

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

**Comprehensive Annual Financial Report
Fiscal Year Ended
June 30, 2013**



*Hilton Head Island
Motoring Festival
& Concours d'Elegance*



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



FISCAL YEAR ENDED JUNE 30, 2013
Prepared by the Finance Department

**Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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Introductory Section



Transmittal Letter

For The Fiscal Year Ended June 30, 2013
The Town of Hilton Head Island, South Carolina

December 12, 2013

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, 2013, 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, PLLC, has issued an unmodified ("clean") opinion for the year ended June 30, 2013. 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 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.

With 2012-2013 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 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, 2012 and 2013. The results were quite successful; FY 2013 expenditures were approximately \$2.1 million less than the final budget. This is attributable to the Town's workforce reduction and a significant portion of the Town's new permitting software being budgeted in FY 2013, but work being performed and, therefore, expended in FY 2014.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue	\$ 26,497,580	\$ 27,145,442	\$ 647,862
Appropriated Fund Balance	515,881	-	(515,881)
Transfers In	5,580,030	5,673,200	93,170
Expenditures	<u>33,410,946</u>	<u>31,328,472</u>	<u>2,082,474</u>
Revenues Over (Under) Expenditures	<u>\$ (817,455)</u>	<u>\$ 1,490,170</u>	<u>\$ 2,307,625</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, 2012. This was the twenty fourth 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, 2012. It was the eighth 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.

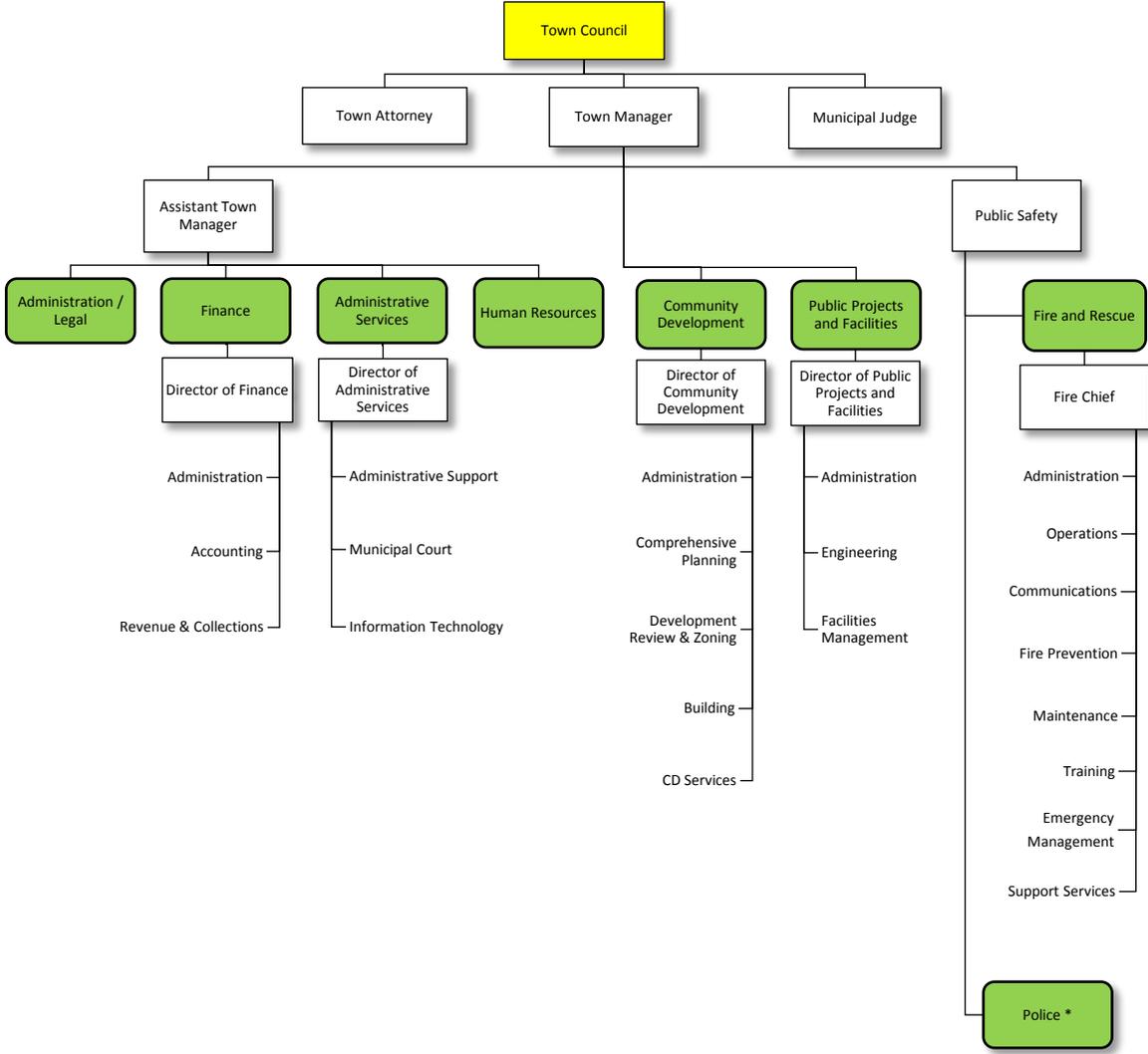
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully submitted,

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

Susan Simmons
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA ORGANIZATIONAL CHART



*Contract service provided by the Sheriff's Office



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



Government Finance Officers Association

**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, 2012

Executive Director/CEO

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison schedule for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison schedules, the combining nonmajor governmental fund financial statements, the agency fund statement of changes in assets and liabilities and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, the combining nonmajor governmental fund financial statements and the agency fund statement of changes in assets and liabilities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, the combining nonmajor governmental fund financial statements and the agency fund statement of changes in assets and liabilities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013 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* in considering the Town's internal control over financial reporting and compliance.

Columbia, South Carolina
December 12, 2013

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013. 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 **
2004	\$ 495,029,463		\$ 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
2013*	\$ 911,898,478	-1.65%	\$ 17,679,567

* 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
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
2013	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 2013 the assets of the Town exceeded liabilities by \$196,672,378. Of this amount \$17,096,184 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$14,694,177 for fiscal year 2013. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".
- At June 30, 2013, the Town's governmental funds reported combined ending fund balances of \$72,700,323. Of the combined ending fund balance, \$4,179,036 or 5.7% 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 position** presents information on the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the Town's net positions are an indicator of whether its financial position is improving or deteriorating.

The **statement of activities** presents information illustrating how the Town's net position changed during the most recent fiscal year. All changes in net position 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.

The Town of Hilton Head Island adopts an annual budget for its Proprietary 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.

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 recovery of the economy continues to have a positive impact on revenues received by the Town but varies depending on the revenue stream.

Real Estate

Real estate related revenues, especially construction permits and real estate transfer fees, are 27% greater than last fiscal year (May 2013 data from the South Carolina Realtors shows that total sales for the region, which includes the Town, were up 6% compared to May 2012, and that median sale prices rose 18% to \$275,000 over the same period). This positive trend is reflected in the 18% increase in real estate transfer fees. Construction permits are up 44% from the prior year. In fact, redevelopment permit revenue (constituting 65% of permit revenue) is the highest it has been in the last ten years and new construction permits are at their highest since FY 2007.

	<u>RETF</u>			<u>Construction Permits</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2012	1,905,459			952,539			2,857,998		
FY 2013	2,255,107	349,648	18%	1,368,166	415,627	44%	3,623,273	765,275	27%

Tourism

While tourism-driven revenues continue to report moderate increases over the prior year, it is important to note that the dollar level of these revenues have rebounded to surpass all historical fiscal year heights. Currently, revenues from these sources are 7% higher than final amounts for 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 2012	10,940,488			5,160,134			16,100,622		
FY 2013	11,993,892	1,053,404	10%	5,250,995	90,861	2%	17,244,887	1,144,265	7%

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 position, 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 positions 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 Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 78,625,585	\$ 74,098,075	\$ 2,377,118	\$ 2,045,771	\$ 81,002,703	\$ 76,143,846
Capital assets	<u>234,558,011</u>	<u>228,850,777</u>	<u>13,301,099</u>	<u>12,593,588</u>	<u>247,859,110</u>	<u>241,444,365</u>
Total assets	\$ <u>313,183,596</u>	\$ <u>302,948,852</u>	\$ <u>15,678,217</u>	\$ <u>14,639,359</u>	\$ <u>328,861,813</u>	\$ <u>317,588,211</u>
Current liabilities	\$ 21,377,653	\$ 21,002,637	\$ 1,127,204	\$ 959,606	\$ 22,504,857	\$ 21,962,243
Long term liabilities	<u>99,084,680</u>	<u>102,332,424</u>	<u>10,599,898</u>	<u>11,315,343</u>	<u>109,684,578</u>	<u>113,647,767</u>
Total liabilities	\$ <u>120,462,333</u>	\$ <u>123,335,061</u>	\$ <u>11,727,102</u>	\$ <u>12,274,949</u>	\$ <u>132,189,435</u>	\$ <u>135,610,010</u>
Net position:						
Net investment in capital assets	\$ 134,730,092	\$ 127,695,520	\$ 1,985,756	\$ 587,800	\$ 136,715,848	\$ 128,283,320
Restricted	42,860,346	39,307,871	-	-	42,860,346	39,307,871
Unrestricted	<u>15,130,825</u>	<u>12,610,400</u>	<u>1,965,359</u>	<u>1,776,910</u>	<u>17,096,184</u>	<u>14,387,310</u>
Total net position	\$ <u>192,721,263</u>	\$ <u>179,613,791</u>	\$ <u>3,951,115</u>	\$ <u>2,364,710</u>	\$ <u>196,672,378</u>	\$ <u>181,978,501</u>

Net position amounted to \$196.7 million in fiscal year 2013 compared to \$182.0 million in fiscal year 2012. A significant portion of the Town's net position (\$136.7 million or 69.5% 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 position shows the change in financial position of net position, the condensed statement of activities (below) provides answers as to the nature and the source of the changes.

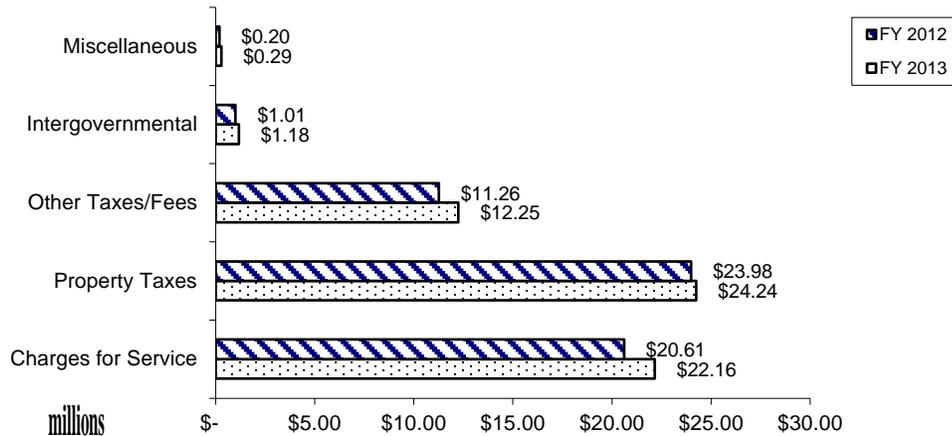
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	\$ 22,164,245	\$ 20,606,356	\$ 3,580,445	\$ 3,491,879	\$ 25,744,690	\$ 24,098,235
Operating grants and contribution	338,378	305,329	-	-	338,378	305,329
Capital grants and contributions	142,116	1,044,854	-	-	142,116	1,044,854
General Revenues:						
Property taxes	24,242,142	23,974,619	-	-	24,242,142	23,974,619
Other taxes	12,246,755	11,259,227	-	-	12,246,755	11,259,227
Other	2,029,547	1,442,084	(236,130)	(235,330)	1,793,417	1,206,754
Total Revenues	61,163,183	58,632,469	3,344,315	3,256,549	64,507,498	61,889,018
Program Expenses:						
Governmental Activities:						
General government	4,457,904	4,353,125	-	-	4,457,904	4,353,125
Management services	4,781,208	4,387,130	-	-	4,781,208	4,387,130
Community services	13,292,741	30,544,682	-	-	13,292,741	30,544,682
Public safety	16,425,512	16,535,835	-	-	16,425,512	16,535,835
Culture and recreation	1,907,032	1,210,594	-	-	1,907,032	1,210,594
Visitor and convention bureau	1,341,508	1,096,019	-	-	1,341,508	1,096,019
Administrative	1,797,946	3,611,539	-	-	1,797,946	3,611,539
Interest on long-term debt	4,051,860	3,658,811	-	-	4,051,860	3,658,811
Business-type Activities:						
Stormwater utility	-	-	1,757,610	4,449,857	1,757,610	4,449,857
Total Expenses	48,055,711	65,397,735	1,757,610	4,449,857	49,813,321	69,847,592
Change in net position	13,107,472	(6,765,266)	1,586,705	(1,193,308)	14,694,177	(7,958,574)
Net position, beginning	179,613,791	186,379,057	2,364,410	3,557,718	181,978,201	189,936,775
Net position, ending	\$ 192,721,263	\$ 179,613,791	\$ 3,951,115	\$ 2,364,410	\$ 196,672,378	\$ 181,978,201

Governmental activities increased the Town's net position by \$13,107,472. This increase was \$19,872,738 more than the previous fiscal years decrease. The following highlight the significant changes from the previous year:

- Property tax revenue, the Town's largest revenue source, increased by \$267,523 or approximately 1.1%.
- Property taxes made up 39.64% of the total revenue down from 40.89% of the total in the previous fiscal year.
- Total expenses decreased by \$17,342,024. The largest part of this decrease appears in the community services function where the Town recognized approximately \$11 million in beach maintenance in the prior year for the Port Royal fill project and \$2.8 million less than the prior year in land acquisition.
- Investment income revenues decreased by \$36,502 from the previous fiscal year due to the continued drop in interest rates.

Revenues by Source – Governmental Activities



Business-type activities increased the Town’s net position by \$1,586,705. Stormwater revenues increased by \$114,100 or 2.54% over the previous fiscal year.

Governmental Funds

The **General Fund**, which is the primary operating fund of the Town, recognized \$27.1 million (excluding revenue transfers in from other funds) in total revenues and \$5.7 million in other financing sources offset with \$31.3 million in expenditures. The savings plan effort started in FY 2009 was carried forward into FY 2010, FY 2011, FY 2012 and FY 2013. The results were quite successful; expenditures were approximately \$2.1 million less than the final budget. In addition, revenues and transfers in were \$741,032 more than budget.

Fund Balance at the beginning of the year was \$15.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$17.3 million. Of this amount, \$4.2 million is unassigned fund.

The **Debt Service Fund** recognized \$5.8 million in total revenues and \$12.7 million in other financing sources offset with \$15.9 in expenditures and other uses. This resulted in revenues exceeding expenditures and other financing sources by \$2,518,559. The Fund Balance at the beginning of the year was \$6.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$9.1 million.

The **Capital Projects Fund** recognized \$1.5 million in total revenues and \$8.2 million in other financing sources offset with \$13.3 million in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by \$3,554,653. The Fund Balance at the beginning of the year was \$20.5 million and, when combined with the current year deficit, resulted in an end of year Fund Balance of \$16.9 million.

The **Tax Increment Financing District Fund (TIF)** recognized \$6.6 million in total revenues offset with \$5.8 million in other financing uses related to debt service payments and capital expenditures. This resulted in revenues exceeding expenditures and other financing uses by \$721,823. Fund Balance at the beginning of the year was \$4.9 million and, when combined with the current year, resulted in an end of year Fund Balance of \$5.6 million.

The **Accommodations Tax Fund** recognized \$4.5 million in total revenues offset with \$3.0 million in expenditures and \$1.2 million in other financing uses. This resulted in revenues

exceeding expenditures by \$365,682. Fund Balance at the beginning of the year was \$1.7 million and, when combined with the current year resulted in a end of year Fund Balance of \$2.1 million.

The **Real Estate Transfer Fee Fund** recognized \$2.3 million in total revenues offset with \$22,551 in expenditures and \$2.2 million in other financing uses. This resulted in revenues exceeding expenditures by \$80,514. 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 \$1.2 million.

The **Beach Preservation Fee Fund** recognized \$5.0 million in total revenues offset with \$4.7 million in other financing uses. This resulted in revenues exceeding expenditures by \$263,737. Fund Balance at the beginning of the year was \$15.3 million and, when combined with the current year, resulted in an end of year Fund Balance of \$15.5 million.

The **Hospitality Fee Fund** recognized \$5.3 million in total revenues offset with \$295,313 in expenditures and \$2.4 million in other financing uses. This resulted in revenues exceeding expenditures and other financing uses by \$2,524,029. The Fund Balance at the beginning of the year was \$1.0 million and, when combined with the current year, resulted in an end of year Fund Balance of \$3.5 million.

Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

2012				
<u>Fund</u>	<u>Revenue</u>	<u>Expenditures</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)

2013				
<u>Fund</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Fund Balance</u>	<u>Changes in Fund Balance</u>
General	\$ 32,818,642	\$ 31,328,472	\$ 17,303,727	\$ 1,490,170
Tax Increment Financing	6,563,712	5,841,889	5,582,678	721,823
Accommodations Tax (State)	4,497,057	4,131,375	2,058,002	365,682
Real Estate Transfer Fee	2,255,361	2,174,847	1,222,178	80,514
Beach Preservation Fee	5,001,165	4,737,428	15,521,334	263,737
Hospitality Fee	7,704,466	5,180,437	3,539,517	2,524,029
Debt Service	18,452,195	15,933,636	9,106,552	2,518,559
Capital Projects Fund	13,930,995	17,485,648	16,919,415	(3,554,653)
Non-Major Governmental Fund	2,668,410	1,395,906	1,446,920	1,272,504

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 \$553,368. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were down \$434,436
- Local accommodations tax revenue was up \$112,067
- Business license and franchise fee revenue were up \$597,857
- Building permit revenue was up \$297,316
- State shared revenue was up \$149,579
- EMS revenue was down \$203,632
- Fines and fees were down \$105,178
- Investment income was down \$7,268

Actual General Fund expenditures were less than the revised budget by \$2.23 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	\$ 1,055,696	\$ 1,079,696	\$ (24,000)
Management Services	4,938,111	5,082,969	(144,858)
Community Services	6,268,841	6,511,066	(242,225)
Public Safety	16,798,602	16,755,327	43,275
Non-Departmental Townwide	3,496,526	3,239,897	256,629
Capital Outlay	632,600	741,991	(109,391)
	<u>\$ 33,190,376</u>	<u>\$ 33,410,946</u>	<u>\$ (220,570)</u>

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2013 and 2012 amount to \$234.6 million and \$228.9 million respectively (net of accumulated depreciation). The Town's investment in capital assets for its business-type activities as of June 30, 2013 and 2012 amount to \$13.3 million and \$12.6 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 \$ 6.1 million
- Coligny/Pope Avenue area improvements \$ 419,751
- Apparatus and vehicle replacement \$317,130
- Roadway resurfacing \$771,133
- Pathway rehabilitation \$351,432

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 163,938,137	\$ 158,951,496	\$ -	\$ -	\$ 163,938,137	\$ 158,951,496
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	2,314,151	881,040	990,067	192,910	3,304,218	1,073,950
Buildings	17,972,300	17,680,358	-	-	17,972,300	17,680,358
Furniture, fixtures and equipment	1,399,455	1,601,606	-	-	1,399,455	1,601,606
Vehicles	4,369,650	4,503,668	-	-	4,369,650	4,503,668
Imp. Other than buildings - park development	9,404,349	9,673,188	-	-	9,404,349	9,673,188
Infrastructure	<u>20,876,618</u>	<u>21,276,070</u>	<u>12,311,032</u>	<u>12,400,678</u>	<u>33,187,650</u>	<u>33,676,748</u>
	<u>\$ 234,558,011</u>	<u>\$ 228,850,777</u>	<u>\$ 13,301,099</u>	<u>\$ 12,593,588</u>	<u>\$ 247,859,110</u>	<u>\$ 241,444,365</u>

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

Proprietary Fund

In FY 2013 the Town received \$3,580,445 in stormwater fees and other income and incurred \$1,993,740 in expenses associated with this program. Unrestricted net position at the end of the year were \$2.0 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 64,505,000	\$ 58,965,000	\$ -	\$ -	\$ 64,505,000	\$ 58,965,000
Certificates of participation	1,260,000	2,445,000	-	-	1,260,000	2,445,000
Tax increment financing	7,860,000	11,555,000	-	-	7,860,000	11,555,000
Revenue/Special Obligation Bonds:						
Beach preservation fees	16,295,000	18,795,000	-	-	16,295,000	18,795,000
Hospitality tax	21,920,000	22,725,000	-	-	21,920,000	22,725,000
Stormwater	-	-	12,390,000	13,170,000	12,390,000	13,170,000
	<u>\$ 111,840,000</u>	<u>\$ 114,485,000</u>	<u>\$ 12,390,000</u>	<u>\$ 13,170,000</u>	<u>\$ 124,230,000</u>	<u>\$ 127,655,000</u>

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

BUDGET HIGHLIGHTS FOR FISCAL YEAR 2014

The **General Fund's** revenues for fiscal year 2014 are budgeted at \$34.3 million, an increase of \$867,376 or 2.6% compared to the prior year's budgeted revenues. This includes the use of \$674,725 of fund balance in order to balance the budget. Collections from local accommodation taxes and business license revenue 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 \$34.3 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$11.0 million. The majority of the expenditures are budgeted for Chaplin Linear Park and the Rowing and Sailing Center which account for \$2.2 million or 19.8% of the capital budget and \$2.2 million or 19.8% has been earmarked for roadway improvements.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$17.0 million. There is \$1.0 million or 6.3% increase in debt service costs in fiscal year 2014.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2013 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 POSITION
JUNE 30, 2013

Exhibit A

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 66,760,105	\$ 2,408,559	\$ 69,168,664
Investments	775,775	-	775,775
Accounts Receivable	6,136,508	-	6,136,508
Due from Employees	20,906	-	20,906
Due from Other Governments	3,048,206	5,512	3,053,718
Interfund Balances	189,392	(189,392)	-
Other Assets	1,694,693	152,439	1,847,132
Non Depreciable Capital Assets	180,535,639	990,067	181,525,706
Depreciable Capital Assets	54,022,372	12,311,032	66,333,404
Total assets	<u>313,183,596</u>	<u>15,678,217</u>	<u>328,861,813</u>
LIABILITIES			
Accounts Payable	2,874,213	320,227	3,194,440
Accrued Payroll and Related Payables	1,021,577	-	1,021,577
Due to Other Governments	43,882	-	43,882
Unearned Revenue	155,246	-	155,246
Irrigation and Pool Surety Bonds Payable	61,500	-	61,500
Court Bonds Payable	256	-	256
Performance Bonds Payable	73,895	-	73,895
Interest Payable	629,341	91,532	720,873
Due Within Less than One Year	16,517,743	715,445	17,233,188
Due Within More than One Year	99,084,680	10,599,898	109,684,578
Total liabilities	<u>120,462,333</u>	<u>11,727,102</u>	<u>132,189,435</u>
NET POSITION			
Net investment in capital assets	134,730,092	1,985,756	136,715,848
Restricted:			
Deposits in Escrow	65,985	-	65,985
Economic Development	5,582,678	-	5,582,678
Tourism Promotion	2,058,002	-	2,058,002
Environmental Conservation	1,222,178	-	1,222,178
Beach Nourishment and Restoration	3,521,334	-	3,521,334
Public Health and Safety	3,539,517	-	3,539,517
Debt Service Payments	8,552,323	-	8,552,323
Construction of Major Capital Facilities	16,862,833	-	16,862,833
Underground Electrical Service	1,455,496	-	1,455,496
Unrestricted	15,130,825	1,965,359	17,096,184
Total net position	<u>\$ 192,721,263</u>	<u>\$ 3,951,115</u>	<u>\$ 196,672,378</u>

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, 2013**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	4,457,904	2,565,756	-	-	(1,892,148)	-	(1,892,148)
Management Services	4,781,208	7,774,138	-	-	2,992,930	-	2,992,930
Community Services	13,292,741	8,262,464	-	142,116	(4,888,161)	-	(4,888,161)
Public Safety	16,425,512	1,306,780	148,744	-	(14,969,988)	-	(14,969,988)
Culture and Recreation	1,907,032	-	-	-	(1,907,032)	-	(1,907,032)
Visitor and Convention Bureau	1,341,508	-	-	-	(1,341,508)	-	(1,341,508)
Adminstration	1,797,946	2,255,107	189,634	-	646,795	-	646,795
Interest on Debt	4,051,860	-	-	-	(4,051,860)	-	(4,051,860)
Total governmental activities	48,055,711	22,164,245	338,378	142,116	(25,410,972)	-	(25,410,972)
Business-type activities:							
Stormwater	1,757,863	3,580,445	-	-	-	1,822,582	1,822,582
	1,757,863	3,580,445	-	-	-	1,822,582	1,822,582
Total primary government	\$ 49,813,574	\$ 25,744,690	\$ 338,378	\$ 142,116	(25,410,972)	1,822,582	(23,588,390)
General revenues:							
					24,242,142	-	24,242,142
					6,995,760	-	6,995,760
					5,250,995	-	5,250,995
					1,181,674	-	1,181,674
					228,961	-	228,961
					87,660	253	87,913
					295,122	-	295,122
					236,130	(236,130)	-
					38,518,444	(235,877)	38,282,567
					13,107,472	1,586,705	14,694,177
					179,613,791	2,364,410	181,978,201
					\$ 192,721,263	\$ 3,951,115	\$196,672,378

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

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

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	\$ 15,035,375	\$ 5,478,056	\$ 1,216,809	\$ 990,062	\$ 13,926,295	\$ 1,017,218	\$ 7,566,371	\$ 20,132,837	\$ 1,397,082	\$ 66,760,105
Investments	-	-	-	-	-	-	775,775	-	-	775,775
Accounts Receivable	3,021,240	-	-	-	1,647,635	1,328,433	-	94	139,106	6,136,508
Due from Employees	20,906	-	-	-	-	-	-	-	-	20,906
Interfund Receivables	1,314,634	88,559	-	-	59,349	1,773,489	764,406	520,442	-	4,520,879
Due from Other Governments	707,012	173,848	1,523,645	232,116	-	-	-	411,585	-	3,048,206
Total assets	\$ 20,099,167	\$ 5,740,463	\$ 2,740,454	\$ 1,222,178	\$ 15,633,279	\$ 4,119,140	\$ 9,106,552	\$ 21,064,958	\$ 1,536,188	\$ 81,262,379
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts Payable	1,346,034	-	535,777	-	125	-	-	992,277	-	2,874,213
Accrued Payroll and Related Payables	1,021,577	-	-	-	-	-	-	-	-	1,021,577
Due to Other Governments	43,882	-	-	-	-	-	-	-	-	43,882
Interfund Payables	238,772	157,785	146,675	-	111,820	579,623	-	3,054,319	42,493	4,331,487
Unearned Revenue	9,524	-	-	-	-	-	-	98,947	46,775	155,246
Irrigation and Pool Bonds Payable	61,500	-	-	-	-	-	-	-	-	61,500
Court Bonds Payable	256	-	-	-	-	-	-	-	-	256
Performance Bonds Payable	73,895	-	-	-	-	-	-	-	-	73,895
Total liabilities	2,795,440	157,785	682,452	-	111,945	579,623	-	4,145,543	89,268	8,562,056
Fund Balances:										
Nonspendable	8,896	-	-	-	-	-	-	-	-	8,896
Restricted	65,985	5,582,678	2,058,002	1,222,178	3,521,334	3,539,517	8,552,323	16,919,415	1,455,496	42,916,928
Committed	12,366,509	-	-	-	12,000,000	-	-	-	-	24,366,509
Assigned	674,725	-	-	-	-	-	554,229	-	-	1,228,954
Unassigned	4,187,612	-	-	-	-	-	-	-	(8,576)	4,179,036
Total fund balances	17,303,727	5,582,678	2,058,002	1,222,178	15,521,334	3,539,517	9,106,552	16,919,415	1,446,920	72,700,323
Total liabilities and fund balances	\$ 20,099,167	\$ 5,740,463	\$ 2,740,454	\$ 1,222,178	\$ 15,633,279	\$ 4,119,140	\$ 9,106,552	\$ 21,064,958	\$ 1,536,188	\$ 81,262,379

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 POSITION
JUNE 30, 2013

Exhibit D

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

Ending fund balance - governmental funds	\$ 72,700,323
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	234,558,011
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	1,694,693
Losses on refunding are not financial resources and, therefore, are not reported in the funds.	2,377,640
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(629,341)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(117,980,063)</u>
Net position of governmental activities	<u>\$ 192,721,263</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, 2013

Exhibit E

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fees	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-major Governmental	Total Governmental
REVENUES										
Real and Personal Property Tax	\$ 11,500,914	\$ 6,562,575	\$ -	\$ -	\$ -	\$ -	\$ 5,493,152	\$ 685,501	\$ -	\$ 24,242,142
Accommodations Tax	2,499,067	-	4,496,693	-	-	-	-	-	-	6,995,760
Hospitality Tax	-	-	-	-	-	5,250,995	-	-	-	5,250,995
Business License and Franchise Fees	8,709,707	-	-	-	-	-	-	-	-	8,709,707
Permits	1,368,166	-	-	-	-	-	-	-	-	1,368,166
Impact Fees	-	-	-	-	-	-	-	163,732	-	163,732
Lease	-	-	-	-	-	-	-	208,998	-	208,998
Real Estate Transfer Fees	-	-	-	2,255,107	-	-	-	-	-	2,255,107
Beach Preservation Fees	-	-	-	-	4,998,132	-	-	-	-	4,998,132
Electric Franchise Fees	-	-	-	-	-	-	-	-	2,668,405	2,668,405
State Shared Funds	800,659	-	-	-	-	-	-	381,015	-	1,181,674
Donations	155	-	-	-	-	-	-	20,000	-	20,155
Federal Reimbursement - BABS	-	-	-	-	-	-	189,634	-	-	189,634
Grants	243,083	-	-	-	-	-	-	27,622	-	270,705
EMS Revenue	1,198,868	-	-	-	-	-	-	-	-	1,198,868
Public Safety Revenue	53,758	-	-	-	-	-	-	-	-	53,758
Fines and Fees	262,022	-	-	-	-	-	-	-	-	262,022
Miscellaneous Revenue	506,311	-	-	-	-	-	-	-	-	506,311
Investment Income	2,732	1,137	364	254	3,033	339	76,527	3,269	5	87,660
Total revenues	27,145,442	6,563,712	4,497,057	2,255,361	5,001,165	5,251,334	5,759,313	1,490,137	2,668,410	60,631,931
EXPENDITURES										
Current:										
General Government	968,506	-	-	-	-	-	-	-	-	968,506
Management Services	4,512,873	-	-	-	-	-	-	-	-	4,512,873
Community Services	5,996,416	-	-	-	-	-	-	-	-	5,996,416
Public Safety	16,448,769	-	-	-	-	-	-	-	-	16,448,769
Non-Departmental	2,947,442	-	-	-	-	-	-	-	-	2,947,442
Culture and Recreation	-	-	1,611,719	-	-	295,313	-	-	-	1,907,032
Visitor and Convention Bureau	-	-	1,341,508	-	-	-	-	-	-	1,341,508
Administration	-	-	-	22,551	-	-	-	-	1,313,355	1,335,906
Debt service:										
Administrative charges	-	-	-	-	-	-	23,625	127,167	-	150,792
Interest	-	-	-	-	-	-	4,265,011	-	-	4,265,011
Principal Retirement	-	-	-	-	-	-	11,645,000	-	-	11,645,000
Capital outlay:										
Management Services	260,950	-	-	-	-	-	-	-	-	260,950
Community Services	-	-	-	-	-	-	-	13,142,653	-	13,142,653
Public Safety	193,516	-	-	-	-	-	-	-	-	193,516
Total expenditures	31,328,472	-	2,953,227	22,551	-	295,313	15,933,636	13,269,820	1,313,355	65,116,374
Excess (deficiency) of revenues over (under) expenditures	(4,183,030)	6,563,712	1,543,830	2,232,810	5,001,165	4,956,021	(10,174,323)	(11,779,683)	1,355,055	(4,484,443)
OTHER FINANCINGSOURCES (USES)										
Transfers Out	-	(5,841,889)	(1,178,148)	(2,152,296)	(4,737,428)	(4,885,124)	-	(4,215,828)	(82,551)	(23,093,264)
Proceeds from Sale of Land	-	-	-	-	-	-	-	266,622	-	266,622
Issuance of Bonds	-	-	-	-	-	-	-	9,000,000	-	9,000,000
Premium on Bond Issuance	-	-	-	-	-	-	-	664,056	-	664,056
Transfers In	5,673,200	-	-	-	-	2,453,132	12,692,882	2,510,180	-	23,329,394
Total other financing sources and (uses)	5,673,200	(5,841,889)	(1,178,148)	(2,152,296)	(4,737,428)	(2,431,992)	12,692,882	8,225,030	(82,551)	10,166,808
Net change in fund balance	1,490,170	721,823	365,682	80,514	263,737	2,524,029	2,518,559	(3,554,653)	1,272,504	5,682,365
Fund balances -- beginning	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
Fund balances -- ending	\$ 17,303,727	\$ 5,582,678	\$ 2,058,002	\$ 1,222,178	\$ 15,521,334	\$ 3,539,517	\$ 9,106,552	\$ 16,919,415	\$ 1,446,920	\$ 72,700,323

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, 2013

Exhibit F

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

Net change in fund balances - total governmental funds		\$ 5,682,365
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for capital assets	9,374,396	
Less current year depreciation	<u>(3,695,657)</u>	5,678,739
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
		2,168,907
<p>Adjustment to compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(164,979)
<p>The sale of capital assets provides current financial resources to governmental funds. However, in the statement of activities, the proceeds are netted against the original cost less accumulated depreciation.</p>		
		28,500
<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>		
		(311,248)
Changes in long-term debt interest payable		<u>25,188</u>
Change in net position of governmental activities		<u>\$ 13,107,472</u>

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit G

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	\$ 11,935,350	\$ 11,935,350	\$ 11,500,914	\$ (434,436)
Accommodations Tax	2,387,000	2,387,000	2,499,067	112,067
Business License and Franchise Fees	8,111,850	8,111,850	8,709,707	597,857
Permits	1,070,850	1,070,850	1,368,166	297,316
State Shared Funds	651,080	651,080	800,659	149,579
Donations	1,000	1,000	155	(845)
Grants	132,680	132,680	243,083	110,403
EMS Revenue	1,402,500	1,402,500	1,198,868	(203,632)
Public Safety Revenue	54,060	54,060	53,758	(302)
Fines and Fees	367,200	367,200	262,022	(105,178)
Miscellaneous Revenue	374,010	374,010	506,311	132,301
Investment Income	10,000	10,000	2,732	(7,268)
Total Revenues	<u>\$ 26,497,580</u>	<u>\$ 26,497,580</u>	<u>\$ 27,145,442</u>	<u>\$ 647,862</u>
Expenditures:				
Current:				
General Government	\$ 1,055,696	\$ 1,079,696	\$ 968,506	\$ 111,190
Management Services	4,938,111	5,082,969	4,512,873	570,096
Public Safety	16,792,602	16,755,327	16,448,769	306,558
Community Services	6,268,841	6,511,066	5,996,416	514,650
Non-Departmental	3,496,526	3,239,897	2,947,442	292,455
Capital Outlay	638,600	741,991	454,466	287,525
Total Expenditures	<u>33,190,376</u>	<u>33,410,946</u>	<u>31,328,472</u>	<u>2,082,474</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,692,796)</u>	<u>(6,913,366)</u>	<u>(4,183,030)</u>	<u>2,730,336</u>
Other financing sources (uses):				
Transfers In	5,875,341	5,580,030	5,673,200	93,170
Appropriated Fund Balance	-	515,881	-	(515,881)
Total other financing sources (uses)	<u>5,875,341</u>	<u>6,095,911</u>	<u>5,673,200</u>	<u>(422,711)</u>
Net change in fund balance	(817,455)	(817,455)	1,490,170	<u>\$ 2,307,625</u>
Fund balance - beginning	<u>14,793,505</u>	<u>13,585,093</u>	<u>15,813,557</u>	
Fund balance - ending	<u>\$ 13,976,050</u>	<u>\$ 12,767,638</u>	<u>\$ 17,303,727</u>	

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

Exhibit H

	Stormwater Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,408,559
Due from other governments	5,512
Interfund receivables	671
Prepays	152,439
Total current assets	2,567,181
Noncurrent assets:	
Capital assets depreciable	12,311,032
Capital assets non depreciable	990,067
Total noncurrent assets	13,301,099
Total assets	15,868,280
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	320,227
Interfund payables	190,063
Interest payable	91,532
Current portion of long-term liabilities	715,445
Total current liabilities	1,317,267
Noncurrent liabilities:	
Long-term liabilities	10,599,898
Total noncurrent liabilities	10,599,898
Total liabilities	11,917,165
NET POSITION	
Net investment in capital assets	1,985,756
Unrestricted	1,965,359
Total net position	\$ 3,951,115

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 NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit I

	Stormwater Fund
Operating revenues:	
Stormwater Fees	\$ 3,574,933
Other Revenue	5,512
Total operating revenues	3,580,445
Operating expenses:	
Maintenance and repair	464,833
Depreciation	661,589
Administrative	160,606
Total operating expenses	1,287,028
Operating Income (Loss)	2,293,417
Nonoperating revenues (expenses):	
Administrative	(104,758)
Interest Expense	(366,077)
Interest Income	253
Total non operating (expenses)	(470,582)
Income (Loss) before transfers	1,822,835
Transfers Out	(236,130)
Change in net position	1,586,705
Total net position - beginning	2,364,410
Total net position - ending	\$ 3,951,115

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, 2013

Exhibit J

	Stormwater Fund
<u>OPERATING ACTIVITIES</u>	
Receipts from other governments	\$ 5,642,455
Payments to suppliers	(322,236)
Payments to employees	(160,606)
Net cash provided by operating activities	5,159,613
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of capital assets	(1,369,100)
Payment of interest expense	(366,077)
Principal payment on bonds payable	(780,000)
Transfers to other funds	(236,130)
Net cash used for capital and related financing activities	(2,751,307)
<u>INVESTING ACTIVITIES</u>	
Proceeds from income on investments	253
Net cash provided by investing activities	253
Net increase (decrease) in cash and cash equivalents	2,408,559
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ 2,408,559
 Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ 2,293,417
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	661,589
(Increase) decrease in operating assets:	
Due from other governments	(5,512)
Due from other funds	2,067,522
Increase in operating liabilities:	
Accounts payable	142,597
Net cash provided by operating activities	\$ 5,159,613

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, 2013

Exhibit K

ASSETS

Cash and Temporary Investments	<u>\$ 30,910</u>
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LIABILITIES

Due to Firemen's Fund Association	<u>\$ 30,910</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.

In conformity with accounting principles generally accepted in the United States of America (GAAP), the financial statements of the Hilton Head Island Economic Development Corporation are shown as a blended component unit as its principal objective is to benefit the Town economically. Separate financial statements are not prepared for the Hilton Head Island Economic Development Corporation. All transactions are recorded in the General 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.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. This Statement defined deferred outflows of resources and deferred inflows of resources as a consumption and acquisition of net assets by the entity that is applicable to a future reporting period, respectively. This Statement also defined net position as the residual of all other elements presented in a statement of financial position. This Statement amends the reporting requirements of GASB Statement 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definition of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011, with early adoption permitted. The Town has elected to adopt this accounting standard for the fiscal year ended June 30, 2013.

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

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Government-wide Financial Statements. The statement of net position 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 position reports all financial and capital resources of the Town and reports the difference between assets and liabilities as net position 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.

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 related to economic development within the TIF districts.

Beach Preservation Fee (Special Revenue Fund). This fund is used to account for beach preservation fees. These revenues are used for expenditures related to nourishment and restoration of the Town's beaches.

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 related to environmental conservation.

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 related to tourism promotion.

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)

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 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.

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.

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)

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.

Property taxes for the year ended June 30, 2013, 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	December 31, 2011
Property tax due	January 15, 2013
Delinquent date	January 16, 2013
Levy date	October 2012
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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund, Debt Service Fund, Capital Projects Fund and the Stormwater 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, Debt Service Fund and Stormwater 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, Debt Service Fund and Stormwater Fund budgets.
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	\$ (295,311)
Prior Year Funds	515,881
Total Revenue Increases	<u>\$ 220,570</u>

Expenditure Increases/(Decreases):

Townwide - Short-Term Temporary Help	10,000
Townwide - Workers Compensation Deductibles	(67,500)
Townwide - Personnel Adjustment	(10,000)
Townwide - Professional Services	34,000
Townwide - Insurance	11,456
Townwide - General Contingency	45,727
Townwide - Event Management and Hospitality Training	15,000
Townwide - Community Development Corporation	(37,500)
Townwide - Public Art	37,500
Townwide - Heritage Classic Foundation	(295,312)
Town Council - Personnel Adjustment	24,000
Finance; Business License - Professional Services	96,146
Administration; Legal Administration - Personnel Adjustment	(10,000)
Administration; Municipal Court - Consulting Services	(4,000)
Administration; Municipal Court - Juror Witness Fees	4,000
Administration; Information Technology - Maintenance Contracts/Fees	34,690
Administration; Information Technology - Computer Software <\$50,000	8,772
Administration; Information Technology - Computer Software >\$50,000	33,651
Administration; Legal Administration Support - Personnel Adjustment	(4,000)
Administration; Human Resources - Overtime	2,000
Administration; Human Resources - Vantage Care Retirement	(2,000)
Administration; Human Resources - Recruitment	17,000
Administration; Human Resources - Consulting Services	2,250
Public Projects and Facilities; Engineering - Personnel Adjustment	40,500

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):

Public Projects and Facilities; Engineering - Roadways and Pathways Maintenance	10,000
Public Projects and Facilities; Engineering - Closed Loop Traffic Signal Maintenance	4,027
Public Projects and Facilities; Engineering - Traffic Control Consulting	6,750
Public Projects and Facilities; Facilities Management - Personnel Adjustment	9,000
Public Projects and Facilities; Facilities Management - Maintenance Contracts/Fees	(9,000)
Community Development; Administration - Salaries	(17,500)
Community Development; Administration - Vantagecare Retirement	(17,100)
Community Development; Inspection/Compliance - Personnel Adjustment	29,100
Community Development; DRZ - Consulting Services	180,948
Community Development; Comprehensive Planning - Personnel Adjustment	5,500
Fire & Rescue; Operating - Salaries	(52,900)
Fire & Rescue; Operating - PORS Retirement 3.5%	(13,400)
Fire & Rescue; Operating - Equipment <\$5,000	(800)
Fire & Rescue; Operating - Specialized Equipment	800
Fire & Rescue; Bureau of Fire Prevention - Personnel Adjustment	21,100
Fire & Rescue; Logistics and Maintenance - Specialized Equipment	9,340
Fire & Rescue; Communications - Radio Repair and Maintenance	2,000
Fire & Rescue; Communications - Radio Equipment	1,000
Fire & Rescue; Training - Personnel Adjustment	31,800
Fire & Rescue; Support Services - Personnel Adjustment	13,400
Fire & Rescue; Support Services - Uniforms & Protective Gear	11,754
Police Patrol - Office Rental	(50,000)
Police Patrol - Uniforms and Protective Gear	(550)
Police Patrol - Operational Supplies	8,371
Police Patrol - Electricity	(8,600)
Police Patrol - Specialized Equipment	17,600
Police Patrol - Vehicles	41,000
Police Patrol - Safety Supplies	550
Total Expenditure Increases	\$ 220,570

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 Increases (Decreases):

Property Tax Revenue	\$ 244,524
Proceeds from Sale of Land	269,987
Contributions	20,000
State Taxes - Sunday Permit Fees	(135,206)
Impact Fees	(433,560)
Grants	27,622
Lease Revenue	136,000
General Obligation Bond Proceeds	10,006,400
Tax Increment Financing Bond Proceeds	145,361
Special Obligation (Beach Fees) Bond Proceeds	117,210
Special Obligation (Hospitality Fees) Bond Proceeds	5,294,732
Transfers In	
Beach Preservation Fees	297,496
Tax Increment Financing	(852,505)
Stormwater Utility Fees	(40,000)
Hospitality Tax	(873,983)
	\$ 14,224,078

Expenditures Increases (Decreases):

Pathways

Dunnagan's Alley	\$ 116,261
Pembroke Drive	44,049
Leg O'Mutton Road	(239,009)
US 278 @ New Orleans to Shipyard	201,107
Garner Drive	39,049
Honey Horn Access Improvements	94,999
US 278 Wexford to Fresh Market Shoppes	(400,602)
US 278 Fresh Market Shoppes to Shelter Cove	(15,671)
US 278 Shelter Cove to Mathews Drive	(27,800)
US 278 Gardner Rd. to Mathews Drive	56,640
Pathway Rehabilitation	169,616
Pathway Kiosks	20,000
Palmetto Bay Road	57,378
	116,017

Road Improvements

Intersection Improvements	136,934
Pedestrian Crosswalks and Refuges	205,424
Fire and Rescue Emergency Access Points	(36,717)
US 278/Leamington/Fresh Market Shoppes	(973,963)
Mainland Transportation Improvements	400,000
Roadway Safety Improvements	62,193
Lemoyne Ave. Reconstruction	62,905
Mathews Drive/Chaplin Area Connectivity	(116,648)
Roadway Resurfacing	771,133
Directional Neighborhood Signs	19,250
Traffic Signal Mast Arms	(68,710)
Private (Dirt) Roads Acquisition	70,397
Marshland Road Roundabout	(889,329)
	(357,131)

Existing Facilities

Demolition of Structures	(18,335)
Fire Station #1 Replacement	56
Rehabilitation and Renovation of Fixed Assets	31,147
Fire Station #2 Replacement	(275,000)
Security Cameras	(23,334)
Town Hall Renovations	192,750
Fire Station #6 Replacement	241,845
Apparatus and Vehicle Replacement	178,448
Town Vehicle Replacement	(21,111)
	306,466

**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)

Park Development

Chaplin Community Park - Tennis Courts	(235,000)
Chaplin Community Park - Picnic Shelter	(3,345)
Public Art	4,255
Island Recreation - Aquatics Center	16,600
Island Recreation Improvements	122,317
Island Recreation S.H.A.R.E. Center	163,687
Rowing and Sailing Center	(554,956)
Crossings Park Upgrade	18,399
Jarvis Creek Park Playground Equipment	21,796
Collier Beach Park	(398,285)
Park Upgrades	3,168
	<u>(841,364)</u>

New Facilities/Infrastructure

Fire and Rescue Computer System	56,833
Public Safety Systems Equipment	818
Dispatch Center Equip. Upgrade	(7,195)
Mobile Computing AVL Upgrade	(8,644)
Coligny/Pope Avenue Area Improvements	(60,458)
AED Administrative Vehicles	(3,085)
Fire/Medical: AED Biphasic	(613)
Sewer Service - Islanders Beach Park	(40,000)
Sewer Service - Ford Shell Ring	307,855
Sewer Service - Barker Field	700,993
Sewer Service - SCDOT Parcel	499,007
Sewer Service - Fish Haul Park	24,842
Sewer Service - Marshland Road	25,388
Sewer Service - Chaplin South	116,500
58 Shelter Lane Building - Town Upfit	918
58 Shelter Lane Building - Sheriff's Office	264,826
	<u>1,877,985</u>

Beach Maintenance

Beach Management	(250,044)
Beach /Parks Access	77,665
Island-Wide Beach Renourishment	586,503
Port Royal Ocean Point Project	169,342
Port Royal Fill Project	106,500
Shoreline Management	142,085
	<u>832,051</u>

Land Acquisition

Land Acquisition	<u>8,580,115</u>
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Bond Costs of Issuance

235,667

Transfers Out

Hospitality Fee	2,453,132
Debt Service Fund	1,061,140
	<u>3,514,272</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)

Debt Service Fund

Revenue Increases (Decreases):

Transfers In:

Real Estate Transfer Fees	(462,062)
Beach Preservation Fees	(209)
Hospitality Fees	(1,000)
Tax Increment Financing	(452)
Series 2011B Hospitality Bond Proceeds	1,061,140
Investment Income	7,496
	<u>604,913</u>

Expenditure Increases (Decreases):

Administrative	5,835
	<u>5,835</u>

Stormwater Fund

Revenue Increases (Decreases):

Stormwater Fees	1,501,963
Stormwater Fees Bond Proceeds	(4,350,473)
	<u>(2,848,510)</u>

Expenditures Increases (Decreases)

Transfers Out:

Capital Projects Fund	(40,000)
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General:

Salaries	3,638
Travel	(6,000)
Public Education	3,500
Mapping Update	(530)
Tools and Equipment	3,200
Cellular Phones	(1,200)
Vehicle Fuel	(1,000)
Permitting	(12,000)
Administrative Fees	(2,570)
Water Quality Monitoring	17,355
	<u>4,393</u>

Hilton Head Plantation Stormwater Improvements:

Stormwater Maintenance	(121,500)
Infrastructure Improvements	238,713
Pond Control	(66,769)
Golden Hind	26,740
Myrtle Bank Lane	23,400
Isabella Court	33,000
Bear Creek Outfall	(97,160)
Big Woods Outfall	(65,000)
Seabrook	8,035
Sweetwater	25,000
	<u>4,459</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)

Stormwater Fund (continued)

Indigo Run Plantation Stormwater Improvements

Stormwater Maintenance	(74,743)
Infrastructure Improvements	(250,000)
Wiler's Creek Bank Stabilization	(63,660)
Colonial Drive Flooding	(25,000)
Long Reach Hoe Work	20,000
	(393,403)

Long Cove Club Stormwater Improvements

Stormwater Maintenance	2,222
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Leamington Plantation Stormwater Improvements

Stormwater Maintenance	(35,000)
Ditch Clearing	(15,000)
	(50,000)

Palmetto Dunes Plantation Stormwater Improvements

Drainage	(2,100)
Mooring Buoy Culvert Replacement	(60,000)
Man O' War and Longboat Row Drainage	(20,000)
Longboat to Man O' War Pipe Cleaning	(3,338)
Queens Folly Row Drainage Pipe Cleaning	(20,000)
Queens Folly Row Median Drainage	(10,000)
	(115,438)

Palmetto Hall Plantation Stormwater Improvements

Stormwater Maintenance	5,000
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Port Royal Plantation Stormwater Improvements

Stormwater Maintenance	(20,000)
Culvert Upgrade	16,000
Canal Dredging	(200,000)
Scarborough Channel Widening	(50,000)
Infrastructure Improvements	147,574
	(106,426)

Shipyards Plantation Stormwater Improvements

Stormwater Maintenance	(43,724)
Cottages and Shipmaster Sinkholes	4,310
Galleon Fairways Flooding	(20,000)
Tennismaster	70,800
Gloucester Road - Extend Culvert	(5,000)
Culvert Upgrades	(125,000)
Trimming in US 278 Culverts	(15,954)
Long Reach Hoe Work	15,000
Shipyards Raquet Club and Port O' Call	23,000
Pump Station	10,777
	(85,791)

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

Stormwater Fund (continued)

Wexford Plantation Stormwater Improvements

Stormwater Maintenance	(49,900)
Ditch Work Along Powerline Easement	(30,000)
Pump Station	412,769
	332,869

Sea Pines Plantation Stormwater Improvements

Stormwater Maintenance	(53,000)
Ruddy Turnstone	5,200
Inventory and Modeling	(600,000)
Sea Pines Country Club Lagoon	23,750
Pump Station	(18,342)
	(642,392)

Beaufort County Stormwater Improvements

Stormwater Maintenance	8,163
Shamrock Circle Roadside Ditch	(80,000)
US 278 at New Orleans Road Drainage Improvements	20,714
New Orleans Road - Pipe and Ditch	13,534
Channel Maintenance of Easements	20,237
	(17,352)

Non PUD Stormwater Improvements

Stormwater Maintenance	(1,125,000)
Jarvis Creek Park Sewer System	(40,000)
Jarvis Bypass Channel	(70,000)
Gumtree Road South Outfall	(88,968)
Broad Creek at Shelter Cove Improvements	(38,051)
Oakmarsh Road Outfall	(10,000)
Mathews Drive at Matilda Drive Bank Erosion	(11,300)
Palmetto Headlands Ditch Cleaning	35,625
Firethorn Lane Pipe Replacement	138,000
Folly Field Channel Cleanout	(75,000)
Old Woodlands and Pond Weir Channel Work	(20,000)
Unaffiliated Watersheds	38,424
Myrtle Lane and Hickory Lane Improvements	84,652
Executive Park Drainage Outfall	68,970
Leg O'Mutton Site Cleanup	11,000
US 278 at Beach City Road Ditch Cleaning	11,820
North Forest Beach Side Street Work	9,300
Grace Community Church Property	900
Tide Point Easement Clearing	23,800
Sea Cloisters/Folly Field Maintenance	5,000
Long Reach Hoe/Northridge System Maintenance	25,000
Pump Stations	(171,951)
	(1,197,779)

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

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (Continued)

Stormwater Fund (continued)

State of South Carolina Stormwater Improvements

Stormwater Maintenance	(142,700)
Arrow Road Improvements	(359,020)
Fish Haul Culverts	(90,152)
Mathews Culvert Outfall	(80,000)
Bermuda Point Improvements	900
Palmetto Bay Embankment Erosion	1,020
Marshland Road Improvements	6,336
US 278 Median Swale at Central Avenue	9,559
US 278 Flooding	(99,917)
Folly Field Road Improvements	145,100
Cordillo Parkway Pipe and Channel Cleaning	20,000
	(588,874)

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 position. 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 Position

For the government-wide financial statements, net positions are reported as restricted when constraints placed on net position are either: 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by laws of the State of South Carolina 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, 2013, the Town evaluated events and transactions for potential recognition or disclosure through December 12, 2013.

Note 2. Cash, Cash Equivalents, and Investments

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

	Cash and Cash Equivalents	Investments	Total
Governmental Activities:			
General Fund	\$ 15,035,375	\$ -	\$ 15,035,375
Tax Increment Financing	5,478,056	-	5,478,056
Accommodations Tax	1,216,809	-	1,216,809
Real Estate Transfer Fees	990,062	-	990,062
Beach Preservation Fees	13,926,295	-	13,926,295
Debt Service	7,566,371	775,775	8,342,146
Hospitality Tax	1,017,218	-	1,017,218
Capital Projects	20,132,837	-	20,132,837
Town Franchise Fees	1,352,984	-	1,352,984
Home Grant	44,098	-	44,098
Total Governmental Activities	<u>\$ 66,760,105</u>	<u>\$ 775,775</u>	<u>\$ 67,535,880</u>
Business-Type Activities:			
Stormwater Utility Fees	<u>\$ 2,408,559</u>		<u>\$ 2,408,559</u>

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

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

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2013, the \$ 69,167,075 carrying balance and \$ 69,944,439 bank balance were held in various banks of which \$ 515,414 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, 2013, the Town had investments and maturities as shown below:

	Fair Value	1 Year
Federal Home Loan Bank Discount Note	775,775	775,775
Total	\$ 775,775	\$ 775,775

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, 2013, the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)
Federal Home Loan Bank Discount Note	<u>775,775</u>	<u>775,775</u>
	<u>\$ 775,775</u>	<u>\$ 775,775</u>

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

Note 3. Receivables

At June 30, 2013, the Town's receivable balances were as follows:

	Government-wide Financial Statements					
	Fund Financial Statements					
	General Fund	Beach Preservation Fee	Hospitality Fee	Capital Projects Fund	Non-Major Governmental	Total
Receivables:						
EMS Fees	\$ 761,946	\$ -	\$ -	\$ -	\$ -	\$ 761,946
Local accommodations taxes	823,818	-	-	-	-	823,818
Business license revenue	1,173,956	-	-	-	-	1,173,956
Other receivables	261,520	-	-	94	139,106	400,720
Beach preservation fees	-	1,647,635	-	-	-	1,647,635
Hospitality taxes	-	-	1,328,433	-	-	1,328,433
Total Receivables	\$ 3,021,240	\$ 1,647,635	\$ 1,328,433	\$ 94	\$ 139,106	\$ 6,136,508
Receivables from Employees:						
Cobra Insurance	\$ (8,262)	\$ -	\$ -	\$ -	\$ -	\$ (8,262)
Computer Purchases*	29,168	-	-	-	-	29,168
Total Receivables from Employees	\$ 20,906	\$ -	\$ -	\$ -	\$ -	\$ 20,906

*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, 2013 for which payment was received/made after June 30, 2013.

Governmental activities interfund receivables and payable balances at June 30, 2013 are as follows:

	Due From								
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Hospitality Fees	Beach Preservation Fees	Capital Projects Fund	Non-Major Governmental	Proprietary Fund	Total
<u>Due To:</u>									
General	\$ -	\$ 157,785	\$ 146,675	\$ 250,074	\$ -	\$ 527,544	\$ 42,493	\$ 190,063	\$ 1,314,634
Capital Project Fund	89,073	-	-	324,549	106,820	-	-	-	520,442
Hospitality Fee	-	-	-	-	-	1,773,489	-	-	1,773,489
Beach Preservation Fees	59,349	-	-	-	-	-	-	-	59,349
Tax Increment Financing	-	-	-	-	-	88,559	-	-	88,559
Proprietary Fund	-	-	-	-	-	671	-	-	671
Debt Service Fund	90,350	-	-	5,000	5,000	664,056	-	-	764,406
Total	\$ 238,772	\$ 157,785	\$ 146,675	\$ 579,623	\$ 111,820	\$ 3,054,319	\$ 42,493	\$ 190,063	\$ 4,521,550

**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, 2013 are summarized below:

<u>Recipient Fund</u>	<u>Transferring Fund</u>	<u>Amount</u>
General Fund	Tax Increment Financing	\$ 182,930
General Fund	Accommodations Tax	1,178,148
General Fund	Hospitality Fee	2,974,236
General Fund	Beach Preservation Fee	981,705
General Fund	Capital Projects Fund	37,500
General Fund	Non-Major Governmental Fund	82,551
General Fund	Proprietary Fund	236,130
Hospitality Fee	Capital Projects Fund	2,453,132
Capital Projects Fund	Beach Preservation Fee	642,078
Capital Projects Fund	Hospitality Fee	273,575
Capital Projects Fund	Tax Increment Financing	1,594,527
Debt Service Fund	Capital Projects Fund	1,725,196
Debt Service Fund	Tax Increment Financing	4,064,432
Debt Service Fund	Real Estate Transfer Fee	2,152,296
Debt Service Fund	Hospitality Fee	1,637,313
Debt Service Fund	Beach Preservation Fee	3,113,645
		<u>\$ 23,329,394</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>	<u>Amount</u>
Property Taxes - Beaufort County	\$ 402,422
Beaufort County - Oceanwoods Landscaping	4,725
E 911 - Beaufort County	59,342
Beaufort County - DHEC Grant	4,404
Dispatch/ EMS 911 - Beaufort County	12,500
State of South Carolina - Aid to Sub-Division	171,850
State of South Carolina - Traffic Signal Maintenance	35,419
State of South Carolina - Road Repairs	13,453
State of South Carolina - Merchant Inventory	2,897
	<u>\$ 707,012</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	\$ 73,450
State of SC CDBG Grant	6,497
Beaufort County - Capital Sales Tax	331,638
	411,585
<u>Accomodations Taxes</u>	
State of South Carolina	1,523,645
<u>Real Estate Transfer Fees</u>	
Beaufort County	232,116
<u>Tax Increment Financing District</u>	
Beaufort County	173,848
Total Due from Other Governments	\$ 3,048,206

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

<u>General Fund</u>	
Municipal Court State Fees - SC State Treasurer	\$ 33,321
State of South Carolina - Sales & Use Tax	10,561
	43,882
Total Due to Other Governments	\$ 43,882

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, 2013, 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.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned. 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.

The Town considers restricted amounts to have been spent when an expenditure is incurred for the purpose for which both restricted and unrestricted amounts are available. When an expenditure is incurred for which committed, assigned or unassigned amounts could be used, the Town considers expenditures to be used in their respective order.

Fund balances for all the major and non-major funds as of June 30, 2013, were distributed as follows:

<u>Classification/Fund</u>	<u>Purpose</u>	<u>Amount</u>
Nonspendable		
General	Long-term employee receivables	\$ 8,896
Restricted		
General	Deposits in escrow	65,985
Tax Increment Financing District	Economic development	5,582,678
Accommodations Tax	Tourism promotion	2,058,002
Real Estate Transfer Fee	Environmental conservation	1,222,178
Beach Preservation Fee	Beach noutishment and restoration	3,521,334
Hospitality Fee	Public health and safety	3,539,517
Debt Service	Debt service payments	8,552,323
Capital Projects	Construction of major capital facilities	16,919,415
Palmetto Electric	Underground electrical service	1,455,496
Committed		
General	Disaster reserve	12,366,509
Beach Preservation Fee	Beach renourishment	12,000,000
Assigned		
General	FY14 Budget	674,725
Debt Service	FY14 Budget	554,229
Unassigned		
HOME grant	HOME grant program	(8,576)
General		<u>4,187,612</u>
	Total Fund Balances	<u>\$ 72,700,323</u>

**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.

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

Note 7. Accounts Payable

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

	Government-Wide Financial Statements					
	Fund Financial Statements					
	General Fund	Beach Preservation Fees	Accommodations Tax Fund	Capital Project Fund	Proprietary Fund	Total
Payables:						
Accounts payable	\$ 1,346,034	\$ 125	\$ 535,777	\$ 992,277	\$ 320,227	\$ 3,194,440
Accrued payroll	1,021,577	-	-	-	-	1,021,577
Total payables	\$ 2,367,611	\$ 125	\$ 535,777	\$ 992,277	\$ 320,227	\$ 4,216,017

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

Note 8. Unearned/Deferred Revenue and Net Position

Unearned/Deferred Revenue

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

	Deferred Revenue	Unearned Revenue
Grant revenues received in advance of being earned:		
General Fund	\$ 9,524	\$ 9,524
Capital Projects Fund	98,947	98,947
Nonmajor Governmental Fund - Home Grant	46,775	46,775
	\$ 155,246	\$ 155,246

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 Position

Net position represents the difference between assets and liabilities and were as follows:

	Governmental Activities	Business-Type Activities
Net investment in capital assets		
Net capital assets	\$ 234,558,011	13,301,099
Less: General obligation bonds	(64,505,000)	-
Special obligation bonds	(38,215,000)	(12,390,000)
TIF Bonds	(7,860,000)	-
Certificates of participation	(1,260,000)	-
Bond premiums	(2,186,424)	-
Add: Loss on refunding	2,377,639	1,074,657
Unspent bond proceeds	11,820,866	-
	134,730,092	1,985,756
Restricted for:		
Deposits in escrow	65,985	-
Economic development	5,582,678	-
Tourism promotion	2,058,002	-
Environmental conservation	1,222,178	-
Beach nourishment and restoration	3,521,334	-
Public health and safety	3,539,517	-
Debt service payments	8,552,323	-
Construction of major capital facilities	16,862,833	-
Underground electrical service	1,455,496	-
Unrestricted:	15,130,825	1,965,359
Total net position	\$ 192,721,263	\$ 3,951,115

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 2013: \$ 1,341,508) and thirty percent (30%, FY 2012: \$1,096,019) 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 \$25,201 were lapsed during the fiscal year ended June 30, 2013, \$16,045 being lapsed against 2011 grants and \$9,156 being lapsed against 2012 grants.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2013:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>
<u>Grants (not Town related)</u>			
Art League of Hilton Head Island	\$ 40,000	\$ 21,922	\$ -
Art League of Hilton Head Island	50,000	50,000	-
Arts Center of Coastal Carolina	346,678	1,235	-
Arts Center of Coastal Carolina	366,993	366,993	-
Coastal Discovery Museum	168,000	86,363	-
Coastal Discovery Museum	168,000	99,679	-
Community Foundation of the Lowcountry - Mitchelville Project	50,000	35,519	-
Harbour Town Merchants Association - 4th of July Fireworks	8,000	8,000	-
Heritage Library Foundation	15,000	11,300	-
Heritage Library Foundation	10,000	6,112	-
Hilton Head Audubon Society	5,000	5,000	-
Hilton Head Choral Society	12,000	6,000	-
Hilton Head Choral Society	22,000	22,000	-
Hilton Head Dance Theatre	12,000	12,000	-
Hilton Head Hospitality Association	36,853	36,853	-
Hilton Head Hospitality Association	40,000	40,000	-
Hilton Head Island Concourse D'Elegance	115,000	115,000	-
Hilton Head Institute	25,000	3,500	-
Hilton Head Island St. Patrick's Day Parade	8,000	-	8,000
Hilton Head Island St. Patrick's Day Parade	8,000	-	856
Hilton Head Island St. Patrick's Day Parade	8,000	8,000	-
Hilton Head Island Symphony Orchestra-Special Request	30,000	12,192	8,300
Hilton Head Island-Bluffton Chamber of Commerce Marketing	240,000	185,670	-
Hilton Head Island-Bluffton Chamber of Commerce Marketing	250,000	63,409	-
Hilton Head Symphony Orchestra	143,820	-	45
Hilton Head Symphony Orchestra	175,000	175,000	-
Lowcountry Golf Course Owners Association	50,000	25,000	-
Main Street Youth Theatre	42,000	42,000	-
Native Island Business and Community Affairs Association	79,673	47,319	-
Native Island Business and Community Affairs Association	75,266	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	6,650	6,650	-
South Carolina Repertory Company	12,000	12,000	-
The Sandbox: An Interactive Children's Museum	50,000	40,159	-
The Sandbox: An Interactive Children's Museum	50,000	26,024	-
Total Grants (not Town related)	<u>\$ 2,734,933</u>	<u>\$ 1,611,719</u>	<u>\$ 25,201</u>
<u>Other Financing Uses</u>			
Transfer to General Fund	\$ 929,563	\$ 1,178,148	\$ -
Total Other Financing Uses	<u>\$ 929,563</u>	<u>\$ 1,178,148</u>	<u>\$ -</u>

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 \$ 713,671 was approved for operations during 2012/2013.

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

<u>For the year ended June 30,</u>	<u>Accommodations Tax Grants</u>			
	<u>Approved</u>	<u>Paid</u>	<u>Lapsed</u>	<u>Unpaid</u>
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
2012	2,279,166	(1,210,594)	(2,795)	1,065,777

Town council has approved amounts for 2013/2014 grants as follows:

Art League of Hilton Head	\$ 40,000
Harbour Town Merchants Association	8,000
Hilton Head Choral Society	12,000
Hilton Head Concours d'Elegance	115,000
Hilton Head Dance Theater	12,000
Hilton Head Hospitality Association	40,000
Hilton Head Institute	25,000
Hilton Head St. Patrick's Day Parade	8,000
Hilton Head-Bluffton Chamber of Commerce	250,000
Hilton Head Symphony Orchestra	175,000
Lowcountry Golf Course Owners Association	50,000
Main Street Youth Theater	12,000
Mitchelville Preservation Project	15,000
Shelter Cove Harbour Company	8,000
Skull Creek July 4th Celebration	8,000
South Carolina Repertory Company	12,000
Coastal Discovery Museum	168,000
Heritage Library Foundation	10,000
The Sandbox: An Interactive Children's Museum	50,000
	<u>\$ 1,018,000</u>

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

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 \$111.8 million in outstanding bonds associated with governmental type activities and \$12.4 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.

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
2014	4,081,403	12,950,000	17,031,403	344,442	805,000	1,149,442
2015	3,702,756	12,995,000	16,697,756	322,063	825,000	1,147,063
2016	3,278,426	7,420,000	10,698,426	299,128	850,000	1,149,128
2017	3,006,210	7,680,000	10,686,210	275,498	875,000	1,150,498
2018	2,724,598	7,965,000	10,689,598	251,173	900,000	1,151,173
2019-2023	9,917,404	29,870,000	39,787,404	867,221	4,875,000	5,742,221
2024-2028	5,155,679	18,290,000	23,445,679	183,063	3,260,000	3,443,063
2029-2033	2,339,881	9,685,000	12,024,881	-	-	-
2034-2038	392,727	4,985,000	5,377,727	-	-	-
Total	\$ 34,599,084	\$ 111,840,000	\$ 146,439,084	\$ 2,542,588	\$ 12,390,000	\$ 14,932,588

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

Note 10. Long-Term Obligations (continued)

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, 2012		\$ 840,326,016
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval		67,226,081
Council Imposed 80% Cap		53,780,865
Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds 2009A (Refunding of Series 1999A)	4,870,000	
General Obligation Bonds 2013A (Partial)	4,000,000	
Total Amount Applicable to Debt Limit		8,870,000
 Legal Debt Margin without a Referendum		 \$ 44,910,865

**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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	3.350	37,855	1,130,000	1,167,855
		\$ 37,855	\$ 1,130,000	\$ 1,167,855

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, 2013 \$ 925,497 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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	3.970	5,161	130,000	135,161
		\$ 5,161	\$ 130,000	\$ 135,161

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)

\$24,265,000 General Obligation Bonds Dated March 15, 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 placed in an irrevocable trust for in substance defeasance. 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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	3.750	786,634	1,645,000	2,431,634
2015	4.000	721,590	1,710,000	2,431,590
2016	5.000	642,765	1,785,000	2,427,765
2017	5.000	551,265	1,875,000	2,426,265
2018	5.000	455,390	1,960,000	2,415,390
2019-2023	various	992,540	7,770,000	8,762,540
2024-2025	various	70,690	1,605,000	1,675,690
		<u>\$ 4,220,874</u>	<u>\$ 18,350,000</u>	<u>\$ 22,570,874</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay the first \$1,366,500 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 4, 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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	3.750	404,662	700,000	1,104,662
2015	4.000	377,137	720,000	1,097,137
2016	4.000	347,837	745,000	1,092,837
2017	5.000	313,562	775,000	1,088,562
2018	5.000	273,813	815,000	1,088,813
2019-2023	various	790,781	4,655,000	5,445,781
2024	4.750	25,175	1,060,000	1,085,175
		<u>\$ 2,532,967</u>	<u>\$ 9,470,000</u>	<u>\$ 12,002,967</u>

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

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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	2.750	103,370	385,000	488,370
2019-2023	various	337,428	2,100,000	2,437,428
2024-2025	3.500	33,250	940,000	973,250
		<u>\$ 984,106</u>	<u>\$ 4,870,000</u>	<u>\$ 5,854,106</u>

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

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

Note 10. Long-Term Obligations (continued)

\$12,000,000 General Obligation Bonds Dated February 3, 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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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	4.350	466,543	485,000	951,543
2019-2023	various	1,990,935	2,660,000	4,650,935
2024-2028	various	1,327,015	2,425,000	3,752,015
2029-2033	various	721,018	2,380,000	3,101,018
2034-2035	5.650	93,508	1,095,000	1,188,508
		\$ 6,636,343	\$ 10,870,000	\$ 17,506,343

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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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	3.000	308,694	660,000	968,694
2019-2023	various	1,247,344	3,585,000	4,832,344
2024-2028	various	630,350	4,225,000	4,855,350
2029	3.750	35,063	935,000	970,063
		\$ 3,609,727	\$ 11,945,000	\$ 15,554,727

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)

\$5,000,000 General Obligation Bonds Dated June 18, 2013

On June 18, 2013, the Town issued \$5,000,000 in general obligation bonds to finance land acquisition. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	3.000	136,183	366,667	502,850
2015	4.000	182,778	147,222	330,000
2016	3.000	176,889	152,778	329,667
2017	5.000	172,306	155,556	327,862
2018	5.000	164,528	163,889	328,417
2019-2023	various	733,639	911,111	1,644,750
2024-2028	various	520,139	1,125,000	1,645,139
2029-2033	various	288,389	1,355,555	1,643,944
2034-2035	4.000	37,556	622,222	659,778
		\$ 2,412,407	\$ 5,000,000	\$ 7,412,407

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

\$4,000,000 General Obligation Bonds Dated June 18, 2013

On June 18, 2013, the Town issued \$4,000,000 in general obligation bonds to finance land acquisition. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	3.000	108,946	293,333	402,279
2015	4.000	146,222	117,778	264,000
2016	3.000	141,511	122,222	263,733
2017	5.000	137,844	124,444	262,288
2018	5.000	131,622	131,111	262,733
2019-2023	various	586,911	728,889	1,315,800
2024-2028	various	416,111	900,000	1,316,111
2029-2033	various	230,711	1,084,445	1,315,156
2034-2035	4.000	30,044	497,778	527,822
		\$ 1,929,922	\$ 4,000,000	\$ 5,929,922

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)

\$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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	5.000	186,330	2,595,000	2,781,330
2015	5.000	67,500	2,700,000	2,767,500
		<u>\$ 253,830</u>	<u>\$ 5,295,000</u>	<u>\$ 5,548,830</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, 2013, \$1,900,079 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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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	various	193,231	440,000	633,231
2019-2023	various	749,888	2,400,000	3,149,888
2024-2028	various	319,180	2,820,000	3,139,180
		<u>\$ 2,120,175</u>	<u>\$ 7,320,000</u>	<u>\$ 9,440,175</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, 2013, \$629,520 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

Note 10. Long-Term Obligations (continued)

\$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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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	3.000	546,119	455,000	1,001,119
2019-2023	various	2,459,644	2,545,000	5,004,644
2024-2028	various	1,813,769	3,190,000	5,003,769
2029-2033	various	1,064,700	3,930,000	4,994,700
2034-2036	4.125	231,619	2,770,000	3,001,619
		\$ 8,404,227	\$ 14,600,000	\$ 23,004,227

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, 2013, \$1,078,997 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

Note 10. Long-Term Obligations (continued)

\$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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
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	2.000	81,288	2,470,000	2,551,288
2019	2.250	28,294	2,515,000	2,543,294
		<u>\$ 1,094,409</u>	<u>\$ 11,000,000</u>	<u>\$ 12,094,409</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, 2013, \$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.

\$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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	4.650	66,960	930,000	996,960
2015	4.650	22,669	975,000	997,669
		<u>\$ 89,629</u>	<u>\$ 1,905,000</u>	<u>\$ 1,994,629</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 Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2014	2.9750	177,161	2,920,000	3,097,161
2015	2.9750	90,291	3,035,000	3,125,291
		<u>\$ 267,452</u>	<u>\$ 5,955,000</u>	<u>\$ 6,222,452</u>

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

Note 10. Long-Term Obligations (continued)

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, 2013, \$30,615,000 of bonds are considered defeased debt.

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 an irrevocable trust for in substance defeasance. The difference between the reacquisition price and the carrying value of the old debt resulted in a loss on refunding of \$1,343,322. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds by \$ 2,837,355 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$ 943,642. A schedule of the amount due for this issue follows:

For the Year Ending June 30	Interest Rate by Year (%)	Business-Type Activities		
		Interest	Principal	Total
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	2.780	251,173	900,000	1,151,173
2019-2023	2.780	867,221	4,875,000	5,742,221
2024-2026	2.780	183,063	3,260,000	3,443,063
		\$ 2,542,588	\$ 12,390,000	\$ 14,932,588

**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	\$ 58,965,000	\$ 9,000,000	\$ 3,460,000	\$ 64,505,000	\$ 4,425,000
Certificates of participation	2,445,000	-	1,185,000	1,260,000	1,260,000
Tax increment financing	11,555,000	-	3,695,000	7,860,000	3,850,000
Special Obligation Bonds:					
Beach preservation fees	18,795,000	-	2,500,000	16,295,000	2,595,000
Hospitality tax	22,725,000	-	805,000	21,920,000	820,000
Premium on bonds	1,710,331	664,056	187,963	2,186,424	181,962
Loss on refunding	(2,550,132)	-	(172,493)	(2,377,639)	(172,493)
Total bonds and notes payable	<u>113,645,199</u>	<u>9,664,056</u>	<u>11,660,470</u>	<u>111,648,785</u>	<u>12,959,469</u>
Other liabilities:					
Compensated absences	<u>3,788,659</u>	<u>2,117,028</u>	<u>1,952,049</u>	<u>3,953,638</u>	<u>3,558,274</u>
Total other liabilities	<u>3,788,659</u>	<u>2,117,028</u>	<u>1,952,049</u>	<u>3,953,638</u>	<u>3,558,274</u>
Governmental activities long-term liabilities	<u>\$ 117,433,858</u>	<u>\$ 11,781,084</u>	<u>\$ 13,612,519</u>	<u>\$ 115,602,423</u>	<u>\$ 16,517,743</u>
Business-type Activities:					
Bonds and notes payable:					
Stormwater fees	13,170,000	-	780,000	12,390,000	805,000
Loss on refunding	(1,164,212)	-	(89,555)	(1,074,657)	(89,555)
Total bonds and notes payable	<u>12,005,788</u>	<u>-</u>	<u>690,445</u>	<u>11,315,343</u>	<u>715,445</u>
Business-type activities long-term liabilities	<u>\$ 12,005,788</u>	<u>\$ -</u>	<u>\$ 690,445</u>	<u>\$ 11,315,343</u>	<u>\$ 715,445</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, 2013 was as follows:

<u>Primary Government</u>	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 158,951,496	\$ 6,077,215	\$ (1,090,574)	\$ 163,938,137
Development Rights	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	3,548,960
Construction in progress	881,040	9,402,543	(7,969,432)	2,314,151
Total capital assets not being depreciated	<u>174,115,887</u>	<u>15,479,758</u>	<u>(9,060,006)</u>	<u>180,535,639</u>
Capital assets being depreciated:				
Buildings	25,675,109	1,300,591	-	26,975,700
Furniture, fixtures and equipment	5,273,895	241,537	(40,051)	5,475,381
Vehicles	6,832,059	380,236	(103,337)	7,108,958
Imp. other than buildings - park development	11,801,719	203,882	-	12,005,601
Infrastructure	31,232,035	856,545	-	32,088,580
Total capital assets being depreciated	<u>80,814,817</u>	<u>2,982,791</u>	<u>(143,388)</u>	<u>83,654,220</u>
Less accumulated depreciation for:				
Buildings	7,994,751	1,008,649	-	9,003,400
Furniture, fixtures and equipment	3,672,289	443,688	(40,051)	4,075,926
Vehicles	2,328,391	514,254	(103,337)	2,739,308
Imp. other than buildings - park development	2,128,531	472,721	-	2,601,252
Infrastructure	9,955,965	1,255,997	-	11,211,962
Total accumulated depreciation	<u>26,079,927</u>	<u>3,695,309</u>	<u>(143,388)</u>	<u>29,631,848</u>
Total capital assets being depreciated, net	<u>54,734,890</u>	<u>(712,518)</u>	<u>-</u>	<u>54,022,372</u>
Government activity capital assets, net	<u>\$ 228,850,777</u>	<u>\$ 14,767,240</u>	<u>\$ (9,060,006)</u>	<u>\$ 234,558,011</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 192,910	\$ 1,698,339	\$ (901,182)	\$ 990,067
Total capital assets not being depreciated	<u>192,910</u>	<u>1,698,339</u>	<u>(901,182)</u>	<u>990,067</u>
Capital assets being depreciated:				
Infrastructure	16,579,296	571,943	-	17,151,239
Total capital assets being depreciated	<u>16,579,296</u>	<u>571,943</u>	<u>-</u>	<u>17,151,239</u>
Less accumulated depreciation for:				
Infrastructure	4,178,618	661,589	-	4,840,207
Total accumulated depreciation	<u>4,178,618</u>	<u>661,589</u>	<u>-</u>	<u>4,840,207</u>
Total capital assets being depreciated, net	<u>12,400,678</u>	<u>(89,646)</u>	<u>-</u>	<u>12,311,032</u>
Business-type activity capital assets, net	<u>\$ 12,593,588</u>	<u>\$ 1,608,693</u>	<u>\$ (901,182)</u>	<u>\$ 13,301,099</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	\$ 376,977
Management Services	180,497
Community Services	1,838,302
Public Safety	<u>1,299,533</u>
Total depreciation expense - governmental activities	<u>\$ 3,695,309</u>
 Business-type activities:	
Stormwater	<u>\$ 661,589</u>
Total depreciation expense - business-type activities	<u>\$ 661,589</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, 2013, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities	\$ 1,492,070
Park Development	765,810
Land and Related Acquisitions and Improvements	6,080,116
Beach Maintenance	711,633
Facilities Improvements	1,069,206
Roadway Improvements	1,669,550
Pathways Improvements	1,354,268
Total	<u>\$ 13,142,653</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2013, the Town had contractual commitments of approximately \$13,163,602 in progress. Through June 30, 2013, approximately \$6,228,593 in costs had been incurred on these commitments. At June 30, 2013, the Town had outstanding contractual commitments totaling approximately \$6,935,009 for capital projects in progress.

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

Note 13. Contracted Commitments and Operating Leases (continued)

Operating Leases

The Town leases various Town-owned properties to entities for office space, recreational facilities and cellular towers. The leases range from thirty days to five years under noncancelable operating leases. The minimum lease payments the Town will receive are as follows for the years ending June 30:

2014	\$ 97,137
2015	64,191
2016	12,001
2017	12,001
2018	<u>1</u>
	<u>\$ 185,331</u>

At June 30, 2013, 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
2014	\$ 65,674
2015	29,783
2016	<u>2,003</u>
	<u>\$ 97,460</u>

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, 2013, 2012 and 2011, employer contributions were based on a total payroll of \$7,635,178, \$7,932,369, and \$7,817,586, respectively. The amount contributed by the employer for the year ended June 30, 2013 was \$653,453 or 8.6% of covered payroll. During the years ended June 30, 2012 and 2011, \$670,941 and \$664,106 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$533,027 or 7.0% of covered payroll for year ended June 30, 2013. Employees who participate in the PORS plan made contributions of \$70,610 to the 401(k). No match was made for these contributions.

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

Note 14. Retirement Plans (continued)

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 7.0% of their total earnings are made through payroll deductions. Employees hired before July 1, 1995 only contribute 3.5% and the Town pays the remaining 3.5%. For the year ended June 30, 2013, \$7,472,105 of wages was subject to retirement plan contributions. The Town pays the employer contribution at the rate of 11.900% of member salaries except for employees hired before July 1, 1995 for whom the employer contribution rate is 15.40%. During the year ended June 30, 2013, a total of \$1,000,670 was contributed into the System for the Town's share and \$410,113 for the employees' share, which represented 13.11% and 5.4% of covered payroll, respectively. During the years ended June 30, 2012 and 2011, \$991,997 and \$1,010,513 were contributed to the system for the Town's share, representing 13.10% and 13.03% 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, 2013, employer contributions were based on a total payroll of \$15,298,364 of which \$15,107,283 or 98.75% of the total payroll was covered under the plan. Employer contributions were \$1,654,123 or 10.81% of covered payroll. Employee contributions were \$1,013,750 or 6.63% 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.

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

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 \$182,663 at June 30, 2013, and is included as a liability in the General Fund in the accrued payroll and employee payables. During the period ended June 30, 2013, the Town contributed \$105,649 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 ended June 30, 2013, the limit was \$350, and the Town's liability under this plan totaled \$77,602. During the period ended June 30, 2013, the Town contributed \$20,089 to this plan.

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 ended June 30, 2013 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$75,913. During the period ended June 30, 2013, the Town contributed \$21,874 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. Nine (9) employees were eligible for the benefits for the period ended June 30, 2013.

The Town contributed \$126,356 during the year ended June 30, 2013.

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.

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

Note 18. Contingencies

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

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

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

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

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. No amount for claims has been accrued at June 30, 2013.

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

Governmental Activities:

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.

Business-Type Activities:

Stormwater Fees

The 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.

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, 2013

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 11,935,350	\$ 11,935,350	\$ 11,500,914	\$ (434,436)
Accommodations Tax:				
Local 1%	2,387,000	2,387,000	2,499,067	112,067
Business License and Franchise Fees:				
Business License	7,265,875	7,265,875	7,774,138	508,263
Recycling Franchise	102,000	102,000	150,324	48,324
Cable Television Franchise	719,850	719,850	763,434	43,584
Beach Franchise	24,125	24,125	21,811	(2,314)
Total	8,111,850	8,111,850	8,709,707	597,857
Permits:				
Construction	277,600	277,600	481,110	203,510
Development	6,200	6,200	13,212	7,012
Other	787,050	787,050	873,844	86,794
Total	1,070,850	1,070,850	1,368,166	297,316
State Shared Funds	651,080	651,080	800,659	149,579
Donations:				
EMS/Fire Department Donations	1,000	1,000	155	(845)
Grants:				
Beaufort County Hazmat/E911	126,680	126,680	152,005	25,325
SLED Grants	-	-	84,817	84,817
DHEC/Red to Green Fields	6,000	6,000	6,261	261
Total	132,680	132,680	243,083	110,403
Miscellaneous Revenue:				
Public Safety/EMS	1,456,560	1,456,560	1,252,626	(203,934)
Beach Services	214,350	214,350	223,196	8,846
Municipal Court Fines and Fees	367,200	367,200	262,022	(105,178)
Victims Assistance	59,160	59,160	42,477	(16,683)
Miscellaneous Revenue	100,500	100,500	240,638	140,138
Total	2,197,770	2,197,770	2,020,959	(176,811)
Investment Income	10,000	10,000	2,732	(7,268)
Total Revenues	26,497,580	26,497,580	27,145,442	647,862

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, 2013

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 84,978	\$ 108,978	\$ 108,381	\$ 597
Operating	361,750	361,750	266,575	95,175
Total Town Council	<u>446,728</u>	<u>470,728</u>	<u>374,956</u>	<u>95,772</u>
Town Manager:				
Salaries and Benefits	583,968	583,968	574,214	9,754
Operating	25,000	25,000	19,336	5,664
Total Town Manager	<u>608,968</u>	<u>608,968</u>	<u>593,550</u>	<u>15,418</u>
Total General Government	<u>1,055,696</u>	<u>1,079,696</u>	<u>968,506</u>	<u>111,190</u>
Management Services:				
Finance-Administration:				
Salaries and Benefits	271,769	271,769	269,888	1,881
Operating	21,900	21,900	12,229	9,671
Total Finance-Administration	<u>293,669</u>	<u>293,669</u>	<u>282,117</u>	<u>11,552</u>
Finance-Accounting:				
Salaries and Benefits	496,964	496,964	459,100	37,864
Operating	104,183	104,183	87,255	16,928
Total Finance-Accounting	<u>601,147</u>	<u>601,147</u>	<u>546,355</u>	<u>54,792</u>
Finance-Revenue and Collections:				
Salaries and Benefits	676,543	676,543	631,238	45,305
Operating	36,100	132,246	46,288	85,958
Total Finance-Revenue and Collections	<u>712,643</u>	<u>808,789</u>	<u>677,526</u>	<u>131,263</u>
Administration-Legal :				
Salaries and Benefits	422,987	412,987	356,821	56,166
Operating	36,400	36,400	22,809	13,591
Total Administration-Legal	<u>459,387</u>	<u>449,387</u>	<u>379,630</u>	<u>69,757</u>
Administration-Municipal Court:				
Salaries and Benefits	313,873	313,873	305,107	8,766
Operating	85,375	85,375	71,844	13,531
Total Administration-Municipal Court	<u>399,248</u>	<u>399,248</u>	<u>376,951</u>	<u>22,297</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, 2013

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	199,660	195,660	163,545	32,115
Operating	40,930	40,930	8,004	32,926
Total Administration-Administrative Support	<u>240,590</u>	<u>236,590</u>	<u>171,549</u>	<u>65,041</u>
Administration-Operations:				
Salaries and Benefits	954,469	954,469	868,673	85,796
Operating	737,795	781,257	683,644	97,613
Total Administration-Operations	<u>1,692,264</u>	<u>1,735,726</u>	<u>1,552,317</u>	<u>183,409</u>
Administration-Human Resources:				
Salaries and Benefits	423,693	423,693	401,493	22,200
Operating	115,470	134,720	124,935	9,785
Total Administration-Human Resources	<u>539,163</u>	<u>558,413</u>	<u>526,428</u>	<u>31,985</u>
Total Management Services	<u>4,938,111</u>	<u>5,082,969</u>	<u>4,512,873</u>	<u>570,096</u>
Community Services:				
Community Development-Administration:				
Salaries and Benefits	667,830	633,230	537,106	96,124
Operating	30,170	30,170	25,852	4,318
Total CD-Administration	<u>698,000</u>	<u>663,400</u>	<u>562,958</u>	<u>100,442</u>
Community Development-CD Services:				
Salaries and Benefits	275,211	275,211	273,993	1,218
Operating	6,540	6,540	921	5,619
Total CD-CD Services	<u>281,751</u>	<u>281,751</u>	<u>274,914</u>	<u>6,837</u>
Community Development-Inspection/Compliance:				
Salaries and Benefits	619,016	648,116	645,348	2,768
Operating	21,578	21,578	19,251	2,327
Total CD-Inspection/Compliance	<u>640,594</u>	<u>669,694</u>	<u>664,599</u>	<u>5,095</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, 2013

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	549,814	549,814	539,981	9,833
Operating	121,890	302,838	85,162	217,676
Total CD-DR and Z	<u>671,704</u>	<u>852,652</u>	<u>625,143</u>	<u>227,509</u>
Community Development-Comprehensive Planning:				
Salaries and Benefits	351,650	357,150	355,628	1,522
Operating	15,795	15,795	10,669	5,126
Total CD-Comprehensive	<u>367,445</u>	<u>372,945</u>	<u>366,297</u>	<u>6,648</u>
Public Facilities-Administration:				
Salaries and Benefits	237,260	237,260	236,747	513
Operating	4,900	4,900	2,635	2,265
Total Public Facilities-Administration	<u>242,160</u>	<u>242,160</u>	<u>239,382</u>	<u>2,778</u>
Public Facilities-Engineering:				
Salaries and Benefits	510,063	550,563	547,172	3,391
Operating	191,750	212,527	176,195	36,332
Total Public Facilities-Engineering	<u>701,813</u>	<u>763,090</u>	<u>723,367</u>	<u>39,723</u>
Public Facilities-Facilities Management:				
Salaries and Benefits	920,635	929,635	929,242	393
Operating	1,744,739	1,735,739	1,610,514	125,225
Total Public Facilities-Facilities Management	<u>2,665,374</u>	<u>2,665,374</u>	<u>2,539,756</u>	<u>125,618</u>
Total Community Services	<u>6,268,841</u>	<u>6,511,066</u>	<u>5,996,416</u>	<u>514,650</u>
Public Safety:				
Fire and Rescue-Administration:				
Salaries and Benefits	234,282	234,282	214,528	19,754
Operating	134,090	134,090	94,018	40,072
Total Fire and Rescue-Administration	<u>368,372</u>	<u>368,372</u>	<u>308,546</u>	<u>59,826</u>
Fire and Rescue-Logistics/Maintenance:				
Salaries and Benefits	271,700	271,700	271,222	478
Operating	240,750	240,750	217,519	23,231
Total Fire and Rescue-Logistics/Maintenance	<u>512,450</u>	<u>512,450</u>	<u>488,741</u>	<u>23,709</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
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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	8,999,181	8,932,881	8,891,249	41,632
Operating	<u>106,700</u>	<u>105,900</u>	<u>168,396</u>	<u>(62,496)</u>
Total Fire and Rescue-Operations	<u>9,105,881</u>	<u>9,038,781</u>	<u>9,059,645</u>	<u>(20,864)</u>
Fire and Rescue-Communications:				
Salaries and Benefits	926,645	926,645	905,357	21,288
Operating	<u>221,890</u>	<u>223,890</u>	<u>197,315</u>	<u>26,575</u>
Total Fire and Rescue-Communications	<u>1,148,535</u>	<u>1,150,535</u>	<u>1,102,672</u>	<u>47,863</u>
Fire and Rescue-Training:				
Salaries and Benefits	569,096	600,896	600,737	159
Operating	<u>129,150</u>	<u>129,150</u>	<u>100,944</u>	<u>28,206</u>
Total Fire and Rescue-Training	<u>698,246</u>	<u>730,046</u>	<u>701,681</u>	<u>28,365</u>
Fire and Rescue-Emergency Management:				
Salaries and Benefits	96,297	96,297	88,182	8,115
Operating	<u>45,210</u>	<u>45,210</u>	<u>34,108</u>	<u>11,102</u>
Total Fire and Rescue-Emergency Management	<u>141,507</u>	<u>141,507</u>	<u>122,290</u>	<u>19,217</u>
Fire and Rescue-Bureau of Fire Prevention:				
Salaries and Benefits	482,978	504,078	504,045	33
Operating	<u>38,125</u>	<u>38,125</u>	<u>36,682</u>	<u>1,443</u>
Total Fire and Rescue-Bureau of Fire Prevention	<u>521,103</u>	<u>542,203</u>	<u>540,727</u>	<u>1,476</u>
Fire and Rescue-Support Services:				
Salaries and Benefits	384,273	397,673	392,544	5,129
Operating	<u>415,980</u>	<u>427,734</u>	<u>367,588</u>	<u>60,146</u>
Total Fire and Rescue-Support Services	<u>800,253</u>	<u>825,407</u>	<u>760,132</u>	<u>65,275</u>
Fire and Rescue-E911 Communications:				
Salaries and Benefits	240,382	240,382	238,152	2,230
Operating	<u>29,895</u>	<u>29,895</u>	<u>-</u>	<u>29,895</u>
Total Fire and Rescue-E911 Communications	<u>270,277</u>	<u>270,277</u>	<u>238,152</u>	<u>32,125</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
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FOR THE YEAR ENDED JUNE 30, 2013

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	2,333,967	2,342,338	2,313,590	28,748
Stipend	115,000	115,000	112,000	3,000
Victims' Rights	59,493	59,493	59,492	1
Traffic Patrol	254,546	254,546	254,548	(2)
Waterway Patrol	118,985	118,985	118,984	1
Beach Services	201,825	201,825	203,339	(1,514)
Office Rental	142,162	83,562	64,230	19,332
Total Sheriff/Other Public Safety	<u>3,225,978</u>	<u>3,175,749</u>	<u>3,126,183</u>	<u>49,566</u>
Total Public Safety	<u>16,792,602</u>	<u>16,755,327</u>	<u>16,448,769</u>	<u>306,558</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
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FOR THE YEAR ENDED JUNE 30, 2013

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental:				
Townwide:				
Salaries & Benefits - Temporary	22,080	22,080	21,589	491
Worker's Compensation	105,300	37,800	28,263	9,537
Insurance	362,725	374,181	340,298	33,883
Postage	32,000	32,000	27,140	4,860
General Contingency	50,000	95,727	5,161	90,566
Unemployment	18,000	18,000	11,267	6,733
Townwide Employee Recognition	60,000	60,000	47,668	12,332
Palmetto Pass	18,500	18,500	19,413	(913)
Retiree Medical	1,400	1,400	1,329	71
COBRA	100	100	153	(53)
Travel	500	500	8	492
Professional Dues	25,000	25,000	23,951	1,049
Temporary Agency	6,000	6,000	-	6,000
Professional Services	-	34,000	-	34,000
Telephone/Cell Phones/Utilities	713,220	713,220	673,467	39,753
Equipment Maintenance/Supplies/Other	2,500	2,500	945	1,555
Vehicle Fuel	205,000	205,000	191,530	13,470
Lease Payments	54,600	54,600	56,770	(2,170)
Photocopying	10,000	10,000	7,983	2,017
Courier	18,000	18,000	16,130	1,870
Printers, Fax Supplies	22,000	22,000	15,073	6,927
Hospitality Training & Promotion	118,060	133,060	117,927	15,133
Drug Court Grant	48,500	48,500	48,500	-
Solicitor Career Criminal Program	35,000	35,000	35,000	-
USAR-RRT Grant	7,438	7,438	1,474	5,964
Recreation Center-Operating Grant	629,278	629,278	629,278	-
Community Foundation Grant - Public Art	37,500	37,500	36,961	539
Coastal Discovery Grant	75,000	75,000	75,000	-
Turtle Watch	37,700	37,700	37,700	-
LTRA Grant	175,000	175,000	175,000	-
Heritage Classic Foundation	590,625	295,313	295,313	-
LEPC Grant	15,500	15,500	7,151	8,349
Total Non-Departmental Townwide	<u>3,496,526</u>	<u>3,239,897</u>	<u>2,947,442</u>	<u>292,455</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, 2013

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Capital Outlay:				
Management Services :				
Administration-Operations				
Specialized Equipment/Computer Software	34,100	34,100	34,099	1
Computer Software >\$50,000	530,000	563,651	226,851	336,800
Total Administration-Operations	<u>564,100</u>	<u>597,751</u>	<u>260,950</u>	<u>336,801</u>
Total Management Services	<u>564,100</u>	<u>597,751</u>	<u>260,950</u>	<u>336,801</u>
Public Safety:				
Police Patrol/Communications				
Police Equipment	6,000	64,600	55,554	9,046
Total Police Patrol/Communications	<u>6,000</u>	<u>64,600</u>	<u>55,554</u>	<u>9,046</u>
Fire and Rescue Operations:				
Specialized Equipment	8,500	9,300	88,384	(79,084)
Total Fire and Rescue-Operations	<u>8,500</u>	<u>9,300</u>	<u>88,384</u>	<u>(79,084)</u>
Fire and Rescue Communications				
Radio Equipment	5,000	6,000	5,737	263
Communications Center Equipment	11,000	11,000	6,784	4,216
Specialized Equipment	26,000	26,000	21,253	4,747
Total Fire and Rescue-Communications	<u>42,000</u>	<u>43,000</u>	<u>33,774</u>	<u>9,226</u>
Fire and Rescue Logistics/Maintenance:				
Specialized Equipment	18,000	27,340	15,804	11,536
Total Fire and Rescue-Logistics/Maintenance	<u>18,000</u>	<u>27,340</u>	<u>15,804</u>	<u>11,536</u>
Total Public Safety	<u>74,500</u>	<u>144,240</u>	<u>193,516</u>	<u>(49,276)</u>
Total Capital Outlay	<u>638,600</u>	<u>741,991</u>	<u>454,466</u>	<u>287,525</u>
Total Expenditures	<u>33,190,376</u>	<u>33,410,946</u>	<u>31,328,472</u>	<u>2,082,474</u>
Excess (deficiency) of Revenues Over (Under)				
Expenditures	<u>(6,692,796)</u>	<u>(6,913,366)</u>	<u>(4,183,030)</u>	<u>2,730,336</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, 2013

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Other Financing Sources:</u>				
Transfers In	5,875,341	5,580,030	5,673,200	93,170
Appropriated Fund Balance	-	515,881	-	(515,881)
Total Other Financing Sources	<u>5,875,341</u>	<u>6,095,911</u>	<u>5,673,200</u>	<u>(422,711)</u>
Net change in fund balance	(817,455)	(817,455)	1,490,170	<u>\$ 2,307,625</u>
Fund Balance - beginning	<u>14,793,505</u>	<u>13,585,093</u>	<u>15,813,557</u>	
Fund Balance - ending	<u>\$ 13,976,050</u>	<u>\$ 12,767,638</u>	<u>\$ 17,303,727</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, 2013

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 5,655,543	\$ 5,655,543	\$ 5,493,152	\$ (162,391)
Federal Reimbursement - BABS	189,634	189,634	189,634	-
Investment Income	50,000	57,496	76,527	19,031
Total Revenues	<u>5,895,177</u>	<u>5,902,673</u>	<u>5,759,313</u>	<u>(143,360)</u>
<u>Expenditures:</u>				
Administrative	17,790	23,625	23,625	-
Debt Service:				-
Principal	11,645,000	11,645,000	11,645,000	-
Interest	4,265,225	4,265,225	4,265,011	214
Total Expenditures	<u>15,928,015</u>	<u>15,933,850</u>	<u>15,933,636</u>	<u>214</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(10,032,838)</u>	<u>(10,031,177)</u>	<u>(10,174,323)</u>	<u>(143,146)</u>
<u>Other Financing Sources</u>				
Transfers In	11,431,409	12,028,826	12,692,882	664,056
Total Other Financing Sources	<u>11,431,409</u>	<u>12,028,826</u>	<u>12,692,882</u>	<u>664,056</u>
Net Change in Fund Balance	1,398,571	1,997,649	2,518,559	<u>\$ 520,910</u>
Fund Balance - beginning	<u>6,414,473</u>	<u>6,414,473</u>	<u>6,587,993</u>	
Fund Balance - ending	<u>\$ 7,813,044</u>	<u>\$ 8,412,122</u>	<u>\$ 9,106,552</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, 2013

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 706,707	\$ 951,231	\$ 685,501	\$ (265,730)
Grants	-	27,622	27,622	-
Contributions	-	20,000	20,000	-
State Taxes - Sunday Permit Fees	495,500	360,294	381,015	20,721
Lease Revenue	12,000	148,000	208,998	60,998
Impact Fees	925,000	491,440	163,732	(327,708)
Investment Income	-	-	3,269	3,269
Total Revenues	2,139,207	1,998,587	1,490,137	(508,450)
<u>Expenditures:</u>				
Public Facilities:				
Fire and Rescue Computer System	-	56,833	1,370	55,463
Dispatch Center Equip. Upgrade	5,000	(2,195)	(2,195)	-
Coligny/Pope Avenue Area Improvements	495,000	434,542	419,751	14,791
Sewer Service - Islander Beach Park	40,000	-	-	-
Sewer Service - Fish Haul Park	-	24,842	24,842	-
Sewer Service - Ford Shell Ring	-	307,855	307,855	-
Sewer Service - Marshland Road	-	25,388	25,389	(1)
Sewer Service - Chaplin South	-	116,500	116,500	-
Sewer Service - Barker Field	-	700,993	-	700,993
Sewer Service - Spanish Wells SCDOT Parcel	-	499,007	2,187	496,820
58 Shelter Cove Lane Building - BCSO	-	264,826	85,902	178,924
58 Shelter Cove Lane Building - Town Upfit	-	918	918	-
Public Safety Systems Equipment	210,000	210,818	210,818	-
Mobile Computing AVL	90,000	81,356	81,356	-
AED Biphasic	25,000	24,387	24,387	-
AED Administrative Vehicles Additions	45,000	41,915	41,915	-
Total Public Facilities	910,000	2,787,985	1,340,995	1,446,990

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, 2013

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Park Development:				
Chaplin Community Park - Tennis Courts	235,000	-	-	-
Chaplin Linear Park	200,000	200,000	94,369	105,631
Chaplin Community Park - Picnic Shelters	50,000	46,655	46,655	-
Collier Beach Park	400,000	1,715	1,715	-
Island Recreation - Aquatics Center	-	16,600	16,600	-
Island Recreation Improvements	373,000	495,317	238,688	256,629
Island Recreation SHARE Center	-	163,687	163,687	-
Rowing and Sailing Center	700,000	145,044	106,480	38,564
Public Art	-	4,255	4,255	-
Crossing Park Upgrade	-	18,399	18,399	-
Jarvis Creek Park Playground Equipment	-	21,796	21,795	1
Park Upgrades	50,000	53,168	53,168	-
Total Park Development	<u>2,008,000</u>	<u>1,166,636</u>	<u>765,811</u>	<u>400,825</u>
Land Acquisition:				
Land Acquisition	-	8,580,115	6,080,118	2,499,997
Total Land Acquisition	<u>-</u>	<u>8,580,115</u>	<u>6,080,118</u>	<u>2,499,997</u>
Beach Maintenance:				
Beach Management	500,000	249,956	163,513	86,443
Shoreline Management Plan	-	142,085	125,469	16,616
Port Royal Fill Project	-	106,500	106,500	-
Dunes Refurbishment	25,000	25,000	21,135	3,865
Islandwide Beach Renourishment	-	586,503	77,061	509,442
Port Royal Plantation - Ocean Point	-	169,342	53,007	116,335
Beach Parks/Access Rehabilitation	100,000	177,665	164,949	12,716
Total Beach Maintenance	<u>625,000</u>	<u>1,457,051</u>	<u>711,634</u>	<u>745,417</u>
Facilities Improvements:				
Fire Station #1 Replacement	-	56	56	-
Fire Station #2 Replacement	275,000	-	-	-
Fire Station #6 Replacement	3,202,000	3,443,845	165,639	3,278,206
Security Cameras	50,000	26,666	26,666	-
Town Vehicle Replacement	75,000	53,889	53,889	-
Town Hall Renovations	150,000	342,750	102,091	240,659
Rehab & Renovation of Town Fixed Assets	251,000	282,147	282,147	-
Apparatus/Vehicle Replacement	150,000	328,448	317,130	11,318
Demolition of Structures	291,000	272,665	272,665	-
Total Facilities Improvements	<u>4,444,000</u>	<u>4,750,466</u>	<u>1,220,283</u>	<u>3,530,183</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, 2013

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	-	61,870	61,870	-
Yacht Cove Turning Lane	50,000	100,323	85,826	14,497
Jenkins Right Turn Lane	50,000	-	-	-
Lemoyne Avenue Reconstruction	75,000	137,905	16,814	121,091
Marshland Road Roundabout	1,047,000	157,671	157,671	-
Mathews Dr/Chaplin Area Connectivity	170,000	53,352	47,371	5,981
Mainland Transportation Improvements	-	400,000	-	400,000
Private Dirt Roads Acquisition	25,000	95,397	14,396	81,001
US 278/Leamington/Fresh Market Shoppes	1,125,000	151,037	122,498	28,539
Intersection Improvements:				
Hospital Center Blvd/Main Street	-	84,203	1,937	82,266
US 278/New Orleans Road	-	52,731	52,731	-
Directional Neighborhood Signage	100,000	119,250	23,502	95,748
Traffic Signal Mast Arms:				
US 278/Leamington/Fresh Market Shoppes	125,000	133	133	-
US 278/Pembroke Drive	100,000	4,052	4,052	-
US 278/Mall Boulevard	-	2,508	2,508	-
US 278/Palmetto Dunes	-	149,597	40,743	108,854
Roadway Resurfacing	-	771,133	771,133	-
Pedestrian Crosswalks and Refuges:				
US 278/Shipyard Plantation	-	27,410	27,410	-
US 278/Chamber Drive	-	36,409	32,796	3,613
US 278/Yacht Cove Drive	-	43,091	37,562	5,529
US 278/Regency Drive	-	32,000	28,800	3,200
US 278/Wexford Village	-	47,812	47,812	-
US 278/Central Avenue	-	18,702	18,702	-
Emergency Access Gates:				
Palmetto Hall Back Entrance	100,000	-	-	-
Wexford @ Haig Point	-	53,373	53,373	-
Gate Controllers	10,000	19,910	19,910	-
Total Roadway Improvements	<u>2,977,000</u>	<u>2,619,869</u>	<u>1,669,550</u>	<u>950,319</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, 2013

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Pathway Improvements:				
Pathway Rehabilitation	185,000	354,616	351,431	3,185
Pathway Kiosks	-	20,000	20,000	-
US 278 @ New Orleans to Shipyard	-	201,107	201,107	-
US 278 Fresh Market Shoppes to Shelter Cove	160,000	144,329	326	144,003
US 278 Shelter Cove to Mathews Drive	120,000	92,200	-	92,200
Dunnagan's Alley	-	116,261	116,261	-
Palmetto Bay Road	-	57,378	57,378	-
Honey Horn Access Improvements	140,000	234,999	5,178	229,821
Gardner Drive	-	39,049	14,000	25,049
Pembroke Drive	-	44,049	2,964	41,085
Leg O'Mutton Road	560,000	320,991	290,457	30,534
U.S. 278 Wexford to Fresh Market Shoppes	660,000	259,398	238,520	20,878
U.S. 278 Gardner Rd. to Mathews Drive	-	56,640	56,640	-
Total Pathway Improvements	<u>1,825,000</u>	<u>1,941,017</u>	<u>1,354,262</u>	<u>586,755</u>
Total Capital Outlay/Community Services	<u>12,789,000</u>	<u>23,303,139</u>	<u>13,142,653</u>	<u>10,160,486</u>
Debt Issue Costs:				
Debt Issue Costs	-	235,667	127,167	108,500
Total Debt Issue Costs	<u>-</u>	<u>235,667</u>	<u>127,167</u>	<u>108,500</u>
Total Expenditures	12,789,000	23,538,806	13,269,820	10,268,986
Excess of Revenues Over (Under) Expenditures	<u>(10,649,793)</u>	<u>(21,540,219)</u>	<u>(11,779,683)</u>	<u>9,760,536</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Property	-	269,987	266,622	(3,365)
Issuance of Bonds	4,947,000	20,510,703	9,000,000	(11,510,703)
Premium on Bond Issuance	-	-	664,056	664,056
Transfers In	5,777,000	4,308,008	2,510,180	(1,797,828)
Transfers Out	(37,500)	(3,551,772)	(4,215,828)	(664,056)
Total Other Financing Sources (Uses)	<u>10,686,500</u>	<u>21,536,926</u>	<u>8,225,030</u>	<u>(13,311,896)</u>
Net change in fund balance	36,707	(3,293)	(3,554,653)	<u>\$ (3,551,360)</u>
Fund Balance - beginning	<u>20,548,747</u>	<u>10,681,812</u>	<u>20,474,068</u>	
Fund Balance - ending	<u>\$ 20,585,454</u>	<u>\$ 10,678,519</u>	<u>\$ 16,919,415</u>	

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Revenues:</u>				
Stormwater Utility Fees	\$ 3,611,553	\$ 5,113,516	\$ 3,574,933	\$ (1,538,583)
Miscellaneous Revenue	-	-	5,512	5,512
Total Operating Revenues	<u>3,611,553</u>	<u>5,113,516</u>	<u>3,580,445</u>	<u>(1,533,071)</u>
<u>Operating Expenses:</u>				
<u>Planned Unit Developments:</u>				
Hilton Head Plantation:				
Stormwater Maintenance	150,000	28,500	12,630	15,870
3,519 Acres Project	300,000	538,713	357,803	180,910
Hilton Head Plantation Pond Control	119,000	52,231	52,231	-
Golden Hind Pipe Cleaning	-	26,740	26,739	1
Myrtle Bank Lane - Pipe Lining	-	23,400	23,362	38
Isabella Court - Pipe Replacement	-	33,000	33,066	(66)
Bear Creek Outfall	100,000	2,840	2,840	-
Big Woods Outfall	65,000	-	-	-
Seabrook - Pipe Replacement	-	8,035	8,035	-
Sweetwater	-	25,000	-	25,000
Total Hilton Head Plantation	<u>734,000</u>	<u>738,459</u>	<u>516,706</u>	<u>221,753</u>
Indigo Run Plantation:				
Stormwater Maintenance	75,000	257	257	-
1,651 Acres Project	250,000	-	-	-
Wiler's Creek Bank Stabilization	100,000	36,340	34,709	1,631
Colonial Drive Flooding	25,000	-	-	-
Long Reach Hoe Work	-	20,000	-	20,000
Total Indigo Run Plantation	<u>450,000</u>	<u>56,597</u>	<u>34,966</u>	<u>21,631</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Planned Unit Developments (continued):</u>				
Long Cove Club:				
Stormwater Maintenance	-	2,222	2,222	-
Total Long Cove Club	-	2,222	2,222	-
Leamington Plantation:				
Stormwater Maintenance	35,000	-	-	-
Ditch Clearing	15,000	-	-	-
Total Leamington Plantation	50,000	-	-	-
Palmetto Dunes Plantation:				
Stormwater Maintenance	20,000	17,900	2,827	15,073
Mooring Buoy Culvert Replacement	60,000	-	-	-
Queens Folly Row Drainage Pipe Rehabilitation	20,000	-	-	-
Queens Folly Row Median Drainage Service	10,000	-	-	-
Man O'War Drive & Longboat Row Drainage	20,000	-	-	-
Loangboat Row to Man O'War Drive Pipe Cleaning	10,000	6,662	6,662	-
Total Palmetto Dunes Plantation	140,000	24,562	9,489	15,073
Palmetto Hall Plantation:				
Stormwater Maintenance	-	5,000	2,160	2,840
Total Palmetto Hall Plantation	-	5,000	2,160	2,840
Port Royal Plantation:				
Stormwater Maintenance	50,000	30,000	44	29,956
Culvert Upgrades	-	16,000	15,124	876
Canal Dredging	200,000	-	-	-
Scarborough Channel Widening	50,000	-	-	-
1,352 Acres Project	100,000	247,574	137,496	110,078
Total Port Royal Plantation	400,000	293,574	152,664	140,910
Shipyard Plantation:				
Stormwater Maintenance	50,000	6,276	6,276	-
Cottages & Shipmaster Sinkhole	-	4,310	4,311	(1)
Galleon Fairways Flooding	20,000	-	-	-
Tennismaster	15,000	85,800	54,751	31,049
Gloucester Road Culvert Extension	5,000	-	-	-
Culvert Upgrades	125,000	-	-	-
Trimming @ U.S. 278 Culverts	20,000	4,046	4,046	-
Long Reach Hoe Work	-	15,000	100	14,900
Shipyard Racquet Club & Port O'Call Pipe Cleaning	-	23,000	-	23,000
Shipyard Pump Station	-	10,777	7,366	3,411
Total Shipyard Plantation	235,000	149,209	76,850	72,359

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Planned Unit Developments (continued):</u>				
Sea Pines Plantation:				
Stormwater Maintenance	60,000	7,000	6,361	639
Ruddy Turnstone Pipe Repairs	-	5,200	5,196	4
Inventory & Modeling	600,000	-	-	-
Greenwood Drive Ditch Cleaning	60,000	60,000	-	60,000
Sea Pines Country Club Lagoon	-	23,750	23,750	-
Sea Pines Pump Station	75,000	56,658	56,575	83
Total Sea Pines Plantation	<u>795,000</u>	<u>152,608</u>	<u>91,882</u>	<u>60,726</u>
Wexford Plantation:				
Stormwater Maintenance	50,000	100	66	34
Ditch Work Along Powerline Easement	60,000	30,000	-	30,000
Generator Permanent Mounts	28,000	28,000	11,544	16,456
Wexford Pump Station	-	412,769	139,447	273,322
Total Wexford Plantation	<u>138,000</u>	<u>470,869</u>	<u>151,057</u>	<u>319,812</u>
Total Planned Unit Developments	<u>2,942,000</u>	<u>1,893,100</u>	<u>1,037,996</u>	<u>855,104</u>

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Non-Planned Unit Developments:</u>				
Stormwater Maintenance	1,150,000	33,163	21,283	11,880
Sewer Service - Jarvis Creek Park	40,000	-	-	-
Shamrock Circle Roadside Ditches	80,000	-	-	-
New Orleans Rd @ U.S. 278 Drainage Improvements	-	20,714	20,714	-
New Orleans Rd. Pipe and Ditch Cleaning	-	13,534	13,534	-
Channel Maintenance of Easements	-	20,237	-	20,237
Jarvis Bypass Channel	98,000	28,000	-	28,000
Broad Creek Shelter Cove BMP	50,000	11,949	1,307	10,642
Oakmarsh Road Outfall	10,000	-	-	-
Mathews & Matilda Drive Bank Erosion	12,000	700	690	10
Palmetto Headlands Ditch Cleaning	-	35,625	35,621	4
Folly Field Channel Cleanout	75,000	-	-	-
Old Woodlands Pond & Channel	20,000	-	-	-
Unaffiliated Watersheds	-	38,424	25,520	12,904
Myrtle & Hickory Lane	500,000	584,652	36,670	547,982
Firethorn Lane Pipe Replacement	-	138,000	137,983	17
Executive Park Drainage Outfall Improvements	-	68,970	40,149	28,821
Leg O'Mutton Site Cleanup	-	11,000	10,950	50
Beach City Road @ U.S. 278 Ditch Clearing	-	11,820	11,820	-
North Forest Beach Side Streets	-	9,300	9,286	14
Grace Community Church Property	-	900	890	10
Tide Point Easement Clearing	-	23,800	23,800	-
Sea Cloisters, Folly Field	-	5,000	1,848	3,152
Long Reach Hoe - Northridge System	-	25,000	-	25,000
Stormwater Pump Station Maintenance	225,000	53,049	34,952	18,097
Miscellaneous Maintenance	150,000	7,300	4,940	2,360
Arrow Road	425,000	65,980	65,980	-
Fish Haul Culverts	100,000	9,848	7,374	2,474
Mathews Culvert Outfall	80,000	-	-	-
Bermuda Point	-	900	834	66
Palmetto Bay Enbankment Erosion	-	1,020	1,020	-
Marshland Road	-	6,336	6,336	-
U.S. 278 Median Swale at Central Avenue	-	9,559	9,559	-
U.S. 278 Flooding	100,000	83	83	-
Folly Field	-	145,100	131,335	13,765
Cordillo Parkway Pipe and Channel Cleaning	-	20,000	-	20,000
Gumtree Road South Outfall	100,000	11,032	5,866	5,166
Total Non-Planned Unit Development	3,215,000	1,410,995	660,344	750,651

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET (GAAP Basis) AND ACTUAL
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
Other Operating Expenses:				
Maintenance and Repairs	238,109	244,066	135,593	108,473
Administrative	181,661	180,599	160,606	19,993
Infrastructure Capitalized	-	-	(1,369,100)	1,369,100
Depreciation	-	-	661,589	(661,589)
Total Other Operating Expenses	<u>419,770</u>	<u>424,665</u>	<u>(411,312)</u>	<u>835,977</u>
 Total Operating Expenses	 6,576,770	 3,728,760	 1,287,028	 2,441,732
 Operating Income (Loss)	 (2,965,217)	 1,384,756	 2,293,417	 (3,974,803)
<u>Nonoperating (Expenses):</u>				
Investment Income	-	-	253	(253)
Administrative	(3,000)	(2,500)	(104,758)	102,258
Principal	(780,000)	(780,000)	-	(780,000)
Interest Expense	(366,126)	(366,126)	(366,077)	(49)
Total Nonoperating (Expenses)	<u>(1,149,126)</u>	<u>(1,148,626)</u>	<u>(470,582)</u>	<u>(678,044)</u>
 Income (Loss) Before Transfers and Bond Proceeds	 (4,114,343)	 236,130	 1,822,835	 (4,652,847)
 Transfers Out	 (276,130)	 (236,130)	 (236,130)	 -
Bond Proceeds	<u>4,350,473</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net Change in Fund Net Position	 (40,000)	 -	 1,586,705	 <u>\$ (4,652,847)</u>
 Net Position - Beginning	 <u>2,364,410</u>	 <u>2,364,410</u>	 <u>2,364,410</u>	
 Net Position - Ending	 <u>\$ 2,324,410</u>	 <u>\$ 2,364,410</u>	 <u>\$ 3,951,115</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, 2013

Schedule 5

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Palmetto Electric</u>	<u>Home Grant</u>	
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 1,352,983	\$ 44,099	\$ 1,397,082
Accounts Receivable	145,006	(5,900)	139,106
Total assets	<u>\$ 1,497,989</u>	<u>\$ 38,199</u>	<u>\$ 1,536,188</u>
<u>LIABILITIES AND FUND BALANCES:</u>			
Liabilities:			
Interfund Payables	\$ 42,493	\$ -	\$ 42,493
Deferred Revenue	-	46,775	46,775
Total liabilities	<u>42,493</u>	<u>46,775</u>	<u>89,268</u>
Fund balances (deficit):			
Restricted	1,455,496	-	1,455,496
Unassigned	-	(8,576)	(8,576)
Total fund balances (deficit)	<u>1,455,496</u>	<u>(8,576)</u>	<u>1,446,920</u>
Total liabilities and fund balances	<u>\$ 1,497,989</u>	<u>\$ 38,199</u>	<u>\$ 1,536,188</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, 2013

Schedule 6

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Palmetto Electric</u>	<u>Home Grant</u>	
<u>Revenues:</u>			
Electric Franchise Fees	\$ 2,668,405	\$ -	\$ 2,668,405
Investment Income	-	5	5
Total revenues	<u>2,668,405</u>	<u>5</u>	<u>2,668,410</u>
<u>Expenditures:</u>			
Current:			
Administrative	1,313,355	-	1,313,355
Total expenditures	<u>1,313,355</u>	<u>-</u>	<u>1,313,355</u>
Excess expenditures over revenues	1,355,050	5	1,355,055
<u>Other Financing Uses:</u>			
Transfers Out	<u>(82,551)</u>	-	<u>(82,551)</u>
Total other financing uses	<u>(82,551)</u>	<u>-</u>	<u>(82,551)</u>
Net change in fund balance	1,272,499	5	1,272,504
Fund balance - beginning	<u>182,997</u>	<u>(8,581)</u>	<u>174,416</u>
Fund balance (deficit) - ending	<u>\$ 1,455,496</u>	<u>\$ (8,576)</u>	<u>\$ 1,446,920</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, 2013

Schedule 7

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>ASSETS:</u>				
Cash and Temporary Investments	<u>\$ 124,960</u>	<u>\$ 564,481</u>	<u>\$ 658,531</u>	<u>\$ 30,910</u>
 <u>LIABILITIES:</u>				
Due to Firemen's Fund Association	<u>\$ 124,960</u>	<u>\$ 564,481</u>	<u>\$ 658,531</u>	<u>\$ 30,910</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>	92-96
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>	97-102
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>	103-107
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>	108-109
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>	110-113

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 Position by Component, Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	<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>	<u>2013</u>
Governmental activities										
Net investment in capital assets	\$ 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	\$ 134,730,092
Restricted	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	42,860,346
Unrestricted	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	15,130,825
Total governmental activities net position	<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>	174,936,166	186,379,057	179,613,791	192,721,263
Business-type activities										
Net investment in capital assets							(263,488)	1,969,503	587,800	1,985,756
Unrestricted							2,441,371	1,588,215	1,776,610	1,965,359
Total business-type activities net position							<u>2,177,883</u>	<u>3,557,718</u>	<u>2,364,410</u>	<u>3,951,115</u>
Total							<u>\$ 177,114,049</u>	<u>\$ 189,936,775</u>	<u>\$ 181,978,201</u>	<u>\$ 196,672,378</u>

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General Government	\$ 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	\$ 4,457,904
Management Services	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	4,781,208
Community Services	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	13,292,741
Public Safety	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	16,425,512
Non-Departmental	1,714,926	-	-	-	-	-	-	-	-	-
Culture and Recreation	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	1,907,032
Visitor & Convention Bureau	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	1,341,508
Administrative	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	1,797,946
Interest on Long-Term Debt	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	4,051,860
Other Charges	-	-	-	295,486	235,742	-	-	-	-	-
Total governmental activities expenses	<u>\$ 36,455,999</u>	<u>\$ 37,918,718</u>	<u>\$ 42,709,280</u>	<u>\$ 58,926,486</u>	<u>\$ 55,629,379</u>	<u>\$ 50,911,720</u>	45,390,500	46,175,688	65,397,735	48,055,711
Business-type activities:										
Stormwater							1,397,226	1,616,827	4,449,857	1,757,863
Total Expenses							<u>\$ 46,787,726</u>	<u>\$ 47,792,515</u>	<u>\$ 69,847,592</u>	<u>\$ 49,813,574</u>
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General Government	\$ 504,299	\$ 571,933	\$ 590,577	\$ 592,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757	\$ 2,565,756
Management Services	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	7,774,138
Community Services	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	8,262,464
Public Safety	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780
Administrative	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	2,255,107
Operating grants and contributions	301,855	155,067	347,325	134,793	152,140	130,796	206,897	140,555	305,329	338,378
Capital grants and contributions	1,104,371	944,425	180,900	48,246	61,843	52,525	17,697	-	1,044,854	142,116
Total governmental activities program revenues	<u>\$ 20,414,023</u>	<u>\$ 24,079,378</u>	<u>\$ 24,564,748</u>	<u>\$ 21,032,700</u>	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	19,842,121	20,463,103	21,956,539	22,644,739
Business-type activities:										
Charges for services:										
Stormwater							2,553,971	3,377,779	3,491,879	3,580,445
Total Program Revenues							<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>	<u>\$ 26,225,184</u>
Net (Expense)Revenue										
Total governmental activities net expense	<u>\$ (16,041,976)</u>	<u>\$ (13,839,340)</u>	<u>\$ (18,144,532)</u>	<u>\$ (37,893,786)</u>	<u>\$ (34,608,091)</u>	<u>\$ (32,527,970)</u>	(25,548,379)	(25,712,585)	(43,441,196)	(25,410,972)
Total business-type activities net expense							1,156,745	1,760,952	(957,978)	1,822,582
Total Net (Expense) Revenue							<u>\$ (24,391,634)</u>	<u>\$ (23,951,633)</u>	<u>\$ (44,399,174)</u>	<u>\$ (23,588,390)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 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	\$ 24,242,142
Other taxes	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	12,246,755
Intergovernmental (Unrestricted State Shared)	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	1,181,674
Investment earnings	560,878	1,203,427	2,951,972	4,236,702	2,521,431	876,095	356,176	260,608	124,415	87,660
Miscellaneous	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	760,213
Total governmental activities	<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>	\$ 36,104,601	\$ 37,155,476	\$ 36,675,930	\$ 38,518,444
Business-type activities:										
Investment earnings							83,128	8,612	-	253
Transfers out							(302,763)	(389,729)	(235,330)	(236,130)
Total business-type activities							<u>\$ (219,635)</u>	<u>\$ (381,117)</u>	<u>\$ (235,330)</u>	<u>\$ (235,877)</u>
Change in Net Position										
Governmental activities	<u>\$ 10,870,800</u>	<u>\$ 20,554,475</u>	<u>\$ 19,435,320</u>	<u>\$ 1,859,203</u>	<u>\$ 5,530,496</u>	<u>\$ 7,086,245</u>	10,556,222	11,442,891	(6,765,266)	13,107,472
Business-type activities							937,110	1,379,835	(1,193,308)	1,586,705
Total Change in Net Position							<u>\$ 11,493,332</u>	<u>\$ 12,822,726</u>	<u>\$ (7,958,574)</u>	<u>\$ 14,694,177</u>

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

	Fiscal Year									
	<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>	<u>2013</u>
Function/Program										
Governmental activities:										
Charges for services:										
General Government	\$ 504,299	\$ 571,933	\$ 590,577	\$ 591,441	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757	\$ 2,565,756
Management Services	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	7,774,138
Community Services	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	8,262,464
Public Safety	922,286	992,708	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780
Administrative	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	2,255,107
Operating grants and contributions	301,855	155,067	347,325	134,793	152,140	130,796	206,897	140,555	305,329	338,378
Capital grants and contributions	1,104,371	944,425	180,900	48,246	61,843	52,525	17,697	-	1,044,854	142,116
Total governmental activities	<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>	<u>\$ 22,644,739</u>
Business-type activities:										
Stormwater							2,553,971	3,377,779	3,491,879	3,580,445
Total Program Revenues							<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>	<u>\$ 26,225,184</u>

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

	Fiscal Year									
	<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>	<u>2013</u>
General Fund										
Reserved	\$ 89,460	\$ 122,453	\$ 328,984	\$ 157,080	\$ 283,748	\$ 164,731	\$ 145,008			
Unreserved	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>\$ 7,603,794</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	\$ 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	17,911,547	25,460,960	30,798,191	27,088,384	26,375,485	21,814,650	22,479,639			
Capital projects funds	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>\$ 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	\$ 8,896	
Restricted							98,163	98,182	65,985	
Committed							11,366,314	11,865,342	12,366,509	
Assigned							-	817,455	674,725	
Unassigned							3,400,504	3,017,270	4,187,612	
Total General Fund							<u>\$ 14,886,285</u>	<u>\$ 15,813,557</u>	<u>\$ 17,303,727</u>	
All Other Governmental Funds										
Restricted							\$ 33,894,568	\$ 39,209,689	\$ 42,850,943	
Committed							12,000,000	12,000,000	12,000,000	
Assigned							-	3,293	554,229	
Unassigned							-	(8,581)	(8,576)	
Total All Other Governmental Funds							<u>\$ 45,894,568</u>	<u>\$ 51,204,401</u>	<u>\$ 55,396,596</u>	

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes (see Schedule 6) ^a	\$ 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	\$ 36,488,897
Licenses, fees, and permits ^b	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	20,163,249
Fines and penalties	295,537	307,993	362,466	419,313	465,065	407,422	423,042	361,152	308,708	262,022
Charges for services	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	1,461,624
Intergovernmental	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	1,371,308
Investment earnings	560,878	1,203,427	2,951,973	4,236,702	2,521,430	876,095	356,179	260,606	124,417	87,660
Other revenues	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	797,171
Total revenues	\$ 46,675,966	\$ 58,473,192	\$ 62,144,599	\$ 60,785,688	\$ 61,459,879	\$ 57,932,880	\$ 57,458,214	\$ 56,906,148	\$ 58,525,526	\$ 60,631,931
Expenditures										
General Government	\$ 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	\$ 968,506
Management Services	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	4,512,873
Community Services	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	5,996,416
Public Safety	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	16,448,769
Non-Departmental	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	2,947,442
Accommodations Tax Grants	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	1,907,032
Visitor & Convention Bureau	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	1,341,508
Administrative	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	1,335,906
Capital Outlay	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	13,597,119
Debt Service										
Principal	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	11,645,000
Interest	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	4,265,011
Fiscal charges	-	11,328	-	-	-	-	-	-	-	-
Debt issue costs	-	586,452	-	-	451,841	-	391,417	-	525,364	150,792
Total expenditures	\$ 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	\$ 65,116,374
Excess of revenues over (under) expenditures	(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)	(4,484,443)
Other Financing Sources (Uses)										
Bonds issued	\$ 44,740,000	\$ 30,685,000	\$ -	\$ 19,000,000	\$ 34,215,000	\$ -	\$ 12,000,000	\$ -	\$ 26,250,000	\$ 9,000,000
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	-	860,673	-	303,951	154,397	-	155,632	-	970,485	664,056
Refund of debt	(10,965,000)	-	-	-	-	-	-	-	-	-
EMS bad debt write-off	(649,108)	-	-	-	-	-	-	-	-	-
Proceeds from sale of land and equipment	-	-	-	-	-	-	-	324,774	264,930	266,622
Transfers in	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	23,329,394
Transfers out	(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)	(23,093,264)
Total other financing sources (uses)	\$ 33,125,892	\$ 462,738	\$ -	\$ 18,895,138	\$ 22,414,397	\$ (50,000)	\$ 12,214,910	\$ 714,503	\$ 26,679,867	\$ 10,166,808
Net change in fund balances	\$ 27,515,940	\$ 8,612,383	\$ 4,216,730	\$ (1,432,351)	\$ 5,486,708	\$ (22,431,581)	\$ 7,434,714	\$ (5,086,898)	\$ 6,237,105	\$ 5,682,365
Debt Service as a Percentage of Noncapital Expenditures	21.4%	22.8%	24.2%	19.3%	27.5%	29.1%	30.9%	30.6%	22.3%	28.8%

Notes: ^aProperty Tax Reassessments performed in 2013.

^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.

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
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
2013	24,242,142	6,995,760	5,250,995	36,488,897
Change 2004-2013	48.8%	39.3%	135.4%	55.0%

**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		
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	412,914,300	918,193,351	21,274,423,507	18.54	4.32%
2012	2011	900,498,390	21,431,112,174	26,653,238	432,725,467	927,151,628	21,863,837,641	19.33	4.24%
2013	2012	887,870,135	21,219,961,036	27,114,330	451,905,500	914,984,465	21,671,866,536	19.33	4.22%

Source: Beaufort County Assessor's Office.

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

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

Fiscal Year	Tax Year	Town Direct Rates				Overlapping Rates ^a				Total Rate
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts ¹	Special Purpose and Fire Districts	
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
2013	2012	12.57	6.01	0.75	19.33	129.16	56.30	8.45	-	213.24

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 otherwise have been paid by owner occupied residents as a part of their millage rate. Prior to Tax Year 2006 the owner occupied and not owner occupied rates were the same.

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

<u>Taxpayer</u>	<u>Tax Year 2012</u>			<u>Tax Year 2003</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	\$ 23,163,160	1	2.57%	\$ 12,218,266	1	2.78%
Summit Title Agency Trustee - Southwind	5,506,480	2	0.61%	-	-	-
Columbia Properties Hilton Head, LLC a	4,540,030	3	0.50%	-	-	-
SCG Hilton Head Property, LLC b	4,260,000	4	0.47%	-	-	-
Sea Pines Resort, LLC	2,954,530	5	0.33%	-	-	-
Greenwood Communities and Resorts	2,811,500	6	0.31%	3,918,184	4	0.89%
Heritage Golf	2,256,000	7	0.25%	-	-	-
Hilton Head Health System LP	1,883,720	8	0.21%	-	-	-
Disney Vacation Dev Inc	1,715,650	9	0.19%	-	-	-
Andrick Deve Corp et al	1,714,340	10	0.19%	-	-	-
Palmetto Electric Co-op	-	-	-	6,359,034	2	1.45%
Hargray Telephone Company Inc	-	-	-	4,960,866	3	1.13%
Westin Hilton Head Limited P/S	-	-	-	3,420,000	5	0.78%
Dunes Motel	-	-	-	2,778,000	6	0.63%
Smith Lynn Press	-	-	-	2,607,730	7	0.59%
M&M Multi Services	-	-	-	2,068,880	8	0.47%
Sea Pine Plantation	-	-	-	1,938,688	9	0.44%
Royal Golf LP	-	-	-	1,704,000	10	0.39%
Total	\$ 50,805,410		5.64%	\$ 41,973,648		9.55%

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
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	23,252,166	94.94%	722,453	23,974,619	97.89%
2013	24,492,438	23,619,196	96.43%	622,946	24,242,142	98.98%

Source: Town of Hilton Head Island Finance Department

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

<u>Fiscal Year</u>	<u>Town Direct Rate</u>	<u>Beaufort County</u>	<u>South Carolina</u>
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%
2013	0%	0%	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	Business Type Activity Bonds	Bond Anticipation Notes	Certificates of Participation	Capital Leases	Bond Premium	Loss on Refunding	Total	Percentage of Personal Income ^a	Per Capita ^a
2004	\$ 76,285,000	\$ 35,775,000	\$ -	\$ -	\$ 10,530,000	\$ 886,720	\$ -	\$ -	\$ 123,476,720	10.33%	3,569
2005	74,705,000	35,500,000	-	-	10,005,000	607,690	924,396	(1,419,825)	120,322,261	9.96%	3,461
2006	71,240,000	34,060,000	-	-	8,995,000	343,075	874,106	(1,311,369)	114,200,812	8.99%	3,344
2007	67,460,000	51,565,000	-	-	7,955,000	67,140	1,091,582	(1,202,912)	126,935,810	9.04%	3,746
2008	63,680,000	66,885,000	-	-	6,905,000	-	1,149,855	(1,094,455)	137,525,400	9.52%	4,055
2009	59,705,000	60,720,000	-	-	5,825,000	-	1,053,730	(985,999)	126,317,731	8.79%	3,688
2010	67,120,000	39,995,000	14,325,000	-	4,730,000	-	1,098,868	(1,013,055)	126,255,813	8.34%	3,403
2011	62,010,000	33,930,000	13,810,000	-	3,600,000	-	929,177	(2,148,800)	112,130,377	7.13%	2,983
2012	58,965,000	53,075,000	13,170,000	-	2,445,000	-	1,710,331	(3,714,344)	125,650,987	8.25%	3,275
2013	64,505,000	46,075,000	12,390,000	-	1,260,000	-	2,186,424	(3,452,296)	122,964,128	7.85%	3,205

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 from 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
2004	\$ 76,285,000	\$ 58,085,000	\$ 18,200,000	0.23%	526
2005	74,128,679	57,071,626	17,057,053	0.21%	491
2006	70,725,513	55,120,788	15,604,725	0.11%	457
2007	67,007,347	53,029,950	13,977,397	0.10%	412
2008	63,441,166	51,920,797	11,520,369	0.07%	340
2009	59,518,350	49,330,609	10,187,741	0.06%	297
2010	66,998,519	59,001,829	7,996,690	0.05%	216
2011	61,943,135	56,121,478	5,821,657	0.03%	155
2012	58,088,744	53,172,877	4,915,867	0.02%	128
2013	64,348,465	55,265,167	9,083,298	0.04%	237

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 from the prior calendar year.

Schedule 14
Town of Hilton Head Island, SC
Direct and Overlapping Governmental Activities Debt
As of June 30, 2013

<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	\$ 350,074,621	51%	\$ 178,538,057
Beaufort County General Obligation Debt	219,235,000	51%	111,809,850
Broad Creek Public Service District	6,514,574	100%	6,514,574
Hilton Head No. 1 Public Service District	14,260,657	94%	13,405,018
Subtotal, overlapping debt			310,267,498
Town direct debt			111,648,785
Total direct and overlapping debt			\$ 421,916,283

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)

Legal Debt Margin Calculation for Calendar Year 2012/Fiscal Year 2013 (Budget Est.)

Assessed value (as of December 31, 2012)	\$ 840,326
Debt Limit (8% of assessed value)	67,226
Debt applicable to limit:	
General Obligation Bonds:	
2009A	\$ 4,870
2013B	<u>4,000</u>
Total net debt applicable to limit	<u>8,870</u>
Legal Debt Margin (without a referendum)	<u><u>\$ 58,356</u></u>

	Fiscal Year									
	<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>	<u>2013</u>
Debt limit	\$ 39,602	\$ 64,916	\$ 65,867	\$ 65,196	\$ 66,174	\$ 66,619	\$ 75,964	\$ 73,455	\$ 74,172	\$ 67,226
Total net debt applicable to limit	18,200	17,355	15,855	14,180	12,325	10,295	8,160	5,930	5,005	8,870
Legal debt margin	21,402	47,561	50,012	51,016	53,849	56,324	67,804	67,525	69,167	58,356
Total net debt applicable to the limit as a percentage of debt limit	45.96%	26.73%	24.07%	21.75%	18.63%	15.45%	10.74%	8.07%	6.75%	13.19%

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 2013 cannot exceed \$53,780,865.

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

Hospitality Tax Bonds						Tax Increment Bonds					
Fiscal Year	Collections	Debt Service			Coverage	Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total				Principal	Interest	Total	
2004	-	-	-	-	-	2004	-	-	-	-	-
2005	2,991,110	275,000	469,885	744,885	4.02	2005	3,777,553	-	347,200	347,200	10.88
2006	5,086,678	290,000	464,385	754,385	6.74	2006	4,065,563	645,000	357,004	1,002,004	4.06
2007	5,108,528	300,000	457,970	757,970	6.74	2007	3,985,064	675,000	326,314	1,001,314	3.98
2008	5,232,837	305,000	448,970	753,970	6.94	2008	4,427,710	3,760,000	374,015	4,134,015	1.07
2009	4,826,318	315,000	439,820	754,820	6.39	2009	5,833,846	3,140,000	824,163	3,964,163	1.47
2010	4,708,807	325,000	428,007	753,007	6.25	2010	6,308,512	3,270,000	717,538	3,987,538	1.58
2011	4,917,591	340,000	416,632	756,632	6.50	2011	6,369,085	3,405,000	606,461	4,011,461	1.59
2012	5,160,134	775,000	503,346	1,278,346	4.04	2012	6,148,490	3,550,000	490,446	4,040,446	1.52
2013	5,250,995	805,000	827,312	1,632,312	3.22	2013	6,562,575	3,695,000	369,432	4,064,432	1.61

Stormwater Revenue Bonds						Beach Preservation Fee Revenue Bonds					
Fiscal Year	Collections	Debt Service			Coverage	Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total				Principal	Interest	Total	
2004	1,079,614	-	750,546	750,546	1.44	2004	-	-	-	-	-
2005	1,480,356	-	750,546	750,546	1.97	2005	-	-	-	-	-
2006	1,324,277	505,000	742,971	1,247,971	1.06	2006	-	-	-	-	-
2007	1,351,871	520,000	727,596	1,247,596	1.08	2007	4,426,889	-	-	-	-
2008	1,501,389	535,000	712,708	1,247,708	1.20	2008	4,634,690	2,080,000	780,610	2,860,610	1.62
2009	1,572,183	550,000	697,369	1,247,369	1.26	2009	4,210,460	2,160,000	679,810	2,839,810	1.48
2010	2,553,971	565,000	679,938	1,244,938	2.05	2010	4,008,272	2,240,000	569,810	2,809,810	1.43
2011	3,377,779	515,000	660,665	1,175,665	2.87	2011	4,768,381	2,320,000	570,073	2,890,073	1.65
2012	3,491,879	640,000	379,470	1,019,470	3.43	2012	4,841,395	2,405,000	445,977	2,850,977	1.70
2013	3,580,445	780,000	366,077	1,146,077	3.12	2013	4,998,132	2,500,000	608,854	3,108,854	1.61

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
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	37,585	1,572,782	41,846	6.0%
2012	38,366	1,523,245	39,703	5.7%
2013	38,366	1,567,366	40,853	5.2%

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>2013 Employees</u>	<u>2003 Employees</u>
Sea Pines Resort	650	N/A
Hilton Head Medical Ctr and Clinic	520	N/A
Marriott Vacation Club Intl	491	N/A
Beaufort County School District	411	N/A
Westin Hotel and Resorts	380	N/A
Cypress of Hilton Head	376	N/A
Hilton Head Marriott Golf and Beach Resort	305	N/A
Publix Super Markets	263	N/A
Sonesta Resort HHI	250	N/A
Town of Hilton Head Island	249	N/A
Walmart	247	N/A
Spinnaker Resorts/Southwind Management	190	N/A
The Greenery	155	N/A

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

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

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30,</u>									
	<u>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>	<u>2013</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	4.0	4.0	5.0	5.0	4.0	5.0	4.0
Human Resources	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Management Services										
Finance	16.0	17.0	17.0	17.0	19.0	19.0	17.0	17.0	18.0	18.0
Administration	23.0	23.0	23.5	23.5	23.5	22.5	23.5	21.0	22.0	22.0
Community Services										
Community Development	35.0	35.5	36.0	36.0	36.0	36.0	30.0	27.0	27.0	27.0
Public Projects & Facilities	19.0	19.0	19.0	20.0	21.0	21.0	22.0	22.0	22.0	22.0
Public Safety										
Fire & Rescue	143.0	144.0	144.8	147.3	147.3	147.6	146.0	145.0	147.1	145.1
Police Services ^a	-	-	-	-	-	-	-	-	-	-
Total	<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>	<u>249.1</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

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Management Services										
Business license permits issued	6,320	5,130	5,312	5,409	5,638	5,644	5,549	5,718	5,802	5,997
Business license inspections	n/a	20	360	546	150	396	127	1,460	605	2,324
Business license audits	n/a	50	101	55	-	-	-	117	49	123
Hospitality tax accounts	394	409	411	357	343	356	325	359	373	419
Bed tax accounts	542	649	701	675	732	775	752	863	891	1,232
Beach passes issued	3,007	3,052	2,116	2,729	2,009	2,434	1,885	2,602	2,224	2,688
Number of court cases docketed	7,009	8,340	9,033	9,366	10,687	8,380	9,159	8,016	7,152	6,156
Number of court cases disposed	7,122	7,120	8,952	9,123	10,881	8,607	8,854	8,363	7,221	6,271
Number of search warrants issued	15	24	15	16	41	19	22	33	27	28
Number of arrest warrants issued	493	547	477	437	410	460	415	349	216	502
Number of bench warrants issued	777	1,333	801	531	894	693	777	576	610	363
Community Services										
Community Development										
Building inspections conducted	18,724	21,337	22,167	18,146	15,297	13,053	11,604	10,773	11,813	12,133
Building permits issued	410	449	440	168	104	63	51	68	89	130
Miscellaneous permits issued	3,213	3,100	3,146	4,233	5,121	4,470	4,913	4,805	4,345	4,619
Public Projects and Facilities										
# of capital improvement projects to manage	57	53	84	76	51	64	62	53	45	38
# of beach access/parks to maintain	6	7	8	8	8	8	8	8	8	8
Miles of pathways to maintain	32	50	51	51	53	55	56	57	58	60
Maintenance work orders	1,368	2,119	2,373	2,517	2,150	2,800	4,187	4,406	4,500	5,212
Public Safety										
Fire and Rescue service calls	5,780	6,140	6,167	6,030	6,246	6,088	5,957	6,034	5,796	6,291
Actual fires extinguished	141	151	147	139	153	151	127	80	130	166
Inspections	2,244	2,338	2,271	2,357	2,649	2,626	2,390	2,902	2,281	1,937
Telephone requests	55,866	45,878	55,584	73,475	75,099	77,352	72,361	61,435	65,522	66,710
Public training programs	344	341	366	687	614	791	520	609	518	493

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>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>	<u>2013</u>
General Government										
Town-owned parcels	100	106	113	113	116	183	185	182	175	142
Town-owned property acreage	1,108	1,126	1,142	1,142	n/a	n/a	n/a	n/a	1,202	1,319
Town-owned development rights	n/a	n/a	n/a	n/a	n/a	7	8	8	8	8
Town-owned easements	n/a	n/a	n/a	n/a	n/a	73	75	80	80	50
Management Services										
Town vehicles	37	41	39	38	38	39	40	39	38	38
Public Safety										
Emergency Apparatus Vehicles	25	24	24	24	24	24	24	24	24	25
Police Vehicles	26	-	-	-	-	-	-	-	-	-
General Vehicles	18	17	19	22	22	23	30	30	30	25
Fire Stations	6	7	7	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	22	22	22	22	22	22	23	22	22	22
Pathways (miles)	32	50	50	51	53	55	56	57	58	60
Beach access/parks	5	7	7	8	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, 2013

Customer	Type of Business	Equivalent Single Family Residential Units	Stormwater Fees Billed	Percentage of Total Billed
Town of Hilton Head Island	town government	615.89	\$ 66,948	1.87%
Beaufort County School District	primary/secondary education	470.63	51,157	1.43%
Beaufort County	aircraft transportation	460.28	50,032	1.40%
Sea Pines Resort LLC	hotel/motel	425.60	46,262	1.29%
Columbia Properties Hilton Head LLC (Columbia Sussex Corporation)	hotel/motel	301.77	32,802	0.92%
Marriott Ownership Resorts	hotel/motel	287.70	31,273	0.87%
Greenwood Communities and Resorts	developer/variou	270.41	29,393	0.82%
Festival Centre (E&A) LLC	community shopping center	189.93	20,646	0.58%
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			\$ 368,931	10.30%
Total Stormwater Fees Billed			\$ 3,580,445	

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, 2013

Court Fines

Court fines collected	\$ 262,022
Court fines retained by the Town	<u>262,022</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>

Court Assessments

Court assessments collected	\$ 263,001
Court assessments retained by the Town	<u>28,951</u>
Court assessments remitted to the State Treasurer	<u><u>234,050</u></u>

Court Surcharges

Court surcharges collected	\$ 136,821
Court surcharges retained by the Town	<u>13,526</u>
Court surcharges remitted to the State Treasurer	<u><u>123,295</u></u>

Victims Services

Court assessments allocated to victim services	\$ 42,477
Victim Services expenditures	<u>59,492</u>
Funds available for carryforward	<u><u>(17,015)</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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a long, sweeping underline.

Columbia, South Carolina
December 12, 2013

**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No