

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



**Fiscal Year Ended
June 30, 2010
Finance Department**

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



Fiscal Year Ended June 30, 2010

Prepared by the Finance Department

**Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010**

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Introductory Section



Transmittal Letter

For The Fiscal Year Ended June 30, 2010
The Town of Hilton Head Island, South Carolina

January 25, 2011

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, 2010, 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, 2010. 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 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 2009-2010 total gross taxable sales were \$1.24 billion compared to \$1.30 billion for the prior fiscal year for Hilton Head Island. Between fiscal years 2010, 2009 and 2008 gross taxable sales for Hilton Head Island declined by \$61 million and \$130.4 million. For Beaufort County gross taxable sales declined by \$104 million and \$498.0 million for the same time period. Gross taxable sales for Hilton Head Island were 36.5% of all gross taxable sales within the County during the previous fiscal year.

Fiscal Year	Hilton Head Island	Beaufort County	HHI as a % of BC
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%
2008-2009	1,302,796,767	3,506,948,982	37.1%
2009-2010	1,241,262,336	3,402,899,679	36.5%

Source SC Depart of Revenue Annual Reports 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 Aa¹, 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 decline in revenues. The savings plan was carried forward into FY 2010. The results were quite successful; expenditures were approximately \$2.0 million less than the final budget. The anticipated deficit was reduced from approximately \$1.0 million to \$97,784.

	<u>FY 2010 - General Fund</u>		
	Final		
	Budget	Actual	Variance
Revenue	\$ 25,475,427	\$ 25,058,498	\$ (416,929)
Transfers In	6,064,863	5,443,721	(621,142)
Expenditures	32,582,660	30,600,003	(1,982,657)
Revenues Over (Under) Expenditures	\$ (1,042,370)	\$ (97,784)	

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, 2009. This was the twenty first 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, 2009. It was the fifth 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.

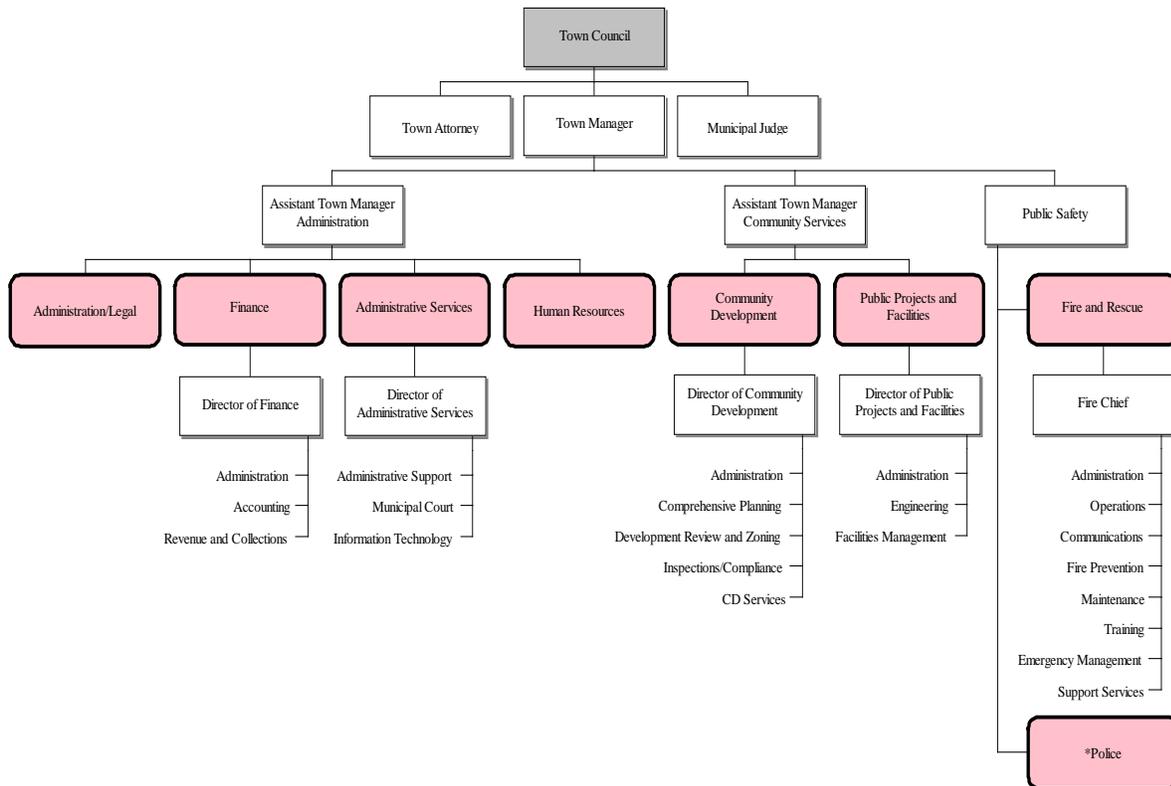
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully submitted,



Susan Simmons
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA ORGANIZATIONAL CHART



* Contract service provided by the Sheriff's Office



TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA LIST OF ELECTED AND APPOINTED OFFICIALS

Mayor

The Honorable Drew A. Laughlin

Town Council

Kenneth S. Heitzke – Mayor Pro Tempore

Willie (Bill) Ferguson

William D. Harkins

Kimberly W. Likins

George W. Williams, Jr.

Administrative Staff

Stephen G. Riley, Town Manager

Gregory D. Deloach, Assistant Town Manager Administration

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, 2009

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, the business-type activity, 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, 2010, 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, 2010, and the respective changes in financial position, cash flows, where applicable 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 January 28, 2011, 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 is 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
January 25, 2011

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010. The information in this section should be considered in conjunction with information provided in the transmittal letter and detailed financial statements contained elsewhere in this document.

Financial Highlights

- The Town's single largest source of revenue is real and personal property taxes derived from the assessed value of properties within the Town, as summarized below:

Fiscal Year	Taxable Assessed Value	% Increase/(Decrease)	Tax Revenue **
2001	\$ 456,093,616		\$ 14,537,851
2002	\$ 475,640,031	4.29%	\$ 14,778,650
2003	\$ 477,930,219	0.48%	\$ 14,930,098
2004	\$ 495,029,463	3.58%	\$ 15,113,491
2005 *	\$ 841,749,808	70.04%	\$ 17,824,996
2006	\$ 815,578,269	-3.11%	\$ 14,976,068
2007	\$ 841,028,344	3.12%	\$ 15,305,712
2008	\$ 840,463,790	-0.07%	\$ 15,431,982
2009	\$ 832,732,387	-0.92%	\$ 16,159,800
2010 *	\$ 949,555,131	14.03%	\$ 17,145,943

* Property in Beaufort County is reassessed once every five years on average.

** Tax revenue includes the collection of delinquent taxes.

- The millage rate approved by the Town Council determines the overall property tax levy and is summarized below:

Fiscal Year	Operating Millage	Debt Service Millage	Capital Projects Millage	Total Millage
2001	17.85	4.50	8.15	30.50
2002	18.20	6.50	6.30	31.00
2003	19.30	6.40	5.30	31.00
2004	21.35	6.10	3.55	31.00
2005	14.80	2.00	5.50	22.30
2006	12.33	0.85	5.82	19.00
2007	12.33	0.85	5.82	19.00
2008	12.33	0.85	5.82	19.00
2009	12.84	5.67	0.85	19.36
2010	11.78	6.01	0.75	18.54

In 2006 the South Carolina legislature enacted a new code section which placed limitations on annual millage rate increases. A local governing body may increase the imposed millage rate for general operating purposes above the rate imposed for the previous year only to the extent of the increase in the average of twelve monthly consumer price indexes for the most recent twelve month period (January through December of the previous calendar year) plus the percentage increase in previous year population of the entity as determined by the Office of Research and Statistics of the State Budget and Control Board.

As the Town approaches build-out the impact of the State imposed cap will have a significant impact on the Town's ability to continue funding services at their current level.

- In fiscal year 2010 the Town has restated its financial statements to reclassify the stormwater system operations from a governmental-type activity to a business-type activity. Consequently comparative prior year data for the business-type activity will not be available until next fiscal year.
- At the close of fiscal year 2010 the assets of the Town exceeded liabilities by \$177,114,049. Of this amount \$30,248,133 (Unrestricted Net Assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$11,593,332 for fiscal year 2010. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".
- At June 30, 2010, the Town's governmental funds reported combined ending fund balances of \$65,868,751. Of the combined ending fund balance, \$44,083,373 or 66.93% is available for spending at the government's discretion (Unreserved Fund Balance). Of this amount \$15,618,977 is in the General Fund, \$5,866,690 is in the Capital Projects Fund, and \$22,597,706 is in Special Revenue Funds.
- At June 30, 2010, Unreserved Fund Balance for the General Fund was \$15,618,977 or 47.94% of the total fiscal year 2010 General Fund operating budget of \$32,582,660. This compares to \$15,697,038 in Unreserved Fund Balance last year which represents 46.42% of the total operating budget of \$33,818,026. The Town's financial policy is to strive to maintain between 25%-30% of Unreserved Fund Balance compared to 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 borrowing or use of tax anticipation notes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the Town's financial statements. The Town's financial statements are broken down into three components (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Other supplementary information is included in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the Town's finances in a similar manner to a private business.

The **statement of net assets** presents information on the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial position is improving or deteriorating.

The **statement of activities** presents information illustrating how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include public safety, community development, and facilities management. The business-type activity of the Town is its stormwater system.

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. All of the funds of the Town can be divided into three categories: governmental funds, fiduciary fund, and proprietary fund.

Governmental Funds

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.

Proprietary Funds

The Town maintains one type of **Proprietary Fund**, an enterprise fund. This fund is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide financial information related to the Town's stormwater system operations.

Fiduciary Funds

The Town maintains one **Fiduciary Fund**, the Firemen's Fund. This fund is used to account 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.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, the report also contains certain required supplementary information.

Economic Factors

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 7% more 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 2009	1,848,993			853,962			2,702,955		
FY 2010	2,008,012	159,019	9%	886,381	32,419	4%	2,894,393	191,438	7%

Tourism

Revenue from tourism-driven revenues such as accommodations taxes, beach preservation fees, and hospitality taxes have declined. Revenues from these sources are approximately 6% 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 2009	10,220,816			4,826,318			15,047,134		
FY 2010	9,477,719	(743,097)	-7%	4,708,807	(117,511)	-2%	14,186,526	(860,608)	-6%

Government-Wide Financial Analysis

The analysis of the government-wide financial statements of the Town begins below. The statements provide insight into whether the Town's financial position is better or worse as a result of this year's activities. The Town's net assets, which is the difference between assets and liabilities, is one way to measure the Town's financial health. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. Non-financial factors must also be considered, such as changes in economic conditions, and new or changed government legislation or regulations.

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 72,741,335	\$ 69,247,684	\$ 2,827,183	-	\$ 75,568,518	\$ 69,247,684
Capital assets	223,412,441	231,308,872	13,779,780	-	237,192,221	231,308,872
Total assets	296,153,776	300,556,556	16,606,963	-	312,760,739	300,556,556
Current liabilities	20,398,814	20,011,747	629,884	-	21,028,698	20,011,747
Long term liabilities outstanding	100,818,796	115,195,713	13,799,196	-	114,617,992	115,195,713
Total liabilities	121,217,610	135,207,460	14,429,080	-	135,646,690	135,207,460
Net assets:						
Invested in capital assets, net of related debt	126,379,257	114,310,240	(263,488)	-	126,115,769	114,310,240
Restricted	20,750,147	23,590,106	-	-	20,750,147	23,590,106
Unrestricted	27,806,762	27,448,750	2,441,371	-	30,248,133	27,448,750
Total net assets	\$ 174,936,166	\$ 165,349,096	\$ 2,177,883	-	\$ 177,114,049	\$ 165,349,096

The overall financial condition of the Town improved from the previous fiscal year as reflected above.

Net assets amounted to \$177.1 million in fiscal year 2010 compared to \$165.3 million in fiscal year 2009. A significant portion of the Town's net assets (\$126.1 million or 71.2% of the Total net assets) reflects its investment in capital assets (e.g. land, machinery, buildings, and equipment) net of any related debt that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

While the statement of net assets shows the change in financial position of net assets, the condensed statement of activities (below) provides answers as to the nature and the source of the changes.

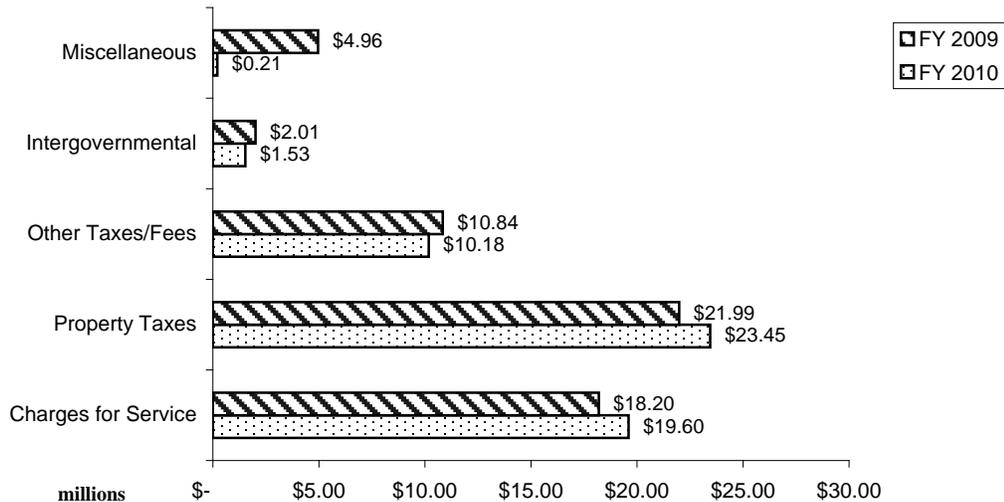
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 19,617,527	\$ 18,200,429	\$ 2,553,971	-	\$ 22,171,498	\$ 18,200,429
Operating grants and contributions	206,897	130,796	-	-	206,897	130,796
Capital grants and contributions	17,697	52,525	-	-	17,697	52,525
General Revenues:						
Property taxes	23,454,455	21,993,646	-	-	23,454,455	21,993,646
Other taxes	10,178,254	10,836,674	-	-	10,178,254	10,836,674
Other	2,471,892	6,783,895	(219,635)	-	2,252,257	6,783,895
Total Revenues	55,946,722	57,997,965	2,334,336	-	58,281,058	57,997,965
Expenses:						
General Government	5,821,050	3,823,670	-	-	5,821,050	3,823,670
Management Services	4,589,627	4,747,193	-	-	4,589,627	4,747,193
Community Services	8,502,048	14,003,774	-	-	8,502,048	14,003,774
Public Safety	17,068,317	17,717,708	-	-	17,068,317	17,717,708
Culture and Recreation	1,355,384	1,697,468	-	-	1,355,384	1,697,468
Visitor and Convention Bureau	1,029,578	1,150,446	-	-	1,029,578	1,150,446
Administrative	2,695,438	2,204,684	-	-	2,695,438	2,204,684
Interest on Long-term Debt	4,329,058	5,566,777	-	-	4,329,058	5,566,777
Stormwater	-	-	1,397,226	-	1,397,226	-
Total Expenses	45,390,500	50,911,720	1,397,226	-	46,787,726	50,911,720
Increase in net assets	10,556,222	7,086,245	937,110	-	11,493,332	7,086,245
Net assets, beginning (as previously reported)	165,349,096	158,262,851	-	-	165,349,096	158,262,851
Prior period adjustment	(969,152)	-	1,240,773	-	271,621	-
Net assets, beginning (as restated)	164,379,944	158,262,851	1,240,773	-	165,620,717	158,262,851
Net assets, June 30	\$ 174,936,166	\$ 165,349,096	\$ 2,177,883	\$ -	\$ 177,114,049	\$ 165,349,096

Governmental activities increased the Town's net assets by \$10,556,222. This increase was \$3,469,977 larger than the previous fiscal years increase. The following highlight the significant changes from the previous year:

- Property tax revenue, the Town's largest revenue source, increased by \$1,460,809 or approximately 6.6%.
- Property taxes made up 40.1% of the total revenue up from 37.9% of the total in the previous fiscal year.
- Total expenses decreased by \$5,521,220. The largest part of this decrease appears in the community services function where in fiscal year 2009 the Town recognized expenses for large maintenance and upgrade projects.
- Investment income revenues decreased by \$436,791 from the previous fiscal year due to the marked drop in interest rates.

Revenues by Source – Governmental Activities



Business-type activities increased the Town's net assets by \$937,110. Stormwater revenues increased by \$981,788 or 62.5% over the previous fiscal year, this increase in available funds resulted in an increase in investment income, despite the marked drop in interest rates, of \$19,920 or 31.5%.

Governmental Funds

The **General Fund**, which is the primary operating fund of the Town, recognized \$25.1 million (excluding revenue transfers in from other funds) in total revenues and \$5.4 million in other financing sources offset with \$30.6 million in expenditures. The savings plan effort started in FY 2009 was carried forward into FY 2010. The results were quite successful; expenditures were approximately \$2.0 million less than the final budget. In addition, revenues and transfers in were \$1.0 million less than budget. The favorable trend in expenditures offset most of the downturn in revenues. The anticipated deficit was reduced from approximately \$1.0 million to \$97,784.

Governmental Funds

General Fund (continued)

Fund Balance at the beginning of the year was \$15.9 million and, when combined with the current year, resulted in an end of year Fund Balance of \$15.8 million. Of this amount, \$15.6 million is unreserved fund balance which represents 47.94% of the Town's operating budget for fiscal year 2010 (It is the Town's policy to maintain an unreserved fund balance of 25%-30% in the General Fund).

The **Debt Service Fund** recognized \$5.6 million in total revenues and \$15.3 million in other financing sources offset with \$21.1 in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by \$241,370. The restated Fund Balance at the beginning of the year was \$7.2 million and, when combined with the current year, resulted in an end of year Fund Balance of \$6.9 million. The fund balance restatement was due to moving the stormwater system operations from a governmental fund to a business-type fund.

The **Capital Projects Fund** recognized \$8.2 million in total revenues and \$13.7 million in other financing sources offset with \$14.5 million in expenditures and other uses. This resulted in revenues exceeding expenditures and other financing sources by \$7.3 million. The restated Fund Balance at the beginning of the year was \$13.2 million and, when combined with the current year, resulted in an end of year Fund Balance of \$20.5 million. The fund balance restatement was due to moving the stormwater system operations from a governmental fund to a business-type fund.

The **Tax Increment Financing District Fund (TIF)** recognized \$6.3 million in total revenues offset with \$5.6 million in other financing uses related to debt service payments and capital expenditures and \$314,844 of funds transferred into the fund. This resulted in revenues exceeding expenditures and other financing uses by \$1.0 million. Fund Balance at the beginning of the year was \$3.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$4.6 million.

The **Accommodations Tax Fund** * recognized \$3.5 million in total revenues offset with \$2.4 million in expenditures and \$1.1 million in other financing uses. This resulted in expenditures exceeding revenues by \$15,158. Fund Balance at the beginning of the year was \$1.3 million and, when combined with the current year resulted in a de minimis change in Fund Balance.

The **Real Estate Transfer Fee Fund** * recognized \$2.0 million in total revenues offset with \$20,081 in expenditures and \$2.7 million in other financing uses. This resulted in expenditures exceeding revenues by \$734,285. Fund Balance at the beginning of the year was \$2.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.8 million.

The **Beach Preservation Fee Fund** * recognized \$4.2 million in total revenues offset with \$5.7 million in other financing uses and \$1.4 of funds transferred into the fund. This resulted in other financing uses exceeding revenues by \$65,987. Fund Balance at the beginning of the year was \$14.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$14.5 million.

* Revenue from these sources has declined due to the overall downturn in the economy. Sufficient revenues exist to cover fixed expenditures associated with debt service payments (if applicable) while all other expenditures and transfers to the General Fund or Capita Projects Fund have been reduced wherever possible to minimize the impact of the decline in revenues.

Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

<u>Fund</u>	2009				Changes in Fund Balance
	<u>Revenue</u>	<u>Expenditures</u>	<u>Fund Balance Restatement</u>	<u>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

<u>Fund</u>	2010				Changes in Fund Balance
	<u>Revenue</u>	<u>Expenditures</u>		<u>Fund Balance</u>	
General	\$ 30,502,219	\$ 30,600,003		\$ 15,763,985	\$ (97,784)
Tax Increment Financing	6,639,383	5,631,328		4,560,317	1,008,055
Accommodations Tax (State)	3,458,900	3,474,058		1,304,013	(15,158)
Real Estate Transfer Fee	2,015,321	2,749,606		1,798,224	(734,285)
Beach Preservation Fee	5,603,770	5,669,757		14,497,979	(65,987)
Debt Service	20,902,154	21,143,524	(2,666,625)	6,974,490	(241,370)
Capital Projects Fund	21,851,938	14,551,455	(134,987)	20,532,570	7,300,483
Other Governmental Funds	2,682,281	2,401,521		437,173	280,760

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 \$416,929. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were down \$178,064
- Local accommodations tax revenue was up \$66,190
- Business license and franchise fee revenue was up \$37,320
- Building permit revenue was up \$90,881
- State shared revenue was down \$10,918
- Grant revenue was down \$63,142
- Miscellaneous revenue was down \$341,294
- Investment income was down \$17,022

Actual General Fund expenditures were less than the revised budget by \$2.0 million. The favorable variance can be primarily attributed to the continuation of the expenditure reduction plan that was implemented in mid-year FY 2009.

Original to revised expenditure budget variances:

	Original Budget	Revised Budget	Variance
<u>General Fund by Function</u>			
General Government	\$ 1,156,500	\$ 1,207,358	\$ 50,858
Management Services	4,823,460	4,902,084	78,624
Community Services	6,210,420	6,307,581	97,161
Public Safety	16,580,310	16,650,537	70,227
Non-Departmental Townwide	3,018,280	3,200,445	182,165
Capital Outlay	268,900	314,655	45,755
	<u>\$ 32,057,870</u>	<u>\$ 32,582,660</u>	<u>\$ 524,790</u>

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2010 and 2009 amount to \$237.2 million and \$231.3 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 \$1.1 million
- Replacement of Fire Station #5 \$2.2 million
- Apparatus and vehicle replacement \$1.8 million
- Drainage System Rehabilitation \$909,057
- Groins Refurbishment \$500,892
- Completion of Pathways on New Orleans Road \$514,553
- Coligny Beach Park renovations \$512,315

Town of Hilton Head Island's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 147,148,785	\$ 147,632,552	-	-	\$ 147,148,785	147,632,552
Development Rights	10,734,391	10,734,391	-	-	10,734,391	10,734,391
Easements/Right-of-Ways	3,548,960	2,897,909	-	-	3,548,960	2,897,909
Construction in progress	12,627,423	13,176,093	\$ 2,217,759	-	14,845,182	13,176,093
Buildings	13,830,262	10,407,181	-	-	13,830,262	10,407,181
Furniture, fixtures and equipment	705,394	646,933	-	-	705,394	646,933
Vehicles	4,652,871	3,878,922	-	-	4,652,871	3,878,922
Imp. other than buildings - park development	9,555,339	8,079,486	-	-	9,555,339	8,079,486
Infrastructure	20,609,016	33,855,405	11,562,021	-	32,171,037	33,855,405
Total	\$ 223,412,441	\$ 231,308,872	\$ 13,779,780	\$ -	\$ 237,192,221	\$ 231,308,872

Additional information on the Town's capital assets can be found in Note 11 of this report.

Proprietary Fund

For FY 2010 the Town's stormwater fund was created. Previously expenses associated with this program were included as part of the Town's Capital Projects Fund (governmental fund). This program was changed to a proprietary fund because of bond requirements and continued growth is the size of the stormwater system. Funding for this program is provided through stormwater fees included as part of the property owner's tax bill. In FY 2010 the Town received \$2,637,099 in stormwater fees and other income and incurred \$1,699,989 in expenses associated with this program. Unrestricted net assets at the end of the year were \$2.4 million.

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 Aa¹ 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		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 67,120,000	\$ 59,705,000	-	-	\$ 67,120,000	\$ 59,705,000
Certificates of participation	4,730,000	5,825,000	-	-	4,730,000	5,825,000
Tax increment financing	18,510,000	21,780,000	-	-	18,510,000	21,780,000
Revenue Bonds:						
Beach preservation fees	12,520,000	14,760,000	-	-	12,520,000	14,760,000
Hospitality tax	8,965,000	9,290,000	-	-	8,965,000	9,290,000
Stormwater	-	14,890,000	\$ 14,325,000	-	14,325,000	14,890,000
Total	\$ 111,845,000	\$ 126,250,000	\$ 14,325,000	\$ -	\$ 126,170,000	\$ 126,250,000

Additional information on the Town's long-term debt can be found in Note 10 of this report.

BUDGET HIGHLIGHTS FOR FISCAL YEAR 2011

The **General Fund's** revenues for fiscal year 2011 are budgeted at \$32.3 million, a decrease of \$100,638 or 0.3% compared to the prior year's budgeted revenues. This includes the use of \$310,770 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 \$32.3 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$23.9 million. The majority of the expenditures are budgeted for beach maintenance which accounts for \$12.9 million or 53.9% of the capital budget and \$7.4 million or 30.7% has been earmarked for existing facilities and roadway improvements.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$18.1 million. There is a \$699,680 or 4.0% increase in debt service costs in fiscal year 2011.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2010 on taxable property located within the Town of Hilton Head Island was adopted at 18.54 mills upon each one dollar of taxable property in the Town of Hilton Head Island.

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, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 30,604,956	\$ 49,505	\$ 30,654,461
Investments	-	1,278,628	1,278,628
Accounts Receivable	4,237,364	-	4,237,364
Due from Employees	54,265	-	54,265
Due from Other Governments	3,001,971	-	3,001,971
Interfund Balances	(897,889)	897,889	-
Other Assets	2,773,842	256,533	3,030,375
Restricted Assets:			
Cash	32,191,447	344,628	32,536,075
Investments	775,379	-	775,379
Capital Assets:			
Non Depreciable	174,059,559	2,217,759	176,277,318
Depreciable	49,352,882	11,562,021	60,914,903
Total assets	<u>296,153,776</u>	<u>16,606,963</u>	<u>312,760,739</u>
LIABILITIES			
Accounts Payable	2,388,349	-	2,388,349
Accrued Payroll and Related Payables	1,285,994	-	1,285,994
Due to Other Governments	64,047	-	64,047
Unearned Revenue	130,746	-	130,746
Payable from Restricted Assets:			
Irrigation and Pool Bonds Payable	82,700	-	82,700
Court Bonds Payable	53,106	-	53,106
Performance Bonds Payable	111,102	-	111,102
Interest Payable	724,401	41,184	765,585
Long-Term Liabilities:			
Due Within Less than One Year	15,558,369	588,700	16,147,069
Due Within More than One Year	100,818,796	13,799,196	114,617,992
Total liabilities	<u>121,217,610</u>	<u>14,429,080</u>	<u>135,646,690</u>
NET ASSETS			
Capital Assets Net of Related Debt	126,379,257	(263,488)	126,115,769
Restricted for:			
Disaster Recovery	1,602,423	-	1,602,423
Beach Renourishment	12,000,000	-	12,000,000
Debt Service	7,147,724	-	7,147,724
Unrestricted	27,806,762	2,441,371	30,248,133
Total net assets	<u>\$ 174,936,166</u>	<u>\$ 2,177,883</u>	<u>\$ 177,114,049</u>

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

EXHIBIT B
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
STATEMENT OF ACTIVITES
YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 5,821,050	\$ 3,886,767	\$ 148,638	\$ -	\$ (1,785,645)	\$ -	\$ (1,785,645)
Management Services	4,589,627	7,103,499	-	-	2,513,872	-	2,513,872
Community Services	8,502,048	6,345,242	-	-	(2,156,806)	-	(2,156,806)
Public Safety	17,068,317	274,007	58,259	17,697	(16,718,354)	-	(16,718,354)
Culture and Recreation	1,355,384	-	-	-	(1,355,384)	-	(1,355,384)
Visitor and Convention Bureau	1,029,578	-	-	-	(1,029,578)	-	(1,029,578)
Administrative	2,695,438	2,008,012	-	-	(687,426)	-	(687,426)
Interest on Debt	4,329,058	-	-	-	(4,329,058)	-	(4,329,058)
Total governmental activities	45,390,500	19,617,527	206,897	17,697	(25,548,379)	-	(25,548,379)
Business-type activities:							
Stormwater	1,397,226	2,553,971	-	-	-	1,156,745	1,156,745
Total business-type activities	1,397,226	2,553,971	-	-	-	1,156,745	1,156,745
Total primary government	\$ 46,787,726	\$ 22,171,498	\$ 206,897	\$ 17,697	\$ (25,548,379)	\$ 1,156,745	\$ (24,391,634)

General revenues:

Taxes		
Property	23,454,455	23,454,455
Local Accommodations	2,012,520	2,012,520
State Accommodations	3,456,927	3,456,927
Hospitality	4,708,807	4,708,807
Intergovernmental	1,531,261	1,531,261
Investment Income	356,176	83,128
Gain on Sale of Capital Assets	74,231	74,231
Transfers in/(out)	302,763	(302,763)
Miscellaneous	207,461	207,461
Total general revenues	36,104,601	(219,635)
Change in net assets	10,556,222	937,110
Net assets - beginning of year, as originally reported	165,349,096	-
Cumulative effect of accounting change	(969,152)	1,240,773
Net assets - beginning of year, as restated	164,379,944	1,240,773
Net assets - end of year	\$ 174,936,166	\$ 2,177,883

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
June 30, 2010

	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
ASSETS									
Cash and Cash Equivalents	\$ 12,676,429	\$ 5,680,504	\$ 726,845	\$ 1,617,435	\$ 395,699	\$ 1,955,498	\$ 7,231,601	\$ 320,945	\$ 30,604,956
Accounts Receivable	1,317,290	-	16,698	-	1,409,500	-	1,358,812	135,064	4,237,364
Due from Employees	54,265	-	-	-	-	-	-	-	54,265
Interfund Receivables	3,350,524	315,187	-	119	1,450,000	102,118	1,555,540	-	6,773,488
Due from Other Governments	1,069,401	182,303	1,078,401	181,216	-	-	490,650	-	3,001,971
Prepays	17,304	-	-	-	-	-	-	-	17,304
Restricted Assets:									
Cash and Cash Equivalents	98,056	-	-	-	12,000,000	5,228,748	14,841,968	22,675	32,191,447
Investments	-	-	-	-	-	775,379	-	-	775,379
Total assets	\$ 18,583,269	\$ 6,177,994	\$ 1,821,944	\$ 1,798,770	\$ 15,255,199	\$ 8,061,743	\$ 25,478,571	\$ 478,684	\$ 77,656,174
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts Payable	\$ 1,110,693	\$ -	\$ 368,385	\$ -	\$ -	\$ 1,342	\$ 888,695	\$ 19,235	\$ 2,388,350
Accrued Payroll and Employee Payable	1,285,994	-	-	-	-	-	-	-	1,285,994
Due to Other Governments	64,047	-	-	-	-	-	-	-	64,047
Interfund Payables	102,118	1,617,677	149,546	546	757,220	1,085,911	3,958,359	-	7,671,377
Deferred Revenue	9,524	-	-	-	-	-	98,947	22,276	130,747
Payable from restricted assets:									
Irrigation and Pool Bonds Payable	82,700	-	-	-	-	-	-	-	82,700
Court Bonds Payable	53,106	-	-	-	-	-	-	-	53,106
Performance Bonds Payable	111,102	-	-	-	-	-	-	-	111,102
Total liabilities	2,819,284	1,617,677	517,931	546	757,220	1,087,253	4,946,001	41,511	11,787,423
Fund balances:									
Reserved:									
Encumbrances	145,008	-	-	-	-	-	1,568,830	-	1,713,838
Debt Service	-	-	-	-	-	6,974,490	-	-	6,974,490
Land Acquisition Bonds	-	-	-	-	-	-	13,097,050	-	13,097,050
Unreserved:									
Designated:									
Disaster Recovery	1,602,423	-	-	-	-	-	-	-	1,602,423
Beach Renourishment	-	-	-	-	12,000,000	-	-	-	12,000,000
Undesignated	14,016,554	4,560,317	1,304,013	1,798,224	2,497,979	-	5,866,690	-	30,043,777
Reported in non-major:									
Special Revenue	-	-	-	-	-	-	-	437,173	437,173
Total fund balances	15,763,985	4,560,317	1,304,013	1,798,224	14,497,979	6,974,490	20,532,570	437,173	65,868,751
Total liabilities and fund balances	\$ 18,583,269	\$ 6,177,994	\$ 1,821,944	\$ 1,798,770	\$ 15,255,199	\$ 8,061,743	\$ 25,478,571	\$ 478,684	\$ 77,656,174

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, 2010

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

Ending fund balance - governmental funds	\$ 65,868,751
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	223,412,441
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,743,488
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	1,013,052
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(724,401)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(116,377,165)</u>
Net assets of governmental activities	<u><u>\$ 174,936,166</u></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, 2010

	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
Revenues:									
Real and Personal Property Taxes	\$ 10,920,696	\$ 6,308,512	\$ -	\$ -	\$ -	\$ 5,529,403	\$ 695,844	\$ -	\$ 23,454,455
Accommodations Tax	2,012,520	-	3,456,927	-	-	-	-	-	5,469,447
Hospitality Tax	-	-	-	-	-	-	4,708,807	-	4,708,807
Business Licenses and Franchise Fees	7,884,950	-	-	-	-	-	-	-	7,884,950
Permits	886,381	-	-	-	-	-	-	-	886,381
Other Fees:									
Impact	-	-	-	-	-	-	55,643	-	55,643
Real Estate Transfer	-	-	-	2,008,012	-	-	-	-	2,008,012
Beach Preservation	-	-	-	-	4,008,272	-	-	-	4,008,272
Electric Franchise	-	-	-	-	-	-	-	2,682,270	2,682,270
State Shared Funds	884,672	-	-	-	-	-	314,950	-	1,199,622
Donations	120	-	-	-	-	-	7,500	-	7,620
Grants	148,638	-	-	-	-	-	75,956	-	224,594
Proceeds from Sale of Land and Vehicles	-	-	-	-	-	-	1,888,488	-	1,888,488
Miscellaneous Revenue	2,224,753	-	-	-	-	-	398,721	-	2,623,474
Investment Income	95,768	16,027	1,973	7,309	145,498	55,566	34,027	11	356,179
Total revenues	25,058,498	6,324,539	3,458,900	2,015,321	4,153,770	5,584,969	8,179,936	2,682,281	57,458,214
Expenditures:									
Current:									
General Government	1,044,477	-	-	-	-	-	-	-	1,044,477
Management Services	4,497,250	-	-	-	-	-	-	-	4,497,250
Community Services	6,004,546	-	-	-	-	-	474,199	-	6,478,745
Public Safety	16,161,922	-	-	-	-	-	-	-	16,161,922
Non-Departmental	2,662,132	-	-	-	-	-	-	-	2,662,132
Accommodations Tax Grants	-	-	1,355,384	-	-	-	-	-	1,355,384
Visitor and Convention Bureau	-	-	1,029,578	-	-	-	-	-	1,029,578
Administrative	-	-	-	20,081	-	17,131	-	2,324,149	2,361,361
Capital Outlay	229,676	-	-	-	-	-	10,275,703	-	10,505,379
Debt Service:									
Principal	-	-	-	-	-	11,415,000	-	-	11,415,000
Interest	-	-	-	-	-	4,335,765	-	-	4,335,765
Debt Issue Costs	-	-	-	-	-	127,144	264,273	-	391,417
Total expenditures	30,600,003	-	2,384,962	20,081	-	15,895,040	11,014,175	2,324,149	62,238,410
Excess (deficiency) of revenues over (under) expenditures	(5,541,505)	6,324,539	1,073,938	1,995,240	4,153,770	(10,310,071)	(2,834,239)	358,132	(4,780,196)
Other financing sources (uses):									
Premium on Bond Issuance	-	-	-	-	-	34,061	121,571	-	155,632
Issuance of Bonds	-	-	-	-	-	-	12,000,000	-	12,000,000
Issuance of Refunding Bonds	-	-	-	-	-	5,005,000	-	-	5,005,000
Payment to Escrow Agent	-	-	-	-	-	(5,248,484)	-	-	(5,248,484)
Transfers In	5,443,721	314,844	-	-	1,450,000	10,278,124	1,550,431	-	19,037,120
Transfers Out	-	(5,631,328)	(1,089,096)	(2,729,525)	(5,669,757)	-	(3,537,280)	(77,372)	(18,734,358)
Total other financing sources (uses)	5,443,721	(5,316,484)	(1,089,096)	(2,729,525)	(4,219,757)	10,068,701	10,134,722	(77,372)	12,214,910
Net change in fund balances	(97,784)	1,008,055	(15,158)	(734,285)	(65,987)	(241,370)	7,300,483	280,760	7,434,714
Fund balance - beginning, as originally reported	15,861,769	3,552,262	1,319,171	2,532,509	14,563,966	9,882,485	13,367,074	156,413	61,235,649
Cumulative effect of accounting change	-	-	-	-	-	(2,666,625)	(134,987)	-	(2,801,612)
Fund balance - beginning, as restated	15,861,769	3,552,262	1,319,171	2,532,509	14,563,966	7,215,860	13,232,087	156,413	58,434,037
Fund balance - ending	\$ 15,763,985	\$ 4,560,317	\$ 1,304,013	\$ 1,798,224	\$ 14,497,979	\$ 6,974,490	\$ 20,532,570	\$ 437,173	\$ 65,868,751

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, 2010

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

Net change in fund balances - total governmental funds	\$	7,434,714
 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	\$	9,960,852
Less current year depreciation		<u>(2,758,910)</u>
		7,201,942
 The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
		(497,148)
 Adjustments to compensated absences 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.		
		(1,861,610)
 The sale of capital assets provides current financial resources to governmental funds. However, in the statement of activities, the proceeds are netted against the original cost less accumulated depreciation.		
		(1,814,257)
 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.		
		92,581
Change in net assets of governmental activities	<u>\$</u>	<u>10,556,222</u>

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

EXHIBIT G
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2010

	Stormwater Fund
<u>ASSETS</u>	
Cash	\$ 49,505
Investments	1,278,628
Due from other funds	1,200,651
Prepays	256,533
Restricted assets:	
Cash	344,628
Capital assets:	
Non depreciable	2,217,759
Depreciable	11,562,021
Total assets	16,909,725
 <u>LIABILITIES</u>	
Interest payable	41,184
Due to other funds	302,762
Long-term liabilities:	
Due within less than one year	588,700
Due within more than one year	13,799,196
Total liabilities	14,731,842
 <u>NET ASSETS</u>	
Capital assets, net of related debt	(263,488)
Unrestricted	2,441,371
Total net assets	\$ 2,177,883

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

EXHIBIT H
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	Stormwater Fund
<u>OPERATING REVENUES</u>	
Stormwater fees	\$ 2,553,971
Total operating revenue	2,553,971
 <u>OPERATING EXPENSES</u>	
Maintenance and repair	79,875
Depreciation	581,839
Administrative	14,391
Total operating expenses	676,105
 OPERATING INCOME	1,877,866
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest income	83,128
Interest expense	(721,122)
Total nonoperating revenues (expenses)	(637,994)
 Income before transfers	1,239,872
 Transfers (out)	(302,762)
 Change in net assets	937,110
Net assets, beginning of year, as originally reported	-
Cumulative effect of accounting change	1,240,773
Net assets, beginning of year, as restated	1,240,773
 Net assets, ending	\$ 2,177,883

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

EXHIBIT I
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	Stormwater Fund
<u>OPERATING ACTIVITIES</u>	
Receipts from other governments	\$ 2,553,971
Payments to suppliers	(414,425)
Net cash provided by operating activities	2,139,546
<u>NONCAPITAL FINANCING ACTIVITIES</u>	
Transfer from other funds	660,171
Net cash provided by noncapital financing activities	660,171
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Payment of interest expense	(679,938)
Principal payment on bonds payable	(565,000)
Purchase of capital assets	(1,237,484)
Net cash (used) by capital and related financing activities	(2,482,422)
<u>INVESTING ACTIVITIES</u>	
Purchase of investments	(6,290)
Receipt of interest income	83,128
Net cash provided for investing activities	76,838
Net increase in cash and cash equivalents	394,133
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ 394,133
Reconciliation of cash and cash equivalents	
Unrestricted cash and cash equivalents	49,505
Restricted cash and cash equivalents	344,628
	\$ 394,133
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,877,866
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	593,228
Changes in deferred and accrued amounts:	
Interfund balance	(331,548)
Net cash provided by operating activities	\$ 2,139,546

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

EXHIBIT J
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND
Year Ended June 30, 2010

	General			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Real and Personal Property Taxes	\$ 11,098,760	\$ 11,098,760	\$ 10,920,696	\$ (178,064)
Accommodations Tax	1,946,330	1,946,330	2,012,520	66,190
Business Licenses and Franchise Fees	7,847,630	7,847,630	7,884,950	37,320
Permits	795,500	795,500	886,381	90,881
State Shared Funds	895,590	895,590	884,672	(10,918)
Donations	1,000	1,000	120	(880)
Grants	211,780	211,780	148,638	(63,142)
Miscellaneous Revenue	2,346,910	2,566,047	2,224,753	(341,294)
Investment Income	112,790	112,790	95,768	(17,022)
Total revenues	<u>25,256,290</u>	<u>25,475,427</u>	<u>25,058,498</u>	<u>(416,929)</u>
Expenditures:				
Current:				
General Government	1,156,500	1,207,358	1,044,477	162,881
Management Services	4,823,460	4,902,084	4,497,250	404,834
Public Safety	16,580,310	16,650,537	16,161,922	488,615
Community Services	6,210,420	6,307,581	6,004,546	303,035
Non-Departmental	2,678,910	2,861,075	2,662,132	198,943
Capital Outlay	268,900	314,655	229,676	84,979
Debt Service:				
Principal	71,950	71,950	-	71,950
Interest	267,420	267,420	-	267,420
Total expenditures	<u>32,057,870</u>	<u>32,582,660</u>	<u>30,600,003</u>	<u>1,982,657</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,801,580)</u>	<u>(7,107,233)</u>	<u>(5,541,505)</u>	<u>1,565,728</u>
Other financing sources (uses):				
Transfers In	5,923,940	6,064,863	5,443,721	(621,142)
Total other financing sources (uses)	<u>5,923,940</u>	<u>6,064,863</u>	<u>5,443,721</u>	<u>(621,142)</u>
Net change in fund balance	(877,640)	(1,042,370)	(97,784)	<u>\$ 944,586</u>
Fund balance - beginning	<u>15,861,769</u>	<u>15,861,769</u>	<u>15,861,769</u>	
Fund balance - ending	<u>\$ 14,984,129</u>	<u>\$ 14,819,399</u>	<u>\$ 15,763,985</u>	

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

EXHIBIT K
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
FIREMEN'S FUND
June 30, 2010

ASSETS

Cash and Temporary Investments

\$ 82,037

LIABILITIES

Due to Firemen's Fund Association

\$ 82,037

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

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

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 on all of the non-fiduciary activities of the government as a whole. 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. These activities are usually reported in enterprise funds.

The statement of net assets reports all financial and capital resources of the Town and reports the difference between assets and liabilities as net assets not fund balance or equity. 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.

Financial Statements. Separate financial statements are provided for the governmental funds, proprietary fund, and fiduciary fund, even though the latter is excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund and the enterprise fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

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 non-major 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.

4. The Town's proprietary fund is presented in the enterprise fund financial statement. The Town's stormwater fund is used to account for the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits of Hilton Head Island in concert with Beaufort County and other water resource management programs. Costs are recovered through user charges in a manner similar to private business enterprises. This fund is a major fund.

Measurement Focus and Basis of Accounting

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

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.

Additionally, the effect of interfund activity has been eliminated from the government-wide financial statements, except for the amounts due between the Town's governmental activities and business-type activities.

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, 2010, 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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable Financial Accounting Standards Board (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. It has also elected not to apply FASB Statements and Interpretations issued after November 30, 1989 for its enterprise fund.

Proprietary Fund Financial Statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the Town's stormwater enterprise fund are charges to the customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

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:

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:

Hospitality Fee Transfer	\$	140,923
Miscellaneous Revenue		219,137
Total Revenue Increases/(Decreases)	\$	<u>360,060</u>

Expenditure Increases/(Decreases):

Town Council - Professional Services		20,345
Finance; Administration - Professional Services		7,300
Finance; Accounting - Professional Services		12,919
Administration; Legal/Administration - Municipal Elections		2,325
Administration; Information Technology - Training and Conferences		3,750
Administration; Information Technology - Computer Software <\$50,000		21,730
Administration; Information Technology - Computer Software >\$50,000		40,000
Administration; Human Resources - Consulting Services		30,600
Community Development; Administration - Travel		507
Community Development; Administration - Meetings & Conferences		1,180
Community Development; Services - Travel		700
Community Development; Services - Meetings & Conferences		300
Community Development; Inspection/Compliance - Travel		1,850
Community Development; Inspection/Compliance - Meetings & Conferences		(8,337)
Community Development; Developmental Review & Zoning - Travel		800
Community Development; Developmental Review & Zoning - Meetings & Conferences		1,800
Community Development; Developmental Review & Zoning - Consulting Services		30,889
Community Development; Developmental Review & Zoning - Printing & Publishing		8,700
Community Development; Comprehensive Planning - Travel		800
Community Development; Comprehensive Planning - Meetings & Conferences		400
Townwide - Professional Services		140,923
Townwide - Lease Payments		1,755
Townwide - Disaster Advertising Grants		70,000
Fire and Rescue; Support Services - Professional Services		2,000
Fire and Rescue; Support Services - Uniforms & Protective Gear		60,323
Fire and Rescue; Support Services - Safety Supplies		2,439
Fire and Rescue; Support Services - Medical/Rescue Supplies		3,626
Fire and Rescue; Support Services - Equipment Maintenance		450
Fire and Rescue; Communications Center Equipment Repair & Maintenance		5,755
Fire and Rescue; Logistics - Radio Repair and Maintenance		1,389
Sheriff's Department - Uniforms & Protective Gear		(6,865)
Sheriff's Department - Office Supplies		4,950
Sheriff's Department - Specialized Equipment		1,915
Public Projects and Facilities; Engineering - Closed Loop Traffic Signal		33,112
Public Projects and Facilities; Engineering - Consulting Services/Traffic Control		6,310
Public Projects and Facilities; Facilities Mgt. - Fire & Rescue Building Maintenance		88,000
Public Projects and Facilities; Facilities Mgt. - Maintenance Contracts/Fees		(24,850)
Public Projects and Facilities; Facilities Mgt. - Temporary Pay		(45,000)
Total Expenditure Increases/(Decreases)	\$	<u>524,790</u>

**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

Revenues:

Bond Proceeds - 2008 TIF	\$ 2,582,239
Bond Proceeds - Hospitality Revenue Bond	2,416,464
Bond Proceeds - Stormwater Revenue Bond	344,705
Bond Proceeds - General Obligation Bond	1,159,104
Hospitality Taxes	2,063,982
Lease	(21,504)
County Stormwater Fees	1,118,852
Sunday Permit Fees	207,181
Impact Fees	(85,135)
Transfer In - Real Estate Transfer Fees	9,211
Transfer In - Beach Preservation Fees	196,439
Transfer In - Tax Increment Financing	1,429,959
Miscellaneous	54,699
County Bond	(110,000)
Contributions/Donations	64,274
PARD Grant	8,181
South Carolina Department of Revenue Grant	60,259
Capital Sales Tax	1,262
Total Revenue Increases/(Decreases)	<u><u>\$ 11,500,172</u></u>

Expenditures:

Pathways

Wild Horse Road	\$ 116
Palmetto Bay Road	10,060
Target Road	5,000
Mathews Drive/U.S. 278 Islanders Drive	3,660
Mathews Drive/U.S. 278 to Beach City Road	318,732
New Orleans Road	630,195
Lagoon Road	(28,635)
Avocet Road	(151,228)
	<u><u>787,900</u></u>

Drainage

Drainage System Rehabilitation	198,214
Drainage Study Updates	141,184
Miller Pond	475,793
Squire Pope Road	404,700
	<u><u>1,219,891</u></u>

**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)

Road Improvements

Traffic Signal Mast Arms	\$ 75,000
Widen and Realign Office Park Road	130,000
Widen Mathews Drive	5,826
Intersection Improvements	331,821
Fire and Rescue Emergency Access Points	100,869
Horseshoe Road Connector	39,386
Gum Tree/Squire Pope Road Roundabout	3,000
Median Curbing	(42,480)
Roadway Safety Improvements	175,865
Mathews Drive/Beach City Road Roundabout	392,151
Mainland Transportation Improvements	897,681
US 278/Squire Pope Intersection Improvements	1,262
Stoney Secondary Road South	45,732
Summit Drive Realignment	37,990
Intersection/Crosswalk/Pathway Lighting	58,539
Allen Drive Right of Way	3,216
Mitchellville Lane	219
Arrow Road/Dunnigan's Alley Roundabout	13,788
	<u>2,269,865</u>

Park Development

Park UpGrades	73,402
Rock's/Remy Tract Park	(40,000)
Compass Rose Park	81,201
Coligny Beach Park	511,945
Rowing & Sailing Center	(150,000)
Public Art	31,960
	<u>508,508</u>

Existing Facilities/Infrastructure

Demolition of Structures	1,404
Fire Station #6 Replacement/Repair	303,420
Apparatus & Vehicle Replacement	(57,066)
Fire Station #5 Replacement	2,301,344
Fire Station #1 Replacement	(275,000)
Rehabilitate & Renovate Fixed Assets	164,147
Utilities - Capital Improvement Projects	51,247
Fire Station #2 Replacement	5,808
Town Hall Renovations	441,725
Hilton Head Camera Project	127,500
Security Cameras	201,412
Coastal Discovery Museum Stabilization	108,559
	<u>3,374,500</u>

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

New Facilities/Infrastructure

Dispatch Center Equipment	\$	12,149
Fire and Rescue - Training Center		116,112
Fire and Rescue - Computer System - CAD		127,368
Coligny/Pope Area Initiative		100,038
Dunnigan's Alley/Arrow Road Improvements		168,264
Mobile Computing Upgrade		(1,524)
Facilities Management Building		129,451
Stoney Area CDBG Project		22,555
Automatic Vehicle Locators		60,105
		734,518

Beach Maintenance

Beach Management		239,216
Dunes Refurbishment		(3,903)
Beach /Parks Access		36,429
Beach Renourishment		172,565
Groins Refurbishment		566,495
Port Royal Fill Project		1,509
Shoreline Management		423,501
		1,435,812

Land Acquisition

Land Acquisition		1,169,178
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Total Expenditure Increases/(Decreases)		\$ 11,500,172
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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, 2010, which were underway by July 1, is shown as an encumbrance in that fund.

Cash Equivalents

For purposes of this report the Town considers both unrestricted and restricted demand deposits, money market accounts and certificates of deposits with a maturity date of three months or less when purchased to be cash equivalents.

For purposes of the statement of cash flows for the proprietary (enterprise) fund cash equivalents are deposit accounts (including restricted assets) with a maturity date of three months or less, and other short-term highly liquid investments that are readily convertible to known amounts of cash.

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

Note 1. Summary of Significant Accounting Policies (continued)

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, debt service fund and proprietary fund. All changes in fair value are recorded as investment income.

Due to and from Other Funds/ Internal Balances

Interfund receivables and payables in the fund financial statements and internal balances in the government-wide financial statements arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for the amounts due between the Town's governmental activities and business-type activities.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets used in the operations of governmental funds and are not specifically related to activities reported in proprietary or fiduciary funds have been reported as assets in the governmental activities column of the government-wide financial statement. Capital assets are defined by the Town as assets including, but not limited to, land, buildings, machinery and equipment with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. The only exception to the \$5,000 threshold is software acquisition. Software and other associated intangibles with an initial individual cost of \$50,000 or more and an estimated useful life in excess of two years 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 and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Long-Term Obligations (continued)

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

Compensated Absences

The Town has a policy to accrue compensated absences for employees when the obligation relating to the employee's rights to receive compensation is attributable to the employee's services already rendered, when the rights vest and accumulate and when the payment is payable. Vacation pay meets the above criteria for accrual, whereas sick pay does not. Sick pay does not vest until an employee reaches retirement age and/or has a minimum of five years consecutive employment. 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 actual sick leave. The sick leave termination benefit is paid as a taxable lump-sum bonus at termination. Sick leave was not accrued other than for the termination or retirement benefit.

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.

Subsequent Events

In preparing the comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010, the Town evaluated events and transactions for potential recognition or disclosure through January 28, 2011.

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

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		Restricted		Total
	Cash	Investments	Cash	Investments	
Governmental Activities:					
General Fund	\$ 12,676,429	\$ -	\$ 98,056	\$ -	\$ 12,774,485
Tax Increment Financing	5,680,504	-	-	-	5,680,504
Accommodations Tax	726,845	-	-	-	726,845
Real Estate Transfer Fees	1,617,435	-	-	-	1,617,435
Beach Preservation Fees	395,699	-	12,000,000	-	12,395,699
Debt Service	1,955,498	-	5,228,748	775,379	7,959,625
Capital Projects	7,231,601	-	14,841,968	-	22,073,569
Town Franchise Fees	320,945	-	-	-	320,945
Home Grant	-	-	22,675	-	22,675
Total Governmental Activities	<u>30,604,956</u>	<u>-</u>	<u>32,191,447</u>	<u>775,379</u>	<u>63,571,782</u>
Business-Type Activities:					
Stormwater Fund	49,505	1,278,628	344,628	-	1,672,761
Total Business-Type Activities	<u>49,505</u>	<u>1,278,628</u>	<u>344,628</u>	<u>-</u>	<u>1,672,761</u>
Totals	<u>\$ 30,654,461</u>	<u>\$ 1,278,628</u>	<u>\$ 32,536,075</u>	<u>\$ 775,379</u>	<u>\$ 65,244,543</u>

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, 2010, the \$ 63,188,947 carrying balance and \$ 64,485,461 bank balance were held in various banks of which \$788,023 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 \$ 1,589 is held in petty cash funds of the Town. Of the total carrying cash balance of \$ 63,190,536 in cash, \$ 32,536,075 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, 2010, the Town had investments and maturities as shown below:

	Fair Value	1 Year
Allied Irish Banks, N.A.	\$ 1,278,628	\$ 1,278,628
Federal Home Loan Mortgage Corp.	775,379	775,379
Total	<u>\$ 2,054,007</u>	<u>\$ 2,054,007</u>

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

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

Investments (continued)

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.

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.

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

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

Investments (continued)

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, 2010, the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)	Quality Rating A1 (Moody's)
Irish Allied Bank, N.A.	\$ 1,278,628		\$ 1,278,628
Federal Home Loan Mortgage Corp.	775,379	775,379	-
	\$ 2,054,007	\$ 775,379	\$ 1,278,628

Note 3. Receivables

At June 30, 2010, the Town’s receivable balances were as follows:

	Government-wide Financial Statements					
	Fund Financial Statements					
	General Fund	Beach Preservation Fee	Capital Project Fund	Accommodations Tax	Non-Major Governmental Funds	
Receivables:						
EMS Fees	\$ 2,019,513	\$ -	\$ -	\$ -	\$ -	\$ 2,019,513
Local accommodations taxes	705,372	-	-	-	-	705,372
Other receivables	78,072	-	-	16,698	135,064	229,834
Business license revenues	52,709	-	-	-	-	52,709
Beach preservation fees	-	1,409,500	-	-	-	1,409,500
Hospitality taxes/Other	-	-	1,358,812	-	-	1,358,812
Gross receivables	2,855,666	1,409,500	1,358,812	16,698	135,064	5,775,740
Less: allowance for uncollectibles	1,538,376	-	-	-	-	1,538,376
Net Receivables	\$ 1,317,290	\$ 1,409,500	\$ 1,358,812	\$ 16,698	\$ 135,064	\$ 4,237,364
Receivables from Employees:						
Cobra Insurance	\$ (1,564)	\$ -	\$ -	\$ -	\$ -	\$ (1,564)
Computer Purchases*	55,829	-	-	-	-	55,829
Total Receivables from Employees	\$ 54,265	\$ -	\$ -	\$ -	\$ -	\$ 54,265

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

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

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, 2010 for which payment was received/made after June 30, 2010.

Governmental activities interfund receivables and payable balances at June 30, 2010 are as follows:

	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Beach Preservation Fees	Capital Projects Fund	Debt Service	Proprietary Fund	Total
<u>Due To:</u>									
General	\$ -	\$ 167,677	\$ 149,546	\$ -	\$ 417,548	\$ 2,615,753	\$ -	\$ -	\$ 3,350,524
Capital Project Fund	-	-	-	546	339,672	-	912,559	302,762	1,555,539
Real Estate Transfer Fees	-	-	-	-	-	-	119	-	119
Beach Preservation Fees	-	1,450,000	-	-	-	-	-	-	1,450,000
Tax Increment Financing	-	-	-	-	-	315,187	-	-	315,187
Proprietary Fund	-	-	-	-	-	1,027,419	173,233	-	1,200,652
Debt Service Fund	102,118	-	-	-	-	-	-	-	102,118
Total	\$ 102,118	\$ 1,617,677	\$ 149,546	\$ 546	\$ 757,220	\$ 3,958,359	\$ 1,085,911	\$ 302,762	\$ 7,974,139

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, 2010 are summarized below:

	Transfers In							Total
	Tax Increment Financing	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation	Capital Projects Fund	Non-Major Governmental Funds	Proprietary Fund	
<u>Transfers Out:</u>								
General Fund	\$ 193,790	\$ 1,089,096	\$ -	\$ 1,315,746	\$ 2,464,955	\$ 77,372	\$ 302,762	\$ 5,443,721
Tax Increment Financing	-	-	-	-	314,844	-	-	314,844
Beach Preservation Fees	1,450,000	-	-	-	-	-	-	1,450,000
Capital Project Fund	-	-	7,757	1,541,701	973	-	-	1,550,431
Debt Service Fund	3,987,538	-	2,721,768	2,812,310	756,508	-	-	10,278,124
Total Governmental Fund								
Transfers Out	5,631,328	1,089,096	2,729,525	5,669,757	3,537,280	77,372	302,762	19,037,120

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

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	\$ 693,429
E 911 - Beaufort County	65,158
Dispatch/ EMS 911 - Beaufort County	37,500
Beaufort County Land Care South	6,621
SC DOT	46,985
SC MER Inventory	2,898
State Shared Taxes	211,471
EMS Grant - Beaufort County	2,114
IRS Taxes	1,880
SC Taxes	1,345
	\$ 1,069,401

Capital Projects Fund

State Sunday Liquor Fees	79,900
State of SC CDBG Grant	6,496
Beaufort County - Stormwater Fees (07/01/10 - 08/31/10)	65,434
Beaufort County - Capital Sales Tax	331,639
State of SC PARD Grant	7,181
	490,650

Accomodations Taxes

State of South Carolina	1,078,401
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Real Estate Transfer Fees

Beaufort County	181,216
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Tax Increment Financing District

Beaufort County	182,303
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Total Due from Other Governments

\$ 3,001,971

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

General Fund

Municipal Court State Fees - SC State Treasurer	\$ 49,030
State of South Carolina	462
Sheriff's Department - Beaufort County	6,625
Beaufort County - Roads/Library	7,930
	64,047

Total Due to Other Governments

\$ 64,047

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

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, 2010, \$111,102 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, 2010, \$ 53,106 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.

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.

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

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

Unreserved:

To protect the Town's assets against catastrophic events the Town Council has established the following:

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.

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

Note 7. Accounts Payable

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

	Government-Wide Financial Statements						Total
	Fund Financial Statements						
	General Fund	Accommodations Tax Fund	Beach Preservation Fees	Debt Service Fund	Capital Project Fund	Other Governmental Funds	
Payables:							
Accounts payable	\$ 1,110,693	\$ 368,385	\$ -	\$ 1,342	\$ 888,695	\$ 19,235	\$ 2,388,350
Accrued payroll	1,285,994	-	-	-	-	-	1,285,994
Total payables	\$ 2,396,687	\$ 368,385	\$ -	\$ 1,342	\$ 888,695	\$ 19,235	\$ 3,674,344

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

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	98,947	98,947
Nonmajor Governmental Fund - Home Grant	22,276	22,276
	\$ 130,747	\$ 130,747

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.

Net Assets

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

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt:		
Net capital assets	\$ 223,412,441	13,779,780
Less:		
General obligation bonds	(67,120,000)	-
Revenue bonds	(21,485,000)	(14,325,000)
TIF Bonds	(18,510,000)	-
Certificates of participation	(4,730,000)	-
Bond premiums	(1,035,972)	(62,896)
Add:		
Loss on refunding	1,013,052	-
Unspent bond proceeds	14,834,736	344,628
	126,379,257	(263,488)
Restricted for:		
Disaster recovery: General Fund	1,602,423	-
Beach renourishment	12,000,000	-
Debt service	7,147,724	-
Unrestricted	27,806,762	2,441,371
Total net assets	\$ 174,936,166	\$ 2,177,883

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

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 2010: \$ 1,029,578) and thirty percent (30%, FY 2009: \$1,150,446) 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 \$ 12,426 were lapsed during the fiscal year ending June 30, 2010, all being lapsed against 2010 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2010:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
<u>Grants (not Town related)</u>				
Art League of Hilton Head Island	\$ 10,602	\$ 10,602	\$ -	\$ -
Harbour Town 4th of July Fireworks	7,625	7,625	-	-
Hilton Head Island Choral Society	7,629	7,629	-	-
Hilton Head Island-Bluffton Visitor & Convention Bureau	300,000	151,049	-	148,951
Hilton Head Symphony Orchestra - Portable Shell	15,000	-	-	15,000
Main Street Youth Theatre - Operations	25,000	12,364	-	12,636
SC Lowcountry & Resort Islands Tourism Commission	4,000	4,000	-	-
Shelter Cove Harbour Company	8,000	-	-	8,000
The Sandbox: An Interactive Children's Museum	30,000	17,329	-	12,671
Arts Center of Coastal Carolina	352,360	352,360	-	-
Hilton Head Island-Bluffton Chamber of Commerce Marketing	68,000	68,000	-	-
Hilton Head Symphony Orchestra	144,500	144,500	-	-
Native Island Business and Community Affairs Association	76,500	76,500	-	-
Art League of Hilton Head Island	54,000	19,996	-	34,004
Harbour Town Merchants Association	8,000	-	-	8,000
Hilton Head Choral Society	17,000	7,000	-	10,000
Hilton Head Dance Theatre	9,000	-	-	9,000
Hilton Head Island Concourse D'Elegance	78,000	78,000	-	-
Hilton Head Island St. Patrick's Day Parade	16,500	2,300	6,200	8,000
Hilton Head Island-Bluffton Chamber of Commerce Marketing	101,334	101,334	-	-
Hilton Head Island Symphony Orchestra-Performance Shell	1,900	1,857	43	-
Main Street Theater	8,873	8,873	-	-
Shelter Cove Harbour Company	7,625	7,625	-	-
Skull Creek July 4th Celebration	8,000	8,000	-	-
South Carolina Repertory Company	15,000	15,000	-	-
Coastal Discovery Museum	165,000	89,040	-	75,960
Coastal Discovery Museum - Cultural @Eco Tourism Program	78,845	78,845	-	-
Coastal Discovery Museum - Honey Horn Capital Improvements	49,541	43,358	6,183	-
Heritage Library Foundation	25,208	25,208	-	-
The Sandbox: An Interactive Children's Museum	16,990	16,990	-	-
Total Grants (not Town related)	<u>\$ 1,710,032</u>	<u>\$ 1,355,384</u>	<u>\$ 12,426</u>	<u>\$ 342,222</u>
<u>Other Financing Uses</u>				
Transfer to General Fund	\$ 1,089,096	\$ 1,089,096	\$ -	\$ -
Total Other Financing Uses	<u>\$ 1,089,096</u>	<u>\$ 1,089,096</u>	<u>\$ -</u>	<u>\$ -</u>

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

Note 9. Accommodations Tax Fund (continued)

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

Cultural Council

Town Council approved grants for the Arts Center of Coastal Carolina for the visual and performing arts. A total of \$ 352,360 was approved for operations during 2009/2010.

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

For the year ended June 30,	<u>Accommodations Tax Grants</u>			
	Approved	Paid	Lapsed	Unpaid
2001	2,247,614	(2,213,249)	(34,365)	-
2002	2,020,100	(2,000,343)	(19,757)	-
2003	2,165,544	(2,165,050)	(494)	-
2004	2,080,000	(1,993,143)	(30,684)	56,173
2005	2,087,265	(1,874,900)	(2,500)	209,865
2006	2,389,750	(1,804,388)	(30,000)	555,362
2007	2,724,393	(2,290,222)	(5,000)	429,171
2008	2,101,886	(1,718,815)	(11,079)	371,992
2009	2,014,074	(1,697,468)	(6,936)	309,670

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2010, was \$1,304,013 of which \$ 342,222 was encumbered by approved grants.

Town council has approved amounts for 2010/2011 grants as follows:

Arts Center of Coastal Carolina (General Operating Support)	\$ 339,924
Hilton Head Symphony Orchestra	139,400
Native Island Business & Comm. Affairs Association	75,000
Town Operations – Tourism Support	<u>861,000</u>
	<u>\$ 1,415,324</u>

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

Note 10. Long-Term Obligations

The Town issues three types of bonds: general obligation, tax increment financing (TIF), and revenue. The Town has also issued certificates of participation (COPS) as an additional funding source. The bonds/COPS are used for the acquisition and construction of major capital facilities, as well as the purchase of land. The Town presently has \$111.8 million in outstanding bonds associated with governmental type activities and \$14.3 million in outstanding bonds associated with business-type activities.

General obligation bonds are secured by the full faith, credit and taxing power of the Town.

Tax increment financing bonds are secured by incremental property tax revenues being derived from the economic development of the Town's TIF District.

Revenue bonds are secured by the revenue flow from a specified source of revenue (e.g. hospitality tax, beach preservation fees).

The **certificate of participation** is a financial document that is often employed when a municipal government or other government entity creates a bond issue. Rather than paying interest on the bonds or guaranteeing a face value at the end of the project, the investor receives a return based on the lease revenues associated with the offering.

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

For the Year Ended June 30	Governmental Activities			Business-type Activities		
	Interest	Principal	Total	Interest	Principal	Total
2011	4,524,474	12,305,000	16,829,474	660,665	585,000	1,245,665
2012	4,070,361	11,385,000	15,455,361	639,608	605,000	1,244,608
2013	3,673,129	11,060,000	14,733,129	616,924	625,000	1,241,924
2014	3,248,337	11,725,000	14,973,337	592,205	650,000	1,242,205
2015	2,799,189	10,865,000	13,664,189	565,705	675,000	1,240,705
2016-2020	10,142,807	23,440,000	33,582,807	2,290,672	3,885,000	6,175,672
2021-2025	5,111,924	20,700,000	25,811,924	1,184,866	4,955,000	6,139,866
2026-2030	1,738,021	7,785,000	9,523,021	112,694	2,345,000	2,457,694
2031-2035	449,174	2,580,000	3,029,174	-	-	-
Total	\$ 35,757,416	\$ 111,845,000	\$ 147,602,416	\$ 6,663,339	\$ 14,325,000	\$ 20,988,339

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

Note 10. Long-Term Obligations (continued)

Legal Debt Limit

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

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

In addition, Hilton Head Island's Town Council imposes an 80% cap on the debt limit.

Assessed Value as of December 2009 (estimated 2010 assessed value)		\$	<u>949,555,000</u>
 Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval			 75,964,400
Council Imposed 80% Cap			60,771,520
Amount of Debt Applicable to Debt Limit:			
General Obligation Bonds 2004B (Refunding of Series 1998B)	\$	3,155,000	
General Obligation Bonds 2009A (Refunding of Series 1999A)		5,005,000	
Total Amount Applicable to Debt Limit			<u>8,160,000</u>
 Legal Debt Margin without a Referendum		\$	<u><u>52,611,520</u></u>

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

Note 10. Long-Term Obligations (continued)

GOVERNMENTAL ACTIVITIES

\$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
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>\$ 403,570</u>	<u>\$ 4,240,000</u>	<u>\$ 4,643,570</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, 2010 \$ 925,347 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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 49,228</u>	<u>\$ 490,000</u>	<u>\$ 539,228</u>

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

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

Note 10. Long-Term Obligations (continued)

\$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
2011	5.500	611,250	450,000	1,061,250
2012	5.500	586,500	465,000	1,051,500
2013	5.250	560,925	480,000	1,040,925
2014	5.250	535,725	500,000	1,035,725
2015	5.250	509,475	520,000	1,029,475
2016	5.000	482,175	540,000	1,022,175
2017	5.000	455,175	560,000	1,015,175
2018	4.400	427,175	585,000	1,012,175
2019	4.500	401,435	610,000	1,011,435
2020	4.500	373,985	635,000	1,008,985
2021	4.500	345,410	665,000	1,010,410
2022	4.625	315,485	695,000	1,010,485
2023	4.700	283,341	730,000	1,013,341
2024	4.750	249,031	765,000	1,014,031
2025	4.750	212,694	800,000	1,012,694
2026	4.750	174,694	840,000	1,014,694
2027	4.875	134,794	880,000	1,014,794
2028	4.875	91,894	920,000	1,011,894
2029	4.875	47,044	965,000	1,012,044
		<u>\$ 6,798,207</u>	<u>\$ 12,605,000</u>	<u>\$ 19,403,207</u>

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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2011	3.000	62,125	2,230,000	2,292,125
2012	3.100	14,337	925,000	939,337
		<u>\$ 76,462</u>	<u>\$ 3,155,000</u>	<u>\$ 3,231,462</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)

\$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
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>\$ 6,942,800</u>	<u>\$ 22,930,000</u>	<u>\$ 29,872,800</u>

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.

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

Note 10. Long-Term Obligations (continued)

\$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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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
		<u>\$ 3,894,630</u>	<u>\$ 11,425,000</u>	<u>\$ 15,319,630</u>

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)

\$ 5,005,000 General Obligation Bonds Dated September 9, 2009

On September 9, 2009, the Town issued \$ 5,005,000 in general obligation bonds with an average interest rate of 2.72% to advance refund \$ 4,900,000 general obligation bonds dated November 16, 1999 with an average interest rate of 5.56%. The net proceeds of \$ 5,248,484 including a premium of \$ 34,061 (after payment of \$ 139,061 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds by \$ 902,336 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$ 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
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>\$ 1,424,142</u>	<u>\$ 5,005,000</u>	<u>\$ 6,429,142</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)

\$12,000,000 General Obligation Bonds Dated February 2, 2010

On February 3, 2010, the Town issued \$12,000,000 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
2011	1.000	593,909	330,000	923,909
2012	1.650	547,750	360,000	907,750
2013	2.400	541,810	440,000	981,810
2014	3.050	531,250	445,000	976,250
2015	3.250	517,678	450,000	967,678
2016	3.850	503,053	460,000	963,053
2017	4.000	485,343	470,000	955,343
2018	4.350	466,542	485,000	951,542
2019	4.450	445,445	500,000	945,445
2020	4.600	423,195	515,000	938,195
2021	4.700	399,505	530,000	929,505
2022	4.800	374,595	550,000	924,595
2023	4.900	348,195	565,000	913,195
2024	5.000	320,510	585,000	905,510
2025	5.100	291,260	610,000	901,260
2026	5.400	260,150	405,000	665,150
2027	5.300	238,280	405,000	643,280
2028	5.300	216,815	420,000	636,815
2029	5.400	194,555	440,000	634,555
2030	5.500	170,795	455,000	625,795
2031	5.650	145,770	475,000	620,770
2032	5.650	118,932	495,000	613,932
2033	5.650	90,965	515,000	605,965
2034	5.650	61,867	535,000	596,867
2035	5.650	31,640	560,000	591,640
		\$ 8,319,809	\$ 12,000,000	\$ 20,319,809

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

Note 10. Long-Term Obligations (continued)

\$10,775,000 (Hospitality Fee Pledge) Revenue Bonds 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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 4,633,803</u>	<u>\$ 8,965,000</u>	<u>\$ 13,598,803</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, 2010, \$ 812,183 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)

\$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
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>\$ 1,390,673</u>	<u>\$ 12,520,000</u>	<u>\$ 13,910,673</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, 2010, \$1,900,080 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.

\$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
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>\$ 536,959</u>	<u>\$ 4,455,000</u>	<u>\$ 4,991,959</u>

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

Note 10. Long-Term Obligations (continued)

\$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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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
		<u>\$ 1,287,133</u>	<u>\$ 14,055,000</u>	<u>\$ 15,342,133</u>

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, 2010 \$1,010,702 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, 2010, \$ 4,900,000 of bonds are considered defeased debt.

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

Note 10. Long-Term Obligations (continued)

BUSINESS-TYPE ACTIVITIES

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
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>\$ 6,663,339</u>	<u>\$ 14,325,000</u>	<u>\$ 20,988,339</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, 2010, \$1,328,133 was the fair value of the amount held in the reserve fund.

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, as Originally Reported	Restatement	Beginning Balance, as Restated	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:							
Bonds and notes payable:							
General obligation bonds payable	\$ 59,705,000	\$ -	\$ 59,705,000	\$ 17,005,000	\$ 9,590,000	\$ 67,120,000	\$ 5,110,000
Certificates of participation	5,825,000	-	5,825,000	-	1,095,000	4,730,000	1,130,000
Tax increment financing	21,780,000	-	21,780,000	-	3,270,000	18,510,000	3,405,000
Revenue Bonds:							
Beach preservation fees	14,760,000	-	14,760,000	-	2,240,000	12,520,000	2,320,000
Stormwater fees	14,890,000	(14,890,000)	-	-	-	-	-
Hospitality tax	9,290,000	-	9,290,000	-	325,000	8,965,000	340,000
Premium on bonds	1,053,730	(66,596)	987,134	155,633	106,795	1,035,972	106,795
Total bonds and notes payable	<u>127,303,730</u>	<u>(14,956,596)</u>	<u>112,347,134</u>	<u>17,160,633</u>	<u>16,626,795</u>	<u>112,880,972</u>	<u>12,411,795</u>
Other liabilities:							
Compensated absences	1,634,583	-	1,634,583	3,496,193	1,634,583	3,496,193	3,146,574
Total other liabilities	<u>1,634,583</u>	<u>-</u>	<u>1,634,583</u>	<u>3,496,193</u>	<u>1,634,583</u>	<u>3,496,193</u>	<u>3,146,574</u>
Governmental activities long-term liabilities	<u>\$ 128,938,313</u>	<u>\$ (14,956,596)</u>	<u>\$ 113,981,717</u>	<u>\$ 20,656,826</u>	<u>\$ 18,261,378</u>	<u>\$ 116,377,165</u>	<u>\$ 15,558,369</u>
Business-type Activities:							
Bonds and notes payable:							
Stormwater fees	-	14,890,000	14,890,000	-	565,000	14,325,000	585,000
Premium on bonds	-	66,596	66,596	-	3,700	62,896	3,700
Total bonds and notes payable	<u>-</u>	<u>14,956,596</u>	<u>14,956,596</u>	<u>-</u>	<u>568,700</u>	<u>14,387,896</u>	<u>588,700</u>
Business-type activities long-term liabilities	<u>\$ -</u>	<u>\$ 14,956,596</u>	<u>\$ 14,956,596</u>	<u>\$ -</u>	<u>\$ 568,700</u>	<u>\$ 14,387,896</u>	<u>\$ 588,700</u>

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

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2011	\$ 4,524,474	\$ 12,411,795	\$ 16,936,269
2012	4,070,361	11,487,691	15,558,052
2013	3,673,129	11,161,323	14,834,452
2014	3,248,337	11,790,138	15,038,475
2015	2,799,189	10,922,902	13,722,091
2016-2020	10,142,807	23,729,510	33,872,317
2021-2025	5,111,924	20,968,846	26,080,770
2026-2030	1,738,021	7,809,315	9,547,336
2031-2035	449,174	2,599,452	3,048,626
Total	<u>\$ 35,757,416</u>	<u>\$ 112,880,972</u>	<u>\$ 148,638,388</u>

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

Note 10. Long-Term Obligations (continued)

For the Year Ended June 30	Business-Type Activities		
	Interest	Principal	Total
2011	\$ 660,665	\$ 588,700	\$ 1,249,365
2012	639,608	608,700	1,248,308
2013	616,924	628,700	1,245,624
2014	592,205	653,700	1,245,905
2015	565,705	678,700	1,244,405
2016-2020	2,290,672	3,903,500	6,194,172
2021-2025	1,184,866	4,973,500	6,158,366
2026-2030	112,694	2,352,396	2,465,090
Total	\$ 6,663,339	\$ 14,387,896	\$ 21,051,235

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

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Primary Government</u>	Beginning Balances, as Originally Reported	Restatement	Beginning Balances, as Restated	Increases	Decreases	Ending Balance
Government activities:						
Capital assets not being depreciated:						
Land	\$ 147,632,552	\$ -	\$ 147,632,552	\$ 804,417	\$ (1,288,184)	\$ 147,148,785
Development Rights	10,734,391	-	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	2,897,909	-	2,897,909	651,051	-	3,548,960
Construction in progress	13,176,093	(980,275)	12,195,818	6,892,296	(6,460,691)	12,627,423
Total capital assets not being depreciated	<u>174,440,945</u>	<u>(980,275)</u>	<u>173,460,670</u>	<u>8,347,764</u>	<u>(7,748,875)</u>	<u>174,059,559</u>
Capital assets being depreciated:						
Buildings	16,820,643	-	16,820,643	4,092,243	-	20,912,886
Furniture, fixtures and equipment	3,655,448	-	3,655,448	256,769	(80,212)	3,832,005
Vehicles	6,730,419	-	6,730,419	1,736,269	(1,090,717)	7,375,971
Imp. other than buildings - park development	8,955,502	-	8,955,502	1,840,102	-	10,795,604
Infrastructure	42,751,858	(14,545,959)	28,205,899	26,778	-	28,232,677
Total capital assets being depreciated	<u>78,913,870</u>	<u>(14,545,959)</u>	<u>64,367,911</u>	<u>7,952,161</u>	<u>(1,170,929)</u>	<u>71,149,143</u>
Less accumulated depreciation for:						
Buildings	6,413,462	-	6,413,462	669,162	-	7,082,624
Furniture, fixtures and equipment	3,008,515	-	3,008,515	198,308	(80,212)	3,126,611
Vehicles	2,851,497	-	2,851,497	397,884	(526,281)	2,723,100
Imp. other than buildings - park development	876,016	-	876,016	364,249	-	1,240,265
Infrastructure	8,896,453	(2,402,099)	6,494,354	1,129,307	-	7,623,661
Total accumulated depreciation	<u>22,045,943</u>	<u>(2,402,099)</u>	<u>19,643,844</u>	<u>2,758,910</u>	<u>(606,493)</u>	<u>21,796,261</u>
Total capital assets being depreciated, net	<u>56,867,927</u>	<u>(12,143,860)</u>	<u>44,724,067</u>	<u>5,193,251</u>	<u>(564,436)</u>	<u>49,352,882</u>
Government activity capital assets, net	<u>\$ 231,308,872</u>	<u>\$ (13,124,135)</u>	<u>\$ 218,184,737</u>	<u>\$ 13,541,015</u>	<u>\$ (8,313,311)</u>	<u>\$ 223,412,441</u>
Business-type activities:						
Capital assets not being depreciated:						
Construction in progress	\$ -	\$ 980,275	\$ 980,275	\$ 1,237,484	\$ -	\$ 2,217,759
Total capital assets not being depreciated	<u>-</u>	<u>980,275</u>	<u>980,275</u>	<u>1,237,484</u>	<u>-</u>	<u>2,217,759</u>
Capital assets being depreciated:						
Infrastructure	-	14,545,959	14,545,959	-	-	14,545,959
Total capital assets being depreciated	<u>-</u>	<u>14,545,959</u>	<u>14,545,959</u>	<u>-</u>	<u>-</u>	<u>14,545,959</u>
Less accumulated depreciation for:						
Infrastructure	-	2,402,099	2,402,099	581,839	-	2,983,938
Total accumulated depreciation	<u>-</u>	<u>2,402,099</u>	<u>2,402,099</u>	<u>581,839</u>	<u>-</u>	<u>2,983,938</u>
Total capital assets being depreciated, net	<u>-</u>	<u>12,143,860</u>	<u>12,143,860</u>	<u>(581,839)</u>	<u>-</u>	<u>11,562,021</u>
Business-type activity capital assets, net	<u>\$ -</u>	<u>\$ 13,124,135</u>	<u>\$ 13,124,135</u>	<u>\$ 655,645</u>	<u>\$ -</u>	<u>\$ 13,779,780</u>

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

Note 11. Capital Assets (continued)

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

Governmental activities:	
General Government	\$ 208,061
Management Services	92,377
Community Development	42,150
Public Safety	874,495
Public Projects and Facilities	<u>1,541,827</u>
Total depreciation expense - governmental activities	<u>\$ 2,758,910</u>
 Business-type activities:	
Stormwater	<u>\$ 581,839</u>
Total depreciation expense - business-type activities	<u>\$ 581,839</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, 2010, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities	\$ 731,424
Park Development	724,233
Land and Related Acquisitions and Improvements	1,152,741
Beach Maintenance	1,331,074
Facilities Improvements	4,959,040
Roadway Improvements	916,567
Pathways Improvements	934,823
Debt Issue Costs	<u>264,273</u>
Total	<u>\$ 11,014,175</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2010, the Town had contractual commitments of approximately \$10,551,953 in progress. Through June 30, 2010, approximately \$9,122,847 in costs had been incurred on these commitments. At June 30, 2010, the Town had outstanding contractual commitments totaling approximately \$1,257,299 for capital projects in progress and \$171,807 for capital projects obligated, but not yet started.

Operating Leases

For the Town's fiscal year ended June 30, 2010, there were no minimum rental payments under noncancelable operating leases and no contingent rental payments. The Town's contingent rentals are for the lease of a building with expense being determined by repair costs incurred during the lease term.

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

Note 13. Contracted Commitments and Operating Leases (continued)

At June 30, 2010, 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
2011	\$ 63,778
2012	27,848
2013	10,112
	\$ 101,738

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.

For the year ended June 30, 2010, employer contributions were based on a total payroll of \$8,016,020. The amount contributed by the employer for the year ending June 30, 2010 was \$687,061 or 8.6% of covered payroll. During the years ended June 30, 2009 and 2008, \$688,105 and \$663,263 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$634,871 or 7.9% of covered payroll for year ending June 30, 2010. Employees who participate in the PORS plan made contributions of \$93,712 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, 2010, \$7,500,522 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, 2010, a total of \$948,937 was contributed into the System for the Town's share and \$337,407 for the employees' share, which represented 12.65% and 4.5% of covered payroll, respectively. During the years ended June 30, 2009 and 2008, \$971,059 and \$960,993 were contributed to the system for the Town's share, representing 12.68% and 12.43% of covered payroll, respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

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

Note 14. Retirement Plans (continued)

Employees vest after five years and are entitled to a deferred annuity commencing at age 55. Employees who retire at age 55 with 5 years of service or have twenty-five years of credited service are entitled to a retirement benefit, payable monthly for life equal to 2.14% of average final compensation times years of credited service. The System also provides disability benefits 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.

Retirement Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2010, employer contributions were based on a total payroll of \$15,781,810 of which \$15,516,542 or 98.32% of the total payroll was covered under the plan. Employer contributions were \$1,635,998 or 10.54% of covered payroll. Employee contributions were \$1,065,990 or 6.87% of covered payroll.

Note 15. Deferred Compensation Plan

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

Management of these funds is by the retirement plan administrator of 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 \$171,336 at June 30, 2010, 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, 2010, the limit was \$200, and the Town's liability under this plan totaled \$8,429.

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

Note 16. Health Plans (continued)

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2010 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$18,608.

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. Seven (7) employees were eligible for the benefits for the period ending June 30, 2010.

The Town contributed \$72,135 during the year ended June 30, 2010.

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.

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

Note 18. Contingencies (continued)

The Town has also designated a portion of its fund balance to defray the extraordinary costs it anticipates it would incur during a natural disaster. These anticipated costs are for employee overtime, disaster aid and the like. All risk management activities are accounted for in the general fund.

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. No amount for claims has been accrued at June 30, 2010.

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.

Note 19. Change in Accounting Principle and Prior Period Adjustment

During 2010, the Town began to account for the stormwater system as an enterprise fund. In prior years, the stormwater system has been accounted for as part of debt service and capital projects funds in the financial statements and a governmental activity in the government-wide statements. Because it is management's intention for this program to be self sustaining, the Town believes these operations more accurately meet the criteria of a business-type activity. The effect of this change in the governmental funds was to decrease the beginning fund balance in the debt service fund by \$ 2,666,625 and to decrease the beginning fund balance in the capital projects fund by \$ 134,987, while increasing beginning net assets in the proprietary fund by \$ 1,240,773. The effect on the government-wide statements was to decrease net assets in the governmental activities by \$ 1,240,773 and increase net assets in the business type activities by \$ 1,240,773.

Also, the debt issue costs of \$ 271,621 related to the stormwater revenue bonds were previously expensed in the government-wide financial statements. The effect on the government-wide statements was to increase net assets in the governmental activities by \$ 271,621.

A summary of the above is as follows:

	<u>Governmental</u>	<u>Business Type</u>
Government wide statements		
Net assets as originally reported	\$ 165,349,096	\$ -
Change in accounting principle		
Capital assets	(13,124,135)	13,124,135
Revenue bonds	14,956,596	(14,956,596)
Cash and investments	(2,801,613)	2,801,613
Prior period adjustment, debt issue costs	<u>-</u>	<u>271,621</u>
Net assets, as restated	<u>\$ 164,379,944</u>	<u>\$ 1,240,773</u>

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

Note 19. Change in Accounting Principle and Prior Period Adjustment (continued)

	Governmental	Business Type
Fund financial statements		
Fund balance, as originally reported	\$ 61,235,649	\$ -
Change in accounting principle		
Stormwater fund	-	1,240,773
Debt service fund	(2,666,625)	-
Capital projects fund	(134,987)	-
	\$ 58,434,037	\$ 1,240,773

Note 20. Subsequent Events

On December 1, 2010, the Town issued \$13,740,000 in revenue bonds to refund the Revenue Bonds dated December 1, 2002. The anticipated amount of economic savings by refunding the bonds is \$943,642. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Business-Type Activities		
		Interest	Principal	Total
2011	3.625	\$ 325,287	\$ -	\$ 325,287
2012	3.750	639,608	605,000	1,244,608
2013	4.000	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	5.250	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	4.350	496,030	740,000	1,236,030
2018	5.125	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	4.750	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	84,193	1,145,000	1,229,193
2027	4.750	28,500	1,200,000	1,228,500
		\$ 6,327,960	\$ 13,740,000	\$ 20,067,960

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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 11,098,760	\$ 11,098,760	\$ 10,920,696	\$ (178,064)
Accommodations Tax:				
Local 1%	1,946,330	1,946,330	2,012,520	66,190
Business License and Franchise Fees:				
Business License	7,310,780	7,310,780	7,103,499	(207,281)
Cable Television Franchise	515,350	515,350	760,735	245,385
Beach Franchise	21,500	21,500	20,716	(784)
Total	7,847,630	7,847,630	7,884,950	37,320
Permits:				
Construction	150,000	150,000	175,884	25,884
Development	15,500	15,500	4,067	(11,433)
Other	630,000	630,000	706,430	76,430
Total	795,500	795,500	886,381	90,881
State Shared Funds	895,590	895,590	884,672	(10,918)
Donations:				
EMS/Fire Department Donations	1,000	1,000	120	(880)
Grants:				
Beaufort County Hazmat/E911	211,780	211,780	134,505	(77,275)
DHEC	-	-	7,293	7,293
Total	211,780	211,780	148,638	(63,142)
Miscellaneous Revenue:				
Public Safety/EMS	1,317,910	1,317,910	1,420,235	102,325
Beach Services	135,000	135,000	178,247	43,247
Municipal Court Fines and Fees	410,000	410,000	423,042	13,042
Miscellaneous Revenue	484,000	703,137	203,229	(499,908)
Total	2,346,910	2,566,047	2,224,753	(341,294)
Investment Income	112,790	112,790	95,768	(17,022)
Total Revenues	25,256,290	25,475,427	25,058,498	(416,929)

SCHEDULE 1 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 84,980	\$ 84,980	\$ 70,965	\$ 14,015
Other Operating	339,370	359,715	221,636	138,079
Total Town Council	<u>424,350</u>	<u>444,695</u>	<u>292,601</u>	<u>152,094</u>
Town Manager:				
Salaries and Benefits	700,640	731,153	731,153	-
Other Operating	31,510	31,510	20,723	10,787
Total Town Manager	<u>732,150</u>	<u>762,663</u>	<u>751,876</u>	<u>10,787</u>
Total General Government	<u>1,156,500</u>	<u>1,207,358</u>	<u>1,044,477</u>	<u>162,881</u>
Management Services:				
Finance-Administration:				
Salaries and Benefits	326,510	326,510	203,202	123,308
Other Operating	18,140	25,440	10,766	14,674
Total Finance-Administration	<u>344,650</u>	<u>351,950</u>	<u>213,968</u>	<u>137,982</u>
Finance-Accounting:				
Salaries and Benefits	456,240	456,240	491,607	(35,367)
Other Operating	94,890	107,809	74,381	33,428
Total Finance-Accounting	<u>551,130</u>	<u>564,049</u>	<u>565,988</u>	<u>(1,939)</u>
Finance-Revenue and Collections:				
Salaries and Benefits	657,190	657,190	645,109	12,081
Other Operating	32,120	32,120	14,199	17,921
Total Finance-Revenue and Collections	<u>689,310</u>	<u>689,310</u>	<u>659,308</u>	<u>30,002</u>
Administration-Legal :				
Salaries and Benefits	413,910	413,910	400,866	13,044
Other Operating	56,740	56,740	28,010	28,730
Total Administration-Legal	<u>470,650</u>	<u>470,650</u>	<u>428,876</u>	<u>41,774</u>
Administration-Municipal Court:				
Salaries and Benefits	327,950	327,950	322,387	5,563
Other Operating	87,210	87,210	72,664	14,546
Total Administration-Municipal Court	<u>415,160</u>	<u>415,160</u>	<u>395,051</u>	<u>20,109</u>

SCHEDULE 1 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services (continued):				
Administration-Administrative Support :				
Salaries and Benefits	176,540	176,540	174,362	2,178
Other Operating	31,660	33,985	19,066	14,919
Total Administration-Administrative Support	<u>208,200</u>	<u>210,525</u>	<u>193,428</u>	<u>17,097</u>
Administration-Operations:				
Salaries and Benefits	898,640	898,640	894,516	4,124
Other Operating	644,340	669,820	618,213	51,607
Total Administration-Operations	<u>1,542,980</u>	<u>1,568,460</u>	<u>1,512,729</u>	<u>55,731</u>
Administration-Human Resources:				
Salaries and Benefits	455,530	455,530	446,029	9,501
Other Operating	145,850	176,450	81,873	94,577
Total Administration-Human Resources	<u>601,380</u>	<u>631,980</u>	<u>527,902</u>	<u>104,078</u>
Total Management Services	<u>4,823,460</u>	<u>4,902,084</u>	<u>4,497,250</u>	<u>404,834</u>
Community Services:				
Community Development-Administration:				
Salaries and Benefits	523,160	523,160	518,014	5,146
Other Operating	30,890	32,577	23,212	9,365
Total CD-Administration	<u>554,050</u>	<u>555,737</u>	<u>541,226</u>	<u>14,511</u>
Community Development-CD Services:				
Salaries and Benefits	329,300	329,300	330,521	(1,221)
Other Operating	6,730	7,730	3,700	4,030
Total CD-CD Services	<u>336,030</u>	<u>337,030</u>	<u>334,221</u>	<u>2,809</u>
Community Development-Inspection/Compliance:				
Salaries and Benefits	657,380	657,380	653,681	3,699
Other Operating	22,470	15,983	13,690	2,293
Total CD-Inspection/Compliance	<u>679,850</u>	<u>673,363</u>	<u>667,371</u>	<u>5,992</u>
Community Development-Develop., Review, and Zoning:				
Salaries and Benefits	806,840	806,840	743,761	63,079
Other Operating	21,070	63,259	48,019	15,240
Total CD-DR and Z	<u>827,910</u>	<u>870,099</u>	<u>791,780</u>	<u>78,319</u>

SCHEDULE 1 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Community Services (continued):				
Community Development-Comprehensive Planning:				
Salaries and Benefits	355,430	355,430	347,894	7,536
Other Operating	15,870	17,070	8,965	8,105
Total CD-Comprehensive	<u>371,300</u>	<u>372,500</u>	<u>356,859</u>	<u>15,641</u>
Public Facilities-Administration:				
Salaries and Benefits	228,180	228,180	226,924	1,256
Other Operating	3,530	3,530	3,105	425
Total Public Facilities-Administration	<u>231,710</u>	<u>231,710</u>	<u>230,029</u>	<u>1,681</u>
Public Facilities-Engineering:				
Salaries and Benefits	571,770	571,770	569,874	1,896
Other Operating	143,540	182,962	149,872	33,090
Total Public Facilities-Engineering	<u>715,310</u>	<u>754,732</u>	<u>719,746</u>	<u>34,986</u>
Public Facilities-Facilities Management:				
Salaries and Benefits	919,580	874,580	864,284	10,296
Other Operating	1,574,680	1,637,830	1,499,030	138,800
Total Public Facilities-Facilities Management	<u>2,494,260</u>	<u>2,512,410</u>	<u>2,363,314</u>	<u>149,096</u>
Total Community Services	<u>6,210,420</u>	<u>6,307,581</u>	<u>6,004,546</u>	<u>303,035</u>
Public Safety:				
Fire and Rescue-Administration:				
Salaries and Benefits	215,220	215,220	215,694	(474)
Other Operating	132,420	132,420	69,691	62,729
Total Fire and Rescue-Administration	<u>347,640</u>	<u>347,640</u>	<u>285,385</u>	<u>62,255</u>
Fire and Rescue-Logistics/Maintenance:				
Salaries and Benefits	366,420	366,420	344,215	22,205
Other Operating	281,090	282,479	299,641	(17,162)
Total Fire and Rescue-Logistics/Maintenance	<u>647,510</u>	<u>648,899</u>	<u>643,856</u>	<u>5,043</u>
Fire and Rescue-Operations:				
Salaries and Benefits	8,889,010	8,889,010	8,709,724	179,286
Other Operating	116,750	116,750	100,300	16,450
Total Fire and Rescue-Operations	<u>9,005,760</u>	<u>9,005,760</u>	<u>8,810,024</u>	<u>195,736</u>

SCHEDULE 1 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Fire and Rescue-Communications:				
Salaries and Benefits	919,060	919,060	913,012	6,048
Other Operating	191,130	191,130	157,005	34,125
Total Fire and Rescue-Communications	<u>1,110,190</u>	<u>1,110,190</u>	<u>1,070,017</u>	<u>40,173</u>
Fire and Rescue-Training:				
Salaries and Benefits	522,770	522,770	512,879	9,891
Other Operating	138,580	138,580	73,520	65,060
Total Fire and Rescue-Training	<u>661,350</u>	<u>661,350</u>	<u>586,399</u>	<u>74,951</u>
Fire and Rescue-Emergency Management:				
Salaries and Benefits	176,400	176,400	176,079	321
Other Operating	55,290	55,290	30,337	24,953
Total Fire and Rescue-Emergency Management	<u>231,690</u>	<u>231,690</u>	<u>206,416</u>	<u>25,274</u>
Fire and Rescue-Bureau of Fire Prevention:				
Salaries and Benefits	483,440	483,440	475,828	7,612
Other Operating	32,480	32,480	22,747	9,733
Total Fire and Rescue-Bureau of Fire Prevention	<u>515,920</u>	<u>515,920</u>	<u>498,575</u>	<u>17,345</u>
Fire and Rescue-Support Services:				
Salaries and Benefits	396,600	396,600	419,260	(22,660)
Other Operating	353,770	422,608	388,458	34,150
Total Fire and Rescue-Support Services	<u>750,370</u>	<u>819,208</u>	<u>807,718</u>	<u>11,490</u>
Fire and Rescue-E911 Communications:				
Salaries and Benefits	230,740	230,740	229,093	1,647
Total Fire and Rescue-E911 Communications	<u>230,740</u>	<u>230,740</u>	<u>229,093</u>	<u>1,647</u>
Sheriff/Other Public Safety				
Police Services/Contract	2,699,520	2,699,520	2,661,044	38,476
Stipend	158,760	158,760	124,950	33,810
Victims' Rights	55,800	55,800	54,253	1,547
Beach Services	165,060	165,060	184,192	(19,132)
Total Sheriff/Other Public Safety	<u>3,079,140</u>	<u>3,079,140</u>	<u>3,024,439</u>	<u>54,701</u>
Total Public Safety	<u>16,580,310</u>	<u>16,650,537</u>	<u>16,161,922</u>	<u>488,615</u>

SCHEDULE 1 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental:				
Townwide:				
Insurance	294,850	294,850	283,815	11,035
Postage	37,420	37,420	32,545	4,875
General Contingency	43,500	43,500	17,201	26,299
Lightning Strike	-	-	4,251	(4,251)
Palmetto Pass	14,000	14,000	14,158	(158)
Postemployment	19,800	19,800	9,032	10,768
Retiree Medical	720	720	690	30
COBRA	180	180	66	114
Travel	280	280	403	(123)
Professional Dues	17,500	17,500	15,150	2,350
Professional Services	-	140,923	-	140,923
Telephone/Cell Phones/Utilities	645,180	645,180	638,547	6,633
Equipment Maintenance/Supplies/Other	37,000	37,000	26,300	10,700
Vehicle Fuel	164,340	133,827	133,415	412
Lease Payments	50,200	51,955	43,348	8,607
Photocopying	12,000	12,000	9,521	2,479
Courier	20,000	20,000	19,910	90
Furniture/Fixtures <\$5,000	5,000	5,000	86	4,914
Disaster Advertising Reserve Fund	230,000	300,000	300,000	-
Hospitality Training & Promotion	104,000	104,000	100,500	3,500
Drug Court Grant	48,500	48,500	48,500	-
Career Criminal Program	35,000	35,000	35,000	-
Recreation Center-Operating Grant	616,940	616,940	616,940	-
Coastal Discovery Grant	75,000	75,000	75,000	-
Turtle Watch	32,500	32,500	32,500	-
LTRA Grant	175,000	175,000	175,000	-
FEMA	-	-	8,442	(8,442)
LEPC Grant	-	-	6,812	(6,812)
Beaufort County Hazmat Grant	-	-	15,000	(15,000)
Total Non-Departmental Townwide	<u>2,678,910</u>	<u>2,861,075</u>	<u>2,662,132</u>	<u>198,943</u>
Debt Service:				
Principal	71,950	71,950	-	71,950
Interest	267,420	267,420	-	267,420
Total Debt Service	<u>339,370</u>	<u>339,370</u>	<u>-</u>	<u>339,370</u>

SCHEDULE 1 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Capital Outlay:				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	83,900	83,900	78,099	5,801
Computer Software >\$50,000	-	40,000	15,102	24,898
Total Administration-Operations	<u>83,900</u>	<u>123,900</u>	<u>93,201</u>	<u>30,699</u>
Total Management Services	<u>83,900</u>	<u>123,900</u>	<u>93,201</u>	<u>30,699</u>
Public Safety:				
Fire and Rescue Operations:				
Specialized Equipment	30,000	30,000	24,557	5,443
Total Fire and Rescue-Operations	<u>30,000</u>	<u>30,000</u>	<u>24,557</u>	<u>5,443</u>
Fire and Rescue Communications				
Specialized Equipment	48,000	53,755	47,841	5,914
Total Fire and Rescue-Communications	<u>48,000</u>	<u>53,755</u>	<u>47,841</u>	<u>5,914</u>
Fire and Rescue Logistics/Maintenance:				
Equipment/Radios	6,000	6,000	5,430	570
Specialized Equipment	57,000	57,000	16,460	40,540
Total Fire and Rescue-Logistics/Maintenance	<u>63,000</u>	<u>63,000</u>	<u>21,890</u>	<u>41,110</u>
Fire and Rescue-Support Services:				
Specialized Equipment	44,000	44,000	42,187	1,813
Total Fire and Rescue-Support Services	<u>44,000</u>	<u>44,000</u>	<u>42,187</u>	<u>1,813</u>
Total Public Safety	<u>185,000</u>	<u>190,755</u>	<u>136,475</u>	<u>54,280</u>
Total Capital Outlay	<u>268,900</u>	<u>314,655</u>	<u>229,676</u>	<u>84,979</u>
Total Expenditures	<u>32,057,870</u>	<u>32,582,660</u>	<u>30,600,003</u>	<u>1,982,657</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(6,801,580)</u>	<u>(7,107,233)</u>	<u>(5,541,505)</u>	<u>1,565,728</u>
<u>Other Financing Sources and Uses :</u>				
Transfers In	5,923,940	6,064,863	5,443,721	(621,142)
Total Other Financing Sources	<u>5,923,940</u>	<u>6,064,863</u>	<u>5,443,721</u>	<u>(621,142)</u>
Net change in fund balance	<u>(877,640)</u>	<u>(1,042,370)</u>	<u>(97,784)</u>	<u>\$ 944,586</u>
Fund Balance - beginning	<u>15,861,769</u>	<u>15,861,769</u>	<u>15,861,769</u>	
Fund Balance - ending	<u>\$ 14,984,129</u>	<u>\$ 14,819,399</u>	<u>\$ 15,763,985</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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 5,627,650	\$ 5,627,650	\$ 5,529,403	\$ (98,247)
Investment Income	46,200	46,200	55,566	9,366
Total revenues	5,673,850	5,673,850	5,584,969	(88,881)
Expenditures:				
Administrative	20,490	20,490	17,131	3,359
Debt service:				-
Principal	12,185,000	12,185,000	11,415,000	770,000
Interest	5,190,450	5,190,450	4,335,765	854,685
Debt Issue Costs	-	-	127,144	(127,144)
Total expenditures	17,395,940	17,395,940	15,895,040	1,500,900
Excess (deficiency) of revenues over (under) expenditures	(11,722,090)	(11,722,090)	(10,310,071)	1,412,019
Other financing sources (uses):				
Issuance of Bonds	-	-	5,005,000	5,005,000
Premium on Bond Issuance	-	-	34,061	34,061
Payment to Escrow Agent	-	-	(5,248,484)	(5,248,484)
Transfer In	11,527,920	11,527,920	10,278,124	(1,249,796)
Total other financing sources (uses)	11,527,920	11,527,920	10,068,701	(1,459,219)
Net change in fund balance	(194,170)	(194,170)	(241,370)	\$ (47,200)
Fund balance - beginning, as originally reported	9,882,485	9,882,485	9,882,485	
Cumulative effect of accounting change	-	-	(2,666,625)	
Fund balance - beginning, as restated	9,882,485	9,882,485	7,215,860	
Fund balance - ending	\$ 9,688,315	\$ 9,688,315	\$ 6,974,490	

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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 707,050	\$ 707,050	\$ 695,844	\$ (11,206)
Grants	-	68,440	75,956	7,516
Contributions	150,000	214,274	7,500	(206,774)
State Taxes - Sunday Permit Fees	270,000	477,181	314,950	(162,231)
Capital Sales Tax	-	1,262	331,639	330,377
Hospitality Tax	-	3,034,194	4,708,807	1,674,613
Impact Fee - Roads	181,000	95,865	55,643	(40,222)
County Impact Fee - Parks	-	-	19,437	19,437
County Parks Funding	110,000	-	-	-
County Stormwater	-	1,118,852	-	(1,118,852)
Miscellaneous	20,950	87,290	2,000	(85,290)
Sale of Property	-	-	1,888,488	1,888,488
Lease	69,000	47,496	45,645	(1,851)
Investment Income	-	-	34,027	34,027
Total Revenues	1,508,000	5,851,904	8,179,936	2,328,032
<u>Expenditures:</u>				
Public Facilities:				
Fire and Rescue Training Center	-	116,112	116,112	-
Fire and Rescue Computer System	-	127,368	123,132	4,236
Dispatch Center Equip. Upgrade	50,000	62,149	42,257	19,892
Coligny/Pope Avenue Area Improvements	-	100,038	-	100,038
Dunnigan's Alley/Arrow Road Improvements	-	168,264	39,673	128,591
Sewer Service Projects	800,000	800,000	324,185	475,815
Facilities Management Building	-	129,451	129,451	-
Stoney Area CDBG Project	-	22,555	23,119	(564)
T1-Line Upgrade	50,000	50,000	49,393	607
Fire Medical Systems	120,000	120,000	-	120,000
Public Safety System	10,000	10,000	7,941	2,059
Mobile AVL	10,000	8,476	8,476	-
Automatic Vehicle Locator Updates	-	60,105	60,105	-
Total Public Facilities	1,040,000	1,774,518	923,844	850,674
Park Development:				
Coligny Beach Park	-	511,945	512,315	(370)
Park Upgrades	380,000	453,402	151,559	301,843
Rocks/Remys Tract	50,000	10,000	-	10,000
Island Recreation - Aquatics Center	95,000	95,000	24,587	70,413
Rowing and Sailing Center	150,000	-	-	-
Compass Rose Park	-	81,201	3,811	77,390
Public Art	-	31,960	31,960	-
Total Park Development	675,000	1,183,508	724,232	459,276

SCHEDULE 3 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Land Acquisition:				
Land Acquisition	-	1,169,178	1,152,741	16,437
Total Land Acquisition	-	1,169,178	1,152,741	16,437
Beach Maintenance:				
Beach Management	250,000	489,216	172,244	316,972
Beach Renourishment	-	172,565	-	172,565
Shoreline Management Plan	-	423,501	177,525	245,976
Port Royal Fill Project	500,000	501,509	356,928	144,581
Groins Refurbishment	-	566,495	500,892	65,603
Dunes Refurbishment	25,000	21,097	20,500	597
Beach Parks/Access Rehabilitation	75,000	111,429	102,984	8,445
Total Beach Maintenance	850,000	2,285,812	1,331,073	954,739
Facilities Improvements:				
Town Hall/Municipal Court Renovations	-	441,725	113,006	328,719
Fire Station #1 Replacement	275,000	-	43,573	(43,573)
Fire Station #2 Replacement	-	5,808	5,808	-
Fire Station #5 Replacement	-	2,301,344	2,228,217	73,127
Fire Station #6 Repair/Replacement	275,000	578,420	12,557	565,863
Hilton Head Camera Project	-	127,500	127,500	-
SecurityCameras	-	201,412	96,138	105,274
Coastal Discovery Stabilization	-	108,559	44,916	63,643
Utilities CIP	-	51,247	-	51,247
Rehab & Renovation of Town Fixed Assets	351,000	515,147	320,973	194,174
Apparatus/Vehicle Replacement	2,160,000	2,102,934	1,787,889	315,045
Demolition of Structures	191,000	192,404	178,463	13,941
Total Facilities Improvements	3,252,000	6,626,500	4,959,040	1,667,460

SCHEDULE 3 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Roadway Improvements:				
Allen Drive	-	3,216	3,213	3
Mitchelville Lane	-	219	219	-
Median Curbing	175,000	132,520	121,564	10,956
Roadway Safety Improvements	-	175,865	141,717	34,148
Widen Mathews Drive/Marshland Road	-	5,826	5,826	-
Dunnagan's Alley Roundabout	50,000	63,788	10,138	53,650
Marshland Road Roundabout	40,000	40,000	-	40,000
Mathews Drive Roundabout	1,000,000	1,392,151	63,919	1,328,232
Private Dirt Roads Acquisition	25,000	25,000	3,615	21,385
Honey Horn Entrance	50,000	50,000	183	49,817
US 278/ Squire Pope Intersection	-	1,262	1,312	(50)
Stoney Secondary Road	-	45,732	1,269	44,463
Summit Drive Realignment	-	37,990	16,350	21,640
Intersection/Crosswalk Lighting	-	58,539	15,827	42,712
Directional Neighborhood Signage	75,000	75,000	22,695	52,305
Horseshoe Road Connector	-	39,386	20,977	18,409
Gumtree/Squire Pope Roundabout	-	3,000	1,257	1,743
Widen and Realign Office Park Road	-	130,000	49,379	80,621
Mainland Transportation Improvements	500,000	1,397,681	-	1,397,681
Intersection Improvements	300,000	631,821	289,216	342,605
Traffic Signal Mast Arms	-	75,000	58,396	16,604
Fire and Rescue Emergency Access Points	90,000	190,869	89,488	101,381
Total Roadway Improvements	2,305,000	4,574,865	916,560	3,658,305
Pathway Improvements:				
Pathway Rehabilitation	170,000	170,000	169,329	671
Mathews Drive (North)	-	3,660	3,660	-
Mathews Drive (US 278 to Beach City Rd.)	-	318,732	13,929	304,803
Avocet Road	368,000	216,772	132,293	84,479
New Orleans Road	-	630,195	514,553	115,642
Lagoon Road	165,000	136,365	100,841	35,524
Target Road	-	5,000	-	5,000
Dunnagan's Alley	60,000	60,000	-	60,000
Palmetto Bay Road	-	10,060	102	9,958
Wild Horse Road	-	116	116	-
Total Pathway Improvements	763,000	1,550,900	934,823	616,077

SCHEDULE 3 (CONTINUED)
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, 2010

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Drainage Improvements:				
Drainage System Rehabilitation	771,000	969,214	-	969,214
Drainage Study Updates	-	141,184	-	141,184
Miller Pond	569,000	1,044,793	-	1,044,793
Squire Pope Pathway	-	404,700	(192,420)	597,120
Professional Services/New Projects	198,000	198,000	9	197,991
Total Drainage Improvements	<u>1,538,000</u>	<u>2,757,891</u>	<u>(192,411)</u>	<u>2,950,302</u>
Total Capital Outlay	<u>10,423,000</u>	<u>21,923,172</u>	<u>10,749,902</u>	<u>11,173,270</u>
Debt Issue Costs:				
Debt Issue Costs	-	-	264,273	(264,273)
Total Debt Issue Costs	<u>-</u>	<u>-</u>	<u>264,273</u>	<u>(264,273)</u>
Total Expenditures	10,423,000	21,923,172	11,014,175	10,908,997
Excess of Revenues Over (Under) Expenditures	<u>(8,915,000)</u>	<u>(16,071,268)</u>	<u>(2,834,239)</u>	<u>13,237,029</u>
<u>Other Financing Sources/ (Uses):</u>				
Issuance of Bonds	-	-	12,000,000	12,000,000
Premium on Bond Issuance	-	-	121,571	121,571
Transfers In	8,915,000	16,071,268	1,550,431	(14,520,837)
Transfers Out	-	-	(3,537,280)	(3,537,280)
Total Other Financing Sources(Uses)	<u>8,915,000</u>	<u>16,071,268</u>	<u>10,134,722</u>	<u>(5,936,546)</u>
Net change in fund balance	-	-	7,300,483	<u>\$ 7,300,483</u>
Fund Balance - beginning, as originally reported	13,367,074	13,367,074	13,367,074	
Cumulative effect of accounting change	-	-	(134,987)	
Fund Balance - beginning, as restated	<u>13,367,074</u>	<u>13,367,074</u>	<u>13,232,087</u>	
Fund Balance - ending	<u>\$ 13,367,074</u>	<u>\$ 13,367,074</u>	<u>\$ 20,532,570</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, 2010

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant	
ASSETS:			
Cash and Cash Equivalents	\$ 320,945	\$ -	\$ 320,945
Accounts Receivable	135,064	-	135,064
Restricted Assets:			
Cash and Cash Equivalents	-	22,675	22,675
Total assets	\$ 456,009	\$ 22,675	\$ 478,684
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 19,235	\$ -	\$ 19,235
Deferred Revenue	-	22,276	22,276
Total liabilities	19,235	22,276	41,511
Fund balances:			
Unreserved:			
Undesignated	436,774	399	437,173
Total fund balances	436,774	399	437,173
Total liabilities and fund balances	\$ 456,009	\$ 22,675	\$ 478,684

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, 2010

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant	
Revenues:			
Electric Franchise Fee	\$ 2,682,270	\$ -	\$ 2,682,270
Investment Income	-	11	11
Total revenues	2,682,270	11	2,682,281
Expenditures:			
Current:			
Administrative	2,324,149	-	2,324,149
Interest	-	-	-
Total expenditures	2,324,149	-	2,324,149
Excess of revenues over expenditures	358,121	11	358,132
Other financing (uses):			
Transfers Out	(77,372)	-	(77,372)
Total other financing (uses)	(77,372)	-	(77,372)
Net change in fund balances	280,749	11	280,760
Fund balance - beginning	156,022	391	156,413
Fund balance - ending	\$ 436,771	\$ 402	\$ 437,173

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, 2010

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>ASSETS:</u>				
Cash and Temporary Investments	<u>\$ 40,155</u>	<u>\$ 572,975</u>	<u>\$ 531,093</u>	<u>\$ 82,037</u>
 <u>LIABILITIES:</u>				
Due to Firemen's Fund Association	<u>\$ 40,155</u>	<u>\$ 572,975</u>	<u>\$ 531,093</u>	<u>\$ 82,037</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.

<u>Contents</u>	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well being have changed over time.</i>	81-85
Revenue Capacity <i>These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.</i>	86-91
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's abilities to issue additional debt in the future.</i>	92-96
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.</i>	97-98
Operating Information <i>These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.</i>	99-102

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 Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 126,329,257
Restricted	6,373,187	6,373,187	8,594,126	23,111,481	23,682,142	25,168,338	23,590,106	20,750,147
Unrestricted	36,809,752	26,079,740	39,877,353	35,349,883	35,803,517	34,433,182	27,448,750	27,806,762
Total governmental activities net assets	\$ 100,661,696	\$ 111,532,496	\$ 132,086,970	\$ 151,522,290	\$ 153,381,493	\$ 158,262,851	\$ 165,349,096	\$ 174,936,166
Business-type activities								
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (263,488)
Restricted	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	2,441,371
Total business-type activities net assets	\$ -	\$ 2,177,883						
Primary government								
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	\$ 126,115,769
Restricted	6,373,187	6,373,187	8,594,126	23,111,481	23,682,142	25,168,338	23,590,106	20,750,147
Unrestricted	36,809,752	26,079,740	39,877,353	35,349,883	35,803,517	34,433,182	27,448,750	30,248,133
Total primary government net assets	\$ 100,661,696	\$ 111,532,496	\$ 132,086,970	\$ 151,522,290	\$ 153,381,493	\$ 158,262,851	\$ 165,349,096	\$ 177,114,049

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 Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
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	\$ 5,821,050
Management Services	2,929,346	3,243,571	3,267,610	3,765,726	3,875,696	4,099,915	4,747,193	4,589,627
Community Services	5,529,373	8,243,753	8,020,829	10,095,045	24,378,607	18,498,051	14,003,774	8,502,048
Public Safety	13,873,760	14,753,859	14,707,812	15,605,366	16,207,323	17,528,471	17,717,708	17,068,317
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	1,355,384
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578
Administrative	363,326	823,516	1,296,642	2,149,451	1,813,259	2,884,106	2,204,684	2,695,438
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	4,329,058
Other Charges	-	-	-	-	295,486	-	-	-
Total governmental activities expenses	<u>32,572,393</u>	<u>36,455,999</u>	<u>37,918,718</u>	<u>42,709,280</u>	<u>58,926,486</u>	<u>55,629,379</u>	<u>50,911,720</u>	<u>45,390,500</u>
Business-type activities:								
Stormwater	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,397,226
Total business-type activities expenses	<u>-</u>	<u>1,397,226</u>						
Total primary government 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>	<u>\$ 46,787,726</u>
Program Revenues (see Schedule 3)								
Governmental activities:								
Charges for services:								
General Government	\$ 535,421	\$ 504,299	\$ 571,933	\$ 590,577	\$ 592,441	\$ 588,996	\$ 608,137	\$ 3,886,767
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657	8,133,032	7,459,058	7,103,499
Community Services	6,310,944	6,992,582	8,010,754	8,419,282	7,497,902	7,651,429	6,867,736	6,345,242
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007
Administrative	3,176,112	4,364,478	6,717,848	6,020,689	3,676,835	2,940,426	1,848,993	2,008,012
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793	152,140	130,796	206,897
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246	61,843	52,525	17,697
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>	<u>19,842,121</u>
Business-type activities:								
Charges for services:								
Stormwater	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,553,971
Total business-type activities program revenues	<u>-</u>	<u>2,553,971</u>						
Total primary government 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>	<u>\$ 22,396,092</u>
Net (Expense)Revenue								
Governmental activities	\$ (15,282,950)	\$ (16,041,976)	\$ (13,839,340)	\$ (18,144,532)	\$ (37,893,786)	\$ (34,608,091)	\$ (32,527,970)	\$ (25,548,379)
Business-type activities	-	-	-	-	-	-	-	1,156,745
Total primary government 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>	<u>(24,391,634)</u>
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	15,349,010	16,293,172	21,602,549	19,041,631	19,290,776	19,859,691	21,993,646	23,454,455
Other taxes	7,281,600	7,252,510	8,305,770	11,144,997	11,277,083	11,637,286	10,836,674	10,178,254
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	1,531,261
Investment income	659,153	560,878	1,203,427	2,951,972	4,236,702	2,521,431	876,095	356,176
Transfers	-	-	-	-	-	-	-	302,763
Gain on sale of capital assets	-	-	-	-	-	-	-	74,231
Miscellaneous	1,061,158	1,698,226	2,084,490	3,286,231	3,679,894	3,921,488	3,895,151	207,461
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>	<u>36,104,601</u>
Business-type activities								
Investment income	-	-	-	-	-	-	-	83,128
Transfers	-	-	-	-	-	-	-	(302,763)
Total business-type activities	<u>-</u>	<u>(219,635)</u>						
Change in Net Assets								
Governmental activities	10,212,739	10,870,800	20,554,475	19,435,320	1,859,203	5,530,496	7,086,245	10,556,222
Business-type activities	-	-	-	-	-	-	-	937,110
Total primary government	<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>	<u>\$ 11,493,332</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 Eight Fiscal Years
(accrual basis of accounting)

Function/Program	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:								
General Government	\$ 761,388	\$ 689,956	\$ 727,000	\$ 937,902	\$ 727,234	\$ 741,136	\$ 738,933	\$ 4,035,405
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657	8,133,032	7,459,058	7,103,499
Community Services	5,716,758	8,096,953	8,955,179	8,600,182	7,546,148	7,713,272	6,920,261	6,345,242
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	349,963
Administrative	3,219,006	4,480,676	6,717,848	6,020,689	3,676,835	2,940,426	1,848,993	2,008,012
Subtotal 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>	<u>19,842,121</u>
Business-type activities:								
Stormwater	-	-	-	-	-	-	-	2,553,971
Subtotal business-type activities	<u>-</u>	<u>2,553,971</u>						
Total primary government	<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>	<u>\$ 22,396,092</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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 102,173	\$ 161,304	\$ 77,952	\$ 89,460	\$ 122,453	\$ 328,984	\$ 157,080	\$ 283,748	\$ 164,731	\$ 145,008
Unreserved	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	15,618,977
Total General Fund	<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>	<u>\$ 15,763,985</u>
All Other Governmental Funds										
Reserved	\$ 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	\$ 21,640,370
Unreserved, reported in:										
Special revenue funds	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	22,597,706
Capital projects funds	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	5,866,690
Debt service funds	-	-	-	1,368,544	83,084	524,408	2,237,167	269,253	-	-
Total All Other Governmental Funds	<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>	<u>\$ 50,104,766</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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes (see Schedule 6) ^a	\$ 20,686,568	\$ 22,037,344	\$ 22,630,610	\$ 23,545,682	\$ 29,908,319	\$ 30,186,628	\$ 30,567,859	\$ 31,496,978	\$ 32,830,320	\$ 33,632,709
Licenses, fees, and permits ^b	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	17,525,528
Fines and penalties	361,447	335,338	269,572	295,537	307,993	362,466	419,313	465,065	407,422	423,042
Charges for services	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	1,598,482
Intergovernmental	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	1,199,622
Investment earnings	1,581,268	817,211	659,153	560,878	1,203,427	2,951,973	4,236,702	2,521,430	876,095	356,179
Other revenues	1,831,088	1,452,866	3,125,301	2,158,082	1,698,671	1,346,643	1,198,272	2,615,149	1,702,652	2,722,652
Total revenues	<u>\$ 40,894,968</u>	<u>\$ 41,594,659</u>	<u>\$ 44,490,622</u>	<u>\$ 46,675,966</u>	<u>\$ 58,473,192</u>	<u>\$ 62,144,599</u>	<u>\$ 60,785,688</u>	<u>\$ 61,459,879</u>	<u>\$ 57,933,280</u>	<u>\$ 57,458,214</u>
Expenditures										
General Government	\$ 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	\$ 1,044,477
Management Services	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	4,497,250
Community Services	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	6,478,745
Public Safety	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	16,161,922
Non-Departmental	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	2,662,132
Accommodations Tax Grants	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	1,355,384
Visitor & Convention Bureau	928,743	936,673	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578
Administrative	87,529	62,064	363,326	823,516	1,296,642	2,149,451	1,948,281	2,884,106	2,088,285	2,361,361
Capital Outlay	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	10,505,379
Debt Service										
Principal	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	11,415,000
Interest	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	4,355,765
Fiscal charges	-	-	-	-	-	-	-	-	-	-
Debt issue costs	-	-	377,251	-	586,452	-	-	451,841	-	391,417
Total expenditures	<u>\$ 49,718,191</u>	<u>\$ 51,803,089</u>	<u>\$ 53,160,973</u>	<u>\$ 52,285,918</u>	<u>\$ 50,323,547</u>	<u>\$ 57,927,869</u>	<u>\$ 61,113,177</u>	<u>\$ 78,387,568</u>	<u>\$ 80,314,461</u>	<u>\$ 62,238,410</u>
Excess of revenues over (under) expenditures	(8,823,223)	(10,208,430)	(8,670,351)	(5,609,952)	8,149,645	4,216,730	(20,327,489)	(16,927,689)	(22,381,181)	(4,780,196)
Other Financing Sources (Uses)										
Bonds issued	\$ 20,187,406	\$ -	\$ 17,000,000	\$ 44,740,000	\$ 30,685,000	\$ -	\$ 19,000,000	\$ 34,215,000	\$ -	\$ 12,000,000
Other Uses/Sources	-	-	-	-	-	-	-	-	(50,000)	-
Refunding bonds issued	-	1,056,656	-	-	-	-	-	-	-	5,005,000
Debt issue costs	-	-	-	-	-	-	(408,813)	-	-	-
Payments to escrow agent	-	-	-	-	(31,082,935)	-	-	(11,955,000)	-	(5,248,484)
Premium on bond issuance	-	-	92,496	-	860,673	-	303,951	154,397	-	155,632
Refund of debt	-	-	-	(10,965,000)	-	-	-	-	-	-
EMS bad debt write-off	-	-	-	(649,108)	-	-	-	-	-	-
Capital leases	-	800,881	-	-	-	-	-	-	-	-
Transfers in	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	19,037,120
Transfers out	(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)	(18,734,358)
Total other financing sources (uses)	<u>\$ 20,187,406</u>	<u>\$ 1,857,537</u>	<u>\$ 17,092,496</u>	<u>\$ 33,125,892</u>	<u>\$ 462,738</u>	<u>\$ -</u>	<u>\$ 18,895,138</u>	<u>\$ 22,414,397</u>	<u>\$ (50,000)</u>	<u>\$ 12,214,910</u>
Net change in fund balances	<u>\$ 11,364,183</u>	<u>\$ (8,350,893)</u>	<u>\$ 8,422,145</u>	<u>\$ 27,515,940</u>	<u>\$ 8,612,383</u>	<u>\$ 4,216,730</u>	<u>\$ (1,432,351)</u>	<u>\$ 5,486,708</u>	<u>\$ (22,431,181)</u>	<u>\$ 7,434,714</u>

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

Total Expenditures			53,160,973	52,285,918	50,323,547	57,927,869	61,113,177	78,387,568	80,314,461	62,238,410
Total Capital Outlay			20,191,545	15,906,740	11,499,658	13,999,379	35,090,202	23,255,954	27,050,704	10,505,379
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)	(9,960,852)
			4,631,642	2,099,832	3,234,339	4,824,575	16,527,485	10,051,041	4,762,313	544,527
Non-Capital Expenditures			48,529,331	50,186,086	47,089,208	53,103,294	64,585,692	68,336,527	75,552,148	61,693,883
Debt service as a percentage of non-capital expenditures	n/a	n/a	16.8%	16.4%	20.4%	22.2%	18.7%	26.2%	22.4%	26.2%

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>
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
2010	23,454,455	5,469,447	4,708,807	33,632,709
Change 2001-2010	61.2%	11.0%	288.4%	62.6%

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		
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	14,883,108,180	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	17,410,781,394	19.36	4.78%
2010	2009	919,940,422	21,597,802,014	29,614,709	426,787,952	949,555,131	22,024,589,966	18.54	4.31%

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 ^a				Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Special Purpose and Fire Districts	
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	5.67	0.85	19.36	130.60	51.90	7.85	-	209.71
2010	2009	11.78	6.01	0.75	18.54	114.69	45.96	7.67	-	186.86

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

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

¹Water and sewage services are provided to the Town by Public Service Districts. The rates reported represent an average of the millage charges from 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

Taxpayer	Tax Year 2010			Tax Year 2001		
	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
Marriott Ownership Resort	\$ 23,095,270	1	2.43%	\$ 10,700,699	1	2.35%
Columbia Properties Hilton Head, LLC ^a	4,540,040	2	0.48%			
Summit Title Agency Trustee - Southwind	3,787,210	3	0.40%			
Sea Pines Resort, LLC	3,239,780	4	0.34%			
Greenwood Development	3,013,040	5	0.32%	4,138,551	3	0.91%
SCG Hilton Head Property, LLC ^b	2,656,500	6	0.28%			
SJ Travel	1,747,840	7	0.18%			
Plantation Title Agency Trustee - Southwind	1,739,810	8	0.18%			
PVI Shelter Cove Limited	1,725,000	9	0.18%			
Disney Vacation Dev Inc	1,715,650	10	0.18%			
Hargray Telephone Company Inc				5,092,884	2	1.12%
Westin Hilton Head Limited P/S				3,420,000	4	0.75%
Dunes Motel				2,778,000	5	0.61%
Sea Pine Plantation				2,185,511	6	0.48%
Holiday Inns				1,500,000	7	0.33%
Melrose Group Ltd				1,414,524	8	0.31%
Indito Run Limited P/S				482,203	9	0.11%
Palmetto Electric Co-op				272,445	10	0.06%
Total	\$ 48,975,790		4.97%	\$ 31,984,817		7.01%

Source: Beaufort County

^a Formerly Dunes Hotel Associates

^b 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
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%
2010	22,758,671	22,773,856	100.07%	680,599	23,454,455	103.06%

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>
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%
2010	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	Governmental Activities					Business-type Activities	Total Primary Government	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Revenue Bonds	Bond Anticipation Notes	Certificates of Participation	Capital Leases	Revenue Bonds			
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
2010	67,120,000	39,995,000	-	4,730,000	-	14,325,000	126,170,000	8.78%	3,684

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

^aSee 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^a of Property</u>	<u>Per Capita^b</u>
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
2010	67,120,000	58,960,000	8,160,000	0.04%	238

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

^aSee Schedule 7 for property value data.

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

Schedule 14
Town of Hilton Head Island, South Carolina
Direct and Overlapping Governmental Activities Debt
As of June 30, 2010
(dollars in thousands)

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^a</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
Beaufort County School District	\$ 407,140,000	52%	\$ 211,712,800
Beaufort County General Obligation Debt	201,355,000	52%	104,704,600
Broad Creek Public Service District	6,370,000	100%	6,370,000
Hilton Head No. 1 Public Service District	11,626,000	95%	11,044,700
Subtotal, overlapping debt			333,832,100
Town direct debt			67,120,000
Total direct and overlapping debt			\$ 400,952,100

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

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

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

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

Assessed value (as of December 31, 2009)	\$ 949,555
Debt Limit (8% of assessed value)	75,964 ^a
Debt applicable to limit:	
General obligation bonds:	
2004B	\$ 3,155
2009A	5,005
Total net debt applicable to limit	<u>8,160</u>
Legal Debt Margin (without a Referendum)	<u>\$ 67,804</u>

	Fiscal Year									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Debt limit	\$ 36,487	\$ 38,051	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196	\$ 66,174	\$ 66,619	\$ 75,964
Total net debt applicable to limit	20,350	19,380	19,260	18,200	17,355	15,855	14,180	12,325	10,295	8,160
Legal debt margin	16,137	18,671	18,974	21,402	47,561	50,012	51,016	53,849	56,324	67,804
Total net debt applicable to the limit as a percentage of debt limit	55.77%	50.93%	50.37%	45.96%	26.73%	24.07%	21.75%	18.63%	15.45%	10.74%

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.

^a Town Council imposed an eighty percent (80%) cap on the debt limit in 2009. With this cap, the debt limit for 2010 cannot exceed \$60,771,200.

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

Hospitality Tax Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	2,991,110	275,000	469,885	744,885	4.02
2006	5,086,678	290,000	464,385	754,385	6.74
2007	5,108,528	305,000	448,970	753,970	6.78
2008	5,232,837	315,000	439,820	754,820	6.93
2009	4,826,318	325,000	428,007	753,007	6.41
2010	4,708,807	340,000	416,632	756,632	6.22

Tax Increment Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	3,777,553	-	347,200	347,200	10.88
2006	4,065,563	645,000	357,004	1,002,004	4.06
2007	3,985,064	710,000	294,112	1,004,112	3.97
2008	4,427,710	3,140,000	824,163	3,964,163	1.12
2009	5,833,846	3,270,000	717,538	3,987,538	1.46
2010	6,308,512	3,405,000	606,461	4,011,461	1.57

Stormwater Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	1,079,614	-	750,546	750,546	1.44
2005	1,480,356	-	750,546	750,546	1.97
2006	1,324,277	505,000	742,971	1,247,971	1.06
2007	1,351,871	535,000	712,708	1,247,708	1.08
2008	1,501,389	550,000	697,369	1,247,369	1.20
2009	1,572,183	565,000	679,938	1,244,938	1.26
2010	2,553,971	585,000	660,665	1,245,665	2.05

Beach Preservation Fee Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	4,426,889	2,080,000	780,610	2,860,610	1.55
2008	4,634,690	2,160,000	679,810	2,839,810	1.63
2009	4,210,460	2,240,000	569,810	2,809,810	1.50
2010	4,008,272	2,320,000	470,073	2,790,073	1.44

Schedule 17
 Town of Hilton Head Island, South Carolina
 Demographic and Economic Statistics, Last Ten Fiscal Years

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income (in thousands)</u>	<u>Per Capita Personal Income</u>	<u>Annual Unemployment Rate</u>
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%
2009	34,249	1,436,780	41,951	7.4%

Sources: Population provided by U.S. Census Bureau, Population Estimates Program; Per Capita 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

Bureau of Labor Statistics selection: LAUCT45031003

Schedule 18
 Town of Hilton Head Island, South Carolina
 Principal Employers
 Current Year and Ten Years Ago

<u>Employer</u>	<u>2010 Employees</u>	<u>2001 Employees</u>
Marriott Vacation Club Intl	550	N/A
Beaufort County School District	491	N/A
Sea Pines Resort	450	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	295	N/A
Heritage Golf	280	N/A
The Greenery	262	N/A
Publix Super Markets	252	N/A
Hilton Ocean Front Resort	250	N/A
Spinnaker Resorts/Southwind Management	200	N/A
Crowne Plaza Resort	170	N/A

Sources: Beaufort County Sched 18 (Principal Employers), Beaufort County website (Major Employers) and South Carolina Department of Commerce. Employment head counts verified via telephonenumber to companies. BC County Schools, Westin Hotel and Resorts and Hilton Head Regional Medical Center did not respond. The number here is as reported for 2009.

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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Town Manager	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	5.0	5.0
Human Resources	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services										
Finance	15.0	15.0	16.0	16.0	17.0	17.0	17.0	19.0	19.0	17.0
Administration	22.0	22.5	23.0	23.0	23.0	23.5	23.5	23.5	22.5	23.5
Community Services										
Community Development	37.0	35.0	35.0	35.0	35.5	36.0	36.0	36.0	36.0	30.0
Public Projects & Facilities	18.0	18.0	18.0	19.0	19.0	19.0	20.0	21.0	21.0	22.0
Public Safety										
Fire & Rescue	137.5	139.5	143.0	143.0	144.0	144.8	147.3	147.3	147.6	146.0
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Total	<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>	<u>254.5</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).

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

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

Function/Program	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Management Services										
Business license permits issued	5,310	5,130	5,650	6,320	5,130	5,312	5,409	5,638	5,644	5,549
Business license inspections	n/a	n/a	n/a	n/a	20	360	546	150	396	127
Business license audits	n/a	n/a	n/a	n/a	50	101	55	-	-	-
Hospitality tax accounts	344	445	408	394	409	411	357	343	356	325
Bed tax accounts	250	247	353	542	649	701	675	732	775	752
Beach passes issued	1,537	2,306	1,478	3,007	3,052	2,116	2,729	2,009	2,434	1,885
Number of court cases docketed	8,153	8,300	6,567	7,009	8,340	9,033	9,366	10,687	8,380	9,159
Number of court cases disposed	8,225	7,725	6,668	7,122	7,120	8,952	9,123	10,881	8,607	8,854
Number of search warrants issued	42	26	11	15	24	15	16	41	19	22
Number of arrest warrants issued	632	569	554	493	547	477	437	410	460	415
Number of bench warrants issued	409	569	818	777	1,333	801	531	894	693	777
Community Services										
Community Development										
Building inspections conducted	18,058	16,581	17,211	18,724	21,337	22,167	18,146	15,297	13,053	11,604
Building permits issued	467	466	351	410	449	440	168	104	63	51
Miscellaneous permits issued	2,481	2,780	2,867	3,213	3,100	3,146	4,233	5,121	4,470	4,913
Public Projects and Facilities										
# of capital improvement projects to manage	44	51	51	57	53	84	76	51	64	62
# of beach access/parks to maintain	6	6	6	6	7	8	8	8	8	8
Miles of pathways to maintain	29	32	32	32	50	51	51	53	55	56
Maintenance work orders	416	452	637	1,368	2,119	2,373	2,517	2,150	2,800	4,187
Public Safety										
Fire and Rescue service calls	5,530	5,790	5,790	5,780	6,140	6,167	6,030	6,246	6,088	5,957
Actual fires extinguished	145	139	131	141	151	147	139	153	151	127
Inspections	1,945	2,010	2,475	2,244	2,338	2,271	2,357	2,649	2,626	2,390
Telephone requests	n/a	n/a	54,445	55,866	45,878	55,584	73,475	75,099	77,352	72,361
Public training programs	287	291	312	344	341	366	687	614	791	520

Sources: Various Town departments.

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government										
Town-owned parcels	87	92	97	100	106	113	113	116	183	185
Town-owned property acreage	1,049	1,081	1,097	1,108	1,126	1,142	1,142	n/a	n/a	n/a
Town-owned development rights	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7	8
Town-owned easements	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	73	75
Management Services										
Town vehicles	34	34	36	37	41	39	38	38	39	40
Public Safety										
Emergency Apparatus Vehicles	25	27	28	25	24	24	24	24	24	24
Police Vehicles	41	33	27	26	-	-	-	-	-	-
General Vehicles	15	20	19	18	17	19	22	22	23	30
Fire Stations	6	6	6	6	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	21	21	21	22	22	22	22	22	22	23
Pathways (miles)	29	32	32	32	50	50	51	53	55	56
Beach access/parks	5	5	5	5	7	7	8	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 through 1999.
Police services currently contracted with Beaufort County Sheriff's Office.

Schedule 22
Town of Hilton Head Island, South Carolina
Principal Stormwater Customers
Year Ended June 30, 2010

Customer	Type of Business	Equivalent Single Family Residential Units	Stormwater Fees Billed	Percentage of Total Billed
Beaufort County	aircraft transportation	\$ 321.10	\$ 34,903	1.28%
Columbia Properties Hilton Head LLC (Columbia Sussex Corporation)	hotel/motel	301.77	32,802	1.20%
Beaufort County School District	primary/secondary education	297.84	32,375	1.19%
SCG Hilton Head Property LLC	hotel/motel	187.59	20,391	0.75%
PVI Shelter Cove Limited Partnership	regional shopping center	184.23	20,026	0.73%
Heritage Golf Port Royal LLC	golf course	180.59	19,630	0.72%
Festival Centre (E&A) LLC	community shopping center	119.57	12,997	0.48%
Beaufort County School District	primary/secondary education	95.48	10,379	0.38%
Heritage Golf Shipyard LLC	golf course	93.36	10,148	0.37%
Indigo Run Asset Corporation	golf course	91.68	9,965	0.37%
Total			<u>\$ 203,616.00</u>	<u>7.47%</u>
Total Stormwater Fees Billed			\$ 2,726,143	

equivalent single family residential units: This is the measurement that is used to calculate the storm water fees by parcel. The standard unit is 4,906 square feet which was derived from a sampling of Beaufort County houses to determine the average impervious square feet of the average home. Impervious areas are estimated by parcel by the County storm water personnel and those areas are divided by the standard to determine the number of equivalent single family residential units related to the parcel. After the calculation, the billing rate is applied to equivalent units to determine the fee to be billed.

Supplemental Financial Information

Schedule 23
 Town of Hilton Head Island, South Carolina
 Municipal Fines, Assessments and Surcharges
 Year Ended June 30, 2010

<u>Court Fines</u>	
Court fines collected	\$ 418,316
Court fines retained by the Town	<u>418,316</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>
<u>Court Assessments</u>	
Court assessments collected	\$ 413,126
Court assessments retained by the Town	<u>47,328</u>
Court assessments remitted to the State Treasurer	<u><u>365,798</u></u>
<u>Court Surcharges</u>	
Court surcharges collected	\$ 219,877
Court surcharges retained by the Town	<u>23,143</u>
Court surcharges remitted to the State Treasurer	<u><u>196,734</u></u>
<u>Victims Services</u>	
Court assessments allocated to victim services	\$ 70,471
Victim Services expenditures	<u>54,253</u>
Funds available for carryforward	<u><u>16,218</u></u>



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

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, the business-type activity, 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, 2010, which collectively comprise the Town of Hilton Head Island, South Carolina's basic financial statements, and have issued our report thereon dated January 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, 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
January 25, 2011

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

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 reported.