

Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
Fiscal Year Ended
June 30, 2012



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



FISCAL YEAR ENDED JUNE 30, 2012
Prepared by the Finance Department

Town of Hilton Head Island, South Carolina Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012

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Introductory Section



Transmittal Letter

For The Fiscal Year Ended June 30, 2012
The Town of Hilton Head Island, South Carolina

December 17, 2012

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

The Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina, (the Town) for the fiscal year ended June 30, 2012, 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, 2012. The independent auditor's report is located at the front of the financial section of this report.

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

Town of Hilton Head Island Profile

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

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

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

The annual budget serves as the foundation for the Town of Hilton Head Island's financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the Town's various funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second regular Council meeting in June, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. At least two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year.

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

Local Economy

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

Overall the economy remains sluggish. With 2011-2012 data not available, data for fiscal year 2010-2011 total gross taxable sales were \$1.20 billion compared to \$1.24 billion for the prior fiscal year for Hilton Head Island. Between fiscal years 2011, 2010, 2009 and 2008 gross taxable sales for Hilton Head Island declined by \$43 million, \$61 million and \$130.4 million, respectively. For Beaufort County gross taxable sales declined by \$2 million, \$104 million and \$498 million for the same time period. Gross taxable sales for Hilton Head Island were 35.3% of all gross taxable sales within the County during the previous fiscal year.

Fiscal Year	Hilton Head Island	Beaufort County	HHI as a % of BC
2004-2005	\$ 1,405,620,342	\$ 3,555,090,040	39.5%
2005-2006	1,488,937,859	3,887,259,912	38.3%
2006-2007	1,482,619,035	4,058,389,971	36.5%
2007-2008	1,433,153,280	4,004,958,326	35.8%
2008-2009	1,302,796,767	3,506,948,982	37.1%
2009-2010	1,241,262,336	3,402,899,679	36.5%
2010-2011	1,197,965,824	3,400,903,379	35.2%

Source SC Depart of Revenue Annual Reports http://www.sctax.org/Publications/default.htm#annual_report

Long Term Financial Planning

The Town of Hilton Head Island's three-year financial plan is based upon sound financial reserves and conservative revenue growth forecasts for the foreseeable future. The continued sluggishness of the tourism industry, the Town approaching build out, mainland development, and the national economy will be ongoing challenges for the Town as it strives to maintain its continued commitment to providing the highest quality essential services to the citizens of this community. The Finance Department plays a pivotal role in maintaining and recommending enhancements to the financial plan elements to ensure the continued fiscal stability of the Town. Achieving and maintaining fiscal stability requires many elements all working in concert with one another. The following identifies key elements of our financial plan.

Adopted Financial Policies

Financial policies establish the framework for the Town's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. These policies set the tone for all fiscal decisions made by staff and Town Council. The Town currently has financial policies governing operations, capital planning, debt management, reserves and financial reporting. Regular reviews and enhancement of these policies are done in conjunction with the financial plan development and are adopted annually by Town Council.

Financial Resource Planning

The Town's strategic financial planning begins with determining the Town's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Conservative financial forecasts coupled with financial trend analysis techniques and careful reserve analysis help preserve the fiscal wellbeing of the Town of Hilton Head Island. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the Town Council.

Multi-Year Operating Budget Planning

Multi-year budget planning encompasses long-range operating expenditure plans, which are linked to community expectations and broad goals of the Town Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our level of service objectives over time, given our financial capacity. While the Town is required to adopt an annual budget to meet State statutory requirements, the Town builds a three-year financial plan to help anticipate future impacts and ensure achievement of Town objectives.

Capital Improvement Project Planning

The Town's Capital Improvement Program is planned for ten years and developed using specific prioritization criteria. The impact of projects on operating costs are planned and considered in developing future operating budget plans. Pay-as-you-go funding sources are conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used, capital project plans are sized to conform to existing debt management policies.

Debt Management

All debt issued by the Town is for the purpose of financing capital infrastructure or long-lived costly assets. Each debt issuance is evaluated in respect to debt service as a percentage of operating expenditures, tax and revenue bases for the repayment of debt, the overall debt burden on the community, statutory limitations and factors affecting tax-exempt interest costs. In all cases, a long-term analysis is made considering the financial (debt) capacity that best fits the Town's ability to pay for capital projects. The size of the capital improvement program based on debt capacity in conjunction with conservatively estimated revenues (pay-as-you-go projects) helps stabilize per capita debt and lower annual debt service costs to the Town over the long-term.

The Town's credit ratings on its outstanding bonds are Aaa, AA+, AA+, from the three major credit ratings agencies, Moody's Investor Service, Standard and Poor's Rating Group, and Fitch Ratings, respectively. These ratings reinforce confidence in our efforts to maintain a fiscally sound operation through uncertain economic times.

Major Initiatives

In Fiscal Year 2009 the Town implemented an expenditure reduction plan (savings plan) in an effort to offset an anticipated decline in revenues. The savings plan was carried forward into FY 2010, 2011 and 2012. The results were quite successful; FY 2012 expenditures were approximately \$2.6 million less than the final budget.

	FY 2012 - General Fund		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue	\$ 25,965,590	\$ 26,062,117	\$ 96,527
Appropriated Fund Balance	712,886	-	(712,886)
Transfers In	5,812,141	5,568,350	(243,791)
Expenditures	<u>33,266,065</u>	<u>30,703,195</u>	<u>2,562,870</u>
Revenues Over (Under) Expenditures	<u>\$ (775,448)</u>	<u>\$ 927,272</u>	<u>\$ 1,702,720</u>

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hilton Head Island for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the twenty third consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the GFOA Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2011. It was the seventh year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

The preparation of this report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. I would like to express my sincere appreciation to Victoria Shanahan, Accounting Manager, who assisted and contributed to its preparation.

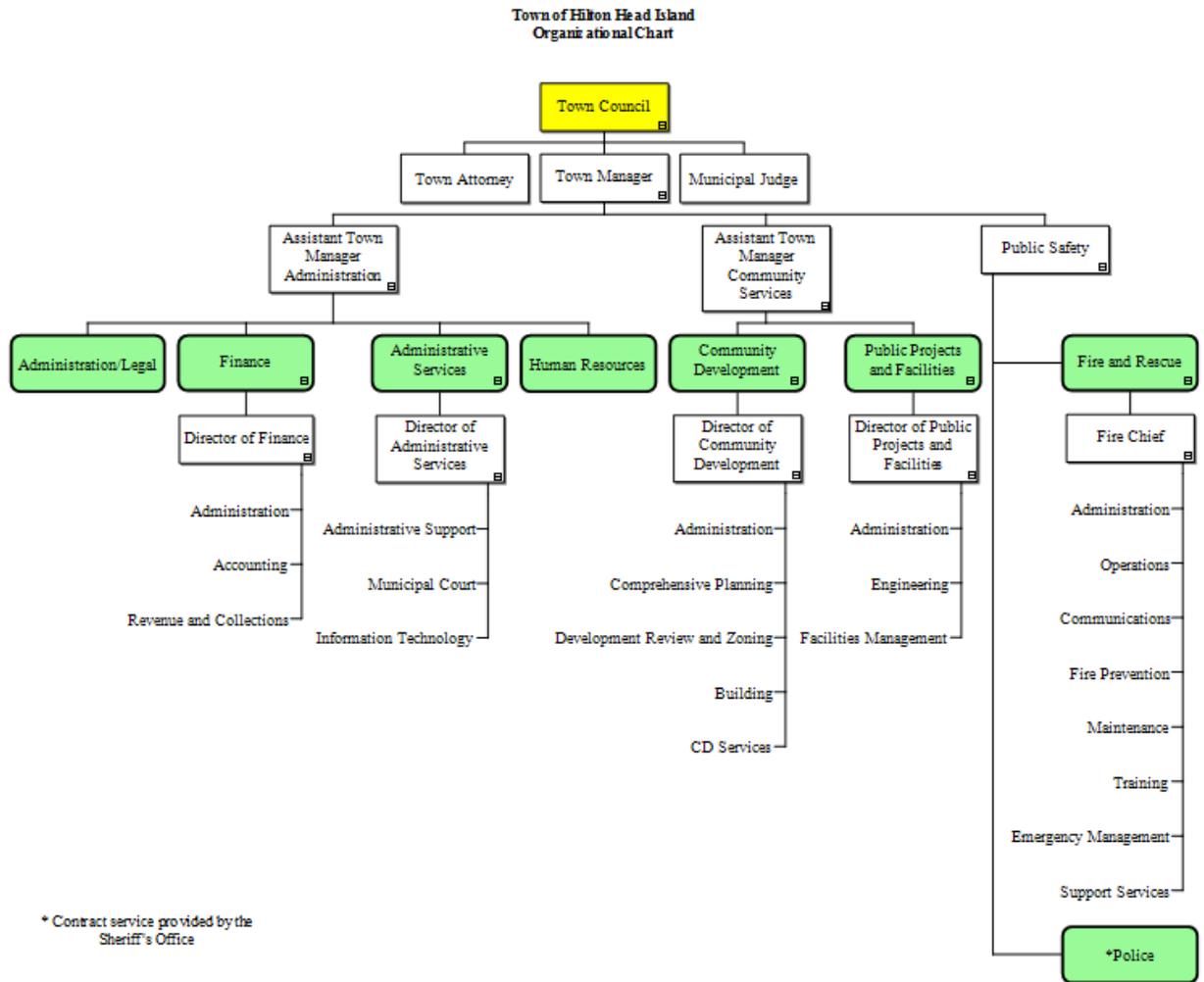
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully submitted,



Susan Simmons
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA ORGANIZATIONAL CHART





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

Mayor

The Honorable Drew A. Laughlin

Town Council

William D. Harkins, Mayor Pro Tempore

Wm. Lee Edwards

Marc A. Grant

Kimberly W. Likins

John J. McCann

George W. Williams, Jr.

Administrative Staff

Stephen G. Riley, Town Manager

Gregory D. DeLoach, Assistant Town Manager Administration

Susan Simmons, Director of Finance

Charles F. Cousins, Director of Community Development

Scott Liggett, Director of Public Projects and Facilities

Lavarn Lucas, Fire Chief

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Hilton Head Island
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.



Christopher P. Morille

President

Jeffrey R. Emmer

Executive Director

Financial Section



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town), as of and for the year ended June 30, 2012, 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. 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for 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 December 17, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The general fund, debt service fund, and capital projects fund budgetary schedules, the combining nonmajor governmental fund financial statements, and the agency fund statement of changes in assets and liabilities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information presented in the general fund, debt service fund, and capital projects fund budgetary schedules, the combining nonmajor governmental fund financial statements, and the agency fund statement of changes in assets and liabilities is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Elliott Dairs, LLC

Columbia, South Carolina
December 17, 2012

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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, 2012. The information in this section should be considered in conjunction with information provided in the transmittal letter and detailed financial statements contained elsewhere in this document.

Financial Highlights

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

Fiscal Year	Taxable Assessed Value	% Increase/(Decrease)	Tax Revenue **
2003	\$ 477,930,219		\$ 14,930,098
2004	\$ 495,029,463	3.58%	\$ 15,113,491
2005*	\$ 841,749,808	70.04%	\$ 17,824,996
2006	\$ 815,578,269	-3.11%	\$ 14,976,068
2007	\$ 841,028,344	3.12%	\$ 15,305,712
2008	\$ 840,463,790	-0.07%	\$ 15,431,982
2009	\$ 832,732,387	-0.92%	\$ 16,159,800
2010*	\$ 949,555,131	14.03%	\$ 17,145,943
2011	\$ 919,193,351	-3.30%	\$ 17,236,337
2012	\$ 927,151,628	0.87%	\$ 17,826,129

* Property in Beaufort County is reassessed once every five years on average.
** Tax revenue includes the collection of delinquent taxes.

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

Fiscal Year	Operating Millage	Debt Service Millage	Capital Projects Millage	Total Millage
2003	19.30	6.40	5.30	31.00
2004	21.35	6.10	3.55	31.00
2005	14.80	2.00	5.50	22.30
2006	12.33	0.85	5.82	19.00
2007	12.33	0.85	5.82	19.00
2008	12.33	0.85	5.82	19.00
2009	12.84	5.67	0.85	19.36
2010	11.78	6.01	0.75	18.54
2011	11.78	6.01	0.75	18.54
2012	12.57	6.01	0.75	19.33

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

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

- At the close of fiscal year 2012 the assets of the Town exceeded liabilities by \$181,978,201. Of this amount \$14,387,010 (Unrestricted Net Assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$7,958,574 for fiscal year 2012. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".
- At June 30, 2012, the Town's governmental funds reported combined ending fund balances of \$67,017,958. Of the combined ending fund balance, \$3,008,689 or 4.5% is available for spending at the government's discretion (Unassigned Fund Balance).

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, fiduciary fund, and proprietary funds.

Governmental Funds

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

The Town maintains one **Fiduciary Fund**, the Firemen's Fund. This fund is used to account for certain funds held on behalf of the Town's firemen. The activity associated with this fund is excluded from the Town's financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

Notes to the Financial Statements

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

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

Economic Factors

The downturn in the economy continues to have an adverse impact on revenues received by the Town but varies depending on the revenue stream.

Real Estate

Real estate related revenues, construction permits, and real estate transfer fees, are approximately 2% more than the previous fiscal year.

	<u>RETF</u>			<u>Construction Permits</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2011	1,839,244			954,419			2,793,663		
FY 2012	1,905,459	66,215	4%	952,539	(1,880)	0%	2,857,998	64,335	2%

Tourism

Revenue from tourism-driven revenues such as accommodations taxes, beach preservation fees, and hospitality taxes have increased. Revenues from these sources are approximately 3% more than the previous fiscal year.

	<u>ATAX/ Beach Preservation Fees</u>			<u>Hospitality Tax</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2011	10,717,066			4,917,591			15,634,657		
FY 2012	10,940,488	223,422	2%	5,160,134	242,543	5%	16,100,622	465,965	3%

Government-Wide Financial Analysis

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

Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>% Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Current and other assets	\$ 74,098,075	\$ 66,428,351	\$ 2,045,771	\$ 1,684,195	\$ 76,143,846	\$ 68,112,546	118%
Capital assets	<u>228,850,777</u>	<u>227,981,482</u>	<u>12,593,588</u>	<u>14,525,736</u>	<u>241,444,365</u>	<u>242,507,218</u>	<u>-0.4%</u>
Total assets	<u>\$ 302,948,852</u>	<u>\$ 294,409,833</u>	<u>\$ 14,639,359</u>	<u>\$ 16,209,931</u>	<u>\$ 317,588,211</u>	<u>\$ 310,619,764</u>	<u>2.2%</u>
Current liabilities	\$ 5,901,203	\$ 19,522,187	\$ 269,161	\$ 646,425	\$ 6,170,364	\$ 20,168,612	-69.4%
Long term liabilities	<u>117,433,858</u>	<u>88,508,589</u>	<u>12,005,788</u>	<u>12,005,788</u>	<u>129,439,646</u>	<u>100,514,377</u>	<u>28.8%</u>
Total liabilities	<u>\$ 123,335,061</u>	<u>\$ 108,030,776</u>	<u>\$ 12,274,949</u>	<u>\$ 12,652,213</u>	<u>\$ 135,610,010</u>	<u>\$ 120,682,989</u>	<u>12.4%</u>
Net assets:							
Invested in capital assets, net of related debt	\$ 127,695,520	\$ 137,940,358	\$ 587,800	\$ 1,969,503	\$ 128,283,320	\$ 139,909,861	-8.3%
Restricted	30,453,334	29,367,859	-	-	30,453,334	29,367,859	3.7%
Unrestricted	<u>21,464,937</u>	<u>19,070,840</u>	<u>1,776,610</u>	<u>1,588,215</u>	<u>23,241,547</u>	<u>20,659,055</u>	<u>12.5%</u>
Total net assets	<u>\$ 179,613,791</u>	<u>\$ 186,379,057</u>	<u>\$ 2,364,410</u>	<u>\$ 3,557,718</u>	<u>\$ 181,978,201</u>	<u>\$ 189,936,775</u>	<u>-4.2%</u>

Net assets amounted to \$182.0 million in fiscal year 2012 compared to \$189.9 million in fiscal year 2011. A significant portion of the Town's net assets (\$128.3 million or 70.5% of the Total net assets) reflects its investment in capital assets (e.g. land, machinery, buildings, and equipment) net of any related debt that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

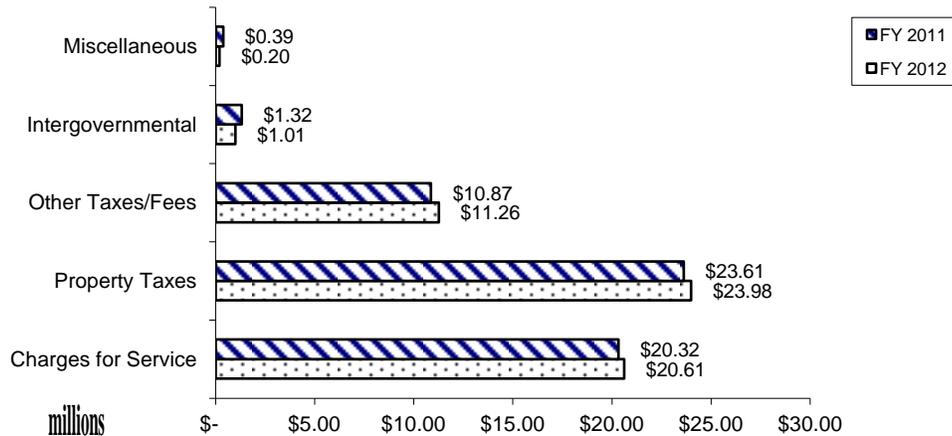
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 20,606,356	\$ 20,322,548	\$ 3,491,879	\$ 3,377,779	\$ 24,098,235	\$ 23,700,327
Operating grants and contributions	305,329	140,555	-	-	305,329	140,555
Capital grants and contributions	1,044,854	-	-	-	1,044,854	-
General Revenues:						
Property taxes	23,974,619	23,605,422	-	-	23,974,619	23,605,422
Other taxes	11,259,227	10,866,276	-	-	11,259,227	10,866,276
Other	1,442,084	2,683,778	(235,330)	(381,117)	1,206,754	2,302,661
Total Revenues	58,632,469	57,618,579	3,256,549	2,996,662	61,889,018	60,615,241
Program Expenses:						
Governmental Activities:						
General government	4,353,125	5,590,651	-	-	4,353,125	5,590,651
Management services	4,387,130	4,617,092	-	-	4,387,130	4,617,092
Community services	30,544,682	8,592,108	-	-	30,544,682	8,592,108
Public safety	16,535,835	17,332,968	-	-	16,535,835	17,332,968
Culture and recreation	1,210,594	1,295,954	-	-	1,210,594	1,295,954
Visitor and convention bureau	1,096,019	1,052,226	-	-	1,096,019	1,052,226
Administrative	3,611,539	3,280,258	-	-	3,611,539	3,280,258
Interest on long-term debt	3,658,811	4,414,431	-	-	3,658,811	4,414,431
Business-type Activities:						
Stormwater utility	-	-	4,449,857	1,616,827	4,449,857	1,616,827
Total Expenses	65,397,735	46,175,688	4,449,857	1,616,827	69,847,592	47,792,515
Change in net assets	(6,765,266)	11,442,891	(1,193,308)	1,379,835	(7,958,574)	12,822,726
Net assets, beginning	186,379,057	174,936,166	3,557,718	2,177,883	189,936,775	177,114,049
Net assets, ending	\$ 179,613,791	\$ 186,379,057	\$ 2,364,410	\$ 3,557,718	\$ 181,978,201	\$ 189,936,775

Governmental activities decreased the Town's net assets by \$6,765,266. This decrease was \$18,208,157 less than the previous fiscal years increase. The following highlight the significant changes from the previous year:

- Property tax revenue, the Town's largest revenue source, increased by \$369,197 or approximately 1.6%.
- Property taxes made up 40.89% of the total revenue down from 40.97% of the total in the previous fiscal year.
- Total expenses increased by \$19,222,047. The largest part of this increase appears in the community services function where the Town recognized approximately \$11 million in beach maintenance for the Port Royal fill project and \$8.9 million in land acquisition.
- Investment income revenues decreased by \$136,193 from the previous fiscal year due to the continued drop in interest rates.

Revenues by Source – Governmental Activities



Business-type activities decreased the Town’s net assets by \$1,193,308. Stormwater revenues increased by \$114,100 or 3.38% over the previous fiscal year.

Governmental Funds

The **General Fund**, which is the primary operating fund of the Town, recognized \$26.1 million (excluding revenue transfers in from other funds) in total revenues and \$5.6 million in other financing sources offset with \$30.7 million in expenditures. The savings plan effort started in FY 2009 was carried forward into FY 2010, FY 2011 and FY 2012. The results were quite successful; expenditures were approximately \$2.6 million less than the final budget. In addition, revenues and transfers in were \$1.2 million less than budget. The favorable trend in expenditures offset the downturn in revenues.

Fund Balance at the beginning of the year was \$14.9 million and, when combined with the current year, resulted in an end of year Fund Balance of \$15.8 million. Of this amount, \$3.0 million is unassigned fund.

The **Debt Service Fund** recognized \$5.9 million in total revenues and \$32.8 million in other financing sources offset with \$38.1 in expenditures and other uses. This resulted in revenues exceeding expenditures and other financing sources by \$586,448. The Fund Balance at the beginning of the year was \$6.0 million and, when combined with the current year, resulted in an end of year Fund Balance of \$6.6 million.

The **Capital Projects Fund** recognized \$2.3 million in total revenues and \$32.2 million in other financing sources offset with \$27.9 million in expenditures and other uses. This resulted in revenues exceeding expenditures and other financing sources by \$6.6 million. The Fund Balance at the beginning of the year was \$13.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$20.5 million.

The **Tax Increment Financing District Fund (TIF)** recognized \$6.2 million in total revenues offset with \$7.7 million in other financing uses related to debt service payments and capital expenditures. This resulted in expenditures exceeding revenues and other financing uses by \$1.5 million. Fund Balance at the beginning of the year was \$6.4 million and, when combined with the current year, resulted in an end of year Fund Balance of \$4.9 million.

The **Accommodations Tax Fund** * recognized \$3.7 million in total revenues offset with \$2.3 million in expenditures and \$1.1 million in other financing uses. This resulted in revenues

exceeding expenditures by \$286,369. Fund Balance at the beginning of the year was \$1.4 million and, when combined with the current year resulted in a end of year Fund Balance of \$1.7 million.

The **Real Estate Transfer Fee Fund** * recognized \$1.9 million in total revenues offset with \$19,055 in expenditures and \$1.9 million in other financing uses. This resulted in revenues exceeding expenditures by \$21,900. Fund Balance at the beginning of the year was \$1.1 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.1 million.

The **Beach Preservation Fee Fund** * recognized \$4.8 million in total revenues offset with \$4.4 million in other financing uses. This resulted in revenues exceeding expenditures by \$412,748. Fund Balance at the beginning of the year was \$14.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$15.3 million.

The **Hospitality Fee Fund** * recognized \$5.2 million in total revenues offset with \$6.0 million in other financing uses. This resulted in other financing uses exceeding revenues by \$818,615. The Fund Balance at the beginning of the year was \$1.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$1.0 million.

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

Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

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

<u>Fund</u>	2012				
	<u>Revenue</u>	<u>Expenditures</u>	<u>Fund Balance</u>	<u>Fund Balance</u>	<u>Changes in Fund Balance</u>
General	\$ 31,630,467	\$ 30,703,195	\$ -	\$ 15,813,557	\$ 927,272
Tax Increment Financing	6,149,588	7,658,922	-	4,860,855	(1,509,334)
Accommodations Tax (State)	3,678,758	3,392,389	-	1,692,320	286,369
Real Estate Transfer Fee	1,905,604	1,883,704	-	1,141,664	21,900
Beach Preservation Fee	4,844,036	4,431,288	-	15,257,597	412,748
Hospitality Fee	5,160,400	5,979,015	-	1,015,488	(818,615)
Debt Service	38,690,815	38,104,367	-	6,587,993	586,448
Capital Projects Fund	34,500,556	27,868,005	-	20,474,068	6,632,551
Non-Major Governmental Fund	2,561,799	2,864,033	-	174,416	(302,234)

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 more than the revised budget by \$96,528. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were down \$116,260
- Local accommodations tax revenue was up \$170,698
- Business license and franchise fee revenue was down \$27,121
- Building permit revenue was up \$78,539
- State shared revenue was up \$27,290
- EMS revenue was up \$35,787
- Fines and fees were down \$81,292
- Investment income was down \$38,135

Actual General Fund expenditures were less than the revised budget by \$2.99 million. The favorable variance can be primarily attributed to the continuation of the expenditure reduction plan that was implemented in mid-year FY 2009.

Original to revised expenditure budget variances:

	Original Budget	Revised Budget	Variance
<u>General Fund by Function</u>			
General Government	\$ 1,189,640	\$ 1,137,250	\$ 52,390
Management Services	4,856,530	4,928,703	(72,173)
Community Services	6,248,140	6,291,223	(43,083)
Public Safety	16,564,310	16,673,481	(109,171)
Non-Departmental Townwide	3,702,700	3,972,497	(269,797)
Capital Outlay	170,400	262,911	(92,511)
	<u>\$ 32,731,720</u>	<u>\$ 33,266,065</u>	<u>\$ (534,345)</u>

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2012 and 2011 amount to \$228.9 million and \$228.0 million respectively (net of accumulated depreciation). The Town's investment in capital assets for its business-type activities as of June 30, 2012 and 2011 amount to \$12.6 million and \$14.5 million respectively (net of accumulated depreciation). Capital assets include land, development rights, easements/right-of-ways, buildings, drainage systems, furniture, fixtures, equipment and vehicles.

Major capital asset transactions during the year include the following additions:

- Acquisition of land \$ 8.9 million
- Replacement of Fire Station #1 \$ 883,726
- Sewer service at Old Schoolhouse \$ 954,325
- Port Royal Fill Project \$ 10,945,141
- Roundabout @ Dunnagan's Alley and Arrow Road \$ 714,083

Town of Hilton Head Island's Capital Assets (Net)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 158,951,496	\$ 150,060,347	\$ -	\$ -	\$158,951,496	\$ 150,060,347
Development rights	10,734,391	10,734,391	-	-	10,734,391	10,734,391
Easements/Right-of-Ways	3,548,960	3,548,960	-	-	3,548,960	3,548,960
Construction in progress	881,040	12,295,551	192,910	2,934,692	1,073,950	15,230,243
Buildings	17,680,358	15,753,356	-	-	17,680,358	15,753,356
Furniture, fixtures and equipment	1,601,606	721,679	-	-	1,601,606	721,679
Vehicles	4,503,668	4,666,802	-	-	4,503,668	4,666,802
Imp. Other than buildings - park developm	9,673,188	9,123,515	-	-	9,673,188	9,123,515
Infrastructure	<u>21,276,070</u>	<u>21,076,881</u>	<u>12,400,678</u>	<u>11,591,044</u>	<u>33,676,748</u>	<u>32,667,925</u>
	<u>\$ 228,850,777</u>	<u>\$ 227,981,482</u>	<u>\$ 12,593,588</u>	<u>\$ 14,525,736</u>	<u>\$ 241,444,365</u>	<u>\$ 242,507,218</u>

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

Proprietary Fund

In FY 2012 the Town received \$3,491,879 in stormwater fees and other income and incurred \$4,685,187 in expenses associated with this program. Unrestricted net assets at the end of the year were \$1.8 million.

LONG TERM OBLIGATIONS

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

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

Outstanding Long-Term Obligations

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 58,965,000	\$ 62,010,000	\$ -	\$ -	\$ 58,965,000	\$ 62,010,000
Certificates of participation	2,445,000	3,600,000	-	-	2,445,000	3,600,000
Tax increment financing	11,555,000	15,105,000	-	-	11,555,000	15,105,000
Revenue/Special Obligation Bonds:						
Beach preservation fees	18,795,000	10,200,000	-	-	18,795,000	10,200,000
Hospitality tax	22,725,000	8,625,000	-	-	22,725,000	8,625,000
Stormwater	-	-	13,170,000	13,810,000	13,170,000	13,810,000
	<u>\$ 114,485,000</u>	<u>\$ 99,540,000</u>	<u>\$ 13,170,000</u>	<u>\$ 13,810,000</u>	<u>\$ 127,655,000</u>	<u>\$ 113,350,000</u>

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

BUDGET HIGHLIGHTS FOR FISCAL YEAR 2013

The **General Fund's** revenues for fiscal year 2013 are budgeted at \$33.2 million, an increase of \$360,389 or 1.1% compared to the prior year's budgeted revenues. This includes the use of \$817,455 of fund balance in order to balance the budget. Collections from real and personal property taxes are expected to lead the increase in budgeted revenue. The Town will use these revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at \$32.4 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$12.9 million. The majority of the expenditures are budgeted for Fire Station #6 replacement which accounts for \$3.2 million or 24.89% of the capital budget and \$5.0 million or 38.74% has been earmarked for park development and roadway improvements.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$15.9 million. There is \$112,534 or 0.7% decrease in debt service costs in fiscal year 2013.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2012 on taxable property located within the Town of Hilton Head Island was adopted at 19.33 mills upon each one dollar of taxable property in the Town of Hilton Head Island.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

TOWN OF HILTON HEAD ISLAND

STATEMENT OF NET ASSETS
JUNE 30, 2012

Exhibit A

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 63,846,239	\$ -	\$ 63,846,239
Investments	775,666	-	775,666
Accounts Receivable	4,909,664	-	4,909,664
Due from Employees	33,739	-	33,739
Due from Other Governments	2,699,325	-	2,699,325
Other Assets	1,833,442	165,143	1,998,585
Non Depreciable Capital Assets	174,115,887	192,910	174,308,797
Depreciable Capital Assets	54,734,890	12,400,678	67,135,568
Total assets	302,948,852	12,758,731	315,707,583
LIABILITIES			
Interfund Balances	1,880,628	(1,880,628)	-
Accounts Payable	2,092,834	177,629	2,270,463
Accrued Payroll and Related Payables	857,218	-	857,218
Due to Other Governments	34,469	-	34,469
Unearned Revenue	155,250	-	155,250
Irrigation and Pool Surety Bonds Payable	86,500	-	86,500
Court Bonds Payable	33,673	-	33,673
Performance Bonds Payable	106,102	-	106,102
Interest Payable	654,529	91,532	746,061
Due Within Less than One Year	15,101,434	690,445	15,791,879
Due Within More than One Year	102,332,424	11,315,343	113,647,767
Total liabilities	123,335,061	10,394,321	133,729,382
NET ASSETS			
Invested in capital assets, net of related debt	127,695,520	587,800	128,283,320
Restricted	39,307,871	-	39,307,871
Unrestricted	12,610,400	1,776,610	14,387,010
Total net assets	\$ 179,613,791	\$ 2,364,410	\$ 181,978,201

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

**TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 4,353,125	\$ 3,799,757	\$ 113,166	\$ -	\$ (440,202)	\$ -	\$ (440,202)
Management Services	4,387,130	7,254,622	-	-	2,867,492	-	2,867,492
Community Services	30,544,682	6,189,471	-	1,044,854	(23,310,357)	-	(23,310,357)
Public Safety	16,535,835	1,457,047	450	-	(15,078,338)	-	(15,078,338)
Culture and Recreation	1,210,594	-	-	-	(1,210,594)	-	(1,210,594)
Visitor and Convention Bureau	1,096,019	-	-	-	(1,096,019)	-	(1,096,019)
Adminstration	3,611,539	1,905,459	191,713	-	(1,514,367)	-	(1,514,367)
Interest on Debt	3,658,811	-	-	-	(3,658,811)	-	(3,658,811)
Total governmental activities	65,397,735	20,606,356	305,329	1,044,854	(43,441,196)	-	(43,441,196)
Business-type Activities:							
Stormwater	4,449,857	3,491,879	-	-	-	(957,978)	(957,978)
Total business-type activities	4,449,857	3,491,879	-	-	-	(957,978)	(957,978)
Total primary government	\$ 69,847,592	\$ 24,098,235	\$ 305,329	\$ 1,044,854	(43,441,196)	(957,978)	(44,399,174)
General revenues:							
					23,974,619	-	23,974,619
					6,099,093	-	6,099,093
					5,160,134	-	5,160,134
					1,010,600	-	1,010,600
					197,971	-	197,971
					124,415	-	124,415
					(126,232)	-	(126,232)
					235,330	(235,330)	-
					36,675,930	(235,330)	36,440,600
					(6,765,266)	(1,193,308)	(7,958,574)
					186,379,057	3,557,718	189,936,775
					\$ 179,613,791	\$ 2,364,410	\$ 181,978,201

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

**TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

Exhibit C

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-major Governmental	Total Governmental
ASSETS										
Cash and cash equivalents	\$ 11,566,326	\$ 7,186,872	\$ 1,688,144	\$ 739,363	\$ 14,536,205	\$ 1,104,934	\$ 7,469,778	\$ 19,334,716	\$ 219,901	\$ 63,846,239
Investments	-	-	-	-	-	-	775,666	-	-	775,666
Accounts receivable	1,827,907	-	-	-	1,719,265	1,328,889	-	-	33,603	4,909,664
Due from employees	33,739	-	-	-	-	-	-	-	-	33,739
Interfund receivables	9,155,896	90,650	-	577,526	-	-	612,583	9,142,501	-	19,579,156
Due from other governments	648,048	205,479	1,267,859	166,054	-	-	-	411,885	-	2,699,325
Total assets	\$ 23,231,916	\$ 7,483,001	\$ 2,956,003	\$ 1,482,943	\$ 16,255,470	\$ 2,433,823	\$ 8,858,027	\$ 28,889,102	\$ 253,504	\$ 91,843,789
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 1,166,910	\$ 70	\$ 380,358	\$ -	\$ -	\$ -	\$ -	\$ 545,496	\$ -	\$ 2,092,834
Accrued payroll and employee payable	857,217	-	-	-	-	-	-	-	-	857,217
Due to other governments	34,469	-	-	-	-	-	-	-	-	34,469
Interfund payables	5,123,965	2,622,076	883,325	341,279	997,873	1,418,335	2,270,034	7,770,586	32,313	21,459,786
Deferred revenue	9,523	-	-	-	-	-	-	98,952	46,775	155,250
Irrigation and pool bonds	86,500	-	-	-	-	-	-	-	-	86,500
Court bonds	33,673	-	-	-	-	-	-	-	-	33,673
Performance bonds	106,102	-	-	-	-	-	-	-	-	106,102
Total liabilities	7,418,359	2,622,146	1,263,683	341,279	997,873	1,418,335	2,270,034	8,415,034	79,088	24,825,831
Fund balances:										
Nonspendable	15,308	-	-	-	-	-	-	-	-	15,308
Restricted	98,182	4,860,855	1,692,320	1,141,664	3,257,597	1,015,488	6,587,993	20,470,775	182,997	39,307,871
Committed	11,865,342	-	-	-	12,000,000	-	-	-	-	23,865,342
Assigned	817,455	-	-	-	-	-	-	3,293	-	820,748
Unassigned	3,017,270	-	-	-	-	-	-	-	(8,581)	3,008,689
Total fund balances	15,813,557	4,860,855	1,692,320	1,141,664	15,257,597	1,015,488	6,587,993	20,474,068	174,416	67,017,958
Total liabilities and fund balances	\$ 23,231,916	\$ 7,483,001	\$ 2,956,003	\$ 1,482,943	\$ 16,255,470	\$ 2,433,823	\$ 8,858,027	\$ 28,889,102	\$ 253,504	\$ 91,843,789

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

TOWN OF HILTON HEAD ISLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Exhibit D

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

Ending fund balance - governmental funds	\$ 67,017,958
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	228,850,777
Bond issue costs are not financial resources and, therefore, are not reported in the funds	1,833,442
Losses on refunding are not financial resources and, therefore, are not reported in the funds	2,550,132
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds	(654,529)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(119,983,989)</u>
Net assets of governmental activities	<u>\$ 179,613,791</u>

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit E

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-major Governmental	Total Governmental
REVENUES										
Real and Personal Property Tax	\$ 11,585,070	\$ 6,148,490	\$ -	\$ -	\$ -	\$ -	\$ 5,548,641	\$ 692,418	\$ -	\$ 23,974,619
Accommodations Tax	2,420,698	-	3,678,395	-	-	-	-	-	-	6,099,093
Hospitality Tax	-	-	-	-	-	5,160,134	-	-	-	5,160,134
Business License and Franchise Fees	8,184,379	-	-	-	-	-	-	-	-	8,184,379
Permits	952,539	-	-	-	-	-	-	-	-	952,539
Impact Fees	-	-	-	-	-	-	-	188,355	-	188,355
Real Estate Transfer Fees	-	-	-	1,905,459	-	-	-	-	-	1,905,459
Beach Preservation Fees	-	-	-	-	4,841,395	-	-	-	-	4,841,395
Electric Franchise Fees	-	-	-	-	-	-	-	-	2,561,294	2,561,294
State Shared Funds	678,370	-	-	-	-	-	-	332,230	-	1,010,600
Donations	450	-	-	-	-	-	-	100,000	-	100,450
Federal Reimbursement - BABS	-	-	-	-	-	-	191,713	-	-	191,713
Grants	124,843	-	-	-	-	-	-	944,854	-	1,069,697
EMS Revenue	1,340,787	-	-	-	-	-	-	-	-	1,340,787
Public Safety Revenue	54,441	-	-	-	-	-	-	-	-	54,441
Fines and Fees	308,708	-	-	-	-	-	-	-	-	308,708
Miscellaneous Revenue	409,967	-	-	-	-	-	-	46,979	500	457,446
Investment Income	1,865	1,098	363	145	2,641	266	114,656	3,378	5	124,417
Total revenues	<u>26,062,117</u>	<u>6,149,588</u>	<u>3,678,758</u>	<u>1,905,604</u>	<u>4,844,036</u>	<u>5,160,400</u>	<u>5,855,010</u>	<u>2,308,214</u>	<u>2,561,799</u>	<u>58,525,526</u>
EXPENDITURES										
Current:										
General Government	882,111	-	-	-	-	-	-	-	-	882,111
Management Services	4,303,518	-	-	-	-	-	-	-	-	4,303,518
Community Services	5,771,788	-	-	-	-	-	-	-	-	5,771,788
Public Safety	16,415,919	-	-	-	-	-	-	-	-	16,415,919
Non-Departmental	3,154,901	-	-	-	-	-	-	-	-	3,154,901
Culture and Recreation	-	-	1,210,594	-	-	-	-	-	-	1,210,594
Visitor and Convention Bureau	-	-	1,096,019	-	-	-	-	-	-	1,096,019
Administration	-	-	-	19,055	-	-	408,515	-	2,780,431	3,208,001
Debt service:										
Administrative charges	-	-	-	-	-	-	-	525,364	-	525,364
Interest	-	-	-	-	-	-	3,914,974	-	-	3,914,974
Principal Retirement	-	-	-	-	-	-	12,105,000	-	-	12,105,000
Capital outlay:										
Community Services	-	-	-	-	-	-	-	26,205,141	-	26,205,141
Management Services	120,841	-	-	-	-	-	-	-	-	120,841
Public Safety	54,117	-	-	-	-	-	-	-	-	54,117
Total expenditures	<u>30,703,195</u>	<u>-</u>	<u>2,306,613</u>	<u>19,055</u>	<u>-</u>	<u>-</u>	<u>16,428,489</u>	<u>26,730,505</u>	<u>2,780,431</u>	<u>78,968,288</u>
Excess (deficiency) of revenues over expenditures	<u>(4,641,078)</u>	<u>6,149,588</u>	<u>1,372,145</u>	<u>1,886,549</u>	<u>4,844,036</u>	<u>5,160,400</u>	<u>(10,573,479)</u>	<u>(24,422,291)</u>	<u>(218,632)</u>	<u>(20,442,762)</u>
OTHER FINANCING SOURCES (USES)										
Payment to Escrow Agent	-	-	-	-	-	-	(21,675,878)	-	-	(21,675,878)
Proceeds from Sale of Land	-	-	-	-	-	-	-	264,930	-	264,930
Premium on Bond Issuance	-	-	-	-	-	-	228,064	742,421	-	970,485
Issuance of Refunding Bonds	-	-	-	-	-	-	20,635,000	-	-	20,635,000
Issuance of Bonds	-	-	-	-	-	-	-	26,250,000	-	26,250,000
Transfers Out	-	(7,658,922)	(1,085,776)	(1,864,649)	(4,431,288)	(5,979,015)	-	(1,137,500)	(83,602)	(22,240,752)
Transfers In	5,568,350	-	-	-	-	-	11,972,741	4,934,991	-	22,476,082
	<u>5,568,350</u>	<u>(7,658,922)</u>	<u>(1,085,776)</u>	<u>(1,864,649)</u>	<u>(4,431,288)</u>	<u>(5,979,015)</u>	<u>11,159,927</u>	<u>31,054,842</u>	<u>(83,602)</u>	<u>26,679,867</u>
Net change in fund balance	927,272	(1,509,334)	286,369	21,900	412,748	(818,615)	586,448	6,632,551	(302,234)	6,237,105
Fund balances - beginning	14,886,285	6,370,189	1,405,951	1,119,764	14,844,849	1,834,103	6,001,545	13,841,517	476,650	60,780,853
Fund balances - ending	<u>\$ 15,813,557</u>	<u>\$ 4,860,855</u>	<u>\$ 1,692,320</u>	<u>\$ 1,141,664</u>	<u>\$ 15,257,597</u>	<u>\$ 1,015,488</u>	<u>\$ 6,587,993</u>	<u>\$ 20,474,068</u>	<u>\$ 174,416</u>	<u>\$ 67,017,958</u>

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

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

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

Net change in fund balances - total governmental funds		\$ 6,237,105
<p>Overnmental funds report capital outlays as exepnditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
	Expenditures for capital assets	4,743,426
	Less current year depreciation	<u>(3,482,965)</u>
		1,260,461
<p>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.</p>		
		(14,260,386)
<p>require the use of current financial resources and, therefore, are not reported as</p>		
		(175,049)
<p>However, in the statement of activities, the proceeds are netted against the original cost less accumulated depreciation.</p>		
		(391,165)
<p>Payment of bond issuance costs requires the use of current financial resources in the governmental funds but are amortized over future periods in the statement of activities.</p>		
		307,605
<p>Changes in long-term debt interest payable</p>		
		<u>256,163</u>
Change in net assets of governmental activities		<u>\$ (6,765,266)</u>

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

Exhibit G

	Stormwater Fund
ASSETS	
Interfund receivables	\$ 4,373,108
Prepays	165,143
Capital assets depreciable	12,400,678
Capital assets non depreciable	192,910
Total assets	17,131,839
 LIABILITIES AND FUND BALANCES	
Accounts payable	177,629
Interfund payables	2,492,480
Interest payable	91,532
Long-term liabilities current	690,445
Long-term liabilities noncurrent	11,315,343
Total liabilities	14,767,429
 NET ASSETS	
Invested in capital assets, net of related debt	587,800
Unrestricted	1,776,610
Total net assets	\$ 2,364,410

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit H

	<u>Stormwater Fund</u>
Operating revenues:	
Stormwater Fees	\$ 3,491,879
Total operating revenues	3,491,879
Operating expenses:	
Maintenance and repair	3,201,136
Depreciation	610,799
Administrative	153,194
Total operating expenses	3,965,129
Operating Income (Loss)	(473,250)
Nonoperating (expenses):	
Administrative	(105,258)
Interest Expense	(379,470)
Total non operating (expenses)	(484,728)
Income (Loss) before transfers	(957,978)
Transfers Out	(235,330)
Change in net assets	(1,193,308)
Total net assets - beginning	3,557,718
Total net assets - ending	\$ 2,364,410

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit I

	Stormwater Fund
<u>OPERATING ACTIVITIES</u>	
Receipts from other governments	\$ 3,491,879
Payments to suppliers	(3,023,727)
Payments to employees	(152,974)
Net cash provided by operating activities	315,178
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of capital assets	(1,218,168)
Payment of interest expense	(386,697)
Principal payment on bonds payable	(640,000)
Transfers from other funds	2,165,017
Transfers to other funds	(235,330)
Net cash used by capital and related financing activities	(315,178)
Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ -
 Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ (473,250)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	610,799
Changes in deferred and accrued amounts:	
Accounts payable	177,629
Net cash provided by operating activities	\$ 315,178

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit J

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 11,701,330	\$ 11,701,330	\$ 11,585,070	\$ (116,260)
Accommodations Tax	2,250,000	2,250,000	2,420,698	170,698
Business License and Franchise Fees	8,211,500	8,211,500	8,184,379	(27,121)
Permits	874,000	874,000	952,539	78,539
State Shared Funds	651,080	651,080	678,370	27,290
Donations	1,000	1,000	450	(550)
Grants	132,680	132,680	124,843	(7,837)
EMS Revenue	1,305,000	1,305,000	1,340,787	35,787
Public Safety Revenue	53,000	53,000	54,441	1,441
Fines and Fees	390,000	390,000	308,708	(81,292)
Miscellaneous Revenue	356,000	356,000	409,967	53,967
Investment Income	40,000	40,000	1,865	(38,135)
Total Revenues	<u>\$ 25,965,590</u>	<u>\$25,965,590</u>	<u>\$26,062,117</u>	<u>\$ 96,527</u>
Expenditures:				
Current:				
General Government	1,189,640	1,137,250	882,111	255,139
Management Services	4,856,530	4,928,703	4,303,518	625,185
Public Safety	16,564,310	16,673,481	16,415,919	257,562
Community Services	6,248,140	6,291,223	5,771,788	519,435
Non-Departmental	3,363,330	3,972,497	3,154,901	817,596
Capital Outlay	170,400	262,911	174,958	87,953
Debt Service:				
Principal	267,420	-	-	-
Interest	71,950	-	-	-
Total Expenditures	<u>32,731,720</u>	<u>33,266,065</u>	<u>30,703,195</u>	<u>2,562,870</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,766,130)</u>	<u>(7,300,475)</u>	<u>(4,641,078)</u>	<u>2,659,397</u>
Other financing sources (uses):				
Transfers In	6,106,420	5,812,141	5,568,350	(243,791)
Appropriated Fund Balance	-	712,886	-	(712,886)
Total other financing sources (uses)	<u>6,106,420</u>	<u>6,525,027</u>	<u>5,568,350</u>	<u>(956,677)</u>
Net change in fund balance	(659,710)	(775,448)	927,272	1,702,720
Fund balance - beginning	<u>15,453,215</u>	<u>14,360,541</u>	<u>14,886,285</u>	
Fund balance - ending	<u>\$ 14,793,505</u>	<u>\$ 13,585,093</u>	<u>\$ 15,813,557</u>	

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
FIREMEN'S FUND
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit K

ASSETS

Cash and Temporary Investments	<u>\$ 124,960</u>
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LIABILITIES

Due to Firemen's Fund Association	<u>\$ 124,960</u>
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The notes to the financial statements are an integral part of this statement.

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

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

Component Unit

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

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

Basis of Presentation

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

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

Government-wide Statements. The statement of net assets and the statement of activities display information on all of the non-fiduciary activities of the government as a whole. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, generally, are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. These activities are usually reported in enterprise funds.

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

1. The Town reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

3. The Town's agency fund is presented in the fiduciary fund financial statement. Since these assets cannot be used to address activities or obligations of the Town, the agency fund is not incorporated into the government-wide financial statements. The Town's agency fund is as follows:

The *Firemen's Fund* is used to account for resources held by the Town for its firemen in an agency capacity.

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

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation – Fund Financial Statements (continued)

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

Measurement Focus and Basis of Accounting

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

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

Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Property taxes for the year ended June 30, 2012, includes an accrual for property taxes collected 60 days after June 30. Property taxes are levied based on assessed values and the property tax calendar as follows:

Property Tax Calendar

Assessment date	2010
Property tax due	March 16
Delinquent date	March 17
Levy date	August 23
Tax sale	First Monday in October

The County has no specific lien date.

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

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

Use of Estimates

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

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund, Debt Service Fund, and Capital Projects Fund. Budgets for the aforementioned funds are prepared in accordance with GAAP. The Town uses the following procedures in establishing budgetary data reflected in these financial statements:

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

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

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

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

General Fund

Revenues:

Hospitality Fee Transfer	\$ (294,279)
Prior Year Funds	712,886
Total Revenue Increases	<u>\$ 418,607</u>

Expenditure Increases/(Decreases):

Town Council - Workers Compensation	(80)
Town Council - Professional Services	18,027
Town Manager - Salaries and Benefits	(70,337)
Finance; Administration - Salaries and Benefits	32,580
Finance; Administration - Workers Compensation	(216)
Finance; Accounting - Salaries and Benefits	(32,580)
Finance; Accounting - Workers Compensation	(340)
Finance; Business License - Salaries and Benefits	(40,257)
Finance; Business License - Professional Services	89,121
Administration; Legal Administration - Workers Compensation	(224)
Administration; Municipal Court - Workers Compensation	(45)
Administration; Information Technology - Workers Compensation	(596)
Administration; Information Technology - Computer Software <\$50,000	7,625
Administration; Information Technology - Computer Software >\$50,000	21,542
Administration; Information Technology - Specialized Equipment	40,400
Administration; Legal Administration Support - Workers Compensation	(79)
Administration; Legal Administration Support - Record Management	6,420
Administration; Human Resources - Workers Compensation	(121)
Administration; Human Resources - Consulting Services	10,885
Public Projects and Facilities; Administration - Workers Compensation	(214)
Public Projects and Facilities; Engineering - Salaries and Benefits	2,354
Public Projects and Facilities; Engineering - Roadways and Pathways Maintenance	10,385
Public Projects and Facilities; Engineering - Traffic Control Consulting	(8,250)
Public Projects and Facilities; Engineering - Town Street Signs	(2,135)
Public Projects and Facilities; Facilities Management - Salaries and Benefits	17,775
Community Development; Administration - Salaries and Benefits	67,937
Community Development; Inspection/Compliance - Workers Compensation	(559)
Community Development; DRZ - Salaries and Benefits	(94,750)
Community Development; DRZ - Consulting Services	56,420
Community Development; DRZ - Printing and Publishing	(7,495)
Community Development; Comprehensive Planning - Workers Compensation	1,615
Townwide - Workers Compensation	50,076
Townwide - Professional Services	59,091
Townwide - Grants	500,000
Townwide - Debt Service	(339,370)

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

Expenditure Increases/(Decreases) (continued):

Fire and Rescue; Administration - Salaries and Benefits	4,308
Fire and Rescue; Operations - Salaries and Benefits	115,478
Fire and Rescue; Operations - Equipment < \$5,000	5,273
Fire and Rescue; Bureau of Fire Prevention - Salaries and Benefits	(34,750)
Fire and Rescue; Emergency Management - Salaries and Benefits	(36,209)
Fire and Rescue; E911 Communications - Workers Compensation	(229)
Fire and Rescue; Support Services - Salaries and Benefits	10,940
Fire and Rescue; Logistics and Maintenance - Salaries and Benefits	(12,230)
Fire and Rescue; Logistics and Maintenance - Vehicle Repair and Maintenance	12,600
Fire and Rescue; Logistics and Maintenance - Specialized Equipment	12,522
Fire and Rescue; Communications - Salaries and Benefits	4,779
Fire and Rescue; Communications - Maintenance Contracts	36,828
Fire and Rescue; Communications - Radio Equipment	2,356
Fire and Rescue; Training - Salaries and Benefits	15,974
Fire and Rescue; Training - Professional Services	2,100
Police Patrol - Services/Contract	18,200
Police Patrol - Stipends	(18,200)
Police Patrol - Uniforms and Protective Gear	(13,165)
Police Patrol - Supplies	875
Police Patrol - Radio Repair and Maintenance	(3,401)
Police Patrol - Specialized Equipment	15,691
Total Expenditure Increases	<u>\$ 534,345</u>

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

Capital Projects Fund

Revenues:

Grants	\$ 814,528
Contributions	100,000
State Taxes - Sunday Permit Fees	302,303
Capital Sales Tax	425
Impact Fees	60,722
Investment Income	2,688
	<u>\$ 1,280,666</u>

Expenditures:

Pathways

Dunnagan's Alley	\$ 128,806
Mathews Drive	85,023
US 278 @ New Orleans to Shipyard	229,000
Honey Horn Access Improvements	98,659
US 278 Gardner Rd. to Mathews Drive	110,054
Palmetto Bay Road	67,774
	<u>719,316</u>

Road Improvements

Mathews Drive/Marshland Rd. Connectivity	605
Intersection Improvements	157,922
Fire and Rescue Emergency Access Points	21,158
US 278/Leamington/Fresh Market Shoppes	230,000
Pedestrian Crosswalks and Refuges	97,000
Roadway Safety Improvements	120,000
Power Alley/Palmetto Electric	66
Mathews Drive/Beach City Road Roundabout	162,293
Fire and Rescue Headquarters Security Gate	35,000
Stoney Secondary Road South	(29,278)
Traffic Signal Mast Arms	129,101
Intersection/Crosswalk/Pathway Lighting	238
Private (Dirt) Roads Acquisition	45,397
Marshland Road Roundabout	(1,047,130)
Arrow Road/Dunnagan's Alley Roundabout	714,083
	<u>636,455</u>

Park Development

Chaplin Community Park - Tennis Courts	36,240
Chaplin Linear Park	385
Bristol Skate Park	381,659
Island Recreation - Aquatics Center	18,000
Island Recreation Improvements	151,711
Island Recreation SHARE Center	100,000
Rowing and Sailing Center	4,270
Compass Rose Park	4,370
Crossings Park Upgrade	35,000
Jarvis Creek Park Picnic Shelter	42,000
Rock's/Remy's Tract	(20,000)
Park Upgrades	197,206
	<u>950,841</u>

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

Capital Projects Fund (Continued)

Existing Facilities/Infrastructure

Demolition of Structures	7,596
Fire Station #6 Replacement/Repair	(2,863,598)
Apparatus & Vehicle Replacement	240,269
Fire Station #2 Fixed Assets	48,454
Fire Station #1 Replacement	883,726
Town Vehicle Replacement	54,400
Rehabilitate & Renovate Fixed Assets	51,855
Town Hall Renovations	213,199
Security Cameras	5,000
Coastal Discovery Museum Stabilization	-
	<u>(1,359,099)</u>

New Facilities/Infrastructure

Fire and Rescue Computer System	48,495
Dispatch Center Equip. Upgrade	2,642
Coligny/Pope Avenue Area Improvements	448,472
Dunnagan's Alley/Arrow Road Improvements	228,590
Sewer Service - Old Schoolhouse	905,976
Sewer Service - Ford Shell Ring	95,000
Sewer Service - Marshland Road	69,000
Sewer Service - Chaplin South	1,140
58 Shelter Lane Building	200,000
Emergency Town Hall Infrastructure	110,000
Public Safety System	10,258
Monitoring Equipment	40,000
Mobile Repeater	(20,000)
SCBA Compressor Replacement	32,174
	<u>2,171,747</u>

Beach Maintenance

Beach Management	424,650
Beach /Parks Access	118,202
Port Royal Fill Project	12,387,990
Shoreline Management	187,773
	<u>13,118,615</u>

Land Acquisition

Land Acquisition	<u>8,907,721</u>
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TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

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

Investments

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

Due to and from Other Funds/ Internal Balances

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

Capital Assets

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

Long-Term Obligations

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

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

Compensated Absences

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

Upon retirement, the value of sick leave accruals is contributed to a retirement health savings plan.

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

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

Note 1. Summary of Significant Accounting Policies (continued)

Fund Equity

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

Restricted Net Assets

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

Program Revenues

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

Subsequent Events

In preparing the comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2012, the Town evaluated events and transactions for potential recognition or disclosure through December 17, 2012.

Note 2. Cash, Cash Equivalents, and Investments

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

	Cash and Cash Equivalents	Investments	Total
Governmental Activities:			
General Fund	\$ 11,566,326	\$ -	\$ 11,566,326
Tax Increment Financing	7,186,872	-	7,186,872
Accommodations Tax	1,688,144	-	1,688,144
Real Estate Transfer Fees	739,363	-	739,363
Beach Preservation Fees	14,536,205	-	14,536,205
Debt Service	7,469,778	775,666	8,245,444
Hospitality Tax	1,104,934	-	1,104,934
Capital Projects	19,334,716	-	19,334,716
Town Franchise Fees	171,707	-	171,707
Home Grant	48,194	-	48,194
Total Governmental Activities	<u>\$ 63,846,239</u>	<u>\$ 775,666</u>	<u>\$ 64,621,905</u>

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

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

Note 2. Cash, Cash Equivalents, and Investments

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2012, the \$ 63,844,650 carrying balance and \$ 64,252,316 bank balance were held in various banks of which \$ 571,467 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of \$ 1,589 is held in petty cash funds of the Town.

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

Investments

At June 30, 2012, the Town had investments and maturities as shown below:

	Fair Value	1 Year
Federal National Mortgage Assoc.	775,666	775,666
Total	\$ 775,666	\$ 775,666

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

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

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

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

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, 2012, the Town had debt securities and quality ratings as shown below:

	<u>Fair Value</u>	<u>Quality Rating</u> Aaa (Moody's)
Federal National Mortgage Assoc.	<u>775,666</u>	<u>775,666</u>
	<u>\$ 775,666</u>	<u>\$ 775,666</u>

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

Note 3. Receivables

At June 30, 2012, the Town's receivable balances were as follows:

	Government-wide Financial Statements				
	Fund Financial Statements				
	General Fund	Beach Preservation Fee	Hospitality Fee	Non-major Governmental	Total
Receivables:					
EMS Fees	\$ 2,235,302	\$ -	\$ -	\$ -	\$ 2,235,302
Local accommodations taxes	859,633	-	-	-	859,633
Other receivables	271,348	-	-	33,603	304,951
Beach preservation fees	-	1,719,265	-	-	1,719,265
Hospitality taxes	-	-	1,328,889	-	1,328,889
Gross receivables	3,366,283	1,719,265	1,328,889	33,603	6,448,040
Less: allowance for uncollectibles	1,538,376	-	-	-	1,538,376
Net Receivables	<u>\$ 1,827,907</u>	<u>\$ 1,719,265</u>	<u>\$ 1,328,889</u>	<u>\$ 33,603</u>	<u>\$ 4,909,664</u>
Receivables from Employees:					
Cobra Insurance	\$ (1,656)	\$ -	\$ -	\$ -	\$ (1,656)
Computer Purchases*	35,395	-	-	-	35,395
Total Receivables from Employees	<u>\$ 33,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,739</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, 2012 for which payment was received/made after June 30, 2012.

Governmental activities interfund receivables and payable balances at June 30, 2012 are as follows:

	Due From									
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Hospitality Fees	Beach Preservation Fees	Capital Projects Fund	Debt Service	Proprietary Fund	Total
Due To:										
General	\$ -	\$ -	\$ 883,325	\$ -	\$ 77,603	\$ 392,741	\$ 7,769,915	\$ -	\$ -	\$ 9,123,584
Capital Project Fund	-	2,622,076	-	821	1,340,732	605,132	-	2,081,260	2,492,480	9,142,501
Real Estate Transfer Fees	577,526	-	-	-	-	-	-	-	-	577,526
Tax Increment Financing	90,650	-	-	-	-	-	-	-	-	90,650
Proprietary Fund	4,183,664	-	-	-	-	671	188,774	-	-	4,373,109
Debt Service Fund	272,125	-	-	340,458	-	-	-	-	-	612,583
Total	<u>\$ 5,123,965</u>	<u>\$ 2,622,076</u>	<u>\$ 883,325</u>	<u>\$ 341,279</u>	<u>\$ 1,418,335</u>	<u>\$ 997,873</u>	<u>\$ 7,770,586</u>	<u>\$ 2,270,034</u>	<u>\$ 2,492,480</u>	<u>\$ 23,919,953</u>

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

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

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

Transfers in/out for the year ended June 30, 2012 are summarized below:

<u>Recipient Fund</u>	<u>Transferring Fund</u>	<u>Amount</u>
General Fund	Tax Increment Financing	\$ 181,480
General Fund	Accommodations Tax	1,085,776
General Fund	Hospitality Fee	2,975,271
General Fund	Beach Preservation Fee	969,390
General Fund	Capital Projects Fund	37,500
General Fund	Non-Major Governmental Fund	83,602
General Fund	Proprietary Fund	235,330
Capital Projects Fund	Real Estate Transfer Fee	821
Capital Projects Fund	Beach Preservation Fee	608,882
Capital Projects Fund	Hospitality Fee	888,292
Capital Projects Fund	Tax Increment Financing	3,436,996
Debt Service Fund	Capital Projects Fund	1,100,000
Debt Service Fund	Tax Increment Financing	4,040,446
Debt Service Fund	Real Estate Transfer Fee	1,863,828
Debt Service Fund	Hospitality Fee	2,115,452
Debt Service Fund	Beach Preservation Fee	2,853,015
		<u>22,476,081</u>

Note 5. Due To or From Other Governments

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

<u>General Fund</u>		
Property Taxes - Beaufort County	\$	378,911
Beaufort County - Brickman		6,621
E 911 - Beaufort County		27,021
Dispatch/ EMS 911 - Beaufort County		12,500
State of South Carolina - Aid to Sub-Division		173,112
State of South Carolina - Traffic Signal Maintenance		46,985
State of South Carolina - Merchant Inventory		2,898
	<u>\$</u>	<u>648,048</u>

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

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

<u>Capital Projects Fund</u>	
State Sunday Liquor Fees	\$ 73,750
State of SC CDBG Grant	6,497
Beaufort County - Capital Sales Tax	331,638
	411,885
<u>Accomodations Taxes</u>	
State of South Carolina	1,267,859
	1,267,859
<u>Real Estate Transfer Fees</u>	
Beaufort County	166,054
	166,054
<u>Tax Increment Financing District</u>	
Beaufort County	205,479
	205,479
Total Due from Other Governments	\$ 2,699,325

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

<u>General Fund</u>	
Municipal Court State Fees - SC State Treasurer	\$ 30,179
State of South Carolina - Sales & Use Tax	4,290
	34,469
Total Due to Other Governments	\$ 34,469

Note 6. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. As of June 30, 2012, fund balances for governmental funds are made up of the following:

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

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

Note 6. Fund Balances (continued)

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

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

Fund balances for all the major and non-major funds as of June 30, 2012, were distributed as follows:

Classification/Fund	Purpose	Amount
Nonspendable		
General	Long-term employee receivables	\$ 15,308
Restricted		
General	Deposits in escrow	98,182
Tax Increment Financing District	Economic development	4,860,855
Accommodations Tax	Tourism promotion	1,692,320
Real Estate Transfer Fee	Environmental conservation	1,141,664
Beach Preservation Fee	Beach noutishment and restoration	3,257,597
Hospitality Fee	Public health and safety	1,015,488
Debt Service	Debt service payments	6,587,993
Capital Projects	Construction of major capital facilities	20,470,775
Palmetto Electric	Underground electrical service	182,997
Committed		
General	Disaster reserve	11,865,342
Beach Preservation Fee	Beach renourishment	12,000,000
Assigned		
General	FY 13 Budget	817,455
Capital Projects	FY 13 Budget	3,293
Unassigned		
HOME grant	HOME grant program	(8,581)
General		3,017,270
Total Fund Balances		\$ 67,017,958

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

Note 6. Fund Balances (continued)

Committed For Disaster Recovery

- **Committed for Operating Expenditures** – The Town will establish and maintain an **operating balance based on a range with a minimum of 25% up to a maximum of 30%** of the Town’s adopted fiscal year operating budget. The operating balance may be utilized for emergency purposes in post-disaster occurrences; to offset an early fiscal year tax revenue income stream deficiency; and to avoid emergency Town borrowing or use of tax anticipation notes. The Director of Finance is authorized to transfer the amount of undesignated fund balance above the 30% maximum into the debt service fund to maintain an account for the reduction of Town debt. This account shall be called debt defeasance. An annual report shall be given each year in conjunction with the budget.
 - **Committed for Advertising Expenditures** – The Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster advertising account. These funds are committed for disaster management communications oriented programs. The fund will be used to provide post disaster advertising, a communications link to emergency agencies, and media programs to provide public notice. Funds may be distributed upon authorization by the Town Manager. The total amount of funds for this purpose will not exceed \$1 million. Annual interest earned on funds will also be deposited into the account.
 - **Committed for General Expenditures** – Once the Disaster Advertising account reaches \$1 million, the Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into a disaster general account. These funds may be used for pre-disaster planning and post disaster recovery efforts (non-communication related activities or debt service payments). The total amount of funds will not exceed 15% of the General Fund’s annual operating revenue.
2. **Committed for Beach Renourishment** – The Town will hold in an interest bearing account a portion of the amounts on deposit in the Town of Hilton Head Island Beach Preservation Fee Account. The amount to be held in this account shall not exceed \$12 million.

Note 7. Accounts Payable

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

	Government-Wide Financial Statements					Total
	Fund Financial Statements					
	General Fund	Accommodations Tax Fund	Tax Increment Financing	Capital Project Fund	Proprietary Fund	
Payables:						
Accounts payable	\$ 1,166,910	\$ 380,358	\$ 70	\$ 545,496	\$ 177,629	\$ 2,270,463
Accrued payroll	857,217	-	-	-	-	857,217
Total payables	\$ 2,024,127	\$ 380,358	\$ 70	\$ 545,496	\$ 177,629	\$ 3,127,680

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

Note 8. Unearned/Deferred Revenue and Net Assets

Unearned/Deferred Revenue

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

	Deferred Revenue	Unearned Revenue
Grant revenues received in advance of being earned:		
General Fund	\$ 9,523	\$ 9,523
Capital Projects Fund	98,952	98,952
Nonmajor Governmental Fund - Home Grant	46,775	46,775
	\$ 155,250	\$ 155,250

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

1. General Fund
The deferred revenues in the General Fund are miscellaneous funds associated with the Town's Open Space Fund.
2. Capital Projects Fund
The deferred revenues in the Capital Projects Fund are miscellaneous funds associated with the Town's Tree Fund.
3. Nonmajor Governmental Fund – Home Grant
The deferred revenue in the Home Grant Fund is surplus loan funds being held in reserve.

Net Assets

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

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt:		
Net capital assets	\$ 228,850,777	12,593,588
Less: General obligation bonds	(58,965,000)	-
Special obligation bonds	(41,520,000)	(13,170,000)
TIF Bonds	(11,555,000)	-
Certificates of participation	(2,445,000)	-
Bond premiums	(1,710,331)	-
Add:		
Loss on refunding	2,550,132	1,164,212
Unspent bond proceeds	12,489,942	-
	127,695,520	587,800
Restricted for:		
Deposits in escrow	98,182	-
Economic development	4,860,855	-
Tourism promotion	1,692,320	-
Environmental conservation	1,141,664	-
Beach nourishment and restoration	3,257,597	-
Public health and safety	1,015,488	-
Debt service payments	6,587,993	-
Construction of major capital facilities	20,470,775	-
Underground electrical service	182,997	-
Unrestricted	12,512,218	1,776,610
Total net assets	\$ 179,613,791	\$ 2,364,410

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

Note 9. Accommodations Tax Fund

Accommodations Tax Fund is a Special Revenue Fund to record Accommodations Tax receipts and grants approved by Town Council payable out of appropriations. Thirty percent (30%, FY 2012: \$ 1,096,019) and thirty percent (30%, FY 2011: \$1,052,226) 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 \$ 2,795 were lapsed during the fiscal year ending June 30, 2012, all being lapsed against 2012 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2012:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
<u>Grants (not Town related)</u>				
Art League of Hilton Head Island	\$ 45,000	\$ 37,861	\$ -	\$ -
Art League of Hilton Head Island	50,000	-	-	50,000
Arts Center of Coastal Carolina	346,678	345,443	-	1,235
Arts Center of Coastal Carolina Supplemental Capital	75,000	75,000	-	-
Coastal Discovery Museum	165,000	90,292	-	-
Coastal Discovery Museum	168,000	68,321	-	99,679
Community Foundation of the Lowcountry - Mitchelville Project	50,000	-	-	35,519
Harbour Town Merchants Association - 4th of July Fireworks	8,000	-	-	-
Harbour Town Merchants Association - 4th of July Fireworks	8,000	-	-	-
Heritage Library Foundation	15,000	-	-	-
Heritage Library Foundation	15,000	3,700	-	11,300
Hilton Head Audubon Society	3,200	-	-	-
Hilton Head Audubon Society	5,000	-	-	5,000
Hilton Head Choral Society	17,000	17,000	-	-
Hilton Head Choral Society	22,000	-	-	22,000
Hilton Head Dance Theatre	9,000	9,000	-	-
Hilton Head Dance Theatre	12,000	-	-	12,000
Hilton Head Hospitality Association	36,853	-	-	36,853
Hilton Head Island Concourse D'Elegance	88,000	-	-	-
Hilton Head Island Concourse D'Elegance	103,000	103,000	-	-
Hilton Head Island St. Patrick's Day Parade	8,000	-	-	8,000
Hilton Head Island St. Patrick's Day Parade	8,000	7,144	2,795	856
Hilton Head Island Symphony Orchestra-Special Request	15,000	-	-	-
Hilton Head Island-Bluffton Chamber of Commerce Marketing	240,000	54,330	-	185,670
Hilton Head Island-Bluffton Chamber of Commerce Marketing	208,850	90,314	-	-
Hilton Head Symphony Orchestra	142,169	142,169	-	-
Hilton Head Symphony Orchestra - Special Request	30,000	9,509	-	20,492
Main Street Youth Theater	40,000	40,000	-	-
Main Street Youth Theatre	42,000	-	-	42,000
Native Island Business and Community Affairs Association	75,000	12,639	-	45
Native Island Business and Community Affairs Association	75,266	42,446	-	32,820
Shelter Cove Harbour Company - 4th of July Fireworks	8,000	-	-	8,000
Shelter Cove Harbour Company - 4th of July Fireworks	8,000	-	-	8,000
Skull Creek July 4th Celebration	8,000	8,000	-	-
Skull Creek July 4th Celebration	6,650	-	-	6,650
South Carolina Repertory Company	15,000	-	-	-
South Carolina Repertory Company	15,000	15,000	-	-
The Sandbox: An Interactive Children's Museum	50,000	9,841	-	40,159
The Sandbox: An Interactive Children's Museum	42,500	29,585	-	-
Total Grants (not Town related)	\$ 2,279,166	\$ 1,210,594	\$ 2,795	\$ 626,278

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

Note 9. Accommodations Tax Fund (continued)

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

Cultural Council

Town Council approved grants for the Arts Center of Coastal Carolina for the visual and performing arts. A total of \$ 421,678 was approved for operations during 2011/2012.

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

For the year ended June 30,	Accommodations Tax Grants			
	Approved	Paid	Lapsed	Unpaid
2002	2,020,100	(2,000,343)	(19,757)	-
2003	2,165,544	(2,165,050)	(494)	-
2004	2,080,000	(1,993,143)	(30,684)	56,173
2005	2,087,265	(1,874,900)	(2,500)	209,865
2006	2,389,750	(1,804,388)	(30,000)	555,362
2007	2,724,393	(2,290,222)	(5,000)	429,171
2008	2,101,886	(1,718,815)	(11,079)	371,992
2009	2,014,074	(1,697,468)	(6,936)	309,670
2010	1,710,032	(1,355,384)	(12,426)	342,222
2011	1,760,009	(1,295,954)	(5)	464,050

Town council has approved amounts for 2012/2013 grants as follows:

Arts Center of Coastal Carolina (General Operating Support)	\$ 346,678
Hilton Head Symphony Orchestra	142,169
Native Island Business & Comm. Affairs Association	75,266
Town Operations – Tourism Support	<u>878,106</u>
	<u>\$ 1,442,219</u>

Note 10. Long-Term Obligations

The Town issues three types of bonds: general obligation, tax increment financing (TIF), and revenue. The Town has also issued certificates of participation (COPS) as an additional funding source. The bonds/COPS are used for the acquisition and construction of major capital facilities, as well as the purchase of land. The Town presently has \$114.5 million in outstanding bonds associated with governmental type activities and \$13.2 million in outstanding bonds associated with business-type activities.

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

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

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

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

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

Note 10. Long-Term Obligations
 The aggregate amounts of maturities of long-term bonds due are as follows:

For the Year Ended June 30	Governmental Activities			Business-type Activities		
	Interest	Principal	Total	Interest	Principal	Total
2013	4,265,226	11,645,000	15,910,226	366,126	780,000	1,146,126
2014	3,836,274	12,290,000	16,126,274	344,442	805,000	1,149,442
2015	3,373,756	12,730,000	16,103,756	322,063	825,000	1,147,063
2016	2,960,026	7,145,000	10,105,026	299,128	850,000	1,149,128
2017	2,696,060	7,400,000	10,096,060	275,498	875,000	1,150,498
2018-2022	9,707,006	31,295,000	41,002,006	999,132	4,745,000	5,744,132
2023-2027	4,928,686	18,245,000	23,173,686	302,325	4,290,000	4,592,325
2028-2032	2,189,526	8,505,000	10,694,526	-	-	-
2033-2037	565,416	5,230,000	5,795,416	-	-	-
Total	\$ 34,521,976	\$ 114,485,000	\$ 149,006,976	\$ 2,908,714	\$ 13,170,000	\$ 16,078,714

Legal Debt Limit

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

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

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

Assessed Value as of December 31, 2011	\$ 927,151,628
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval	74,172,130
Council Imposed 80% Cap	59,337,704
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds 2009A (Refunding of Series 1999A)	5,005,000
Total Amount Applicable to Debt Limit	5,005,000
Legal Debt Margin without a Referendum	\$ 54,332,704

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

Note 10. Long-Term Obligations (continued)

GOVERNMENTAL ACTIVITIES

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	5.000	91,105	1,065,000	1,156,105
2014	3.350	37,855	1,130,000	1,167,855
		\$ 128,960	\$ 2,195,000	\$ 2,323,960

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, 2012 \$ 1,003,579 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. Ad Valorem tax revenues of the Debt Service Fund are used to repay these certificates of participation.

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

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	3.970	9,925	120,000	129,925
2014	3.970	5,161	130,000	135,161
		\$ 15,086	\$ 250,000	\$ 265,086

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

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

Note 10. Long-Term Obligations (continued)

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	5.250	24,960	480,000	504,960
		\$ 24,960	\$ 480,000	\$ 504,960

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
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
2018-2022	various	1,362,363	8,980,000	10,342,363
2023-2025	various	156,257	2,355,000	2,511,257
		\$ 5,068,070	\$ 19,935,000	\$ 25,003,070

Ad Valorem tax revenues of the Debt Service Fund are used to repay the first \$825,000 annually. The remaining annual debt service requirement is funded by transfers of real estate transfer fees to the Debt Service Fund.

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

Note 10. Long-Term Obligations (continued)

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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
2018-2022	various	990,772	4,455,000	5,445,772
2023-2024	various	98,997	2,075,000	2,173,997
		\$ 2,962,567	\$ 10,145,000	\$ 13,107,567

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

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

On September 9, 2009, the Town issued \$ 5,005,000 in general obligation bonds with an average interest rate of 2.72% to advance refund \$ 4,900,000 general obligation bonds dated November 16, 1999 with an average interest rate of 5.56%. The net proceeds of \$ 5,248,484 including a premium of \$ 34,061 (after payment of \$ 139,061 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds by \$ 902,336 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$ 845,592. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	2.100	145,734	135,000	280,734
2014	2.200	140,466	350,000	490,466
2015	2.400	132,296	360,000	492,296
2016	2.500	123,476	360,000	483,476
2017	2.750	113,820	375,000	488,820
2018-2022	various	400,389	2,040,000	2,440,389
2023-2025	various	73,659	1,385,000	1,458,659
		\$ 1,129,840	\$ 5,005,000	\$ 6,134,840

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

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

Note 10. Long-Term Obligations (continued)

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

On February 3, 2010, the Town issued \$12,000,000 in general obligation bonds to finance capital projects. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	2.400	541,810	440,000	981,810
2014	3.050	531,250	445,000	976,250
2015	3.250	517,678	450,000	967,678
2016	3.850	503,053	460,000	963,053
2017	4.000	485,343	470,000	955,343
2018-2022	various	2,109,282	2,580,000	4,689,282
2023-2027	various	1,458,395	2,570,000	4,028,395
2028-2032	various	846,867	2,285,000	3,131,867
2033-2035	various	184,472	1,610,000	1,794,472
		\$ 7,178,150	\$ 11,310,000	\$ 18,488,150

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

\$12,385,000 General Obligation Bonds Dated August 3, 2011

On August 3, 2011, the Town issued \$12,385,000 in general obligation bonds with an average interest rate of 4.76% to advance refund \$11,210,000 general obligation bonds dated May 12, 2004, with an average interest rate of 3.28%. The net proceeds of \$12,281,450 including a premium of \$194,479 (after payment of \$298,029 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the life of the bonds by \$740,894 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$579,041. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	2.000	368,844	145,000	513,844
2014	2.000	365,944	625,000	990,944
2015	2.000	353,444	630,000	983,444
2016	2.000	340,844	640,000	980,844
2017	3.000	328,044	645,000	973,044
2018-2022	various	1,352,019	3,480,000	4,832,019
2023-2027	various	766,681	4,090,000	4,856,681
2028-2029	various	102,750	1,835,000	1,937,750
		\$ 3,978,570	\$ 12,090,000	\$ 16,068,570

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

Note 10. Long-Term Obligations (continued)

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

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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>\$ 540,046</u>	<u>\$ 7,795,000</u>	<u>\$ 8,335,046</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 \$1,900,180. The Town has allowed the investment income to remain in the reserve. At June 30, 2012, \$1,900,419 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Beach preservation fees are transferred annually to the Debt Service Fund in an amount sufficient to repay the annual debt service.

\$8,250,000 Special Obligation Bonds (Hospitality Fees) Dated October 26, 2011

On October 26, 2011, the Town issued \$8,250,000 in special obligation bonds (hospitality fee) with an average interest rate of 3.32% to advance refund \$8,625,000 in revenue bonds (hospitality fee) dated June 1, 2004 with an average interest rate of 4.86%. The net proceeds of \$8,129,802 including a premium of \$33,584 (after payment of \$150,484 in issuance costs) and funds on hand were used to purchase United States government securities. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds by \$2,091,227 and to obtain an economic gain (difference between present values of old and new debt service payments) of approximately \$291,878. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	2.000	234,394	395,000	629,394
2014	2.000	226,494	405,000	631,494
2015	2.000	218,394	410,000	628,394
2016	various	210,194	420,000	630,194
2017	2.250	202,794	425,000	627,794
2018-2022	various	824,531	2,330,000	3,154,531
2023-2027	various	414,778	2,725,000	3,139,778
2028	3.800	22,990	605,000	627,990
		<u>\$ 2,354,569</u>	<u>\$ 7,715,000</u>	<u>\$ 10,069,569</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. The Town has allowed the investment income to remain in the reserve. At June 30, 2012, \$601,623 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

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

\$15,250,000 Special Obligation Bonds (Hospitality Fees) Dated October 26, 2011

On October 26, 2011, the Town issued \$15,250,000 in special obligation bonds (hospitality fee) to finance capital projects. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	2.000	592,919	410,000	1,002,919
2014	2.000	584,719	415,000	999,719
2015	2.000	576,419	425,000	1,001,419
2016	2.000	567,919	430,000	997,919
2017	3.000	559,319	440,000	999,319
2018-2022	various	2,558,069	2,445,000	5,003,069
2023-2027	various	1,959,919	3,045,000	5,004,919
2028-2032	various	1,216,919	3,780,000	4,996,919
2033-2036	various	380,944	3,620,000	4,000,944
		\$ 8,997,146	\$ 15,010,000	\$ 24,007,146

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. The Town has allowed the investment income to remain in the reserve. At June 30, 2012, \$1,070,015 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

\$11,000,000 Special Obligation Bonds (Beach Preservation Fees) Dated November 18, 2011

On November 18, 2011, the Town issued \$11,000,000 in special obligation bonds (beach preservation fee) to finance beach renourishment projects. A schedule of the amount due for this issue follows:

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	3.000	322,638	-	322,638
2014	3.000	322,638	-	322,638
2015	4.000	296,338	1,315,000	1,611,338
2016	4.000	223,938	2,305,000	2,528,938
2017	3.000	141,913	2,395,000	2,536,913
2018-2019	various	109,581	4,985,000	5,094,581
		\$ 1,417,046	\$ 11,000,000	\$ 12,417,046

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificates for any fiscal year or; (c) 125% of the average annual debt on the certificates. The Town has allowed the investment income to remain in the reserve. At June 30, 2012, \$1,100,000 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Beach Preservation fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

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

Note 10. Long-Term Obligations (continued)

\$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
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>\$ 198,904</u>	<u>\$ 2,795,000</u>	<u>\$ 2,993,904</u>

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

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

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2013	2.9750	260,610	2,805,000	3,065,610
2014	2.9750	177,161	2,920,000	3,097,161
2015	2.9750	90,291	3,035,000	3,125,291
		<u>\$ 528,062</u>	<u>\$ 8,760,000</u>	<u>\$ 9,288,062</u>

The Town has defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of 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, 2012, \$32,620,000 of bonds are considered defeased debt.

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

Note 10. Long-Term Obligations (continued)

BUSINESS-TYPE ACTIVITIES

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

On December 1, 2010, the Town issued \$ 13,810,000 in revenue bonds with an average interest rate of 2.78% to advance refund \$ 13,740,000 revenue bonds dated December 1, 2002 with an average interest rate of 4.85%. The net proceeds of \$ 14,894,433 (after payment of \$ 202,091 in issuance costs) and funds on hand were used to purchase United States government securities which were placed in trust to remove old debt from books. The difference between the reacquisition price and the carrying value of the old debt resulted in a loss on refunding of \$1,343,322. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds by \$ 2,837,355 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$ 943,642. A schedule of the amount due for this issue follows:

<u>For the Year Ended June 30</u>	<u>Interest Rate by Year (%)</u>	<u>Business-Type Activities</u>		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	2.780	366,126	780,000	1,146,126
2014	2.780	344,442	805,000	1,149,442
2015	2.780	322,063	825,000	1,147,063
2016	2.780	299,128	850,000	1,149,128
2017	2.780	275,498	875,000	1,150,498
2018-2022	2.780	999,132	4,745,000	5,744,132
2023-2026	2.780	302,325	4,290,000	4,592,325
		<u>\$ 2,908,714</u>	<u>\$ 13,170,000</u>	<u>\$ 16,078,714</u>

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

Note 10. Long-Term Obligations (continued)

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 62,010,000	\$ 12,385,000	\$ 15,430,000	\$ 58,965,000	\$ 3,460,000
Certificates of participation	3,600,000	-	1,155,000	2,445,000	1,185,000
Tax increment financing	15,105,000	-	3,550,000	11,555,000	3,695,000
Special Obligation Bonds:					
Beach preservation fees	10,200,000	11,000,000	2,405,000	18,795,000	2,500,000
Hospitality tax	8,625,000	23,500,000	9,400,000	22,725,000	805,000
Premium on bonds	929,177	970,485	189,331	1,710,331	187,963
Loss on refunding	(895,033)	(1,840,878)	(185,779)	(2,550,132)	(141,322)
Total bonds and notes payable	<u>99,574,144</u>	<u>46,014,607</u>	<u>31,943,552</u>	<u>113,645,199</u>	<u>11,691,641</u>
Other liabilities:					
Compensated absences	<u>3,613,610</u>	<u>2,150,108</u>	<u>1,975,059</u>	<u>3,788,659</u>	<u>3,409,793</u>
Total other liabilities	<u>3,613,610</u>	<u>2,150,108</u>	<u>1,975,059</u>	<u>3,788,659</u>	<u>3,409,793</u>
Governmental activities long-term liabilities	<u>\$ 103,187,754</u>	<u>\$ 48,164,715</u>	<u>\$ 33,918,611</u>	<u>\$ 117,433,858</u>	<u>\$ 15,101,434</u>
Business-type Activities:					
Bonds and notes payable:					
Stormwater fees	13,810,000	-	640,000	13,170,000	780,000
Loss on refunding	(1,253,767)	-	(89,555)	(1,164,212)	(89,555)
Total bonds and notes payable	<u>12,556,233</u>	<u>-</u>	<u>550,445</u>	<u>12,005,788</u>	<u>690,445</u>
Business-type activities long-term liabilities	<u>\$ 12,556,233</u>	<u>\$ -</u>	<u>\$ 550,445</u>	<u>\$ 12,005,788</u>	<u>\$ 690,445</u>

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

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 150,060,347	\$ 8,906,153	\$ (15,004)	\$ 158,951,496
Development Rights	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	3,548,960
Construction in progress	12,295,551	4,769,431	(16,183,942)	881,040
Total capital assets not being depreciated	<u>176,639,249</u>	<u>13,675,584</u>	<u>(16,198,946)</u>	<u>174,115,887</u>
Capital assets being depreciated:				
Buildings	23,668,796	3,193,213	(1,186,900)	25,675,109
Furniture, fixtures and equipment	4,019,094	1,300,946	(46,145)	5,273,895
Vehicles	6,623,796	380,451	(172,188)	6,832,059
Imp. other than buildings - park development	10,795,604	1,006,115	-	11,801,719
Infrastructure	29,834,976	1,397,059	-	31,232,035
Total capital assets being depreciated	<u>74,942,266</u>	<u>7,277,784</u>	<u>(1,405,233)</u>	<u>80,814,817</u>
Less accumulated depreciation for:				
Buildings	7,915,440	902,511	(823,200)	7,994,751
Furniture, fixtures and equipment	3,297,415	421,019	(46,145)	3,672,289
Vehicles	1,956,994	505,123	(133,726)	2,328,391
Imp. other than buildings - park development	1,672,089	456,442	-	2,128,531
Infrastructure	8,758,095	1,197,870	-	9,955,965
Total accumulated depreciation	<u>23,600,033</u>	<u>3,482,965</u>	<u>(1,003,071)</u>	<u>26,079,927</u>
Total capital assets being depreciated, net	<u>51,342,233</u>	<u>3,794,819</u>	<u>(402,162)</u>	<u>54,734,890</u>
Government activity capital assets, net	<u>\$ 227,981,482</u>	<u>\$ 17,470,403</u>	<u>\$ (16,601,108)</u>	<u>\$ 228,850,777</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 2,934,692	\$ 1,218,168	\$ (3,959,950)	\$ 192,910
Total capital assets not being depreciated	<u>2,934,692</u>	<u>1,218,168</u>	<u>(3,959,950)</u>	<u>192,910</u>
Capital assets being depreciated:				
Infrastructure	15,158,863	1,420,433	-	16,579,296
Total capital assets being depreciated	<u>15,158,863</u>	<u>1,420,433</u>	<u>-</u>	<u>16,579,296</u>
Less accumulated depreciation for:				
Infrastructure	3,567,819	610,799	-	4,178,618
Total accumulated depreciation	<u>3,567,819</u>	<u>610,799</u>	<u>-</u>	<u>4,178,618</u>
Total capital assets being depreciated, net	<u>11,591,044</u>	<u>809,634</u>	<u>-</u>	<u>12,400,678</u>
Business-type activity capital assets, net	<u>\$ 14,525,736</u>	<u>\$ 2,027,802</u>	<u>\$ (3,959,950)</u>	<u>\$ 12,593,588</u>

Capital improvements by the Town for infrastructure owned and maintained by Beaufort County or the State of South Carolina are not capitalized but are expensed as incurred.

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

Note 11. Capital Assets (continued)

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

Governmental activities:	
General Government	\$ 283,342
Management Services	192,404
Community Development	-
Public Safety	1,309,610
Public Projects and Facilities	<u>1,697,605</u>
Total depreciation expense - governmental activities	<u>\$ 3,482,961</u>
 Business-type activities:	
Stormwater	<u>\$ 610,799</u>
Total depreciation expense - business-type activities	<u>\$ 610,799</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, 2012, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities	\$ 1,426,274
Park Development	849,817
Land and Related Acquisitions and Improvements	8,909,874
Beach Maintenance	11,357,775
Facilities Improvements	1,853,680
Roadway Improvements	1,297,646
Pathways Improvements	510,075
Total	<u>\$ 26,205,141</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2012, the Town had contractual commitments of approximately \$18,855,532 in progress. Through June 30, 2012, approximately \$15,997,481 in costs had been incurred on these commitments. At June 30, 2012, the Town had outstanding contractual commitments totaling approximately \$2,218,479 for capital projects in progress and \$639,572 of contractual obligations for projects not yet started.

Operating Leases

For the Town's fiscal year ended June 30, 2012, there were no minimum rental payments under noncancelable operating leases and no contingent rental payments. The Town's contingent rentals are for the lease of a building with expense being determined by repair costs incurred during the lease term.

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

Note 13. Contracted Commitments and Operating Leases (continued)

Operating Leases (continued)

At June 30, 2012, future minimum payment under noncancelable operating leases with remaining terms in excess of one year were as follows:

For the Year Ended June 30,	Total Payments
2013	\$ 51,905
2014	10,311
2015	4,857
	\$ 67,073

Note 14. Retirement Plans

ICMA Retirement Corporation Plan

The Town established a defined contribution 401(a) money purchase plan on February 15, 1984, effective for the fiscal year beginning July 1, 1984, for all full-time employees. That Plan was effective through December 31, 1996, at which time the funds were rolled over to a 401(k) plan effective January 1, 1997. The plan is administered by and the funds are held by the International City/County Management Association – Retirement Corporation (ICMA-RC), a retirement plan administrator. All full-time and part-time employees are covered by the plan except those covered by the Police Officers' Retirement System (PORS) plan and are fully vested after five years of service. The plan calls for employer contributions to include a 5% automatic contribution, 100% match of the employee's first 3% contribution and 50% match of the next 3% contributed. All plan amendments must be approved by the Town Manager or his designee.

For the year ended June 30, 2012, 2011 and 2010, employer contributions were based on a total payroll of \$7,932,369, \$7,817,586 and \$8,016,020, respectively. The amount contributed by the employer for the year ending June 30, 2012 and 2011 was \$670,941 or 8.5% of covered payroll. During the years ended June 30, 2011 and 2010, \$664,106 and \$687,061 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$559,196 or 7.0% of covered payroll for year ending June 30, 2012. Employees who participate in the PORS plan made contributions of \$84,723 to the 401(k). No match was made for these contributions.

PORS Plan

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

Both employers and employees are required to contribute to the plans under authority of Title 9 of the South Carolina Code of Law. Mandatory employee contributions of 6.5% of their total earnings are made through payroll deductions. Employees hired before July 1, 1995 only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2012, \$7,570,521 of wages was subject to retirement plan contributions. The Town pays the employer contribution at the rate of 11.363% of member salaries except for employees hired before July 1, 1995 for whom the employer contribution rate is 14.63%. During the year ended June 30, 2012, a total of \$991,997 was contributed into the System for the Town's share and \$358,647 for the employees' share, which represented 13.10% and 4.7% of covered payroll, respectively. During the years ended

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

Note 14. Retirement Plans (continued)

June 30, 2011 and 2010, \$1,010,513 and \$948,937 were contributed to the system for the Town's share, representing 13.03% and 12.65% 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 and cost of living adjustments on an ad-hoc basis, as established by State statute.

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

Retirement Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2012, employer contributions were based on a total payroll of \$15,754,837 of which \$15,502,890 or 98.40% of the total payroll was covered under the plan. Employer contributions were \$1,662,938 or 10.73% of covered payroll. Employee contributions were \$1,002,566 or 6.47% of covered payroll.

Note 15. Deferred Compensation Plan

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

The plan is administered by and the funds are held by ICMA-RC, a retirement plan administrator.

Investments are managed by the plan's trustee under a range of investment options. The choice of the investment option(s) is made by the participants.

Note 16. Health Plans

In January 2001, the Town instituted medical spending accounts whereby the Town contributes a set amount each year per employee. The employees submit reimbursement requests for medical expenses to Human Resources. Amounts not used during the calendar year are carried over to the next year, subject to a \$5,000 cap. The Town's liability under this plan totaled \$167,862 at June 30, 2012, and is included as a liability in the General Fund in the accrued payroll and employee payables. During the period ending June 30, 2012, the Town contributed \$113,834 to this plan.

In January 2005, the Town instituted a preventive healthcare plan whereby employees are eligible for reimbursement of expenses associated with preventive care examinations and/or tests up to an established limit each year. The reimbursement is available for use by the employee or a dependent of the employee. There is only one benefit per family per year. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2012, the limit was \$350, and the Town's liability under this plan totaled \$80,488. During the period ending June 30, 2012, the Town contributed \$13,158 to this plan.

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

Note 16. Health Plans (continued)

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2012 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$78,631. During the period ending June 30, 2012, the Town contributed \$19,876 to this plan.

Note 17. Other Post-Employment Benefits

In January 2002, the Town instituted a plan for reimbursement of future 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. Upon retirement, the value of an employee's remaining sick leave is also contributed to this account. Employees who meet their retirement plan eligibility criteria 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. Fourteen (14) employees were eligible for the benefits for the period ending June 30, 2012.

The Town contributed \$160,119 during the year ended June 30, 2012.

In June of 2004, the Government Accounting Standards Board issued GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." Under this pronouncement, starting in fiscal year 2009, the Town may be required to disclose the cost of this benefit for all its employees.

The Town has determined that the Town only has an implicit subsidy which is immaterial at fiscal year-end. It will take several years before the liability becomes material. The Town will continue to study its options and will wait for further guidance as health reform takes shape at the federal level.

Note 18. Contingencies

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

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

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

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

Note 18. Contingencies (continued)

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

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. No amount for claims has been accrued at June 30, 2012.

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.

Other Supplementary Information

General Fund

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

Debt Service Fund

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

Capital Projects Fund

The Capital Projects Funds account for all resources used for the acquisition or construction of general fixed assets and major capital improvements other than those financed by proprietary funds and trust funds.

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 11,701,330	\$ 11,701,330	\$ 11,585,070	\$ (116,260)
Accommodations Tax:				
Local 1%	2,250,000	2,250,000	2,420,698	170,698
Business License and Franchise Fees:				
Business License	7,400,000	7,400,000	7,144,326	(255,674)
Recycling Franchise	100,000	100,000	112,081	12,081
Cable Television Franchise	690,000	690,000	905,811	215,811
Beach Franchise	21,500	21,500	22,161	661
Total	8,211,500	8,211,500	8,184,379	(27,121)
Permits:				
Construction	190,000	190,000	270,363	80,363
Development	4,000	4,000	5,700	1,700
Other	680,000	680,000	676,476	(3,524)
Total	874,000	874,000	952,539	78,539
State Shared Funds	651,080	651,080	678,370	27,290
Donations:				
EMS/Fire Department Donations	1,000	1,000	450	(550)
Grants:				
Beaufort County Hazmat/E911	126,680	126,680	121,456	(5,224)
DHEC	6,000	6,000	3,387	(2,613)
Total	132,680	132,680	124,843	(7,837)
Miscellaneous Revenue:				
Public Safety/EMS	1,358,000	1,358,000	1,395,228	37,228
Beach Services	185,000	185,000	207,182	22,182
Municipal Court Fines and Fees	390,000	390,000	308,708	(81,292)
Victims Assistance	70,000	70,000	50,142	(19,858)
Miscellaneous Revenue	101,000	101,000	152,644	51,644
Total	2,104,000	2,104,000	2,113,904	9,904
Investment Income	40,000	40,000	1,865	(38,135)
Total Revenues	25,965,590	25,965,590	26,062,118	96,528

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 85,080	\$ 85,000	\$ 79,450	\$ 5,550
Operating	358,250	376,277	227,818	148,459
Total Town Council	<u>443,330</u>	<u>461,277</u>	<u>307,268</u>	<u>154,009</u>
Town Manager:				
Salaries and Benefits	721,310	650,973	550,499	100,474
Operating	25,000	25,000	24,344	656
Total Town Manager	<u>746,310</u>	<u>675,973</u>	<u>574,843</u>	<u>101,130</u>
Total General Government	<u>1,189,640</u>	<u>1,137,250</u>	<u>882,111</u>	<u>255,139</u>
Management Services:				
Finance-Administration:				
Salaries and Benefits	208,150	240,514	240,280	234
Operating	19,200	19,200	7,578	11,622
Total Finance-Administration	<u>227,350</u>	<u>259,714</u>	<u>247,858</u>	<u>11,856</u>
Finance-Accounting:				
Salaries and Benefits	536,400	503,480	453,771	49,709
Operating	125,640	125,640	84,759	40,881
Total Finance-Accounting	<u>662,040</u>	<u>629,120</u>	<u>538,530</u>	<u>90,590</u>
Finance-Revenue and Collections:				
Salaries and Benefits	663,960	623,703	552,403	71,300
Operating	124,220	213,341	17,331	196,010
Total Finance-Revenue and Collections	<u>788,180</u>	<u>837,044</u>	<u>569,734</u>	<u>267,310</u>
Administration-Legal :				
Salaries and Benefits	409,380	409,156	398,375	10,781
Operating	34,400	34,400	26,021	8,379
Total Administration-Legal	<u>443,780</u>	<u>443,556</u>	<u>424,396</u>	<u>19,160</u>
Administration-Municipal Court:				
Salaries and Benefits	305,680	305,635	299,554	6,081
Operating	90,150	90,150	71,493	18,657
Total Administration-Municipal Court	<u>395,830</u>	<u>395,785</u>	<u>371,047</u>	<u>24,738</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services (continued):				
Administration-Administrative Support :				
Salaries and Benefits	195,900	195,821	186,158	9,663
Operating	17,940	24,360	23,518	842
Total Administration-Administrative Support	<u>213,840</u>	<u>220,181</u>	<u>209,676</u>	<u>10,505</u>
Administration-Operations:				
Salaries and Benefits	917,130	916,534	838,724	77,810
Operating	662,610	670,235	616,823	53,412
Total Administration-Operations	<u>1,579,740</u>	<u>1,586,769</u>	<u>1,455,547</u>	<u>131,222</u>
Administration-Human Resources:				
Salaries and Benefits	410,710	410,589	403,055	7,534
Operating	135,060	145,945	83,675	62,270
Total Administration-Human Resources	<u>545,770</u>	<u>556,534</u>	<u>486,730</u>	<u>69,804</u>
Total Management Services	<u>4,856,530</u>	<u>4,928,703</u>	<u>4,303,518</u>	<u>625,185</u>
Community Services:				
Community Development-Administration:				
Salaries and Benefits	538,220	606,157	569,349	36,808
Operating	34,320	34,320	24,105	10,215
Total CD-Administration	<u>572,540</u>	<u>640,477</u>	<u>593,454</u>	<u>47,023</u>
Community Development-CD Services:				
Salaries and Benefits	271,280	271,280	266,405	4,875
Operating	7,100	7,100	1,928	5,172
Total CD-CD Services	<u>278,380</u>	<u>278,380</u>	<u>268,333</u>	<u>10,047</u>
Community Development-Inspection/Compliance:				
Salaries and Benefits	598,720	598,161	597,508	653
Operating	18,430	18,430	17,492	938
Total CD-Inspection/Compliance	<u>617,150</u>	<u>616,591</u>	<u>615,000</u>	<u>1,591</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Community Services (continued):				
Community Development-Develop., Review, and Zoning:				
Salaries and Benefits	647,490	552,740	548,930	3,810
Operating	230,620	279,545	84,139	195,406
Total CD-DR and Z	<u>878,110</u>	<u>832,285</u>	<u>633,069</u>	<u>199,216</u>
Community Development-Comprehensive Planning:				
Salaries and Benefits	343,900	345,515	344,715	800
Operating	8,320	8,320	2,463	5,857
Total CD-Comprehensive	<u>352,220</u>	<u>353,835</u>	<u>347,178</u>	<u>6,657</u>
Public Facilities-Administration:				
Salaries and Benefits	230,880	230,666	229,414	1,252
Operating	4,900	4,900	4,001	899
Total Public Facilities-Administration	<u>235,780</u>	<u>235,566</u>	<u>233,415</u>	<u>2,151</u>
Public Facilities-Engineering:				
Salaries and Benefits	493,900	496,254	495,014	1,240
Operating	191,750	191,750	159,333	32,417
Total Public Facilities-Engineering	<u>685,650</u>	<u>688,004</u>	<u>654,347</u>	<u>33,657</u>
Public Facilities-Facilities Management:				
Salaries and Benefits	887,970	905,745	904,013	1,732
Operating	1,740,340	1,740,340	1,522,979	217,361
Total Public Facilities-Facilities Management	<u>2,628,310</u>	<u>2,646,085</u>	<u>2,426,992</u>	<u>219,093</u>
Total Community Services	<u>6,248,140</u>	<u>6,291,223</u>	<u>5,771,788</u>	<u>519,435</u>
Public Safety:				
Fire and Rescue-Administration:				
Salaries and Benefits	225,160	229,468	228,739	729
Operating	133,340	133,340	92,455	40,885
Total Fire and Rescue-Administration	<u>358,500</u>	<u>362,808</u>	<u>321,194</u>	<u>41,614</u>
Fire and Rescue-Logistics/Maintenance:				
Salaries and Benefits	337,230	325,000	324,508	492
Operating	225,700	238,300	231,965	6,335
Total Fire and Rescue-Logistics/Maintenance	<u>562,930</u>	<u>563,300</u>	<u>556,473</u>	<u>6,827</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Fire and Rescue-Operations:				
Salaries and Benefits	8,845,520	8,960,998	8,957,174	3,824
Operating	<u>111,060</u>	<u>116,333</u>	<u>105,315</u>	<u>11,018</u>
Total Fire and Rescue-Operations	<u>8,956,580</u>	<u>9,077,331</u>	<u>9,062,489</u>	<u>14,842</u>
Fire and Rescue-Communications:				
Salaries and Benefits	888,500	893,279	892,940	339
Operating	<u>207,450</u>	<u>244,278</u>	<u>184,780</u>	<u>59,498</u>
Total Fire and Rescue-Communications	<u>1,095,950</u>	<u>1,137,557</u>	<u>1,077,720</u>	<u>59,837</u>
Fire and Rescue-Training:				
Salaries and Benefits	546,650	562,624	562,066	558
Operating	<u>111,030</u>	<u>113,130</u>	<u>111,722</u>	<u>1,408</u>
Total Fire and Rescue-Training	<u>657,680</u>	<u>675,754</u>	<u>673,788</u>	<u>1,966</u>
Fire and Rescue-Emergency Management:				
Salaries and Benefits	177,590	141,381	141,295	86
Operating	<u>46,550</u>	<u>46,550</u>	<u>19,524</u>	<u>27,026</u>
Total Fire and Rescue-Emergency Management	<u>224,140</u>	<u>187,931</u>	<u>160,819</u>	<u>27,112</u>
Fire and Rescue-Bureau of Fire Prevention:				
Salaries and Benefits	494,810	460,060	459,981	79
Operating	<u>38,060</u>	<u>38,060</u>	<u>31,255</u>	<u>6,805</u>
Total Fire and Rescue-Bureau of Fire Prevention	<u>532,870</u>	<u>498,120</u>	<u>491,236</u>	<u>6,884</u>
Fire and Rescue-Support Services:				
Salaries and Benefits	373,200	384,140	383,212	928
Operating	<u>416,480</u>	<u>416,480</u>	<u>353,958</u>	<u>62,522</u>
Total Fire and Rescue-Support Services	<u>789,680</u>	<u>800,620</u>	<u>737,170</u>	<u>63,450</u>
Fire and Rescue-E911 Communications:				
Salaries and Benefits	232,650	232,421	232,094	327
Operating	<u>20,900</u>	<u>20,900</u>	<u>-</u>	<u>20,900</u>
Total Fire and Rescue-E911 Communications	<u>253,550</u>	<u>253,321</u>	<u>232,094</u>	<u>21,227</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Sheriff/Other Public Safety				
Police Services/Contract	2,240,650	2,248,137	2,239,606	8,531
Stipend	130,000	111,800	111,300	500
Victims' Rights	57,640	57,640	57,640	-
Traffic Patrol	246,620	246,620	246,620	-
Waterway Patrol	115,290	115,290	115,290	-
Beach Services	196,930	196,930	192,058	4,872
Office Rental	145,300	140,322	140,422	(100)
Total Sheriff/Other Public Safety	<u>3,132,430</u>	<u>3,116,739</u>	<u>3,102,936</u>	<u>13,803</u>
Total Public Safety	<u>16,564,310</u>	<u>16,673,481</u>	<u>16,415,919</u>	<u>257,562</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental:				
Townwide:				
Salaries & Benefits - Temporary	18,820	18,666	15,963	2,703
Worker's Compensation	65,000	115,230	96,400	18,830
Insurance	342,000	342,000	357,039	(15,039)
Postage	34,000	34,000	28,220	5,780
General Contingency	50,000	50,000	13,022	36,978
Unemployment	18,000	18,000	8,802	9,198
Townwide Employee Recognition	48,880	48,880	49,542	(662)
Palmetto Pass	19,000	19,000	19,987	(987)
Retiree Medical	900	900	975	(75)
COBRA	120	120	48	72
Travel	500	500	-	500
Professional Dues	82,500	82,500	1,900	80,600
Temporary Agency	10,000	10,000	497	9,503
Professional Services	-	59,091	-	59,091
Telephone/Cell Phones/Utilities	680,340	680,340	666,350	13,990
Equipment Maintenance/Supplies/Other	2,500	2,500	1,225	1,275
Vehicle Fuel	180,000	180,000	186,582	(6,582)
Lease Payments	54,600	54,600	49,627	4,973
Photocopying	11,000	11,000	7,202	3,798
Courier	20,000	20,000	17,687	2,313
Printers, Fax Supplies	22,000	22,000	21,416	584
Disaster Advertising Reserve Fund	551,770	551,770	500,000	51,770
Hospitality Training & Promotion	118,060	118,060	72,860	45,200
Drug Court Grant	48,500	48,500	48,500	-
Career Criminal Program	35,000	35,000	35,000	-
Recreation Center-Operating Grant	616,940	616,940	616,940	-
Community Foundation Grant	37,500	37,500	37,500	-
Coastal Discovery Grant	75,000	75,000	75,000	-
Turtle Watch	29,900	29,900	29,900	-
LTRA Grant	175,000	175,000	175,000	-
Heritage Classic Foundation	-	500,000	-	500,000
LEPC Grant	15,500	15,500	21,717	(6,217)
Total Non-Departmental Townwide	<u>3,363,330</u>	<u>3,972,497</u>	<u>3,154,901</u>	<u>817,596</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Debt Service:				
Principal	267,420	-	-	-
Interest	71,950	-	-	-
Total Debt Service	<u>339,370</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Outlay:				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	33,000	73,400	72,950	450
Computer Software >\$50,000	60,000	81,542	47,891	33,651
Total Administration-Operations	<u>93,000</u>	<u>154,942</u>	<u>120,841</u>	<u>34,101</u>
Total Management Services	<u>93,000</u>	<u>154,942</u>	<u>120,841</u>	<u>34,101</u>
Public Safety:				
Police Patrol/Communications				
Police Equipment	6,000	21,691	21,690	1
Total Police Patrol/Communications	<u>6,000</u>	<u>21,691</u>	<u>21,690</u>	<u>1</u>
Fire and Rescue Operations:				
Specialized Equipment	8,000	8,000	5,864	2,136
Total Fire and Rescue-Operations	<u>8,000</u>	<u>8,000</u>	<u>5,864</u>	<u>2,136</u>
Fire and Rescue Communications				
Radio Equipment	4,150	6,506	2,356	4,150
Communications Center Equipment	11,000	11,000	47	10,953
Specialized Equipment	27,250	27,250	-	27,250
Total Fire and Rescue-Communications	<u>42,400</u>	<u>44,756</u>	<u>2,403</u>	<u>42,353</u>
Fire and Rescue Logistics/Maintenance:				
Specialized Equipment	11,000	23,522	14,166	9,356
Total Fire and Rescue-Logistics/Maintenance	<u>11,000</u>	<u>23,522</u>	<u>14,166</u>	<u>9,356</u>
Fire & Rescue Training:				
Specialized Equipment	10,000	10,000	9,994	6
Total Fire & Rescue Training	<u>10,000</u>	<u>10,000</u>	<u>9,994</u>	<u>6</u>
Total Public Safety	<u>77,400</u>	<u>107,969</u>	<u>54,117</u>	<u>53,852</u>
Total Capital Outlay	<u>170,400</u>	<u>262,911</u>	<u>174,958</u>	<u>87,953</u>
Total Expenditures	<u>32,731,720</u>	<u>33,266,065</u>	<u>30,703,195</u>	<u>2,562,870</u>
Excess (deficiency) of Revenues Over (Under)				
Expenditures	<u>(6,766,130)</u>	<u>(7,300,475)</u>	<u>(4,641,077)</u>	<u>2,659,398</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Other Financing Sources:				
Transfers In	6,106,420	5,812,141	5,568,349	(243,792)
Transfers Out	-	-	-	-
Appropriated Fund Balance	-	712,886	-	(712,886)
Total Other Financing Sources	<u>6,106,420</u>	<u>6,525,027</u>	<u>5,568,349</u>	<u>(956,678)</u>
Net change in fund balance	(659,710)	(775,448)	927,272	<u>\$ 1,702,720</u>
Fund Balance - beginning	<u>15,453,215</u>	<u>14,360,541</u>	<u>14,886,285</u>	
Fund Balance - ending	<u>\$ 14,793,505</u>	<u>\$ 13,585,093</u>	<u>\$ 15,813,557</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 5,544,650	\$ 5,544,650	\$ 5,548,641	\$ 3,991
Federal Reimbursement - BABS	207,870	191,712	191,713	1
Investment Income	6,000	6,000	114,656	108,656
Total Revenues	<u>5,758,520</u>	<u>5,742,362</u>	<u>5,855,010</u>	<u>112,648</u>
<u>Expenditures:</u>				
Administrative	20,490	17,790	20,575	(2,785)
Debt Issue Costs	-	451,812	387,940	63,872
Debt Service:				-
Principal	11,385,000	12,105,000	12,105,000	-
Interest	4,070,360	3,914,952	3,914,974	(22)
Total Expenditures	<u>15,475,850</u>	<u>16,489,554</u>	<u>16,428,489</u>	<u>61,065</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,717,330)</u>	<u>(10,747,192)</u>	<u>(10,573,479)</u>	<u>173,713</u>
<u>Other Financing Sources</u>				
Issuance of Refunding Bonds	-	20,635,000	20,635,000	-
Premium on Bond Issuance	-	228,063	228,064	1
Payments to Escrow Agent	-	(21,675,878)	(21,675,878)	-
Funds from Prior Years	-	1,044,330	-	(1,044,330)
Transfers In	9,996,203	10,794,550	11,972,741	1,178,191
Total Other Financing Sources	<u>9,996,203</u>	<u>11,026,065</u>	<u>11,159,927</u>	<u>133,862</u>
Net Change in Fund Balance	278,873	278,873	586,448	<u>\$ 307,575</u>
Fund Balance - beginning	<u>6,135,600</u>	<u>6,135,600</u>	<u>6,001,545</u>	
Fund Balance - ending	<u>\$ 6,414,473</u>	<u>\$ 6,414,473</u>	<u>\$ 6,587,993</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 692,850	\$ 692,850	\$ 692,418	\$ (432)
Grants	-	814,528	944,854	130,326
Contributions	-	100,000	100,000	-
State Taxes - Sunday Permit Fees	387,500	689,803	332,230	(357,573)
Capital Sales Tax	-	425	-	(425)
Impact Fees	189,000	249,722	188,355	(61,367)
Miscellaneous Revenue	-	-	46,979	46,979
Investment Income	12,000	14,688	3,378	(11,310)
Total Revenues	<u>1,281,350</u>	<u>2,562,016</u>	<u>2,308,214</u>	<u>(253,802)</u>
<u>Expenditures:</u>				
Public Facilities:				
Fire and Rescue Computer System	75,000	123,495	10,993	112,502
Dispatch Center Equip. Upgrade	5,000	7,642	7,642	-
Coligny/Pope Avenue Area Improvements	495,000	943,472	55,397	888,075
Dunnagan's Alley/Arrow Road Improvements	550,000	778,590	85,245	693,345
Sewer Service - Fish Haul Park	31,000	31,000	-	31,000
Sewer Service - Old Schoolhouse	333,000	1,238,976	954,325	284,651
Sewer Service - Ford Shell Ring	-	95,000	-	95,000
Sewer Service - Marshland Road	-	69,000	-	69,000
Sewer Service - Chaplin South	-	1,140	1,140	-
Sewer Service - Barker Field	600,000	600,000	-	600,000
Sewer Service - Spanish Wells SCDOT Parcel	600,000	600,000	-	600,000
58 Shelter Cove Lane Building	-	200,000	39,395	160,605
Emergency Town Hall Infrastructure	-	110,000	104,863	5,137
Public Safety System	50,000	60,258	60,259	(1)
Mobile AVL	20,000	20,000	15,236	4,764
SCBA Compressor Replacement	-	32,174	32,174	-
Mobile Repeater	20,000	-	-	-
Monitoring Equipment	20,000	60,000	59,605	395
Total Public Facilities	<u>2,799,000</u>	<u>4,970,747</u>	<u>1,426,274</u>	<u>3,544,473</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Park Development:				
Chaplin Community Park - Tennis Courts	40,000	76,240	4,010	72,230
Chaplin Linear Park	-	385	385	-
Bristol Skate Park	-	381,659	381,658	1
Veterans Memorial Park	30,000	30,000	25,941	4,059
Yacht Cove Community Park	50,000	50,000	12,750	37,250
Island Recreation - Aquatics Center	-	18,000	3,400	14,600
Island Recreation Improvements	173,000	324,711	222,140	102,571
Island Recreation SHARE Center	-	100,000	-	100,000
Rowing and Sailing Center	150,000	154,270	24,365	129,905
Public Art	15,000	15,000	2,700	12,300
Compass Rose Park	-	4,370	4,370	-
Crossing Park Upgrade	75,000	110,000	89,160	20,840
Jarvis Creek Park Picnic Shelter	33,000	75,000	51,838	23,162
Rock's/Remy's Tract	20,000	-	-	-
Burke's Beach	7,000	7,000	6,900	100
Islanders Beach Park Playground Equipment	15,000	15,000	14,980	20
Park Upgrades	-	197,206	5,217	191,989
Total Park Development	608,000	1,558,841	849,814	709,027
Land Acquisition:				
Land Acquisition	-	8,907,721	8,909,874	(2,153)
Total Land Acquisition	-	8,907,721	8,909,874	(2,153)
Beach Maintenance:				
Beach Management	345,000	769,650	155,182	614,468
Shoreline Management Plan	-	187,773	106,502	81,271
Port Royal Fill Project	-	12,387,990	10,945,141	1,442,849
Dunes Refurbishment	25,000	25,000	25,000	-
Beach Parks/Access Rehabilitation	75,000	193,202	125,953	67,249
Total Beach Maintenance	445,000	13,563,615	11,357,778	2,205,837
Facilities Improvements:				
Fire Station #1 Replacement	-	883,726	883,726	-
Fire Station #2 Fixed Assets	-	48,454	-	48,454
Fire Station #6 Repair/Replacement	3,200,000	336,402	39,543	296,859
Security Cameras	-	5,000	-	5,000
Town Vehicle Replacement	-	54,400	49,434	4,966
Town Hall Renovations	-	213,199	20,449	192,750
Rehab & Renovation of Town Fixed Assets	251,000	302,855	219,900	82,955
Apparatus/Vehicle Replacement	355,000	595,269	346,699	248,570
Demolition of Structures	291,000	298,596	293,929	4,667
Total Facilities Improvements	4,097,000	2,737,901	1,853,680	884,221

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Roadway Improvements:				
Roadway Safety Improvements:				
Festival Center Median Closure	-	100,000	3,380	96,620
Yacht Cove Turning Lane	-	20,000	84	19,916
Jenkins Right Turn Lane	-	-	84	(84)
Dunnagan's Alley Roundabout	-	714,083	714,083	-
Marshland Road Roundabout	1,150,000	102,870	38,109	64,761
Mathews Drive/Beach City Road Roundabout	-	162,293	162,293	-
Mathews Dr/Marshland Rd. Connectivity	500,000	500,605	47,187	453,418
Private Dirt Roads Acquisition	25,000	70,397	-	70,397
Stoney Secondary Road	40,000	10,722	9,886	836
US 278/Leamington/Fresh Market Shoppes Intersection/Crosswalk Lighting	-	230,000	271	229,729
	-	238	285	(47)
Intersection Improvements:				
Hospital Center Blvd/Main Street	-	90,000	-	90,000
US 278/New Orleans Road	-	67,497	2,202	65,295
US 278/Squire Pope Road	-	425	500	(75)
Directional Neighborhood Signage	100,000	100,000	74,621	25,379
Traffic Signal Mast Arms:				
US 278/Coggins Point Road	-	54,873	54,873	-
US 278/Dillon Road	-	74,631	74,631	-
US 278/Mall Boulevard	100,000	100,000	-	100,000
US 278/Palmetto Dunes	150,000	149,597	-	149,597
Power Alley/Palmetto Electric	-	66	66	-
Headquarters Security Gate	-	35,000	30,762	4,238
Pedestrian Crosswalks and Refuges:				
US 278/Shipyard Plantation	-	42,000	4,142	37,858
US 278/Chamber Drive	60,000	60,000	2,654	57,346
US 278/Yacht Cove Drive	60,000	60,000	2,654	57,346
US 278/Regency Drive	60,000	60,000	2,654	57,346
US 278/Wexford Village	-	55,000	1,690	53,310
US 278/Central Avenue	40,000	40,000	2,941	37,059
Emergency Access Gates:				
Palmetto Hall Back Entrance	-	35,827	35,827	-
Spanish Wells/Muddy Creek Road	100,000	-	-	-
Port Royal Side Entrance	-	27,841	27,841	-
Wexford @ Haig Point	-	57,490	3,926	53,564
Gate Controllers	10,000	10,000	-	10,000
Total Roadway Improvements	<u>2,395,000</u>	<u>3,031,455</u>	<u>1,297,646</u>	<u>1,733,809</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Pathway Improvements:				
Pathway Rehabilitation	180,000	180,000	10,073	169,927
Mathews Drive	-	85,023	85,023	-
US 278 @ New Orleans to Shipyard	-	229,000	13,074	215,926
Dunnagan's Alley	-	128,806	6,418	122,388
Palmetto Bay Road	-	67,774	2,102	65,672
Honey Horn Access Improvements	-	98,659	3,660	94,999
Gardner Drive	50,000	50,000	10,951	39,049
Pembroke Drive	55,000	55,000	10,951	44,049
Leg O'Mutton Road	55,000	55,000	11,930	43,070
U.S. 278 Wexford to Fresh Market Shoppes	40,000	40,000	12,780	27,220
U.S. 278 Gardner Rd. to Mathews Drive	300,000	410,054	343,113	66,941
Total Pathway Improvements	<u>680,000</u>	<u>1,399,316</u>	<u>510,075</u>	<u>889,241</u>
Total Capital Outlay/Community Services	<u>11,024,000</u>	<u>36,169,596</u>	<u>26,205,141</u>	<u>9,964,455</u>
Debt Issue Costs:				
Debt Issue Costs	-	525,364	525,364	-
Total Debt Issue Costs	<u>-</u>	<u>525,364</u>	<u>525,364</u>	<u>-</u>
Total Expenditures	<u>11,024,000</u>	<u>36,694,960</u>	<u>26,730,505</u>	<u>9,964,455</u>
Excess of Revenues Over (Under) Expenditures	<u>(9,742,650)</u>	<u>(34,132,944)</u>	<u>(24,422,291)</u>	<u>9,710,653</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Property	-	-	264,930	264,930
Issuance of Bonds	4,400,000	13,893,294	26,250,000	12,356,706
Premium on Bond Issuance	-	340,168	742,421	402,253
Transfers In	5,385,000	11,174,897	4,934,991	(6,239,906)
Transfers Out	(37,500)	(1,137,500)	(1,137,500)	-
Total Other Financing Sources (Uses)	<u>9,747,500</u>	<u>24,270,859</u>	<u>31,054,842</u>	<u>6,783,983</u>
Net change in fund balance	4,850	(9,862,085)	6,632,551	<u>\$ 16,494,636</u>
Fund Balance - beginning	<u>20,543,897</u>	<u>20,543,897</u>	<u>13,841,517</u>	
Fund Balance - ending	<u>\$ 20,548,747</u>	<u>\$ 10,681,812</u>	<u>\$ 20,474,068</u>	

Other Supplementary Information

Nonmajor Governmental Funds

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

1. **Palmetto Electric Franchise Fees** – This fund is used to account for franchise fees paid by Palmetto Electric Cooperative, Inc. These funds will be utilized to offset costs associated with the undergrounding (placement underground) of all existing and future non-transmission lines owned by Palmetto Electric pursuant to the terms and conditions of the Franchise Agreement and related Underground Service Agreement between the Town and Palmetto Electric.
2. **Home Grant** - Homeownership Assistance Program provides a no-interest, ten-year deferred loan to prospective, income-qualified homebuyers to meet down payment and closing cost requirements.

TOWN OF HILTON HEAD ISLAND
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

Schedule 4

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Palmetto Electric</u>	<u>Home Grant</u>	
ASSETS:			
Cash and Cash Equivalents	\$ 171,707	\$ 48,194	\$ 219,901
Due from Palmetto Electric Co-op	33,603	-	33,603
Total assets	<u>\$ 205,310</u>	<u>\$ 48,194</u>	<u>\$ 253,504</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Interfund Payables	\$ 22,313	\$ 10,000	\$ 32,313
Deferred Revenue	-	46,775	46,775
Total liabilities	<u>22,313</u>	<u>56,775</u>	<u>79,088</u>
Fund balances (deficit):			
Restricted	182,997	-	182,997
Unassigned	-	(8,581)	(8,581)
Total fund balances (deficit)	<u>182,997</u>	<u>(8,581)</u>	<u>174,416</u>
Total liabilities and fund balances	<u>\$ 205,310</u>	<u>\$ 48,194</u>	<u>\$ 253,504</u>

TOWN OF HILTON HEAD ISLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

Schedule 5

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	Palmetto Electric	Home Grant	
<u>Revenues:</u>			
Electric Franchise Fees	\$ 2,561,294	\$ -	\$ 2,561,294
Miscellaneous Income	-	500	500
Investment Income	5	-	5
Total revenues	<u>2,561,299</u>	<u>500</u>	<u>2,561,799</u>
<u>Expenditures:</u>			
Current:			
Administrative	2,770,434	9,997	2,780,431
Total expenditures	<u>2,770,434</u>	<u>9,997</u>	<u>2,780,431</u>
Excess expenditures over revenues	(209,135)	(9,497)	(218,632)
<u>Other Financing Uses:</u>			
Transfers Out	<u>(83,602)</u>	-	<u>(83,602)</u>
Total other financing uses	<u>(83,602)</u>	-	<u>(83,602)</u>
Net change in fund balance	(292,737)	(9,497)	(302,234)
Fund balance - beginning	<u>475,734</u>	<u>916</u>	<u>476,650</u>
Fund balance (deficit) - ending	<u>\$ 182,997</u>	<u>\$ (8,581)</u>	<u>\$ 174,416</u>

Other Supplementary Information

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

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

TOWN OF HILTON HEAD ISLAND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 FIREMEN'S FUND
 FOR THE YEAR ENDED JUNE 30, 2012

Schedule 6

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>ASSETS:</u>				
Cash and Temporary Investments	<u>\$ 97,009</u>	<u>\$ 580,138</u>	<u>\$ 552,187</u>	<u>\$ 124,960</u>
 <u>LIABILITIES:</u>				
Due to Firemen's Fund Association	<u>\$ 97,009</u>	<u>\$ 580,138</u>	<u>\$ 552,187</u>	<u>\$ 124,960</u>

**Statistical Section
(Unaudited)**

Statistical Section

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

<u>Contents</u>	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well being have changed over time.</i>	80-84
Revenue Capacity <i>These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.</i>	85-90
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's abilities to issue additional debt in the future.</i>	91-95
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.</i>	96-97
Operating Information <i>These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.</i>	98-101

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 57,478,757	\$ 79,079,569	\$ 83,615,491	\$ 93,060,926	\$ 93,895,834	\$ 98,661,331	\$ 114,310,240	\$ 126,379,257	\$ 137,940,358	\$ 127,695,520
Restricted	6,373,187	6,373,187	8,594,126	23,111,481	23,682,142	25,168,338	23,590,106	20,750,147	29,367,859	39,307,871
Unrestricted	36,809,752	26,079,740	39,877,353	35,349,883	35,803,517	34,433,182	27,448,750	27,806,762	19,070,840	12,610,400
Total governmental activities net assets	<u>\$ 100,661,696</u>	<u>\$ 111,532,496</u>	<u>\$ 132,086,970</u>	<u>\$ 151,522,290</u>	<u>\$ 153,381,493</u>	<u>\$ 158,262,851</u>	<u>\$ 165,349,096</u>	<u>174,936,166</u>	<u>186,379,057</u>	<u>179,613,791</u>
Business-type activities										
Invested in capital assets, net of related debt								(263,488)	1,969,503	587,800
Unrestricted								2,441,371	1,588,215	1,776,610
Total business-type activities net assets								<u>2,177,883</u>	<u>3,557,718</u>	<u>2,364,410</u>
Total								<u>\$ 177,114,049</u>	<u>\$ 189,936,775</u>	<u>\$ 181,978,201</u>

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General Government	\$ 1,376,550	\$ 1,430,134	\$ 2,908,087	\$ 3,059,753	\$ 3,376,831	\$ 3,777,076	\$ 3,823,670	\$ 5,821,050	\$ 5,590,651	\$ 4,353,125
Management Services	2,929,346	3,243,571	3,267,610	3,765,726	3,875,696	4,099,915	4,747,193	4,589,627	4,617,092	4,387,130
Community Services	5,529,373	8,243,753	8,020,829	10,095,045	24,378,607	18,498,051	14,003,774	8,502,048	8,592,108	30,544,682
Public Safety	13,873,760	14,753,859	14,707,812	15,605,366	16,207,323	17,528,471	17,717,708	17,068,317	17,332,968	16,535,835
Non-Departmental	1,754,144	1,714,926	-	-	-	-	-	-	-	-
Culture and Recreation	1,197,868	984,663	1,318,157	1,305,306	2,071,003	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019
Administrative	363,326	823,516	1,296,642	2,149,451	1,813,259	2,884,106	2,204,684	2,695,438	3,280,258	3,611,539
Interest on Long-Term Debt	4,610,909	4,320,669	5,409,997	5,585,734	5,727,606	5,669,171	5,566,777	4,329,058	4,414,431	3,658,811
Other Charges	-	-	-	-	295,486	235,742	-	-	-	-
Total governmental activities expenses	<u>\$ 32,572,393</u>	<u>\$ 36,455,999</u>	<u>\$ 37,918,718</u>	<u>\$ 42,709,280</u>	<u>\$ 58,926,486</u>	<u>\$ 55,629,379</u>	<u>\$ 50,911,720</u>	<u>45,390,500</u>	<u>46,175,688</u>	<u>65,397,735</u>
Business-type activities:										
Stormwater								1,397,226	1,616,827	4,449,857
Total Expenses								<u>\$ 46,787,726</u>	<u>\$ 47,792,515</u>	<u>\$ 69,847,592</u>
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General Government	\$ 535,421	\$ 504,299	\$ 571,933	\$ 590,577	\$ 592,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622
Community Services	6,310,944	6,992,582	8,010,754	8,419,282	7,497,902	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047
Administrative	3,176,112	4,364,478	6,717,848	6,020,689	3,676,835	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793	152,140	130,796	206,897	140,555	305,329
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246	61,843	52,525	17,697	-	1,044,854
Total governmental activities program revenues	<u>\$ 17,289,443</u>	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>	<u>\$ 21,032,700</u>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	<u>19,842,121</u>	<u>20,463,103</u>	<u>21,956,539</u>
Business-type activities:										
Charges for services:										
Stormwater								2,553,971	3,377,779	3,491,879
Total Program Revenues								<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>
Net (Expense)Revenue										
Total governmental activities net expense	<u>\$ (15,282,950)</u>	<u>\$ (16,041,976)</u>	<u>\$ (13,839,340)</u>	<u>\$ (18,144,532)</u>	<u>\$ (37,893,786)</u>	<u>\$ (34,608,091)</u>	<u>\$ (32,527,970)</u>	<u>(25,548,379)</u>	<u>(25,712,585)</u>	<u>(43,441,196)</u>
Total business-type activities net expense								<u>1,156,745</u>	<u>1,760,952</u>	<u>(957,978)</u>
Total Net (Expense) Revenue								<u>\$ (24,391,634)</u>	<u>\$ (23,951,633)</u>	<u>\$ (44,399,174)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	\$ 15,349,010	\$ 16,293,172	\$ 21,602,549	\$ 19,041,631	\$ 19,290,776	\$ 19,859,691	\$ 21,993,646	\$ 23,454,455	\$ 23,605,422	\$ 23,974,619
Other taxes	7,281,600	7,252,510	8,305,770	11,144,997	11,277,083	11,637,286	10,836,674	10,178,254	10,866,276	11,259,227
Intergovernmental (Unrestricted State Shared)	1,144,768	1,107,990	1,197,579	1,155,021	1,268,534	2,198,691	2,012,649	1,531,261	1,317,756	1,010,600
Investment earnings	659,153	560,878	1,203,427	2,951,972	4,236,702	2,521,431	876,095	356,176	260,608	124,415
Miscellaneous	1,061,158	1,698,226	2,084,490	3,286,231	3,679,894	3,921,488	3,895,151	584,455	1,105,414	307,069
Total governmental activities	<u>\$ 25,495,689</u>	<u>\$ 26,912,776</u>	<u>\$ 34,393,815</u>	<u>\$ 37,579,852</u>	<u>\$ 39,752,989</u>	<u>\$ 40,138,587</u>	<u>\$ 39,614,215</u>	<u>\$ 36,104,601</u>	<u>\$ 37,155,476</u>	<u>\$ 36,675,930</u>
Business-type activities:										
Investment earnings								83,128	8,612	-
Transfers out								(302,763)	(389,729)	(235,330)
Total business-type activities								<u>\$ (219,635)</u>	<u>\$ (381,117)</u>	<u>\$ (235,330)</u>
Change in Net Assets										
Governmental activities	<u>\$ 10,212,739</u>	<u>\$ 10,870,800</u>	<u>\$ 20,554,475</u>	<u>\$ 19,435,320</u>	<u>\$ 1,859,203</u>	<u>\$ 5,530,496</u>	<u>\$ 7,086,245</u>	<u>10,556,222</u>	<u>11,442,891</u>	<u>(6,765,266)</u>
Business-type activities								<u>937,110</u>	<u>1,379,835</u>	<u>(1,193,308)</u>
Total Change in Net Assets								<u>\$ 11,493,332</u>	<u>\$ 12,822,726</u>	<u>\$ (7,958,574)</u>

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

Schedule 3

Town of Hilton Head Island, SC

Program Revenues by Function/Program, Last Ten Fiscal Years

(accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Function/Program										
Governmental activities:										
Charges for services:										
General Government	\$ 535,421	\$ 504,299	\$ 571,933	\$ 590,577	\$ 591,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757
Management Services	5,685,191	6,224,152	6,686,643	7,723,373	7,668,657	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622
Community Services	6,310,944	6,992,582	8,010,754	8,419,282	7,497,902	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471
Public Safety	953,550	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047
Administrative	3,176,112	4,364,478	6,717,848	6,020,689	3,676,835	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459
Operating grants and contributions	268,861	301,855	155,067	347,325	134,793	152,140	130,796	206,897	140,555	305,329
Capital grants and contributions	359,364	1,104,371	944,425	180,900	48,246	61,843	52,525	17,697	-	1,044,854
Total governmental activities	<u>\$ 17,289,443</u>	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>	<u>\$ 21,031,700</u>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	<u>\$ 19,842,121</u>	<u>\$ 20,463,103</u>	<u>\$ 21,956,539</u>
Business-type activities:										
Stormwater								<u>2,553,971</u>	<u>3,377,779</u>	<u>3,491,879</u>
Total Program Revenues								<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
Reserved	\$ 77,952	\$ 89,460	\$ 122,453	\$ 328,984	\$ 157,080	\$ 283,748	\$ 164,731	\$ 145,008		
Unreserved	7,215,588	7,514,334	11,196,901	14,366,799	16,269,658	15,990,383	15,697,038	15,618,977		
Total General Fund	<u>\$ 7,293,540</u>	<u>\$ 7,603,794</u>	<u>\$ 11,319,354</u>	<u>\$ 14,695,783</u>	<u>\$ 16,426,738</u>	<u>\$ 16,274,131</u>	<u>\$ 15,861,769</u>	<u>\$ 15,763,985</u>		
All Other Governmental Funds										
Reserved	\$ 7,734,130	\$ 17,228,003	\$ 19,159,808	\$ 17,402,001	\$ 18,556,583	\$ 24,013,184	\$ 18,634,944	\$ 24,398,924		
Unreserved, reported in:										
Special revenue funds	5,339,044	17,911,547	25,460,960	30,798,191	27,088,384	26,375,485	21,814,650	22,479,639		
Capital projects funds	19,550,776	23,321,010	20,022,075	16,841,628	14,520,788	16,735,177	4,924,286	5,796,855		
Debt service funds	-	1,368,544	83,084	524,408	2,237,167	269,253	-	-		
Total All Other Governmental Funds	<u>\$ 32,623,950</u>	<u>\$ 59,829,104</u>	<u>\$ 64,725,927</u>	<u>\$ 65,566,228</u>	<u>\$ 62,402,922</u>	<u>\$ 67,393,099</u>	<u>\$ 45,373,880</u>	<u>\$ 52,675,418</u>		
General Fund										
Nonspendable									\$ 21,304	\$ 15,308
Restricted									98,163	98,182
Committed									11,366,314	11,865,342
Assigned									-	817,455
Unassigned									3,400,504	3,017,270
Total General Fund									<u>\$ 14,886,285</u>	<u>\$ 15,813,557</u>
All Other Governmental Funds										
Restricted									\$ 33,894,568	\$ 39,209,689
Committed									12,000,000	12,000,000
Assigned									-	3,293
Unassigned									-	(8,581)
Total All Other Governmental Funds									<u>\$ 45,894,568</u>	<u>\$ 51,204,401</u>

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues										
Taxes (see Schedule 6) ^a	\$ 22,630,610	\$ 23,545,682	\$ 29,908,319	\$ 30,186,628	\$ 30,567,859	\$ 31,496,978	\$ 32,830,320	\$ 33,632,709	\$ 34,471,698	\$ 35,233,846
Licenses, fees, and permits ^b	15,423,227	17,717,490	22,816,711	24,528,805	21,488,134	21,387,485	19,202,835	14,843,258	18,131,546	18,633,421
Fines and penalties	269,572	295,537	307,993	362,466	419,313	465,065	407,422	423,042	361,152	308,708
Charges for services	1,237,991	1,290,307	1,340,492	1,613,063	1,606,874	1,661,201	1,604,565	1,598,482	1,761,128	1,602,410
Intergovernmental	1,144,768	1,107,990	1,197,579	1,155,021	1,268,534	1,312,571	1,309,391	1,199,622	1,317,756	1,202,313
Investment earnings	659,153	560,878	1,203,427	2,951,973	4,236,702	2,521,430	876,095	356,179	260,606	124,417
Other revenues	3,125,301	2,158,082	1,698,671	1,346,643	1,198,272	2,615,149	1,702,252	5,404,922	602,262	1,420,411
Total revenues	<u>\$ 44,490,622</u>	<u>\$ 46,675,966</u>	<u>\$ 58,473,192</u>	<u>\$ 62,144,599</u>	<u>\$ 60,785,688</u>	<u>\$ 61,459,879</u>	<u>\$ 57,932,880</u>	<u>\$ 57,458,214</u>	<u>\$ 56,906,148</u>	<u>\$ 58,525,526</u>
Expenditures										
General Government	\$ 1,035,285	\$ 1,150,862	\$ 1,233,212	\$ 1,395,347	\$ 1,360,932	\$ 1,551,674	\$ 1,100,621	\$ 1,044,477	\$ 1,119,831	\$ 882,111
Management Services	2,915,272	3,045,720	3,166,953	3,642,659	3,651,665	3,921,014	4,563,007	4,497,250	4,528,244	4,303,518
Community Services	4,451,258	6,447,612	5,785,641	6,073,095	6,549,522	6,964,349	6,530,162	6,478,745	6,210,506	5,771,788
Public Safety	12,237,337	13,027,729	13,766,856	14,760,157	15,428,220	16,921,361	16,836,081	16,161,922	16,174,377	16,415,919
Non-Departmental	1,693,628	1,714,926	1,668,095	1,664,406	1,745,509	2,018,190	2,397,182	2,662,132	4,072,932	3,154,901
Accommodations Tax Grants	1,197,868	984,663	1,318,157	1,305,306	2,071,003	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594
Visitor & Convention Bureau	937,117	940,908	989,584	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019
Administrative	363,326	823,516	1,296,642	2,149,451	1,948,281	2,884,106	2,088,285	2,361,361	2,944,586	3,208,001
Capital Outlay	20,191,545	15,906,740	11,499,658	13,999,379	35,090,202	23,255,954	27,050,704	10,505,379	8,479,627	26,380,099
Debt Service										
Principal	4,567,053	4,279,777	5,261,940	5,615,555	6,591,134	11,837,139	11,220,000	11,415,000	12,305,000	12,105,000
Interest	3,194,033	3,963,465	3,739,029	6,179,615	5,496,034	5,645,093	5,680,505	4,335,765	4,524,266	3,914,974
Fiscal charges	-	-	11,328	-	-	-	-	-	-	-
Debt issue costs	377,251	-	586,452	-	-	451,841	-	391,417	-	525,364
Total expenditures	<u>\$ 53,160,973</u>	<u>\$ 52,285,918</u>	<u>\$ 50,323,547</u>	<u>\$ 57,927,869</u>	<u>\$ 81,113,177</u>	<u>\$ 78,387,568</u>	<u>\$ 80,314,461</u>	<u>\$ 62,238,410</u>	<u>\$ 62,707,549</u>	<u>\$ 78,968,288</u>
Excess of revenues over (under) expenditures	(8,670,351)	(5,609,952)	8,149,645	4,216,730	(20,327,489)	(16,927,689)	(22,381,581)	(4,780,196)	(5,801,401)	(20,442,762)
Other Financing Sources (Uses)										
Bonds issued	\$ 17,000,000	\$ 44,740,000	\$ 30,685,000	\$ -	\$ 19,000,000	\$ 34,215,000	\$ -	\$ 12,000,000	\$ -	\$ 26,250,000
Other uses/sources	-	-	-	-	-	-	(50,000)	-	-	-
Refunding bonds issued	-	-	-	-	-	-	-	5,005,000	-	20,635,000
Debt issue costs	-	-	-	-	(408,813)	-	-	-	-	-
Payments to escrow agent	-	-	(31,082,935)	-	-	(11,955,000)	-	(5,248,484)	-	(21,675,878)
Premium on bond issuance	92,496	-	860,673	-	303,951	154,397	-	155,632	-	970,485
Refund of debt	-	(10,965,000)	-	-	-	-	-	-	-	-
EMS bad debt write-off	-	(649,108)	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of land and equipment	-	-	-	-	-	-	-	-	324,774	264,930
Transfers in	8,862,368	8,762,672	11,019,688	15,762,506	24,612,718	13,676,941	22,593,584	19,037,120	20,268,594	22,476,082
Transfers out	(8,862,368)	(8,762,672)	(11,019,688)	(15,762,506)	(24,612,718)	(13,676,941)	(22,593,584)	(18,734,358)	(19,878,865)	(22,240,752)
Total other financing sources (uses)	<u>\$ 17,092,496</u>	<u>\$ 33,125,892</u>	<u>\$ 462,738</u>	<u>\$ -</u>	<u>\$ 18,895,138</u>	<u>\$ 22,414,397</u>	<u>\$ (50,000)</u>	<u>\$ 12,214,910</u>	<u>\$ 714,503</u>	<u>\$ 26,679,867</u>
Net change in fund balances	<u>\$ 8,422,145</u>	<u>\$ 27,515,940</u>	<u>\$ 8,612,383</u>	<u>\$ 4,216,730</u>	<u>\$ (1,432,351)</u>	<u>\$ 5,486,708</u>	<u>\$ (22,431,581)</u>	<u>\$ 7,434,714</u>	<u>\$ (5,086,898)</u>	<u>\$ 6,237,105</u>

Notes: ^aProperty Tax Reassessments performed in 2004.

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

Total Expenditures	\$ 53,160,973	\$ 52,285,918	\$ 50,323,547	\$ 57,927,869	\$ 81,113,177	\$ 78,387,568	\$ 80,314,461	\$ 62,238,410	\$ 62,707,549	\$ 78,968,288
Total Capital Outlay	20,191,545	15,906,740	11,499,658	13,999,379	35,090,202	23,255,954	27,050,704	10,505,379	8,479,627	26,380,099
Expenditures for Capital Assets (Exhibit F)	<u>(15,559,903)</u>	<u>(13,806,908)</u>	<u>(8,265,319)</u>	<u>(9,174,804)</u>	<u>(18,562,717)</u>	<u>(13,204,913)</u>	<u>(22,288,391)</u>	<u>(11,005,908)</u>	<u>(7,656,183)</u>	<u>(4,743,426)</u>
	4,631,642	2,099,832	3,234,339	4,824,575	16,527,485	10,051,041	4,762,313	(500,529)	823,444	21,636,673
Non-Capital Expenditures	\$ 48,529,331	\$ 50,186,086	\$ 47,089,208	\$ 53,103,294	\$ 64,585,692	\$ 68,336,527	\$ 75,552,148	\$ 62,738,939	\$ 61,884,105	\$ 57,331,615
Debt service as a percentage of non-capital expenditures	16.8%	16.4%	20.4%	22.2%	18.7%	26.2%	22.4%	25.7%	27.2%	28.9%

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
2003	15,349,010	4,877,430	2,404,170	22,630,610
2004	16,293,172	5,022,103	2,230,407	23,545,682
2005	21,602,549	5,314,660	2,991,110	29,908,319
2006	19,041,631	6,058,319	5,086,678	30,186,628
2007	19,290,776	6,168,555	5,108,528	30,567,859
2008	19,859,691	6,404,449	5,232,837	31,496,977
2009	21,993,646	6,010,356	4,826,318	32,830,320
2010	23,454,455	5,469,447	4,708,807	33,632,709
2011	23,605,422	5,948,685	4,917,591	34,471,698
2012	23,974,619	6,099,093	5,160,134	35,233,846
Change 2003-2012	56.2%	25.0%	114.6%	55.7%

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		
2003	2002	439,452,362	7,865,358,172	38,477,857	366,455,781	477,930,219	8,231,813,953	31.00	5.81%
2004	2003	454,685,211	8,025,375,587	40,344,252	504,303,150	495,029,463	8,529,678,737	31.00	5.80%
2005	2004	801,317,491	14,377,704,217	40,432,317	505,403,963	841,749,808	14,883,108,180	22.30	5.66%
2006	2005	779,621,893	14,112,440,708	35,956,376	479,418,347	815,578,269	14,591,859,055	19.00	5.59%
2007	2006	805,913,661	15,508,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	19.00	5.26%
2008	2007	806,862,365	16,944,198,458	33,601,425	621,120,250	840,463,790	17,565,318,708	19.00	4.78%
2009	2008	802,241,286	16,847,155,290	30,491,101	563,626,104	832,732,387	17,410,781,394	19.36	4.78%
2010	2009	919,940,422	21,597,802,014	29,614,709	426,787,952	949,555,131	22,024,589,966	18.54	4.31%
2011	2010	888,578,642	20,861,509,207	29,614,709	426,787,952	918,193,351	21,288,297,159	18.54	4.31%
2012	2011	900,498,390	21,431,112,174	26,653,238	426,787,952	927,151,628	21,857,900,126	19.33	4.24%

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 propety; 10.5% for personal property and 7.5% percent for motor vehicles. Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$1,000 of assessed value.

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

Fiscal Year	Tax Year	Town Direct Rates				Overlapping Rates ^a				Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Special Purpose and Fire Districts	
2003	2002	19.30	6.40	5.30	31.00	129.20	60.00	7.50	-	227.70
2004	2003	21.35	6.10	3.55	31.00	130.40	64.00	7.50	-	232.90
2005	2004	14.80	2.00	5.50	22.30	94.20	48.60	7.05	-	172.15
2006	2005	12.33	0.85	5.82	19.00	96.50	49.60	7.00	-	172.10
2007	2006	12.33	0.85	5.82	19.00	108.70	49.10	6.75	-	183.55
2008	2007	12.33	0.85	5.82	19.00	122.80	51.90	7.20	-	200.90
2009	2008	12.84	5.67	0.85	19.36	130.60	51.90	7.85	-	209.71
2010	2009	11.78	6.01	0.75	18.54	114.69	45.96	7.67	-	186.86
2011	2010	11.78	6.01	0.75	18.54	116.59	47.54	8.16	-	190.83
2012	2011	12.57	6.01	0.75	19.33	118.26	47.54	8.31	-	193.44

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

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

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

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

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

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

<u>Taxpayer</u>	<u>Tax Year 2011</u>			<u>Tax Year 2002</u>		
	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Town Taxable Assessed Value</u>
Marriott Ownership Resort	\$ 23,162,220	1	2.50%	\$ 10,722,755	1	2.24%
Columbia Properties Hilton Head, LLC ^a	4,540,040	2	0.49%			
SCG Hilton Head Property, LLC ^b	4,260,000	3	0.46%			
Summit Title Agency Trustee - Southwind	3,802,320	4	0.41%			
Greenwood Development	2,837,190	5	0.31%	4,073,114	4	0.86%
Sea Pines Resort, LLC	2,923,060	6	0.32%			
Heritage Golf	2,694,030	7	0.29%			
Hilton Head Health System LP	2,137,980	8	0.23%			
Disney Vacation Dev Inc	1,715,650	9	0.19%			
Andrick Deve Corp et al	1,713,740	10	0.18%			
Palmetto Electric Co-op				6,083,869	2	1.27%
Hargray Telephone Company Inc				5,279,433	3	1.10%
Westin Hilton Head Limited P/S				3,420,000	5	0.72%
Dunes Motel				2,778,000	6	0.58%
Smith Lynn Press				2,370,650	7	0.50%
Melrose Group Ltd				2,087,504	9	0.44%
Sea Pine Plantation				1,947,127	8	0.41%
M&M Multi Services				1,880,430	10	0.39%
Total	\$ 49,786,230		5.38%	\$ 40,642,882		8.51%

Source: Beaufort County

^a Formerly Dunes Hotel Associates

^b Formerly Westin Hilton Head Limited P/S

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage
2002	15,076,350	14,922,100	98.98%	11,966	14,934,066	99.06%
2003	15,512,366	15,252,669	98.33%	96,341	15,349,010	98.95%
2004	16,477,626	15,781,384	95.77%	511,788	16,293,172	98.88%
2005	21,975,474	20,865,069	94.95%	737,480	21,602,549	98.30%
2006	19,543,737	18,774,952	96.07%	266,679	19,041,631	97.43%
2007	19,790,118	19,014,954	96.08%	275,822	19,290,776	97.48%
2008	20,341,876	19,461,546	95.67%	398,145	19,859,691	97.63%
2009	22,753,654	21,085,178	92.67%	908,468	21,993,646	96.66%
2010	23,771,093	22,773,856	95.80%	680,599	23,454,455	98.67%
2011	24,569,917	22,860,455	93.04%	744,967	23,605,422	96.07%
2012	24,492,571	23,252,165	94.94%	722,453	23,974,618	97.89%

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 Direct Rate	Beaufort County	South Carolina
2003	0%	0%	5%
2004	0%	0%	5%
2005	0%	0%	5%
2006	0%	0%	5%
2007	0%	1%	6%
2008	0%	1%	6%
2009	0%	1%	6%
2010	0%	1%	6%
2011	0%	1%	6%
2012	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
2003	63,730,000	17,000,000	4,530,000	10,965,000	1,153,663	97,378,663	8.84%	2,816
2004	76,285,000	35,775,000	-	10,530,000	886,720	123,476,720	10.90%	3,569
2005	74,705,000	35,500,000	-	10,005,000	607,690	120,817,690	10.11%	3,476
2006	71,240,000	34,060,000	-	8,995,000	343,075	114,638,075	9.49%	3,298
2007	67,460,000	51,565,000	-	7,955,000	67,140	127,047,140	10.00%	3,720
2008	63,680,000	66,885,000	-	6,905,000	-	137,470,000	9.80%	4,056
2009	59,705,000	60,720,000	-	5,825,000	-	126,250,000	8.74%	3,723
2010	67,120,000	54,320,000	-	4,730,000	-	126,170,000	8.78%	3,684
2011	62,010,000	47,740,000	-	3,600,000	-	113,350,000	7.49%	3,055
2012	58,965,000	66,245,000	-	2,445,000	-	127,655,000	8.22%	3,441

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 data 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
2003	63,730,000	44,470,000	19,260,000	0.24%	556
2004	76,285,000	58,085,000	18,200,000	0.23%	526
2005	74,705,000	57,350,000	17,355,000	0.12%	502
2006	71,240,000	55,385,000	15,855,000	0.11%	456
2007	67,460,000	53,280,000	14,180,000	0.09%	415
2008	63,680,000	51,355,000	12,325,000	0.07%	364
2009	59,705,000	49,410,000	10,295,000	0.06%	304
2010	67,120,000	58,960,000	8,160,000	0.04%	238
2011	62,010,000	56,080,000	5,930,000	0.03%	160
2012	58,965,000	53,960,000	5,005,000	0.02%	135

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 data for the prior calendar year.

**Schedule 14
Town of Hilton Head Island, SC
Direct and Overlapping Governmental Activities Debt
As of June 30, 2012**

<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	\$ 314,344,621	51%	\$ 160,315,757
Beaufort County General Obligation Debt	190,915,000	51%	97,366,650
Broad Creek Public Service District	6,255,000	100%	6,255,000
Hilton Head No. 1 Public Service District	14,190,750	94%	13,339,305
Subtotal, overlapping debt			<u>277,276,712</u>
Town direct debt			<u>58,965,000</u>
Total direct and overlapping debt			<u><u>\$ 336,241,712</u></u>

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)

\$ 927,152
74,172 ^a

Debt applicable to limit:

General Obligation Bonds:

2009A \$ 5,005

Total net debt applicable to limit

5,005

Legal Debt Margin (without a referendum)

\$ 69,167

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit	\$ 38,234	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196	\$ 66,174	\$ 66,619	\$ 75,964	\$ 73,455	\$ 74,172
Total net debt applicable to limit	19,260	18,200	17,355	15,855	14,180	12,325	10,295	8,160	5,930	5,005
Legal debt margin	18,974	21,402	47,561	50,012	51,016	53,849	56,324	67,804	67,525	69,167
Total net debt applicable to the limit as a percentage of debt limit	50.37%	45.96%	26.73%	24.07%	21.75%	18.63%	15.45%	10.74%	8.07%	6.75%

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

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

^a Town Council imposed an eighty percent (80%) cap on the debt limit in 2009. With this cap, the debt limit for 2012 cannot exceed \$59,337,704.

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

Hospitality Tax Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	2,991,110	275,000	469,885	744,885	4.02
2006	5,086,678	290,000	464,385	754,385	6.74
2007	5,108,528	300,000	457,970	757,970	6.74
2008	5,232,837	305,000	448,970	753,970	6.94
2009	4,826,318	315,000	439,820	754,820	6.39
2010	4,708,807	325,000	428,007	753,007	6.25
2011	4,917,591	340,000	416,632	756,632	6.50
2012	5,160,134	775,000	503,346	1,278,346	4.04

Tax Increment Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	3,777,553	-	347,200	347,200	10.88
2006	4,065,563	645,000	357,004	1,002,004	4.06
2007	3,985,064	675,000	326,314	1,001,314	3.98
2008	4,427,710	3,760,000	374,015	4,134,015	1.07
2009	5,833,846	3,140,000	824,163	3,964,163	1.47
2010	6,308,512	3,270,000	717,538	3,987,538	1.58
2011	6,369,085	3,405,000	606,461	4,011,461	1.59
2012	6,148,490	3,550,000	490,446	4,040,446	1.52

Stormwater Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2003	1,100,234	-	-	-	-
2004	1,079,614	-	750,546	750,546	1.44
2005	1,480,356	-	750,546	750,546	1.97
2006	1,324,277	505,000	742,971	1,247,971	1.06
2007	1,351,871	520,000	727,596	1,247,596	1.08
2008	1,501,389	535,000	712,708	1,247,708	1.20
2009	1,572,183	550,000	697,369	1,247,369	1.26
2010	2,553,971	565,000	679,938	1,244,938	2.05
2011	3,377,779	515,000	660,665	1,175,665	2.87
2012	3,491,879	640,000	379,470	1,019,470	3.43

Beach Preservation Fee Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	4,426,889	-	-	-	-
2008	4,634,690	2,080,000	780,610	2,860,610	1.62
2009	4,210,460	2,160,000	679,810	2,839,810	1.48
2010	4,008,272	2,240,000	569,810	2,809,810	1.43
2011	4,768,381	2,320,000	570,073	2,890,073	1.65
2012	4,841,395	2,405,000	445,977	2,850,977	1.70

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
2003	34,578	1,133,052	32,768	2.1%
2004	34,600	1,195,430	34,550	2.2%
2005	34,761	1,207,945	34,750	2.1%
2006	34,156	1,271,013	37,212	4.3%
2007	33,890	1,403,419	41,411	3.7%
2008	33,913	1,445,067	42,611	4.3%
2009	34,249	1,436,780	41,951	7.4%
2010	37,099	1,513,565	40,798	6.5%
2011	37,099	1,552,445	41,846	6.0%
2012	37,675	1,495,812	39,703	5.7%

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

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

<u>Employer</u>	<u>2012 Employees</u>	<u>2002 Employees</u>
Sea Pines Resort	585	N/A
Marriott Vacation Club Intl	553	N/A
Hilton Head Medical Ctr and Clinic	520	N/A
Beaufort County School District	392	N/A
Westin Hotel and Resorts	380	N/A
Cypress of Hilton Head	372	N/A
Hilton Head Marriott Golf and Beach Resort	305	N/A
Publix Super Markets	263	N/A
Town of Hilton Head Island	252	N/A
Sonesta Resort HHI	250	N/A
Heritage Golf	232	N/A
Omni Hilton Head Resort	218	N/A

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

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

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30,</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Town Manager	3.0	3.0	3.0	3.0	4.0	4.0	5.0	5.0	4.0	5.0
Human Resources	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services										
Finance	16.0	16.0	17.0	17.0	17.0	19.0	19.0	17.0	17.0	18.0
Administration	23.0	23.0	23.0	23.5	23.5	23.5	22.5	23.5	21.0	22.0
Community Services										
Community Development	35.0	35.0	35.5	36.0	36.0	36.0	36.0	30.0	27.0	27.0
Public Projects & Facilities	18.0	19.0	19.0	19.0	20.0	21.0	21.0	22.0	22.0	22.0
Public Safety										
Fire & Rescue	143.0	143.0	144.0	144.8	147.3	147.3	147.6	146.0	145.0	147.1
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Total	<u>249.0</u>	<u>250.0</u>	<u>252.5</u>	<u>254.3</u>	<u>258.8</u>	<u>261.8</u>	<u>262.1</u>	<u>254.5</u>	<u>247.0</u>	<u>252.1</u>

Source: Budget Book

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

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

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government										
Management Services										
Business license permits issued	5,650	6,320	5,130	5,312	5,409	5,638	5,644	5,549	5,718	5,802
Business license inspections	n/a	n/a	20	360	546	150	396	127	1,460	605
Business license audits	n/a	n/a	50	101	55	-	-	-	117	49
Hospitality tax accounts	408	394	409	411	357	343	356	325	359	373
Bed tax accounts	353	542	649	701	675	732	775	752	863	891
Beach passes issued	1,478	3,007	3,052	2,116	2,729	2,009	2,434	1,885	2,602	2,224
Number of court cases docketed	6,567	7,009	8,340	9,033	9,366	10,687	8,380	9,159	8,016	7,152
Number of court cases disposed	6,668	7,122	7,120	8,952	9,123	10,881	8,607	8,854	8,363	7,221
Number of search warrants issued	11	15	24	15	16	41	19	22	33	27
Number of arrest warrants issued	554	493	547	477	437	410	460	415	349	216
Number of bench warrants issued	818	777	1,333	801	531	894	693	777	576	610
Community Services										
Community Development										
Building inspections conducted	17,211	18,724	21,337	22,167	18,146	15,297	13,053	11,604	10,773	11,813
Building permits issued	351	410	449	440	168	104	63	51	68	89
Miscellaneous permits issued	2,867	3,213	3,100	3,146	4,233	5,121	4,470	4,913	4,805	4,345
Public Projects and Facilities										
# of capital improvement projects to manage	51	57	53	84	76	51	64	62	53	45
# of beach access/parks to maintain	6	6	7	8	8	8	8	8	8	8
Miles of pathways to maintain	32	32	50	51	51	53	55	56	57	58
Maintenance work orders	637	1,368	2,119	2,373	2,517	2,150	2,800	4,187	4,406	4,500
Public Safety										
Fire and Rescue service calls	5,790	5,780	6,140	6,167	6,030	6,246	6,088	5,957	6,034	5,796
Actual fires extinguished	131	141	151	147	139	153	151	127	80	130
Inspections	2,475	2,244	2,338	2,271	2,357	2,649	2,626	2,390	2,902	2,281
Telephone requests	54,445	55,866	45,878	55,584	73,475	75,099	77,352	72,361	61,435	65,522
Public training programs	312	344	341	366	687	614	791	520	609	518

Sources: Various Town departments.

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government										
Town-owned parcels	97	100	106	113	113	116	183	185	182	175
Town-owned property acreage	1,097	1,108	1,126	1,142	1,142	n/a	n/a	n/a	n/a	1,202
Town-owned development rights	n/a	n/a	n/a	n/a	n/a	n/a	7	8	8	8
Town-owned easements	n/a	n/a	n/a	n/a	n/a	n/a	73	75	80	80
Management Services										
Town vehicles	36	37	41	39	38	38	39	40	39	38
Public Safety										
Emergency Apparatus Vehicles	28	25	24	24	24	24	24	24	24	24
Police Vehicles	27	26	-	-	-	-	-	-	-	-
General Vehicles	19	18	17	19	22	22	23	30	30	30
Fire Stations	6	6	7	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	21	22	22	22	22	22	22	23	22	22
Pathways (miles)	32	32	50	50	51	53	55	56	57	58
Beach access/parks	5	5	7	7	8	8	8	8	8	8

Sources: Various Town departments.

* All Town roads are deeded to Beaufort County

Notes: No capital asset indicators are available for the Planning/Building & Fire Codes function.
Police services currently contracted with Beaufort County Sheriff's Office.

Schedule 22
Town of Hilton Head Island, SC
Principal Stormwater Customers
Year Ended June 30, 2012

Customer	Type of Business	Equivalent Single Family Residential Units	Stormwater Fees Billed	Percentage of Total Billed
Town of Hilton Head Island	town government	585.34	\$ 63,627	1.77%
Beaufort County School District	primary/secondary education	470.27	51,118	1.43%
Sea Pines Resort LLC	hotel/motel	425.59	46,262	1.29%
Beaufort County	aircraft transportation	321.09	34,903	0.97%
Marriott Ownership Resorts	hotel/motel	317.68	34,532	0.96%
Columbia Properties Hilton Head LLC (Columbia Sussex Corporation)	hotel/motel	301.77	32,802	0.91%
Greenwood Development Corp	developer / various	266.04	28,919	0.81%
Festival Centre (E&A) LLC	community shopping center	198.70	21,599	0.60%
SCG Hilton Head Property LLC	hotel/motel	187.59	20,391	0.57%
Shelter Cove Towne Center LLC	regional shopping center	184.23	20,026	0.56%
Total			\$ 354,179	9.87%
Total Stormwater Fees Billed			\$ 3,586,999	

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

Supplemental Financial Information

Schedule 23
Town of Hilton Head Island, SC
Municipal Fines, Assessments and Surcharges
For the Year Ended June 30, 2012

Court Fines

Court fines collected	\$ 308,708
Court fines retained by the Town	<u>308,708</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>

Court Assessments

Court assessments collected	\$ 305,604
Court assessments retained by the Town	<u>33,812</u>
Court assessments remitted to the State Treasurer	<u><u>271,792</u></u>

Court Surcharges

Court surcharges collected	\$ 159,624
Court surcharges retained by the Town	<u>16,330</u>
Court surcharges remitted to the State Treasurer	<u><u>143,294</u></u>

Victims Services

Court assessments allocated to victim services	\$ 50,142
Victim Services expenditures	<u>57,640</u>
Funds available for carryforward	<u><u>(7,498)</u></u>



**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 accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the Town), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLC

Columbia, South Carolina
December 17, 2012

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified: No

Significant deficiencies identified that are not considered
to be material weaknesses: None reported

Noncompliance material to financial statements noted: No