

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

DEPARTMENT OF FINANCE

TOWN OF HILTON HEAD ISLAND,
South Carolina

**Comprehensive
Annual
Financial Report**

**Fiscal Year Ended
June 30, 2006**

**Prepared By
Finance Department**

**Steven D. Markiw,
Acting Director
of Finance**

**Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

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TOWN OF HILTON HEAD ISLAND

One Town Center Court, Hilton Head Island, S.C. 29928

(843) 341-4600 Fax (843) 842-7728

<http://www.hiltonheadislandsc.gov>

December 5, 2006

Thomas D. Peoples
Mayor

Kenneth S. Heitzke
Mayor ProTem

Council Members

Willie (Bill) Ferguson
Drew A. Laughlin
W. J. (Bill) Mittel
John Safay
George W. Williams, Jr.

Stephen G. Riley
Town Manager

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

We are pleased to submit the Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina (Town). South Carolina Code Ann., Section 5-7-240, requires an annual audit of the books of account and financial records of the Town. In addition to meeting this legal requirement, the report continues to present the Town's strong tradition of full disclosure. This philosophy is reflected by the informative financial analysis provided herein.

The CAFR's role is to assist in making economic, social and political decisions and to assist in assessing accountability to the citizenry by:

- comparing actual financial results with the legally adopted budget, where appropriate;
- assessing financial condition and results of operations;
- assisting in determining compliance with finance related laws, rules and regulations; and
- assisting in evaluating the efficiency and effectiveness of Town operations.

The Town's Financial Statements have been prepared using the reporting model in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis. The reporting model represents a dramatic change in governmental financial reporting with the intent of making them more useful and easier to understand. In addition, the Statistical Section has been revised this year to conform to GASB Statement Number 44, Economic Condition Reporting.

Cherry Bekaert & Holland, L.L.P., have issued an unqualified ("clean") opinion on the Town of Hilton Head Island's financial statements for the year ended June 30, 2006. The Independent Auditors' Report is located at the front of the financial section of this report.

The CAFR is presented in three parts to facilitate understanding by the non-financially oriented user, as well as to provide all necessary information for the most sophisticated financial observer.

The Introductory Section is designed to introduce the reader to the Town and summarize the financial story told in the financial statements, schedules, notes and statistical tables. The transmittal letter discusses significant aspects of financial operations during the year and encapsulates financial prospects for the future. This section includes the transmittal letter, a list of principal officials and the Town's organizational chart.

The Financial Section includes the independent auditors' report, Management's Discussion and Analysis, basic financial statements and the related notes to the financial statements. The basic financial statements and notes are designed to provide an overview of the Town's financial position and results of operations. The remainder of this section presents the combining statements, individual fund statements and schedules focusing on each individual fund and other required supplemental information.

The Statistical Section contains detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health. This section is divided into five parts;

- **Financial Trends** – contains trend information to help the reader understand how the Town's financial performance and well being have changed over time.
- **Revenue Capacity** – contains information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.
- **Debt Capacity** – contains schedules to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's abilities to issue additional debt in the future.
- **Demographic and Economic Information** – contains schedules of demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.
- **Operation Information** – contains schedules about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.

Profile of Hilton Head Island

The Town of Hilton Head Island, incorporated 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 Town was incorporated under a concept of "Limited Services" government for growth management to provide services of land planning and inspections. To keep the cost of this government low and to avoid duplication of services, contractual arrangements were made with the County to provide for the services of police and property tax billing and collections.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which operates.

Local Economy: Tourism is the largest "industry" in the island's economy. There are approximately 2.5 million visitors annually. The island hosts a major sports event in the Verizon Heritage golf tournament. The island has established world-class accommodations, and the tourism industry continues to grow with a peak summer population of approximately 248,000.

One indicator of the economic outlook in the tourism industry on Hilton Head Island has been the accommodations tax. This is a two percent (2%) sales tax on lodging. Except for the 1992 fiscal year, this gross revenue collection has increased each year since its inception in 1984. In this fiscal year, the gross tax collection remained stable with a 13.3% increase of \$508,231 over the 2005 collection for a total of \$4,314,382. With annual visitor expenditures of \$1.5 billion, tourism is a growing industry in Hilton Head Island.

Real estate transfer fees declined by 10.3% over the previous fiscal year. The decline was due to the sale of two of the major resorts on the Island in the previous fiscal year. The fee is .25% of 1% on each real estate transaction in the Town. It generated \$6.0 million this year.

The South Carolina Employment Security Commission reported Hilton Head Island's annual unemployment rate to be 2.1%. This compares to 5.1% for the United States, 6.8% for South Carolina and 4.5% for Beaufort County.

The Town of Hilton Head Island issues over five thousand business licenses annually. The revenue derived from licenses increased by 15.4% over the prior year to \$7.7 million.

Long-term Financial Planning/ Major Initiatives: One of the most significant tools employed by the Town for strategic planning is the long-range financial plan (forecast). All revenues and expenditures in the General Fund are analyzed and forecast five years into the future. The model provides a picture of revenue surpluses or shortfalls the Town would experience if no action were taken, including tax increases or changes in service.

Town Council reviews the ten-year Capital Improvement Program annually. This capital plan includes a \$15 million beach renourishment project which has already begun. The Town collects a Beach Preservation Fee of two percent (2%) to fund beach renourishment every six to seven years. Commitment to preserve its natural resources includes the premier attraction of the beaches. Roadway improvements for major and secondary roads are planned for next fiscal year and the four subsequent years.

The Town has been successful in preserving a high quality of life for its residents.

Accounting and Internal Control: Management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls: The Town Manager submits a proposed budget for the General Fund, Capital Projects Fund and Debt Service Fund to the Town Council sixty (60) days prior to the beginning of the fiscal year. The Budget is legally enacted and adopted by an ordinance of the Town Council. All budgetary transfers are authorized by the Town Manager; however, the Town Council must approve any amendment to the budget, which causes a change in the total expenditures of any fund. The expenditures may not legally exceed appropriations at the fund level except for additional funds received as grants or donations. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The Town maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances greater than \$1,000 are generally re-appropriated as part of the following year's budget. All expenditures for items or services other than personal services are controlled by a procurement system, which encumbers purchase orders against budgets prior to issuance to the vendors. Purchase orders under \$5,000 are approved by the appropriate division heads, those up to \$20,000 are approved by the appropriate department heads, those up to \$50,000 Assistant Town Managers, and those over \$50,000 are approved by the Town Manager. A detailed budget and actual expenditures comparison is provided each month to the appropriate division heads, department heads, and Town Manager. A financial statement is presented quarterly to the Town Council.

Cash Management: The Town administers a comprehensive cash management and investment program. The primary goals of the program are to maximize the amount of cash available; to meet daily cash requirements and to obtain the highest possible yields consistent with restraints imposed by South Carolina statutes and Town policies.

The Town maximizes the use of temporarily idle funds by coordinating the schedule of vendor payments. The Town earned interest revenue of \$2,951,973 on investments for the fiscal year ended June 30, 2006.

Independent Audit

The Town Code, Title 4, Chapter 1, Section 4-1-30 requires an annual audit of the Town's financial statements by independent accountants selected by the Town Council. This requirement has been complied with and the independent auditors' report is included in the financial section of this report.

Awards and Acknowledgements

Certificate of Achievement: 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, 2005. This was the seventeenth 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.

Honorable Mayor, Members of the
Town Council, and Citizens of the
Town of Hilton Head Island
December 20, 2006
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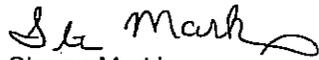
requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Award for Distinguished Budget: The Town also received the GFOA Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2005. It was the first year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

Acknowledgements: 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 like to express my appreciation to Sue Edwards, Accounting Manager; and Kathy Glover, Finance Assistant, who assisted and contributed to its preparation.

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

Respectfully yours,



Steven Markiw
Acting Director of Finance

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, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emery

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Hilton Head Island
South Carolina**

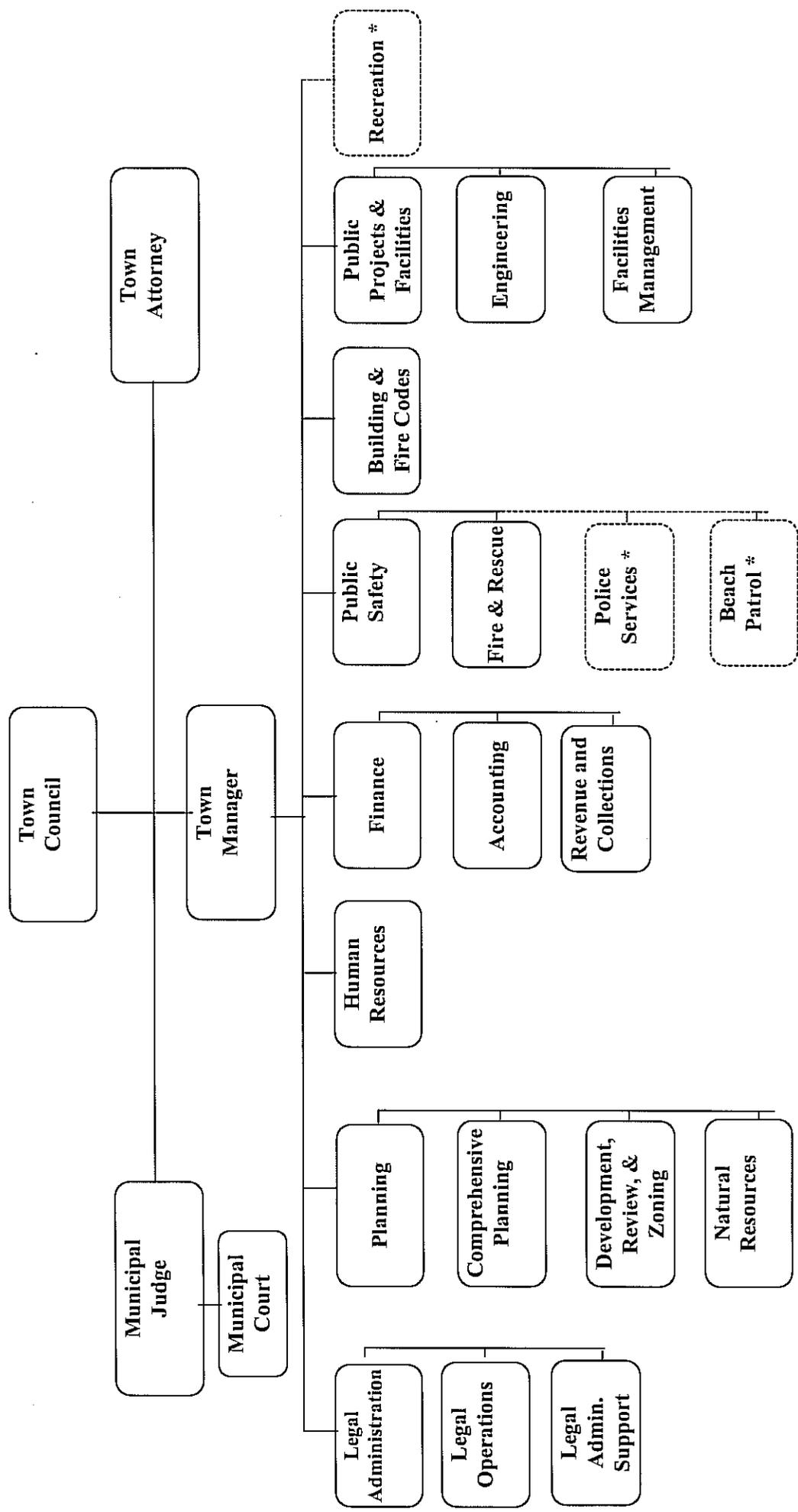
For the Fiscal Year Beginning

July 1, 2005

President

Executive Director

TOWN OF HILTON HEAD ISLAND ORGANIZATIONAL CHART



* Services not directly provided by the Town.

TOWN OF HILTON HEAD ISLAND

Council - Manager Form of Government

Elected Officials

Years
In Office

Mayor

The Honorable Thomas D. Peeples 15.5

Town Council

Kenneth S. Heitzke - Mayor Pro Tempore 9.0

John D. Safay 4.5

Willie Ferguson 12.5

W. J. (Bill) Mottel 8.0

George W. Williams, Jr. 5.0

Drew A. Laughlin 3.5

Administration

Stephen G. Riley	Town Manager
Steven Markiw	Acting Director of Finance
Frank P. Hodge	Director of Building & Fire Codes
Gregory D. Deloach	Assistant Town Manager/Director of Legal Department
Nancy H. Gasen	Director of Human Resources
Charles O. Hoelle, Jr	Deputy Town Manager/Director of Public Projects & Facilities
Charles F. Cousins	Director of Planning
Thomas M. Fieldstead	Fire Chief





INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental 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, 2006, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2006, and the respective changes in financial position, and the respective budgetary comparison for the General fund and the Tax Increment Financing fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006 on our consideration of the Town's internal control structure over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The Honorable Mayor and Members of Town Council
Town of Hilton Head Island
Hilton Head Island, South Carolina
Page 2

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund financial statements and schedules as of and for the year ended June 30, 2006, the statistical tables, and the accompanying schedule of municipal fines, assessments and surcharges for the year ended June 30, 2006 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, and the schedule of municipal fines, assessments and surcharges have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Behaent & Holland, L.L.P.

Beaufort, South Carolina
November 14, 2006

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

As management of the Town of Hilton Head Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Hilton Head Island for the fiscal year ended June 30, 2006. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended as an introduction to the Town's basic financial statements. The basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Hilton Head Island.

Government-wide financial statements

The government-wide financial statements are designed to provide the reader of the Town's Comprehensive Annual Financial Report with a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the statement of net assets and the statement of activities (Exhibits A and B).

The *statement of net assets* presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 net assets of the Town changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement even though resulting cash flow may be recorded in a future period.

Both government-wide financial statements reflect all of the functions of the Town. These services are supported from taxes, intergovernmental revenues, and charges for services. The Town does not have any business-type activities.

Fund financial statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives. Fund financial statements for the Town include only the governmental fund-type. The Town does not use proprietary or fiduciary fund-types.

Governmental Funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements utilize the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than the government-wide statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

The Town maintains nine governmental funds (Exhibits C through G). Seven are classified as major funds: General Fund, Tax Increment Financing (T.I.F.) District, Accommodations Tax, Real Estate Transfer Fee, Beach Preservation Fee, Debt Service Fund, and the Capital Projects Fund. Two are classified as non-major funds: Palmetto Electric and Home Grant. For reporting purposes on the fund financial statements, the special revenue funds are consolidated under the heading Other Governmental Funds. Schedules 4 and 5 of this document provide detailed information regarding these funds.

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

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 are on pages 19-53 of this report.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents combining individual fund statements and schedules referred to earlier in connection with non-major governmental funds. Also included are budgetary comparison Schedules of Revenues, Expenditures and Changes in Fund Balances for all non-major special revenue funds with a budget. These statements can be found on pages 12-18 and the schedules can be found on pages 54-66 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Hilton Head Island exceeded its liabilities at the close of the fiscal year by \$151,522,290 (*net assets*). Of this amount, \$35,349,883 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors in accordance with the Town's fund designation and fiscal policies.
- The Town's total net assets increased by \$19,435,320 during the current fiscal year. The Town's net assets increased as a result of this year's operation.
- As of the close of the current fiscal year, the Town of Hilton Head Island's governmental funds reported combined ending fund balances of \$80,262,011, an increase of \$4,216,730. Approximately seventy-six percent (76%) of this total amount, or \$61,059,302, is available for spending at the government's discretion (*unreserved fund balance*). The majority of this fund balance resides in the Capital Projects Fund.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$14,366,799 of which \$1,271,948 is designated for disaster recovery.
- The Town of Hilton Head Island's total debt decreased by \$5,915,000 during the current fiscal year. The reduction in debt was due to normal repayment of bond principal during the fiscal year.
- The Town of Hilton Head Island has a general obligation bond rating of AA.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

**NET ASSETS
Figure 1**

	Governmental Activities	
	2006	2005
Current and other assets	\$ 86,364,055	\$ 82,600,831
Capital assets	186,228,161	177,053,357
Total assets	272,592,216	259,654,188
Long-term liabilities outstanding	116,721,749	122,930,071
Other liabilities	4,348,177	4,637,147
Total liabilities	121,069,926	127,567,218
Net assets:		
Invested in capital assets, net of related debt	93,060,926	83,615,491
Restricted	23,111,481	8,594,126
Unrestricted	35,349,883	39,877,353
Total net assets	\$ 151,522,290	\$ 132,086,970

The largest part of the Town's net assets reflects investments in capital assets (61%) (land, buildings, improvements, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these assets to provide services to the 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 capital assets themselves cannot be used to liquidate these liabilities.

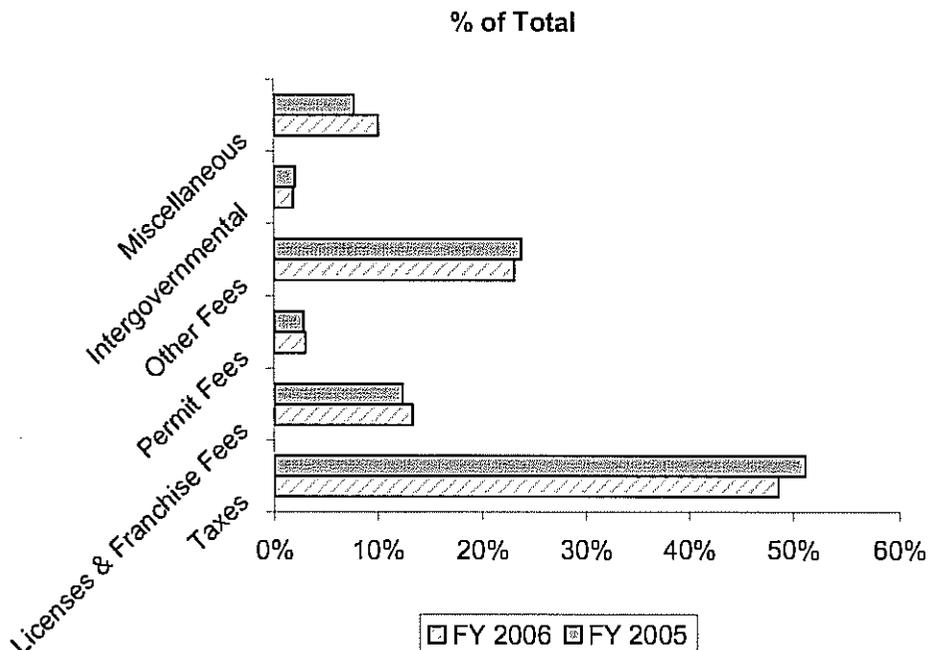
The increase in current assets from the prior year is due almost entirely to an increase cash and investments on hand at June 30, 2006 from current year operations. The normal repayment of bond principal during the current year is the primary reason for the decrease in long-term liabilities. Restricted net assets increased due to debt covenants associated with bonds issued in the prior year.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

**Changes in Net Assets
Figure 2**

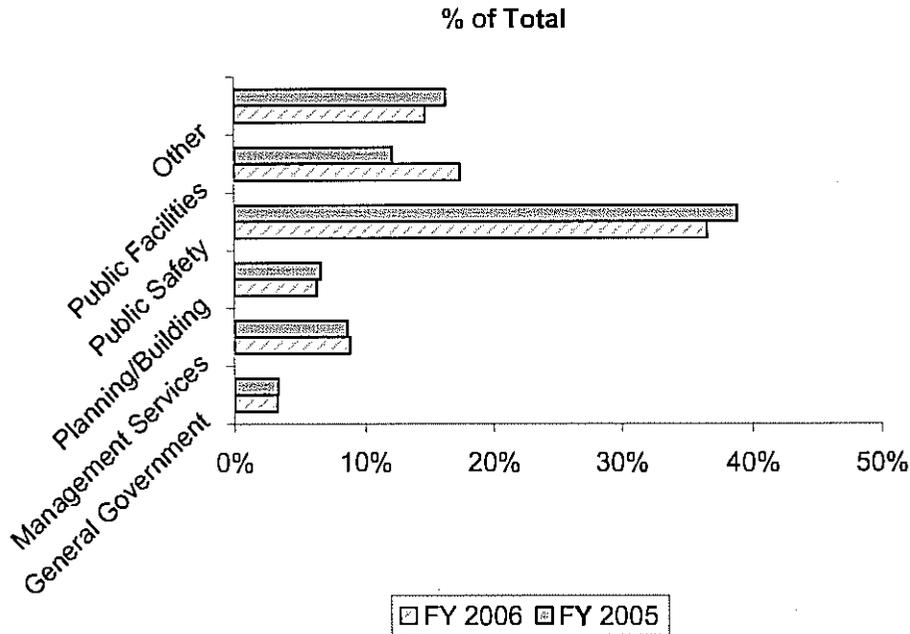
	Governmental Activities	
	2006	2005
Revenues:		
Program revenues:		
Charges for Services	\$ 24,036,523	\$ 22,979,886
Operating Grants and Contributions	347,325	155,067
Capital Grants and Contributions	180,900	944,425
General revenues:		
Property Taxes	19,041,631	21,602,549
Other Taxes	11,144,997	8,305,770
Other	7,393,224	4,485,496
Total revenues	62,144,600	58,473,193
Expenses:		
General Government, Management Services, Administrative	8,974,930	7,472,339
Public Safety	15,605,366	14,707,812
Planning, Building and Fire Codes, Public Projects and Facilities	10,095,045	8,020,829
Accommodations Tax Grants, Visitor and Convention Bureau	2,448,205	2,307,742
Interest on Long-Term Debt	5,585,734	5,409,997
Total expenses	42,709,280	37,918,719
Increase in net assets	19,435,320	20,554,474
Net assets, July 1	132,086,970	111,532,496
Net assets, June 30	\$ 151,522,290	\$ 132,086,970

**Revenues by Source - Governmental Activities
Figure 3**



**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

**Expenses by Program - Governmental Activities
Figure 4**



Governmental Activities

The most significant revenues of the governmental activities are taxes \$30,186,628 (49%), which include property taxes \$19,041,631 (63%), accommodations tax \$6,058,319 (20%), and hospitality tax \$5,086,678 (17%). Another significant source of revenues is fees \$14,324,562 (23%), which include impact fees \$421,692 (3%), real estate transfer fee \$6,020,689 (42%), beach preservation fee \$4,452,559 (31%), electric franchise fee \$2,105,345 (15%), and stormwater fee \$1,324,277 (9%).

The most significant increase in revenues was in hospitality taxes which increased by \$2,095,568. The primary reason for the increase was a change in the hospitality tax rate from 1% to 2%. The second largest increase was in investment income which increased \$1,748,546. This increase was due to higher yields on investments as well as an increase in funds available for investment.

Public Safety (police and fire) expenses are the most significant \$15,605,366 (37%) of all governmental activity expenses, followed by Public Projects and Facilities \$7,419,865 (17%), Interest Expense \$5,585,734 (13%), Management Services \$3,765,726 (9%), General Government \$3,059,753 (7%), Planning/Building and Fire Codes \$2,675,180 (6%), Administrative \$2,149,451 (5%), Accommodations Tax Grants 1,305,306 (3%), and Visitor Convention Bureau \$1,142,899 (3%). Also included in some of the amounts mentioned above is depreciation expense which is \$2,447,814 (6%) of the total expenses for governmental activities.

Total expenses associated with governmental activities increased \$4,790,051 in the current year. The most significant changes in program expenses were as follows:

- **General Government** - increases in: legal fees \$107,897, townwide employee programs \$49,057, and salaries and benefits \$25,913; decreases in: short-term temporary staff (\$27,791).

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

- **Management Services** - increases in: supplies and services \$373,447, salaries and benefits \$210,372, and professional services \$12,183; decreases in: maintenance contracts (\$104,124) and training and meetings (\$16,172).
- **Planning/Building & Fire Codes** - increases in: salaries and benefits \$160,280, and professional services \$12,111.
- **Public Safety** - increases in: salaries and benefits \$645,936, supplies and services \$255,023, police services \$101,556, and beach services \$16,407; decreases in: training and meetings (\$19,577).
- **Public Projects and Facilities** - increases in: professional services \$148,775 and salaries and benefits \$84,315; decreases in: supplies and services (\$21,229).

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town of Hilton Head Island uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General - The General Fund, which is the primary operating fund of the Town, recognized \$26,231,445 in total revenues and \$4,117,431 in other financing sources offset with \$26,972,447 in expenditures. This resulted in an excess of revenues and other financing sources over expenditures of \$3,376,429. Fund Balance at the beginning of the year was \$11,319,354 and, when combined with the current year, resulted in an end of year Fund Balance of \$14,695,783. Of this amount, \$14,366,799 is Unreserved Fund Balance which represents 53% of the Town's present expenditure levels.

Tax Increment Financing District - The Tax Increment Financing District Fund recognized \$4,294,779 in total revenues offset with \$1,002,004 in expenditures and \$2,831,305 in other financing uses. This resulted in an excess of revenues over expenditures and other financing uses of \$461,470. Fund Balance at the beginning of the year was \$6,323,952 and, when combined with the current year, resulted in an end of year Fund Balance of \$6,785,422.

Accommodations Tax - The Accommodations Tax Fund recognized \$3,901,593 in total revenues offset with \$2,448,205 in expenditures and \$1,046,147 in other financing uses. This resulted in an excess of expenditures and other financing uses over revenues of \$407,241. Fund Balance at the beginning of the year was \$1,659,530 and, when combined with the current year, resulted in an end of year Fund Balance of \$2,066,771.

Real Estate Transfer Fee - The Real Estate Transfer Fee Fund recognized \$6,322,111 in total revenues offset with \$60,207 in expenditures and \$4,691,230 in other financing uses. This resulted in an excess of revenues over expenditures and other financing uses of \$1,570,674. Fund Balance at the beginning of the year was \$6,952,391 and, when combined with the current year, resulted in an end of year Fund Balance of \$8,523,065.

Beach Preservation Fee - The Beach Preservation Fee Fund recognized \$4,907,284 in total revenues offset with \$1,582,621 in other financing uses. This resulted in an excess of revenues over other financing uses of \$3,324,663. Fund Balance at the beginning of the year was \$11,008,864 and, when combined with the current year, resulted in an end of year Fund Balance of \$14,333,527.

Debt Service - The Debt Service Fund recognized \$4,818,621 in total revenues and \$6,225,507 in other financing sources offset with \$10,519,720 in expenditures. This resulted in an excess of revenues and other financing sources over expenditures of \$524,408. Fund Balance at the beginning of the year was \$7,824,815 and, when combined with the current year, resulted in an end of year Fund Balance of \$8,349,223.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

Capital Projects - The Capital Projects Fund recognized \$9,563,347 in total revenues and \$5,419,568 in other financing sources offset with \$14,853,855 in expenditures and 5,535,993 in other uses. This net result is expenditures and other financing uses exceed revenues and other financing uses by (\$5,406,933). Fund Balance at the beginning of the year was \$31,004,346 and, when combined with the current year, resulted in an end of year Fund Balance of \$25,597,413.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the Town revised the budget on several occasions. 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 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 appropriations that become necessary to maintain services.

The budget expenditure increases totaled \$132,454. This was for legal commitments from the prior year, a reduction in anticipated property tax revenues, and an increase in transfers in. These are summarized as follows:

Expenditure Adjustments:

- \$6,800 Increase in townwide employee training
- \$28,912 Increases in contractual & consulting services
- \$38,102 Increases in supplies and maintenance fees
- \$48,640 Increase in specialized equipment
- \$10,000 Increase in the general contingency

Revenue Adjustments:

- \$502,354 Increase in funds from prior years
- (\$379,900) Decrease in property tax revenues

Transfer Adjustments:

- \$10,000 Increases in "transfers in"

Actual revenues for the General Fund were \$3,301,335 more than the final adopted budget. The primary reasons for the favorable variance were higher than anticipated revenues from business licenses and franchise fees \$1,468,040, permit fees \$530,293, investment income \$368,748, local 1% accommodations tax \$363,657, as well as revenues received from grants of \$202,325. Also, transfers in were (\$49,109) less than the final adopted budget.

Actual expenditures for the General Fund were \$687,187 less than the final adopted budget. The favorable variance was due to lower personnel costs, supply and equipment maintenance costs, capital outlay and grants than was anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Town of Hilton Head Island's investment in capital assets for its governmental activities as of June 30, 2006 amounted to \$186,228,161 (net of accumulated depreciation). These assets include buildings, drainage systems, land, furniture, fixtures, equipment and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction in progress of \$6,630,479 in governmental-type activities for drainage, road improvement, pathways, new facilities and existing facilities.
- Through the Land Acquisition Program, the Town purchased \$4,751,573 of land for preservation, reducing development, and public access.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

**Town of Hilton Head Island's Capital Assets
Figure 5**

	Governmental Activities	
	2006	2005
Land	\$ 135,883,161	\$ 131,131,588
Buildings	8,867,254	8,916,346
Parks	2,643,855	1,815,038
Furniture, fixtures and equipment	729,663	1,100,609
Infrastructure	25,562,219	25,100,400
Vehicles	819,562	974,802
Construction in progress	11,722,447	8,014,574
Total	\$ 186,228,161	\$ 177,053,357

Additional information on the Town's capital assets can be found in Note 12 of the Basic Financial Statements.

Long-term Debt - As of June 30, 2006, the Town of Hilton Head Island had total bonded debt outstanding of \$114,295,000. Of this, \$71,240,000 is debt supported by the full faith and credit of the Town. The remainder of the Town's debt represents Revenue Bonds and Certificates of Participation.

**Town of Hilton Head Island's Outstanding Debt
Figure 6**

	Governmental Activities	
	2006	2005
General Obligation Bonds	\$ 71,240,000	\$ 74,705,000
Revenue Bond	34,060,000	35,500,000
Certificates of Participation	8,995,000	10,005,000
Total	\$ 114,295,000	\$ 120,210,000

The normal repayment of bond principal during the past fiscal year decreased the Town of Hilton Head Island's total debt by \$5,915,000 (4.9%).

As mentioned in the financial highlights section of this document, the Town of Hilton Head Island maintained its AA bond rating from Moody's Investor Service, its Aaa³ rating from Standard and Poor's Corporation, and its AA Fitch Ratings. This bond rating is a clear indication of the sound financial condition of the Town of Hilton Head Island.

General statutes limit the amount of general obligation debt that a unit of government can issue up to eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The Town may incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote in a referendum as authorized by law. The legal debt margin for Town of Hilton Head Island is \$36,838,504. The Town has \$15,855,000 in bonds issued at June 30, 2006, which are applicable to this cap.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

Additional information regarding the Town of Hilton Head Island's long-term debt can be found in Note 10 on pages 36-48 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors - The following key economic indicators reflect the growth and prosperity of the Town.

- Low unemployment. The Town of Hilton Head Island's unemployment rate of 2.2% is well below the County average of 4.7% and the State average of 6.8%.
- Approximately 2.3 million visitors annually to the Hilton Head Island Area providing in excess of \$1.6 billion dollars to the local economy.
- 43% of all licensed island enterprises are retail and service oriented companies.
- Tourist lodging facilities on the island pay nearly \$20.0 million in property taxes to Beaufort County.
- Tourism in the Hilton Head Island/Bluffton area employs over 10,000 people living both on and off the island.
- Sales tax paid by visitors is approximately \$47.0 million annually.

Budget Highlights for the Fiscal Year Ending June 30, 2007:

Governmental Activities - The General Fund's revenues for fiscal year 2007 are budgeted at \$29,671,810 an increase of \$2,072,806 or 7% over the prior year's budgeted revenues. Revenues from taxes, business licenses, and permit fees are expected to lead the increase in budgeted revenue. The Town will use these increases in revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at \$29,671,810. The largest components of the budget are personnel costs and contractual services.

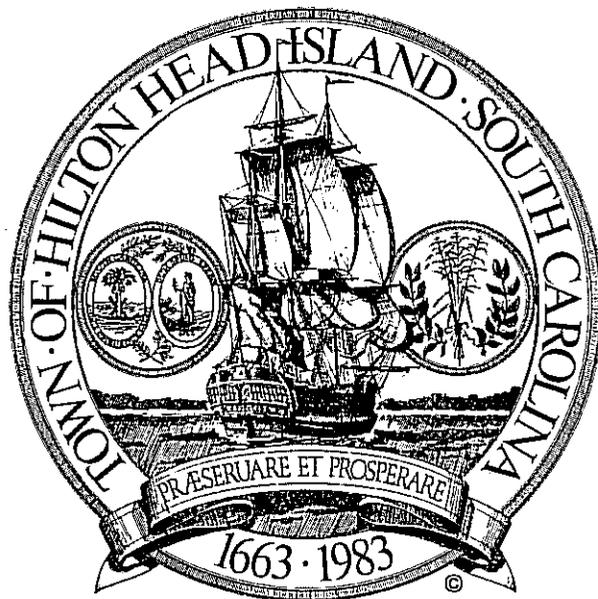
The Capital Improvements Fund appropriation is \$34,684,000. The majority of the expenditures are budgeted for road improvements which accounts for 28% of the capital budget with the largest component (\$2.6 million) earmarked for widening of Mathews Drive.

The Debt Service Fund provides for the payment of principal and interest payments totaling \$10,397,450.

The assessment rate for the fiscal year beginning July 1, 2006 on taxable property located within the Town of Hilton Head Island was established at 19.0 mills upon each one dollar of taxable property in the Town of Hilton Head which is the same as the prior fiscal year.

Requests for Information

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



TOWN OF HILTON HEAD ISLAND
STATEMENT OF NET ASSETS
JUNE 30, 2006

Exhibit "A"

	Governmental Activities
ASSETS	
Cash	\$ 16,147,030
Investments	16,747,246
Accounts Receivable	4,570,778
Due from Employees	75,177
Due from Other Governments	3,002,270
Other Assets	2,519,957
Restricted Assets:	
Cash	7,819,325
Investments	35,482,272
Capital Assets:	
Non Depreciable	147,605,608
Depreciable	38,622,553
Total assets	272,592,216
 LIABILITIES	
Accounts Payable	1,298,189
Payable to Hilton Head Chamber of Commerce Visitor & Convention Bureau	406,087
Accrued Payroll and Related Payables	796,625
Due to Other Governments	694,538
Unearned Revenue	22,274
Payable from Restricted Assets:	
Irrigation and Pool Bonds Payable	140,100
Court Bonds Payable	40,428
Performance Bonds Payable	184,222
Interest Payable	765,714
Long-Term Liabilities:	
Due Within Less than One Year	7,729,836
Due Within More than One Year	108,991,913
Total liabilities	121,069,926
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	93,060,926
Restricted for:	
Debt Service	8,997,542
Disaster Recovery	14,091,422
Other Purposes	22,517
Unrestricted	35,349,883
Total net assets	\$ 151,522,290

TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Exhibit "B"

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Governmental activities:					
General Government	\$ 3,059,753	\$ 590,577	\$ 347,325	\$ -	\$ (2,121,851)
Management Services	3,765,726	7,723,373	-	-	3,957,647
Planning/Building and Fire Codes	2,675,180	1,890,293	-	-	(784,887)
Public Safety	15,605,366	1,282,602	-	-	(14,322,764)
Public Projects and Facilities	7,419,865	6,528,989	-	180,900	(709,976)
Accommodations Tax Grants	1,305,306	-	-	-	(1,305,306)
Visitor and Convention Bureau	1,142,899	-	-	-	(1,142,899)
Administrative	2,149,451	6,020,689	-	-	3,871,238
Interest	5,585,734	-	-	-	(5,585,734)
Total governmental activities	42,709,280	24,036,523	347,325	180,900	(18,144,532)
Total primary government	\$ 42,709,280	\$ 24,036,523	\$ 347,325	\$ 180,900	\$ (18,144,532)
General revenues:					
Taxes:					
Property					19,041,631
Local Accommodations					2,223,657
State Accommodations					3,834,662
Hospitality					5,086,678
Intergovernmental (Unrestricted State Shared Revenue)					1,155,021
Investment Income					2,951,972
Miscellaneous					3,286,231
Total general revenues					37,579,852
Change in net assets					19,435,320
Net assets - beginning					132,086,970
Net assets - ending					\$ 151,522,290

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

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

Exhibit "C"

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash	\$ 5,418,722	-	\$ -	\$ 7,272,309	\$ -	\$ -	\$ 3,445,733	\$ 10,266	\$ 16,147,030
Investments	6,418,480	-	1,248,035	-	745,897	4,580,364	3,754,470	-	16,747,246
Accounts Receivable	1,250,026	-	-	-	1,538,109	15	1,497,026	185,602	4,570,778
Due from Employees	75,177	-	-	-	-	-	-	-	75,177
Interfund Receivables	1,704,163	1,618,470	-	-	8,397	37,738	564,241	-	3,933,009
Due from Other Governments	650,316	153,844	1,353,622	372,263	-	110,852	361,371	-	3,002,268
Prepaid Expenses	378	-	-	-	-	-	-	-	378
Restricted Assets:									
Cash	184,222	5,022,277	-	1,000,000	-	1,590,310	-	22,516	7,819,325
Investments	1,271,948	-	-	-	12,000,000	2,384,948	19,825,376	-	35,492,272
Total assets	\$ 15,973,432	\$ 6,794,591	\$ 2,601,657	\$ 8,644,572	\$ 14,392,403	\$ 8,704,227	\$ 29,418,217	\$ 218,384	\$ 87,777,483

LIABILITIES AND FUND BALANCES

Liabilities:									
Accounts Payable	\$ 401,101	-	\$ 53,633	\$ -	\$ -	\$ 375	\$ 672,687	\$ 170,393	\$ 1,298,189
Accrued Payroll and Employee Payable	796,625	-	-	-	-	-	-	-	796,625
Due to Other Governments	669,038	-	-	-	-	-	25,500	-	694,538
Interfund Payables	46,135	9,169	75,166	121,507	58,876	354,629	3,152,617	114,910	3,933,009
Deferred Revenue	-	-	-	-	-	-	-	22,274	22,274
Payable from restricted assets:									
Initialion and Pool Bonds Payable	140,100	-	-	-	-	-	-	-	140,100
Court Bonds Payable	40,428	-	-	-	-	-	-	-	40,428
Performance Bonds Payable	184,222	-	-	-	-	-	-	-	184,222
Payable to Hilton Head Chamber of Commerce	-	-	-	-	-	-	-	-	-
Visitor and Convention Bureau	-	-	406,087	-	-	-	-	-	406,087
Total liabilities	2,277,649	9,169	534,886	121,507	58,876	355,004	3,850,804	307,577	7,515,472

Fund balances:

Reserved:									
Encumbrances	328,984	-	821,401	-	-	-	2,509,089	-	3,659,474
Debt Service	-	-	-	-	-	7,824,815	848,402	-	8,673,217
Land and Park Projects	-	-	-	-	-	-	1,356,827	-	1,356,827
Fund Balance - reserved - other	-	-	-	-	-	-	4,041,467	-	4,041,467
Unreserved:									
Designated for Disaster Recovery	1,271,948	-	-	-	-	-	-	-	1,271,948
Designated for Hospitality Tax Purpose	-	-	-	-	-	-	288,969	-	288,969
Undesignated	13,094,851	6,785,422	1,245,370	8,523,065	14,333,527	524,408	16,552,659	-	61,059,302
Reported in nonmajor:									
Special Revenue	-	-	-	-	-	-	-	(89,193)	(89,193)
Total fund balances	14,695,783	6,785,422	2,066,771	8,523,065	14,333,527	8,349,223	25,597,413	(89,193)	80,262,011
Total liabilities and fund balances	\$ 15,973,432	\$ 6,794,591	\$ 2,601,657	\$ 8,644,572	\$ 14,392,403	\$ 8,704,227	\$ 29,418,217	\$ 218,384	\$ 87,777,483

TOWN OF HILTON HEAD ISLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2006

Exhibit "D"

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

Ending fund balance - governmental funds	\$ 80,262,011
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	186,228,161
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,208,210
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	1,311,369
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(765,714)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(116,721,747)</u>
Net assets of governmental activities	<u>\$ 151,522,290</u>

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

Exhibit "E"

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:									
Real and Personal Property Taxes	\$ 9,729,367	\$ 4,065,553	\$ -	\$ -	\$ -	\$ 4,554,798	\$ 691,903	\$ -	\$ 19,041,631
Accommodations Tax	2,223,657	-	3,834,662	-	-	-	5,086,678	-	6,058,319
Hospitality Tax	-	-	-	-	-	-	-	-	5,066,678
Business Licenses and Franchise Fees	8,313,950	-	-	-	-	-	-	-	8,313,950
Permits	1,890,293	-	-	-	-	-	-	-	1,890,293
Other Fees:									
Impact	-	-	-	-	-	-	421,692	-	421,692
Real Estate Transfer	-	-	6,020,689	-	-	-	-	-	6,020,689
Beach Preservation	-	-	-	4,452,559	-	-	-	-	4,452,559
Electric Franchise	-	-	-	-	-	-	-	2,105,345	2,105,345
Stormwater	-	-	-	-	-	-	1,324,277	-	1,324,277
State Shared Funds	928,121	-	-	-	-	-	226,900	-	1,155,021
Donations	1,000	-	-	-	-	-	26,000	-	27,000
Grants	347,325	-	-	-	-	-	180,900	-	528,225
Miscellaneous Revenue	2,308,984	-	-	-	-	-	457,953	-	2,766,947
Investment Income	488,748	229,216	66,931	301,422	454,725	263,823	1,147,034	74	2,951,973
Total revenues	25,231,445	4,294,779	3,901,593	6,322,111	4,907,284	4,818,621	9,563,347	2,105,419	52,144,599
EXPENDITURES:									
Current:									
General Government	1,395,347	-	-	-	-	-	-	-	1,395,347
Management Services	3,642,659	-	-	-	-	-	-	-	3,642,659
Planning/Building and Fire Codes	2,653,273	-	-	-	-	-	-	-	2,653,273
Public Safety	14,760,157	-	-	-	-	-	-	-	14,760,157
Public Projects and Facilities	2,679,746	-	-	-	-	-	740,076	-	3,419,822
Non-Departmental	1,664,406	-	-	-	-	-	-	-	1,664,406
Accommodations Tax Grants	-	-	1,305,306	-	-	-	-	-	1,305,306
Visitor and Convention Bureau	-	-	1,142,899	-	-	-	-	-	1,142,899
Administrative	-	-	-	60,207	-	17,813	-	2,071,431	2,149,451
Capital Outlay	106,209	-	-	-	-	-	13,893,170	-	13,999,379
Debt Service:									
Principal	60,630	645,000	-	-	-	5,270,000	203,985	-	6,179,615
Interest	10,020	357,004	-	-	-	5,231,907	16,624	-	5,615,555
Total expenditures	26,972,447	1,002,004	2,448,205	60,207	-	10,519,720	14,853,855	2,071,431	57,927,669
Excess (deficiency) of revenues over (under) expenditures	(741,002)	3,292,775	1,453,388	6,261,904	4,907,284	(5,701,099)	(5,290,508)	33,988	4,216,730
Other financing sources (uses):									
Transfers In	4,117,431	-	-	-	-	6,225,507	5,419,568	-	15,762,506
Transfers Out	-	(2,831,305)	(1,046,147)	(4,691,230)	(1,582,621)	-	(5,535,993)	(75,210)	(15,762,506)
Total other financing sources (uses)	4,117,431	(2,831,305)	(1,046,147)	(4,691,230)	(1,582,621)	6,225,507	(116,425)	(75,210)	-
Net change in fund balances	3,376,429	461,470	407,241	1,570,674	3,324,663	524,408	(5,406,933)	(41,222)	4,216,730
Fund balance - beginning	11,319,354	6,323,952	1,659,530	6,952,991	11,009,864	7,824,815	31,004,346	(47,971)	76,045,261
Fund balance - ending	\$ 14,695,783	\$ 6,785,422	\$ 2,066,771	\$ 8,523,665	\$ 14,333,527	\$ 8,349,223	\$ 25,597,413	\$ (89,193)	\$ 80,262,011

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

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Exhibit "F"

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

Net change in fund balances - total governmental funds \$ 4,216,730

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 9,174,804

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 6,179,615

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 governmental funds. (135,829)

Change in net assets of governmental activities \$ 19,435,320

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2005

Exhibit "G"

	General			Tax Increment Financing			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	
Revenues:							
Real and Personal Property Taxes	\$ 10,120,000	\$ 9,740,700	\$ 9,729,367	\$ (11,333)	\$ -	\$ 4,065,593	\$ 4,065,593
Accommodations Tax	1,660,000	1,660,000	2,223,657	363,657	-	-	-
Business Licenses and Franchise Fees	6,645,910	6,645,910	6,313,950	1,468,040	-	-	-
Permits	1,360,000	1,360,000	1,890,293	530,293	-	-	-
State Shared Funds	922,220	922,220	926,121	5,901	-	-	-
Donations	-	-	1,000	1,000	-	-	-
Grants	145,000	145,000	347,325	202,325	-	-	-
Miscellaneous Revenue	1,936,260	1,936,280	2,306,964	372,704	-	-	-
Investment Income	120,000	120,000	488,748	368,748	-	229,217	229,217
Total revenues	23,310,010	22,930,110	26,231,445	3,301,335	-	4,294,780	4,294,780
Expenditures:							
Current:							
General Government	1,187,270	1,203,884	1,395,347	(191,463)	-	-	-
Management Services	3,172,650	3,763,463	3,942,659	140,904	-	-	-
Planning/Building and Fire Codes	2,726,320	2,724,048	2,653,273	70,775	-	-	-
Public Safety	14,681,820	14,723,617	14,760,157	(36,541)	-	-	-
Public Projects and Facilities	2,857,090	2,870,327	2,879,746	190,591	-	-	-
Non-Departmental	1,848,350	1,849,350	1,664,406	184,944	-	-	-
Capital Outlay	322,050	373,315	108,209	267,106	-	-	-
Debt Service:							
Principal	71,000	71,000	60,630	10,370	-	645,000	(645,000)
Interest	-	-	10,020	(10,020)	-	357,004	(357,004)
Total expenditures	27,466,550	27,598,004	26,972,447	626,557	-	1,002,004	(1,002,004)
Excess (deficiency) or revenues over (under) expenditures	(4,156,540)	(4,668,894)	(741,002)	3,927,862	-	3,292,776	3,292,776
Other financing sources (uses):							
Bond Issue	-	-	-	-	-	-	-
Transfers In	4,156,540	4,166,540	4,117,431	(49,109)	-	-	-
Transfers Out	-	-	-	-	-	(2,831,305)	(2,831,305)
Appropriated Fund Balance	-	502,354	-	(502,354)	-	-	-
Total other financing sources (uses)	4,156,540	4,668,894	4,117,431	(551,463)	-	(2,831,305)	(2,831,305)
Net change in fund balances	\$ -	\$ -	\$ 3,376,429	\$ 3,376,429	\$ -	\$ 461,471	\$ 461,471
Fund balance - beginning			11,319,354			6,323,951	
Fund balance - ending			\$ 14,695,783			\$ 6,785,422	

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

Component Unit

In conformity with accounting principles generally accepted in the United States of America (GAAP), the financial statements of the Town of Hilton Head Island Public Facilities Corporation are shown as a blended unit as the administration and governing bodies are primarily the same. The component unit provides services entirely to the Town and was created to facilitate the issuance of debt for acquisition of the Town's administration facilities.

Separate financial statements are not prepared for the Town of Hilton Head Island Public Facilities Corporation.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, generally, are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. The Town does not report any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds of which all are considered government funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental funds:

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

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)
Basis of Presentation – Fund Financial Statements (continued)

Tax Increment Financing District - Special Revenue Fund. This fund is used to account for incremental taxes charged to individuals. These revenues are restricted to expenditures for specific purposes.

Beach Preservation Fee - Special Revenue Fund. This fund is used to account for beach preservation fees. These revenues are restricted to expenditures for specific purposes.

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

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

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

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

The Town reports the Palmetto Electric Franchise Fees and the Home Grant Special Revenue Funds as nonmajor governmental funds.

Measurement Focus and Basis of Accounting

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

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

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies (continued)
Measurement Focus and Basis of Accounting (continued)

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

Property taxes for the year ended June 30, 2006, includes an accrual for property taxes collected 60 days after June 30. Property taxes are levied based on assessed values and the property tax calendar as follows:

Property Tax Calendar

Assessment date	2003
Property tax due	March 16
Delinquent date	March 17
Levy date	May 15-30
Tax sale	First Monday in October

The County has no specific lien date.

It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB pronouncements in its accounting and reporting practices for its government-wide financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the general fund, tax increment financing special revenue fund, debt service fund, and capital project fund. Budgets for the aforementioned funds are prepared in accordance with GAAP. The Town follows these 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, Tax Increment Financing Special Revenue Fund, Capital Projects Fund, and Debt Service 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 budget, Tax Increment Financing Special Revenue Fund budget, Capital Projects Fund budget and Debt Service budget.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies (continued)
Budgets and Budgetary Accounting (continued)

- 3) The budgets are legally enacted and adopted by Town Council.
- 4) Budgetary transfers between departments may be authorized by the Town Manager; however, 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.

Presented budgeted amounts are as originally adopted, transferred by Town Manager, or amended by Town Council. The amendments to the budget were:

General Fund

Revenues:

Funds From Prior Years	502,354
Property Taxes	(379,900)
Total Revenues Increase	\$ 122,454

Expenditures:

General Government:	
Human Resources:	
Increase in Townwide Employee Training	\$ 6,800
Increase in Consulting Service	6,175
Increase in Records Management	9,500
Legal - Operations:	
Increase in Maintenance Contracts/Fees	1,313
Planning/Building & Fire Codes:	
Planning - Administration:	
Increase in Books, Subscription, & Dues	1,817
Public Safety:	
Fire and Rescue - Administration:	
Increase in Operations Supplies	2,625
Fire and Rescue - Logistics & Maintenance:	
Increase in Facilities Maintenance	4,092
Increase in Uniforms	9,285
Increase in Equipment Maintenance	5,320
Fire and Rescue - Communications:	
Increase in Maintenance Contracts/Fees	13,650
Public Projects and Facilities:	
Engineering:	
Increase in Consulting Service/Traffic Control	13,237
Capital Outlay:	
Legal - Operations:	
Increase in Specialized Equipment	3,288
Public Safety:	
Fire and Rescue - Logistics & Maintenance:	
Increase in Specialized Equipment	45,352
Non-departmental:	
Townwide:	
General Contingency	10,000
Total Expenditure Increase	\$ 132,454

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies (continued)
Budgets and Budgetary Accounting (continued)

General Fund (continued)

Other Financing Sources:

Increase in Transfers In:	10,000
Total Other Financing Source Increase	<u>\$ 10,000</u>

Capital Projects Fund

Revenues:

Property Taxes	\$ (25,500)
Funds from Prior Years	3,347,466
Fees:	
Impact	747,281
Stormwater Utility	114,371
Hospitality	299,311
Sunday Permit Fees	(1)
County Bond	298,382
Hospitality Bond	703,758
Stormwater Utility Bond	513,114
LWCF	75,000
CTC Grant	106,000
TEP Grant	200,000
Total Revenue Increase	<u>\$ 6,379,182</u>

Expenditures:

Beach Maintenance:

Increase in Beach Management/Monitoring	\$ 46,090
Increase in Beach Maintenance/Renourishment	180,500
Increase in Beach Parks/Access Rehabilitation	8,977

Land Acquisition:

Increase in Land Acquisition	6,910,500
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Drainage Improvements:

Increase in North Forest Beach	290,000
Increase in Ashmore Tract Ditch	4,500
Increase in Drainage System Rehabilitation	114,371
Increase in Pineland Mill Drainage	111,955
Increase in Gumtree Drive Drainage	39,400

Road Improvements:

Increase in Town Roads Reconstruction	584,559
Increase in Pedestrian Crosswalks/Refuges	508,717
Increase in Traffic Signal Mast Arms	151,000
Increase in Widen and Realign Office Park Road	10,000
Increase in Mathews Drive (Marshland North)	169,485
Increase in Intersection Improvements	295,000
Increase in F&R Emergency Access Points	123,647
Increase in Horseshoe Road Connector - Spanish Wells	109,213
Increase in Spanish Wells Road Pathway	200,000

Pathways:

Increase in Wild Horse Road	70,733
Increase in Mathews Drive (South)	101,966
Increase in Mathews Drive (Marshland North)	119,993
Increase in Pope Avenue (Off Road)	164,840

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies (continued)
Budgets and Budgetary Accounting (continued)

Capital Projects Fund (continued)

Expenditures:

Park Development:

Increase in Barker Field Beach Access Extension	238,668
Increase in Shelter Cove Linear Park Expansion	373,382
Increase in Crossing Park Expansion	25,256

Facilities Improvements:

Increase in Municipal Court Office Improvements:	5,186
Increase in Fire Station #5 Replacement	125,000
Increase in Fire Station Renovations	186,976
Increase in F&R Maintenance and Training Facility and Office	47,528
Increase in F&R Apparatus & Vehicles Replacement/Refurbishment	25,000
Increase in Sea Pines Circle Upgrades	67,258
Increase in Town Vehicle Replacement	22,200
Increase in Demolition of Structures	276,312

Public Facilities:

Increase Fire Station #4 Replacement	220,607
Increase in Fire and Rescue Dispatch Center	263,811

Total Expenditure Increase	<u>\$ 12,192,630</u>
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Other Financing Sources:

Fund Balance	\$ 270,475
Increase in Transfers In	5,542,973
Total Other Financing Source Increase	<u>\$ 5,813,448</u>

Encumbrances

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation is employed as an extension of formal budgetary integration in the general fund and capital projects fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

The Accommodations Tax Fund committee prepares a list of grants approved each year based on collections for the calendar year. The amount of approved grants at June 30, 2006, which were underway by July 1, is shown as an encumbrance in that fund.

Investments

Investments are stated at fair value which is equivalent to market value for all investments held in the general fund, special revenue funds, capital projects fund, and debt service fund. All changes in fair value are recorded as investment income.

Due to and from Other Funds/ Internal Balances

Interfund receivables and payables in the fund financial statements and internal balances in the government-wide financial statements arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the government as fixed assets including, but not limited to, land, buildings, machinery and equipment with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. The only exception to the \$5,000 threshold is software acquisition. Software and other associated intangibles with an initial individual cost of \$50,000 or more and an estimated useful life in excess of two years is capitalized.

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

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred losses on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Compensated Absences

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1. Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

The sick leave termination benefit for employees who have a minimum of five years consecutive employment and are terminated for non-disciplinary reasons is computed based on a percentage of actual sick leave. The sick leave termination benefit is paid as a taxable lump-sum bonus at termination. Employees who were older than age 55 on July 1, 2000, and were employed by the Town were grandfathered under the prior plan of receiving their sick leave as a retirement benefit.

The grandfathered employees are eligible for the greater of the sick leave termination benefit or the sick leave retirement benefit. Sick leave was not accrued other than for the termination or retirement benefit, but the maximum considered possible benefits payable from services prior to June 30, 2006, would be \$1,209,567 excluding fringe benefits.

Program Revenues

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

Note 2. Cash and Investments

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

	Cash and		Restricted		Total
	Cash	Investments	Cash	Restricted	
	Equivalents		Equivalents	Investments	
Governmental Activities:					
General Fund	\$ 5,418,722	\$ 6,418,480	\$ 184,222	\$ 1,271,948	\$ 13,293,372
Accommodations Tax	-	1,248,035	-	-	1,248,035
Beach Preservation Fees	-	745,897	-	12,000,000	12,745,897
Tax Increment Financing	-	-	5,022,277	-	5,022,277
Home Grant	-	-	22,516	-	22,516
Real Estate Transfer Fee	7,272,309	-	1,000,000	-	8,272,309
Capital Projects	3,445,733	3,754,470	-	19,825,376	27,025,579
Debt Service	-	4,580,364	1,590,310	2,384,948	8,555,622
Town Franchise Fees	10,266	-	-	-	10,266
	<u>\$ 16,147,030</u>	<u>\$ 16,747,246</u>	<u>\$ 7,819,325</u>	<u>\$ 35,482,272</u>	<u>\$ 76,195,873</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 2. Cash and Investments (continued)

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2006, the \$23,963,171 carrying balance and \$23,949,990 bank balance were held in various banks of which \$332,783 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of \$3,184 is held in petty cash funds of the Town. Of the total carrying cash balance of \$23,966,355 in cash, \$7,819,325 has been restricted.

Investments

At June 30, 2006, the Town had investments and maturities as shown below:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>
Money Market Funds	\$ 49,295,430	\$ 49,295,430
U.S. Agency Discount Notes	2,934,088	2,934,088
	<u>\$ 52,229,518</u>	<u>\$ 52,229,518</u>

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 2. Cash and Investments (continued)

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

1. **Safety** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. **Credit Risk** – The Town will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities in compliance with the provisions of South Carolina statutes as bulleted in the aforementioned section.
 - b. **Interest Rate Risk** – The Town will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; thereby, avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
3. **Yield** – The Town's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the state investment pool, a money market mutual fund provided through Town's current banking institution or the average rate on Fed funds, whichever is higher. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein, and prudent investment principles.

At June 30, 2006, the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)	Unrated
Money Market Account	\$ 49,295,430	\$ -	\$ 49,295,430
U.S. Agency Discount Notes	-	2,934,088	2,934,088
	<u>\$ 49,295,430</u>	<u>\$ 2,934,088</u>	<u>\$ 52,229,518</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 2. Cash and Investments (continued)

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

Note 3. Receivables

At June 30, 2006, the Town's receivable balances were as follows:

	Government-wide Financial Statements					
	Fund Financial Statements					
	General Fund	Beach Preservation Fee	Capital Project Fund	Debt Service	Other Receivables	Total
Receivables:						
EVS Fees	\$ 1,014,760	\$ -	\$ -	\$ -	\$ -	\$ 1,014,760
Local accommodations taxes	817,698	-	-	-	-	817,698
Other receivables	-	-	-	15	185,602	185,617
Business license revenues	104,455	-	-	-	-	104,455
Beach preservation fees	-	1,638,109	-	-	-	1,638,109
Hospitality taxes/Other	460	-	1,497,026	-	-	1,497,486
Gross receivables	1,937,373	1,638,109	1,497,026	15	185,602	5,258,125
Less: allowance for uncollectibles	687,347	-	-	-	-	687,347
Net Receivables	\$ 1,250,026	\$ 1,638,109	\$ 1,497,026	\$ 15	\$ 185,602	\$ 4,570,778
Receivables from Employees:						
Cobra Insurance	\$ (1,585)	\$ -	\$ -	\$ -	\$ -	\$ (1,585)
Computer Purchases*	76,762	-	-	-	-	76,762
Total Receivables from Employees	\$ 75,177	\$ -	\$ -	\$ -	\$ -	\$ 75,177

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

Note 4. Interfund Balances and Activities

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2006 for which payment was received/made after June 30, 2006.

Interfund receivables and payable balances at June 30, 2006 are as follows:

	Due From								
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Beach Preservation Fees	Capital Projects Fund	Debt Service	Other	Total
		Fund	District	Fund	Fees	Fees	Fund	Service	
Due To:									
General	\$ -	\$ -	\$ 68,137	\$ -	\$ -	\$ 1,543,316	\$ -	\$ 92,710	\$ 1,704,163
Beach Preservation Fees	8,398	-	-	-	-	-	-	-	8,398
Capital Project Fund	-	-	7,029	121,507	58,876	-	354,629	22,200	564,241
Debt Service Fund	28,568	9,169	-	-	-	-	-	-	37,737
TIF	9,169	-	-	-	-	1,609,301	-	-	1,618,470
Other Governmental Funds	-	-	-	-	-	-	-	-	-
Total	\$ 46,135	\$ 9,169	\$ 75,166	\$ 121,507	\$ 58,876	\$ 3,152,617	\$ 354,629	\$ 114,910	\$ 3,933,009

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

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

Transfers in/out for the year ended June 30, 2006 are summarized below:

	Transfer In			Total
	General Fund	Debt Service Fund	Capital Projects Fund	
<u>Transfers Out:</u>				
TIF	\$ -	\$ -	\$ 2,831,305	\$ 2,831,305
Accommodations Tax	982,283	-	63,864	1,046,147
Real Estate Transfer Fees	-	2,996,042	1,695,188	4,691,230
Beach Preservation Fees	775,610	-	807,011	1,582,621
Capital Project Fund	2,306,528	3,229,465	-	5,535,993
Other	53,010	-	22,200	75,210
Total	\$ 4,117,431	\$ 6,225,507	\$ 5,419,568	\$ 15,762,506

Note 5. Due To or From Other Governments

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

General Fund

Property Taxes – Beaufort County	\$ 235,857
E 911 – Beaufort County	6,450
MASC	24,395
Dispatch/EMS 911 – Beaufort County	18,750
Beaufort County Land Care South	4,185
SC MIT	6,958
SC DOT	35,980
SC MER Ins.	1,880
State Homeland Security Grant	70,749
State Shared Taxes	245,112
	650,316

Tax Increment Financing Fund – Beaufort County 153,844

Debt Service Fund

Property Taxes - Beaufort County (06-01-06 thru 06-30-06)	48,098
Property Taxes - Beaufort County (07-01-06 thru 07-31-06)	50,400
Merchant Inventory Tax 06-30-06 State of SC	888
Property Taxes - Beaufort County (08-01-06 thru 08-31-06)	11,466
	110,852

Capital Projects Fund

Property Taxes - Beaufort County (07-01-06 thru 07-31-06)	6,966
CIP - Merchant Inventory (Quarter June 2006)	130
SC DOT	200,000
State Sunday Liquor Fees	62,350
Property Taxes - Beaufort County (06-01-06 thru 06-30-06)	9,919

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

Capital Projects Fund (continued)

Property Taxes – Beaufort County (08-01-06 thru 08-31-06)	116
Stormwater Fees – Beaufort County (06-01-06)	6,990
OCRM – Marine Debris Removal	50,000
OCRM – Port Royal Park	24,900
	<u>361,371</u>

Accommodations Taxes

State of South Carolina	<u>1,353,622</u>
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Real Estate Transfer Fees

Beaufort County	<u>372,263</u>
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Total Due from Other Governments	<u><u>\$ 3,002,268</u></u>
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The amounts due from the Town to other governments are as follows:

General Fund

SC Municipal Insurance Trust	\$ 1,937
Roads Impact Fee - Beaufort County	3,444
Municipal Court State Fees - SC State Treasurer	40,677
Municipal Court – City of Beaufort	9,000
Sheriff's Department – Beaufort County	506,096
Victim's Rights – Beaufort County	11,838
South Carolina - Employment	1,584
PORS - Retirement June	91,226
State of South Carolina – Use Taxes	3,236
	<u>669,038</u>

Capital Projects Fund

Beaufort County – Communications	<u>25,500</u>
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Total Due to Other Governments	<u><u>\$ 694,538</u></u>
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Note 6. Restricted Assets, Liabilities, and Fund Balance

Restricted assets arise through the Town's receipt of funds to ensure compliance with its laws and regulations and through Town Council designating certain amounts for specific future expenditures.

Certain contractors are required to post bonds in respect to agreements to perform work required by the Municipal Code. Some of these funds are held in the performance bond escrow account to be returned with interest earned on satisfactory completion of the contractors' obligations while others are held without interest. The amount held in a separate bank account is \$184,222 while \$129,380 is held in the general bank accounts.

Bonds paid by individuals for Municipal Court are required to be held in an escrow account until after the trial date. These funds are then either repaid to the individual or recognized as revenue by the Town based upon the verdict. At June 30, 2006, \$40,428 was the balance of bonds held.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 6. Restricted Assets, Liabilities, and Fund Balance (continued)

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for encumbrances – Portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved for debt service – Portion of fund balance reserved to meet debt service obligations.

Reserved for land and park projects – Portion of fund balance available to pay for commitments related to land and park projects.

Reserved - other – Portion of fund balance related to long-term employee receivables.

Unreserved:

Designated for Operating Reserve – The Town will establish and maintain an operating reserve 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 reserve 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 reserve fund to maintain an account reserved 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.

Designated for Advertising Reserve – 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 advertising reserve account. These funds are held in reserve 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 to be deposited in the reserve for this purpose will not exceed \$1 million. Annual interest earned on funds in the reserve will also be deposited into the account.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 6. Restricted Assets, Liabilities, and Fund Balance (continued)
Unreserved (continued):

Designated for General Reserve – Once the Disaster Advertising Reserve 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 reserve 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 held in reserve for this purpose will not exceed 15% of the General Fund's annual operating revenue.

Designated for Real Estate Transfer Fee Debt Service Reserve – The Town will set aside \$1 million of real transfer fees into a disaster debt service reserve account in the Real Estate Transfer Fee Fund. The funds will be used to fund debt service payments during a disaster or financial crisis.

Designated for Beach Preservation Reserve – 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 reserve account shall not exceed \$12 million.

Undesignated - Portion of total fund balance available for appropriation that is uncommitted at year-end.

Note 7. Accounts Payable

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

	Government-Wide Financial Statements						Total
	Fund Financial Statements						
	General Fund	Accommodations Tax Fund	Beach Preservation Fees	Debt Service Fund	Capital Project Fund	Other Governmental Funds	
Payables:							
Accounts payable	\$ 401,101	\$ 53,633	\$ -	\$ 375	\$ 672,687	\$ 170,393	\$ 1,298,189
Accrued payroll	796,625	-	-	-	-	-	796,625
Total payables	\$ 1,197,726	\$ 53,633	\$ -	\$ 375	\$ 672,687	\$ 170,393	\$ 2,094,814

Note 8. Unearned/Deferred Revenue

The balance of deferred revenues in the fund financial statements (includes both the deferred and unearned amounts disclosed below) and unearned revenues in the government-wide financial statements at year end are composed of the following elements:

	Deferred Revenue	Unearned Revenue
Grant revenues received in advance of being earned- Nonmajor Governmental	\$ 22,274	\$ 22,274
	<u>\$ 22,274</u>	<u>\$ 22,274</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 8. Unearned/Deferred Revenue (continued)

The following is an explanation of each deferred/unearned revenue:

Special Revenue Fund – Home Grant Fund

The deferred revenue in the Home Grant Fund for the year ended June 30, 2006, was \$22,274.

Note 9. Accommodations Tax Fund

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

Town Council has adopted a policy whereby the appropriations for an individual project will lapse if the project is not underway by July 1 of the year following appropriation. The appropriation can be extended, annually, until the funds are expended. Appropriations totaling \$43,184 were lapsed during the fiscal year ending June 30, 2006, with \$30,000 being the total lapsed against 2006 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2006:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
Arts Center of Coastal Carolina - Operations	\$ 379,000	\$ 379,000	\$ -	\$ -
Boys and Girls Club of Hilton Head Island	1,188	-	1,188	-
Coastal Discovery Museum - Operations	128,578	72,552	481	55,545
Coastal Discovery Museum - Honey Horn	513,203	107,030	-	406,173
HarbourTown Fireworks	7,750	7,750	-	-
HH Area Hospitality Association Winter Carnival	45,000	45,000	-	-
HH Community & Youth Theater	55,000	24,469	-	30,531
HHI COC Destination Marketing Program	300,000	170,000	-	130,000
HHI COC Welcome Center Renovation	30,000	-	-	30,000
HHI St. Patrick's Day Parade	16,044	2,071	4,044	9,929
Hilton Head Choral Society	11,000	-	-	11,000
Hilton Head Dance Theater	15,000	15,000	-	-
Hilton Head International Piano Competition	10,000	-	-	10,000
Hilton Head Island Assoc. Hospitality Guide	30,000	-	30,000	-
Hilton Head Island Audubon Society	2,100	2,100	-	-
Hilton Head Orchestra - Tourism Services	140,000	140,000	-	-

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 9. Accommodations Tax Fund (continued)

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
LGCOA - HH The Golf Island	50,000	46,847	3,153	-
LGCOA - The Golf Island Marketing Plan	70,000	35,134	-	34,866
Low Country Golf Owner's Association	75,000	-	-	75,000
Lowcountry Tourism Commission	5,000	5,000	-	-
Martin Luther King Jr. Planning Committee	7,500	5,177	-	2,323
Native Island Gullah Celebration	75,000	75,000	-	-
Regional Partnership Destination Marketing Program	99,885	99,885	-	-
Shelter Cove Harbour Company - HarbourFest 2006	7,750	7,750	-	-
Skull Creek - July 4th Celebration	7,750	7,750	-	-
South Carolina Repertory Company	20,000	20,000	-	-
The Art League of Hilton Head	11,888	9,589	2,299	-
The Heritage Library Foundation - Links to the Past	2,000	-	2,000	-
The Sandbox: A Hilton Head Area Children's Museum	50,000	28,202	-	21,798
Pathway Rehabilitation	60,019	55,764	19	4,236
Island Recreation Center	8,100	8,100	-	-
Town Operations - Tourism Support	766,800	766,800	-	-
Total Grants Approved	<u>\$ 3,000,555</u>	<u>\$ 2,135,970</u>	<u>\$ 43,184</u>	<u>\$ 821,401</u>
Less Other Financing Uses in Grants Approved:				
Town Operations - Tourism Support	\$ (766,800)	\$ (766,800)		
Pathway Rehabilitation	(60,019)	(55,764)		
Island Recreation Center	(8,100)	(8,100)		
	<u>\$ (834,919)</u>	<u>\$ (830,664)</u>		
Total Grant Expenditures	<u>\$ 2,165,636</u>	<u>\$ 1,305,306</u>		

The more significant projects and the related commitments are as follows:

Cultural Council

Town Council approved grants for the Arts Center of Coastal Carolina for the visual and performing arts. A total of \$379,000 was approved for operations during 2005/2006.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 9. Accommodations Tax Fund (continued)

The grant amounts exclusive of the amounts paid to the Chamber of Commerce have been reflected on the financial statements as follows:

For the year ended <u>June 30,</u>	<u>Accommodations Tax Grants</u>			
	<u>Approved</u>	<u>Paid</u>	<u>Lapsed</u>	<u>Unpaid</u>
2001	2,247,614	(2,213,249)	(34,365)	-0-
2002	2,020,100	(2,000,343)	(19,757)	-0-
2003	2,165,544	(2,165,050)	(494)	-0-
2004	2,080,000	(1,993,143)	(30,684)	56,173
2005	2,087,265	(1,874,900)	(2,500)	209,865
2006	2,389,750	(1,804,388)	(30,000)	555,362

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2006, was \$2,066,771 of which \$821,401 was encumbered by approved grants.

Town council has approved amounts for 2006/2007 grants as follows:

Arts Center of Coastal Carolina	\$ 389,233
Coastal Discovery Museum	175,000
HHI Chamber of Commerce Destination Marketing Program	150,000
Hilton Head Orchestra	140,000
Native Island Gullah Celebration	80,000
Town Operations – Tourism Support	870,160
CIP – Pathway Rehabilitation	60,000
CIP – Chaplin Public Tennis Courts Improvements	22,000
CIP – Shelter Cove Community Park Improvements	45,000
	<u>\$ 1,931,393</u>

Note 10. Long-Term Obligations

Capital Leases

On December 16, 1997, the Town entered into a lease agreement with LaSalle National Bank concerning the purchase of two 1998 custom fire trucks. The purchase price of the new trucks was \$793,314 of which \$417,000 was a trade-in on an older fire truck. The total amount incurred on the lease was \$539,495 which included the remaining balance of the lease on the fire truck traded in. The lease bears an interest rate of 5.23% and is payable in annual installments of principal and interest of \$70,649 through December 2007. The lease is being paid annually through the general fund. A schedule of the amount due for this lease follows:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
Capital Leases (continued)

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2007	\$ 6,848	\$ 63,801	\$ 70,649
2008	3,511	67,139	70,650
	\$ 10,359	\$ 130,940	\$ 141,299

On December 13, 2001, the Town entered into a lease agreement with Bank of America Leasing & Capital, LLC concerning the purchase of a CAD System. The purchase price of the system was \$800,881. The lease bears an interest rate of 3.95% and is payable in interest only installments on July 1, 2002, with annual installment of principal and interest of \$220,609 beginning July 1, 2003 through July 1, 2006.

Bank of America - CAD System	
Original asset cost	\$ 800,881
Less accumulated depreciation	(749,445)
Capitalized leased asset, net	\$ 51,436

The lease is being paid through the capital projects fund. A schedule of the amount due for this lease follows:

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2007	\$ 8,475	\$ 212,135	\$ 220,610
	\$ 8,475	\$ 212,135	\$ 220,610

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)

Certificates of Participation

On March 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$9,060,000 secured by Town properties. A schedule for the amount due on this certificate follows:

\$9,060,000 (Tax-Exempt) Certificates of Participation Dated March 1, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	1.700	\$ 240,443	\$ 925,000	\$ 1,165,443
2008	2.250	224,717	940,000	1,164,717
2009	2.250	203,567	965,000	1,168,567
2010	3.000	181,855	980,000	1,161,855
2011	3.000	152,455	1,010,000	1,162,455
2012	3.000	122,155	1,035,000	1,157,155
2013	5.000	91,105	1,065,000	1,156,105
2014	3.350	37,855	1,130,000	1,167,855
		<u>\$ 1,254,152</u>	<u>\$ 8,050,000</u>	<u>\$ 9,304,152</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated tax exempt amount of certificates; (b) maximum annual debt service on certificate for any fiscal year; or (c) 125% of average annual debt on the certificates. At June 30, 2006, \$1,003,228 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. The Capital Projects Fund is repaying these certificates of participation.

On March 3, 2005, the Hilton Head Island Public Facilities Corporation, refunded taxable Certificates of Participation issued with Wells Fargo Bank, N.A. in 2004 with tax-exempt certificates.

During that time, the Town issued \$1,055,000 in tax-exempt Certificates of Participation bearing an interest rate of 3.97% to refund \$1,450,000 of taxable Certificates of Participation with a variable interest rate. The Town contributed approximately \$450,000 from the Town's Debt Service Reserve, thereby reducing the principal by \$400,000 on this issue and the balance being used to fund the cost of issuance. The net proceeds of \$1,002,362 (after payment of \$52,638 in issuance costs) were used to purchase United States government securities. The certificates were refunded to reduce total debt service payments over the next nine (9) years by \$519,451 and resulted in an economic loss (difference between the present values of the old and new debt service payments) of approximately \$17,760. A schedule for the amount due on these certificates follows:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
Certificates of Participation (continued)

\$1,055,000 (Tax-Exempt) Certificates of Participation Dated March 3, 2005

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	3.970	\$ 37,517	\$ 115,000	\$ 152,517
2008	3.970	32,951	110,000	142,951
2009	3.970	28,584	115,000	143,584
2010	3.970	24,018	115,000	139,018
2011	3.970	19,453	120,000	139,453
2012	3.970	14,689	120,000	134,689
2013	3.970	9,925	120,000	129,925
2014	3.970	5,161	130,000	135,161
		<u>\$ 172,298</u>	<u>\$ 945,000</u>	<u>\$ 1,117,298</u>

General Obligation Bonds

On July 9, 1996, the Town issued \$1,425,000 general obligation bonds to fund capital projects for a water tower, fire hydrants, renovation of fire stations, and other corporate purposes. A schedule of the amount due for this issue follows:

\$1,425,000 General Obligation Bonds Dated June 1, 1996

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	5.200	\$ 31,185	\$ 150,000	\$ 181,185
2008	5.300	23,045	160,000	183,045
2009	5.400	14,215	170,000	184,215
2010	5.500	4,812	175,000	179,812
		<u>\$ 73,257</u>	<u>\$ 655,000</u>	<u>\$ 728,257</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

On July 9, 1996, the Town issued \$11,180,000 general obligation bonds to defease the remaining amount of the \$1,250,000 general obligation bonds dated November 1, 1987, and the remaining amount of the \$11,600,000 general obligation bonds dated August 1, 1989. A schedule of the amount due for this issue follows:

\$11,180,000 General Obligation Bonds Dated June 1, 1996

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	5.200	\$ 183,630	\$ 890,000	\$ 1,073,630
2008	5.300	135,712	935,000	1,070,712
2009	5.400	84,205	990,000	1,074,205
2010	5.500	28,737	1,045,000	1,073,737
		<u>\$ 432,284</u>	<u>\$ 3,860,000</u>	<u>\$ 4,292,284</u>

On April 1, 1998, the Town issued \$15,000,000 general obligation bonds which repaid a bond anticipation note of \$10,000,000 for land acquisition and \$3,000,000 for capital projects issued during the year ended June 30, 1999, and to finance capital projects. A schedule of the amount due for this issue follows:

\$15,000,000 General Obligation Bonds Dated April 1, 1998

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	6.700	\$ 654,332	\$ 475,000	\$ 1,129,332
2008	5.500	624,808	495,000	1,119,808
2009	4.750	598,964	515,000	1,113,964
2010	4.800	573,892	535,000	1,108,892
2011	4.900	547,333	560,000	1,107,333
2012	5.000	518,987	585,000	1,103,987
2013	5.000	488,988	615,000	1,103,988
2014	5.100	457,165	645,000	1,102,165
2015	5.130	423,421	675,000	1,098,421
2016	5.130	388,058	705,000	1,093,058
2017	5.130	351,030	740,000	1,091,030
2018	5.130	312,080	780,000	1,092,080
2019	5.130	271,080	820,000	1,091,080
2020	5.200	227,707	860,000	1,087,707

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

\$15,000,000 General Obligation Bonds Dated April 1, 1998 (continued)

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2021	5.200	181,817	905,000	1,086,817
2022	5.250	133,219	955,000	1,088,219
2023	5.250	81,769	1,005,000	1,086,769
2024	5.250	27,694	1,055,000	1,082,694
		<u>\$ 6,862,344</u>	<u>\$ 12,925,000</u>	<u>\$ 19,787,344</u>

On November 16, 1999, the Town issued \$6,000,000 general obligation bonds to finance capital projects. A schedule of the amount due for this issue follows:

\$6,000,000 General Obligation Bonds Dated November 1, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	7.000	\$ 318,405	\$ 180,000	\$ 498,405
2008	7.000	305,630	185,000	490,630
2009	6.250	293,061	195,000	488,061
2010	5.000	281,843	205,000	486,843
2011	5.100	271,235	215,000	486,235
2012	5.200	259,773	230,000	489,773
2013	5.300	247,433	240,000	487,433
2014	5.400	234,188	255,000	489,188
2015	5.500	219,878	270,000	489,878
2016	5.600	204,613	280,000	484,613
2017	5.625	188,355	300,000	488,355
2018	5.700	170,920	315,000	485,920
2019	5.750	152,311	335,000	487,311
2020	5.800	132,385	355,000	487,385
2021	5.800	111,215	375,000	486,215
2022	5.800	88,885	395,000	483,885
2023	5.800	65,250	420,000	485,250
2024	5.800	40,165	445,000	485,165
2025	5.800	13,630	470,000	483,630
		<u>\$ 3,599,175</u>	<u>\$ 5,665,000</u>	<u>\$ 9,264,175</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

On May 12, 2004, the Town issued \$15,000,000 general obligation bonds for general land acquisition. A schedule of the amount due for this issue follows:

\$15,000,000 General Obligation Bonds Dated May 1, 2004

<u>For the Year Ended June 30</u>	<u>Interest Rate by Year (%)</u>	<u>Governmental Activities</u>		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	3.500	\$ 678,750	\$ 405,000	\$ 1,083,750
2008	3.500	664,575	415,000	1,079,575
2009	3.500	650,050	425,000	1,075,050
2010	5.500	635,175	435,000	1,070,175
2011	5.500	611,250	450,000	1,061,250
2012	5.500	586,500	465,000	1,051,500
2013	5.250	560,925	480,000	1,040,925
2014	5.250	535,725	500,000	1,035,725
2015	5.250	509,475	520,000	1,029,475
2016	5.000	482,175	540,000	1,022,175
2017	5.000	455,175	560,000	1,015,175
2018	4.400	427,175	585,000	1,012,175
2019	4.500	401,435	610,000	1,011,435
2020	4.500	373,985	635,000	1,008,985
2021	4.500	345,410	665,000	1,010,410
2022	4.625	315,485	695,000	1,010,485
2023	4.700	283,341	730,000	1,013,341
2024	4.750	249,031	765,000	1,014,031
2025	4.750	212,694	800,000	1,012,694
2026	4.750	174,694	840,000	1,014,694
2027	4.875	134,794	880,000	1,014,794
2028	4.875	91,894	920,000	1,011,894
2029	4.875	47,044	965,000	1,012,044
		<u>\$ 9,426,757</u>	<u>\$ 14,285,000</u>	<u>\$ 23,711,757</u>

On October 26, 2004, the Town issued \$5,365,000 in general obligation bonds with an average interest rate of 2.97% to advance refund \$4,925,000 general obligation bonds dated April 1, 1998, with an average interest rate of 4.88% to finance capital projects. The net proceeds of \$5,302,552 including a premium of \$38,304 (after payment of \$100,752 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 next eight (8) years by \$133,983 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$139,650. A schedule of the amount due for this issue follows:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

\$5,365,000 General Obligation Bonds Dated October 1, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	3.000	\$ 154,163	\$ 80,000	\$ 234,163
2008	2.500	145,775	575,000	720,775
2009	2.750	129,306	675,000	804,306
2010	3.000	107,800	815,000	922,800
2011	3.000	62,125	2,230,000	2,292,125
2012	3.100	14,337	925,000	939,337
		<u>\$ 613,506</u>	<u>\$ 5,300,000</u>	<u>\$ 5,913,506</u>

A schedule for the portion of general obligations bonds dated April 1, 1998, not refunded follows:

\$835,000 General Obligation Bonds Dated April 1, 1998

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	4.550	8,531	375,000	383,531
		<u>\$ 8,531</u>	<u>\$ 375,000</u>	<u>\$ 383,531</u>

On March 15, 2005, the Town issued \$24,265,000 in general obligation bonds with an average interest rate of 4.38% to advance refund \$9,155,000 general obligation bonds dated November 1, 1999, and \$14,075,000 general obligation bonds dated March 1, 2001, at an aggregate average interest rate of 5.27%. The net proceeds of \$24,654,307 including \$822,369 in premiums (after payment of \$433,062 in issuance costs) were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service over the next twenty (20) years by \$1,583,835 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,053,675. A schedule for the amount due for this refunded issue is as follows:

\$24,265,000 General Obligation Bonds Dated March 1, 2005

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	4.000	\$ 1,047,315	\$ 90,000	\$ 1,137,315
2008	4.000	1,043,615	95,000	1,138,615

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

\$24,265,000 General Obligation Bonds Dated March 1, 2005 (continued)

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	4.000	1,039,715	100,000	1,139,715
2010	4.000	1,017,215	1,025,000	2,042,215
2011	4.000	967,315	1,470,000	2,437,315
2012	4.000	907,415	1,525,000	2,432,415
2013	3.750	847,196	1,585,000	2,432,196
2014	3.750	786,634	1,645,000	2,431,634
2015	4.000	721,590	1,710,000	2,431,590
2016	5.000	642,765	1,785,000	2,427,765
2017	5.000	551,265	1,875,000	2,426,265
2018	5.000	455,390	1,960,000	2,415,390
2019	5.000	355,015	2,055,000	2,410,015
2020	4.000	260,640	2,150,000	2,410,640
2021	4.100	174,693	2,095,000	2,269,693
2022	4.200	116,625	720,000	836,625
2023	4.250	85,567	750,000	835,567
2024	4.300	52,753	785,000	837,753
2025	4.375	17,937	820,000	837,937
		<u>\$ 11,090,660</u>	<u>\$ 24,240,000</u>	<u>\$ 35,330,660</u>

Schedules for the amount due on the portions of general obligation bonds not refunded at this time follow:

\$2,050,000 General Obligation Bonds Dated November 1, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	7.125	\$ 90,666	\$ 335,000	\$ 425,666
2008	7.125	66,263	350,000	416,263
2009	7.125	40,613	370,000	410,613
2010	7.125	13,716	385,000	398,716
		<u>\$ 211,258</u>	<u>\$ 1,440,000</u>	<u>\$ 1,651,258</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

\$3,990,000 General Obligation Bonds Dated March 1, 2001

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	4.250	\$ 110,275	\$ 800,000	\$ 910,275
2008	4.500	76,275	830,000	906,275
2009	4.590	<u>38,925</u>	<u>865,000</u>	<u>903,925</u>
		<u>\$ 225,475</u>	<u>\$ 2,495,000</u>	<u>\$ 2,720,475</u>

Revenue Bonds

On December 1, 2002, the Town issued \$17,000,000 revenue bonds to fund stormwater management projects. A schedule of the amount due for this issue follows:

\$17,000,000 Stormwater Revenue Bonds Dated December 1, 2002

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	3.000	\$ 727,596	\$ 520,000	\$ 1,247,596
2008	2.650	712,708	535,000	1,247,708
2009	3.000	697,369	550,000	1,247,369
2010	3.250	679,938	565,000	1,244,938
2011	3.450	660,665	585,000	1,245,665
2012	3.625	639,608	605,000	1,244,608
2013	3.750	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	4.000	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	5.250	496,030	740,000	1,236,030
2018	4.350	459,640	780,000	1,239,640
2019	5.125	421,919	810,000	1,231,919
2020	5.125	379,253	855,000	1,234,253
2021	5.125	334,409	895,000	1,229,409
2022	5.125	287,388	940,000	1,227,388
2023	5.125	237,931	990,000	1,227,931
2024	4.750	187,863	1,040,000	1,227,863
2025	4.750	137,275	1,090,000	1,227,275
2026	4.750	84,194	1,145,000	1,229,194
2027	4.750	28,500	1,200,000	1,228,500
		<u>\$ 9,480,950</u>	<u>\$ 16,495,000</u>	<u>\$ 25,975,950</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)
Revenue Bonds (continued)

On June 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$10,775,000 secured by revenues collected from Hospitality Tax. The monies will be used for public safety capital improvement projects. A schedule of the amount due on this certificate follows:

\$10,775,000 (Hospitality Fee Pledge) Revenue Bond Dated June 1, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	3.000	\$ 457,970	\$ 300,000	\$ 757,970
2008	3.000	448,970	305,000	753,970
2009	3.750	439,820	315,000	754,820
2010	3.500	428,007	325,000	753,007
2011	3.500	416,632	340,000	756,632
2012	4.000	404,732	350,000	754,732
2013	4.000	390,733	365,000	755,733
2014	4.100	376,133	380,000	756,133
2015	4.250	360,553	395,000	755,553
2016	4.350	343,765	410,000	753,765
2017	4.450	325,930	430,000	755,930
2018	4.500	306,795	450,000	756,795
2019	4.600	286,545	470,000	756,545
2020	4.650	264,925	490,000	754,925
2021	4.800	242,140	515,000	757,140
2022	4.800	217,420	540,000	757,420
2023	5.000	191,500	565,000	756,500
2024	5.000	163,250	590,000	753,250
2025	5.000	133,750	620,000	753,750
2026	5.000	102,750	650,000	752,750
2027	5.000	70,250	685,000	755,250
2028	5.000	36,000	720,000	756,000
		<u>\$ 6,408,570</u>	<u>\$ 10,210,000</u>	<u>\$ 16,618,570</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 certificate for any fiscal year or (c) 125% of average annual debt on the certificates. At June 30, 2006, \$830,300 was the fair value of the amount held in the reserve fund. The Town is required to maintain a debt service pledge account on July 1 each year which is equal to the principal and interest for that year. On June 30, 2006, the amount in the pledge account was \$563,705. The Debt Service Fund is repaying these certificates of participation.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)

Tax Increment Bonds

On June 25, 2004, the Town issued \$8,000,000 tax increment bonds for paying principal and interest on the tax increment bond anticipation note of \$4,530,000 which matured June 25, 2004, and for financing redevelopment projects. A schedule of the amount due for this issue follows:

\$8,000,000 Tax Increment Bonds Dated June 25, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	4.650	\$ 326,314	\$ 675,000	\$ 1,001,314
2008	4.650	294,112	710,000	1,004,112
2009	4.650	260,400	740,000	1,000,400
2010	4.650	225,176	775,000	1,000,176
2011	4.650	188,325	810,000	998,325
2012	4.650	149,730	850,000	999,730
2013	4.650	109,275	890,000	999,275
2014	4.650	66,960	930,000	996,960
2015	4.650	22,669	975,000	997,669
		<u>\$ 1,642,961</u>	<u>\$ 7,355,000</u>	<u>\$ 8,997,961</u>

The Town has established a Debt Service Fund for payment of the bonds.

The Town has defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from the Town's long-term debt and the trust account assets are not included in these statements. At June 30, 2006, \$29,405,000 of bonds are considered defeased debt.

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 74,705,000	\$ -	\$ 3,465,000	\$ 71,240,000	\$ 3,780,000
Certificates of participation	10,005,000	-	1,010,000	8,995,000	1,040,000
Revenue bonds	35,500,000	-	1,440,000	34,060,000	1,495,000
Capital leases	607,690	-	264,615	343,075	275,935
Premium on bonds	924,396	-	50,290	874,106	50,290
Total bonds and notes payable	<u>121,742,086</u>	<u>-</u>	<u>6,229,905</u>	<u>115,512,181</u>	<u>6,641,225</u>
Other liabilities:					
Compensated absences	1,187,985	1,209,568	1,187,985	1,209,568	1,088,611
Total other liabilities	<u>1,187,985</u>	<u>1,209,568</u>	<u>1,187,985</u>	<u>1,209,568</u>	<u>1,088,611</u>
Governmental activities long-term liabilities	<u>\$ 122,930,071</u>	<u>\$ 1,209,568</u>	<u>\$ 7,417,890</u>	<u>\$ 116,721,749</u>	<u>\$ 7,729,836</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10. Long-Term Obligations (continued)

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

For the Year Ended June 30	Government Activities		
	Interest	Principal	Total
2007	\$ 5,067,090	\$ 6,315,000	\$ 11,382,090
2008	4,799,157	6,640,000	11,439,157
2009	4,518,794	6,990,000	11,508,794
2010-2014	18,171,430	34,110,000	52,281,430
2015-2019	11,806,586	24,255,000	36,061,586
2020-2024	5,853,716	24,180,000	30,033,716
2025-2029	1,285,406	11,805,000	13,090,406
Total	<u>\$ 51,502,179</u>	<u>\$ 114,295,000</u>	<u>\$ 165,797,179</u>

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 131,131,588	\$ 4,751,573	\$ -	\$ 135,883,161
Construction in progress	8,014,574	6,630,479	(2,922,606)	11,722,447
Total capital assets not being depreciated	<u>139,146,162</u>	<u>11,382,052</u>	<u>(2,922,606)</u>	<u>147,605,608</u>
Capital assets being depreciated:				
Buildings	13,720,876	403,660	(602)	14,123,934
Furniture, fixtures and equipment	3,148,133	78,833	(51,452)	3,175,514
Automobiles	4,498,519	172,218	(163,820)	4,506,917
Imp. other than buildings - park development	2,782,588	66,415	-	2,849,003
Infrastructure	27,730,236	6,680,387	(4,227,254)	30,183,369
Total capital assets being depreciated	<u>51,880,352</u>	<u>7,401,513</u>	<u>(4,443,128)</u>	<u>54,838,737</u>
Less accumulated depreciation for:				
Buildings	4,804,531	452,149	-	5,256,680
Furniture, fixtures and equipment	2,047,523	442,856	(44,528)	2,445,851
Automobiles	3,523,717	323,897	(160,259)	3,687,355
Imp. other than buildings - park development	93,623	111,525	-	205,148
Infrastructure	3,503,763	1,117,387	-	4,621,150
Total accumulated depreciation	<u>13,973,157</u>	<u>\$ 2,447,814</u>	<u>\$ (204,787)</u>	<u>16,216,184</u>
Total capital assets being depreciated, net	<u>37,907,195</u>			<u>38,622,553</u>
Government activity capital assets, net	<u>\$ 177,053,357</u>			<u>\$ 186,228,161</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 11. Capital Assets (continued)

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

General Government	\$ 125,041
Management Services	89,424
Planning/Building and Fire Codes	21,907
Public Safety	845,209
Public Projects and Facilities	<u>1,366,233</u>
Total Depreciation Expense	<u><u>\$ 2,447,814</u></u>

Note 12. Capital Projects Fund

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

Public facilities, capital improvements, and land acquisition projects are underway. The projects are being financed by contributions, grants, municipal improvement district assessments, Sunday permit fees, hospitality tax, and a property tax levy. For the year ended June 30, 2006, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities Projects	\$ 391,017
Beach	662,588
Land Acquisition	6,442,181
Park Development	1,387,967
Facilities Improvement	1,054,192
Pathways	1,353,497
Roadway Improvement	1,936,127
Drainage Improvements	1,405,677
Debt Service	<u>220,609</u>
	<u><u>\$ 14,853,855</u></u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2006, the Town had outstanding construction commitments of approximately \$35,609,000. Through June 30, 2006, approximately \$14,910,000 in costs had been incurred on these commitments. At June 30, 2006, the Town had outstanding construction commitments totaling approximately \$2,622,000 for capital projects in progress and \$18,158,000 for capital projects obligated, but not yet started.

Operating Leases

For the Town's fiscal year ended June 30, 2006, there were no minimum rental payments under noncancelable operating leases and no contingent rental payments. The Town's contingent rentals are for the lease of a building with expense being determined by repair costs incurred during the lease term.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 13. Contracted Commitments and Operating Leases (continued)
Operating Leases (continued)

At June 30, 2006, future minimum payments under noncancelable operating leases with remaining terms in excess of one year were as follows:

For the Year Ended June 30,	Total Payments
2007	\$ 36,789
2008	36,789
2009	36,789
	\$ 110,367

Note 14. Pension Plan

ICMA Plan

The Town established a defined contribution money purchase pension plan on February 15, 1984, effective for the fiscal year beginning July 1, 1984, for all full-time employees as a 401 (a) plan through December 31, 1996, and was rolled over to a 401(k) plan on January 1, 1997. The plan is administered by and the funds are held by the International City Management Association (ICMA), a Pension Fund Administrator. All full-time employees are covered by the plan except those covered by the South Carolina Retirement plans and are fully vested after five years of service. The plan calls for employer contributions to the fund based on 5% automatic and matching 100% of the employee's first 3% contribution and 50% of the next 3% contributed. All plan amendments must be approved by the Town Manager.

For the year ended June 30, 2006, employer contributions were based on a total payroll of \$6,559,101. The amount contributed by the employer for the year ending June 30, 2006 was \$562,804 or 8.6% of covered payroll. Employee contributions to the plan were \$466,647 or 7.1% of covered payroll for year ending June 30, 2006. The present value of vested benefits does not exceed the net assets of the pension plan. Employees who participate in the PORS plan made contributions of \$115,502 to the 401(k). No match was made for these contributions.

PORS Plan

The Town is a member of the South Carolina Police Officers Retirement System (PORS). All full-time public safety employees whose principle duty is the prevention and control of property destruction by fire, excluding clerical staff, are eligible and must belong to the System, a cost sharing multiple-employer defined benefit pension plan administered by the State of South Carolina Retirement Systems, a Division of the State Budget and Control Board. Both employers and employees are required to contribute to the plans under authority of Title 9 of the South Carolina Code of Law. Mandatory employee contributions of 6.5% of their total earnings are made through payroll deductions. Employees hired before July 1, 1995, who complete three years of service only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2006, \$6,665,735 of wages was subject to retirement. The Town pays the employer contribution at the rate of 10.3% of member salaries except for employees hired before July 1, 1995, who complete three years of service then the employer contribution rate is 13.8%. During the year ended June 30, 2006, a total of \$844,832 was contributed into the System for the Town's share and \$275,012 for the employees' share, which represented

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 14. Pension Plan (continued)
PORS Plan (continued)

12.67% and 4.13% of covered payroll, respectively. During the years ended June 30, 2005 and 2004, \$828,772 and \$814,089 were contributed to the system for the Town's share, representing 12.81% and 13.31% of covered payroll, respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

Employees vest after five years and are entitled to a deferred annuity commencing at age 55. Employees who retire at age 55 with 5 years of service or have twenty-five years of credited service are entitled to a retirement benefit, payable monthly for life equal to 2.14% of average final compensation times years of credited service. The System also provides disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits which are established by State statute.

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the Police Officers' Retirement System is issued and publicly available by writing the South Carolina Retirement System, P. O. Box 11960, Columbia, SC 29211-1960.

Pension Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2006, employer contributions were based on a total payroll of \$13,602,626 of which \$13,224,836 or 97.22% of the total payroll was covered under the plan. Employer contributions were \$1,407,635 or 10.64% of covered payroll. Employee contributions were \$857,161 or 6.48% of covered payroll.

Note 15. Deferred Compensation Plan

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

Management of these funds is by the retirement plan administrator of International City Management Association (ICMA).

Investments are managed by the plan's trustee under one of five investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

Note 16. Health Plans

In January 2001, the Town instituted a medical flexible plan whereby the Town contributes a set amount each year per employee based upon their years of service. The employees submit reimbursement requests for medical expenses to human resources for reimbursement. Amounts not used during the calendar year are carried over to the next year. The Town's liability under this plan totaled \$161,310 at June 30, 2006, and is included as a liability in the General Fund in the accrued payroll and employee payables.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 16. Health Plans (continued)

In January 2005, the Town instituted a preventive healthcare plan whereby employees are eligible for reimbursement of expenses associated with preventive care examinations and/or tests up to an established limit each year. The reimbursement is available for use by the employee or a dependent of the employee. There is only one benefit per family per year. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2006, the limit was \$200, and the Town's liability under this plan totaled \$46,828.

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2006 the limit was \$100 per covered individual, and the Town's liability under this plan totaled \$51,942.

Note 17. Other Post-Employment Benefits

In January 2002, the Town instituted a plan for retiree medical expenses. Annually, the Town contributes a percent of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses based on years of service. The contribution schedule is as follows:

- < 15 years of service – 50% of the value of forfeited sick leave
- ≥ 15 < 20 years of service – 75% of the value of forfeited sick leave
- ≥ 20 years of service – 100% of the value of forfeited sick leave

The Town contributed \$64,244 during the year ended June 30, 2006. Employees who retire meeting 25 years for Police Office Retirement System or 5 years of service and age 55 are eligible for the benefit. The plan carries to survivor or dependent at death, but is used for future contributions credit if an employee leaves for a reason other than retirement. Three (3) employees were eligible for the benefits for the period ending June 30, 2006.

In June of 2004, the Government Accounting Standards Board issued GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." Under this pronouncement, starting in Fiscal Year 2009, the Town will be required to have an actuarial assessment and be required to disclose the cost of this benefit for all its employees. The Town is waiting for further information from the State of South Carolina before proceeding with implementation.

Note 18. Contingencies

Arbitrage - State and local bonds issued after 1984 are subject to arbitrage restrictions as enacted by the Federal government. To retain the Bonds 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 18. 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, 2006.

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.

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 10,120,600	\$ 9,740,700	\$ 9,729,367	\$ (11,333)
Accommodations Tax:				
Local 1% - Public Safety	1,860,000	1,860,000	2,223,657	363,657
Business License and Franchise Fees:				
Business License	6,391,710	6,391,710	7,723,373	1,331,663
Cable Television Franchise	450,000	450,000	574,172	124,172
Beach Franchise	4,200	4,200	16,405	12,205
Total	6,845,910	6,845,910	8,313,950	1,468,040
Permits:				
Construction	800,000	800,000	1,059,454	259,454
Development	10,000	10,000	19,860	9,860
Other	550,000	550,000	810,979	260,979
Total	1,360,000	1,360,000	1,890,293	530,293
State Shared Funds	922,220	922,220	928,121	5,901
Donations:				
EMS/Fire Department Donations	-	-	1,000	1,000
Grants:				
Beaufort County Hazmat/E911	145,000	145,000	117,762	(27,238)
FEMA	-	-	140,541	140,541
DHEC	-	-	6,596	6,596
Miscellaneous Grant Reimbursements	-	-	82,426	82,426
Total	145,000	145,000	347,325	202,325
Miscellaneous Revenue:				
Public Safety/EMS	1,096,120	1,096,120	1,282,602	186,482
Beach Services	375,420	375,420	330,461	(44,959)
Municipal Court Fines and Fees	290,000	290,000	362,466	72,466
Miscellaneous Revenue	174,740	174,740	333,455	158,715
Total	1,936,280	1,936,280	2,308,984	372,704
Investment Income	120,000	120,000	488,748	368,748
Total Revenues	23,310,010	22,930,110	26,231,445	3,301,335

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures:				
General Government:				
Town Council:				
Salaries and Benefits	\$ 85,180	\$ 85,180	\$ 75,916	\$ 9,264
Other Operating	173,300	173,300	372,616	(199,316)
Total Town Council	258,480	258,480	448,532	(190,052)
Town Manager:				
Salaries and Benefits	291,920	291,920	297,858	(5,938)
Other Operating	90,800	90,800	87,398	3,402
Total Town Manager	382,720	382,720	385,256	(2,536)
Human Resources:				
Salaries and Benefits	371,190	324,229	325,156	(927)
Other Operating	174,880	238,455	236,403	2,052
Total Human Resources	546,070	562,684	561,559	1,125
Total General Government	1,187,270	1,203,884	1,395,347	(191,463)
Management Services:				
Finance-Administration:				
Salaries and Benefits	178,830	178,830	177,584	1,246
Other Operating	23,280	23,280	13,502	9,778
Total Finance Administration	202,110	202,110	191,086	11,024
Finance-Accounting:				
Salaries and Benefits	483,300	483,300	460,026	23,274
Other Operating	71,540	71,540	92,264	(20,724)
Total Finance Accounting	554,840	554,840	552,290	2,550
Finance-Revenue and Collections:				
Salaries and Benefits	442,540	442,540	441,833	707
Other Operating	46,550	46,550	19,003	27,547
Total Finance Business License	489,090	489,090	460,836	28,254
Municipal Court:				
Salaries and Benefits	344,790	344,790	275,234	69,556
Other Operating	99,900	99,900	60,032	39,868
Total Municipal Court	444,690	444,690	335,266	109,424
Administration-Legal :				
Salaries and Benefits	400,100	400,100	467,333	(67,233)
Other Operating	28,370	28,370	24,291	4,079
Total Administration Legal	428,470	428,470	491,624	(63,154)

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services(continued):				
Administration-Administrative Support :				
Salaries and Benefits	149,670	149,670	141,774	7,896
Other Operating	49,440	58,940	83,130	(24,190)
Total Administration Support	<u>199,110</u>	<u>208,610</u>	<u>224,904</u>	<u>(16,294)</u>
Administration-Operations:				
Salaries and Benefits	788,090	788,090	743,047	45,043
Other Operating	666,250	667,563	643,606	23,957
Total Administration Operations	<u>1,454,340</u>	<u>1,455,653</u>	<u>1,386,653</u>	<u>69,000</u>
Total Management Services	<u>3,772,650</u>	<u>3,783,463</u>	<u>3,642,659</u>	<u>140,804</u>
Planning/Building & Fire Codes:				
Planning Administration:				
Salaries and Benefits	391,930	391,930	348,329	43,601
Other Operating	27,650	27,650	21,207	6,443
Total Planning Administration	<u>419,580</u>	<u>419,580</u>	<u>369,536</u>	<u>50,044</u>
Current Planning:				
Salaries and Benefits	455,430	455,430	491,650	(36,220)
Other Operating	38,180	34,091	24,693	9,398
Total Current Planning	<u>493,610</u>	<u>489,521</u>	<u>516,343</u>	<u>(26,822)</u>
Long Range Planning:				
Salaries and Benefits	371,770	371,770	341,049	30,721
Other Operating	37,460	37,460	33,468	3,992
Total Long Range Planning	<u>409,230</u>	<u>409,230</u>	<u>374,517</u>	<u>34,713</u>
Natural Resources Planning:				
Salaries and Benefits	165,380	165,380	152,559	12,821
Other Operating	27,260	27,260	19,942	7,318
Total Natural Resources Planning	<u>192,640</u>	<u>192,640</u>	<u>172,501</u>	<u>20,139</u>
Building & Fire Codes:				
Salaries and Benefits	1,124,870	1,124,870	1,109,555	15,315
Other Operating	86,390	88,207	110,821	(22,614)
Total Building & Fire Codes	<u>1,211,260</u>	<u>1,213,077</u>	<u>1,220,376</u>	<u>(7,299)</u>
Total Planning/Building & Fire Codes	<u>2,726,320</u>	<u>2,724,048</u>	<u>2,653,273</u>	<u>70,775</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety:				
Fire & Rescue Administration:				
Salaries and Benefits	402,440	411,890	348,368	63,522
Other Operating	357,330	357,330	645,148	(287,818)
Total Fire & Rescue Administration	759,770	769,220	993,516	(224,296)
Fire & Rescue Logistics/Maintenance:				
Salaries and Benefits	428,740	428,740	381,837	46,903
Other Operating	626,410	645,107	575,787	69,320
Total Fire & Rescue Logistics/Maintenance	1,055,150	1,073,847	957,624	116,223
Fire & Rescue Operations:				
Salaries and Benefits	7,929,930	7,929,930	7,912,319	17,611
Other Operating	218,210	218,210	213,384	4,826
Total Fire & Rescue Operations	8,148,140	8,148,140	8,125,703	22,437
Fire & Rescue Communications:				
Salaries and Benefits	809,300	809,300	749,170	60,130
Other Operating	149,240	162,890	129,278	33,612
Total Fire & Rescue Communications	958,540	972,190	878,448	93,742
Fire & Rescue Training:				
Salaries and Benefits	477,880	477,880	496,077	(18,197)
Other Operating	162,800	162,800	108,028	54,772
Total Fire & Rescue Training	640,680	640,680	604,105	36,575
Fire & Rescue Emergency Management:				
Salaries and Benefits	146,640	146,640	122,876	23,764
Other Operating	56,590	56,590	33,418	23,172
Total Fire & Rescue Emergency Management:	203,230	203,230	156,294	46,936
Bureau of Fire Prevention:				
Salaries and Benefits	405,120	405,120	398,966	6,154
Other Operating	47,500	47,500	42,560	4,940
Total Bureau of Fire Protection	452,620	452,620	441,526	11,094
E911 Communications				
Salaries and Benefits	-	-	136,442	(136,442)
Total E911 Communications	-	-	136,442	(136,442)

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

Schedule 1
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	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Police Patrol/Communications:				
Police Services/Contract	2,144,460	2,144,460	2,129,638	14,822
Stipend	126,000	126,000	121,150	4,850
Victims' Rights	46,540	46,540	47,352	(812)
Beach Services	146,690	146,690	168,359	(21,669)
Total Police Patrol/Communications	<u>2,463,690</u>	<u>2,463,690</u>	<u>2,466,499</u>	<u>(2,809)</u>
Total Public Safety	<u>14,681,820</u>	<u>14,723,617</u>	<u>14,760,157</u>	<u>(36,540)</u>
Public Projects & Facilities:				
Administration:				
Salaries and Benefits	208,250	208,250	211,335	(3,085)
Other Operating	12,010	12,010	8,294	3,716
Total Administration	<u>220,260</u>	<u>220,260</u>	<u>219,629</u>	<u>631</u>
Engineering:				
Salaries and Benefits	520,990	520,990	517,353	3,637
Other Operating	126,850	140,087	113,993	26,094
Total Engineering	<u>647,840</u>	<u>661,077</u>	<u>631,346</u>	<u>29,731</u>
Facilities Management:				
Salaries and Benefits	685,520	685,520	665,220	20,300
Other Operating	1,303,470	1,303,470	1,163,551	139,919
Total Facilities Management	<u>1,988,990</u>	<u>1,988,990</u>	<u>1,828,771</u>	<u>160,219</u>
Total Public Projects & Facilities	<u>2,857,090</u>	<u>2,870,327</u>	<u>2,679,746</u>	<u>190,581</u>
Non-Departmental:				
Townwide:				
Insurance	251,960	251,960	230,435	21,525
Postage	40,000	40,000	31,235	8,765
General Contingency	44,400	54,400	48,983	5,417
Postemployment	15,600	6,600	5,020	1,580
Telephone/Cell Phones/Utilities	270,000	270,000	300,866	(30,866)
Equipment Maintenance/Supplies	52,250	4,800	3,541	1,259
Lease Payments	-	47,450	44,078	3,372
Photocopying	9,000	9,000	9,078	(78)
Courier	15,000	15,000	14,330	670
Drug Court	43,560	43,560	43,560	-
Recreation Center	570,240	570,240	570,240	-
Recreation Center-Capital	107,450	107,450	56,898	50,552

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Furniture/Fixtures <\$5,000	10,000	10,000	9,706	294
Disaster Advertising Reserve Fund	195,890	195,890	-	195,890
Hospitality Training & Promotion	93,000	93,000	69,694	23,306
LTRA Grant	125,000	125,000	125,000	-
LEPC Grant	-	-	30,441	(30,441)
USAR - RRT Grant	-	-	66,481	(66,481)
Beaufort County Hazmat	5,000	5,000	4,820	180
Total Non-Departmental Townwide	1,848,350	1,849,350	1,664,406	184,944
<u>Debt Service:</u>				
Principal	71,000	71,000	60,630	10,370
Interest	-	-	10,020	(10,020)
Total Debt Service	71,000	71,000	70,650	350
<u>Capital Outlay</u>				
<u>Management Services :</u>				
Administration-Operations				
Specialized Equipment/Computer Software	17,050	22,963	33,643	(10,680)
Computer Software >\$50,000	265,000	265,000	-	265,000
Total Administration-Operations	282,050	287,963	33,643	254,320
Total Management Services	282,050	287,963	33,643	254,320
<u>Public Safety:</u>				
<u>Fire & Rescue Logistics/Maintenance:</u>				
Equipment/Radios	20,000	65,352	50,258	15,094
Specialized Equipment	20,000	20,000	22,308	(2,308)
Total Fire & Rescue Logistics/Maintenance	40,000	85,352	72,566	12,786
Total Public Safety	40,000	85,352	72,566	12,786
Total Capital Outlay	322,050	373,315	106,209	267,106
Total Expenditures	27,466,550	27,599,004	26,972,447	626,557

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

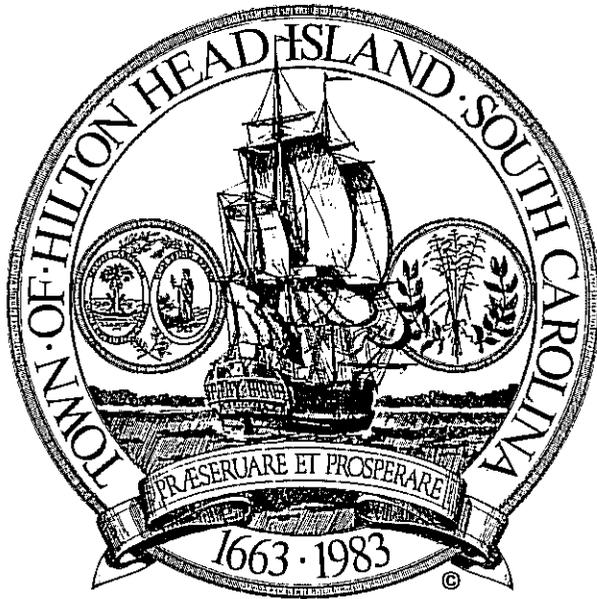
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Excess of Revenues Over (Under) Expenditures	<u>(4,156,540)</u>	<u>(4,668,894)</u>	<u>(741,002)</u>	<u>3,927,892</u>
<u>Other Financing Sources and Uses :</u>				
Transfers In	4,156,540	4,166,540	4,117,431	(49,109)
Appropriated Fund Balance	<u>-</u>	<u>502,354</u>	<u>-</u>	<u>(502,354)</u>
Total Other Financing Sources	<u>4,156,540</u>	<u>4,668,894</u>	<u>4,117,431</u>	<u>(551,463)</u>
Excess of Revenues & Other Sources Over (Under) Expenditures	-	-	3,376,429	3,376,429
Fund Balance - beginning	<u>11,319,354</u>	<u>11,319,354</u>	<u>11,319,354</u>	<u>-</u>
Fund Balance - ending	<u>\$ 11,319,354</u>	<u>\$ 11,319,354</u>	<u>\$ 14,695,783</u>	<u>\$ 3,376,429</u>



TOWN OF HILTON HEAD ISLAND
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 4,597,800	\$ 4,597,800	\$ 4,554,798	\$ (43,002)
Miscellaneous Revenue	478,500	478,500	-	(478,500)
Investment Income	300,000	300,000	263,823	(36,177)
Total revenues	<u>5,376,300</u>	<u>5,376,300</u>	<u>4,818,621</u>	<u>(557,679)</u>
Expenditures:				
Current:				
Administrative	15,000	15,000	17,813	(2,813)
Principal	5,270,000	5,270,000	5,270,000	-
Interest	5,232,000	5,232,000	5,231,907	93
Total expenditures	<u>10,517,000</u>	<u>10,517,000</u>	<u>10,519,720</u>	<u>(2,720)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,140,700)</u>	<u>(5,140,700)</u>	<u>(5,701,099)</u>	<u>(560,399)</u>
Other financing sources (uses):				
Transfer In	5,003,810	5,003,810	6,225,507	1,221,697
Appropriated Fund Balance	136,890	136,890	-	(136,890)
Total other financing sources (uses)	<u>5,140,700</u>	<u>5,140,700</u>	<u>6,225,507</u>	<u>1,084,807</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	524,408	<u>\$ 524,408</u>
Fund balance - beginning			<u>7,824,815</u>	
Fund balance - ending			<u>\$ 8,349,223</u>	



TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Property Taxes	\$ 697,000	\$ 671,500	\$ 691,903	\$ 20,403
Grants	809,000	1,190,000	180,900	(1,009,100)
Contributions	213,000	213,000	26,000	(187,000)
State Taxes - Sunday Permit Fees	304,000	303,999	226,900	(77,099)
Hospitality Tax	616,000	915,311	5,086,678	4,171,367
Impact Fees	850,000	1,597,281	421,692	(1,175,589)
County Impact Fee - Parks	-	-	85,530	85,530
County Parks Funding	500,000	798,382	300,254	(498,128)
County Stormwater	300,000	414,371	1,324,277	909,906
Miscellaneous	6,815,000	11,379,338	300	(11,379,038)
Lease	110,000	110,000	71,879	(38,121)
Investment Income	-	-	1,147,034	1,147,034
Total Revenues	11,214,000	17,593,182	9,563,347	(8,029,835)
Expenditures:				
Debt Service:				
Principal	221,000	221,000	203,985	17,015
Interest	-	-	16,624	(16,624)
Total Debt Service	221,000	221,000	220,609	391
Capital Outlay:				
Public Facilities:				
Fire Station #4 Replacement	-	220,607	187,444	33,163
Fire & Rescue Dispatch Center	-	263,811	152,772	111,039
Fire & Rescue Training Center	1,425,000	1,425,000	50,601	1,374,399
Fire & Rescue Computer System	250,000	250,000	-	250,000
Dispatch Center Equipment Upgrade	-	-	200	(200)
Total Public Facilities	1,675,000	2,159,418	391,017	1,768,401
Park Development:				
Shelter Cove Linear Park	732,000	1,105,382	804,090	301,292
Yacht Cove Community Park	25,000	25,000	-	25,000
Port Royal Tract Beach Access	410,000	410,000	2,039	407,961
Park Upgrades	682,000	682,000	433,784	248,216
Rock's/Remy's Tract	500,000	500,000	400	499,600
McKibben Tract	500,000	500,000	5,270	494,730
Crossing Park Interpretive Trails	-	25,256	-	25,256
Barker Field/Beach Access Ext.	-	238,668	142,384	96,284
Total Park Development	2,849,000	3,486,306	1,387,967	2,098,339

CAPITAL PROJECTS FUNDS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Land Acquisition:				
Land Acquisition	470,000	7,380,500	6,442,181	938,319
Total Land Acquisition	470,000	7,380,500	6,442,181	938,319
Beach Maintenance:				
Beach Management	185,000	151,090	83,958	67,132
Beach Renourishment	15,335,000	15,595,500	512,500	15,083,000
Dunes Refurbishment	25,000	25,000	15,741	9,259
Beach Parks/Access Rehabilitation	75,000	83,977	50,389	33,588
Total Beach Maintenance	15,620,000	15,855,567	662,588	15,192,979
Facilities Improvements:				
Town Hall/Municipal Court Renovations	-	5,186	4,513	673
Fire & Rescue Maint./Training Facility	-	47,528	346	47,182
Fire & Rescue Station Renovation	305,000	491,976	44,903	447,073
Fire Station #1 Replacement	2,000,000	2,000,000	29,699	1,970,301
Fire Station #5 Replacement	2,000,000	2,125,000	26,932	2,098,068
Fire Station #6 Replacement	150,000	150,000	-	150,000
Fire Hydrant Upgrades	30,000	30,000	30,000	-
Sea Pines Circle Upgrade	-	67,258	50,000	17,258
McKibben Property Wetlands Restoration	100,000	100,000	-	100,000
Rehab & Renovation of Town Fixed Assets	100,000	100,000	2,794	97,206
Apparatus/Vehicle Replacement	234,000	281,200	249,517	31,683
Fiber to Sherriff's Office	-	-	12,000	(12,000)
Fiber to Town Hall	-	-	13,500	(13,500)
Demolition of Structures	350,000	626,312	589,988	36,324
Total Facilities Improvements	5,269,000	6,024,460	1,054,192	4,970,268
Roadway Improvements:				
Long Cove Lane Extension	100,000	100,000	11,788	88,212
Lemoyne Road Reconfiguration	565,000	565,000	-	565,000
Roadway Safety Improvements	170,000	170,000	61,112	108,888
Widen Mathews Drive/US 278	137,000	137,000	-	137,000
Directional Neighborhood Signage	50,000	50,000	-	50,000
Horseshoe Road Connector	875,000	984,213	101,434	882,779
Coligny Circle Reconfiguration	500,000	500,000	436,693	63,307
SCDOT Road Resurfacing	1,818,000	1,718,000	-	1,718,000
Town Roads Resurfacing	-	584,559	290,111	294,448
Widen and Realign Office Park Road	681,000	691,000	4,357	686,643
Intersection Improvements	1,840,000	2,135,000	295,384	1,839,616
Pedestrian Crosswalks and Refuges	180,000	212,717	120,762	91,955
Traffic Signal Mast Arms	680,000	831,000	159,392	671,608
Widen Marshland Road/Mathews Drive	1,230,000	1,399,485	358,257	1,041,228
F&R Emergency Access Points	250,000	373,647	96,837	276,810
Total Roadway Improvements	9,076,000	10,451,621	1,936,127	8,515,494

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Pathways:				
Pathway Rehabilitation	60,000	60,000	55,764	4,236
Mathews Drive (North)	400,000	101,966	101,976	(10)
Mathews Drive (South)	-	519,993	135,511	384,482
Mathews Drive (US 278 to Beach City Rd.)	106,000	106,000	-	106,000
Target Road	12,000	12,000	-	12,000
Marshland Road	-	153,000	153,000	-
Spanish Wells Road	1,351,000	623,000	621,187	1,813
Pope Avenue	-	1,515,840	175,559	1,340,281
Palmetto Bay Road	106,000	106,000	39,767	66,233
Wild Horse Road	-	70,733	70,733	-
Total Pathway Improvements	2,035,000	3,268,532	1,353,497	1,915,035
Drainage Improvements:				
Drainage System Rehabilitation	300,000	414,371	317,410	96,961
Squire Pope Pathway	420,000	308,000	213,871	94,129
North Forest Beach	-	290,000	290,000	-
Northridge	405,000	405,000	234,054	170,946
Ashmore Tract Ditch	-	4,500	3,550	950
Beach City Road/Airport	385,000	385,000	136,694	248,306
Marshland Road/US 278	-	49,500	49,262	238
Gumtree Drive	-	39,400	39,383	17
Spanish Wells Road	-	62,500	9,498	53,002
Club Course Outfall	212,000	212,000	-	212,000
Pineland Mill	-	111,955	111,955	-
Total Drainage Improvements	1,722,000	2,282,226	1,405,677	876,549
Total Capital Outlay	38,716,000	50,908,630	14,633,246	36,275,384
Total Expenditures	38,937,000	51,129,630	14,853,855	36,275,775
Excess of Revenues Over (Under) Expenditures	(27,723,000)	(33,536,448)	(5,290,508)	28,245,940
Other Financing Sources/ (Uses):				
Transfers In	27,723,000	33,265,973	5,419,568	(27,846,405)
Transfers Out	-	-	(5,535,993)	(5,535,993)
Appropriated Fund Balance	-	270,475	-	(270,475)
Total Other Financing Sources(Uses)	27,723,000	33,536,448	(116,425)	(33,652,873)
Excess of Revenue and Other Sources Over Expenditures	\$ -	\$ -	(5,406,933)	\$ (5,406,933)
Fund Balance - beginning			31,004,346	
Fund Balance - ending			\$ 25,597,413	



TOWN OF HILTON HEAD ISLAND
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant		
ASSETS:				
Cash	\$ 10,266	\$ -	\$ -	10,266
Due from Palmetto Electric	185,602	-	-	185,602
Restricted Assets:				
Cash	-	22,516	-	22,516
Total assets	\$ 195,868	\$ 22,516	\$ -	\$ 218,384
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 170,393	\$ -	\$ -	170,393
Interfund Payables	114,910	-	-	114,910
Due to Palmetto Electric	-	-	-	-
Deferred Revenue	-	22,274	-	22,274
Payable to Hilton Head Chamber of Commerce	-	-	-	-
Visitor and Convention Bureau	-	-	-	-
Total liabilities	285,303	22,274	-	307,577
Fund balances:				
Reserved:				
Encumbrances	-	-	-	-
Unreserved:				
Undesignated	(89,435)	242	-	(89,193)
Total fund balances	(89,435)	242	-	(89,193)
Total liabilities and fund balances	\$ 195,868	\$ 22,516	\$ -	\$ 218,384

TOWN OF HILTON HEAD ISLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant		
<u>Revenues</u>			\$	
Electric Franchise Fee	2,105,345	-	\$	2,105,345
Investment Income	-	74		74
Total revenues	2,105,345	74		2,105,419
<u>Expenditures</u>				
Current:				
Administrative	2,071,431	-		2,071,431
Total expenditures	2,071,431	-		2,071,431
Excess (deficiency) of revenues over (under) expenditures	33,914	74		33,988
<u>Other financing sources (uses)</u>				
Transfers Out	(75,210)	-		(75,210)
Total other financing sources (uses)	(75,210)	-		(75,210)
Net change in fund balances	(41,296)	74		(41,222)
Fund balance - beginning	(48,139)	168		(47,971)
Fund balance - ending	\$ (89,435)	\$ 242	\$	\$ (89,193)

Statistical Section

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

<u>Contents</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well being have changed over time.</i>	68
Revenue Capacity <i>These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.</i>	73
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's abilities to issue additional debt in the future.</i>	75
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.</i>	84
Operating Information <i>These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.</i>	86

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

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

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 57,478,757	\$ 79,079,569	\$ 83,615,491	\$ 93,060,926
Restricted	6,373,187	6,373,187	8,594,126	23,111,481
Unrestricted	36,809,752	26,079,740	39,877,353	35,349,883
Total governmental activities net assets	<u>\$ 100,661,696</u>	<u>\$ 111,532,496</u>	<u>\$ 132,086,970</u>	<u>\$ 151,522,290</u>

Note: The Town began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

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

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General Government	\$ 1,376,550	\$ 1,430,134	\$ 2,908,087	\$ 3,059,753
Management Services	2,929,346	3,243,571	3,267,610	3,765,726
Planning/Building & Fire Codes	2,275,565	2,371,762	2,494,521	2,675,180
Public Safety	13,873,760	14,753,859	14,707,812	15,605,366
Public Projects and Facilities	3,253,808	5,871,991	5,526,308	7,419,865
Non-Departmental	1,754,144	1,714,926	-	-
Accommodations Tax Grants	1,197,868	984,663	1,318,157	1,305,306
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899
Administrative	363,326	823,516	1,296,642	2,149,451
Interest on Long-Term Debt	4,610,909	4,320,669	5,409,997	5,585,734
Total governmental activities expenses	<u>\$ 32,572,393</u>	<u>\$ 36,455,999</u>	<u>\$ 37,918,718</u>	<u>\$ 42,709,280</u>
Program Revenues (see Schedule 3)				
Governmental activities:				
Charges for services:				
General Government	\$ 535,421	\$ 504,299	\$ 571,933	\$ 590,577
Management Services	5,685,191	6,224,152	6,686,643	7,723,373
Planning/Building & Fire Codes	1,470,106	1,823,673	2,194,146	1,890,293
Public Safety	953,550	922,286	992,708	1,282,602
Public Projects and Facilities	4,840,838	5,168,909	5,816,608	6,528,989
Administrative	3,176,112	4,364,478	6,717,848	6,020,689
Operating grants and contributions	268,861	301,855	155,067	347,325
Capital grants and contributions	359,364	1,104,371	944,425	180,900
Total governmental activities program revenues	<u>\$ 17,289,443</u>	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>
Net (Expense)Revenue				
Total governmental activities net expense	<u>\$ (15,282,950)</u>	<u>\$ (16,041,976)</u>	<u>\$ (13,839,340)</u>	<u>\$ (18,144,532)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	\$ 15,349,010	\$ 16,293,172	\$ 21,602,549	\$ 19,041,631
Other taxes	7,281,600	7,252,510	8,305,770	11,144,997
Intergovernmental (Unrestricted State Shared)	1,144,768	1,107,990	1,197,579	1,155,021
Investment earnings	659,153	560,878	1,203,427	2,951,972
Miscellaneous	1,061,158	1,698,226	2,084,490	3,286,231
Total governmental activities	<u>\$ 25,495,689</u>	<u>\$ 26,912,776</u>	<u>\$ 34,393,815</u>	<u>\$ 37,579,852</u>
Change in Net Assets				
Governmental activities	<u>\$ 10,212,739</u>	<u>\$ 10,870,800</u>	<u>\$ 20,554,475</u>	<u>\$ 19,435,320</u>

Note: The Town began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

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

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function/Program				
Governmental activities:				
General Government	\$ 761,388	\$ 689,956	\$ 727,000	\$ 937,902
Management Services	5,685,191	6,224,152	6,686,643	7,723,373
Planning/Building & Fire Codes	1,470,106	1,823,673	2,194,146	1,890,293
Public Safety	953,550	922,286	992,708	1,282,602
Public Projects and Facilities	4,246,652	6,273,280	6,761,033	6,709,889
Administrative	3,219,006	4,480,676	6,717,848	6,020,689
Total governmental activities	<u>\$ 16,335,893</u>	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>

Note: The Town began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005
General Fund										
Reserved	\$ 359,067	\$ 203,582	\$ 129,076	\$ 97,847	\$ 102,173	\$ 161,304	\$ 77,952	\$ 89,460	\$ 122,453	\$ 328,984
Unreserved	4,069,127	3,453,287	4,146,045	4,851,142	6,413,411	6,752,852	7,215,588	7,514,334	11,196,901	14,366,799
Total general fund	\$ 4,428,194	\$ 3,656,869	\$ 4,275,121	\$ 4,948,989	\$ 6,515,584	\$ 6,914,156	\$ 7,293,540	\$ 7,603,794	\$ 11,319,354	\$ 14,695,783
All Other Governmental Funds										
Reserved	\$ 3,954,561	\$ 6,046,857	\$ 4,734,779	\$ 5,986,164	\$ 6,173,690	\$ 5,643,606	\$ 7,734,130	\$ 17,228,003	\$ 19,159,808	\$ 17,402,001
Unreserved, reported in:										
Special revenue funds	9,479,334	5,950,603	2,187,613	5,472,557	4,817,776	3,962,905	5,339,044	17,911,547	25,460,960	30,798,191
Capital projects funds	2,097,751	16,416,636	14,367,149	9,609,928	20,074,771	12,710,261	19,550,776	23,321,010	20,022,075	16,841,628
Debt service funds	-	-	-	-	-	-	-	1,368,544	63,084	524,408
Total all other governmental funds	\$ 15,531,646	\$ 28,414,096	\$ 21,289,541	\$ 21,268,649	\$ 31,066,237	\$ 22,316,772	\$ 32,623,950	\$ 59,829,104	\$ 64,725,927	\$ 65,566,228

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes (see Schedule 6) ^a	\$ 14,559,994	\$ 16,048,923	\$ 17,717,642	\$ 18,731,904	\$ 20,686,568	\$ 22,037,344	\$ 22,630,610	\$ 23,545,662	\$ 29,908,319	\$ 30,186,628
Licenses, fees, and permits ^b	10,178,187	11,550,247	14,242,855	14,320,667	14,322,993	14,503,468	15,423,227	17,717,490	22,816,711	24,528,805
Fines and penalties	278,952	375,063	348,419	306,078	361,447	335,339	269,572	295,537	307,993	362,468
Charges for services	753,998	1,087,093	881,330	909,410	1,020,364	1,036,720	1,237,991	1,290,307	1,340,482	1,613,063
Special assessments	40,336	249,210	223,200	251,668	241,430	-	-	-	-	-
Intergovernmental	829,061	1,404,740	1,316,455	1,265,247	1,091,220	1,331,714	1,144,788	1,107,990	1,497,579	1,155,021
Investment earnings	1,086,131	1,195,025	1,167,112	1,825,185	1,561,288	617,211	658,153	590,878	1,203,427	2,851,973
Other revenues	1,843,445	1,087,491	3,078,318	2,087,896	1,589,658	1,452,868	3,125,301	2,159,002	1,689,671	1,346,643
Total revenues	\$ 29,371,694	\$ 32,995,692	\$ 38,963,331	\$ 39,477,935	\$ 40,894,968	\$ 41,594,659	\$ 44,480,622	\$ 48,675,966	\$ 58,473,192	\$ 62,144,599
Expenditures										
General Government	\$ 951,767	\$ 1,055,138	\$ 1,039,496	\$ 938,700	\$ 970,666	\$ 998,758	\$ 1,035,285	\$ 1,150,882	\$ 1,233,212	\$ 1,395,347
Management Services	1,997,284	1,960,726	1,983,268	2,290,241	2,616,611	2,686,288	2,915,272	3,045,720	3,166,953	3,642,659
Planning/Building & Fire Codes	1,829,530	1,949,063	2,149,075	2,129,436	2,077,917	2,104,150	2,259,486	2,341,354	2,481,374	2,653,273
Public Safety	6,569,624	9,240,959	9,941,759	10,454,554	10,897,319	11,406,240	12,237,337	13,027,729	13,766,856	14,760,157
Public Projects and Facilities	1,167,350	1,465,880	1,702,340	1,921,431	2,116,755	2,167,605	2,191,772	4,106,268	3,304,267	3,419,822
Non-Departmental	1,047,848	1,110,110	1,149,299	1,665,273	1,525,333	1,567,269	1,893,828	1,714,926	1,688,095	1,664,406
Accommodations Tax Grants	997,552	963,004	1,104,635	1,057,150	1,038,161	1,140,488	1,197,868	984,663	1,318,157	1,305,306
Visitor & Convention Bureau	774,013	831,666	898,085	927,930	928,743	936,673	937,117	840,808	989,584	1,142,899
Administrative	229,447	61,847	60,978	66,226	87,529	62,064	363,328	623,516	1,296,642	2,149,451
Capital Outlay	15,875,354	20,010,448	39,095,648	12,856,691	22,454,804	21,283,379	20,181,545	15,906,740	11,499,658	13,999,379
Debt Service										
Interest	2,139,847	1,746,637	2,662,675	3,486,256	3,352,570	4,302,188	4,567,053	4,278,777	5,261,840	5,015,555
Principal	1,661,446	2,024,333	1,441,575	18,322,118	1,651,663	2,849,877	3,194,033	3,983,465	3,739,029	6,179,615
Fiscal charges	-	-	-	-	-	-	-	-	11,328	-
Debt issue costs	-	-	-	-	-	-	-	-	-	-
Total expenditures	\$ 35,940,882	\$ 42,439,859	\$ 63,219,634	\$ 56,936,006	\$ 49,718,191	\$ 51,603,069	\$ 53,160,973	\$ 52,285,918	\$ 50,323,547	\$ 57,927,889
Excess of revenues over (under) expenditures	(7,569,188)	(9,444,167)	(24,256,303)	(17,456,071)	(8,823,223)	(10,208,430)	(8,670,351)	(5,609,952)	8,149,645	4,216,730
Other Financing Sources (Uses)										
Bonds issued	\$ 2,875,000	\$ 21,000,000	\$ 17,750,000	\$ 18,000,000	\$ 20,187,406	\$ 1,056,656	\$ 17,000,000	\$ 44,740,000	\$ 30,685,000	\$ -
Refunding bonds issued	(9,675,000)	-	-	-	-	-	-	-	(31,082,935)	-
Payments to escrow agent	92,978	-	-	-	-	-	92,489	-	880,673	-
Premium on bond issuance	11,180,000	-	-	-	-	-	-	(10,965,000)	-	-
Refund of debt	-	-	-	-	-	-	-	(649,108)	-	-
Capital leases	-	540,392	-	111,047	-	600,881	-	-	-	-
Transfers in	12,510,927	11,239,896	13,301,516	7,001,266	6,153,410	8,909,245	8,862,388	6,782,872	11,019,688	15,762,506
Transfers out	(12,510,827)	(11,239,896)	(13,301,516)	(7,001,266)	(6,153,410)	(8,909,245)	(8,862,388)	(6,782,872)	(11,019,688)	(15,762,506)
Total other financing sources (uses)	\$ 3,372,878	\$ 21,555,292	\$ 17,750,000	\$ 18,111,047	\$ 20,187,406	\$ 1,957,537	\$ 17,092,496	\$ 33,125,892	\$ 462,738	\$ -
Net change in fund balances	\$ (4,166,290)	\$ 12,111,125	\$ (8,506,303)	\$ 652,976	\$ 11,364,163	\$ (8,350,893)	\$ 8,422,145	\$ 27,515,940	\$ 8,612,363	\$ 4,218,730
Debt service as a percentage of non-capital expenditures	18.1%	16.0%	17.0%	51.5%	10.4%	23.8%	24.7%	22.7%	24.7%	26.9%

Notes: ^aProperty Tax Reassessments performed in 2004 and 1999.
^bStarting in 2005, the Town executed a contract with Palmelto Electric for the underground burial of electrical cable and began receiving franchise fees to help offset the associated costs billed to the Town for burial of existing cable. With the exception of this franchise agreement which terminates upon completion of the burial project for existing cable, all remaining licenses, permits, and fees are considered charges for service.

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

<u>Fiscal Year</u>	<u>Property</u>	<u>Accommodations Tax</u>	<u>Hospitality Tax</u>	<u>Total</u>
1997	\$ 11,954,940	\$ 2,605,044	\$ -	\$ 14,559,984
1998	12,442,461	3,606,362	-	16,048,823
1999	12,970,840	4,746,802	-	17,717,642
2000	13,800,385	4,931,419	-	18,731,804
2001	14,548,814	4,925,370	1,212,384	20,686,568
2002	15,034,066	4,949,790	2,053,488	22,037,344
2003	15,349,010	4,877,430	2,404,170	22,630,610
2004	16,293,172	5,022,103	2,230,407	23,545,682
2005	21,602,549	5,314,660	2,991,110	29,908,319
2006	19,041,631	6,058,319	5,086,678	30,186,628
Change 1997-2006	59.3%	132.6%	N/A	107.3%

Schedule 7
Town of Hilton Head Island, SC
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Tax Year	Real & Personal Property		Motor Vehicles		Total Taxable		Total Direct Tax Rate	Taxable Assessed Value as a Percentage of Estimated Actual Taxable Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
1997	1996	\$ 256,259,235	\$ 4,530,025,184	\$ 31,826,909	\$ 303,113,419	\$ 288,086,144	\$ 4,833,138,603	\$ 41.25	5.96%
1998	1997	267,318,669	4,707,449,599	33,375,935	317,866,048	300,694,604	5,025,315,647	41.25	5.98%
1999	1998	409,842,868	7,260,162,881	30,414,552	289,662,400	440,257,420	7,549,825,281	30.50	5.83%
2000	1999	417,384,447	7,368,592,517	36,112,524	343,928,800	453,496,971	7,712,521,317	30.50	5.88%
2001	2000	414,929,945	7,369,291,366	41,163,671	392,034,962	456,093,616	7,761,326,328	30.50	5.88%
2002	2001	435,389,649	7,735,366,110	40,250,382	383,336,971	475,640,031	8,118,703,081	31.00	5.86%
2003	2002	439,452,362	7,865,358,172	38,477,857	366,455,781	477,930,219	8,231,813,953	31.00	5.81%
2004	2003	454,685,211	8,025,375,587	40,344,252	504,303,150	495,029,463	8,529,678,737	31.00	5.80%
2005	2004	801,317,491	14,377,704,217	40,432,317	505,403,963	841,749,808	14,883,108,179	22.30	5.66%
2006	2005	779,621,893	14,112,440,708	35,956,376	479,418,347	815,578,269	14,591,859,055	19.00	5.59%

Source: Beaufort County Assessor's Office.

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

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

Fiscal Year	Tax Year	Town Direct Rates				Overlapping Rates ^a					Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Special Purpose and Fire Districts		
1997	1996	\$ 25.35	\$ 5.35	\$ 10.55	\$ 41.25	\$ 126.80	\$ 64.00	\$ 8.25	\$ 22.20	\$ 262.50	
1998	1997	22.80	5.35	13.10	41.25	128.10	63.80	8.00	17.35	258.50	
1999	1998	17.30	3.80	9.40	30.50	99.50	51.10	7.50	7.20	195.80	
2000	1999	18.20	6.20	6.10	30.50	108.40	58.30	7.50	7.20	211.90	
2001	2000	17.85	4.50	8.15	30.50	119.80	58.10	7.50	7.20	223.10	
2002	2001	18.20	6.50	6.30	31.00	119.80	56.60	7.50	6.50	221.40	
2003	2002	19.30	6.40	5.30	31.00	129.20	60.00	7.50	-	227.70	
2004	2003	21.35	6.10	3.55	31.00	130.40	64.00	7.50	-	232.90	
2005	2004	14.80	2.00	5.50	22.30	94.20	48.60	7.05	-	172.15	
2006	2005	12.33	0.85	5.82	19.00	96.50	49.60	7.00	-	172.10	

^aNotes: 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.

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

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

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

Schedule 9
Town of Hilton Head Island, SC
Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	Tax Year 2005			Tax Year 1996		
	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
Marriott Ownership Resort	\$ 18,002,251	1	2.21%	\$ 4,532,071	1	1.57%
Palmetto Electric Co-op	6,764,874	2	0.83%	1,720,548	4	0.60%
Columbia Properties Hilton Head, LLC ^a	3,885,920	3	0.48%	1,893,366	3	0.66%
Greenwood Development	3,971,048	4	0.49%	2,312,930	2	0.80%
SCG Hilton Head Property, LLC	3,678,552	5	0.45%	410,742	9	0.14%
Sea Pines Resort, LLC	3,147,746	6	0.39%	588,080	7	0.20%
PVI Shelter Cove Limited	1,500,000	7	0.18%	829,740	6	0.29%
Hilton Head Health System, LP	1,139,891	8	0.14%	435,724	8	0.15%
HPT IHG-2 Properties Trust	1,730,960	9	0.21%	933,876	5	0.32%
Heritage Golf Port Royal, LLC	1,086,000	10	0.13%	68,946	10	0.02%
Total	\$ 44,907,242			\$ 13,726,023		

Source: Beaufort County

^a Formerly Dunes Hotel Associates

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

Fiscal Year Ended June 30,	Tax Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
1997	1996	\$ 11,936,073	\$ 11,924,684	99.90%	\$ 30,256	\$ 11,954,940	100.16%
1998	1997	12,503,106	12,430,737	99.42%	11,724	12,442,461	99.51%
1999	1998	13,427,851	12,941,343	96.38%	29,497	12,970,840	96.60%
2000	1999	13,831,658	13,715,875	99.16%	84,510	13,800,385	99.77%
2001	2000	14,765,582	14,393,034	97.48%	155,780	14,548,814	98.53%
2002	2001	15,076,350	14,922,100	98.98%	11,966	14,934,066	99.06%
2003	2002	15,512,366	15,252,669	98.33%	96,341	15,349,010	98.95%
2004	2003	15,927,626	15,781,384	99.08%	511,788	16,293,172	102.30%
2005	2004	21,975,474	20,865,069	94.95%	737,480	21,602,549	98.30%
2006	2005	19,185,925	18,767,624	97.82%	266,679	19,034,303	99.21%

Source: Town of Hilton Head Island Finance Department

Schedule 11

Town of Hilton Head Island, SC

Direct and Overlapping Sales Tax Rates

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Town Direct Rate</u>	<u>Beaufort County</u>	<u>South Carolina</u>
1997	0%	0%	5%
1998	0%	0%	5%
1999	0%	0%	5%
2000	0%	0%	5%
2001	0%	0%	5%
2002	0%	0%	5%
2003	0%	0%	5%
2004	0%	0%	5%
2005	0%	0%	5%
2006	0%	0%	5%

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

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

Fiscal Year	General Obligation Bonds		Revenue Bonds	Bond Anticipation Notes	Certificates of Participation		Capital Leases	Total	Percentage of Personal Income ^a	Per Capita ^a
					Participation	Leases				
1997	\$ 11,560,000	\$ -	\$ 650,000	\$ 14,840,000	\$ 210,042	\$ 27,260,042	3.66%	\$ 875		
1998	31,880,000	-	650,000	14,265,000	631,101	47,426,101	5.84%	1,508		
1999	31,155,000	-	17,750,000	13,665,000	514,526	63,084,526	7.23%	1,986		
2000	48,275,000	-	-	13,035,000	563,455	61,873,455	6.66%	1,827		
2001	67,350,000	-	-	12,375,000	496,792	80,221,792	7.82%	2,360		
2002	65,160,000	-	-	11,685,000	1,227,695	78,072,695	7.18%	2,261		
2003	63,730,000	17,000,000	4,530,000	10,965,000	1,153,663	97,378,663	8.86%	2,823		
2004	76,285,000	35,775,000	-	10,530,000	886,720	123,476,720	10.93%	3,588		
2005	74,705,000	35,500,000	-	10,005,000	607,690	120,817,690	10.16%	3,502		
2006	71,240,000	34,060,000	-	8,995,000	343,075	114,638,075	9.56%	3,323		

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

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

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

Fiscal Year	General Obligation Bonds	Exempt from Debt Limit	Total Net	Percentage of Actual Taxable Value ^a of Property	Per Capita ^b
1997	\$ 11,560,000	\$ -	\$ 11,560,000	0.26%	\$ 381
1998	31,880,000	15,000,000	16,880,000	0.36%	\$ 542
1999	31,155,000	26,750,000	4,405,000	0.06%	\$ 140
2000	48,275,000	27,000,000	21,275,000	0.29%	\$ 670
2001	67,350,000	47,000,000	20,350,000	0.28%	\$ 601
2002	65,160,000	45,780,000	19,380,000	0.25%	\$ 570
2003	63,730,000	44,470,000	19,260,000	0.24%	\$ 558
2004	76,285,000	58,085,000	18,200,000	0.23%	\$ 528
2005	74,705,000	57,350,000	17,355,000	0.12%	\$ 504
2006	71,240,000	55,385,000	15,855,000	0.11%	\$ 460

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

^aSee Schedule 7 for property value data.

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

Schedule 14
 Town of Hilton Head Island, SC
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2006
 (dollars in thousands)

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^a</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
Beaufort County School District	\$ 273,740,000	54%	\$ 147,819,600
Beaufort County General Obligation Debt	125,645,000	54%	67,848,300
Broad Creek Public Service District	6,380,000	100%	6,380,000
Hilton Head No. 1 Public Service District	275,000	100%	275,000
South Beach Public Service District	170,000	100%	170,000
Subtotal, overlapping debt			<u>222,492,900</u>
Town direct debt			<u>71,240,000</u>
Total direct and overlapping debt			<u>\$ 293,732,900</u>

Sources: Assessed value data used to estimate applicable percentages provided by the Beaufort County Assessor's Office. Debt outstanding provided by each governmental unit.

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

^aFor debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the Town's boundaries dividing it by each unit's total taxable assessed value. This approach was also used for Beaufort County's capital lease, loan, and other debt. The applicable percentage of Beaufort County Economic Development Bonds, which are backed by county sales taxes, was estimated by dividing the Town's retail sales by the County's retail sales.

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

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value (as of December 31, 2005)	\$ 823,336
Debt Limit (8% of assessed value)	65,867 ^a
Debt applicable to limit:	
General obligation bonds:	
1996A	\$ 655
1996B	3,860
1998B	375
1999B	5,665
2004B	5,300
Total net debt applicable to limit	15,855
Legal Debt Margin (without a Referendum)	<u>\$ 50,012</u>

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 23,047	\$ 24,056	\$ 35,221	\$ 36,280	\$ 36,487	\$ 38,051	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867
Total net debt applicable to limit	12,855	17,330	24,020	22,155	20,350	19,380	19,260	18,200	17,355	15,855
Legal debt margin	10,192	6,726	11,201	14,125	16,137	18,671	18,974	21,402	47,561	50,012
Total net debt applicable to the limit as a percentage of debt limit	55.78%	72.04%	68.20%	61.07%	55.77%	50.93%	50.37%	45.96%	26.73%	24.07%

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

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

^a Town Council imposed an eighty percent (80%) cap on the debt limit in 2006. With this cap, the debt limit for 2006 cannot exceed \$ 52,693,504.

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

Hospitality Tax Bonds

Fiscal Year	Collections	Debt Service		Total	Coverage
		Principal	Interest		
1997	-	-	-	-	-
1998	-	-	-	-	-
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	2,991,110	275,000	469,885	744,885	4.02
2006	5,086,678	290,000	464,385	754,385	6.74

Stormwater Revenue Bonds

Fiscal Year	Collections	Debt Service		Total	Coverage
		Principal	Interest		
1997	-	-	-	-	-
1998	-	-	-	-	-
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	1,079,614	-	750,546	750,546	1.44
2005	1,480,356	-	750,546	750,546	1.97
2006	1,324,277	505,000	742,971	1,247,971	1.06

Tax Increment Bonds

Fiscal Year	Collections	Debt Service		Total	Coverage
		Principal	Interest		
1997	-	-	-	-	-
1998	-	-	-	-	-
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	3,777,553	-	347,200	347,200	10.88
2006	4,065,563	645,000	357,004	1,002,004	4.06

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

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Annual Unemployment Rate</u>
1996	30,340	\$ 745,484	\$ 24,571	1.7%
1997	31,141	812,406	26,088	1.3%
1998	31,452	872,258	27,733	1.1%
1999	31,767	928,962	29,243	1.2%
2000	33,862	1,026,357	30,310	1.4%
2001	33,992	1,086,826	31,973	1.8%
2002	34,524	1,098,623	31,822	1.8%
2003	34,489	1,130,136	32,768	2.1%
2004	34,416	1,189,073	34,550	2.2%
2005	34,497	1,198,771	34,750	2.1%

Sources: Population provided by U.S. Census Bureau, Population Estimates Program; Per Capital Personal Income provided by U.S. Department of Commerce, Bureau of Economic Analysis; Unemployment Rate provided by U.S. Department of Labor, Bureau of Labor and Statistics

Schedule 18
Town of Hilton Head Island, SC
Principal Employers

<u>Employer</u>	<u>Employees</u>
Tenet Health Systems - Hilton Head Regional Medical Center	600
Hilton Head Marriott Golf and Beach Resort	520
The Westin Resort	450
Crowns Plaza Resort	430
Palmetto Dunes	330
The Cypress of Hilton Head	310
Sea Pines Resort, Inc.	n/a

Source: Beaufort County Chamber of Commerce. Information for the past ten years not available.

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

Function/Program	Full-time-Equivalent Employees as of June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
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	3.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Human Resources	7.0	8.0	8.0	8.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services										
Finance	19.0	21.0	21.0	22.0	15.0	15.0	16.0	16.0	17.0	17.0
Municipal Court	3.0	4.0	3.0	3.0	4.0	4.5	5.0	5.0	5.0	5.0
Administration	5.0	4.0	4.5	4.5	18.0	18.0	18.0	18.0	18.0	18.0
Planning/Building & Fire Codes										
Planning	17.0	17.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Building and Fire Codes	16.0	16.0	17.0	18.0	18.0	16.0	16.0	16.0	16.5	16.5
Public Safety										
Fire & Rescue	140.0	136.0	136.0	137.5	137.5	139.5	143.0	143.0	144.0	144.5
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Public Projects & Facilities	13.0	14.0	15.0	15.0	18.0	18.0	18.0	19.0	19.0	19.0
Total	230.0	231.0	234.5	238.0	243.5	244.0	249.0	250.0	252.5	253.0

Source: Town 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 2,880 hours per year (including vacation and sick leave).

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

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

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Management Services										
Business license permits issued	n/a	n/a	6,318	5,090	5,310	5,130	5,650	6,320	5,130	5,312
Business license inspections	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20	360
Business license audits	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	50	101
Hospitality tax receipts	n/a	n/a	n/a	355	344	445	408	394	409	411
Bed tax receipts	n/a	n/a	n/a	233	250	247	353	542	649	701
Beach passes issued	n/a	n/a	421	1,322	1,537	2,306	1,478	3,007	3,052	2,116
Number of court cases docketed	8,109	11,342	9,507	7,474	8,153	8,300	6,567	7,009	8,340	9,033
Number of court cases disposed	n/a	n/a	9,284	7,041	8,225	7,725	6,668	7,122	7,120	8,952
Number of search warrants issued	14	8	5	17	42	26	11	15	24	15
Number of arrest warrants issued	722	576	441	595	632	569	554	493	547	477
Number of bench warrants issued	123	129	138	209	409	569	818	777	1,333	801
Planning/Building & Fire Codes										
Building inspections conducted	n/a	n/a	n/a	17,258	18,058	16,581	17,211	18,724	21,337	22,167
Building permits issued	n/a	n/a	n/a	544	467	466	351	410	449	440
Miscellaneous permits issued	n/a	n/a	n/a	2,586	2,481	2,780	2,867	3,213	3,100	3,146
Public Safety										
Fire & Rescue service calls	4613	5,155	5,326	5,570	5,530	5,790	5,790	5,780	6,140	6,167
Actual fires extinguished	123	160	196	140	145	139	131	141	151	147
Inspections	1044	1,021	1,420	1,945	1,945	2,010	2,475	2,244	2,338	2,271
Telephone requests	n/a	n/a	n/a	n/a	n/a	n/a	54,445	55,866	45,878	55,584
Public training programs	n/a	n/a	n/a	250	287	291	312	344	341	366
Public Projects & Facilities										
# of capital improvement projects to manage	41	37	46	46	44	51	51	57	53	84
# of beach access/parks to maintain	5	6	6	6	6	6	6	6	7	8
Miles of pathways to maintain	13.5	22	22	23	29	32	32	32	50	51
Maintenance work orders	233	267	308	377	416	452	637	1,368	2,119	2,373

Sources: Various Town departments.

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

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government	n/a	n/a	n/a	60	87	92	97	100	106	113
Town-owned parcels	n/a	n/a	n/a	886	1,049	1,081	1,097	1,108	1,126	1,142
Town-owned property acreage										
Management Services										
Town vehicles	37	33	33	38	34	34	36	37	41	39
Public Safety										
Emergency Apparatus Vehicles	17	21	22	25	25	27	28	25	24	24
Police Vehicles	43	48	48	41	41	33	27	26	0	0
General Vehicles	19	19	19	20	15	20	19	18	17	19
Fire Stations	6	6	6	6	6	6	6	6	7	7
Public Projects & Facilities*										
Traffic signals	18	19	19	21	21	21	21	22	22	22
Pathways (miles)	15	22	24	24	29	32	32	32	50	50
Beach access/parks	4	4	5	5	5	5	5	5	7	7

Sources: Various Town departments.

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

Information regarding Town-owned parcels and property acreage not available for fiscal years 1997 through 1999.

Police services currently contracted with Beaufort County Sheriff's Office.

* All Town roads are deeded to Beaufort County

Schedule 22
 Town of Hilton Head Island, SC
 Municipal Fines, Assessments and Surcharges
 Year Ended June 30, 2006

Court Fines

Court fines collected	\$	345,487
Court fines retained by the Town		<u>345,487</u>
Court fines remitted to the State Treasurer		<u><u>-</u></u>

Court Assessments

Court assessments collected	\$	373,022
Court assessments retained by the Town		<u>41,039</u>
Court assessments remitted to the State Treasurer		<u><u>331,983</u></u>

Court Surcharges

Court surcharges collected	\$	149,289
Court surcharges retained by the Town		<u>16,979</u>
Court surcharges remitted to the State Treasurer		<u><u>132,310</u></u>

Victims Services

Court assessments allocated to victim services	\$	41,039
Victim Services expenditures		<u>47,352</u>
Funds available for carryforward		<u><u>(6,313)</u></u>





**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**

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Town of Hilton Head Island, South Carolina (the "Town"), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 14, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

The Honorable Mayor and Members of Town Council
Town of Hilton Head Island
Hilton Head Island, South Carolina
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This report is intended for the information and use of the mayor, members of town council and management and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beasant & Holland, L.L.P.

Beaufort, South Carolina
November 14, 2006