

TOWN OF HILTON HEAD ISLAND,
South Carolina

**Comprehensive
Annual
Financial Report**

**Fiscal Year Ended
June 30, 2008**

**Prepared By The
Finance Department**

**Susan Simmons
Director of Finance**

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

**Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008**

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Honorable Mayor, Members of the
Town Council, and Citizens of the
Town of Hilton Head Island
December 2, 2008

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

The Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina, (the Town) for the fiscal year ended June 30, 2008, is submitted in accordance with South Carolina Code Ann., Section 5-7-240 that requires an annual audit of the books of account and financial records of the Town. Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

In relation to the Town of Hilton Head Island's financial statements being presented fairly and in accordance with generally accepted accounting principles, ElliottDavis, LLC, has issued an unqualified ("clean") opinion for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of Hilton Head Island

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

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

The Town was incorporated under a concept of "Limited Services" government for growth management to provide services of land planning and inspections. To keep the cost of this government low and to avoid duplication of services, contractual arrangements were made with the County to provide for the services of police and property tax billing and collections.

The annual budget serves as the foundation for the Town of Hilton Head Island's financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the Town's various funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second regular Council meeting in June, the Town Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two

Honorable Mayor, Members of the
Town Council, and Citizens of the
Town of Hilton Head Island
December 2, 2008

public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year in accordance with the budget amendment policies included in the current fiscal year budget document.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which the Town operates.

Local Economy

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

The Town of Hilton Head Island's revenue base consists of a variety of taxes and fees, the most significant being property taxes, business license fee, building permit fees, accommodations tax, hospitality tax, beach preservation fee, and the real estate transfer fee.

Tourism related revenue (accommodations tax, hospitality tax, and beach preservation fee) was up \$568,004 or 3.6%; property tax revenue (excluding TIF revenue) was up \$126,270 or 1.0%; and business license revenue was up \$464,374 or 6.1% over the previous fiscal year.

Construction permits were down 7% or \$96,800 less than last fiscal year. Real estate transfer fees were down \$736,409 million or 20% less than last fiscal year. The decline in revenue from these sources is indicative of a slow down in the real estate market the Town has been experiencing over the past several months.

Major Initiatives/Long-term Financial Planning

One of the most significant tools employed by the Town for strategic planning is the long-range financial plan (forecast). All revenues and expenditures in the General Fund are analyzed and forecast three years into the future. The model provides a picture of revenue surpluses or shortfalls the Town would experience if no action were taken, including tax increases or changes in service.

Town Council reviews the ten-year Capital Improvement Program annually. In fiscal year 2008, the Town completed the first phase of road and pathway improvements to Mathews Drive at a cost of approximately \$5.7 million. Pope Avenue pathway improvements were completed at a cost of \$1.6 million. The Squire Pope Avenue and Gum Tree Road roundabout was completed at a cost of \$1.6 million. In addition, \$1.2 million was expended for the completion of Compass Rose Park. For fiscal year 2009, the major capital improvements planned are: the replacement of Fire Station 5 (\$2.5 million); phase two of road and pathway improvements to Mathews Drive (\$2.0 million); Palmetto Bay Road pathways (\$1.3 million); renovation of Coligny Beach Park (\$1.5 million); and groins refurbishment (\$1.0 million).

Honorable Mayor, Members of the
Town Council, and Citizens of the
Town of Hilton Head Island
December 2, 2008

Due to the sluggish economy, the Town is holding additional budget summit meetings in the fall of 2008 to review its short and long-term financial status and capital budgeting and construction processes. When the Town holds its annual strategic planning meetings in December, the Council is expected to respond to the results of the summit.

The Town benefited financially from its growth and strong revenues over the last few years. While the revenue growth has slowed, the Town maintains its good financial status with conservative and prudent budgeting and accounting practices. The Town has been successful in preserving a high quality of life for its residents.

Accounting and Internal Control

Management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls

The Town Manager submits a proposed budget for the General Fund, Capital Projects Fund 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).

The Town maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, re-appropriation of encumbrances of the fund balance will be provided for through an amendment of the new fiscal year budget to increase the revenues (funds from previous fiscal year(s)) and increase the appropriated budget expenditures. The threshold for encumbrance roll-over is \$1,000. Any encumbrances less than this threshold will be liquidated and must be expended using funds from the new fiscal year budget. All expenditures for items or services other than personal services are controlled by a procurement system, which encumbers purchase orders against budgets prior to issuance to the vendors. 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.

Honorable Mayor, Members of the
Town Council, and Citizens of the
Town of Hilton Head Island
December 2, 2008

Cash Management

The Town administers a comprehensive cash management and investment program. The primary goals of the program are to maximize the amount of cash available; to meet daily cash requirements and to obtain the highest possible yields consistent with restraints imposed by South Carolina statutes and Town policies.

The Town maximizes the use of temporarily idle funds by coordinating the schedule of vendor payments. The Town earned \$2.5 million in interest revenue on investments for the fiscal year ended June 30, 2008. The amount earned on investments was \$1.7 million less than the previous fiscal year. The primary reason for the sharp decline was due to lower interest rates due to the deterioration of the financial markets.

Independent Audit

The Town Code, Title 4, Chapter 1, Section 4-1-30 requires an annual audit of the Town's financial statements by independent accountants selected by the Town Council. This requirement has been complied with and the independent auditors' report is included in the financial section of this report.

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hilton Head Island for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the nineteenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Award for Distinguished Budget

The Town also received the GFOA Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2007. It was the third year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

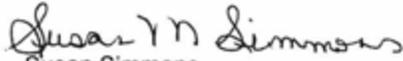
Acknowledgements

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

Honorable Mayor, Members of the
Town Council, and Citizens of the
Town of Hilton Head Island
December 2, 2008

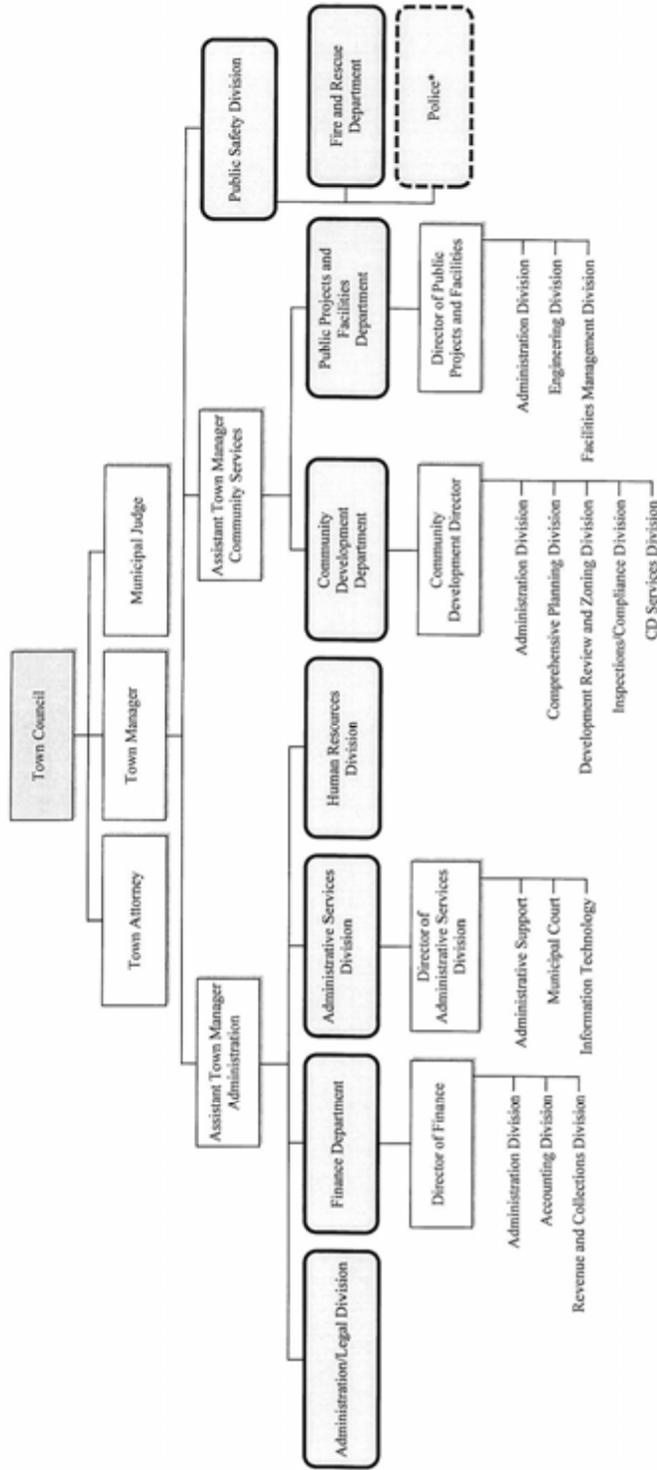
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully yours,

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

Susan Simmons
Director of Finance

**Town of Hilton Head Island
Organizational Chart**



* Services not directly provided by the Town.



**Town of Hilton Head Island
List of Elected and Appointed Officials**

Mayor

The Honorable Thomas D. Peebles

Town Council

Kenneth S. Heitzke – Mayor Pro Tempore

John D. Safay

Willie Ferguson

W. J. (Bill) Mottel

George W. Williams, Jr.

Drew A. Laughlin

Administrative Staff

Stephen G. Riley, Town Manager

Gregory D. Deloach, Assistant Town Manager Administration

Curtis Coltrane, Assistant Town Manager Community Services

Susan Simmons, Director of Finance

Charles F. Cousins, Director of Community Development

Scott Liggett, Director of Public Projects and Facilities

Lavarn Lucas, Fire Chief

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Hilton Head Island
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Chloe S. Cox

President

Jeffrey R. Emer

Executive Director

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town), as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison nonmajor fund financial statements, schedule of court fines and assessments, and statistical tables as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison nonmajor fund financial statements, and schedule of court fines and assessments have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Elliott Davis, LLC

Columbia, South Carolina
November 26, 2008

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

This section of the Town of Hilton Head Island's annual financial report represents its discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

- At the close of fiscal year 2008 the assets of the Town exceeded liabilities by \$158,262,851. This represents an increase in net assets of \$4.9 over the previous fiscal year.
- During the year the Town issued tax increment financing (TIF) bonds in the amount of \$22,000,000, refunded the 1998A general obligation bonds and re-issued general obligation bonds in the amount of \$12,215,000.
- The Town's debt service costs increased by \$2.6 million over the previous fiscal year.
- The array of services provided by the Town during fiscal year 2008 was consistent with 2007; General Fund revenues increased by \$687,959 while expenditures increased by \$2.7 million over the previous fiscal year. The General Fund reported a net decrease in fund balance of (\$215,125) compared to a \$1.7 million increase last year.
- A \$744,318 prior period adjustment (reduction) was made to the Town's Tax Increment Financing (TIF) Fund to correct the amount of ad valorem taxes distributed to the Town's redevelopment program. Of this amount, \$95,180 is owed to other Town Funds and the balance \$649,138 is owed to other governments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Town's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town, reporting the Town's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as public safety and facilities maintenance were financed in the short-term as well as what remains for future spending.

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

Government-wide Financial Statements

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

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

- Over time, increases or decreases in the Town's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

- To assess the Town's overall health, you need to consider additional non-financial factors such as changes in the Town's property tax base and the condition of the Town's infrastructure and other facilities.

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

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

Fund Financial Statements

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

Governmental Funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than the government-wide statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains nine governmental funds. Seven are classified as major funds: General Fund, Tax Increment Financing (TIF) District, Accommodations Tax (State), Real Estate Transfer Fee, Beach Preservation Fee, Debt Service Fund, and the Capital Projects Fund. Two are classified as non-major funds: Palmetto Electric and Home Grant. For reporting purposes on the fund financial statements, the special revenue funds are consolidated under the heading Non-major Governmental Funds.

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

TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

FINANCIAL ANALYSIS OF THE TOWN

Changes in current and other assets—unrestricted cash are as follows:

- An increase in hospitality tax funds of approximately \$3.9 million due to less hospitality tax funds being spent on capital projects.
- An increase in beach preservation fees funds of approximately \$1.5 million due to less beach preservation fee funds being spent on capital projects.
- The General Fund unrestricted cash decreased by (\$3.6) million. Also, interfund receivables increased by \$2.7 million.

Changes in current and other assets—restricted cash and investments are as follows:

- An increase of \$11.0 million in the Capital Projects Fund associated with the issuance of Tax Increment Financing Bonds.
- A decrease of (\$4.9) million in 2004 general obligation funds that were primarily used for the purchase of land.

Long term liabilities outstanding increased by \$10.6 million due the issuance of tax increment financing bonds and general obligation bonds.

Other liabilities increased by \$3.2 million primarily due to accounts payable outstanding at year-end in the Capital Projects Fund.

The largest part of the Town's net assets reflects investments in capital assets (e.g. land, development rights, easements/right-of-ways, buildings, improvements, and equipment) of \$98.7 million (62.4%) and \$93.9 million (61.2%), less any related debt used to acquire those assets that is still outstanding, for fiscal years 2008 and 2007, respectively. The Town uses these assets to provide services to the citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets, \$25.2 million (15.9%) for fiscal year 2008 and \$23.7 million (15.4%) for fiscal year 2007 represent resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets for fiscal years 2008 and 2007, \$34.4 million (21.7%) and \$35.8 million (23.4%), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Statement of Net Assets

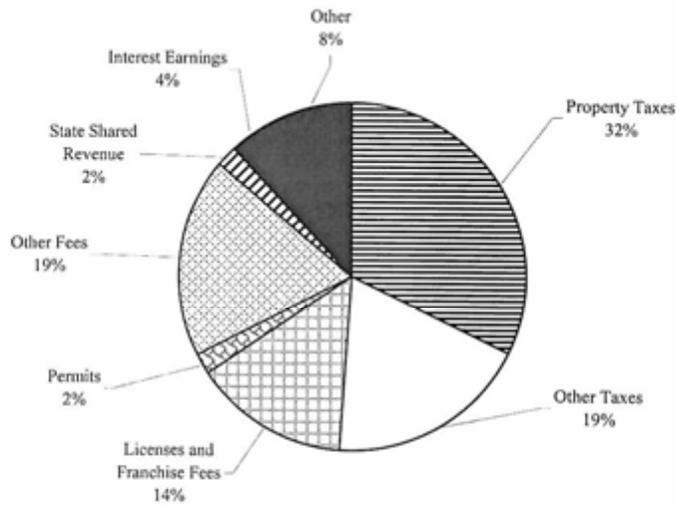
	Governmental Activities		Total Percentage Change
	2008	2007	
Current and other assets	\$ 93,485,514	\$ 85,225,354	9.7%
Capital assets	212,733,198	202,361,105	5.1%
Total assets	306,218,712	287,586,459	6.5%
Long-term liabilities outstanding	140,056,945	129,493,639	8.2%
Other liabilities	7,898,916	4,711,327	67.7%
Total liabilities	147,955,861	134,204,966	10.2%
Net assets:			
Invested in capital assets, net of related debt	98,661,331	93,895,834	5.1%
Restricted	25,168,338	23,682,142	6.3%
Unrestricted	34,433,182	35,803,517	-3.8%
Total net assets	\$ 158,262,851	\$ 153,381,493	3.2%

Changes in Net Assets

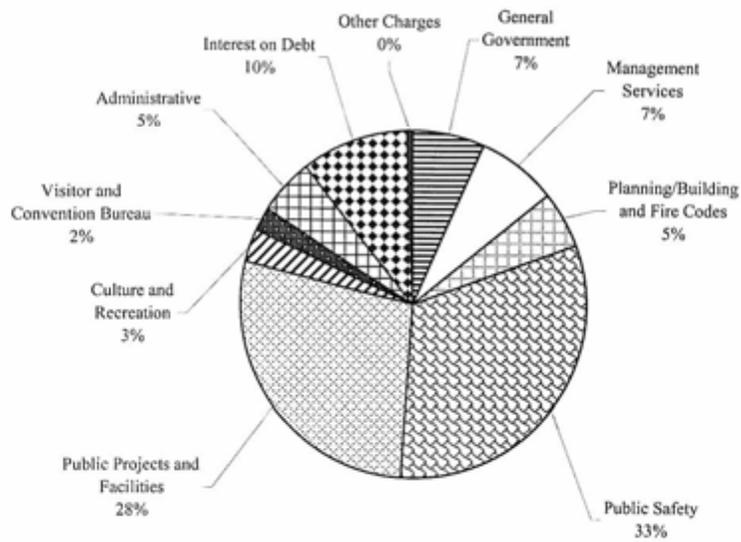
	Governmental Activities		Total Percentage Change
	2008	2007	
Program Revenues:			
Program Revenues:			
Charges for Services	\$ 20,807,305	\$ 20,849,661	-0.2%
Operating Grants and Contributions	152,140	134,793	12.9%
Capital Grants and Contributions	61,843	48,246	28.2%
General Revenues:			
Property taxes	19,859,692	19,290,776	2.9%
Other Taxes	11,637,286	11,277,083	3.2%
Other	8,641,609	9,185,130	-5.9%
Total revenues	61,159,875	60,785,689	0.6%
Program Expenses:			
General Government	3,777,076	3,376,831	11.9%
Management Services	4,099,915	3,875,696	5.8%
Planning/Building and Fire Codes	3,014,183	2,755,555	9.4%
Public Safety	17,528,471	16,207,323	8.2%
Public Facilities	15,483,868	21,623,052	-28.4%
Culture and recreation	1,718,815	2,071,003	-17.0%
Visitor and Convention Bureau	1,218,032	1,180,675	3.2%
Administrative	2,884,106	1,813,259	59.1%
Interest on long-term debt	5,669,171	5,727,606	-1.0%
Other Charges	235,742	295,486	-20.2%
Total expenses	55,629,379	58,926,486	-5.6%
Increase in net assets	5,530,496	1,859,203	197.5%
Net assets, beginning (as previously reported)	153,381,493	151,522,290	1.2%
Prior period adjustment	(649,138)	-	0.0%
Net assets, beginning (as restated)	152,732,355	151,522,290	0.8%
Net assets, June 30	\$ 158,262,851	\$ 153,381,493	3.2%

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Revenues for Fiscal Year 2008



Expenses for Fiscal Year 2008



TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

General - The General Fund, which is the primary operating fund of the Town, recognized \$26.5 million in total revenues and \$4.2 million in other financing sources offset with \$30.9 million in expenditures. This resulted in expenditures exceeding revenues and other financing sources by (\$215,125). This fund also had a prior period adjustment of \$62,518 associated with the correction of property taxes allocated to the Town's TIF District. Fund Balance at the beginning of the year was \$16.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$16.3 million. Of this amount, \$16.0 million is unreserved fund balance which represents 51.7% of the Town's present expenditure levels.

Tax Increment Financing District - The Tax Increment Financing District Fund recognized \$4.5 million in total revenues offset with \$4.1 million in debt service expenditures and \$95,548 in other financing uses. This resulted in revenues exceeding expenditures and other financing uses by \$246,257. Fund Balance at the beginning of the year was \$1.7 million and, when combined with the current year, resulted in an end of year Fund Balance of \$2.0 million.

Accommodations Tax - The Accommodations Tax Fund recognized \$4.2 million in total revenues offset with \$2.9 million in expenditures and \$1.3 million in other financing uses. This resulted in expenditures exceeding revenues by (\$69,338). Fund Balance at the beginning of the year was \$1.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.6 million.

Real Estate Transfer Fee - The Real Estate Transfer Fee Fund recognized \$3.1 million in total revenues offset with \$28,312 in expenditures and \$3.6 million in other financing uses. This resulted in expenditures exceeding revenues by (\$504,471). Fund Balance at the beginning of the year was \$6.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$6.1 million.

Beach Preservation Fee - The Beach Preservation Fee Fund recognized \$5.2 million in total revenues offset with \$4.6 million in other financing uses. This resulted in an excess of revenues over other financing uses of \$569,878. Fund Balance at the beginning of the year was \$16.5 million and, when combined with the current year, resulted in an end of year Fund Balance of \$17.0 million.

Debt Service - The Debt Service Fund recognized \$5.0 million in total revenues and \$20.7 million in other financing sources offset with \$25.5 in expenditures and other uses. This resulted in an excess of revenues and other financing sources over expenditures and other uses of \$269,253. This fund also had a prior period adjustment of \$28,404 associated with the correction of property taxes allocated to the Town's TIF District. Fund Balance at the beginning of the year was \$10.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$10.9 million.

Capital Projects - The Capital Projects Fund recognized \$10.7 million in total revenues and \$23.1 million in other financing sources offset with \$27.9 million in expenditures and other uses. This resulted in an excess of revenues and other financing sources over expenditures and other uses of \$5.8 million. This fund also had a prior period adjustment of \$4,258 associated with the correction of property taxes allocated to the Town's TIF District. Fund Balance at the beginning of the year was \$24.3 million and, when combined with the current year, resulted in an end of year Fund Balance of \$30.1 million.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Revenues, Expenditures and Changes in Fund Balance—Governmental Funds

<u>Fund</u>	2007			
	Revenue	Expenditures	Fund Balance	Changes in Fund Balance
General	\$ 29,970,456	\$ 28,239,501	\$ 16,426,738	\$ 1,730,955
Tax Increment Financing	4,236,388	8,513,162	2,508,648	(4,276,774)
Accommodations Tax (State)	4,036,901	4,474,872	1,628,800	(437,971)
Real Estate Transfer Fee	4,068,949	5,999,206	6,592,808	(1,930,257)
Beach Preservation Fee	5,172,396	3,041,615	16,464,308	2,130,781
Debt Service	13,198,544	10,961,376	10,586,391	2,237,168
Capital Projects Fund	41,773,279	43,095,754	24,274,938	(1,322,475)
Other Governmental Funds	2,245,444	1,809,222	347,029	436,222

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The General Fund revenues were higher than the revised budget estimates by \$108,015. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Property tax revenues were (\$32,235) less than the budget
- Business license fees and fees from franchises were \$375,768 higher than the budget
- State shared revenue was \$108,441 higher than the budget
- Construction permits were (\$383,227) less than the budget
- Beach services fees were (\$88,731) less than the budget
- Investment income (\$97,584) less than the budget

Actual General Fund expenditures were less than the revised budget by \$2.0 million due to salary and benefit savings from staffing vacancies, the delay in implementation of new software systems, less monies allocated from the disaster advertising reserve fund, and less money being spent for capital items than was anticipated.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Original to revised expenditure budget variances:

<u>Fund</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Variance</u>
General Government	\$ 1,648,540	\$ 1,648,540	\$ -
Management Services	4,460,710	4,504,271	43,561
Planning/Building and Fire Codes	3,177,050	3,178,268	1,218
Public Safety	17,048,220	17,075,892	27,672
Public Project and Facilities	3,640,690	3,649,500	8,810
Debt Service	71,000	71,000	-
Non-Departmental Townwide	2,280,200	2,386,804	106,604
Capital Outlay	145,550	403,778	258,228
	<u>32,471,960</u>	<u>32,918,053</u>	<u>446,093</u>

CAPITAL ASSETS

The Town investment in capital assets for its governmental activities as of June 30, 2008 and 2007 amount to \$213 million and \$202 million respectively (net of accumulated depreciation). Capital assets include land, development rights, easements/right-of-ways, buildings, drainage systems, furniture, fixtures, equipment and vehicles.

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

- Construction in progress of \$6.6 million in governmental-type activities for drainage, road improvement, pathways, new facilities and existing facilities.
- The Town purchased \$4.9 million of land during the fiscal year.

Town of Hilton Head Island's Capital Assets

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 142,360,069	\$ 137,651,694
Development Rights	7,716,970	7,716,970
Easements/Right-of-Ways	2,453,098	2,345,098
Infrastructure	33,400,720	29,407,534
Buildings	10,910,736	10,309,128
Parks	8,069,472	4,487,869
Furniture, fixtures and equipment	525,271	598,538
Vehicles	681,553	724,324
Construction in progress	6,615,309	9,119,950
Total	<u>\$ 212,733,198</u>	<u>\$ 202,361,105</u>

TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

LONG TERM OBLIGATIONS

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

The Town has an AA¹ bond rating from Moody's Investor Service, AA+ bond rating from Standard and Poor's Corporation, and a AA bond rating from Fitch Ratings. These bond ratings are a clear indication of the sound financial condition of the Town.

- During the year the Town issued tax increment financing (TIF) bonds in the amount of \$22,000,000, refunded the 1998A general obligation bonds and re-issued general obligation bonds in the amount of \$12,215,000.

Outstanding Long-Term Obligations

	Governmental	
	Activities	
	2008	2007
Bonds		
General Obligation Bonds	\$ 63,680,000	\$ 67,460,000
Revenue Bond	66,885,000	51,565,000
Certificates of Participation	6,905,000	7,955,000
Premium on Bonds	1,149,855	1,091,582
	<u>138,619,855</u>	<u>128,071,582</u>
Capital Leases	-	67,140
Compensated Absences	1,437,086	1,354,917
	<u>140,056,941</u>	<u>129,493,639</u>

TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2009

Governmental Activities

The **General Fund's** revenues for fiscal year 2009 are budgeted at \$33.2 million, an increase of \$338,947 or 1.0% over the prior year's budgeted revenues. This includes the use of \$893,130 of fund balance in order to balance the budget. Revenues from Property Taxes, Accommodations Tax, Hospitality Tax, and Beach Preservation Fee, 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 \$33.2 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$22.9 million. The majority of the expenditures are budgeted for improvements associated with existing facilities and infrastructure which accounts for \$7.6 million or 33.2% of the capital budget with the largest component (\$3.0 million) earmarked for the replacement of ten fire apparatus.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$16.8 million. There is a \$3.4 million or 25.9% increase in debt service costs in fiscal year 2009. The primary reason for the increase was the issuance of \$22.0 million in TIF bonds in fiscal year 2008. These bonds are being re-paid by tax increment financing (TIF) funds.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2008 on taxable property located within the Town of Hilton Head Island was established at 19.36 mills upon each one dollar of taxable property in the Town of Hilton Head which is the same as 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.

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

STATEMENT OF NET ASSETS

Exhibit "A"

	Governmental Activities
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 38,324,917
Accounts Receivable	4,685,193
Due from Employees	61,179
Due from Other Governments	2,965,093
Other Assets	2,863,849
Restricted Assets:	
Cash and Cash Equivalents	43,660,629
Investments	924,654
Capital Assets:	
Non-Depreciable	159,145,446
Depreciable	<u>53,587,752</u>
Total assets	<u>306,218,712</u>
<u>LIABILITIES</u>	
Accounts Payable	4,075,297
Payable to Hilton Head Chamber of Commerce Visitor & Convention Bureau	401,215
Accrued Payroll and Related Liabilities	892,200
Due to Other Governments	1,264,726
Unearned Revenue	69,854
Payable and Restricted Assets:	
Irrigation and Pool Bonds	109,900
Court Bonds Payable	60,767
Performance Bonds Payable	99,716
Interest Payable	925,241
Long-Term Liabilities:	
Due within Less than One Year	12,599,856
Due within More than One Year	<u>127,457,089</u>
Total liabilities	<u>147,955,861</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	98,661,331
Restricted for:	
Disaster Recovery	1,705,141
Beach Renourishment	12,000,000
Debt Service	11,463,197
Unrestricted	<u>34,433,182</u>
Total net assets	<u>\$ 158,262,851</u>

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

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

STATEMENT OF ACTIVITIES

Exhibit "B"

<u>Functions/Programs</u>	Program Revenues				Net (Expense) and Revenue and
	Expenses	Operating		Capital	Changes in Net Assets
		Charges for Services	Grants and Contributions	Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General Government	\$ 3,777,076	\$ 588,996	\$ 152,140	\$ -	(3,035,940)
Management Services	4,099,915	8,133,032	-	-	4,033,117
Planning/Building and Fire Codes	3,014,183	1,256,773	-	-	(1,757,410)
Public Safety	17,528,471	1,493,422	-	-	(16,035,049)
Public Projects and Facilities	15,483,868	6,394,656	-	61,843	(9,027,369)
Culture and Recreation	1,718,815	-	-	-	(1,718,815)
Visitor and Convention Bureau	1,218,032	-	-	-	(1,218,032)
Administrative	2,884,106	2,940,426	-	-	56,320
Interest on Debt	5,669,171	-	-	-	(5,669,171)
Other Charges	235,742	-	-	-	(235,742)
Total governmental activities	55,629,379	20,807,305	152,140	61,843	(34,608,091)
Total primary government	\$ 55,629,379	\$ 20,807,305	\$ 152,140	\$ 61,843	\$ (34,608,091)
General revenues:					
Taxes:					
Property					19,859,692
Local Accommodations					2,319,342
State Accommodations					4,085,107
Hospitality					5,232,837
Intergovernmental (Unrestricted State Shared Revenue)					2,198,691
Investment Income					2,521,431
Miscellaneous					3,921,487
Total general revenues					40,138,587
Change in net assets					5,530,496
Net assets - beginning (as previously reported)					153,381,493
Prior period adjustment					(649,138)
Net assets - beginning (as restated)					152,732,355
Net assets - ending					\$ 158,262,851

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

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

**BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

Exhibit "C"

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
ASSETS									
Cash and Cash Equivalents	\$ 10,610,288	\$ -	\$ 1,849,688	\$ 5,874,761	\$ 4,357,103	\$ 2,970,044	\$ 12,659,643	\$ 3,390	\$ 38,324,917
Accounts Receivable	1,373,128	-	-	-	1,630,173	-	1,503,086	178,806	4,685,193
Due from Employees	61,179	-	-	-	-	-	-	-	61,179
Interfund Receivables	4,389,125	345,593	-	3,049	-	-	220,037	-	4,957,804
Due from Other Governments	622,897	-	1,337,384	218,393	-	52,906	733,513	-	2,965,093
Prepaid Expenses	19,240	-	-	-	-	-	-	-	19,240
Restricted Assets:									
Cash and Cash Equivalents	1,804,857	2,248,237	-	-	12,000,000	7,024,180	20,560,698	22,657	43,660,629
Investments	-	-	-	-	-	924,654	-	-	924,654
Total assets	\$ 18,880,714	\$ 2,593,830	\$ 3,187,072	\$ 6,096,203	\$ 17,987,276	\$ 10,971,784	\$ 35,676,977	\$ 204,853	\$ 95,598,709
LIABILITIES AND FUND BALANCES									
Accounts Payable	\$ 311,852	\$ -	\$ 81,402	\$ -	\$ -	\$ -	\$ 3,252,377	\$ 429,666	\$ 4,075,297
Accrued Payroll and Employee Payable	892,200	-	-	-	-	-	-	-	892,200
Due to Other Governments	777,031	487,695	-	-	-	-	-	-	1,264,726
Interfund Payables	345,593	95,548	1,144,993	7,866	953,090	87,736	2,252,978	70,000	4,957,804
Deferred Revenue	9,524	-	-	-	-	-	38,056	22,274	69,854
Payable from restricted assets:									
Irrigation and Pool Bonds Payable	109,900	-	-	-	-	-	-	-	109,900
Court Bonds Payable	60,767	-	-	-	-	-	-	-	60,767
Performance Bonds Payable	99,716	-	-	-	-	-	-	-	99,716
Payable to Hilton Head Chamber of Commerce Visitor and Convention Bureau	-	-	401,215	-	-	-	-	-	401,215
Total liabilities	2,606,583	583,243	1,627,610	7,866	953,090	87,736	5,543,411	521,940	11,931,479
Fund balances:									
Reserved:									
Encumbrances	213,748	-	-	-	-	-	7,151,693	-	7,365,441
Advances	70,000	-	-	-	-	-	-	-	70,000
Debt Service	-	-	-	-	-	10,614,795	848,402	-	11,463,197
Land Acquisition Bond	-	-	-	-	-	-	1,356,827	-	1,356,827
2002 Stormwater Bond	-	-	-	-	-	-	4,041,467	-	4,041,467
Unreserved:									
Designated for Disaster Recovery	1,705,141	-	-	-	-	-	-	-	1,705,141
Designated for Hospitality Tax Purpose	-	-	-	-	-	-	288,969	-	288,969
Designated for Beach Renourishment	-	-	-	-	12,000,000	-	-	-	12,000,000
Undesignated	14,285,242	2,010,587	1,559,462	6,088,337	5,034,186	269,253	16,446,208	-	45,693,275
Reported in non-major: Special Revenue (deficit)	-	-	-	-	-	-	-	(317,087)	(317,087)
Total fund balances	16,274,131	2,010,587	1,559,462	6,088,337	17,034,186	10,884,048	30,133,566	(317,087)	83,667,230
Total liabilities and fund balances	\$ 18,880,714	\$ 2,593,830	\$ 3,187,072	\$ 6,096,203	\$ 17,987,276	\$ 10,971,784	\$ 35,676,977	\$ 204,853	\$ 95,598,709

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

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2008**

Exhibit "D"

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

Ending fund balance - governmental funds	\$ 83,667,230
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	212,733,198
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,750,153
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	1,094,455
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(925,240)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(140,056,945)</u>
Net assets of governmental activities	<u><u>\$ 158,262,851</u></u>

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

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

Exhibit "E"

	General	Tax Increment District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
Revenues:									
Real and Personal Property Taxes	\$ 10,138,385	\$ 4,427,710	\$ -	\$ -	\$ -	\$ 4,602,493	\$ 691,104	\$ -	\$ 19,859,692
Accommodations Tax	2,319,342	-	4,085,107	-	-	-	-	-	6,404,449
Hospitality Tax	-	-	-	-	-	-	5,232,837	-	5,232,837
Business Licenses and Franchise Fees	8,722,028	-	-	-	-	-	-	-	8,722,028
Permits	1,256,773	-	-	-	-	-	-	-	1,256,773
Other Fees:									
Impact	-	-	-	-	-	-	90,799	-	90,799
Real Estate Transfer	-	-	-	2,940,426	-	-	-	-	2,940,426
Beach Preservation	-	-	-	-	4,634,690	-	-	-	4,634,690
Electric Franchise	-	-	-	-	-	-	-	2,241,379	2,241,379
Stormwater	-	-	-	-	-	-	1,501,389	-	1,501,389
State Shared Funds	1,105,671	-	-	-	-	-	206,900	-	1,312,571
Donations	10,305	-	-	-	-	-	8,000	-	18,305
Grants	152,140	-	-	-	-	-	61,843	-	213,983
Miscellaneous Revenue	2,424,055	-	-	-	-	-	2,085,073	-	4,509,128
Investment Income	402,416	48,110	81,348	209,441	550,051	399,235	830,770	59	2,521,430
Total revenues	26,531,115	4,475,820	4,166,455	3,149,867	5,184,741	5,001,728	10,708,715	2,241,438	61,459,879
Expenditures:									
Current:									
General Government	1,551,674	-	-	-	-	-	-	-	1,551,674
Management Services	3,921,014	-	-	-	-	-	-	-	3,921,014
Planning/Building and Fire Codes	2,987,021	-	-	-	-	-	-	-	2,987,021
Public Safety	16,921,361	-	-	-	-	-	-	-	16,921,361
Public Projects and Facilities	3,263,220	-	-	-	-	-	714,108	-	3,977,328
Non-Departmental	2,018,190	-	-	-	-	-	-	-	2,018,190
Accommodations Tax Grants	-	-	1,718,815	-	-	-	-	-	1,718,815
Visitor and Convention Bureau	-	-	1,218,032	-	-	-	-	-	1,218,032
Administrative	-	-	-	28,312	-	19,397	-	2,836,397	2,884,106
Capital Outlay	209,932	-	-	-	-	-	23,046,022	-	23,255,954
Debt Service:									
Principal	67,139	3,760,000	-	-	-	8,010,000	-	-	11,837,139
Interest	3,511	374,015	-	-	-	5,267,567	-	-	5,645,093
Debt Issue Costs	-	-	-	-	-	229,341	222,500	-	451,841
Total expenditures	30,943,062	4,134,015	2,936,847	28,312	-	13,526,305	23,982,630	2,836,397	78,387,568
Excess (deficiency) of revenues over (under) expenditures	(4,411,947)	341,805	1,229,608	3,121,555	5,184,741	(8,524,577)	(13,273,915)	(594,959)	(16,927,689)
Other financing sources (uses):									
Issuance of Bonds	-	-	-	-	-	12,215,000	22,000,000	-	34,215,000
Premium on Bond Issuance	-	-	-	-	-	154,397	-	-	154,397
Payment to Escrow Agent	-	-	-	-	-	(11,955,000)	-	-	(11,955,000)
Transfers In	4,196,822	-	-	-	-	8,379,433	1,100,686	-	13,676,941
Transfers Out	-	(95,548)	(1,298,946)	(3,626,026)	(4,614,863)	-	(3,972,401)	(69,157)	(13,676,941)
Total other financing sources (uses)	4,196,822	(95,548)	(1,298,946)	(3,626,026)	(4,614,863)	8,793,830	19,128,285	(69,157)	22,414,397
Net change in fund balances	(215,125)	246,257	(69,338)	(504,471)	569,878	269,253	5,854,370	(664,116)	5,486,708
Fund balance - beginning (as previously reported)	16,426,738	2,508,648	1,628,800	6,592,808	16,464,308	10,586,391	24,274,938	347,029	78,829,660
Prior period adjustment	62,518	(744,318)	-	-	-	28,404	4,258	-	(649,138)
Fund balance - beginning (as restated)	16,489,256	1,764,330	1,628,800	6,592,808	16,464,308	10,614,795	24,279,196	347,029	78,180,522
Fund balance - ending	\$ 16,274,131	\$ 2,010,587	\$ 1,559,462	\$ 6,088,337	\$ 17,034,186	\$ 10,884,048	\$ 30,133,566	\$ (317,087)	\$ 83,667,230

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

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Exhibit "F"

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

Net change in fund balances - total governmental funds \$ 5,486,706

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$	13,204,913	
Less current year depreciation		<u>(2,526,005)</u>	
			10,678,908

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. (10,481,133)

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. (605,826)

Payment of bond issuance costs require the use of current financial resources in the governmental fund but are amortized over future periods in the statement of activities. 451,841

Change in net assets of governmental activities \$ 5,530,496

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

**TOWN OF HILTON HEAD ISLAND
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2008**

Exhibit “G”

	General			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Real and Personal Property Taxes	\$ 10,170,620	\$ 10,170,620	\$ 10,138,385	\$ (32,235)
Accommodations Tax	2,293,850	2,293,850	2,319,342	25,492
Business Licenses and Franchise Fees	8,346,260	8,346,260	8,722,028	375,768
Permits	1,640,000	1,640,000	1,256,773	(383,227)
State Shared Funds	997,230	997,230	1,105,671	108,441
Donations	-	-	10,305	10,305
Grants	158,700	158,700	152,140	(6,560)
Miscellaneous Revenue	2,316,440	2,316,440	2,424,055	107,615
Investment Income	500,000	500,000	402,416	(97,584)
Total revenues	<u>26,423,100</u>	<u>26,423,100</u>	<u>26,531,115</u>	<u>108,015</u>
Expenditures:				
Current:				
General Government	1,648,540	1,648,540	1,551,674	96,866
Management Services	4,460,710	4,504,271	3,921,014	583,257
Planning/Building and Fire Codes	3,177,050	3,178,268	2,987,021	191,247
Public Safety	17,048,220	17,075,892	16,921,361	154,531
Public Projects and Facilities	3,640,690	3,649,500	3,263,220	386,280
Non-Departmental	2,280,200	2,386,804	2,018,190	368,614
Capital Outlay	145,550	403,778	209,932	193,846
Debt Service:				
Principal	64,152	64,152	67,139	(2,987)
Interest	6,848	6,848	3,511	3,337
Total expenditures	<u>32,471,960</u>	<u>32,918,053</u>	<u>30,943,062</u>	<u>1,974,991</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,048,860)</u>	<u>(6,494,953)</u>	<u>(4,411,947)</u>	<u>2,083,006</u>
Other financing sources (uses):				
Transfers In	4,719,730	4,719,730	4,196,822	(522,908)
Total other financing sources (uses)	<u>4,719,730</u>	<u>4,719,730</u>	<u>4,196,822</u>	<u>(522,908)</u>
Net change in fund balance	<u>(1,329,130)</u>	<u>(1,775,223)</u>	<u>(215,125)</u>	<u>1,560,098</u>
Fund balance - beginning (as previously reported)	16,426,738	16,426,738	16,426,738	
Prior period adjustment	<u>62,518</u>	<u>62,518</u>	<u>62,518</u>	
Fund balance - beginning (as restated)	<u>16,489,256</u>	<u>16,489,256</u>	<u>16,489,256</u>	
Fund balance - ending	<u>\$ 15,160,126</u>	<u>\$ 14,714,033</u>	<u>\$ 16,274,131</u>	

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

Component Unit

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

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

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information 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 non-major funds.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

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

The Town reports the following major governmental funds:

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

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

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

Real Estate Transfer Fee (Special Revenue Fund). The fund accounts for a fee equal to one quarter of one percent (.0025) of the purchase price upon the transfer of any real property situated within the corporate limits of the Town. These revenues are restricted to expenditures for specific purposes.

Accommodations Tax (Special Revenue Fund). This fund is used to account for the Town's receipts from the two percent (2%) tax levied on rentals of transient accommodations within the corporate limit. These revenues are restricted to expenditures for specific purposes.

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

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

The Town reports the Palmetto Electric Franchise Fees and the Home Grant Special Revenue Funds as non-major governmental funds.

Measurement Focus and Basis of Accounting

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

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

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

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

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

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

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

Property taxes for the year ended June 30, 2008, includes an accrual for property taxes collected 60 days after June 30. Property taxes are levied based on assessed values and the property tax calendar as follows:

Property Tax Calendar

Assessment date	2003
Property tax due	March 16
Delinquent date	March 17
Levy date	May 15-30
Tax sale	First Monday in October

The County has no specific lien date.

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

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

Use of Estimates

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

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund, Debt Service Fund, and Capital Projects Fund. Budgets for the aforementioned funds are prepared in accordance with GAAP. The Town 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, Capital Projects Fund, and Debt Service Fund for the year which includes proposed expenditures and the means of financing them.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

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

- 2) Public hearings are held for taxpayers' comments for the General 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.

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:

Funds From Prior Years	\$ 446,093
------------------------	------------

Total Revenues Increase	\$ 446,093
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Expenditures:

Finance Admn. Contractual Services Professional Services	\$ 5,500
---	----------

Png/Natural Resources Contractual Services Horticulturist	1,218
--	-------

Operations Contractual Services Maintenance Contracts/Fees	25,550
---	--------

Operations Supply Computer Software < \$50,000	20,000
---	--------

Operations Capital Computer Software = or > \$50,000	246,592
---	---------

F&R Logistics & Maint. Contractual Services Maintenance Contracts/Fees	22,411
---	--------

F&R Emerg. Mgmt. Captial Specialized Equipment	20,446
---	--------

Police Patrol Contractual Services Police Services	104,376
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Total Expenditures	\$ 446,093
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**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

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

Capital Projects Fund

Revenues:

Funds From Prior years	\$ 41,677
Rebate	(140,000)
Beach Preservation Fees	(74,510)
County Bonds	382,970
TIF Bonds	(6,653,448)
Traffic Impact Fees	(59,060)
Developer/Contributions	294,800
Hospitality Tax	2,277,847
Hospitality Bond	(4,551,123)
Sales Tax	(1,880,000)
SWU Bond	(375,710)
2004 GO Bond	4,861,877
Real Estate Transfer Fee	60,000
Stormwater Utility Fees	126,668
TIF Taxes	481,937
Total Revenues	<u>\$ (5,206,075)</u>

Expenditures:

Pathways

Mathews Drive/Marshland South	\$ 306,220
Pope Avenue (Off Road)	1,619,993
Pathway Rehabilitation	26,500
Palmetto Bay Road	(1,288,000)
Mathews Drive (US 278 N. to Beach City Road)	(480,000)
Target Road	(68,000)
New Orleans Road	46,000
Avocet Road	4,000
Marshland Pathway	8,000
Wild Horse Road	3,900

Drainage

Squire Pope Road	(722,603)
Beach City Road/Airport	8,850
Club Course Outfall	82,000
Drainage Study Updates	(384,560)

Road Improvements

Traffic Signal Mast Arms	50,000
Widen and Realign Office Park Road	215,760
Town Roads Reconstruction	1,304
Widen Mathews Drive North	555,878
Intersection Improvements	710,924
Horseshoe Road	43,070
Gumtree/Squire Pope Roundabout	1,886,372
Pedestrian Crosswalk	(70,000)

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

Capital Projects Fund (Continued)

Road Improvements (Continued)	
Roadway Safety Improvements	\$ (174,960)
Mainland Transportation Improvements	400,000
Honey Horn Road Project	200,000
F&R Emergency Access Points	(133,871)
SCDOT Roads Resurfacing	(1,471,395)
Widen Mathews Drive (US 278 to Beach City Road)	(3,457,000)
Mathews Drive/Chaplin Area Connectivity	(60,000)
Nassau St. Extension	(600,000)
Summit Drive Realignment & Refurbishment	(604,000)
Stoney Secondary Road (South)	(714,000)
Allen Drive	6,700
Mitchellville Lane	3,600
Park Development	
Shelter Cove Linear Park Expansion	(95,246)
Parks Upgrades	(15,144)
Compass Rose Park	791,452
Rocks/Remy's	(500,000)
Barker/Field/Beach Access Ext.	20,000
Chaplin Linear Park w/ Boardwalk	(100,000)
Coligny Beach Park Improvements	(900,000)
Existing Facilities/Infrastructure	
Apparatus & Vehicle Replacement	(1,780,726)
Fire Station # 1 Replacement	(1,858,011)
Fire Station # 5 Replacement & Demo	(2,250,000)
Hilton Head Camera Project	367,500
Museum Structure Stabilization	600,000
Facilities Surveillance Cameras	100,000
New Facilities/Infrastructure	
F&R Dispatch Center	62,204
F&R Training Center	180,236
F&R Computer System	193,515
Stoney Sewer Project	(365,000)
Coligny/Pope Ave. Area	(280,000)
Dunnigan's Alley	(200,000)
Facilities Management Building	380,096
Community Warning System	(75,000)
Dispatch Center Equipment	(120,000)

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

Capital Projects Fund (Continued)

Beach Maintenance	
Beach Renourishment	905,490
Groins Reburishment	(1,000,000)
Land Acquisition	4,781,877
Total Expenditures	<u><u>\$ (5,206,075)</u></u>

Deficit Fund Equity

The Palmetto Electric special revenue fund had a deficit fund balance of \$317, 470 as of June 30, 2008. The fund incurred expenditures in excess of current year revenues in order to complete certain capital projects according to schedule. Funds will be advanced from the general fund to cover the deficit. The advance will be repaid to the general fund with interest during fiscal year 2009.

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, 2008, which were underway by July 1, is shown as an encumbrance in that fund.

Cash Equivalents

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

Investments

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

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.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Town as assets including, but not limited to, land, buildings, machinery and equipment with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. The only exception to the \$5,000 threshold is software acquisition. Software and other associated intangibles with an initial individual cost of \$50,000 or more and an estimated useful life in excess of two years is capitalized.

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

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

Long-Term Obligations

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

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

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.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

The sick leave termination benefit for employees who have a minimum of five years consecutive employment and are terminated for non-disciplinary reasons is computed based on a percentage of actual sick leave. The sick leave termination benefit is paid as a taxable lump-sum bonus at termination. Employees who were older than age 55 on July 1, 2000, and were employed by the Town were grandfathered under the prior plan of receiving their sick leave as a retirement benefit. The grandfathered employees are eligible for the greater of the sick leave termination benefit or the sick leave retirement benefit. Sick leave was not accrued other than for the termination or retirement benefit, but the maximum considered possible benefits payable from services prior to June 30, 2008, would be \$1,437,086 excluding fringe benefits.

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

Program Revenues

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

Note 2. Cash, Cash Equivalents, and Investments

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

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents	Restricted Investments	Total
Governmental Activities:				
General Fund	\$ 10,610,288	\$ 1,804,857		\$ 12,415,145
Tax Increment Financing		2,248,237		2,248,237
Accommodations Tax	1,849,688			1,849,688
Real Estate Transfer Fee	5,874,761			5,874,761
Beach Preservation Fees	4,357,103	12,000,000		16,357,103
Debt Service	2,970,044	7,024,180	924,654	10,918,878
Capital Projects	12,659,643	20,560,698		33,220,341
Town Franchise Fees	3,390			3,390
Home Grant		22,657		22,657
	<u>\$ 38,324,917</u>	<u>\$ 43,660,629</u>	<u>\$ 924,654</u>	<u>\$ 82,910,200</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 2. Cash and Investments (continued)

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2008, the \$81,982,612 carrying balance and \$82,266,324 bank balance were held in various banks of which \$141,219 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of \$2,934 is held in petty cash funds of the Town. Of the total carrying cash balance of \$81,985,546 in cash, \$43,660,629 has been restricted.

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

Investments

At June 30, 2008, the Town had investments and maturities as shown below:

	<u>Fair Value</u>	<u>1 Year</u>
U.S. Agency Discount Notes	<u>\$ 924,654</u>	<u>\$ 924,654</u>

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 2. Cash and Investments (continued)

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

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

At June 30, 2008, the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)	Unrated
U.S. Agency Discount Notes	\$ 924,654	\$ 924,654	\$ -

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 3. Receivables

At June 30, 2008, the Town's receivable balances were as follows:

	Government-wide Financial Statements					Total
	Fund Financial Statements					
	General Fund	Beach Preservation Fee	Capital Project Fund	Debt Service	Other Receivables	
Receivables:						
EVS Fees	\$ 1,798,173					\$ 1,798,173
Local accommodations taxes	815,074					815,074
Other receivables	21,832				178,806	200,638
Business license revenues	180,144					180,144
Beach preservation fees		1,630,173				1,630,173
Hospitality taxes/Other			1,503,086			1,503,086
Gross receivables	2,815,223	1,630,173	1,503,086	-	178,806	6,127,288
Less: allowance for uncollectibles	1,442,095	-	-	-	-	1,442,095
Net Receivables	<u>\$ 1,373,128</u>	<u>\$ 1,630,173</u>	<u>\$ 1,503,086</u>	<u>\$ -</u>	<u>\$ 178,806</u>	<u>\$ 4,685,193</u>
Receivables from Employees:						
Cobra Insurance	\$ (1,123)	\$ -	\$ -	\$ -	\$ -	\$ (1,123)
Computer Purchases*	62,302	-	-	-	-	62,302
Total Receivables from Employees	<u>\$ 61,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,179</u>

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

Note 4. Interfund Balances and Activities

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2008 for which payment was received/made after June 30, 2008.

Interfund receivables and payable balances at June 30, 2008 are as follows:

	Due From							Total	
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Beach Preservation Fees	Capital Projects Fund	Debt Service		Electric Franchise Fee
Due To:									
General			\$ 1,144,393		\$ 837,567	\$ 2,252,978	\$ 84,187	\$ 70,000	\$ 4,389,125
Tax Increment Financing	345,593								345,593
Capital Project Fund		95,548	600	7,866	115,523		500		220,037
Other Governmental Funds							3,049		3,049
Total	<u>\$ 345,593</u>	<u>\$ 95,548</u>	<u>\$ 1,144,993</u>	<u>\$ 7,866</u>	<u>\$ 953,090</u>	<u>\$ 2,252,978</u>	<u>\$ 87,736</u>	<u>\$ 70,000</u>	<u>\$ 4,957,804</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

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

Transfers in/out for the year ended June 30, 2008 are summarized below:

	Transfer In			Total
	General Fund	Debt Service Fund	Capital Projects Fund	
<u>Transfers Out:</u>				
TIF			\$ 95,548	\$ 95,548
Accommodations Tax	1,268,346		30,600	1,298,946
Real Estate Transfer Fees		3,560,131	65,895	3,626,026
Beach Preservation Fees	855,113	2,851,107	908,643	4,614,863
Capital Project Fund	2,004,206	1,968,195		3,972,401
Other	69,157			69,157
Total	\$ 4,196,822	\$ 8,379,433	\$ 1,100,686	\$ 13,676,941

Advances

Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds in the fund statements. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. Loans and Advances are subject to elimination upon consolidation. As of June 30, 2008 the General Fund fund balance reflects an advance of \$70,000. This amount is due from the Palmetto Electric Franchise Fee Fund.

Note 5. Due To or From Other Governments

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

General Fund

Property Taxes - Beaufort County	\$ 226,029
E 911 - Beaufort County	34,817
Dispatch/ EMS 911 - Beaufort County	18,750
Beaufort County Land Care South	5,001
SC DOT	35,980
SC MER Inventory	1,903
State Shared Taxes	290,565
EMS Grant - Beaufort County	6,641
IRS Taxes	1,866
SC Taxes	1,345
	622,897

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

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

Debt Service Fund

Property Taxes - Beaufort County (07-01-06 thru 07-31-06)	52,041
Merchant Inventory Tax 06-30-06 State of SC	865

	52,906
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Capital Projects Fund

Property Taxes - Beaufort County (07-01-06 thru 07-31-06)	7,812
CIP - Merchant Inventory (Quarter June 2006)	129
Beaufort County - US278/Pope	651,323
State Sunday Liquor Fees	25,350
Stormwater Fees - Beaufort County (06-01-06)	35,385
State of SC CDBG Grant	6,497
State of SC PARD Grant	7,017

	733,513
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Accommodations Taxes

State of South Carolina	1,337,384
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	1,337,384
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Real Estate Transfer Fees

Beaufort County	218,393
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	218,393
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Total Due from Other Governments

	\$ 2,965,093
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The amounts due from the Town to other governments are as follows:

General Fund

Municipal Court State Fees - SC State Treasurer	\$ 53,088
Sheriff's Department - Beaufort County	614,267
PORS - Retirement June	107,694
State of South Carolina - Use Taxes	1,977
State of SC	5

	777,031
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Tax Increment Financing District Fund

Beaufort County - TIF	487,695
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	487,695
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Total Due to Other Governments

	\$ 1,264,726
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TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Restricted Assets, Liabilities, and Fund Balance

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

Certain contractors are required to post bonds in respect to agreements to perform work required by the Municipal Code. Some of these funds are held in the performance bond escrow account to be returned with interest earned on satisfactory completion of the contractors' obligations while others are held without interest. At June 30, 2008, \$99,716 was the balance of the bonds held.

Bonds paid by individuals for Municipal Court are required to be held in an escrow account until after the trial date. These funds are then either repaid to the individual or recognized as revenue by the Town based upon the verdict. At June 30, 2008, \$60,767 was the balance of bonds held.

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

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved:

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

Advances – Portion of fund balance available to pay for interfund loans.

Debt Service – Portion of fund balance reserved to meet debt service obligations.

Land Acquisition Bond – Portion of fund balance associated with bond funds that will be used for the purchase of land.

2002 Stormwater Bond – Portion of fund balance associated with bond funds that will be used for stormwater capital projects.

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

Unreserved:

Designated for Operating Reserve – The Town will establish and maintain an operating reserve based on a range with a **minimum of 25%** up to a **maximum of 30%** of the Town's adopted fiscal year operating budget. The operating reserve may be utilized for emergency purposes in post-disaster occurrences; to offset an early fiscal year tax revenue income stream deficiency; and to avoid emergency Town borrowing or use of tax anticipation notes. The Director of Finance is authorized to transfer the amount of undesignated fund balance above the 30% maximum into the debt service reserve fund to maintain an account reserved for the reduction of Town debt. This account shall be called debt defeasance. An annual report shall be given each year in conjunction with the budget.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

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

Designated for Advertising Reserve – The Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster advertising reserve account. These funds are held in reserve for disaster management communications oriented programs. The fund will be used to provide post disaster advertising, a communications link to emergency agencies, and media programs to provide public notice. Funds may be distributed upon authorization by the Town Manager. The total amount of funds to be deposited in the reserve for this purpose will not exceed \$1 million. Annual interest earned on funds in the reserve will also be deposited into the account.

Designated for General Reserve – Once the Disaster Advertising Reserve reaches \$1 million, the Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster general reserve account. These funds may be used for pre-disaster planning and post disaster recovery efforts (non-communication related activities or debt service payments). The total amount of funds held in reserve for this purpose will not exceed 15% of the General Fund’s annual operating revenue.

Designated for Beach Preservation Reserve – The Town will hold in an interest bearing account a portion of the amounts on deposit in the Town of Hilton Head Island Beach Preservation Fee Account. The amount to be held in this reserve account shall not exceed \$12 million.

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

Note 7. Accounts Payable

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

	Government-Wide Financial Statements						
	Fund Financial Statements						
	General Fund	Accommodations Tax Fund	Beach Preservation Fees	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total
Payables:							
Accounts payable	\$ 311,852	\$ 81,402			\$ 3,252,377	\$ 429,666	\$ 4,075,297
Accrued payroll	892,200						892,200
Total payables	<u>\$ 1,204,052</u>	<u>\$ 81,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,252,377</u>	<u>\$ 429,666</u>	<u>\$ 4,967,497</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 8. Unearned/Deferred Revenue and Net Assets

Unearned/Deferred Revenue

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

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

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

General Fund

The deferred revenues in the General Fund are miscellaneous funds associated with the Town's Open Space Fund.

Capital Projects Fund

The deferred revenues in the Capital Projects Fund are miscellaneous funds associated with the Town's Tree Fund.

Nonmajor Governmental Fund – Home Grant

The deferred revenue in the Home Grant Fund is surplus loan funds being held in reserve.

Net Assets

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

Invested in capital assets, net of related debt:

	Net capital assets	\$ 212,733,198
Less:	General obligation bonds	(63,680,000)
	Revenue bonds	(66,885,000)
	Certificates of participation	(6,905,000)
Add:		
	Bond issue costs and loss on refunding	2,844,608
	Unspent bond proceeds	20,553,525
		98,661,331
Restricted for:		
	Disaster recovery: General Fund	1,705,141
	Beach renourishment	12,000,000
	Debt service	11,463,197
Unrestricted		34,433,182
	Total net assets	\$ 158,262,851

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 9. Accommodations Tax Fund

Accommodations Tax Fund is a Special Revenue Fund to record Accommodations Tax receipts and grants approved by Town Council payable out of appropriations. Thirty percent (30%, FY 2008: \$1,218,032) and five percent (5%, FY 2008: \$203,005) of Accommodations Taxes after deducting a \$25,000 transfer to the General Fund is required to be transferred to the Hilton Head Island Chamber of Commerce Visitor and Convention.

Bureau and the general fund, respectively. The remaining amounts are allocated to various projects approved by Town Council and these projects must be tourism related.

Town Council has adopted a policy whereby the appropriations for an individual project will lapse if the project is not underway by July 1 of the year following appropriation. The appropriation can be extended, annually, until the funds are expended. Appropriations totaling \$11,079 were lapsed during the fiscal year ending June 30, 2008, with \$5,000 being the total lapsed against 2008 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2008:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
<u>Grants (not Town related)</u>				
Low Country Golf Onwer's Association	\$ 24,038	\$ 19,278	\$ 4,760	-
Coastal Discovery Museum - Cultural @Eco Tourism Program	74,992	74,217	775	-
Hilton Head Island Choral Society	7,314	7,314	-	-
Hilton Head Island-Bluffton Visitor & Convention Bureau	265,437	265,437	-	-
Hilton Head Island Concours d'Elegance	29,515	28,576	939	-
Hilton Head Island St. Patrick's Day Parade	4,435	-	4,435	-
Main Street Theatre - Capital	1,007	845	162	-
Main Street Youth Theatre - Operations	23,205	23,205	-	-
The Sandbox: An Interactive Children's Museum	23,266	23,258	8	-
Coastal Discovery museum 7 of 7 (Capital)	175,000	175,000	-	-
Arts Center of Coastal Carolina	402,077	402,077	-	-
Hilton Head Symphony Orchestra	165,000	165,000	-	-
Native Island Business and Community Affairs Association	85,000	85,000	-	-
Hilton Head Island -Bluffton Visitor & Convention Bureau	20,000	20,000	-	-
Art League of Hilton Head Island	47,000	19,379	-	27,621
Coastal Discovery Museum - Cultural @Eco Tourism Program	175,000	79,705	-	95,295
Harbour Town 4th of July Fireworks	8,200	-	-	8,200
Heritage Library Foundation	25,000	25,000	-	-
Hilton Head Choral Society	17,000	7,760	-	9,240
Hilton Head Dance Theatre	11,000	11,000	-	-
Hilton Head Island Concourse D'Elegance	55,000	39,718	-	15,282
Low Country Tourism	18,500	18,500	-	-
Main Street Theater - Capital	10,000	2,423	-	7,577
Main Street Youth Theatre - Operations	45,000	21,689	-	23,311
Shelter Cove Harbour Company	8,200	-	-	8,200
Skull Creek July 4th Celebration	8,200	8,200	-	-
South Carolina Repertory Company	18,500	18,500	-	-
The Sandbox: An Interactive Children's Museum	35,000	12,992	-	22,008
Hilton Head Island-Bluffton Visitor & Convention Bureau	320,000	164,742	-	155,258
Total Grants (not Town related)	\$ 2,101,886	\$ 1,718,815	\$ 11,079	\$ 371,992

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 9. Accommodations Tax Fund (continued)

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
<u>Grants (not Town related)</u>				
<u>Other Financing Uses</u>				
Transfer to General Fund	\$ 1,040,341	\$ 1,040,341	-	\$ -
Transfer to Capital Projects Fund	30,600	30,600	-	-
Total Other Financing Uses	<u>\$ 1,070,941</u>	<u>\$ 1,070,941</u>	<u>\$ -</u>	<u>\$ -</u>

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

Cultural Council

Town Council approved grants for the Arts Center of Coastal Carolina for the visual and performing arts. A total of \$402,078 was approved for operations during 2008/2008.

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

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

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2008, was \$1,628,800 of which \$453,209 was encumbered by approved grants.

Town council has approved amounts for 2008/2009 grants as follows:

Arts Center of Coastal Carolina (General Operating Support)	\$ 414,542
Hilton Head Island – Bluffton Visitor & Convention Bureau	80,000
Hilton Head Symphony Orchestra	170,000
Native Island Business & Comm. Affairs Association	90,000
Town CIP – Island Recreation Center	30,000
Town Operations – Tourism Support	<u>1,127,975</u>
	<u>\$ 1,912,517</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations

CERTIFICATES OF PARTICIPATION

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

On March 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$9,060,000 secured by Town properties. A schedule for the amount due on this certificate follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	2.250	\$ 203,567	\$ 965,000	\$ 1,168,567
2010	3.000	181,855	980,000	1,161,855
2011	3.000	152,455	1,010,000	1,162,455
2012	3.000	122,155	1,035,000	1,157,155
2013	5.000	91,105	1,065,000	1,156,105
2014	3.350	37,855	1,130,000	1,167,855
		\$ 788,992	\$ 6,185,000	\$ 6,973,992

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated tax exempt amount of certificates; (b) maximum annual debt service on certificate for any fiscal year; or (c) 125% of average annual debt on the certificates. At June 30, 2008, \$1,096,795 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. Ad Valorem tax revenues of the Debt Service Fund are used to repay these certificates of participation.

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

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	3.970	\$ 28,584	\$ 115,000	\$ 143,584
2010	3.970	24,018	115,000	139,018
2011	3.970	19,453	120,000	139,453
2012	3.970	14,689	120,000	134,689
2013	3.970	9,925	120,000	129,925
2014	3.970	5,161	130,000	135,161
		\$ 101,830	\$ 720,000	\$ 821,830

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

GENERAL OBLIGATION BONDS

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	5.400	\$ 14,215	\$ 170,000	\$ 184,215
2010	5.500	4,812	175,000	179,812
		\$ 19,027	\$ 345,000	\$ 364,027

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

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

GENERAL OBLIGATION BONDS (continued)

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	5.400	\$ 84,205	\$ 990,000	\$ 1,074,205
2010	5.500	28,737	1,045,000	1,073,737
		\$ 112,942	\$ 2,035,000	\$ 2,147,942

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

\$6,000,000 General Obligation Bonds Dated November 1, 1999

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:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	6.250	\$ 293,061	\$ 195,000	\$ 488,061
2010	5.000	281,843	205,000	486,843
2011	5.100	271,235	215,000	486,235
2012	5.200	259,773	230,000	489,773
2013	5.300	247,433	240,000	487,433
2014	5.400	234,188	255,000	489,188
2015	5.500	219,878	270,000	489,878
2016	5.600	204,613	280,000	484,613
2017	5.625	188,355	300,000	488,355
2018	5.700	170,920	315,000	485,920
2019	5.750	152,311	335,000	487,311
2020	5.800	132,385	355,000	487,385
2021	5.800	111,215	375,000	486,215
2022	5.800	88,885	395,000	483,885
2023	5.800	65,250	420,000	485,250
2024	5.800	40,165	445,000	485,165
2025	5.800	13,630	470,000	483,630
		\$ 2,975,140	\$ 5,300,000	\$ 8,275,140

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

GENERAL OBLIGATION BONDS (continued)

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	3.500	\$ 650,050	\$ 425,000	\$ 1,075,050
2010	5.500	635,175	435,000	1,070,175
2011	5.500	611,250	450,000	1,061,250
2012	5.500	586,500	465,000	1,051,500
2013	5.250	560,925	480,000	1,040,925
2014	5.250	535,725	500,000	1,035,725
2015	5.250	509,475	520,000	1,029,475
2016	5.000	482,175	540,000	1,022,175
2017	5.000	455,175	560,000	1,015,175
2018	4.400	427,175	585,000	1,012,175
2019	4.500	401,435	610,000	1,011,435
2020	4.500	373,985	635,000	1,008,985
2021	4.500	345,410	665,000	1,010,410
2022	4.625	315,485	695,000	1,010,485
2023	4.700	283,341	730,000	1,013,341
2024	4.750	249,031	765,000	1,014,031
2025	4.750	212,694	800,000	1,012,694
2026	4.750	174,694	840,000	1,014,694
2027	4.875	134,794	880,000	1,014,794
2028	4.875	91,894	920,000	1,011,894
2029	4.875	47,044	965,000	1,012,044
		\$ 8,083,432	\$ 13,465,000	\$ 21,548,432

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

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

On October 26, 2004, the Town issued \$5,365,000 in general obligation bonds with an average interest rate of 2.97% to advance refund \$4,925,000 general obligation bonds dated April 1, 1998, with an average interest rate of 4.88% to finance capital projects. The net proceeds of \$5,302,552 including a premium of \$38,304 (after payment of \$100,752 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds by \$133,983 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$139,650. A schedule of the amount due for this issue follows:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

GENERAL OBLIGATION BONDS (continued)

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	2.750	\$ 129,306	\$ 675,000	\$ 804,306
2010	3.000	107,800	815,000	922,800
2011	3.000	62,125	2,230,000	2,292,125
2012	3.100	14,337	925,000	939,337
		\$ 313,568	\$ 4,645,000	\$ 4,958,568

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

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

On March 15, 2005, the Town issued \$24,265,000 in general obligation bonds with an average interest rate of 4.38% to advance refund \$9,155,000 general obligation bonds dated November 1, 1999, and \$14,075,000 general obligation bonds dated March 1, 2001, at an aggregate average interest rate of 5.27%. The net proceeds of \$24,654,307 including \$822,369 in premiums (after payment of \$433,062 in issuance costs) were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service over the life of the bonds by \$1,583,835 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,053,675. A schedule for the amount due for this refunded issue is as follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	4.000	\$ 1,039,715	\$ 100,000	\$ 1,139,715
2010	4.000	1,017,215	1,025,000	2,042,215
2011	4.000	967,315	1,470,000	2,437,315
2012	4.000	907,415	1,525,000	2,432,415
2013	3.750	847,196	1,585,000	2,432,196
2014	3.750	786,634	1,645,000	2,431,634
2015	4.000	721,590	1,710,000	2,431,590
2016	5.000	642,765	1,785,000	2,427,765
2017	5.000	551,265	1,875,000	2,426,265
2018	5.000	455,390	1,960,000	2,415,390
2019	5.000	355,015	2,055,000	2,410,015
2020	4.000	260,640	2,150,000	2,410,640
2021	4.100	174,693	2,095,000	2,269,693
2022	4.200	116,625	720,000	836,625
2023	4.250	85,567	750,000	835,567
2024	4.300	52,753	785,000	837,753
2025	4.375	17,937	820,000	837,937
		\$ 8,999,730	\$ 24,055,000	\$ 33,054,730

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

GENERAL OBLIGATION BONDS (continued)

\$24,265,000 General Obligation Bonds Dated March 1, 2005 (continued)

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

Schedules for the amount due on the portions of general obligation bonds not refunded at this time follow:

\$2,050,000 General Obligation Bonds Dated November 1, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	7.125	\$ 40,613	\$ 370,000	\$ 410,613
2010	7.125	13,716	385,000	398,716
		\$ 54,329	\$ 755,000	\$ 809,329

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

\$3,990,000 General Obligation Bonds Dated March 1, 2001

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	4.500	\$ 38,925	\$ 865,000	\$ 903,925
		\$ 38,925	\$ 865,000	\$ 903,925

Ad Valorem tax revenues of the Debt Service Fund will be used to pay \$750,000; the remaining will be paid by transfers from the Real Estate Transfer Fee Fund.

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

GENERAL OBLIGATION BONDS (continued)

\$12,215,000 General Obligation Bonds Dated March, 2008 (continued)

<u>For the Year Ended June 30</u>	<u>Interest Rate by Year (%)</u>	Governmental Activities		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	4.000	\$ 515,787	\$ 185,000	\$ 700,787
2010	4.000	499,987	605,000	1,104,987
2011	3.250	477,650	630,000	1,107,650
2012	4.000	454,413	650,000	1,104,413
2013	3.500	429,600	675,000	1,104,600
2014	3.750	404,662	700,000	1,104,662
2015	4.000	377,137	720,000	1,097,137
2016	4.000	347,837	745,000	1,092,837
2017	5.000	313,562	775,000	1,088,562
2018	5.000	273,813	815,000	1,088,813
2019	4.000	236,337	855,000	1,091,337
2020	4.250	200,325	890,000	1,090,325
2021	4.375	161,178	925,000	1,086,178
2022	4.500	119,119	970,000	1,089,119
2023	4.625	73,822	1,015,000	1,088,822
2024	4.750	25,175	1,060,000	1,085,175
		\$ 4,910,404	\$ 12,215,000	\$ 17,125,404

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

REVENUE BONDS

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	3.000	\$ 697,369	\$ 550,000	\$ 1,247,369
2010	3.250	679,938	565,000	1,244,938
2011	3.450	660,665	585,000	1,245,665
2012	3.625	639,608	605,000	1,244,608
2013	3.750	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	4.000	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	5.250	496,030	740,000	1,236,030
2018	4.350	459,640	780,000	1,239,640
2019	5.125	421,919	810,000	1,231,919
2020	5.125	379,253	855,000	1,234,253
2021	5.125	334,409	895,000	1,229,409
2022	5.125	287,388	940,000	1,227,388
2023	5.125	237,931	990,000	1,227,931
2024	4.750	187,863	1,040,000	1,227,863
2025	4.750	137,275	1,090,000	1,227,275
2026	4.750	84,194	1,145,000	1,229,194
2027	4.750	28,500	1,200,000	1,228,500
		\$ 8,040,646	\$ 15,440,000	\$ 23,480,646

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificate for any fiscal year or (c) 125% of average annual debt service on the certificates. At June 20, 2008, \$1,521,486 was the fair value of the amount held in the reserve fund. The reserve and the debt service on the stormwater bonds are reported in the Debt Service Fund. Stormwater fees are transferred annually from the Capital Projects Fund in an amount sufficient to pay the debt service.

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

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

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

REVENUE BONDS (continued)

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	3.750	\$ 439,820	\$ 315,000	\$ 754,820
2010	3.500	428,007	325,000	753,007
2011	3.500	416,632	340,000	756,632
2012	4.000	404,732	350,000	754,732
2013	4.000	390,733	365,000	755,733
2014	4.100	376,133	380,000	756,133
2015	4.250	360,553	395,000	755,553
2016	4.350	343,765	410,000	753,765
2017	4.450	325,930	430,000	755,930
2018	4.500	306,795	450,000	756,795
2019	4.600	286,545	470,000	756,545
2020	4.650	264,925	490,000	754,925
2021	4.800	242,140	515,000	757,140
2022	4.800	217,420	540,000	757,420
2023	5.000	191,500	565,000	756,500
2024	5.000	163,250	590,000	753,250
2025	5.000	133,750	620,000	753,750
2026	5.000	102,750	650,000	752,750
2027	5.000	70,250	685,000	755,250
2028	5.000	36,000	720,000	756,000
		<u>\$ 5,501,630</u>	<u>\$ 9,605,000</u>	<u>\$ 15,106,630</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificate for any fiscal year or (c) 125% of average annual debt on the certificates. At June 30, 2008, \$924,654 was the fair value of the amount held in the reserve fund. Hospitality fees are transferred to the Debt Service Fund in an amount sufficient to repay these certificates of participation.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

REVENUE BONDS (continued)

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	5.000	\$ 679,810	\$ 2,160,000	\$ 2,839,810
2010	3.850	569,810	2,240,000	2,809,810
2011	3.875	470,073	2,320,000	2,790,073
2012	4.875	380,554	2,405,000	2,785,554
2013	3.900	286,216	2,500,000	2,786,216
2014	5.000	186,330	2,595,000	2,781,330
2015	5.000	67,500	2,700,000	2,767,500
		<u>\$ 2,640,293</u>	<u>\$ 16,920,000</u>	<u>\$ 19,560,293</u>

The Town is required to maintain a reserve for the beach preservation bonds. The original required deposit was 10% of the stated amount of the certificates or \$1,900,000. The Town has allowed the investment income to remain in the reserve. At June 30, 2008, \$2,046,834 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Beach preservation fees are transferred annually to the Debt Service Fund in an amount sufficient to repay the annual debt service.

TAX INCREMENT BONDS

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	4.650	\$ 260,400	\$ 740,000	\$ 1,000,400
2010	4.650	225,176	775,000	1,000,176
2011	4.650	188,325	810,000	998,325
2012	4.650	149,730	850,000	999,730
2013	4.650	109,275	890,000	999,275
2014	4.650	66,960	930,000	996,960
2015	4.650	22,669	975,000	997,669
		<u>\$ 1,022,535</u>	<u>\$ 5,970,000</u>	<u>\$ 6,992,535</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

TAX INCREMENT BONDS (continued)
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\$8,000,000 Tax Increment Bonds Dated June 25, 2004 (continued)

Through June 30, 2008, the debt service for the 2004 TIF Bonds has been reported in the TIF Fund. For Fiscal Year 2009, the Town will report all debt service including the 2004 TIF Bonds in the Debt Service Fund.

\$22,000,000 Tax Increment Bonds Dated April 17, 2008

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	2.9750	\$ 563,763	\$ 2,400,000	\$ 2,963,763
2010	2.9750	492,362	2,495,000	2,987,362
2011	2.9750	418,136	2,595,000	3,013,136
2012	2.9750	340,935	2,700,000	3,040,935
2013	2.9750	260,610	2,805,000	3,065,610
2014	2.9750	177,161	2,920,000	3,097,161
2015	2.9750	90,291	3,035,000	3,125,291
		\$ 2,343,258	\$ 18,950,000	\$ 21,293,258

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

The Town has defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from the Town's long-term debt and the trust account assets are not included in these statements. At June 30, 2008, \$23,230,000 of bonds are considered defeased debt.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 10. Long-Term Obligations (continued)

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 67,460,000	\$ 12,215,000	\$ 15,995,000	\$ 63,680,000	\$ 3,975,000
Certificates of participation	7,955,000		1,050,000	6,905,000	1,080,000
Revenue bonds	51,565,000	22,000,000	6,680,000	66,885,000	6,165,000
Capital leases	67,140		67,140	-	-
Premium on bonds	1,091,582	154,397	96,124	1,149,855	86,475
Total bonds and notes payable	<u>128,138,722</u>	<u>34,369,397</u>	<u>23,888,264</u>	<u>138,619,855</u>	<u>11,306,475</u>
Other liabilities:					
Compensated absences	1,354,917	1,437,090	1,354,917	1,437,090	1,293,381
Total other liabilities	<u>1,354,917</u>	<u>1,437,090</u>	<u>1,354,917</u>	<u>1,437,090</u>	<u>1,293,381</u>
Governmental activities long-term liabilities	<u>\$ 129,493,639</u>	<u>\$ 35,806,487</u>	<u>\$ 25,243,181</u>	<u>\$ 140,056,945</u>	<u>\$ 12,599,856</u>

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

For the Year Ended June 30	Government Activities		
	Interest	Principal	Total
2009	\$ 5,679,190	\$ 11,220,000	\$ 16,899,190
2010	5,190,451	12,185,000	17,375,451
2011	4,715,314	12,775,000	17,490,314
2012	4,274,841	11,860,000	16,134,841
2013	3,849,942	11,350,000	15,199,942
2014-2018	13,316,847	36,880,000	50,196,847
2019-2023	6,916,453	24,710,000	31,626,453
2024-2028	1,956,599	15,525,000	17,481,599
2029	47,044	965,000	1,012,044
Total	<u>\$ 45,946,681</u>	<u>\$ 137,470,000</u>	<u>\$ 183,416,681</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 137,651,694	\$ 5,008,375	\$ (300,000)	\$ 142,360,069
Development Rights	7,716,970	-	-	7,716,970
Easements/Right-of-Ways	2,345,098	108,000	-	2,453,098
Construction in progress	9,119,950	7,850,684	(10,355,325)	6,615,309
Total capital assets not being depreciated	<u>156,833,712</u>	<u>12,967,059</u>	<u>(10,655,325)</u>	<u>159,145,446</u>
Capital assets being depreciated:				
Buildings	16,037,412	1,147,197		17,184,609
Furniture, fixtures and equipment	3,400,957	95,101	(34,376)	3,461,682
Vehicles	4,562,174	142,753	(37,566)	4,667,361
Imp. other than buildings - park development	4,813,526	3,786,767		8,600,293
Infrastructure	35,252,917	5,421,361		40,674,278
Total capital assets being depreciated	<u>64,066,986</u>	<u>10,593,179</u>	<u>(71,942)</u>	<u>74,588,223</u>
Less accumulated depreciation for:				
Buildings	5,728,284	545,589		6,273,873
Furniture, fixtures and equipment	2,802,419	161,553	(27,561)	2,936,411
Vehicles	3,837,850	185,524	(37,566)	3,985,808
Imp. other than buildings - park development	325,657	205,164		530,821
Infrastructure	5,845,383	1,428,175		7,273,558
Total accumulated depreciation	<u>18,539,593</u>	<u>\$ 2,526,005</u>	<u>\$ (65,127)</u>	<u>21,000,471</u>
Total capital assets being depreciated, net	<u>45,527,393</u>			<u>53,587,752</u>
Government activity capital assets, net	<u>\$ 202,361,105</u>			<u>\$ 212,733,198</u>

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

General Government	\$ 125,041
Management Services	77,971
Planning/Building and Fire Codes	27,163
Public Safety	562,986
Public Projects and Facilities	<u>1,732,844</u>
Total Depreciation Expense	<u>\$ 2,526,005</u>

Note 12. Capital Projects Fund

The Town opened a Capital Projects Fund for the purpose of providing funds for future capital outlays.

Public facilities, capital improvements, and land acquisition projects are underway. The projects are being financed by contributions, grants, municipal improvement district assessments, Sunday permit fees, hospitality tax, and a property tax levy. For the year ended June 30, 2008, the following categories of projects were budgeted and expenditures were made as shown:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 12. Capital Projects Fund (continued)

Public Facilities	\$ 428,789
Park Development	1,847,015
Land and Related Acquisitions and Improvements	4,925,773
Beach Maintenance	888,643
Facilities Improvements	1,647,571
Roadway Improvements	10,553,294
Pathways Improvements	2,611,428
Drainage Improvements	857,617
Debt Issue Costs	<u>222,500</u>
 Total	 <u><u>\$ 23,982,630</u></u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2008, the Town had outstanding construction commitments of approximately \$19,226,632. Through June 30, 2008, approximately \$9,070,731 in costs had been incurred on these commitments. At June 30, 2008, the Town had outstanding construction commitments totaling approximately \$7,130,992 for capital projects in progress and \$3,024,910 for capital projects obligated, but not yet started.

Operating Leases

For the Town's fiscal year ended June 30, 2008, there were no minimum rental payments under noncancelable operating leases and no contingent rental payments. The Town's contingent rentals are for the lease of a building with expense being determined by repair costs incurred during the lease term.

At June 30, 2008, future minimum payment under noncancelable operating leases with remaining terms in excess of one year were as follows:

	For the Year Ended	Total
	June 30,	Payments
<u>2009</u>		<u>36,789</u>
		<u><u>\$ 36,789</u></u>

Note 14. 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. All plan amendments must be approved by the Town Manager.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS**

Note 14. Pension Plan

ICMA Plan (continued)

For the year ended June 30, 2008, employer contributions were based on a total payroll of \$7,626,958. The amount contributed by the employer for the year ending June 30, 2008 was \$663,263 or 8.7% of covered payroll. Employee contributions to the plan were \$586,439 or 7.7% of covered payroll for year ending June 30, 2008. 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 \$124,847 to the 401(k). No match was made for these contributions.

PORS Plan

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

Both employers and employees are required to contribute to the plans under authority of Title 9 of the South Carolina Code of Law. Mandatory employee contributions of 6.5% of their total earnings are made through payroll deductions. Employees hired before July 1, 1995, who complete three years of service only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2008, \$7,730,290 of wages was subject to retirement. The Town pays the employer contribution at the rate of 10.3% of member salaries except for employees hired before July 1, 1995, who complete three years of service then the employer contribution rate is 13.8%. During the year ended June 30, 2008, a total of \$960,993 was contributed into the System for the Town's share and \$337,697 for the employees' share, which represented 12.43% and 4.37% of covered payroll, respectively. During the years ended June 30, 2007 and 2006, \$843,548 and \$844,832 were contributed to the system for the Town's share, representing 12.56% and 12.58% of covered payroll, respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

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

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

Pension Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2008, employer contributions were based on a total payroll of \$15,532,236 of which \$15,357,248 or 98.87% of the total payroll was covered under the plan. Employer contributions were \$1,624,256 or 10.45% of covered payroll. Employee contributions were \$924,136 or 6.36% of covered payroll.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

Note 15. Deferred Compensation Plan

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

Management of these funds is by the retirement plan administrator of 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 16. 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 \$174,814 at June 30, 2008, and is included as a liability in the General Fund in the accrued payroll and employee payables.

In January 2005, the Town instituted a preventive healthcare plan whereby employees are eligible for reimbursement of expenses associated with preventive care examinations and/or tests up to an established limit each year. The reimbursement is available for use by the employee or a dependent of the employee. There is only one benefit per family per year. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2008, the limit was \$200, and the Town's liability under this plan totaled \$47,236.

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2008 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$77,132.

Note 17. Other Post-Employment Benefits

In January 2002, the Town instituted a plan for retiree medical expenses. Annually, the Town contributes one hundred percent of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses. Employees who retire meeting 25 years for Police Office Retirement System or 5 years of service and age 55 are eligible for the benefit. The plan carries to survivor or dependent at death, but is used for future contributions credit if an employee leaves for a reason other than retirement. Eight (8) employees were eligible for the benefits for the period ending June 30, 2008.

The Town contributed \$93,375 during the year ended June 30, 2008.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

Note 17. Other Post-Employment Benefits (continued)

In June of 2004, the Government Accounting Standards Board issued GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." Under this pronouncement, starting in Fiscal Year 2009, the Town may be required to disclose the cost of this benefit for all its employees. In FY 2008 the Town completed the impact study and is currently reviewing its options in preparation for implementation in FY 2009.

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, 2008.

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

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

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS

Note 19. Prior Period Adjustments

During fiscal years prior to 2008, the Town received cash distributions from Beaufort County (the County) related to the Town's tax increment financing district (the TIF) which the County subsequently deemed to be in excess of that allowed by the TIF agreement. The Town has disputed the County's position that excess distributions were received.

In the interest of resolving the dispute, the Town has proposed an agreement which, as of the date of this report, is being considered by the County. The Town has recognized the proposed agreement in its financial statements by recording a \$649,138 liability to reflect the portion of distributions that are due to be repaid to the County as of June 30, 2008. While the agreement is still being considered by the County, Town management believes that it is probable that a final agreement will be reached and the above liability is a reasonable estimate of the agreement amount.

As a result of this condition, the Town's total fund balance and net assets as of June 30, 2007 were both overstated by \$649,138.

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 1 Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 10,170,620	\$ 10,170,620	\$ 10,138,385	\$ (32,235)
Accommodations Tax:				
Local 1%	2,293,850	2,293,850	2,319,342	25,492
Business License and Franchise Fees:				
Business License	7,744,690	7,744,690	8,133,032	388,342
Cable Television Franchise	597,370	597,370	566,940	(30,430)
Beach Franchise	4,200	4,200	22,057	17,857
Total	8,346,260	8,346,260	8,722,028	375,768
Permits:				
Construction	800,000	800,000	383,502	(416,498)
Development	20,000	20,000	9,024	(10,977)
Other	820,000	820,000	864,247	44,247
Total	1,640,000	1,640,000	1,256,773	(383,227)
State Shared Funds	997,230	997,230	1,105,671	108,441
Donations:				
EMS/Fire Department Donations	-	-	10,305	10,305
Grants:				
Beaufort County Hazmat/E911	158,700	158,700	109,897	(48,803)
DHEC	-	-	6,641	6,641
Miscellaneous Grant Reimbursements	-	-	35,602	35,602
Total	158,700	158,700	152,140	(6,560)
Miscellaneous Revenue:				
Public Safety/EMS	1,479,820	1,479,820	1,493,422	13,602
Beach Services	256,510	256,510	167,779	(88,731)
Municipal Court Fines and Fees	397,740	393,240	465,065	71,825
Miscellaneous Revenue	182,370	186,870	297,789	110,919
Total	2,316,440	2,316,440	2,424,055	107,615
Investment Income	500,000	500,000	402,416	(97,584)
Total Revenues	26,423,100	26,423,100	26,531,115	108,015

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 1 Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 84,980	\$ 84,980	\$ 74,346	10,634
Other Operating	360,200	360,200	355,061	5,139
Total Town Council	445,180	445,180	429,407	15,773
Town Manager:				
Salaries and Benefits	497,200	497,200	501,697	(4,497)
Other Operating	36,250	36,250	32,772	3,478
Total Town Manager	533,450	533,450	534,469	(1,019)
Human Resources:				
Salaries and Benefits	473,680	473,680	461,721	11,959
Other Operating	196,230	196,230	126,077	70,153
Total Human Resources	669,910	669,910	587,798	82,112
Total General Government	1,648,540	1,648,540	1,551,674	96,866
Management Services:				
Finance-Administration:				
Salaries and Benefits	195,900	195,900	170,994	24,906
Other Operating	50,550	56,050	17,041	39,009
Total Finance-Administration	246,450	251,950	188,035	63,915
Finance-Accounting:				
Salaries and Benefits	537,650	537,650	545,145	(7,495)
Other Operating	88,210	88,210	84,330	3,880
Total Finance-Accounting	625,860	625,860	629,475	(3,615)
Finance-Revenue and Collections:				
Salaries and Benefits	584,950	584,950	460,716	124,234
Other Operating	40,160	40,160	17,435	22,725
Total Finance-Revenue and Collections	625,110	625,110	478,151	146,959
Administration-Municipal Court:				
Salaries and Benefits	332,590	332,590	312,480	20,110
Other Operating	88,900	88,900	80,056	8,844
Total Administration-Municipal Court	421,490	421,490	392,536	28,954
Administration-Legal :				
Salaries and Benefits	583,050	583,050	591,169	(8,119)
Other Operating	40,070	40,070	25,550	14,520
Total Administration-Legal	623,120	623,120	616,719	6,401

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 1 Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services(continued):				
Administration-Administrative Support :				
Salaries and Benefits	167,300	167,300	172,149	(4,849)
Other Operating	90,960	90,960	10,644	80,316
Total Administration-Administrative Support	<u>258,260</u>	<u>258,260</u>	<u>182,793</u>	<u>75,467</u>
Administration-Operations:				
Salaries and Benefits	852,680	852,680	829,950	22,730
Other Operating	807,740	845,801	603,355	242,446
Total Administration-Operations	<u>1,660,420</u>	<u>1,698,481</u>	<u>1,433,305</u>	<u>265,176</u>
Total Management Services	<u>4,460,710</u>	<u>4,504,271</u>	<u>3,921,014</u>	<u>583,257</u>
Planning/Building & Fire Codes:				
Planning-Administration:				
Salaries and Benefits	391,570	391,570	376,702	14,868
Other Operating	28,990	28,990	21,148	7,842
Total Planning-Administration	<u>420,560</u>	<u>420,560</u>	<u>397,850</u>	<u>22,710</u>
Planning-Current:				
Salaries and Benefits	605,780	605,780	600,792	4,988
Other Operating	49,670	48,170	34,678	13,492
Total Planning-Current	<u>655,450</u>	<u>653,950</u>	<u>635,470</u>	<u>18,480</u>
Planning-Long Range:				
Salaries and Benefits	430,310	430,310	424,098	6,212
Other Operating	40,330	37,481	10,826	26,654
Total Planning-Long Range	<u>470,640</u>	<u>467,791</u>	<u>434,925</u>	<u>32,866</u>
Planning-Natural Resources:				
Salaries and Benefits	176,290	176,290	178,825	(2,535)
Other Operating	28,060	33,628	31,113	2,514
Total Planning-Natural Resources	<u>204,350</u>	<u>209,918</u>	<u>209,938</u>	<u>(21)</u>
Building & Fire Codes:				
Salaries and Benefits	1,311,150	1,311,150	1,256,142	55,008
Other Operating	114,900	114,900	52,696	62,204
Total Building & Fire Codes	<u>1,426,050</u>	<u>1,426,050</u>	<u>1,308,838</u>	<u>117,212</u>
Total Planning/Building & Fire Codes	<u>3,177,050</u>	<u>3,178,268</u>	<u>2,987,021</u>	<u>191,247</u>

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 1 Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Police Patrol/Communications:				
Police Services/Contract	2,657,620	2,674,881	2,658,356	16,525
Stipend	151,200	151,200	105,700	45,500
Victims' Rights	53,320	53,320	49,721	3,599
Beach Services	146,690	146,690	178,031	(31,341)
Total Police Patrol/Communications	3,008,830	3,026,091	2,991,808	34,283
Total Public Safety	17,048,220	17,075,892	16,921,361	154,531
Public Projects & Facilities:				
Administration:				
Salaries and Benefits	253,090	297,342	307,899	(10,557)
Other Operating	12,720	12,720	5,404	7,316
Total Administration	265,810	310,062	313,303	(3,241)
Engineering:				
Salaries and Benefits	595,630	551,378	492,193	59,185
Other Operating	174,200	174,200	116,930	57,270
Total Engineering	769,830	725,578	609,123	116,455
Facilities Management:				
Salaries and Benefits	903,150	903,150	860,464	42,686
Other Operating	1,701,900	1,710,710	1,480,330	230,380
Total Facilities Management	2,605,050	2,613,860	2,340,794	273,066
Total Public Projects & Facilities	3,640,690	3,649,500	3,263,220	386,280
Non-Departmental:				
Townwide:				
Insurance	304,030	304,030	273,317	30,713
Postage	44,290	44,290	34,450	9,840
General Contingency	50,000	50,000	15,948	34,052
Postemployment	15,600	15,600	12,662	2,938
Telephone/Cell Phones/Utilities	324,040	324,040	343,783	(19,743)
Equipment Maintenance/Supplies/Other	72,000	72,000	69,737	2,263
Lease Payments	48,200	48,200	41,916	6,284
Photocopying	9,000	9,000	10,674	(1,674)
Courier	19,800	19,800	20,570	(770)
Furniture/Fixtures <\$5,000	10,000	10,000	1,026	8,974
Disaster Advertising Reserve Fund	219,500	219,500	22,075	197,425
Hospitality Training & Promotion	114,700	114,700	68,729	45,971
Drug Court Grant	48,500	48,500	48,500	-
Youth Court Grant	15,000	15,000	-	15,000

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 1 Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental (continued):				
Recreation Center Grant	642,940	642,940	612,273	30,667
Recreation Center-Capital Grant	87,600	87,600	66,762	20,838
Coastal Discovery Grant	75,000	75,000	75,000	-
LTRA Grant	175,000	175,000	175,000	-
LEPC Grant	-	-	11,069	(11,069)
Beaufort County Hazmat Grant	5,000	5,000	526	4,474
DHEC Grant	-	-	7,568	(7,568)
Specialized Equipment	-	106,604	106,604	-
Total Non-Departmental Townwide	<u>2,280,200</u>	<u>2,386,804</u>	<u>2,018,190</u>	<u>368,614</u>
Debt Service:				
Principal	64,152	64,152	67,139	(2,987)
Interest	6,848	6,848	3,511	3,337
Total Debt Service	<u>71,000</u>	<u>71,000</u>	<u>70,650</u>	<u>350</u>
Capital Outlay				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	-	19,740	18,192	1,548
Computer Software >\$50,000	19,740	246,592	82,739	163,853
Total Administration-Operations	<u>19,740</u>	<u>266,332</u>	<u>100,931</u>	<u>165,401</u>
Total Management Services	<u>19,740</u>	<u>266,332</u>	<u>100,931</u>	<u>165,401</u>
Public Safety:				
Fire & Rescue Operations:				
Specialized Equipment	26,000	26,000	23,319	2,681
Total Fire & Rescue Operations	<u>26,000</u>	<u>26,000</u>	<u>23,319</u>	<u>2,681</u>
Fire & Rescue Emergency Management:				
Specialized Equipment	-	20,446	10,855	9,591
Total Fire & Rescue Emergency Management	<u>-</u>	<u>20,446</u>	<u>10,855</u>	<u>9,591</u>
Fire & Rescue Logistics/Maintenance:				
Specialized Equipment	81,000	81,000	64,875	16,125
Total Fire & Rescue Logistics/Maintenance	<u>81,000</u>	<u>81,000</u>	<u>64,875</u>	<u>16,125</u>
Support Services:				
Specialized Equipment	10,000	10,000	9,951	49
Total Support Services	<u>10,000</u>	<u>10,000</u>	<u>9,951</u>	<u>49</u>
Total Public Safety	<u>117,000</u>	<u>137,446</u>	<u>109,000</u>	<u>28,446</u>
Public Facilities:				
Facilities Management:				
Specialized Equipment	8,810	-	-	-
Total Public Facilities	<u>8,810</u>	<u>-</u>	<u>-</u>	<u>-</u>

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Schedule 1 Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Capital Outlay (continued)				
Total Capital Outlay	<u>145,550</u>	<u>403,778</u>	<u>209,932</u>	<u>193,846</u>
Total Expenditures	<u>32,471,960</u>	<u>32,918,053</u>	<u>30,943,062</u>	<u>1,974,991</u>
Excess of Revenues Over (Under) Expenditures	<u>(6,048,860)</u>	<u>(6,494,953)</u>	<u>(4,411,947)</u>	<u>2,083,006</u>
<u>Other Financing Sources and Uses :</u>				
Transfers In	4,719,730	4,719,730	4,196,822	(522,908)
Total Other Financing Sources	<u>4,719,730</u>	<u>4,719,730</u>	<u>4,196,822</u>	<u>(522,908)</u>
Net change in fund balance	<u>(1,329,130)</u>	<u>(1,775,223)</u>	<u>(215,125)</u>	<u>1,560,098</u>
Fund Balance - beginning (as previously reported)	16,426,738	16,426,738	16,426,738	
Prior period adjustment	<u>62,518</u>	<u>62,518</u>	<u>62,518</u>	
Fund Balance - beginning (as restated)	<u>16,489,256</u>	<u>16,489,256</u>	<u>16,489,256</u>	
Fund Balance - ending	<u>\$ 15,160,126</u>	<u>\$ 14,714,033</u>	<u>\$ 16,274,131</u>	

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 4,620,790	\$ 4,620,790	\$ 4,602,493	\$ (18,297)
Investment Income	350,000	350,000	399,235	49,235
Total revenues	4,970,790	4,970,790	5,001,728	30,938
Expenditures:				
Current:				
Administrative	20,490	20,490	19,397	1,093
Debt service:				
Principal	8,010,000	8,010,000	8,010,000	-
Interest	5,285,660	5,285,660	5,267,567	18,093
Debt Issue Costs	-	-	229,341	(229,341)
Total expenditures	13,316,150	13,316,150	13,526,305	(210,155)
Excess (deficiency) of revenues over (under) expenditures	(8,345,360)	(8,345,360)	(8,524,577)	(179,217)
Other financing sources (uses):				
Issuance of Bonds	-	-	12,215,000	12,215,000
Premium on Bond Issuance	-	-	154,397	154,397
Payment to Escrow Agent	-	-	(11,955,000)	(11,955,000)
Transfer In	7,629,950	7,629,950	8,379,433	749,483
Total other financing sources (uses)	7,629,950	7,629,950	8,793,830	1,163,880
Net change in fund balance	(715,410)	(715,410)	269,253	984,663
Fund Balance - beginning (as previously reported)	10,586,391	10,586,391	10,586,391	
Prior period adjustment	28,404	28,404	28,404	
Fund Balance - beginning (as restated)	10,614,795	10,614,795	10,614,795	
Fund Balance - ending	\$ 9,899,385	\$ 9,899,385	\$ 10,884,048	

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 3 Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 692,710	\$ 692,710	\$ 691,104	\$ (1,606)
Grants	615,000	615,000	61,843	(553,157)
Contributions	-	273,400	8,000	(265,400)
State Taxes - Sunday Permit Fees	225,000	225,000	206,900	(18,100)
Capital Sales Tax	4,280,000	2,400,000	886,120	(1,513,880)
Hospitality Tax	495,000	2,772,847	5,232,837	2,459,990
Impact Fee - Roads	350,000	290,940	90,799	(200,141)
County Impact Fee - Parks	-	-	33,445	33,445
County Parks Funding	-	382,970	-	(382,970)
County Stormwater	310,000	436,668	1,501,389	1,064,721
Miscellaneous	140,000	-	26,567	26,567
Developer Fees	-	21,400	-	(21,400)
Sale of Property	-	-	1,060,469	1,060,469
Lease	33,000	33,000	78,473	45,473
Investment Income	-	-	830,769	830,769
Total Revenues	7,140,710	8,143,935	10,708,715	2,564,780
Expenditures:				
Public Facilities:				
Fire & Rescue Dispatch Center	-	62,204	42,119	20,085
Fire & Rescue Training Center	1,825,000	2,005,236	16,940	1,988,296
Fire & Rescue Computer System	100,000	293,515	83,888	209,627
Dispatch Center Equip. Upgrade	220,000	100,000	39,592	60,408
Coligny/Pope Avenue Area Improvements	285,000	5,000	962	4,038
Dunnigan's Alley/Arrow Road Improvements	200,000	-	-	-
Sewer Installation	1,529,000	1,164,000	181,057	982,943
Facilities Management Building	1,500,000	1,880,096	15,014	1,865,082
Stoney Area CDBG Project	470,000	470,000	49,217	420,783
Community Warning System	75,000	-	-	-
Total Public Facilities	6,204,000	5,980,051	428,789	5,551,262
Park Development:				
Shelter Cove Linear Park	100,000	4,754	107	4,647
Chaplin Community Park	100,000	-	-	-
Coligny Beach Park	1,050,000	150,000	46,273	103,727
Park Upgrades	746,000	430,856	396,448	34,408
Rock's/Remy's Tract	500,000	-	-	-
Compass Rose Park	500,000	1,291,452	1,200,664	90,788
Public Art	-	300,000	183,523	116,477
Barker Field/Beach Access Ext.	-	20,000	20,000	-
Total Park Development	2,996,000	2,197,062	1,847,015	350,047

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 3 Variance With Final Positive Negative
<u>Expenditures (continued):</u>				
Land Acquisition:				
Land Acquisition	631,000	5,412,877	4,925,773	487,104
Total Land Acquisition	<u>631,000</u>	<u>5,412,877</u>	<u>4,925,773</u>	<u>487,104</u>
Beach Maintenance:				
Beach Management	220,000	220,000	46,057	173,943
Beach Renourishment	-	905,490	616,517	288,973
Shoreline Management Plan	350,000	350,000	-	350,000
Groins Refurbishment	1,000,000	-	2,268	(2,268)
Dunes Refurbishment	150,000	30,000	29,386	614
Beach Parks/Access Rehabilitation	75,000	195,000	194,416	584
Total Beach Maintenance	<u>1,795,000</u>	<u>1,700,490</u>	<u>888,643</u>	<u>811,847</u>
Facilities Improvements:				
Fire Station #1 Replacement	2,500,000	641,989	322,348	319,641
Fire Station #2 Replacement	75,000	75,000	86	74,914
Fire Station #5 Replacement	2,500,000	250,000	85,941	164,059
Fire Station #6 Replacement	75,000	75,000	86	74,914
Fire Hydrant Upgrades	50,000	50,000	50,000	-
Hurricane Protection	300,000	300,000	35,049	264,951
Burial of Power Lines	2,282,000	2,282,000	-	2,282,000
Hilton Head Camera Project	-	367,500	245,576	121,924
Security Cameras	-	100,000	99,744	256
Coastal Discovery Stabilization	-	600,000	116,648	483,352
Maintenance CIP	-	-	27,421	(27,421)
Utilities CIP	-	-	30,047	(30,047)
Rehab. & Renovation of Town Fixed Assets	100,000	100,000	43,900	56,100
Apparatus/Vehicle Replacement	2,265,000	484,274	146,474	337,800
Demolition of Structures	475,000	475,000	444,250	30,750
Total Facilities Improvements	<u>10,622,000</u>	<u>5,800,763</u>	<u>1,647,571</u>	<u>4,153,192</u>

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 3 Variance With Final Positive (Negative)
Expenditures (continued):				
Roadway Improvements:				
Allen Drive	-	6,700	6,975	(275)
Mitchelville Lane	-	3,600	3,600	-
Median Curbing	-	-	449	(449)
Roadway Safety Improvements	518,000	343,040	163,838	179,202
Widen Mathews Drive/US 278	3,537,000	80,000	189	79,811
Widen Mathews Drive/Marshland Road	7,832,000	8,387,878	5,684,829	2,703,049
Widen Mathews Drive/Chaplin Area	110,000	50,000	-	50,000
US 278/ Squire Pope Ave. Intersection	2,400,000	2,400,000	1,083,731	1,316,269
Stoney Secondary Road	715,000	1,000	112	888
Nassau Street Extension	600,000	-	-	-
Summit Drive Realignment	654,000	50,000	112	49,888
Intersection/Crosswalk Lighting	90,000	90,000	13,537	76,463
Directional Neighborhood Signage	50,000	50,000	16,836	33,164
Horseshoe Road Connector	1,025,000	1,068,070	706,932	361,138
Gumtree/Squire Pope Roundabout	-	1,886,372	1,633,429	252,943
Honey Horn Project	-	200,000	200,000	-
SCDOT Road Resurfacing	2,180,000	708,605	522,216	186,389
Town Roads Resurfacing	-	1,304	1,297	8
Widen and Realign Office Park Road	-	215,760	135,023	80,737
Mainland Transportation improvements	-	400,000	150	399,850
Intersection Improvements	150,000	860,924	326,838	534,086
Pedestrian Crosswalks and Refuges	120,000	50,000	50,000	-
Traffic Signal Mast Arms	200,000	250,000	3,200	246,800
F&R Emergency Access Points	210,000	76,129	-	76,129
Total Roadway Improvements	20,391,000	17,179,382	10,553,294	6,626,088
Pathway Improvements:				
Pathway Rehabilitation	60,000	86,500	81,724	4,776
Mathews Drive (North)	750,000	750,000	533,623	216,377
Mathews Drive (South)	-	306,220	305,717	503
Mathews Drive (US 278 to Beach City Rd.)	480,000	-	-	-
Avocet Road	22,000	26,000	7,701	18,299
New Orleans Road	39,000	85,000	16,049	68,951
Lagoon Road	34,000	34,000	6,901	27,099
Target Road	68,000	-	3,000	(3,000)
Marshland Road	-	8,000	8,000	-
Pope Avenue	-	1,619,993	1,621,918	(1,925)
Palmetto Bay Road	1,299,000	11,000	22,887	(11,887)
Wild Horse Road	-	3,900	3,908	(8)
Total Pathway Improvements	2,752,000	2,930,613	2,611,428	319,185

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
YEAR ENDED JUNE 30, 2008**

	Original Budget	Final Budget	Actual	Schedule 3 Variance With Final Positive (Negative)
Expenditures (continued):				
Drainage Improvements:				
Drainage System Rehabilitation	310,000	310,000	410,954	(100,954)
Drainage Study Updates	625,000	240,440	140,440	100,000
Squire Pope Pathway	740,000	17,397	17,443	(46)
Beach City Road/Airport	-	8,850	8,845	5
Club Course Outfall	300,000	382,000	279,935	102,065
Total Drainage Improvements	<u>1,975,000</u>	<u>958,687</u>	<u>857,617</u>	<u>101,070</u>
Debt Issue Costs	-	-	222,500	(222,500)
Total Expenditures	<u>47,366,000</u>	<u>42,159,925</u>	<u>23,982,630</u>	<u>18,177,295</u>
Excess of Revenues Over (Under) Expenditures	<u>(40,225,290)</u>	<u>(34,015,990)</u>	<u>(13,273,915)</u>	<u>20,742,075</u>
Other Financing Sources/ (Uses):				
Issuance of Bonds	25,384,000	22,000,000	22,000,000	-
Transfers In	4,857,000	5,324,427	1,100,686	(4,223,741)
Transfers Out	-	-	(3,972,401)	(3,972,401)
Total Other Financing Sources(Uses)	<u>30,241,000</u>	<u>27,324,427</u>	<u>19,128,285</u>	<u>(8,196,142)</u>
Net change in fund balance	<u>(9,984,290)</u>	<u>(6,691,563)</u>	<u>5,854,370</u>	<u>12,545,933</u>
Fund Balance - beginning (as previously reported)	24,274,938	24,274,938	24,274,938	
Prior period adjustment	<u>4,258</u>	<u>4,258</u>	<u>4,258</u>	
Fund Balance - beginning (as restated)	<u>24,279,196</u>	<u>24,279,196</u>	<u>24,279,196</u>	
Fund Balance - ending	<u>\$ 14,294,906</u>	<u>\$ 17,587,633</u>	<u>\$ 30,133,566</u>	

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

Schedule 4

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant	
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 3,390	\$ -	\$ 3,390
Due from Palmetto Electric	178,806	-	178,806
Restricted Assets:			
Cash and Cash Equivalents	-	22,657	22,657
Total assets	<u>\$ 182,196</u>	<u>\$ 22,657</u>	<u>\$ 204,853</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	\$ 429,666	\$ -	\$ 429,666
Interfund Payables	70,000	-	70,000
Deferred Revenue	-	22,274	22,274
Total liabilities	<u>499,666</u>	<u>22,274</u>	<u>521,940</u>
 Fund balances:			
Unreserved:			
Undesignated/(Deficit)	<u>(317,470)</u>	<u>383</u>	<u>(317,087)</u>
Total fund balances	<u>(317,470)</u>	<u>383</u>	<u>(317,087)</u>
 Total liabilities and fund balances	 <u>\$ 182,196</u>	 <u>\$ 22,657</u>	 <u>\$ 204,853</u>

**TOWN OF HILTON HEAD ISLAND
JUNE 30, 2008**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008**

Schedule 5

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Palmetto Electric</u>	<u>Home Grant</u>	
<u>Revenues:</u>			
Electric Franchise Fee	\$ 2,241,379	\$ -	\$ 2,241,379
Interest Income	-	59	59
Total revenues	<u>2,241,379</u>	<u>59</u>	<u>2,241,438</u>
<u>Expenditures:</u>			
Current:			
Administrative	2,836,382	15	2,836,397
Total expenditures	<u>2,836,382</u>	<u>15</u>	<u>2,836,397</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(595,003)</u>	<u>44</u>	<u>(594,959)</u>
<u>Other financing sources (uses):</u>			
Transfers Out	(69,157)	-	(69,157)
Total other financing sources (uses)	<u>(69,157)</u>	<u>-</u>	<u>(69,157)</u>
Net change in fund balances	<u>(664,160)</u>	<u>44</u>	<u>(664,116)</u>
Fund balance - beginning	<u>346,690</u>	<u>339</u>	<u>347,029</u>
Fund balance/(deficit) - ending	<u>\$ (317,470)</u>	<u>\$ 383</u>	<u>\$ (317,087)</u>

**TOWN OF HILTON HEAD ISLAND
STATISTICAL SECTION
JUNE 30, 2008**

This part of the Town Hilton Head Island's comprehensive financial report represents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the Town's financial performance and well being have changed over time.	71 - 75
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.	76 - 81
Debt Capacity These schedules provide information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	82 - 86
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.	87 - 88
Operating Information These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.	89 - 91

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 57,470,757	\$ 79,079,559	\$ 83,615,491	\$ 93,000,926	\$ 93,895,634	\$ 98,661,331
Restricted	6,373,187	6,373,187	8,594,126	23,111,481	23,682,142	25,166,338
Unrestricted	36,809,752	20,079,740	39,877,353	35,340,863	35,803,517	34,433,182
Total governmental activities net assets	\$ 100,661,696	\$ 111,532,495	\$ 132,086,970	\$ 151,522,290	\$ 153,381,493	\$ 158,262,851

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

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

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General Government	\$ 1,376,550	\$ 1,430,134	\$ 2,908,087	\$ 3,050,753	\$ 3,376,831	\$ 3,777,076
Management Services	2,920,346	3,243,571	3,267,610	3,765,728	3,875,696	4,099,915
Planning/Building & Fire Codes	2,275,565	2,371,762	2,494,521	2,675,180	2,755,555	3,014,183
Public Safety	13,873,760	14,783,859	14,707,812	15,665,366	16,207,323	17,528,471
Public Projects and Facilities	3,253,008	5,071,991	5,528,308	7,410,865	21,023,052	15,403,980
Non-Departmental	1,754,144	1,714,928	-	-	-	-
Culture and Recreation	1,197,858	984,663	1,318,157	1,305,305	2,071,003	1,718,816
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,869	1,180,675	1,218,032
Administrative	363,320	823,516	1,256,642	2,149,451	1,813,259	2,884,106
Interest on Long-Term Debt	4,610,909	4,320,669	5,409,997	5,585,734	5,727,666	6,669,171
Other Charges	-	-	-	-	295,496	235,742
Total governmental activities expenses	\$ 32,072,393	\$ 36,405,999	\$ 37,918,718	\$ 42,709,280	\$ 58,926,456	\$ 55,629,379
Program Revenues (see Schedule 3)						
Governmental activities:						
Charges for services:						
General Government	\$ 535,421	\$ 504,269	\$ 571,533	\$ 650,577	\$ 562,441	\$ 588,596
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,658,657	8,133,032
Planning/Building & Fire Codes	1,470,106	1,823,673	2,194,146	1,890,293	1,363,573	1,256,773
Public Safety	953,550	922,286	992,708	1,282,602	1,413,828	1,493,422
Public Projects and Facilities	4,840,838	5,168,909	5,816,608	6,528,989	6,144,329	6,394,656
Administrative	3,176,112	4,364,478	6,717,648	6,020,689	3,676,835	2,940,426
Operating grants and contributions	288,851	301,855	155,067	347,325	134,793	152,140
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246	61,843
Total governmental activities program revenues	\$ 17,289,443	\$ 20,414,023	\$ 24,079,378	\$ 24,564,748	\$ 21,032,700	\$ 21,021,288
Net (Expense)/Revenue						
Total governmental activities net expense	\$ (15,282,950)	\$ (16,041,976)	\$ (13,839,340)	\$ (18,144,532)	\$ (37,893,756)	\$ (34,608,092)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 15,349,010	\$ 16,293,172	\$ 21,602,549	\$ 19,041,631	\$ 19,290,776	\$ 19,850,691
Other taxes	7,281,000	7,252,510	8,305,770	11,144,997	11,277,083	11,637,286
Intergovernmental (Unrestricted State Shared)	1,144,768	1,107,890	1,197,579	1,155,021	1,268,534	2,186,091
Investment earnings	659,163	560,878	1,203,427	2,951,972	4,236,702	2,521,431
Miscellaneous	1,051,168	1,608,226	2,054,490	3,286,231	3,679,894	3,921,488
Total governmental activities	\$ 25,495,689	\$ 26,912,778	\$ 34,305,615	\$ 37,579,652	\$ 38,752,669	\$ 40,135,987
Change in Net Assets						
Governmental activities	\$ 10,212,739	\$ 10,870,802	\$ 20,554,475	\$ 19,435,320	\$ 1,859,203	\$ 5,526,496

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

Schedule 3
 Town of Hilton Head Island, SC
 Program Revenues by Function/Program, Last Six Fiscal Years
(accrual basis of accounting)

Function/Program	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities:						
General Government	\$ 761,388	\$ 689,956	\$ 727,000	\$ 937,902	\$ 727,234	\$ 741,136
Management Services	5,685,191	6,224,152	6,686,043	7,723,373	7,668,657	8,133,032
Planning/Building & Fire Codes	1,470,106	1,823,673	2,194,146	1,890,299	1,363,573	1,256,773
Public Safety	953,550	922,286	992,708	1,282,602	1,413,828	1,491,422
Public Projects and Facilities	4,246,652	6,273,289	6,761,033	6,709,869	6,192,575	6,456,499
Administrative	3,219,006	4,480,676	6,717,848	6,020,689	3,676,635	2,946,428
Total governmental activities	\$ 16,335,893	\$ 20,414,021	\$ 24,079,376	\$ 24,564,748	\$ 21,032,700	\$ 21,021,288

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

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

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$ 129,076	\$ 97,847	\$ 102,173	\$ 161,304	\$ 77,952	\$ 69,480	\$ 122,453	\$ 328,984	\$ 107,060	\$ 283,748
Unreserved	4,146,045	4,851,142	6,413,411	6,752,852	7,215,898	7,514,334	11,196,501	14,356,799	16,269,658	15,990,353
Total general fund	\$ 4,275,121	\$ 4,948,989	\$ 6,515,584	\$ 6,914,156	\$ 7,293,850	\$ 7,603,704	\$ 11,319,354	\$ 14,685,783	\$ 16,428,738	\$ 16,274,131
All Other Governmental Funds										
Reserved	\$ 4,734,779	\$ 5,986,164	\$ 6,173,690	\$ 6,643,606	\$ 7,734,130	\$ 17,226,003	\$ 19,159,808	\$ 17,402,001	\$ 10,556,553	\$ 24,013,184
Unreserved, reported in:										
Special revenue funds	2,187,613	5,472,657	4,817,776	3,992,905	5,339,044	17,911,547	25,460,960	30,798,191	27,088,394	26,375,485
Capital projects funds	14,387,149	9,809,928	20,074,771	12,710,281	19,650,776	23,321,010	20,622,075	16,841,928	14,500,788	16,735,177
Debt service funds	-	-	-	1,388,544	-	-	83,084	524,408	2,237,167	269,253
Total All other governmental funds	\$ 21,289,541	\$ 21,268,649	\$ 31,066,237	\$ 22,316,772	\$ 32,623,850	\$ 69,829,104	\$ 64,725,927	\$ 85,566,228	\$ 62,402,922	\$ 87,393,099

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

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes (see Schedule 6)*	\$ 17,717,642	\$ 18,731,804	\$ 20,688,568	\$ 22,037,344	\$ 22,620,610	\$ 23,545,682	\$ 20,908,319	\$ 30,166,628	\$ 30,667,859	\$ 31,496,978
Licenses, fees, and permits ^a	14,320,855	14,320,867	14,320,867	14,320,866	15,423,227	17,717,490	22,816,711	24,528,865	21,461,134	21,387,465
Fines and penalties	348,419	308,078	361,447	333,338	269,572	295,537	307,093	362,466	419,313	485,065
Charges for services	801,330	909,410	1,020,384	1,030,720	1,237,391	1,290,320	1,340,492	1,613,063	1,608,874	1,661,201
Intergovernmental	1,316,455	1,605,247	1,091,220	1,331,714	1,144,768	1,107,990	1,197,679	1,155,021	1,268,534	1,312,571
Investment earnings	1,157,112	1,625,165	1,591,268	817,211	659,153	569,878	1,203,427	2,251,973	4,238,702	2,521,430
Other revenues	3,076,316	2,087,856	1,569,658	1,452,866	3,125,301	2,158,082	1,698,671	1,346,643	1,158,272	2,615,149
Total revenues	\$ 35,963,331	\$ 39,477,935	\$ 40,954,958	\$ 41,294,958	\$ 44,450,622	\$ 46,675,966	\$ 58,473,192	\$ 62,144,569	\$ 60,765,688	\$ 61,459,879
Expenditures										
General Government	\$ 1,028,488	\$ 938,700	\$ 970,686	\$ 996,798	\$ 1,025,285	\$ 1,150,862	\$ 1,233,212	\$ 1,265,347	\$ 1,360,932	\$ 1,551,674
Management Services	1,893,268	2,290,241	2,616,611	2,896,258	2,915,272	3,043,720	3,166,003	3,642,659	3,651,665	3,601,014
Planning/Building & Fire Codes	2,149,075	2,129,436	2,077,917	2,104,100	2,269,486	2,341,354	2,481,374	2,653,273	2,728,599	2,697,021
Public Safety	9,841,759	10,454,554	10,897,319	11,605,240	12,237,337	13,027,720	13,766,656	14,760,167	15,628,220	16,921,361
Public Projects and Facilities	1,702,340	1,921,431	2,192,625	2,187,605	2,191,772	4,106,258	3,394,267	3,419,622	3,620,023	3,977,120
Non-Departmental	1,149,299	1,685,273	1,523,333	1,657,289	1,693,618	1,714,628	1,688,025	1,684,408	1,740,000	2,018,130
Accommodations Tax Grants	1,104,635	1,057,150	1,038,161	1,140,488	1,107,866	994,003	1,318,157	1,305,308	2,071,003	1,718,815
Visitor & Convention Bureau	868,895	927,930	928,743	936,073	937,117	940,008	989,584	1,142,899	1,180,675	1,218,032
Administrative	60,978	66,228	67,529	62,064	363,326	823,516	1,296,642	2,149,451	1,948,281	2,884,100
Capital Outlay	36,095,648	12,656,691	22,454,904	21,283,379	20,191,545	15,906,740	11,499,658	13,999,379	35,090,202	23,205,954
Debt Service										
Interest	2,662,675	3,486,256	3,352,570	4,302,168	4,567,053	4,279,777	5,261,940	5,615,565	6,591,134	11,837,139
Principal	1,441,575	10,322,118	1,651,663	2,949,977	3,194,033	3,983,465	3,739,029	6,179,615	5,696,034	5,645,093
Fiscal charges	-	-	-	-	-	-	377,951	-	-	-
Debt issue costs	-	-	-	-	-	-	468,425	-	-	-
Total expenditures	\$ 63,219,634	\$ 96,038,006	\$ 49,718,191	\$ 51,803,080	\$ 53,160,079	\$ 52,285,918	\$ 65,323,541	\$ 67,627,869	\$ 81,113,177	\$ 85,841,841
Excess of revenues over (under) expenditures	(24,256,303)	(17,456,071)	(8,823,223)	(10,208,430)	(8,670,361)	(5,609,952)	6,149,645	4,216,730	(20,327,469)	(16,027,669)
Other Financing Sources (Uses)										
Bonds issued	\$ 17,750,000	\$ 16,000,000	\$ 20,187,406	\$ -	\$ 17,000,000	\$ 44,740,000	\$ 30,685,000	\$ -	\$ 19,000,000	\$ 34,215,000
Refunding bonds issued	-	-	-	1,056,656	-	-	-	-	-	-
Debt issue costs	-	-	-	-	-	-	-	-	(408,813)	-
Payments to escrow agent	-	-	-	-	-	-	(31,082,935)	-	-	-
Premium on bond insurance	-	-	-	-	92,496	-	860,673	-	-	154,307
Refund of debt	-	-	-	-	-	(10,992,000)	-	-	-	-
EMS bad debt write-off	-	-	-	-	-	(648,100)	-	-	-	-
Capital leases	-	111,047	-	800,881	-	-	-	-	-	-
Transfers in	13,201,516	7,001,296	6,103,410	6,008,245	8,662,368	8,762,672	11,019,688	15,762,508	24,612,719	13,676,041
Transfers out	(13,201,516)	(7,001,296)	(6,103,410)	(6,008,245)	(8,662,368)	(8,762,672)	(11,019,688)	(15,762,508)	(24,612,719)	(13,676,041)
Total other financing sources (uses)	\$ 17,250,000	\$ 16,111,047	\$ 20,187,406	\$ 1,057,507	\$ 17,062,496	\$ 33,125,892	\$ 462,738	\$ -	\$ 18,692,181	\$ 22,414,267
Net change in fund balances	\$ (6,006,303)	\$ 652,878	\$ 11,364,183	\$ (8,350,853)	\$ 8,422,145	\$ 27,515,940	\$ 8,612,383	\$ 4,216,730	\$ (1,432,251)	\$ 5,486,708
Debt service as a percentage of non-capital expenditures	n/a	n/a	n/a	n/a	16.8%	16.4%	20.4%	22.2%	18.7%	26.2%

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

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

Fiscal Year	Property	Accommodations	Hospitality	Total
1999	\$ 12,970,840	\$ 4,746,802	\$ -	\$ 17,717,642
2000	13,800,385	4,931,419	-	18,731,804
2001	14,548,814	4,925,370	1,212,384	20,686,568
2002	15,034,066	4,949,790	2,063,488	22,037,344
2003	15,349,010	4,877,430	2,404,170	22,630,610
2004	16,293,172	5,022,103	2,230,407	23,545,682
2005	21,602,549	5,314,660	2,981,110	29,908,319
2006	19,041,631	6,058,319	5,086,678	30,186,628
2007	19,290,776	6,168,555	5,108,528	30,567,859
2008	19,859,691	6,404,449	5,232,837	31,496,977
Change 1999-2008	53.1%	34.9%	100.0%	77.8%

Schedule 7
Town of Hilton Head Island, SC
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Tax Year	Real & Personal Property		Motor Vehicles		Total Taxable		Total Direct Tax Rate	Taxable Assessed Value as a Percentage of Estimated Actual Taxable Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
1999	1998	\$ 409,842,868	\$ 7,260,162,881	\$ 30,414,552	\$ 289,662,400	\$ 440,257,420	\$ 7,549,825,281	\$ 30.50	5.83%
2000	1999	417,384,447	7,368,592,517	36,112,524	343,928,800	453,496,971	7,712,521,317	30.50	5.88%
2001	2000	414,929,945	7,369,291,366	41,163,671	392,034,962	456,093,616	7,761,326,328	30.50	5.88%
2002	2001	435,389,649	7,735,366,110	40,250,382	383,336,971	475,640,031	8,118,703,081	31.00	5.86%
2003	2002	439,452,362	7,865,358,172	36,477,857	366,455,781	477,930,219	8,231,813,953	31.00	5.81%
2004	2003	454,685,211	8,025,375,587	40,344,252	504,303,150	495,029,463	8,529,678,737	31.00	5.80%
2005	2004	801,317,491	14,377,704,217	40,432,317	505,403,963	841,749,808	14,883,108,179	22.30	5.66%
2006	2005	779,621,893	14,112,440,708	35,956,376	479,418,347	815,578,269	14,591,859,055	19.00	5.26%
2007	2006	805,913,651	15,506,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	19.00	4.76%
2008	2007	806,862,365	16,944,198,458	33,601,425	621,120,250	840,463,790	17,565,318,708	19.00	

Source: Beaufort County Assessor's Office.

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

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

Fiscal Year	Tax Year	Town Direct Rates				Overlapping Rates ²				Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Special Purpose and Fire Districts	
1999	1998	\$ 17.30	\$ 3.80	\$ 9.40	\$ 30.50	\$ 99.50	\$ 51.10	\$ 7.50	\$ 7.20	\$ 195.80
2000	1999	18.20	6.20	6.10	30.50	108.40	58.30	7.50	7.20	211.90
2001	2000	17.85	4.50	8.15	30.50	119.80	58.10	7.50	7.20	223.10
2002	2001	18.20	6.50	6.30	31.00	119.80	56.60	7.50	6.50	221.40
2003	2002	19.30	6.40	5.30	31.00	129.20	60.00	7.50	-	227.70
2004	2003	21.35	6.10	3.55	31.00	130.40	64.00	7.50	-	232.90
2005	2004	14.80	2.00	5.50	22.30	94.20	48.60	7.05	-	172.15
2006	2005	12.33	0.85	5.82	19.00	96.50	49.60	7.00	-	172.10
2007	2006	12.33	0.85	5.82	19.00	108.70	49.10	6.75	-	183.55
2008	2007	12.33	0.85	5.82	19.00	122.80	51.90	7.20	-	200.90

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

²Overlapping rates are those of local and county governments that apply to property owners within the Town of Hilton Head Island in addition to those imposed directly by the Town itself.

¹Water and sewage services are provided to the Town by Public Service Districts. The rates reported represent an average of the millage charges from the various providers. Service is on a fee-for-usage basis. The providers and districts served are:

- Hilton Head Number 1 Public Service District
- Broad Creek Public Service District
- South Island Public Service District

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

Schedule 9
 Town of Hilton Head Island, SC
 Principal Property Tax Payers
 Current Year and Nine Years Ago

Taxpayer	Tax Year 2008			Tax Year 1999		
	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Total Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
Marriott Ownership Resort	\$ 18,718,480	1	2.23%	\$ 1,128,639	1	0.26%
Palmetto Electric Co-op	7,150,484	2	0.85%	1,308,190	2	0.30%
Hargray Telephone Company Inc	4,010,188	3	0.48%	1,121,846	4	0.25%
Columbia Properties Hilton Head, LLC ^a	3,939,414	4	0.47%	-	-	-
SCG Hilton Head Property, LLC	3,692,358	5	0.44%	-	-	-
Sea Pines Resort, LLC	3,165,271	6	0.38%	172,889	3	0.04%
Greenwood Development	3,116,348	7	0.37%	637,973	5	0.14%
Hilton Head Health System, LP	1,802,413	8	0.21%	-	-	-
PVI Shelter Cove Limited	1,500,000	9	0.18%	-	-	-
Heritage Golf Port Royal, LLC	1,171,150	10	0.14%	-	-	-
HPT IHG-2 Properties Trust	-	-	-	-	-	-
Dunes Motel	-	-	-	460,467	6	0.10%
Westin Hilton Head Limited P/S	-	-	-	378,062	7	0.09%
Melrose Group Ltd	-	-	-	229,223	8	0.05%
Holiday Inns	-	-	-	220,921	9	0.05%
Hilton Head Plantation	-	-	-	39,833	10	0.01%
Total	\$ 48,266,106		5.75%	\$ 5,698,043		1.29%

Source: Beaufort County

^a Formerly Dunes Hotel Associates

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	\$ 13,427,851	\$ 12,941,343	96.38%	29,497	\$ 12,970,840	96.60%
2000	13,831,658	13,715,875	99.16%	84,510	13,800,385	99.77%
2001	14,765,582	14,393,034	97.48%	155,780	14,548,814	98.53%
2002	15,076,350	14,922,100	98.98%	11,966	14,934,066	99.06%
2003	15,512,366	15,252,669	98.33%	96,341	15,349,010	98.95%
2004	16,477,626	15,781,384	95.77%	511,788	16,293,172	98.88%
2005	21,975,474	20,865,069	94.95%	737,480	21,602,549	98.30%
2006	19,185,925	18,774,952	97.86%	266,679	19,041,631	99.25%
2007	19,106,703	19,014,954	99.52%	275,822	19,290,776	100.96%
2008	19,597,248	19,461,546	99.31%	398,145	19,859,691	101.34%

Source: Town of Hilton Head Island Finance Department

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

Fiscal Year	Town		
	Fiscal Year	Direct Rate	South Carolina
1999	0%	0%	5%
2000	0%	0%	5%
2001	0%	0%	5%
2002	0%	0%	5%
2003	0%	0%	5%
2004	0%	0%	5%
2005	0%	0%	5%
2006	0%	0%	5%
2007	0%	1%	6%
2008	0%	1%	6%

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

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

Fiscal Year	General Obligation Bonds		Revenue Bonds		Bond Anticipation Notes		Certificates of Participation		Capital Leases		Total	Percentage of Personal Income ^a	Per Capita ^a
1999	\$ 31,155,000	\$ -	-	\$ 17,750,000	\$ 13,665,000	\$ 514,526	\$ 63,084,526	7.23%	\$ 1,986				
2000	48,275,000	-	-	-	13,035,000	563,455	61,873,455	6.66%	1,827				
2001	67,350,000	-	-	-	12,375,000	496,792	80,221,792	7.82%	2,360				
2002	65,160,000	-	-	-	11,685,000	1,227,695	78,072,695	7.18%	2,261				
2003	63,730,000	17,000,000	4,530,000	10,965,000	1,153,663	886,720	97,378,663	8.86%	2,823				
2004	76,285,000	35,775,000	-	10,530,000	867,200	123,476,720	10.93%	3,588					
2005	74,705,000	35,500,000	-	10,005,000	607,690	120,817,690	10.16%	3,502					
2006	71,240,000	34,060,000	-	8,995,000	343,075	114,638,075	9.56%	3,323					
2007	67,460,000	51,565,000	-	7,955,000	67,140	127,047,140	10.09%	3,755					
2008	63,680,000	66,885,000	-	6,905,000	-	137,470,000	9.89%	4,096					

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

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

Schedule 13
 Town of Hilton Head Island, SC
 Ratios of Net General Bonded Debt Outstanding
 Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Exempt from Debt Limit	Total Net	Percentage of Actual Taxable Value ^a of Property	Per Capita ^b
1999	31,155,000	26,750,000	4,405,000	0.06%	140
2000	48,275,000	27,000,000	21,275,000	0.29%	670
2001	67,350,000	47,000,000	20,350,000	0.28%	601
2002	65,160,000	45,780,000	19,380,000	0.25%	570
2003	63,730,000	44,470,000	19,260,000	0.24%	558
2004	76,285,000	58,085,000	18,200,000	0.23%	528
2005	74,705,000	57,350,000	17,355,000	0.12%	504
2006	71,240,000	55,385,000	15,855,000	0.11%	460
2007	67,460,000	53,280,000	14,180,000	0.09%	419
2008	63,680,000	51,355,000	12,325,000	0.07%	367

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

^aSee Schedule 7 for property value data.

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

Schedule 14
 Town of Hilton Head Island, SC
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2008
(dollars in thousands)

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^a</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
Beaufort County School District	\$ 292,895,000	51%	\$ 149,376,450
Beaufort County General Obligation Debt	177,515,000	51%	90,532,650
Broad Creek Public Service District	6,435,000	100%	6,435,000
Hilton Head No. 1 Public Service District	7,350,000	98%	7,203,000
Subtotal, overlapping debt			253,547,100
Town direct debt			70,585,000
Total direct and overlapping debt			\$ 324,132,100

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

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

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

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

Assessed value (as of December 31, 2007) \$ 827,177
Debt Limit (8% of assessed value) 66,174 ^a

Debt applicable to limit:

General obligation bonds:

1996A	\$	345
1996B		2,035
1999B		5,300
2004B		4,645

Total net debt applicable to limit 12,325
Legal Debt Margin (without a Referendum) \$ 53,849

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit	\$ 35,221	\$ 36,280	\$ 36,487	\$ 36,051	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196	\$ 66,174
Total net debt applicable to limit	24,020	22,155	20,350	19,380	19,260	18,200	17,355	15,855	14,180	12,325
Legal debt margin	11,201	14,125	16,137	18,671	18,974	21,402	47,561	50,012	51,016	53,849
Total net debt applicable to the limit	68.20%	61.07%	55.77%	50.93%	50.37%	45.96%	26.73%	24.07%	21.75%	18.63%
as a percentage of debt limit										

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

- a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;
- b. The provisions of Article Ten (X), Section Fourteen (14); and
- c. Such general obligation debt shall be issued within five (5) years of the date of such referendum and shall mature within forty (40) years from the time such indebtedness shall be incurred.

^a Town Council imposed an eighty percent (80%) cap on the debt limit in 2008. With this cap, the debt limit for 2008 cannot exceed \$40,614,328. The source for the calculation at the top is the FY 2009 Budget Document.

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

Fiscal Year	Hospitality Tax Bonds				Tax Increment Bonds						
	Collections	Principal	Debt Service Interest	Total	Coverage	Fiscal Year	Collections	Principal	Debt Service Interest	Total	Coverage
1999	-	-	-	-	-	1999	-	-	-	-	-
2000	-	-	-	-	-	2000	-	-	-	-	-
2001	-	-	-	-	-	2001	-	-	-	-	-
2002	-	-	-	-	-	2002	-	-	-	-	-
2003	-	-	-	-	-	2003	-	-	-	-	-
2004	-	-	-	-	-	2004	-	-	-	-	-
2005	2,981,110	275,000	469,885	744,885	4.02	2005	3,777,553	-	347,200	347,200	10.88
2006	5,086,678	290,000	464,385	754,385	6.74	2006	4,065,563	645,000	357,004	1,002,004	4.06
2007	5,108,528	305,000	448,970	753,970	6.78	2007	3,985,964	710,000	294,112	1,004,112	3.97
2008	5,232,637	315,000	439,820	754,820	6.93	2008	4,427,710	3,140,000	824,163	3,964,163	1.12

Fiscal Year	Stormwater Revenue Bonds				Beach Preservation Fee Revenue Bonds						
	Collections	Principal	Debt Service Interest	Total	Coverage	Fiscal Year	Collections	Principal	Debt Service Interest	Total	Coverage
1999	-	-	-	-	-	1999	-	-	-	-	-
2000	-	-	-	-	-	2000	-	-	-	-	-
2001	-	-	-	-	-	2001	-	-	-	-	-
2002	-	-	-	-	-	2002	-	-	-	-	-
2003	-	-	-	-	-	2003	-	-	-	-	-
2004	1,079,614	-	750,546	750,546	1.44	2004	-	-	-	-	-
2005	1,480,356	-	750,546	750,546	1.97	2005	-	-	-	-	-
2006	1,324,277	505,000	742,971	1,247,971	1.06	2006	-	-	-	-	-
2007	1,351,671	535,000	712,708	1,247,708	1.08	2007	4,426,889	2,080,000	780,610	2,860,610	1.55
2008	1,501,389	550,000	697,369	1,247,369	1.20	2008	4,634,690	2,160,000	679,610	2,839,610	1.63

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

Calendar Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Annual Unemployment Rate
1998	31,452	872,258	27,733	1.1%
1999	31,767	928,962	29,243	1.2%
2000	33,862	1,026,357	30,310	1.4%
2001	33,992	1,086,826	31,973	1.8%
2002	34,524	1,098,623	31,822	1.8%
2003	34,489	1,130,136	32,768	2.1%
2004	34,416	1,189,073	34,550	2.2%
2005	34,497	1,198,771	34,750	2.1%
2006	33,838	1,259,180	37,212	4.3%
2007	33,564	1,389,919	41,411	3.7%

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

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

<u>Employer</u>	<u>Employees</u>	<u>1999 Employees</u>
Tenet Health Systems - Hilton Head Regional Medical Center	585	N/A
Marriott Vacation Club International	565	N/A
Hilton Head Marriott Golf and Beach Resort	520	N/A
Sea Pines Resort, LLC	500	N/A
Westin Hilton Head Island Resort and Spa	450	N/A
Palmetto Dunes Ocean Front Resort	330	N/A
The Cypress of Hilton Head	310	N/A
Wal-mart Stores	297	N/A
Crowne Plaza Resort	270	N/A
Hilton Oceanfront Resort and Spa	270	N/A

Source: Beaufort County Chamber of Commerce. Information for the past ten years not available.
 new source: Chamber top employees list is dated 2003; used data from the Greater Beaufort-Hilton Head
 Economic Partnership, Inc.

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

Function/Program	Full-time-Equivalent Employees as of June 30,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Town Manager	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0
Human Resources	8.0	8.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services										
Finance	21.0	22.0	15.0	15.0	16.0	16.0	17.0	17.0	17.0	19.00
Administration	7.5	7.5	22.0	22.5	23.0	23.0	23.0	23.5	23.5	23.50
Planning/Building & Fire Codes										
Planning	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.00
Building and Fire Codes	17.0	18.0	18.0	16.0	16.0	16.0	16.5	17.0	17.0	17.00
Public Safety										
Fire & Rescue	136.0	137.5	137.5	139.5	143.0	143.0	144.0	144.8	147.3	147.30
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Public Projects & Facilities	15.0	15.0	18.0	18.0	18.0	19.0	19.0	19.0	20.0	21.00
Total	234.5	238.0	243.5	244.0	249.0	250.0	252.5	254.3	258.8	261.8

Source: Budget Book

Notes: A full-time equivalent is a measurement equal to one person working a full-time schedule for one year. A full-time employee of the Town is normally scheduled to work 1,950 hours per year (including vacation and sick leave). The primary exception would be Fire and Rescue shift personnel normally scheduled to work 2,880 hours per year (including vacation and sick leave).

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

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

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Management Services										
Business license permits issued	6,318	5,090	5,310	5,130	5,650	6,320	5,130	5,312	5,409	5,638
Business license inspections	n/a	n/a	n/a	n/a	n/a	n/a	n/a	360	546	150
Business license audits	n/a	n/a	n/a	n/a	n/a	n/a	50	101	55	-
Hospitality tax accounts	n/a	355	344	445	408	394	409	411	357	343
Bed tax accounts	n/a	233	250	247	353	542	649	701	675	732
Beach passes issued	421	1,322	1,537	2,306	1,478	3,007	3,052	2,116	2,729	2,009
Number of court cases docketed	9,507	7,474	8,153	8,300	6,567	7,009	8,340	9,033	9,366	10,687
Number of court cases disposed	9,284	7,041	8,225	7,725	6,668	7,122	7,120	8,952	9,123	10,881
Number of search warrants issued	5	17	42	26	11	15	24	15	16	41
Number of arrest warrants issued	441	585	632	569	554	483	547	477	437	410
Number of bench warrants issued	138	209	409	569	818	777	1,333	801	531	894
Planning/Building & Fire Codes										
Building inspections conducted	n/a	17,258	18,058	16,581	17,211	18,724	21,337	22,167	18,146	15,297
Building permits issued	n/a	544	467	466	351	410	449	440	168	104
Miscellaneous permits issued	n/a	2,586	2,481	2,780	2,867	3,213	3,100	3,146	4,233	5,121
Public Safety										
Fire & Rescue service calls	5,326	5,570	5,530	5,790	5,790	5,760	6,140	6,167	6,030	6,246
Actual fires extinguished	196	140	145	139	131	141	151	147	139	153
Inspections	1,420	1,945	1,945	2,010	2,475	2,244	2,338	2,271	2,357	2,649
Telephone requests	n/a	n/a	n/a	n/a	54,445	55,866	45,878	55,584	73,475	75,099
Public training programs	n/a	250	287	291	312	344	341	366	687	614
Public Projects & Facilities										
# of capital improvement projects to manage	46	46	44	51	51	57	53	84	76	51
# of beach access/parks to maintain	6	6	6	6	6	6	7	8	8	8
Miles of pathways to maintain	22	23	29	32	32	32	50	51	51	53
Maintenance work orders	308	377	416	452	637	1,368	2,119	2,373	2,517	2,150

Sources: Various Town departments.

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

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Town-owned parcels	n/a	60	87	92	97	100	106	113	113	116
Town-owned property acreage	n/a	896	1,049	1,081	1,097	1,108	1,126	1,142	1,142	n/a
Management Services										
Town vehicles	33	38	34	34	36	37	41	39	38	38
Public Safety										
Emergency Apparatus Vehicles	22	25	25	27	28	25	24	24	24	24
Police Vehicles	48	41	41	33	27	26	-	-	-	-
General Vehicles	19	20	15	20	19	18	17	19	22	22
Fire Stations	6	6	6	6	6	6	7	7	7	7
Public Projects & Facilities*										
Traffic signals	19	21	21	21	21	22	22	22	22	22
Pathways (miles)	24	24	29	32	32	32	50	50	51	51
Beach access/parks	5	5	5	5	5	5	7	7	8	8

Sources: Various Town departments.

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

Information regarding Town-owned parcels and property acreage not available for fiscal years 1997 though 1999.

Police services currently contracted with Beaufort County Sheriff's Office.

* All Town roads are deeded to Beaufort County

Schedule 22
 Town of Hilton Head Island, SC
 Municipal Fines, Assessments and Surcharges
 Year Ended June 30, 2008

<u>Court Fines</u>	
Court fines collected	\$ 465,065
Court fines retained by the Town	465,065
Court fines remitted to the State Treasurer	-
	<u><u> </u></u>

<u>Court Assessments</u>	
Court assessments collected	\$ 493,147
Court assessments retained by the Town	55,117
Court assessments remitted to the State Treasurer	438,030
	<u><u> </u></u>

<u>Court Surcharges</u>	
Court surcharges collected	\$ 206,120
Court surcharges retained by the Town	20,111
Court surcharges remitted to the State Treasurer	186,009
	<u><u> </u></u>

<u>Victims Services</u>	
Court assessments allocated to victim services	\$ 55,117
Victim Services expenditures	49,721
Funds available for carryforward	5,396
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town) as of and for the year ended June 30, 2008, which collectively comprise the Town of Hilton Head Island, South Carolina's basic financial statements, and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as findings 2008-1 through 2008-3 in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 2008-3 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the mayor, members of Town Council and management and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Columbia, South Carolina
November 26, 2008

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

I. SUMMARY OF AUDITOR'S RESULTS

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

II. FINDINGS - FINANCIAL STATEMENT AUDIT

2008-1: Supporting Documentation for Journal Entries

Supporting documentation for journal entries to record certain transactions in the Town's general ledger was not consistently maintained. As a result, there is not adequate documentation that these transactions were properly authorized and reviewed for accuracy. This condition increases the risk that journal entries that are erroneous or for an unauthorized purpose could be recorded in the Town's general ledger and not be detected.

We recommend that the Town implement a policy in which documentation is maintained to indicate that journal entries are approved and reviewed for accuracy by authorized personnel other than the individual who initiated and/or recorded the journal entry in the general ledger.

Management's response: The Town agrees that this process can be improved. The Town is in the process of updating its journal entry documentation and approval process to ensure that all records are maintained on a timely and consistent basis and readily available for review. As time permits, the Town will develop an automated workflow within its accounting system to replace the manual and hard copy process.

2008-2: Classification of Project Expenditures

In order to improve its controls over financial reporting, the Town is in the process of developing procedures to accurately classify building and infrastructure project expenditures as capitalized versus non-capitalized. Until such procedures (and the related internal controls) are in place and operating effectively, there is a more than remote likelihood that a material misstatement of capital assets and/or non-capital expenditures will not be prevented or detected by the Town's internal control.

We recommend that the Town develop a written policy for identifying which project expenditures should be capitalized. Classification of project expenditures as capitalized versus non-capitalized should be determined as they are incurred. For each ongoing project, a record should be maintained of all expenditures and their classification. Total capital project expenditures should be reconciled to the Town's general ledger monthly.

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

II. FINDINGS - FINANCIAL STATEMENT AUDIT - Continued

2008-2: Classification of Project Expenditures (continued)

Management's response: The Town will develop policies and procedures to improve controls over and reporting of project expenditures and capital outlays. Fiscal year 2009 activity will be reconciled and adjusted within the current budgeting format. The Town will analyze prior years' balances to determine compliance with the adopted policies and make adjustment as needed. In fiscal year 2010 or 2011, the Town plans to modify the structure of the capital projects fund's budget and implement a project accounting module to facilitate reporting in accordance with generally accepted accounting principles.

2008-3: Distributions Related to Tax Incremental Funding

During fiscal years prior to 2008, the Town received cash distributions from Beaufort County (the County) related to the Town's tax incremental funding district (the TIF) which the County subsequently deemed to be in excess of that allowed by the TIF agreement. The Town has disputed the County's position that excess distributions were received. In the interest of resolving the dispute, the Town has proposed an agreement, which as of the date of this report, is being considered by the County. The Town has recognized the proposed agreement in its financial statements by recording a \$649,138 liability to reflect the portion of distributions that are due to be repaid to the County as of June 30, 2008. As a result of this condition, the Town's total fund balance and net assets as of June 30, 2007 were both overstated by \$649,138.

We recommend that the Town continue to strive towards developing a sufficient understanding of the County's computation of the monthly TIF distribution to allow management to monitor and evaluate the accuracy of the distributions in accordance with the TIF agreement. As part of this understanding, the Town should periodically obtain from the County a detailed listing (and corresponding map) reflecting the parcels included in the TIF district, including changes resulting from parcels being split, consolidated, or transferred between taxable and tax-exempt owners.

Management's response: After a complicated and lengthy process since the inception of the TIF in 1999, the Town and the County reached an agreement on the TIF parcels in the latter part of fiscal year 2008. Both parties are committed to manually review the TIF parcels each year to ensure continued accuracy.

In May 2008, the County was able to provide the Town an auditable reconciliation and supporting tax records for the TIF through tax year 2006. The Town recently determined that it will end the ongoing dispute over the TIF tax calculation if the County accepts the proposed agreement (reported in the prior years' restatement) for TIF taxes through tax year 2006. Resolution of tax year 2007 would immediately follow and agreeable reconciliations are expected to continue throughout the remaining life of the TIF.

For the Town to effectively monitor its TIF and ad valorem tax distributions, the County must timely and accurately provide the required data to the Town. During fiscal year 2008, all Beaufort County TIF Districts presented a list of reports and the desired layouts needed to facilitate reporting and reconciliation of ad valorem and TIF tax revenues. The County plans to design and develop these reports in conjunction with its new property tax and accounting systems which are scheduled to go live in December 2008.

