TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2003

DEPARTMENT OF FINANCE

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TOWN OF HILTON HEAD ISLAND,

South Carolina

Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2003

Prepared By
Finance Department

Shirley A. Freeman
Director of Finance

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Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2003

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Introductory Section

TOWN OF HILTON HEAD ISLAND

One Town Center Court, Hilton Head Island, S.C. 29928
(843) 341-4600 Fax (843) 842-7728
http://www.hiltonheadislandsc.gov

Thomas D. Peeples
Mayor

Kenneth S. Heitzke
Mayor ProTem

Council Members

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

Stephen G. Riley
Town Manager

December 31, 2003

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, 2003, 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 Robinson Grant & Co., P.A., 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, 2003, 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, 2003, 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 2.3 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 $5,400 over the 2002 collection for a total of $3,589,112. 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 unemployment rate to be 1.6%. This compares to 6.0% for the United States, 5.9% for South Carolina and 2.3% 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 the major portion of its drainage projects next fiscal year. In partnership with Hilton Head No. 1 Public Service District, it will complete a sewer project for the homes in the Muddy Creek area.

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 $659,153 of interest earnings for fiscal year ended June 30, 2003, as compared to $817,211 for the prior fiscal year. The average yield on investment for the year was 1.7%.

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 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, 2002. This was the fourteenth consecutive year (1989–2002) 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 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

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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, 2002

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

President

Executive Director

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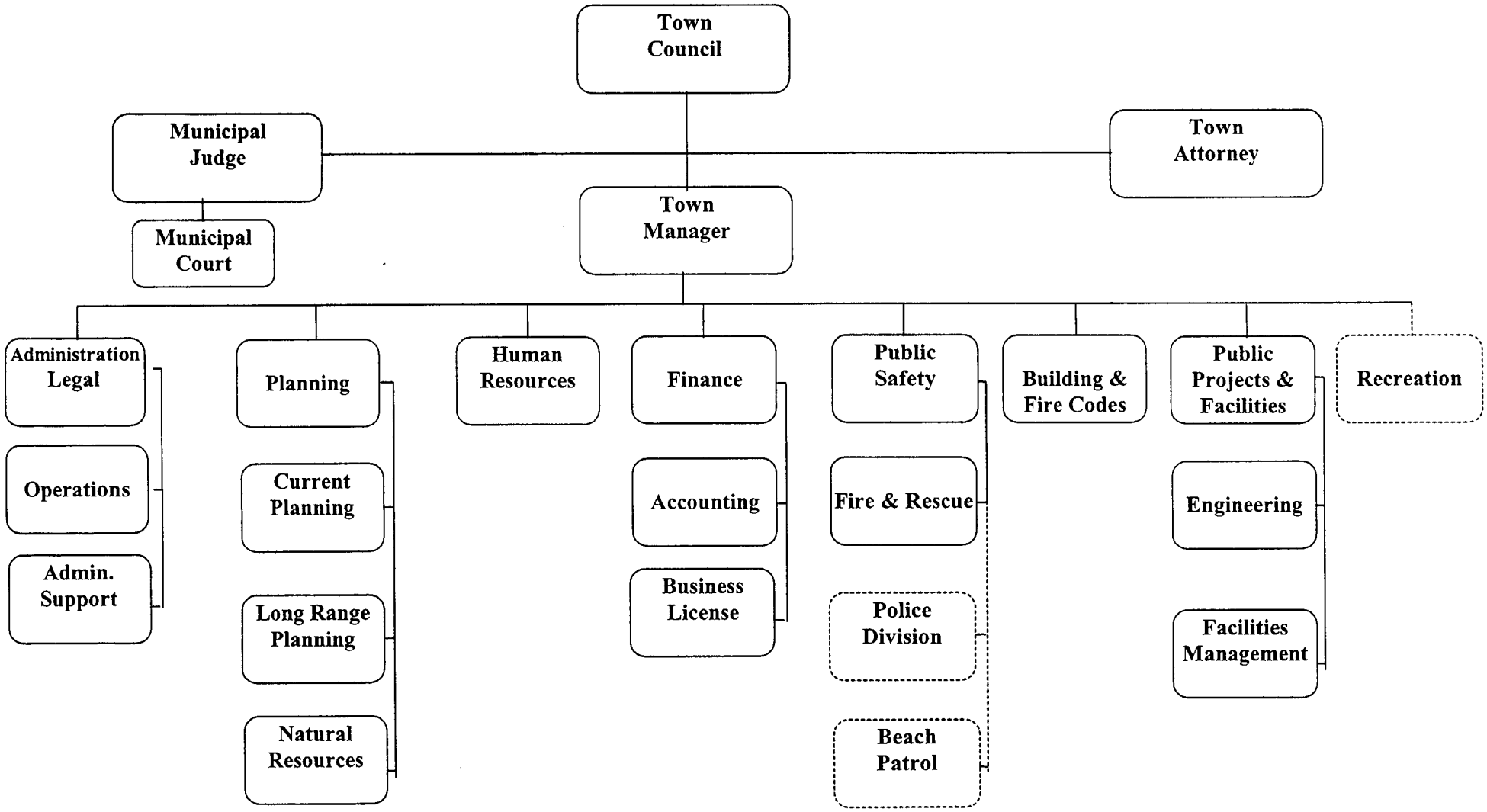
TOWN OF HILTON HEAD ISLAND
ORGANIZATIONAL CHART



TOWN OF HILTON HEAD ISLAND

Council - Manager Form of Government

Elected Officials

	Years In Office
Mayor	
The Honorable Thomas D. Peeples	12.5
Town Council	
James K. Carlin - Mayor Pro Tempore	9.5
John D. Safay	1.5
Willie Ferguson	9.5
Kenneth S. Heitzke	6.0
W. J. (Bill) Mottel	5.0
George W. Williams, Jr.	2.0

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

Robinson Grant & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

C. THOMAS DEWITT, CPA
KENDALL F. ERICKSON, CPA
J. LOUIS GRANT, CPA
WILLIAM C. ROBINSON, CPA
JUDITH A. JOHNSON, CPA
JAMES W. LITCHFIELD, CPA (1946-1994)

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INDIGO RUN COMMERCIAL PARK
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INDEPENDENT AUDITOR'S REPORT

December 11, 2003

Town Council
Town of 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, South Carolina as of and for the year ended June 30, 2003, 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 of Hilton Head Island, South Carolina management. Our responsibility is to express an opinion 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. 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 of Hilton Head Island, South Carolina as of June 30, 2003 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Town of Hilton Head Island has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of June 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 3-12 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hilton Head Island's, South Carolina basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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.

Robenson Grant & Co., P.A.

Town of Hilton Head Island, South Carolina

Management's Discussion and Analysis

As management of the Town of Hilton Head Island, we offer readers of the Town of Hilton Head Island'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, 2003. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets of the Town of Hilton Head Island exceeded its liabilities at the close of the fiscal year by $100.7 million (*net assets*).

- The government's total net assets increased by $10.2 million, primarily due to the land purchased through the Town Land Acquisition Program.

- As of the close of the current fiscal year, the Town of Hilton Head Island's governmental funds reported combined ending fund balances of $39.9 million, an increase of $8.4 million. Approximately eighty percent (80%) of this total amount, or $32.1 million, is available for spending at the government's discretion (*unreserved fund balance*). The majority of this fund balance resides in the Capital Projects Fund.

- At the end of the current fiscal year, unreserved fund balance for the General Fund was $7.2 million of which $657,581 is designated for disaster recovery.

- The Town of Hilton Head Island's total debt increased by $13.9 million (17%) during the current fiscal year. The key factor in this increase was that the Town issued a $17 million Stormwater Utility Bond.

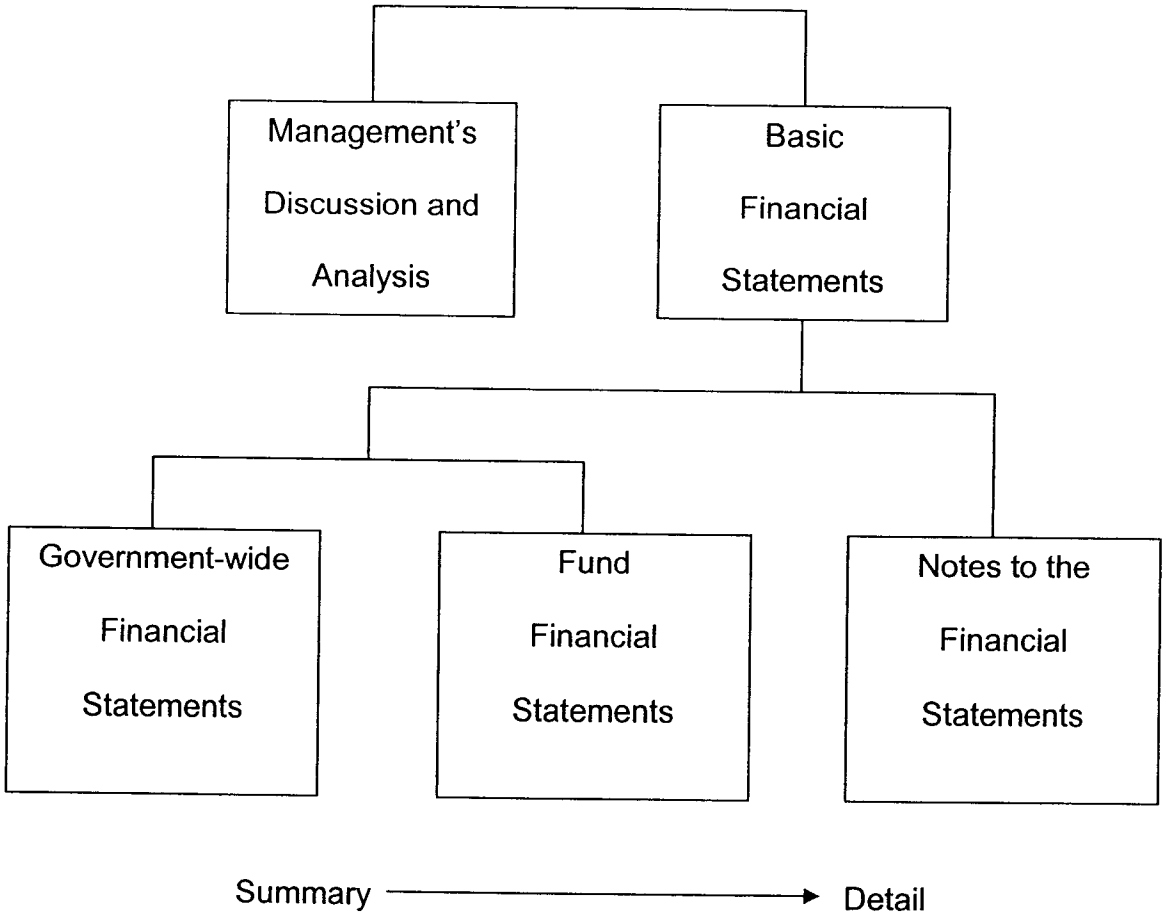
- The Town of Hilton Head Island maintained its AA bond rating.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Town of Hilton Head Island's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). 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.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through G) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements, and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds.

Government-wide Financial Statements - The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gage the Town's financial condition.

The government-wide statements display one category: governmental activities. The governmental activities include most of the Town's basic services such as general government, management services, planning/building and fire codes, public safety, public projects and facilities, non-departmental, accommodations tax grants, visitor and convention bureau and administration. Property taxes and state and federal grant funds finance most of these activities.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements - The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Hilton Head Island uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Hilton Head Island are included in one category: Governmental Funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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.

It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund and the Tax Increment Financing Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the applicable fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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 20-48 of this report.

Government-wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2003, are the beginning of a new era in financial reporting for the Town of Hilton Head Island and many other units of government across the United States. Prior to this year, the Town of Hilton Head Island maintained their individual governmental funds in separate funds without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the Town of Hilton Head Island. These statements were basically the equivalent of the fund financial statements that appear in this report with two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the Town of Hilton Head Island's financial reports as well as those of many other units of government. While the Town of Hilton Head Island was required to implement these changes for the fiscal year ended June 30, 2003, other units may not be required to implement until 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

The Town of Hilton Head Island's Net Assets

Figure 2

	Governmental Activities 2003
Current and other assets	$ 47,841,765
Capital assets	155,066,216
Total assets	202,907,981
Long-term liabilities outstanding	98,457,694
Other liabilities	3,788,591
Total liabilities	102,246,285
Net assets:	
Invested in capital assets, net of related debt	57,478,757
Unrestricted	43,182,939
Total net assets	$ 100,661,696

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Hilton Head Island exceeded liabilities by $100.7 million as of June 30, 2003. The Town's net assets (including additions and deductions) increased by $10.2 million for the fiscal year ended June 30, 2003. However, the largest portion (57%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Hilton Head Island uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Hilton Head Island's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net assets:

- Sale of land to school district $1.7 million.
- The collection of $1.1 million in Stormwater Utility Funds.
- Business license revenue continues to demonstrate the strong Town economy coming in seven percent (7%) over budget.
- The Town also received donations of $326,800 for the Capital Improvements Program.

Town of Hilton Head Island Changes in Net Assets

Figure 3

	Governmental Activities 2003
Revenues:	
Program revenues:	
Charges for services	$ 15,707,668
Operating grants and contributions	268,861
Capital grants and contributions	359,364
General revenues:	
Property taxes	15,349,010
Other taxes	7,281,600
Other	3,818,629
Total revenues	42,785,132
Expenses:	
General government	6,060,040
Highways/streets	440,306
Public safety	13,873,760
Economic development	5,089,067
Culture and recreation	2,498,311
Interest on long-term debt	4,610,909
Total expenses	32,572,393
Increase in net assets	10,212,739
Net assets, July 1	90,448,957
Net assets, June 30	$ 100,661,696

Governmental Activities

Governmental activities increased the Town's net assets by $10.2 million. Key elements of this increase are as follows:

- The purchase of $11.5 million of land.
- Grants and Contributions revenues were used to construct some capital assets.
- Tax revenues remained steady.

Financial Analysis of the Town's Funds

As noted earlier, 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 $7.2 million, while total fund balance reached $7.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents thirty-two percent (32%) of total General Fund expenditures, while total fund balance represents thirty-two percent (32%) of that same amount.

At June 30, 2003, the governmental funds of Town of Hilton Head Island reported a combined fund balance of $39.9 million, a 26.6% increase over last year.

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 increases totaled $593,568 this was for legal commitments from the prior year and increase in transfers in. These are summarized as follows:

$ 89,985 Increases in contractual & consulting services
$ 20,015 Increases in supplies
$ 53,568 Increases in equipment & vehicles
$430,000 Increases in transfers in

Revenues for permits were less than the budgeted amounts primarily because due to a rush in the prior year as a result of changes to the building code. A transfer from other funds replaced the expected loss. However, expenditures were held in check to compensate for the lack of funding, and the Town was able to comply with its budgetary requirements.

Capital Asset and Debt Administration

Capital Assets - The Town of Hilton Head Island's investment in capital assets for its governmental as of June 30, 2003, totals $155 million (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 $5 million in governmental-type activities for drainage, road improvement, pathways, new facilities and existing facilities.

- Through the Land Acquisition Program, the Town purchased $11.5 million of land for preservation, reducing development, public access, and the Capital Improvements Program.
- Fire Station #7 was completed this year.

Town of Hilton Head Island's Capital Assets

Figure 4

	Governmental Activities 2003
Land	$ 124,213,072
Buildings	9,501,036
Furniture, fixtures and equipment	1,809,819
Infrastructure	12,095,387
Vehicles	1,368,914
Construction in progress	6,077,988
Total	$ 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, 2003, the Town of Hilton Head Island had total bonded debt outstanding of $91,695,000. Of this, $63,730,000 is debt supported by the full faith and credit of the Town. The remainder of the Town's debt represents Certificates of Participation and Stormwater Utility Bonds.

Town of Hilton Head Island's Outstanding Debt

Figure 5

	Governmental Activities 2003
General Obligation Bonds	$ 63,730,000
Revenue Bond	17,000,000
Certificates of Participation	10,965,000
Total	$ 91,695,000

The Town of Hilton Head Island's total debt increased by $13.9 million (18%) during the past fiscal year, primarily due to the issuance of a $17 million Stormwater Utility Bond.

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 and Aaa[3] rating from Standard and Poor's Corporation and 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 to eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Hilton Head Island is $38.2 million. The Town has $19.3 million in bonds issued at June 30, 2003, 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 22-29 of this report.

Economic Factors and Next Year's Budgets and Rates

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 1.6% is well below the State average of 5.9%.
- Tourism is the largest "industry" in the Island's economy. The State 2% Accommodations Tax gross collections in the Town were maintained with a slight $5,000 increase over the 2002 collection for a total of $3,589,112.
- Business Licenses remain strong with revenue over this year's budget.

Budget Highlights for the Fiscal Year Ending June 30, 2004:

Governmental Activities - The General Fund's revenues for fiscal year 2004 are budgeted at $24,299,000, an increase of $721,432 or 3% 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 $24,299,000. The largest increments are in employee compensation, including funding compensation and benefits adjustments.

The Capital Improvements Fund appropriation is $25,325,000. The majority of the expenditures are budgeted for drainage improvements of $7,000,000.

The Debt Service Fund provides for the payment of principal and interest payments of $6,519,068.

The assessment rate for the fiscal year beginning July 1, 2003 on taxable property located with the Town of Hilton Head Island was established at 31 mills upon each one dollar of taxable property in the Town of Hilton Head which is unchanged from the prior fiscal year.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Hilton Head Island, One Town Center Court, Hilton Island, South Carolina, 29928.

Basic Financial Statements

TOWN OF HILTON HEAD ISLAND
STATEMENT OF NET ASSETS
JUNE 30, 2003

Exhibit "A"

	Governmental Activities
ASSETS	
Cash	$ 5,428,176
Investments	30,919,036
Accounts Receivable	3,635,154
Due from Employees	100,805
Due from Other Governments	2,755,924
Prepaid Expenses	362,161
Restricted Assets:	
Cash	1,234,704
Investments	3,405,805
Capital Assets:	
Non Depreciable	130,291,060
Depreciable	24,775,156
Total assets	202,907,981
LIABILITIES	
Accounts Payable	1,219,210
Payable to Hilton Head Chamber of Commerce Visitor & Convention Bureau	308,806
Accrued Payroll and Related Payables	423,985
Due to Other Governments	494,272
Unearned Revenue	19,924
Payable from Restricted Assets:	
Irrigation and Pool Bonds Payable	122,000
Court Bonds Payable	44,175
Performance Bonds Payable	399,742
Interest Payable	756,477
Long-Term Liabilities:	
Due Within Less than One Year	8,646,943
Due Within More than One Year	89,810,751
Total liabilities	102,246,285
NET ASSETS	
Capital Assets Net of Related Debt	57,478,757
Unrestricted	43,182,939
Total net assets	$ 100,661,696

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

TOWN OF HILTON HEAD ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2003

Exhibit "B"

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities
Primary government:					
Governmental activities:					
General Government	$ 1,376,550	$ 535,421	$ 225,967	$ -	$ (615,162)
Management Services	2,929,346	5,685,191	-	-	2,755,845
Planning/Building and Fire Codes	2,275,565	1,470,106	-	-	(805,459)
Public Safety	13,873,760	-	-	-	(13,873,760)
Public Projects and Facilities	3,253,808	4,840,838	-	359,364	1,946,394
Non-Departmental	1,754,144	-	-	-	(1,754,144)
Accommodations Tax Grants	1,197,868	-	-	-	(1,197,868)
Visitor and Convention Bureau	937,117	-	-	-	(937,117)
Administrative	363,326	3,176,112	42,894	-	2,855,680
Interest	4,610,909	-	-	-	(4,610,909)
Total governmental activities	32,572,393	15,707,668	268,861	359,364	(16,236,500)
Total primary government	$ 32,572,393	$ 15,707,668	$ 268,861	$ 359,364	$ (16,236,500)

General revenues:	
Taxes	22,630,610
Intergovernmental	1,144,768
Investment Income	659,153
Miscellaneous	2,014,708
Total general revenues	26,449,239
Change in net assets	10,212,739
Net assets - beginning	90,448,957
Net assets - ending	$ 100,661,696

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

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

Exhibit "C"

	General	Tax Increment Financing District	Beach Preservation Fee	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash	$ 4,128,417	$ -	$ -	$ -	$ 1,257,835	$ 41,924	$ 5,428,176
Investments	2,308,210	-	6,001,524	1,963,260	18,283,411	2,362,631	30,919,036
Accounts Receivable	1,520,267	-	1,305,041	-	809,847	-	3,635,154
Due from Employees	100,805	-	-	-	-	-	100,805
Due from Other Funds	171,721	-	2,872	1,659,174	858,337	318,906	3,011,011
Due from Other Governments	764,893	5,366	-	-	618,017	1,367,648	2,755,924
Restricted Assets:							
Cash	399,742	814,414	-	-	-	20,548	1,234,704
Investments	655,052	-	-	2,750,753	-	-	3,405,805
Total assets	$ 10,049,107	$ 819,780	$ 7,309,437	$ 6,373,187	$ 21,827,447	$ 4,111,657	$ 50,490,615
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	$ 106,450	$ 35,751	$ -	$ -	$ 1,000,721	$ 76,288	$ 1,219,210
Accrued Payroll and Employee Payable	423,985	-	-	-	-	-	423,985
Due to Other Governments	494,272	-	-	-	-	-	494,272
Due to Other Funds	1,164,943	139,359	418,541	-	629,287	658,881	3,011,011
Deferred Revenue	-	-	-	-	-	19,924	19,924
Payabe from restricted assets:							
Irrigation and Pool Bonds Payable	122,000	-	-	-	-	-	122,000
Court Bonds Payable	44,175	-	-	-	-	-	44,175
Performance Bonds Payable	399,742	-	-	-	-	-	399,742
Payable to Hilton Head Chamber of Commerce Visitor and Convention Bureau	-	-	-	-	-	308,806	308,806
General Obligation Bond Anticipation Note	-	4,530,000	-	-	-	-	4,530,000
Total liabilities	2,755,567	4,705,110	418,541	-	1,630,008	1,063,899	10,573,125
Fund balances:							
Reserved:							
Encumbrances	77,952	-	-	-	646,663	714,280	1,438,895
Debt Service	-	-	-	6,373,187	-	-	6,373,187
Unreserved:							
Designated for Disaster	657,581	-	-	-	-	-	657,581
Undesignated	6,558,007	(3,885,330)	6,890,896	-	19,550,776	-	29,114,349
Reported in nonmajor:							
Special Revenue	-	-	-	-	-	2,333,478	2,333,478
Total fund balances	7,293,540	(3,885,330)	6,890,896	6,373,187	20,197,439	3,047,758	39,917,490
Total liabilities and fund balances	$ 10,049,107	$ 819,780	$ 7,309,437	$ 6,373,187	$ 21,827,447	$ 4,111,657	$ 50,490,615

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

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2003

Exhibit "D"

Amounts reported for governmental activities in the statement of net assets are different because:		
Ending fund balance - governmental funds	$	39,917,490
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		155,066,216
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		(756,477)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(93,565,533)
Net assets of governmental activities	$	100,661,696

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

TOWN OF HILTON HEAD ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

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	$ 9,265,943	$ 418,912	$ -	$ 3,079,655	$ 2,584,500	$ -	$ 15,349,010
Accommodations Tax	1,728,707	-	-	-	-	3,148,723	4,877,430
Hospitality Tax	-	-	-	-	2,404,170	-	2,404,170
Business Licenses and Franchises	6,214,543	-	-	-	-	-	6,214,543
Permits	1,121,066	-	-	-	-	-	1,121,066
Impact Fees	-	-	-	-	-	355,109	355,109
Real Estate Transfer Fees	-	-	-	-	-	3,176,112	3,176,112
Beach Preservation Fees	-	-	3,456,163	-	-	-	3,456,163
Stormwater Fees	-	-	-	-	1,100,234	-	1,100,234
State Shared Funds	872,768	-	-	-	272,000	-	1,144,768
Donations	1,730	-	-	-	326,800	-	328,530
Other Grants	225,967	-	-	-	359,364	42,894	628,225
Miscellaneous Revenue	1,733,390	-	-	-	1,942,719	-	3,676,109
Investment Income	100,582	772	45,542	180,239	278,911	53,107	659,153
Total revenues	21,264,696	419,684	3,501,705	3,259,894	9,268,698	6,775,945	44,490,622
Expenditures:							
Current:							
General Government	1,035,285	-	-	-	-	-	1,035,285
Management Services	2,915,272	-	-	-	-	-	2,915,272
Planning/Building and Fire Codes	2,259,486	-	-	-	-	-	2,259,486
Public Safety	12,237,337	-	-	-	-	-	12,237,337
Public Projects and Facilities	2,191,772	-	-	-	-	-	2,191,772
Non-Departmental	1,693,628	-	-	-	-	-	1,693,628
Accommodations Tax Grants	-	-	-	-	-	1,197,868	1,197,868
Visitor and Convention Bureau	-	-	-	-	-	937,117	937,117
Administrative	-	275,527	-	12,563	-	75,236	363,326
Capital Outlay	411,501	-	-	-	19,780,044	-	20,191,545
Debt service:							
Principal	74,033	-	-	2,400,000	720,000	-	3,194,033
Interest	23,689	101,112	-	3,782,133	660,119	-	4,567,053
Debt issue costs	-	-	-	-	377,251	-	377,251
Total expenditures	22,842,003	376,639	-	6,194,696	21,537,414	2,210,221	53,160,973
Excess (deficiency) of revenues over (under) expenditures	(1,577,307)	43,045	3,501,705	(2,934,802)	(12,268,716)	4,565,724	(8,670,351)
Other financing sources (uses)							
Bond Issue	-	-	-	-	17,000,000	-	17,000,000
Premium on bond issuance	-	-	-	-	92,496	-	92,496
Transfers in	2,000,378	-	-	4,377,744	2,484,246	-	8,862,368
Transfers out	(43,687)	(18,000)	(1,088,541)	-	(2,158,294)	(5,553,846)	(8,862,368)
Total other financing sources (uses)	1,956,691	(18,000)	(1,088,541)	4,377,744	17,418,448	(5,553,846)	17,092,496
Net change in fund balances	379,384	25,045	2,413,164	1,442,942	5,149,732	(988,122)	8,422,145
Fund balance - beginning (as reported)	6,914,156	(3,910,375)	4,477,732	3,769,245	13,944,290	4,035,880	29,230,928
Prior period adjustment related to debt service	-	-	-	1,161,000	214,410	-	1,375,410
Prior period adjustment related to revenue recognition	-	-	-	-	889,007	-	889,007
Fund balance - beginning (restated)	6,914,156	(3,910,375)	4,477,732	4,930,245	15,047,707	4,035,880	31,495,345
Fund balance - ending	$ 7,293,540	$ (3,885,330)	$ 6,890,896	$ 6,373,187	$ 20,197,439	$ 3,047,758	$ 39,917,490

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

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Exhibit "F"

YEAR ENDED JUNE 30, 2003

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	8,422,145
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.		15,559,903
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.		- (13,736,843)
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.		(32,466)
Change in net assets of governmental activities	$	10,212,739

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2003

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	$ 9,153,500	$ 9,153,500	$ 9,265,943	$ 112,443	$ -	$ 448,200	$ 418,912	$ (29,288)
Accommodations Tax	1,923,000	1,923,000	1,728,707	(194,293)	-	-	-	-
Business Licenses and Franchises	5,754,000	5,754,000	6,214,543	460,543	-	-	-	-
Permits	1,410,000	980,000	1,121,066	141,066	-	-	-	-
State Shared Funds	916,700	916,700	872,768	(43,932)	-	-	-	-
Donations	-	-	1,730	1,730	-	-	-	-
Other Grants	-	-	225,967	225,967	-	-	-	-
Miscellaneous Revenue	2,177,000	2,177,000	1,733,390	(443,610)	-	-	-	-
Investment Income	267,000	267,000	100,582	(166,418)	-	-	772	772
Total revenues	21,601,200	21,171,200	21,264,696	93,496	-	448,200	419,684	(28,516)
EXPENDITURES								
Current:								
General Government	1,024,558	1,077,988	1,035,285	42,703	-	-	-	-
Management Services	3,121,104	3,128,527	2,915,272	213,255	-	-	-	-
Planning/Building and Fire Codes	2,416,149	2,450,629	2,259,486	191,143	-	-	-	-
Public Safety	12,369,586	12,408,227	12,237,337	170,890	-	-	-	-
Public Projects and Facilities	2,247,838	2,262,430	2,191,772	70,658	-	-	-	-
Non-Departmental	1,696,589	1,696,689	1,693,628	3,061	-	-	-	-
Administrative	-	-	-	-	-	948,000	275,527	672,473
Capital Outlay	438,176	454,878	411,501	43,377	-	-	-	-
Debt service:								
Principal	100,000	98,200	74,033	24,167	-	-	-	-
Interest	-	-	23,689	(23,689)	-	100,200	101,112	(912)
Total expenditures	23,414,000	23,577,568	22,842,003	735,565	-	1,048,200	376,639	671,561
Excess (deficiency) of revenues over (under) expenditures	(1,812,800)	(2,406,368)	(1,577,307)	829,061	-	(600,000)	43,045	643,045
OTHER FINANCING SOURCES (USES)								
Bond Issue	-	-	-	-	-	600,000	-	(600,000)
Transfers in	1,647,800	2,077,800	2,000,378	(77,422)	-	-	-	-
Transfers out	-	-	(43,687)	(43,687)	-	-	(18,000)	(18,000)
Appropriated Fund Balance	165,000	328,568	-	(328,568)	-	-	-	-
Total other financing sources (uses)	1,812,800	2,406,368	1,956,691	(449,677)	-	600,000	(18,000)	(618,000)
Net change in fund balances	$ -	$ -	379,384	$ 379,384	$ -	$ -	25,045	$ 25,045
FUND BALANCE - BEGINNING			6,914,156				(3,910,375)	
FUND BALANCE - ENDING			$ 7,293,540				$ (3,885,330)	

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

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.

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 Reservation 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. The government-wide financial statements are reported using 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.

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

Property taxes for the year ended June 30, 2003, 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.

5) Budgets are adopted on a basis consistent with GAAP.

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:	
Permit Fee Decrease	($430,000)
Total Revenues Decrease	($430,000)
Expenditures:	
General Government:	
Town Council:	
Increase in services & supplies	60
Human Resources:	
Increase in consulting	$33,370
Management Services:	
Finance Administration:	
Increase in training/meetings	89
Municipal Court:	
Increase in contractual services	121
Administration-Operations:	
Increase in maintenance contracts	2,050
Increase in supplies/services	5,164
Planning/Building & Fire Codes:	
Planning Administration:	
Increase in supplies & services	119
Current Planning:	
Increase in supplies & services	75
Increase in professional services	22,056
Long Range Planning:	
Increase in professional services	11,303
Building & Fire Codes:	
Increase in supplies & services	928
Public Safety:	
Fire and Rescue Division – Administration:	
Increase in supplies & services	9
Fire and Rescue Division – Logistics/Maintenance:	
Increase in supplies & services	9,087
Increase in professional services	1,991
Fire and Rescue Division - Operations:	
Increase in supplies & services	11,105
Fire and Rescue Division – Training:	
Increase in training/meetings	587
Increase in supplies & services	2,087
Bureau of Fire Prevention:	
Increase in training/meetings	729
Police Patrol/Communications:	
Increase in Police Services	3,399
Public Projects & Facilities:	
Administration:	
Increase in supplies & services	54
Increase in professional services	14,130
Engineering:	
Increase in supplies & services	346
Facilities Management:	
Increase in professional services	60
Non-departmental	
Non-departmental – Town-wide:	
Increase in photocopying	100
Capital Outlay:	
Management Services:	
Administration-Operations:	
Increase in specialized equipment	1,253

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

Public Safety:	
Fire and Rescue Division – Logistics & Maintenance	
Increase in vehicles	7,308
Increase in equipment/radios	35,988
Total Expenditures Increase	$163,568
Other Financing Sources:	
Increase in Transfers In	$430,000

Tax Increment Financing -- Special Revenues Fund

Revenues:	
Taxes	$448,200
Expenditures:	
Consulting/Reports & Studies	$848,000
Debt Service:	
Interest	100,200
Capital Outlay:	
Sewer Design	100,000
Total Expenditures increase	$1,048,200
Other Financing Sources:	
Proceeds of Bond Anticipation Notes	$600,000

Capital Projects Fund

Revenues:	
Donations	$300,000
Beach Fees	35,505
Transfer Payment - Open Space	43,687
Decrease in Hospitality Tax	(284,000)
Stormwater Utility	458,917
Sale of Land	1,640,000
Hospitality Tax	21,406
Total Revenues increase	$2,215,515
Expenditures:	
Capital Outlay:	
New Facilities:	
Increase in Fire Station #7	$20,477
Decrease in Fire & Rescue Dispatch Center	(284,000)
Road Improvements:	
Traffic signals mast arms	106,969
Drainage Improvements:	
Increase in Gumtree	73,372
Increase in Beach City/Airport	160,873
Increase in Northridge	17,293
Increase in Pineland Mill	31,943
Increase in Folly Field	86,845
Increase in Marshland Road	85,222
Increase in Jarvis Creek	3,369
Park Development:	
Increase in Malphrus Tract	35,505
Increase in Ferguson Community Park	936,334
Increase in Shelter Cove Community Park	43,687
Facilities Improvements:	
Increase in Town Hall/Municipal Court renovations	20,575
Increase in Station Two Roof Replacement	21,406
Pathways:	
Increase in Cross Island Parkway Bridge	67,965
Increase in Dillon Road	34,485
Increase in Folly Field to Islanders Beach Park	3,210
Increase in Helmsman Way	2,578
Increase in Fish Haul to Baker Field	24,146
Increase in Marshland Road	74,000
Land Acquisition increase	8,754,000
Total Expenditures Increase	$10,320,254
Other Financing Sources:	
Proceeds from Bonds	$5,500,000
Increase in Transfers In	1,927,353
Total Other Financing Sources Increase	$7,427,353

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

Debt Service Fund

Revenues:	
Stormwater Utility Fees	$329,261
Investments	46,013
Total Revenue Increase	$375,274
Expenditures:	
Increase in Principal	$30,000
Increase in Interest	398,585
Total Expenditures	$428,585

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, 2003, 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	30 years
Infrastructure	25 years
Vehicles	5-10 years
Furniture, fixtures, and equipment	7 years

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, 2003, would be $1,511,279.41 excluding fringe benefits.

New Pronouncements

The Town has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* This new standard provides for significant changes in terminology and presentation and for the inclusion of Management's Discussion and Analysis as required supplementary information.

In addition, the Town adopted GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, which amended GASB Statements No. 21 and 34. Finally, the Town adopted GASB Statement No. 38, *Certain Financial Statement Disclosures,* which modified disclosure requirements related to significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short term debt, disaggregating of receivable and payable balances and interfund balances and transfers.

Note 1. Summary of Significant Accounting Policies (continued)

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.

Deficit Fund Balance

The tax increment financing special revenue fund had a deficit fund balance of $3,885,330 as of June 30, 2003. The fund incurred expenditures that will be financed by the issuance of bonds. At June 30, 2003, bond anticipation notes of $4,530,000 were outstanding for the tax increment financing special revenue fund.

The Community Development Block Grant Fund also had a deficit fund balance of $213 at June 30, 2003.

Note 2. Cash and Investments

The Town maintains cash bank accounts with several banks. At June 30, 2003, the $6,659,737 carrying balance and $3,731,592 bank balance were held in various banks of which $220,547 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. $3,143 is held in petty cash funds of the Town. Of the total carrying cash balance of $6,662,880 cash, $1,234,704 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 (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, 2003, the Town's investments consisted of category 1 non-categorized 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 First Union National Bank. The carrying and fair value of these accounts is $66,484 which does not qualify in any category. At June 30, 2003, $1,411,596 was invested in Farm Credit Bank Discount Notes which qualifies as a category 1 investment. The carrying and fair value is $1,411,596 for this investment.

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 $34,324,839 of which $3,405,805 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 $28,863.

Note 3. Receivables

At June 30, 2003, 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	$ 832,023	$ -	$ -	$ 832,023
Due from employees	100,805	-	-	100,805
Local accomodations taxes	652,369	-	-	652,369
Other receivables	2,547	-		2,547
Business license revenues	66,267	-	-	66,267
Beach preservation fees	-	1,305,041	-	1,305,041
Hospitality taxes	-	-	809,847	809,847
Gross receivables	1,654,011	1,305,041	809,847	3,768,899
Less: allowance for uncollectibles	32,939	-	-	32,939
Net total receivables	$ 1,621,072	$ 1,305,041	$ 809,847	$ 3,735,960

Amounts due from employees include receivables of $98,372 for personal computer purchases. The loans are repaid over three (3) years with no interest due.

Note 4. Interfund Balances and Activities

Interfund receivables and payable balances at June 30, 2003, are as follows:

	Due From:						
Due To:	General Fund	Tax Increment Financing District	Beach Preservation Fees Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Funds	Total
General	$ -	$ 40,801	$ -	$ -	$ 2,529	$ 128,391	$ 171,721
Tax Increment Financing	-	-	-	-	-	-	-
Beach Preservation Fee	2,873	-	-	-	-	-	2,873
Capital Project Fund	63,613	98,558	418,541	-	-	277,625	858,337
Debt Service	969,860	-	-	-	436,450	252,864	1,659,174
Other Governmental Funds	128,598	-	-	-	190,308		318,906
Total	$ 1,164,944	$ 139,359	$ 418,541	$ -	$ 629,287	$ 658,880	$ 3,011,011

Transfers to/from Other Funds

Transfers in (out) for the year ended June 30, 2003, are summarized below:

	Transfer In			
Transfer Out:	General Fund	Debt Service Fund	Capital Projects Fund	Total
General Fund	$ -	$ -	$ 43,687	$ 43,687
Beach Preservation Fee	670,000	-	418,541	1,088,541
Capital Project Fund	526,166	1,632,128	-	2,158,294
Other Governmental Funds	804,212	2,745,616	2,022,018	5,571,846
Total	$ 2,000,378	$ 4,377,744	$ 2,484,246	$ 8,862,368

Note 5. Due To or From Other Governments

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

General Fund	
SC City County Management Association	$50
Beaufort County Low Country Recycling	11,941
Property Taxes - Beaufort County	251,569
E 911 – Beaufort County	177,160
Merchants Inventory - State	2,898
Municipal Association of SC	66,203
Use Tax Refund – State of SC	824
Maintenance Agreement - State	34,380
State Shared Taxes	219,868
	$764,893
Tax Increment Financing Fee – Beaufort County	$5,366

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

Capital Projects Fund	
Park Collections - Beaufort County	$482,000
State Sunday Liquor Fees	67,200
Pro Rata Collections – Beaufort County	68,817
	$618,017
Nonmajor Governmental Funds	
Accommodations Taxes - State	$1,029,352
Real Estate Transfer Fees - Beaufort County	335,764
Home Grant State	1,750
Community Development Block Grant – SC Dept. of Commerce	782
	$1,367,648
Total Due From Other Governments	$2,755,924

The amounts due from the Town to other governments are:

General Fund	
Police Services - Beaufort County	$448,990
Roads Impact Fee - Beaufort County	5,973
Municipal Court State Fees - SC State Treasurer	38,447
Payroll Garnishments – State of PA	17
Capital Grant – Hilton Head Island Recreation Center	845
	$494,272

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 $399,742 while $122,000 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, 2003, $44,175 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.

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

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 "due from employees" - portion of fund balance related to long-term employee receivables.

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 $457,581 at June 20, 2003.

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

The special revenue funds cash held for the tax increment financing of $814,414 community development block grant of $41,924 and home grant of $20,548 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	$ 106,450	$ 35,751	$ 1,000,721	$ 76,288	$ 1,219,210
Accrued payroll	423,985	-	-	-	423,985
Total payables	$ 530,435	$ 35,751	$ 1,000,721	$ 76,288	$ 1,643,195

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 is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Grant revenues received in advance of being earned- Nonmajor Governmental	19,924	19,924
	$ 19,924	$ 19,924

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 2003 fiscal year. $1,750 was due from the South Carolina State Housing, Finance and Development Authority at June 30, 2003. $7,000 was repaid by grantees during the year. $18,824 of deferred income remained from the prior year. Total deferred income for home grant is $19,924.

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. None of the appropriations lapsed in the current year.

Recapped below are the grant appropriations and expenditures outstanding for the year ended June 30, 2003:

	Appropriations	Expenditures	Encumbrances
Island Beautification	$4,243	$3,167	$1,076
Self Family Arts	350,000	350,000	-0-
Heritage Library Foundation, Inc.	31,427	29,927	1,500
Coastal Discovery Museum - Honey Horn	176,650	90,733	85,917
Hilton Head Choral Society	1,085	886	199
Hilton Head Dance Theater	22,500	22,500	-0-
HH Hospitality Springfest/Winter Carnival	75,000	75,000	-0-
Hilton Head Orchestra	90,000	90,000	-0-
Lowcountry Golf Course Owners Association	142,071	75,000	67,071
Martin Luther King, Jr. Celebration Planning Committee	4,022	4,000	22
Hispanic Cultural Committee	8,000	8,000	-0-
Harbour Town July 4th Fireworks	7,500	7,500	-0-
Hilton Head Hospitality Ambassador Program	10,000	10,000	-0-

Note 9. Accommodations Tax Fund (continued)

Recreation Association – Shelter Cove Community Park	31,000	-0-	31,000
Fire Station # 7	100,000	100,000	-0-
Coastal Discovery Museum - Operations	30,000	21,507	8,493
Mid-Atlantic Bridge Conference	2,109	-0-	2,109
Native Island Gullah Celebration	75,000	75,000	-0-
Shelter Cove Harbourfest July 4th	7,000	7,000	-0-
Hilton Head Island St. Patrick's Day Parade	12,636	11,507	1,129
Skull Creek July 4th Celebration	7,500	7,500	-0-
Unico Hilton Head - Chapter	9,000	9,000	-0-
Art League of Hilton Head	26,935	19,462	7,473
Hilton Head Community Youth Theater	40,000	35,000	5,000
Hilton Head Island Institute of Tourism	1,597	0	1,597
Coastal Discovery Museum – Arts Festival	25,000	25,000	-0-
Sea Pines Forest Preserve Museum Foundation	50,000	-0-	50,000
Wild Horse Pathway	157,218	11,150	146,068
Spanish Wells Road Pathway	37,000	-0-	37,000
Pathway Rehabilitation	50,000	48,728	1,272
Tourism Support	605,026	605,026	-0-
SC Repertory Company	20,000	20,000	-0-
Marshland Road	110,000	82,867	27,133
Muddy Creek Road	55,000	719	54,281
Low Country Artist's Guild	23,338	18,776	4,562
Matthews Drive	38,777	-0-	38,777
Hilton Head Island Regional Audubon Society	7,800	7,800	-0-
Regional Partnership HHI Chamber	311,205	168,604	142,601
Low Country & Resorts Island Tourism	5,000	5,000	-0-
Total Grants Approved	$2,760,639	$2,046,359	$714,280
Less: Other Financing Uses in Grants Approved			
General Fund Transfer – Tourism Support	(605,026)	(605,026)	
Capital Projects Transfer – Wild Horse Road Pathway	(157,218)	(11,150)	
Capital Projects Transfer – Fire Station # 7	(100,000)	(100,000)	
Capital Projects Transfer – Marshland Road	(110,000)	(82,867)	
Capital Projects Transfer – Muddy Creek	(55,000)	(719)	
Capital Projects Transfer – Mathews Drive Pathway	(38,777)	-0-	
Capital Projects Transfer – Spanish Wells Road Pathway	(37,000)	-0-	
Capital Projects Transfer – Pathway Rehabilitation	(50,000)	(48,728)	
Capital Projects Transfer – Community Park at Shelter Cove	(31,000)	-0-	
Sea Pines Forest Preserve Museum Foundation	(50,000)	-0-	
Total Expenditures	$1,234,021	$848,490	

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. $350,000 was approved for operations during 2002/2003.

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	Accommodations Tax Grants			
June 30,	Approved	Paid	Lapsed	Unpaid
2000	$2,172,231	$(2,074,838)	$(95,796)	$1,597
2001	2,247,614	(2,199,399)	(29,164)	19,051
2002	2,020,100	(1,830,105)	-0-	189,995
2003	2,165,544	(1,661,907)	-0-	503,637

Note 9. Accommodations Tax Fund (continued)

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2003, was $1,799,596 of which $714,280 was encumbered by approved grants.

Town council has approved amounts for 2003/2004 grants as follows:

Arts Center of Coastal Carolina	$360,000
Coastal Discovery Museum	175,000
Hilton Head Hospitality Association-Springfest	32,500
Hilton Head Hospitality Association-Winterfest	32,500
Cross Island Beautification	45,237
Hilton Head Island Community & Youth Theater	32,500
Martin Luther King – Keeping Dream Alive	5,000
Native Island Gullah Celebration	70,000
	$752,737

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

Hilton Head Island Community & Youth Theater	12,500
Coastal Discovery Museum	175,000
	$187,500

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

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2004	15,896	54,756	70,652
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
	$ 49,306	$ 303,942	$ 353,248

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.

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

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
2004	3,496	23,576	27,072
2005	1,808	25,264	27,072
	$ 5,304	$ 48,840	$ 54,144

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.

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
2004	31,996	188,613	220,609
2005	24,460	196,149	220,609
2006	16,624	203,985	220,609
2007	8,475	212,134	220,609
	$ 81,555	$ 800,881	$ 882,436

Certificate of Participation

On July 27, 1995, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with First Union Bank of SC for $15,725,000 bearing an interest rate of 5.75% secured by Town properties as follows: Town Hall, Island Recreation Center, Fire Stations 1, 2, 3, 4, 5, and 6, Coligny Beach Park, Folly Field Beach Park, Singleton Beach Parcels 1,2,3, and 4, and Jenkins Island. The monies were used to defease debt, acquire land and set up a reserve fund for debt. A schedule of the amount due on this certificate follows:

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2004	607,233	755,000	1,362,233
2005	568,728	795,000	1,363,728
2006	527,388	835,000	1,362,388
2007	483,550	885,000	1,368,550
2008	435,760	930,000	1,365,760

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

2009	385,540	985,000	1,370,540
2010	332,350	1,030,000	1,362,350
2011	273,125	1,090,000	1,363,125
2012	210,450	1,150,000	1,360,450
2013	144,325	1,215,000	1,359,325
2014	74,463	1,295,000	1,369,463
	$ 4,042,912	$10,965,000	$15,007,912

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, 2003, $1,455,854 was the fair value of the amount held in the reserve fund. The Capital Projects Fund is repaying this certificate of participation.

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		
		Governmental Activities		
For the Year Ending June 30	Interest Rate by Year (%)	Interest	Principal	Total
2004	4.95	52,571	135,000	187,571
2005	5.00	45,855	135,000	180,855
2006	5.10	38,782	145,000	183,782
2007	5.20	31,185	150,000	181,185
2008	5.30	23,045	160,000	183,045
2009	5.40	14,215	170,000	184,215
2010	5.50	4,812	175,000	179,812
		$ 210,465	$ 1,070,000	$ 1,280,465

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, 1990. A schedule of the amount due for this issue follows:

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2004	4.90	309,587	805,000	1,114,587
2005	5.00	269,865	800,000	1,069,865
2006	5.10	228,317	845,000	1,073,317
2007	5.20	183,630	890,000	1,073,630
2008	5.30	135,712	935,000	1,070,712
2009	5.40	84,205	990,000	1,074,205
2010	5.50	28,737	1,045,000	1,073,737
		$ 1,240,053	$ 6,310,000	$ 7,550,053

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
2004	6.500	284,178	120,000	404,178
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	5.00	22,750	910,000	932,750
		$ 1,789,186	$ 5,880,000	$ 7,669,186

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:

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

15,000,000 General Obligation Bonds
Dated April 1, 1998

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2004	6.70	743,778	415,000	1,158,778
2005	6.70	715,302	435,000	1,150,302
2006	6.70	685,488	455,000	1,140,488
2007	6.70	654,332	475,000	1,129,332
2008	5.50	624,808	495,000	1,119,808
2009	4.75	598,964	515,000	1,113,964
2010	4.80	573,892	535,000	1,108,892
2011	4.90	547,333	560,000	1,107,333
2012	5.00	518,987	585,000	1,103,987
2013	5.00	488,988	615,000	1,103,988
2014	5.10	457,165	645,000	1,102,165
2015	5.13	423,421	675,000	1,098,421
2016	5.13	388,058	705,000	1,093,058
2017	5.13	351,030	740,000	1,091,030
2018	5.13	312,080	780,000	1,092,080
2019	5.13	271,080	820,000	1,091,080
2020	5.20	227,707	860,000	1,087,707
2021	5.20	181,817	905,000	1,086,817
2022	5.25	133,219	955,000	1,088,219
2023	5.25	81,769	1,005,000	1,086,769
2024	5.25	27,694	1,055,000	1,082,694
		$ 9,006,912	$14,230,000	$23,236,912

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:

$12,000,000 General Obligation Bonds
Dated November 16, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2004	7.125	663,994	280,000	943,994
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

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

2008	7.125	574,219	350,000	924,219
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	5.20	476,150	425,000	901,150
2013	5.30	453,175	450,000	903,175
2014	5.40	428,425	475,000	903,425
2015	5.50	401,850	500,000	901,850
2016	5.60	373,260	530,000	903,260
2017	5.70	342,460	560,000	902,460
2018	5.75	309,538	590,000	899,538
2019	5.75	274,606	625,000	899,606
2020	5.75	237,663	660,000	897,663
2021	5.75	198,563	700,000	898,563
2022	5.75	157,163	740,000	897,163
2023	5.75	113,319	785,000	898,319
2024	5.50	67,925	830,000	897,925
2025	5.125	22,550	880,000	902,550
		$ 8,526,588	$11,485,000	$ 20,011,588

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		
		Governmental Activities		
For the Year Ended June 30	Interest Rate by Year (%)	Interest	Principal	Total
2004	7.00	348,155	-	348,155
2005	7.00	342,380	165,000	507,380
2006	7.00	330,655	170,000	500,655
2007	7.00	318,405	180,000	498,405
2008	7.00	305,630	185,000	490,630
2009	6.25	293,061	195,000	488,061
2010	5.00	281,843	205,000	486,843
2011	5.10	271,235	215,000	486,235
2012	5.20	259,773	230,000	489,773
2013	5.30	247,433	240,000	487,433
2014	5.40	234,188	255,000	489,188
2015	5.50	219,878	270,000	489,878
2016	5.60	204,613	280,000	484,613

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

2017	5.625	188,355	300,000	488,355
2018	5.70	170,920	315,000	485,920
2019	5.75	152,311	335,000	487,311
2020	5.80	132,385	355,000	487,385
2021	5.80	111,215	375,000	486,215
2022	5.80	88,885	395,000	483,885
2023	5.80	65,250	420,000	485,250
2024	5.80	40,165	445,000	485,165
2025	5.80	13,630	470,000	483,630
		$ 4,620,345	$ 6,000,000	$ 10,620,365

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		
		Governmental Activities		
For the Year Ended June 30	Interest Rate by Year (%)	Interest	Principal	Total
2004	4.25	902,794	690,000	1,592,794
2005	4.25	873,469	725,000	1,598,469
2006	4.25	842,656	770,000	1,612,656
2007	4.25	809,931	800,000	1,609,931
2008	4.25	775,931	830,000	1,605,931
2009	4.25	738,581	865,000	1,603,581
2010	4.25	699,656	900,000	1,599,656
2011	4.25	661,406	940,000	1,601,406
2012	5.00	621,456	980,000	1,601,456
2013	5.00	572,456	1,025,000	1,597,456
2014	4.625	521,207	1,075,000	1,596,207
2015	5.25	471,488	1,125,000	1,596,488
2016	5.25	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	5.00	215,500	1,365,000	1,580,500
2020	5.00	147,250	1,435,000	1,582,250
2021	5.00	75,500	1,510,000	1,585,500
		$ 9,977,556	$18,755,000	$ 28,732,556

Note 10. Long-Term Obligations (continued)

Bond Anticipation Notes

A $4,530,000 bond anticipation note was issued December 29, 2002. The note has an interest rate of 2.74% and is due September 29, 2003.

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	$ 66,130,000	$ -	$ 2,400,000	$ 63,730,000	$ 2,445,000
Certificates of participation	11,685,000	-	720,000	10,965,000	755,000
Revenue bond	-	17,000,000	-	17,000,000	-
Bond anticipation note	3,930,000	4,530,000	3,930,000	4,530,000	4,530,000
Capital leases	1,227,696	-	74,033	1,153,663	266,943
Premium on revenue bonds	-	92,496	3,700	88,796	-
Total bonds and notes payable	82,972,696	21,622,496	7,127,733	97,467,459	7,996,943
Other liabilities:					
Compensated absences	785,994	990,235	785,994	990,235	650,000
Claims and judgements	-	-	-	-	-
Total other liabilities	785,994	990,235	785,994	990,235	650,000
Governmental activities long-term liabilities	$ 83,758,690	$ 22,612,731	$ 7,913,727	$ 98,457,694	$ 8,646,943

The aggregate amounts of maturities of long-term borrowings due (which exclude the Bond Anticipation Note) are as follows:

For the Year Ended June 30	Interest	Principal	Total
2004	4,714,224	3,466,945	8,181,169
2005	4,523,219	3,814,030	8,337,249
2006	4,314,318	4,579,615	8,893,933
2007	4,077,720	4,885,935	8,963,655
2008	3,825,957	4,977,138	8,803,095
2009-2013	15,188,464	25,855,000	41,043,464
2014-2018	9,649,329	18,380,000	28,029,329
2019-2023	4,641,158	18,735,000	23,376,158
2024-2027	716,077	8,155,000	8,871,077
Total	$ 51,650,466	$ 92,848,663	$ 144,499,129

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:

General Fund

The Town recognized $6,644 for a FEMA grant during the year ended June 30, 2003, from the Emergency Management Division for the Long Bay Fire and Rescue Suppression Assistance

Program. The grant monies received were for out-of-pocket expenses such as salaries and travel previously incurred by the Town of Hilton Head.

The Town also received $7,501 from Beaufort County for hazardous material during the year ended June 30, 2003.

Special Revenue Fund

The Town received $42,894 from the South Carolina Department of Commerce for the Community Development Block Grant Fund. The Town expended a total of $43,227 in the fund during the 2003 year for sewer facilities and engineering design.

The Town recognized $49,538 in grants during the year ended June 30, 2003.

Note 12. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	$ 114,422,543	$ 11,496,019	$ 1,705,490	$ 124,213,072
Construction in progress	1,051,511	5,026,477	-	6,077,988
Total capital assets not being depreciated	115,474,054	16,522,496	1,705,490	130,291,060
Capital assets being depreciated:				
Buildings	11,417,846	2,011,955	-	13,429,801
Furniture, fixtures and equipment	2,942,017	292,656	24,090	3,210,583
Automobiles	5,130,888	233,998	241,232	5,123,654
Infrastructure	13,735,529	244,379	-	13,979,908
Total capital assets being depreciated	33,226,280	2,782,988	265,322	35,743,946
Less accumulated depreciation for:				
Buildings	3,481,104	447,661	-	3,928,765
Furniture, fixtures and equipment	892,288	532,225	23,749	1,400,764
Automobiles	3,485,531	502,861	233,652	3,754,740
Infrastructure	1,335,098	549,423	-	1,884,521
Total accumulated depreciation	9,194,021	2,032,170	257,401	10,968,790
Total capital assets being depreciated, net	24,032,259			24,775,156
Government activity capital assets, net	$ 139,506,313			$ 155,066,216

Note 12. Capital Assets (continued)

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

General government	$ 137,024
Management services	120,450
Planning/Building and fire codes	16,079
Public safety	1,636,423
Public projects and facilities	61,678
Nondepartmental	60,516
Total depreciation expense	$ 2,032,170

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, 2003, the following projects were budgeted and expenditures were made as shown below during the current year:

Public Facilities Projects	$ 1,707,202
Land Acquisition	11,510,549
Beach Maintenance	355,223
Park Development	2,275,944
Facilities Improvement	949,370
Pathways	270,392
Roadway Improvement	440,307
Drainage Improvements	4,028,426
	$ 21,537,413

Note 14. Contracted Commitments and Operating Leases

The following is a summary of the more significant contract provisions:

a) An agreement with the County of Beaufort provides for general law enforcement services. The cost of these services was $1,889,428 during the year ended June 30, 2003. This contract may be adjusted after thirty (30) days written notice. The contract was signed March 1, 1984, and is automatically renewed on June 30 each year; the contract may be terminated by either party with sixty (60) days written notice.

b) The Town entered into a lease with Beaufort County Board of Education on June 16, 1987 for the land the Island Recreation Association and the Town utilizes in the operation of public recreation facilities. The lease term is for a 35-year period which can automatically be extended for an additional 35 years. No payments are due under this lease.

Note 14. Contracted Commitments and Operating Leases (continued)

c) An agreement with Gregory Alford for legal services as Town Attorney for a fee of $125 per hour, $95 for associate attorneys, $50 for paralegals, and reimbursed expenses.

d) A contract with Carolina Grading & Backhoe for litter pickup/street sweeping for $100,800 per year through March 2003.

e) Contracts with Davis Landscaping maintenance and litter control for $191,000 per year through September 30, 2003.

f) A contract with Land Care South for landscape maintenance and litter control of various properties though out the Town for $201,600 annually through July 31, 2005.

g) A contract with Isaac Stone, III, for prosecutorial services for $60,000 per year through June 30, 2003.

h) A contract with James Herring for municipal court judge services for $79,000 annually through October 6, 2004.

i) A contract with ERI International, Inc. for consulting services for $65,000 through June 1, 2003.

j) A contract with Shore Beach Services for beach services for $123,537 annually through February 6, 2004, of which $1,578 is encumbered at year-end.

k) A contract with Heritage Classic Foundation for $1,800,000 for title sponsorship of the 2003 Heritage Golf Tournament.

l) A contract with New Image of the Low Country, Inc. for janitorial services for $28,900 annually through April 30, 2006.

m) A contract with Greenwood Development Security for municipal and magistrate court security services for $36,214 through September 30, 2003.

n) A contract with Newtech, Inc. for storage facilities for $26,900 annually through September 12, 2003. $22,900 was encumbered at year-end.

Capital Projects contracts of which $646,663 is encumbered:

a) A contract with Tru Green Landcare for landscaping of Gumtree Drain & Jarvis Creek Wetland for $32,890 which is outstanding.

b) A contract with Construction Assoc. Group, Inc. for repairs and renovation of Station of 2 of $18,369 of which $10,219 is outstanding.

c) Contract with Wilbur Smith of $160,873 for Beach City Road and Airport which is outstanding.

d) A contract with Stage Front Presentation Systems for consulting services for $73,463 for upgrading of audio visual equipment in Council Chambers.

e) Contract with Atlantic Coast Builders for $58,631 for pathways of which $30,757 is outstanding.

f) Contract with Thomas & Hutton for $534 for Gumtree Road Outfall of which all is outstanding.

g) Contract with Applied Technology Management for design and drainage of Marshland Road Pathway of $159,222 of which none is outstanding.

Note 14. Contracted Commitments and Operating Leases (continued)
Capital Projects contracts of which $646,663 is encumbered (continued)

h) A contract with Wood Tech Associates for signs of $20,575 which is outstanding.

i) A contract with Atlantic Coast Builders for pathways for $73,753 of which $62,440 is outstanding.

j) A contract with Stewart-Cooper-Newell Architects for Fire Station #7 for $20,478 of which none is outstanding.

k) A contract with Southern Construction for park construction for $464,788 of which none is outstanding.

l) A contract with Cleland Construction for Gumtree drainage for $43,317 of which $30,229 is outstanding.

m) A contract with Cleland Construction for Pineland Mill drainage for $31,943 of which $13,518 is outstanding.

n) A contract with The FWA Group for roof replacement for $3,037 of which $281 is outstanding.

o) A contract with Brantley Construction Co., Inc. for $1,444,543 for Fire Station #7 construction.

p) A contract with Construction Associates, Inc. for $870,218 for construction of Jarvis Creek Park though June 20, 2004.

q) A contract with The FWA Group, P.A. for planning and design of a fire training facility and additions and renovations to Fire Station #1 for $46,800 and $67,370 respectively. Each contract is valid through July 12, 2010.

r) A contract with Stewart-Cooper-Newell Architects, P.A. for $77,000 for design of Fire Station #1 through July 29, 2004.

s) A contract with JS Construction Services, Inc. for $151,769 for upgrading of parking at Shelter Cove and Folly Field Park.

t) A contract with South Island Dredging Associates, Inc. for $300,000 for beach renourishment services through September 18, 2003.

u) A contract with Construction Associates Group, Inc. for $177,000 for building demolition and disposal through September 5, 2003.

v) A contract with Malphrus Construction for $264,652 for reconstruction of Tanglewood Drive and Nassau Street through December 31, 2003.

w) A contract with Wilbur Smith Assoc for consulting services of $87,520 with $41,044 being encumbered at year-end.

Tax Increment Funding contracts:

a) A contract with HNTB Corporation for $321,876 for bridge to the beach consulting services through December 31, 2003.

b) A contract with HNTB Corporation for $466,566 for master planning consulting services of Stoney and Chaplin areas through December 31, 2003.

Note 14. Contracted Commitments and Operating Leases (continued)

The minimum annual commitment for facilities, support services, leases and contracts described above are as follows:

	For the Year Ending June 30, 2003	2004
General Fund:		
Landscaping Services & Litter	$ 380,301	$ 113,700
Services:		
Consulting	71,240	
Security	46,280	
Beach	123,537	72,063
Capital Projects Fund:		
Contracts (encumbered):	646,663	
Contracts (unemcumbered):	3,914,612	
Total Contracts	$ 4,561,275	

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, 2003, employer contributions were based on a total payroll of $5,398,504. The amount contributed by the employer for the year ending June 30, 2003, was $466,809, 8.65% of covered payroll. Employee contributions to the plan were $356,930, 6.61% of covered payroll for year ending June 30, 2003. 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 $118,355 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

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

years of service only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2003, $6,063,256 of wages were 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, 2003, a total of $811,379 was contributed into the System for the Town's share and $231,467 for the employees' share, which represented 13.38% and 3.82% of covered payroll, respectively. During the years ended June 30, 2002 and 2001, $711,243 and $699,353 were contributed to the system for the Town's share, representing 13.08% and 13.27% of covered payroll respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions each. 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, 2003, employer contributions were based on a total payroll of $11,476,479 of which $11,461,760 or 99.87% of the total payroll was covered under the plan. Employer contributions were $1,278,188 or 11.15% of covered payroll. Employee contributions were $706,752 or 6.17% 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 $94,129 at June 30, 2003, and is included as a liability in the general fund in the accrued payroll and employee payables.

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 $21,462 during the year ended June 30, 2003. 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, 2003.

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, 2003.

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
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Real and Personal Property Taxes:			
Real and Personal Property Taxes	$ 9,153,500	$ 9,265,943	$ 112,443
Accommodations Tax:			
Local 1% - Public Safety	1,923,000	1,728,707	(194,293)
Business Licenses and Franchise Fees:			
Business Licenses	5,300,000	5,679,122	379,122
Electric Utility	50,000	50,000	-
Cable Television	400,000	481,389	81,389
Beach Franchise Fee	4,000	4,032	32
Total	5,754,000	6,214,543	460,543
Permits:			
Construction Permits	470,000	616,069	146,069
Development Permits	10,000	7,372	(2,628)
Other Permits	500,000	497,625	(2,375)
Total	980,000	1,121,066	141,066
State Shared Funds:			
State Shared Funds	916,700	872,768	(43,932)
Donations:			
EMS/Fire Department Donations	-	1,730	1,730
Grants:			
Beaufort County Hazmat	-	7,501	7,501
FEMA Grant	-	6,644	6,644
DHEC Grant	-	7,667	7,667
Miscellaneous Reimbursements	-	204,155	204,155
Total	-	225,967	225,967
Miscellaneous Revenue:			
Public Safety Revenue	1,100,000	953,550	(146,450)
Beach Service	285,000	284,441	(559)
Municipal Court Fines and Fees	525,000	269,572	(255,428)
Miscellaneous Revenue	267,000	225,827	(41,173)
Total	2,177,000	1,733,390	(443,610)
Investment Income:			
Investment Income	267,000	100,582	(166,418)
Total Revenues	21,171,200	21,264,696	93,496

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General Government:			
Town Council:			
Salaries	$ 78,700	$ 73,925	$ 4,775
Employer Contributions & Benefits	6,404	5,687	717
Services & Supplies	14,010	11,195	2,815
Training/Meetings/Workshops	29,550	37,058	(7,508)
Legal Fees	100,000	112,296	(12,296)
Awards & Recognition	3,000	2,906	94
Total Town Council	231,664	243,067	(11,403)
Town Manager:			
Salaries	193,531	206,614	(13,083)
Employer Contributions & Benefits	52,961	49,371	3,590
Supplies & Services	12,200	11,624	576
Training/Meetings	8,000	9,524	(1,524)
Prosecutor	60,000	60,000	-
Total Town Manager	326,692	337,133	(10,441)
Human Resources:			
Salaries	216,625	215,009	1,616
Employer Contributions & Benefits	64,067	59,465	4,602
Supplies & Services	10,730	7,455	3,275
Training/Meetings	20,610	19,306	1,304
Consulting	55,870	38,972	16,898
Townwide Employee Programs	113,850	83,267	30,583
Temporary Short-Term	37,880	31,611	6,269
Total Human Resources	519,632	455,085	64,547
Total General Government	1,077,988	1,035,285	42,703
Management Services:			
Finance-Administration:			
Salaries	$ 125,847	$ 115,051	$ 10,796
Employer Contributions & Benefits	33,848	31,397	2,451
Supplies & Services	7,035	6,267	768
Training/Meetings	7,474	3,534	3,940
Professional Services	10,000	1,575	8,425
Total Finance Administration	184,204	157,824	26,380
Finance-Accounting:			
Salaries	311,963	316,922	(4,959)
Employer Contributions & Benefits	99,633	92,673	6,960
Supplies & Services	15,339	17,028	(1,689)
Professional Services	52,000	68,687	(16,687)
Training/Meetings	16,890	9,410	7,480
Total Finance Accounting	495,825	504,720	(8,895)

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Management Services(continued):			
Finance-Business License:			
Salaries	240,720	228,062	12,658
Employer Contributions & Benefits	71,035	62,120	8,915
Supplies & Services	6,918	7,070	(152)
Training/Meetings	16,600	16,382	218
Total Finance Business License	335,273	313,634	21,639
Municipal Court:			
Salaries	229,782	228,210	1,572
Employer Contributions & Benefits	65,671	64,014	1,657
Supplies & Services	22,781	18,298	4,483
Training/Meetings	14,223	5,411	8,812
Professional Services	46,681	48,709	(2,028)
Total Municipal Court	379,138	364,642	14,496
Administration-Legal :			
Salaries	$ 267,152	$ 269,546	$ (2,394)
Employer Contributions & Benefits	78,801	75,981	2,820
Supplies & Services	15,105	15,531	(426)
Training/Meetings	8,125	4,076	4,049
Total Administration Legal	369,183	365,134	4,049
Administration-Administrative Support :			
Salaries	97,414	97,105	309
Employer Contributions & Benefits	30,697	29,825	872
Training/Meetings	2,705	1,385	1,320
Supplies & Services	16,010	14,407	1,603
Total Administration Support	146,826	142,722	4,104
Administration-Operations:			
Salaries	496,268	493,816	2,452
Employer Contributions & Benefits	136,090	135,438	652
Supplies & Services	210,583	132,036	78,547
Training/Meetings	48,373	43,478	4,895
Maintenance Contracts	326,764	261,828	64,936
Total Administration Operations	1,218,078	1,066,596	151,482
Total Management Services	3,128,527	2,915,272	213,255

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Planning/Building & Fire Codes:			
Planning Administration:			
Salaries	$ 122,827	$ 124,403	$ (1,576)
Employer Contributions & Benefits	32,687	32,751	(64)
Supplies & Services	15,359	12,337	3,022
Training/Meetings	5,750	4,594	1,156
Total Planning Administration	176,623	174,085	2,538
Current Planning:			
Salaries	398,005	367,220	30,785
Employer Contributions & Benefits	114,702	100,124	14,578
Supplies & Services	19,175	12,217	6,958
Training/Meetings	12,545	11,097	1,448
Professional Services	42,056	23,436	18,620
Total Current Planning	586,483	514,094	72,389
Long Range Planning:			
Salaries	312,755	322,239	(9,484)
Employer Contributions & Benefits	89,894	84,659	5,235
Supplies & Services	18,590	7,469	11,121
Training/Meetings	9,725	7,740	1,985
Professional Services	56,302	5,581	50,721
Total Long Range Planning	487,266	427,688	59,578
Natural Resources Planning:			
Salaries	111,552	109,207	2,345
Employer Contributions & Benefits	32,440	30,427	2,013
Supplies & Services	2,090	907	1,183
Training/Meetings	2,035	2,361	(326)
Professional Services	21,422	22,206	(784)
Total Natural Resources Planning	169,539	165,108	4,431
Building & Fire Codes:			
Salaries	723,023	717,076	5,947
Employer Contributions & Benefits	235,626	216,749	18,877
Supplies & Services	39,864	27,376	12,488
Training/Meetings	20,605	15,310	5,295
Professional Services	11,600	2,000	9,600
Total Building & Fire Codes	1,030,718	978,511	52,207
Total Planning/Building & Fire Codes	2,450,629	2,259,486	191,143

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expeditures (continued):			
Public Safety:			
Fire & Rescue Administration:			
Salaries	$ 269,009	$ 269,466	$ (457)
Employer Contributions & Benefits	92,153	81,080	11,073
Supplies/Services	200,630	170,035	30,595
Training/Meetings	27,300	12,535	14,765
Professional Services	25,292	26,583	(1,291)
Total Fire & Rescue Administration	614,384	559,699	54,685
Fire & Rescue Logistics/Maintenance:			
Salaries	269,272	244,577	24,695
Employer Contributions & Benefits	85,660	78,984	6,676
Supplies & Services	188,587	168,159	20,428
Training/Meetings	5,442	5,431	11
Professional Services	131,032	128,053	2,979
Total Fire & Rescue Logistics/Maintenance	679,993	625,204	54,789
Fire & Rescue Operations:			
Salaries	4,964,981	5,008,049	(43,068)
Employer Contributions & Benefits	1,648,706	1,731,578	(82,872)
Supplies & Services	271,303	275,714	(4,411)
Professional Services	46,589	49,028	(2,439)
Total Fire & Rescue Operations	6,931,579	7,064,369	(132,790)
Fire & Rescue Communications:			
Salaries	564,604	531,098	33,506
Employer Contributions & Benefits	160,277	155,853	4,424
Supplies & Services	40,122	34,366	5,756
Training/Meetings	18,394	17,098	1,296
Professional Services	27,695	81,161	(53,466)
Total Fire & Rescue Communications	811,092	819,576	(8,484)
Fire & Rescue Training:			
Salaries	$ 287,319	$ 237,139	$ 50,180
Employer Contributions & Benefits	101,198	79,374	21,824
Supplies & Services	11,272	9,406	1,866
Training/Meetings	113,010	91,414	21,596
Professional Services	1,250	540	710
Total Fire & Rescue Training	514,049	417,873	96,176
Fire & Rescue Emergency Management:			
Salaries	51,593	50,262	1,331
Employer Contributions & Benefits	15,445	15,201	244
Supplies & Services	24,575	17,364	7,211
Training/Meetings	14,695	4,100	10,595
Professional Services	60,600	65,131	(4,531)
Total Fire & Rescue Emergency Management:	166,908	152,058	14,850

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Public Safety (continued):			
Bureau of Fire Prevention:			
Salaries	281,493	273,171	8,322
Employer Contributions & Benefits	92,230	91,650	580
Supplies & Services	59,900	49,280	10,620
Training & Meetings	8,729	6,117	2,612
Total Bureau of Fire Protection	442,352	420,218	22,134
Police Patrol/Communications:			
Police Services/Contract	1,895,934	1,889,428	6,506
Stipend	126,000	105,844	20,156
Victims' Rights	44,195	49,534	(5,339)
Beach Services	132,491	123,537	8,954
Vehicle Repairs & Maintenance	49,250	9,997	39,253
Total Police Patrol/Communications	2,247,870	2,178,340	69,530
Total Public Safety	12,408,227	12,237,337	170,890
Public Projects & Facilities:			
Administration:			
Salaries	$ 142,581	$ 143,909	$ (1,328)
Employer Contributions & Benefits	33,755	32,987	768
Supplies & Services	6,329	4,070	2,259
Travel & Meetings	5,530	2,568	2,962
Total Administration	188,195	183,534	4,661
Engineering:			
Salaries	362,875	351,600	11,275
Employer Contributions & Benefits	98,086	93,043	5,043
Supplies & Services	20,126	14,758	5,368
Training & Meetings	14,975	7,594	7,381
Professional Services	99,130	85,360	13,770
Total Engineering	595,192	552,355	42,837
Facilities Management:			
Salaries	404,234	410,599	(6,365)
Employer Contributions & Benefits	124,999	109,662	15,337
Supplies & Services	191,910	182,840	9,070
Training & Meetings	7,400	6,704	696
Professional Services	750,500	746,078	4,422
Total Facilities Management	1,479,043	1,455,883	23,160
Total Public Projects & Facilities	2,262,430	2,191,772	70,658

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Non-Departmental:			
Town-Wide:			
Insurance	$ 172,686	$ 186,845	$ (14,159)
Postage	32,500	32,643	(143)
General Contingency	50,000	79,723	(29,723)
Postemployment	16,956	9,373	7,583
Telephone/Cell Phones/Utilities	252,767	243,366	9,401
Equipment Maintenance	6,000	4,381	1,619
Photocopying	8,400	8,099	301
Courier	13,000	12,900	100
Drug Court	35,000	35,000	-
Recreation Center	456,750	456,750	-
Recreation Center-Capital	133,530	66,615	66,915
Recreation Center Repairs & Maint	7,000	-	7,000
Recreation - Security	5,000	-	5,000
Low Country Recycling	92,000	92,000	-
Low Country (Truck Expense)	10,000	8,910	1,090
Disaster Advertising Reserve Fund	178,950	13,437	165,513
Hospitality Training & Promotion	96,150	96,368	(218)
Low Country County	-	67,782	(67,782)
LTRA Grant	125,000	125,000	-
Community Development Corp.	5,000	5,000	-
Beaufort County Hazmat	-	4,949	(4,949)
E911 Beaufort County	-	136,373	(136,373)
DHEC Grant	-	8,114	(8,114)
Total Non-Departmental Town Wide	1,696,689	1,693,628	3,061
Debt Service:			
Principal	74,511	74,033	478
Interest	23,689	23,689	-
Total Debt Service	98,200	97,722	478
Capital Outlay			
Management Services :			
Administration-Operations			
Specialized Equipment	160,843	132,256	28,587
Total Administrationl-Operations	160,843	132,256	28,587
Total Management Services	160,843	132,256	28,587

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Capital Outlay (continued):			
Public Safety:			
Fire & Rescue Administration:			
Furnishings & Fixtures	$ 3,200	$ 2,249	$ 951
Total Fire & Rescue Administration	3,200	2,249	951
Fire & Rescue Operations:			
Furnishings	3,800	3,249	551
Fixtures	7,200	7,200	-
Specialized Equipment	44,328	43,908	420
Total Fire & Rescue Operations	55,328	54,357	971
Fire & Rescue Emergency Management:			
Furnishings & Fixtures	500	286	214
Specialized Equipment	6,000	-	6,000
Total Fire & Rescue Emergency Management	6,500	286	6,214
Fire & Rescue Communications			
Furnishings & Fixtures	1,400	386	1,014
Specialized Equipment	3,000	-	3,000
Total Fire & Rescue Communications	4,400	386	4,014
Fire & Rescue Logistics/Maintenance:			
Equipment/Radios	86,966	91,065	(4,099)
Furnishings & Fixtures	1,400	-	1,400
Vehicles	118,308	117,836	472
Total Fire & Rescue Logistics/Maintenance	206,674	208,901	(2,227)
Fire & Rescue Training:			
Furnishings & Fixtures	-	-	-
Specialized Equipment	4,100	1,178	2,922
Total Fire & Rescue Training	4,100	1,178	2,922
Public Safety (continued):			
Bureau of Fire Prevention:			
Furnishings & Fixtures	500	500	-
Specialized Equipment	2,000	-	2,000
Total Bureau of Fire Prevention	2,500	500	2,000
Total Public Safety	282,702	267,857	14,845

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance Positive (Negative)
Expenditures (continued):			
Capital Outlay (continued):			
Non-Departmental Townwide:			
Furniture & Fixtures	$ 11,333	$ 11,388	$ (55)
Total Non-Departmental Townwide	11,333	11,388	(55)
Total Capital Outlay	454,878	411,501	43,377
Total Expenditures	23,577,568	22,842,003	735,565
Excess of Revenues Over (Under) Expenditures	(2,406,368)	(1,577,307)	829,061
Other Financing Sources and Uses :			
Transfers In	2,077,800	2,000,378	(77,422)
Transfers Out	-	(43,687)	(43,687)
Total Other Financing Sources	2,077,800	1,956,691	(121,109)
Excess of Revenues & Other Sources Over (Under) Expenditures	(328,568)	379,384	707,952
Fund Balance - beginning	328,568	6,914,156	6,585,588
Fund Balance - ending	$ -	$ 7,293,540	$ 7,293,540

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2003

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues				
Real and Personal Property Taxes	$ 3,040,355	$ 3,040,355	$ 3,079,655	$ 39,300
Investment Income	-	46,013	180,239	134,226
Total revenues	3,040,355	3,086,368	3,259,894	173,526
Expenditures				
Current:				
Administrative	7,500	7,500	12,563	(5,063)
Principal	2,370,000	2,400,000	2,400,000	-
Interest	3,408,470	3,807,055	3,782,133	24,922
Total expenditures	5,785,970	6,214,555	6,194,696	19,859
Excess (deficiency) of revenues over (under) expenditures	(2,745,615)	(3,128,187)	(2,934,802)	(193,385)
Other financing sources (uses)				
Bond Issue	-	-	-	-
Transfers in	2,745,615	3,074,876	4,377,744	1,302,868
Total other financing sources (uses)	2,745,615	3,128,187	4,377,744	1,249,557
Net change in fund balances	$ -	$ -	1,442,942	$ 1,442,942
Fund balance - beginning			4,930,245	
Fund balance - ending			$ 6,373,187	

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.

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Schedule 3
Sheet 1 of 3

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Property Taxes	$ 2,517,000	$ 2,584,500	$ 67,500
Grants	2,665,000	359,364	(2,305,636)
Contributions	25,000	326,800	301,800
State Taxes - Sunday Permit Fees	245,000	272,000	27,000
Hospitality Tax	1,832,406	2,404,170	571,764
Contract with State	3,000	-	(3,000)
County Impact Fee - Parks	-	161,177	161,177
County Parks Funding	300,000	-	(300,000)
County Stormwater	-	1,100,234	1,100,234
Sale of Dirt	509,000	-	(509,000)
Sale of Property	1,640,000	1,705,490	65,490
Lease	80,000	76,052	(3,948)
Investment Income	-	278,911	278,911
Total Revenues	9,816,406	9,268,698	(547,708)
Expenditures:			
Debt Service:			
Principal	1,227,000	720,000	507,000
Interest	17,000	660,119	(643,119)
Cost of Issuance	-	377,251	(377,251)
Total Debt Service	1,244,000	1,757,370	(513,370)
Capital Outlay:			
New Facilities:			
Station #3 Replacement	-	856	(856)
Station #7	1,620,477	1,633,515	(13,038)
Fire Station #4 Replacement	106,000	55,945	50,055
Fire & Rescue Dispatch Center	674,000	-	674,000
Total Public Facilities Projects	2,400,477	1,690,316	710,161
Park Development:			
Collier Beach Park	300,000	516	299,484
Crossing Park Interpretive Trails	-	9,780	(9,780)
Malphrus Tract Beach Parking/Access	35,505	23,076	12,429
Ferguson Park Community Park	936,334	1,092,221	(155,887)
Greenshell Expansion	325,000	83,299	241,701
Jarvis Creek Park	809,000	1,026,233	(217,233)
Community Park at Shelter Cove	-	2,098	(2,098)
Barker Field/Beach Access Ext.	660,000	38,721	621,279
Fish Haul Tract Park	35,000	-	35,000
Total Park Development	3,100,839	2,275,944	824,895
Land Acquisition	10,465,000	10,147,316	317,684
Total Land Acquisition	10,465,000	10,147,316	317,684
Beach Maintenance:			
Beach Management	278,000	169,956	108,044
Beach Renourishment	350,000	122,729	227,271
Dunes Refurbishment	25,000	62,538	(37,538)
Total Beach Maintenance	653,000	355,223	297,777

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Schedule 3
Sheet 2 of 3

	Budget	Actual	Variance Positive (Negative)
Existing Facilities:			
Beautification Committee Projects	-	-	-
Town Hall/Municipal Court Renovations	295,575	283,422	12,153
County Drop Off Center Replacement	250,000	3,323	246,677
Station #6 Renovation	-	-	-
Fire & Rescue Center Renovation	-	-	-
Fire & Rescue Maintenance & Training	660,000	56,524	603,476
Station #2 Roof Replacement	511,404	83,595	427,809
Demolition of Structures	1,361,687	522,507	839,180
Total Facilities Improvements	3,078,666	949,371	2,129,295
Roadway Improvements:			
Long Cove	100,000	-	100,000
Town Roads Resurfacing	400,000	280,751	119,249
Sea Pines Circle Improvements	-	26,102	(26,102)
Office Park Road Widen/Realign	161,000	-	161,000
Cordillo Road/Pope Avenue Mast Arm	-	-	-
Pedestrian Crosswalks and Refuges	285,000	-	285,000
Traffic Signal Mast Arms	226,969	96,704	130,265
Marshland Road/Mathews Drive Widen	310,000	-	310,000
Traffic Signal US 278/Singleton/Burke's	425,000	36,749	388,251
New Orleans/Pope Avenue Intersection	-	-	-
Total Roadway Improvements	1,907,969	440,306	1,467,663
Pathways:			
Pathway Rehabilitation	50,000	48,728	1,272
Squire Pope Pathway	-	1,772	(1,772)
Cross Island Parkway Bridges/Connectors	67,965	26,028	41,937
Fish Haul Road to Barker Field	24,146	27,916	(3,770)
Dillon Road	34,485	70,381	(35,896)
Union Cemetery Road	-	832	(832)
Folly Field to Islanders Beach Park	3,210	-	3,210
Mathews Drive	280,000	-	280,000
Marshland Road	809,000	82,867	726,133
Spanish Wells Road	137,000	-	137,000
Wild Horse Road	225,000	11,150	213,850
Muddy Creek Road	110,000	719	109,281
Helmsman Way	2,578	-	2,578
Total Pathway Improvements	1,743,384	270,393	1,472,991
Drainage Improvements:			
Drainage System Rehabilitation	200,000	124,326	75,674
North Forest Beach	6,250,000	2,989,535	3,260,465
South Forest Beach	2	-	2
Jarvis Creek Outfall	3,369	36,840	(33,471)
Folly Field	306,845	90,543	216,302
Northridge	28,293	14,820	13,473
Ashmore Tract Ditch	290,000	10,340	279,660
Culvert Under US 278 at Shipyard	615,000	-	615,000
Beach City Road/Airport	220,873	179,829	41,044
Marshland Road/US 278	665,222	94,397	570,825
Gumtree Drive	73,372	50,766	22,606
Sewer Master Plan PSD #1	240,000	29,935	210,065
Pineland Mill	31,943	29,844	2,099
Total Drainage Improvements	8,924,919	3,651,175	5,273,744
Total Capital Outlay	32,274,254	19,780,044	12,494,210
Total Expenditures	33,518,254	21,537,414	11,980,840
Excess of Revenues Over (Under) Expenditures	(23,701,848)	(12,268,716)	11,433,132

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Schedule 3
Sheet 3 of 3

	Budget	Actual	Variance Positive (Negative)
Other Financing Sources/ (Uses):			
Proceeds from Bonds	15,399,917	17,092,496	1,692,579
Transfers In	5,593,545	2,484,246	(3,109,299)
Transfers Out	-	(2,158,294)	(2,158,294)
Appropriated Fund Balance	2,708,386	-	(2,708,386)
Total Other Financing Sources(Uses)	23,701,848	17,418,448	(6,283,400)
Excess of Revenue and Other Sources Over Expenditures	$ -	5,149,732	$ 5,149,732
Fund Balance - beginning		15,047,707	
Fund Balance - ending		$ 20,197,439	

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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, 2003

Schedule 4

	Special Revenue Funds					
	Accommodation	Impact Fees	Real Estate Transfer Fees	Community Development Block Grant	Home Grant	Total Nonmajor Governmental Funds
ASSETS:						
Cash	$ -	$ -	$ -	$ 41,924	$ -	$ 41,924
Investments	1,516,185	-	846,446	-	-	2,362,631
Due from Other Funds	-	128,598	190,308	-	-	318,906
Due from Other Governments	1,029,352	-	335,764	782	1,750	1,367,648
Restricted Assets:						
Cash	-	-	-	-	20,548	20,548
Total assets	$ 2,545,537	$ 128,598	$ 1,372,518	$ 42,706	$ 22,298	$ 4,111,657
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	$ 75,957	$ -	$ -	$ 331	$ -	$ 76,288
Due to Other Funds	361,179	-	252,864	42,588	2,250	658,881
Deferred Revenue	-	-	-	-	19,924	19,924
Payable to Hilton Head Chamber of Commerce Visitor and Convention Bureau	308,806	-	-	-	-	308,806
Total liabilities	745,942	-	252,864	42,919	22,174	1,063,899
Fund balances:						
Reserved:						
Encumbrances	714,280	-	-	-	-	714,280
Unreserved:						
Undesignated	1,085,315	128,598	1,119,654	(213)	124	2,333,478
Total fund balances	1,799,595	128,598	1,119,654	(213)	124	3,047,758
Total liabilities and fund balances	$ 2,545,537	$ 128,598	$ 1,372,518	$ 42,706	$ 22,298	$ 4,111,657

TOWN OF HILTON HEAD ISLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

Schedule 5

	Special Revenue Funds					
	Accommodation	Impact Fees	Real Estate Transfer Fees	Community Development Block Grant	Home Grant	Total Nonmajor Governmental Funds
Revenues						
Accommodations Tax	3,148,723	-	-	-	-	3,148,723
Impact Fees	-	355,109	-	-	-	355,109
Real Estate Transfer Fees	-	-	3,176,112	-	-	3,176,112
Other Grants	-	-	-	42,894	-	42,894
Investment Income	37,245	-	15,726	116	20	53,107
Total revenues	3,185,968	355,109	3,191,838	43,010	20	6,775,945
Expenditures						
Current:						
Accommodations Tax Grants	1,197,868	-	-	-	-	1,197,868
Visitor and Convention Bureau	937,117	-	-	-	-	937,117
Administrative	248	-	31,761	43,227	-	75,236
Total expenditures	2,135,233	-	31,761	43,227	-	2,210,221
Excess (deficiency) of revenues over (under) expenditures	1,050,735	355,109	3,160,077	(217)	20	4,565,724
Other financing sources (uses)						
Transfers out	(1,029,676)	(355,109)	(4,169,061)	-	-	(5,553,846)
Total other financing sources (uses)	(1,029,676)	(355,109)	(4,169,061)	-	-	(5,553,846)
Net change in fund balances	21,059	-	(1,008,984)	(217)	20	(988,122)
Fund balance - beginning	1,778,536	128,598	2,128,638	4	104	4,035,880
Fund balance - ending	$ 1,799,595	$ 128,598	$ 1,119,654	$ (213)	$ 124	$ 3,047,758

Statistical Section
(Unaudited)

The following statistical tables recommended by the National Council of Governmental Accounting are not included for the reasons stated below:

a) Tables which concern special assessments are omitted because the Town has no special assessments;

b) Tables concerning revenue bonds are omitted because the Town has no revenue bonds.

Additional schedules which are felt to be useful to various users, principally investors, underwriters, and rating agencies have been included in this section.

Table 1

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

Fiscal Year *	General Government	Management Services	Planning/ Building & Fire Codes	Public Safety	Public Projects and Facilities	Non-Departmental	Accomm-odations 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

* prior year data unavailable

Table 2

Town of Hilton Head Island, South Carolina
Government-wide Revenues
Fiscal Year
(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

* prior year data unavailable

Table 3

Town of Hilton Head Island, South Carolina
General 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-Depart-mental	Non-Depart-mental % of Total	Total
1994	$ 1,425,714	11.70%	$ 7,734,737	63.46%	$ 1,914,850	15.71%	$ 1,113,889	9.14%	$ 12,189,190
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

(1) General Fund Only

Table 4

Town of Hilton Head Island, South Carolina

General 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
1994	$ 8,730,925	65.08%	$ 2,095,055	15.62%	$ 812,033	6.05%	$ 100,863	0.75%	$ 456,671	3.40%	$ 1,219,820	9.09%	$ 13,415,367
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

(1) General Fund Only

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

		Construction						
	Property Value (1)	Single Family Dwellings (2)		Multi-Family Dwellings (2)		Commercial (2)		Bank Deposits (3)
Fiscal Year	Assessed Value Real & Personal	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	Stated in Thousands
1994	$ 247,029,098	475	$ 96,982,472	22	$ 34,990,554	39	$ 19,798,775	$ 559,449
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

(1) Source: Table 4.

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

(3) Source: Table 12

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 Assessed Value	Real & Personal Estimated Actual Value	Motor Vehicles Assessed Value	Motor Vehicles Estimated Actual Value	Total Value Assessed Value	Total Value Estimated Actual Value	Ratio of Total Assessed to Total Estimated Actual Value
*1994	1993	$ 247,029,098	$ 4,304,222,007	$ 17,640,353	$ 168,003,362	$ 264,669,451	$ 4,472,225,369	5.92%
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%

Source: Beaufort County

* Beaufort County purged the tax rolls of uncollectable assessments.
** 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 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
1993	$ 12,333,568	$ 11,210,100	90.89%	$ 37,222	$ 11,247,322	91.19%
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	15,439,010	99.53%

Source: Beaufort County

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

Table 8

Town of Hilton Head Island, South Carolina
Property Tax Millage Rates of Direct and Overlapping Governmental Jurisdictions
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
1994	1993	121.50	67.40	10.00	10	22.20	40.25	261.35
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	8.00	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	(2) 227.70

(1) NOTE: 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) NOTE: The Town's millage includes 19.3 Operations, 5.3 Capital Projects, and 6.4 Debt Service.

Table 9

TOWN OF HILTON HEAD ISLAND
PRINCIPAL TAXPAYERS
JUNE 30, 2003

Taxpayer		2002 Assessed Valuation	Percentage of Total Assessed Valuation
Marriott Ownership Resort	$	12,218,266	2.56%
Palmetto Electric Co-op		6,359,034	1.33%
Hargray Telephone		4,960,866	1.04%
Greenwood Development		3,918,184	0.82%
Westin Hilton Head Ltd.		3,420,000	0.72%
Dunes Motel Association		2,778,000	0.58%
Smith Lynn Press		2,607,730	0.55%
M&M Multi Services		2,068,880	0.43%
Sea Pines Plantation		1,938,688	0.41%
Royal Golf LP		1,704,000	0.36%
Total Taxable Assessed Value of 10 Largest Taxpayers	$	41,973,648	8.78%
Total Taxable Assessed Value of Other Taxpayers	$	435,956,571	91.22%
Total Taxable Assessed Value All Taxpayers	$	477,930,219	100.00%

SOURCE: Treasurer's Office, Beaufort County, SC

NOTE: Assessed Valuation Source: Table 4

Table 10

Town of Hilton Head Island, South Carolina
Computation of Direct and Overlapping Bonded Debt
General Obligation Bonds
June 30, 2003

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	$ 247,830,000	54%	$ 133,828,200
Beaufort County	86,000,000	54%	46,440,000
Town of Hilton Head Island	63,730,000	100%	63,730,000
Broad Creek Public Service District	6,440,000	100%	6,440,000
Hilton Head No. 1 Public Service District	1,450,000	100%	1,450,000
South Beach	1,095,000	100%	1,095,000
TOTAL	$ 406,545,000		$ 251,533,200

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 4.

Table 11

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
1994	28,176	$ 264,669,451	$ 10,940,000	0	$ 10,940,000	4.13%	$388
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	32,000	453,496,971	49,155,000	27,000,000	22,155,000	4.89%	1,536
2001	33,862	456,093,616	67,350,000	47,000,000	20,350,000	4.46%	1,989
2002	34,978	475,640,031	65,160,000	45,780,000	19,380,000	4.07%	1,863
2003	35,600	477,930,219	63,730,000	44,470,000	19,260,000	4.03%	1,790

(1) NOTE: Population figures from U.S. Census Bureau Yearly Population Estimate.
2003 Population Projection by Town of Hilton Head Island Planning Department.
(2) From Table 4

Table 12

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

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service	Total General Expenditures (1)	Ratio of Debt Service to Total General Expenditures
1994	$ 730,000	$ 888,351	$ 1,618,351	$ 12,189,190	13.28%
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%

(1) From Table 2

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

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
Computation of Legal Debt Margin
June 30, 2003

Assessed Value as of December 31, 2002				**$ 477,930,219**
Debt Limit - Eight (8%) Percent of Assessed Value, without voter's approval				**38,234,418**
Amount of Debt Applicable to Debt Limit:				
Total General Obligation Bonds	1996A	$	1,070,000	
	1996B		6,310,000	
	1998B		5,880,000	
	1999B		6,000,000	
				19,260,000
Total Amount Applicable to Debt Limit				**$ 18,974,418**
Legal Debt Margin without a Referendum				

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

Table 14

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
1993	$ 559,449	$ 894,934	62.51%
1994	612,106	960,895	63.70%
1995	648,126	1,065,428	60.83%
1996	647,871	1,108,209	58.46%
1997	710,458	1,214,611	58.49%
1998	789,619	1,326,364	59.53%
1999	963,835	1,529,473	63.02%
2000	1,208,147	1,832,106	65.94%
2001	1,237,344	2,091,262	59.17%
2002	1,374,600	2,287,380	60.09%

Source: 1989-1997 National Bank of South Carolir
"County Market Share Analysis"

1998-2002 Market Share Report (www2.fdic.gov)

Table 15

Town of Hilton Head Island, South Carolina
Demographic Statistics

Population
Last Eight Census Reports (1)

Census Year	Town(2)	Percent Change	Beaufort County (3)	Percent Change	State of South Carolina (4)	Percent Change	United States(5)	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) & (4)1950-1970 figures source: South Carolina Statistical Abstract, 1985.
1985 Projections from South Carolina Statistical Abstact 1987-88.

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

Median Age

Census Year	Median Age
1980	36.2
1985	36.1
1990	40.1
1995	44.5
2000	46.0

Source: S.C. Statistical Abstract 1987-1988.
U.S. Bureau of Census, 1985-2000.

Table 16

Town of Hilton Head Island, South Carolina
Per Capita Income Estimates

Year	Town of Hilton Head Island	Beaufort County	State of South Carolina
1990	$ 25,171	$ 20,941	$ 16,040
1991	N/A	21,273	16,358
1992	N/A	22,499	17,071
1993	N/A	23,028	17,665
1994	N/A	24,180	18,489
1995	N/A	24,860	19,221
1996	N/A	26,260	20,096
1997	N/A	28,248	20,998
1998	N/A	30,073	22,115
1999	N/A	31,307	22,958
2000	36,621	25,377	18,795
2001	N/A	N/A	20,529
2002	N/A	N/A	20,870

The 1991-1994 estimates are Per Capita Personal Income estimates prepared by the Bureau of Economic Analysis.

SOURCE: Personal Income and Per Capita Personal Income by County, 1996-1999
U.S. Department of Commerce, Economics and Statistics Administration,
Bureau of Economic Analysis.

SOURCE: 2000 and 2001 Data compiled from the U.S. Census Bureau.

SOURCE: 2002 data per U.S. Census Bureau, American Community Survey

Table 17

Town of Hilton Head Island, South Carolina
Miscellaneous Statistics

General Statistics	
Date of Incorporation:	May 18,1983
Form of Government:	›uncil/Manager
Area:	42 Square Miles
Miles of Beach on Atlantic Ocean:	12
Number of Traffic Lights:	21
Permits Issued in Fiscal Year 2002/03	
Building Permits:	338
Miscellaneous Permits:	3,069
Inspections:	17,500
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:	5
Pools:	1
Number of Libraries:	2
Museums:	1
Nature Preserves:	3
Marinas:	10
Arts Centers:	1
Town Employees	
Full Time:	234
Part Time:	2

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

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

TOWN · OF · HILTON HEAD ISLAND · SOUTH CAROLINA

PRÆSERVARE ET PROSPERARE

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