

# *Town of Hilton Head Island, South Carolina* **Comprehensive Annual Financial Report**



**Fiscal Year Ended  
June 30, 2009  
Finance Department**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**



**Fiscal Year Ended June 30, 2009**

**Prepared by the Finance Department**

**Town of Hilton Head Island, South Carolina  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2009**

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# **Introductory Section**



## **Transmittal Letter**

For The Fiscal Year Ended June 30, 2009  
The Town of Hilton Head Island, South Carolina

December 1, 2009

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

The Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina, (the Town) for the fiscal year ended June 30, 2009, is submitted in accordance with South Carolina Code Ann., Section 5-7-240 that requires an annual audit of the books of account and financial records of the Town. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

In relation to the Town of Hilton Head Island's financial statements being presented fairly and in accordance with generally accepted accounting principles, ElliottDavis, LLC, has issued an unqualified ("clean") opinion for the year ended June 30, 2009. The independent auditor's report is located at the front of the financial section of this report.

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

### ***Town of Hilton Head Island Profile***

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

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

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

**Local Economy**

Tourism is the largest "industry" in the Island's economy. There are approximately 2.5 million visitors annually. It hosts a major sports event in the Verizon Heritage golf tournament. The Island has established world-class accommodations. The peak summer population is approximately 250,000.

Overall the economy remains sluggish. For fiscal year 2008 total gross taxable sales were \$1.43 billion compared to \$1.48 billion for fiscal year 2007 for Hilton Head Island. Between fiscal years 2007 and 2008 gross taxable sales for Hilton Head Island declined by \$49.5 million or 3.3%. For Beaufort County gross taxable sales declined by \$53.4 million or 1.3% for the same time period. Gross taxable sales for Hilton Head Island were 36% of all gross taxable sales within the County during the previous fiscal year.

<b>Fiscal Year</b>	<b>Hilton Head Island</b>	<b>Beaufort County</b>	<b>HHI as a % of BC</b>
2004-2005	\$ 1,405,620,342	\$ 3,555,090,040	39.5%
2005-2006	1,488,937,859	3,887,259,912	38.3%
2006-2007	1,482,619,035	4,058,389,971	36.5%
2007-2008	1,433,153,280	4,004,958,326	35.8%

Source SC Depart of Revenue Annual Reports [http://www.sctax.org/Publications/default.htm#annual\\_report](http://www.sctax.org/Publications/default.htm#annual_report)

**Long Term Financial Planning**

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

### Adopted Financial Policies

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

### Financial Resource Planning

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

### Multi-Year Operating Budget Planning

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

### Capital Improvement Project Planning

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

### Debt Management

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

The Town's credit ratings on its outstanding bonds are Aa<sup>1</sup>, AA+, AA, from the three major credit ratings agencies, Moody's Investor Service, Standard and Poor's Rating Group, and Fitch Ratings, respectively. These ratings reinforce confidence in our efforts to maintain a fiscally sound operation through uncertain economic times.

### ***Major Initiatives***

In Fiscal Year 2009 the Town implemented an expenditure reduction plan (savings plan) in an effort to offset an anticipated \$2.2 million shortfall in revenues. The results of that effort were quite successful. The savings plan anticipated that at fiscal year-end there would be a \$1.2 million shortfall. Through higher than anticipated revenues and further reductions in expenditures that figure was significantly reduced to \$412,362.

### ***Awards and Acknowledgements***

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hilton Head Island for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the nineteenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the GFOA Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2008. It was the third year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

The preparation of this report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. I would like to express my appreciation to Steven Markiw, Deputy Director of Finance, and Victoria Shanahan, Accounting Manager, who assisted and contributed to its preparation.

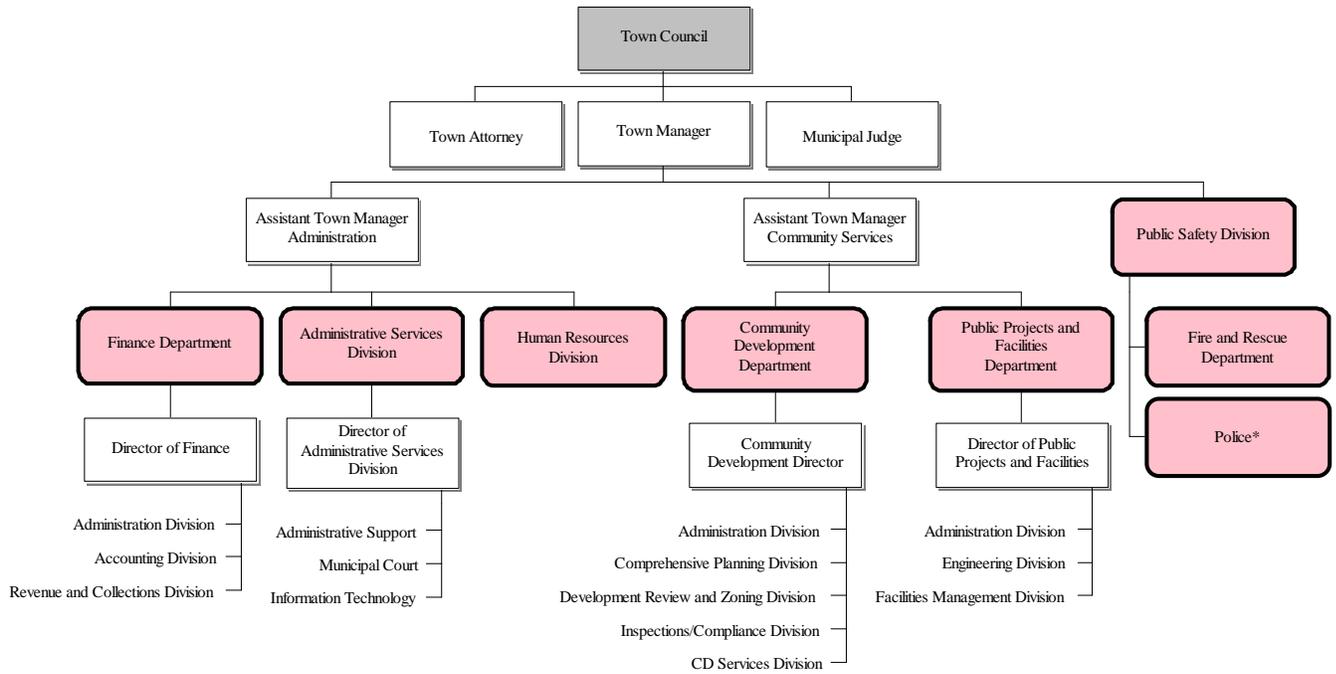
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully submitted,

A handwritten signature in cursive script that reads "Susan M. Simmons".

Susan Simmons  
Director of Finance

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
ORGANIZATIONAL CHART**



\* Service not directly provided by the Town.



## **TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA 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

William D. Harkin

George W. Williams, Jr.

Drew A. Laughlin

### **Administrative Staff**

Stephen G. Riley, Town Manager

Gregory D. Deloach, Assistant Town Manager Administration

Curtis Coltrane, Assistant Town Manager Community Services

Susan Simmons, Director of Finance

Charles F. Cousins, Director of Community Development

Scott Liggett, Director of Public Projects and Facilities

Lavarn Lucas, Fire Chief



# 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, 2008

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

# **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, 2009, 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, 2009, and the respective changes in financial position thereof and the respective budgetary comparisons of the general 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 30, 2009, 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 30, 2009

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

This section of the Town of Hilton Head Island's annual financial report represents its discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2009.

**FINANCIAL HIGHLIGHTS**

- At the close of fiscal year 2009 the assets of the Town exceeded liabilities by \$165,349,096. This represents an increase in net assets of \$7.1 million over the previous fiscal year.
- The array of services provided by the Town during fiscal year 2009 was consistent with 2008; General Fund revenues (excluding revenue transfers in from other funds) decreased by \$1.1 million while expenditures increased by \$373,537 over the previous fiscal year. The decline in revenues can be attributed to the overall downturn in the economy. To offset the shortfall in General Fund revenues transfers of revenue into the General Fund from other funds increased by \$1.3 million over the previous fiscal year.

In January of this year, it was anticipated the General Fund could face a potential shortfall of \$2.7 million by fiscal year-end. The Town Manager directed departments to reduce their spending, and as a result, the estimated shortfall was reduced to \$1.2 million. At fiscal year-end, the General Fund reported a net decrease in fund balance of \$412,362. The difference between the estimated \$1.2 million shortfall and the fiscal year-end actual shortfall of \$412,362 can be attributed to the Town receiving approximately \$504,000 more in revenues as well as an additional \$402,459 reduction in expenditures. Last fiscal year the year-end shortfall was \$215,125.

- The Town's debt service costs increased by \$3.4 (excluding other financing uses) million over the previous fiscal year. The increase is due to the issuance of tax increment financing (TIF) bonds in the previous fiscal year.
- Expenditures in the Capital Projects Fund were \$27.2 million (excludes revenue transfers out to other funds) this fiscal year versus \$24.0 million last fiscal year. Funding of capital projects and equipment purchases has been reduced due to less revenue being available.
- Investment income was \$1.6 million less than the previous fiscal year. The decline in revenue from this source can be attributed to lower interest rates on investments as well as a reduced amount of Town funds to invest.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Town's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town, reporting the Town's operations in more detail than the government-wide statements.

- The governmental funds statements tell how basic services such as public safety and facilities maintenance were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Town's budget for the year.

**Government-wide Financial Statements:** The government-wide statements report information about the Town as a whole using accounting methods similar to those by private-sector companies. The government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting. They present government activities and include all assets of the Town (including infrastructure) as well as all liabilities (including long-term debt).

The two government-wide statements report the Town's net assets and how they have changed. Net assets—the difference between the Town's assets and liabilities—is one way to measure the Town's financial health or financial position.

- Over time, increases or decreases in the Town's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Town's overall health, one should consider additional non-financial factors such as changes in the Town's property tax base and the condition of the Town's infrastructure and other facilities.

In the statement of net assets and the statement of activities all activities of the Town have been classified as governmental. The major activities are described as follows:

Governmental activities – All of the Town's basic services are reported in this category, including general government, management services, planning, building and fire codes, culture and recreation, visitor and convention bureau, and other administrative functions. Property taxes and fees, tourism related fees and taxes, business licenses, and permits are the major financing sources for these activities.

**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 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.

The Town maintains nine governmental funds. Seven are classified as major funds: General Fund, Tax Increment Financing (TIF) 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 Non-major Governmental Funds.

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

**The Town as an Agent:** The Town is an agent, or fiduciary, for certain funds held on behalf of the Town’s firemen. The activity associated with this fund is excluded from the Town’s financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

### FINANCIAL ANALYSIS OF THE TOWN

The downturn in the economy continues to have an adverse impact on revenues received by the Town but varies depending on the revenue stream.

#### **Real Estate**

Real estate related revenues, construction permits, and real estate transfer fees, are approximately 36% less than the previous fiscal year.

	<u>RETF</u>			<u>Construction Permits</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2008	2,940,426			1,256,773			4,197,199		
FY 2009	1,848,993	(1,091,433)	-37%	853,962	(402,811)	-32%	2,702,955	(1,494,244)	-36%

#### **Tourism**

Revenue from tourism-driven revenues such as accommodations taxes, beach preservation fees, and hospitality taxes have declined. Revenues from these sources are approximately 8% less than the previous fiscal year.

	<u>ATAX/ Beach Preservation Fees</u>			<u>Hospitality Tax</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2008	11,039,139			5,232,837			16,271,976		
FY 2009	10,220,816	(818,323)	-7%	4,826,318	(406,519)	-8%	15,047,134	(1,224,842)	-8%

#### **Review of the Statement of Net Assets**

Cash and cash equivalents declined by \$19.5 million. Major changes are as follows:

- The General Fund cash and cash equivalents declined by \$4.3 million. This is primarily due to approximately \$7.0 million being moved to restricted cash because it is invested in certificates of deposit.
- The Real Estate Transfer Fee Fund cash and cash equivalents declined by \$4.5 million due to the Town receiving \$1.1 million less revenue from this source as a result of the overall downturn in the real estate market and cash on hand being expended for the Town’s land acquisition program.

- The Hospitality Tax Fund cash and cash equivalents declined by \$5.4 million due to the Town receiving \$406,519 less revenue from this source as a result of the slowdown in the tourism industry and increased capital assets expenditures for public safety buildings and equipment.
- The Beach Preservation Fees Fund cash and cash equivalents declined by \$1.7 million due to the Town receiving approximately \$425,000 less revenue from this source as a result of the slowdown in the tourism industry and increased expenditures for a shoreline erosion study and a facilities management building.

Restricted cash and cash equivalents, major changes are as follows:

- The Capital Projects Fund restricted cash and cash equivalents declined by \$11.2 million. The Town used \$2.5 million of general obligation bond funds, \$3.2 of hospitality tax bond funds, and \$5.5 million of (TIF) bond funds to pay for capital expenditures incurred during the fiscal year.

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 \$114.3 million (69.1%) and \$98.7 million (62.3%), less any related debt used to acquire those assets that is still outstanding, for fiscal years 2009 and 2008, 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, \$23.6 million (14.3%) for fiscal year 2009 and \$25.2 million (15.9%) for fiscal year 2008 represent resources that are subject to restrictions on how they may be used.

The remaining balance of unrestricted net assets for fiscal years 2009 and 2008, \$27.4 million (16.6%) and \$34.4 million (21.8%), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

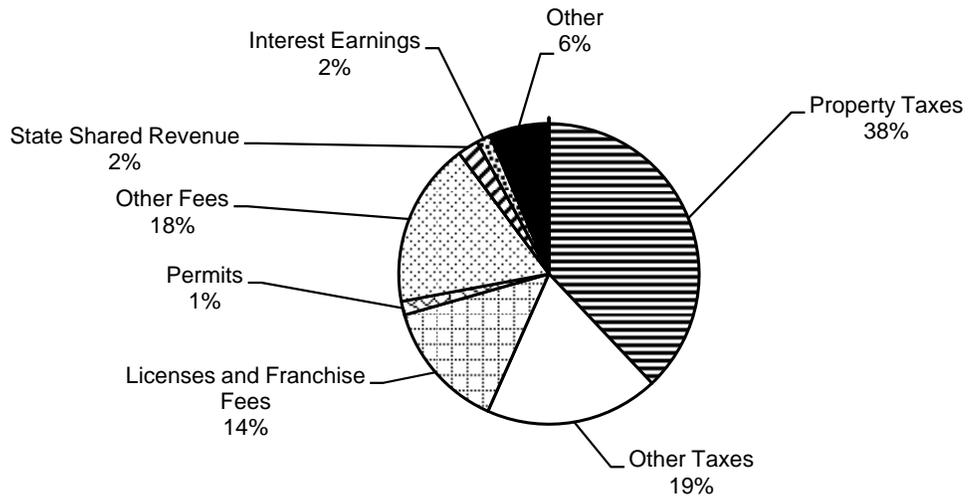
### Statement of Net Assets

	Governmental		Total
	Activities		Percentage
	2009	2008	Change
Current and other assets	\$ 69,247,684	\$ 93,485,514	-25.9%
Capital assets	231,308,872	212,733,198	8.7%
Total assets	<u>300,556,556</u>	<u>306,218,712</u>	<u>-1.8%</u>
Current liabilities	20,011,747	20,498,772	-2.4%
Long term liabilities outstanding	115,195,713	127,457,089	-9.6%
Total liabilities	<u>135,207,460</u>	<u>147,955,861</u>	<u>-8.6%</u>
Net assets:			
Invested in capital assets, net of related debt	114,310,240	98,661,331	13.7%
Restricted	23,590,106	25,168,338	-6.7%
Unrestricted	27,448,750	34,433,182	-25.4%
Total net assets	<u>\$ 165,349,096</u>	<u>\$ 158,262,851</u>	<u>4.5%</u>

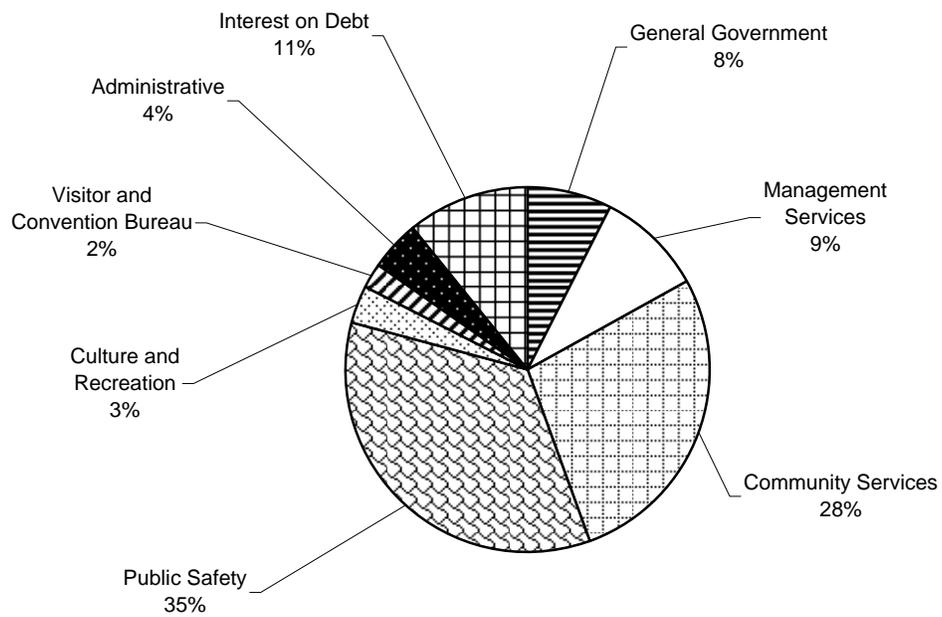
### Changes in Net Assets

	Governmental Activities		Total Percentage Change
	2009	2008	
<b>Program Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 18,200,429	\$ 20,807,305	-12.5%
Operating Grants and Contributions	130,796	152,140	-14.0%
Capital Grants and Contributions	52,525	61,843	-15.1%
General Revenues:			
Property taxes	21,993,646	19,859,692	10.7%
Other Taxes	10,836,674	11,637,286	-6.9%
Other	6,783,895	8,641,609	-21.5%
Total revenues	<u>57,997,965</u>	<u>61,159,875</u>	<u>-5.2%</u>
<b>Program Expenses:</b>			
General Government	3,823,670	3,777,076	1.2%
Management Services	4,747,193	4,099,915	15.8%
Community Services	14,003,774	18,498,051	-24.3%
Public Safety	17,717,708	17,528,471	1.1%
Culture and Recreation	1,697,468	1,718,815	-1.2%
Visitor and Convention Bureau	1,150,446	1,218,032	-5.5%
Administrative	2,204,684	2,884,106	-23.6%
Interest on long-term debt	5,566,777	5,669,171	-1.8%
Other Charges	-	235,742	-100.0%
Total expenses	<u>50,911,720</u>	<u>55,629,379</u>	<u>-8.5%</u>
Increase in net assets	7,086,245	5,530,496	28.1%
Net assets, beginning (as previously reported)	158,262,851	153,381,493	3.2%
Prior period adjustment	-	(649,138)	0.0%
Net assets, beginning (as restated)	<u>158,262,851</u>	<u>152,732,355</u>	<u>3.6%</u>
Net assets, June 30	<u>\$ 165,349,096</u>	<u>\$ 158,262,851</u>	<u>4.5%</u>

### Revenues for Fiscal 2009



### Expenses for Fiscal Year 2009



## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

The **General Fund**, which is the primary operating fund of the Town, recognized \$25.5 (excluding revenue transfers in from other funds) million in total revenues and \$5.5 million in other financing sources offset with \$31.3 million in expenditures. This resulted in expenditures exceeding revenues and other financing sources by \$412,362. Fund Balance at the beginning of the year was \$16.3 million and, when combined with the current year, resulted in an end of year Fund Balance of \$15.9 million. Of this amount, \$15.7 million is unreserved fund balance which represents 50.1% of the Town's present expenditure levels.

The **Tax Increment Financing District Fund (TIF)** recognized \$5.9 million in total revenues offset with \$4.3 million in other financing uses related to debt service payments and capital expenditures. This resulted in revenues exceeding expenditures and other financing uses by \$1.5 million. Fund Balance at the beginning of the year was \$2.0 million and, when combined with the current year, resulted in an end of year Fund Balance of \$3.6 million.

The favorable variance is primarily due to the increased participation in the TIF by the Beaufort County School District.

The **Accommodations Tax Fund** recognized \$3.9 million in total revenues offset with \$2.9 million in expenditures and \$1.3 million in other financing uses. This resulted in expenditures exceeding revenues by \$240,291. Fund Balance at the beginning of the year was \$1.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.3 million.

The **Real Estate Transfer Fee Fund** recognized \$1.9 million in total revenues offset with \$18,490 in expenditures and \$5.4 million in other financing uses. This resulted in expenditures exceeding revenues by \$3.6 million. Fund Balance at the beginning of the year was \$6.1 million and, when combined with the current year, resulted in an end of year Fund Balance of \$2.5 million.

The **Beach Preservation Fee Fund** recognized \$4.5 million in total revenues offset with \$7.0 million in other financing uses. This resulted in other financing uses exceeding revenues by \$2.5 million. Fund Balance at the beginning of the year was \$17.0 million and, when combined with the current year, resulted in an end of year Fund Balance of \$14.6 million.

The **Debt Service Fund** recognized \$4.9 million in total revenues and \$11.0 million in other financing sources offset with \$16.9 in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by \$1.0 million. Fund Balance at the beginning of the year was \$10.9 million and, when combined with the current year, resulted in an end of year Fund Balance of \$9.9 million.

The **Capital Projects Fund** recognized \$8.8 million in total revenues and \$1.6 million in other financing sources offset with \$27.2 million in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by \$16.8 million. Fund Balance at the beginning of the year was \$30.1 million and, when combined with the current year, resulted in an end of year Fund Balance of \$13.4 million. It should be noted that this was a planned drawn down of bond funds held in reserve to pay for associated capital projects.

## Revenues, Expenditures and Changes in Fund Balance—Governmental Funds

<b>2008</b>				
<u>Fund</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Fund Balance</u>	<u>Changes in Fund Balance</u>
General	\$ 30,727,937	\$ 30,943,062	\$ 16,274,131	\$ (215,125)
Tax Increment Financing	4,475,820	4,229,563	2,010,587	246,257
Accommodations Tax (State)	4,166,455	4,235,793	1,559,462	(69,338)
Real Estate Transfer Fee	3,149,867	3,654,338	6,088,337	(504,471)
Beach Preservation Fee	5,184,741	4,614,863	17,034,186	569,878
Debt Service	25,750,558	25,481,305	10,884,048	269,253
Capital Projects Fund	33,809,401	27,955,031	30,133,566	5,854,370
Other Governmental Funds	2,241,438	2,905,554	(317,087)	(664,116)

<b>2009</b>				
<u>Fund</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Fund Balance</u>	<u>Changes in Fund Balance</u>
General	\$ 30,904,237	\$ 31,316,599	\$ 15,861,769	\$ (412,362)
Tax Increment Financing	5,851,411	4,309,736	3,552,262	1,541,675
Accommodations Tax (State)	3,874,363	4,114,654	1,319,171	(240,291)
Real Estate Transfer Fee	1,891,945	5,447,773	2,532,509	(3,555,828)
Beach Preservation Fee	4,504,496	6,974,716	14,563,966	(2,470,220)
Debt Service	15,921,162	16,922,725	9,882,485	(1,001,563)
Capital Projects Fund	15,036,955	31,803,447	13,367,074	(16,766,492)
Other Governmental Funds	2,606,979	2,133,479	156,413	473,500

### GENERAL FUND BUDGETARY HIGHLIGHTS

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

The General Fund revenues were less than the revised budget by \$1.1 million. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were up \$93,400
- Local accommodations tax revenue was down \$119,044
- Business license and franchise fee revenue was down \$196,005
- Building permit revenue was down \$467,038
- State shared revenue was down \$112,989
- Grant revenue was down \$143,104
- Investment income was down \$412,931

Actual General Fund expenditures were less than the revised budget by \$2.5. The favorable variance can be primarily attributed to a mid-year reduction in operating expenditures intended to offset an anticipated shortfall in revenues.

**Original to revised expenditure budget variances:**

	Original Budget	Revised Budget	Variance
<b><u>General Fund by Function</u></b>			
General Government	\$ 1,138,390	\$ 1,157,224	\$ 18,834
Management Services	4,996,970	5,311,537	314,567
Community Services	7,065,340	7,132,850	67,510
Public Safety	17,607,280	17,680,134	72,854
Non-Departmental Townwide	2,153,810	2,078,830	(74,980)
Capital Outlay	295,210	457,452	162,242
	<b><u>\$ 33,257,000</u></b>	<b><u>\$33,818,027</u></b>	<b><u>\$ 561,027</u></b>

**CAPITAL ASSETS**

The Town's investment in capital assets for its governmental activities as of June 30, 2009 and 2008 amount to \$231 million and \$213 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:

- Acquisition of land \$5.1 million
- Acquisition of development rights \$3.0 million
- Acquisition of easement/right-of-ways \$478,678
- Apparatus and vehicle replacement \$3.4 million
- Disposal of town vehicles \$1.5 million
- Completion of the Fire and Rescue training facility \$1.9 million
- Completion of the Facilities Management building \$1.7 million
- Completion of Coligny Beach Park renovations \$1.3 million
- Widening of Mathews Drive \$2.6 million

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

	Governmental	
	Activities	
	2009	2008
Land	\$ 147,632,552	\$ 142,360,069
Development Rights	10,734,391	7,716,970
Easements/Right-of-Ways	2,897,909	2,453,098
Construction in progress	13,176,093	6,615,309
Buildings	10,407,181	10,910,736
Furniture, fixtures and equipment	646,933	525,271
Vehicles	3,878,922	681,553
Imp. other than buildings - park development	8,079,486	8,069,472
Infrastructure	33,855,405	33,400,720
<b>Total</b>	<b>\$ 231,308,872</b>	<b>\$ 212,733,198</b>

### LONG TERM OBLIGATIONS

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

The Town has an Aa<sup>1</sup> bond rating from Moody's Investor Service, AA+ bond rating from Standard and Poor's Corporation, and a AA bond rating from Fitch Ratings. These bond ratings are a clear indication of the sound financial condition of the Town.

### Outstanding Long-Term Obligations

	Governmental	
	Activities	
	2009	2008
<b>Bonds</b>		
General Obligation Bonds	\$ 59,705,000	\$ 63,680,000
Certificates of Participation	5,825,000	6,905,000
Revenue Bonds	38,940,000	41,965,000
Tax Increment Bonds	21,780,000	24,920,000
Premium on Bonds	1,053,730	1,149,855
	<b>127,303,730</b>	<b>138,619,855</b>
Compensated Absences	1,634,583	1,437,090
	<b>\$ 128,938,313</b>	<b>\$ 140,056,945</b>

## **BUDGET HIGHLIGHTS FOR FISCAL YEAR 2010**

The **General Fund's** revenues for fiscal year 2010 are budgeted at \$32.1 million, a decrease of \$1.8 million or 5.2% over the prior year's budgeted revenues. This includes the use of \$877,640 of fund balance in order to balance the budget. Revenues from Property Taxes and transfers from Accommodations Tax, Hospitality Tax, and Beach Preservation Fee, are expected to lead the increase in budgeted revenue. The Town will use these revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at \$32.1million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$10.4 million. The majority of the expenditures are budgeted for existing facilities/infrastructure which accounts for \$3.2 million or 31.2% of the capital budget with the largest component (\$2.2 million) earmarked for apparatus and vehicle replacement.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$17.4 million. There is a \$629,850 or 3.8% increase in debt service costs in fiscal year 2010.

### **Millage Rate**

The assessment rate for the fiscal year beginning July 1, 2009 on taxable property located within the Town of Hilton Head Island was adopted at 19.86 mills upon each one dollar of taxable property in the Town of Hilton Head Island. Subsequent to the adoption of the budget the roll-back millage rate of 18.54 was approved by Town Council due to property reassessments. The roll-back millage rate will have no impact on the anticipated property tax revenues the Town anticipates receiving.

## **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**

**EXHIBIT A**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
STATEMENT OF NET ASSETS  
June 30, 2009**

		<b>Governmental Activities</b>
<b><u>ASSETS</u></b>		
Cash and Cash Equivalents	\$	18,789,754
Accounts Receivable		4,107,079
Due from Employees		51,508
Due from Other Governments		2,681,120
Other Assets		2,574,755
Restricted Assets:		
Cash and Cash Equivalents		40,267,778
Investments		775,690
Capital Assets:		
Non Depreciable		174,440,945
Depreciable		56,867,927
<b>Total assets</b>		<b>300,556,556</b>
 <b><u>LIABILITIES</u></b>		
Accounts Payable		3,594,233
Payable to Hilton Head Chamber of Commerce Visitor & Convention Bureau		352,281
Accrued Payroll and Related Payables		1,144,171
Due to Other Governments		64,606
Unearned Revenue		69,854
Payable from Restricted Assets:		
Irrigation and Pool Bonds Payable		84,500
Court Bonds Payable		42,909
Performance Bonds Payable		103,766
Interest Payable		812,827
Long-Term Liabilities:		
Due within less than one year		13,742,600
Due in more than one year		115,195,713
<b>Total liabilities</b>		<b>135,207,460</b>
 <b><u>NET ASSETS</u></b>		
Invested in Capital Assets, Net of Related Debt		114,310,240
Restricted for:		
Disaster Recovery		1,707,621
Beach Renourishment		12,000,000
Debt Service		9,882,485
Unrestricted		27,448,750
<b>Total net assets</b>	<b>\$</b>	<b>165,349,096</b>

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

**EXHIBIT B**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) and Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
<b>Primary government:</b>					
Governmental activities:					
General Government	\$ 3,823,670	\$ 608,137	\$ 130,796	\$ -	\$ (3,084,737)
Management Services	4,747,193	7,459,058	-	-	2,711,865
Community Services	14,003,774	6,867,736	-	52,525	(7,083,513)
Public Safety	17,717,708	1,416,505	-	-	(16,301,203)
Culture and Recreation	1,697,468	-	-	-	(1,697,468)
Visitor and Convention Bureau	1,150,446	-	-	-	(1,150,446)
Administrative	2,204,684	1,848,993	-	-	(355,691)
Interest on Debt	5,566,777	-	-	-	(5,566,777)
Total governmental activities	<u>50,911,720</u>	<u>18,200,429</u>	<u>130,796</u>	<u>52,525</u>	<u>(32,527,970)</u>
<b>Total primary government</b>	<u>\$ 50,911,720</u>	<u>\$ 18,200,429</u>	<u>\$ 130,796</u>	<u>\$ 52,525</u>	<u>\$ (32,527,970)</u>
General revenues:					
Taxes:					
Property					21,993,646
Local Accommodations					2,150,536
State Accommodations					3,859,820
Hospitality					4,826,318
Intergovernmental (Unrestricted State Shared Revenue)					2,012,649
Investment Income					876,095
Miscellaneous					3,895,151
Total general revenues					<u>39,614,215</u>
Change in net assets					7,086,245
Net assets - beginning					158,262,851
Net assets - ending					<u>\$ 165,349,096</u>

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

**EXHIBIT C**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2009**

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>									
Cash and Cash Equivalents	\$ 6,270,243	\$ -	\$ 740,712	\$ 1,400,024	\$ 2,615,782	\$ 1,740,483	\$ 5,957,541	\$ 64,969	\$ 18,789,754
Accounts Receivable	1,237,955	-	-	-	1,365,672	-	1,393,244	110,208	4,107,079
Due from Employees	51,508	-	-	-	-	-	-	-	51,508
Interfund Receivables	2,907,054	-	-	327	-	80,155	977,325	-	3,964,861
Due from Other Governments	1,023,053	202,067	1,174,271	144,425	-	74,871	62,433	-	2,681,120
Prepaid Expenses	15,170	-	-	-	-	-	3,870	-	19,040
Restricted Assets:									
Cash and Cash Equivalents	7,100,566	3,606,602	-	1,000,000	12,000,000	7,211,613	9,326,332	22,665	40,267,778
Investments	-	-	-	-	-	775,690	-	-	775,690
<b>Total assets</b>	<b>\$ 18,605,549</b>	<b>\$ 3,808,669</b>	<b>\$ 1,914,983</b>	<b>\$ 2,544,776</b>	<b>\$ 15,981,454</b>	<b>\$ 9,882,812</b>	<b>\$ 17,720,745</b>	<b>\$ 197,842</b>	<b>\$ 70,656,830</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts Payable	\$ 1,214,149	\$ -	\$ 55,784	\$ -	\$ -	\$ -	\$ 2,305,145	\$ 19,155	\$ 3,594,233
Accrued Payroll and Employee Payable	1,144,171	-	-	-	-	-	-	-	1,144,171
Due to Other Governments	64,606	-	-	-	-	-	-	-	64,606
Interfund Payables	80,155	256,407	187,747	12,267	1,417,488	327	2,010,470	-	3,964,861
Deferred Revenue	9,524	-	-	-	-	-	38,056	22,274	69,854
Payable from restricted assets:									
Irrigation and Pool Bonds Payable	84,500	-	-	-	-	-	-	-	84,500
Court Bonds Payable	42,909	-	-	-	-	-	-	-	42,909
Performance Bonds Payable	103,766	-	-	-	-	-	-	-	103,766
Payable to Hilton Head Chamber of Commerce Visitor and Convention Bureau	-	-	352,281	-	-	-	-	-	352,281
<b>Total liabilities</b>	<b>2,743,780</b>	<b>256,407</b>	<b>595,812</b>	<b>12,267</b>	<b>1,417,488</b>	<b>327</b>	<b>4,353,671</b>	<b>41,429</b>	<b>9,421,181</b>
<b>Fund balances:</b>									
<b>Reserved:</b>									
Encumbrances	164,731	-	309,671	-	-	-	3,620,256	-	4,094,658
Debt Service	-	-	-	-	-	9,882,485	-	-	9,882,485
Land Acquisition Bond	-	-	-	-	-	-	4,470,853	-	4,470,853
2002 Stormwater Bond	-	-	-	-	-	-	351,679	-	351,679
<b>Unreserved:</b>									
Designated for Disaster Recovery	1,707,621	-	-	-	-	-	-	-	1,707,621
Designated for Beach Renourishment	-	-	-	-	12,000,000	-	-	-	12,000,000
Undesignated	13,989,417	3,552,262	1,009,500	2,532,509	2,563,966	-	4,924,286	-	28,571,940
Reported in non-major:									
Special Revenue (deficit)	-	-	-	-	-	-	-	156,413	156,413
<b>Total fund balances</b>	<b>15,861,769</b>	<b>3,552,262</b>	<b>1,319,171</b>	<b>2,532,509</b>	<b>14,563,966</b>	<b>9,882,485</b>	<b>13,367,074</b>	<b>156,413</b>	<b>61,235,649</b>
<b>Total liabilities and fund balances</b>	<b>\$ 18,605,549</b>	<b>\$ 3,808,669</b>	<b>\$ 1,914,983</b>	<b>\$ 2,544,776</b>	<b>\$ 15,981,454</b>	<b>\$ 9,882,812</b>	<b>\$ 17,720,745</b>	<b>\$ 197,842</b>	<b>\$ 70,656,830</b>

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

**EXHIBIT D**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2009**

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

Ending fund balance - governmental funds	\$ 61,235,649
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	231,308,872
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,569,720
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	985,995
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(812,827)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(128,938,313)</u>
Net assets of governmental activities	<u>\$ 165,349,096</u>

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

**EXHIBIT E**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2009**

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
<b>Revenues:</b>									
Real and Personal Property Taxes	\$ 10,715,950	\$ 5,833,846	\$ -	\$ -	\$ -	\$ 4,734,076	\$ 709,774	\$ -	\$ 21,993,646
Accommodations Tax	2,150,536	-	3,859,820	-	-	-	-	-	6,010,356
Hospitality Tax	-	-	-	-	-	-	4,826,318	-	4,826,318
Business Licenses and Franchise Fees	8,067,195	-	-	-	-	-	-	-	8,067,195
Permits	853,962	-	-	-	-	-	-	-	853,962
<b>Other Fees:</b>									
Impact	-	-	-	-	-	-	43,071	-	43,071
Real Estate Transfer	-	-	-	1,848,993	-	-	-	-	1,848,993
Beach Preservation	-	-	-	-	4,210,460	-	-	-	4,210,460
Electric Franchise	-	-	-	-	-	-	-	2,606,971	2,606,971
Stormwater	-	-	-	-	-	-	1,572,183	-	1,572,183
State Shared Funds	1,054,891	-	-	-	-	-	254,500	-	1,309,391
Donations	6,125	-	-	-	-	-	8,500	-	14,625
Grants	130,796	-	-	-	-	-	52,525	-	183,321
Miscellaneous Revenue	2,384,142	-	-	-	-	-	1,132,151	-	3,516,293
Investment Income	87,069	17,565	14,543	42,952	294,036	206,739	213,183	8	876,095
<b>Total revenues</b>	<b>25,450,666</b>	<b>5,851,411</b>	<b>3,874,363</b>	<b>1,891,945</b>	<b>4,504,496</b>	<b>4,940,815</b>	<b>8,812,205</b>	<b>2,606,979</b>	<b>57,932,880</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General Government	1,100,621	-	-	-	-	-	-	-	1,100,621
Management Services	4,563,007	-	-	-	-	-	-	-	4,563,007
Community Services	6,157,872	-	-	-	-	-	372,290	-	6,530,162
Public Safety	16,836,081	-	-	-	-	-	-	-	16,836,081
Non-Departmental	2,397,182	-	-	-	-	-	-	-	2,397,182
Accommodations Tax Grants	-	-	1,697,468	-	-	-	-	-	1,697,468
Visitor and Convention Bureau	-	-	1,150,446	-	-	-	-	-	1,150,446
Administrative	-	-	-	18,490	-	23,535	-	2,046,260	2,088,285
Capital Outlay	261,836	-	-	-	-	-	26,788,868	-	27,050,704
<b>Debt Service:</b>									
Principal	-	-	-	-	-	11,220,000	-	-	11,220,000
Interest	-	-	-	-	-	5,679,190	-	1,315	5,680,505
<b>Total expenditures</b>	<b>31,316,599</b>	<b>-</b>	<b>2,847,914</b>	<b>18,490</b>	<b>-</b>	<b>16,922,725</b>	<b>27,161,158</b>	<b>2,047,575</b>	<b>80,314,461</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(5,865,933)</b>	<b>5,851,411</b>	<b>1,026,449</b>	<b>1,873,455</b>	<b>4,504,496</b>	<b>(11,981,910)</b>	<b>(18,348,953)</b>	<b>559,404</b>	<b>(22,381,581)</b>
<b>Other financing sources (uses):</b>									
Other Financing Sources	-	-	-	-	-	-	65,084	-	65,084
Other Financing Uses	-	-	-	-	-	-	(115,084)	-	(115,084)
Transfers In	5,453,571	-	-	-	-	10,980,347	6,159,666	-	22,593,584
Transfers Out	-	(4,309,736)	(1,266,740)	(5,429,283)	(6,974,716)	-	(4,527,205)	(85,904)	(22,593,584)
<b>Total other financing sources (uses)</b>	<b>5,453,571</b>	<b>(4,309,736)</b>	<b>(1,266,740)</b>	<b>(5,429,283)</b>	<b>(6,974,716)</b>	<b>10,980,347</b>	<b>1,582,461</b>	<b>(85,904)</b>	<b>(50,000)</b>
<b>Net change in fund balances</b>	<b>(412,362)</b>	<b>1,541,675</b>	<b>(240,291)</b>	<b>(3,555,828)</b>	<b>(2,470,220)</b>	<b>(1,001,563)</b>	<b>(16,766,492)</b>	<b>473,500</b>	<b>(22,431,581)</b>
<b>Fund balance - beginning</b>	<b>16,274,131</b>	<b>2,010,587</b>	<b>1,559,462</b>	<b>6,088,337</b>	<b>17,034,186</b>	<b>10,884,048</b>	<b>30,133,566</b>	<b>(317,087)</b>	<b>83,667,230</b>
<b>Fund balance - ending</b>	<b>\$ 15,861,769</b>	<b>\$ 3,552,262</b>	<b>\$ 1,319,171</b>	<b>\$ 2,532,509</b>	<b>\$ 14,563,966</b>	<b>\$ 9,882,485</b>	<b>\$ 13,367,074</b>	<b>\$ 156,413</b>	<b>\$ 61,235,649</b>

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

**EXHIBIT F**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2009**

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

Net change in fund balances - total governmental funds \$ (22,431,581)

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	\$	22,288,391	
Less current year depreciation		<u>(3,043,614)</u>	
			19,244,777

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, it does not have any effect on net assets. 11,220,000

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. (946,951)

Change in net assets of governmental activities \$ 7,086,245

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

**EXHIBIT G**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND  
For The Year Ended June 30, 2009**

	General			
	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 10,622,550	\$ 10,622,550	\$ 10,715,950	\$ 93,400
Accommodations Tax	2,269,580	2,269,580	2,150,536	(119,044)
Business Licenses and Franchise Fees	8,263,200	8,263,200	8,067,195	(196,005)
Permits	1,321,000	1,321,000	853,962	(467,038)
State Shared Funds	1,167,880	1,167,880	1,054,891	(112,989)
Donations	-	-	6,125	6,125
Grants	273,900	273,900	130,796	(143,104)
Miscellaneous Revenue	2,095,000	2,095,000	2,384,142	289,142
Investment Income	500,000	500,000	87,069	(412,931)
Total revenues	<u>26,513,110</u>	<u>26,513,110</u>	<u>25,450,666</u>	<u>(1,062,444)</u>
<b>Expenditures:</b>				
Current:				
General Government	1,138,390	1,157,224	1,100,617	56,607
Management Services	4,996,970	5,311,537	4,563,008	748,529
Public Safety	17,607,280	17,680,134	16,836,078	844,056
Community Services	7,065,340	7,132,850	6,157,878	974,972
Non-Departmental	2,153,810	2,078,830	2,397,182	(318,352)
Capital Outlay	295,210	457,452	261,836	195,616
Total expenditures	<u>33,257,000</u>	<u>33,818,026</u>	<u>31,316,599</u>	<u>2,501,427</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(6,743,890)</u>	<u>(7,304,916)</u>	<u>(5,865,933)</u>	<u>1,438,983</u>
<b>Other financing sources (uses):</b>				
Transfers In	5,850,760	5,850,760	5,453,571	(397,189)
Total other financing sources (uses)	<u>5,850,760</u>	<u>5,850,760</u>	<u>5,453,571</u>	<u>(397,189)</u>
<b>Net change in fund balance</b>	<u>(893,130)</u>	<u>(1,454,156)</u>	<u>(412,362)</u>	<u>\$ 1,041,794</u>
<b>Fund balance - beginning</b>	<u>16,274,131</u>	<u>16,274,131</u>	<u>16,274,131</u>	
<b>Fund balance - ending</b>	<u>\$ 15,381,001</u>	<u>\$ 14,819,975</u>	<u>\$ 15,861,769</u>	

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

**EXHIBIT H**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUND  
FIREMEN'S FUND  
June 30, 2009**

ASSETS

Cash and Temporary Investments

\$ 40,155

LIABILITIES

Due to Firemen's Fund Association

\$ 40,155

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

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

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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 component unit as the administration and governing bodies are primarily the same. The component unit provides services entirely to the Town and was created to facilitate the issuance of debt for acquisition of the Town's administration facilities.

Separate financial statements are not prepared for the Town of Hilton Head Island Public Facilities Corporation. All debt transactions are recorded in the Debt Service Fund and capital projects transactions associated with the issuance of the debt are recorded in the Capital Projects Fund.

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 governmental 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.

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

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Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation – Fund Financial Statements (continued)

1. The Town reports the following major governmental funds:

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

**Tax Increment Financing District (Special Revenue Fund).** This fund is used to account for incremental taxes charged to individuals. These revenues are 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 {State} (Special Revenue Fund).** This fund is used to account for the Town's receipts from the two percent (2%) tax levied on rentals of transient accommodations within the corporate limit. These revenues are 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.

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

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

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.

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

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Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

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

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

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

Property taxes for the year ended June 30, 2009, 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, Debt Service Fund, and Capital Projects Fund. Budgets for the aforementioned funds are prepared in accordance with GAAP. The Town uses the following procedures in establishing budgetary data reflected in these financial statements:

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

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Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

1. The Town Manager submits to Town Council a proposed operating budget for the General 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, Capital Projects Fund and Debt Service budgets.
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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

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	\$ 561,027
<b>Total Revenue Increases/(Decreases)</b>	<b>\$ 561,027</b>

Expenditure Increases/(Decreases):

Town Manager - Salaries	9,980
Town Manager - Retirement ICMA	8,854
Finance; Administration - Professional Services	19,394
Finance; Accounting - Professional Services	3,879
Finance; Accounting - Bank Charges	10,556
Administration; Legal/Administration - Salaries	461
Administration; Administrative Support - Salaries	1,873
Administration; Administrative Support - Overtime	5,619
Administration; Administrative Support - FICA	1,211
Administration; Administrative Support - Retirement ICMA	609
Administration; Administrative Support - Records Management	27,227
Administration; Information Technology - Salaries	4,501
Administration; Information Technology - Training and Conferences	3,750
Administration; Information Technology - Equipment <\$5,000	848
Administration; Information Technology - Maintenance Contract	39,800
Administration; Information Technology - Computer Software <\$5,000	148,894
Administration; Information Technology - Computer Software <\$5,000	156,712
Administration; Human Resources - Townwide Employee Training	17,300
Administration; Human Resources - Consulting Services	28,645
Community Development; Administration - Salaries	7,091
Community Development; Development Review and Zoning - Salaries	16,145
Community Development; Comprehensive - Salaries	15,050
Townwide - Personnel Adjustment	95,020
Townwide - Contingency	(170,000)
Fire and Rescue; Administration - Salaries	3,536
Fire and Rescue; Administration - PORS Retirement	2,252
Fire and Rescue; Administration - Vantage Care	3,148
Fire and Rescue; Administration - Professional Services	18,000
Fire and Rescue; Bureau of Fire Prevention - Salaries	2,642
Fire and Rescue; Logistics - Radio Repair and Maintenance	6,620
Fire and Rescue; Logistics - Specialized Equipment	5,530
Fire and Rescue; Training - Radio Repair and Maintenance	2,717
Fire and Rescue; Emergency Management - Professional Services	28,600
Sheriff's Department - Office Supplies	1,100
Sheriff's Department - Radio Repair and Maintenance	(4,015)
Sheriff's Department - Specialized Equipment	2,915
Sheriff's Department - Radio Equipment	5,289
Sheriff's Department - Vehicles	50
Public Projects and Facilities; Administration - Salaries	2,752
Public Projects and Facilities; Administration - Retirement ICMA	411
Public Projects and Facilities; Administration - Vantage Care	1,178
Public Projects and Facilities; Engineering - Closed Loop Traffic Signal	14,383
Public Projects and Facilities; Engineering - Consulting services	6,500
Public Projects and Facilities; Facilities Mgt. - Maintenance Contracts	4,000
<b>Total Expenditure Increases/(Decreases)</b>	<b>\$ 561,027</b>

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

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Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

**Capital Projects Fund**

Revenues:

Bond Proceeds - 2008 TIF	\$ 1,680,343
Sunday Permit Fees	75,000
Transfer In - Beach Preservation Fees	1,561,152
Transfer In - Real Estate Transfer Fees	3,098,193
Impact Fees	5,308
Transfer In - TIF	32,646
Hospitality Taxes	3,731,790
Funds from Prior Years	(107,192)
Stormwater Fees	187,650
Bond Proceeds - Hospitality Tax	3,624,200
Bond Proceeds - Stormwater	(213,336)
Developer Fees	40,225
County Bond	325,408
Contributions/Donations	233,175
PARD Grant	9,000
CDBG Grant	(470,000)
ATAX Grant	(30,000)
Bond Proceeds - General Obligation	2,440,315
Capital Sales Tax	703,539
<b>Total Revenue Increases/(Decreases)</b>	<b><u><u>\$ 16,927,416</u></u></b>

Expenditures:

**Pathways**

Pathway Rehabilitation	\$ 4,060
Wild Horse Road	5,308
Pope Avenue (Off Road)	3,864
Palmetto Bay Road	(911,439)
Target Road	60,898
Mathews Drive/Islanders	217,284
New Orleans Road	68,951
Lagoon Road	27,099
Avocet Road	18,299
	<b><u><u>(505,676)</u></u></b>

**Drainage**

Drainage System Rehabilitation	236,095
Club Course Outfall	79,442
Drainage Study Updates	(292,778)
Miller Pond	(98,690)
	<b><u><u>(75,931)</u></u></b>

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

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Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

**Capital Projects Fund (Continued)**

**Road Improvements**

Pedestrian Crosswalks/Refuges	\$ (290,000)
Traffic Signal Mast Arms	18,494
Widen and Realign Office Park Road	235,477
Widen Mathews Drive	2,581,344
Intersection Improvements	420,406
Fire and Rescue Emergency Access Points	76,129
Horseshoe Road Connector	116,929
Gum Tree/Squire Pope Road Roundabout	121,140
SCDOT Roads Resurfacing	2,218
Mathews Drive/ US 278	(1,520,189)
Roadway Safety Improvements	146,360
Directional Neighborhood Signage	36,004
Mathews Drive/Chaplin Area Connectivity	(588,553)
Mainland Transportation Improvements	399,850
US 278/Squire Pope Intersection Improvements	703,539
Stoney Secondary Road South	888
Summit Drive Realignment	50,083
Intersection/Crosswalk/Pathway Lighting	(13,536)
Allen Drive Right of Way	2,848
Mitchellville Lane	5,691
Arrow Road/Dunnigan's Alley Roundabout	(9)
Marshland Road Roundabout	47,115
	<b><u>2,552,228</u></b>

**Park Development**

Park UpGrades	34,408
Compass Rose Park	90,788
Coligny Beach Park	192,727
Public Art	116,477
	<b><u>434,400</u></b>

**Existing Facilities/Infrastructure**

Demolition of Structures	3,328
Apparatus & Vehicle Replacement	206,014
Fire Station #5 Replacement	164,059
Town Vehicle Replacement	145,231
Fire Station #6 Repair	74,914
Fire Station #1 Replacement	274,315
Fire Hydrant Upgrades	(3,445)
Rehabilitate & Renovate Fixed Assets	72,485
Fire Station #2 Replacement	74,914
Fire Station #3 Hurricane Protection	24,800
Security Cameras	256
Fire Station #6 Replacement	50,000
Honey Horn Stabilization	483,352
	<b><u>1,570,223</u></b>

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

**Capital Projects Fund (Continued)**

**New Facilities/Infrastructure**

Dispatch Center Equipment	\$ (209,509)
Fire and Rescue - Training Center	1,991,069
Fire and Rescue - Computer System - CAD	301,885
Coligny/Pope Area Initiative	(184,962)
Dunnigan's Alley/Arrow Road Initiative	100,000
Sewer Service Projects	435,000
Facilities Management Building	1,865,082
Stoney Area CDBG Project	(127,599)
Automatic Vehicle Locators	220,000
	<b>4,390,966</b>

**Beach Maintenance**

Beach Management	173,943
Dunes Refurbishment	614
Beach /Parks Access	584
Beach Renourishment	288,973
Shoreline Management	350,000
	<b>814,114</b>

**Land Acquisition**

Land Acquisition	<b>7,747,092</b>
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<b>Total Expenditure Increases/(Decreases)</b>	<b>\$ 16,927,416</b>
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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, 2009, which were underway by July 1, is shown as an encumbrance in that fund.

Cash Equivalents

For purposes of this report the Town considers all highly liquid investments (including restricted assets) with a maturity date of three months or less when purchased to be cash equivalents.

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.

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

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Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

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

Note 1. Summary of Significant Accounting Policies (continued)

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.

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, 2009, would be \$1,634,583 excluding fringe benefits.

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

Program Revenues

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

Note 2. Cash, Cash Equivalents, and Investments

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

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents	Restricted Investments	Total
Governmental Activities:				
General Fund	\$ 6,270,243	\$ 7,100,566	\$ -	\$ 13,370,809
Tax Increment Financing	-	3,606,602	-	3,606,602
Accommodations Tax	740,712	-	-	740,712
Real Estate Transfer Fee	1,400,024	1,000,000	-	2,400,024
Beach Preservation Fees	2,615,782	12,000,000	-	14,615,782
Debt Service	1,740,483	7,211,613	775,690	9,727,786
Capital Projects	5,957,541	9,326,332	-	15,283,873
Town Franchise Fees	64,969	-	-	64,969
Home Grant	-	22,665	-	22,665
	<u>\$ 18,789,754</u>	<u>\$ 40,267,778</u>	<u>\$ 775,690</u>	<u>\$ 59,833,222</u>

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

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

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2009, the \$59,057,532 carrying balance and \$59,228,463 bank balance were held in various banks of which \$776,397 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 \$2,089 is held in petty cash funds of the Town. Of the total carrying cash balance of \$59,057,532 in cash, \$40,267,778 has been restricted.

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

Investments

At June 30, 2009, the Town had investments and maturities as shown below:

	Fair Value	1 Year
U.S. Agency Discount Notes	\$ 775,690	\$ 775,690

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

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

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

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Note 2. Cash, Cash Equivalents, 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, 2009, the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)	Unrated
U.S. Agency Discount Notes	\$ 775,690	\$ 775,690	\$ -

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

**Note 3. Receivables**

At June 30, 2009, 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	\$ 2,008,837	\$ -	\$ -	\$ -	\$ -	\$ 2,008,837
Local accommodations taxes	683,640	-	-	-	-	683,640
Other receivables	23,119	-	-	-	110,208	133,327
Business license revenues	60,735	-	-	-	-	60,735
Beach preservation fees	-	1,365,672	-	-	-	1,365,672
Hospitality taxes/Other	-	-	1,393,244	-	-	1,393,244
Gross receivables	2,776,331	1,365,672	1,393,244	-	110,208	5,645,455
Less: allowance for uncollectibles	1,538,376	-	-	-	-	1,538,376
Net Receivables	<u>\$ 1,237,955</u>	<u>\$ 1,365,672</u>	<u>\$ 1,393,244</u>	<u>\$ -</u>	<u>\$ 110,208</u>	<u>\$ 4,107,079</u>
Receivables from Employees:						
Cobra Insurance	\$ (11,486)	\$ -	\$ -	\$ -	\$ -	\$ (11,486)
Computer Purchases*	62,994	-	-	-	-	62,994
Total Receivables from Employees	<u>\$ 51,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,508</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, 2009 for which payment was received/made after June 30, 2009.

Interfund receivables and payable balances at June 30, 2009 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	\$ -	\$ 251,665	\$ 187,747	\$ -	\$ 457,172	\$ 2,010,470	\$ -	\$ 2,907,054
Capital Project Fund	-	4,742	-	12,267	960,316	-	-	977,325
Real Estate Transfer Fees	-	-	-	-	-	-	327	327
Debt Service Fund	80,155	-	-	-	-	-	-	80,155
Total	<u>\$ 80,155</u>	<u>\$ 256,407</u>	<u>\$ 187,747</u>	<u>\$ 12,267</u>	<u>\$ 1,417,488</u>	<u>\$ 2,010,470</u>	<u>\$ 327</u>	<u>\$ 3,964,861</u>

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

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

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

Transfers in/out for the year ended June 30, 2009 are summarized below:

	Transfer In			
	General Fund	Debt Service Fund	Capital Projects Fund	Total
<u>Transfers Out:</u>				
TIF	\$ 226,260	\$ 3,964,162	\$ 119,314	\$ 4,309,736
Accommodations Tax	1,266,740	-	-	1,266,740
Real Estate Transfer Fees	-	2,331,090	3,098,193	5,429,283
Beach Preservation Fees	1,355,973	2,676,584	2,942,159	6,974,716
Capital Project Fund	2,518,694	2,008,511	-	4,527,205
Other	85,904	-	-	85,904
Total	\$ 5,453,571	\$ 10,980,347	\$ 6,159,666	\$ 22,593,584

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	\$ 637,788
E 911 - Beaufort County	40,581
Dispatch/ EMS 911 - Beaufort County	18,750
Beaufort County Land Care South	6,621
Beaufort County Impact Fee Refund	13,018
SC DOT	35,980
SC MER Inventory	2,898
State Shared Taxes	258,650
EMS Grant - Beaufort County	5,556
IRS Taxes	1,866
SC Taxes	1,345
	\$ 1,023,053

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

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

<u>Debt Service Fund</u>	
Property Taxes - Beaufort County (07-01-09 thru 07-31-09)	74,871
 <u>Capital Projects Fund</u>	
Property Taxes - Beaufort County (07-01-09 thru 07-31-09)	11,224
State Sunday Liquor Fees	11,000
State of SC CDBG Grant	6,497
State of SC PARD Grant	33,712
	62,433
 <u>Accommodations Taxes</u>	
State of South Carolina	1,174,271
 <u>Real Estate Transfer Fees</u>	
Beaufort County	144,425
 <u>Tax Increment Financing District</u>	
Beaufort County	202,067
 <b>Total Due from Other Governments</b>	<b>\$ 2,681,120</b>

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

<u>General Fund</u>	
Municipal Court State Fees - SC State Treasurer	\$ 48,952
Sheriff's Department - Beaufort County	14,119
State of South Carolina	1,535
	64,606
 <b>Total Due to Other Governments</b>	<b>\$ 64,606</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 upon satisfactory completion of the contractors' obligations while others are held without interest. At June 30, 2009, \$103,766 was the balance of the bonds held.

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, 2009, \$42,909 was the balance of bonds held.

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.

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

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

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:

1. Encumbrances – Portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.
2. Debt Service – Portion of fund balance reserved to meet debt service obligations.
3. Land Acquisition Bond – Portion of fund balance associated with bond funds that will be used for the purchase of land.
4. 2002 Stormwater Bond – Portion of fund balance associated with bond funds that will be used for stormwater capital projects.

Unreserved:

1. **Designated For Disaster Recovery**

- **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.

2. **Designated for Beach Renourishment 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.

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

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

Unreserved (continued):

3. **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						
	Fund Financial Statements						
	General	Accommodations	Beach	Debt	Capital	Other	
	Fund	Tax	Preservation	Service	Project	Governmental	
	Fund	Fund	Fees	Fund	Fund	Funds	Total
Payables:							
Accounts payable	\$ 1,214,149	\$ 55,784	\$ -	\$ -	\$ 2,305,145	\$ 19,155	\$ 3,594,233
Accrued payroll	1,144,171	-	-	-	-	-	1,144,171
<b>Total payables</b>	<b>\$ 2,358,320</b>	<b>\$ 55,784</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,305,145</b>	<b>\$ 19,155</b>	<b>\$ 4,738,404</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:

	Deferred Revenue	Unearned Revenue
Grant revenues received in advance of being earned-		
General Fund	\$ 9,524	\$ 9,524
Capital Projects Fund	38,056	38,056
Nonmajor Governmental Fund - Home Grant	22,274	22,274
	<b>\$ 69,854</b>	<b>\$ 69,854</b>

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

1. General Fund  
The deferred revenues in the General Fund are miscellaneous funds associated with the Town's Open Space Fund.
2. Capital Projects Fund  
The deferred revenues in the Capital Projects Fund are miscellaneous funds associated with the Town's Tree Fund.
3. Nonmajor Governmental Fund – Home Grant  
The deferred revenue in the Home Grant Fund is surplus loan funds being held in reserve.

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

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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		\$	231,308,872
Less:	General obligation bonds		(59,705,000)
	Revenue bonds		(38,940,000)
	TIF Bonds		(21,780,000)
	Certificates of participation		(5,825,000)
	Bond premiums		(1,053,730)
Add:			
	Bond issue costs and loss on refunding		985,998
	Unspent bond proceeds		9,319,100
			<b>114,310,240</b>

Restricted for:

Disaster recovery:	General Fund		1,707,621
Beach renourishment			12,000,000
Debt service			9,882,485

Unrestricted			27,448,750
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<b>Total net assets</b>		<b>\$</b>	<b>165,349,096</b>
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Note 9. Accommodations Tax Fund

Accommodations Tax Fund is a Special Revenue Fund to record Accommodations Tax receipts and grants approved by Town Council payable out of appropriations. Thirty percent (30%, FY 2009: \$1,150,446) and thirty percent (30%, FY 2008: \$1,218,032) 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 \$6,936 were lapsed during the fiscal year ending June 30, 2009, all being lapsed against 2009 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2009:

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

Note 9. Accommodations Tax Fund (continued)

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
<b><u>Grants (not Town related)</u></b>				
Art League of Hilton Head Island	\$ 27,621	\$ 27,621	\$ -	\$ -
Coastal Discovery Museum - Cultural @Eco Tourism Program	95,295	94,659	636	-
Harbour Town 4th of July Fireworks	8,200	8,200	-	-
Hilton Head Island Choral Society	9,240	9,240	-	-
Hilton Head Island-Bluffton Visitor & Convention Bureau	155,258	155,258	-	-
Hilton Head Island Concours d'Elegance	15,282	15,282	-	-
Main Street Theatre - Capital	7,577	7,577	-	-
Main Street Youth Theatre - Operations	23,311	23,311	-	-
Shelter Cove Harbour Company	8,200	8,200	-	-
The Sandbox: An Interactive Children's Museum	22,008	22,008	-	-
Arts Center of Coastal Carolina	414,542	414,542	-	-
Hilton Head Island-Bluffton Chamber of Commerce Marketing	80,000	80,000	-	-
Hilton Head Symphony Orchestra	170,000	170,000	-	-
Native Island Business and Community Affairs Association	90,000	83,700	6,300	-
Art League of Hilton Head Island	43,700	33,098	-	10,602
Harbour Town 4th of July Fireworks	7,625	-	-	7,625
Hilton Head Choral Society	15,810	8,181	-	7,629
Hilton Head Dance Theatre	10,230	10,230	-	-
Hilton Head Island Concourse D'Elegance	78,920	78,920	-	-
Hilton Head Island St. Patrick's Day Parade	8,500	-	-	8,500
Hilton Head Island-Bluffton Chamber of Commerce Marketing	297,600	196,267	-	101,334
Hilton Head Island Symphony Orchestra-Performance Shell	18,000	16,100	-	1,900
Low Country Tourism	5,000	5,000	-	-
Main Street Theater	51,150	42,277	-	8,873
Shelter Cove Harbour Company	7,625	-	-	7,625
Skull Creek July 4th Celebration	7,625	7,625	-	-
South Carolina Repertory Company	17,205	17,205	-	-
Coastal Discovery Museum - Cultural @Eco Tourism Program	162,750	83,905	-	78,845
Coastal Discovery Museum - Honey Horn Capital Improvements	100,000	50,459	-	49,541
Heritage Library Foundation	23,250	13,042	-	10,208
The Sandbox: An Interactive Children's Museum	32,550	15,561	-	16,989
<b>Total Grants (not Town related)</b>	<b>\$ 2,014,074</b>	<b>\$ 1,697,468</b>	<b>\$ 6,936</b>	<b>\$ 309,671</b>
<b><u>Other Financing Uses</u></b>				
Transfer to General Fund	\$ 1,266,741	\$ 1,266,741	-	-
<b>Total Other Financing Uses</b>	<b>\$ 1,266,741</b>	<b>\$ 1,266,741</b>	<b>\$ -</b>	<b>\$ -</b>

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 \$414,542 was approved for operations during 2008/2009.

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

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Note 9. Accommodations Tax Fund (continued)

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

<u>For the year ended June 30,</u>	<u>Accommodations Tax Grants</u>			
	<u>Approved</u>	<u>Paid</u>	<u>Lapsed</u>	<u>Unpaid</u>
2001	2,247,614	(2,213,249)	(34,365)	-
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
2008	2,101,886	(1,718,815)	(11,079)	371,992

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2009, was \$1,319,171 of which \$309,671 was encumbered by approved grants.

Town council has approved amounts for 2009/2010 grants as follows:

Arts Center of Coastal Carolina (General Operating Support)	\$ 310,907
Hilton Head Island – Bluffton Chamber of Commerce Marketing	60,000
Hilton Head Symphony Orchestra	127,500
Native Island Business & Comm. Affairs Association	67,500
Town Operations – Tourism Support	<u>808,328</u>
	<u>\$ 1,374,235</u>

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

Note 10. Long-Term Obligations

**CERTIFICATES OF PARTICIPATION**

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

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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	3.000	\$ 181,855	\$ 980,000	\$ 1,161,855
2011	3.000	152,455	1,010,000	1,162,455
2012	3.000	122,155	1,035,000	1,157,155
2013	5.000	91,105	1,065,000	1,156,105
2014	3.350	37,855	1,130,000	1,167,855
		<u>\$ 585,425</u>	<u>\$ 5,220,000</u>	<u>\$ 5,805,425</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated tax exempt amount of certificates; (b) maximum annual debt service on certificate for any fiscal year; or (c) 125% of average annual debt on the certificates. At June 30, 2009 \$1,140,806 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. Ad Valorem tax revenues of the Debt Service Fund are used to repay these certificates of participation.

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

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

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

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

Note 10. Long-Term Obligations (continued)

**CERTIFICATES OF PARTICIPATION (continued)**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	3.970	\$ 24,018	\$ 115,000	\$ 139,018
2011	3.970	19,453	120,000	139,453
2012	3.970	14,689	120,000	134,689
2013	3.970	9,925	120,000	129,925
2014	3.970	5,161	130,000	135,161
		<u>\$ 73,246</u>	<u>\$ 605,000</u>	<u>\$ 678,246</u>

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

**GENERAL OBLIGATION BONDS**

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

On July 9, 1996, the Town issued \$1,425,000 in 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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	5.500	\$ 4,812	\$ 175,000	\$ 179,812
		<u>\$ 4,812</u>	<u>\$ 175,000</u>	<u>\$ 179,812</u>

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

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

On July 9, 1996, the Town issued \$11,180,000 in 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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	5.500	\$ 28,737	\$ 1,045,000	\$ 1,073,737
		<u>\$ 28,737</u>	<u>\$ 1,045,000</u>	<u>\$ 1,073,737</u>

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

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

Note 10. Long-Term Obligations (continued)

<b>GENERAL OBLIGATION BONDS (continued)</b>
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**\$6,000,000 General Obligation Bonds Dated November 1, 1999**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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
		\$ 2,682,079	\$ 5,105,000	\$ 7,787,079

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

These bonds were refunded in FY 2010. Please see the subsequent events Note 19 on page 59 for additional information.

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

Note 10. Long-Term Obligations (continued)

<b>GENERAL OBLIGATION BONDS (continued)</b>
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**\$15,000,000 General Obligation Bonds Dated May 1, 2004**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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
		\$ 7,433,382	\$ 13,040,000	\$ 20,473,382

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

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

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%. 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 life of the bonds 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, SOUTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

**GENERAL OBLIGATION BONDS (continued)**

**\$5,365,000 General Obligation Bonds Dated October 1, 2004 (continued)**

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 184,262</u>	<u>\$ 3,970,000</u>	<u>\$ 4,154,262</u>

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

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 7,960,015</u>	<u>\$ 23,955,000</u>	<u>\$ 31,915,015</u>

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

Note 10. Long-Term Obligations (continued)

<b>GENERAL OBLIGATION BONDS (continued)</b>
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**\$24,265,000 General Obligation Bonds Dated March 1, 2005 (continued)**

Ad Valorem tax revenues of the Debt Service Fund are used to repay the first \$75,000 annually. The remaining annual debt service requirement is funded by transfers of real estate transfer fees to the Debt Service Fund.

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
2010	7.125	\$ 13,716	\$ 385,000	\$ 398,716
		\$ 13,716	\$ 385,000	\$ 398,716

Transfers of real estate transfer fees to the Debt Service Fund are used to repay these bonds.

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

On March 4, 2008, the Town issued \$12,215,000 in general obligation bonds refunding the remaining amount of the \$15,000,000 general obligation bonds dated April 1, 1988. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds by \$615,940 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$599,356. A schedule of the amount due for this issue follows:

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

Note 10. Long-Term Obligations (continued)

<b>GENERAL OBLIGATION BONDS (continued)</b>
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**\$12,215,000 General Obligation Bonds Dated March, 2008 (continued)**

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	4.000	\$ 499,987	\$ 605,000	\$ 1,104,987
2011	3.250	477,650	630,000	1,107,650
2012	4.000	454,413	650,000	1,104,413
2013	3.500	429,600	675,000	1,104,600
2014	3.750	404,662	700,000	1,104,662
2015	4.000	377,137	720,000	1,097,137
2016	4.000	347,837	745,000	1,092,837
2017	5.000	313,562	775,000	1,088,562
2018	5.000	273,813	815,000	1,088,813
2019	4.000	236,337	855,000	1,091,337
2020	4.250	200,325	890,000	1,090,325
2021	4.375	161,178	925,000	1,086,178
2022	4.500	119,119	970,000	1,089,119
2023	4.625	73,822	1,015,000	1,088,822
2024	4.750	25,175	1,060,000	1,085,175
		\$ 4,394,617	\$ 12,030,000	\$ 16,426,617

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

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

Note 10. Long-Term Obligations (continued)

**REVENUE BONDS**

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	3.250	\$ 679,938	\$ 565,000	\$ 1,244,938
2011	3.450	660,665	585,000	1,245,665
2012	3.625	639,608	605,000	1,244,608
2013	3.750	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	4.000	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	5.250	496,030	740,000	1,236,030
2018	4.350	459,640	780,000	1,239,640
2019	5.125	421,919	810,000	1,231,919
2020	5.125	379,253	855,000	1,234,253
2021	5.125	334,409	895,000	1,229,409
2022	5.125	287,388	940,000	1,227,388
2023	5.125	237,931	990,000	1,227,931
2024	4.750	187,863	1,040,000	1,227,863
2025	4.750	137,275	1,090,000	1,227,275
2026	4.750	84,194	1,145,000	1,229,194
2027	4.750	28,500	1,200,000	1,228,500
		<u>\$ 7,343,277</u>	<u>\$ 14,890,000</u>	<u>\$ 22,233,277</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 service on the certificates. At June 20, 2009, \$1,609,772 was the fair value of the amount held in the reserve fund. The reserve and the debt service on the stormwater bonds are reported in the Debt Service Fund. Stormwater fees are transferred annually from the Capital Projects Fund in an amount sufficient to pay the debt service.

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

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:

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

Note 10. Long-Term Obligations (continued)

**REVENUE BONDS (continued)**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	3.500	\$ 428,007	\$ 325,000	\$ 753,007
2011	3.500	416,632	340,000	756,632
2012	4.000	404,732	350,000	754,732
2013	4.000	390,733	365,000	755,733
2014	4.100	376,133	380,000	756,133
2015	4.250	360,553	395,000	755,553
2016	4.350	343,765	410,000	753,765
2017	4.450	325,930	430,000	755,930
2018	4.500	306,795	450,000	756,795
2019	4.600	286,545	470,000	756,545
2020	4.650	264,925	490,000	754,925
2021	4.800	242,140	515,000	757,140
2022	4.800	217,420	540,000	757,420
2023	5.000	191,500	565,000	756,500
2024	5.000	163,250	590,000	753,250
2025	5.000	133,750	620,000	753,750
2026	5.000	102,750	650,000	752,750
2027	5.000	70,250	685,000	755,250
2028	5.000	36,000	720,000	756,000
		<u>\$ 5,061,810</u>	<u>\$ 9,290,000</u>	<u>\$ 14,351,810</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, 2009, \$775,690 was the fair value of the amount held in the reserve fund. Hospitality fees are transferred to the Debt Service Fund in an amount sufficient to repay these certificates of participation.

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

Note 10. Long-Term Obligations (continued)

**REVENUE BONDS (continued)**

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 1,960,483</u>	<u>\$ 14,760,000</u>	<u>\$ 16,720,483</u>

The Town is required to maintain a reserve for the beach preservation bonds. The original required deposit was 10% of the stated amount of the certificates or \$1,900,000. The Town has allowed the investment income to remain in the reserve. At June 30, 2009, \$1,900,628 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Beach preservation fees are transferred annually to the Debt Service Fund in an amount sufficient to repay the annual debt service.

**TAX INCREMENT BONDS**

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

On June 25, 2004, the Town issued \$8,000,000 in 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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 762,135</u>	<u>\$ 5,230,000</u>	<u>\$ 5,992,135</u>

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

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Note 10. Long-Term Obligations (continued)

<b>TAX INCREMENT BONDS (continued)</b>
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**\$22,000,000 Tax Increment Bonds Dated April 17, 2008**

On April 17, 2008, the Town issued \$22,000,000 in tax increment bonds for redevelopment projects associated with the Town's TIF (Tax Increment Financing District.) A schedule of the amount due for this issue follows:

<u>For the Year Ended June 30</u>	<u>Interest Rate by Year (%)</u>	<u>Governmental Activities</u>		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2010	2.9750	\$ 492,362	\$ 2,495,000	\$ 2,987,362
2011	2.9750	418,136	2,595,000	3,013,136
2012	2.9750	340,935	2,700,000	3,040,935
2013	2.9750	260,610	2,805,000	3,065,610
2014	2.9750	177,161	2,920,000	3,097,161
2015	2.9750	90,291	3,035,000	3,125,291
		\$ 1,779,495	\$ 16,550,000	\$ 18,329,495

The Town is required to maintain an additional security fund of \$1,000,000 to pay debt service in the event TIF Fund revenues are not sufficient. The Town is required to maintain the additional security fund until TIF tax revenues collected in each of two successive fiscal years are not less than 110% of the combined maximum annual debt service on the 2004 and 2008 TIF Bonds. At June 30, 2009 \$1,000,000 was the fair value of the amount held in the additional security fund which is reported in the Debt Service Fund.

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, 2009, \$9,540,000 of bonds are considered defeased debt.

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

Note 10. Long-Term Obligations (continued)

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 63,680,000	\$ -	\$ 3,975,000	\$ 59,705,000	\$ 4,690,000
Certificates of participation	6,905,000	-	1,080,000	5,825,000	1,095,000
Revenue bonds	41,965,000	-	3,025,000	38,940,000	3,130,000
TIF bonds	24,920,000	-	3,140,000	21,780,000	3,270,000
Premium on bonds	1,149,855	-	96,125	1,053,730	86,475
Total bonds and notes payable	<u>138,619,855</u>	<u>-</u>	<u>11,316,125</u>	<u>127,303,730</u>	<u>12,271,475</u>
Other liabilities:					
Compensated absences	1,437,090	1,634,583	1,437,090	1,634,583	1,471,125
Total other liabilities	<u>1,437,090</u>	<u>1,634,583</u>	<u>1,437,090</u>	<u>1,634,583</u>	<u>1,471,125</u>
Governmental activities long-term liabilities	<u>\$ 140,056,945</u>	<u>\$ 1,634,583</u>	<u>\$ 12,753,215</u>	<u>\$ 128,938,313</u>	<u>\$ 13,742,600</u>

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

For the Year Ended June 30	Government Activities		
	Interest	Principal	Total
2010	\$ 5,190,451	\$ 12,185,000	\$ 17,375,451
2011	4,715,314	12,775,000	17,490,314
2012	4,274,841	11,860,000	16,134,841
2013	3,849,942	11,350,000	15,199,942
2014	3,403,014	11,835,000	15,238,014
2015-2019	11,767,395	30,180,000	41,947,395
2020-2024	5,781,128	24,260,000	30,041,128
2025-2029	1,285,406	11,805,000	13,090,406
Total	<u>\$ 40,267,491</u>	<u>\$ 126,250,000</u>	<u>\$ 166,517,491</u>

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

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 142,360,069	\$ 5,358,940	\$ (86,457)	\$ 147,632,552
Development Rights	7,716,970	3,017,421	-	10,734,391
Easements/Right-of-Ways	2,453,098	545,963	(101,152)	2,897,909
Construction in progress	6,615,309	11,637,492	(5,076,708)	13,176,093
Total capital assets not being depreciated	<u>159,145,446</u>	<u>20,559,816</u>	<u>(5,264,317)</u>	<u>174,440,945</u>
Capital assets being depreciated:				
Buildings	17,184,609	261,562	(625,528)	16,820,643
Furniture, fixtures and equipment	3,461,682	290,843	(97,077)	3,655,448
Vehicles	4,667,361	3,544,749	(1,481,691)	6,730,419
Imp. other than buildings - park development	8,600,293	355,209	-	8,955,502
Infrastructure	40,674,278	2,352,920	(275,340)	42,751,858
Total capital assets being depreciated	<u>74,588,223</u>	<u>6,805,283</u>	<u>(2,479,636)</u>	<u>78,913,870</u>
Less accumulated depreciation for:				
Buildings	6,273,873	580,063	(440,474)	6,413,462
Furniture, fixtures and equipment	2,936,411	169,181	(97,077)	3,008,515
Vehicles	3,985,808	317,942	(1,452,253)	2,851,497
Imp. other than buildings - park development	530,821	345,195	-	876,016
Infrastructure	7,273,558	1,631,233	(8,338)	8,896,453
Total accumulated depreciation	<u>21,000,471</u>	<u>\$ 3,043,614</u>	<u>\$ (1,998,142)</u>	<u>22,045,943</u>
Total capital assets being depreciated, net	<u>53,587,752</u>			<u>56,867,927</u>
Government activity capital assets, net	<u>\$ 212,733,198</u>			<u>\$ 231,308,872</u>

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

General Government	\$ 128,374
Management Services	79,769
Community Development	2,111,261
Public Safety	724,210
Total Depreciation Expense	<u>\$ 3,043,614</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, 2009, the following categories of projects were budgeted and expenditures were made as shown:

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

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Note 12. Capital Projects Fund (continued)

Public Facilities	\$ 4,344,044
Park Development	1,447,812
Land and Related Acquisitions and Improvements	8,452,181
Beach Maintenance	934,747
Facilities Improvements	5,376,666
Roadway Improvements	4,797,315
Pathways Improvements	985,889
Drainage Improvements	822,502
Total	\$ 27,161,156

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2009, the Town had contractual commitments of approximately \$18,875,640 in progress. Through June 30, 2009, approximately \$15,680,575 in costs had been incurred on these commitments. At June 30, 2009, the Town had outstanding contractual commitments totaling approximately \$3,195,065 for capital projects in progress and none for capital projects obligated, but not yet started.

Operating Leases

For the Town's fiscal year ended June 30, 2009, 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.

At June 30, 2009, future minimum payment under noncancelable operating leases with remaining terms in excess of one year were as follows:

For the Year Ended June 30,	Total Payments
2010	\$ 60,008
2011	21,460
	\$ 81,468

Note 14. Retirement Plans

ICMA Retirement Corporation Plan

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

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

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Note 14. Retirement Plans

ICMA-Retirement Corporation Plan (continued)

For the year ended June 30, 2009, employer contributions were based on a total payroll of \$8,020,257. The amount contributed by the employer for the year ending June 30, 2009 was \$688,105 or 8.6% of covered payroll. During the years ended June 30, 2008 and 2007, \$663,263 and \$588,782 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$581,118 or 7.2% of covered payroll for year ending June 30, 2009. Employees who participate in the PORS plan made contributions of \$101,943 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 principal duty is the prevention and control of property destruction by fire, excluding administrative staff, are eligible and must belong to the System, a cost sharing multiple-employer defined benefit pension plan administered by the 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 only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2009, \$7,659,969 of wages was subject to retirement plan contributions. The Town pays the employer contribution at the rate of 10.65% of member salaries except for employees hired before July 1, 1995 for whom the employer contribution rate is 14.15%. During the year ended June 30, 2009, a total of \$971,059 was contributed into the System for the Town's share and \$342,625 for the employees' share, which represented 12.68% and 4.47% of covered payroll, respectively. During the years ended June 30, 2008 and 2007, \$960,993 and \$843,548 were contributed to the system for the Town's share, representing 12.43% and 12.56% of covered payroll, respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

Employees vest after five years and are entitled to a deferred annuity commencing at age 55. Employees who retire at age 55 with 5 years of service or have twenty-five years of credited service are entitled to a retirement benefit, payable monthly for life equal to 2.14% of average final compensation times years of credited service. The System also provides disability benefits and cost of living adjustments on an ad-hoc basis, as 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 or by accessing the South Carolina Retirement System's website, [www.retirement.sc.gov](http://www.retirement.sc.gov).

Retirement Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2009, employer contributions were based on a total payroll of \$15,871,603 of which \$15,680,226 or 98.79% of the total payroll was covered under the plan. Employer contributions were \$1,659,164 or 10.45% of covered payroll. Employee contributions were \$923,743 or 5.89% of covered payroll.

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

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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 ICMA-RC.

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

Note 16. Health Plans

In January 2001, the Town instituted medical spending accounts whereby the Town contributes a set amount each year per employee. 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 \$173,978 at June 30, 2009, 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, 2009, the limit was \$200, and the Town's liability under this plan totaled \$10,318.

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, 2009 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$14,629.

Note 17. Other Post-Employment Benefits

In January 2002, the Town instituted a plan for retiree medical expenses. Annually, the Town contributes one hundred percent of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses. 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. Ten (10) employees were eligible for the benefits for the period ending June 30, 2009.

The Town contributed \$89,021 during the year ended June 30, 2009.

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

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Note 17. Other Post-Employment Benefits (continued)

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.

The Town and its auditors have determined that the Town only has an implicit subsidy which is immaterial at fiscal year-end. It will take several years before the liability becomes material. The Town will continue to study its options and will wait for further guidance as health reform takes shape at the federal level.

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.

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, 2009.

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

The Town has been named in several lawsuits concerning other matters asserting monetary damages. The cases are in preliminary stages and the possible outcome or damages are unknown at this time.

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

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Note 19. Subsequent Events

On September 9, 2009, the Town issued \$5,005,000 in general obligation refunding bonds to refund the General Obligation Bonds dated November 1, 1999. The anticipated amount of economic savings by refunding the bonds is \$845,592. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2010	2.100	\$ 107,094	-	\$ 107,094
2011	2.100	147,151	-	147,151
2012	2.100	147,151	-	147,151
2013	2.100	145,734	135,000	280,734
2014	2.200	140,466	350,000	490,466
2015	2.400	132,296	360,000	492,296
2016	2.500	123,476	360,000	483,476
2017	2.750	113,820	375,000	488,820
2018	2.750	103,370	385,000	488,370
2019	2.750	92,645	395,000	487,645
2020	3.000	81,064	410,000	491,064
2021	3.100	68,404	420,000	488,404
2022	3.250	54,906	430,000	484,906
2023	3.375	40,409	445,000	485,409
2024	3.500	24,850	460,000	484,850
2025	3.500	8,400	480,000	488,400
		<u>\$ 1,531,236</u>	<u>\$ 5,005,000</u>	<u>\$ 6,536,236</u>

# Other Supplementary Information

## **General Fund**

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

## **Debt Service Fund**

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

## **Capital Projects Fund**

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

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive Negative
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 10,622,550	\$ 10,622,550	\$ 10,715,950	\$ 93,400
Accommodations Tax:				
Local 1%	2,269,580	2,269,580	2,150,536	(119,044)
Business License and Franchise Fees:				
Business License	7,650,000	7,650,000	7,459,058	(190,942)
Cable Television Franchise	590,000	590,000	586,852	(3,148)
Beach Franchise	23,200	23,200	21,285	(1,915)
Total	8,263,200	8,263,200	8,067,195	(196,005)
Permits:				
Construction	450,000	450,000	194,387	(255,613)
Development	11,000	11,000	10,883	(117)
Other	860,000	860,000	648,692	(211,308)
Total	1,321,000	1,321,000	853,962	(467,038)
State Shared Funds	1,167,880	1,167,880	1,054,891	(112,989)
Donations:				
EMS/Fire Department Donations	-	-	6,125	6,125
Grants:				
Beaufort County Hazmat/E911	273,900	273,900	125,240	(148,660)
DHEC	-	-	5,556	5,556
Total	273,900	273,900	130,796	(143,104)
Miscellaneous Revenue:				
Public Safety/EMS	1,285,000	1,285,000	1,416,505	131,505
Beach Services	225,000	225,000	188,060	(36,940)
Municipal Court Fines and Fees	485,000	485,000	407,422	(77,578)
Miscellaneous Revenue	100,000	100,000	372,155	272,155
Total	2,095,000	2,095,000	2,384,142	289,142
Investment Income	500,000	500,000	87,069	(412,931)
<b>Total Revenues</b>	<b>26,513,110</b>	<b>26,513,110</b>	<b>25,450,666</b>	<b>(1,062,444)</b>

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 85,120	\$ 85,120	\$ 72,978	\$ 12,142
Other Operating	318,850	318,850	282,727	36,123
Total Town Council	<u>403,970</u>	<u>403,970</u>	<u>355,705</u>	<u>48,265</u>
Town Manager:				
Salaries and Benefits	704,220	723,054	723,054	-
Other Operating	30,200	30,200	21,862	8,338
Total Town Manager	<u>734,420</u>	<u>753,254</u>	<u>744,916</u>	<u>8,338</u>
Total General Government	<u>1,138,390</u>	<u>1,157,224</u>	<u>1,100,621</u>	<u>56,603</u>
Management Services:				
Finance-Administration:				
Salaries and Benefits	187,310	187,310	180,137	7,173
Other Operating	48,150	67,544	9,177	58,367
Total Finance-Administration	<u>235,460</u>	<u>254,854</u>	<u>189,314</u>	<u>65,540</u>
Finance-Accounting:				
Salaries and Benefits	571,350	571,350	568,594	2,756
Other Operating	90,770	105,205	92,286	12,919
Total Finance-Accounting	<u>662,120</u>	<u>676,555</u>	<u>660,880</u>	<u>15,675</u>
Finance-Revenue and Collections:				
Salaries and Benefits	669,310	669,310	536,504	132,806
Other Operating	39,650	39,650	30,119	9,531
Total Finance-Revenue and Collections	<u>708,960</u>	<u>708,960</u>	<u>566,623</u>	<u>142,337</u>
Administration-Legal :				
Salaries and Benefits	407,800	408,261	408,260	1
Other Operating	37,980	37,980	22,271	15,709
Total Administration-Legal	<u>445,780</u>	<u>446,241</u>	<u>430,531</u>	<u>15,710</u>
Administration-Municipal Court:				
Salaries and Benefits	337,290	337,290	326,362	10,928
Other Operating	99,900	99,900	76,435	23,465
Total Administration-Municipal Court	<u>437,190</u>	<u>437,190</u>	<u>402,797</u>	<u>34,393</u>

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services(continued):				
Administration-Administrative Support :				
Salaries and Benefits	178,830	188,142	188,142	-
Other Operating	38,370	65,597	27,400	38,197
Total Administration-Administrative Support	<u>217,200</u>	<u>253,739</u>	<u>215,542</u>	<u>38,197</u>
Administration-Operations:				
Salaries and Benefits	890,480	894,981	894,981	-
Other Operating	730,130	923,422	598,825	324,597
Total Administration-Operations	<u>1,620,610</u>	<u>1,818,403</u>	<u>1,493,806</u>	<u>324,597</u>
Administration-Human Resources:				
Salaries and Benefits	479,960	479,960	453,239	26,721
Other Operating	189,690	235,635	150,275	85,360
Total Administration-Human Resources	<u>669,650</u>	<u>715,595</u>	<u>603,514</u>	<u>112,081</u>
Total Management Services	<u>4,996,970</u>	<u>5,311,537</u>	<u>4,563,007</u>	<u>748,530</u>
Community Services:				
Community Development-Administration:				
Salaries and Benefits	521,050	528,141	525,820	2,321
Other Operating	39,939	39,939	19,427	20,512
Total CD-Administration	<u>560,989</u>	<u>568,080</u>	<u>545,247</u>	<u>22,833</u>
Community Development-CD Services:				
Salaries and Benefits	391,900	391,900	371,366	20,534
Other Operating	17,472	17,472	8,992	8,480
Total CD-CD Services	<u>409,372</u>	<u>409,372</u>	<u>380,358</u>	<u>29,014</u>
Community Development-Inspection/Compliance:				
Salaries and Benefits	939,760	939,760	742,390	197,370
Other Operating	50,709	50,709	17,538	33,171
Total CD-Inspection/Compliance	<u>990,469</u>	<u>990,469</u>	<u>759,928</u>	<u>230,541</u>
Community Development-Develop., Review, and Zoning:				
Salaries and Benefits	786,070	802,215	804,535	(2,320)
Other Operating	116,530	116,530	31,341	85,189
Total CD-DR and Z	<u>902,600</u>	<u>918,745</u>	<u>835,876</u>	<u>82,869</u>

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Community Services (continued):				
Community Development-Comprehensive Planning:				
Salaries and Benefits	352,860	352,860	351,515	1,345
Other Operating	88,510	103,560	28,454	75,106
Total CD-Comprehensive	<u>441,370</u>	<u>456,420</u>	<u>379,969</u>	<u>76,451</u>
Public Facilities-Administration:				
Salaries and Benefits	225,780	230,121	230,062	59
Other Operating	11,980	11,980	2,265	9,715
Total Public Facilities-Administration	<u>237,760</u>	<u>242,101</u>	<u>232,327</u>	<u>9,774</u>
Public Facilities-Engineering:				
Salaries and Benefits	589,110	589,110	518,321	70,789
Other Operating	209,110	229,993	127,869	102,124
Total Public Facilities-Engineering	<u>798,220</u>	<u>819,103</u>	<u>646,190</u>	<u>172,913</u>
Public Facilities-Facilities Management:				
Salaries and Benefits	916,420	916,420	861,723	54,697
Other Operating	1,808,140	1,812,140	1,516,254	295,886
Total Public Facilities-Facilities Management	<u>2,724,560</u>	<u>2,728,560</u>	<u>2,377,977</u>	<u>350,583</u>
Total Community Services	<u>7,065,340</u>	<u>7,132,850</u>	<u>6,157,872</u>	<u>974,978</u>
Public Safety:				
Fire and Rescue-Administration:				
Salaries and Benefits	212,680	221,616	221,615	1
Other Operating	373,100	391,100	273,315	117,785
Total Fire and Rescue-Administration	<u>585,780</u>	<u>612,716</u>	<u>494,930</u>	<u>117,786</u>
Fire and Rescue-Logistics/Maintenance:				
Salaries and Benefits	364,190	364,190	361,651	2,539
Other Operating	439,460	446,080	339,475	106,605
Total Fire and Rescue-Logistics/Maintenance	<u>803,650</u>	<u>810,270</u>	<u>701,126</u>	<u>109,144</u>
Fire and Rescue-Operations:				
Salaries and Benefits	9,014,460	9,014,460	8,964,080	50,380
Other Operating	309,210	309,210	242,485	66,725
Total Fire and Rescue-Operations	<u>9,323,670</u>	<u>9,323,670</u>	<u>9,206,565</u>	<u>117,105</u>

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Fire and Rescue-Communications:				
Salaries and Benefits	924,060	924,060	918,733	5,327
Other Operating	208,190	208,190	159,401	48,789
Total Fire and Rescue-Communications	<u>1,132,250</u>	<u>1,132,250</u>	<u>1,078,134</u>	<u>54,116</u>
Fire and Rescue-Training:				
Salaries and Benefits	517,710	520,427	520,426	1
Other Operating	152,470	152,470	85,462	67,008
Total Fire and Rescue-Training	<u>670,180</u>	<u>672,897</u>	<u>605,888</u>	<u>67,009</u>
Fire and Rescue-Emergency Management:				
Salaries and Benefits	170,960	170,960	166,423	4,537
Other Operating	88,090	116,690	53,073	63,617
Total Fire and Rescue-Emergency Management	<u>259,050</u>	<u>287,650</u>	<u>219,496</u>	<u>68,154</u>
Fire and Rescue-Bureau of Fire Prevention:				
Salaries and Benefits	475,630	478,272	478,271	1
Other Operating	53,310	53,310	30,985	22,325
Total Fire and Rescue-Bureau of Fire Prevention	<u>528,940</u>	<u>531,582</u>	<u>509,256</u>	<u>22,326</u>
Fire and Rescue-Support Services:				
Salaries and Benefits	452,800	452,800	414,558	38,242
Other Operating	445,180	445,180	297,375	147,805
Total Fire and Rescue-Support Services	<u>897,980</u>	<u>897,980</u>	<u>711,933</u>	<u>186,047</u>
Fire and Rescue-E911 Communications:				
Salaries and Benefits	233,900	233,900	199,145	34,755
Total Fire and Rescue-E911 Communications	<u>233,900</u>	<u>233,900</u>	<u>199,145</u>	<u>34,755</u>
Sheriff/Other Public Safety				
Police Services/Contract	2,776,540	2,781,879	2,743,138	38,741
Stipend	158,760	158,760	124,950	33,810
Victims' Rights	57,540	57,540	57,126	414
Beach Services	179,040	179,040	184,394	(5,354)
Total Sheriff/Other Public Safety	<u>3,171,880</u>	<u>3,177,219</u>	<u>3,109,608</u>	<u>67,611</u>
Total Public Safety	<u>17,607,280</u>	<u>17,680,134</u>	<u>16,836,081</u>	<u>844,053</u>

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental:				
Townwide:				
Insurance	317,260	317,260	263,303	53,957
Postage	37,200	37,200	29,606	7,594
General Contingency	50,000	50,000	26,800	23,200
Personnel Adjustment	(330,000)	(404,980)	-	(404,980)
Palmetto Pass	13,080	13,080	12,295	785
Postemployment	15,600	15,600	12,908	2,692
Telephone/Cell Phones/Utilities	353,000	353,000	359,587	(6,587)
Equipment Maintenance/Supplies/Other	43,000	43,000	28,982	14,018
Vehicle Fuel	157,200	157,200	146,094	11,106
Lease Payments	51,880	51,880	129,594	(77,714)
Photocopying	13,000	13,000	9,406	3,594
Courier	17,890	17,890	19,835	(1,945)
Furniture/Fixtures <\$5,000	5,000	5,000	594	4,406
Disaster Advertising Reserve Fund	221,060	221,060	200,000	21,060
Hospitality Training & Promotion	114,800	114,800	154,765	(39,965)
Drug Court Grant	50,500	50,500	50,500	-
Recreation Center-Operating Grant	642,940	642,940	623,328	19,612
Recreation Center-Capital Grant	120,400	120,400	39,973	80,427
Coastal Discovery Grant	85,000	85,000	80,750	4,250
LTRA Grant	175,000	175,000	166,250	8,750
LEPC Grant	-	-	12,094	(12,094)
USAR - RRT Grant	-	-	15,518	(15,518)
Beaufort County Hazmat Grant	-	-	15,000	(15,000)
<b>Total Non-Departmental Townwide</b>	<b>2,153,810</b>	<b>2,078,830</b>	<b>2,397,182</b>	<b>(318,352)</b>
Capital Outlay				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	-	96,710	96,619	91
Computer Software >\$50,000	96,710	156,712	7,797	148,915
<b>Total Administrationl-Operations</b>	<b>96,710</b>	<b>253,422</b>	<b>104,416</b>	<b>149,006</b>
<b>Total Management Services</b>	<b>96,710</b>	<b>253,422</b>	<b>104,416</b>	<b>149,006</b>

**SCHEDULE 1**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Capital Outlay (continued)				
Public Safety:				
Fire and Rescue Operations:				
Specialized Equipment	91,000	91,000	90,238	762
Total Fire and Rescue-Operations	<u>91,000</u>	<u>91,000</u>	<u>90,238</u>	<u>762</u>
Fire and Rescue Communications				
Specialized Equipment	27,000	27,000	7,112	19,888
Total Fire and Rescue-Communications	<u>27,000</u>	<u>27,000</u>	<u>7,112</u>	<u>19,888</u>
Fire and Rescue Logistics/Maintenance:				
Specialized Equipment	68,500	62,030	48,089	13,941
Total Fire and Rescue-Logistics/Maintenance	<u>68,500</u>	<u>74,030</u>	<u>48,089</u>	<u>25,941</u>
Fire and Rescue-Support Services:				
Specialized Equipment	12,000	12,000	11,981	19
Total Fire and Rescue-Support Services	<u>12,000</u>	<u>12,000</u>	<u>11,981</u>	<u>19</u>
Total Public Safety	<u>198,500</u>	<u>204,030</u>	<u>157,420</u>	<u>46,610</u>
Total Capital Outlay	<u>295,210</u>	<u>457,452</u>	<u>261,836</u>	<u>195,616</u>
Total Expenditures	<u>33,257,000</u>	<u>33,818,026</u>	<u>31,316,599</u>	<u>2,501,427</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(6,743,890)</u>	<u>(7,304,916)</u>	<u>(5,865,933)</u>	<u>1,438,983</u>
<u>Other Financing Sources and Uses :</u>				
Transfers In	5,850,760	5,850,760	5,453,571	(397,189)
Total Other Financing Sources	<u>5,850,760</u>	<u>5,850,760</u>	<u>5,453,571</u>	<u>(397,189)</u>
<b>Net change in fund balance</b>	<u>(893,130)</u>	<u>(1,454,156)</u>	<u>(412,362)</u>	<u>\$ 1,041,794</u>
<b>Fund Balance - beginning</b>	<u>16,274,131</u>	<u>16,274,131</u>	<u>16,274,131</u>	
<b>Fund Balance - ending</b>	<u>\$ 15,381,001</u>	<u>\$ 14,819,975</u>	<u>\$ 15,861,769</u>	

**SCHEDULE 2**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 4,690,100	\$ 4,690,100	\$ 4,734,076	\$ (43,976)
Investment Income	210,000	210,000	206,739	3,261
Total revenues	<u>4,900,100</u>	<u>4,900,100</u>	<u>4,940,815</u>	<u>(40,715)</u>
<b>Expenditures:</b>				
Administrative	20,490	20,490	23,535	(3,045)
Debt service:				-
Principal	11,220,000	11,220,000	11,220,000	-
Interest	5,525,600	5,525,600	5,679,190	(153,590)
Debt Issue Costs	-	-	-	-
Total expenditures	<u>16,766,090</u>	<u>16,766,090</u>	<u>16,922,725</u>	<u>(156,635)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(11,865,990)</u>	<u>(11,865,990)</u>	<u>(11,981,910)</u>	<u>(197,350)</u>
<b>Other financing sources (uses):</b>				
Transfer In	10,994,310	10,994,310	10,980,347	13,963
Total other financing sources (uses)	<u>10,994,310</u>	<u>10,994,310</u>	<u>10,980,347</u>	<u>13,963</u>
<b>Net change in fund balance</b>	(871,680)	(871,680)	(1,001,563)	<u>\$ (129,883)</u>
<b>Fund balance - beginning</b>	<u>10,884,048</u>	<u>10,884,048</u>	<u>10,884,048</u>	
<b>Fund balance - ending</b>	<u>\$ 10,012,368</u>	<u>\$ 10,012,368</u>	<u>\$ 9,882,485</u>	

**SCHEDULE 3**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 703,100	\$ 703,100	\$ 709,774	\$ 6,674
Grants	745,000	254,000	52,525	(201,475)
Contributions	-	233,175	8,500	(224,675)
State Taxes - Sunday Permit Fees	270,000	345,000	254,500	(90,500)
Capital Sales Tax	-	703,539	703,258	(281)
Hospitality Tax	-	9,314,779	4,826,318	(4,488,461)
Impact Fee - Roads	250,000	255,308	43,071	(212,237)
County Impact Fee - Parks	-	-	15,675	15,675
County Parks Funding	-	325,408	300,000	(25,408)
County Stormwater	-	1,172,650	1,572,183	399,533
Miscellaneous	-	6,960,864	18,797	(6,942,067)
Developer Fees	-	40,225	-	(40,225)
Sale of Property	-	-	8,582	8,582
Lease	69,000	69,000	85,839	16,839
Investment Income	-	-	213,183	213,183
<b>Total Revenues</b>	<b>2,037,100</b>	<b>20,377,048</b>	<b>8,812,205</b>	<b>(11,564,843)</b>
<b>Expenditures:</b>				
<b>Public Facilities:</b>				
Fire and Rescue Dispatch Center	290,000	20,084	16,327	3,757
Fire and Rescue Training Center	-	1,991,069	1,862,768	128,301
Fire and Rescue Computer System	-	301,885	216,064	85,821
Dispatch Center Equip. Upgrade	50,000	110,407	63,258	47,149
Coligny/Pope Avenue Area Improvements	285,000	100,038	-	100,038
Dunnigan's Alley/Arrow Road Improvements	100,000	200,000	31,736	168,264
Sewer Service Projects	-	435,000	110,089	324,911
Facilities Management Building	-	1,865,082	1,714,115	150,967
Stoney Area CDBG Project	470,000	342,401	172,721	169,680
Community Warning System	-	220,000	156,966	63,034
<b>Total Public Facilities</b>	<b>1,195,000</b>	<b>5,585,966</b>	<b>4,344,044</b>	<b>1,241,922</b>
<b>Park Development:</b>				
Coligny Beach Park	1,450,000	1,642,727	1,277,702	365,025
Park Upgrades	315,000	349,408	111,179	238,229
Compass Rose Park	-	90,788	9,588	81,200
Public Art	-	116,477	49,343	67,134
<b>Total Park Development</b>	<b>1,765,000</b>	<b>2,199,400</b>	<b>1,447,812</b>	<b>751,588</b>

**SCHEDULE 3**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Land Acquisition:				
Land Acquisition	491,000	8,238,092	8,452,181	(214,089)
Total Land Acquisition	<u>491,000</u>	<u>8,238,092</u>	<u>8,452,181</u>	<u>(214,089)</u>
Beach Maintenance:				
Beach Management	220,000	393,943	154,728	239,215
Beach Renourishment	-	288,973	116,408	172,565
Shoreline Management Plan	650,000	1,000,000	576,498	423,502
Groins Refurbishment	1,000,000	1,000,000	23,476	976,524
Dunes Refurbishment	50,000	50,614	29,517	21,097
Beach Parks/Access Rehabilitation	75,000	75,584	34,120	41,464
Total Beach Maintenance	<u>1,995,000</u>	<u>2,809,114</u>	<u>934,747</u>	<u>1,874,367</u>
Facilities Improvements:				
Town Hall/Municipal Court Renovations	645,000	645,000	203,275	441,725
Fire Station #1 Replacement	250,000	524,315	57,477	466,838
Fire Station #2 Replacement	-	74,914	69,078	5,836
Fire Station #5 Replacement	2,500,000	2,664,059	362,715	2,301,344
Fire Station #6 Repair/Replacement	-	124,914	96,494	28,420
Fire Hydrant Upgrades	50,000	46,555	46,556	(1)
Hurricane Protection	-	24,800	24,799	1
SecurityCameras	500,000	500,256	248,844	251,412
Coastal Discovery Stabilization	-	483,352	374,793	108,559
Utilities CIP	-	-	47,930	(47,930)
Rehab & Renovation of Town Fixed Assets	365,000	437,485	273,338	164,147
Apparatus/Vehicle Replacement	3,146,000	3,497,245	3,417,443	79,802
Demolition of Structures	152,000	155,329	153,925	1,404
Total Facilities Improvements	<u>7,608,000</u>	<u>9,178,223</u>	<u>5,376,667</u>	<u>3,801,556</u>

**SCHEDULE 3**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Roadway Improvements:</b>				
Allen Drive	-	2,848	2,848	-
Mitchelville Lane	-	5,691	5,691	-
Median Curbing	175,000	175,000	144,223	30,777
Roadway Safety Improvements	420,000	566,360	275,079	291,281
Widen Mathews Drive/US 278	2,040,000	519,811	196,814	322,997
Widen Mathews Drive/Marshland Road	-	2,581,344	2,576,516	4,828
Widen Mathews Drive/Chaplin Area	610,000	21,447	21,448	(1)
Dunnagan's Alley Roundabout	80,000	79,991	66,203	13,788
Marshland Road Roundabout	-	47,115	47,115	-
US 278/ Squire Pope Intersection	-	703,539	692,789	10,750
Stoney Secondary Road	75,000	75,888	30,156	45,732
Summit Drive Realignment	-	50,083	12,093	37,990
Intersection/Crosswalk Lighting	90,000	76,463	17,924	58,539
Directional Neighborhood Signage	50,000	86,004	86,004	-
Horseshoe Road Connector	-	116,929	101,928	15,001
Gumtree/Squire Pope Roundabout	-	121,140	118,140	3,000
SCDOT Road Resurfacing	-	2,218	2,218	-
Widen and Realign Office Park Road	-	235,477	71,818	163,659
Mainland Transportation improvements	500,000	899,850	2,169	897,681
Intersection Improvements	325,000	745,406	91,463	653,943
Traffic Signal Mast Arms	250,000	268,494	152,728	115,766
Fire and Rescue Emergency Access Points	110,000	186,129	81,949	104,180
<b>Total Roadway Improvements</b>	<b>5,015,000</b>	<b>7,567,228</b>	<b>4,797,316</b>	<b>2,769,912</b>
<b>Pathway Improvements:</b>				
Pathway Rehabilitation	60,000	64,060	64,060	-
Mathews Drive (North)	-	217,284	217,284	-
Mathews Drive (US 278 to Beach City Rd.)	480,000	480,000	92,115	387,885
Avocet Road	30,000	48,299	4,527	43,772
New Orleans Road	570,000	638,951	169,755	469,196
Lagoon Road	45,000	72,099	14,734	57,365
Target Road	68,000	128,898	75,681	53,217
Pope Avenue	-	3,864	3,864	-
Palmetto Bay Road	1,300,000	388,561	338,561	50,000
Wild Horse Road	-	5,308	5,308	-
<b>Total Pathway Improvements</b>	<b>2,553,000</b>	<b>2,047,324</b>	<b>985,889</b>	<b>1,061,435</b>

**SCHEDULE 3**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET (GAAP Basis) AND ACTUAL  
For The Year Ended June 30, 2009**

	Original Budget	Final Budget	Actual	Variance With Final Positive Positive (Negative)
Drainage Improvements:				
Drainage System Rehabilitation	310,000	546,095	487,225	58,870
Drainage Study Updates	625,000	332,222	73,222	259,000
Miller Pond	640,000	541,310	65,517	475,793
Squire Pope Pathway	740,000	740,000	117,096	622,904
Club Course Outfall	-	79,442	79,442	-
Total Drainage Improvements	<u>2,315,000</u>	<u>2,239,069</u>	<u>822,502</u>	<u>1,416,567</u>
Total Capital Outlay	<u>22,937,000</u>	<u>39,864,416</u>	<u>27,161,158</u>	<u>12,703,258</u>
Total Expenditures	<u>22,937,000</u>	<u>39,864,416</u>	<u>27,161,158</u>	<u>12,703,258</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(20,899,900)</u>	<u>(19,487,368)</u>	<u>(18,348,953)</u>	<u>1,138,415</u>
<u>Other Financing Sources/ (Uses):</u>				
Issuance of Bonds	3,550,000	7,783,603	-	(7,783,603)
Other Financing Sources	-	-	65,084	65,084
Other Financing Uses	-	-	(115,084)	(115,084)
Transfers In	16,779,000	8,837,731	6,159,666	(2,678,065)
Transfers Out	-	-	(4,527,205)	(4,527,205)
Total Other Financing Sources(Uses)	<u>20,329,000</u>	<u>16,621,334</u>	<u>1,582,461</u>	<u>(15,038,873)</u>
<b>Net change in fund balance</b>	(570,900)	(2,866,034)	(16,766,492)	<u>\$ (13,900,458)</u>
<b>Fund Balance - beginning</b>	<u>30,133,566</u>	<u>30,133,566</u>	<u>30,133,566</u>	
<b>Fund Balance - ending</b>	<u>\$ 29,562,666</u>	<u>\$ 27,267,532</u>	<u>\$ 13,367,074</u>	

# Other Supplementary Information

## Nonmajor Governmental Funds

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

1. **Palmetto Electric Franchise Fees** – This fund is used to account for franchise fees paid by Palmetto Electric Cooperative, Inc. These funds will be utilized to offset costs associated with the undergrounding (placement underground) of all existing and future non-transmission lines owned by Palmetto Electric pursuant to the terms and conditions of the Franchise Agreement and related Underground Service Agreement between the Town and Palmetto Electric.
2. **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.

**SCHEDULE 4**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
Year Ended June 30, 2009**

	Special Revenue Funds		
	Palmetto Electric	Home Grant	Total Nonmajor Governmental Funds
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 64,970	\$ -	\$ 64,970
Due from Palmetto Electric	110,207	-	110,207
Restricted Assets:			
Cash and Cash Equivalents	-	22,665	22,665
Total assets	\$ 175,177	\$ 22,665	\$ 197,842
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts Payable	\$ 19,155	\$ -	\$ 19,155
Deferred Revenue	-	22,274	22,274
Total liabilities	19,155	22,274	41,429
Fund balances:			
Unreserved:			
Undesignated	156,022	391	156,413
Total fund balances	156,022	391	156,413
Total liabilities and fund balances	\$ 175,177	\$ 22,665	\$ 197,842

**SCHEDULE 5**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
NONMAJOR GOVERNMENTAL FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For The Year Ended June 30, 2009**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Palmetto Electric</u>	<u>Home Grant</u>	
<u>Revenues:</u>			
Electric Franchise Fee	\$ 2,606,971	\$ -	\$ 2,606,971
Investment Income	-	8	8
Total revenues	<u>2,606,971</u>	<u>8</u>	<u>2,606,979</u>
<u>Expenditures:</u>			
Current:			
Administrative	2,046,260	-	2,046,260
Interest	1,315	-	1,315
Total expenditures	<u>2,047,575</u>	<u>-</u>	<u>2,047,575</u>
<b>Excess of revenues over expenditures</b>	<u>559,396</u>	<u>8</u>	<u>559,404</u>
<u>Other financing (uses):</u>			
Transfers Out	(85,904)	-	(85,904)
Total other financing (uses)	<u>(85,904)</u>	<u>-</u>	<u>(85,904)</u>
<b>Net change in fund balances</b>	473,492	8	473,500
<b>Fund balance - beginning</b>	<u>(317,470)</u>	<u>383</u>	<u>(317,087)</u>
<b>Fund balance - ending</b>	<u>\$ 156,022</u>	<u>\$ 391</u>	<u>\$ 156,413</u>

## Other Supplementary Information

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

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

**SCHEDULE 6**

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
AGENCY FUND  
FIREMEN'S FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended June 30, 2009**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>ASSETS:</u>				
Cash and Temporary Investments	<u>\$ 49,883</u>	<u>\$ 627,568</u>	<u>\$ 637,296</u>	<u>\$ 40,155</u>
 <u>LIABILITIES:</u>				
Due to Firemen's Fund Association	<u>\$ 49,883</u>	<u>\$ 627,568</u>	<u>\$ 637,296</u>	<u>\$ 40,155</u>

**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>Pages</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>	76 - 80
<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>	81-86
<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>	87-91
<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>	92-93
<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>	94-96

**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, South Carolina  
Net Assets by Component, Last Seven Fiscal Years  
(accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
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	\$ 98,661,331	\$ 114,310,240
Restricted	6,373,187	6,373,187	8,594,126	23,111,481	23,682,142	25,168,338	23,590,106
Unrestricted	36,809,752	26,079,740	39,877,353	35,349,883	35,803,517	34,433,182	27,448,750
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>	<u>\$ 158,262,851</u>	<u>\$ 165,349,096</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, South Carolina  
Change in Net Assets, Last Seven Fiscal Years  
(accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
<b>Expenses</b>							
Governmental activities:							
General Government	\$ 1,376,550	\$ 1,430,134	\$ 2,908,087	\$ 3,059,753	\$ 3,376,831	\$ 3,777,076	\$ 3,823,670
Management Services	2,929,346	3,243,571	3,267,610	3,765,726	3,875,696	4,099,915	4,747,193
Community Services	5,529,373	8,243,753	8,020,829	10,095,045	24,378,607	18,498,051	14,003,774
Public Safety	13,873,760	14,753,859	14,707,812	15,605,366	16,207,323	17,528,471	17,717,708
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	1,718,815	1,697,468
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446
Administrative	363,326	823,516	1,296,642	2,149,451	1,813,259	2,884,106	2,204,684
Interest on Long-Term Debt	4,610,909	4,320,669	5,409,997	5,585,734	5,727,606	5,669,171	5,566,777
Other Charges	-	-	-	-	295,486	235,742	-
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>	<u>\$ 55,629,379</u>	<u>\$ 50,911,720</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	\$ 588,996	\$ 608,137
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657	8,133,032	7,459,058
Community Services	6,310,944	6,992,582	8,010,754	8,419,282	7,497,902	7,651,429	6,867,736
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505
Administrative	3,176,112	4,364,478	6,717,848	6,020,689	3,676,835	2,940,426	1,848,993
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793	152,140	130,796
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246	61,843	52,525
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>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</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>	<u>\$ (34,608,091)</u>	<u>\$ (32,527,970)</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	\$ 19,859,691	\$ 21,993,646
Other taxes	7,281,600	7,252,510	8,305,770	11,144,997	11,277,083	11,637,286	10,836,674
Intergovernmental (Unrestricted State Shared)	1,144,768	1,107,990	1,197,579	1,155,021	1,268,534	2,198,691	2,012,649
Investment earnings	659,153	560,878	1,203,427	2,951,972	4,236,702	2,521,431	876,095
Miscellaneous	1,061,158	1,698,226	2,084,490	3,286,231	3,679,894	3,921,488	3,895,151
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>	<u>\$ 40,138,587</u>	<u>\$ 39,614,215</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>	<u>\$ 5,530,496</u>	<u>\$ 7,086,245</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, South Carolina  
Program Revenues by Function/Program, Last Seven Fiscal Years  
(accrual basis of accounting)

Function/Program	Fiscal Year						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities:							
General Government	\$ 761,388	\$ 689,956	\$ 727,000	\$ 937,902	\$ 727,234	\$ 741,136	\$ 738,933
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657	8,133,032	7,459,058
Community Services	5,716,758	8,096,953	8,955,179	8,600,182	7,546,148	7,713,272	6,920,261
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505
Administrative	3,219,006	4,480,676	6,717,848	6,020,689	3,676,835	2,940,426	1,848,993
Total governmental activities	<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>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</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, South Carolina  
Fund Balances Governmental Funds, Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved	\$ 97,847	\$ 102,173	\$ 161,304	\$ 77,952	\$ 89,460	\$ 122,453	\$ 328,984	\$ 157,080	\$ 283,748	\$ 164,731
Unreserved	4,851,142	6,413,411	6,752,852	7,215,588	7,514,334	11,196,901	14,366,799	16,269,658	15,990,383	15,697,038
Total General Fund	<u>\$ 4,948,989</u>	<u>\$ 6,515,584</u>	<u>\$ 6,914,156</u>	<u>\$ 7,293,540</u>	<u>\$ 7,603,794</u>	<u>\$ 11,319,354</u>	<u>\$ 14,695,783</u>	<u>\$ 16,426,738</u>	<u>\$ 16,274,131</u>	<u>\$ 15,861,769</u>
All Other Governmental Funds										
Reserved	\$ 5,986,164	\$ 6,173,690	\$ 5,643,606	\$ 7,734,130	\$ 17,228,003	\$ 19,159,808	\$ 17,402,001	\$ 18,556,583	\$ 24,013,184	\$ 18,634,944
Unreserved, reported in:										
Special revenue funds	5,472,557	4,817,776	3,962,905	5,339,044	17,911,547	25,460,960	30,798,191	27,088,384	26,375,485	21,814,650
Capital projects funds	9,809,928	20,074,771	12,710,261	19,550,776	23,321,010	20,022,075	16,841,628	14,520,788	16,735,177	4,924,286
Debt service funds	-	-	-	-	1,368,544	83,084	524,408	2,237,167	269,253	-
Total All Other Governmental Funds	<u>\$ 21,268,649</u>	<u>\$ 31,066,237</u>	<u>\$ 22,316,772</u>	<u>\$ 32,623,950</u>	<u>\$ 59,829,104</u>	<u>\$ 64,725,927</u>	<u>\$ 65,566,228</u>	<u>\$ 62,402,922</u>	<u>\$ 67,393,099</u>	<u>\$ 45,373,880</u>

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

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Revenues</b>										
Taxes (see Schedule 6) <sup>a</sup>	\$ 18,731,804	\$ 20,686,568	\$ 22,037,344	\$ 22,630,610	\$ 23,545,682	\$ 29,908,319	\$ 30,186,628	\$ 30,567,859	\$ 31,496,978	\$ 32,829,920
Licenses, fees, and permits <sup>b</sup>	14,320,667	14,322,993	14,583,466	15,423,227	17,717,490	22,816,711	24,528,805	21,488,134	21,387,485	19,202,835
Fines and penalties	306,078	361,447	335,338	269,572	295,537	307,993	362,466	419,313	465,065	407,422
Charges for services	909,410	1,020,384	1,036,720	1,237,991	1,290,307	1,340,492	1,613,063	1,606,874	1,661,201	1,604,565
Intergovernmental	1,265,247	1,091,220	1,331,714	1,144,768	1,107,990	1,197,579	1,155,021	1,268,534	1,312,571	1,309,391
Investment earnings	1,625,165	1,581,268	817,211	659,153	560,878	1,203,427	2,951,973	4,236,702	2,521,430	876,095
Other revenues	2,067,896	1,589,658	1,452,866	3,125,301	2,158,082	1,698,671	1,346,643	1,198,272	2,615,149	1,702,652
<b>Total revenues</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>\$ 61,459,879</b>	<b>\$ 57,932,880</b>
<b>Expenditures</b>										
General Government	\$ 938,700	\$ 970,686	\$ 996,798	\$ 1,035,285	\$ 1,150,862	\$ 1,233,212	\$ 1,395,347	\$ 1,360,932	\$ 1,551,674	\$ 1,100,621
Management Services	2,290,241	2,616,611	2,896,258	2,915,272	3,045,720	3,166,953	3,642,659	3,651,665	3,921,014	4,563,007
Community Services	4,050,867	4,194,672	4,271,755	4,451,258	6,447,612	5,785,641	6,073,095	6,549,522	6,964,349	6,530,162
Public Safety	10,454,554	10,897,319	11,406,240	12,237,337	13,027,729	13,766,856	14,760,157	15,428,220	16,921,361	16,836,081
Non-Departmental	1,685,273	1,525,333	1,557,289	1,693,628	1,714,926	1,668,095	1,664,406	1,745,509	2,018,190	2,397,182
Accommodations Tax Grants	1,057,150	1,038,161	1,140,488	1,197,868	984,663	1,318,157	1,305,306	2,071,003	1,718,815	1,697,468
Visitor & Convention Bureau	927,930	928,743	936,673	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446
Administrative	66,226	87,529	62,064	363,326	823,516	1,296,642	2,149,451	1,948,281	2,884,106	2,088,285
Capital Outlay	12,656,691	22,454,904	21,283,379	20,191,545	15,906,740	11,499,658	13,999,379	35,090,202	23,255,954	27,050,704
Debt Service										
Interest	3,486,256	3,352,570	4,302,168	4,567,053	4,279,777	5,261,940	5,615,555	6,591,134	11,837,139	11,220,000
Principal	19,322,118	1,651,663	2,949,977	3,194,033	3,963,465	3,739,029	6,179,615	5,496,034	5,645,093	5,680,505
Fiscal charges	-	-	-	-	-	11,328	-	-	-	-
Debt issue costs	-	-	-	377,251	-	586,452	-	-	451,841	-
<b>Total expenditures</b>	<b>\$ 56,936,006</b>	<b>\$ 49,718,191</b>	<b>\$ 51,803,089</b>	<b>\$ 53,160,973</b>	<b>\$ 52,285,918</b>	<b>\$ 50,323,547</b>	<b>\$ 57,927,869</b>	<b>\$ 81,113,177</b>	<b>\$ 78,387,568</b>	<b>\$ 80,314,461</b>
Excess of revenues over (under) expenditures	(17,458,071)	(8,823,223)	(10,208,430)	(8,670,351)	(5,609,952)	8,149,645	4,216,730	(20,327,489)	(16,927,689)	(22,381,581)
<b>Other Financing Sources (Uses)</b>										
Bonds issued	\$ 18,000,000	\$ 20,187,406	\$ -	\$ 17,000,000	\$ 44,740,000	\$ 30,685,000	\$ -	\$ 19,000,000	\$ 34,215,000	\$ -
Other Uses/Sources	-	-	-	-	-	-	-	-	-	(50,000)
Refunding bonds issued	-	-	1,056,656	-	-	-	-	-	-	-
Debt issue costs	-	-	-	-	-	-	-	(408,813)	-	-
Payments to escrow agent	-	-	-	-	-	(31,082,935)	-	-	(11,955,000)	-
Premium on bond issuance	-	-	-	92,496	-	860,673	-	303,951	154,397	-
Refund of debt	-	-	-	-	(10,965,000)	-	-	-	-	-
EMS bad debt write-off	-	-	-	-	(649,108)	-	-	-	-	-
Capital leases	111,047	-	800,881	-	-	-	-	-	-	-
Transfers in	7,001,296	6,153,410	8,909,245	8,862,368	8,762,672	11,019,688	15,762,506	24,612,718	13,676,941	22,593,584
Transfers out	(7,001,296)	(6,153,410)	(8,909,245)	(8,862,368)	(8,762,672)	(11,019,688)	(15,762,506)	(24,612,718)	(13,676,941)	(22,593,584)
<b>Total other financing sources (uses)</b>	<b>\$ 18,111,047</b>	<b>\$ 20,187,406</b>	<b>\$ 1,857,537</b>	<b>\$ 17,092,496</b>	<b>\$ 33,125,892</b>	<b>\$ 462,738</b>	<b>\$ -</b>	<b>\$ 18,895,138</b>	<b>\$ 22,414,397</b>	<b>\$ (50,000)</b>
<b>Net change in fund balances</b>	<b>\$ 652,976</b>	<b>\$ 11,364,183</b>	<b>\$ (8,350,893)</b>	<b>\$ 8,422,145</b>	<b>\$ 27,515,940</b>	<b>\$ 8,612,383</b>	<b>\$ 4,216,730</b>	<b>\$ (1,432,351)</b>	<b>\$ 5,486,708</b>	<b>\$ (22,431,581)</b>

Notes: <sup>a</sup>Property Tax Reassessments performed in 2004 and 1999.  
<sup>b</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.

Total Expenditures				53,160,973	52,285,918	50,323,547	57,927,869	81,113,177	78,387,568	80,314,461
Total Capital Outlay				20,191,545	15,906,740	11,499,658	13,999,379	35,090,202	23,255,954	27,050,704
Expenditures for Capital Assets (Exhibit F)				(15,559,903)	(13,806,908)	(8,265,319)	(9,174,804)	(18,562,717)	(13,204,913)	(22,288,391)
				4,631,642	2,099,832	3,234,339	4,824,575	16,527,485	10,051,041	4,762,313
Non-Capital Expenditures				48,529,331	50,186,086	47,089,208	53,103,294	64,585,692	68,336,527	75,552,148
Debt service as a percentage of non-capital expenditures	n/a	n/a	n/a	16.8%	16.4%	20.4%	22.2%	18.7%	26.2%	22.4%

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

<u>Fiscal Year</u>	<u>Property</u>	<u>Accommodations</u>	<u>Hospitality</u>	<u>Total</u>
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
2008	19,859,691	6,404,449	5,232,837	31,496,977
2009	21,993,646	6,010,356	4,826,318	32,830,320
Change 2000-2009	59.4%	21.9%	100.0%	75.3%

Schedule 7  
 Town of Hilton Head Island, South Carolina  
 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		
2000	1999	417,384,447	7,368,592,517	36,112,524	343,928,800	453,496,971	7,712,521,317	30.50	5.88%
2001	2000	414,929,945	7,369,291,366	41,163,671	392,034,962	456,093,616	7,761,326,328	30.50	5.88%
2002	2001	435,389,649	7,735,366,110	40,250,382	383,336,971	475,640,031	8,118,703,081	31.00	5.86%
2003	2002	439,452,362	7,865,358,172	38,477,857	366,455,781	477,930,219	8,231,813,953	31.00	5.81%
2004	2003	454,685,211	8,025,375,587	40,344,252	504,303,150	495,029,463	8,529,678,737	31.00	5.80%
2005	2004	801,317,491	14,377,704,217	40,432,317	505,403,963	841,749,808	14,883,108,179	22.30	5.66%
2006	2005	779,621,893	14,112,440,708	35,956,376	479,418,347	815,578,269	14,591,859,055	19.00	5.59%
2007	2006	805,913,661	15,508,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	19.00	5.26%
2008	2007	806,862,365	16,944,198,458	33,601,425	621,120,250	840,463,790	17,565,318,708	19.00	4.78%
2009	2008	802,241,286	16,847,155,290	30,491,101	563,626,104	832,732,387	17,410,781,395	19.36	4.78%

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, South Carolina  
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>				Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts <sup>1</sup>	Special Purpose and Fire Districts	
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
2008	2007	12.33	0.85	5.82	19.00	122.80	51.90	7.20	-	200.90
2009	2008	12.84	0.85	5.67	19.36	130.60	51.90	7.85	-	209.71

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

<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

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

Schedule 9  
Town of Hilton Head Island, South Carolina  
Principal Property Tax Payers  
*Current Year and Ten Years Ago*

<u>Taxpayer</u>	<u>Tax Year 2009</u>			<u>Tax Year 2000</u>		
	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>
Marriott Ownership Resort	\$ 18,718,875	1	2.25%	\$ 1,931,468	1	0.43%
SCG Hilton Head Property, LLC <sup>b</sup>	4,620,000	2	0.55%	289,058	10	0.06%
Palmetto Electric Co-op	4,404,664	3	0.53%	1,155,364	2	0.25%
Columbia Properties Hilton Head, LLC <sup>a</sup>	3,947,856	4	0.47%	-	-	-
Hargray Telephone Compani Inc	3,635,338	5	0.44%	952,410	3	0.21%
Sea Pines Resort, LLC	3,424,907	6	0.41%	372,908	7	0.08%
Greenwood Development	2,435,022	7	0.29%	843,391	4	0.19%
Hilton Head Health System, LP	1,755,313	8	0.21%	-	-	-
PVI Shelter Cove Limited	1,500,000	9	0.18%	-	-	-
Heritage Golf Port Royal, LLC	1,188,920	10	0.14%	-	-	-
Dunes Motel	-	-	-	624,396	5	0.14%
Melrose Group Ltd	-	-	-	340,524	8	0.08%
Holiday Inns	-	-	-	295,800	9	0.07%
<b>Total</b>	<b>\$ 45,630,895</b>		<b>5.47%</b>	<b>\$ 6,805,319</b>		<b>1.50%</b>

Source: Beaufort County

<sup>a</sup> Formerly Dunes Hotel Associates

<sup>b</sup> Formerly Westin Hilton Head Limited P/S

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage
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	19,106,703	19,014,954	99.52%	275,822	19,290,776	100.96%
2008	19,597,248	19,461,546	99.31%	398,145	19,859,691	101.34%
2009	21,360,151	21,085,178	98.71%	908,468	21,993,646	102.97%

Source: Town of Hilton Head Island Finance Department

note: in 2004 column E is plugged to bring the percentage levy column O below 100% per auditors

note: FY 2007 taxes levied have been recalculated as of Fiscal Year 2008 report - better information now available

Schedule 11  
 Town of Hilton Head Island, South Carolina  
 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>
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%
2008	0%	1%	6%
2009	0%	1%	6%

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

Schedule 12  
Town of Hilton Head Island, South Carolina  
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>
2000	48,275,000	-	-	13,035,000	563,455	61,873,455	6.66%	1,821
2001	67,350,000	-	-	12,375,000	496,792	80,221,792	7.79%	2,356
2002	65,160,000	-	-	11,685,000	1,227,695	78,072,695	7.17%	2,255
2003	63,730,000	17,000,000	4,530,000	10,965,000	1,153,663	97,378,663	8.84%	2,816
2004	76,285,000	35,775,000	-	10,530,000	886,720	123,476,720	10.90%	3,569
2005	74,705,000	35,500,000	-	10,005,000	607,690	120,817,690	10.11%	3,476
2006	71,240,000	34,060,000	-	8,995,000	343,075	114,638,075	9.49%	3,298
2007	67,460,000	51,565,000	-	7,955,000	67,140	127,047,140	10.00%	3,720
2008	63,680,000	66,885,000	-	6,905,000	-	137,470,000	9.80%	4,056
2009	59,705,000	60,720,000	-	5,825,000	-	126,250,000	8.74%	3,723

**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, South Carolina  
Ratios of Net General Bonded Debt Outstanding, Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Exempt from Debt Limit</u>	<u>Total Net</u>	<u>Percentage of Actual Taxable Value<sup>a</sup> of Property</u>	<u>Per Capita<sup>b</sup></u>
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%	599
2002	65,160,000	45,780,000	19,380,000	0.25%	569
2003	63,730,000	44,470,000	19,260,000	0.24%	556
2004	76,285,000	58,085,000	18,200,000	0.23%	526
2005	74,705,000	57,350,000	17,355,000	0.12%	502
2006	71,240,000	55,385,000	15,855,000	0.11%	456
2007	67,460,000	53,280,000	14,180,000	0.09%	415
2008	63,680,000	51,355,000	12,325,000	0.07%	364
2009	59,705,000	49,410,000	10,295,000	0.06%	304

**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, South Carolina  
 Direct and Overlapping Governmental Activities Debt  
 As of June 30, 2009  
 (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	\$ 287,335,000	51%	\$ 146,540,850
Beaufort County General Obligation Debt	317,390,000	51%	161,868,900
Broad Creek Public Service District	6,435,000	100%	6,435,000
Hilton Head No. 1 Public Service District	10,361,000	98%	10,153,780
<b>Subtotal, overlapping debt</b>			<b><u>324,998,530</u></b>
<b>Town direct debt</b>			<b><u>65,530,000</u></b>
<b>Total direct and overlapping debt</b>			<b><u>\$ 390,528,530</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, South Carolina  
Legal Debt Margin Information, Last Ten Fiscal Years  
(dollars in thousands)

Assessed value (as of December 31, 2008) \$ 832,732  
Debt Limit (8% of assessed value) 66,619 <sup>a</sup>

Debt applicable to limit:  
General obligation bonds:  
1996A \$ 175  
1996B 1,045  
1999B 5,105  
2004B 3,970  
Total net debt applicable to limit 10,295  
Legal Debt Margin (without a Referendum) \$ 56,324

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit	\$ 36,280	\$ 36,487	\$ 38,051	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196	\$ 66,174	\$ 66,619
Total net debt applicable to limit	22,155	20,350	19,380	19,260	18,200	17,355	15,855	14,180	12,325	10,295
Legal debt margin	14,125	16,137	18,671	18,974	21,402	47,561	50,012	51,016	53,849	56,324
Total net debt applicable to the limit as a percentage of debt limit	61.07%	55.77%	50.93%	50.37%	45.96%	26.73%	24.07%	21.75%	18.63%	15.45%

**Note:** Article Ten (X), Section Fourteen (14), of the South Carolina Constitution of 1895 as amended provides that a City or Town shall incur General Obligation Debt over the eight percent (8%) limit when approved by a majority 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 2009. With this cap, the debt limit for 2009 cannot exceed \$53,295,200.

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

Hospitality Tax Bonds						Tax Increment Bonds					
Fiscal Year	Collections	Debt Service			Coverage	Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total				Principal	Interest	Total	
2000	-	-	-	-	-	2000	-	-	-	-	-
2001	-	-	-	-	-	2001	-	-	-	-	-
2002	-	-	-	-	-	2002	-	-	-	-	-
2003	-	-	-	-	-	2003	-	-	-	-	-
2004	-	-	-	-	-	2004	-	-	-	-	-
2005	2,991,110	275,000	469,885	744,885	4.02	2005	3,777,553	-	347,200	347,200	10.88
2006	5,086,678	290,000	464,385	754,385	6.74	2006	4,065,563	645,000	357,004	1,002,004	4.06
2007	5,108,528	305,000	448,970	753,970	6.78	2007	3,985,064	710,000	294,112	1,004,112	3.97
2008	5,232,837	315,000	439,820	754,820	6.93	2008	4,427,710	3,140,000	824,163	3,964,163	1.12
2009	4,826,318	325,000	428,007	753,007	6.41	2009	5,833,846	3,270,000	717,538	3,987,538	1.46

Stormwater Revenue Bonds						Beach Preservation Fee Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage	Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total				Principal	Interest	Total	
2000	-	-	-	-	-	2000	-	-	-	-	-
2001	-	-	-	-	-	2001	-	-	-	-	-
2002	-	-	-	-	-	2002	-	-	-	-	-
2003	-	-	-	-	-	2003	-	-	-	-	-
2004	1,079,614	-	750,546	750,546	1.44	2004	-	-	-	-	-
2005	1,480,356	-	750,546	750,546	1.97	2005	-	-	-	-	-
2006	1,324,277	505,000	742,971	1,247,971	1.06	2006	-	-	-	-	-
2007	1,351,871	535,000	712,708	1,247,708	1.08	2007	4,426,889	2,080,000	780,610	2,860,610	1.55
2008	1,501,389	550,000	697,369	1,247,369	1.20	2008	4,634,690	2,160,000	679,810	2,839,810	1.63
2009	1,572,183	565,000	679,938	1,244,938	1.26	2009	4,210,460	2,240,000	569,810	2,809,810	1.50

Schedule 17  
Town of Hilton Head Island, South Carolina  
Demographic and Economic Statistics, Last Ten Fiscal 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>
1999	31,767	928,962	29,243	1.2%
2000	33,971	1,029,661	30,310	1.4%
2001	34,048	1,088,617	31,973	1.8%
2002	34,616	1,101,550	31,822	1.8%
2003	34,578	1,133,052	32,768	2.1%
2004	34,600	1,195,430	34,550	2.2%
2005	34,761	1,207,945	34,750	2.1%
2006	34,156	1,271,013	37,212	4.3%
2007	33,890	1,403,419	41,411	3.7%
2008	33,913	1,445,067	42,611	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, South Carolina  
 Principal Employers  
 Current Year and Ten Years Ago

<u>Employer</u>	<u>2009 Employees</u>	<u>2000 Employees</u>
Marriott Vacation Club Intl	580	N/A
Beaufort County School District	485	N/A
Sea Pines Resort	442	N/A
Westin Hotel and Resorts	380	N/A
Hilton Head Medical Ctr and Clinic	379	N/A
Cypress of Hilton Head	364	N/A
Hilton Head Marriott Golf and Beach Resort	320	N/A
Heritage Golf	319	N/A
The Greenery	276	N/A
Crowne Plaza Resort	250	N/A
Publix Super Markets	240	N/A
Hilton Ocean Front Resort	223	N/A

**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 frm the Greater Beaufort-Hilton Head Economic Partnership, Inc.  
 new source 2009: website showing employers who recruited employees. Then we called the employers to determin their head count.

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

Function/Program	Full-time-Equivalent Employees as of June 30,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.00	7.00
Town Manager	4.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.00	5.00
Human Resources	8.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.00	4.00
Management Services										
Finance	22.0	15.0	15.0	16.0	16.0	17.0	17.0	17.0	19.00	19.00
Administration	7.5	22.0	22.5	23.0	23.0	23.0	23.5	23.5	23.50	22.50
Community Services										
Community Development	37.0	37.0	35.0	35.0	35.0	35.5	36.0	36.0	36.00	36.00
Public Projects & Facilities	15.0	18.0	18.0	18.0	19.0	19.0	19.0	20.0	21.00	21.00
Public Safety										
Fire & Rescue	137.5	137.5	139.5	143.0	143.0	144.0	144.8	147.3	147.30	147.60
Police Services <sup>a</sup>	-	-	-	-	-	-	-	-	-	-
Total	<u>238.0</u>	<u>243.5</u>	<u>244.0</u>	<u>249.0</u>	<u>250.0</u>	<u>252.5</u>	<u>254.3</u>	<u>258.8</u>	<u>261.8</u>	<u>262.1</u>

Source: Budget Book

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, South Carolina  
Operating Indicators by Function/Program, Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government										
Management Services										
Business license permits issued	5,090	5,310	5,130	5,650	6,320	5,130	5,312	5,409	5,638	5,644
Business license inspections	n/a	n/a	n/a	n/a	n/a	20	360	546	150	396
Business license audits	n/a	n/a	n/a	n/a	n/a	50	101	55	-	-
Hospitality tax accounts	355	344	445	408	394	409	411	357	343	356
Bed tax accounts	233	250	247	353	542	649	701	675	732	775
Beach passes issued	1,322	1,537	2,306	1,478	3,007	3,052	2,116	2,729	2,009	2,434
Number of court cases docketed	7,474	8,153	8,300	6,567	7,009	8,340	9,033	9,366	10,687	8,380
Number of court cases disposed	7,041	8,225	7,725	6,668	7,122	7,120	8,952	9,123	10,881	8,607
Number of search warrants issued	17	42	26	11	15	24	15	16	41	19
Number of arrest warrants issued	595	632	569	554	493	547	477	437	410	460
Number of bench warrants issued	209	409	569	818	777	1,333	801	531	894	693
Community Services										
<b>Community Development</b>										
Building inspections conducted	17,258	18,058	16,581	17,211	18,724	21,337	22,167	18,146	15,297	13,053
Building permits issued	544	467	466	351	410	449	440	168	104	63
Miscellaneous permits issued	2,586	2,481	2,780	2,867	3,213	3,100	3,146	4,233	5,121	4,470
<b>Public Projects and Facilities</b>										
# of capital improvement projects to manage	46	44	51	51	57	53	84	76	51	64
# of beach access/parks to maintain	6	6	6	6	6	7	8	8	8	8
Miles of pathways to maintain	23	29	32	32	32	50	51	51	53	55
Maintenance work orders	377	416	452	637	1,368	2,119	2,373	2,517	2,150	2,800
Public Safety										
Fire and Rescue service calls	5,570	5,530	5,790	5,790	5,780	6,140	6,167	6,030	6,246	6,088
Actual fires extinguished	140	145	139	131	141	151	147	139	153	151
Inspections	1,945	1,945	2,010	2,475	2,244	2,338	2,271	2,357	2,649	2,626
Telephone requests	n/a	n/a	n/a	54,445	55,866	45,878	55,584	73,475	75,099	77,352
Public training programs	250	287	291	312	344	341	366	687	614	791

Sources: Various Town departments.

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

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government										
Town-owned parcels	60	87	92	97	100	106	113	113	116	183
Town-owned property acreage	886	1,049	1,081	1,097	1,108	1,126	1,142	1,142	n/a	n/a
Town-owned development rights	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7
Town-owned easements	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	73
Management Services										
Town vehicles	38	34	34	36	37	41	39	38	38	39
Public Safety										
Emergency Apparatus Vehicles	25	25	27	28	25	24	24	24	24	24
Police Vehicles	41	41	33	27	26	-	-	-	-	-
General Vehicles	20	15	20	19	18	17	19	22	22	23
Fire Stations	6	6	6	6	6	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	21	21	21	21	22	22	22	22	22	22
Pathways (miles)	24	29	32	32	32	50	50	51	53	55
Beach access/parks	5	5	5	5	5	7	7	8	8	8

Sources: Various Town departments.

\* All Town roads are deeded to Beaufort County

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

## **Supplemental Financial Information**

Schedule 22  
 Town of Hilton Head Island, South Carolina  
 Municipal Fines, Assessments and Surcharges  
 Year Ended June 30, 2009

<b><u>Court Fines</u></b>	
Court fines collected	\$ 407,422
Court fines retained by the Town	407,422
Court fines remitted to the State Treasurer	<u><u>-</u></u>
<b><u>Court Assessments</u></b>	
Court assessments collected	\$ 421,516
Court assessments retained by the Town	47,061
Court assessments remitted to the State Treasurer	<u><u>374,455</u></u>
<b><u>Court Surcharges</u></b>	
Court surcharges collected	\$ 197,574
Court surcharges retained by the Town	22,984
Court surcharges remitted to the State Treasurer	<u><u>174,590</u></u>
<b><u>Victims Services</u></b>	
Court assessments allocated to victim services	\$ 70,045
Victim Services expenditures	57,126
Funds available for carryforward	<u><u>12,919</u></u>



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town) as of and for the year ended June 30, 2009, which collectively comprise the Town of Hilton Head Island, South Carolina's basic financial statements, and have issued our report thereon dated November 30, 2009. 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 opinions 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 the 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 the internal control that might be considered 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 30, 2009

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

**I. SUMMARY OF AUDITOR'S RESULTS**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified:	No
Significant deficiencies identified that are not considered to be material weaknesses	No
Noncompliance material to financial statements noted	No

**II. FINDINGS - FINANCIAL STATEMENT AUDIT**

None.