



Financial Audit Presentation Year Ended June 30, 2021

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

OPINION

- The Town's responsibility:
 - Maintain effective internal controls
 - There are limitations on internal controls.
 - Regular risk assessment is important, including assessing the risk of fraud.
 - Financial Statements
 - Accuracy, completeness, and propriety of balances, amounts, and disclosures

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

- Greene Finney, LLP's ("GFLLP") responsibility:
 - Opinion – reasonable assurance that financial statements are materially correct
 - Does not address the financial condition of the Town
 - Purpose of the audit is not to detect fraud. GFLLP cannot take responsibility for finding fraud, if it existed
- Issued unmodified opinion

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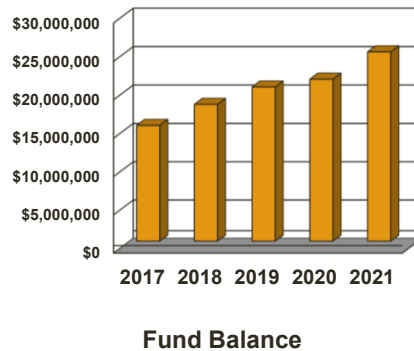


TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

General Fund

- Total fund balance increased \$3.6M to \$25.7M
- Committed fund balance of \$17.6M for disaster recovery
- Assigned fund balance of \$424K for Town Council initiatives

GENERAL FUND



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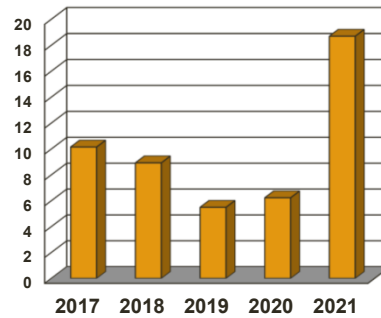


TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

General Fund

- Unassigned fund balance is \$7.7M, which is 18.9% of 2021 actual expenditures and 17.5% of 2022 budgeted expenditures
- GFOA recommends a minimum of 16.7% (two months)

GENERAL FUND



Unassigned Fund Balance as a %
of General Fund Expenditures

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

Major Reasons To Maintain An Adequate Fund Balance:

- Cash flow through second half of calendar year; property taxes and business licenses are cyclical.
- Significant emergencies and unanticipated expenditures.
- Flexibility for discretionary funding needs.
- Potential for better interest rates on debt issues (can save the Town money).
- Unique requirements for a coastal municipality
- Important given the uncertain economic times.

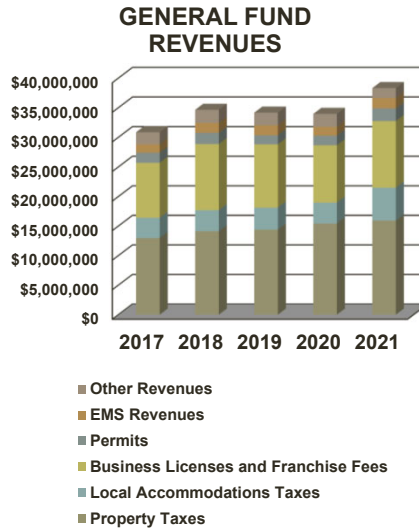
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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

General Fund Revenues and et Other Financing Sources:

- \$44.5 million for 2021:
 - \$15.9 million from property taxes
 - \$5.6 million from local accommodations taxes
 - \$11.3 million from business licenses and franchise fees
 - \$5.5 million from other revenues
 - \$6.2 million in net transfers in
- \$4.5 million (11%) increase from 2020
 - Increases of \$2.0M and \$1.6M in accommodations taxes and business licenses, respectively
- \$3.4 million(2%) better than budget
 - \$1.9 million better than budget in accommodations taxes



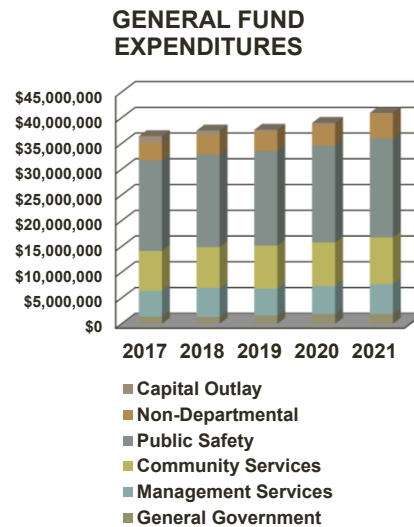
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General Fund Expenditures:

- \$41.0 million for 2021:
 - \$1.9 million in general government
 - \$5.8 million in management services
 - \$9.1 million in community services
 - \$19.2 million in public safety
 - \$4.9 million in non-departmental
 - \$142 thousand in capital outlay
- \$2.2 million (5.6%) increase from 2020
- \$3.1 million (7.0%) under budget
 - Due to overall conservative spending across departments in response to the uncertainty related to the pandemic



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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

Total for all Governmental Funds

- **Includes General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds**
 - Total Revenues and Net Other Financing Sources of \$99.1 million
 - Total Expenditures of \$83.6 million (including debt service payments of \$20.2 million and capital outlay of \$14.2 million)

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

Enterprise Fund – Stormwater Fund

- The **Stormwater Fund** had an increase in net position of \$159 thousand to \$10.0 million as of June 30, 2021 (including \$6.8 million invested in capital assets):
 - Operating revenues increased \$115 thousand (2.3%) from the prior year.
 - Operating expenses increased approximately \$265 thousand (6.5%) due to increases in repairs and maintenance.

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

Capital Assets

- Total capital assets were \$294.1 million at 6/30/21, including \$280.7 million for governmental activities and \$13.4 million for business-type activities – increase of \$7.6 million for governmental activities and an increase of \$425 thousand for business-type activities.
 - Significant projects in 2021 included:
 - Construction of Fire Station #2
 - Coligny Road & Pathway Project
 - Coligny Beach Park improvements
 - Sea Pines Pump Station (Stormwater)

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

Long-term Obligations

- Total long-term obligations outstanding at 6/30/21 were \$126.7 million – a decrease of \$17.7 million from 6/30/20:
 - Issued \$12.1 million in general obligation refunding bonds for governmental activities during 2021. Proceeds were used to fully refund the outstanding 2011 GO bonds and partially refund the outstanding 2013 GO bonds
 - Principal payments of \$15.6 million made during 2021.
 - Compensated absences outstanding at 6/30/20 – \$5.2 million.
- Net pension liability of \$19.0M as of June 30, 2021 on the full accrual statements. This is the Town's proportionate share of the total net pension liability for the SC Police Officers Retirement System. The liability does not directly affect the Town's cash flows; however, employer contribution rates have increased annually (18.24% for FY21). Those increases have a direct impact on the Town's operating budgets.

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Change in Accounting Principle

- Implementation of Governmental Accounting Standards Board No. 84 “*Fiduciary Activities*” (“GASB #84”)
 - This Statement made it clear that the Firefighters’ 1% balances and activities should be reported by the Town in a special revenue fund. The balances and activities were previously reported in a fiduciary fund.
 - The fund balance of the Town’s governmental funds and net position of the Town’s governmental activities as of July 1, 2020 increased by \$53k as a result of implementation.

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

AUDITING/ACCOUNTING UPDATE:

- Future Significant Changes in Accounting Principles:
 - GASB #87 “Leases” provides new guidance on reporting leases as generally all leases will report an intangible right-to-use lease asset and lease liability (similar to capital lease accounting). The Town will need to implement for the year ended June 30, 2022.

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Compliance

- Single Audit was required for 2021
 - FEMA – no findings noted.
 - CDBG – no findings noted.
- Collateralization of Deposits
 - Approximately \$8.8m in deposits were exposed to custodial credit risk as of June 30, 2021 as a result of an error made by Wells Fargo bank. The custodial credit risk was due to a manual process by the bank that resulted in the posting of collateral based on inaccurate data, prepared by the bank. Wells Fargo discovered the error on July 1, 2021, and contacted the Town on July 1, 2021, to inform the Town of the error. Sufficient collateral was posted by Wells Fargo on June 29, 2021, and on July 1, 2021. This error by Wells Fargo affected a number of Greene Finney, LLP audit clients.

Management Letter

- Required communications to management and those charged with governance – no matters to report.

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TOWN OF HILTON HEAD ISLAND 2021 FINANCIAL AUDIT

Summary

- Unmodified opinion on the Financial Statements from GFLLP
- Strong financial condition as of June 30, 2021

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