

Town of Hilton Head Island, South Carolina

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2011



Get Your Plaid On at the Annual Heritage PGA TOUR Golf Tournament

Town of Hilton Head Island, South Carolina
COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED JUNE 30, 2011
Prepared by the Finance Department

**Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011**

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Introductory Section



Transmittal Letter

For The Fiscal Year Ended June 30, 2011
The Town of Hilton Head Island, South Carolina

January 31, 2012

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, 2011, 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, 2011. 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. With 2010-2011 data not available, data 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 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 Aaa, 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 and 2011. The results were quite successful; expenditures were approximately \$1.7 million less than the final budget.

	FY 2011 - General Fund		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue	\$ 25,327,030	\$ 25,227,916	\$ (99,114)
Transfers In	6,769,223	5,681,670	(1,087,553)
Expenditures	<u>33,499,697</u>	<u>31,787,286</u>	<u>1,712,411</u>
Revenues Over (Under) Expenditures	<u>\$ (1,403,444)</u>	<u>\$ (877,700)</u>	<u>\$ 525,744</u>

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, 2010. This was the twenty second 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, 2010. It was the sixth 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 Victoria Shanahan, Accounting Manager, who assisted and contributed to its preparation.

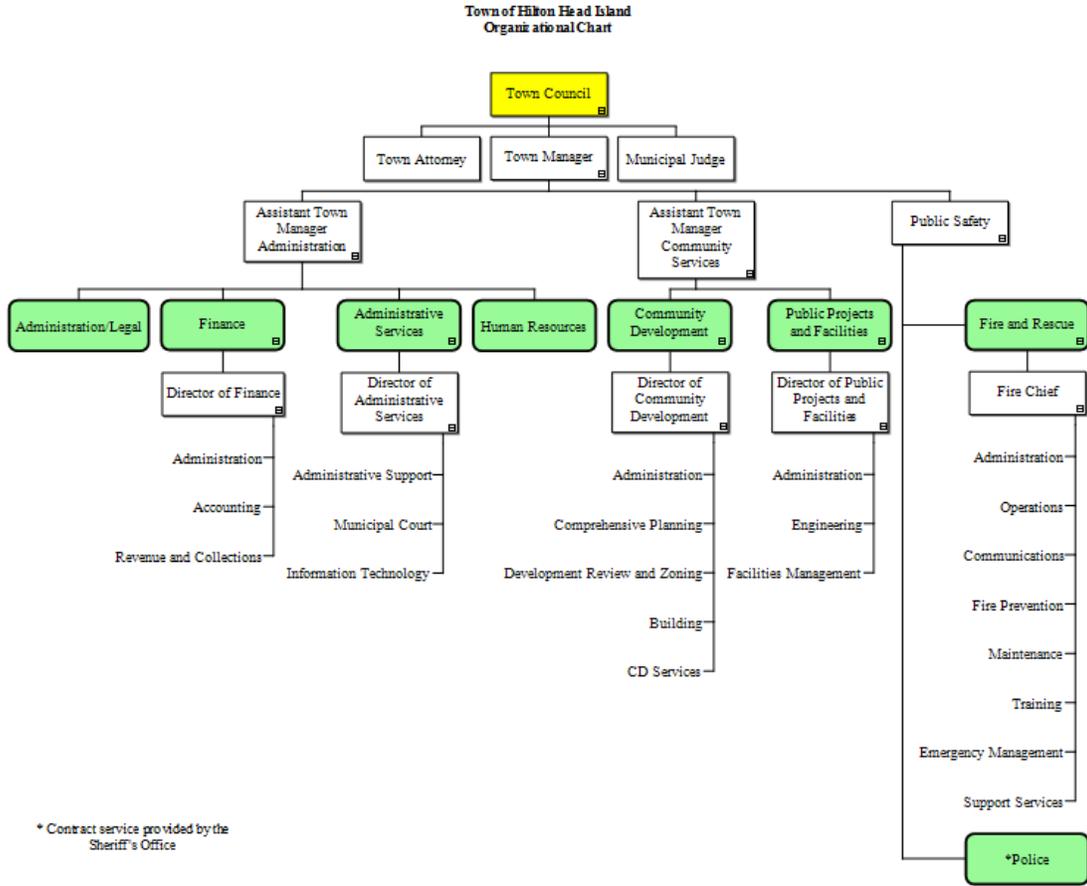
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully submitted,



Susan Simmons
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA ORGANIZATIONAL CHART





**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

Wm. Lee Edwards

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, 2010

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.



Linda C. Davidson

President

Jeffrey R. Enos

Executive Director

Financial Section



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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 activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town) as of and for the year ended June 30, 2011, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund, thereof 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 a report dated January 31, 2012 on our consideration of the Town's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules, and statistical tables as listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Elliott Davis, LLC

Columbia, South Carolina
January 31, 2012

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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, 2011. 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 **
2002	\$ 475,640,031		\$ 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
2011	\$ 918,193,351	-3.30%	\$ 17,236,337

* 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
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
2011	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 2011 the Town implemented an accounting change to its financial statements to show the collection and usage of the hospitality fees separate from the Capital Project Fund. Consequently comparative prior year data for this special revenue fund will not be available until next fiscal year.
- At the close of fiscal year 2011 the assets of the Town exceeded liabilities by \$189,936,775. Of this amount \$20,659,055 (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 \$12,822,726 for fiscal year 2011. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".
- At June 30, 2011, the Town's governmental funds reported combined ending fund balances of \$60,780,853. Of the combined ending fund balance, \$3,400,504 or 5.59% is available for spending at the government's discretion (Unassigned Fund Balance).
- At June 30, 2011, Unassigned Fund Balance for the General Fund was \$3,400,504 or 10.15% of the total fiscal year 2011 General Fund operating budget of \$33,499,697. This compares to \$15,618,977 in Unreserved Fund Balance last year which represented 47.94% of the total operating budget of \$32,582,660. 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 funds.

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 ten governmental funds. Eight are classified as major funds: General Fund, Tax Increment Financing (TIF) District, Accommodations Tax (State), Real Estate Transfer Fee, Beach Preservation Fee, Hospitality 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 3% less than the previous fiscal year.

	<u>RETF</u>			<u>Construction Permits</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2010	2,008,012			886,381			2,894,393		
FY 2011	1,839,244	(168,768)	-8%	954,419	68,038	8%	2,793,663	(100,730)	-3%

Tourism

Revenue from tourism-driven revenues such as accommodations taxes, beach preservation fees, and hospitality taxes have increased. Revenues from these sources are approximately 10% more 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 2010	9,477,719			4,708,807			14,186,526		
FY 2011	10,717,066	1,239,347	13%	4,917,591	208,784	4%	15,634,657	1,448,131	10%

Government-Wide Financial Analysis

The analysis of the government-wide financial statements of the Town follows. 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		%
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$ 66,428,351	\$ 72,741,335	\$ 1,684,195	\$ 2,827,183	\$ 68,112,546	\$ 75,568,518	-9.9%
Capital assets	<u>227,981,482</u>	<u>223,412,441</u>	<u>14,525,736</u>	<u>13,779,780</u>	<u>242,507,218</u>	<u>237,192,221</u>	2.2%
Total assets	<u>\$ 294,409,833</u>	<u>\$ 296,153,776</u>	<u>\$ 16,209,931</u>	<u>\$ 16,606,963</u>	<u>\$ 310,619,764</u>	<u>\$ 312,760,739</u>	-0.7%
Current liabilities	\$ 19,522,187	\$ 20,398,814	\$ 646,425	\$ 629,884	\$ 20,168,612	\$ 21,028,698	-4.1%
Long term liabilities	<u>88,508,589</u>	<u>100,818,796</u>	<u>12,005,788</u>	<u>13,799,196</u>	<u>100,514,377</u>	<u>114,617,992</u>	-12.3%
Total liabilities	<u>\$ 108,030,776</u>	<u>\$ 121,217,610</u>	<u>\$ 12,652,213</u>	<u>\$ 14,429,080</u>	<u>\$ 120,682,989</u>	<u>\$ 135,646,690</u>	-11.0%
Net assets:							
Invested in capital assets, net of related debt	\$ 137,940,358	\$ 126,379,257	\$ 1,969,503	\$ (263,488)	\$ 139,909,861	\$ 126,115,769	10.9%
Restricted	29,367,859	20,750,147	-	-	29,367,859	20,750,147	41.5%
Unrestricted	<u>19,070,840</u>	<u>27,806,762</u>	<u>1,588,215</u>	<u>2,441,371</u>	<u>20,659,055</u>	<u>30,248,133</u>	-31.7%
Total net assets	<u>\$ 186,379,057</u>	<u>\$ 174,936,166</u>	<u>\$ 3,557,718</u>	<u>\$ 2,177,883</u>	<u>\$ 189,936,775</u>	<u>\$ 177,114,049</u>	7.2%

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

Net assets amounted to \$189.9 million in fiscal year 2011 compared to \$177.1 million in fiscal year 2010. A significant portion of the Town's net assets (\$139.9 million or 73.67% 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.

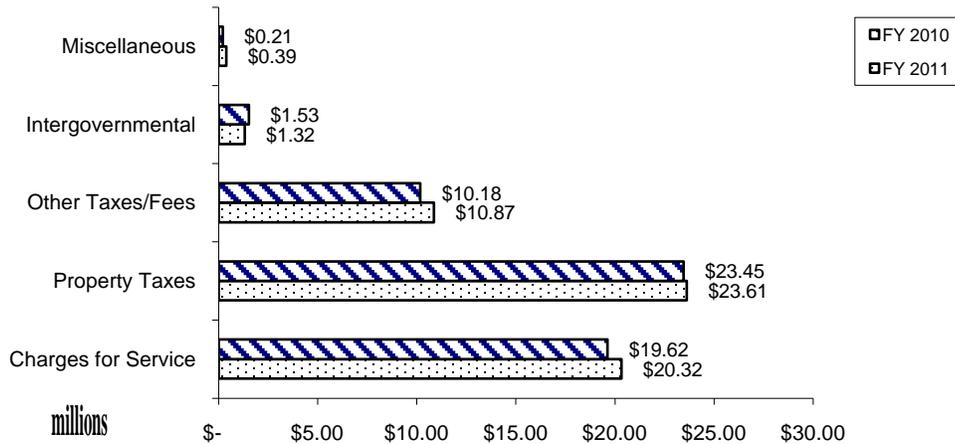
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 20,322,548	\$ 19,617,527	\$ 3,377,779	\$ 2,553,971	\$ 23,700,327	\$ 22,171,498
Operating grants and contributions	140,555	206,897	-	-	140,555	206,897
Capital grants and contributions	-	17,697	-	-	-	17,697
General Revenues:						
Property taxes	23,605,422	23,454,455	-	-	23,605,422	23,454,455
Other taxes	10,866,276	10,178,254	-	-	10,866,276	10,178,254
Other	2,683,778	2,471,892	(381,117)	(219,635)	2,302,661	2,252,257
Total Revenues	<u>57,618,579</u>	<u>55,946,722</u>	<u>2,996,662</u>	<u>2,334,336</u>	<u>60,615,241</u>	<u>58,281,058</u>
Program Expenses:						
Governmental Activities:						
General government	5,590,651	5,821,050	-	-	5,590,651	5,821,050
Management services	4,617,092	4,589,627	-	-	4,617,092	4,589,627
Community services	8,592,108	8,502,048	-	-	8,592,108	8,502,048
Public safety	17,332,968	17,068,317	-	-	17,332,968	17,068,317
Culture and recreation	1,295,954	1,355,384	-	-	1,295,954	1,355,384
Visitor and convention bureau	1,052,226	1,029,578	-	-	1,052,226	1,029,578
Administrative	3,280,258	2,695,438	-	-	3,280,258	2,695,438
Interest on long-term debt	4,414,431	4,329,058	-	-	4,414,431	4,329,058
Business-type Activities:						
Stormwater utility	-	-	1,616,827	1,397,226	1,616,827	1,397,226
Total Expenses	<u>46,175,688</u>	<u>45,390,500</u>	<u>1,616,827</u>	<u>1,397,226</u>	<u>47,792,515</u>	<u>46,787,726</u>
Change in net assets	11,442,891	10,556,222	1,379,835	937,110	12,822,726	11,493,332
Net assets, beginning	<u>174,936,166</u>	<u>164,379,944</u>	<u>2,177,883</u>	<u>1,240,773</u>	<u>177,114,049</u>	<u>165,620,717</u>
Net assets, ending	<u>\$ 186,379,057</u>	<u>\$ 174,936,166</u>	<u>\$ 3,557,718</u>	<u>\$ 2,177,883</u>	<u>\$ 189,936,775</u>	<u>\$ 177,114,049</u>

Governmental activities increased the Town's net assets by \$11,442,891. This increase was \$886,669 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 \$150,967 or approximately 1%.
- Property taxes made up 38.94% of the total revenue down from 40.24% of the total in the previous fiscal year.
- Total expenses increased by \$1,004,789. The largest part of this increase appears in the administrative function where the Town recognized a \$1,000,000 grant to the Heritage Classic Foundation to support the Heritage Golf Classic, a PGA Tour event held on the Island.
- Investment income revenues decreased by \$95,568 from the previous fiscal year due to the continued drop in interest rates.

Revenues by Source – Governmental Activities



Business-type activities increased the Town’s net assets by \$1,379,835. Stormwater revenues increased by \$823,808 or 32.26% over the previous fiscal year.

Governmental Funds

The **General Fund**, which is the primary operating fund of the Town, recognized \$25.2 million (excluding revenue transfers in from other funds) in total revenues and \$5.7 million in other financing sources offset with \$31.8 million in expenditures. The savings plan effort started in FY 2009 was carried forward into FY 2010 and FY 2011. The results were quite successful; expenditures were approximately \$1.71 million less than the final budget. In addition, revenues and transfers in were \$1.2 million less than budget. The favorable trend in expenditures offset most of the downturn in revenues.

Fund Balance at the beginning of the year was \$15.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$14.9 million. Of this amount, \$3.4 million is unassigned fund balance which represents 5.59% of the Town’s operating budget for fiscal year 2011 (It is the Town’s policy to maintain an unreserved fund balance of 25%-30% in the General Fund).

The **Debt Service Fund** recognized \$5.9 million in total revenues and \$11 million in other financing sources offset with \$17.9 in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by \$972,945. The Fund Balance at the beginning of the year was \$6.9 million and, when combined with the current year, resulted in an end of year Fund Balance of \$6.0 million.

The **Capital Projects Fund** recognized \$1.4 million in total revenues and \$2.9 million in other financing sources offset with \$8.8 million in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by \$4.5 million. The restated Fund Balance at the beginning of the year was \$18.4 million and, when combined with the current year, resulted in an end of year Fund Balance of \$13.8 million. The fund balance restatement was to show the collection and usage of the hospitality fees separate from the Capital Project Fund.

The **Tax Increment Financing District Fund (TIF)** recognized \$6.4 million in total revenues offset with \$4.6 million in other financing uses related to debt service payments and capital expenditures. This resulted in revenues exceeding expenditures and other financing uses by \$1.8 million. Fund Balance at the beginning of the year was \$4.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$6.4 million.

The **Accommodations Tax Fund** * recognized \$3.5 million in total revenues offset with \$2.3 million in expenditures and \$1.1 million in other financing uses. This resulted in revenues exceeding expenditures by \$101,938. Fund Balance at the beginning of the year was \$1.3 million and, when combined with the current year resulted in a end of year Fund Balance of \$1.4 million.

The **Real Estate Transfer Fee Fund** * recognized \$1.8 million in total revenues and \$1.0 million in other financing sources, offset with \$18,393 in expenditures and \$3.5 million in other financing uses. This resulted in expenditures exceeding revenues by \$678,460. Fund Balance at the beginning of the year was \$1.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.1 million.

The **Beach Preservation Fee Fund** * recognized \$4.9 million in total revenues offset with \$4.4 million in other financing uses and \$142,905 in expenditures. This resulted in revenues exceeding expenditures by \$346,870. Fund Balance at the beginning of the year was \$14.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$14.8 million.

The **Hospitality Fee Fund** * recognized \$4.9 million in total revenues offset with \$5.2 million in other financing uses. This resulted in other financing uses exceeding revenues by \$313,459. The restated Fund Balance at the beginning of the year was \$2.1 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.8 million. The fund balance restatement was to show the collection and usage of the hospitality fees separate from the Capital Project Fund.

* 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 Capital 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

Fund	2010				
	Revenue	Expenditures	Fund Balance Restatement	Fund Balance	Changes in Fund Balance
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
Non-Major Governmental Fund	2,682,281	2,401,521		437,173	280,760

Fund	2011				
	Revenue	Expenditures		Fund Balance	Changes in Fund Balance
General	\$ 30,909,586	\$ 31,787,286		\$ 14,886,285	\$ (877,700)
Tax Increment Financing	6,382,198	4,572,326		6,370,189	1,809,872
Accommodations Tax (State)	3,533,789	3,431,851		1,405,951	101,938
Real Estate Transfer Fee	2,842,979	3,521,439		1,119,764	(678,460)
Beach Preservation Fee	4,859,871	4,513,001		14,844,849	346,870
Hospitality Fee	4,920,591	5,234,050	2,147,562	1,834,103	(313,459)
Debt Service	16,900,711	17,873,656	-	6,001,545	(972,945)
Capital Projects Fund	4,292,240	8,835,731	(2,147,562)	13,841,517	(4,543,491)
Non-Major Governmental Fund	2,856,551	2,817,074		476,650	39,477

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 \$99,114. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were down \$110,681
- Local accommodations tax revenue was up \$463,904
- Business license and franchise fee revenue was down \$467,289
- Building permit revenue was up \$75,609
- State shared revenue was down \$35,592
- EMS revenue was up \$152,088
- Fines and fees was down \$55,068
- Investment income was down \$48,215

Actual General Fund expenditures were less than the revised budget by \$1.71 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	\$ 1,167,920	\$ 1,190,313	\$ (22,393)
Management Services	4,919,290	4,931,814	(12,524)
Community Services	6,299,660	6,306,450	(6,790)
Public Safety	16,502,590	16,507,270	(4,680)
Non-Departmental Townwide	2,828,270	3,972,457	(1,144,187)
Capital Outlay	209,000	252,023	(43,023)
	<u>\$ 31,926,730</u>	<u>\$ 33,160,327</u>	<u>\$ (1,233,597)</u>

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2011 and 2010 amount to \$228.0 million and \$223.4 million respectively (net of accumulated depreciation). The Town's investment in capital assets for its business-type activities as of June 30, 2011 and 2010 amount to \$14.5 million and \$13.8 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 \$ 2.9 million
- Replacement of Fire Station #1 \$ 1.7 million
- Apparatus and vehicle replacement \$ 445,835
- Port Royal Fill Project \$ 256,591
- Roundabout @ Mathews Drive and Beach City Road \$ 607,468
- Roundabout @ Dunnagan's Alley and Arrow Road \$ 191,777

Town of Hilton Head Island's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 150,060,347	\$ 147,148,785	\$ -	\$ -	\$150,060,347	\$ 147,148,785
Development rights	10,734,391	10,734,391	-	-	10,734,391	10,734,391
Easements/Right-of-Ways	3,548,960	3,548,960	-	-	3,548,960	3,548,960
Construction in progress	12,295,551	12,627,423	2,934,692	2,217,759	15,230,243	14,845,182
Buildings	15,753,356	13,830,262	-	-	15,753,356	13,830,262
Furniture, fixtures and equipment	721,679	705,394	-	-	721,679	705,394
Vehicles	4,666,802	4,652,871	-	-	4,666,802	4,652,871
Imp. Other than buildings - park developm	9,123,515	9,555,339	-	-	9,123,515	9,555,339
Infrastructure	<u>21,076,881</u>	<u>20,609,016</u>	<u>11,591,044</u>	<u>11,562,021</u>	<u>32,667,925</u>	<u>32,171,037</u>
	<u>\$ 227,981,482</u>	<u>\$ 223,412,441</u>	<u>\$ 14,525,736</u>	<u>\$ 13,779,780</u>	<u>\$ 242,507,218</u>	<u>\$ 237,192,221</u>

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

Proprietary Fund

In FY 2011 the Town received \$3,386,391 in stormwater fees and other income and incurred \$2,006,556 in expenses associated with this program. Unrestricted net assets at the end of the year were \$1.6 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 Aaa 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	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 62,010,000	\$ 67,120,000	\$ -	\$ -	\$ 62,010,000	\$ 67,120,000
Certificates of participation	3,600,000	4,730,000	-	-	3,600,000	4,730,000
Tax increment financing	15,105,000	18,510,000	-	-	15,105,000	18,510,000
Revenue Bonds:						
Beach preservation fees	10,200,000	12,520,000	-	-	10,200,000	12,520,000
Hospitality tax	8,625,000	8,965,000	-	-	8,625,000	8,965,000
Stormwater	-	-	<u>13,810,000</u>	<u>14,325,000</u>	<u>13,810,000</u>	<u>14,325,000</u>
	<u>\$ 99,540,000</u>	<u>\$ 111,845,000</u>	<u>\$ 13,810,000</u>	<u>\$ 14,325,000</u>	<u>\$ 113,350,000</u>	<u>\$ 126,170,000</u>

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

BUDGET HIGHLIGHTS FOR FISCAL YEAR 2012

The **General Fund's** revenues for fiscal year 2012 are budgeted at \$32.7 million, a decrease of \$767,977 or 2.29% compared to the prior year's budgeted revenues. This includes the use of \$659,710 of fund balance in order to balance the budget. Transfers from Accommodations Tax, Hospitality Tax, and Beach Preservation Fee, are expected to lead the decrease 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 \$32.7 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$11.1 million. The majority of the expenditures are budgeted for Fire Station #6 replacement which accounts for \$3.2 million or 28.83% of the capital budget and \$5.2 million or 46.85% has been earmarked for new facilities and roadway improvements.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$15.5 million. There is a \$1,397,806 or 8.28% decrease in debt service costs in fiscal year 2012.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2011 on taxable property located within the Town of Hilton Head Island was adopted at 19.33 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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit A

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 58,230,633	\$ -	\$ 58,230,633
Investments	775,783	-	775,783
Accounts Receivable	4,272,947	-	4,272,947
Due from Employees	52,633	-	52,633
Due from Other Governments	3,076,646	-	3,076,646
Interfund Balances	(1,506,128)	1,506,128	-
Other Assets	1,525,837	178,067	1,703,904
Capital Assets:			
Non Depreciable	176,639,249	2,934,692	179,573,941
Depreciable	51,342,233	11,591,044	62,933,277
Total assets	<u>294,409,833</u>	<u>16,209,931</u>	<u>310,619,764</u>
LIABILITIES			
Accounts Payable	2,607,991	-	2,607,991
Accrued Payroll and Related Payables	1,088,522	-	1,088,522
Due to Other Governments	56,210	-	56,210
Unearned Revenue	144,914	-	144,914
Irrigation and Pool Bonds Payable	86,700	-	86,700
Court Bonds Payable	31,222	-	31,222
Performance Bonds Payable	106,102	-	106,102
Interest Payable	721,361	95,980	817,341
Long-Term Liabilities:			
Due Within Less than One Year	14,679,165	550,445	15,229,610
Due Within More than One Year	88,508,589	12,005,788	100,514,377
Total liabilities	<u>108,030,776</u>	<u>12,652,213</u>	<u>120,682,989</u>
NET ASSETS			
Capital Assets Net of Related Debt	137,940,358	1,969,503	139,909,861
Restricted for:			
Disaster Recovery	11,366,314	-	11,366,314
Beach Renourishment	12,000,000	-	12,000,000
Debt Service	6,001,545	-	6,001,545
Unrestricted	19,070,840	1,588,215	20,659,055
Total net assets	<u>\$ 186,379,057</u>	<u>\$ 3,557,718</u>	<u>\$ 189,936,775</u>

TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General Government	\$ 5,590,651	\$ 3,950,975	\$ 140,555	\$ -	\$ (1,499,121)	\$ -	\$ (1,499,121)
Management Services	4,617,092	6,900,425	-	-	2,283,333	-	2,283,333
Community Services	8,592,108	6,006,094	-	-	(2,584,015)	-	(2,584,015)
Public Safety	17,332,968	1,623,810	-	-	(15,709,157)	-	(15,709,157)
Culture and Recreation	1,295,954	-	-	-	(1,295,954)	-	(1,295,954)
Visitor and Convention Bureau	1,052,226	-	-	-	(1,052,226)	-	(1,052,226)
Administrative	3,280,258	1,839,244	-	-	(1,441,014)	-	(1,441,014)
Interest on Long-Term Debt	4,414,431	-	-	-	(4,414,431)	-	(4,414,431)
Total governmental activities	46,175,688	20,322,548	140,555	-	(25,712,585)	-	(25,712,585)
Business-type activities:							
Stormwater	1,616,827	3,377,779	-	-	-	1,760,952	1,760,952
Total business-type activities	1,616,827	3,377,779	-	-	-	1,760,952	1,760,952
Total primary government	\$ 47,792,515	\$ 23,700,327	\$ 140,555	\$ -	\$ (25,712,585)	\$ 1,760,952	\$ (23,951,633)
General revenues:							
Taxes							
Property					23,605,422	-	23,605,422
Local Accommodations					2,416,264	-	2,416,264
State Accommodations					3,532,421	-	3,532,421
Hospitality					4,917,591	-	4,917,591
Intergovernmental					1,317,756	-	1,317,756
Investment Income					260,608	8,612	269,220
Gain on Sale of Capital Assets					323,702	-	323,702
Transfers in/(out)					389,729	(389,729)	-
Miscellaneous					391,983	-	391,983
Total general revenues					37,155,476	(381,117)	36,774,359
Change in net assets					11,442,891	1,379,835	12,822,726
Net assets - beginning of year					174,636,166	2,177,883	177,114,049
Net assets - end of year					\$ 186,379,057	\$ 3,557,718	\$ 189,936,775

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

Exhibit C

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
ASSETS										
Cash and Cash Equivalents	\$ 16,136,859	\$ 6,653,734	\$ 829,085	\$ 943,283	\$ 13,310,377	\$ 2,643,366	\$ 6,214,623	\$ 10,955,349	\$ 543,957	\$ 58,230,633
Investments	-	-	-	-	-	-	775,783	-	-	775,783
Accounts Receivable	1,425,304	-	-	-	1,508,277	1,310,931	-	28,435	-	4,272,947
Due from Employees	52,633	-	-	-	-	-	-	-	-	52,633
Interfund Receivables	1,955,238	-	-	-	377,419	-	112,473	4,409,552	-	6,854,682
Due from Other Governments	1,068,798	266,360	1,116,037	178,616	-	-	-	446,835	-	3,076,646
Total assets	\$ 20,638,832	\$ 6,920,094	\$ 1,945,122	\$ 1,121,899	\$ 15,196,073	\$ 3,954,297	\$ 7,102,879	\$ 15,840,171	\$ 543,957	\$ 73,263,324
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts Payable	\$ 1,066,023	\$ -	\$ 334,811	\$ -	\$ 52	\$ -	\$ -	\$ 1,188,608	\$ 18,497	\$ 2,607,991
Accrued Payroll and Employee Payable	1,088,522	-	-	-	-	-	-	-	-	1,088,522
Due to Other Governments	43,839	-	-	-	-	-	-	-	12,371	56,210
Interfund Payables	3,320,615	549,905	204,360	2,135	351,172	2,120,194	1,101,334	711,095	-	8,360,810
Deferred Revenue	9,524	-	-	-	-	-	-	98,951	36,439	144,914
Irrigation and Pool Bonds Payable	86,700	-	-	-	-	-	-	-	-	86,700
Court Bonds Payable	31,222	-	-	-	-	-	-	-	-	31,222
Performance Bonds Payable	106,102	-	-	-	-	-	-	-	-	106,102
Total liabilities	5,752,547	549,905	539,171	2,135	351,224	2,120,194	1,101,334	1,998,654	67,307	12,482,471
Fund balances:										
Nonspendable	21,304	-	-	-	-	-	-	-	-	21,304
Restricted	98,163	6,370,189	1,405,951	1,119,764	2,844,849	1,834,103	6,001,545	13,841,517	476,650	33,992,731
Committed	1,546,798	-	-	-	12,000,000	-	-	-	-	13,546,798
Unassigned	13,220,020	-	-	-	-	-	-	-	-	13,220,020
Total fund balances	14,886,285	6,370,189	1,405,951	1,119,764	14,844,849	1,834,103	6,001,545	13,841,517	476,650	60,780,853
Total liabilities and fund balances	\$ 20,638,832	\$ 6,920,094	\$ 1,945,122	\$ 1,121,899	\$ 15,196,073	\$ 3,954,297	\$ 7,102,879	\$ 15,840,171	\$ 543,957	\$ 73,263,324

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

TOWN OF HILTON HEAD ISLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit D

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

Ending fund balance - governmental funds	\$ 60,780,853
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	227,981,482
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,525,837
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	895,033
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(721,361)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(104,082,787)</u>
Net assets of governmental activities	<u>\$ 186,379,057</u>

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

Exhibit E

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
Revenues:										
Real and Personal Property Taxes	\$ 10,956,179	\$ 6,369,085	\$ -	\$ -	\$ -	\$ -	\$ 5,583,395	\$ 696,763	\$ -	\$ 23,605,422
Accommodations Tax	2,416,264	-	3,532,421	-	-	-	-	-	-	5,948,685
Hospitality Tax	-	-	-	-	-	4,917,591	-	-	-	4,917,591
Business Licenses and Franchise Fees	7,634,211	-	-	-	-	-	-	-	-	7,634,211
Permits	954,419	-	-	-	-	-	-	-	-	954,419
Other Fees:										
Impact	-	-	-	-	-	-	-	79,254	-	79,254
Real Estate Transfer	-	-	-	1,839,244	-	-	-	-	-	1,839,244
Beach Preservation	-	-	-	-	4,768,381	-	-	-	-	4,768,381
Electric Franchise	-	-	-	-	-	-	-	-	2,856,037	2,856,037
State Shared Funds	752,988	-	-	-	-	-	-	356,900	-	1,109,888
Donations	225	-	-	-	-	-	-	7,500	-	7,725
Federal Reimbursement - BABS	-	-	-	-	-	-	207,868	-	-	207,868
Grants	140,055	-	-	-	-	-	-	-	500	140,555
EMS Revenue	1,352,088	-	-	-	-	-	-	-	-	1,352,088
Public Safety Revenue	203,000	-	-	-	-	-	-	-	-	203,000
Fines and Fees	361,152	-	-	-	-	-	-	-	-	361,152
Miscellaneous Revenue	415,550	-	-	-	-	-	-	243,472	-	659,022
Investment Income	41,785	13,113	1,368	3,735	91,490	3,000	82,349	23,752	14	260,606
Total revenues	25,227,916	6,382,198	3,533,789	1,842,979	4,859,871	4,920,591	5,873,612	1,407,641	2,856,551	56,905,148
Expenditures:										
Current:										
General Government	1,119,831	-	-	-	-	-	-	-	-	1,119,831
Management Services	4,528,244	-	-	-	-	-	-	-	-	4,528,244
Community Services	5,740,198	-	-	-	-	-	-	470,308	-	6,210,506
Public Safety	16,174,377	-	-	-	-	-	-	-	-	16,174,377
Non-Departmental	4,072,932	-	-	-	-	-	-	-	-	4,072,932
Accommodations Tax Grants	-	-	1,295,954	-	-	-	-	-	-	1,295,954
Visitor and Convention Bureau	-	-	1,052,226	-	-	-	-	-	-	1,052,226
Administrative	-	-	-	18,393	142,905	-	44,390	-	2,738,898	2,944,586
Capital Outlay	151,704	-	-	-	-	-	-	8,327,923	-	8,479,627
Debt Service:										
Principal	-	-	-	-	-	-	12,305,000	-	-	12,305,000
Interest	-	-	-	-	-	-	4,524,266	-	-	4,524,266
Total expenditures	31,787,286	-	2,348,180	18,393	142,905	-	16,873,656	8,798,231	2,738,898	62,707,549
Excess (deficiency) of revenues over (under) expenditures	(6,559,370)	6,382,198	1,185,609	1,824,586	4,716,966	4,920,591	(11,000,044)	(7,390,590)	117,653	(5,802,401)
Other financing sources (uses):										
Proceeds from Sale of Land and Vehicles	-	-	-	-	-	-	-	324,774	-	324,774
Transfers In	5,681,670	-	-	1,000,000	-	-	11,027,099	2,559,825	-	20,268,594
Transfers Out	-	(4,572,326)	(1,083,671)	(3,503,046)	(4,370,096)	(5,234,050)	(1,000,000)	(37,500)	(78,176)	(19,878,865)
Total other financing sources (uses)	5,681,670	(4,572,326)	(1,083,671)	(2,503,046)	(4,370,096)	(5,234,050)	10,027,099	2,847,099	(78,176)	714,503
Net change in fund balances	(877,700)	1,809,872	101,938	(678,460)	346,870	(313,459)	(972,945)	(4,543,491)	39,477	(5,087,898)
Fund balance - beginning, as originally reported	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
Cumulative effect of accounting change	-	-	-	-	-	2,147,562	-	(2,147,562)	-	-
Fund balance - beginning, as restated	15,763,985	4,560,317	1,304,013	1,798,224	14,497,979	2,147,562	6,974,490	18,385,008	437,173	65,868,751
Fund balance - ending	\$ 14,886,285	\$ 6,370,189	\$ 1,405,951	\$ 1,119,764	\$ 14,844,849	\$ 1,834,103	\$ 6,001,545	\$ 13,841,517	\$ 476,650	\$ 60,780,853

TOWN OF HILTON HEAD ISLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Exhibit F

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

Net change in fund balances - total governmental funds \$ (5,087,898)

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.

	\$	7,656,184	
Expenditures for capital assets		7,656,184	
Less current year depreciation		(3,086,069)	
			4,570,115

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds but does not have any effect on net assets. 12,305,000

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. (117,417)

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. (1,072)

Payment of bond issuance costs requires the use of current financial resources in the governmental funds but are amortized over future periods in the Statement of Net Assets. (335,672)

Changes in long-term debt interest payable 109,835

Change in net assets of governmental activities \$ 11,442,891

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
June 30, 2011

Exhibit "G"

	Stormwater Fund
ASSETS	
Due from other funds	\$ 2,295,561
Prepays	178,067
Capital assets:	
Non depreciable	2,934,692
Depreciable	11,591,044
Total assets	16,999,364
 LIABILITIES	
Interest payable	95,980
Due to other funds	789,433
Long-term liabilities:	
Due within less than one year	550,445
Due within more than one year	12,005,788
Total liabilities	13,441,646
 NET ASSETS	
Capital assets, net of related debt	1,969,503
Unrestricted	1,588,215
Total net assets	\$ 3,557,718

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Exhibit "H"
	Stormwater Fund
<u>OPERATING REVENUES</u>	
Stormwater fees	\$ 3,377,779
Total operating revenue	3,377,779
 <u>OPERATING EXPENSES</u>	
Maintenance and repair	210,767
Depreciation	583,881
Administrative	304,033
Total operating expenses	1,098,681
 OPERATING INCOME	2,279,098
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest income	8,612
Interest expense	(518,146)
Total nonoperating expenses	(509,534)
Income before transfers	1,769,564
Transfers out	(389,729)
Change in net assets	1,379,835
Net assets, beginning of year	2,177,883
Net assets, ending	\$ 3,557,718

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit "I"

	Stormwater Fund
OPERATING ACTIVITIES	
Receipts from other governments	\$ 3,377,779
Payments to suppliers	(132,301)
Payments to employees	(304,033)
Net cash provided by operating activities	2,941,445
CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,329,837)
Payment of interest expense	(526,246)
Proceeds from issuance of debt	12,466,678
Principal payment on bonds payable	(14,235,445)
Transfers from other funds	486,671
Transfers to other funds	(1,484,639)
Net cash (used) by capital and related financing activities	(4,622,818)
INVESTING ACTIVITIES	
Proceeds from maturity of investments	1,278,628
Receipt of interest income	8,612
Net cash provided for investing activities	1,287,240
Net decrease in cash and cash equivalents	(394,133)
Cash and cash equivalents, beginning of year	394,133
Cash and cash equivalents, end of year	\$ -
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 2,279,098
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	583,881
Changes in deferred and accrued amounts:	-
Prepays	78,466
Net cash provided by operating activities	\$ 2,941,445

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET (GAAP Basis) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit J

	General			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Real and Personal Property Taxes	\$ 11,066,860	\$ 11,066,860	\$ 10,956,179	\$ (110,681)
Accommodations Tax	1,952,360	1,952,360	2,416,264	463,904
Business Licenses and Franchise Fees	8,101,500	8,101,500	7,634,211	(467,289)
Permits	878,810	878,810	954,419	75,609
State Shared Funds	788,580	788,580	752,988	(35,592)
Donations	1,000	1,000	225	(775)
Grants	222,020	222,020	140,055	(81,965)
EMS Revenue	1,200,000	1,200,000	1,352,088	152,088
Public Safety Revenue	190,000	190,000	203,000	13,000
Fines and Fees	416,220	416,220	361,152	(55,068)
Miscellaneous Revenue	419,680	419,680	415,550	(4,130)
Investment Income	90,000	90,000	41,785	(48,215)
Total revenues	<u>25,327,030</u>	<u>25,327,030</u>	<u>25,227,916</u>	<u>(99,114)</u>
Expenditures:				
Current:				
General Government	1,167,920	1,190,313	1,119,831	70,482
Management Services	4,919,290	4,931,814	4,528,244	403,570
Public Safety	16,502,590	16,507,270	16,174,377	332,893
Community Services	6,299,660	6,306,450	5,740,198	566,252
Non-Departmental	2,828,270	3,972,457	4,072,932	(100,475)
Capital Outlay	209,000	252,023	151,704	100,319
Debt Service:				
Principal	71,950	71,950	-	71,950
Interest	267,420	267,420	-	267,420
Total expenditures	<u>32,266,100</u>	<u>33,499,697</u>	<u>31,787,286</u>	<u>1,712,411</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,939,070)</u>	<u>(8,172,667)</u>	<u>(6,559,370)</u>	<u>1,613,297</u>
Other financing sources (uses):				
Transfers In	6,628,300	6,769,223	5,681,670	(1,087,553)
Total other financing sources (uses)	<u>6,628,300</u>	<u>6,769,223</u>	<u>5,681,670</u>	<u>(1,087,553)</u>
Net change in fund balance	<u>(310,770)</u>	<u>(1,403,444)</u>	<u>(877,700)</u>	<u>\$ 525,744</u>
Fund balance - beginning	<u>15,763,985</u>	<u>15,763,985</u>	<u>15,763,985</u>	
Fund balance - ending	<u>\$ 15,453,215</u>	<u>\$ 14,360,541</u>	<u>\$ 14,886,285</u>	

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
FIREMEN'S FUND
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit K

ASSETS

Cash and Temporary Investments

\$ 97,009

LIABILITIES

Due to Firemen's Fund Association

\$ 97,009

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

In March of 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54 – *Fund Balance Reporting and Government Fund Type Definitions*. This Statement establishes fund balance classifications based primarily on the extent to which the Town is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

The Town made the decision to implement this standard effective July 1, 2010.

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.

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)

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.

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 used for expenditures for specific purposes.

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

Hospitality Fees (Special Revenue Fund). This fund is used to account for the Town's receipts from the 2% tax levied on the sale of prepared meals and beverages sold in establishments or sales of prepared meals and beverages sold in establishments licensed for on-premises consumption of alcoholic beverages, beer or wine. These financial resources are used for expenditures for capital outlay that enhance the health, safety and general welfare of the Town.

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.

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)

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.

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.

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)

Property taxes for the year ended June 30, 2011, 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	2010
Property tax due	March 16
Delinquent date	March 17
Levy date	August 23
Tax sale	First Monday in October

The County has no specific lien date.

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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

3. The budgets are legally enacted and adopted by Town Council.
4. Budgetary transfers between departments may be authorized by the Town Manager; however, any revisions that alter the total expenditures of any fund must be approved by Town Council.

The expenditures may not legally exceed appropriations at the fund level except for additional funds received as grants or donations. Appropriations lapse at year-end.

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

General Fund

Revenues:

Hospitality Fee Transfer	\$ 140,923
Prior Year Funds	1,092,674
Total Revenue Increases	<u><u>\$ 1,233,597</u></u>

Expenditure Increases/(Decreases):

Town Council - Professional Services	22,393
Finance; Administration - Professional Services	3,000
Finance; Accounting - Professional Services	5,774
Finance; Business License - Equipment <\$5,000	1,452
Finance; Business License - Office Supplies	1,548
Administration; Information Technology - Maintenance Contracts	(43,133)
Administration; Information Technology - Computer Software <\$50,000	30,883
Administration; Information Technology - Computer Software >\$50,000	24,898
Administration; Information Technology - Specialized Equipment	18,125
Administration; Human Resources - Consulting Services	13,000
Community Development; Developmental Review & Zoning - Consulting Services	790
Townwide - Professional Services	140,923
Townwide - Grants	1,003,264
Fire and Rescue; Emergency Management - Maintenance Contracts	3,000
Fire and Rescue; Logistics - Radio Repair and Maintenance	1,680
Public Projects and Facilities; Facilities Mgt. - Maintenance Contracts/Fees	6,000
Total Expenditure Increases	<u><u>\$ 1,233,597</u></u>

Capital Projects Fund

Revenues:

Bond Proceeds	\$ (607,356)
Transfer In - Hospitality Taxes	3,037,267
Sunday Permit Fees	301,843
Impact Fees	44,699
Transfer In - Beach Preservation Fees	954,140
Transfer In - Tax Increment Financing	30,429
Total Revenue Increases	<u><u>\$ 3,761,022</u></u>

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

Note 1. Summary of Significant Accounting Policies (continued)

<u>Budgets</u>	<u>and</u>	<u>Budgetary</u>	<u>Accounting</u>
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Capital Projects Fund (Continued)

Expenditures:

Pathways

Dunnagan's Alley	\$	60,000
Palmetto Bay Road		9,957
Target Road		5,000
Mathews Drive/U.S. 278 to Beach City Road		404,802
New Orleans Road		107,073
Lagoon Road		30,777
Avocet Road		71,496
		689,105

Road Improvements

Traffic Signal Mast Arms	\$	16,604
Widen and Realign Office Park Road		80,620
Intersection Improvements		341,605
Fire and Rescue Emergency Access Points		101,383
Horseshoe Road Connector		18,409
Gum Tree/Squire Pope Road Roundabout		1,744
Median Curbing		10,956
Roadway Safety Improvements		35,148
Directional Neighborhood Signs		52,306
Mathews Drive/Beach City Road Roundabout		1,228,233
Mainland Transportation Improvements		1,397,681
Stoney Secondary Road South		44,463
Summit Drive Realignment		21,640
Intersection/Crosswalk/Pathway Lighting		42,714
Private (Dirt) Roads Acquisition		21,386
Marshland Road Roundabout		40,000
Honey Horn Entrance		49,817
Arrow Road/Dunnagan's Alley Roundabout		53,650
		3,558,359

Park Development

Park Upgrades		301,843
Rock's/Remy Tract Park		10,000
Compass Rose Park		77,390
Island Recreation Center - Aquatics Center		70,413
Rowing & Sailing Center		86,500
		546,146

**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)

Existing Facilities/Infrastructure

Demolition of Structures	(72,559)
Fire Station #6 Replacement/Repair	290,862
Apparatus & Vehicle Replacement	222,686
Fire Station #5 Replacement	73,126
Fire Station #1 Replacement	231,427
Town Vehicle Replacement	69,000
Rehabilitate & Renovate Fixed Assets	194,175
Town Hall Renovations	328,720
Security Cameras	105,275
Coastal Discovery Museum Stabilization	63,643
	<u>1,506,355</u>

New Facilities/Infrastructure

Dispatch Center Equipment	\$ 19,893
Fire and Rescue - Computer System - CAD	4,236
Coligny/Pope Area Initiative	100,038
Dunnigan's Alley/Arrow Road Improvements	128,590
Sewer Service Projects	475,815
Fire & Rescue - Medical Systems & Equipment	119,959
Public Safety Systems Equipment	2,059
	<u>850,590</u>

Beach Maintenance

Beach Management	316,972
Beach /Parks Access	8,445
Beach Renourishment	172,565
Groins Refurbishment	65,602
Port Royal Fill Project	144,581
Shoreline Management	245,975
	<u>954,140</u>

Land Acquisition

Land Acquisition	<u>13,261</u>
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Total Expenditure Increases

	<u><u>\$ 8,117,956</u></u>
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TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

Long-Term Obligations

In the government-wide financial statements 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.

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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Town Council through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the Town Council. Unassigned fund balance in the General Fund is the new resources in excess of what can be properly classified in one of the above categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements.

Restricted Net Assets

For the government-wide financial statements, net assets are reported as restricted when constraints placed on net assets are either: 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

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, 2011, the Town evaluated events and transactions for potential recognition or disclosure through January 31, 2012.

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	Investments	Cash Equivalents	Restricted Investments	Total
Governmental Activities:					
General Fund	\$ 16,038,696	\$ -	\$ 98,163	\$ -	\$ 16,136,859
Tax Increment Financing	6,653,734	-	-	-	6,653,734
Accommodations Tax	829,085	-	-	-	829,085
Real Estate Transfer Fees	943,283	-	-	-	943,283
Beach Preservation Fees	11,810,377	-	1,500,000	-	13,310,377
Debt Service	3,276,061	-	2,938,562	775,783	6,990,406
Hospitality Tax	2,643,366	-	-	-	2,643,366
Capital Projects	1,422,342	-	9,533,007	-	10,955,349
Town Franchise Fees	506,602	-	-	-	506,602
Home Grant	-	-	37,355	-	37,355
Total Governmental Activities	<u>\$ 44,123,546</u>	<u>\$ -</u>	<u>\$ 14,107,087</u>	<u>\$ 775,783</u>	<u>\$ 59,006,416</u>

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

Note 2. Cash, Cash Equivalents, and Investments

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, 2011, the \$ 58,229,044 carrying balance and \$ 58,684,104 bank balance were held in various banks of which \$ 826,980 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.

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, 2011, the Town had investments and maturities as shown below:

	Fair Value	Less Than 1 Year
Federal Home Loan Mortgage Corp.	775,783	775,783
Total	\$ 775,783	\$ 775,783

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

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

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

Note 2. Cash, Cash Equivalents, and Investments

Investments (continued)

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

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

At June 30, 2011, the Town had debt securities and quality ratings as shown below:

	<u>Fair Value</u>	<u>Quality Rating</u> Aaa (Moody's)
Federal Home Loan Mortgage Corp.	<u>775,783</u>	<u>775,783</u>
	<u>\$ 775,783</u>	<u>\$ 775,783</u>

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

Note 3. Receivables

At June 30, 2011, the Town's receivable balances were as follows:

	Government-wide Financial Statements				
	Fund Financial Statements				
	General Fund	Beach Preservation Fee	Capital Project Fund	Hospitality Fee	Total
Receivables:					
EMS Fees	\$ 2,111,451	\$ -	\$ -	\$ -	\$ 2,111,451
Local accommodations taxes	754,139	-	-	-	754,139
Other receivables	98,090	-	28,435	-	126,525
Beach preservation fees	-	1,508,277	-	-	1,508,277
Hospitality taxes	-	-	-	1,310,931	1,310,931
Gross receivables	2,963,680	1,508,277	28,435	1,310,931	5,811,323
Less: allowance for uncollectibles	1,538,376	-	-	-	1,538,376
Net Receivables	<u>\$ 1,425,304</u>	<u>\$ 1,508,277</u>	<u>\$ 28,435</u>	<u>\$ 1,310,931</u>	<u>\$ 4,272,947</u>
Receivables from Employees:					
Cobra Insurance	\$ (1,905)	\$ -	\$ -	\$ -	\$ (1,905)
Computer Purchases*	54,538	-	-	-	54,538
Total Receivables from Employees	<u>\$ 52,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,633</u>

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

Note 4. Interfund Balances and Activities

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2011 for which payment was received/made after June 30, 2011.

Governmental activities interfund receivables and payable balances at June 30, 2011 are as follows:

	Due From									Total
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Hospitality Fees	Beach Preservation Fees	Capital Projects Fund	Debt Service	Proprietary Fund	
Due To:										
General	\$ 723,717	\$ 173,161	\$ 204,360	\$ -	\$ -	\$ 142,905	\$ 711,095	\$ -	\$ -	\$ 1,955,238
Capital Project Fund	912,780	376,744	-	2,135	2,120,194	208,267	-	-	789,432	4,409,552
Beach Preservation Fees	377,419	-	-	-	-	-	-	-	-	377,419
Proprietary Fund	1,194,226	-	-	-	-	-	1,101,334	-	-	2,295,560
Debt Service Fund	112,473	-	-	-	-	-	-	-	-	112,473
Total	<u>\$ 3,320,615</u>	<u>\$ 549,905</u>	<u>\$ 204,360</u>	<u>\$ 2,135</u>	<u>\$ 2,120,194</u>	<u>\$ 351,172</u>	<u>\$ 711,095</u>	<u>\$ 1,101,334</u>	<u>\$ 789,432</u>	<u>\$ 9,150,242</u>

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

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

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

Transfers in/out for the year ended June 30, 2011 are summarized below:

<u>Recipient Fund</u>	<u>Transferring Fund</u>	<u>Amount</u>
General Fund	Tax Increment Financing	\$ 184,330
General Fund	Accommodations Tax	1,083,671
General Fund	Hospitality Fee	2,930,184
General Fund	Beach Preservation Fee	978,080
General Fund	Capital Projects Fund	37,500
General Fund	Non-Major Governmental Fund	78,176
General Fund	Proprietary Fund	389,729
Capital Projects Fund	Real Estate Transfer Fee	33,081
Capital Projects Fund	Beach Preservation Fee	606,266
Capital Projects Fund	Hospitality Fee	1,543,734
Capital Projects Fund	Tax Increment Financing	376,744
Real Estate Transfer Fee	Debt Service Fund	1,000,000
Debt Service Fund	Tax Increment Financing	4,011,252
Debt Service Fund	Real Estate Transfer Fee	3,469,965
Debt Service Fund	Hospitality Fee	760,132
Debt Service Fund	Beach Preservation Fee	2,785,750
		<u>20,268,594</u>

Note 5. Due To or From Other Governments

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

<u>General Fund</u>	
Property Taxes - Beaufort County	\$ 769,667
Beaufort County - Brickman	13,242
E 911 - Beaufort County	24,634
Dispatch/ EMS 911 - Beaufort County	16,320
State of South Carolina - Aid to Sub-Division	185,001
State of South Carolina - Traffic Signal Maintenance	46,985
State of South Carolina - Merchant Inventory	2,897
United States Government - Federal Emergency Management Assoc.	1,244
EMS Grant - Beaufort County	5,492
IRS Taxes	1,971
SC Taxes	1,345
	<u>\$ 1,068,798</u>

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

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

<u>Capital Projects Fund</u>	
State Sunday Liquor Fees	70,600
State of SC CDBG Grant	6,497
Beaufort County - Clerk of Court	38,100
Beaufort County - Capital Sales Tax	331,638
	446,835
<u>Accomodations Taxes</u>	
State of South Carolina	1,116,037
<u>Real Estate Transfer Fees</u>	
Beaufort County	178,616
<u>Tax Increment Financing District</u>	
Beaufort County	266,360
Total Due from Other Governments	\$ 3,076,646

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

<u>General Fund</u>	
Municipal Court State Fees - SC State Treasurer	\$ 34,310
State of South Carolina - Sales & Use Tax	9,529
	43,839
<u>Non-Major Governmental Fund</u>	
Palmetto Electric	12,371
Total Due to Other Governments	\$ 56,210

Note 6. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. As of June 30, 2011, fund balances for governmental funds are made up of the following:

- **Nonspendable Fund Balance** includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term receivables.
- **Restricted Fund Balance** includes amounts that can be spent only for the specific purpose stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with consent of the resource providers.
- **Committed Fund Balance** includes amounts that can only be used for the specific purposes determined by a formal action of the Town’s highest level of decision-making authority, Town Council. Commitments may be changed or lifted only by the Town Council taking the same formal action that imposes the original constraint.

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

Note 6. Fund Balances (continued)

- **Assigned Fund Balance** includes amounts intended to be used by the Town for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Town Council or (b) a body or official to which Town Council has delegated the authority to assign amounts to be used for specific purposes.
- **Unassigned Fund Balance** is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

Hilton Head Island Town Council is the Town's highest level of decision-making. Town Council can establish, modify or rescind fund balance commitments through adoption of a resolution or ordinance. The Town Manager has the authority to assign fund balance amounts to a specific purpose. The Town Manager is appointed by, and serves at the pleasure of, Hilton Head Island Town Council.

Fund balances for all the major and non-major funds as of June 30, 2011, were distributed as follows:

Classification/Fund	Purpose	Amount
Nonspendable		
General	Long-term employee receivables	\$ 21,304
Restricted		
General	Deposits in escrow	98,163
Tax Increment Financing District	Economic development	6,370,189
Accommodations Tax	Tourism promotion	1,405,951
Real Estate Transfer Fee	Environmental conservation	1,119,764
Beach Preservation Fee	Beach noutishment and restoration	2,844,849
Hospitality Fee	Public health and safety	1,834,103
Debt Service	Debt service payments	6,001,545
Capital Projects	Construction of major capital facilitie	13,841,517
Palmetto Electric	Underground electrical service	475,737
HOME grant	HOME grant program	913
Committed		
General	Disaster reserve	11,366,314
Beach Preservation Fee	Beach renourishment	12,000,000
Unassigned		
General		3,400,504
Total Fund Balances		\$ 60,780,853

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

Note 6. Fund Balances (continued)

Committed For Disaster Recovery

- **Committed for Operating Expenditures** – The Town will establish and maintain an **operating balance 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 balance 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 fund to maintain an account 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.
 - **Committed for Advertising Expenditures** – 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 account. These funds are committed 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 for this purpose will not exceed \$1 million. Annual interest earned on funds will also be deposited into the account.
 - **Committed for General Expenditures** – Once the Disaster Advertising account 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 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 will not exceed 15% of the General Fund’s annual operating revenue.
2. **Committed for Beach Renourishment** – 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 account shall not exceed \$12 million.

Note 7. Accounts Payable

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

	Government-Wide Financial Statements					
	Fund Financial Statements					
	General Fund	Accommodations Tax Fund	Beach Preservation Fees	Capital Project Fund	Non-Major Governmental Funds	Total
Payables:						
Accounts payable	\$ 1,066,023	\$ 334,811	\$ 52	\$ 1,188,608	\$ 18,497	\$ 2,607,991
Accrued payroll	1,088,522	-	-	-	-	1,088,522
Total payables	<u>\$ 2,154,545</u>	<u>\$ 334,811</u>	<u>\$ 52</u>	<u>\$ 1,188,608</u>	<u>\$ 18,497</u>	<u>\$ 3,696,513</u>

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	98,951	98,951
Nonmajor Governmental Fund - Home Grant	36,439	36,439
	\$ 144,914	\$ 144,914

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

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	\$ 227,981,482	14,525,736
Less: General obligation bonds	(62,010,000)	-
Revenue bonds	(18,825,000)	(13,810,000)
TIF Bonds	(15,105,000)	-
Certificates of participation	(3,600,000)	-
Bond premiums	(929,177)	-
Add:		
Loss on refunding	895,033	1,253,767
Unspent bond proceeds	9,533,020	-
	137,940,358	1,969,503
Restricted for:		
Disaster recovery	11,366,314	-
Beach renourishment	12,000,000	-
Debt service	6,001,545	-
Unrestricted	19,070,840	1,588,215
Total net assets	\$ 186,379,057	\$ 3,557,718

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 2011: \$ 1,052,226) and thirty percent (30%, FY 2010: \$1,029,578) 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 \$ 5 were lapsed during the fiscal year ending June 30, 2011, all being lapsed against 2011 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2011:

	Appropriations	Expenditures	Lapsed	Encumbrances
<u>Grants (not Town related)</u>				
Art League of Hilton Head Island	\$ 34,004	\$ 34,004	\$ -	\$ -
Harbour Town Merchants Association	8,000	-	-	-
Hilton Head Island Choral Society	10,000	10,000	-	-
Arts Center of Coastal Carolina	350,703	350,703	-	350,703
Hilton Head Symphony Orchestra - Special Request	15,000	15,000	-	-
Main Street Youth Theatre	40,000	-	-	40,000
Shelter Cove Harbour Company - 4th of July Fireworks	8,000	-	-	8,000
The Sandbox: An Interactive Children's Museum	42,500	12,915	-	29,585
Hilton Head Island-Bluffton Chamber of Commerce Marketing	208,850	118,536	-	90,314
Hilton Head Symphony Orchestra	143,820	158,775	-	45
Native Island Business and Community Affairs Association	75,000	62,361	-	12,639
Art League of Hilton Head Island	45,000	7,139	-	37,861
Art League of Hilton Head Island - Supplemental Capital	75,000	-	-	75,000
Community Foundation of the Lowcountry - Mitchelville Project	50,000	14,481	-	35,519
Harbour Town Merchants Association - 4th of July Fireworks	8,000	16,000	-	-
Hilton Head Dance Theatre	9,000	9,000	-	-
Hilton Head Audubon Society	3,200	3,200	-	-
Hilton Head Choral Society	17,000	-	-	17,000
Hilton Head Island Concourse D'Elegance	88,000	88,000	-	-
Hilton Head Dance Theatre	9,000	-	-	9,000
Hilton Head Island St. Patrick's Day Parade	13,000	10,205	-	2,795
Hilton Head Island-Bluffton Chamber of Commerce Marketing	148,951	148,951	-	-
Hilton Head Island Symphony Orchestra-Performance Shell	15,000	-	-	-
Main Street Youth Theater	35,350	35,350	-	-
Shelter Cove Harbour Company	8,000	8,000	-	-
Hilton Head Island St. Patrick's Day Parade	8,000	-	-	8,000
Skull Creek July 4th Celebration	8,000	-	-	8,000
South Carolina Repertory Company	15,000	15,000	-	-
Coastal Discovery Museum	75,960	75,960	-	-
Coastal Discovery Museum	165,000	74,708	-	90,292
Heritage Library Foundation	15,000	15,000	-	-
The Sandbox: An Interactive Children's Museum	12,671	12,666	5	-
Total Grants (not Town related)	\$ 1,760,009	\$ 1,295,954	\$ 5	\$ 814,753
<u>Other Financing Uses</u>				
Transfer to General Fund	\$ 883,300	\$ 1,083,671	\$ -	\$ -
Total Other Financing Uses	\$ 883,300	\$ 1,083,671	\$ -	\$ -

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 \$ 350,703 was approved for operations during 2010/2011.

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,	Accommodations Tax Grants			
	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
2010	1,710,032	(1,355,384)	(12,426)	342,222

Town council has approved amounts for 2011/2012 grants as follows:

Arts Center of Coastal Carolina (General Operating Support)	\$ 350,703
Hilton Head Symphony Orchestra	143,820
Native Island Business & Comm. Affairs Association	76,140
Town Operations – Tourism Support	<u>883,300</u>
	<u>\$ 1,453,963</u>

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 \$99.5 million in outstanding bonds associated with governmental type activities and \$13.8 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

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

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.

Note 10. Long-Term Obligations

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
2012	4,070,361	11,385,000	15,455,361	511,892	640,000	1,151,892
2013	3,673,129	11,060,000	14,733,129	366,126	780,000	1,146,126
2014	3,248,337	11,725,000	14,973,337	344,442	805,000	1,149,442
2015	2,799,189	10,865,000	13,664,189	322,063	825,000	1,147,063
2016	2,443,071	4,300,000	6,743,071	299,128	850,000	1,149,128
2017-2021	9,091,066	24,290,000	33,381,066	1,127,568	4,620,000	5,747,568
2022-2026	4,258,188	17,445,000	21,703,188	449,387	5,290,000	5,739,387
2027-2031	1,346,197	6,365,000	7,711,197	-	-	-
2032-2035	303,404	2,105,000	2,408,404	-	-	-
Total	\$ 31,232,942	\$ 99,540,000	\$ 130,772,942	\$ 3,420,606	\$ 13,810,000	\$ 17,230,606

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 31, 2010	\$ 918,193,000
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval	73,455,440
Council Imposed 80% Cap	58,764,352
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds 2004B (Refunding of Series 1998B)	\$ 925,000
General Obligation Bonds 2009A (Refunding of Series 1999A)	5,005,000
Total Amount Applicable to Debt Limit	5,930,000
Legal Debt Margin without a Referendum	\$ 52,834,352

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
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
		\$ 251,115	\$ 3,230,000	\$ 3,481,115

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, 2011 \$ 964,556 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
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
		\$ 29,775	\$ 370,000	\$ 399,775

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
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
2017-2021	various	2,003,180	3,055,000	5,058,180
2022-2026	various	1,235,245	3,830,000	5,065,245
2027-2029	4.875	273,732	2,765,000	3,038,732
		<u>\$ 6,186,957</u>	<u>\$ 12,155,000</u>	<u>\$ 18,341,957</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
2012	3.100	14,337	925,000	939,337
		<u>\$ 14,337</u>	<u>\$ 925,000</u>	<u>\$ 939,337</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
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
2017-2021	various	1,797,003	10,135,000	11,932,003
2022-2025	various	272,882	3,075,000	3,347,882
		<u>\$ 5,975,485</u>	<u>\$ 21,460,000</u>	<u>\$ 27,435,485</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
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
2017-2021	various	1,185,215	4,260,000	5,445,215
2022-2024	various	218,116	3,045,000	3,263,116
		<u>\$ 3,416,980</u>	<u>\$ 10,795,000</u>	<u>\$ 14,211,980</u>

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

\$ 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
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
2017-2021	various	459,303	1,985,000	2,444,303
2022-2025	various	128,565	1,815,000	1,943,565
		<u>\$ 1,276,991</u>	<u>\$ 5,005,000</u>	<u>\$ 6,281,991</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
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
2017-2021	various	2,220,030	2,500,000	4,720,030
2022-2026	various	1,594,710	2,715,000	4,309,710
2027-2031	various	966,215	2,195,000	3,161,215
2032-2035	various	303,404	2,105,000	2,408,404
		<u>\$ 7,725,900</u>	<u>\$ 11,670,000</u>	<u>\$ 19,395,900</u>

\$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
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
2017-2021	various	1,426,335	2,355,000	3,781,335
2022-2026	various	808,670	2,965,000	3,773,670
2027-2028	5.00	106,250	1,405,000	1,511,250
		<u>\$ 4,217,171</u>	<u>\$ 8,625,000</u>	<u>\$ 12,842,171</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, 2011, \$ 849,370 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
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>\$ 920,600</u>	<u>\$ 10,200,000</u>	<u>\$ 11,120,600</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, 2011, \$1,900,419 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
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>\$ 348,634</u>	<u>\$ 3,645,000</u>	<u>\$ 3,993,634</u>

\$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
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>\$ 868,997</u>	<u>\$ 11,460,000</u>	<u>\$ 12,328,997</u>

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

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

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, 2011, \$12,510,000 of bonds are considered defeased debt.

Note 10. Long-Term Obligations (continued)

BUSINESS-TYPE ACTIVITIES

\$13,810,000 Stormwater Bonds Dated December 1, 2010

On December 1, 2010, the Town issued \$ 13,810,000 in revenue bonds with an average interest rate of 2.78% to advance refund \$ 13,740,000 revenue bonds dated December 1, 2002 with an average interest rate of 4.85%. The net proceeds of \$ 14,894,433 (after payment of \$ 202,091 in issuance costs) and funds on hand were used to purchase United States government securities which were placed in trust to remove old debt from books. The difference between the reacquisition price and the carrying value of the old debt resulted in a loss on refunding of \$1,343,322. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds by \$ 2,837,355 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$ 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
2012	2.780	511,892	640,000	1,151,892
2013	2.780	366,126	780,000	1,146,126
2014	2.780	344,442	805,000	1,149,442
2015	2.780	322,063	825,000	1,147,063
2016	2.780	299,128	850,000	1,149,128
2017-2021	2.780	1,127,568	4,620,000	5,747,568
2022-2026	2.780	449,387	5,290,000	5,739,387
		\$ 3,420,606	\$ 13,810,000	\$ 17,230,606

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, 2011, \$1,286,574 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	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 67,120,000	\$ -	\$ 5,110,000	\$ 62,010,000	\$ 3,925,000
Certificates of participation	4,730,000	-	1,130,000	3,600,000	1,155,000
Tax increment financing	18,510,000	-	3,405,000	15,105,000	3,550,000
Revenue Bonds:					
Beach preservation fees	12,520,000	-	2,320,000	10,200,000	2,405,000
Hospitality tax	8,965,000	-	340,000	8,625,000	350,000
Premium on bonds	1,035,972	-	106,795	929,177	106,795
Loss on refunding	(1,013,055)	-	(118,022)	(895,033)	(64,879)
Total bonds and notes payable	<u>111,867,917</u>	<u>-</u>	<u>12,293,773</u>	<u>99,574,144</u>	<u>11,426,916</u>
Other liabilities:					
Compensated absences	3,496,193	117,417	-	3,613,610	3,252,249
Total other liabilities	<u>3,496,193</u>	<u>117,417</u>	<u>-</u>	<u>3,613,610</u>	<u>3,252,249</u>
Governmental activities long-term liabilities	<u>\$ 115,364,110</u>	<u>\$ 117,417</u>	<u>\$ 12,293,773</u>	<u>\$ 103,187,754</u>	<u>\$ 14,679,165</u>
Business-type Activities:					
Bonds and notes payable:					
Stormwater fees	14,325,000	13,810,000	14,325,000	13,810,000	640,000
Premium on bonds	62,896	-	62,896	-	-
Loss on refunding	-	(1,343,322)	89,555	(1,253,767)	(89,555)
Total bonds and notes payable	<u>14,387,896</u>	<u>12,466,678</u>	<u>14,477,451</u>	<u>12,556,233</u>	<u>550,445</u>

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

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 147,148,785	\$ 2,911,562	\$ -	\$ 150,060,347
Development Rights	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	3,548,960
Construction in progress	12,627,423	8,798,231	(9,130,103)	12,295,551
Total capital assets not being depreciated	<u>174,059,559</u>	<u>11,709,793</u>	<u>(9,130,103)</u>	<u>176,639,249</u>
Capital assets being depreciated:				
Buildings	20,912,886	2,755,910	-	23,668,796
Furniture, fixtures and equipment	3,832,005	265,290	(78,201)	4,019,094
Vehicles	7,375,971	452,992	(1,205,167)	6,623,796
Imp. other than buildings - park development	10,795,604	-	-	10,795,604
Infrastructure	28,232,677	1,602,299	-	29,834,976
Total capital assets being depreciated	<u>71,149,143</u>	<u>5,076,491</u>	<u>(1,283,368)</u>	<u>74,942,266</u>
Less accumulated depreciation for:				
Buildings	7,082,624	832,816	-	7,915,440
Furniture, fixtures and equipment	3,126,611	249,005	(78,201)	3,297,415
Vehicles	2,723,100	437,989	(1,204,095)	1,956,994
Imp. other than buildings - park development	1,240,265	431,824	-	1,672,089
Infrastructure	7,623,661	1,134,434	-	8,758,095
Total accumulated depreciation	<u>21,796,261</u>	<u>3,086,068</u>	<u>(1,282,296)</u>	<u>23,600,033</u>
Total capital assets being depreciated, net	<u>49,352,882</u>	<u>1,990,423</u>	<u>(1,072)</u>	<u>51,342,233</u>
Government activity capital assets, net	<u>\$ 223,412,441</u>	<u>\$ 13,700,216</u>	<u>\$ (9,131,175)</u>	<u>\$ 227,981,482</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 2,217,759	\$ 1,540,600	\$ (823,667)	\$ 2,934,692
Total capital assets not being depreciated	<u>2,217,759</u>	<u>1,540,600</u>	<u>(823,667)</u>	<u>2,934,692</u>
Capital assets being depreciated:				
Infrastructure	14,545,959	612,904	-	15,158,863
Total capital assets being depreciated	<u>14,545,959</u>	<u>612,904</u>	<u>-</u>	<u>15,158,863</u>
Less accumulated depreciation for:				
Infrastructure	2,983,938	583,881	-	3,567,819
Total accumulated depreciation	<u>2,983,938</u>	<u>583,881</u>	<u>-</u>	<u>3,567,819</u>
Total capital assets being depreciated, net	<u>11,562,021</u>	<u>29,023</u>	<u>-</u>	<u>11,591,044</u>
Business-type activity capital assets, net	<u>\$ 13,779,780</u>	<u>\$ 1,569,623</u>	<u>\$ (823,667)</u>	<u>\$ 14,525,736</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	\$ 280,473
Management Services	88,848
Community Development	47,750
Public Safety	1,055,586
Public Projects and Facilities	<u>1,613,411</u>
Total depreciation expense - governmental activities	<u>\$ 3,086,068</u>
 Business-type activities:	
Stormwater	<u>\$ 583,881</u>
Total depreciation expense - business-type activities	<u>\$ 583,881</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, 2011, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities	\$ 354,644
Park Development	257,991
Land and Related Acquisitions and Improvements	2,917,122
Beach Maintenance	568,574
Facilities Improvements	2,997,296
Roadway Improvements	1,154,476
Pathways Improvements	548,128
Total	<u>\$ 8,798,231</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2011, the Town had contractual commitments of approximately \$8,892,291 in progress. Through June 30, 2011, approximately \$5,537,447 in costs had been incurred on these commitments. At June 30, 2011, the Town had outstanding contractual commitments totaling approximately \$3,454,844 for capital projects in progress.

Operating Leases

For the Town's fiscal year ended June 30, 2011, 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, 2011, 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
2012	\$ 85,870
2013	46,020
2014	5,403
	\$ 137,293

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, 2011, employer contributions were based on a total payroll of \$7,817,586. The amount contributed by the employer for the year ending June 30, 2011 was \$664,106 or 8.5% of covered payroll. During the years ended June 30, 2010 and 2009, \$687,061 and \$688,105 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$581,436 or 7.4% of covered payroll for year ending June 30, 2011. Employees who participate in the PORS plan made contributions of \$78,826 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, 2011, \$7,755,527 of wages was subject to retirement plan contributions. The Town pays the employer contribution at the rate of 11.13% 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, 2011, a total of \$1,010,513 was contributed into the System for the Town's share and \$353,715 for the employees' share, which represented 13.03% and 4.6% of covered payroll, respectively. During the years ended June 30, 2010 and 2009, \$948,937 and \$971,059 were contributed to the system for the Town's share, representing 12.65% and 12.68% of covered payroll, respectively. The Town also

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

Note 14. Retirement Plans (continued)

contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

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

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

Retirement Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2011, employer contributions were based on a total payroll of \$15,827,848 of which \$15,573,113 or 98.39% of the total payroll was covered under the plan. Employer contributions were \$1,674,619 or 10.75% of covered payroll. Employee contributions were \$1,013,977 or 6.51% 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 \$174,265 at June 30, 2011, and is included as a liability in the General Fund in the accrued payroll and employee payables. During the period ending June 30, 2011, the Town contributed \$113,809 to this plan.

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, 2011, the limit was \$200, and the Town's liability under this plan totaled \$10,308. During the period ending June 30, 2011, the Town contributed \$10,308 to this plan.

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, 2011 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$20,933. During the period ending June 30, 2011, the Town contributed \$20,933 to this plan.

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, 2011.

The Town contributed \$81,593 during the year ended June 30, 2011.

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 has 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, 2011.

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 2011, the Town began to account for the hospitality fees as a special revenue fund. In prior years, the hospitality fees have been accounted for as part of capital projects fund in the financial statements and a governmental activity in the government-wide statements. Because these funds are restricted to enhance the health, safety and general welfare of the Town, management believes these operations more accurately meet the criteria of a special revenue fund. The effect of this change in the governmental funds was to decrease the beginning fund balance in the capital projects fund by \$ 2,147,562, while increasing beginning fund balance in the special revenue fund by the same amount. There was no effect on the government-wide statements.

A summary of the above is as follows:

	Capital Projects	Hospitality Fees
Fund financial statements		
Fund balance, beginning, as originally reported	\$ 20,532,570	\$ -
Change in accounting principle		
Capital projects fund	(2,147,562)	2,147,562
Fund balance, beginning, as restated	\$ 18,385,008	\$ 2,147,562

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

Note 20. Subsequent Events

On August 3, 2011, the Town issued \$12,385,000 in general obligation bonds with an average interest rate of 4.76% to advance refund \$11,210,000 general obligation bonds dated May 12, 2004, with an average interest rate of 3.28%. The net proceeds of \$12,281,450 including a premium of \$194,479 (after payment of \$298,029 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 \$740,894 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$579,041. 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
2012	2.000	\$ 216,519	\$ 295,000	\$ 511,519
2013	2.000	368,844	145,000	513,844
2014	2.000	365,944	625,000	990,944
2015	2.000	353,444	630,000	983,444
2016	2.000	340,844	640,000	980,844
2017-2021	various	1,453,842	3,385,000	4,838,842
2022-2026	various	894,588	3,955,000	4,849,588
2027-2029	various	201,064	2,710,000	2,911,064
		<u>\$ 4,195,088</u>	<u>\$ 12,385,000</u>	<u>\$ 16,580,088</u>

On October 26, 2011, the Town issued \$8,250,000 in special obligation bonds (hospitality fee) with an average interest rate of 3.32% to advance refund \$8,625,000 in revenue bonds (hospitality fee) dated June 1, 2004 with an average interest rate of 4.86%. The net proceeds of \$8,129,802 including a premium of \$33,584 (after payment of \$150,484 in issuance costs) and funds on hand were used to purchase United States government securities. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds by \$2,091,227 and to obtain an economic gain (difference between present values of old and new debt service payments) of approximately \$291,878. 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
2012	2.000	\$ 146,375	\$ 535,000	\$ 681,375
2013	2.000	234,394	395,000	629,394
2014	2.000	226,494	405,000	631,494
2015	2.000	218,394	410,000	628,394
2016	-	210,194	420,000	630,194
2017-2021	various	893,270	2,260,000	3,153,270
2022-2026	various	503,908	2,635,000	3,138,908
2027-2028	various	67,918	1,190,000	1,257,918
		<u>\$ 2,500,947</u>	<u>\$ 8,250,000</u>	<u>\$ 10,750,947</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 certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

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

Note 20. Subsequent Events (continued)

On October 26, 2011, the Town issued \$15,250,000 in special obligation bonds (hospitality fee) 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
2012	2.000	\$ 356,971	\$ 240,000	\$ 596,971
2013	2.000	592,919	410,000	1,002,919
2014	2.000	584,719	415,000	999,719
2015	2.000	576,419	425,000	1,001,419
2016	2.000	567,919	430,000	997,919
2017-2021	various	2,645,845	2,355,000	5,000,845
2022-2026	various	2,096,670	2,910,000	5,006,670
2027-2031	various	1,368,770	3,630,000	4,998,770
2032-2036	various	563,888	4,435,000	4,998,888
		<u>\$ 9,354,120</u>	<u>\$ 15,250,000</u>	<u>\$ 24,604,120</u>

On November 18, 2011, the Town issued \$11,000,000 in special obligation bonds (beach preservation fee) to finance beach renourishment 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
2012	-	\$ 65,424	\$ -	\$ 65,424
2013	-	322,638	-	322,638
2014	-	322,638	-	322,638
2015	4.000	296,338	1,315,000	1,611,338
2016	4.000	223,938	2,305,000	2,528,938
2017-2019	various	251,495	7,380,000	7,631,495
		<u>\$ 1,482,471</u>	<u>\$ 11,000,000</u>	<u>\$ 12,482,471</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 certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

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.

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 11,066,860	\$ 11,066,860	\$ 10,956,179	\$ (110,681)
Accommodations Tax:				
Local 1%	1,952,360	1,952,360	2,416,264	463,904
Business License and Franchise Fees:				
Business License	7,474,000	7,474,000	6,900,425	(573,575)
Recycling Franchise	-	-	18,672	18,672
Cable Television Franchise	606,000	606,000	691,914	85,914
Beach Franchise	21,500	21,500	23,200	1,700
Total	8,101,500	8,101,500	7,634,211	(467,289)
Permits:				
Construction	190,000	190,000	247,415	57,415
Development	3,600	3,600	5,526	1,926
Other	685,210	685,210	701,478	16,268
Total	878,810	878,810	954,419	75,609
State Shared Funds	788,580	788,580	752,988	(35,592)
Donations:				
EMS/Fire Department Donations	1,000	1,000	225	(775)
Grants:				
Beaufort County Hazmat/E911	216,020	216,020	106,760	(109,260)
Red to Green Grant	-	-	1,498	1,498
FM Global Grant	-	-	2,000	2,000
FEMA	-	-	25,087	25,087
DHEC	6,000	6,000	4,710	(1,290)
Total	222,020	222,020	140,055	(81,965)
Miscellaneous Revenue:				
Public Safety/EMS	1,472,680	1,472,680	1,623,810	151,130
Beach Services	185,000	185,000	206,040	21,040
Municipal Court Fines and Fees	416,220	416,220	361,152	(55,068)
Miscellaneous Revenue	152,000	152,000	140,788	(11,212)
Total	2,225,900	2,225,900	2,331,790	105,890
Investment Income	90,000	90,000	41,785	(48,215)
Total Revenues	25,327,030	25,327,030	25,227,916	(99,114)

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 85,080	\$ 85,080	\$ 74,259	\$ 10,821
Other Operating	331,300	353,693	410,241	(56,548)
Total Town Council	<u>416,380</u>	<u>438,773</u>	<u>484,500</u>	<u>(45,727)</u>
Town Manager:				
Salaries and Benefits	727,240	727,240	614,911	112,329
Other Operating	24,300	24,300	20,420	3,880
Total Town Manager	<u>751,540</u>	<u>751,540</u>	<u>635,331</u>	<u>116,209</u>
Total General Government	<u>1,167,920</u>	<u>1,190,313</u>	<u>1,119,831</u>	<u>70,482</u>
Management Services:				
Finance-Administration:				
Salaries and Benefits	208,890	208,890	204,730	4,160
Other Operating	23,000	26,000	6,640	19,360
Total Finance-Administration	<u>231,890</u>	<u>234,890</u>	<u>211,370</u>	<u>23,520</u>
Finance-Accounting:				
Salaries and Benefits	535,360	535,360	474,040	61,320
Other Operating	120,870	126,644	115,755	10,889
Total Finance-Accounting	<u>656,230</u>	<u>662,004</u>	<u>589,795</u>	<u>72,209</u>
Finance-Revenue and Collections:				
Salaries and Benefits	663,130	663,130	666,438	(3,308)
Other Operating	126,540	129,540	33,887	95,653
Total Finance-Revenue and Collections	<u>789,670</u>	<u>792,670</u>	<u>700,325</u>	<u>92,345</u>
Administration-Legal :				
Salaries and Benefits	417,190	417,190	381,159	36,031
Other Operating	53,900	53,900	21,664	32,236
Total Administration-Legal	<u>471,090</u>	<u>471,090</u>	<u>402,823</u>	<u>68,267</u>
Administration-Municipal Court:				
Salaries and Benefits	327,570	327,570	323,896	3,674
Other Operating	86,150	86,150	76,459	9,691
Total Administration-Municipal Court	<u>413,720</u>	<u>413,720</u>	<u>400,355</u>	<u>13,365</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services (continued):				
Administration-Administrative Support :				
Salaries and Benefits	178,080	178,080	180,044	(1,964)
Other Operating	59,750	59,750	39,796	19,954
Total Administration-Administrative Support	<u>237,830</u>	<u>237,830</u>	<u>219,840</u>	<u>17,990</u>
Administration-Operations:				
Salaries and Benefits	909,080	909,080	888,987	20,093
Other Operating	663,090	650,840	619,324	31,516
Total Administration-Operations	<u>1,572,170</u>	<u>1,559,920</u>	<u>1,508,311</u>	<u>51,609</u>
Administration-Human Resources:				
Salaries and Benefits	395,760	395,760	398,363	(2,603)
Other Operating	150,930	163,930	97,062	66,868
Total Administration-Human Resources	<u>546,690</u>	<u>559,690</u>	<u>495,425</u>	<u>64,265</u>
Total Management Services	<u>4,919,290</u>	<u>4,931,814</u>	<u>4,528,244</u>	<u>403,570</u>
Community Services:				
Community Development-Administration:				
Salaries and Benefits	513,760	513,760	527,729	(13,969)
Other Operating	37,580	37,580	20,573	17,007
Total CD-Administration	<u>551,340</u>	<u>551,340</u>	<u>548,302</u>	<u>3,038</u>
Community Development-CD Services:				
Salaries and Benefits	333,950	333,950	286,472	47,478
Other Operating	7,730	7,730	3,420	4,310
Total CD-CD Services	<u>341,680</u>	<u>341,680</u>	<u>289,892</u>	<u>51,788</u>
Community Development-Inspection/Compliance:				
Salaries and Benefits	663,800	663,800	590,870	72,930
Other Operating	16,050	16,050	12,821	3,229
Total CD-Inspection/Compliance	<u>679,850</u>	<u>679,850</u>	<u>603,691</u>	<u>76,159</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Community Services (continued):				
Community Development-Develop., Review, and Zoning:				
Salaries and Benefits	708,240	708,240	654,162	54,078
Other Operating	85,420	86,210	20,213	65,997
Total CD-DR and Z	<u>793,660</u>	<u>794,450</u>	<u>674,375</u>	<u>120,075</u>
Community Development-Comprehensive Planning:				
Salaries and Benefits	358,400	358,400	362,453	(4,053)
Other Operating	8,110	8,110	4,682	3,428
Total CD-Comprehensive	<u>366,510</u>	<u>366,510</u>	<u>367,135</u>	<u>(625)</u>
Public Facilities-Administration:				
Salaries and Benefits	229,260	229,260	229,242	18
Other Operating	3,160	3,160	3,084	76
Total Public Facilities-Administration	<u>232,420</u>	<u>232,420</u>	<u>232,326</u>	<u>94</u>
Public Facilities-Engineering:				
Salaries and Benefits	650,560	650,560	469,646	180,914
Other Operating	177,720	177,720	173,425	4,295
Total Public Facilities-Engineering	<u>828,280</u>	<u>828,280</u>	<u>643,071</u>	<u>185,209</u>
Public Facilities-Facilities Management:				
Salaries and Benefits	877,210	877,210	845,885	31,325
Other Operating	1,628,710	1,634,710	1,535,521	99,189
Total Public Facilities-Facilities Management	<u>2,505,920</u>	<u>2,511,920</u>	<u>2,381,406</u>	<u>130,514</u>
Total Community Services	<u>6,299,660</u>	<u>6,306,450</u>	<u>5,740,198</u>	<u>566,252</u>
Public Safety:				
Fire and Rescue-Administration:				
Salaries and Benefits	217,240	217,240	216,672	568
Other Operating	128,900	128,900	69,243	59,657
Total Fire and Rescue-Administration	<u>346,140</u>	<u>346,140</u>	<u>285,915</u>	<u>60,225</u>
Fire and Rescue-Logistics/Maintenance:				
Salaries and Benefits	347,730	347,730	325,603	22,127
Other Operating	219,200	220,880	201,774	19,106
Total Fire and Rescue-Logistics/Maintenance	<u>566,930</u>	<u>568,610</u>	<u>527,377</u>	<u>41,233</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Fire and Rescue-Operations:				
Salaries and Benefits	8,820,890	8,820,890	8,846,622	(25,732)
Other Operating	115,890	115,890	108,550	7,340
Total Fire and Rescue-Operations	8,936,780	8,936,780	8,955,172	(18,392)
Fire and Rescue-Communications:				
Salaries and Benefits	911,100	911,100	879,618	31,482
Other Operating	205,870	205,870	145,464	60,406
Total Fire and Rescue-Communications	1,116,970	1,116,970	1,025,082	91,888
Fire and Rescue-Training:				
Salaries and Benefits	527,760	527,760	540,194	(12,434)
Other Operating	82,460	82,460	65,286	17,174
Total Fire and Rescue-Training	610,220	610,220	605,480	4,740
Fire and Rescue-Emergency Management:				
Salaries and Benefits	177,850	177,850	177,305	545
Other Operating	46,550	49,550	41,480	8,070
Total Fire and Rescue-Emergency Management	224,400	227,400	218,785	8,615
Fire and Rescue-Bureau of Fire Prevention:				
Salaries and Benefits	482,110	482,110	486,688	(4,578)
Other Operating	38,100	38,100	34,889	3,211
Total Fire and Rescue-Bureau of Fire Prevention	520,210	520,210	521,577	(1,367)
Fire and Rescue-Support Services:				
Salaries and Benefits	398,990	398,990	334,969	64,021
Other Operating	401,470	401,470	366,410	35,060
Total Fire and Rescue-Support Services	800,460	800,460	701,379	99,081
Fire and Rescue-E911 Communications:				
Salaries and Benefits	234,280	234,280	232,346	1,934
Other Operating	20,900	20,900	-	20,900
Total Fire and Rescue-E911 Communications	255,180	255,180	232,346	22,834

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Sheriff/Other Public Safety				
Police Services/Contract	2,278,400	2,278,400	2,269,751	8,649
Stipend	150,820	150,820	121,800	29,020
Victims' Rights	53,010	53,010	53,010	-
Traffic Patrol	244,190	244,190	243,911	279
Waterway Patrol	114,100	114,100	108,507	5,593
Beach Services	189,060	189,060	212,568	(23,508)
Vehicle Repairs & Maintenance	95,720	95,720	91,717	4,003
Total Sheriff/Other Public Safety	<u>3,125,300</u>	<u>3,125,300</u>	<u>3,101,264</u>	<u>24,036</u>
Total Public Safety	<u>16,502,590</u>	<u>16,507,270</u>	<u>16,174,377</u>	<u>332,893</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental:				
Townwide:				
Salaries & Benefits - Temporary	18,390	13,390	13,167	223
Worker's Compensation	50,000	50,000	67,496	(17,496)
Insurance	326,850	326,850	335,785	(8,935)
Postage	35,000	35,000	31,790	3,210
General Contingency	50,000	50,000	15,997	34,003
Unemployment	15,000	15,000	16,268	(1,268)
Townwide Employee Recognition	40,000	37,000	42,999	(5,999)
Palmetto Pass	18,500	18,500	16,989	1,511
Retiree Medical	720	720	801	(81)
COBRA	180	180	9	171
Travel	500	500	247	253
Professional Dues	17,500	17,500	2,150	15,350
Temporary Agency	-	8,000	5,177	2,823
Professional Services	65,000	205,923	146,832	59,091
Telephone/Cell Phones/Utilities	589,370	589,370	656,367	(66,997)
Equipment Maintenance/Supplies/Other	5,000	5,000	3,018	1,982
Vehicle Fuel	140,000	140,000	165,496	(25,496)
Lease Payments	54,600	54,600	51,325	3,275
Photocopying	11,000	11,000	7,760	3,240
Courier	20,000	20,000	18,355	1,645
Printers, Fax Supplies	27,000	27,000	20,640	6,360
Disaster Advertising Reserve Fund	188,620	188,620	274,790	(86,170)
Hospitality Training & Promotion	104,000	104,000	94,387	9,613
Drug Court Grant	48,500	48,500	48,500	-
Red to Green Grant	-	-	1,498	(1,498)
FEMA Grant	-	-	31,806	(31,806)
Career Criminal Program	35,000	35,000	35,000	-
Recreation Center-Operating Grant	616,940	616,940	616,940	-
Community Foundation Grant	37,500	37,500	35,768	1,732
Coastal Discovery Grant	75,000	75,000	75,000	-
Turtle Watch	35,600	35,600	39,215	(3,615)
LTRA Grant	175,000	175,000	175,000	-
Heritage Classic Foundation	-	1,000,000	1,000,000	-
LEPC Grant	12,000	15,264	16,130	(866)
USAR - RRT Grant	15,500	15,500	10,230	5,270
Total Non-Departmental Townwide	<u>2,828,270</u>	<u>3,972,457</u>	<u>4,072,932</u>	<u>(100,475)</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</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>
Capital Outlay:				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	83,900	102,025	61,625	40,400
Computer Software >\$50,000	-	24,898	3,356	21,542
Total Administration-Operations	<u>83,900</u>	<u>126,923</u>	<u>64,981</u>	<u>61,942</u>
Total Management Services	<u>83,900</u>	<u>126,923</u>	<u>64,981</u>	<u>61,942</u>
Public Safety:				
Police Patrol/Communications				
Police Equipment	19,900	19,900	17,918	1,982
Total Police Patrol/Communications	<u>19,900</u>	<u>19,900</u>	<u>17,918</u>	<u>1,982</u>
Fire and Rescue Operations:				
Specialized Equipment	10,000	10,000	8,828	1,172
Total Fire and Rescue-Operations	<u>10,000</u>	<u>10,000</u>	<u>8,828</u>	<u>1,172</u>
Fire and Rescue Communications				
Furnishings & Fixtures	17,000	17,000	3,137	13,863
Specialized Equipment	27,000	27,000	19,534	7,466
Total Fire and Rescue-Communications	<u>44,000</u>	<u>44,000</u>	<u>22,671</u>	<u>21,329</u>
Fire and Rescue Logistics/Maintenance:				
Specialized Equipment	17,500	17,500	2,708	14,792
Total Fire and Rescue-Logistics/Maintenance	<u>17,500</u>	<u>17,500</u>	<u>2,708</u>	<u>14,792</u>
Fire & Rescue Training:				
Specialized Equipment	18,700	18,700	19,752	(1,052)
Total Fire & Rescue Training	<u>18,700</u>	<u>18,700</u>	<u>19,752</u>	<u>(1,052)</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (Continued):</u>				
Capital Outlay (continued):				
Fire and Rescue-Support Services:				
Specialized Equipment	15,000	15,000	14,846	154
Total Fire and Rescue-Support Services	15,000	15,000	14,846	154
Total Public Safety	125,100	125,100	86,723	38,377
Total Capital Outlay	209,000	252,023	151,704	100,319
Total Expenditures	32,266,100	33,499,697	31,787,286	1,712,411
Excess of Revenues Over (Under)				
Expenditures	(6,939,070)	(8,172,667)	(6,559,370)	1,613,297
<u>Other Financing Sources and Uses :</u>				
Transfers In	6,628,300	6,769,223	5,681,670	(1,087,553)
Total Other Financing Sources	6,628,300	6,769,223	5,681,670	(1,087,553)
Net change in fund balance	(310,770)	(1,403,444)	(877,700)	<u>\$ 525,744</u>
Fund Balance - beginning	14,984,129	14,819,399	15,763,985	
Fund Balance - ending	<u>\$ 14,673,359</u>	<u>\$ 13,415,955</u>	<u>\$ 14,886,285</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2011

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 5,540,040	\$ 5,540,040	\$ 5,583,395	\$ 43,355
Federal Reimbursement - BABS	207,870	207,870	207,868	(2)
Investment Income	130,000	130,000	82,349	(47,651)
Total revenues	<u>5,877,910</u>	<u>5,877,910</u>	<u>5,873,612</u>	<u>(4,298)</u>
Expenditures:				
Administrative	20,490	20,490	44,390	(23,900)
Debt service:				-
Principal	12,890,000	12,890,000	12,305,000	585,000
Interest	5,185,130	5,185,130	4,524,266	660,864
Total expenditures	<u>18,095,620</u>	<u>18,095,620</u>	<u>16,873,656</u>	<u>1,221,964</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,217,710)</u>	<u>(12,217,710)</u>	<u>(11,000,044)</u>	<u>1,217,666</u>
Other financing sources (uses):				
Issuance of Bonds	-	-	-	-
Premium on Bond Issuance	-	-	-	-
Payment to Escrow Agent	-	-	-	-
Transfer In	11,535,490	11,535,490	11,027,099	(508,391)
Transfers Out	-	-	(1,000,000)	(1,000,000)
Total other financing sources (uses)	<u>11,535,490</u>	<u>11,535,490</u>	<u>10,027,099</u>	<u>(1,508,391)</u>
Net change in fund balance	<u>(682,220)</u>	<u>(682,220)</u>	<u>(972,945)</u>	<u>\$ (290,725)</u>
Fund balance - beginning	<u>9,882,485</u>	<u>9,882,485</u>	<u>6,974,490</u>	
Fund balance - ending	<u>\$ 9,200,265</u>	<u>\$ 9,200,265</u>	<u>\$ 6,001,545</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 692,270	\$ 692,270	\$ 696,763	\$ 4,493
Contributions	-	-	7,500	7,500
State Taxes - Sunday Permit Fees	270,000	571,843	356,900	(214,943)
Impact Fee - Roads	50,000	94,699	79,254	(15,445)
Miscellaneous Revenue	12,000	12,000	243,472	231,472
Investment Income	-	-	23,752	23,752
Total Revenues	1,024,270	1,370,812	1,407,641	36,829
<u>Expenditures:</u>				
Public Facilities:				
Fire and Rescue Training Center	90,000	90,000	7,044	82,956
Fire and Rescue Computer System	70,000	74,236	65,972	8,264
Dispatch Center Equip. Upgrade	50,000	69,893	70,019	(126)
Coligny/Pope Avenue Area Improvements	100,000	200,038	-	200,038
Dunnigan's Alley/Arrow Road Improvements	100,000	228,590	-	228,590
Sewer Service Projects	439,000	914,815	3,699	911,116
Stoney Area CDBG Project	-	-	(4,350)	4,350
Fire Medical Systems	80,000	199,959	148,631	51,328
Public Safety System	30,000	32,059	34,433	(2,374)
Mobile AVL	30,000	30,000	29,196	804
Total Public Facilities	989,000	1,839,590	354,644	1,484,946
Park Development:				
Coligny Beach Park	-	-	(371)	371
Park Upgrades	312,000	613,843	138,650	475,193
Rocks/Remys Tract	-	10,000	-	10,000
Island Recreation - Aquatics Center	100,000	170,413	35,702	134,711
Rowing and Sailing Center	-	86,500	82,230	4,270
Compass Rose Park	-	77,390	1,780	75,610
Total Park Development	412,000	958,146	257,991	700,155
Land Acquisition:				
Land Acquisition	-	13,261	2,917,122	(2,903,861)
Total Land Acquisition	-	13,261	2,917,122	(2,903,861)

TOWN OF HILTON HEAD ISLAND
 CAPITAL PROJECTS FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP Basis) AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Beach Maintenance:				
Beach Management	325,000	641,972	151,822	490,150
Beach Renourishment	-	172,565	2,803	169,762
Shoreline Management Plan	-	245,975	-	245,975
Port Royal Fill Project	12,500,000	12,644,581	256,591	12,387,990
Groins Refurbishment	-	65,602	49,718	15,884
Dunes Refurbishment	25,000	25,000	24,950	50
Beach Parks/Access Rehabilitation	75,000	83,445	82,690	755
Total Beach Maintenance	12,925,000	13,879,140	568,574	13,310,566
Facilities Improvements:				
Town Hall/Municipal Court Renovations	-	328,720	115,521	213,199
Fire Station #1 Replacement	2,750,000	2,981,427	1,734,742	1,246,685
Fire Station #2 Replacement	275,000	275,000	-	275,000
Fire Station #5 Replacement	-	73,126	18,545	54,581
Fire Station #6 Repair/Replacement	-	290,862	16,548	274,314
SecurityCameras	-	105,275	72,323	32,952
Coastal Discovery Stabilization	-	63,643	63,642	1
Town Vehicle Replacement	-	69,000	56,516	12,484
Rehab & Renovation of Town Fixed Assets	251,000	445,175	262,779	182,396
Apparatus/Vehicle Replacement	555,000	777,686	445,835	331,851
Demolition of Structures	291,000	218,441	210,845	7,596
Total Facilities Improvements	4,122,000	5,628,355	2,997,296	2,631,059

TOWN OF HILTON HEAD ISLAND
 CAPITAL PROJECTS FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP Basis) AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Roadway Improvements:				
Median Curbing	300,000	310,956	-	310,956
Roadway Safety Improvements	100,000	135,148	25,537	109,611
Dunnagan's Alley Roundabout	880,000	933,650	191,777	741,873
Marshland Road Roundabout	-	40,000	242	39,758
Mathews Drive Roundabout	-	1,228,233	607,468	620,765
Mathews Dr/Marshland Rd. Connectivity	110,000	110,000	3,835	106,165
Private Dirt Roads Acquisition	25,000	46,386	990	45,396
Honey Horn Entrance	155,000	204,817	-	204,817
US 278/ Gateway Improvements @ Windmill Harbor	200,000	200,000	3,663	196,337
Stoney Secondary Road	50,000	94,463	-	94,463
Nassau Street Extension	100,000	100,000	-	100,000
Summitt Drive Realignment	-	21,640	-	21,640
US 278/Leamington/Fresh Market Shoppes	230,000	230,000	-	230,000
Intersection/Crosswalk Lighting	-	42,714	252	42,462
Directional Neighborhood Signage	100,000	152,306	55,629	96,677
Gateway Improvements @ Windmill Harbor	-	-	242	(242)
Horseshoe Road Connector	-	18,409	1,993	16,416
Gumtree/Squire Pope Roundabout	-	1,744	6,832	(5,088)
Widen and Realign Office Park Road	-	80,620	75,660	4,960
Mainland Transportation Improvements	500,000	1,897,681	-	1,897,681
Intersection Improvements	90,000	431,605	79,398	352,207
Pedestrian Crosswalks and Refuges	90,000	90,000	-	90,000
Traffic Signal Mast Arms	200,000	216,604	82,363	134,241
Fire and Rescue Emergency Access Points	110,000	211,383	18,595	192,788
Total Roadway Improvements	3,240,000	6,798,359	1,154,476	5,643,883
Pathway Improvements:				
Pathway Rehabilitation	175,000	175,000	130,484	44,516
Mathews Drive (North)	-	-	80	(80)
Mathews Drive (US 278 to Beach City Rd.)	-	404,802	253,544	151,258
Avocet Road	-	71,496	38,167	33,329
New Orleans Road	-	107,073	80,940	26,133
Lagoon Road	-	30,777	15,736	15,041
Target Road	-	5,000	-	5,000
Dunnagan's Alley	325,000	385,000	17,048	367,952
Palmetto Bay Road	-	9,957	2,183	7,774
U.S. 278 Gardner Rd. to Mathews Dr.	80,000	80,000	9,946	70,054
Total Pathway Improvements	580,000	1,269,105	548,128	720,977
Total Capital Outlay/Community Services	22,268,000	30,385,956	8,798,231	21,587,725

TOWN OF HILTON HEAD ISLAND
 CAPITAL PROJECTS FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP Basis) AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Debt Issue Costs:				
Debt Issue Costs	-	-	-	-
Total Debt Issue Costs	-	-	-	-
Total Expenditures	22,268,000	30,385,956	8,798,231	21,587,725
Excess of Revenues Over (Under) Expenditures	(21,243,730)	(29,015,144)	(7,390,590)	21,624,555
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Property	-	-	324,774	324,774
Issuance of Bonds	1,375,000	767,644	-	(767,644)
Transfers In	19,440,000	23,461,836	2,559,825	(20,902,011)
Transfers Out	(37,500)	(37,500)	(37,500)	-
Total Other Financing Sources (Uses)	20,777,500	24,191,980	2,847,099	(21,344,881)
Net change in fund balance	(466,230)	(4,823,164)	(4,543,491)	\$ 279,673
Fund Balance - beginning, as originally reported	20,532,570	20,532,570	20,532,570	
Cumulative effect of accounting change	-	-	(2,147,562)	
Fund Balance - beginning, as restated	20,532,570	20,532,570	18,385,008	
Fund Balance - ending	\$ 20,066,340	\$ 15,709,406	\$ 13,841,517	

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.

TOWN OF HILTON HEAD ISLAND
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

Schedule 4

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant	
ASSETS:			
Cash and Cash Equivalents	\$ 506,602	\$ 37,355	\$ 543,957
Total assets	<u>\$ 506,602</u>	<u>\$ 37,355</u>	<u>\$ 543,957</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 18,497	\$ -	\$ 18,497
Due to Palmetto Electric	12,371	-	12,371
Deferred Revenue	-	36,439	36,439
Total liabilities	<u>30,868</u>	<u>36,439</u>	<u>67,307</u>
Fund balances:			
Restricted	475,734	916	476,650
Total fund balances	<u>475,734</u>	<u>916</u>	<u>476,650</u>
Total liabilities and fund balances	<u>\$ 506,602</u>	<u>\$ 37,355</u>	<u>\$ 543,957</u>

TOWN OF HILTON HEAD ISLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 5

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant	
Revenues:			
Electric Franchise Fee	\$ 2,856,037	\$ -	\$ 2,856,037
Grants	-	500	500
Investment Income	-	14	14
Total revenues	<u>2,856,037</u>	<u>514</u>	<u>2,856,551</u>
Expenditures:			
Current:			
Administrative	2,738,898	-	2,738,898
Total expenditures	<u>2,738,898</u>	<u>-</u>	<u>2,738,898</u>
Excess of revenues over expenditures	<u>117,139</u>	<u>514</u>	<u>117,653</u>
Other financing uses:			
Transfers Out	(78,176)	-	(78,176)
Total other financing uses	<u>(78,176)</u>	<u>-</u>	<u>(78,176)</u>
Net change in fund balances	38,963	514	39,477
Fund balance - beginning	<u>436,771</u>	<u>402</u>	<u>437,173</u>
Fund balance - ending	<u>\$ 475,734</u>	<u>\$ 916</u>	<u>\$ 476,650</u>

Other Supplementary Information

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

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FIREMEN'S FUND
YEAR ENDED JUNE 30, 2011

Schedule 6

	Beginning Balance	Increases	Decreases	Ending Balance
<u>ASSETS:</u>				
Cash and Temporary Investments	\$ 82,037	\$ 611,017	\$ 596,045	\$ 97,009
<u>LIABILITIES:</u>				
Due to Firemen's Fund Association	\$ 82,037	\$ 611,017	\$ 596,045	\$ 97,009

**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>	80-84
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>	85-90
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>	91-95
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>	96-97
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>	98-101

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities									
Invested in capital assets, net of related debt	\$ 57,478,757	\$ 79,079,569	\$ 83,615,491	\$ 93,060,926	\$ 93,895,834	\$ 98,661,331	\$ 114,310,240	\$ 126,379,257	\$ 137,940,358
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	29,367,859
Unrestricted	<u>36,809,752</u>	<u>26,079,740</u>	<u>39,877,353</u>	<u>35,349,883</u>	<u>35,803,517</u>	<u>34,433,182</u>	<u>27,448,750</u>	<u>27,806,762</u>	<u>19,070,840</u>
Total governmental activities net assets	<u>\$ 100,661,696</u>	<u>\$ 111,532,496</u>	<u>\$ 132,086,970</u>	<u>\$ 151,522,290</u>	<u>\$ 153,381,493</u>	<u>\$ 158,262,851</u>	<u>\$ 165,349,096</u>	<u>174,936,166</u>	<u>186,379,057</u>
Business-type activities									
Invested in capital assets, net of related debt								(263,488)	1,969,503
Unrestricted								<u>2,441,371</u>	<u>1,588,215</u>
Total business-type activities net assets								<u>2,177,883</u>	<u>3,557,718</u>
Total								<u>\$ 177,114,049</u>	<u>\$ 189,936,775</u>

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

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 5,590,651
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	4,617,092
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	8,592,108
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	17,332,968
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	1,295,954
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226
Administrative	363,326	823,516	1,296,642	2,149,451	1,813,259	2,884,106	2,204,684	2,695,438	3,260,258
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	4,414,431
Other Charges	-	-	-	-	295,486	235,742	-	-	-
Total governmental activities expenses	<u>\$ 32,572,393</u>	<u>\$ 36,455,999</u>	<u>\$ 37,918,718</u>	<u>\$ 42,709,280</u>	<u>\$ 58,926,486</u>	<u>\$ 55,629,379</u>	<u>\$ 50,911,720</u>	45,390,500	46,175,688
Business-type activities:									
Stormwater								1,397,226	1,616,827
Total Expenses								<u>\$ 46,787,726</u>	<u>\$ 47,792,515</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	\$ 3,950,975
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	6,900,425
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	6,008,094
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810
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	1,839,244
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793	152,140	130,796	206,897	140,555
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>	19,842,121	20,463,103
Business-type activities:									
Charges for services:									
Stormwater								2,553,971	3,377,779
Total Program Revenues								<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>
Net (Expense)Revenue									
Total governmental activities net expense	<u>\$ (15,282,950)</u>	<u>\$ (16,041,976)</u>	<u>\$ (13,839,340)</u>	<u>\$ (18,144,532)</u>	<u>\$ (37,893,786)</u>	<u>\$ (34,608,091)</u>	<u>\$ (32,527,970)</u>	(25,548,379)	(25,712,585)
Total business-type activities net expense								1,156,745	1,760,952
Total Net (Expense) Revenue								<u>\$ (24,391,634)</u>	<u>\$ (23,951,633)</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	\$ 23,605,422
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	10,866,276
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	1,317,756
Investment earnings	659,153	560,878	1,203,427	2,951,972	4,236,702	2,521,431	876,095	356,176	260,608
Miscellaneous	1,061,158	1,698,226	2,084,490	3,286,231	3,679,894	3,921,488	3,895,151	584,455	1,105,414
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>	<u>\$ 37,155,476</u>
Business-type activities:									
Investment earnings								83,128	8,612
Transfers out								(302,763)	(389,729)
Total business-type activities								<u>\$ (219,635)</u>	<u>\$ (381,117)</u>
Change in Net Assets								<u>\$ 11,493,332</u>	<u>\$ 12,822,726</u>
Governmental activities	<u>\$ 10,212,739</u>	<u>\$ 10,870,800</u>	<u>\$ 20,554,475</u>	<u>\$ 19,435,320</u>	<u>\$ 1,859,203</u>	<u>\$ 5,530,496</u>	<u>\$ 7,086,245</u>	10,556,222	11,442,891
Business-type activities								937,110	1,379,835
Total Change in Net Assets								<u>\$ 11,493,332</u>	<u>\$ 12,822,726</u>

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

Schedule 3

Town of Hilton Head Island, SC

Program Revenues by Function/Program, Last Nine Fiscal Years

(accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Function/Program									
Governmental activities:									
Charges for services:									
General Government	\$ 535,421	\$ 504,299	\$ 571,933	\$ 590,577	\$ 591,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975
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	6,900,425
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	6,008,094
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810
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	1,839,244
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793	152,140	130,796	206,897	140,555
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246	61,843	52,525	17,697	-
Total governmental activities	<u>\$ 17,289,443</u>	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>	<u>\$ 21,031,700</u>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	<u>\$ 19,842,121</u>	<u>\$ 20,463,103</u>
Business-type activities:									
Stormwater								2,553,971	3,377,779
Total Program Revenues								<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>

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

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

	<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>	<u>2011</u>
General Fund										
Reserved	\$ 161,304	\$ 77,952	\$ 89,460	\$ 122,453	\$ 328,984	\$ 157,080	\$ 283,748	\$ 164,731	\$ 145,008	
Unreserved	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>\$ 6,914,156</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	\$ 5,643,606	\$ 7,734,130	\$ 17,228,003	\$ 19,159,808	\$ 17,402,001	\$ 18,556,583	\$ 24,013,184	\$ 18,634,944	\$ 24,398,924	
Unreserved, reported in:										
Special revenue funds	3,962,905	5,339,044	17,911,547	25,460,960	30,798,191	27,088,384	26,375,485	21,814,650	22,479,639	
Capital projects funds	12,710,261	19,550,776	23,321,010	20,022,075	16,841,628	14,520,788	16,735,177	4,924,286	5,796,855	
Debt service funds	-	-	1,368,544	83,084	524,408	2,237,167	269,253	-	-	
Total All Other Governmental Funds	<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>\$ 52,675,418</u>	
General Fund										
Nonspendable										\$ 21,304
Restricted										98,163
Committed										11,366,314
Unassigned										3,400,504
Total General Fund										<u>\$ 14,886,285</u>
All Other Governmental Funds										
Restricted										\$ 33,894,568
Committed										12,000,000
Total All Other Governmental Funds										<u>\$ 45,894,568</u>

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes (see Schedule 6) ^a	\$ 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	\$ 34,471,698
Licenses, fees, and permits ^b	14,583,466	15,423,227	17,717,490	22,816,711	24,528,805	21,488,134	21,387,485	19,202,835	14,843,258	18,131,546
Fines and penalties	335,338	269,572	295,537	307,993	362,466	419,313	465,065	407,422	423,042	361,152
Charges for services	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	1,761,128
Intergovernmental	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	1,317,756
Investment earnings	817,211	659,153	560,878	1,203,427	2,951,973	4,236,702	2,521,430	876,095	356,179	260,606
Other revenues	1,452,866	3,125,301	2,158,082	1,698,671	1,346,643	1,198,272	2,615,149	1,702,252	5,404,922	602,262
Total revenues	<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>\$ 57,932,880</u>	<u>\$ 57,458,214</u>	<u>\$ 56,906,148</u>
Expenditures										
General Government	\$ 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	\$ 1,119,831
Management Services	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	4,528,244
Community Services	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	6,210,506
Public Safety	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	16,174,377
Non-Departmental	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	4,072,932
Accommodations Tax Grants	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	1,295,954
Visitor & Convention Bureau	936,673	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226
Administrative	62,064	363,326	823,516	1,296,642	2,149,451	1,948,281	2,884,106	2,088,285	2,361,361	2,944,586
Capital Outlay	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	8,479,627
Debt Service										
Principal	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	12,305,000
Interest	2,949,977	3,194,033	3,963,465	3,739,029	6,179,615	5,496,034	5,645,093	5,680,505	4,335,765	4,524,266
Fiscal charges	-	-	-	11,328	-	-	-	-	-	-
Debt issue costs	-	377,251	-	586,452	-	-	451,841	-	391,417	-
Total expenditures	<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>\$ 81,113,177</u>	<u>\$ 78,387,568</u>	<u>\$ 80,314,461</u>	<u>\$ 62,238,410</u>	<u>\$ 62,707,549</u>
Excess of revenues over (under) expenditures	(10,208,430)	(8,670,351)	(5,609,952)	8,149,645	4,216,730	(20,327,489)	(16,927,689)	(22,381,581)	(4,780,196)	(5,801,401)
Other Financing Sources (Uses)										
Bonds issued	\$ -	\$ 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	-	-	-	-	-	-	-	-	-
Proceeds from sale of land and equipment	-	-	-	-	-	-	-	-	-	324,774
Transfers in	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	20,268,594
Transfers out	(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)	(19,878,865)
Total other financing sources (uses)	<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>	<u>\$ 714,503</u>
Net change in fund balances	<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>\$ (22,431,581)</u>	<u>\$ 7,434,714</u>	<u>\$ (5,086,898)</u>

^aProperty Tax Reassessments performed in 2004.

^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	81,113,177	78,387,568	80,314,461	62,238,410	62,707,549	
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	8,479,627	
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)	(11,005,908)	(7,656,183)	
	4,631,642	2,099,832	3,234,339	4,824,575	16,527,485	10,051,041	4,762,313	(500,529)	823,444	
Non-Capital Expenditures	48,529,331	50,186,086	47,089,208	53,103,294	64,585,692	68,336,527	75,552,148	62,738,939	61,884,105	
Debt service as a percentage of non- capital expenditures	n/a	16.8%	16.4%	20.4%	22.2%	18.7%	26.2%	22.4%	25.7%	27.2%

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

Fiscal Year	Property	Accommodations	Hospitality	Total
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
2011	23,605,422	5,948,685	4,917,591	34,471,698
Change 2002-2011	57.0%	20.2%	139.5%	56.4%

Schedule 7

Town of Hilton Head Island, SC

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Tax Year	Real & Personal Property		Motor Vehicles		Total Taxable		Total Direct Tax Rate	Taxable Assessed Value as a Percentage of Estimated Actual Taxable Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
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%
2011	2010	888,578,642	20,861,509,207	29,614,709	348,984,340	918,193,351	21,210,493,547	18.54	4.33%

Source: Beaufort County Assessor's Office.

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

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

Fiscal Year	Tax Year	Town Direct Rates				Overlapping Rates ^a				Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Special Purpose and Fire Districts	
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
2011	2010	11.78	6.01	0.75	18.54	116.59	47.54	8.16	-	190.83

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 other wise 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, SC
Principal Property Tax Payers
Current Year and Ten Years Ago**

<u>Taxpayer</u>	<u>Tax Year 2010</u>			<u>Tax Year 2001</u>		
	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>
Marriott Ownership Resort	\$ 23,295,000	1	2.54%	\$ 10,700,699	1	2.35%
SCG Hilton Head Property, LLC ^b	4,620,000	2	0.50%			
Columbia Properties Hilton Head, LLC ^a	4,540,040	3	0.49%			
Summit Title Agency Trustee - Southwind	3,802,320	4	0.41%			
Sea Pines Resort, LLC	3,563,720	5	0.39%			
Greenwood Development	2,953,130	6	0.32%	4,138,551	3	0.91%
Foiles William M Esq Trustee	2,489,140	7	0.27%			
Hilton Head Health System LP	1,976,710	8	0.22%			
Plantation Title Agency Trustee - Southwind	1,849,810	9	0.20%			
Disney Vacation Dev Inc	1,715,610	10	0.19%			
Disney Vacation Dev Inc	1,715,650	9	0.19%			0.00%
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%
Westin Hilton Head Limited P/S						0.00%
Indito Run Limited P/S				482,203	9	0.11%
Palmetto Electric Co-op				272,445	10	0.06%
Total	\$ 52,521,130		5.72%	\$ 31,984,817		7.03%

Source: Beaufort County

^a Formerly Dunes Hotel Associates

^b Formerly Westin Hilton Head Limited P/S

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage
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	19,543,737	18,774,952	96.07%	266,679	19,041,631	97.43%
2007	19,790,118	19,014,954	96.08%	275,822	19,290,776	97.48%
2008	20,341,876	19,461,546	95.67%	398,145	19,859,691	97.63%
2009	22,753,654	21,085,178	92.67%	908,468	21,993,646	96.66%
2010	23,771,093	22,773,856	95.80%	680,599	23,454,455	98.67%
2011	24,569,917	22,860,455	93.04%	744,967	23,605,422	96.07%

Source: Town of Hilton Head Island Finance Department

**Schedule 11
Town of Hilton Head Island, SC
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Town Direct Rate</u>	<u>Beaufort County</u>	<u>South Carolina</u>
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%
2011	0%	1%	6%

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

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

Fiscal Year	General Obligation Bonds	Revenue Bonds	Bond Anticipation Notes	Certificates of Participation	Capital Leases	Total	Percentage of Personal Income^a	Per Capita^a
2002	65,160,000	-	-	11,685,000	1,227,695	78,072,695	7.58%	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	54,320,000	-	4,730,000	-	126,170,000	8.78%	3,684
2011	62,010,000	47,740,000	-	3,600,000	-	113,350,000	7.49%	3,055

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, SC
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Exempt from Debt Limit	Total Net	Percentage of Actual Taxable Value^a of Property	Per Capita^b
2002	65,160,000	45,780,000	19,380,000	0.25%	570
2003	63,730,000	44,470,000	19,260,000	0.24%	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
2011	62,010,000	56,080,000	5,930,000	0.03%	160

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

^aSee Schedule 7 for property value data.

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

Schedule 14
Town of Hilton Head Island, SC
Direct and Overlapping Governmental Activities Debt
As of June 30, 2011
(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	\$ 340,263,303	51%	\$ 173,534,285
Beaufort County General Obligation Debt	200,555,000	51%	102,283,050
Broad Creek Public Service District	6,315,000	100%	6,315,000
Hilton Head No. 1 Public Service District	14,885,071	94%	13,991,967
Subtotal, overlapping debt			296,124,301
Town direct debt			62,010,000
Total direct and overlapping debt			\$ 358,134,301

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

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

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

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

Assessed value (as of December 31, 2010)	\$ 918,193
Debt Limit (8% of assessed value)	73,455 ^a
Debt applicable to limit:	
General obligation bonds:	
2004B	\$ 925
2009A	5,005
Total net debt applicable to limit	<u>5,930</u>
Legal Debt Margin (without a Referendum)	<u>\$ 67,525</u>

	Fiscal Year									
	<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>	<u>2011</u>
Debt limit	\$ 38,051	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196	\$ 66,174	\$ 66,619	\$ 75,964	\$ 73,455
Total net debt applicable to limit	19,380	19,260	18,200	17,355	15,855	14,180	12,325	10,295	8,160	5,930
Legal debt margin	18,671	18,974	21,402	47,561	50,012	51,016	53,849	56,324	67,804	67,525
Total net debt applicable to the limit as a percentage of debt limit	50.93%	50.37%	45.96%	26.73%	24.07%	21.75%	18.63%	15.45%	10.74%	8.07%

Note: Article Ten (X), Section Fourteen (14), of the South Carolina Constitution of 1895 as amended provides that a City of Town shall incur General Obligation Debt over the eight percent (8%) limit when approved by a majority 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 2011 cannot exceed \$58,764,400.

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

Hospitality Tax Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
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	300,000	457,970	757,970	6.74
2008	5,232,837	305,000	448,970	753,970	6.94
2009	4,826,318	315,000	439,820	754,820	6.39
2010	4,708,807	325,000	428,007	753,007	6.25
2011	4,917,591	340,000	416,632	756,632	6.50

Tax Increment Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
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	675,000	326,314	1,001,314	3.98
2008	4,427,710	3,760,000	374,015	4,134,015	1.07
2009	5,833,846	3,140,000	824,163	3,964,163	1.47
2010	6,308,512	3,270,000	717,538	3,987,538	1.58
2011	6,369,085	3,405,000	606,461	4,011,461	1.59

Stormwater Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2002	-	-	-	-	-
2003	1,100,234	-	-	-	-
2004	1,079,614	-	750,546	750,546	-
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	520,000	727,596	1,247,596	1.08
2008	1,501,389	535,000	712,708	1,247,708	1.20
2009	1,572,183	550,000	697,369	1,247,369	1.26
2010	2,553,971	565,000	679,938	1,244,938	2.05
2011	3,377,779	515,000	660,665	1,175,665	2.87

Beach Preservation Fee Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	4,426,889	-	-	-	-
2008	4,634,690	2,080,000	780,610	2,860,610	1.62
2009	4,210,460	2,160,000	679,810	2,839,810	1.48
2010	4,008,272	2,240,000	569,810	2,809,810	1.43
2011	4,768,381	2,320,000	570,073	2,890,073	1.65

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

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income (in thousands)</u>	<u>Per Capita Personal Income</u>	<u>Annual Unemployment Rate</u>
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%
2010	37,099	1,513,565	40,798	6.5%
2011	37,099	1,552,445	41,846	6.0%

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

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

<u>Employer</u>	<u>2011 Employees</u>	<u>2002 Employees</u>
Sea Pines Resort	585	N/A
Marriott Vacation Club Intl	550	N/A
Hilton Head Medical Ctr and Clinic	520	N/A
Beaufort County School District	478	N/A
Westin Hotel and Resorts	380	N/A
Cypress of Hilton Head	310	N/A
Hilton Head Marriott Golf and Beach Resort	320	N/A
Heritage Golf	280	N/A
Publix Super Markets	263	N/A
Hilton Ocean Front Resort	250	N/A
Spinnaker Resorts/Southwind Management	220	N/A
Crowne Plaza Resort	211	N/A
The Greenery	116	N/A

Sources: Beaufort County Sched 18 (Principal Employers), Beaufort County website (Major Employers) and our historical reports. In many cases (but not all) employment head counts were verified via telephone calls to the above companies. If the numbers were not verified, we used the same number of employees as the previous year.

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

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30,</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>	<u>2011</u>
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	4.0	4.0	5.0	5.0	4.0
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	16.0	16.0	17.0	17.0	17.0	19.0	19.0	17.0	17.0
Administration	22.5	23.0	23.0	23.0	23.5	23.5	23.5	22.5	23.5	21.0
Community Services										
Community Development	35.0	35.0	35.0	35.5	36.0	36.0	36.0	36.0	30.0	27.0
Public Projects & Facilities	18.0	18.0	19.0	19.0	19.0	20.0	21.0	21.0	22.0	22.0
Public Safety										
Fire & Rescue	139.5	143.0	143.0	144.0	144.8	147.3	147.3	147.6	146.0	145.0
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Total	<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>	<u>247.0</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, SC
Operating Indicators by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</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>	<u>2011</u>
General Government										
Management Services										
Business license permits issued	5,130	5,650	6,320	5,130	5,312	5,409	5,638	5,644	5,549	5,718
Business license inspections	n/a	n/a	n/a	20	360	546	150	396	127	1,460
Business license audits	n/a	n/a	n/a	50	101	55	-	-	-	117
Hospitality tax accounts	445	408	394	409	411	357	343	356	325	359
Bed tax accounts	247	353	542	649	701	675	732	775	752	863
Beach passes issued	2,306	1,478	3,007	3,052	2,116	2,729	2,009	2,434	1,885	2,602
Number of court cases docketed	8,300	6,567	7,009	8,340	9,033	9,366	10,687	8,380	9,159	8,016
Number of court cases disposed	7,725	6,668	7,122	7,120	8,952	9,123	10,881	8,607	8,854	8,363
Number of search warrants issued	26	11	15	24	15	16	41	19	22	33
Number of arrest warrants issued	569	554	493	547	477	437	410	460	415	349
Number of bench warrants issued	569	818	777	1,333	801	531	894	693	777	576
Community Services										
Community Development										
Building inspections conducted	16,581	17,211	18,724	21,337	22,167	18,146	15,297	13,053	11,604	10,773
Building permits issued	466	351	410	449	440	168	104	63	51	68
Miscellaneous permits issued	2,780	2,867	3,213	3,100	3,146	4,233	5,121	4,470	4,913	4,805
Public Projects and Facilities										
# of capital improvement projects to manage	51	51	57	53	84	76	51	64	62	53
# of beach access/parks to maintain	6	6	6	7	8	8	8	8	8	8
Miles of pathways to maintain	32	32	32	50	51	51	53	55	56	57
Maintenance work orders	452	637	1,368	2,119	2,373	2,517	2,150	2,800	4,187	4,406
Public Safety										
Fire and Rescue service calls	5,790	5,790	5,780	6,140	6,167	6,030	6,246	6,088	5,957	6,034
Actual fires extinguished	139	131	141	151	147	139	153	151	127	80
Inspections	2,010	2,475	2,244	2,338	2,271	2,357	2,649	2,626	2,390	2,902
Telephone requests	n/a	54,445	55,866	45,878	55,584	73,475	75,099	77,352	72,361	61,435
Public training programs	291	312	344	341	366	687	614	791	520	609

Sources: Various Town departments.

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

<u>Function/Program</u>	<u>Fiscal Year</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>	<u>2011</u>
General Government										
Town-owned parcels	92	97	100	106	113	113	116	183	185	182
Town-owned property acreage	1,081	1,097	1,108	1,126	1,142	1,142	n/a	n/a	n/a	n/a
Town-owned development rights	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7	8	8
Town-owned easements	n/a	n/a	n/a	n/a	n/a	n/a	n/a	73	75	80
Management Services										
Town vehicles	34	36	37	41	39	38	38	39	40	39
Public Safety										
Emergency Apparatus Vehicles	27	28	25	24	24	24	24	24	24	24
Police Vehicles	33	27	26	-	-	-	-	-	-	-
General Vehicles	20	19	18	17	19	22	22	23	30	30
Fire Stations	6	6	6	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	21	21	22	22	22	22	22	22	23	22
Pathways (miles)	32	32	32	50	50	51	53	55	56	57
Beach access/parks	5	5	5	7	7	8	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.
Police services currently contracted with Beaufort County Sheriff's Office.

Schedule 22
Town of Hilton Head Island, SC
Principal Stormwater Customers
Year Ended June 30, 2011

Customer	Type of Business	Equivalent Single Family Residential Units	Stormwater Fees Billed	Percentage of Total Billed
Town of Hilton Head Island	town government	577.23	\$ 62,745	1.77%
Beaufort County School District	primary/secondary education	470.27	51,118	1.44%
Sea Pines Resort LLC	hotel/motel	375.92	40,862	1.15%
Beaufort County	aircraft transportation	357.46	38,856	1.10%
Columbia Properties Hilton Head LLC (Columbia Sussex Corporation)	hotel/motel	301.77	32,802	0.93%
Greenwood Development Corp	developer / various	265.92	28,906	0.82%
Marriott Ownership Resorts	hotel/motel	257.86	28,029	0.79%
Festival Centre (E&A) LLC	community shopping center	198.70	21,599	0.61%
SCG Hilton Head Property LLC	hotel/motel	187.59	20,391	0.58%
PVI Shelter Cove Limited Partnership	regional shopping center	184.23	20,026	0.56%
Total			<u>\$ 345,334</u>	<u>9.74%</u>
Total Stormwater Fees Billed			\$ 3,544,876	

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, SC
Municipal Fines, Assessments and Surcharges
For the Year Ended June 30, 2011

Court Fines

Court fines collected	\$ 361,152
Court fines retained by the Town	<u>361,152</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>

Court Assessments

Court assessments collected	\$ 366,059
Court assessments retained by the Town	<u>40,637</u>
Court assessments remitted to the State Treasurer	<u><u>325,422</u></u>

Court Surcharges

Court surcharges collected	\$ 174,402
Court surcharges retained by the Town	<u>16,409</u>
Court surcharges remitted to the State Treasurer	<u><u>157,993</u></u>

Victims Services

Court assessments allocated to victim services	\$ 57,045
Victim Services expenditures	<u>53,010</u>
Funds available for carryforward	<u><u>4,035</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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town), as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 31, 2012. 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

Management of the Town is responsible for establishing and maintaining effective 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 a 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 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 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 management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLC

Columbia, South Carolina
January 31, 2012

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

SUMMARY OF AUDIT RESULTS

Financial Statements

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:	None reported
Noncompliance material to financial statements noted:	No