

Town of Hilton Head Island, South Carolina

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED
June 30, 2004
Department of Finance

TOWN OF HILTON HEAD ISLAND,
South Carolina

**Comprehensive
Annual
Financial Report**

**Fiscal Year Ended
June 30, 2004**

**Prepared By
Finance Department**

**Shirley A. Freeman,
Director of Finance**

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

**Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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Introductory Section

December 21, 2004

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

Gentlemen:

The Comprehensive Annual Financial Report of the Town of Hilton Head Island for the fiscal year that ended June 30, 2004, is submitted herewith. South Carolina Code Ann., Section 5-7-240, requires an annual audit of the books of account and financial records of the Town. A complete set of financial statements is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the Town of Hilton Head Island. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Hilton Head Island has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Hilton Head Island's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Hilton Head Island's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Hilton Head Island's financial statements have been audited by Cherry Bekaert & Holland, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Hilton Head Island for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Hilton Head Island's financial statements for the fiscal year ended June 30,

Honorable Mayor, Members of the
Town Council, and Town Manager
December 21, 2004
Page 2

2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter is designed to complement MD&A and should be read in conjunction with it.

A complete set of financial statements is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Profile of Hilton Head Island

Hilton Head Island 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 42 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 was incorporated on May 18, 1983. The Articles of Incorporation provide for a Council-Manager form of government. The legislative authority rests with a Mayor and six (6) council members.

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 Town Manager submits a proposed budget for the General Fund, Capital Projects Funds and Debt Service Fund to the Town Council sixty (60) days prior to the beginning of the fiscal year. The Budget is legally enacted and adopted by an ordinance of the Town Council. All budgetary transfers are authorized by the Town Manager; however, the Town Council must approve any amendment to the budget, which causes a change in the total expenditures of any fund. The expenditures may not legally exceed appropriations at the fund level except for additional funds received as grants or donations. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Expenditures may not legally exceed appropriations at the fund level. Budgetary controls are maintained by having purchase orders prior to expenditures. Purchase orders under \$5,000 are approved by the appropriate division heads, those up to \$20,000 are approved by the appropriate department heads, those up to \$50,000 Assistant Town Managers, and

those over \$50,000 are approved by the Town Manager. A detailed budget and actual expenditures comparison is provided each month to the appropriate division heads, department heads, and Town Manager. A financial statement is presented quarterly to the Town Council.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Hilton Head Island operates.

Local Economy

Tourism is the largest "industry" in the island's economy. There are approximately 2.5 million visitors annually. The island hosts a major sports event in the MCI Heritage Golf Classic. The island has established world-class accommodations, and the tourism industry continues to grow with a peak summer population of 258,696.

One indicator of the economic outlook in the tourism industry on Hilton Head Island has been the Accommodations Tax. This is a two percent (2%) sales tax on lodging. Except for the 1992 fiscal year, this gross revenue collection has increased each year since its inception in 1984. In 1992, there was a slight decrease of two percent (2%) of the 1991 gross tax collected by the State. In this fiscal year, the gross tax collection remained stable with a slight increase of \$11,700 over the 2003 collection for a total of \$3,600,804. With an annual visitor expenditure of \$1.5 billion, tourism is a growing industry in Hilton Head Island.

The South Carolina Employment Security Commission reported Hilton Head Island's annual unemployment rate to be 1.7%. This compares to 5.7% for the United States, 6.8% for South Carolina and 3.3% for Beaufort County.

The Town of Hilton Head Island issues over five thousand business licenses annually.

Long-term Financial Planning

The Town Council reviews the ten-year Capital Improvement Program annually. The Town will be completing its drainage projects next fiscal year. In addition, the Town will be focusing efforts on the completion of pedestrian crosswalks and refuges, intersection improvements, and the phased resurfacing of U.S. Highway 278.

The Town has been successful in preserving a high quality of life for residents. Commitment to preserve its natural resources includes the premier attraction of the beaches. The Town collects a Beach Preservation Fee of two percent (2%) to fund beach renourishment every six to seven years. While the permitting and work on this project is scheduled well ahead of the actual renourishment, this major project is in the budget for fiscal year 2005.

Cash Management

The investment of idle funds during the year is made in accordance with Title 6, Chapter 5, "Authorized Investments by Political Subdivisions" of the State Code. Investments were made in the South Carolina local government investment pool and various time deposits. The Cash Management Program provided a total of \$560,878 of interest earnings for fiscal year ended June 30, 2004, as compared to \$659,153 for the prior fiscal year. The average yield on investment for the year was 1.4%.

Risk Management

The Town has a Safety Committee led by the Safety Officer working townwide with employee training. The Risk Management and Control Program provides training in CPR, Hazard Communications, Personal Protective Equipment and safety. The committee is also providing quarterly presentations at townwide staff meetings. The plan is to reduce the liability exposure by providing a safe work environment for all employees. The Town has Workers Compensation insurance with South Carolina Municipal Insurance.

The Town participates in the South Carolina State Insurance Benefits program for health insurance. The Town minimizes its exposure to losses with insurance coverage with the South Carolina Insurance Reserve Fund and commercial insurance for various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees.

Pension Plan

The plan is administered by and the funds are held by the International City Management Association (ICMA), a Pension Fund administrator. All full-time employees are covered by the plan except those covered by the South Carolina Retirement plans.

The Town is a member of the South Carolina Police Officers Retirement System (PORS). All full-time public safety employees whose principle duty is the prevention and control of property destruction by fire, excluding clerical staff, are eligible and must belong to the System, a cost sharing multiple-employer defined benefit pension plan administered by

Honorable Mayor, Members of the
Town Council, and Town Manager
December 21, 2004
Page 5

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.

Award

The Government Finance Officers Association of the United States and Canada (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, 2003. This was the fifteenth consecutive year (1989–2003) that the Town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that 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.

Acknowledgements

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to Steven Markiw, Deputy Director of Finance; Sue Edwards, Accounting Manager; and Kathy Glover, Finance Assistant, who assisted and contributed to its preparation. I would also like to thank the Mayor, Town Council, and the Town Manager for their interest and support of this project and for conducting the business of government in a highly responsible and professional manner. It is a pleasure to work for a group of people who encourage and support sound financial policies and reporting for the Town.

Respectfully submitted,



Shirley A. Freeman
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Hilton Head Island,
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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.



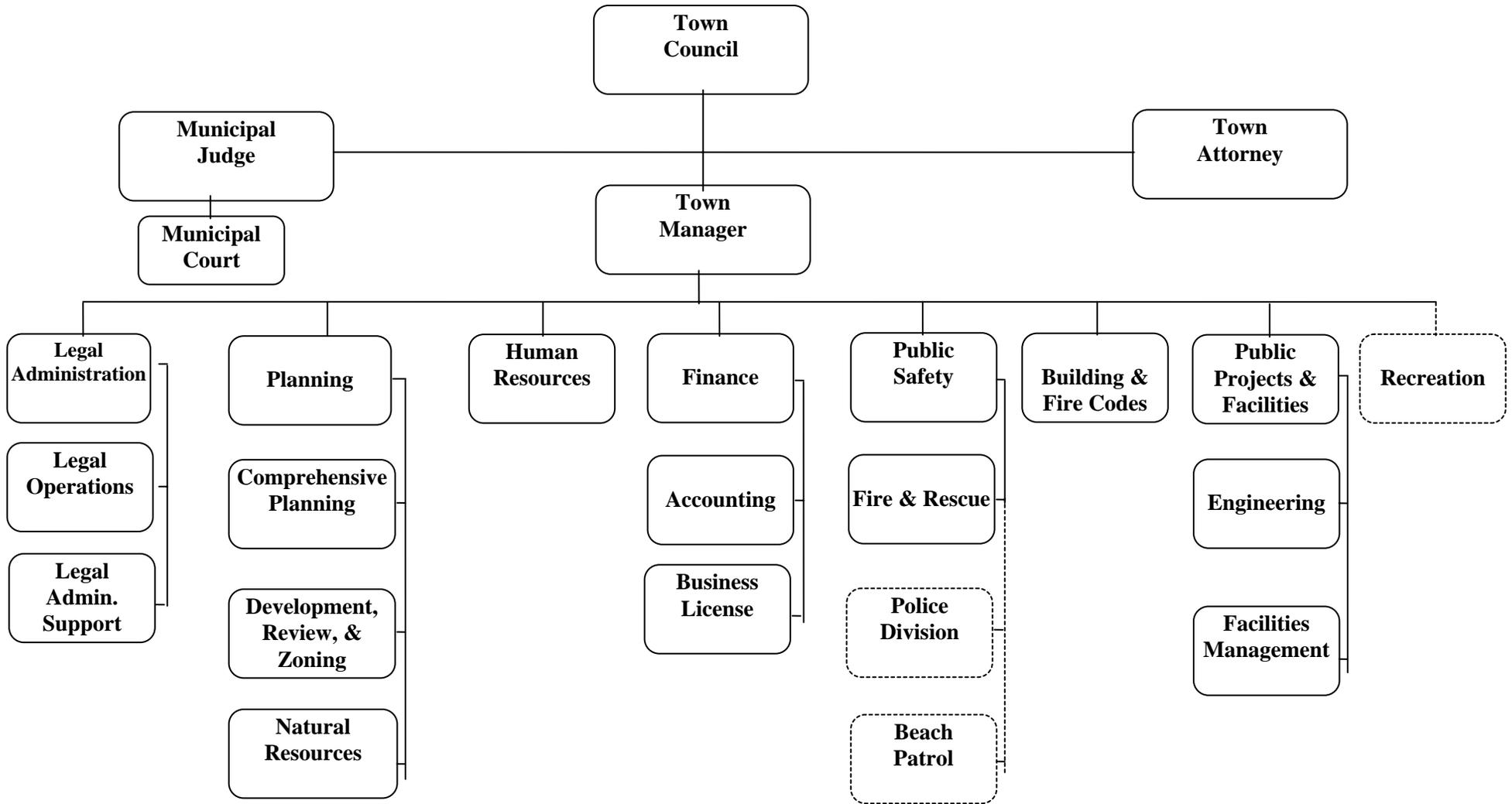
Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

TOWN OF HILTON HEAD ISLAND ORGANIZATIONAL CHART



TOWN OF HILTON HEAD ISLAND

Council - Manager Form of Government

Elected Officials

Years
In Office

Mayor

The Honorable Thomas D. Peebles 13.5

Town Council

Kenneth S. Heitzke - Mayor Pro Tempore 7.0

John D. Safay 2.5

Willie Ferguson 10.5

W. J. (Bill) Mottel 6.0

George W. Williams, Jr. 3.0

Drew A. Laughlin 1.5

Administration

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



Financial Section



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the "Town") as of June 30, 2004 and for the year then ended, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2004, and the respective changes in financial position, and the respective budgetary position of the General fund and the Tax Increment Financing fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2004 on our consideration of the Town's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund statements and schedules as of and for the year ended June 30, 2004, the statistical tables, and the accompanying schedule of municipal fines, assessments and surcharges for the year ended June 30, 2004 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town. The combining and individual fund financial statements and schedules, the schedule of expenditures of federal awards, and the schedule of municipal fines, assessments and surcharges have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekant & Holland, L.L.P.

Beaufort, South Carolina
December 17, 2004

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

As management of the Town of Hilton Head Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Hilton Head Island for the fiscal year ended June 30, 2004. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

The *statement of activities* presents information showing how the net assets of the Town changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement even though resulting cash flow may be recorded in a future period.

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

Fund financial statements

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

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

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

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 (Exhibits C through G). Five are classified as major funds: General Fund, Tax Increment Financing (T.I.F.) District, Beach Preservation Fee, Debt Service Fund, and the Capital Projects Fund. Five are classified as non-major funds: Accommodation, Impact Fees, Real Estate Transfer Fees, Community Development Block Grant (CDBG), and Home Grant. For reporting purposes on the fund financial statements, the special revenue funds are consolidated under the heading Other Governmental Funds. Schedules 4 and 5 of this document provide detailed information regarding these funds.

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 19-50 of this report.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents combining individual fund statements and schedules referred to earlier in connection with non-major governmental funds. Also included are budgetary comparison Schedules of Revenues, Expenditures and Changes in Fund Balances for all non-major special revenue funds with a budget. These statements can be found on pages 12-18 and the schedules can be found on pages 51-65 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Hilton Head Island exceeded its liabilities at the close of the fiscal year by \$111,532,496 (*net assets*). Of this amount, \$26,079,740 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors in accordance with the Town's fund designation and fiscal policies.
- The Town's total net assets increased by \$10,870,800 during the current fiscal year. The Town's net assets increased as a result of this year's operation.
- As of the close of the current fiscal year, the Town of Hilton Head Island's governmental funds reported combined ending fund balances of \$67,432,898, an increase of \$27,515,940. Approximately seventy-three percent (73%) of this total amount, or \$48,986,632, is available for spending at the government's discretion (*unreserved fund balance*). The majority of this fund balance resides in the Capital Projects Fund.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$7,514,334 of which \$839,834 is designated for disaster recovery.
- The Town of Hilton Head Island's total debt increased by \$30,403,103 (34%) during the current fiscal year. The key factor in this increase was the Town issuance of \$44,740,000 in new/refunding bonds during the fiscal.
- The Town of Hilton Head Island has a general obligation bond rating of AA.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

**NET ASSETS
Figure 1**

	Governmental Activities	
	2004	2003
Current and other assets	\$ 72,386,224	\$ 47,841,765
Capital assets	168,788,038	155,066,216
Total assets	241,174,262	202,907,981
Long-term liabilities outstanding	124,711,884	98,457,694
Other liabilities	4,929,882	3,788,591
Total liabilities	129,641,766	102,246,285
Net assets:		
Invested in capital assets, net of related debt	79,079,569	57,478,757
Restricted	6,373,187	-
Unrestricted	26,079,740	43,182,939
Total net assets	\$ 111,532,496	\$ 100,661,696

The largest part of the Town's net assets reflects investment in capital assets (60%) (land, buildings, improvements, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

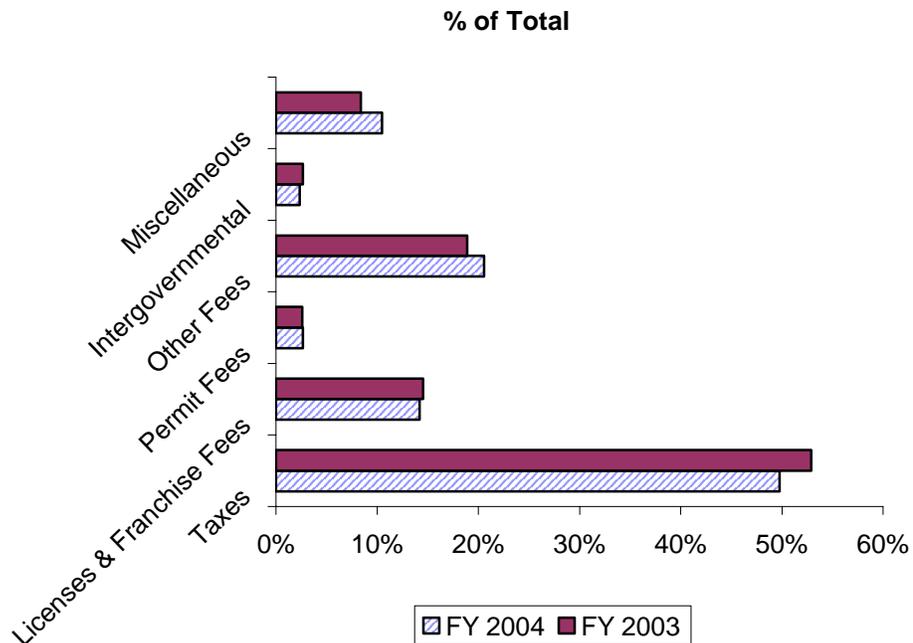
The increase in current assets from the prior year is due almost entirely to the cash and investments on hand at June 30, 2004 from unspent bond proceeds. The increase in debt issuance during the current year is the reason for the increase in long-term liabilities. Proceeds from the debt, along with current general fund revenues, were used to fund various capital projects. This caused an increase in net assets invested in capital assets and a decrease in unrestricted assets. Restricted net assets increased to debt covenants related to the new bond issues.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

**Changes in Net Assets
Figure 2**

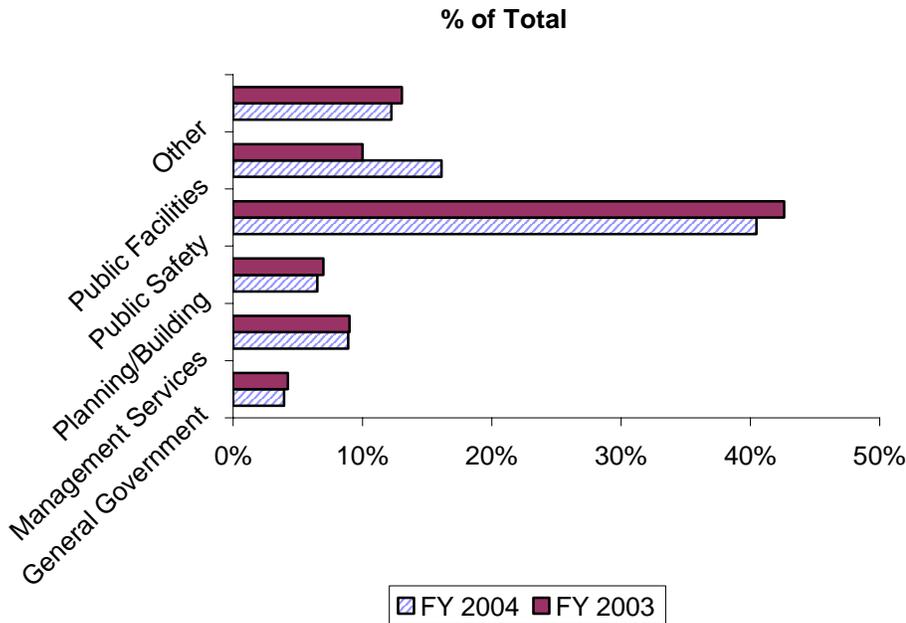
	Governmental Activities	
	2004	2003
Revenues:		
Program revenues:		
Charges for services	\$ 19,007,797	\$ 15,707,668
Operating grants and contributions	301,855	268,861
Capital grants and contributions	1,104,371	359,364
General revenues:		
Property taxes	16,293,172	15,349,010
Other taxes	7,252,510	7,281,600
Other	3,367,094	3,818,629
Total revenues	47,326,799	42,785,132
Expenses:		
Governmental operations	6,619,762	6,060,040
Highways/streets	-	440,306
Public safety	14,753,859	13,873,760
Economic development	8,243,753	5,089,067
Culture and recreation	2,517,956	2,498,311
Interest on long-term debt	4,320,669	4,610,909
Total expenses	36,455,999	32,572,393
Increase in net assets	10,870,800	10,212,739
Net assets, July 1	100,661,696	90,448,957
Net assets, June 30	\$ 111,532,496	\$ 100,661,696

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



**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

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



Governmental Activities

The most significant revenues of the governmental activities are taxes \$23,545,682 (50%), which include ad valorem taxes \$16,293,172 (69%), accommodations tax \$5,022,103 (21%), and hospitality tax \$2,230,407 (10%). Another significant source of revenues is fees \$9,732,085 (21%), which include impact fees \$566,719 (6%), real estate transfer fee \$4,364,478 (45%), beach preservation fee \$3,721,274(38%), and stormwater fee \$1,079,614 (11%).

The most significant increase in revenues was in the charge for service, which increased \$3,300,129. The majority of this increase was from real estate transfer fees (\$1,188,366), impact fees (\$211,610), business license fees (\$450,263) and beach preservation fees (\$265,111).

Public Safety (police and fire) expenses are the most significant \$14,753,859 (40%) of all governmental activity expenses, followed by Public Projects and Facilities \$5,871,991 (16%), Interest Expense \$4,320,669 (12%), Management Services \$3,243,571 (9%), Planning/Building and Fire Codes \$2,371,762 (7%), Non-departmental \$1,714,926 (5%), and General Government \$1,430,134 (4%). Also included in some of the amounts mentioned above is depreciation expense which is \$2,099,832 (6%) of the total expenses for governmental activities.

Governmental activities expenses increased \$3,883,606 in the current year. The most significant changes in program expenses were as follows:

- **General Government** - legal fees \$22,413, consulting services \$27,021 and townwide employee programs \$24,991.
- **Management Services** - maintenance contracts \$42,130.
- **Planning/Building & Fire Codes** - professional services \$86,038.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

- **Public Safety** - \$649,107 charge-off of prior period uncollectible Emergency Medical Services (EMS) accounts.
- **Public Projects and Facilities** - supplies and services \$36,480 and professional services \$30,713. Non-capital expenditures associated with capital projects increased by \$2.2 million over the previous fiscal year.
- **Administrative** - \$497,852 in bond costs associated with new debt issuance in Fiscal year 2004.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds - The focus of the Town of Hilton Head Island's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Hilton Head Island's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Hilton Head Island. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,514,334, while total fund balance reached \$67,432,898. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents thirty-two percent (32%) of total General Fund expenditures, and the total fund balance represents the same percentage of general fund expenditures.

At June 30, 2004, the governmental funds of Town of Hilton Head Island reported a combined fund balance of \$67,432,898, a 68% increase over last year. This is due to the issuance of bonds and funds unspent.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The budget expenditure increases totaled \$110,952. This was for legal commitments from the prior year, miscellaneous revenues, and an increase in transfers in. These are summarized as follows:

Expenditure Adjustments:

\$42,780 Increases in contractual & consulting services
\$25,893 Increases in supplies
\$42,279 Increases in equipment & vehicles

Revenue Adjustments:

\$33,000 Increase in miscellaneous revenue

Transfer Adjustments:

\$77,952 Increases in "transfers in"

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

Actual revenues for the General Fund were \$780,987 more than the adopted budgeted. Also, transfers in were \$44,034 more than the adopted budget. The primary reasons for the favorable variance were higher than anticipated revenues from business licenses (\$968,083) and permit fees (\$278,023) as well as revenues received from grants of \$185,657 that were not budgeted.

Actual expenditures for the General Fund were \$623,229 below budgeted expectations. The favorable variance was due to lower personnel costs, maintenance contract costs, and professional services costs than was anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Town of Hilton Head Island's investment in capital assets for its governmental activities as of June 30, 2004 amounted to \$168,788,038 (net of accumulated depreciation). These assets include buildings, drainage systems, land, furniture, fixtures, equipment and vehicles.

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

- Construction in progress of \$15,076,696 in governmental-type activities for drainage, road improvement, pathways, new facilities and existing facilities.
- Through the Land Acquisition Program, the Town purchased \$4,074,667 of land for preservation, reducing development, and public access.

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

	Governmental Activities	
	2004	2003
Land	\$ 128,287,739	\$ 124,213,072
Buildings	9,237,147	9,501,036
Parks	871,014	-
Furniture, fixtures and equipment	1,404,661	1,809,819
Infrastructure	12,697,887	12,095,387
Vehicles	1,212,894	1,368,914
Construction in progress	15,076,696	6,077,988
Total	\$ 168,788,038	\$ 155,066,216

Additional information on the Town's capital assets can be found in Note 6 of the Basic Financial Statements.

Long-term Debt - As of June 30, 2004, the Town of Hilton Head Island had total bonded debt outstanding of \$122,590,000. Of this, \$76,285,000 is debt supported by the full faith and credit of the Town. The remainder of the Town's debt represents Revenue Bonds and Certificates of Participation.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

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

	Governmental Activities	
	2004	2003
General Obligation Bonds	\$ 76,285,000	\$ 63,730,000
Revenue Bond	25,000,000	17,000,000
Certificates of Participation	21,305,000	10,965,000
Total	\$ 122,590,000	\$ 91,695,000

The issuance of a general obligation and revenue bonds during the past fiscal year increased the Town of Hilton Head Island's total debt by \$30,895,000 (34%).

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

General statutes limit the amount of general obligation debt that a unit of government can issue up to eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The Town may incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote in a referendum as authorized by law. The legal debt margin for Town of Hilton Head Island is \$39,602,357. The Town has \$18,200,000 in bonds issued at June 30, 2004, which are applicable to this cap.

Additional information regarding the Town of Hilton Head Island's long-term debt can be found in Note 10 on pages 34-46 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- Low unemployment. The Town of Hilton Head Island's unemployment rate of 1.7% is well below the State average of 6.8%.
- Approximately 2.3 million visitors annually to the Hilton Head Island Area providing in excess of \$1.5 billion dollars to the local economy.
- 43% of all licensed island enterprises are retail and service oriented companies.
- Tourist lodging facilities on the island pay nearly \$20.0 million in property taxes to Beaufort County.
- Tourism in the Hilton Head Island/Bluffton area employs over 10,000 people living both on and off the island.
- Sales tax paid by visitors is approximately \$47.0 million annually.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

Budget Highlights for the Fiscal Year Ending June 30, 2005:

Governmental Activities - The General Fund's revenues for fiscal year 2005 are budgeted at \$26,115,570, an increase of \$1,816,570 or 7.5% over the prior year's budgeted revenues. Revenues from taxes, business licenses, and franchise fees are expected to lead the increase in budgeted revenue. The Town will use these increases in revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at \$26,115,570. The largest increments are in employee compensation, including funding compensation and benefits adjustments.

The Capital Improvements Fund appropriation is \$17,536,000. The majority of the expenditures are budgeted for roadway improvements of \$5,259,000.

The Debt Service Fund provides for the payment of principal and interest payments of \$8,245,230.

The assessment rate for the fiscal year beginning July 1, 2004 on taxable property located within the Town of Hilton Head Island was established at 22.3 mills upon each one dollar of taxable property in the Town of Hilton Head which is an 8.7 mil reduction from the prior fiscal year. The decrease results from property reassessments performed in September 2003.

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, 2004

Exhibit "A"

	Governmental Activities
<u>ASSETS</u>	
Cash	\$ 8,041,346
Investments	16,395,323
Accounts Receivable	3,248,454
Due From Employees	102,197
Due From Other Governments	3,061,984
Prepaid Expenses	771,930
Restricted Assets:	
Cash	3,881,807
Investments	36,883,183
Capital Assets:	
Non Depreciable	143,364,435
Depreciable	25,423,603
Total Assets	241,174,262
 <u>LIABILITIES</u>	
Accounts Payable	2,524,999
Payable To Hilton Head Chamber of Commerce Visitor & Convention Bureau	316,400
Accrued Payroll and Related Payables	609,929
Due To Other Governments	162,739
Unearned Revenue	18,174
Payable From Restricted Assets:	
Irrigation And Pool Bonds Payable	130,000
Court Bonds Payable	35,783
Performance Bonds Payable	383,372
Interest Payable	748,486
Long-Term Liabilities:	
Due Within One Year	4,498,030
Due More Than One Year	120,213,854
Total Liabilities	129,641,766
 <u>NET ASSETS</u>	
Capital Assets Net Of Related Debt	79,079,569
Restricted For:	
Debt Service	6,373,187
Unrestricted	26,079,740
Total Net Assets	\$ 111,532,496

TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Exhibit "B"

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>
Primary Government:					
Governmental activities:					
General Government	\$ 1,430,134	\$ 504,299	\$ 185,657	\$ -	\$ (740,178)
Management Services	3,243,571	6,224,152	-	-	2,980,581
Planning/Building And Fire Codes	2,371,762	1,823,673	-	-	(548,089)
Public Safety	14,753,859	922,286	-	-	(13,831,573)
Public Projects And Facilities	5,871,991	5,168,909	-	1,104,371	401,289
Non-Departmental	1,714,926	-	-	-	(1,714,926)
Accommodations Tax Grants	984,663	-	-	-	(984,663)
Visitor And Convention Bureau	940,908	-	-	-	(940,908)
Administrative	823,516	4,364,478	116,198	-	3,657,160
Interest	4,320,669	-	-	-	(4,320,669)
Total Governmental Activities	36,455,999	19,007,797	301,855	1,104,371	(16,041,976)
Total Primary Government	\$ 36,455,999	\$ 19,007,797	\$ 301,855	\$ 1,104,371	(16,041,976)
General Revenues:					
Ad Valorem Taxes					16,293,172
Other Taxes					7,252,510
Intergovernmental					1,107,990
Investment Income					560,878
Miscellaneous					1,698,226
Total General Revenues					26,912,776
Change In Net assets					10,870,800
Net Assets - Beginning					100,661,696
Net Assets - Ending					\$ 111,532,496

TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Exhibit "B"

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>
Primary Government:					
Governmental activities:					
General Government	\$ 1,430,134	\$ 504,299	\$ 185,657	\$ -	\$ (740,178)
Management Services	3,243,571	6,224,152	-	-	2,980,581
Planning/Building And Fire Codes	2,371,762	1,823,673	-	-	(548,089)
Public Safety	14,753,859	922,286	-	-	(13,831,573)
Public Projects And Facilities	5,871,991	5,168,909	-	1,104,371	401,289
Non-Departmental	1,714,926	-	-	-	(1,714,926)
Accommodations Tax Grants	984,663	-	-	-	(984,663)
Visitor And Convention Bureau	940,908	-	-	-	(940,908)
Administrative	823,516	4,364,478	116,198	-	3,657,160
Interest	4,320,669	-	-	-	(4,320,669)
Total Governmental Activities	36,455,999	19,007,797	301,855	1,104,371	(16,041,976)
Total Primary Government	\$ 36,455,999	\$ 19,007,797	\$ 301,855	\$ 1,104,371	(16,041,976)
General Revenues:					
Ad Valorem Taxes					16,293,172
Other Taxes					7,252,510
Intergovernmental					1,107,990
Investment Income					560,878
Miscellaneous					1,698,226
Total General Revenues					26,912,776
Change In Net assets					10,870,800
Net Assets - Beginning					100,661,696
Net Assets - Ending					\$ 111,532,496

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

Exhibit "C"

	General	Tax Increment Financing District	Beach Preservation Fee	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash	\$ 5,203,075	\$ -	\$ -	\$ -	\$ 869,388	\$ 1,968,883	\$ 8,041,346
Investments	1,635,271	-	8,010,821	3,382,108	1,950,146	1,416,977	16,395,323
Accounts Receivable	1,138,698	-	1,384,571	-	725,185	-	3,248,454
Due From Employees	102,197	-	-	-	-	-	102,197
Due From Other Funds	165,208	-	4,058	186,203	447,059	553,194	1,355,722
Due From Other Governments	1,177,976	49,992	-	-	167,659	1,666,357	3,061,984
Restricted Assets:							
Cash	383,372	1,565,258	-	1,914,858	-	18,319	3,881,807
Investments	655,052	3,311,394	-	2,258,937	30,657,800	-	36,883,183
Total Assets	\$ 10,460,849	\$ 4,926,644	\$ 9,399,450	\$ 7,742,106	\$ 34,817,237	\$ 5,623,730	\$ 72,970,016
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 791,783	\$ 136,129	\$ -	\$ 375	\$ 1,503,916	\$ 92,796	\$ 2,524,999
Accrued Payroll And Employee Benefits Payable	609,929	-	-	-	-	-	609,929
Due To Other Governments	162,739	-	-	-	-	-	162,739
Due To Other Funds	743,449	52,637	260,103	-	28,126	271,407	1,355,722
Deferred Revenue	-	-	-	-	-	18,174	18,174
Payable From Restricted Assets:							
Irrigation And Pool Bonds Payable	130,000	-	-	-	-	-	130,000
Court Bonds Payable	35,783	-	-	-	-	-	35,783
Performance Bonds Payable	383,372	-	-	-	-	-	383,372
Payable To Hilton Head Chamber Of Commerce Visitor And Convention Bureau	-	-	-	-	-	316,400	316,400
Total Liabilities	2,857,055	188,766	260,103	375	1,532,042	698,777	5,537,118
Fund Balances:							
Reserved:							
Encumbrances	-	-	-	-	3,717,496	890,631	4,608,127
Debt Service	-	-	-	6,373,187	-	-	6,373,187
Land And Park Projects	-	-	-	-	1,356,827	-	1,356,827
Fund Balance - Reserved - Other	89,460	-	-	-	4,889,862	-	4,979,322
Unreserved, Reported In:							
Designated For Disaster	839,834	-	-	-	-	-	839,834
Designated For Hospitality Tax Purpose	-	-	-	-	288,969	-	288,969
Undesignated	6,674,500	4,737,878	9,139,347	1,368,544	23,032,041	-	44,952,310
Special Revenue Funds	-	-	-	-	-	4,034,322	4,034,322
Total Fund Balances	7,603,794	4,737,878	9,139,347	7,741,731	33,285,195	4,924,953	67,432,898
Total Liabilities And Fund Balances	\$ 10,460,849	\$ 4,926,644	\$ 9,399,450	\$ 7,742,106	\$ 34,817,237	\$ 5,623,730	\$ 72,970,016

TOWN OF HILTON HEAD ISLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2004

Exhibit "D"

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

Ending fund balance - governmental funds	\$ 67,432,898
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	168,788,038
Bond issuance costs are not a financial resource, therefore, are not reported in the funds.	771,930
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(748,486)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(124,711,884)
Net assets of governmental activities	<u>\$ 111,532,496</u>

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

Exhibit "E"

	General	Tax Increment Financing District	Beach Preservation Fee	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Real And Personal Property Taxes	\$ 10,366,446	\$ 1,179,681	\$ -	\$ 2,978,935	\$ 1,768,110	\$ -	\$ 16,293,172
Accommodations Tax	1,860,744	-	-	-	-	3,161,359	5,022,103
Hospitality Tax	-	-	-	-	2,230,407	-	2,230,407
Business Licenses And Franchises	6,722,382	-	-	-	-	-	6,722,382
Permits	1,263,023	-	-	-	-	-	1,263,023
Impact Fees	-	-	-	-	-	566,719	566,719
Real Estate Transfer Fees	-	-	-	-	-	4,364,478	4,364,478
Beach Preservation Fees	-	-	3,721,274	-	-	-	3,721,274
Stormwater Fees	-	-	-	-	1,079,614	-	1,079,614
State Shared Funds	880,365	-	-	-	227,625	-	1,107,990
Donations	775	-	-	-	84,915	-	85,690
Other Grants	185,657	-	-	-	1,104,371	116,198	1,406,226
Miscellaneous Revenue	1,902,121	-	-	-	349,889	-	2,252,010
Investment Income	91,674	1,039	87,094	75,748	258,362	46,961	560,878
Total Revenues	23,273,187	1,180,720	3,808,368	3,054,683	7,103,293	8,255,715	46,675,966
EXPENDITURES							
Current:							
General Government	1,150,862	-	-	-	-	-	1,150,862
Management Services	3,045,720	-	-	-	-	-	3,045,720
Planning/Building And Fire Codes	2,341,354	-	-	-	-	-	2,341,354
Public Safety	12,812,101	215,628	-	-	-	-	13,027,729
Public Projects And Facilities	2,307,710	-	-	-	1,798,548	-	4,106,258
Non-Departmental	1,714,926	-	-	-	-	-	1,714,926
Accommodations Tax Grants	-	-	-	-	-	984,663	984,663
Visitor And Convention Bureau	-	-	-	-	-	940,908	940,908
Administrative	-	166,152	-	497,852	-	159,512	823,516
Capital Outlay	316,328	3,000	-	-	15,587,412	-	15,906,740
Debt service:							
Principal	78,330	-	-	2,445,000	1,440,135	-	3,963,465
Interest	19,392	172,731	-	4,055,553	32,101	-	4,279,777
Total Expenditures	23,786,723	557,511	-	6,998,405	18,858,196	2,085,083	52,285,918
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(513,536)	623,209	3,808,368	(3,943,722)	(11,754,903)	6,170,632	(5,609,952)
OTHER FINANCING SOURCES (USES)							
Bond Issue	-	8,000,000	-	10,965,000	25,775,000	-	44,740,000
EMS Bad Debt Write-off	(649,108)	-	-	-	-	-	(649,108)
Transfers In	1,883,834	-	-	5,312,266	1,566,572	-	8,762,672
Transfers Out	(410,936)	-	(1,559,916)	-	(2,498,381)	(4,293,439)	(8,762,672)
Refund Of Debt	-	-	-	(10,965,000)	-	-	(10,965,000)
Total other financing sources (uses)	823,790	8,000,000	(1,559,916)	5,312,266	24,843,191	(4,293,439)	33,125,892
Net Change In Fund Balances	310,254	8,623,209	2,248,452	1,368,544	13,088,288	1,877,193	27,515,940
Fund Balance - Beginning	7,293,540	(3,885,331)	6,890,895	6,373,187	20,196,907	3,047,760	39,916,958
Fund Balance - Ending	\$ 7,603,794	\$ 4,737,878	\$ 9,139,347	\$ 7,741,731	\$ 33,285,195	\$ 4,924,953	\$ 67,432,898

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, 2004

Exhibit "F"

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

Net change in fund balances - total governmental funds	\$	27,515,940
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		13,806,908
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		(29,454,331)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(997,717)
Change in net assets of governmental activities	\$	<u>10,870,800</u>

TOWN OF HILTON HEAD ISLAND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2004

Exhibit "G"

	General Fund				Tax Increment Financing			
	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES								
Real And Personal Property Taxes	\$ 10,926,300	\$ 10,926,300	\$ 10,366,446	\$ (559,854)	\$ -	\$ -	\$ 1,179,681	\$ 1,179,681
Accommodations Tax	1,900,000	1,900,000	1,860,744	(39,256)	-	-	-	-
Business Licenses And Franchises	5,824,500	5,824,500	6,722,382	897,882	-	-	-	-
Permits	985,000	985,000	1,263,023	278,023	-	-	-	-
State Shared Funds	879,700	879,700	880,365	665	-	-	-	-
Donations	-	-	775	775	-	-	-	-
Other Grants	-	-	185,657	185,657	-	-	-	-
Miscellaneous Revenue	1,997,000	1,876,700	1,902,121	25,421	-	-	-	-
Investment Income	100,000	100,000	91,674	(8,326)	-	-	1,039	1,039
Total Revenues	22,612,500	22,492,200	23,273,187	780,987	-	-	1,180,720	1,180,720
EXPENDITURES								
Current:								
General Government	1,113,700	1,128,103	1,150,862	(22,759)	-	-	-	-
Management Services	3,133,500	3,139,935	3,045,720	94,215	-	-	-	-
Planning/Building And Fire Codes	2,505,670	2,519,410	2,341,354	178,056	-	-	-	-
Public Safety	13,030,605	13,026,253	12,812,101	214,152	-	-	215,628	(215,628)
Public Projects And Facilities	2,428,420	2,465,903	2,307,710	158,193	-	-	-	-
Non-Departmental	1,649,050	1,691,077	1,714,926	(23,849)	-	-	-	-
Administrative	-	-	-	-	-	189,000	166,152	22,848
Debt Service:								
Principal	100,000	98,000	78,330	19,670	-	-	-	-
Interest	-	-	19,392	(19,392)	-	173,000	172,731	269
Total Expenditures	24,299,000	24,409,952	23,786,723	623,229	-	365,000	557,511	(192,511)
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(1,686,500)	(1,917,752)	(513,536)	1,404,216	-	(365,000)	623,209	988,209
OTHER FINANCING SOURCES (USES)								
Bond Issue	-	-	-	-	-	-	8,000,000	8,000,000
EMS Bad Debt Write-off	-	-	(649,108)	(649,108)	-	-	-	-
Transfers In	1,686,500	1,839,800	1,883,834	44,034	-	-	-	-
Transfers Out	-	-	(410,936)	(410,936)	-	-	-	-
Appropriated Fund Balance	-	77,952	-	(77,952)	-	365,000	-	(365,000)
Total Other Financing Sources (Uses)	1,686,500	1,917,752	623,790	(1,093,962)	-	365,000	8,000,000	7,635,000
Net Change In Fund Balances	\$ -	\$ -	310,254	\$ 310,254	\$ -	\$ -	8,623,209	\$ 8,623,209
Fund Balance - Beginning			7,293,540				(3,885,331)	
Fund Balance - Ending			\$ 7,603,794				\$ 4,737,878	

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

Component Unit

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

Basis of Presentation

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

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

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

The Town reports the following major governmental funds:

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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

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

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

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

The Town reports the Accommodations Tax, the Impact Fees, the Real Estate Transfer Fees, the Community Development Block Grants, and the Home Grant Special Revenue funds as nonmajor governmental funds.

Measurement Focus and Basis of Accounting

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

Property taxes for the year ended June 30, 2004 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	1998
Property tax due	March 16
Delinquent date	March 17
Levy date	May 15-30
Tax sale	First Monday in October

The County has no specific lien date.

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

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

Use of Estimates

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

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the general fund, tax increment financing special revenue fund, debt service fund, and capital project fund. The Town follows these procedures in establishing budgetary data reflected in these financial statements:

- 1) The Town Manager submits to Town Council a proposed operating budget for the General Fund, Tax Increment Financing Special Revenue Fund, Capital Projects Fund, and Debt Service Fund for the year which includes proposed expenditures and the means of financing them.
- 2) Public hearings are held for taxpayers' comments for the General Fund budget, Tax Increment Financing Special Revenue Fund budget, Capital Projects Fund budget and Debt Service budget.
- 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.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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:

Miscellaneous Revenues	\$ 33,000
Storm Water Fees Increase	153,300
Municipal Court Fees Decrease	<u>(153,300)</u>
Total Revenues Increase	<u>\$ 33,000</u>

Expenditures:

Management Services:

Finance - Administration:	
Increase in Meetings & Conferences	\$ 90
Finance - Business Licenses:	
Increase in Office Supplies	185
Legal - Operations:	
Increase in Maintenance Contracts/Fees	3,542
Increase in Subscriptions & Dues	170
Increase in Computer Software	22,938
Increase in Specialized Equipment	4,901
Planning/Building & Fire Codes:	
Planning - Administration:	
Increase in Printing & Publishing	280
Public Safety:	
Fire and Rescue - Administration:	
Increase in Tools/Equipment	14,163
Fire and Rescue - Operations:	
Increase in Uniforms & Protective Gear	804
Fire and Rescue - Logistics & Maintenance:	
Increase in Vehicle Repairs & Maintenance	406
Fire and Rescue - Training:	
Increase in Meetings & Conferences	200
Increase in Training Aids	44
Bureau of Fire Prevention:	
Increase in Printing & Publishing	776
Police Patrol/Communications:	
Increase in Police Services	177
Increase in Beach Services	1,578
Public Projects and Facilities:	
Engineering:	
Increase in Consulting Service/Traffic Control	4,483
Facility Management:	
Maintenance Contracts/Fees	33,000
Capital Outlay:	
Public Safety:	
Fire and Rescue - Logistics & Maintenance:	
Increase in Vehicles	315
Non-departmental:	
Townwide:	
Recreation Center - Capital General Fund	22,900
Total Expenditures Increase	<u>\$ 110,952</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

<u>Other Financing Sources:</u>	
Increase in Transfers In:	\$ 77,952
Total Other Financing Sources Increase	<u>\$ 77,952</u>

Tax Increment Financing - Special Revenues Fund

<u>Expenditures:</u>	
Consulting	\$ 200,000
Interest	165,000
Total Expenditures Increase	<u>\$ 365,000</u>

<u>Other Financing Sources:</u>	
Transfers In	<u>\$ 365,000</u>

Capital Projects Fund

<u>Revenues:</u>	
Beach Preservation Fees	\$ 1,067,000
Impact Fees	68,423
Stormwater Utility Fees	202,300
Stormwater Utility Bond	3,308,343
Hospitality Tax Bond	137,000
Real Estate Transfer Fees	500,000
Sale of Assets	150,000
Total Revenues Increase	<u>\$ 5,433,066</u>

<u>Expenditures:</u>	
Capital Outlay:	
Increase in Beach Maintenance/Renourishment	\$ 700,000
Increase in Land Acquisition	4,550,000
Drainage Improvements:	
Increase in North Forest Beach	3,260,478
Increase in Beach City Road/Airport	41,044
Increase in Northridge	2,472
Increase in Folly Field	4,349
Road Improvements:	
Increase in Town Road Resurfacing	17,641
Increase in Traffic Signal Mast Arms	50,782
Park Development:	
Increase in Barker Field Expansion	416,000
Existing Facilities and Infrastructure:	
Increase in Fire and Rescue Facilities	34,024
Increase in Fire Station Renovations 1, 2, & 6	21,872
Increase in Apparatus & Vehicles Replacement/Refurbishment	150,000
New Facilities:	
Increase in Station #7	137,000
Total Expenditures Increase	<u>\$ 9,385,662</u>

Transfers Out:	
Transfers to General Fund	<u>\$ (153,300)</u>

<u>Other Financing Sources:</u>	
Proceeds from Bonds	\$ 2,775,000
Increase in Transfers In:	1,330,896
Total Other Financing Sources	<u>\$ 4,105,896</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

Encumbrances

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

The Accommodations Tax Fund committee prepares a list of grants approved each year based on collections for the calendar year. The amount of approved grants at June 30, 2004, which were underway by July 1, is shown as an encumbrance in that fund.

Investments

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

Due to and from Other Funds/ Internal Balances

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

Capital Assets

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Any donations of capital assets are recorded at fair market 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
Land	20-30 years
Roads	25-30 years
Waterway	30 years
Dams	30-50 years

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1. Summary of Significant Accounting Policies (continued)

Long-Term Obligations

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

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

Compensated Absences

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

The sick leave termination benefit for employees who have a minimum of five years consecutive employment and are terminated for non-disciplinary reasons is computed based on a percentage of actual sick leave. The sick leave termination benefit is paid as a taxable lump sum bonus at termination. Employees who were older than age 55 on July 1, 2000, and were employed by the Town were grandfathered under the prior plan of receiving their sick leave as a retirement benefit. The grandfathered employees are eligible for the greater of the sick leave termination benefit or the sick leave retirement benefit. Sick leave was not accrued other than for the termination or retirement benefit, but the maximum benefits payable from services prior to June 30, 2004 would be \$1,150,068 excluding fringe benefits.

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goals, 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.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 2. Cash and Investments

Cash and investments are comprised of the following at June 30,2004:

	Cash and		Restricted		Total
	Cash Equivalents	Investments	Cash Equivalents	Restricted Investments	
Governmental Activities:					
General Fund	\$ 5,203,075	\$ 1,635,271	\$ 383,372	\$ 655,052	\$ 7,876,770
Accommodations Tax	-	1,416,977	-	-	1,416,977
Beach Fees	-	8,010,821	-	-	8,010,821
Tax Increment Financing	-	-	1,565,258	3,311,394	4,876,652
Home Grant	-	-	18,319	-	18,319
Real Estate Transfer Fee	1,886,228	-	-	-	1,886,228
Capital Projects	869,388	1,950,146	-	30,657,800	33,477,334
Debt Service	-	3,382,108	1,914,858	2,258,937	7,555,903
CDBG	82,655	-	-	-	82,655
	<u>\$ 8,041,346</u>	<u>\$ 16,395,323</u>	<u>\$ 3,881,807</u>	<u>\$ 36,883,183</u>	<u>\$ 65,201,659</u>

The Town maintains cash bank accounts with several banks. At June 30, 2004, the \$11,920,214 carrying balance and \$9,838,123 bank balance were held in various banks of which \$780,910 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of \$3,124 is held in petty cash funds of the Town. Of the total carrying cash balance of \$11,923,338 in cash, \$3,881,807 has been restricted.

South Carolina State law (Section 6-5-10) provides that local governments may invest money in:

1. Obligations of the United States and agencies thereof.
2. General obligations of the State of South Carolina or any of its political units.
3. Savings and Loan Associations to the extent that the same are secured by the Federal Deposit Insurance Corporation.
4. Certificates of deposit where the certificates are collaterally secured by securities of the type described in Items 1 and 2 above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest.

Investments made by the Town are categorized to give an indication of risk at year-end. At June 30, 2004, the Town's investments consisted of category 1 investments. Category 1 investments are defined as insured or registered, held by the Town or its agent in the Town's name.

The Town's Debt Service Fund has escrow accounts maintained by Wells Fargo and Wachovia. The carrying and fair value of these accounts is \$2,258,937 which does not qualify in any category. At June 30, 2004, \$757,970 was invested in Farm Credit Bank Discount Notes which qualifies as a category 1 investment. The carrying and fair value is \$758,158 for this investment.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 2. Cash and Investments (continued)

The Town has investments of cash in the South Carolina Local Government Investment Pool. These investments do not qualify in any category. The carrying value and fair value of these investments is \$53,278,506 of which \$36,883,183 is restricted. These deposits are part of a pool of funds invested by the pool for local governments. As such, collateral is not identified for each deposit, but rather for the fund as a whole. These deposits are collateralized by cash or government agency securities which are fully guaranteed as to principal and interest by the Federal government. The State Treasurer's Investment Pool is subject to oversight by the State Treasurer and Budget and Control Board as well as audit by the state's internal and external auditors.

The Town has investments of cash with the Beaufort County Treasurer. These investments do not qualify in any category. The carrying value and fair value of these investments is \$17,906. These deposits are part of a pool of funds invested by the pool for entities, which receive property tax revenues from the county treasurer. As such, collateral is not identified for each deposit, but rather for the fund as a whole. These deposits are collateralized by cash or government agency securities which are fully guaranteed as to principal and interest by the Federal government.

The Town also has a mutual fund investment for pension plan forfeitures, which does not qualify in any category. The carrying and fair value of this investment is \$12,463.

Note 3. Receivables

At June 30, 2004, the Town's receivable balances were as follows:

	Government-wide Financial Statements			
	Fund Financial Statements			
	General Fund	Beach Preservation Fee	Capital Project Fund	Total
Receivables:				
EMS Fees	\$ 566,901	\$ -	\$ -	\$ 566,901
Local accommodations taxes	692,303	-	-	692,303
Other receivables	3,870	-	-	3,870
Business license revenues	186,262	-	-	186,262
Beach preservation fees	-	1,384,571	-	1,384,571
Hospitality taxes/Other	-	-	725,186	725,186
Gross receivables	1,449,336	1,384,571	725,186	3,559,093
Less: allowance for uncollectibles	310,639			310,639
Net Receivables	<u>\$ 1,138,697</u>	<u>\$ 1,384,571</u>	<u>\$ 725,186</u>	<u>\$ 3,248,454</u>
Receivables from Employees:				
Cobra Insurance	\$ 2,256	\$ -	\$ -	\$ 2,256
Computer Purchases*	99,941	-	-	99,941
Total Receivables from Employees	<u>\$ 102,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,197</u>

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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, 2004 for which payment was received/made after June 30, 2004.

Interfund receivables and payable balances at June 30, 2004 are as follows:

Due To:	Due From:						
	General Fund	Tax Increment Financing District	Beach Preservation Fees Fund	Debt Service Fund	Capital Projects Fund	Other	Total
General	\$ -	\$ 34,313	\$ -	\$ -	\$ 28,120	\$ 102,775	\$ 165,208
Beach Preservation Fee	4,058	-	-	-	-	-	4,058
Capital Project Fund	-	18,324	260,103	-	-	168,632	447,059
Debt Service	186,203	-	-	-	-	-	186,203
Other Governmental Funds	553,194	-	-	-	-	-	553,194
Total	\$ 743,455	\$ 52,637	\$ 260,103	\$ -	\$ 28,120	\$ 271,407	\$ 1,355,722

Transfers to/from Other Funds

The Town uses transfers to (1) move revenues from the fund that 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 statute or budget requires to receive them to other funds authorized to execute the project.

Transfers in/out for the year ended June 30, 2004 are summarized below:

Transfer Out:	Transfer In			
	General Fund	Debt Service Fund	Capital Projects Fund	Total
General Fund	\$ -	\$ 410,936	\$ -	\$ 410,936
Beach Preservation Fee	703,500	-	856,416	1,559,916
Capital Project Fund	242,516	2,255,865	242,516	2,740,897
Other Governmental Funds	937,818	2,645,465	467,640	4,050,923
Total	\$ 1,883,834	\$ 5,312,266	\$ 1,566,572	\$ 8,762,672

Note 5. Due To or From Other Governments

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

<u>General Fund</u>	
Beaufort County Division Pay	\$ 6,529
SC Retire	62
Beaufort County Low Country Recycling	20,000
Property Taxes - Beaufort County	699,989
E 911 – Beaufort County	27,089

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

Merchants Inventory - State	\$ 2,898
Municipal Association of SC	103,883
Dispatch/EMS 911 – Beaufort County	18,750
Maintenance Agreement - State	34,380
Beaufort County Landcare South	2,790
SCMIT	24,372
Beaufort County Doc Attendant	5,545
IRS	2,754
State of SC Insurance	456
Beaufort County Drug Fee-Adm Fee	247
EMS Grant/Beaufort County-State	6,989
State Shared Taxes	<u>221,243</u>
	<u>\$ 1,177,976</u>

Tax Increment Financing – Beaufort County \$ 49,992

Capital Projects Fund

State Grants	\$ 81,175
State Sunday Liquor Fees	53,868
Pro Rata Collections – Beaufort County	<u>32,616</u>
	<u>\$ 167,659</u>

Nonmajor Governmental Funds

Accommodations Taxes - State	\$ 1,054,667
Real Estate Transfer Fees - Beaufort County	539,947
Community Development Block Grant – SC Dept. of Commerce	<u>71,743</u>
	<u>\$ 1,666,357</u>

Total Due From Other Governments \$ 3,061,984

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

General Fund

Roads Impact Fee - Beaufort County	\$ 24,707
Municipal Court State Fees - SC State Treasurer	41,239
South Carolina - Employment	6,535
South Carolina – Use Tax	4,437
ICMA – ICMA Forfeit	470
PORS – Retirement June	<u>85,351</u>
	<u>\$ 162,739</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 6. Restricted Assets, Liabilities, and Fund Balance

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

Certain contractors are required to post bonds in respect to agreements to perform work required by the Municipal Code. Some of these funds are held in the performance bond escrow account to be returned with interest earned on satisfactory completion of the contractors' obligations while others are held without interest. The amount held in a separate bank account is \$383,372 while \$130,000 is held in the general bank accounts.

Bonds paid by individuals for Municipal Court are required to be held in an escrow account until after the trial date. These funds are then either repaid to the individual or recognized as revenue by the Town based upon the verdict. At June 30, 2004, \$35,783 was the balance of bonds held.

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

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved:

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

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

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

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

Unreserved:

Designated for disaster – The Town has designated \$200,000 for disaster, restricting the investment of cash in South Carolina Local Government Investment Pool and designating fund balance. The Town has designated five percent (5%) of the one percent (1%) local accommodations tax for communications of disaster and festivals, and four percent (4%) of the one percent (1%) hospitality tax for the disaster reserve fund restricting the investment of cash in South Carolina Local Government Investment Pool and designating fund balance. The amount designated for disaster communications was \$839,834 at June 30, 2004.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

Designated for hospitality tax purposes – The Town has designated five (5) percent of the one (1) percent local accommodations tax as a reserve fund for disaster management communications-oriented programs. Fund expenditures shall be used to provide for 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.

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

The special revenue funds restricted cash and investments held for the tax increment financing of \$4,876,652, community development block grant of \$82,655 unrestricted, and home grant funds of \$18,319 is also restricted.

Note 7. Accounts Payable

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

	Government-Wide Financial Statements				
	Fund Financial Statements				
	General Fund	Tax Increment Financing District	Capital Project Fund	Other Governmental Funds	Total
Payables:					
Accounts payable	\$ 791,783	\$ 136,129	\$ 1,503,916	\$ 93,171	\$ 2,524,999
Accrued payroll	609,929	-	-	-	609,929
Total payables	\$ 1,401,712	\$ 136,129	\$ 1,503,916	\$ 93,171	\$ 3,134,928

Note 8. Unearned/Deferred Revenue

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

	Deferred Revenue	Unearned Revenue
Grant revenues received in advance of being earned- Nonmajor Governmental	\$ 18,174	\$ 18,174
	\$ 18,174	\$ 18,174

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

Special Revenue Fund – Home Grant Fund

The Town received no funds from the South Carolina State Housing, Finance and Development Authority for home grants during the 2004 fiscal year. Total deferred income for home grant is \$18,174.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 9. Accommodations Tax Fund

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

Town Council has adopted a policy whereby the appropriations for an individual project will lapse if the project is not underway by July 1 of the year following appropriation. The appropriation can be extended, annually, until the funds are expended. Appropriations totaling \$28,049 were lapsed in the current year.

Recapped below are the grant appropriations and expenditures outstanding for the year ended June 30, 2004:

	Appropriations	Expenditures	Lapsed	Encumbrances
Beaufort County Black Chamber of Commerce	\$ 5,000	\$ 5,000	\$ -	\$ -
Boys and Girls Club of Hilton Head Island	30,000	-	-	30,000
Coastal Discovery Museum - Honey Horn	260,917	65,268	104	195,545
Coastal Discovery Museum - Operations	63,493	48,496	1	14,996
Family Arts Center-General Operating Support	369,000	360,000	-	9,000
Harbourfest	7,500	-	-	7,500
Island Ambassador Program	30,000	30,000	-	-
HH Choral Society	3,899	3,700	199	-
HH Community & Youth Theater	52,500	52,500	-	-
HH Hospitality - Winter Carnival/Springfest	65,000	65,000	-	-
HHI Concours d'Elegance	20,000	-	-	20,000
Shelter Cover Community Park	31,000	19,791	11,209	-
HHI St. Patrick's Day Parade	27,929	12,813	1,129	13,987
Chamber's Regional Partnership Marketing	287,601	136,949	7,177	143,475
Hilton Head Island Institute of Tourism	1,597	-	1,597	-
Hilton Head Orchestra	130,000	-	-	130,000
Hispanic Cultural Committee	11,000	11,000	-	-
Island Beautification Committee	1,076	-	1,076	-
Lowcountry Artists Guild	4,562	4,207	355	-
Lowcountry Golf Course Owners Association	117,071	49,945	2,071	65,055
Lowcountry Tourism Commission	5,000	5,000	-	-
Martin Luther King Jr. Planning Committee	5,022	4,000	1,022	-
Mid-Atlantic Bridge Conference, Inc.	2,109	-	2,109	-
Native Islander Gullah Celebration	70,000	70,000	-	-
Skull Creek - July 4th Celebration	7,500	7,500	-	-
South Carolina Repertory Company	20,000	20,000	-	-

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 9. Accommodations Tax Fund (continued)

	Appropriations	Expenditures	Lapsed	Encumbrances
The Art League of Hilton Head	\$ 42,473	\$ 11,787	\$ -	\$ 30,686
The Heritage Library Foundation	21,500	21,500	-	-
Wild Horse Road Pathway	101,850	8,889	-	92,961
Mathews Drive Pathway	38,777	421	-	38,356
Spanish Wells Road Pathway	3,000	3,000	-	-
Pathway Rehabilitation	1,272	1,272	-	-
Marshland Road	27,133	22,281	-	4,852
Muddy Creek Road	54,281	54,281	-	-
Wild Horse Road	44,218	-	-	44,218
Spanish Wells Road	34,000	34,000	-	-
Forest Preserve Museum Foundation	50,000	-	-	50,000
Public Safety	417,000	417,000	-	-
Code Enforcement	64,000	64,000	-	-
Facility Maintenance	225,000	225,000	-	-
Beach Debris Removal	35,000	35,000	-	-
Facility Attendants/Property Security	15,000	15,000	-	-
Total Grants Approved	<u>\$ 2,803,280</u>	<u>\$ 1,884,600</u>	<u>\$ 28,049</u>	<u>\$ 890,631</u>
Less Other Financing Uses In Grants Approved:				
Capital Project Transfers:				
Wild Horse Road Pathway	\$ (101,850)	\$ (8,889)		
Mathews Drive Pathway	(38,777)	(421)		
Spanish Wells Road Pathway	(3,000)	(3,000)		
Pathway Rehabilitation	(1,272)	(1,272)		
Marshland Road	(27,133)	(22,281)		
Muddy Creek Road	(54,281)	(54,281)		
Wild Horse Road	(44,218)	-		
Spanish Wells Road	(34,000)	(34,000)		
Public Safety	(417,000)	(417,000)		
Code Enforcement	(64,000)	(64,000)		
Facility Maintenance	(225,000)	(225,000)		
Beach Debris Removal	(35,000)	(35,000)		
Facility Attendants/Property Security	(15,000)	(15,000)		
Forest Preserve Museum Foundation	(50,000)	-		
Total Other Financing Uses In Grants Approved	<u>(1,110,531)</u>	<u>(880,144)</u>		
Total Grant Expenditures	<u>\$ 1,692,749</u>	<u>\$ 1,004,456</u>		

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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 \$369,000 was approved for operations during 2003/2004.

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
2000	\$2,172,231	\$(2,074,838)	\$(97,393)	\$ -
2001	2,247,614	(2,208,288)	(34,365)	4,961
2002	2,020,100	(1,873,987)	(19,757)	126,356
2003	2,165,544	(2,030,381)	(494)	134,670
2004	2,089,000	(1,463,355)	(1,000)	624,644

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2004, was \$1,986,060 of which \$890,631 was encumbered by approved grants.

Town council has approved amounts for 2004/2005 grants as follows:

Arts Center of Coastal Carolina	\$ 360,000
Coastal Discovery Museum	175,000
Hilton Head Hospitality Association - Springfest/Winter Carnival	50,000
Hilton Head Island Community & Youth Theater	12,500
Martin Luther King Jr. Celebration – Keeping the Dream Alive	5,000
Native Island Gullah Celebration	70,000
CIP – Spanish Wells Road Pathway	200,000
CIP – Mathews Drive Pathway	60,000
CIP – Pathway Rehabilitation	50,000
CIP – Special Events Signs	3,250
CIP – Pool Dome	20,000
	<u>\$1,005,750</u>

Note 10. Long-Term Obligations

Capital Leases

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2005	\$ 13,032	\$ 57,617	\$ 70,649
2006	10,019	60,630	70,649
2007	6,848	63,801	70,649
2008	3,511	67,138	70,649
	\$ 33,410	\$ 249,186	\$ 282,596

On January 1, 2000, the Town entered into a lease agreement with Kansas State Bank of Manhattan concerning the purchase of lifepacks. The Town is purchasing the lifepacks for \$133,610 of which \$22,563 was paid in cash and \$111,047 is to be paid under the lease. The lease bears an interest rate of 7.159% and is payable in annual installments of principal and interest of \$27,072 through December 1, 2004.

Kansas State Bank - Life Packs

Original asset cost	\$ 133,610
Additions	80,923
Less accumulated depreciation	<u>(170,875)</u>
Capitalized leased asset, net	<u>\$ 43,658</u>

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

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2005	\$ 1,808	\$ 25,264	\$ 27,072
	\$ 1,808	\$ 25,264	\$ 27,072

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

Bank of America - CAD System

Original asset cost	\$ 800,881
Less accumulated depreciation	<u>(499,630)</u>
Capitalized leased asset, net	<u>\$ 301,251</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2005	\$ 24,460	\$ 196,149	\$ 220,609
2006	16,624	203,985	220,609
2007	8,475	212,134	220,609
	<u>\$ 49,559</u>	<u>\$ 612,268</u>	<u>\$ 661,827</u>

Certificates of Participation

On March 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into Certificates of Participation with Wells Fargo Bank, N.A. refunding the outstanding debt on 1995 Certificates of Participation. This refinancing resulted in a significant interest savings and removed certain properties "mortgaged" under the previous certificates.

During that time, the Town issued \$9,060,000 in refunding Certificates of Participation with an average interest rate of 3% to refund \$9,460,000 of Certificates of Participation with an average interest rate of 5.67%. The net proceeds of \$8,844,090 including \$126,926 in premiums (after payment of \$342,837 in issuance costs), plus funds on hand of \$420,927 were used to purchase United States government securities. This difference will be charged to operations. The certificates were refunded to reduce total debt service payments over the next ten (10) years by \$801,562 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$160,000. A schedule for the amount due on these certificates follows:

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	1.000	\$ 259,543	\$ 110,000	\$ 369,543
2006	2.000	258,443	900,000	1,158,443
2007	1.700	240,443	925,000	1,165,443
2008	2.250	224,717	940,000	1,164,717
2009	2.250	203,567	965,000	1,168,567
2010	3.000	181,855	980,000	1,161,855
2011	3.000	152,455	1,010,000	1,162,455
2012	3.000	122,155	1,035,000	1,157,155
2013	5.000	91,105	1,065,000	1,156,105
2014	3.350	37,855	1,130,000	1,167,855
		<u>\$ 1,772,138</u>	<u>\$ 9,060,000</u>	<u>\$ 10,832,138</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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, 2004, \$907,135 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. The Capital Projects Fund is repaying these certificates of participation.

The Town also issued \$1,470,000 in refunding Certificates of Participation with an average interest rate of 2.5% to refund \$1,505,000 of Certificates of Participation with an average interest rate of 5.67%. The net proceeds of \$1,370,600 (after payment of \$99,400 in issuance costs), plus funds on hand of \$229,379 were used to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying debt of the old debt of \$35,000. This difference will be charged to operations. The certificates were refunded to reduce total debt service payments over the next ten (10) years by \$320,227 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$67,000. A schedule for the amount due on these certificates follows:

\$1,470,000 (Taxable) Certificate of Participation
Dated March 1, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	2.500	\$ 32,258	\$ 20,000	\$ 52,258
2006	2.500	36,250	145,000	181,250
2007	2.500	32,625	150,000	182,625
2008	2.500	28,875	150,000	178,875
2009	2.500	25,125	155,000	180,125
2010	2.500	21,250	160,000	181,250
2011	2.500	17,250	165,000	182,250
2012	2.500	13,125	170,000	183,125
2013	2.500	8,875	170,000	178,875
2014	2.500	4,625	185,000	189,625
		\$ 220,258	\$ 1,470,000	\$ 1,690,258

General Obligation Bonds

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	5.000	\$ 45,855	\$ 135,000	\$ 180,855
2006	5.100	38,782	145,000	183,782

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2007	5.200	\$ 31,185	\$ 150,000	\$ 181,185
2008	5.300	23,045	160,000	183,045
2009	5.400	14,215	170,000	184,215
2010	5.500	4,812	175,000	179,812
		\$ 157,894	\$ 935,000	\$ 1,092,894

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	5.000	\$ 269,865	\$ 800,000	\$ 1,069,865
2006	5.100	228,317	845,000	1,073,317
2007	5.200	183,630	890,000	1,073,630
2008	5.300	135,712	935,000	1,070,712
2009	5.400	84,205	990,000	1,074,205
2010	5.500	28,737	1,045,000	1,073,737
		\$ 930,466	\$ 5,505,000	\$ 6,435,466

On April 1, 1998, the town issued \$6,000,000 general obligation bonds to finance capital projects. A schedule of the amount due for this issue follows:

\$6,000,000 General Obligation Bonds
Dated April 1, 1998

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	6.500	\$ 274,265	\$ 185,000	\$ 459,265
2006	4.500	262,065	275,000	537,065
2007	4.550	247,346	375,000	622,346
2008	4.600	227,545	490,000	717,545
2009	4.700	202,175	600,000	802,175
2010	4.800	170,075	750,000	920,075
2011	4.900	98,787	2,175,000	2,273,787
2012	5.000	22,750	910,000	932,750
		\$ 1,505,008	\$ 5,760,000	\$ 7,265,008

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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

		<u>\$15,000,000 General Obligation Bonds</u> <u>Dated April 1, 1998</u>		
		<u>Governmental Activities</u>		
<u>For the Year</u> <u>Ended June 30</u>	<u>Interest Rate</u> <u>by Year (%)</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	6.700	\$ 715,302	\$ 435,000	\$ 1,150,302
2006	6.700	685,488	455,000	1,140,488
2007	6.700	654,332	475,000	1,129,332
2008	5.500	624,808	495,000	1,119,808
2009	4.750	598,964	515,000	1,113,964
2010	4.800	573,892	535,000	1,108,892
2011	4.900	547,333	560,000	1,107,333
2012	5.000	518,987	585,000	1,103,987
2013	5.000	488,988	615,000	1,103,988
2014	5.100	457,165	645,000	1,102,165
2015	5.130	423,421	675,000	1,098,421
2016	5.130	388,058	705,000	1,093,058
2017	5.130	351,030	740,000	1,091,030
2018	5.130	312,080	780,000	1,092,080
2019	5.130	271,080	820,000	1,091,080
2020	5.200	227,707	860,000	1,087,707
2021	5.200	181,817	905,000	1,086,817
2022	5.250	133,219	955,000	1,088,219
2023	5.250	81,769	1,005,000	1,086,769
2024	5.250	27,694	1,055,000	1,082,694
		<u>\$ 8,263,134</u>	<u>\$ 13,815,000</u>	<u>\$ 22,078,134</u>

On November 16, 1999, the Town issued \$12,000,000 general obligation bonds to finance capital projects. A schedule of the amount due for this issue follows:

		<u>\$12,000,000 General Obligation Bonds</u> <u>Dated November 16, 1999</u>		
		<u>Governmental Activities</u>		
<u>For the Year</u> <u>Ended June 30</u>	<u>Interest Rate</u> <u>by Year (%)</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	7.125	\$ 643,509	\$ 295,000	\$ 938,509
2006	7.125	621,778	315,000	936,778
2007	7.125	598,622	335,000	933,622
2008	7.125	574,219	350,000	924,219

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	7.125	\$ 548,569	\$ 370,000	\$ 918,569
2010	7.125	521,672	385,000	906,672
2011	5.125	497,578	405,000	902,578
2012	5.200	476,150	425,000	901,150
2013	5.300	453,175	450,000	903,175
2014	5.400	428,425	475,000	903,425
2015	5.500	401,850	500,000	901,850
2016	5.600	373,260	530,000	903,260
2017	5.700	342,460	560,000	902,460
2018	5.750	309,538	590,000	899,538
2019	5.750	274,606	625,000	899,606
2020	5.750	237,663	660,000	897,663
2021	5.750	198,563	700,000	898,563
2022	5.750	157,163	740,000	897,163
2023	5.750	113,319	785,000	898,319
2024	5.500	67,925	830,000	897,925
2025	5.125	22,550	880,000	902,550
			\$	
		<u>\$ 7,862,594</u>	<u>11,205,000</u>	<u>\$ 19,067,594</u>

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

\$6,000,000 General Obligation Bonds
Dated November 16, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	7.000	\$ 342,380	\$ 165,000	\$ 507,380
2006	7.000	330,655	170,000	500,655
2007	7.000	318,405	180,000	498,405
2008	7.000	305,630	185,000	490,630
2009	6.250	293,061	195,000	488,061
2010	5.000	281,843	205,000	486,843
2011	5.100	271,235	215,000	486,235
2012	5.200	259,773	230,000	489,773
2013	5.300	247,433	240,000	487,433
2014	5.400	234,188	255,000	489,188
2015	5.500	219,878	270,000	489,878
2016	5.600	204,613	280,000	484,613
2017	5.6250	188,355	300,000	488,355

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2018	5.700	\$ 170,920	\$ 315,000	\$ 485,920
2019	5.750	152,311	335,000	487,311
2020	5.800	132,385	355,000	487,385
2021	5.800	111,215	375,000	486,215
2022	5.800	88,885	395,000	483,885
2023	5.800	65,250	420,000	485,250
2024	5.800	40,165	445,000	485,165
2025	5.800	13,630	470,000	483,630
		<u>\$ 4,272,210</u>	<u>\$ 6,000,000</u>	<u>\$ 10,272,210</u>

On March 1, 2001, the Town issued \$20,000,000 general obligation bonds for purchasing developed and undeveloped land on Hilton Head Island, South Carolina for the public use or uses of management of growth and development, public facilities, passive and active parkland and preservation of historic sites, and to pay the cost of issuance of bonds. A schedule of the amount due for this issue follows:

\$20,000,000 General Obligation Bonds
Dated March 1, 2001

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	4.250	\$ 873,469	\$ 725,000	\$ 1,598,469
2006	4.250	842,656	770,000	1,612,656
2007	4.250	809,931	800,000	1,609,931
2008	4.250	775,931	830,000	1,605,931
2009	4.250	738,581	865,000	1,603,581
2010	4.250	699,656	900,000	1,599,656
2011	4.250	661,406	940,000	1,601,406
2012	5.000	621,456	980,000	1,601,456
2013	5.000	572,456	1,025,000	1,597,456
2014	4.625	521,207	1,075,000	1,596,207
2015	5.250	471,488	1,125,000	1,596,488
2016	5.250	412,425	1,180,000	1,592,425
2017	5.250	350,475	1,240,000	1,590,475
2018	5.375	285,375	1,300,000	1,585,375
2019	5.000	215,500	1,365,000	1,580,500
2020	5.000	147,250	1,435,000	1,582,250
2021	5.000	75,500	1,510,000	1,585,500
		<u>\$ 9,074,762</u>	<u>\$ 18,065,000</u>	<u>\$ 27,139,762</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	3.500	\$ 586,479	\$ 315,000	\$ 901,479
2006	3.500	692,750	400,000	1,092,750
2007	3.500	678,750	405,000	1,083,750
2008	3.500	664,575	415,000	1,079,575
2009	3.500	650,050	425,000	1,075,050
2010	5.500	635,175	435,000	1,070,175
2011	5.500	611,250	450,000	1,061,250
2012	5.500	586,500	465,000	1,051,500
2013	5.250	560,925	480,000	1,040,925
2014	5.250	535,725	500,000	1,035,725
2015	5.250	509,475	520,000	1,029,475
2016	5.000	482,175	540,000	1,022,175
2017	5.000	455,175	560,000	1,015,175
2018	4.400	427,175	585,000	1,012,175
2019	4.500	401,435	610,000	1,011,435
2020	4.500	373,985	635,000	1,008,985
2021	4.500	345,410	665,000	1,010,410
2022	4.625	315,485	695,000	1,010,485
2023	4.700	283,341	730,000	1,013,341
2024	4.750	249,031	765,000	1,014,031
2025	4.750	212,694	800,000	1,012,694
2026	4.750	174,694	840,000	1,014,694
2027	4.875	134,794	880,000	1,014,794
2028	4.875	91,894	920,000	1,011,894
2029	4.875	47,044	965,000	1,012,044
		\$ 10,705,986	\$ 15,000,000	\$ 25,705,986

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	3.000	\$ 750,546	\$ -	\$ 750,546
2006	3.000	742,971	505,000	1,247,971
2007	3.000	727,596	520,000	1,247,596
2008	2.650	712,708	535,000	1,247,708
2009	3.000	697,369	550,000	1,247,369
2010	3.250	679,938	565,000	1,244,938
2011	3.450	660,665	585,000	1,245,665
2012	3.625	639,608	605,000	1,244,608
2013	3.750	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	4.000	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	5.250	496,030	740,000	1,236,030
2018	4.350	459,640	780,000	1,239,640
2019	5.125	421,919	810,000	1,231,919
2020	5.125	379,253	855,000	1,234,253
2021	5.125	334,409	895,000	1,229,409
2022	5.125	287,388	940,000	1,227,388
2023	5.125	237,931	990,000	1,227,931
2024	4.750	187,863	1,040,000	1,227,863
2025	4.750	137,275	1,090,000	1,227,275
2026	4.750	84,194	1,145,000	1,229,194
2027	4.750	28,500	1,200,000	1,228,500
		<u>\$ 10,974,467</u>	<u>\$ 17,000,000</u>	<u>\$ 27,974,467</u>

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	2.000	\$ 469,885	\$ 275,000	\$ 744,885
2006	2.250	464,385	290,000	754,385
2007	3.000	457,970	300,000	757,970
2008	3.000	448,970	305,000	753,970
2009	3.750	439,820	315,000	754,820
2010	3.500	428,007	325,000	753,007
2011	3.500	416,632	340,000	756,632
2012	4.000	404,732	350,000	754,732
2013	4.000	390,733	365,000	755,733
2014	4.100	376,133	380,000	756,133
2015	4.250	360,553	395,000	755,553
2016	4.350	343,765	410,000	753,765
2017	4.450	325,930	430,000	755,930
2018	4.500	306,795	450,000	756,795
2019	4.600	286,545	470,000	756,545
2020	4.650	264,925	490,000	754,925
2021	4.800	242,140	515,000	757,140
2022	4.800	217,420	540,000	757,420
2023	5.000	191,500	565,000	756,500
2024	5.000	163,250	590,000	753,250
2025	5.000	133,750	620,000	753,750
2026	5.000	102,750	650,000	752,750
2027	5.000	70,250	685,000	755,250
2028	5.000	36,000	720,000	756,000
		<u>\$ 7,342,840</u>	<u>\$ 10,775,000</u>	<u>\$ 18,117,840</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, 2004, \$758,158 was the fair value of the amount held in the reserve fund. The Town is required to maintain a debt service pledge account on July 1 each year which is equal to the principal and interest for that year. On June 30, 2004, the amount in the pledge account was \$745,071. The Debt Service Fund is repaying these certificates of participation.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 10. Long-Term Obligations (continued)

Tax Increment Bonds

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2005	4.650	\$ 347,200	\$ -	\$ 347,200
2006	4.650	357,004	645,000	1,002,004
2007	4.650	326,314	675,000	1,001,314
2008	4.650	294,112	710,000	1,004,112
2009	4.650	260,400	740,000	1,000,400
2010	4.650	225,176	775,000	1,000,176
2011	4.650	188,325	810,000	998,325
2012	4.650	149,730	850,000	999,730
2013	4.650	109,275	890,000	999,275
2014	4.650	66,960	930,000	996,960
2015	4.650	22,669	975,000	997,669
		\$ 2,347,165	\$ 8,000,000	\$ 10,347,165

Bond Anticipation Notes

A \$4,530,000 bond anticipation note that matured September 24, 2003 with an interest rate of 2.74% was paid by a \$4,530,000 bond anticipation note that matured June 25, 2004 with an interest rate of 2.32%. On June 25, 2004, the bond anticipation note was repaid with funds from the \$8,000,000 Tax Increment Bond issued.

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

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 63,730,000	\$ 15,000,000	\$ 2,445,000	\$ 76,285,000	\$ 3,055,000
Certificates of participation	10,965,000	11,400,000	11,835,000	10,530,000	130,000
Revenue bonds	17,000,000	18,775,000	-	35,775,000	275,000
Capital leases	1,153,663	-	266,943	886,720	279,030
Premium on revenue bonds	88,796	-	3,700	85,096	-
Total bonds and notes payable	92,937,459	45,175,000	14,550,643	123,561,816	3,739,030
Other liabilities:					
Compensated absences	990,235	1,150,068	990,235	1,150,068	759,000
Total other liabilities	990,235	1,150,068	990,235	1,150,068	759,000
Governmental activities long-term liabilities	\$ 93,927,694	\$ 46,325,068	\$ 15,540,878	\$ 124,711,884	\$ 4,498,030

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 10. Long-Term Obligations (continued)

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

For the Year Ended June 30	Government Activities		
	Interest	Principal	Total
2005	5,610,556	3,460,000	9,070,556
2006	5,561,544	5,860,000	11,421,544
2007	5,307,149	6,180,000	11,487,149
2008	5,040,848	6,500,000	11,540,848
2009	4,756,102	6,855,000	11,611,102
2010-2014	19,184,348	33,645,000	52,829,348
2015-2019	12,517,538	23,885,000	36,402,538
2020-2024	6,160,820	24,340,000	30,500,820
2025-2029	1,290,018	11,865,000	13,155,018
Total	<u>\$ 65,428,923</u>	<u>\$ 122,590,000</u>	<u>\$ 188,018,923</u>

Note 11. Grant Revenues and Expenditures

The Town has participated in or applied for several grants during the year. The terms and conditions for reimbursement are as follows:

Special Revenue Fund

The Town received \$116,198 from the South Carolina Department of Commerce for the Community Development Block Grant Fund. The Town expended a total of \$115,868 in the fund during the 2004 year for sewer facilities and engineering design.

Note 12. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 124,213,072	\$ 4,074,667	\$ -	\$ 128,287,739
Construction in progress	6,077,988	8,998,708	-	15,076,696
Total capital assets not being depreciated	<u>130,291,060</u>	<u>13,073,375</u>	<u>-</u>	<u>143,364,435</u>
Capital assets being depreciated:				
Buildings	13,429,801	171,172	(10,097)	13,590,876
Furniture, fixtures and equipment	3,210,583	279,717	(350,014)	3,140,286
Automobiles	5,123,654	290,952	(446,552)	4,968,054
Infrastructure	13,979,908	2,091,524	(5,904)	16,065,528
Total capital assets being depreciated	<u>35,743,946</u>	<u>2,833,365</u>	<u>(812,567)</u>	<u>37,764,744</u>
Less accumulated depreciation for:				
Buildings	3,928,765	456,071	(31,107)	4,353,729
Furniture, fixtures and equipment	1,400,764	535,840	(200,979)	1,735,625
Automobiles	3,754,740	495,815	(495,395)	3,755,160
Infrastructure	1,884,521	612,106	-	2,496,627
Total accumulated depreciation	<u>10,968,790</u>	<u>2,099,832</u>	<u>(727,481)</u>	<u>12,341,141</u>
Total capital assets being depreciated, net	<u>24,775,156</u>			<u>25,423,603</u>
Government activity capital assets, net	<u>\$ 155,066,216</u>			<u>\$ 168,788,038</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 12. Capital Assets (continued)

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

General Government	\$ 119,439
Management Services	112,765
Planning/Building and Fire Codes	30,408
Public Safety	1,077,022
Public Projects and Facilities	<u>760,198</u>
Total Depreciation Expense	<u><u>\$ 2,099,832</u></u>

Note 13. 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, 2004, the following projects were budgeted and expenditures were made as shown below during the current year:

Public Facilities Projects	\$ 869,538
Land Acquisition	5,442,264
Beach Maintenance	698,335
Park Development	1,758,676
Facilities Improvement	1,687,490
Pathways	215,175
Roadway Improvement	784,532
Drainage Improvements	<u>7,347,274</u>
	<u><u>\$ 18,803,284</u></u>

Note 14. Contracted Commitments and Operating Leases

Commitments

At June 30, 2004, the Town had outstanding construction commitments of approximately \$13,550,000. Through June 30, 2004, approximately \$7,392,000 in costs had been incurred on these commitments. At June 30, 2004, the Town had outstanding construction commitments totaling approximately \$6,158,000 for capital projects in progress.

Operating Leases

For the Town's fiscal year ended June 30, 2004, minimum rental payments under noncancelable operating leases were \$45,826 and contingent rental payments were \$1,526. The Town's contingent rentals are for the lease of a building with expense being determined by repair costs incurred during the lease term.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 14. Contracted Commitments and Operating Leases (continued)
Operating Leases (continued)

At June 30, 2004, future minimum payments under noncancelable operating leases with remaining terms in excess of one year were as follows:

For the Year Ended June 30,	Total Payments
2005	\$ 36,789
2006	36,789
2007	36,789
2008	36,789
2009	36,789
	\$ 183,945

Note 15. Pension Plan

ICMA Plan

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

For the year ended June 30, 2004, employer contributions were based on a total payroll of \$5,676,936. The amount contributed by the employer for the year ending June 30, 2004 was \$486,809 or 8.58% of covered payroll. Employee contributions to the plan were \$373,082 or 6.57% of covered payroll for year ending June 30, 2004. The present value of vested benefits does not exceed the net assets of the pension plan. Employees who participate in the PORS plan made contributions of \$118,217 to the 401(k). No match was made for these contributions.

PORS Plan

The Town is a member of the South Carolina Police Officers Retirement System (PORS). All full-time public safety employees whose principle duty is the prevention and control of property destruction by fire, excluding clerical staff, are eligible and must belong to the System, a cost sharing multiple-employer defined benefit pension plan administered by the State of South Carolina Retirement Systems, a Division of the State Budget and Control Board. Both employers and employees are required to contribute to the plans under authority of Title 9 of the South Carolina Code of Law. Mandatory employee contributions of 6.5% of their total earnings are made through payroll deductions. Employees hired before July 1, 1995, who complete three years of service only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2004, \$6,117,993 of wages was subject to retirement. The Town pays the employer contribution at the rate of 10.3% of member salaries except for employees hired before July 1, 1995, who complete three years of service then the employer contribution rate is 13.8%. During the year ended June 30, 2004, a total of \$814,089 was contributed into the

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 15. Pension Plan (continued)
PORS Plan (continued)

System for the Town's share and \$238,206 for the employees' share, which represented 13.31% and 3.89% of covered payroll, respectively. During the years ended June 30, 2003 and 2002, \$811,379 and \$711,243 were contributed to the system for the Town's share, representing 13.38% and 13.08% of covered payroll, respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

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

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

Pension Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2004, employer contributions were based on a total payroll of \$12,147,491 of which \$11,794,927 or 97.10% of the total payroll was covered under the plan. Employer contributions were \$1,300,898 or 11.03% of covered payroll. Employee contributions were \$729,505 or 6.19% of covered payroll.

Note 16. Deferred Compensation Plan

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

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

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

Note 17. Health Plans

In January 2001, the Town instituted a medical flexible plan whereby the Town contributes a set amount each year per employee based upon their years of service. The employees submit reimbursement requests for medical expenses to human resources for reimbursement. Amounts not used during the calendar year are carried over to the next year. The Town's liability under this plan totaled \$122,551 at June 30, 2004, and is included as a liability in the general fund in the accrued payroll and employee payables.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 17. Health Plans (continued)

In January 2002, the Town instituted a plan for retiree medical expenses. Annually, the Town contributes 25% of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses. The Town contributed \$22,730 during the year ended June 30, 2004. 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. No employee was eligible for the benefits at June 30, 2004.

Note 18. Contingencies

Arbitrage - State and local bonds issued after 1984 are subject to arbitrage restrictions as enacted by the Federal government. To retain the Bonds tax exempt status, local governments must meet the regulations as adopted by the U.S. Treasury Department. The proceeds from the bond issue must not be invested, for more than a temporary period, in obligations producing a materially higher yield than the bond issue. To maintain tax exempt status, the yield earned at the materially higher rate over the bond cost must be remitted to the U.S. Treasury every five years. Exceptions to the regulations include the requirement that the local government expend all the Bond proceeds within designated periods which could be up to three years.

Based on preliminary calculations by the Town's Management, the Town is not earning materially higher yields and it expects to expend all funds within the designated time.

Risk Management and Litigation - The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the State of South Carolina insurance fund and also purchases commercial insurance as its primary defense against losses arising from the above. The fund provides beneficial insurance rates with regular insurance coverage. The fund is not considered a risk pool. The amount of settlements has not exceeded insurance coverage over the past three fiscal years.

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

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. No amount for claims has been accrued at June 30, 2004.

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

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



General Fund

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

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Real And Personal Property Taxes:			
Real And Personal Property Taxes	\$ 10,926,300	\$ 10,366,446	\$ (559,854)
Accommodations Tax:			
Local 1% - Public Safety	1,900,000	1,860,744	(39,256)
Business Licenses And Franchise Fees:			
Business Licenses	5,250,000	6,218,083	968,083
Electric Utility	50,000	-	(50,000)
Cable Television	520,000	500,125	(19,875)
Beach Franchise Fee	4,500	4,174	(326)
Total	5,824,500	6,722,382	897,882
Permits:			
Construction Permits	500,000	693,849	193,849
Development Permits	10,000	9,661	(339)
Other Permits	475,000	559,513	84,513
Total	985,000	1,263,023	278,023
State Shared Funds:			
State Shared Funds	879,700	880,365	665
Donations:			
EMS/Fire Department Donations	-	775	775
Grants:			
DHEC Grant	-	6,990	6,990
Miscellaneous Reimbursements	-	178,667	178,667
Total	-	185,657	185,657
Miscellaneous Revenue:			
Public Safety Revenue	1,000,000	922,286	(77,714)
Beach Service	285,000	368,021	83,021
Municipal Court Fines and Fees	361,700	295,537	(66,163)
Miscellaneous Revenue	230,000	316,277	86,277
Total	1,876,700	1,902,121	25,421
Investment Income:			
Investment Income	100,000	91,674	(8,326)
Total Revenues	22,492,200	23,273,187	780,987

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General Government:			
Town Council:			
Salaries	\$ 78,700	\$ 70,859	\$ 7,841
Benefits	6,300	5,688	612
Services & Supplies	15,300	14,221	1,079
Training/Meetings/Workshops	35,523	37,702	(2,179)
Legal Fees	100,000	134,709	(34,709)
Awards & Recognition	1,500	2,632	(1,132)
Total Town Council	<u>237,323</u>	<u>265,811</u>	<u>(28,488)</u>
Town Manager:			
Salaries	202,000	215,643	(13,643)
Benefits	49,300	50,213	(913)
Supplies & Services	19,580	18,859	721
Training/Meetings	10,000	8,698	1,302
Prosecutor	60,000	60,000	-
Total Town Manager	<u>340,880</u>	<u>353,413</u>	<u>(12,533)</u>
Human Resources:			
Salaries	225,900	229,239	(3,339)
Benefits	65,893	63,153	2,740
Supplies & Services	8,800	7,239	1,561
Training/Meetings	24,300	24,073	227
Consulting	76,500	65,993	10,507
Townwide Employee Programs	113,400	108,258	5,142
Temporary Short-Term	35,107	33,683	1,424
Total Human Resources	<u>549,900</u>	<u>531,638</u>	<u>18,262</u>
Total General Government	<u>1,128,103</u>	<u>1,150,862</u>	<u>(22,759)</u>
Management Services:			
Finance-Administration:			
Salaries	125,800	122,947	2,853
Benefits	36,250	32,647	3,603
Supplies & Services	5,650	5,148	502
Training/Meetings	7,090	6,058	1,032
Professional Services	10,000	17,665	(7,665)
Total Finance Administration	<u>184,790</u>	<u>184,465</u>	<u>325</u>
Finance-Accounting:			
Salaries	326,800	338,614	(11,814)
Benefits	101,300	99,475	1,825
Supplies & Services	16,800	24,062	(7,262)
Professional Services	59,600	56,976	2,624
Training/Meetings	16,000	13,076	2,924
Total Finance Accounting	<u>520,500</u>	<u>532,203</u>	<u>(11,703)</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued):			
Management Services(continued):			
Finance-Business License:			
Salaries	249,100	235,043	14,057
Benefits	67,700	62,965	4,735
Supplies & Services	9,235	7,788	1,447
Training/Meetings	15,300	10,177	5,123
Total Finance Business License	<u>341,335</u>	<u>315,973</u>	<u>25,362</u>
Municipal Court:			
Salaries	251,050	239,404	11,646
Benefits	66,800	69,478	(2,678)
Supplies & Services	26,800	16,353	10,447
Training/Meetings	6,600	2,982	3,618
Professional Services	53,100	50,641	2,459
Total Municipal Court	<u>404,350</u>	<u>378,858</u>	<u>25,492</u>
Administration-Legal :			
Salaries	279,400	286,140	(6,740)
Benefits	81,700	77,618	4,082
Supplies & Services	15,500	14,201	1,299
Training/Meetings	8,400	4,728	3,672
Total Administration Legal	<u>385,000</u>	<u>382,687</u>	<u>2,313</u>
Administration-Administrative Support :			
Salaries	100,900	100,702	198
Benefits	32,300	29,786	2,514
Training/Meetings	2,800	1,160	1,640
Supplies & Services	35,100	33,693	1,407
Total Administration Support	<u>171,100</u>	<u>165,341</u>	<u>5,759</u>
Administration-Operations:			
Salaries	515,500	510,582	4,918
Benefits	143,200	131,560	11,640
Supplies & Services	101,949	98,505	3,444
Training/Meetings	48,375	41,588	6,787
Maintenance Contracts	323,836	303,958	19,878
Total Administration Operations	<u>1,132,860</u>	<u>1,086,193</u>	<u>46,667</u>
Total Management Services	<u>3,139,935</u>	<u>3,045,720</u>	<u>94,215</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued):			
Planning/Building & Fire Codes:			
Planning Administration:			
Salaries	271,755	274,969	(3,214)
Benefits	72,622	70,621	2,001
Supplies & Services	16,152	14,982	1,170
Training/Meetings	6,200	5,808	392
Total Planning Administration	<u>366,729</u>	<u>366,380</u>	<u>349</u>
Current Planning:			
Salaries	337,205	246,333	90,872
Benefits	95,803	66,702	29,101
Supplies & Services	18,590	8,551	10,039
Training/Meetings	13,300	8,182	5,118
Professional Services	20,000	4,180	15,820
Total Current Planning	<u>484,898</u>	<u>333,948</u>	<u>150,950</u>
Long Range Planning:			
Salaries	262,270	258,059	4,211
Benefits	72,233	72,022	211
Supplies & Services	16,355	7,816	8,539
Training/Meetings	10,200	6,819	3,381
Professional Services	70,000	84,415	(14,415)
Total Long Range Planning	<u>431,058</u>	<u>429,131</u>	<u>1,927</u>
Natural Resources Planning:			
Salaries	116,070	109,641	6,429
Benefits	33,142	28,940	4,202
Supplies & Services	1,062	923	139
Training/Meetings	3,095	2,771	324
Professional Services	22,206	22,206	-
Total Natural Resources Planning	<u>175,575</u>	<u>164,481</u>	<u>11,094</u>
Building & Fire Codes:			
Salaries	746,630	750,525	(3,895)
Benefits	232,820	224,662	8,158
Supplies & Services	33,020	24,846	8,174
Training/Meetings	20,220	18,921	1,299
Professional Services	28,460	28,460	-
Total Building & Fire Codes	<u>1,061,150</u>	<u>1,047,414</u>	<u>13,736</u>
Total Planning/Building & Fire Codes	<u>2,519,410</u>	<u>2,341,354</u>	<u>178,056</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued):			
Public Safety:			
Fire & Rescue Administration:			
Salaries	227,400	243,033	(15,633)
Benefits	70,900	69,515	1,385
Supplies/Services	207,955	194,879	13,076
Training/Meetings	11,250	8,556	2,694
Professional Services	47,608	29,123	18,485
Total Fire & Rescue Administration	<u>565,113</u>	<u>545,106</u>	<u>20,007</u>
Fire & Rescue Logistics/Maintenance:			
Salaries	276,230	281,961	(5,731)
Benefits	93,900	88,135	5,765
Supplies & Services	376,690	351,079	25,611
Training/Meetings	1,700	1,955	(255)
Professional Services	148,906	146,073	2,833
Total Fire & Rescue Logistics/Maintenance	<u>897,426</u>	<u>869,203</u>	<u>28,223</u>
Fire & Rescue Operations:			
Salaries	5,234,130	5,406,577	(172,447)
Benefits	1,827,850	1,841,091	(13,241)
Supplies & Services	109,144	110,020	(876)
Volunteer Incentive	250	-	250
Professional Services	42,575	38,393	4,182
Total Fire & Rescue Operations	<u>7,213,949</u>	<u>7,396,081</u>	<u>(182,132)</u>
Fire & Rescue Communications:			
Salaries	575,500	572,295	3,205
Benefits	172,940	158,134	14,806
Supplies & Services	78,115	52,378	25,737
Training/Meetings	16,820	12,099	4,721
Professional Services	82,325	98,974	(16,649)
Total Fire & Rescue Communications	<u>925,700</u>	<u>893,880</u>	<u>31,820</u>
Fire & Rescue Training:			
Salaries	292,650	161,282	131,368
Benefits	99,700	48,989	50,711
Supplies & Services	18,534	15,349	3,185
Training/Meetings	94,495	53,415	41,080
Professional Services	23,165	4,060	19,105
Total Fire & Rescue Training	<u>528,544</u>	<u>283,095</u>	<u>245,449</u>
Fire & Rescue Emergency Management:			
Salaries	53,520	54,547	(1,027)
Overtime	16,250	16,102	148
Benefits	27,790	30,195	(2,405)
Supplies & Services	3,840	4,000	(160)
Professional Services	600	-	600
Total Fire & Rescue Emergency Management:	<u>102,000</u>	<u>104,844</u>	<u>(2,844)</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued):			
Public Safety (continued):			
Bureau of Fire Prevention:			
Salaries	285,470	265,373	20,097
Benefits	99,085	87,133	11,952
Supplies & Services	60,836	56,115	4,721
Training & Meetings	9,575	4,138	5,437
Total Bureau of Fire Protection	<u>454,966</u>	<u>412,759</u>	<u>42,207</u>
Police Patrol/Communications:			
Police Services/Contract	2,035,977	2,000,989	34,988
Stipend	126,000	122,149	3,851
Victims' Rights	43,000	42,230	770
Beach Services	133,578	141,765	(8,187)
Total Police Patrol/Communications	<u>2,338,555</u>	<u>2,307,133</u>	<u>31,422</u>
Total Public Safety	<u>13,026,253</u>	<u>12,812,101</u>	<u>214,152</u>
Public Projects & Facilities:			
Administration:			
Salaries	150,100	154,286	(4,186)
Benefits	35,470	33,390	2,080
Supplies & Services	5,710	3,356	2,354
Travel & Meetings	5,530	1,841	3,689
Total Administration	<u>196,810</u>	<u>192,873</u>	<u>3,937</u>
Engineering:			
Salaries	377,130	361,514	15,616
Benefits	99,830	93,586	6,244
Supplies & Services	19,480	13,559	5,921
Training & Meetings	12,300	8,060	4,240
Professional Services	94,483	71,601	22,882
Total Engineering	<u>603,223</u>	<u>548,320</u>	<u>54,903</u>
Facilities Management:			
Salaries	479,169	476,172	2,997
Benefits	139,001	122,654	16,347
Supplies & Services	245,950	221,233	24,717
Training & Meetings	11,200	8,354	2,846
Professional Services	790,550	738,104	52,446
Total Facilities Management	<u>1,665,870</u>	<u>1,566,517</u>	<u>99,353</u>
Total Public Projects & Facilities	<u>2,465,903</u>	<u>2,307,710</u>	<u>158,193</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued):			
Non-Departmental:			
Townwide:			
Insurance	200,744	188,038	12,706
Postage	31,800	24,264	7,536
General Contingency	50,000	51,901	(1,901)
Postemployment	6,756	10,518	(3,762)
Telephone/Cell Phones/Utilities	260,000	263,065	(3,065)
Equipment Maintenance	31,700	24,814	6,886
Photocopying	9,000	9,006	(6)
Courier	15,030	15,018	12
Drug Court	33,500	33,500	-
Recreation Center	485,550	485,520	30
Recreation Center-Capital	106,865	106,865	-
Low Country Recycling	76,000	111,000	(35,000)
Low Country (Truck Expense)	5,000	3,800	1,200
Disaster Advertising Reserve Fund	183,516	-	183,516
Hospitality Training & Promotion	95,616	92,470	3,146
Low Country County	-	52,023	(52,023)
LTRA Grant	100,000	100,000	-
Beaufort County Hazmat	-	9,490	(9,490)
E911 Beaufort County	-	126,644	(126,644)
DHEC Grant	-	6,990	(6,990)
Total Non-Departmental Townwide	<u>1,691,077</u>	<u>1,714,926</u>	<u>(23,849)</u>
Debt Service:			
Principal	74,311	78,330	(4,019)
Interest	23,689	19,392	4,297
Total Debt Service	<u>98,000</u>	<u>97,722</u>	<u>278</u>
Capital Outlay			
Management Services :			
Administration-Operations			
Specialized Equipment	156,001	153,461	2,540
Total Administration-Operations	<u>156,001</u>	<u>153,461</u>	<u>2,540</u>
Total Management Services	<u>156,001</u>	<u>153,461</u>	<u>2,540</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
<u>EXPENDITURES (continued):</u>			
Capital Outlay (continued):			
Public Safety:			
Fire & Rescue Administration:			
Furnishings & Fixtures	6,000	2,710	3,290
Total Fire & Rescue Administration	<u>6,000</u>	<u>2,710</u>	<u>3,290</u>
Fire & Rescue Operations:			
Furnishings	10,600	5,153	5,447
Specialized Equipment	15,625	11,189	4,436
Total Fire & Rescue Operations	<u>26,225</u>	<u>16,342</u>	<u>9,883</u>
Fire & Rescue Emergency Management:			
Furnishings & Fixtures	9,500	-	9,500
Specialized Equipment	16,000	14,577	1,423
Total Fire & Rescue Emergency Management	<u>25,500</u>	<u>14,577</u>	<u>10,923</u>
Fire & Rescue Communications			
Furnishings & Fixtures	1,400	986	414
Total Fire & Rescue Communications	<u>1,400</u>	<u>986</u>	<u>414</u>
Fire & Rescue Logistics/Maintenance:			
Equipment/Radios	89,680	88,450	1,230
Specialized Equipment	2,000	1,726	274
Vehicles	315	-	315
Total Fire & Rescue Logistics/Maintenance	<u>91,995</u>	<u>90,176</u>	<u>1,819</u>
Fire & Rescue Training:			
Furnishings & Fixtures	4,000	2,894	1,106
Specialized Equipment	17,300	9,149	8,151
Total Fire & Rescue Training	<u>21,300</u>	<u>12,043</u>	<u>9,257</u>
Bureau of Fire Prevention:			
Furnishings & Fixtures	850	693	157
Specialized Equipment	2,000	1,777	223
Total Bureau of Fire Prevention	<u>2,850</u>	<u>2,470</u>	<u>380</u>
Police:			
Furnishings & Fixtures			
Specialized Equipment	-	22,304	(22,304)
Total Police	<u>-</u>	<u>22,304</u>	<u>(22,304)</u>
Total Public Safety	<u>175,270</u>	<u>161,608</u>	<u>13,662</u>

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budget	Actual	Variance Positive (Negative)
<u>EXPENDITURES (continued):</u>			
Capital Outlay (continued):			
Non-Departmental Townwide:			
Furniture & Fixtures	10,000	1,259	8,741
Total Non-Departmental Townwide	<u>10,000</u>	<u>1,259</u>	<u>8,741</u>
Total Capital Outlay	<u>341,271</u>	<u>316,328</u>	<u>24,943</u>
Total Expenditures	<u>24,409,952</u>	<u>23,786,723</u>	<u>623,229</u>
Excess of Revenues Over (Under)			
Expenditures	<u>(1,917,752)</u>	<u>(513,536)</u>	<u>1,404,216</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
EMS Bad Debt Write-off	-	(649,108)	(649,108)
Transfers In	1,839,800	1,883,834	44,034
Transfers Out	-	(410,936)	(410,936)
Total Other Financing Sources (Uses)	<u>1,839,800</u>	<u>823,790</u>	<u>(1,016,010)</u>
Excess of Revenues & Other Sources			
Over (Under) Expenditures	(77,952)	310,254	388,206
Fund Balance - Beginning	<u>77,952</u>	<u>7,293,540</u>	<u>7,215,588</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 7,603,794</u>	<u>\$ 7,603,794</u>



Debt Service Funds

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

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2004

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Real And Personal Property Taxes	\$ 3,040,355	\$ 3,123,992	\$ 2,978,935	\$ (145,057)
Investment Income	-	-	75,748	75,748
Total Revenues	<u>3,040,355</u>	<u>3,123,992</u>	<u>3,054,683</u>	<u>(69,309)</u>
EXPENDITURES				
Administrative	7,500	5,500	497,852	(492,352)
Debt Service:				
Principal	2,370,000	2,445,000	2,445,000	-
Interest	3,408,470	4,068,568	4,055,553	13,015
Total Expenditures	<u>5,785,970</u>	<u>6,519,068</u>	<u>6,998,405</u>	<u>(479,337)</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(2,745,615)</u>	<u>(3,395,076)</u>	<u>(3,943,722)</u>	<u>548,646</u>
OTHER FINANCING SOURCES (USES)				
Bond Issue	-	-	10,965,000	10,965,000
Transfers In	2,745,615	3,395,076	5,312,266	1,917,190
Bond Refunding	-	-	(10,965,000)	(10,965,000)
Total Other Financing Sources (Uses)	<u>2,745,615</u>	<u>3,395,076</u>	<u>5,312,266</u>	<u>1,917,190</u>
Net Change In Fund Balances	<u>\$ -</u>	<u>\$ -</u>	1,368,544	<u>\$ 1,368,544</u>
Fund Balance - Beginning			<u>6,373,187</u>	
Fund Balance - Ending			<u>\$ 7,741,731</u>	



Capital Projects Funds

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.

CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Schedule 3
Page 1 of 3

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 1,815,000	\$ 1,815,000	\$ 1,768,110	\$ (46,890)
Grants	2,857,000	2,857,000	1,104,371	(1,752,629)
Contributions	170,000	170,000	84,915	(85,085)
State Taxes - Sunday Permit Fees	320,000	320,000	227,625	(92,375)
Hospitality Tax	2,320,000	2,320,000	2,230,407	(89,593)
County Impact Fee - Parks	235,000	235,000	58,403	(176,597)
County Stormwater	-	-	1,079,614	1,079,614
Miscellaneous	-	-	76,795	76,795
Sale of Property	-	150,000	150,000	-
Lease	54,000	54,000	64,691	10,691
Investment Income	-	-	258,362	258,362
Total Revenues	7,771,000	7,921,000	7,103,293	(817,707)
EXPENDITURES				
Debt Service:				
Principal	1,363,000	1,363,000	1,440,135	(77,135)
Interest	221,000	221,000	32,101	188,899
Cost Of Issuance	-	-	575,755	(575,755)
Total Debt Service	1,584,000	1,584,000	2,047,991	(463,991)
Capital Outlay:				
New Facilities:				
Fire/Rescue Maintenance And Training Facility	-	-	(229)	229
Fire Station #7	-	137,000	137,050	(50)
Fire Station #4 Replacement	1,748,000	1,748,000	275,363	1,472,637
Fire & Rescue Dispatch Center	609,000	609,000	236,640	372,360
Sewer Installation	100,000	100,000	-	100,000
Total Public Facilities Projects	2,457,000	2,594,000	648,824	1,945,176
Park Development:				
Collier Beach Park	300,000	300,000	-	300,000
Crossing Park Interpretive Trails	-	192,100	170,967	21,133
Malphrus Tract Beach Parking/Access	300,000	300,000	915	299,085
Ferguson Park Community Park	551,000	586,700	524,103	62,597
Greenshell Expansion	265,000	341,243	320,898	20,345
Jarvis Creek Park	-	-	28,926	(28,926)
Yacht Cove Community Park	10,000	-	-	-
Barker Field/Beach Access Ext.	630,000	1,181,000	564,155	616,845
Port Royal Tract Beach	310,000	310,000	90,658	219,342
Fish Haul Tract Park	520,000	365,000	40,804	324,196
Shelter Cove Linear Park	300,000	300,000	17,250	282,750
Total Park Development	3,186,000	3,876,043	1,758,676	2,117,367

TOWN OF HILTON HEAD ISLAND
 CAPITAL PROJECTS FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Schedule 3
 Page 2 of 3

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued):				
Land Acquisition	286,000	4,702,000	4,092,093	609,907
Total Land Acquisition	<u>286,000</u>	<u>4,702,000</u>	<u>4,092,093</u>	<u>609,907</u>
Beach Maintenance:				
Beach Management	275,000	275,000	183,150	91,850
Beach Renourishment	350,000	1,050,000	473,029	576,971
Dunes Refurbishment	25,000	25,000	17,356	7,644
Total Beach Maintenance	<u>650,000</u>	<u>1,350,000</u>	<u>673,535</u>	<u>676,465</u>
Existing Facilities:				
Muddy Creek Sewer	750,000	750,000	429,664	320,336
Town Hall/Municipal Court Renovations	36,000	36,000	34,122	1,878
County Drop Off Center Replacement	525,000	525,000	429,528	95,472
Honey Horn Property Upgrade	938,000	972,024	287,734	684,290
Fire & Rescue Station Renovation	560,000	581,872	5,576	576,296
Sea Pines Circle Improvements/Flag Pole	150,000	150,000	13	149,987
Vehicle Replacement	163,000	313,000	331,924	(18,924)
McKibben Property Upgrades	100,000	100,000	463	99,537
Demolition of Structures	271,000	271,000	248,179	22,821
Total Facilities Improvements	<u>3,493,000</u>	<u>3,698,896</u>	<u>1,767,203</u>	<u>1,931,693</u>
Roadway Improvements:				
Long Cove	100,000	100,000	-	100,000
Town Roads Resurfacing	866,000	837,398	350,850	486,548
Office Park Road Widen/Realign	561,000	561,000	54,161	506,839
Intersection Improvements	1,240,000	1,240,000	5,235	1,234,765
Pedestrian Crosswalks and Refuges	285,000	285,000	834	284,166
Traffic Signal Mast Arms	405,000	455,782	187,128	268,654
Marshland Road/Mathews Drive Widen	310,000	310,000	-	310,000
Traffic Signal US 278/Singleton/Burke's	125,000	92,896	97,899	(5,003)
F&R Emergency Access Points	220,000	220,000	88,425	131,575
Total Roadway Improvements	<u>4,112,000</u>	<u>4,102,076</u>	<u>784,532</u>	<u>3,317,544</u>
Pathways:				
Pathway Rehabilitation	50,000	50,000	49,981	19
Mathews Drive	268,000	268,000	421	267,579
Marshland Road	735,000	735,000	22,281	712,719
Spanish Wells Road	1,227,000	1,227,000	36,897	1,190,103
Wild Horse Road	214,000	214,000	8,889	205,111
Muddy Creek Road	110,000	110,000	96,706	13,294
Total Pathway Improvements	<u>2,604,000</u>	<u>2,604,000</u>	<u>215,175</u>	<u>2,388,825</u>

TOWN OF HILTON HEAD ISLAND
 CAPITAL PROJECTS FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Schedule 3
 Page 3 of 3

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<u>EXPENDITURES (continued):</u>				
Drainage Improvements:				
Drainage System Rehabilitation	412,000	440,392	170,882	269,510
North Forest Beach	3,700,000	6,992,582	5,630,568	1,362,014
Folly Field	220,000	270,349	99,709	170,640
Northridge	211,000	139,080	87,693	51,387
Ashmore Tract Ditch	290,000	290,000	4,485	285,515
Culvert Under US 278 At Shipyard	615,000	615,000	615,000	-
Beach City Road/Airport	385,000	332,244	69,677	262,567
Marshland Road/US 278	580,000	580,000	27,900	552,100
Gumtree Drive	-	-	(16,539)	16,539
Spanish Wells Road	540,000	540,000	180,792	359,208
Total Drainage Improvements	<u>6,953,000</u>	<u>10,199,647</u>	<u>6,870,167</u>	<u>3,329,480</u>
Total Capital Outlay	<u>23,741,000</u>	<u>33,126,662</u>	<u>16,810,205</u>	<u>16,316,457</u>
Total Expenditures	<u>25,325,000</u>	<u>34,710,662</u>	<u>18,858,196</u>	<u>15,852,466</u>
Excess of Revenues Over (Under) Expenditures	<u>(17,554,000)</u>	<u>(26,789,662)</u>	<u>(11,754,903)</u>	<u>15,034,759</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds	6,978,000	13,600,643	25,775,000	12,174,357
Transfers In	7,179,000	8,614,423	1,566,572	(7,047,851)
Transfers Out	-	(153,300)	(2,498,381)	(2,345,081)
Appropriated Fund Balance	3,397,000	4,727,896	-	(4,727,896)
Total Other Financing Sources (Uses)	<u>17,554,000</u>	<u>26,789,662</u>	<u>24,843,191</u>	<u>(1,946,471)</u>
Excess of Revenues & Other Sources Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>13,088,288</u>	<u>\$ 13,088,288</u>
Fund Balance - Beginning			<u>20,196,907</u>	
Fund Balance - Ending			<u>\$ 33,285,195</u>	



Nonmajor Governmental Funds Special Revenue Funds

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

1. **Accommodations Tax Fund** - This fund is used to account for taxes levied on the gross proceeds from the rental of hotel and motel rooms, camp-grounds, etc.
2. **Impact Fees** - This fund is used to account for street improvement fees from new development within the Town. Fees finance the necessary street capital improvements generated by the development and transportation studies.
3. **Real Estate Transfer Fee** - This fund is used to account for real estate transfer fees imposed upon the transfer of real property interest in any real property situated in Town. The Fees are used to acquire lands for public ownership, and to maintain open space.
4. **Community Development Block Grant** - This fund provides for the Muddy Creek Sewer Project.
5. **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, 2004

Schedule 4

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Accommodations Tax	Impact Fees	Real Estate Transfer Fees	Community Development Block Grant	Home Grant	
ASSETS						
Cash	\$ -	\$ -	\$ 1,886,228	\$ 82,655	\$ -	\$ 1,968,883
Investments	1,416,977	-	-	-	-	1,416,977
Due From Other Funds	-	170,803	382,391	-	-	553,194
Due From Other Governments	1,054,667	-	539,947	71,743	-	1,666,357
Restricted Assets:						
Cash	-	-	-	-	18,319	18,319
Total Assets	\$ 2,471,644	\$ 170,803	\$ 2,808,566	\$ 154,398	\$ 18,319	\$ 5,623,730
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 40,272	\$ -	\$ -	\$ 52,524	\$ -	\$ 92,796
Due To Other Funds	128,912	-	41,707	100,788	-	271,407
Deferred Revenue	-	-	-	-	18,174	18,174
Payable To Hilton Head Chamber Of Commerce Visitor And Convention Bureau	316,400	-	-	-	-	316,400
Total Liabilities	485,584	-	41,707	153,312	18,174	698,777
Fund Balances:						
Reserved:						
Encumbrances	890,631	-	-	-	-	890,631
Unreserved:						
Undesignated	1,095,429	170,803	2,766,859	1,086	145	4,034,322
Total Fund Balances	1,986,060	170,803	2,766,859	1,086	145	4,924,953
Total Liabilities And Fund Balances	\$ 2,471,644	\$ 170,803	\$ 2,808,566	\$ 154,398	\$ 18,319	\$ 5,623,730

TOWN OF HILTON HEAD ISLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

Schedule 5

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Accommodations Tax	Impact Fees	Real Estate Transfer Fees	Community Development Block Grant	Home Grant	
REVENUES						
Accommodations Tax	\$ 3,161,359	\$ -	\$ -	\$ -	\$ -	\$ 3,161,359
Impact Fees	-	566,719	-	-	-	566,719
Real Estate Transfer Fees	-	-	4,364,478	-	-	4,364,478
Other Grants	-	-	-	116,198	-	116,198
Investment Income	32,428	-	13,544	968	21	46,961
Total Revenues	3,193,787	566,719	4,378,022	117,166	21	8,255,715
EXPENDITURES						
Current:						
Accommodations Tax Grants	984,663	-	-	-	-	984,663
Visitor And Convention Bureau	940,908	-	-	-	-	940,908
Administrative	-	-	43,645	115,867	-	159,512
Total Expenditures	1,925,571	-	43,645	115,867	-	2,085,083
Excess (Deficiency) Of Revenues Over (Under) Expenditures	1,268,216	566,719	4,334,377	1,299	21	6,170,632
OTHER FINANCING SOURCES (USES)						
Transfers Out	(1,081,752)	(524,515)	(2,687,172)	-	-	(4,293,439)
Total Other Financing Sources (Uses)	(1,081,752)	(524,515)	(2,687,172)	-	-	(4,293,439)
Net change In Fund Balances	186,464	42,204	1,647,205	1,299	21	1,877,193
Fund Balance - Beginning	1,799,596	128,599	1,119,654	(213)	124	3,047,760
Fund Balance - Ending	\$ 1,986,060	\$ 170,803	\$ 2,766,859	\$ 1,086	\$ 145	\$ 4,924,953



Statistical Section (Unaudited)

Table 1

Town of Hilton Head Island, South Carolina
 Government-wide Expenses by Function
 Last Ten Fiscal Years ⁽¹⁾
 (amounts expressed in thousands)

Fiscal Year	General Government	Management Services	Planning/ Building & Fire Codes	Public Safety	Public Projects and Facilities	Non-Departmental	Accommodations Tax Grants	Visitor and Convention Bureau	Admin.	Interest on Long-Term Debt	Total
2003	\$ 1,377	\$ 2,929	\$ 2,276	\$ 13,874	\$ 3,254	\$ 1,754	\$ 1,198	\$ 937	\$ 363	\$ 4,611	\$ 32,573
2004	1,430	3,243	2,372	14,754	5,872	1,715	985	941	823	4,321	36,456

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ The fiscal years beginning 2003 are reflected for compliance to Governmental Accounting Standards (GASB) Statement No. 34. Prior year data not available.

Table 2

Town of Hilton Head Island, South Carolina
 Government-wide Revenues
 Last Ten Fiscal Years ⁽¹⁾
 (amounts expressed in thousands)

Fiscal Year *	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Inter-governmental	Investment Earnings	Miscellaneous	Total
2003	\$ 15,708	\$ 269	\$ 359	\$ 22,631	\$ 1,145	\$ 659	\$ 2,015	\$ 42,786
2004	19,008	302	1,104	23,546	1,108	561	1,698	\$ 47,327

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ The fiscal years beginning 2003 are reflected for compliance to Governmental Accounting Standards (GASB) Statement No. 34. Prior year data not available.

Table 3

Town of Hilton Head Island, South Carolina
 General Governmental Expenditures by Function ⁽¹⁾
 Last Ten Fiscal Years

Fiscal Year Ending June 30,	General Govt.	General Govt. % of Total	Public Safety	Public Safety % of Total	Community and Environment	Community & Environ. % of Total	Non-Departmental	Non-Departmental % of Total	Total
1995	\$ 1,706,306	11.99%	\$ 9,122,893	64.10%	\$ 2,194,543	15.42%	\$ 1,207,748	8.49%	\$ 14,231,490
1996	2,304,745	15.84%	8,501,321	58.43%	2,713,196	18.65%	1,030,710	7.08%	14,549,972
1997	2,694,326	16.84%	9,247,246	57.80%	3,000,593	18.76%	1,055,561	6.60%	15,997,726
1998	3,157,064	17.30%	10,475,653	57.42%	3,418,796	18.74%	1,193,646	6.54%	18,245,159
1999	3,136,529	16.73%	10,603,458	56.55%	3,851,415	20.54%	1,158,823	6.18%	18,750,225
2000	3,379,466	16.56%	11,275,893	55.25%	4,050,867	19.85%	1,703,472	8.35%	20,409,698
2001	3,669,434	17.63%	11,413,494	54.84%	4,194,672	20.15%	1,535,598	7.38%	20,813,198
2002	3,975,104	18.23%	11,969,539	54.90%	4,285,897	19.66%	1,571,311	7.21%	21,801,851
2003	4,082,813	17.87%	12,602,916	55.17%	4,451,258	19.49%	1,705,016	7.46%	22,842,003
2004	4,350,043	18.29%	13,071,431	54.95%	4,649,064	19.54%	1,716,185	7.21%	23,786,723

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ General Fund Only

Table 4

Town of Hilton Head Island, South Carolina
General Governmental Revenues by Source ⁽¹⁾
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Real & Personal Property Taxes	Property Tax % of Total	Licenses	Licenses % of Total	Permits	Permits % of Total	Revenues From Use Of Money & Property	Use % of Total	State Shared Revenues	Other Agencies % of Total	Grants and Other Revenues	Misc. % of Total	Total
1995	\$ 8,792,016	61.76%	\$ 2,497,817	17.54%	\$ 843,445	5.92%	\$ 351,419	2.47%	\$ 499,920	3.51%	\$ 1,252,254	8.80%	\$ 14,236,871
1996	8,478,909	56.69%	3,324,079	22.23%	958,415	6.41%	202,867	1.36%	541,395	3.62%	1,449,711	9.69%	14,955,376
1997	7,446,094	51.97%	3,776,361	26.36%	891,787	6.22%	209,754	1.46%	704,561	4.92%	1,298,962	9.07%	14,327,519
1998	6,924,030	43.82%	4,087,192	25.87%	1,260,872	7.98%	248,815	1.57%	713,990	4.52%	2,565,043	16.23%	15,799,942
1999	7,350,605	40.59%	4,659,110	25.73%	1,861,397	10.28%	169,724	0.94%	758,189	4.19%	3,311,839	18.29%	18,110,864
2000	8,203,954	41.87%	5,041,494	25.73%	1,389,102	7.09%	266,229	1.36%	797,247	4.07%	3,895,520	19.88%	19,593,546
2001	8,528,034	40.85%	6,158,237	29.50%	1,434,087	6.87%	304,831	1.46%	851,870	4.08%	3,599,178	17.24%	20,876,237
2002	8,683,555	42.04%	5,910,918	28.61%	1,425,010	6.90%	228,287	1.11%	893,049	4.32%	3,516,352	17.02%	20,657,171
2003	9,265,943	43.59%	6,214,543	29.24%	1,121,066	5.27%	103,207	0.49%	872,768	4.11%	3,677,169	17.30%	21,254,696
2004	10,366,446	44.54%	6,722,382	28.88%	1,263,023	5.43%	91,674	0.39%	880,365	3.78%	3,949,297	16.97%	23,273,187

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ General Fund Only

Table 5

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

Fiscal Year Ending June 30,	Total Tax Levy	Collection of Current Year's Taxes During Current Period	Percent of Levy Collected	Delinquent Tax Collections of Taxes Levied for Prior Years	Total Tax Collections	Percent of Total Collections to Tax Levy
1994	\$ 10,953,596	\$ 10,914,196	99.64%	\$ 13,881	\$ 10,928,077	99.77%
1995	11,485,635	11,468,412	99.85%	30,412	11,498,824	100.11%
1996	11,936,073	11,924,684	99.90%	30,256	11,954,940	100.16%
1997	12,503,106	12,430,737	99.42%	11,724	12,442,461	99.51%
1998	13,427,851	12,941,343	96.38%	29,497	12,970,840	96.60%
1999	13,831,658	13,715,875	99.16%	84,510	13,800,385	99.77%
2000	14,765,582	14,393,034	97.48%	155,780	14,548,814	98.53%
2001	15,076,350	14,922,100	98.98%	11,966	15,034,066	99.72%
2002	15,512,366	15,252,669	98.33%	96,341	15,349,010	99.53%
2003	15,927,626	15,781,384	99.08%	511,788	16,293,172	102.30%

Source: Beaufort County Treasurer's Office

NOTE: All Town of Hilton Head Island Property Taxes are billed, collected, and revenue forwarded to the Town by Beaufort County.

Town of Hilton Head Island, South Carolina
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Tax Year	Real & Personal		Motor Vehicles		Total Value		Ratio of Total Assessed to Total Estimated Actual Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1995	1994	\$ 241,657,689	\$ 4,261,369,746	\$ 29,234,448	\$ 278,423,314	\$ 270,892,137	\$ 4,539,793,060	5.97%
1996	1995	250,794,305	4,441,319,414	27,308,244	260,078,514	278,102,549	4,701,397,928	5.92%
1997	1996	256,259,235	4,530,025,184	31,826,909	303,113,419	288,086,144	4,833,138,603	5.96%
1998	1997	267,318,669	4,707,449,599	33,375,935	317,866,048	300,694,604	5,025,315,647	5.98%
*1999	1998	409,842,868	7,260,162,881	30,414,552	289,662,400	440,257,420	7,549,825,281	5.83%
2000	1999	417,384,447	7,368,592,517	36,112,524	343,928,800	453,496,971	7,712,521,317	5.88%
2001	2000	414,929,945	7,369,291,366	41,163,671	392,034,962	456,093,616	7,761,326,328	5.88%
2002	2001	435,389,649	7,735,366,110	40,250,382	383,336,971	475,640,031	8,118,703,081	5.86%
2003	2002	439,452,362	7,865,358,172	38,477,857	366,455,781	477,930,219	8,231,813,953	5.81%
2004	2003	454,685,211	8,025,375,587	40,344,252	504,303,150	495,029,463	8,529,678,737	5.80%

Source: Beaufort County Assessor's Office

*Property Tax Reassessment

Note: The 1977 Act passed by the South Carolina General Assembly provides for statewide uniform assessment ratios of 10.5% for manufacturers, furniture and fixtures and autos, 6% for inventory and either 6% or 4% for real property.

Table 7

Town of Hilton Head Island, South Carolina
Property Tax Millage Rates of Direct and Overlapping Governmental Jurisdictions
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Tax Year	County Public Schools	County Operations	Public Service Districts ⁽¹⁾ (Sewer & Water)	(Range)	Special Purpose & Fire Districts	Town Operations	Total Millage
1995	1994	121.50	67.40	9.80	9.6 to 10	22.20	41.25	262.15
1996	1995	127.40	66.40	9.50	9 to 10	22.20	41.25	266.75
1997	1996	126.80	64.00	8.25	6.5 to 10	22.20	41.25	262.50
1998	1997	128.60	63.80	8	6 to 10	17.35	41.25	259.00
1999	1998	99.50	51.10	7.50	5 to 10	7.20	30.50	195.80
2000	1999	108.40	58.30	7.50	5 to 10	7.20	30.50	211.90
2001	2000	119.80	58.10	7.50	5 to 10	7.20	30.50	223.10
2002	2001	119.80	56.60	7.50	5 to 10	6.50	31.00	221.40
2003	2002	129.20	60.00	7.50	5 to 10	0.00	31.00	227.70
2004	2003	130.40	64.00	7.50	5 to 10	0.00	31.00	⁽²⁾ 232.90

- ⁽¹⁾ Water and sewage services are provided to the Town by Public Service Districts. The numbers reported herein represent an average of the millage charges from the various providers. Service is on a fee-for-usage basis. The providers and district served are:
- Hilton Head Number 1 Public Service District.
 - Broad Creek Public Service District.
 - South Island Public Service District.

- ⁽²⁾ The Town's millage includes 19.3 Operations, 5.3 Capital Projects, and 6.4 Debt Service.

Table 8

Town of Hilton Head Island, South Carolina
Principal Taxpayers
June 30, 2004

Taxpayer	Type of Business	2003 Assessed Valuation	Percentage of Total Assessed Valuation
Marriott Ownership Resort	Property Management	\$ 13,844,046	2.80%
Palmetto Electric Co-op	Utility - Electric	6,539,094	1.32%
Hargray Telephone	Utility - Telephone	4,914,520	0.99%
Greenwood Development	Property Management	3,809,041	0.77%
Westin Hilton Head Ltd.	Property Management	3,420,000	0.69%
Smith Lynn Press		2,868,578	0.58%
Dune Hotel Associates	Property Management	2,778,000	0.56%
Renwar Industries Inc.		2,290,090	0.46%
M&M Multi Services	Cleaning Services	2,276,190	0.46%
Atlantic Industries Ltd.		1,905,750	0.38%
Total Taxable Assessed Value of 10 Largest Taxpayers		\$ 44,645,309	9.02%
Total Taxable Assessed Value of Other Taxpayers		\$ 450,384,154	90.98%
Total Taxable Assessed Value All Taxpayers ⁽¹⁾		\$ 495,029,463	100.00%

Source: Beaufort County

⁽¹⁾ From Table 6 of this statistical section

Town of Hilton Head Island, South Carolina
 Computation of Legal Debt Margin
 June 30, 2004

Assessed Value as of December 31, 2003			\$ 495,029,463
Debt Limit - Eight (8%) Percent of Assessed Value, without voter's approval			39,602,357
Amount of Debt Applicable to Debt Limit:			
	1996A	\$	935,000
Total General Obligation Bonds	1996B		5,505,000
	1998B		5,760,000
	1999B		6,000,000
Total Amount Applicable to Debt Limit			18,200,000
Legal Debt Margin without a Referendum			\$ 21,402,357

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

- a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;
- b. The provisions of Article Ten (X) Section 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.

Town of Hilton Head Island, South Carolina
 Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 June 30, 2004

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percentage Applicable to Town of Hilton Head Island ⁽²⁾	Amount Applicable to Town of Hilton Head Island
Beaufort County School District	\$ 235,135,000	54%	\$ 126,972,900
Beaufort County	80,960,000	54%	43,718,400
Town of Hilton Head Island	76,285,000	100%	76,285,000
Broad Creek Public Service District	6,420,000	100%	6,420,000
Hilton Head No. 1 Public Service District	795,000	100%	795,000
South Beach ⁽¹⁾	810,000	100%	810,000
TOTAL	<u>\$ 400,405,000</u>		<u>\$ 254,206,300</u>

Source: Beaufort County

⁽¹⁾ Debt Service for the Sea Pines Forest Beach Public Service District general obligation bonds is paid from water and sewer system revenues.

⁽²⁾ Percentage calculated based on Town's total assessed value from Table 6.

Town of Hilton Head Island, South Carolina
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Population ⁽¹⁾	Assessed Value ⁽²⁾	Gross General Bonded Debt	Exempt From Debt Limit	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995	29,560	\$ 270,892,137	\$ 10,865,000	0	\$ 10,865,000	4.01%	\$ 368
1996	30,340	278,102,549	10,395,000	0	10,395,000	3.74%	343
1997	31,141	288,086,144	12,855,000	0	12,855,000	4.46%	413
1998	31,452	300,694,604	31,880,000	15,000,000	16,880,000	5.61%	1,014
1999	31,767	440,257,420	50,770,000	26,750,000	24,020,000	5.46%	1,598
2000	33,862	453,496,971	49,155,000	27,000,000	22,155,000	4.89%	1,536
2001	33,973	456,093,616	67,350,000	47,000,000	20,350,000	4.46%	1,989
2002	34,452	475,640,031	65,160,000	45,780,000	19,380,000	4.07%	1,863
2003	34,407	477,930,219	63,730,000	44,470,000	19,260,000	4.03%	1,790
2004	35,600	495,029,463	76,285,000	58,085,000	18,200,000	3.68%	2,143

⁽¹⁾ Source: U.S. Census Bureau Yearly Population Estimates and Town of Hilton Head Island Planning Department

⁽²⁾ Source: Table 6 of this statistical section

Table 12

Town of Hilton Head Island, South Carolina
Ratio of Annual Debt Service Expenditures for General Bonded Debt
to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service	Total General Governmental Expenditures ⁽¹⁾	Ratio of Debt Service to Total General Expenditures
1995	\$ 865,000	\$ 858,280	\$ 1,723,280	\$ 14,231,490	12.11%
1996	675,515	571,957	1,247,472	14,549,972	8.57%
1997	1,065,000	1,322,282	2,387,282	15,997,726	14.92%
1998	880,000	947,078	1,827,078	18,245,159	10.01%
1999	725,000	1,874,512	2,599,512	18,750,225	13.86%
2000	2,020,000 ⁽²⁾	2,731,740	4,751,740	20,813,198	22.83%
2001	925,000	2,604,400	3,529,400	20,813,198	16.96%
2002	2,190,000	3,526,935	5,716,935	21,801,851	26.22%
2003	2,400,000	3,406,860	5,806,860	22,842,003	25.42%
2004	6,975,000 ⁽³⁾	3,305,057	10,280,057	23,786,723	43.22%

(1) Source: Table 3 of this statistical section

(2) Note: Includes the repayment of a \$1,140,000 Bond Anticipation Note

(3) Note: Includes the repayment of a \$4,530,000 Bond Anticipation Note

Town of Hilton Head Island, South Carolina
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Population ⁽¹⁾	Per Capita Personnel Income ⁽²⁾	Median Age ⁽¹⁾	Unemployment Rate ⁽³⁾
1995	29,560	23,108	44.5	1.7
1996	30,340	24,571	44.5	1.9
1997	31,141	26,088	45.0	1.4
1998	31,452	27,733	45.0	1.2
1999	31,767	29,243	45.5	1.3
2000	33,862	30,317	46.0	1.2
2001	33,973	32,380	46.0	1.4
2002	34,452	32,745	46.0	1.6
2003	34,407	32,880	46.3	1.7
2004	35,600*	33,235*	46.3 *	1.9

⁽¹⁾ Source: U.S. Census Bureau, Population Division

⁽²⁾ Source: U.S. Department of Commerce, Bureau of Economic Analysis

⁽³⁾ Source: U.S. Department of Labor, Bureau of Labor Statistics Data

*Note: 2004 estimates provided by Town of Hilton Head Island Planning Department

Population
Last Eight Census Reports (1)

Census Year	Town(2)	Percent Change	Beaufort County (3)	Percent Change	State of South Carolina (3)	Percent Change	United States(4)	Percent Change
1950	N/A		26,993	0%	2,117,027	0%	152,271,000	0%
1960	N/A		44,187	63.70%	2,382,594	12.54%	180,671,000	18.65%
1970	N/A		51,136	15.73%	2,590,713	8.73%	205,052,000	13.49%
1980	11,344	0.00%	65,364	27.82%	3,121,820	20.50%	227,757,000	11.07%
1985	17,622	55.34%	80,400	23.00%	3,333,000	6.76%	239,283,000	5.06%
1990	23,694	34.46%	86,425	7.49%	3,486,703	4.61%	248,709,873	3.94%
1995	28,800	21.55%	99,800	15.48%	3,673,000	5.34%	262,755,000	5.65%
2000	33,862	17.58%	120,937	21.18%	4,012,012	9.23%	281,421,906	7.10%

(1) 1990, 1995, and 2000 Census figures reported are from U.S. Bureau of Census

(2) Town not incorporated until 1983. Figures from U.S. Bureau of Census

(3) Source: South Carolina Statistical Abstract

(4) Source: Statistical Abstract of the United States, U.S. Bureau of Census except 1990 figures (see note 1)

Table 14

Town of Hilton Head Island, South Carolina
Property Values, Construction, & Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Property Value ⁽¹⁾ Assessed Value Real & Personal	Single Family Dwellings ⁽²⁾		Construction Multi-Family Dwellings ⁽²⁾		Commercial ⁽²⁾		Bank Deposits ⁽³⁾ Stated in Thousands
		Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	
1995	\$ 241,657,689	439	\$ 98,496,548	30	\$ 31,529,696	31	\$ 14,147,356	\$ 612,106
1996	250,794,305	440	95,779,767	15	21,421,380	34	15,033,550	648,126
1997	256,259,235	436	106,641,815	19	19,301,400	41	10,823,693	647,871
1998	267,318,669	430	114,706,668	13	24,034,292	42	12,143,223	710,458
1999	409,842,868	516	135,870,877	74	71,938,989	53	26,759,161	789,619
2000	417,384,447	416	140,348,609	42	60,111,440	60	23,625,126	963,835
2001	414,929,945	401	144,135,354	25	56,767,978	29	7,739,004	1,208,147
2002	435,389,649	412	159,139,812	9	21,711,991	28	7,273,489	1,237,344
2003	439,452,362	295	127,470,254	11	21,772,830	30	11,449,836	1,374,600
2004	454,685,211	313	140,989,234	8	25,807,440	40	20,651,573	1,321,598

⁽¹⁾ Source: Table 6 of this statistical section

⁽²⁾ Source: Town of Hilton Head Island, Department of Building & Fire Codes

⁽³⁾ Source: Table 15 of this statistical section (FDIC - Federal Deposit Insurance Corporation)

Town of Hilton Head Island, South Carolina
Deposits at Local Banks and Savings and Loan Institutions
(Amounts Stated in Thousands)

Deposits Reported As Of June 30,	Bank & S&L Deposits		
	Town of Hilton Hd Isl.	Beaufort County	% Deposits From Town
1995	\$ 612,106	\$ 960,895	63.70%
1996	648,126	1,065,428	60.83%
1997	647,871	1,108,209	58.46%
1998	710,458	1,214,611	58.49%
1999	789,619	1,326,364	59.53%
2000	963,835	1,529,473	63.02%
2001	1,208,147	1,832,106	65.94%
2002	1,237,344	2,091,262	59.17%
2003	1,374,600	2,287,380	60.09%
2004	1,321,598	2,362,717	55.94%

Source: 1995-1997 National Bank of South Carolina,
"County Market Share Analysis"
1998-2004 FDIC Market Share Report

**Town of Hilton Head Island, South Carolina
Miscellaneous Statistics**

General Statistics

Date of Incorporation:	May 18, 1983
Form of Government:	Council /Manager
Number of Employees:	
Full-Time	234
Part-Time	4
Area:	42 Square Miles
Miles of Beach on Atlantic Ocean:	12
Number of Traffic Lights:	22

Permits Issued in Fiscal Year 2004

Building Permits:	378
Miscellaneous Permits:	3,255
Inspections:	18,749

Recreation and Culture

Golf Courses (non-municipal) in Town Limits:	25
Public Tennis Clubs:	7
Tennis Courts Public & Private:	382

Public Recreation Facilities

Active Recreation:	3
Beach Access/Parks:	7
Pools:	1
Number of Libraries:	2
Museums:	1
Nature Preserves:	3
Marinas:	10
Arts Centers:	1

Tourism

Peak Summer Population:	258,696
Total Annual Visitors:	2.3 million
Annual Visitor Expenditures:	\$1.5 billion

Climate	Avg Temp (°F)	Avg Max Temp (°F)	Avg Min Temp (°F)	Avg Water Temp (°F)	Sunshine Potential	Average Precipitation (inches)
January:	47.90	58.40	37.30	52	54%	4.4
February:	50.00	61.10	39.00	54	57%	3.3
March:	56.50	67.20	45.70	59	62%	3.8
April:	63.40	73.90	52.80	67	71%	3.2
May:	71.40	80.50	62.10	75	68%	3
June:	77.30	85.40	69.10	82	65%	5.1
July:	80.50	88.30	72.70	84	64%	6.1
August:	79.30	86.90	71.70	84	62%	8.2
September:	75.50	83.00	68.00	80	58%	5.8
October:	66.60	76.00	57.20	73	63%	3.8
November:	57.90	68.30	47.40	63	61%	2.7
December:	49.90	60.30	39.60	54	55%	3.1
Yearly Avg:	64.68	74.11	55.22	69	62%	4.4



Single Audit Section



**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
The Town of Hilton Head Island
Hilton Head Island, South Carolina

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of The Town of Hilton Head Island, as of and for the year ended June 30, 2004, which collectively comprise the Town of Hilton Head Island's basic financial statements, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Town of Hilton Head Island's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the mayor and members of town council, management and the 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.

Cherry, Richard & Holland, L.L.P.

Beaufort, South Carolina
December 17, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Town of Hilton Head Island with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The Town of Hilton Head Island's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of Hilton Head Island's management. Our responsibility is to express an opinion on the Town of Hilton Head Island's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Hilton Head Island's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Hilton Head Island's compliance with those requirements.

In our opinion, the Town of Hilton Head Island complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Town of Hilton Head Island is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Hilton Head Island's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the mayor and members of town council, management, 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.

Cherry, Behant, & Holland, L.L.P.

Beaufort, South Carolina
December 17, 2004

THE TOWN OF HILTON HEAD ISLAND

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

I. Summary of auditors' results

- A. An unqualified opinion dated December 17, 2004 was issued on the financial statements of The Town of Hilton Head Island.
- B. Our audit of the financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements material to the financial statements.
- D. An unqualified opinion dated December 17, 2004 was issued on The Town of Hilton Head Island's compliance with the types of compliance requirements applicable to its major federal programs.
- E. The major federal program for The Town of Hilton Head Island for the fiscal year ended June 30, 2004 is:

<u>CFDA Number</u>	<u>Program Title</u>
14.228	Community Development Block Grant

- F. The threshold for determining major federal programs for The Town of Hilton Head Island was \$300,000.
- G. The Town of Hilton Head Island was not assessed as a low risk auditee under Circular No. A-133.

II. Findings related to the Audit of the financial statements of The Town of Hilton Head Island

There were no findings related to the audit of the financial statements that are required to be reported.

III. Findings and questioned costs related to the audit of federal awards

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510 (a) of OMB Circular A-133.

The Town of Hilton Head Island

Status of Prior Findings
June 30, 2004

There were no prior findings and questioned costs for federal awards that were required to be reported under Section .510 (a) of OMB Circular A-133.

THE TOWN OF HILTON HEAD ISLAND
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Total Expenditures</u>
U.S Department of Housing and Urban Development Community Development Block Grant	14.228	4-L-00-026	<u>\$ 545,532</u>

THE TOWN OF HILTON HEAD ISLAND

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Note 1 - Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of The Town of Hilton Head Island and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Supplemental Financial Information

THE TOWN OF HILTON HEAD ISLAND

Schedule of Municipal Fines, Assessments and Surcharges

For the Year Ended June 30, 2004

Court fines

Court fines collected	\$ 284,564
Court fines retained by the Town	<u>284,564</u>
Court fines remitted to State Treasurer	<u>\$ -</u>

Court assessments

Court assessments collected	\$ 306,182
Court assessments retained by the Town	<u>33,982</u>
Court assessments remitted to State Treasurer	<u>\$ 272,200</u>

Court surcharges

Court surcharges collected	\$ 107,002
Court surcharges retained by the Town	<u>11,695</u>
Court surcharges remitted to State Treasurer	<u>\$ 95,307</u>

Victims services

Court assessments allocated to victims services	\$ 33,982
Victim services expenditures	<u>(42,230)</u>
Funds available for carryforward	<u>\$ (8,248)</u>