

**TOWN OF HILTON HEAD ISLAND,**  
South Carolina

**Comprehensive  
Annual  
Financial Report**

**Fiscal Year Ended  
June 30, 2007**

**Prepared By  
Finance Department**

**Susan Simmons  
Director of Finance**





**Town of Hilton Head Island, South Carolina  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2007**

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## **Introductory Section**

# 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>

Thomas D. Peebles  
Mayor

December 4, 2007

Kenneth S. Heltzke  
Mayor ProTem

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

\_\_\_\_\_  
Council Members

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

The Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina, (the Town) for the fiscal year ended June 30, 2007, is submitted in accordance with South Carolina Code Ann., Section 5-7-240 that requires an annual audit of the books of account and financial records of the Town. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

\_\_\_\_\_  
Stephen G. Riley  
Town Manager

ElliottDavis, LLC, have issued an unqualified ("clean") opinion on the Town of Hilton Head Island's financial statements for the year ended June 30, 2007. The independent auditor's report is located at the front of the financial section of this report.

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

## *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.

The annual budget serves as the foundation for Hilton Head Island's financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the Town's various funds. Therefore, these funds have appropriated budgets, and budget to actual

information is presented. On or before the second regular Council meeting in June, the Town Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year.

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

## *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 250,000.

The Town of Hilton Head Island's revenue base consists of a variety of taxes and fees, the most significant being property taxes, business license fees, building permits fees, bed and hospitality taxes, and real estate transfer fees. The Town is past its historic period of peak expansion and the long-term economic outlook for the Town must recognize this fact. Business license revenue was .7% or \$54,700 less than it was in the previous fiscal year. New construction permits were 48% or \$514,900 less than last fiscal year. Real Estate Transfer Fees were down \$2.3 million or 38% less than last fiscal year. All of these sources are major revenue sources for the Town. The decline in revenue is indicative of an overall slow down in the economy that the Town has been experiencing over the past twelve months.

### **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. In FY 2007 the Town completed a \$18.0 million beach renourishment project. For FY 2008 the major focus is on roadway improvements. The major project for the upcoming fiscal year is the widening of Mathews Drive from Marshland Road north to US 278 at a cost of \$7.8 million.

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, re-appropriation of encumbrances of the fund balance will be provided for through an amendment of the new fiscal year budget to increase the revenues (funds from previous fiscal year(s)) and increase the appropriated budget expenditures. The threshold for encumbrance roll-over is \$1,000. Any encumbrances less than this threshold will be liquidated and must be expended using funds from the new fiscal year 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 \$4.2 million in interest revenue on investments for the fiscal year ended June 30, 2007.

Honorable Mayor, Members of the  
Town Council, and Citizens of the  
Town of Hilton Head Island  
December 4, 2007  
Page 4

## *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, 2006. This was the eighteenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Award for Distinguished Budget**

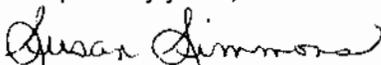
The Town also received the GFOA Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2006. It was the second year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

### **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 Steven Markiw, Deputy Director of Finance, and Sue Edwards, Accounting Manager; 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,

  
Susan Simmons  
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, 2006

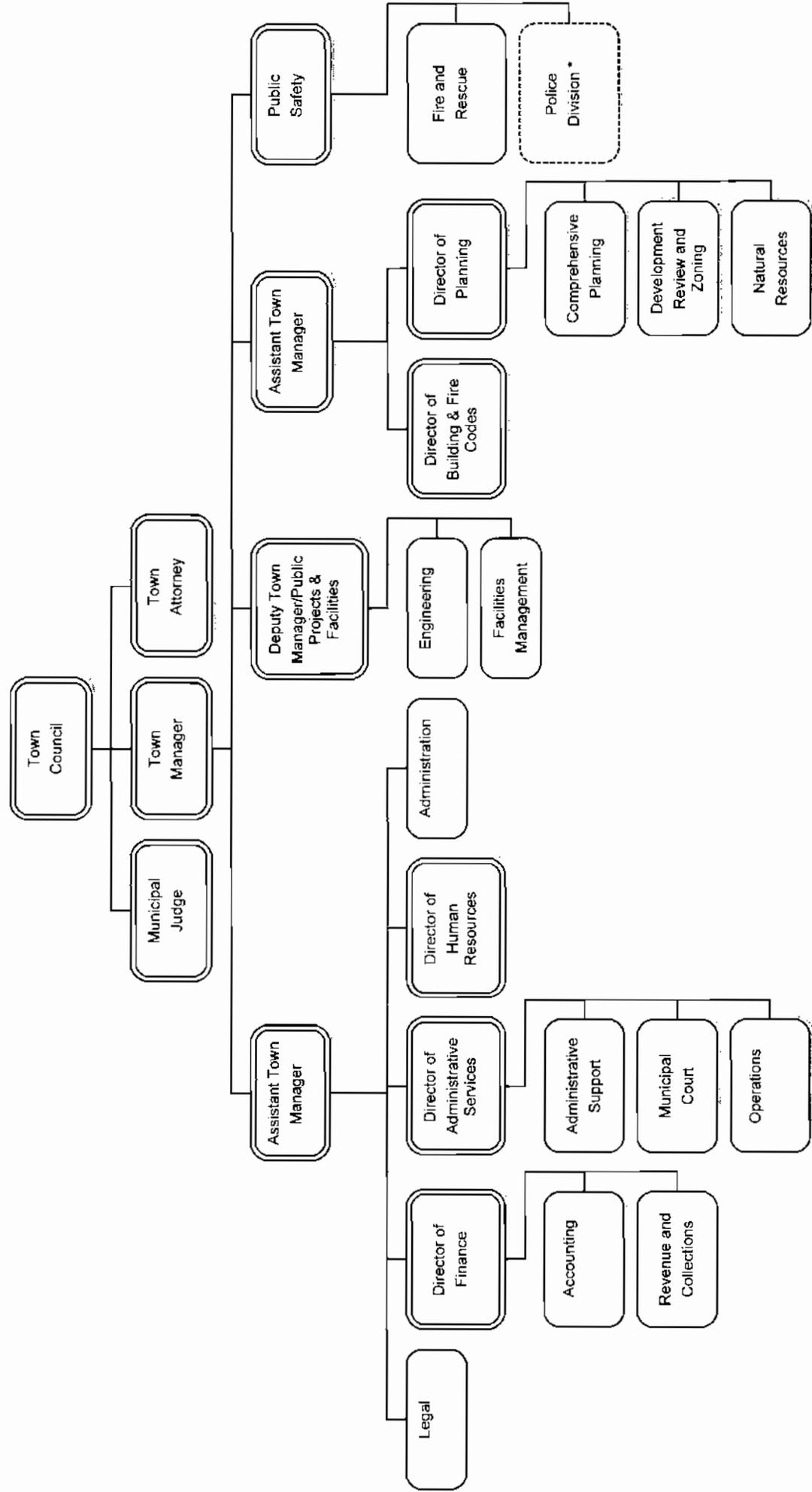
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# Town of Hilton Head Island Organizational Chart



\* Service not directly provided by the Town.



**Town of Hilton Head Island  
List of Elected and Appointed Officials**

**Mayor**

The Honorable Thomas D. Peeples

**Town Council**

Kenneth S. Heitzke – Mayor Pro Tempore

John D. Safay

Willie Ferguson

W. J. (Bill) Mottel

George W. Williams, Jr.

Drew A. Laughlin

**Administrative Staff**

Stephen G. Riley, Town Manager

Charles O. Hoelle, Deputy Town Manager

Gregory D. Deloach, Assistant Town Manager

Curtis Coltrane, Assistant Town Manager

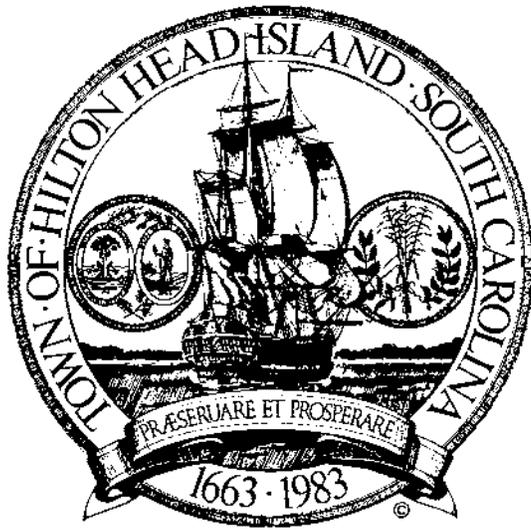
Susan Simmons, Director of Finance

Charles F. Cousins, Director of Planning

Nancy H. Gasen, Director of Human Resources

Frank P. Hodge, Director of Building and Fire Codes

Thomas M. Fieldstead, Fire Chief





## **Financial Section**

## INDEPENDENT AUDITORS' REPORT

To 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, 2007, 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, 2007, and the respective changes in financial position thereof and the respective budgetary comparisons of the general fund and major special revenue 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 27, 2007 on our consideration of the Town's internal control 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.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but are supplementary information required by the 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison nonmajor fund financial statements, schedule of court fines and assessments, and statistical tables as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison nonmajor fund financial statements, and schedule of court fines and assessments 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 auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Elliott Davis, LLC*

Columbia, South Carolina  
November 27, 2007

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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*Management's Discussion and Analysis*

This section of the Town of Hilton Head Island's (Town) Comprehensive Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the Town for the fiscal years ended 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the basic financial statements.

## *FINANCIAL HIGHLIGHTS*

Key financial highlights for Fiscal Year 2007 are as follows:

- The assets of the Town exceeded its liabilities at the close of the fiscal years 2007 and 2006 by \$153.4 million and \$151.5 million (*net assets*), respectively. Of these amounts, \$35.8 million and \$35.3 million (*unrestricted net assets*), respectively, 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 \$1.9 million and \$19.4 million during fiscal years 2007 and 2006, respectively.
- As of June 30, 2007 and 2006, the Town's governmental funds reported combined ending fund balances of \$78.8 million and \$80.4 million, respectively. The decrease of \$1.4 million is primarily due to reserve funds expended for capital projects during the fiscal year. Approximately 57.1% of the fund balance at June 30, 2007, \$45.0 million, is available for spending at the Town's discretion, compared to \$61.1 million at June 30, 2006. It should be noted in FY 2007 \$12.0 million (Beach Preservation Fee Fund) was reclassified on Exhibit C to a new account called beach renourishment and \$1.0 million was reclassified on Exhibit C to a disaster recovery account (Real Estate Transfer Fees Fund), that is the reason for the large variance between the fiscal years.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$16.3 million or 57.6% of the total General fund expenditures of \$28.2 million. At the close of fiscal year 2006, the unreserved fund balance for the General Fund was \$14.4 million or 53.3% of the total General fund expenditures of \$27.0 million. Approximately \$1.5 million of the unreserved fund balance is designated for disaster recovery at June 30, 2007, compared to \$1.3 million at June 30, 2006.
- The Town's bonded debt increased by \$19.0 million due to the issuance of revenue bonds associated with the Town's Beach renourishment project. These bonds will be repaid by beach preservation fees. Normal repayment of bond principal during the fiscal year decreased the Town's debt by \$6.3 million.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components:

- (1) **Government-wide** financial statements
- (2) **Fund** financial statements, and
- (3) **Notes** to the financial statements.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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This report contains other **supplementary 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** and the **statement of activities** provide information about the whole Town, presenting both an aggregate view of the Town's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements reflect how services were financed in the short term as well as what dollars remain for future spending. The fund financial statement also displays the Town's most significant funds with all other funds presented in total in one column.

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 for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government and management services, police, fire, financial services, building and fire codes, planning, and culture and recreation. The Town does not have any business-type activities.

The government-wide financial statements can be found on pages 14-15 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. 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 focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than the government-wide statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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, 2007**

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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 (State), 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 21-55 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 16-20 and the schedules can be found on pages 56-68 of this report.

## ***GOVERNMENT-WIDE FINANCIAL ANALYSIS***

While this document contains information about the funds used by the Town to provide services to our citizens, the Statement of Net Assets and the Statement of Net Activities serve to provide an answer to the question of how the Town, as a whole, did financially throughout the year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Town's net assets and changes in those assets. The change in assets is important because it tells the reader whether the financial position of the Town as a whole has improved or diminished. However, in evaluating the overall position of the Town, non-financial information such as changes in the Town's tax base and the condition of the Town's capital assets will also need to be evaluated.

**Analysis of Net Assets**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Town, assets exceeded liabilities by \$153.4 million and \$151.5 million at the close of fiscal years 2007 and 2006, respectively.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**Net Assets**

	Governmental Activities	
	2007	2006
Current and other assets	\$ 85,225,354	\$ 86,364,055
Capital assets	202,361,105	186,228,161
Total assets	287,586,459	272,592,216
Long-term liabilities outstanding	129,493,639	116,721,749
Other liabilities	4,711,327	4,348,177
Total liabilities	134,204,966	121,069,926
<b>Net assets:</b>		
Invested in capital assets, net of related debt	93,895,834	93,060,926
Restricted	23,682,142	23,111,481
Unrestricted	35,803,517	35,349,883
Total net assets	\$ 153,381,493	\$ 151,522,290

The largest part of the Town's net assets reflects investments in capital assets (e.g. land, development rights, easements/right-of-ways, buildings, improvements, and equipment) of \$93.9 million (61.2%) and \$93.1 million (61.5%), less any related debt used to acquire those assets that is still outstanding, for fiscal years 2007 and 2006, respectively. 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.

An additional portion of the Town's net assets, \$23.7 million (15.4%) for fiscal year 2007 and \$23.1 million (15.2%) for fiscal year 2006 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets for fiscal years 2007 and 2006, \$35.8 million (23.4%) and \$35.4 million (23.3%), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of both the current and previous years, the Town was able to report positive balances in all three categories of net assets.

**Analysis of Changes in Net Assets**

The Town's total net assets increased by \$1.9 million and \$19.4 million during the fiscal years 2007 and 2006, respectively.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**Changes in Net Assets**

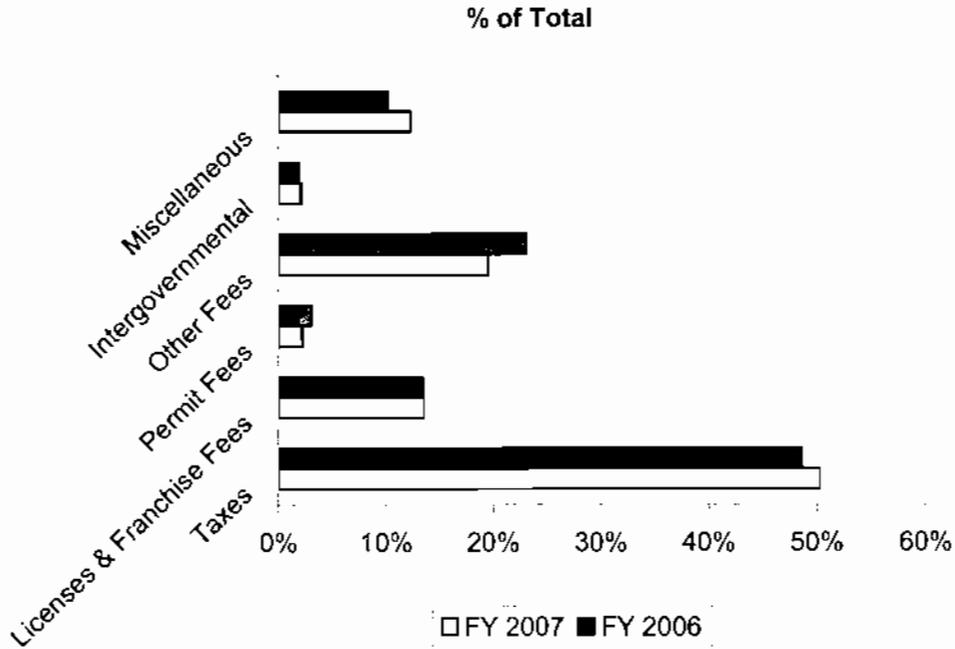
	Governmental Activities	
	2007	2006
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 20,849,661	\$ 24,036,523
Operating Grants and Contributions	134,793	347,325
Capital Grants and Contributions	48,246	180,900
General Revenues:		
Property taxes	19,290,776	19,041,631
Other Taxes	11,277,083	11,144,997
Other	9,185,130	7,393,224
Total revenues	60,785,689	62,144,600
<b>Expenses:</b>		
General Government	3,376,831	3,059,753
Management Services	3,875,696	3,765,726
Administrative	1,813,259	2,149,451
Public Safety	16,207,323	15,605,366
Public Facilities	21,623,052	7,419,865
Economic development	2,755,555	2,675,180
Culture and recreation	2,071,003	-
Accommodations Tax Grants	-	1,305,306
Visitor and Convention Bureau	1,180,675	1,142,899
Interest on long-term debt	5,727,606	5,585,734
Other	295,486	-
Total expenses	58,926,486	42,709,280
Increase in net assets	1,859,203	19,435,320
Net assets, July 1	151,522,290	132,086,970
Net assets, June 30	\$ 153,381,493	\$ 151,522,290

**Governmental Activities**

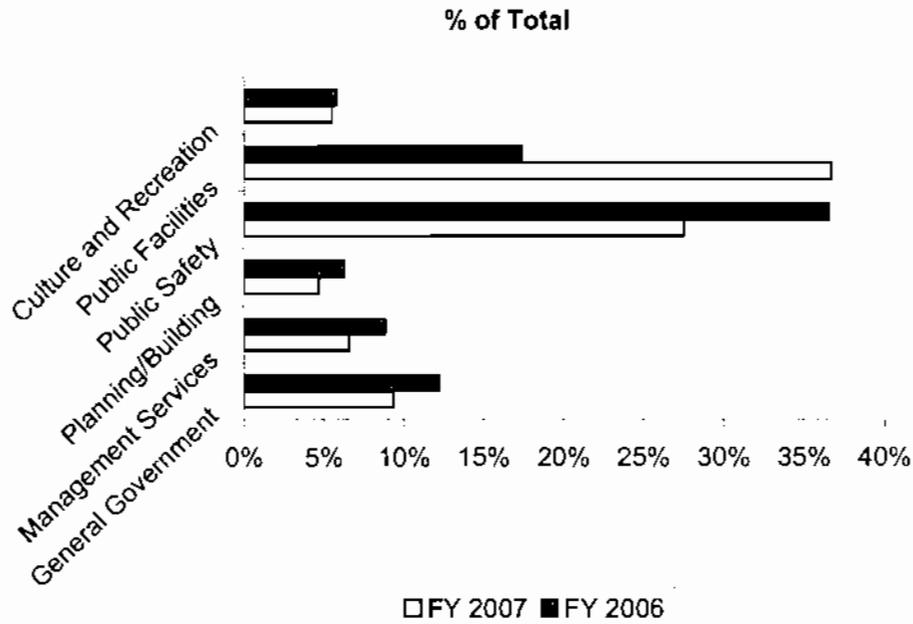
Governmental activities increased the Town's net assets by \$1.9 million in fiscal year 2007 and \$19.4 million in fiscal year 2006. One of the key factors for the significant decrease in change in net assets was the use of approximately \$18.0 million for the Town's beach renourishment project. In addition, the Town experienced a decline real estate transfer fees of \$2.3 million over the previous fiscal year.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**Revenues by Source - Governmental Activities**



**Expenses by Program - Governmental Activities**



**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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Taxes are the largest source of funds (50%), followed by other fees (20%) (e.g. real estate transfer fees, beach preservation fees, electric franchise fees, and stormwater fees), and business licenses and cable and beach franchise fees (14%). All other revenue sources comprise 16% of all funds received by the Town.

Major expenses for fiscal year 2007 were associated with public facilities (37%) (The primary element was the beach renourishment project), and public safety (28%). All other expenses comprise 35% of the total expenses incurred.

## *FINANCIAL ANALYSIS OF THE TOWN'S FUNDS*

The Town 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 \$25.8 million in total revenues and \$4.1 million in other financing sources offset with \$28.2 million in expenditures. This resulted in an excess of revenues and other financing sources over expenditures of \$1.7 million. Fund Balance at the beginning of the year was \$14.7 million and, when combined with the current year, resulted in an end of year Fund Balance of \$16.4 million. Of this amount, \$16.3 million is unreserved fund balance which represents 57.6% of the Town's present expenditure levels.

**Tax Increment Financing District** - The Tax Increment Financing District Fund recognized \$4.2 million in total revenues offset with \$1.0 million in debt service expenditures and \$7.5 million in other financing uses. This resulted in expenditures exceeding revenues by (\$4.3) million. Fund Balance at the beginning of the year was \$6.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$2.5 million.

**Accommodations Tax** - The Accommodations Tax Fund recognized \$4.0 million in total revenues offset with \$3.2 million in expenditures and \$1.2 million in other financing uses. This resulted in expenditures exceeding revenues by (\$437,971). Fund Balance at the beginning of the year was \$2.1 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.6 million.

**Real Estate Transfer Fee** - The Real Estate Transfer Fee Fund recognized \$4.1 million in total revenues offset with \$36,800 in expenditures and \$6.0 million in other financing uses. This resulted in expenditures exceeding revenues by (\$1.9) million. Fund Balance at the beginning of the year was \$8.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$6.6 million.

**Beach Preservation Fee** - The Beach Preservation Fee Fund recognized \$5.2 million in total revenues offset with \$3.0 million in other financing uses. This resulted in an excess of revenues over other financing uses of \$2.1 million. Fund Balance at the beginning of the year was \$14.3 million and, when combined with the current year, resulted in an end of year Fund Balance of \$16.5 million.

**Debt Service** - The Debt Service Fund recognized \$5.1 million in total revenues and \$8.0 million in other financing sources offset with \$11.0 in expenditures. This resulted in an excess of revenues and other financing sources over expenditures of \$2.2 million. Fund Balance at the beginning of the year was \$8.3 million and, when combined with the current year, resulted in an end of year Fund Balance of \$10.6 million.

**Capital Projects** - The Capital Projects Fund recognized \$10.0 million in total revenues and \$31.7 million in other financing sources offset with \$35.9 million in expenditures and \$7.2 million in other uses. This net result is expenditures and other financing uses exceeding revenues and other financing uses by (\$1.3) million. Fund Balance at the beginning of the year was \$25.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$24.3 million.

## *GENERAL FUND BUDGETARY HIGHLIGHTS*

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The Town's final budget differs from the original budget due to adjustments that were made during the fiscal year. In Fiscal Year 2007, there was an increase in expenditure budgets; however, the Town maintained an excess of revenues over expenditures and did not exceed the total appropriations for the year. The majority of these changes were funds carried forward from the previous fiscal year to pay for projects not completed at year end. Net budget increases by department totaled \$328,984 and \$132,454 for Fiscal Years 2007 and 2006 respectively. The net increase is defined as follows:

Administration – Operations	\$285,850
Human Resources	\$3,095
Planning	\$5,000
Public Projects and Facilities	\$23,464
Fire and Rescue	\$11,575

Actual revenues and other sources exceed expenditures by \$1.7 million in Fiscal Year 2007 and \$3.3 million in Fiscal Year 2006.

## *CAPITAL ASSETS AND DEBT ADMINISTRATION*

### **Capital Assets**

The Town investment in capital assets for its governmental activities as of June 30, 2007 and 2006 amount to \$202 million and \$186 million respectively (net of accumulated depreciation). Capital assets include land, development rights, easements/right-of-ways, buildings, drainage systems, furniture, fixtures, equipment and vehicles.

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

- Construction in progress of \$9.1 million in governmental-type activities for drainage, road improvement, pathways, new facilities and existing facilities.
- The Town purchased \$7.1 million of land, \$4.5 million in development rights, and \$504,000 in easements/right-of-ways.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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

	Governmental Activities	
	2007	2006
Land	\$ 137,651,694	\$ 130,792,721
Development Rights	7,716,970	3,249,587
Easements/Right-of-Ways	2,345,098	1,840,853
Infrastructure	29,407,534	25,562,219
Buildings	10,309,128	8,867,254
Parks	4,487,869	2,643,855
Furniture, fixtures and equipment	598,538	729,663
Vehicles	724,324	819,562
Construction in progress	9,119,950	11,722,447
<b>Total</b>	<b>\$ 202,361,105</b>	<b>\$ 186,228,161</b>

Additional information on the Town's capital assets can be found in Note 11 of the Basic Financial Statements.

**Long-term Debt** - As of June 30, 2007, the Town of Hilton Head Island had total bonded debt outstanding of \$127 million. Of this, \$67.5 million 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**

	Governmental Activities	
	2007	2006
General Obligation Bonds	\$ 67,460,000	\$ 71,240,000
Revenue Bond	51,565,000	34,060,000
Certificates of Participation	7,955,000	8,995,000
<b>Total</b>	<b>\$ 126,980,000</b>	<b>\$ 114,295,000</b>

The normal repayment of bond principal during the past fiscal year decreased the Town of Hilton Head Island's total debt by \$6.3 million.

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 Aaa<sup>3</sup> 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.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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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 \$37,977,056. The Town has \$14,180,000 in bonds issued at June 30, 2007, which are applicable to this cap.

Additional information regarding the Town of Hilton Head Island's long-term debt can be found in Note 10 on pages 40-50 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.

- Approximately 2.5 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.
- The unemployment for the Town of Hilton Head Island was 4.2% through December of 2006 as compared to 6.5% for the state of South Carolina and 4.6% for the nation.

### **Budget Highlights for the Fiscal Year Ending June 30, 2008:**

#### **Governmental Activities**

The **General Fund's** revenues for fiscal year 2008 are budgeted at \$32.5 million, an increase of \$2.5 million or 8% over the prior year's budgeted revenues. This includes the use of \$1.3 million of fund balance in order to balance the budget. Revenues from business licenses, public safety revenue and accommodations taxes 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 \$32,471,930. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$47.4 million. The majority of the expenditures are budgeted for road improvements which accounts for \$20.4 million or 43% of the capital budget with the largest component (\$11.5 million) earmarked for the widening of Mathews Drive.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$13.3 million. There is a \$2.5 million or 23% increase in debt service costs in fiscal year 2008. The primary reason for the increase was the issuance of \$19.0 million in bonds in fiscal year 2007. These bonds are being re-paid by beach preservation fees.

**TOWN OF HILTON HEAD ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

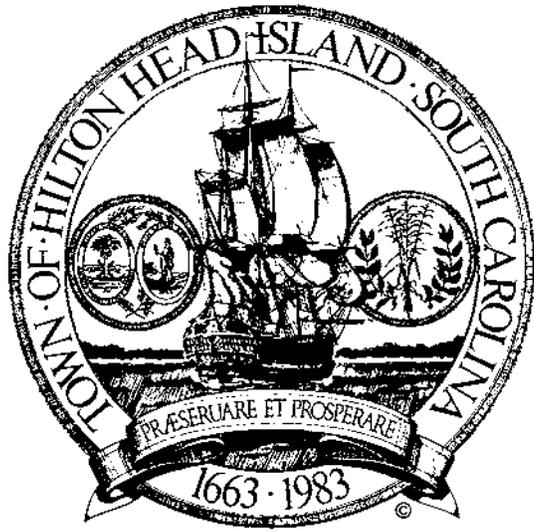
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**Rates**

The assessment rate for the fiscal year beginning July 1, 2007 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 Director of Finance, Town of Hilton Head Island, One Town Center Court, Hilton Island, South Carolina, 29928.





## **Basic Financial Statements**

TOWN OF HILTON HEAD ISLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

Exhibit "A"

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 12,173,239
Investments	23,446,648
Accounts Receivable	4,482,636
Due from Employees	77,610
Due from Other Governments	2,915,753
Inventory	-
Other Assets	2,723,471
Restricted Assets:	
Cash	3,408,897
Investments	35,997,100
Capital Assets:	
Non Depreciable	156,833,712
Depreciable	45,527,393
<b>Total assets</b>	<b>287,586,459</b>
 <b>LIABILITIES</b>	
Accounts Payable	1,306,062
Payable to Hilton Head Chamber of Commerce Visitor & Convention Bureau	399,457
Accrued Payroll and Related Payables	907,994
Due to Other Governments	752,080
Unearned Revenue	71,454
Payable from Restricted Assets:	
Irrigation and Pool Bonds Payable	118,700
Court Bonds Payable	62,410
Performance Bonds Payable	95,884
Interest Payable	997,286
Long-Term Liabilities:	
Due Within Less than One Year	10,093,040
Due Within More than One Year	119,400,599
<b>Total liabilities</b>	<b>134,204,966</b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	93,895,834
Restricted for:	
Disaster Recovery	2,484,516
Beach Renourishment	12,000,000
Debt Service	9,197,626
Unrestricted	35,803,517
<b>Total net assets</b>	<b>\$ 153,381,493</b>

TOWN OF HILTON HEAD ISLAND  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

Exhibit "B"

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
<b>Primary government:</b>					
Governmental activities:					
General Government	3,376,831	\$ 592,441	\$ 134,793	-	\$ (2,649,597)
Management Services	3,675,696	7,668,657	-	-	3,792,961
Planning/Building and Fire Codes	2,755,555	1,353,573	-	-	(1,401,982)
Public Safety	16,207,323	1,413,826	-	-	(14,793,497)
Public Projects and Facilities	21,623,052	6,144,329	-	48,246	(15,430,477)
Culture and Recreation	2,071,003	-	-	-	(2,071,003)
Visitor and Convention Bureau	1,180,675	-	-	-	(1,180,675)
Administrative	1,813,259	3,676,835	-	-	1,863,576
Interest on Debt	5,727,606	-	-	-	(5,727,606)
Other Charges	295,486	-	-	-	(295,486)
Total governmental activities	58,926,486	20,849,661	134,793	48,246	(37,893,786)
<b>Total primary government</b>	<b>\$ 58,926,486</b>	<b>\$ 20,849,661</b>	<b>\$ 134,793</b>	<b>\$ 48,246</b>	<b>\$ (37,893,786)</b>
General revenues:					
Taxes:					
Property					19,290,776
Local Accommodations					2,207,972
State Accommodations					3,960,583
Hospitality					5,108,528
Intergovernmental (Unrestricted State Shared Revenue)					1,268,534
Investment Income					4,236,702
Miscellaneous					3,679,894
Total general revenues					39,752,989
Change in net assets					1,859,203
Net assets - beginning					151,522,290
Net assets - ending					\$ 153,381,493

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

TOWN OF HILTON HEAD ISLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

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
<b>ASSETS</b>									
Cash	\$ 3,654,638	\$ -	\$ -	\$ 5,088,343	\$ -	\$ -	\$ 2,994,309	\$ 435,949	\$ 12,173,239
Investments	10,567,470	-	-	-	2,862,655	3,549,307	5,420,271	-	23,446,648
Accounts Receivable	1,161,241	-	1,046,945	-	1,640,947	-	1,497,903	182,545	4,482,636
Due from Employees	77,610	-	-	-	-	-	-	-	77,610
Interfund Receivables	1,688,601	-	-	331,154	57,796	281,085	360,903	-	2,729,539
Due from Other Governments	506,794	338,102	1,331,523	291,161	-	83,663	364,510	-	2,915,753
Prepaid Expenses	31,816	-	-	-	-	-	10,000	-	41,816
Restricted Assets:									
Cash	1,926	2,384,358	-	1,000,000	-	-	-	22,613	3,408,897
Investments	1,365,907	-	-	-	12,000,000	6,723,400	15,907,793	-	35,997,100
<b>Total assets</b>	<b>\$ 19,066,005</b>	<b>\$ 2,722,460</b>	<b>\$ 2,378,468</b>	<b>\$ 6,710,658</b>	<b>\$ 16,561,398</b>	<b>\$ 10,637,455</b>	<b>\$ 26,555,689</b>	<b>\$ 641,107</b>	<b>\$ 85,273,240</b>
<b>LIABILITIES AND FUND BALANCES</b>									
Liabilities:									
Accounts Payable	\$ 308,578	\$ -	\$ 133,352	\$ -	\$ -	\$ 500	\$ 591,828	\$ 271,804	\$ 1,306,062
Accrued Payroll and Employee Payable	907,994	-	-	-	-	-	-	-	907,994
Accrued Vacation and Sick Leave	-	-	-	-	-	-	-	-	-
Due to Other Governments	752,080	-	-	-	-	-	-	-	752,080
Interfund Payables	382,497	213,812	216,859	117,850	97,090	50,564	1,650,967	-	2,729,539
Deferred Revenue	11,124	-	-	-	-	-	38,066	22,274	71,464
Payable from restricted assets:									
Irrigation and Pool Bonds Payable	118,700	-	-	-	-	-	-	-	118,700
Court Bonds Payable	62,410	-	-	-	-	-	-	-	62,410
Performance Bonds Payable	95,884	-	-	-	-	-	-	-	95,884
Payable to Hilton Head Chamber of Commerce	-	-	-	-	-	-	-	-	-
Visitor and Convention Bureau	-	-	399,457	-	-	-	-	-	399,457
Interest Payable	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>2,635,267</b>	<b>213,812</b>	<b>749,668</b>	<b>117,850</b>	<b>97,090</b>	<b>51,064</b>	<b>2,280,751</b>	<b>294,078</b>	<b>6,443,580</b>
Fund balances:									
Reserved:									
Encumbrances	157,080	-	453,209	-	-	-	3,507,454	-	4,117,743
Debt Service	-	-	-	-	-	8,349,224	848,402	-	9,197,626
Land Acquisition Bond	-	-	-	-	-	-	1,356,627	-	1,356,627
2002 Stormwater Bond	-	-	-	-	-	-	4,041,467	-	4,041,467
Unreserved:									
Designated for Disaster Recovery	1,484,516	-	-	1,000,000	-	-	-	-	2,484,516
Designated for Hospitality Tax Purpose	-	-	-	-	12,000,000	-	288,969	-	12,288,969
Designated for Beach Renourishment	-	-	-	5,592,808	4,464,308	2,237,167	14,231,819	-	26,525,092
Undesignated	14,785,142	2,508,648	1,175,591	-	-	-	-	-	18,469,381
Reported in nonmajor:									
Special Revenue	-	-	-	-	-	-	-	347,029	347,029
<b>Total fund balances</b>	<b>16,426,738</b>	<b>2,508,648</b>	<b>1,628,800</b>	<b>6,592,808</b>	<b>16,464,308</b>	<b>10,586,391</b>	<b>24,274,938</b>	<b>347,029</b>	<b>78,829,860</b>
<b>Total liabilities and fund balances</b>	<b>\$ 19,066,005</b>	<b>\$ 2,722,460</b>	<b>\$ 2,378,468</b>	<b>\$ 6,710,658</b>	<b>\$ 16,561,398</b>	<b>\$ 10,637,455</b>	<b>\$ 26,555,689</b>	<b>\$ 641,107</b>	<b>\$ 85,273,240</b>

TOWN OF HILTON HEAD ISLAND  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

Exhibit "D"

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

Ending fund balance - governmental funds	\$ 78,829,660
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	202,361,105
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,478,741
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	1,202,912
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(997,286)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(129,493,639)</u>
Net assets of governmental activities	<u>\$ 153,381,493</u>

TOWN OF HILTON HEAD ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

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
<b>Revenues:</b>									
Real and Personal Property Taxes	\$ 9,940,043	\$ 3,985,064	\$ -	\$ -	\$ -	\$ 4,691,192	\$ 674,477	\$ -	\$ 19,290,776
Accommodations Tax	2,207,972	-	3,950,693	-	-	-	-	-	6,188,555
Hospitality Tax	-	-	-	-	-	-	5,108,528	-	5,108,528
Business Licenses and Franchise Fees	8,261,098	-	-	-	-	-	-	-	8,261,098
Permits	1,353,573	-	-	-	-	-	-	-	1,353,573
Other Fees:									
Impact	-	-	-	-	-	-	172,520	-	172,520
Real Estate Transfer	-	-	-	3,676,836	-	-	-	-	3,676,836
Beach Preservation	-	-	-	-	4,426,889	-	-	-	4,426,889
Electric Franchise	-	-	-	-	-	-	-	2,245,348	2,245,348
Stormwater	-	-	-	-	-	-	1,351,871	-	1,351,871
State Shared Funds	1,000,434	-	-	-	-	-	268,100	-	1,268,534
Donations	5,192	-	-	-	-	-	290,092	-	295,284
Grants	134,793	-	-	-	-	-	48,246	-	183,039
Miscellaneous Revenue	2,286,480	-	-	-	-	-	457,676	-	2,746,156
Investment Income	651,596	251,324	76,318	392,114	745,507	453,867	1,665,890	96	4,236,702
Total revenues	25,843,151	4,236,388	4,036,901	4,068,949	5,172,396	5,145,059	10,037,400	2,245,444	60,785,688
<b>Expenditures:</b>									
Current:									
General Government	1,360,932	-	-	-	-	-	-	-	1,360,932
Management Services	3,651,666	-	-	-	-	-	-	-	3,651,666
Planning/Building and Fire Codes	2,728,599	-	-	-	-	-	-	-	2,728,599
Public Safety	15,428,220	-	-	-	-	-	-	-	15,428,220
Public Projects and Facilities	3,042,920	-	-	-	-	-	778,003	-	3,820,923
Non-Departmental	1,745,509	-	-	-	-	-	-	-	1,745,509
Accommodations Tax Grants	-	-	2,071,003	-	-	-	-	-	2,071,003
Visitor and Convention Bureau	-	-	1,180,675	-	-	-	-	-	1,180,675
Administrative	-	-	18	36,765	-	166,892	-	1,744,666	1,948,281
Capital Outlay	211,006	-	-	-	-	-	34,879,196	-	35,090,202
Debt Service:									
Principal	63,802	675,000	-	-	-	5,640,000	212,332	-	6,591,134
Interest	6,849	326,227	-	-	-	5,154,464	8,475	-	5,496,034
Total expenditures	28,239,501	1,001,227	3,251,696	36,765	-	10,951,376	35,879,005	1,744,666	81,113,177
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(2,396,350)</b>	<b>3,235,161</b>	<b>785,205</b>	<b>4,032,184</b>	<b>5,172,396</b>	<b>(5,816,317)</b>	<b>(25,840,606)</b>	<b>500,838</b>	<b>(20,327,489)</b>
<b>Other financing sources (uses):</b>									
Proceeds from Bonds	-	-	-	-	-	-	19,000,000	-	19,000,000
Other Financing Sources	-	-	-	-	-	-	303,951	-	303,951
Transfers In	4,127,305	-	-	-	-	8,053,485	12,431,928	-	24,612,718
Transfers Out	-	(7,511,935)	(1,223,176)	(5,962,441)	(3,041,615)	-	(6,806,935)	(64,616)	(24,612,718)
Other Uses - Debt Issuance	-	-	-	-	-	-	(408,813)	-	(408,813)
Total other financing sources (uses)	4,127,305	(7,511,935)	(1,223,176)	(5,962,441)	(3,041,615)	8,053,485	24,518,131	(64,616)	18,895,138
<b>Net change in fund balances</b>	<b>1,730,955</b>	<b>(4,276,774)</b>	<b>(437,971)</b>	<b>(1,930,257)</b>	<b>2,130,781</b>	<b>2,237,168</b>	<b>(1,322,475)</b>	<b>436,222</b>	<b>(1,432,351)</b>
<b>Fund balance - beginning</b>	<b>14,695,783</b>	<b>6,786,422</b>	<b>2,066,771</b>	<b>8,523,065</b>	<b>14,333,527</b>	<b>8,349,223</b>	<b>25,597,413</b>	<b>(89,193)</b>	<b>80,262,011</b>
<b>Fund balance - ending</b>	<b>\$ 16,426,738</b>	<b>\$ 2,509,648</b>	<b>\$ 1,628,800</b>	<b>\$ 6,592,808</b>	<b>\$ 16,464,308</b>	<b>\$ 10,586,391</b>	<b>\$ 24,274,938</b>	<b>\$ 347,029</b>	<b>\$ 78,829,660</b>

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, 2007

Exhibit "F"

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

Net change in fund balances - total governmental funds \$ (1,432,351)

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.

Expenditures for capital assets	\$	18,562,717	
Less current year depreciation		<u>(2,429,773)</u>	16,132,944

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. (12,713,015)

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. (537,188)

Payment of bond issuance costs require the use of current financial resources in the governmental fund but are amortized over future periods in the statement of activities. 408,813

Change in net assets of governmental activities \$ 1,859,203

TOWN OF HILTON HEAD ISLAND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET (GAAP Basis) AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2007

Exhibit "G"

	General			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 10,134,510	\$ 10,134,510	\$ 9,940,043	\$ (194,467)
Accommodations Tax	2,140,000	2,140,000	2,207,972	67,972
Business Licenses and Franchise Fees	7,513,450	7,513,450	8,261,098	747,648
Permits	1,735,900	1,735,900	1,353,573	(382,327)
State Shared Funds	994,510	994,510	1,000,434	5,924
Donations	-	-	5,192	5,192
Grants	145,000	145,000	134,793	(10,207)
Miscellaneous Revenue	1,920,220	1,920,220	2,288,460	368,240
Investment Income	365,940	365,040	651,586	285,646
Total revenues	<u>24,949,530</u>	<u>24,949,530</u>	<u>25,643,151</u>	<u>693,621</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	1,378,440	1,381,535	1,360,932	20,603
Management Services	4,060,200	4,051,050	3,651,665	399,385
Planning/Building and Fire Codes	2,935,900	2,940,900	2,728,599	212,301
Public Safety	15,787,900	15,799,475	15,428,220	371,255
Public Projects and Facilities	3,262,510	3,265,974	3,042,920	243,054
Non-Departmental	1,991,900	1,991,900	1,745,509	246,391
Capital Outlay	183,960	478,960	211,006	267,954
<b>Debt Service:</b>				
Principal	71,000	71,000	83,802	7,198
Interest	-	-	6,848	(6,848)
Total expenditures	<u>29,671,810</u>	<u>30,000,794</u>	<u>28,239,501</u>	<u>1,761,293</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,722,280)</u>	<u>(5,051,204)</u>	<u>(2,396,350)</u>	<u>2,654,914</u>
<b>Other financing sources (uses):</b>				
Transfers In	4,722,280	4,722,280	4,127,305	(594,975)
Total other financing sources (uses)	<u>4,722,280</u>	<u>4,722,280</u>	<u>4,127,305</u>	<u>(594,975)</u>
<b>Net change in fund balance</b>	-	(328,984)	1,730,955	
<b>Fund balance - beginning</b>	<u>14,695,783</u>	<u>14,695,783</u>	<u>14,695,783</u>	
<b>Fund balance - ending</b>	<u>\$ 14,695,783</u>	<u>\$ 14,366,799</u>	<u>\$ 16,426,738</u>	

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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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. All debt transactions are recorded in the Debt Service Fund and capital projects transactions associated with the issuance of the debt are recorded in the Capital Projects Fund.

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, 2007**

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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, 2007**

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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, 2007, 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, 2007**

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	\$ 328,984
Property Taxes	-
Total Revenues Increase	\$ 328,984

Expenditures:

Operations Contractual Services	
Training/Conferences	\$ 10,350
Operations Supply/ Equipment Maintenance	
Computer Software ≤\$50,000	3,000
Equipment ≤\$5,000	7,500
Operations Capital	
Computer Software ≥\$50,000	265,000
Human Resources Contractual Services	
Employee Training	3,095
PP&F/Engineering Contractual Services	
Closed Loop Traffic Signal Maintenance	23,464
Planning DRZ Contractual Services	
Consulting Services	5,000
F&R Logistics & Maint. Contractual Services	
Uniforms & Protective Gear	8,956
F&R Communications Supply/Equip. Maintenance	
Operational Supplies	2,619
Total Expenditures	\$ 328,984

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

**Capital Projects Fund**

Revenues:

Funds From Prior years	\$ 46,893
Beach Fees	628,175
Beach Preservation Fee Bond	14,953,951
Stormwater Utility Fees	5,920
County Bonds	379,508
CTC Grant	32,717
PARD Grant	11,000
TIF	1,615,152
Traffic Impact Fees	22,777
SCDOT	1,220
POA	50,000
Hospitality Tax	509,634
Hospitality Bond	110,692
Stormwater Utility Bond	617,473
Bond Proceeds	(297,676)
Beach Preservation Fees	2,132,261
Real Estate Transfer Fees	2,153,710
Bond Funds	1,443,936
Tax Increment Financing	4,311,128
Hospitality Taxes	54,615
Impact Fees	185,000
Hospitality Tax	255,000
CDBG Grant	469,615
Project Safe Grant	50,000
Total Revenues	<u>\$ 29,742,701</u>

Expenditures:

Pathways

Pope Avenue (Off Road)	\$ 10,404
Wild Horse Road	92
Marshland Road	404
Spanish Wells Road	1,220
Mathews Drive (Marshland Norht)	32,987

Drainage

Drainage System Rehabilitation	1,420
Ashmore Tract Ditch	4,500
Northridge	170,946
Beach City Road/Airport	248,306
Spanish Wells Road	53,002
Squire Pope Road	64,435

Road Improvements

Pedestrian Crosswalks/Refuges	141,955
Traffic Signal Mast Arms	2,600
Widen and Realign Office Park Road	686,643

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

**Capital Projects Fund (Continued)**

Road Improvements (Continued)	
Long Cove Lane Extension	\$ 88,212
Town Roads Reconstruction	29,570
Widen Mathews Drive - Marshland North	375,730
Intersection Improvements	440,000
Horseshoe Road Connector	61,021
Coligny Circle Reconfiguration	250
Roadway Safety Improvements	42,892
Park Development	
Barker Field/Beach Access Extension	96,284
Shelter Cove Linear Park Expansion	301,292
Yacht Cove Linear Park Expansion	25,000
Port Royal Tract Beach Access/Park	407,962
Parks Upgrades	159,000
Existing Facilities/Infrastructure	
Clean-Up/Maintenance Demolition of Structures	28,565
F&R Maintenance & Training Facility & Office	77,532
Apparatus & Vehicle Replacement	20,123
Fire Station #1 Replacement	190,616
Rehabilitation & Renovation - Fixed Assets	6,600
New Facilities/Infrastructure	
Dispatch Center Equipment Upgrade	191
Fire Station #4 Replacement	33,160
F&R Dispatch Center	104,320
Beach Maintenance	
Beach Management/Monitoring	5,400
Beach Renourishment	16,907,063
Land Acquisition	
Land and Easement Purchases	7,963,389
Roadway Improvements	
Intersection Improvements	440,000
New Facilities and Infrastructure	
Stoney Area Sewer CDBG Project	519,615
Total Expenditures	<u>\$ 29,742,701</u>

**TOWN OF HILTON HEAD ISLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

**Debt Service Fund**

Revenues:

Beach Fees Transfer	\$ 413,705
Total Revenues	<u>\$ 413,705</u>

Expenditures:

Interest Expense	\$ 413,705
Total Expenditures	<u>\$ 413,705</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, 2007, 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.

Capital Assets

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

**TOWN OF HILTON HEAD ISLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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Note 1. Summary of Significant Accounting Policies (continued)

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

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

Long-Term Obligations

In the government-wide financial statements, 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 other assets 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, 2007**

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, 2007, would be \$1,354,917 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	\$ 3,654,638	\$ 10,567,470	\$ 1,926	\$ 1,365,907	\$ 15,589,941
Accommodations Tax		1,046,945			1,046,945
Beach Preservation Fees		2,862,655		12,000,000	14,862,655
Tax Increment Financing			2,384,358		2,384,358
Home Grant			22,613		22,613
Real Estate Transfer Fee	5,088,343		1,000,000		6,088,343
Capital Projects	2,994,309	5,420,271		15,907,793	24,322,373
Debt Service		3,549,307		6,723,401	10,272,708
Town Franchise Fees	435,949				435,949
	<u>\$ 12,173,239</u>	<u>\$ 23,446,648</u>	<u>\$ 3,408,897</u>	<u>\$ 35,997,101</u>	<u>\$ 75,025,884</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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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, 2007, the \$15,582,136 carrying balance and \$16,148,981 bank balance were held in various banks of which \$236,877 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 \$3,084 is held in petty cash funds of the Town. Of the total carrying cash balance of \$15,579,052 in cash, \$3,408,897 has been restricted.

Investments

At June 30, 2007, the Town had investments and maturities as shown below:

	Fair Value	1 Year
Money Market Funds	\$ 56,523,844	\$ 56,523,844
U.S. Agency Discount Notes	2,919,904	2,919,904
	\$ 59,443,748	\$ 59,443,748

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, 2007**

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 fail 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, 2007, the Town had debt securities and quality ratings as shown below:

	<u>Fair Value</u>	Quality Rating Aaa (Moody's)	<u>Unrated</u>
Money Market Account	\$ 56,523,844	\$ -	\$ 56,523,844
U.S. Agency Discount Notes	2,919,904	2,919,904	-
	<u>\$ 59,443,748</u>	<u>\$ 2,919,904</u>	<u>\$ 56,523,844</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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, 2007, 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:						
EMS Fees	\$ 1,374,872					\$ 1,374,872
Local accommodations taxes	819,065					819,065
Other receivables	4,887				182,545	187,432
Business license revenues	69,802					69,802
Beach preservation fees		1,640,947				1,640,947
Hospitality taxes/Other			1,497,903			1,497,903
Gross receivables	2,268,626	1,640,947	1,497,903	-	182,545	5,560,021
Less: allowance for uncollectibles	1,107,385	-	-	-	-	1,107,385
Net Receivables	<u>\$ 1,161,241</u>	<u>\$ 1,640,947</u>	<u>\$ 1,497,903</u>	<u>\$ -</u>	<u>\$ 182,545</u>	<u>\$ 4,482,636</u>
Receivables from Employees:						
Cobra Insurance	\$ (3,177)	\$ -	\$ -	\$ -	\$ -	\$ (3,177)
Computer Purchases*	80,787	-	-	-	-	80,787
Total Receivables from Employees	<u>\$ 77,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,610</u>

\*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, 2007 for which payment was received/made after June 30, 2007.

Interfund receivables and payable balances at June 30, 2007 are as follows:

	Due From							Total
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Beach Preservation Fees	Capital Projects Fund	Debt Service	
Due To:								
General			\$ 179,571			\$ 1,519,030		\$ 1,698,601
Beach Preservation Fees	7,232						50,564	57,796
Capital Project Fund		213,812	37,288	12,713	97,090			360,903
Debt Service Fund	44,111			105,136		131,838		281,085
Other Governmental Funds	331,154							331,154
Total	<u>\$ 382,497</u>	<u>\$ 213,812</u>	<u>\$ 216,859</u>	<u>\$ 117,849</u>	<u>\$ 97,090</u>	<u>\$ 1,650,868</u>	<u>\$ 50,564</u>	<u>\$ 2,729,539</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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, 2007 are summarized below:

	Transfer In			Total
	General Fund	Debt Service Fund	Capital Projects Fund	
<u>Transfers Out:</u>				
TIF	\$ 219,210		\$ 7,292,725	\$ 7,511,935
Accommodations Tax	1,091,939		131,237	1,223,176
Real Estate Transfer Fees		2,777,588	3,184,853	5,962,441
Beach Preservation Fees	855,360	363,142	1,823,113	3,041,615
Capital Project Fund	1,896,180	4,912,755		6,808,935
Other	64,616			64,616
<b>Total</b>	<b>\$ 4,127,305</b>	<b>\$ 8,053,485</b>	<b>\$ 12,431,928</b>	<b>\$ 24,612,718</b>

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	\$ 129,802
E 911 - Beaufort County	33,350
Dispatch/ EMS 911 - Beaufort County	18,750
Beaufort County Land Care South	8,370
SC DOT	35,980
SC MER Inventory	1,880
State Shared Taxes	271,702
EMS Grant - Beaufort County	6,435
Beaufort County - DHEC Grant	525
	<u>506,794</u>

Tax Increment Financing Fund - Beaufort County

338,102

Debt Service Fund

Property Taxes - Beaufort County (07-01-06 thru 07-31-06)	82,775
Merchant Inventory Tax 06-30-06 State of SC	888
	<u>83,663</u>

Capital Projects Fund

Property Taxes - Beaufort County (07-01-06 thru 07-31-06)	13,889
CIP - Merchant Inventory (Quarter June 2006)	130
Beaufort County - Honey Horn Grant	250,000
State Sunday Liquor Fees	57,400

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

<u>Capital Projects Fund (continued)</u>	
Stormwater Fees - Beaufort County (06-01-06)	19,695
State of SC CDBG Grant	3,551
State of SC PARD Grant	19,845
	364,510
<u>Accommodations Taxes</u>	
State of South Carolina	1,331,523
<u>Real Estate Transfer Fees</u>	
Beaufort County	291,161
<b>Total Due from Other Governments</b>	<b>\$ 2,915,753</b>

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

<u>General Fund</u>	
State of SC Fire Academy	330
SC Municipal Insurance Trust	1,030
Beaufort County - Impact Fees	11,055
Municipal Court State Fees - SC State Treasurer	47,938
Sheriff's Department - Beaufort County	589,862
PORS - Retirement June	95,447
State of South Carolina - Use Taxes	5,961
State of SC	5
	452
<b>Total Due to Other Governments</b>	<b>\$ 752,080</b>

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 \$95,884 while \$1,926 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, 2007, \$62,410 was the balance of bonds held.

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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.

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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	
<b>Payables:</b>							
Accounts payable	\$ 308,578	\$ 133,352		\$ 500	\$ 591,828	\$ 271,804	\$ 1,306,062
Accrued payroll	907,994						907,994
<b>Total payables</b>	<b>\$ 1,216,572</b>	<b>\$ 133,352</b>	<b>\$ -</b>	<b>\$ 500</b>	<b>\$ 591,828</b>	<b>\$ 271,804</b>	<b>\$ 2,214,066</b>

Note 8. Unearned/Deferred Revenue and Net Assets

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:

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

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, 2007, was \$22,274.

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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Note 8. Unearned/Deferred Revenue and Net Assets (continued)

**Net Assets**

Net assets represent the difference between assets and liabilities and were as follows:

Invested in capital assets, net of related debt:		
	Net capital assets	\$ 202,361,105
Less:	General obligation bonds	(67,460,000)
	Revenue bonds	(51,565,000)
	Certificates of participation	(7,955,000)
	Capital leases	(67,140)
Add:	Bond issue costs and loss on refunding	2,681,653
	Unspent bond proceeds	15,900,216
		<b>93,895,834</b>
Restricted for:		
	Disaster recovery: General Fund	1,484,516
	RETF Fund	1,000,000
		<b>2,484,516</b>
	Beach renourishment	12,000,000
	Debt service	9,197,626
	Unrestricted	35,803,517
	<b>Total net assets</b>	<b>\$ 153,381,493</b>

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 \$20,183 were lapsed during the fiscal year ending June 30, 2007, with \$5,000 being the total lapsed against 2007 grants.

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

Note 9. Accommodations Tax Fund (continued)

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2007:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
<b><u>Grants (not Town related)</u></b>				
Coastal Discovery Museum Year 3 of 7 (Capital)	\$ 56,172	\$ 56,172	-	-
Coastal Discovery Museum Year 4 of 7 (Capital)	175,000	175,000	-	-
LCGOA - The Golf Island Marketing Plan	34,866	28,623	6,243	-
Coastal Discovery Museum 5 of 7 (Capital)	175,000	175,000	-	-
Martin Luther King Jr. Planning Committee	2,323	-	2,323	-
HHI COC Destination Marketing Program	130,000	130,000	-	-
HHI COC Welcome Center Renovation	30,000	30,000	-	-
Coastal Discovery Museum - Operations	55,545	55,545	-	-
HH Community & Youth Theater - Operations	7,061	7,061	-	-
HH Community & Youth Theater - Main Street Theater	23,470	22,087	1,383	-
Hilton Head Choral Society	11,000	11,000	-	-
Low Country Golf Owner's Association	75,000	50,962	-	24,038
Hilton Head International Piano Competition	10,000	10,000	-	-
The Sandbox: A Hilton Head Area Children's Museum	21,798	21,798	-	-
HHI St. Patrick's Day Parade	9,929	4,695	5,234	-
Coastal Discovery Museum 6 of 7 (Capital)	175,000	175,000	-	-
HHI COC Destination Marketing Program	150,000	150,000	-	-
Arts Center of Coastal Carolina - Operations	389,233	389,233	-	-
Native Island Gullah Celebration	80,000	80,000	-	-
Hilton Head Orchestra - Tourism Services	140,000	140,000	-	-
HHI COC Vis. & Conv. Bur. Off-Season Destination Marketing	40,000	40,000	-	-
Coastal Discovery Museum - Cultural @ Eco Tourism Program	165,000	90,007	-	74,992
Hilton Head Island Choral Society	16,000	8,686	-	7,314
Hilton Head Dance Theater	10,000	10,000	-	-
Hilton Head Island Band Boosters	5,000	-	5,000	-
Hilton Head Island - Bluffton Visitor and Convention Bureau	355,000	89,562	-	265,437
Hilton Head Island Concours d'Elegance	45,000	15,485	-	29,515
Hilton Head Island Concours d'Elegance Marketing Initiative	12,000	12,000	-	-
Hilton Head Island St. Patrick's Day Parade	9,500	5,065	-	4,435
Low Country & Resort Island Tourism Commission	18,000	18,000	-	-
Main Street Theater - Captial	12,500	11,493	-	1,007
Main Street Theater - Operations	35,000	11,795	-	23,205
Sea Pines Fireworks	8,000	8,000	-	-
Shelter Cove Harbour Company - HarbourFest 2007	8,000	8,000	-	-
Skull Creek - 4th of July Celebration	8,000	8,000	-	-
South Carolina Repertory Company	18,000	18,000	-	-
The Sandbox: An Interactive Children's Museum	28,000	4,734	-	23,266
<b>Total Grants (not Town related)</b>	<b>\$ 2,544,397</b>	<b>\$ 2,071,003</b>	<b>\$ 20,183</b>	<b>\$ 453,209</b>
<b><u>Other Financing Uses</u></b>				
Transfer to General Fund	\$ 1,091,939	\$ 1,091,939	-	\$ -
Transfer to Capital Projects Fund	131,237	131,237	-	-
<b>Total Other Financing Uses</b>	<b>\$ 1,223,176</b>	<b>\$ 1,223,176</b>	<b>\$ -</b>	<b>\$ -</b>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

Note 9. Accommodations Tax Fund (continued)

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 \$402,078 was approved for operations during 2007/2008.

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 June 30,	<u>Accommodations Tax Grants</u>			
	Approved	Paid	Lapsed	Unpaid
2001	2,247,614	(2,213,249)	(34,365)	-
2002	2,020,100	(2,000,343)	(19,757)	-
2003	2,165,544	(2,165,050)	(494)	-
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
2007	2,724,393	(2,290,222)	(5,000)	429,171

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2007, was \$1,628,800 of which \$453,209 was encumbered by approved grants.

Town council has approved amounts for 2007/2008 grants as follows:

Arts Center of Coastal Carolina	\$ 402,078
Coastal Discovery Museum	175,000
Hilton Head Orchestra	165,000
Native Island Gullah Celebration	85,000
Town Operations – Tourism Support	1,040,341
CIP – Pathway Rehabilitation	30,600
Hilton Head Island – Bluffton Visitor & Convention Bureau	<u>20,000</u>
	<u>\$ 1,918,019</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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 \$70,650 through December 2007. The lease is being paid annually through the general fund. A schedule of the amount due for this lease follows:

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2008	\$ 3,510	\$67,140	\$70,650

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
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
		\$ 1,013,709	\$ 7,125,000	\$ 8,138,709

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, 2007, \$1,034,748 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.

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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:

\$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
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
		\$ 134,781	\$ 830,000	\$ 964,781

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
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
		\$ 42,072	\$ 505,000	\$ 547,072

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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
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>\$ 248,654</u>	<u>\$ 2,970,000</u>	<u>\$ 3,218,654</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
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	5.125	423,421	675,000	1,098,421
2016	5.125	388,058	705,000	1,093,058
2017	5.125	351,030	740,000	1,091,030
2018	5.125	312,080	780,000	1,092,080
2019	5.125	271,080	820,000	1,091,080
2020	5.200	227,707	860,000	1,087,707
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>\$ 6,208,012</u>	<u>\$ 12,450,000</u>	<u>\$ 18,658,012</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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
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>\$ 3,280,770</u>	<u>\$ 5,485,000</u>	<u>\$ 8,765,770</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 8,748,007</u>	<u>\$ 13,880,000</u>	<u>\$ 22,628,007</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, 2007**

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
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>\$ 459,343</u>	<u>\$ 5,220,000</u>	<u>\$ 5,679,343</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
2008	4.000	\$ 1,043,615	\$ 95,000	\$ 1,138,615
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>\$ 10,043,345</u>	<u>\$ 24,150,000</u>	<u>\$ 34,193,345</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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
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>\$ 120,592</u>	<u>\$ 1,105,000</u>	<u>\$ 1,225,592</u>

\$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
2008	4.500	\$ 76,275	\$ 830,000	\$ 906,275
2009	4.500	38,925	865,000	903,925
		<u>\$ 115,200</u>	<u>\$ 1,695,000</u>	<u>\$ 1,810,200</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
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

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

\$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
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>\$ 8,753,354</u>	<u>\$ 15,975,000</u>	<u>\$ 24,728,354</u>

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
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

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

\$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
2027	5.000	70,250	685,000	755,250
2028	5.000	36,000	720,000	756,000
		<u>\$ 5,950,600</u>	<u>\$ 9,910,000</u>	<u>\$ 15,860,600</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, 2007, \$851,426 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, 2007, the amount in the pledge account was \$870,009. The Debt Service Fund is repaying these certificates of participation.

On August 23, 2006, the Town issued \$19,000,000 revenue bonds to fund the Town's beach renourishment project. A schedule of the amount due for this issue follows:

\$19,000,000 Beach Preservation Fees Revenue Bonds Dated August 23, 2006

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2008	5.000	\$ 780,610	\$ 2,080,000	\$ 2,860,610
2009	5.000	679,810	2,160,000	2,839,810
2010	3.850	569,810	2,240,000	2,809,810
2011	3.875	470,073	2,320,000	2,790,073
2012	4.875	380,554	2,405,000	2,785,554
2013	3.900	286,216	2,500,000	2,786,216
2014	5.000	186,330	2,595,000	2,781,330
2015	5.000	67,500	2,700,000	2,767,500
		<u>\$ 3,420,903</u>	<u>\$ 19,000,000</u>	<u>\$ 22,420,903</u>

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
2008	4.650	\$ 294,112	\$ 710,000	\$ 1,004,112

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

Note 10. Long-Term Obligations (continued)  
Tax Increment Bonds (continued)

\$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
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>\$ 1,316,647</u>	<u>\$ 6,680,000</u>	<u>\$ 7,996,647</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, 2007, \$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
<b>Governmental Activities:</b>					
<b>Bonds and notes payable:</b>					
General obligation bonds payable	\$ 71,240,000		\$ 3,780,000	\$ 67,460,000	\$ 4,040,000
Certificates of participation	8,995,000		1,040,000	7,955,000	1,050,000
Revenue bonds	34,060,000	\$ 19,000,000	1,495,000	51,565,000	3,630,000
Capital leases	343,075		275,935	67,140	67,140
Premium on bonds	874,106	303,951	86,475	1,091,582	86,475
Total bonds and notes payable	<u>115,512,181</u>	<u>19,303,951</u>	<u>6,677,410</u>	<u>128,138,722</u>	<u>8,873,615</u>
<b>Other liabilities:</b>					
Compensated absences	1,209,568	1,354,917	1,209,568	1,354,917	1,219,425
Total other liabilities	<u>1,209,568</u>	<u>1,354,917</u>	<u>1,209,568</u>	<u>1,354,917</u>	<u>1,219,425</u>
Governmental activities long-term liabilities	<u>\$ 116,721,749</u>	<u>\$ 20,658,868</u>	<u>\$ 7,886,978</u>	<u>\$ 129,493,639</u>	<u>\$ 10,093,040</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

For the Year Ended June 30	Government Activities		
	Interest	Principal	Total
2008	\$ 5,579,766	\$ 8,720,000	\$ 14,299,766
2009	5,198,604	9,150,000	14,348,604
2010	4,771,994	9,620,000	14,391,994
2011	4,366,861	10,110,000	14,476,861
2012	3,998,481	9,095,000	13,093,481
2013-2017	14,780,858	34,330,000	49,110,858
2018-2022	8,207,906	25,010,000	33,217,906
2023-2027	2,776,582	18,340,000	21,116,582
2028-2029	174,937	2,605,000	2,779,937
Total	<u>\$ 49,855,989</u>	<u>\$ 126,980,000</u>	<u>\$ 176,835,989</u>

**Note 11. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
<b>Government activities:</b>				
Capital assets not being depreciated:				
Land	\$ 130,792,721	\$ 7,139,622	\$ (280,649)	\$ 137,651,694
Development Rights	3,249,587	4,467,383	-	7,716,970
Easements/Right-of-Ways	1,840,853	504,245	-	2,345,098
Construction in progress	11,722,447	6,345,053	(8,947,550)	9,119,950
Total capital assets not being depreciated	<u>147,605,808</u>	<u>18,456,303</u>	<u>(9,228,199)</u>	<u>156,833,712</u>
Capital assets being depreciated:				
Buildings	14,123,934	1,913,478		16,037,412
Furniture, fixtures and equipment	3,175,514	283,542	(58,099)	3,400,957
Automobiles	4,506,917	124,469	(69,212)	4,562,174
Imp. other than buildings - park development	2,849,003	1,964,523		4,813,526
Infrastructure	30,183,369	5,069,548		35,252,917
Total capital assets being depreciated	<u>54,838,737</u>	<u>9,355,560</u>	<u>(127,311)</u>	<u>64,066,986</u>
Less accumulated depreciation for:				
Buildings	5,256,680	471,604		5,728,284
Furniture, fixtures and equipment	2,445,851	393,720	(37,152)	2,802,419
Automobiles	3,687,355	219,707	(69,212)	3,837,850
Imp. other than buildings - park development	205,148	120,509		325,657
Infrastructure	4,621,150	1,224,233		5,845,383
Total accumulated depreciation	<u>16,216,184</u>	<u>\$ 2,429,773</u>	<u>\$ (106,364)</u>	<u>18,539,593</u>
Total capital assets being depreciated, net	<u>38,622,553</u>			<u>45,527,393</u>
Government activity capital assets, net	<u>\$ 186,228,161</u>			<u>\$ 202,361,105</u>

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

Note 11. Capital Assets (continued)

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

General Government	\$ 125,041
Management Services	59,840
Planning/Building and Fire Codes	26,956
Public Safety	755,706
Public Projects and Facilities	<u>1,462,230</u>
Total Depreciation Expense	<u>\$ 2,429,773</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, 2007, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities	\$ 1,545,272
Park Development	1,507,577
Land and Related Acquisitions and Improvements	9,980,434
Beach Maintenance	18,405,499
Facilities Improvements	906,860
Roadway Improvements	1,722,722
Pathways Improvements	745,364
Drainage Improvements	<u>843,471</u>
Total	<u>\$ 35,657,199</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2007, the Town had outstanding construction commitments of approximately \$25,665,249. Through June 30, 2007, approximately \$20,683,529 in costs had been incurred on these commitments. At June 30, 2007, the Town had outstanding construction commitments totaling approximately \$3,712,531 for capital projects in progress and \$1,269,188 for capital projects obligated, but not yet started.

Operating Leases

For the Town's fiscal year ended June 30, 2007, 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, 2007**

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

At June 30, 2007, 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
2008	\$ 36,789
2009	36,789
	<u>\$ 73,578</u>

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, 2007, employer contributions were based on a total payroll of \$6,813,754. The amount contributed by the employer for the year ending June 30, 2007 was \$588,782 or 8.6% of covered payroll. Employee contributions to the plan were \$491,605 or 7.2% of covered payroll for year ending June 30, 2007. 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 \$107,319 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, 2007, \$6,715,389 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, 2007, a total of \$843,549 was contributed into the System for the Town's share and \$284,715 for the employees' share, which represented 12.56% and 4.24% of covered payroll, respectively. During the years ended June 30, 2006 and 2005, \$844,832 and \$828,772 were contributed to the system for the Town's share, representing 12.58% and 12.81% 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.

**TOWN OF HILTON HEAD ISLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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

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, 2007, employer contributions were based on a total payroll of \$13,895,761 of which \$13,529,143 or 97.36% of the total payroll was covered under the plan. Employer contributions were \$1,432,331 or 10.31% of covered payroll. Employee contributions were \$883,639 or 6.36% 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 \$175,723 at June 30, 2007, and is included as a liability in the General Fund in the accrued payroll and employee payables.

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, 2007, the limit was \$200, and the Town's liability under this plan totaled \$46,131.

**TOWN OF HILTON HEAD ISLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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Note 16. Health Plans (continued)

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, 2007 the limit was \$100 per covered individual, and the Town's liability under this plan totaled \$51,080.

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 \$75,399 during the year ended June 30, 2007. 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, 2007.

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 may be required to disclose the cost of this benefit for all its employees. In FY 2007 the Town completed the impact study and is currently reviewing its options in preparation for implementation in FY 2009.

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.

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.

**TOWN OF HILTON HEAD ISLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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Note 18. Contingencies (continued)

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, 2007.

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.



## **General Fund**

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

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND

Schedule 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 10,134,510	\$ 10,134,510	\$ 9,940,043	\$ (194,467)
Accommodations Tax:				
Local 1% - Public Safety	2,140,000	2,140,000	2,207,972	67,972
Business License and Franchise Fees:				
Business License	7,000,000	7,000,000	7,668,657	668,657
Cable Television Franchise	509,250	509,250	573,207	63,957
Beach Franchise	4,200	4,200	19,234	15,034
Total	7,513,450	7,513,450	8,261,098	747,648
Permits:				
Construction	1,050,000	1,050,000	544,563	(505,437)
Development	15,900	15,900	13,361	(2,539)
Other	670,000	670,000	795,649	125,649
Total	1,735,900	1,735,900	1,353,573	(382,327)
State Shared Funds	994,510	994,510	1,000,434	5,924
Donations:				
EMS/Fire Department Donations	-	-	5,192	5,192
Grants:				
Beaufort County Hazmat/E911	145,000	145,000	93,676	(51,324)
FEMA	-	-	15,117	15,117
DHEC	-	-	11,867	11,867
Miscellaneous Grant Reimbursements	-	-	14,133	14,133
Total	145,000	145,000	134,793	(10,207)
Miscellaneous Revenue:				
Public Safety/EMS	1,055,000	1,055,000	1,413,826	358,826
Beach Services	346,700	346,700	193,048	(153,652)
Municipal Court Fines and Fees	354,590	354,590	419,313	64,723
Miscellaneous Revenue	163,930	163,930	262,273	98,343
Total	1,920,220	1,920,220	2,288,460	368,240
Investment Income	365,940	365,940	651,586	285,646
<b>Total Revenues</b>	<b>24,949,530</b>	<b>24,949,530</b>	<b>25,843,151</b>	<b>893,621</b>

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND

Schedule 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Expenditures:</b>				
<b>General Government:</b>				
Town Council:				
Salaries and Benefits	\$ 84,930	\$ 84,930	\$ 71,269	\$ 13,661
Other Operating	299,000	299,000	283,542	15,458
Total Town Council	<u>383,930</u>	<u>383,930</u>	<u>354,811</u>	<u>29,119</u>
Town Manager:				
Salaries and Benefits	305,610	305,610	356,103	(50,493)
Other Operating	32,450	32,450	29,578	2,872
Total Town Manager	<u>338,060</u>	<u>338,060</u>	<u>385,681</u>	<u>(47,621)</u>
Human Resources:				
Salaries and Benefits	446,380	446,380	444,175	2,205
Other Operating	210,070	213,165	176,265	36,900
Total Human Resources	<u>656,450</u>	<u>659,545</u>	<u>620,440</u>	<u>39,105</u>
Total General Government	<u>1,378,440</u>	<u>1,381,535</u>	<u>1,360,932</u>	<u>20,603</u>
<b>Management Services:</b>				
Finance-Administration:				
Salaries and Benefits	188,470	188,470	110,012	78,458
Other Operating	23,450	23,450	5,897	17,553
Total Finance-Administration	<u>211,920</u>	<u>211,920</u>	<u>115,909</u>	<u>96,011</u>
Finance-Accounting:				
Salaries and Benefits	499,370	499,370	476,045	23,325
Other Operating	85,640	85,640	87,718	(2,078)
Total Finance-Accounting	<u>585,010</u>	<u>585,010</u>	<u>563,763</u>	<u>21,247</u>
Finance-Revenue and Collections:				
Salaries and Benefits	518,600	518,600	479,236	39,364
Other Operating	36,130	36,130	37,892	(1,762)
Total Finance-Revenue and Collections	<u>554,730</u>	<u>554,730</u>	<u>517,128</u>	<u>37,602</u>
Administration-Municipal Court:				
Salaries and Benefits	304,750	304,750	285,025	19,725
Other Operating	79,450	79,450	54,015	25,435
Total Administration-Municipal Court	<u>384,200</u>	<u>384,200</u>	<u>339,040</u>	<u>45,160</u>
Administration-Legal :				
Salaries and Benefits	524,430	524,430	502,510	21,920
Other Operating	38,070	38,070	25,835	12,235
Total Administration-Legal	<u>562,500</u>	<u>562,500</u>	<u>528,345</u>	<u>34,155</u>

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services(continued):				
Administration-Administrative Support :				
Salaries and Benefits	154,730	154,730	154,187	543
Other Operating	40,170	40,170	13,183	26,987
Total Administration-Administrative Support	<u>194,900</u>	<u>194,900</u>	<u>167,370</u>	<u>27,530</u>
Administration-Operations:				
Salaries and Benefits	824,640	824,640	800,236	24,404
Other Operating	742,300	733,150	619,874	113,276
Total Administration-Operations	<u>1,566,940</u>	<u>1,557,790</u>	<u>1,420,110</u>	<u>137,680</u>
Total Management Services	<u>4,060,200</u>	<u>4,051,050</u>	<u>3,651,665</u>	<u>399,385</u>
Planning/Building & Fire Codes:				
Planning-Administration:				
Salaries and Benefits	360,050	360,050	353,154	6,896
Other Operating	27,290	27,290	21,470	5,820
Total Planning-Administration	<u>387,340</u>	<u>387,340</u>	<u>374,624</u>	<u>12,716</u>
Planning-Current:				
Salaries and Benefits	550,080	550,080	513,535	36,545
Other Operating	46,640	51,640	40,646	10,994
Total Planning-Current	<u>596,720</u>	<u>601,720</u>	<u>554,181</u>	<u>47,539</u>
Planning-Long Range:				
Salaries and Benefits	386,800	386,800	367,655	19,145
Other Operating	36,880	36,880	11,356	25,524
Total Planning-Long Range	<u>423,680</u>	<u>423,680</u>	<u>379,011</u>	<u>44,669</u>
Planning-Natural Resources:				
Salaries and Benefits	162,730	162,730	160,832	1,898
Other Operating	27,970	27,970	23,300	4,670
Total Planning-Natural Resources	<u>190,700</u>	<u>190,700</u>	<u>184,132</u>	<u>6,568</u>
Building & Fire Codes:				
Salaries and Benefits	1,223,870	1,223,870	1,177,132	46,738
Other Operating	113,590	113,590	59,519	54,071
Total Building & Fire Codes	<u>1,337,460</u>	<u>1,337,460</u>	<u>1,236,651</u>	<u>100,809</u>
Total Planning/Building & Fire Codes	<u>2,935,900</u>	<u>2,940,900</u>	<u>2,728,599</u>	<u>212,301</u>

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety:				
Fire & Rescue-Administration:				
Salaries and Benefits	198,540	198,540	197,147	1,393
Other Operating	294,460	294,460	622,883	(328,423)
Total Fire & Rescue-Administration	<u>493,000</u>	<u>493,000</u>	<u>820,030</u>	<u>(327,030)</u>
Fire & Rescue-Logistics/Maintenance:				
Salaries and Benefits	326,630	326,630	315,297	11,333
Other Operating	475,550	484,506	460,148	24,358
Total Fire & Rescue-Logistics/Maintenance	<u>802,180</u>	<u>811,136</u>	<u>775,445</u>	<u>35,691</u>
Fire & Rescue-Operations:				
Salaries and Benefits	8,134,790	8,134,790	7,870,118	264,672
Other Operating	225,300	225,300	227,589	(2,289)
Total Fire & Rescue-Operations	<u>8,360,090</u>	<u>8,360,090</u>	<u>8,097,707</u>	<u>262,383</u>
Fire & Rescue-Communications:				
Salaries and Benefits	845,410	845,410	802,720	42,690
Other Operating	188,740	191,359	176,902	14,457
Total Fire & Rescue-Communications	<u>1,034,150</u>	<u>1,036,769</u>	<u>979,622</u>	<u>57,147</u>
Fire & Rescue-Training:				
Salaries and Benefits	510,380	510,380	493,165	17,215
Other Operating	165,900	165,900	158,053	7,847
Total Fire & Rescue-Training	<u>676,280</u>	<u>676,280</u>	<u>651,218</u>	<u>25,062</u>
Fire & Rescue-Emergency Management:				
Salaries and Benefits	145,840	145,840	139,296	6,544
Other Operating	108,010	108,010	36,454	71,556
Total Fire & Rescue-Emergency Management	<u>253,850</u>	<u>253,850</u>	<u>175,750</u>	<u>78,100</u>
Fire & Rescue-Bureau of Fire Prevention:				
Salaries and Benefits	436,430	436,430	390,442	45,988
Other Operating	47,500	47,500	37,587	9,913
Total Fire & Rescue-Bureau of Fire Prevention	<u>483,930</u>	<u>483,930</u>	<u>428,029</u>	<u>55,901</u>
Fire & Rescue-Support Services:				
Salaries and Benefits	470,620	470,620	391,501	79,119
Other Operating	352,810	352,810	312,519	40,291
Total Fire & Rescue-Support Services	<u>823,430</u>	<u>823,430</u>	<u>704,020</u>	<u>119,410</u>
Fire & Rescue-E911 Communications:				
Salaries and Benefits	-	-	77,633	(77,633)
Total Fire & Rescue-E911 Communications	<u>-</u>	<u>-</u>	<u>77,633</u>	<u>(77,633)</u>

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Expenditures (continued):</b>				
Police Patrol/Communications:				
Police Services/Contract	2,511,880	2,511,880	2,389,038	122,842
Stipend	151,200	151,200	107,947	43,253
Victims' Rights	51,220	51,220	51,220	-
Beach Services	146,690	146,690	170,561	(23,871)
Total Police Patrol/Communications	<u>2,860,990</u>	<u>2,860,990</u>	<u>2,718,766</u>	<u>142,224</u>
Total Public Safety	<u>15,787,900</u>	<u>15,799,475</u>	<u>15,428,220</u>	<u>371,255</u>
Public Projects & Facilities:				
Administration:				
Salaries and Benefits	224,090	224,090	224,900	(810)
Other Operating	12,390	12,390	8,345	4,045
Total Administration	<u>236,480</u>	<u>236,480</u>	<u>233,245</u>	<u>3,235</u>
Engineering:				
Salaries and Benefits	547,650	547,650	488,906	58,744
Other Operating	127,580	151,044	228,316	(77,272)
Total Engineering	<u>675,230</u>	<u>698,694</u>	<u>717,222</u>	<u>(18,528)</u>
Facilities Management:				
Salaries and Benefits	765,250	765,250	695,112	70,138
Other Operating	1,585,550	1,585,550	1,397,341	188,209
Total Facilities Management	<u>2,350,800</u>	<u>2,350,800</u>	<u>2,092,453</u>	<u>258,347</u>
Total Public Projects & Facilities	<u>3,262,510</u>	<u>3,285,974</u>	<u>3,042,920</u>	<u>243,054</u>
Non-Departmental:				
Townwide:				
Insurance	266,400	266,400	264,500	1,900
Postage	43,000	43,000	33,103	9,897
General Contingency	64,290	62,790	18,544	44,246
Postemployment	15,600	15,600	7,299	8,301
Telephone/Cell Phones/Utilities	293,250	293,250	326,434	(33,184)
Equipment Maintenance/Supplies	4,800	4,800	5,259	(459)
Lease Payments	44,600	46,100	39,616	6,484
Photocopying	9,000	9,000	8,186	814
Courier	15,000	15,000	17,258	(2,258)
Drug Court	43,560	43,560	43,560	-
Youth Court	15,000	15,000	-	15,000
Recreation Center	597,740	597,740	597,740	-
Recreation Center-Capital	98,000	98,000	74,726	23,274

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND

Schedule 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

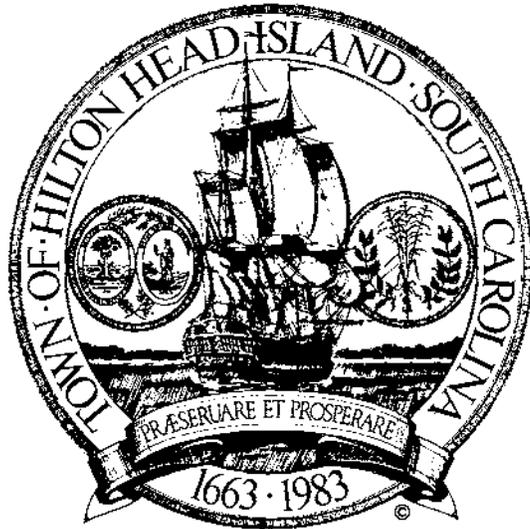
	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Furniture/Fixtures <\$5,000	10,000	10,000	2,412	7,588
Disaster Advertising Reserve Fund	198,660	198,660	-	198,660
Hospitality Training & Promotion	93,000	93,000	91,757	1,243
LTRA Grant	175,000	175,000	175,065	(65)
LEPC Grant	-	-	7,171	(7,171)
USAR - RRT Grant	-	-	14,636	(14,636)
Beaufort County Hazmat	5,000	5,000	11,283	(6,283)
DHEC Grant	-	-	6,960	(6,960)
Total Non-Departmental Townwide	<u>1,991,900</u>	<u>1,991,900</u>	<u>1,745,509</u>	<u>246,391</u>
Debt Service:				
Principal	64,152	71,000	63,802	7,198
Interest	6,848	-	6,848	(6,848)
Total Debt Service	<u>71,000</u>	<u>71,000</u>	<u>70,650</u>	<u>350</u>
Capital Outlay				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	66,460	66,460	65,783	677
Computer Software >\$50,000	50,000	345,000	98,408	246,592
Total Administration-Operations	<u>116,460</u>	<u>411,460</u>	<u>164,191</u>	<u>247,269</u>
Total Management Services	<u>116,460</u>	<u>411,460</u>	<u>164,191</u>	<u>247,269</u>
Public Safety:				
Fire & Rescue Operations:				
Specialized Equipment	7,500	7,500	8,610	(1,110)
Total Fire & Rescue Operations	<u>7,500</u>	<u>7,500</u>	<u>8,610</u>	<u>(1,110)</u>
Fire & Rescue Emergency Management:				
Specialized Equipment	25,000	25,000	-	25,000
Total Fire & Rescue Emergency Management	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Fire & Rescue Logistics/Maintenance:				
Specialized Equipment	25,000	25,000	23,418	1,582
Total Fire & Rescue Logistics/Maintenance	<u>25,000</u>	<u>25,000</u>	<u>23,418</u>	<u>1,582</u>
Support Services:				
Specialized Equipment	10,000	10,000	14,787	(4,787)
Total Support Services	<u>10,000</u>	<u>10,000</u>	<u>14,787</u>	<u>(4,787)</u>
Total Public Safety	<u>67,500</u>	<u>67,500</u>	<u>46,815</u>	<u>20,685</u>
Total Capital Outlay	<u>183,960</u>	<u>478,960</u>	<u>211,006</u>	<u>267,954</u>
Total Expenditures	<u>29,671,810</u>	<u>30,000,794</u>	<u>28,239,501</u>	<u>1,761,293</u>

TOWN OF HILTON HEAD ISLAND  
GENERAL FUND

Schedule 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Excess of Revenues Over (Under) Expenditures</b>	(4,722,280)	(5,051,264)	(2,396,350)	2,654,914
<u>Other Financing Sources and Uses:</u>				
Transfers In	4,722,280	4,722,280	4,127,305	(594,975)
<b>Total Other Financing Sources</b>	4,722,280	4,722,280	4,127,305	(594,975)
<b>Net change in fund balance</b>	-	(328,984)	1,730,955	
<b>Fund Balance - beginning</b>	14,695,783	14,695,783	14,695,783	
<b>Fund Balance - ending</b>	<u>\$ 14,695,783</u>	<u>\$ 14,366,799</u>	<u>\$ 16,426,738</u>	





## **Debt Service Fund**

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

TOWN OF HILTON HEAD ISLAND  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 4,783,690	\$ 4,783,690	\$ 4,691,192	\$ (92,498)
Investment Income	250,000	250,000	453,867	203,867
Total revenues	<u>5,033,690</u>	<u>5,033,690</u>	<u>5,145,059</u>	<u>111,369</u>
<b>Expenditures:</b>				
Administrative	16,670	16,670	166,892	(150,222)
Debt service:				-
Principal	5,640,000	5,640,000	5,640,000	-
Interest	4,740,780	5,154,485	5,154,484	1
Debt Issue Costs	-	-	-	-
Total expenditures	<u>10,397,450</u>	<u>10,811,155</u>	<u>10,961,376</u>	<u>(150,221)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(5,363,760)</u>	<u>(5,777,465)</u>	<u>(5,816,317)</u>	<u>(38,852)</u>
<b>Other financing sources (uses):</b>				
Transfer In	5,100,000	5,513,705	8,053,485	2,539,780
Total other financing sources (uses)	<u>5,100,000</u>	<u>5,513,705</u>	<u>8,053,485</u>	<u>2,539,780</u>
<b>Net change in fund balance</b>	(263,760)	(263,760)	2,237,168	
<b>Fund balance - beginning</b>	<u>8,349,223</u>	<u>8,349,223</u>	<u>8,349,223</u>	
<b>Fund balance - ending</b>	<u>\$ 8,085,463</u>	<u>\$ 8,085,463</u>	<u>\$ 10,586,391</u>	





## **Capital Projects Fund**

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

TOWN OF HILTON HEAD ISLAND  
 CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET (GAAP Basis) AND ACTUAL  
 YEAR ENDED JUNE 30, 2007

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 725,180	\$ 725,180	\$ 674,477	\$ (50,703)
Grants	763,000	1,377,552	98,246	(1,279,306)
Contributions	213,000	213,000	290,092	77,092
State Taxes - Sunday Permit Fees	225,000	225,000	268,100	43,100
Hospitality Tax	2,626,000	3,445,249	5,108,528	1,663,279
Impact Fees	70,000	277,777	172,520	(105,257)
County Impact Fee - Parks	-	-	40,806	40,806
County Parks Funding	250,000	629,508	250,000	(379,508)
County Stormwater	300,000	305,920	1,351,871	1,045,951
Miscellaneous	140,000	140,000	36,090	(103,910)
Lease	70,000	70,000	80,780	10,780
Investment Income	-	-	1,665,890	1,665,890
<b>Total Revenues</b>	<b>5,382,180</b>	<b>7,409,186</b>	<b>10,037,400</b>	<b>2,628,214</b>
<b>Expenditures:</b>				
<b>Debt Service:</b>				
Principal	204,376	221,191	212,332	8,859
Interest	16,624	-	8,475	(8,475)
<b>Total Debt Service</b>	<b>221,000</b>	<b>221,191</b>	<b>220,807</b>	<b>384</b>
<b>Capital Outlay:</b>				
<b>Public Facilities:</b>				
Fire Station #4 Replacement	-	33,160	33,163	(3)
Fire & Rescue Dispatch Center	-	104,320	42,116	62,204
Fire & Rescue Training Center	1,825,000	1,825,000	78,676	1,746,324
Fire & Rescue Computer System	360,000	360,000	66,485	293,515
Coligny/Pope Avenue Area Improvements	285,000	285,000	30,505	254,495
Dunnigan's Alley/Arrow Road Improvements	200,000	200,000	-	200,000
Sewer Installation	1,165,000	1,684,615	174,938	1,509,677
Facilities Management Building	1,500,000	1,500,000	92,239	1,407,761
Coastal Discovery Museum/Honey Horn	1,400,000	1,400,000	1,025,000	375,000
Community Warning System	75,000	75,000	-	75,000
Town Hall Replacement	-	-	2,150	(2,150)
<b>Total Public Facilities</b>	<b>6,810,000</b>	<b>7,467,095</b>	<b>1,545,272</b>	<b>5,921,823</b>
<b>Park Development:</b>				
Shelter Cove Linear Park	-	301,292	256,538	44,754
Yacht Cove Community Park	-	25,000	-	25,000
Port Royal Tract Beach Access	-	407,962	407,542	420
Park Upgrades	1,107,000	1,266,000	744,538	521,462
Rock's/Remy's Tract	500,000	500,000	-	500,000
Compass Rose Park	500,000	500,000	2,675	497,325
Barker Field/Beach Access Ext.	-	96,284	96,284	-
<b>Total Park Development</b>	<b>2,107,000</b>	<b>3,096,538</b>	<b>1,507,577</b>	<b>1,588,961</b>

TOWN OF HILTON HEAD ISLAND  
 CAPITAL PROJECTS FUNDS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET (GAAP Basis) AND ACTUAL  
 YEAR ENDED JUNE 30, 2007

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Land Acquisition:</b>				
Land Acquisition	470,000	8,433,389	9,980,434	(1,547,045)
<b>Total Land Acquisition</b>	<b>470,000</b>	<b>8,433,389</b>	<b>9,980,434</b>	<b>(1,547,045)</b>
<b>Beach Maintenance:</b>				
Beach Management	185,000	190,403	60,829	129,574
Beach Renourishment	2,010,000	18,917,063	18,011,573	905,490
Dunes Refurbishment	100,000	100,000	40,097	59,903
Beach Parks/Access Rehabilitation	300,000	300,000	293,000	7,000
<b>Total Beach Maintenance</b>	<b>2,595,000</b>	<b>19,507,466</b>	<b>18,405,499</b>	<b>1,101,967</b>
<b>Facilities Improvements:</b>				
Fire & Rescue Maint./Training Facility	-	77,532	76,716	816
Fire Station #1 Replacement	2,500,000	2,690,616	37,981	2,652,635
Fire Station #2 Replacement	150,000	150,000	-	150,000
Fire Station #5 Replacement	2,500,000	2,500,000	33,560	2,466,440
Fire Station #6 Replacement	150,000	150,000	-	150,000
Fire Hydrant Upgrades	30,000	30,000	30,000	-
McKibben Property Wetlands Restoration	100,000	100,000	13,872	86,128
Rehab & Renovation of Town Fixed Assets	100,000	106,600	-	106,600
Apparatus/Vehicle Replacement	285,000	305,123	228,849	76,274
Demolition of Structures	465,000	493,565	381,928	111,637
Disaster Plan - Vehicles/Equip.	-	-	103,953	(103,953)
<b>Total Facilities Improvements</b>	<b>6,280,000</b>	<b>6,603,436</b>	<b>906,859</b>	<b>5,696,577</b>
<b>Roadway Improvements:</b>				
Long Cove Lane Extension		88,212	70,526	17,686
Roadway Safety Improvements	191,000	233,892	5,982	227,910
Widen Mathews Drive/US 278	237,000	237,000	-	237,000
Widen Mathews Drive/Marshland Road	2,291,000	2,666,730	208,246	2,458,484
Widen Mathews Drive/Chaplin Area	110,000	110,000	-	110,000
US 278/ Squire Pope Ave. Intersection	2,225,000	2,225,000	22,051	2,202,949
Stoney Secondary Road	705,000	705,000	8,500	696,500
Directional Neighborhood Signage	50,000	50,000	-	50,000
Horseshoe Road Connector	1,025,000	1,086,021	18,624	1,067,397
Coligny Circle Reconfiguration	-	250	-	250
SCDOT Road Resurfacing	1,066,000	1,066,000	489,608	576,392
Town Roads Resurfacing	-	29,570	5,176	24,394
Widen and Realign Office Park Road	-	686,643	670,883	15,760
Mainland Transportation improvements	400,000	400,000	-	400,000
Intersection Improvements	855,000	1,735,000	43,184	1,691,816
Pedestrian Crosswalks and Refuges	50,000	191,955	158,000	33,955
Traffic Signal Mast Arms	450,000	452,600	-	452,600
F&R Emergency Access Points	185,000	185,000	21,943	163,057
<b>Total Roadway Improvements</b>	<b>9,840,000</b>	<b>12,148,873</b>	<b>1,722,723</b>	<b>10,426,150</b>

TOWN OF HILTON HEAD ISLAND  
CAPITAL PROJECTS FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
YEAR ENDED JUNE 30, 2007

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Pathway Improvements:</b>				
Pathway Rehabilitation	60,000	770,000	315,112	454,888
Mathews Drive (North)	710,000	-	-	-
Mathews Drive (South)	-	32,987	41,172	(8,185)
Mathews Drive (US 278 to Beach City Rd.)	130,000	130,000	15,395	114,605
Target Road	68,000	68,000	-	68,000
Marshland Road	-	404	404	-
Spanish Wells Road	-	1,220	1,219	1
Pope Avenue	2,354,000	2,364,404	370,604	1,993,800
Palmetto Bay Road	1,299,000	1,299,000	1,367	1,297,633
Wild Horse Road	-	92	91	1
<b>Total Pathway Improvements</b>	<b>4,621,000</b>	<b>4,666,107</b>	<b>745,364</b>	<b>3,920,743</b>
<b>Drainage Improvements:</b>				
Drainage System Rehabilitation	300,000	701,420	511,954	189,466
Drainage Study Updates	400,000	-	-	-
Squire Pope Pathway	740,000	804,435	57,881	746,554
Northridge	-	170,943	30,527	140,416
Ashmore Tract Ditch	-	4,500	(3,550)	8,050
Beach City Road/Airport	-	248,306	226,170	22,136
Spanish Wells Road	-	53,002	12,989	40,013
Club Course Outfall	300,000	300,000	7,500	292,500
<b>Total Drainage Improvements</b>	<b>1,740,000</b>	<b>2,282,606</b>	<b>843,471</b>	<b>1,439,135</b>
<b>Total Capital Outlay</b>	<b>34,463,000</b>	<b>64,205,510</b>	<b>35,657,199</b>	<b>28,548,311</b>
<b>Total Expenditures</b>	<b>34,684,000</b>	<b>64,426,701</b>	<b>35,878,006</b>	<b>28,548,695</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(29,301,820)</b>	<b>(57,017,515)</b>	<b>(25,840,606)</b>	<b>31,176,909</b>
<b>Other Financing Sources/ (Uses):</b>				
Proceeds from Bonds	-	17,086,212	19,000,000	1,913,788
Other Financing Sources	-	-	303,951	303,951
Transfers In	22,392,000	30,802,492	12,431,928	(18,370,564)
Other Uses - Debt Issuance	-	-	(408,813)	(408,813)
Transfers Out	-	-	(6,808,935)	(6,808,935)
<b>Total Other Financing Sources(Uses)</b>	<b>22,392,000</b>	<b>47,888,704</b>	<b>24,518,131</b>	<b>(23,370,573)</b>
<b>Net change in fund balance</b>	<b>(6,909,820)</b>	<b>(9,128,811)</b>	<b>(1,322,475)</b>	
<b>Fund Balance - beginning</b>	<b>25,597,413</b>	<b>25,597,413</b>	<b>25,597,413</b>	
<b>Fund Balance - ending</b>	<b>\$ 18,687,593</b>	<b>\$ 16,468,602</b>	<b>\$ 24,274,938</b>	





## **Nonmajor Governmental Funds Special Revenue Funds**

**Special Revenue Funds** - This account is for revenues derived from special sources which are restricted by law or policy to finance specific activities.

1. **Palmetto Electric Franchise Fees** - This fund is used to account for franchise fees paid by Palmetto Electric Cooperative, Inc. These funds will be utilized to offset costs associated with the undergrounding (placement underground) of all existing and future non-transmission lines owned by Palmetto Electric pursuant to the terms and conditions of the Franchise Agreement and related Underground Service Agreement between the Town and Palmetto Electric.
2. **Home Grant** - Homeownership Assistance Program provides a no-interest, ten-year deferred loan to prospective, income-qualified homebuyers to meet down payment and closing cost requirements.

TOWN OF HILTON HEAD ISLAND  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

Schedule 4

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant		
<b>ASSETS:</b>				
Cash	\$ 435,949	\$ -	\$ -	435,949
Investments	-	-	-	-
Due from Palmetto Electric	182,545	-	-	182,545
Restricted Assets:				
Cash	-	22,613	-	-
Total assets	<u>\$ 618,494</u>	<u>\$ 22,613</u>	<u>\$ -</u>	<u>\$ 641,107</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ 271,804	\$ -	\$ -	271,804
Deferred Revenue	-	22,274	-	22,274
Payable to Hilton Head Chamber of Commerce Visitor and Convention Bureau	-	-	-	-
Total liabilities	<u>271,804</u>	<u>22,274</u>	<u>-</u>	<u>294,078</u>
Fund balances:				
Reserved:				
Encumbrances		-		-
Unreserved:				
Undesignated	346,690	339		347,029
Total fund balances	<u>346,690</u>	<u>339</u>		<u>347,029</u>
Total liabilities and fund balances	<u>\$ 618,494</u>	<u>\$ 22,613</u>	<u>\$ -</u>	<u>\$ 641,107</u>

TOWN OF HILTON HEAD ISLAND  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

Schedule 5

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant		
<u>Revenues</u>				
Electric Franchise Fee	2,245,348			2,245,348
Investment Income	-	96		96
Total revenues	2,245,348	96		2,245,444
<u>Expenditures</u>				
Current:				
Administrative	1,744,608			1,744,608
Total expenditures	1,744,608			1,744,608
<b>Excess (deficiency) of revenues over (under) expenditures</b>	500,740	96		500,836
<b>Other financing sources (uses)</b>				
Transfers Out	(64,616)			(64,616)
Total other financing sources (uses)	(64,616)			(64,616)
<b>Net change in fund balances</b>	436,124	96		436,220
<b>Fund balance - beginning</b>	(89,434)	243		(89,191)
<b>Fund balance - ending</b>	\$ 346,690	\$ 339		\$ 347,029



## **Statistical Section (Unaudited)**

## 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.*

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> <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>	70
<b>Revenue Capacity</b> <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>	75
<b>Debt Capacity</b> <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>	77
<b>Demographic and Economic Information</b> <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>	86
<b>Operating Information</b> <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>	88

**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>	<u>2007</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 57,478,757	\$ 79,079,569	\$ 83,615,491	\$ 93,060,926	\$ 93,895,834
Restricted	6,373,187	6,373,187	8,594,126	23,111,481	23,682,142
Unrestricted	<u>36,809,752</u>	<u>26,079,740</u>	<u>39,877,353</u>	<u>35,349,883</u>	<u>35,803,517</u>
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>	<u>\$ 153,381,493</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				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Expenses</b>					
Governmental activities:					
General Government	\$ 1,376,550	\$ 1,430,134	\$ 2,908,087	\$ 3,059,753	\$ 3,376,831
Management Services	2,929,346	3,243,571	3,267,610	3,765,726	3,875,696
Planning/Building & Fire Codes	2,275,565	2,371,762	2,494,521	2,675,180	2,755,555
Public Safety	13,873,760	14,753,859	14,707,812	15,605,366	16,207,323
Public Projects and Facilities	3,253,808	5,871,991	5,526,308	7,419,865	21,623,052
Non-Departmental	1,754,144	1,714,926	-	-	-
Culture and Recreation	1,197,868	984,663	1,318,157	1,305,306	2,071,003
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899	1,180,675
Administrative	363,326	823,516	1,296,642	2,149,451	1,813,259
Interest on Long-Term Debt	4,610,909	4,320,669	5,409,997	5,585,734	5,727,606
Other Charges	-	-	-	-	295,486
Total governmental activities expenses	<u>\$ 32,572,393</u>	<u>\$ 36,455,999</u>	<u>\$ 37,918,718</u>	<u>\$ 42,709,280</u>	<u>\$ 58,926,486</u>
<b>Program Revenues</b> (see Schedule 3)					
Governmental activities:					
Charges for services:					
General Government	\$ 535,421	\$ 504,299	\$ 571,933	\$ 590,577	\$ 592,441
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657
Planning/Building & Fire Codes	1,470,106	1,823,673	2,194,146	1,890,293	1,353,573
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826
Public Projects and Facilities	4,840,838	5,168,909	5,816,608	6,528,989	6,144,329
Administrative	3,176,112	4,364,478	6,717,848	6,020,689	3,676,835
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246
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>	<u>\$ 21,032,700</u>
<b>Net (Expense)Revenue</b>					
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>	<u>\$ (37,893,786)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes					
Property taxes	\$ 15,349,010	\$ 16,293,172	\$ 21,602,549	\$ 19,041,631	\$ 19,290,776
Other taxes	7,281,600	7,252,510	8,305,770	11,144,997	11,277,083
Intergovernmental (Unrestricted State Shared)	1,144,768	1,107,990	1,197,579	1,155,021	1,268,534
Investment earnings	659,153	560,878	1,203,427	2,951,972	4,236,702
Miscellaneous	1,061,158	1,698,226	2,084,490	3,286,231	3,679,894
Total governmental activities	<u>\$ 25,495,689</u>	<u>\$ 26,912,776</u>	<u>\$ 34,393,815</u>	<u>\$ 37,579,852</u>	<u>\$ 39,752,989</u>
<b>Change in Net Assets</b>					
Governmental activities	<u>\$ 10,212,739</u>	<u>\$ 10,870,800</u>	<u>\$ 20,554,475</u>	<u>\$ 19,435,320</u>	<u>\$ 1,859,203</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)*

	<b>Fiscal Year</b>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Function/Program</b>					
Governmental activities:					
General Government	\$ 761,388	\$ 689,956	\$ 727,000	\$ 937,902	\$ 727,234
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657
Planning/Building & Fire Codes	1,470,106	1,823,673	2,194,146	1,890,293	1,353,573
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826
Public Projects and Facilities	4,246,652	6,273,280	6,761,033	6,709,889	6,192,575
Administrative	3,219,006	4,480,676	6,717,848	6,020,689	3,676,835
<b>Total governmental activities</b>	<u>\$ 16,335,893</u>	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>	<u>\$ 21,032,700</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	2006	2007
<b>General Fund</b>											
Reserved	\$ 369,067	\$ 203,582	\$ 129,076	\$ 97,847	\$ 102,173	\$ 161,304	\$ 77,962	\$ 88,460	\$ 122,453	\$ 328,984	\$ 157,060
Unreserved	4,069,127	3,453,287	4,146,045	4,651,142	6,413,411	6,752,852	7,215,588	7,514,334	11,196,901	14,366,799	16,269,658
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	\$ 16,426,730
<b>All Other Governmental Funds</b>											
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	\$ 19,159,608	\$ 17,402,001	\$ 18,556,563
Unreserved, reported in:											
Special revenue funds	9,479,334	5,950,603	2,167,613	5,472,557	4,617,776	3,962,905	5,339,044	17,911,547	25,460,960	30,798,191	27,088,384
Capital projects funds	2,097,751	16,416,636	14,367,149	9,809,928	20,074,771	12,710,261	19,560,776	23,321,010	20,022,075	16,841,628	14,520,788
Debt service funds	-	-	-	-	-	-	-	1,368,544	83,084	524,408	2,237,167
Total all other governmental funds	\$ 15,531,846	\$ 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	\$ 62,402,922

**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	2007
<b>Revenues</b>											
Taxes (see Schedule 6) <sup>1</sup>	\$ 14,559,984	\$ 16,048,823	\$ 17,717,642	\$ 18,731,904	\$ 20,686,568	\$ 22,037,344	\$ 22,630,610	\$ 23,545,882	\$ 29,908,319	\$ 30,186,628	\$ 30,567,859
Licenses, fees, and permits <sup>2</sup>	10,178,187	11,559,247	14,242,855	14,320,667	14,322,093	14,583,468	15,423,227	17,717,480	22,816,711	24,528,805	21,488,134
Fines and penalties	278,552	375,063	348,419	308,078	361,447	335,338	296,672	296,637	307,993	362,466	419,313
Charges for services	753,998	1,067,083	881,330	909,410	1,020,384	1,036,720	1,237,991	1,290,307	1,340,492	1,613,063	1,606,874
Special assessments	40,336	249,210	273,200	251,668	241,430	-	-	-	-	-	-
Intergovernmental	829,061	1,404,740	1,316,455	1,265,247	1,091,220	1,331,714	1,144,768	1,107,960	1,197,579	1,155,021	1,268,534
Investment earnings	1,088,131	1,195,025	1,157,112	1,625,165	1,581,268	817,211	659,163	560,878	1,203,427	2,951,973	4,236,702
Other revenues	1,643,448	1,097,491	3,076,318	2,067,896	1,589,658	1,452,866	3,125,301	2,158,082	1,698,671	1,346,643	1,194,272
<b>Total revenues</b>	<b>\$ 29,377,694</b>	<b>\$ 32,995,692</b>	<b>\$ 38,963,331</b>	<b>\$ 39,477,935</b>	<b>\$ 40,894,968</b>	<b>\$ 41,594,659</b>	<b>\$ 44,490,622</b>	<b>\$ 46,675,966</b>	<b>\$ 58,473,192</b>	<b>\$ 62,144,599</b>	<b>\$ 60,785,688</b>
<b>Expenditures</b>											
General Government	\$ 951,767	\$ 1,055,136	\$ 1,039,498	\$ 939,700	\$ 970,695	\$ 966,798	\$ 1,035,285	\$ 1,150,862	\$ 1,233,212	\$ 1,395,347	\$ 1,360,932
Management Services	1,597,284	1,980,726	1,983,268	2,290,241	2,616,611	2,896,258	2,915,272	3,045,720	3,166,953	3,642,669	3,651,665
Planning/Building & Fire Codes	1,829,530	1,949,063	2,145,075	2,129,436	2,077,917	2,104,150	2,259,486	2,341,354	2,481,374	2,653,273	2,728,599
Public Safety	8,569,624	9,240,959	9,941,758	10,454,554	10,897,319	11,405,240	12,237,337	13,027,729	13,766,856	14,760,157	15,429,220
Public Projects and Facilities	1,167,350	1,465,880	1,702,340	1,821,431	2,116,755	2,167,605	2,191,772	4,106,258	3,304,267	3,418,822	3,820,923
Non-Departmental	1,047,848	1,110,110	1,145,299	1,695,273	1,525,333	1,567,289	1,693,628	1,714,926	1,668,095	1,664,406	1,746,509
Accommodations Tax Grants	997,552	963,004	1,104,635	1,057,150	1,038,161	1,140,486	1,197,868	964,663	1,318,157	1,305,306	2,071,003
Visitor & Convention Bureau	774,013	831,666	898,686	927,930	928,743	935,673	937,117	940,908	989,584	1,142,899	1,180,675
Administrative	226,447	61,847	60,978	66,226	87,529	62,064	363,326	923,518	1,296,842	2,149,451	1,948,281
Capital Outlay	15,976,354	20,010,446	39,085,648	12,656,691	22,454,904	21,283,379	20,191,545	15,906,740	11,499,658	13,696,379	36,090,202
Debt Service											
Interest	2,138,647	1,746,697	2,662,675	3,486,256	3,352,570	4,302,168	4,567,053	4,279,777	5,261,940	5,616,555	6,591,134
Principal	1,661,446	2,024,333	1,441,575	19,322,118	1,851,663	2,949,977	3,194,033	3,963,465	3,739,029	6,179,615	5,496,034
Fiscal charges	-	-	-	-	-	-	-	-	-	-	-
Debt issue costs	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	\$ 36,940,862	\$ 42,439,859	\$ 53,219,634	\$ 56,936,006	\$ 49,718,181	\$ 51,903,086	\$ 53,160,973	\$ 52,295,918	\$ 50,323,547	\$ 57,927,869	\$ 61,113,177
Excess of revenues over (under) expenditures	(7,569,168)	(9,444,167)	(24,256,303)	(17,458,071)	(8,823,223)	(10,308,430)	(8,670,361)	(5,609,952)	8,149,645	4,216,730	(20,327,469)
<b>Other Financing Sources (Uses)</b>											
Bonds issued	\$ 2,075,000	\$ 21,000,000	\$ 17,750,000	\$ 18,000,000	\$ 20,187,406	\$ -	\$ 17,000,000	\$ 44,740,000	\$ 30,685,000	\$ -	\$ 19,000,000
Refunding bonds issued	-	-	-	-	-	1,066,956	-	-	-	-	-
Debt issue costs	(9,975,000)	14,900	-	-	-	-	-	-	-	-	(408,813)
Payments to escrow agent	-	-	-	-	-	-	-	-	(31,082,935)	-	-
Premium on bond issuance	92,878	-	-	-	-	-	-	-	860,673	-	-
Refund of debt	11,180,000	-	-	-	-	-	92,496	(10,665,000)	-	-	303,961
EMS bad debt write off	-	-	-	-	-	-	-	(649,108)	-	-	-
Capital leases	-	540,392	-	111,047	800,881	-	-	-	-	-	-
Transfers in	12,510,827	11,239,896	13,301,516	7,001,296	6,153,410	8,909,245	8,862,368	8,762,672	11,019,688	15,762,508	24,612,718
Transfers out	(12,510,827)	(11,239,896)	(13,301,516)	(7,001,296)	(6,153,410)	(8,909,245)	(8,862,368)	(8,762,672)	(11,019,688)	(15,762,508)	(24,612,718)
Total other financing sources (uses)	\$ 3,372,878	\$ 21,565,292	\$ 17,750,000	\$ 18,111,047	\$ 20,187,406	\$ 1,957,537	\$ 17,092,496	\$ 33,125,882	\$ 482,738	\$ -	\$ 18,895,136
Net change in fund balances	\$ (4,198,200)	\$ 12,111,126	\$ (6,506,303)	\$ 652,976	\$ 11,364,193	\$ (8,350,893)	\$ 8,422,145	\$ 27,515,940	\$ 8,612,393	\$ 4,210,730	\$ (1,432,351)
Debt service as a percentage of non-capital expenditures	18.1%	18.8%	17.0%	51.5%	18.4%	23.8%	24.7%	22.7%	24.7%	26.9%	26.3%

**Notes:** <sup>1</sup>Property Tax Reassessments performed in 2004 and 1999.  
<sup>2</sup>Starting in 2005, the Town executed a contract with Palmetto Electric for the underground burial of electrical cable and began receiving franchise fees to help offset the associated costs billed to the Town for burial of existing cable. With the exception of this franchise agreement which terminates upon completion of the burial project for existing cable, all remaining licenses, permits, and fees are considered charges for service.

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

<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
2007	19,290,776	6,168,555	5,108,528	30,567,859
Change 1997-2007	61.4%	136.8%	N/A	109.9%

**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	7,368,582,517	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%
2007	2006	805,913,661	15,508,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	19.00	5.26%

**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 <sup>a</sup>				Special Purpose and Fire Districts	Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts <sup>1</sup>			
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	
2007	2006	12.33	0.85	5.82	19.00	108.70	49.10	6.75	-	183.55	

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

<sup>a</sup>Overlapping 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.

<sup>1</sup>Water 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 2006			Tax Year 1997		
	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	\$ 18,425,470	1	2.19%	\$ 1,128,639	2	0.38%
Palmetto Electric Co-op	6,902,501	2	0.82%	1,308,190	1	0.44%
Columbia Properties Hilton Head, LLC <sup>a</sup>	3,939,414	3	0.47%	-	-	-
Sea Pines Resort, LLC	3,798,538	4	0.45%	172,889	9	0.06%
Hargray Telephone Company Inc	3,788,107	5	0.45%	1,121,846	3	0.37%
SCG Hilton Head Property, LLC	3,692,358	6	0.44%	-	-	-
Greenwood Development	3,411,004	7	0.41%	637,973	4	0.21%
Hilton Head Health System, LP	1,928,215	8	0.23%	-	-	-
PVI Shelter Cove Limited	1,500,000	9	0.18%	-	-	-
Heritage Golf Port Royal, LLC	1,179,490	10	0.14%	-	-	-
Dunes Motel	-	-	-	460,467	5	0.15%
Westin Hilton Head Limited P/S	-	-	-	378,062	6	0.13%
Melrose Group Ltd	-	-	-	229,223	7	0.08%
Holiday Inns	-	-	-	220,921	8	0.07%
Hilton Head Plantation	-	-	-	39,833	10	0.01%
<b>Total</b>	<b>\$ 48,565,097</b>		<b>5.77%</b>	<b>\$ 5,698,043</b>		<b>1.89%</b>

Source: Beaufort County

<sup>a</sup> 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,	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
1998	\$ 12,503,106	\$ 12,430,737	99.42%	\$ 11,724	\$ 12,442,461	99.51%
1999	13,427,851	12,941,343	96.38%	29,497	12,970,840	96.60%
2000	13,831,658	13,715,875	99.16%	84,510	13,800,385	99.77%
2001	14,765,582	14,393,034	97.48%	155,780	14,548,814	98.53%
2002	15,076,350	14,922,100	98.98%	11,966	14,934,066	99.06%
2003	15,512,366	15,252,669	98.33%	96,341	15,349,010	98.95%
2004	16,477,626	15,781,384	95.77%	511,788	16,293,172	98.88%
2005	21,975,474	20,865,069	94.95%	737,480	21,602,549	98.30%
2006	19,185,925	18,774,952	97.86%	266,679	19,041,631	99.25%
2007	19,743,275	19,014,954	96.31%	275,822	19,290,776	97.71%

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%
2007	0%	1%	6%

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

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

Fiscal Year	General Obligation Bonds		Revenue Bonds		Bond Anticipation Notes		Certificates of Participation		Capital Leases		Total	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
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					
2007	67,460,000	51,565,000	-	7,955,000	67,140	127,047,140	10.09%	3,755					

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

<sup>a</sup>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**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Exempt from Debt Limit</b>	<b>Total Net</b>	<b>Percentage of Actual Taxable Value<sup>a</sup> of Property</b>	<b>Per Capita<sup>b</sup></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
2007	67,460,000	53,280,000	14,180,000	0.09%	419

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

<sup>a</sup>See Schedule 7 for property value data.

<sup>b</sup>See 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, 2007  
 (dollars in thousands)

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable<sup>a</sup></u>	<u>Estimated Share of Direct and Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Beaufort County School District	\$ 272,825,000	51%	\$ 139,140,750
Beaufort County General Obligation Debt	141,670,000	51%	72,251,700
Broad Creek Public Service District	6,355,000	100%	6,355,000
<b>Subtotal, overlapping debt</b>			<b><u>217,747,450</u></b>
<b>Town direct debt</b>			<b>71,240,000</b>
<b>Total direct and overlapping debt</b>			<b><u>\$ 288,987,450</u></b>

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.

<sup>a</sup>For 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, 2007)	\$ 814,954
Debt Limit (8% of assessed value)	65,196 <sup>a</sup>
Debt applicable to limit:	
General obligation bonds:	
1996A	\$ 505
1996B	2,970
1999B	5,485
2004B	5,220
Total net debt applicable to limit	14,180
Legal Debt Margin (without a Referendum)	\$ 51,016

	Fiscal Year										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 23,047	\$ 24,056	\$ 35,221	\$ 36,280	\$ 36,487	\$ 38,051	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196
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	14,180
Legal debt margin	10,192	6,726	11,201	14,125	16,137	18,671	18,974	21,402	47,561	50,012	51,016
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%	21.75%

**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 votes 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.

<sup>a</sup> Town Council imposed an eighty percent (80%) cap on the debt limit in 2007. With this cap, the debt limit for 2007 cannot exceed \$52,157,056.

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

**Hospitality Tax Bonds**

<b>Fiscal Year</b>	<b>Collections</b>	<b>Debt Service</b>			<b>Coverage</b>
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
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
2007	5,108,528	305,000	448,970	753,970	6.78

**Stormwater Revenue Bonds**

<b>Fiscal Year</b>	<b>Collections</b>	<b>Debt Service</b>			<b>Coverage</b>
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
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
2007	1,351,871	535,000	712,708	1,247,708	1.08

**Tax Increment Bonds**

<b>Fiscal Year</b>	<b>Collections</b>	<b>Debt Service</b>			<b>Coverage</b>
		<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
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
2007	3,985,064	710,000	294,112	1,004,112	3.97

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

<b>Calendar Year</b>	<b>Population</b>	<b>Personal Income (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Annual Unemployment Rate</b>
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%
2006	33,838	1,259,180	37,212	4.3%

**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
Sea Pines Resort, LLC	450
Crowns Plaza Resort	430
Palmetto Dunes	330
The Cypress of Hilton Head	310
Harris Teeter Stores	200
Wal-mart Stores	200

**Source:** Beaufort County Chamber of Commerce. Information for the past ten years not available.  
new source: Chamber top employees list is dated 2003: used data from the Greater Beaufort-Hilton Head Economic Partnership, Inc.

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	2007
General Government											
Town Council	7.0	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	4.0
Human Resources	7.0	8.0	8.0	8.0	4.0	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	17.0
Administration	8.0	8.0	7.5	7.5	22.0	22.5	23.0	23.0	23.0	23.0	23.5
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	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	17.0
Public Safety											
Fire & Rescue	140.0	136.0	136.0	137.5	137.5	139.5	143.0	143.0	144.0	144.5	145.3
Police Services <sup>a</sup>	-	-	-	-	-	-	-	-	-	-	-
Public Projects & Facilities	13.0	14.0	15.0	15.0	18.0	18.0	18.0	19.0	19.0	19.0	19.8
Total	230.0	231.0	234.5	238.0	243.5	244.0	249.0	250.0	252.5	253.0	256.6

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).

<sup>a</sup>The 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	2007
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	5,409
Business license inspections	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20	360	546
Business license audits	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	50	101	55
Hospitality tax accounts	n/a	n/a	n/a	355	344	445	408	394	409	411	357
Bed tax accounts	n/a	n/a	n/a	233	250	247	353	542	649	701	675
Beach passes issued	n/a	n/a	421	1,322	1,537	2,306	1,478	3,007	3,052	2,116	2,729
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	9,366
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	9,123
Number of search warrants issued	14	8	5	17	42	26	11	15	24	15	16
Number of arrest warrants issued	722	576	441	595	632	569	554	493	547	477	437
Number of bench warrants issued	123	129	138	209	409	569	818	777	1,333	801	531
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	18,146
Building permits issued	n/a	n/a	n/a	544	467	466	351	410	449	440	168
Miscellaneous permits issued	n/a	n/a	n/a	2,586	2,481	2,780	2,867	3,213	3,100	3,146	4,233
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	6,030
Actual fires extinguished	123	160	196	140	145	139	131	141	151	147	139
Inspections	1044	1,021	1,420	1,945	1,945	2,010	2,475	2,244	2,338	2,271	2,357
Telephone requests	n/a	n/a	n/a	n/a	n/a	n/a	54,445	55,866	45,878	55,584	73,475
Public training programs	n/a	n/a	n/a	250	287	291	312	344	341	366	687
Public Projects & Facilities											
# of capital improvement projects to manage	41	37	46	46	44	51	51	57	53	84	76
# of beach access/parks to maintain	5	6	6	6	6	6	6	6	7	8	8
Miles of pathways to maintain	13.5	22	22	23	29	32	32	32	50	51	51
Maintenance work orders	233	267	308	377	416	452	637	1,368	2,119	2,373	2,517

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	2007
General Government											
Town-owned parcels	n/a	n/a	n/a	60	87	92	97	100	106	113	113
Town-owned property acreage	n/a	n/a	n/a	886	1,049	1,081	1,087	1,108	1,126	1,142	1,142
Management Services											
Town vehicles	37	33	33	38	34	34	36	37	41	39	38
Public Safety											
Emergency Apparatus Vehicles	17	21	22	25	25	27	28	25	24	24	24
Police Vehicles	43	48	48	41	41	33	27	26	0	0	0
General Vehicles	19	19	19	20	15	20	19	18	17	19	22
Fire Stations	6	6	6	6	6	6	6	6	7	7	7
Public Projects & Facilities*											
Traffic signals	18	19	19	21	21	21	21	22	22	22	22
Pathways (miles)	15	22	24	24	29	32	32	32	50	50	51
Beach access/parks	4	4	5	5	5	5	5	5	7	7	8

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 though 1999.

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

\* All Town roads are deeded to Beaufort County



## **Supplemental Financial Information**

**Schedule 22**  
**Town of Hilton Head Island, SC**  
**Municipal Fines, Assessments and Surcharges**  
**Year Ended June 30, 2007**

**Court Fines**

Court fines collected	\$ 396,243
Court fines retained by the Town	<u>396,243</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>

**Court Assessments**

Court assessments collected	\$ 425,082
Court assessments retained by the Town	<u>47,118</u>
Court assessments remitted to the State Treasurer	<u><u>377,964</u></u>

**Court Surcharges**

Court surcharges collected	\$ 173,124
Court surcharges retained by the Town	<u>23,069</u>
Court surcharges remitted to the State Treasurer	<u><u>150,055</u></u>

**Victims Services**

Court assessments allocated to victim services	\$ 47,118
Victim Services expenditures	<u>51,220</u>
Funds available for carryforward	<u><u>(4,102)</u></u>

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

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

We have audited the financial statements of the Town of Hilton Head Island, South Carolina (the Town) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 27, 2007. 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 Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely 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 those specified parties.

*Elliott Davis, LLC*

Columbia, South Carolina  
November 27, 2007

