939,414	4	0.47%
Sea Pines Resort LLC	4,697,080	4	0.50%	3,165,271	6	0.38%
SCG Hilton Head Property LLC	4,260,000	5	0.45%	3,692,358	5	0.44%
Hargray Telephone Company Inc	3,512,960	6	0.37%	4,010,188	3	0.48%
Shelter Cove III LLC	2,427,080	7	0.26%	1,500,000	9	0.18%
Palmetto Dunes	2,082,540	8	0.22%	-		0.00%
HHI Development, LLC	2,077,310	9	0.22%	-		0.00%
Barnwell Family Associates, LLC	2,060,030	10	0.22%	-		0.00%
Greenwood Development	-		0.00%	3,116,348	7	0.37%
Hilton Head Health Systems	-		0.00%	1,802,413	8	0.22%
Heritage Golf-Port Royal	-		0.00%	1,171,150	10	0.14%
Totals	<u>\$ 51,123,970</u>		<u>5.44%</u>	<u>\$ 48,266,106</u>		<u>5.79%</u>

Source: Beaufort County

Note: These figures represent millage solely for the Town of Hilton Head Island.

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2018	\$ 29,255,089	\$ 28,529,563	97.52%	\$ 565,291	\$ 29,094,854	99.45%
2017	23,599,662	22,490,478	95.30%	620,561	23,111,039	97.93%
2016	23,311,081	22,201,474	95.24%	375,364	22,576,838	96.85%
2015	24,844,827	23,885,817	96.14%	277,959	24,163,776	97.26%
2014	24,323,902	23,207,435	95.41%	406,011	23,613,446	97.08%
2013	24,493,618	23,619,196	96.43%	622,946	24,242,142	98.97%
2012	24,491,432	23,252,166	94.94%	722,453	23,974,619	97.89%
2011	24,570,566	22,860,455	93.04%	744,967	23,605,422	96.07%
2010	23,772,292	22,773,856	95.80%	680,599	23,454,455	98.66%
2009	\$ 22,752,971	\$ 21,085,178	92.67%	\$ 908,468	\$ 21,993,646	96.66%

Source: Beaufort County and the Town of Hilton Head Island Finance Department.

DIRECT AND OVERLAPPING SALES TAX RATES

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year Ended June 30	Town Direct Rate	Beaufort County	South Carolina
2018	0%	0%	6%
2017	0%	0%	6%
2016	0%	0%	6%
2015	0%	0%	6%
2014	0%	0%	6%
2013	0%	0%	6%
2012	0%	1%	6%
2011	0%	1%	6%
2010	0%	1%	6%
2009	0%	1%	6%

Note:

All sales tax goes to the State for distribution.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General Obligation Bonds	Revenue Bonds	Bond Anticipation Notes	Certificates of Participation	Revenue Bonds		Bond Premium	Total Primary Government			
					Revenue	Bonds					
2018	\$ 86,080,000	75,885,000	-	-	11,290,000	7,350,264	\$ 180,605,264	9.50%	\$ 4,509		
2017	46,345,000	23,535,000	45,000,000	-	9,035,000	3,104,407	127,019,407	6.61%	3,136		
2016	51,680,000	26,795,000	-	-	9,910,000	1,655,008	90,040,008	4.95%	2,223		
2015	55,945,000	29,950,000	-	-	10,760,000	1,829,733	98,484,733	5.34%	2,460		
2014	60,080,000	38,810,000	-	-	11,585,000	2,004,461	112,479,461	6.07%	2,854		
2013	64,505,000	46,075,000	-	1,260,000	12,390,000	2,186,424	126,416,424	8.07%	3,295		
2012	58,965,000	53,075,000	-	2,445,000	13,170,000	1,710,331	129,365,331	8.49%	3,372		
2011	62,010,000	33,930,000	-	3,600,000	13,810,000	929,177	114,279,177	7.27%	3,041		
2010	67,120,000	39,995,000	-	4,730,000	14,325,000	1,098,868	127,268,868	8.41%	3,431		
2009	\$ 59,705,000	60,720,000	-	5,825,000	-	1,053,730	\$ 127,303,730	8.86%	3,717		

¹ See the Schedule of Demographic and Economic Statistics for personal income and population data.

Note: Beginning in fiscal year 2013, the outstanding debt by type includes the related premiums.

RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	General Obligation Bonds	Percentage of Estimated Actual Taxable Value ¹ of Property	Per Capita ²
2018	\$ 87,741,233	0.50%	\$ 2,191
2017	92,457,411	0.53%	2,283
2016	51,606,596	0.30%	1,274
2015	58,846,475	0.34%	1,470
2014	59,955,995	0.35%	1,521
2013	64,348,465	0.37%	1,677
2012	58,088,744	0.27%	1,514
2011	61,943,135	0.29%	1,648
2010	66,998,519	0.30%	1,806
2009	\$ 59,518,350	0.34%	\$ 1,738

Notes:

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

¹See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property (Schedule 7) for property value data.

²See the Schedule of Demographic and Economic Statistics (Schedule 17) for population data. These ratios are calculated using data from the prior calendar year.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

OUTSTANDING AT YEAR END

UNAUDITED

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable¹	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes:			
Beaufort County School District	\$ 309,770,621	45.50%	\$ 140,938,940
Beaufort County	213,699,294	45.50%	97,228,562
Broad Creek Public Service District	3,220,000	100.00%	3,220,000
Hilton Head No. 1 Public Service District	12,457,112	96.00%	11,958,828
Subtotal, Overlapping Debt	539,147,027		253,346,330
Town of Hilton Head Island Direct Debt	167,184,007	100.00%	167,184,007
Total Direct and Overlapping Debt	\$ 706,331,034		\$ 420,530,337

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 Mount Pleasant. This process recognizes that, when considering the government'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.

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

Schedule 15

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

UNAUDITED

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt Limit	\$ 66,619	75,964	73,455	74,172	67,226	65,368	72,562	73,499	74,132	\$ 75,074
Total Net Debt Applicable to Limit	10,295	8,160	5,930	5,005	8,870	8,227	7,749	7,268	51,767	50,216
Legal Debt Margin	\$ 56,324	67,804	67,525	69,167	58,356	57,141	64,813	66,231	22,365	\$ 24,858

Total Net Debt Applicable to the

Limit as a Percentage of Debt Limit

	15.45%	10.74%	8.07%	6.75%	13.19%	12.59%	10.68%	9.89%	69.83%	66.89%
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Legal Debt Margin Calculation for Fiscal Year 2018

Assessed Value	\$ 926,654	\$ 938,429
Total Assessed Value	\$ 926,654	\$ 938,429

Debt Limit (8% of Total Assessed Value)	\$ 74,132	\$ 75,074
Council-imposed limit for Disasters (20%) - minimum \$20 million	(14,826)	(20,000)
Implement Disaster limit	14,826	-
Debt Applicable to Limit:		
General Obligation Bonds:		
2016 BAN	25,000	-
2017 BAN	20,000	-
2009A	3,425	3,040
2013A	3,342	3,211
2017A	-	27,310
2017B	-	16,655
Total Net Debt Applicable to Limit	51,767	50,216
Legal Debt Margin	\$ 22,365	\$ 4,858

Note: Article Eight (8) Section Seven (7) of the South Carolina Constitution of 1895, as amended, provides that no City or Town shall incur any bonded debt which shall exceed eight per centum (8%) of the assessed value of the property therein and no such debt shall be created without the electors of such City or Town voting in favor of such further bonded debt. Prior to Home Rule Act of July 1, 1976, the bonded debt exempt was thirty five per centum (35%). In 1976, the General Assembly reduced the general obligation debt limit without voter approval to eight per centum (8%) of assessed valuation; whereas, with a referendum any amount can be floated.

PLEDGED-REVENUE COVERAGE

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Hospitality Tax Bonds				Tax Increment Financing (TIF) Bonds					
	Collections	Principal	Debt Service		Collections	Principal	Debt Service			
			Interest	Total			Interest	Total	Coverage	
2018	\$ 6,867,787	895,000	739,350	\$ 1,634,350	4.20	\$ 4,624,900	2,890,000	428,838	\$ 3,318,838	1.39
2017	6,661,873	865,000	762,113	1,627,113	4.09	4,194,830	-	-	-	-
2016	6,506,306	850,000	778,113	1,628,113	4.00	4,090,780	-	-	-	-
2015	6,155,004	835,000	776,427	1,611,427	3.82	6,486,071	4,009,999	112,477	4,122,476	1.57
2014	5,633,430	820,000	811,213	1,631,213	3.45	6,433,568	3,850,000	243,289	4,093,289	1.57
2013	5,250,995	805,000	827,312	1,632,312	3.22	6,562,575	3,695,000	369,432	4,064,432	1.61
2012	5,160,134	775,000	503,346	1,278,346	4.04	6,148,490	3,550,000	490,446	4,040,446	1.52
2011	4,917,591	340,000	416,632	756,632	6.50	6,369,085	3,405,000	606,461	4,011,461	1.59
2010	4,708,807	325,000	428,007	753,007	6.25	6,308,512	3,270,000	717,538	3,987,538	1.58
2009	\$ 4,826,318	315,000	439,820	\$ 754,820	6.39	\$ 5,833,846	3,140,000	824,163	\$ 3,964,163	1.47

Stormwater Revenue Bonds

Beach Preservation Fee Revenue Bonds

Fiscal Year	Stormwater Revenue Bonds				Beach Preservation Fee Revenue Bonds					
	Collections	Principal	Debt Service		Collections	Principal	Debt Service			
			Interest	Total			Interest	Total	Coverage	
2018	\$ 4,775,637	945,000	265,867	\$ 1,210,867	3.94	\$ 7,087,820	2,470,000	567,325	\$ 3,037,325	2.33
2017	3,583,005	875,000	275,498	1,150,498	3.11	6,860,758	2,395,000	141,913	2,536,913	2.70
2016	3,551,400	850,000	299,128	1,149,128	3.09	6,431,700	2,305,000	223,938	2,528,938	2.54
2015	3,551,386	825,000	321,877	1,146,877	3.10	6,136,679	4,015,000	363,838	4,378,838	1.40
2014	3,564,300	805,000	333,245	1,138,245	3.13	5,597,565	2,595,000	508,968	3,103,968	1.80
2013	3,580,445	780,000	366,077	1,146,077	3.12	4,998,132	2,500,000	608,854	3,108,854	1.61
2012	3,491,879	640,000	379,470	1,019,470	3.43	4,841,395	2,405,000	445,977	2,850,977	1.70
2011	3,377,779	515,000	660,665	1,175,665	2.87	4,768,381	2,320,000	570,073	2,890,073	1.65
2010	2,553,971	565,000	679,938	1,244,938	2.05	4,008,272	2,240,000	569,810	2,809,810	1.43
2009	\$ 1,572,183	550,000	697,369	\$ 1,247,369	1.26	\$ 4,210,460	2,160,000	679,810	\$ 2,839,810	1.48

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

UNAUDITED

Calendar Year	Population ¹	Personal Income (expressed in thousands)	Per Capita Personal Income ²	Annual Unemployment Rate ³
2018	40,055	\$ 1,900,770	\$ 47,454	3.2%
2017	40,500	1,921,887	47,454	3.6%
2016	40,512	1,817,733	44,869	5.0%
2015	40,039	1,845,438	46,091	4.9%
2014	39,412	1,854,295	47,049	4.5%
2013	38,366	1,567,366	40,853	5.2%
2012	38,366	1,523,245	39,703	6.1%
2011	37,585	1,572,782	41,846	6.0%
2010	37,099	1,513,565	40,798	6.5%
2009	34,249	\$ 1,436,780	\$ 41,951	7.4%

Source:

¹Provided by the U.S. Census Bureau, Quick Facts.

²Provided by the U.S. Census Bureau.

³Provided by the U.S. Census Bureau of Labor Statistics.

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

UNAUDITED

Employer	2018		2009	
	Employees	Rank	Employees	Rank
SERG Group Restaurants	994	1	n/a	
Sea Pines Resort	654	2	442	3
Hilton Head Medical Center and Clinics	564	3	379	5
Marriott Vacation Club International	640	4	580	1
Beaufort County School District	517	5	485	2
Cypress of Hilton Head	350	5	364	6
Salty Dog	340	6	n/a	
Westin Hotel and Resorts	315	7	380	4
Omni Hilton Head Oceanfront Resort	300	8	n/a	
Kroger Super Markets	300	9	n/a	
	<u>4,974</u>		<u>2,630</u>	
TOTAL				

Source: Employment head counts were verified via telephone calls to the above companies.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

Schedule 19

FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION

LAST TEN CALENDAR YEARS

UNAUDITED

Function	Full - Time Equivalent Employees as of June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
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	4.0	4.0	4.0	4.0	5.0	4.0	5.0	5.0
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	20.3	17.6	15.6	16.6	17.0	18.0	18.0	17.0	17.0	19.0
Administration	23.3	22.1	21.0	22.0	22.0	22.0	22.0	21.0	23.5	22.5
Community Services										
Community Development	30.1	27.7	25.0	25.0	25.0	27.0	27.0	27.0	30.0	36.0
Public Projects & Facilities	23.0	23.0	22.0	21.0	22.0	22.0	22.0	22.0	22.0	21.0
Public Safety										
Fire & Rescue	144.3	140.9	143.7	143.7	143.0	145.1	147.1	145.0	146.0	147.6
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Total	256.0	246.3	242.3	243.3	244.0	249.1	252.1	247.0	254.5	262.1

Source: Town of Hilton Head Island Human Resources Department.

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.

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

UNAUDITED

Function	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Management Services										
Business license accounts issued	6,944	6,507	5,908	6,291	6,434	5,997	5,802	5,718	5,549	5,644
Business license inspections	521	391	293	529	283	2,324	605	1,460	127	396
Business license audits	82	28	66	46	124	123	49	117	-	-
Hospitality tax accounts	374	380	461	440	437	419	373	359	325	356
Bed tax accounts	1,461	1,472	1,399	1,308	1,312	1,232	891	863	752	775
Beach passes issued	3,110	3,287	2,850	2,845	2,428	2,688	2,224	2,602	1,885	2,434
Number of court cases docketed	3,858	4,886	3,862	3,459	5,111	6,156	7,152	8,016	9,159	8,380
Number of court cases disposed	3,858	5,004	3,860	3,525	5,271	6,271	7,221	8,363	8,854	8,607
Number of search warrants issued	7	5	6	9	8	28	27	33	22	19
Number of arrest warrants issued	199	284	307	363	307	502	216	349	415	460
Number of bench warrants issued	117	390	312	353	389	363	610	576	777	693
Community Services										
Community Development										
Building inspections conducted	21,124	16,957	15,647	13,907	19,024	12,133	11,813	10,773	11,604	13,053
Building permits issued	257	206	144	156	212	130	89	68	51	63
Miscellaneous permits issued	5,316	5,641	5,015	5,390	5,070	4,619	4,345	4,805	4,913	4,470
Public Projects and Facilities										
# of capital improvement projects to manage	41	34	22	20	20	38	45	53	62	64
# of beach access/parks to maintain	7	7	8	8	8	8	8	8	8	8
Miles of pathways to maintain	64	64	64	64	62	60	58	57	56	55
Maintenance work orders	5,000	5,000	5,100	5,025	5,150	5,212	4,500	4,406	4,187	2,800
Public Safety										
Fire and Rescue service calls	7,498	7,576	7,119	6,809	6,518	6,291	5,796	6,034	5,957	6,088
Actual fires extinguished	119	146	105	93	81	166	130	80	127	151
Inspections	2,594	1,960	3,196	2,121	1,855	1,937	2,281	2,902	2,390	2,626
Telephone requests	48,064	52,981	49,842	50,789	55,841	66,710	65,522	61,435	72,361	77,352
Public training programs	500	352	418	514	415	493	518	609	520	791

Sources: Various town departments.

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

Schedule 21

CAPITAL ASSET STATISTICS BY FUNCTION

LAST TEN FISCAL YEARS

UNAUDITED

Function	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
Town-owned parcels	145	221	224	223	168	142	175	182	185	183
Town-owned property acreage	1,307	1,307	1,307	1,312	1,321	1,319	1,202	n/a	n/a	n/a
Town-owned development rights	8	8	8	8	8	8	8	8	8	7
Town-owned easements	65	51	51	52	91	50	80	80	75	73
Management Services										
Town vehicles	40	38	38	36	38	38	38	39	40	39
Public Safety										
Emergency Apparatus Vehicles	29	29	28	28	28	25	24	24	24	24
Police Vehicles ^a	-	-	-	-	-	-	-	-	-	-
General Vehicles	20	20	19	19	19	25	30	30	30	23
Fire Stations	7	7	7	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	23	23	23	23	23	22	22	22	23	22
Pathways (miles)	64	64	64	64	62	60	58	57	56	55
Beach access/parks	7	7	8	8	8	8	8	8	8	8

*All Town roads are dedeed to Beaufort County.

Sources: Various town departments and asset database.

Notes:

No capital asset indicators are available for the Planning/Building & Fire Codes function.

^aPolice services currently contracted with Beaufort County Sheriff's Office.

PRINCIPAL STORMWATER CUSTOMERS

CURRENT YEAR

UNAUDITED

Customer	Type of Business	Stormwater Fees Billed	Percentage of Total Billed
Town of Hilton Head Island	town government	\$ 86,736	1.67%
Beaufort County	county government	81,855	1.58%
Marriott Ownership Resorts	timeshare condominium	54,000	1.04%
Palmetto Dunes Resort LLC	various	31,069	0.60%
Sea Pines Resort LLC	various	28,680	0.55%
Heritage Golf-Port Royal LLC	golf course & club	24,165	0.47%
Topper Golf World LLC-Palmetto Hall	golf course & club	23,247	0.45%
Indigo Run Asset Corporation	golf course & club	22,985	0.44%
Shelter Cove Towne Centre	shopping center	22,194	0.43%
Hilton Head Plantation POA	golf course & club	16,213	0.31%
Wexford Plant HOA	golf course & club	13,941	0.27%
Swope Properties	shopping center	12,448	0.24%
Heritage Golf-Shipyard LLC	golf course & club	12,078	0.23%
Sea Pines Country Club Inc.	golf course & club	12,235	0.24%
Long Cove Club Owners Association	golf course & club	11,751	0.23%
Total		<u>453,597</u>	<u>8.76%</u>
Total Stormwater Fees Billed		<u>\$ 5,180,494</u>	

The Stormwater fee is composed of three components:

- 1 - Administrative fee of \$24 on each account.
- 2 -Gross Area charge on the total acreage of the parcel. The minimum fee is \$21 for the first two acres with a declining charge for additional acres.
- 3 - Impervious area charge based on \$105 for every 4,906 of square feet.

The residential accounts' Impervious area charge is based on established tiers and percentages.



Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, 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, the financial statements 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 (the "Town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 27, 2018.

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*.

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OPEN BY APPOINTMENT ONLY

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.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
November 27, 2018