

***TOWN OF HILTON HEAD ISLAND,  
South Carolina***



***COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Fiscal Year Ended  
June 30, 2017***

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



**FISCAL YEAR ENDED JUNE 30, 2017**  
Prepared by the Finance Department

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# Town of Hilton Head Island, South Carolina Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2017

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## Introductory Section

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## **Transmittal Letter**

For The Fiscal Year Ended June 30, 2017  
The Town of Hilton Head Island, South Carolina

December 28, 2017

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, 2017, 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, Scott and Company, LLC, has issued an unmodified ("clean") opinion for the year ended June 30, 2017. 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. At the first Council meeting in May, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. Town Council budget workshops are

held for each budgeted fund to discuss proposed expenditures and the means of financing them. A public hearing is 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 2.6 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 150,000.

The Town has started to emerge from the recession with five straight years of increases. 2015-2016 total gross taxable sales were \$1.550 billion compared to \$1.497 billion for the prior fiscal year for Hilton Head Island. Gross taxable sales for Hilton Head Island were 35.1% of all gross taxable sales within Beaufort County during the most recent reported fiscal year. As one measure of the regional economy, Beaufort County gross taxable sales increased \$101 million from \$4.320 billion to \$4.421 billion during the previous fiscal year. Hilton Head Island's taxable sales were 104.6% of the totals from 2007. Beaufort County's totals are 108.9% of 2007 levels.

<b>Fiscal Year</b>	<b>Hilton Head Island</b>	<b>Beaufort County</b>	<b>HHI as a % of BC</b>
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%
2011-2012	1,262,790,386	3,683,443,341	34.3%
2012-2013	1,329,472,728	3,844,604,186	34.6%
2013-2014	1,349,120,078	3,930,141,179	34.3%
2014-2015	1,497,939,094	4,319,530,218	34.7%
2015-2016	1,550,271,152	4,421,420,044	35.1%

Source SC Depart of Revenue Annual Reports <http://www.dor.sc.gov/resources-site/Publications>

**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+, and 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***

The Town has several initiatives in the works. The Town has a Tax Increment Financing District which is helping to construct a facility for the University of South Carolina at Beaufort among other projects. The Town is constructing a new Recreation Center upgrade. The Town is embarking on a Visioning process to map out its future for the next phase of the Town's growth. Since 2009, the Town has been proactive in expenditure controls as an on-going effort to maintain fiscal capacity in an environment of uncertain economic conditions. The results of the Town's efforts were quite successful; current year General Fund expenditures were approximately \$3.839 million less than the final budget.

	FY 2017 - General Fund		
	Final Budget	Actual	Variance
Revenue	\$ 30,202,436	\$ 30,862,771	\$ 660,335
Transfers In/(Out), net	209,564	719,902	510,338
Expenditures	<u>40,270,830</u>	<u>36,430,883</u>	<u>3,839,947</u>
Revenues Over (Under) Expenditures	<u>\$ (9,858,830)</u>	<u>\$ (4,848,210)</u>	<u>\$ 5,010,620</u>

***Hurricane Matthew***

The Town's forethought and planning proved to be an especially important factor to respond to a major event in this fiscal year: Hurricane Matthew. The Town was named part of a federal disaster area due to the storm, and is responding accordingly. The Town has made great strides in recovery. The recovery effort will continue throughout the new fiscal year. The Town is working closely with FEMA and State officials to ensure maximum allowable reimbursements. The planning and preparation by the Town has proved invaluable during this experience. You can read more in detail on Hurricane Matthew in the Notes to the Financial Statements.

***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, 2016. This was the twenty eighth 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, 2016. It was the twelfth 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 also like to thank the leadership team of the Town, and its dedicated employees for their efforts to maintain the high quality of services our citizens expect while being prudent stewards of the Town's finances as the economy rebounds and service requests rise. I would also wish to thank the Town Council members for their continued fiscal responsibility through the fiscal downturn.

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.

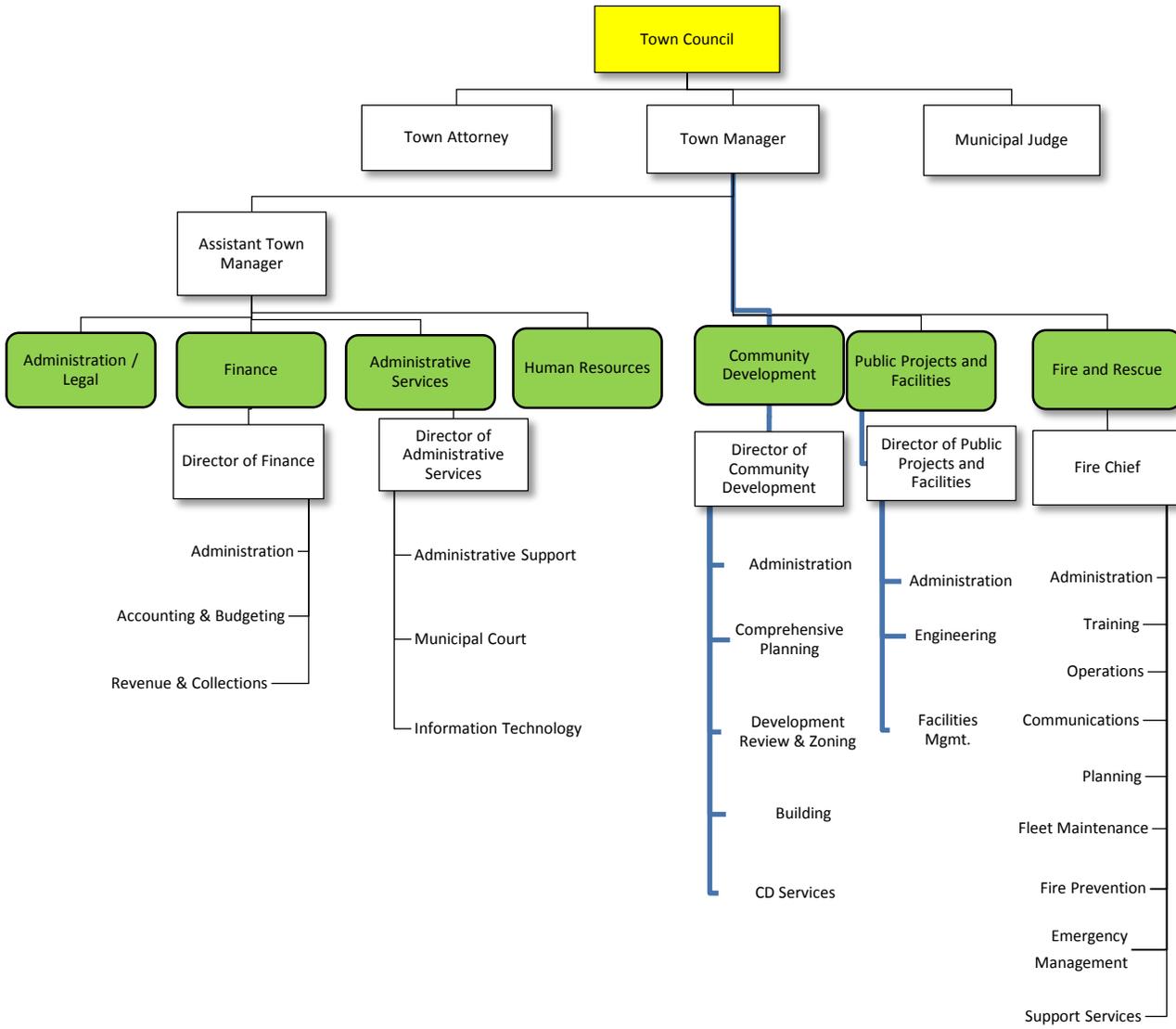
Respectfully submitted,

*John M. Troyer*

John M. Troyer, CPA  
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

ORGANIZATIONAL CHART





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

### **Mayor**

The Honorable David Bennett

### **Town Council**

Kimberly W. Likins, Mayor Pro Tempore

David Ames

Marc A. Grant

William D. Harkins

Thomas W. Lennox

John J. McCann

### **Administrative Staff**

Stephen G. Riley, Town Manager

Gregory D. DeLoach, Assistant Town Manager Administration

John M. Troyer, Director of Finance

Charles F. Cousins, Director of Community Development

Scott Liggett, Director of Public Projects and Facilities

Brad Tadlock, 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, 2016**

*Christopher P. Morill*

Executive Director/CEO

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## Financial Section

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison schedule of the general fund of the Town of Hilton Head Island, South Carolina, (the "Town"), as of and for the year ended June 30, 2017, 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 activities, each major fund, and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina as of June 30, 2017, 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 4-15 and pension information on pages 71-72 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 of Hilton Head Island, South Carolina's basic financial statements. The budgetary comparison schedules, the combining non-major governmental fund financial statements, the agency fund statement of changes in assets and liabilities, the introductory and statistical sections and schedule of municipal fines, assessments and surcharges are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, the combining non-major governmental fund financial statements, the agency fund statement of changes in assets and liabilities, and the schedule of municipal fines, assessments and surcharges 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 non-major governmental fund financial statements, the agency fund statement of changes in assets and liabilities and the schedule of municipal fines, assessments and surcharges 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 28, 2017 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.

*Scott and Company LLC*

Columbia, South Carolina  
December 28, 2017

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**TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

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, 2017. 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:

<b>Fiscal Year</b>	<b>Taxable Assessed Value *</b>	<b>% Increase/Decrease</b>	<b>Tax Revenue **</b>
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	-3.20%	\$17,236,337
2012	927,151,628	0.87%	\$17,826,129
2013	840,326,016	-9.36%	\$17,679,567
2014	817,099,066	-2.76%	\$17,179,878
2015	907,022,430	11.01%	\$17,672,715
2016	918,731,530	1.3%	\$18,486,057
2017	926,653,510	0.86%	\$18,916,209

\* Property in Beaufort County is reassessed once every five years.  
\*\* Tax revenue includes delinquent taxes, but not Tax Increment Financing (TIF).

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

<b>Fiscal Year</b>	<b>Operating Millage</b>	<b>Debt Service Millage</b>	<b>Capital Projects Millage</b>	<b>Total Millage</b>
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	12.86	5.72	0.75	19.33
2014	13.88	6.14	0.81	20.83
2015	14.37	6.14	0.84	21.35
2016	15.20	6.14	0.84	22.18
2017	15.20	6.14	0.84	22.18

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 indices 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 South Carolina Revenue and Fiscal Affairs Office.

As the Town approaches build-out the impact of the state-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 2017, the assets of the Town exceeded liabilities by \$190,779,537. Of this amount, \$1,031,581 (Unrestricted Net Position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$31,116,117 for fiscal year 2017. This decrease was the result of the Town's response to Hurricane Matthew – which included \$48,389,565 in expenditures and \$12,693,491 in revenues for a net of \$35,696,070 cost as of June 30, 2017. Without Matthew, the Town's net position would have increased by \$4,579,953. More reimbursements and costs from the Matthew response are expected in the new fiscal year. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".
- At June 30, 2017, the Town's governmental funds reported combined ending fund balances of \$70,547,948.
- The Town's General Fund reported an ending fund balance of \$16,103,222 for fiscal year 2017. Of this ending General Fund balance, \$3,700,049 or 23.0% 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. Required and 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 deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between these 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 among others. 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 fund.

## **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 Town's near-term financing decisions. Both the governmental funds balance sheet and 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 fourteen governmental funds. Nine 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, the Natural Disasters Fund and the Capital Projects Fund. Five are classified as non-major funds: Palmetto Electric Franchise Fee, Operating Grants, Home Grant, Federal Grants and Road Usage Fee Fund. 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 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 two **Fiduciary Funds**. The Firemen's Fund is used to account for certain funds held on behalf of the Town's firemen. The Airport Noise Abatement Fund is used to account for grants from the County and the Town toward a County project at the airport. The activities associated with these funds are 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 and other supplementary information.

## **Economic Factors**

The recovery of the economy continues to have a positive impact on revenues received by the Town; tourism, the Town's major business driver, reports strong increases.

### **Real Estate**

Real estate related revenues, especially construction permits and real estate transfer fees, are 9% less than last fiscal year – which was an unusually high year. This trend is also reflected in the 4% decrease in real estate transfer fees. Construction activity on the Island is still strong. Due to a number of hotels and club houses with major renovations, this year's annual construction permit decrease of 17% is still strong on a historical basis—last year's amounts were not expected to be sustainable.

	<u>Real Estate Transfer Fee</u>			<u>Construction Permits</u>			<u>Total</u>		
	Received	\$ Change	%Change	Received	\$ Change	%Change	Received	\$ Change	%Change
FY 2015	2,534,932	66,051	3%	1,380,846	2,907	0%	3,915,778	68,958	2%
FY 2016	2,887,147	352,215	14%	2,039,571	658,725	48%	4,926,718	1,010,940	26%
FY 2017	2,780,312	(106,835)	-4%	1,697,438	(342,133)	-17%	4,477,750	(448,968)	-9%

### **Tourism**

Tourism-driven revenues continue to report strong increases over the prior year; it is also important to note that the dollar level of these revenues has rebounded to surpass all historical fiscal year heights. Currently, revenues from these sources are 6% 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 2015	14,498,473	1,165,518	9%	6,155,004	521,574	9%	20,653,477	1,687,092	9%
FY 2016	15,372,534	874,061	6%	6,506,306	351,302	6%	21,878,840	1,225,363	6%
FY 2017	16,422,549	1,050,015	7%	6,661,873	155,567	2%	23,084,422	1,205,582	6%

## **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 Statements of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 90,540,483	\$ 80,064,333	\$ 3,700,934	\$ 2,639,159	\$ 94,241,417	\$ 82,703,492
Deferred outflow s of resources	4,996,156	3,407,522	716,438	805,993	5,712,594	4,213,515
Capital assets	<u>247,540,588</u>	<u>243,952,531</u>	<u>12,797,167</u>	<u>13,863,210</u>	<u>260,337,755</u>	<u>257,815,741</u>
Total assets and deferred outflow s of resources	<u>\$ 343,077,227</u>	<u>\$ 327,424,386</u>	<u>\$17,214,539</u>	<u>\$ 17,308,362</u>	<u>\$360,291,766</u>	<u>\$ 344,732,748</u>
Current liabilities	\$ 21,179,419	\$ 25,931,323	\$ 2,292,791	\$ 1,118,898	\$ 23,472,210	\$ 27,050,221
Long term liabilities & deferred outflow s	<u>137,905,019</u>	<u>86,751,873</u>	<u>8,135,000</u>	<u>9,035,000</u>	<u>146,040,019</u>	<u>95,786,873</u>
Total liabilities and deferred inflow s of resources	<u>\$ 159,084,438</u>	<u>\$ 112,683,196</u>	<u>\$10,427,791</u>	<u>\$ 10,153,898</u>	<u>\$169,512,229</u>	<u>\$ 122,837,094</u>
Net position:						
Net investment in capital assets	\$ 135,840,935	\$ 169,753,952	\$ 4,478,605	\$ 4,759,203	\$140,319,540	\$ 174,513,155
Restricted	49,430,348	31,347,375	-	-	49,430,348	31,347,375
Unrestricted	<u>(1,278,494)</u>	<u>13,639,863</u>	<u>2,308,143</u>	<u>2,395,261</u>	<u>1,029,649</u>	<u>16,035,124</u>
Total net position	<u>\$ 183,992,789</u>	<u>\$ 214,741,190</u>	<u>\$ 6,786,748</u>	<u>\$ 7,154,464</u>	<u>\$190,779,537</u>	<u>\$ 221,895,654</u>

Net position amounted to \$190.8 million in fiscal year 2017 compared to \$221.9 million in fiscal year 2016. A significant portion of the Town's net position (\$140.3 million or 73.5 % of the Total net position) 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.

Both the Government and Business-Type Activities total net position and both unrestricted net position decreased during fiscal year 2017. The decrease is because of the response of the Town to Hurricane Matthew. Long term liabilities and deferred outflows of resources increased as Bond Anticipation notes were issued for Capital Plan (BAN Series 2016 \$25 million) and Disaster Response (BAN Series 2017 \$20 million) as well as an increase in the pension liability from the State PORS plan. Current liabilities increased primarily due to timing of payments related to the hurricane response activity at June 30, 2017.

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.

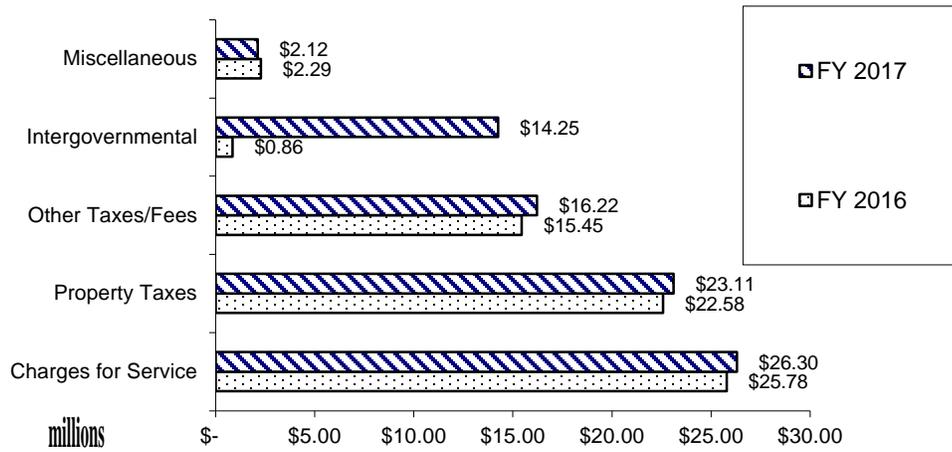
## Condensed Statements of Activities

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 26,301,066	\$ 25,783,160	\$ 3,583,005	\$ 3,551,400	\$ 29,884,071	\$ 29,334,560
Operating grants and contributions	12,923,774	838,915	-	44,272	12,923,774	883,187
Capital grants and contributions	1,330,261	19,956	-	-	1,330,261	19,956
General Revenues:						
Property taxes	23,111,039	22,576,837	-	-	23,111,039	22,576,837
Other taxes	16,223,664	15,447,140	-	-	16,223,664	15,447,140
Other	<u>2,118,648</u>	<u>2,293,147</u>	<u>1,202</u>	<u>443</u>	<u>2,119,850</u>	<u>2,293,590</u>
Total Revenues	<u>82,008,452</u>	<u>66,959,155</u>	<u>3,584,207</u>	<u>3,596,115</u>	<u>85,592,659</u>	<u>70,555,270</u>
<b>Program Expenses:</b>						
Governmental Activities:						
General government	9,177,681	6,119,293	-	-	9,177,681	6,119,293
Management services	5,030,374	5,240,408	-	-	5,030,374	5,240,408
Community services	28,419,138	18,658,764	-	-	28,419,138	18,658,764
Public safety	63,979,026	19,802,724	-	-	63,979,026	19,802,724
Culture and recreation	2,583,815	2,652,668	-	-	2,583,815	2,652,668
Visitor and convention bureau	1,831,924	1,709,995	-	-	1,831,924	1,709,995
Administrative	517,130	212,356	-	-	517,130	212,356
Interest on long-term debt	2,312,765	3,042,722	-	-	2,312,765	3,042,722
Business-type Activities:						
Stormwater utility	<u>-</u>	<u>-</u>	<u>2,856,923</u>	<u>2,755,139</u>	<u>2,856,923</u>	<u>2,755,139</u>
Total Expenses	<u>113,851,853</u>	<u>57,438,930</u>	<u>2,856,923</u>	<u>2,755,139</u>	<u>116,708,776</u>	<u>60,194,069</u>
Excess before transfers	<u>(31,843,401)</u>	<u>9,520,225</u>	<u>727,284</u>	<u>840,976</u>	<u>(31,116,117)</u>	<u>10,361,201</u>
Transfers	<u>1,095,000</u>	<u>94,258</u>	<u>(1,095,000)</u>	<u>(94,258)</u>	<u>-</u>	<u>-</u>
Change in net position	(30,748,401)	9,614,483	(367,716)	746,718	(31,116,117)	10,361,201
Net position, beginning, restated	<u>214,741,190</u>	<u>205,126,707</u>	<u>7,154,464</u>	<u>6,407,746</u>	<u>221,895,654</u>	<u>211,534,453</u>
Net position, ending	<u>\$ 183,992,789</u>	<u>\$ 214,741,190</u>	<u>\$ 6,786,748</u>	<u>\$ 7,154,464</u>	<u>\$ 190,779,537</u>	<u>\$ 221,895,654</u>

Governmental activities decreased the Town's net position by \$30.7 million. This represents a change of \$40.4 million from the previous fiscal year's increase of \$9.6 million. The most prominent event was the response to Hurricane Matthew. The following highlight the significant changes from the previous year:

- Total revenues increased to \$82.0 million. This was due to \$12.7 million in reimbursements from federal and state agencies for Hurricane Matthew response. Without this increase, revenues would have increased \$2.3 million or 3.5%. Expenses increased \$56.4 million or 98.2% -- \$48.4 million was attributed to Hurricane Matthew response.
- Charges for services increased \$.52 million or 2.0%.
- Property tax revenue, traditionally the Town's largest revenue source, increased by \$0.5 million or approximately 2.4 % demonstrating growth in the tax base.
- Property taxes made up 28.2 % of the total revenue down from 33.7 % in the prior year.
- Total expenses in the Governmental Activities increased by \$56.4 million. The largest part of this increase is \$44.2 million in Public Safety – primarily due to the response to the Hurricane damage. Community Services experienced an increase of \$9.8 million also primarily due to the response to Hurricane Matthew.

## Revenues by Source – Governmental Activities



Business-type activities decreased the Town’s net position by \$0.4 million which is less than the \$0.7 million increase in 2016. Stormwater revenues increased by \$32 thousand or approximately 0.9% above the previous fiscal year. Stormwater contributed \$1 million toward the hurricane response and otherwise would have had a \$0.6 million increase in 2017.

### **Governmental Funds**

The **General Fund**, which is the primary operating fund of the Town, recognized \$30.8 million in total revenues and \$7.9 million in other financing sources offset with \$36.4 million in expenditures and \$7.2 million in other financing uses. The Town directed \$7.15 million of disaster reserves from the General Fund toward the hurricane response effort in the Natural Disasters Fund. Without that one item, the General Fund would have recorded a \$2.3 million increase in 2017. The Town continued its fiscal discipline in fiscal year 2017. The results continue to be successful; expenditures were approximately \$3.8 million less than the final budget. In addition, revenues were \$660,335 more than budget.

Fund balance at the beginning of the year was \$21.0 million and, when combined with the current year operations, resulted in an end of year Fund Balance of \$16.1 million. This reduction was substantially less than the \$7.15 million transferred for hurricane response. Of the remaining amount, \$3.7 million is unassigned fund balance – approximately the same as last year.

The **Debt Service Fund** recognized \$5.3 million in total revenues and \$35.9 million in other financing sources offset with \$11.0 million in expenditures and \$ 29.0 million other financing uses. This resulted in revenues and other financing sources exceeding expenditures and other financing uses by \$1.3 million. The Fund Balance at the beginning of the year was \$8.6 million and, when combined with the current year, resulted in an end of year Fund Balance of \$9.9 million. These results were consistent with the Town’s expectations as the Town has plans to issue a number of bond issues in the new fiscal year.

The **Capital Projects Fund** recognized \$2.9 million in total revenues and \$28.4 million in other financing sources offset with \$24.0 million in expenditures and \$0.7 million in other financing uses. This resulted in revenues and other financing sources exceeding expenditures and other financing uses by \$6.5 million. This was expected as the hurricane response delayed many capital projects temporarily. The fund balance at the beginning of the year was \$5.5 million and, when combined with the current year spending, resulted in an end of year fund balance of \$12.0 million. This is in accordance with the Town’s Capital Plan.

The **Tax Increment Financing District Fund (TIF)** recognized \$4.2 million in total revenues offset with \$1.5 million in other financing uses related to capital expenditures. This resulted in revenues greater than expenditures and other financing uses by \$2.7 million. Fund Balance at the beginning of the year was \$5.2 million and, when combined with the current year, resulted in an end of year Fund Balance of \$7.9 million. These results are consistent with the Town's plans – a temporary build-up of TIF funds as the USCB project advances and several TIF projects are well into the planning stages.

The **Accommodations Tax Fund** recognized \$6.1 million in total revenues offset with \$4.3 million in expenditures and \$1.7 million in other financing uses. This resulted in revenues exceeding expenditures by \$0.1 million. Fund Balance at the beginning of the year was \$2.9 million and, when combined with the current year resulted in end of year Fund Balance of \$3.0 million.

The **Real Estate Transfer Fee Fund** recognized \$2.8 million in total revenues offset with \$28 thousand in expenditures and \$2.2 million in other financing uses. This resulted in revenues exceeding expenditures by \$560 thousand. Fund balance at the beginning of the year was \$2.4 million and, when combined with the current year, resulted in an end of year Fund Balance of \$2.9 million.

The **Beach Preservation Fee Fund** recognized \$6.9 million in total revenues, offset with \$16.5 million in other financing uses which included \$12 million emergency reserves deployed to the hurricane response. This resulted in reductions to fund balance of \$9.7 million. Fund Balance at the beginning of the year was \$14.8 million and, when combined with the current year, resulted in an end of year Fund Balance of \$5.1 million.

The **Hospitality Fee Fund** recognized \$6.7 million in total revenues offset with \$125 thousand in expenditures and \$5.3 million in other financing uses. This resulted in revenues exceeding expenditures and other financing uses by \$1.3 million. This is in line with the Town's expectations. The Fund Balance at the beginning of the year was \$1.9 million and, when combined with the current year, resulted in an end of year Fund Balance of \$3.2 million.

The **Natural Disasters Fund** recognized \$12.7 million in total revenues offset with \$48.4 million in expenditures and \$40.15 million in other financing sources. This resulted in revenues and other financing sources exceeding expenditures by \$4.5 million. This is in line with the Town's expectations. Because the significance of the event and the amount of the expenditures, a new fund was created this fiscal year to report the activity. As this was a new fund, the fund balance at the beginning of the year was \$0.0 million and, when combined with the current year, resulted in an end of year fund balance of \$4.5 million. In FY 2018, the Town will need to repay the \$20 million Bond Anticipation Note (BAN) issued to assist with the disaster response. The Town continues to work with FEMA and the State of South Carolina on reimbursement of eligible expenditures for this effort.

**Revenues, Expenditures and Changes in Fund Balance – Governmental Funds**

<b>2017</b>				
<b>Fund</b>	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Fund Balance	Changes in Fund Balance
General	\$ 38,770,673	\$ 43,618,883	\$ 16,103,222	\$ (4,848,210)
Tax Increment Financing	4,197,412	1,521,037	7,892,225	2,676,375
Accommodations Tax (State)	6,132,281	5,986,960	3,046,790	145,321
Real Estate Transfer Fee	2,781,154	2,221,333	2,911,776	559,821
Beach Preservation Fee	6,863,225	16,548,633	5,080,403	(9,685,408)
Hospitality Fee	6,662,517	5,403,240	3,155,802	1,259,277
Debt Service	41,227,589	39,928,209	9,886,150	1,299,380
Capital Projects Fund	31,232,782	24,736,209	11,999,880	6,496,573
Natural Disasters Fund	52,843,491	48,389,565	4,453,926	4,453,926
Non-Major Governmental Funds	3,643,484	1,966,050	6,017,774	1,677,434
Total Governmental Funds	<u>\$ 194,354,608</u>	<u>\$ 190,320,119</u>	<u>\$ 70,547,948</u>	<u>\$ 4,034,489</u>
<b>2016</b>				
<b>Fund</b>	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	Fund Balance	Changes in Fund Balance
General	\$ 38,956,303	\$ 37,354,196	\$ 20,951,432	\$ 1,602,107
Tax Increment Financing	4,091,602	2,657,266	5,215,850	1,434,336
Accommodations Tax (State)	5,725,569	5,658,720	2,901,469	66,849
Real Estate Transfer Fee	2,887,472	2,272,552	2,351,955	614,920
Beach Preservation Fee	6,436,292	8,186,247	14,765,811	(1,749,955)
Hospitality Fee	6,506,558	5,333,498	1,896,525	1,173,060
Debt Service	11,810,379	10,709,450	8,586,770	1,100,929
Capital Projects Fund	10,954,783	14,069,986	5,503,307	(3,115,203)
Non-Major Governmental Funds	4,199,638	3,212,960	4,340,340	986,678
Total Governmental Funds	<u>\$ 91,568,596</u>	<u>\$ 89,454,875</u>	<u>\$ 66,513,459</u>	<u>\$ 2,113,721</u>

**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 forms 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.

**Original to revised expenditure budget variances:**

<u>General Fund by Function</u>	Original Budget	Revised Budget	Variance From Original
General Government	\$ 1,833,846	\$ 1,877,100	\$ 43,254
Management Services	5,608,403	5,714,479	106,076
Public Safety	18,226,359	18,257,632	31,273
Community Services	8,440,379	8,850,212	409,833
Non-Departmental Townwide	4,236,434	4,178,782	(57,652)
Capital Outlay	1,268,222	1,392,625	124,403
	<u>\$ 39,613,643</u>	<u>\$ 40,270,830</u>	<u>\$ 657,187</u>

The General Fund revenues were more than the revised budget by \$660,335. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were above budget by \$21,538
- Local accommodations tax revenue was above budget by \$311,379
- Business license and franchise fee revenue were below budget by \$81,318
- Building permit revenue was above budget by \$77,205
- State shared revenue was above budget by \$37,906
- EMS and public safety revenue was above budget by \$31,203
- Fines and fees were above budget by \$55,826
- Investment income was above budget by \$910

The Town demonstrated fiscal conservatism by operating at less than the allowed budget for the General Fund operations. Actual General Fund expenditures were less than the revised budget by \$3.84 million.

The favorable variance can be primarily attributed to the continuation of the expenditure controls and fiscal discipline the Town has traditionally maintained and from realistic and conservative revenue estimates. These trends continued through fiscal year 2017.

### CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2017 and 2016 amount to \$247.5 million and \$244.0 million respectively (net of accumulated depreciation). The Town's investment in capital assets for its business-type activities as of June 30, 2017 and 2016 amount to \$12.8 million and \$13.9 million respectively (net of accumulated depreciation). Capital assets include land, construction in progress, 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:

- Island Recreation Center Expansion \$2,672,556
- Sewer service expansion \$1,428,679
- Crossings Park Improvements \$356,288
- Office Park Road/USCB Project \$588,514

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

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 161,476,238	\$ 161,476,238	\$ -	\$ -	\$ 161,476,238	\$ 161,476,238
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	13,835,278	7,271,825	-	1,414,334	13,835,278	8,686,159
Buildings	20,741,779	21,961,080	-	-	20,741,779	21,961,080
Furniture, fixtures and equipment	996,460	1,116,757	-	-	996,460	1,116,757
Vehicles	3,730,078	3,205,041	-	-	3,730,078	3,205,041
Imp. Other than buildings - park development	12,929,360	13,640,097	-	-	12,929,360	13,640,097
Infrastructure	<u>19,548,044</u>	<u>20,998,142</u>	<u>12,797,167</u>	<u>12,448,876</u>	<u>32,345,211</u>	<u>33,447,018</u>
	<u>\$ 247,540,588</u>	<u>\$ 243,952,531</u>	<u>\$ 12,797,167</u>	<u>\$ 13,863,210</u>	<u>\$ 260,337,755</u>	<u>\$ 257,815,741</u>

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

## Proprietary Fund

In fiscal year 2017, the Town received \$3,583,005 in stormwater fees while incurring \$2,856,923 in expenses associated with this program. Unrestricted net position at the end of the year was \$2,308,143.

### 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 maintained its 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**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 46,345,000	\$ 51,680,000	\$ -	\$ -	\$ 46,345,000	\$ 51,680,000
GO Bond Anticipation Notes (BANs)	45,000,000	-	-	-	45,000,000	-
Revenue/Special Obligation Bonds:						
Beach preservation fees	4,985,000	7,380,000	-	-	4,985,000	7,380,000
Hospitality tax	18,550,000	19,415,000	-	-	18,550,000	19,415,000
Stormwater	-	-	9,035,000	9,910,000	9,035,000	9,910,000
	<u>\$ 114,880,000</u>	<u>\$ 78,475,000</u>	<u>\$ 9,035,000</u>	<u>\$ 9,910,000</u>	<u>\$ 123,915,000</u>	<u>\$ 88,385,000</u>

The Town also has a Net Pension Liability that is discussed in Note 14.

The Town plans to issue tax increment financing (TIF), beach preservation fee, and stormwater special revenue bonds in 2018. The Town also plans to issue GO bonds for the Capital Improvements Plan and for Disaster Reserve Replacement in early fiscal year 2018. Additional information on the Town's long-term debt can be found in Note 10 of this report.

### BUDGET HIGHLIGHTS FOR FISCAL YEAR 2017

The **General Fund's** expenditures for fiscal year 2018 are budgeted at \$40.3 million, an increase of \$705,393 or 1.8% compared to the prior year's adopted budget. This includes the use of \$560,642 in fund balance – which was expected to be offset with unspent funds in 2018, and \$191,250 in carried forward unspent 2017 funds 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 \$40.3 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is \$15.8 million. The budgeted expenditures include \$2.5 million for sewer service expansion, dirt road improvements \$0.65 million, Parks improvements of \$0.5 million, \$0.6 million in Recreation Center, and \$2.085 in medic unit replacement for Fire Rescue. The Island-wide Beach maintenance \$8.6 million project continues.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling \$24.2 million. There is a \$10,627,500 or 78.3% increase in debt service costs in fiscal year 2018 –which is expected after a temporary decrease in 2016 and 2017. The Town plans to issue tax increment financing, beach preservation fee and stormwater special revenue bonds as well as GO bonds in fiscal year 2018.

**Millage Rate**

The assessment rate for the fiscal year beginning July 1, 2017 on taxable property located within the Town of Hilton Head Island was adopted at 28.36 mills upon each one dollar of taxable property in the Town of Hilton Head Island. The assessment rate for the fiscal year beginning July 1, 2016 on taxable property located within the Town of Hilton Head Island was adopted at 22.18 mills upon each 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

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## TOWN OF HILTON HEAD ISLAND

STATEMENT OF NET POSITION  
JUNE 30, 2017

Exhibit A

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 65,442,530	\$ 3,629,891	\$ 69,072,421
Investments	762,630	-	762,630
Accounts Receivable	7,222,131	-	7,222,131
Due from Employees	26,657	-	26,657
Due from Other Governments	16,087,502	46,812	16,134,314
Internal Balances	999,033	(999,033)	-
Non Depreciable Capital Assets	189,594,867	-	189,594,867
Depreciable Capital Assets	57,945,721	12,797,167	70,742,888
Total assets	338,081,071	15,474,837	353,555,908
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charge on Bond Refunding	1,747,381	716,438	2,463,819
Deferred Pension Charges	3,248,775	-	3,248,775
Total deferred outflows of resources	4,996,156	716,438	5,712,594
Total assets and deferred outflows of resources	343,077,227	16,191,275	359,268,502
<b>LIABILITIES</b>			
Accounts Payable	12,698,783	185,605	12,884,388
Accrued Payroll and Related Payables	6,086,457	100,000	6,186,457
Due to Other Governments	785,952	-	785,952
Unearned Revenue	281,722	-	281,722
Irrigation and Pool Surety Bonds Payable	29,400	-	29,400
Court Bonds Payable	41,459	-	41,459
Performance Bonds Payable	68,762	-	68,762
Interest Payable	1,186,884	83,922	1,270,806
Long Term Obligations:			
Due Within One Year	55,991,347	900,000	56,891,347
Due in More than One Year (includes Net Pension Liability)	81,418,271	8,135,000	89,553,271
Total liabilities	158,589,037	9,404,527	167,993,564
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred Gain on Bond Refunding	65,043	-	65,043
Deferred Pension Credits	430,358	-	430,358
Total deferred inflows of resources	495,401	-	495,401
Total liabilities and deferred inflows of resources	159,084,438	9,404,527	168,488,965
<b>NET POSITION</b>			
Net investment in capital assets	135,840,935	4,478,605	140,319,540
Restricted:			
Deposits in Escrow	66,025	-	66,025
Economic Development	7,892,225	-	7,892,225
Tourism Promotion	3,046,790	-	3,046,790
Environmental Conservation	2,911,776	-	2,911,776
Public Health and Safety	3,155,802	-	3,155,802
Debt Service Payments	9,886,150	-	9,886,150
Construction of Major Capital Facilities	11,999,880	-	11,999,880
Natural Disasters	4,453,926	-	4,453,926
Underground Electrical Service	6,015,842	-	6,015,842
Operating Grants	1,892	-	1,892
Home Grant	40	-	40
Subtotal Restricted	49,430,348	-	49,430,348
Unrestricted	(1,278,494)	2,308,143	1,029,649
Total net position	\$ 183,992,789	\$ 6,786,748	\$ 190,779,537

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, 2017**

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<b>Primary government:</b>							
Governmental activities:							
General Government	\$ 9,177,681	\$ 1,943,264	\$ -	\$ -	\$ (7,234,417)	\$ -	\$ (7,234,417)
Management Services	5,030,374	9,289,682	-	-	4,259,308	-	4,259,308
Community Services	28,419,138	10,806,905	12,672,555	1,330,261	(3,609,417)	-	(3,609,417)
Public Safety	63,979,026	1,480,903	171,330	-	(62,326,793)	-	(62,326,793)
Culture and Recreation	2,583,815	-	-	-	(2,583,815)	-	(2,583,815)
Visitor and Convention Bureau	1,831,924	-	-	-	(1,831,924)	-	(1,831,924)
Administration	517,130	2,780,312	-	-	2,263,182	-	2,263,182
Interest on Debt	2,312,765	-	79,889	-	(2,232,876)	-	(2,232,876)
Total governmental activities	113,851,853	26,301,066	12,923,774	1,330,261	(73,296,752)	-	(73,296,752)
Business-type activities:							
Stormwater	2,856,923	3,583,005	-	-	-	726,082	726,082
	2,856,923	3,583,005	-	-	-	726,082	726,082
Total primary government	\$ 116,708,776	\$ 29,884,071	\$ 12,923,774	\$ 1,330,261	(73,296,752)	726,082	(72,570,670)
General revenues:							
					23,111,039	-	23,111,039
					9,561,791	-	9,561,791
					6,661,873	-	6,661,873
					1,185,671	-	1,185,671
					308,226	-	308,226
					550,132	-	550,132
					57,785	1,202	58,987
					16,834	-	16,834
					1,095,000	(1,095,000)	-
					42,548,351	(1,093,798)	41,454,553
					(30,748,401)	(367,716)	(31,116,117)
					214,741,190	7,154,464	221,895,654
					\$ 183,992,789	\$ 6,786,748	\$ 190,779,537

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

**TOWN OF HILTON HEAD ISLAND**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

Exhibit C

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Natural Disasters	Non-Major Governmental	Total Governmental
<b>ASSETS</b>											
Cash and Cash Equivalents	\$ 21,402,019	\$ 7,815,221	\$ 1,786,023	\$ 2,640,441	\$ 2,678,683	\$ 1,222,432	\$ 8,983,755	\$ 13,076,818	\$ 740	\$ 5,836,398	\$ 65,442,530
Investments	-	-	-	-	-	-	762,630	-	-	-	762,630
Accounts Receivable	2,928,874	-	-	-	2,320,583	1,722,784	-	-	-	249,890	7,222,131
Due from Employees	26,657	-	-	-	-	-	-	-	-	-	26,657
Interfund Receivables	27,497,921	15,760	-	-	81,137	210,586	144,128	27,669,545	5,936,315	64,401	61,619,793
Due from Other Governments	801,397	61,244	2,171,824	271,335	-	-	-	44,515	12,553,843	183,344	16,087,502
<b>Total assets</b>	<b>\$ 52,656,868</b>	<b>\$ 7,892,225</b>	<b>\$ 3,957,847</b>	<b>\$ 2,911,776</b>	<b>\$ 5,080,403</b>	<b>\$ 3,155,802</b>	<b>\$ 9,890,513</b>	<b>\$ 40,790,878</b>	<b>\$ 18,490,898</b>	<b>\$ 6,334,033</b>	<b>\$ 151,161,243</b>
<b>LIABILITIES AND FUND BALANCES</b>											
<b>Liabilities:</b>											
Accounts Payable	2,169,707	-	651,547	-	-	-	-	1,321,373	8,554,525	1,631	12,698,783
Accrued Payroll/Benefits & Other	1,119,238	-	-	-	-	-	-	239,826	4,727,393	-	6,086,457
Due to Other Governments	785,952	-	-	-	-	-	-	-	-	-	785,952
Interfund Payables	32,327,812	-	259,510	-	-	-	4,363	27,029,799	755,054	244,222	60,620,760
Unearned Revenue	11,316	-	-	-	-	-	-	200,000	-	70,406	281,722
Irrigation and Pool Bonds	29,400	-	-	-	-	-	-	-	-	-	29,400
Court Bonds	41,459	-	-	-	-	-	-	-	-	-	41,459
Performance Bonds	68,762	-	-	-	-	-	-	-	-	-	68,762
<b>Total liabilities</b>	<b>36,553,646</b>	<b>-</b>	<b>911,057</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,363</b>	<b>28,790,998</b>	<b>14,036,972</b>	<b>316,259</b>	<b>80,613,295</b>
<b>Fund balances:</b>											
Restricted	66,025	7,892,225	3,046,790	2,911,776	-	3,155,802	9,886,150	11,999,880	4,453,926	6,017,774	49,430,348
Committed	11,515,420	-	-	-	5,080,403	-	-	-	-	-	16,595,823
Assigned	821,728	-	-	-	-	-	-	-	-	-	821,728
Unassigned	3,700,049	-	-	-	-	-	-	-	-	-	3,700,049
<b>Total fund balances</b>	<b>16,103,222</b>	<b>7,892,225</b>	<b>3,046,790</b>	<b>2,911,776</b>	<b>5,080,403</b>	<b>3,155,802</b>	<b>9,886,150</b>	<b>11,999,880</b>	<b>4,453,926</b>	<b>6,017,774</b>	<b>70,547,948</b>
<b>Total liabilities and fund balances</b>	<b>\$ 52,656,868</b>	<b>\$ 7,892,225</b>	<b>\$ 3,957,847</b>	<b>\$ 2,911,776</b>	<b>\$ 5,080,403</b>	<b>\$ 3,155,802</b>	<b>\$ 9,890,513</b>	<b>\$ 40,790,878</b>	<b>\$ 18,490,898</b>	<b>\$ 6,334,033</b>	<b>\$ 151,161,243</b>

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, 2017

Exhibit D

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

Ending fund balance - governmental funds		\$ 70,547,948
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		247,540,588
Deferred gain on bond refunding		(65,043)
Deferred charges on refunding are not financial resources and, therefore, are not reported in the funds.		1,747,381
Differences between expected and actual retirement plan experience is not a current financial resource, therefore the changes are not reported in the governmental funds.	232,577	
Differences between projected and actual retirement plan experience is not a current financial resource, therefore the changes are not reported in the governmental funds.	1,777,348	
Contributions to the retirement plan after the measurement date are deferred outflows on the statement of net position, however this represents a use of current financial resources in the funds.	<u>1,238,850</u>	
Deferred Pension Charges		3,248,775
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.		(1,186,884)
Long-term liabilities, including bonds payable, and net pension liability are not due and payable in the current period and, therefore, are not reported in the funds.		(137,409,618)
The Town's proportionate share of the deferred inflows of resources related to its participation in the State pension plan are not a current financial use of resources, therefore the amounts are not reported in the governmental funds.		<u>(430,358)</u>
Net position of governmental activities		<u>\$ 183,992,789</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 BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Exhibit E

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fees	Beach Preservation Fees	Hospitality Fees	Debt Service	Capital Projects	Natural Disasters	Non-major Governmental	Total Governmental
<b>REVENUES</b>											
Real and Personal Property Tax	\$ 12,971,590	\$ 4,194,830	\$ -	\$ -	\$ -	\$ -	\$ 5,229,221	\$ 715,398	\$ -	\$ -	\$ 23,111,039
Accommodations Tax	3,430,379	-	6,131,412	-	-	-	-	-	-	-	9,561,791
Hospitality Tax	-	-	-	-	-	6,661,873	-	-	-	-	6,661,873
Business License and Franchise Fees	9,289,682	-	-	-	-	-	-	-	-	-	9,289,682
Permits	1,697,438	-	-	-	-	-	-	-	-	-	1,697,438
Impact Fees	-	-	-	-	-	-	-	308,226	-	-	308,226
Lease	-	-	-	-	-	-	-	108,536	-	-	108,536
Real Estate Transfer Fees	-	-	-	2,780,312	-	-	-	-	-	-	2,780,312
Beach Preservation Fees	-	-	-	-	6,860,758	-	-	-	-	-	6,860,758
Electric Franchise Fees	-	-	-	-	-	-	-	-	-	2,758,691	2,758,691
State Shared Funds	849,906	-	-	-	-	-	-	335,765	-	-	1,185,671
Federal Reimbursement - BABS	-	-	-	-	-	-	79,889	-	-	-	79,889
Grants	171,330	-	-	-	-	-	-	1,260,180	12,672,555	70,081	14,174,146
Road Usage Fees	-	-	-	-	-	-	-	-	-	770,694	770,694
EMS Revenue	1,428,391	-	-	-	-	-	-	-	-	-	1,428,391
Public Safety Revenue	52,512	-	-	-	-	-	-	-	-	-	52,512
Fines and Fees	245,826	-	-	-	-	-	-	-	-	-	245,826
Miscellaneous Revenue	722,107	-	-	-	-	-	-	117,140	19,111	-	858,358
Investment Income	3,610	2,582	869	842	2,467	644	36,251	6,725	1,825	1,968	57,783
Total revenues	<u>30,862,771</u>	<u>4,197,412</u>	<u>6,132,281</u>	<u>2,781,154</u>	<u>6,863,225</u>	<u>6,662,517</u>	<u>5,345,361</u>	<u>2,851,970</u>	<u>12,693,491</u>	<u>3,601,434</u>	<u>81,991,616</u>
<b>EXPENDITURES</b>											
20 Current:											
General Government	1,405,309	-	-	-	-	-	-	-	3,014,101	-	4,419,410
Management Services	4,990,115	-	-	-	-	-	-	-	-	-	4,990,115
Community Services	7,734,491	-	-	-	-	-	-	-	-	996,458	8,730,949
Public Safety	17,566,480	-	-	-	-	-	-	-	44,522,047	92,684	62,181,211
Non-Departmental	3,505,217	-	-	-	-	-	-	-	853,417	-	4,358,634
Culture and Recreation	-	-	2,458,815	-	-	125,000	-	-	-	-	2,583,815
Visitor and Convention Bureau	-	-	1,831,924	-	-	-	-	-	-	-	1,831,924
Administration	-	-	-	27,818	-	-	-	-	-	-	27,818
Debt service:											
Administrative charges	-	-	-	-	-	-	489,311	-	-	-	489,311
Interest	-	-	-	-	-	-	2,432,746	-	-	-	2,432,746
Principal Retirement	-	-	-	-	-	-	8,040,000	-	-	-	8,040,000
Capital outlay:											
Management Services	135,662	-	-	-	-	-	-	-	-	-	135,662
Community Services	46,047	-	-	-	-	-	-	23,992,873	-	-	24,038,920
Public Safety	1,015,562	-	-	-	-	-	-	-	-	-	1,015,562
Non-Departmental	32,000	-	-	-	-	-	-	-	-	-	32,000
Total expenditures	<u>36,430,883</u>	<u>-</u>	<u>4,290,739</u>	<u>27,818</u>	<u>-</u>	<u>125,000</u>	<u>10,962,057</u>	<u>23,992,873</u>	<u>48,389,565</u>	<u>1,089,142</u>	<u>125,308,077</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(5,568,112)</u>	<u>4,197,412</u>	<u>1,841,542</u>	<u>2,753,336</u>	<u>6,863,225</u>	<u>6,537,517</u>	<u>(5,616,696)</u>	<u>(21,140,903)</u>	<u>(35,696,074)</u>	<u>2,512,292</u>	<u>(43,316,461)</u>
<b>OTHER FINANCING SOURCES (USES)</b>											
Transfers Out	(7,188,000)	(1,521,037)	(1,696,221)	(2,193,515)	(16,548,633)	(5,278,240)	-	(743,336)	-	(876,908)	(36,045,890)
Bond Proceeds	-	-	-	-	-	-	27,885,000	25,000,000	20,000,000	-	72,885,000
Bond Premiums	-	-	-	-	-	-	1,574,351	762,750	-	-	2,337,101
Payments to Escrow Agent	-	-	-	-	-	-	(28,966,152)	-	-	-	(28,966,152)
Transfers In	7,907,902	-	-	-	-	-	6,422,877	2,618,062	20,150,000	42,050	37,140,891
Total other financing sources and uses	<u>719,902</u>	<u>(1,521,037)</u>	<u>(1,696,221)</u>	<u>(2,193,515)</u>	<u>(16,548,633)</u>	<u>(5,278,240)</u>	<u>6,916,076</u>	<u>27,637,476</u>	<u>40,150,000</u>	<u>(834,858)</u>	<u>47,350,950</u>
Net change in fund balance	(4,848,210)	2,676,375	145,321	559,821	(9,685,408)	1,259,277	1,299,380	6,496,573	4,453,926	1,677,434	4,034,489
Fund balance -- beginning	20,951,432	5,215,850	2,901,469	2,351,955	14,765,811	1,896,525	8,586,770	5,503,307	-	4,340,340	66,513,459
Fund balances -- ending	<u>\$ 16,103,222</u>	<u>\$ 7,892,225</u>	<u>\$ 3,046,790</u>	<u>\$ 2,911,776</u>	<u>\$ 5,080,403</u>	<u>\$ 3,155,802</u>	<u>\$ 9,886,150</u>	<u>\$ 11,999,880</u>	<u>\$ 4,453,926</u>	<u>\$ 6,017,774</u>	<u>\$ 70,547,948</u>

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

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit F

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

Net change in fund balances - total governmental funds		\$ 4,034,489
<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	\$ 7,851,600	
Less current year depreciation	<u>(4,280,377)</u>	3,571,223
<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>		
		(66,350,029)
<p>Escrow deposits for advance refunding of long-term debt is reported as other financing uses of governmental funds, but does not have any effect on net position.</p>		
		28,966,152
<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>		
		81,962
<p>The disposal 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>		
		16,834
<p>Amortization of the deferred charge and gain on bond refunding does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.</p>		
		(177,966)
<p>Changes in the Town's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the state pension plan for the current year are not a current financial use of resources, therefore the changes are not reported in the governmental funds.</p>		
		(356,941)
Changes in long-term debt interest payable		<u>(534,125)</u>
Change in net position of governmental activities		<u>\$ (30,748,401)</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, 2017

Exhibit G

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Real and Personal Property Taxes	\$ 12,950,052	\$ 12,950,052	\$ 12,971,590	\$ 21,538
Accommodations Tax	3,119,000	3,119,000	3,430,379	311,379
Business License and Franchise Fees	9,371,000	9,371,000	9,289,682	(81,318)
Permits	1,620,233	1,620,233	1,697,438	77,205
State Shared Funds	812,000	812,000	849,906	37,906
Grants	147,001	147,001	171,330	24,329
EMS Revenue	1,394,700	1,394,700	1,428,391	33,691
Public Safety Revenue	55,000	55,000	52,512	(2,488)
Municipal Court -- Fines and Fees	190,000	190,000	245,826	55,826
Miscellaneous Revenue	540,750	540,750	722,107	181,357
Investment Income	2,700	2,700	3,610	910
Total Revenues	<u>30,202,436</u>	<u>30,202,436</u>	<u>30,862,771</u>	<u>660,335</u>
<b>Expenditures:</b>				
Current:				
General Government	1,833,846	1,877,100	1,405,309	471,791
Management Services	5,608,403	5,714,479	4,990,115	724,364
Public Safety	18,226,359	18,257,632	17,566,480	691,152
Community Services	8,440,379	8,850,212	7,734,491	1,115,721
Non-Departmental	4,236,434	4,178,782	3,505,217	673,565
Capital Outlay	1,268,222	1,392,625	1,229,271	163,354
Total Expenditures	<u>39,613,643</u>	<u>40,270,830</u>	<u>36,430,883</u>	<u>3,839,947</u>
<b>(Deficiency) Excess of revenues over (under) expenditures</b>	<u>(9,411,207)</u>	<u>(10,068,394)</u>	<u>(5,568,112)</u>	<u>4,500,282</u>
<b>Other financing sources</b>				
Transfers In	7,397,564	7,397,564	7,907,902	510,338
Transfers Out	-	(7,188,000)	(7,188,000)	-
Total other financing sources	<u>7,397,564</u>	<u>209,564</u>	<u>719,902</u>	<u>510,338</u>
<b>Appropriated Fund Balance/Net change in Fund Balance</b>	<u>(2,013,643)</u>	<u>(9,858,830)</u>	<u>(4,848,210)</u>	<u>\$ 5,010,620</u>
<b>Fund balance - beginning</b>	<u>20,951,432</u>	<u>20,951,432</u>	<u>20,951,432</u>	
<b>Fund balance - ending</b>	<u>\$ 18,937,789</u>	<u>\$ 11,092,602</u>	<u>\$ 16,103,222</u>	

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

TOWN OF HILTON HEAD ISLAND  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2017

Exhibit H

	Stormwater Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,629,891
Due from other governments	46,812
Interfund receivables	24,231
Total current assets	3,700,934
Noncurrent assets:	
Capital assets depreciable	12,797,167
Total noncurrent assets	12,797,167
Total assets	16,498,101
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on bond refunding	716,438
Total assets and deferred outflows of resources	17,214,539
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities:	
Accounts payable	285,605
Interfund payables	1,023,264
Interest payable	83,922
Current portion of long-term liabilities	900,000
Total current liabilities	2,292,791
Noncurrent liabilities:	
Long-term liabilities	8,135,000
Total noncurrent liabilities	8,135,000
Total liabilities	10,427,791
<b>NET POSITION</b>	
Net investment in capital assets	4,478,605
Unrestricted	2,308,143
Total net position	\$ 6,786,748

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

TOWN OF HILTON HEAD ISLAND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit I

	<u>Stormwater Fund</u>
<b>Operating revenues:</b>	
Stormwater Fees	\$ 3,583,005
	<u>3,583,005</u>
<b>Operating expenses:</b>	
Maintenance and Repair	799,316
Administrative - Salary/Benefits	283,155
Administrative - Operating	340,856
Depreciation	1,066,043
	<u>2,489,370</u>
Total operating expenses	<u>2,489,370</u>
<b>Operating Income</b>	<u>1,093,635</u>
<b>Nonoperating revenues (expenses):</b>	
Investment Income	1,202
Administrative	(2,500)
Interest Expense	(365,053)
	<u>(366,351)</u>
Total nonoperating (expenses)	<u>(366,351)</u>
<b>Income before transfers</b>	<u>727,284</u>
Transfers Out	<u>(1,095,000)</u>
<b>Change in net position</b>	<u>(367,716)</u>
Total net position - beginning	<u>7,154,464</u>
Total net position - ending	<u>\$ 6,786,748</u>

TOWN OF HILTON HEAD ISLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit J

	Stormwater Fund
<b><u>OPERATING ACTIVITIES</u></b>	
Receipts from other governments	\$ 3,536,320
Payments to suppliers	(1,014,545)
Payments to employees	(366,716)
<b>Net cash provided by operating activities</b>	<b>2,155,059</b>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	
Acquisition and construction of capital assets	(0)
Payment of interest expense	(275,498)
Nonoperating administrative expenses and match	(2,500)
Principal payment on bonds payable	(875,000)
<b>Net cash used for capital and related financing activities</b>	<b>(1,152,998)</b>
<b><u>INVESTING ACTIVITIES</u></b>	
Proceeds from income on investments	1,202
<b>Net cash provided by investing activities</b>	<b>1,202</b>
<b>Net increase in cash and cash equivalents</b>	1,003,263
Cash and cash equivalents, beginning of year	2,626,628
<b>Cash and cash equivalents, end of year</b>	<b>3,629,891</b>
 <b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	1,093,635
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,066,043
Transfers Out to cover payroll provided by the Primary Government	(95,000)
Transfers Out to cover FEMA match to the Primary Government	(1,000,000)
(Increase) decrease in operating assets:	
Due from other governments	(46,685)
Due from other funds	21,551
Increase (Decrease) in operating liabilities:	
Accounts payable	125,627
Due to other funds	989,888
<b>Net cash provided by operating activities</b>	<b>\$ 2,155,059</b>

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

TOWN OF HILTON HEAD ISLAND  
STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit K

	<u>Firemen's Fund</u>	<u>Airport Noise Abatement Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and Temporary Investments	<u>\$ 61,844</u>	<u>\$ 758,419</u>	<u>\$ 820,263</u>
<b><u>LIABILITIES</u></b>			
Due to Firemen's Fund Association	61,844	-	61,844
Due to County Noise Abatement Project	-	758,419	758,419
Total Liabilities	<u>\$ 61,844</u>	<u>\$ 758,419</u>	<u>\$ 820,263</u>

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

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

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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 are blended-component units of the Town. The Town's Charter provides for a Council-Manager form of government in accordance with Home Rule Act Number 283.

Component Units

In conformity with accounting principles generally accepted in the United States of America (GAAP), the financial statements of the Town of Hilton Head Island Public Facilities Corporation are shown as a blended component unit as the administration and governing bodies are primarily the same. The component unit provides services entirely to the Town and was created to facilitate the issuance of debt for acquisition of the Town's administration facilities. Separate financial statements are not prepared for the Town of Hilton Head Island Public Facilities Corporation. All debt transactions are recorded in the Debt Service Fund and capital projects transactions associated with the issuance of the debt are recorded in the Capital Projects Fund.

Basis of Presentation

**Government-wide 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 deferred outflows of resources -- and liabilities and deferred inflows of resources 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.

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

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Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation – Government-wide Financial Statements (continued)

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

1. The Town reports the following major governmental funds:

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

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

**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.

**Natural Disaster Fund.** This fund is used to account for the Town's response to a natural disaster.

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

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Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation -- Fund Financial Statements (continued)

2. The Town reports the Operating Grants, Palmetto Electric Franchise Fees and the Home Grant Special Revenue Funds as non-major governmental funds.
3. The Town's agency funds are 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 funds are as follows:

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

The *Airport Noise Abatement Fund* is used to account for resources held by the Town granted from Beaufort County and the Town toward a County Noise Abatement Project.

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.

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

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Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

**Net Position.** Net position represents the difference between assets, liabilities and deferred inflows/outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is 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. The remaining amounts are unrestricted.

**Deferred Outflows/Inflows of Resources.** In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town only has only a few items that qualify for reporting in this category. A deferred charge on bond refunding is reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Also, the Town reports a deferred outflows for pension contributions after the measurement date and for the difference between expected and actual plan experience. The Town reports deferred inflows of resources for pension earnings above expectations and deferred gain on refunding. These topics are more fully discussed in Note 19.

**Net Position Flow Assumption.** Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund statements, a low assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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**

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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, local accommodation taxes, beach preservation fees and hospitality taxes for the year ended June 30, 2017, include accruals for monies 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, 2016
Property tax due	January 15, 2017
Delinquent date	January 16, 2017
Levy date	October 2017
Tax sale	First Monday in October

The County has no specific lien date.

**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 Fund are charges to the customers for sales and service. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses 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. The most significant estimates relate to the South Carolina Police Officers Retirement System administered by the South Carolina Public Benefit Authority.

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

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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 and projects may be authorized by the Town Manager for up to \$100,000; however, large transfers and 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.

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 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 debt service fund. All changes in fair value are recorded as investment income.

Due to and from Other Funds/ Internal Balances

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

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Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Any donations of capital assets are recorded at acquisition 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 are 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.

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**

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Note 1. Summary of Significant Accounting Policies (continued)

Fund Balance

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 designation of the Town Council. Unassigned fund balance in the General Fund is the net 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. The Town considers the funds to be liquidated in the following order: Restricted fund balance, Committed fund balance, Assigned fund balance and then Unassigned fund balance.

Program Revenues

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

Note 2. Cash, Cash Equivalents, and Investments

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

	Cash and Cash Equivalents	Investments	Total
Governmental Activities:			
General Fund	\$ 21,402,019	\$ -	\$ 21,402,019
Tax Increment Financing	7,815,221	-	7,815,221
Accommodations Tax	1,786,023	-	1,786,023
Real Estate Transfer Fees	2,640,441	-	2,640,441
Beach Preservation Fees	2,678,683	-	2,678,683
Debt Service	8,983,755	762,630	9,746,385
Hospitality Tax	1,222,432	-	1,222,432
Capital Projects	13,076,818	-	13,076,818
Non-Major Governmental	5,836,398	-	5,836,398
Natural Disasters	740	-	740
Total Governmental Activities	<u>\$ 65,442,530</u>	<u>\$ 762,630</u>	<u>\$ 66,205,160</u>
Business-Type Activities:			
Stormwater Utility Fees	<u>\$ 3,629,891</u>	<u>\$ -</u>	<u>\$ 3,629,891</u>

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

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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, 2017, the \$69,072,421 carrying balance and \$70,763,706 bank balance were held in various banks of which \$605,556 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.

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, 2017, the Town had investments and maturities as shown below:

	Fair Value	Maturity < 1 Year
Federal National Mortgage Discount Note	\$ 762,630	\$ 762,630
Total	\$ 762,630	\$ 762,630

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**

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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. **Risk** – 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 fair value of securities in the portfolio will fall 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, 2017, the Town had debt securities and quality ratings as shown below:

	<u>Fair Value</u>	<u>Quality Rating Aaa (Moody's)</u>
Federal National Mortgage Discount Note	<u>\$ 762,630</u>	<u>\$ 762,630</u>

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

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

The Town measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1:* Quoted prices for identical investments in active markets;
- Level 2:* Observable inputs other than quoted market prices; and,
- Level 3:* Unobservable inputs.

At June 30, 2017, the Town had the following recurring fair value measurements.

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Federal National Mortgage Discount Note	\$ 762,630	\$ -	\$ 762,630	\$ -
<b>Total</b>	<b>\$ 762,630</b>	<b>\$ -</b>	<b>\$ 762,630</b>	<b>\$ -</b>

Debt securities classified in Level 2 are valued using observable inputs other than quoted market prices. Level 2 inputs are based primarily on prices from third-party vendors.

Note 3. Receivables

At June 30, 2017, the Town's receivable balances were as follows:

	<u>Government-wide Financial Statements</u>				
	<u>Fund Financial Statements</u>				
	General Fund	Beach Preservation Fee	Hospitality Fee	Non-Major Governmental	Total
Receivables:					
EMS Fees	\$ 274,828	\$ -	\$ -	\$ -	\$ 274,828
Local accommodations taxes	1,160,292	-	-	-	1,160,292
Business licenses	1,035,908	-	-	-	1,035,908
Other receivables	457,846	-	-	249,890	707,736
Beach preservation fees	-	2,320,583	-	-	2,320,583
Hospitality taxes	-	-	1,722,784	-	1,722,784
<b>Total Receivables</b>	<b>\$ 2,928,874</b>	<b>\$ 2,320,583</b>	<b>\$ 1,722,784</b>	<b>\$ 249,890</b>	<b>\$ 7,222,131</b>
Receivables from Employees:					
Cobra Insurance	\$ (14,685)	\$ -	\$ -	\$ -	\$ (14,685)
Computer Purchases*	41,342	-	-	-	41,342
<b>Total Receivables from Employees</b>	<b>\$ 26,657</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,657</b>

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

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

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, 2017 for which payment was received/made after June 30, 2017.

Governmental activities and Proprietary Fund interfund receivables and payable balances at June 30, 2017 are as follows:

	Due From:							Total
	General Fund	Accom. Tax Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental	Proprietary Fund	Natural Disasters	
<u>Due To:</u>								
General	\$ -	\$ 259,510	\$ 4,363	\$ 27,029,799	\$ 183,344	\$ 14,710	\$ 6,195	\$ 27,497,921
Tax Increment Financing	15,760	-	-	-	-	-	-	15,760
Debt Service Fund	141,628	-	-	-	-	2,500	-	144,128
Beach Preservation Fees	81,137	-	-	-	-	-	-	81,137
Hospitality Tax Fund	210,586	-	-	-	-	-	-	210,586
Capital Projects Fund	26,877,985	-	-	-	60,878	6,054	724,628	27,669,545
Non-Major Governmental	64,401	-	-	-	-	-	-	64,401
Natural Disasters	4,936,315	-	-	-	-	1,000,000	-	5,936,315
Proprietary Fund	-	-	-	-	-	-	24,231	24,231
<b>Total</b>	<b>\$32,327,812</b>	<b>\$259,510</b>	<b>\$4,363</b>	<b>\$27,029,799</b>	<b>\$244,222</b>	<b>\$1,023,264</b>	<b>\$755,054</b>	<b>\$61,644,024</b>

**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, 2017 are summarized below:

	<u>Transferring from:</u>					<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Non-Major Govt</u>	<u>Natural Disasters</u>	
<u>Transferring to:</u>						
Tax Increment Financing District	\$ 175,000	\$ 1,346,037	\$ -	\$ -	\$ -	\$ 1,521,037
General Fund	-	-	-	38,000	7,150,000	7,188,000
Accommodations Tax	1,696,221	-	-	-	-	1,696,221
Hospitality Fee	3,392,244	258,883	1,627,113	-	-	5,278,240
Beach Preservation Fees	1,111,138	900,583	2,536,912	-	12,000,000	16,548,633
Capital Projects	678,000	-	65,336	-	-	743,336
Non-Major Governmental	760,299	112,559	-	4,050	-	876,908
Real Estate Transfer Fee	-	-	2,193,515	-	-	2,193,515
Total Governmental Funds	<u>7,812,902</u>	<u>2,618,062</u>	<u>6,422,876</u>	<u>42,050</u>	<u>19,150,000</u>	<u>36,045,890</u>
Proprietary Fund	95,000	-	-	-	1,000,000	1,095,000
Total All Funds	<u>\$ 7,907,902</u>	<u>\$ 2,618,062</u>	<u>\$ 6,422,876</u>	<u>\$ 42,050</u>	<u>\$ 20,150,000</u>	<u>\$ 37,140,890</u>

Note 5. Due To or From Other Governments

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

<u>General Fund</u>	
Beaufort County - Property Taxes	\$ 509,343
Beaufort County - Oceanwoods Landscaping	10,527
Beaufort County - E 911	28,708
Beaufort County - Dispatch/ EMS 911	12,500
Beaufort County - Wexford Roundabout	23,001
State of South Carolina - Aid to Sub-Division	39,491
State of South Carolina - TNC Local Fee	4,929
State of South Carolina - Shared Funds	170,000
State of South Carolina - Merchant Inventory	2,898
	<u>\$ 801,397</u>

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

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

<u>Capital Projects Fund</u>	
State Sunday Liquor Fees	\$ <u>44,515</u>
 <u>Accomodations Taxes</u>	
State of South Carolina	<u>2,171,824</u>
 <u>Road Usage Fees</u>	
Beaufort County	<u>183,344</u>
 <u>Real Estate Transfer Fees</u>	
Beaufort County	<u>271,335</u>
 <u>Tax Increment Financing</u>	
Beaufort County	<u>61,244</u>
 <u>Natural Disasters</u>	
Federal Government-FEMA	<u>12,553,843</u>
 <b>Total Due from Other Governments</b>	 <b>\$ <u>16,087,502</u></b>
 <u>Proprietary Fund</u>	
Beaufort County	 <b>\$ <u>46,812</u></b>

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

<u>General Fund</u>	
Beaufort County -- Airport Noise Reduction Escrow	\$ 758,419
Beaufort County – Sherriff’s Office Escrow	1,444
Municipal Court State Fees - SC State Treasurer	21,538
State of South Carolina - Sales & Use Tax	<u>4,551</u>
	785,952
 <b>Total Due to Other Governments</b>	 <b>\$ <u>785,952</u></b>

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

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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, 2017, 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.
- **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 that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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.

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

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Note 6. Fund Balances (continued)

Fund balances for all the major and non-major funds as of June 30, 2017, were distributed as follows:

Classification/Fund	Purpose	Amount
Restricted		
General	Deposits in escrow	\$ 66,025
Tax Increment Financing District	Economic development	7,892,225
Accommodations Tax	Tourism promotion	3,046,790
Real Estate Transfer Fee	Environmental conservation	2,911,776
Natural Disasters	Response to Natural Disasters	4,453,926
Hospitality Fee	Public health and safety	3,155,802
Debt Service	Debt service payments	9,886,150
Capital Projects	Construction of major capital facilities	11,999,880
Palmetto Electric	Underground electrical service	6,015,842
HOME grant	HOME grant program	40
Federal and Operating Grants	Federal and Operating grants	1,892
Committed		
General	Disaster Recovery	11,515,420
Beach Preservation Fee	Beach renourishment	5,080,403
Assigned		
General	FY18 Budget	821,728
Unassigned		
General		3,700,049
	Total Fund Balances	<u>\$ 70,547,948</u>

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

Note 6. Fund Balances (continued)

In relation to fund balance committed to Disaster Recovery Town Council has established:

- **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. If the Town had the full 30% committed in fund balance it would be \$12,095,711. At June 30, 2017 the amount was \$8,313,804.
- **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 an 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, and the Town’s committed fund balance includes \$702,806 for this at June 30, 2017. Annual interest earned on funds will also be deposited into the account.
- **Committed for General Expenditures** – Once the 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. The Town has \$1,899,510 in committed fund balance for this at June 30, 2017.
- **Committed for Dredging** – The amount of committed general fund balance is \$600,000 for dredging of the Town’s waterways.

**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. At June 30, 2017 the balance was \$5,080,404.

Note 7. Accounts Payable

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

	Fund Financial Statements						Total
	General Fund	Accommodations Tax Fund	Capital Project Fund	Non-Major Funds	Natural Disasters	Proprietary Fund	
Payables:							
Accounts payable	\$ 2,169,707	\$ 651,547	\$ 1,321,373	\$ 1,631	\$ 8,554,525	\$ 185,605	\$ 12,884,388
Accrued expenses	1,119,238	-	239,826	-	4,727,393	100,000	6,186,457
<b>Total payables</b>	<b>\$ 3,288,945</b>	<b>\$ 651,547</b>	<b>\$ 1,561,199</b>	<b>\$ 1,631</b>	<b>\$ 13,281,918</b>	<b>\$ 285,605</b>	<b>\$ 19,070,845</b>

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

Note 8. Unearned Revenue and Net Position

**Unearned Revenue**

The balance of unearned revenues in the fund financial statements and in the government-wide financial statements at year-end are composed of the following elements:

	Unearned Revenue
Revenues received in advance of being earned:	
General Fund	\$ 11,316
Capital Projects Fund	200,000
Nonmajor Governmental Fund - Home Grant	70,406
	\$ 281,722

The following is an explanation of each unearned revenue source:

1. General Fund  
The unearned revenues in the General Fund are miscellaneous funds associated with the Town's Tree Replacement Efforts.
2. Capital Projects Fund  
The unearned revenues in the Capital Projects Fund are primarily funds associated with a future parking solution in the Shelter Cove area.
3. Nonmajor Governmental Fund – Home Grant  
The unearned revenue in the Home Grant Fund is revolving loan funds being held in reserve.

**Net Position**

Net position represents the difference between assets and liabilities and were as follows: The Town has reported negative unrestricted net position of \$1,278,494 which is due primarily to its proportionate share of the net pension liability of \$15,674,333. The Town does not anticipate funding this liability and will continue to contribute to the pension plan at State required contribution rates.

	Governmental Activities	Business-Type Activities
Net investment in capital assets		
Net capital assets	\$ 247,540,588	\$ 12,797,167
Less: General obligation bonds	(91,345,000)	-
Special obligation bonds	(23,535,000)	(9,035,000)
Bond premiums	(2,633,985)	-
Add: Deferred charges on refunding	1,747,381	716,438
Unspent bond proceeds	4,066,951	-
	135,840,935	4,478,605
Restricted for:		
Deposits in escrow	66,025	-
Economic development	7,892,225	-
Tourism promotion	3,046,790	-
Environmental conservation	2,911,776	-
Natural Disasters Recovery Efforts	4,453,926	-
Public health and safety	3,155,802	-
Debt service payments	9,886,150	-
Construction of major capital facilities	11,999,880	-
Underground electrical service	6,015,842	-
Operating Grants	1,892	-
HOME Grant	40	-
Subtotal Restricted	49,430,348	-
Unrestricted:	(1,278,494)	2,308,143
<b>Total net position</b>	<b>\$ 183,992,789</b>	<b>\$ 6,786,748</b>

**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 2017: \$1,831,924) and five percent (5%, \$305,321) 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 grant will lapse if the project is not underway by December 31 of the year following appropriation. The grant can be extended, by the Town Manager, for one additional calendar year. No appropriations lapsed during the fiscal year ended June 30, 2017.

Below are the grant appropriations and expenditures for the year ended June 30, 2017:

<u>Grants</u>	<u>Appropriations</u>	<u>Expenditures</u>
Art League of Hilton Head	\$ 55,000	\$ 39,065
Gullah Museum of Hilton Head	30,000	28,500
Harbour Town Merchants Assoc.	12,000	12,000
Hilton Head Choral Society	35,000	18,418
Hilton Head Concours d' Elegance	165,000	110,754
Hilton Head Dance Theater	15,000	10,052
Hilton Head Recreation Assoc.	15,000	7,500
Hilton Head Wine & Food Assoc.	130,000	14,138
HHI-Bluffton Chamber of Commerce	385,000	239,751
Main Street Youth Theater	15,000	6,882
Memory Matters	12,000	4,600
Mitchelville Preservation Project	40,000	34,733
Native Island Business & Community Affairs Assoc.	110,000	37,919
SC Lowcountry Golf Course Owners Assoc.	50,000	25,000
Shelter Cove Harbour Comp.	54,900	39,900
Skull Creek July 4 <sup>th</sup> Celebration	12,000	12,000
The Coastal Discovery Museum	239,340	135,573
The Heritage Library Foundation	49,600	29,061
The Heritage Library Foundation-History Day	9,100	5,684
The Sandbox	49,600	26,532
Gullah Museum of Hilton Head-Out of Cycle	1,831	1,389
Hilton Head Concours d' Elegance-Out of Cycle	50,000	48,418
Mitchelville Preservation Project-Out of Cycle	60,000	22,592
Art League of Hilton Head	65,000	-
Arts Center of Coastal Carolina	400,000	400,000
David Carmines Memorial Foundation	55,000	54,943
Gullah Museum of Hilton Head	35,000	10,000
Harbour Town Merchants Assoc.	16,705	-
Hilton Head Choral Society	35,000	11,758
Hilton Head Concours d' Elegance	215,000	98,261
Hilton Head Dance Theater	15,000	5,523
Hilton Head Recreation Assoc.	20,000	10,000
Hilton Head St. Patrick's Day Parade	16,000	11,317
Hilton Head Wine & Food Assoc.	130,000	130,000
HHI-Bluffton Chamber of Commerce	405,000	236,406
Hilton Head Symphony Orchestra	230,000	230,000
Lean Ensemble Theater	30,000	27,083
Main Street Youth Theater	15,000	8,431
Mitchelville Preservation Project	110,000	58,243
MLK Jr. Celebration	700	700
Native Island Business & Community Affairs Assoc.	110,000	89,136
SC Lowcountry Golf Course Owners Assoc.	50,000	25,000
Shelter Cove Harbour Comp.	76,800	-
Skull Creek July 4 <sup>th</sup> Celebration	17,825	-
The Coastal Discovery Museum	239,340	103,553
The First Tee of the Lowcountry	20,000	5,000
The Heritage Library Foundation	50,000	15,403
The Heritage Library Foundation-History Day	15,000	256
The Sandbox	54,000	17,342
Transfer to General Fund-Grant Approved	1,365,900	1,365,900
<b>Total Grants</b>	<b>\$ 5,387,641</b>	<b>\$ 3,824,716</b>

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

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Note 9. Accommodations Tax Fund (continued)

Town Council has approved amounts for calendar year 2018 grants as follows:

Arts Center of Hilton Head Island	\$ 400,000
Airport of Hilton Head Island	100,000
Hilton Head Choral Society	40,000
Hilton Head Concours d'Elegance	220,000
HHI Recreation Association (Wing/Oyster Festivals)	25,000
HHI Wine and Food, Inc.	130,000
HHI Chamber and VCB	485,000
Hilton Head Symphony Orchestra	250,000
Lowcountry Golf Course Owners Association	50,000
Shelter Cove Harbour Company	76,800
The Coastal Discovery Museum	279,000
The Heritage Library -- History Day	16,900
The Sandbox	50,500
Town of Hilton Head Island	1,400,000
D.M. Carmines Mem. Foundation Seafood Festival	91,000
Gullah Museum of HHI	50,000
Harbour Town Merchants Association	20,000
Hilton Head Dance Theatre	15,000
Main Street Youth Theater	15,000
Michelville Preservation Project	160,000
Lean Ensemble Theatre	30,000
First Tee of the Low Country	45,000
Native Island Business & Community	110,000
Skull Creek July 4th Celebration	16,250
Art League of HHI	65,000
HHI St. Patrick's Day Parade	17,580
Boys & Girls Club Pedal Event	18,300
The Heritage Library	60,000
	<u>\$ 4,236,330</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 special revenue obligation. The bonds are used for the acquisition and construction of major capital facilities, as well as the purchase of land. The Town presently has \$114.9 million in outstanding bonds associated with governmental type activities and \$9.0 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, stormwater fees).

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
2018	3,646,665	52,595,000	56,241,665	251,173	900,000	1,151,173
2019	1,987,871	7,800,000	9,787,871	226,153	920,000	1,146,153
2020	1,795,608	5,445,000	7,240,608	200,577	950,000	1,150,577
2021	1,651,536	5,640,000	7,291,536	174,167	975,000	1,149,167
2022	1,472,388	4,805,000	6,277,388	147,062	1,000,000	1,147,062
2023-2027	5,049,713	20,650,000	25,699,713	302,325	4,290,000	4,592,325
2028-2032	2,298,497	11,045,000	13,343,497	-	-	-
2033-2036	592,794	6,900,000	7,492,794	-	-	-
<b>Total</b>	<b>\$ 18,495,072</b>	<b>\$ 114,880,000</b>	<b>\$ 133,375,072</b>	<b>\$ 1,301,457</b>	<b>\$ 9,035,000</b>	<b>\$ 10,336,457</b>

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

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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.

March 2017		\$ 926,653,510
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval		74,132,281
Council Imposed 80% Cap		59,305,825
Implementation of Disaster Reserve Capacity		14,826,456
Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds 2009A (Refunding of Series 1999A)	(\$3,425,000)	
General Obligation Bonds 2013A (Partial)	(3,342,220)	
General Obligation Bonds 2016 Bond Anticipation Note (CIP)	(25,000,000)	
GO Bonds 2017 Bond Anticipation Note (Disaster Response)	(20,000,000)	
Total Amount Applicable to Debt Limit		(51,767,220)
Legal Debt Margin without a Referendum		\$ 22,365,061

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

Note 10. Long-Term Obligations (continued)

**GOVERNMENTAL ACTIVITIES**

**\$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. The net proceeds of \$12,140,056 including a premium of \$154,397 (after payment of \$229,341 in issuance costs) 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 and to obtain an economic gain. A schedule of the amount due for this issue follows:

<u>For the Year Ending June 30</u>	<u>Interest Rate by Year (%)</u>	Governmental Activities		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	5.000	\$ 20,375	\$ 815,000	\$ 835,375
		\$ 20,375	\$ 815,000	\$ 835,375

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 and to obtain an economic gain. A schedule of the amount due for this issue follows:

<u>For the Year Ending June 30</u>	<u>Interest Rate by Year (%)</u>	Governmental Activities		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	2.750	\$ 103,370	\$ 385,000	\$ 488,370
2019	2.750	92,645	395,000	487,645
2020	3.000	81,064	410,000	491,064
2021	3.100	68,404	420,000	488,404
2022	3.250	54,906	430,000	484,906
2023-2025	various	73,659	1,385,000	1,458,659
		\$ 474,048	\$ 3,425,000	\$ 3,899,048

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)

**\$12,385,000 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 and to obtain an economic gain. 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
2018	3.000	\$ 308,694	\$ 660,000	\$ 968,694
2019	2.250	288,894	680,000	968,894
2020	2.750	273,594	690,000	963,594
2021	4.000	254,619	710,000	964,619
2022	3.000	226,219	740,000	966,219
2023-2027	various	766,681	4,090,000	4,856,681
2028-2029	various	102,750	1,835,000	1,937,750
		<u>\$ 2,221,451</u>	<u>\$ 9,405,000</u>	<u>\$ 11,626,451</u>

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

**\$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
2018	5.000	\$ 164,528	\$ 163,889	\$ 328,417
2019	2.000	156,333	172,222	328,555
2020	2.000	152,889	175,000	327,889
2021	4.000	149,389	180,556	329,945
2022	5.000	142,167	186,111	328,278
2023-2027	various	565,528	1,080,556	1,646,084
2028-2032	various	339,306	1,305,556	1,644,862
2033-2035	4.000	74,111	913,889	988,000
		<u>\$ 1,744,251</u>	<u>\$ 4,177,779</u>	<u>\$ 5,922,030</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)

**\$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
2018	5.000	\$ 131,622	\$ 131,111	\$ 262,733
2019	2.000	125,067	137,778	262,845
2020	2.000	122,311	140,000	262,311
2021	4.000	119,511	144,444	263,955
2022	5.000	113,733	148,889	262,622
2023-2027	various	452,422	864,444	1,316,866
2028-2032	various	271,444	1,044,444	1,315,888
2033-2035	4.000	59,289	731,111	790,400
		<u>\$ 1,395,399</u>	<u>\$ 3,342,221</u>	<u>\$ 4,737,620</u>

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

**\$13,080,000 General Obligation Bonds Dated September 14, 2016**

On September 14, 2016, the Town issued \$13,080,000 in general obligation bonds with an Net Interest Rate of 0.999% to advance refund \$13,210,000 general obligation bonds dated March 15, 2005. The net proceeds of \$13,593,831 including \$513,831 in premiums (after payment of \$209,846 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 by \$1,272,716 over the life of the bonds and to obtain a present value economic gain of \$1,219,122. 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
2018	4.000	\$ 243,800	\$ 1,915,000	\$ 2,158,800
2019	4.000	165,300	2,010,000	2,175,300
2020	1.500	109,462	2,085,000	2,194,462
2021	1.500	80,775	1,740,000	1,820,775
2022	4.000	52,425	765,000	817,425
2023-2025	various	56,138	2,475,000	2,531,138
		<u>\$ 707,900</u>	<u>\$ 10,990,000</u>	<u>\$ 11,967,900</u>

Ad Valorem tax revenues of the Debt Service Fund are used to repay the first \$1,260,000 annually. The remaining annual debt service requirement is funded by transfers of real estate transfer fees to the Debt Service Fund.

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

Note 10. Long-Term Obligations (continued)

**\$9,035,000 General Obligation Bonds Dated September 14, 2016**

On September 14, 2016, the Town issued \$9,035,000 in general obligation bonds with a Net Interest Rate of 1.98% to advance refund \$9,515,000 general obligation bonds dated February 3, 2010. The net proceeds of \$9,708,531 including \$673,531 in premiums (after payment of \$173,384 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 \$1,281,272 and to obtain a present value economic gain of \$1,225,838. 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
2018	3.000	\$ 253,038	\$ 160,000	\$ 413,038
2019	4.000	248,238	135,000	383,238
2020	4.000	242,838	125,000	367,838
2021	4.000	237,838	550,000	787,838
2022	4.000	215,838	585,000	800,838
2023-2027	various	717,388	2,835,000	3,552,388
2028-2032	various	345,088	2,475,000	2,820,088
2033-2035	various	78,450	1,635,000	1,713,450
		<u>\$ 2,338,716</u>	<u>\$ 8,500,000</u>	<u>\$ 10,838,716</u>

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

**\$5,770,000 General Obligation Bonds Dated September 14, 2016**

On September 14, 2016, the Town issued \$5,770,000 in general obligation bonds with a Net Interest Rate of 1.629% to advance refund \$5,715,000 general obligation bonds dated March 4, 2008. The net proceeds of \$6,156,989 including \$386,989 in premiums (after payment of \$102,706 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 \$446,334 and to obtain a present value economic gain of \$430,003. 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
2018	various	\$ 184,600	\$ 0	\$ 184,600
2019	4.000	167,900	835,000	1,002,900
2020	4.000	133,800	870,000	1,003,800
2021	4.000	98,200	910,000	1,008,200
2022	4.000	61,500	925,000	986,500
2023-2024	2.000	43,200	2,150,000	2,193,200
		<u>\$ 689,200</u>	<u>\$ 5,690,000</u>	<u>\$ 6,379,200</u>

Transfers from the Real Estate Transfer Fee Fund to 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)

**\$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 and to obtain an economic gain. 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
2018	various	\$ 193,231	\$ 440,000	\$ 633,231
2019	various	182,731	450,000	632,731
2020	various	165,981	465,000	630,981
2021	various	148,531	480,000	628,531
2022	3.125	134,056	495,000	629,056
2023-2027	various	414,778	2,725,000	3,139,778
2028	3.800	22,990	605,000	627,990
		<u>\$ 1,262,298</u>	<u>\$ 5,660,000</u>	<u>\$ 6,922,298</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. At June 30, 2017, \$615,783 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.

**\$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
2018	3.000	\$ 546,119	\$ 455,000	\$ 1,001,119
2019	4.000	532,469	470,000	1,002,469
2020	4.000	513,669	485,000	998,669
2021	4.500	494,269	505,000	999,269
2022	4.500	471,544	530,000	1,001,544
2023-2027	various	1,959,919	3,045,000	5,004,919
2028-2032	various	1,216,919	3,780,000	4,996,919
2033-2036	4.125	380,944	3,620,000	4,000,944
		<u>\$ 6,115,852</u>	<u>\$ 12,890,000</u>	<u>\$ 19,005,852</u>

**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 (cont.)**

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. At June 30, 2017, \$1,074,000 was the fair value amount held in the reserve which is reported in the Debt Service Fund. Hospitality fees are transferred to the Debt Service Fund in amounts sufficient to repay these special obligation bonds.

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2018	2.000	\$ 81,288	\$ 2,470,000	\$ 2,551,288
2019	2.250	28,294	2,515,000	2,543,294
		<u>\$ 109,582</u>	<u>\$ 4,985,000</u>	<u>\$ 5,094,582</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, 2017, \$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.

**\$25,000,000 Bond Anticipation Note (BAN) Dated October 5, 2016**

On October 5, 2016 the Town issued a \$25,000,000 BAN to finance beach renourishment projects. The BAN was issued with a premium of \$762,750. 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
2018	4.000	\$ 1,000,000	\$ 25,000,000	\$ 26,000,000
		<u>\$ 1,000,000</u>	<u>\$ 25,000,000</u>	<u>\$ 26,000,000</u>

**\$20,000,000 BANs Dated May 3, 2017**

On May 3, 2017 the Town issued \$20,000,000 in General Obligation BANs to finance part of the disaster recovery from Hurricane Matthew. The debt is taxable. 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
2018	2.080	\$ 416,000	\$ 20,000,000	\$ 20,416,000
		<u>\$ 416,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,416,000</u>

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

Note 10. Long-Term Obligations (continued)

**BUSINESS-TYPE ACTIVITIES**

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

On December 1, 2010, the Town issued \$13,810,000 in revenue bonds with an average interest rate of 2.78% to advance refund \$13,740,000 revenue bonds dated December 1, 2002 with an average interest rate of 4.85%. The net proceeds of \$14,894,433 (after payment of \$202,091 in issuance costs) and funds on hand were used to purchase United States government securities which were placed in an irrevocable trust for in substance defeasance. These revenue bonds were refunded to reduce total debt service payments over the life of the bonds and to obtain an economic gain. 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
2018	2.780	\$ 251,173	\$ 900,000	\$ 1,151,173
2019	2.780	226,153	920,000	1,146,153
2020	2.780	200,577	950,000	1,150,577
2021	2.780	174,167	975,000	1,149,167
2022	2.780	147,062	1,000,000	1,147,062
2023-2026	2.780	302,325	4,290,000	4,592,325
		<u>\$ 1,301,457</u>	<u>\$ 9,035,000</u>	<u>\$ 10,336,457</u>

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds and notes payable:					
General obligation bonds	\$ 51,680,000	\$ 27,885,000	\$ 33,220,000	\$ 46,345,000	\$ 5,065,000
Special Obligation Bonds:					
Beach preservation fees	7,380,000	-	2,395,000	4,985,000	2,470,000
Hospitality tax	19,415,000	-	865,000	18,550,000	895,000
Bond Anticipation Notes	-	45,000,000	-	45,000,000	45,000,000
Premium on bonds	1,655,009	2,337,101	1,358,124	2,633,986	450,697
Total bonds and notes payable	<u>80,130,009</u>	<u>75,222,101</u>	<u>37,838,124</u>	<u>117,513,986</u>	<u>53,880,697</u>
Other liabilities:					
Compensated absences	4,303,261	2,371,568	2,453,530	4,221,299	2,110,650
Total other liabilities	<u>4,303,261</u>	<u>2,371,568</u>	<u>2,453,530</u>	<u>4,221,299</u>	<u>2,110,650</u>
Governmental activities long-term liabilities	<u>\$ 84,433,270</u>	<u>\$ 77,593,669</u>	<u>\$ 40,291,654</u>	<u>\$ 121,735,285</u>	<u>\$ 55,991,347</u>
<b>Business-type Activities:</b>					
Bonds and notes payable:					
Stormwater fees	\$ 9,910,000	\$ -	\$ 875,000	\$ 9,035,000	\$ 900,000
Total bonds and notes payable	<u>9,910,000</u>	<u>-</u>	<u>875,000</u>	<u>9,035,000</u>	<u>900,000</u>
Business-type activities long-term liabilities	<u>\$ 9,910,000</u>	<u>\$ -</u>	<u>\$ 875,000</u>	<u>\$ 9,035,000</u>	<u>\$ 900,000</u>

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

Note 10. Long-Term Obligations (continued)

Defeased Debt:

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, 2017, \$5,715,000 of bonds are considered defeased debt.

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

<b>Primary Government</b>	Beginning Balances	Increases	Decreases	Ending Balance
<b>Government activities:</b>				
Capital assets not being depreciated:				
Land	\$ 161,476,238	\$ -	\$ -	\$ 161,476,238
Development Rights	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	3,548,960
Construction in progress	7,271,825	6,563,453	-	13,835,278
Total capital assets not being depreciated	<u>183,031,414</u>	<u>6,563,453</u>	<u>-</u>	<u>189,594,867</u>
Capital assets being depreciated:				
Buildings	33,503,095	-	-	33,503,095
Furniture, fixtures and equipment	6,123,623	266,664	(207,811)	6,182,476
Vehicles	7,231,265	1,045,983	(141,765)	8,135,483
Imp. other than buildings - park development	17,768,431	-	-	17,768,431
Infrastructure	36,259,883	-	-	36,259,883
Total capital assets being depreciated	<u>100,886,297</u>	<u>1,312,647</u>	<u>(349,576)</u>	<u>101,849,368</u>
Less accumulated depreciation for:				
Buildings	11,542,015	1,219,301	-	12,761,316
Furniture, fixtures and equipment	5,006,866	386,961	(207,811)	5,186,016
Vehicles	4,026,224	513,280	(134,099)	4,405,405
Imp. other than buildings - park development	4,128,334	710,737	-	4,839,071
Infrastructure	15,261,741	1,450,098	-	16,711,839
Total accumulated depreciation	<u>39,965,180</u>	<u>4,280,377</u>	<u>(341,910)</u>	<u>43,903,647</u>
Total capital assets being depreciated, net	<u>60,921,117</u>	<u>(2,967,730)</u>	<u>(7,666)</u>	<u>57,945,721</u>
Government activity capital assets, net	<u>\$ 243,952,531</u>	<u>\$ 3,595,723</u>	<u>\$ (7,666)</u>	<u>\$ 247,540,588</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,414,334	\$ -	\$ (1,414,334)	\$ -
Total capital assets not being depreciated	<u>1,414,334</u>	<u>-</u>	<u>(1,414,334)</u>	<u>-</u>
Capital assets being depreciated:				
Infrastructure	19,484,361	1,414,334	-	20,898,695
Total capital assets being depreciated	<u>19,484,361</u>	<u>1,414,334</u>	<u>-</u>	<u>20,898,695</u>
Less accumulated depreciation for:				
Infrastructure	7,035,485	1,066,043	-	8,101,528
Total accumulated depreciation	<u>7,035,485</u>	<u>1,066,043</u>	<u>-</u>	<u>8,101,528</u>
Total capital assets being depreciated, net	<u>12,448,876</u>	<u>348,291</u>	<u>-</u>	<u>12,797,167</u>
Business-type activity capital assets, net	<u>\$ 13,863,210</u>	<u>\$ 348,291</u>	<u>\$ (1,414,334)</u>	<u>\$ 12,797,167</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**

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Note 11. Capital Assets (continued)

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

<b>Governmental activities:</b>	
General Government	\$ 449,599
Management Services	113,359
Community Services	2,212,722
Public Safety	<u>1,504,697</u>
Total depreciation expense - governmental activities	<u>\$ 4,280,377</u>
<b>Business-type activities:</b>	
Stormwater	<u>\$ 1,066,043</u>
Total depreciation expense - business-type activities	<u>\$ 1,066,043</u>

Note 12. Capital Projects Fund

The Town has 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, 2017, the following categories of projects were budgeted and expenditures were made as shown:

Beach Maintenance	\$ 17,213,169
Public Facilities	1,558,305
Park Development	3,218,040
Land and Related Acquisitions and Improvements	9,926
Facilities Improvements	146,257
Roadway Improvements	1,752,351
Pathways Improvements	30,825
Other Costs	64,000
Total	<u>\$ 23,992,873</u>

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2017, the Town had contractual commitments related to normal business of approximately \$41,225,781 in progress. Through June 30, 2017, approximately \$10,108,330 in costs had been incurred on these commitments. At June 30, 2017, the Town had outstanding contractual commitments totaling approximately \$31,117,451 for projects in progress.

At June 30, 2017, the Town had hurricane-related contractual commitments of approximately \$44,893,279 in progress. Through June 30, 2017, approximately \$31,706,009 in costs had been incurred on these commitments. At June 30, 2017, the Town had outstanding contractual commitments totaling approximately \$13,187,270 for projects in progress.

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

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Note 13. Contracted Commitments and Operating Leases (continued)

Commitments (continued)

At June 30, 2017, the Town had contractual commitments related to the airport buffer of approximately \$497,670 in progress. Through June 30, 2017, approximately \$118,461 in costs had been incurred on these commitments. At June 30, 2017, the Town had outstanding contractual commitments totaling approximately \$379,209 for projects in progress.

Operating Leases

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

2018	\$	81,316
2019		43,202
2020		43,202
2021		42,301
2022		<u>1</u>
	\$	<u>210,022</u>

At June 30, 2017, future minimum payment under non-cancelable operating leases with remaining terms in excess of one year were as follows:

2018	\$	84,029
2019		58,003
2020		<u>1,234</u>
	\$	<u>143,266</u>

During the year, the Town incurred \$138,964 in lease expenses.

Note 14. Retirement Plans

Great-West Life & Annuity Retirement 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 Great-West Life & Annuity Company, 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.

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

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Note 14. Retirement Plans (continued)

Great-West Life & Annuity Retirement Plan (continued)

For the years ended June 30, 2017, 2016, and 2015, employer contributions were based on a total payroll of \$8,752,681, \$8,502,776, and \$8,154,046, respectively. The amount contributed by the employer for the year ended June 30, 2017 was \$835,492 or 9.5% of covered payroll. During the years ended June 30, 2016 and 2015, \$759,006 and \$714,502 were contributed to the plan by the employer, respectively. Employee contributions to the plan were \$784,465 or 8.9% of covered payroll for year ended June 30, 2017. Employees who participate in the PORS plan made contributions of \$40,084 to the 401(k). No match was made for these contributions.

PORS Plan

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

The South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (reorganized into the State Fiscal Accountability Authority on July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

Detailed information regarding the fiduciary net position of the Plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

**Plan Description**

The South Carolina Police Officers Retirement System ("PORS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

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

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Note 14. Retirement Plans (continued)

PORS Plan

*Membership*

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws.

To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

*Benefits*

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation.

A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

*Contributions*

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 5 percent of earnable compensation for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

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

Note 14. Retirement Plans (continued)

PORS Plan-Contributions (continued)

Required <u>employee</u> contribution rates are as follows:		
	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
<b>PORS</b>		
Employee Class Two	9.24%	8.74%
Employee Class Three	9.24%	8.74%
Required <u>employer</u> contribution rates are as follows:		
	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
<b>PORS</b>		
Employer Class Two	13.84%	13.34%
Employer Class Three	13.84%	13.34%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

**Actuarial Assumptions and Methods**

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2015, and the next experience study is scheduled to be conducted after the June 30, 2016 annual valuation is complete.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations for PORS.

	<b>PORS</b>
Actuarial cost method	<u>Entry age</u>
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4% to 10.0%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

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

Note 14. Retirement Plans (continued)

PORS Plan

**Net Pension Liability**

The most recent annual actuarial valuation reports adopted by the PEBA Board and State Fiscal Accountability Authority are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to June 30, 2016, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company.

PORS Plan

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67 less that System's fiduciary net position. For the year ended June 30, 2016, NPL amounts and the change in NPL amounts for PORS are as follows:

<b>System</b>	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Employer's Net Pension Liability (Asset)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
PORS	\$ 6,412,570,458	\$ 3,876,035,732	\$ 2,536,474,726	60.4%

At June 30, 2017, the Town reported a liability of \$15,764,333 for its proportionate share of the net pension liability for the PORS ("Plan"). The net pension liability was measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report as of July 1, 2015, that was projected forward to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the measurement dates of June 30, 2016 and 2015, the Town's PORS proportion was 0.62655% and 0.650130%, respectively.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Town's proportionate share of the net pension liability of the Plan to changes in the discount rate, calculated using the discount rate of 7.5 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.5 percent) or 1% point higher (8.5 percent) than the current rate:

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

Note 14. Retirement Plans (continued)

PORS Plan- Discount Rate (continued)

System	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Town's proportionate share of the net pension liability of the PORS	\$ 20,660,322	\$ 15,674,333	\$ 11,364,098

*Long-term Expected Rate of Return*

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the third quarter 2015. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
<b>Short Term</b>			
Cash and Short Duration	2%	0.71%	0.01%
Core Fixed Income	10%	1.72%	0.17%
<b>Diversified Credit</b>			
Mixed Credit	5%	3.52%	0.17%
Emerging Markets Credit	5%	4.91%	0.25%
Private Debt	7%	4.47%	0.31%
<b>Opportunistic</b>			
GTAA/Risk Parity	10%	3.90%	0.39%
HF(Low Beta)	10%	3.87%	0.39%
Global Public Equity	34%	6.52%	2.22%
Global Private Equity	9%	9.30%	0.84%
<b>Real Assets</b>			
Real Estate (Broad Market)	5%	4.32%	0.22%
Commodities	3%	4.53%	0.13%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

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

Note 14. Retirement Plans (continued)

PORS Plan

**Deferred Outflows (Inflows) of Resources**

For the year ended June 30, 2017, the Town recognized pension expense of approximately \$1,270,327 for PORS. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Pension Plan Experience	\$ 232,577	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,777,348	-
Changes in Proportion and Differences Between the Town's Contributions and Proportionate Share of Contributions	-	430,538
The Town's Contributions Subsequent to the Measurement Date	1,238,850	-
	\$ 3,248,775	\$ 430,538

The Town reported \$1,238,850 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense as follows:

<b>Year Ended June 30,</b>	<b>PORS</b>
2018	\$ 310,717
2019	298,928
2020	590,275
2021	379,647
Total	\$ 1,579,567

Retirement Plan Summary – Great-West and PORS Combined

For the year ended June 30, 2017, employer contributions were based on a total payroll of \$17,682,646 of which \$17,450,775 or 98.69% of the total payroll was covered under the plan. Employer contributions were \$2,085,468 or 11.95% of covered payroll. Employee contributions were \$1,559,551 or 8.94% 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 & the funds are held by Great-West, 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**

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Note 16. Health Plans

In January 2001, the Town instituted a medical expense reimbursement plan whereby the Town contributes a set amount each year per employee. The employees submit reimbursement requests for qualified 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 \$254,858 at June 30, 2017, and is included as a liability in the General Fund in the accrued payroll and employee payables. During the fiscal year ended June 30, 2017, the Town reimbursed \$155,029 in claims under this plan.

In January 2005, the Town also instituted a preventive dental care reimbursement 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 are forfeited at the end of the year. For the period ended June 30, 2017 the limit was \$150 per covered individual, and the Town's liability under this plan totaled \$70,857 at June 30, 2017. During the fiscal year ended June 30, 2017, the Town reimbursed \$20,106 in claims under 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 retirement health savings accounts to pay retiree medical expenses. Upon retirement, the value of an employee's remaining sick leave and any available medical expense reimbursement balance are 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. Twelve (12) employees were eligible for the benefits for the period ended June 30, 2017.

The Town contributed \$251,224 during the year ended June 30, 2017.

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 is required to disclose the cost of this benefit for all its employees.

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

Note 18. Contingencies

Arbitrage - State and local bonds issued after 1984 are subject to arbitrage restrictions as enacted by the Federal government. To retain the bond's 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.

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

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Note 18. Contingencies (continued)

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, 2017.

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. The Town carries liability insurance, and these lawsuits should be covered. Management does not believe that any of these will have a material effect on the financial statements.

Note 19. Deferred Outflows and Inflows of Resources

The advance refunding of governmental activity bonds can result in a difference between the reacquisition price and the net carrying amounts of the old debt. This difference is reported in the accompanying financial statements as either a deferred outflow or a deferred inflow and is being amortized on a straight line basis over the shorter of either 1) the original life of the refunded bond or 2) the life of the refunding debt. The Town completed the following advance refundings:

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

Note 19. Deferred Outflows and Inflows of Resources (continued)

<u>Long Term Obligation</u>	Original Amount of Deferred Charge	Final Maturity Date	Remaining Deferred Charge or (Gain) on Bond Refunding
General Obligation Bonds - August 3, 2011	\$ 1,071,450	08/03/2029	\$ 714,300
General Obligation Bonds - September 9, 2009	143,484	09/09/2024	68,553
Special Obligation Bonds - October 26, 2011	769,428	10/26/2027	480,892
General Obligation Bonds -- Series 2016A	295,578	12/01/2024	262,736
General Obligation Bonds -- Series 2016B	252,457	12/01/2023	<u>220,900</u>
		Total Governmental Funds	<u>\$ 1,747,381</u>
Business-type Activitiy Bonds - 12/01/ 2010	\$ 1,343,322	12/01/2025	<u>\$ 716,438</u>
		Total Business-type Activity Fund	<u>\$ 716,438</u>
Deferred Inflow of Resources			
General Obligation Bonds -- Series 2016C	\$ 68,657	12/01/2035	<u>\$ (65,043)</u>

Amortization of the deferred charge on governmental and business-type activity refundings of bonds payable for the year ended June 30, 2017 was \$177,966 and \$89,554, respectively. See Note 14 for discussion of deferred outflows and inflows relating to the implementation of the new pension standard.

Note 20. Related Organizations

The Town has limited relationships with the following entities:

**Hilton Head Island Recreation Association, Inc.** - Hilton Head Island Recreation Association, Inc. is a not-for-profit organization that provides recreation facilities, sports leagues, day-care services and training classes to the residents of Hilton Head Island, South Carolina. The Town provides bookkeeping services to the Association at no charge. The Town has no day-to-day supervisory responsibilities and the Association maintains separate corporate powers, and, as such, the financial information for the Association has not been made a part of these financial statements. The Town contributed \$922,989 to the Association for the year ended June 30, 2017. The Association issues separate audited and/or reviewed financial statements.

**Coastal Discovery Museum** – The Coastal Discovery Museum is a not-for-profit, community based, educational institution dedicated to fostering greater knowledge and appreciation of the cultural heritage and natural history of South Carolina’s Low Country. The Town provides bookkeeping services to the Museum at no charge. The Town has no day-to-day supervisory responsibilities and the Museum maintains separate corporate powers, and as such, the financial information of the Museum has not been made a part of these financial statements. The Town contributed \$473,848 to the Museum for the year ended June 30, 2017. The Museum issues separate audited financial statements.

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

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Note 21. Proprietary Fund Infrastructure Agreements

The Town has entered into a series of agreements with a number of Public Utility Districts (PUDs) and Homeowner Associations (HOAs). The Town is granted easements to the stormwater infrastructure in certain areas of the Town, and the Town takes responsibility for future maintenance. The Town is currently undergoing a system-wide mapping project to identify all the features within these agreements. Some are known to be impaired. Because of the uncertainty in the condition of the features, the Town has determined a fair valuation cannot be established. The Town has chosen the most conservative reporting position and not recorded any assets for stormwater features within these easements. The Town is recording assets when it incurs costs that meet the capitalization criteria which was \$1,414,334 from construction in progress to infrastructure the fiscal year ending June 30, 2017.

Note 22. Subsequent Events

In preparing the comprehensive annual financial report (CAFR) for the fiscal period June 30, 2017, the Town evaluated events and transactions for potential recognition or disclosure through December 28, 2017.

Subsequent to year-end, the Town issued special revenue Tax Increment (TIF) Bonds in the amount of \$28,530,000 to fund TIF projects within the Capital Improvement Plans. The Town issued special revenue Beach bonds in the amount of \$30,075,000 to repay the BAN Series 2016 and to fund current beach renourishment work. The Town issued \$27,310,000 General Obligation (GO) bonds to fund the Capital Improvements Plan. The Town issued General Obligation (GO) Disaster Recovery Reserve Replacement bonds in the amount of \$18,000,000 to replenish reserves used to respond to Hurricane Matthew. The Town Council has authorized Stormwater bonds not to exceed \$14,000,000 but has not issued these bonds as of publication date. The bonds will be used for Stormwater projects and to refund Series 2010 Stormwater bonds for savings.

Subsequent to year-end, the Town redeemed a BAN Series 2016 in the amount of \$25,000,000 with some of the proceeds from the Beach bonds.

Subsequent to year-end, the Town has continued its response to Hurricane Matthew in fiscal 2018. The Town has spent an additional \$2.98 million and received \$12.5 million in Hurricane Matthew reimbursements in July and August which is recognized as revenues in the June 30, 2017 financial statements. The \$20 million BAN Series 2017 issued to facilitate disaster response cash flow for Hurricane Matthew is due in May 2018.

The Town expects the total expenditures for Hurricane Matthew to total as much as \$56 million. The Town has worked closely with federal and state officials to ensure the maximum allowable reimbursements. At the time of publication, reimbursements are expected to eventually be \$43 million leaving the Town's share of the hurricane response to be \$13 million. These amounts are being reported with substantial work yet to complete and pending reviews by federal and state officials of final expenditures.

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

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Note 22. Subsequent Events (continued)

Subsequent to year-end, the Town experienced damages from Hurricane Irma. The Town was declared a federal disaster area. The Town has estimated the total cost of the response to be approximately \$8.5 million. The Town has worked closely with FEMA and the State of South Carolina throughout the response, and plans on applying for relief for federal disaster funds through FEMA and other agencies. The funds are for debris removal, emergency response, beach renourishment and other activities related to the storm. At the time of this report, no reimbursements have been received from federal or state funds. At the time of publication, the Town has spent approximately \$1.1 million to date and its potential share is estimated at \$6.6 million. This work is expected to be completed by June 30, 2018.

# Required Supplementary Information

**Schedules Related to the South Carolina Retirement System Participation**

**Schedule of Contributions – Police Officers Retirement System** – Schedule A.

**Schedule of Proportionate Share of Net Pension Liability** – Schedule B.

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TOWN OF HILTON HEAD ISLAND  
 Required Supplemental Information -  
 Schedule of Contributions -  
 South Carolina Police Officers Retirement System  
 As of June 30, 2017, Last Ten Fiscal Years

Schedule A

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,238,760	\$ 1,127,237	\$ 1,040,900	\$ 1,004,009	\$ 889,180
Contributions in relation to the contractually required contribution	1,238,760	1,127,237	1,040,900	1,004,009	889,180
Contribution deficiency (excess)	-	-	-	-	-
The Town's covered - payroll	8,698,094	8,204,054	7,762,118	7,819,385	7,472,105
Contributions as a percentage of covered - payroll	14.24%	13.74%	13.41%	12.84%	11.90%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 860,238	\$ 881,261	\$ 798,806	\$ 815,787	\$ 796,220
Contributions in relation to the contractually required contribution	860,238	881,261	798,806	815,787	796,220
Contribution deficiency (excess)	-	-	-	-	-
The Town's covered - payroll	7,570,521	7,755,527	7,500,522	7,659,969	7,730,290
Contributions as a percentage of covered - payroll	11.36%	11.36%	10.65%	10.65%	10.30%

See accompanying Independent Auditor's Report

TOWN OF HILTON HEAD ISLAND  
 Required Supplemental Information -  
 Proportionate Share of the Net Pension Liability-  
 South Carolina Police Officers Retirement System  
 As of June 30, 2017, Last Four Fiscal Years

Schedule B

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
The Town's proportion of the net pension liability	<u>0.617960%</u>	<u>0.626550%</u>	<u>0.650130%</u>	<u>0.650130%</u>
The Town's proportionate share of the net pension liability	<u>\$ 15,764,333</u>	<u>\$ 11,994,845</u>	<u>\$ 12,446,267</u>	<u>\$ 13,477,016</u>
The Town's covered - payroll	<u>\$ 8,204,054</u>	<u>\$ 7,762,118</u>	<u>\$ 7,819,385</u>	<u>\$ 7,472,105</u>
The Town's proportionate share of the net pension liability as percentage of covered - payroll	<u>192.15%</u>	<u>154.53%</u>	<u>159.17%</u>	<u>180.36%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>61.80%</u>	<u>64.60%</u>	<u>67.55%</u>	<u>62.98%</u>

Note: The amounts above were determined as of June 30th of the preceding year.  
 Additional years' data will be added as it becomes available until ten years are displayed.

# 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 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.

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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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 12,950,052	\$ 12,950,052	\$ 12,971,590	\$ 21,538
Accommodations Tax:				
Local 1%	3,119,000	3,119,000	3,430,379	311,379
Business License and Franchise Fees:				
Business License - Town	3,987,000	3,987,000	3,929,882	(57,118)
Business License - MASC	4,484,000	4,484,000	4,414,070	(69,930)
Cable Television Franchise	875,000	875,000	913,142	38,142
Beach Franchise	25,000	25,000	32,588	7,588
Total	<u>9,371,000</u>	<u>9,371,000</u>	<u>9,289,682</u>	<u>(81,318)</u>
Permits:				
Construction	794,233	794,233	561,564	(232,669)
Development	11,000	11,000	12,344	1,344
Other	815,000	815,000	1,123,530	308,530
Total	<u>1,620,233</u>	<u>1,620,233</u>	<u>1,697,438</u>	<u>77,205</u>
State Shared Funds	<u>812,000</u>	<u>812,000</u>	<u>849,906</u>	<u>37,906</u>
Grants:				
Beaufort County Hazmat	11,001	11,001	11,677	676
Beaufort County E911	132,000	132,000	139,395	7,395
DHEC/State	4,000	4,000	20,258	16,258
Total	<u>147,001</u>	<u>147,001</u>	<u>171,330</u>	<u>24,329</u>
Miscellaneous Revenue:				
Beach Services	245,000	245,000	249,688	4,688
Donations	500	500	200	(300)
Municipal Court Fines and Fees	190,000	190,000	245,826	55,826
Other	250,000	250,000	433,674	183,674
Public Safety- EMS	1,394,700	1,394,700	1,428,391	33,691
Public Safety- County D/T	55,000	55,000	52,512	(2,488)
Town Codes	250	250	20	(230)
Victims Assistance	45,000	45,000	38,525	(6,475)
Total	<u>2,180,450</u>	<u>2,180,450</u>	<u>2,448,836</u>	<u>268,386</u>
Investment Income	<u>2,700</u>	<u>2,700</u>	<u>3,610</u>	<u>910</u>
Total Revenues	<u>\$ 30,202,436</u>	<u>\$ 30,202,436</u>	<u>\$ 30,862,771</u>	<u>\$ 660,335</u>

See accompanying Independent Auditor's Report

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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures:</u>				
General Government:				
Town Council:				
Salaries and Benefits	\$ 158,518	\$ 158,518	\$ 162,259	\$ (3,741)
Operating	316,250	326,936	431,824	(104,888)
Town Council Initiatives	700,000	732,568	170,061	562,507
Total Town Council	<u>1,174,768</u>	<u>1,218,022</u>	<u>764,144</u>	<u>453,878</u>
Town Manager:				
Salaries and Benefits	633,858	633,858	618,886	14,972
Operating	25,220	25,220	22,279	2,941
Total Town Manager	<u>659,078</u>	<u>659,078</u>	<u>641,165</u>	<u>17,913</u>
Total General Government	<u>1,833,846</u>	<u>1,877,100</u>	<u>1,405,309</u>	<u>471,791</u>
Management Services:				
Finance - Administration:				
Salaries and Benefits	286,787	286,787	286,766	21
Operating	19,950	23,950	15,366	8,584
Total Finance - Administration	<u>306,737</u>	<u>310,737</u>	<u>302,132</u>	<u>8,605</u>
Finance - Accounting:				
Salaries and Benefits	543,336	543,336	450,933	92,403
Operating	104,041	104,041	91,807	12,234
Total Finance - Accounting	<u>647,377</u>	<u>647,377</u>	<u>542,740</u>	<u>104,637</u>
Finance - Revenue and Collections:				
Salaries and Benefits	830,826	830,826	593,759	237,067
Operating	40,900	40,900	12,434	28,466
Total Finance - Revenue and Collections	<u>871,726</u>	<u>871,726</u>	<u>606,193</u>	<u>265,533</u>
Administration - Legal :				
Salaries and Benefits	468,786	468,786	415,877	52,909
Operating	38,825	38,825	27,234	11,591
Total Administration - Legal	<u>507,611</u>	<u>507,611</u>	<u>443,111</u>	<u>64,500</u>
Administrative Services - Municipal Court:				
Salaries and Benefits	258,691	296,691	312,434	(15,743)
Operating	91,225	91,225	74,300	16,925
Total Administration - Municipal Court	<u>349,916</u>	<u>387,916</u>	<u>386,734</u>	<u>1,182</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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services (continued):				
Administrative Services - Administrative Support :				
Salaries and Benefits	\$ 210,051	\$ 210,051	\$ 225,445	\$ (15,394)
Operating	54,710	54,710	27,798	26,912
Total Administration - Administrative Support	264,761	264,761	253,243	11,518
Administrative Services - Information Technology:				
Salaries and Benefits	1,054,758	1,054,758	998,751	56,007
Operating	986,324	1,050,400	907,655	142,745
Total Administration - Information Technology	2,041,082	2,105,158	1,906,406	198,752
Human Resources:				
Salaries and Benefits	457,043	457,043	454,190	2,853
Operating	162,150	162,150	95,366	66,784
Total Human Resources	619,193	619,193	549,556	69,637
Total Management Services	5,608,403	5,714,479	4,990,115	724,364
Community Services:				
Community Development - Administration:				
Salaries and Benefits	455,624	455,624	457,539	(1,915)
Operating	33,247	41,747	34,747	7,000
Total CD - Administration	488,871	497,371	492,286	5,085
Community Development - CD Services:				
Salaries and Benefits	346,530	346,530	329,575	16,955
Operating	8,490	8,490	5,878	2,612
Total CD - CD Services	355,020	355,020	335,453	19,567
Community Development - Inspection/Compliance:				
Salaries and Benefits	685,136	685,136	521,137	163,999
Operating	74,537	69,537	46,349	23,188
Total CD - Inspection/Compliance	759,673	754,673	567,486	187,187

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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Community Services (continued):				
Community Development - Development, Review, Zoning:				
Salaries and Benefits	\$ 711,830	\$ 711,830	\$ 575,120	\$ 136,710
Operating	56,065	58,065	26,364	31,701
Total CD - DRZ	<u>767,895</u>	<u>769,895</u>	<u>601,484</u>	<u>168,411</u>
Community Development - Comprehensive Planning:				
Salaries and Benefits	530,324	530,324	503,001	27,323
Operating	15,865	12,365	6,472	5,893
Total CD - Comprehensive	<u>546,189</u>	<u>542,689</u>	<u>509,473</u>	<u>33,216</u>
Public Facilities - Administration:				
Salaries and Benefits	264,936	264,936	248,568	16,368
Operating	5,200	5,200	2,956	2,244
Total Public Facilities - Administration	<u>270,136</u>	<u>270,136</u>	<u>251,524</u>	<u>18,612</u>
Public Facilities - Engineering:				
Salaries and Benefits	462,677	462,677	428,065	34,612
Operating	735,900	1,123,933	807,064	316,869
Total Public Facilities - Engineering	<u>1,198,577</u>	<u>1,586,610</u>	<u>1,235,129</u>	<u>351,481</u>
Public Facilities - Facilities Management:				
Salaries and Benefits	1,074,577	1,074,577	975,187	99,390
Operating	2,979,441	2,999,241	2,766,469	232,772
Total Public Facilities - Facilities Management	<u>4,054,018</u>	<u>4,073,818</u>	<u>3,741,656</u>	<u>332,162</u>
Total Community Services	<u>8,440,379</u>	<u>8,850,212</u>	<u>7,734,491</u>	<u>1,115,721</u>
Public Safety:				
Fire Rescue - Administration:				
Salaries and Benefits	223,782	223,782	229,195	(5,413)
Operating	136,375	136,375	120,508	15,867
Total Fire Rescue - Administration	<u>360,157</u>	<u>360,157</u>	<u>349,703</u>	<u>10,454</u>
Fire Rescue - Fleet/Maintenance:				
Salaries and Benefits	344,343	344,343	306,803	37,540
Operating	265,190	269,511	205,502	64,009
Total Fire Rescue - Fleet/Maintenance	<u>609,533</u>	<u>613,854</u>	<u>512,305</u>	<u>101,549</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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety (continued):				
Fire Rescue - Operations:				
Salaries and Benefits	\$ 9,684,099	\$ 9,684,099	\$ 9,558,201	\$ 125,898
Operating	93,325	93,325	74,510	18,815
Total Fire Rescue - Operations	<u>9,777,424</u>	<u>9,777,424</u>	<u>9,632,711</u>	<u>144,713</u>
Fire Rescue - Communications:				
Salaries and Benefits	930,157	930,157	886,945	43,212
Operating	224,205	235,939	195,035	40,904
Total Fire Rescue - Communications	<u>1,154,362</u>	<u>1,166,096</u>	<u>1,081,980</u>	<u>84,116</u>
Fire Rescue - Training:				
Salaries and Benefits	608,619	608,619	600,714	7,905
Operating	132,675	132,975	112,070	20,905
Total Fire Rescue - Training	<u>741,294</u>	<u>741,594</u>	<u>712,784</u>	<u>28,810</u>
Fire Rescue - Planning:				
Salaries and Benefits	209,284	209,284	101,564	107,720
Total Fire Rescue - Planning	<u>209,284</u>	<u>209,284</u>	<u>101,564</u>	<u>107,720</u>
Fire Rescue - Emergency Management:				
Salaries and Benefits	99,647	99,647	90,801	8,846
Operating	54,252	54,252	46,541	7,711
Total Fire Rescue - Emergency Management	<u>153,899</u>	<u>153,899</u>	<u>137,342</u>	<u>16,557</u>
Fire Rescue - Bureau of Fire Prevention:				
Salaries and Benefits	580,930	580,930	542,065	38,865
Operating	43,420	43,420	34,664	8,756
Total Fire Rescue - Bureau of Fire Prevention	<u>624,350</u>	<u>624,350</u>	<u>576,729</u>	<u>47,621</u>
Fire Rescue - Support Services:				
Salaries and Benefits	238,303	238,303	234,066	4,237
Operating	339,050	350,895	306,456	44,439
Total Fire Rescue - Support Services	<u>577,353</u>	<u>589,198</u>	<u>540,522</u>	<u>48,676</u>
Fire Rescue - E911 Communications:				
Salaries and Benefits	273,527	273,527	267,039	6,488
Operating	27,280	27,280	19,003	8,277
Total Fire Rescue - E911 Communications	<u>300,807</u>	<u>300,807</u>	<u>286,042</u>	<u>14,765</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, 2017

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	\$ 3,287,097	\$ 3,287,205	\$ 3,217,951	\$ 69,254
Stipend	120,000	120,000	103,600	16,400
Victims' Rights	63,542	63,542	63,542	-
Beach Services	247,257	250,222	249,705	517
Total Sheriff/Other Public Safety	<u>3,717,896</u>	<u>3,720,969</u>	<u>3,634,798</u>	<u>86,171</u>
Total Public Safety	<u>18,226,359</u>	<u>18,257,632</u>	<u>17,566,480</u>	<u>691,152</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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Non-Departmental - Townwide:				
Personnel	\$ 443,609	\$ 445,609	\$ 452,251	\$ (6,642)
Operating:	1,866,443	1,811,581	1,443,212	368,369
Total Non-Departmental, non-grant expenditures	<u>2,310,052</u>	<u>2,257,190</u>	<u>1,895,463</u>	<u>361,727</u>
Operating Grants:				
Turtle Watch	36,500	36,500	24,164	12,336
Disaster Advertising	-	-	-	-
Recreation Center-Operating Grant	683,052	683,052	683,052	-
Recreation Center-Capital Grant	267,000	232,000	183,245	48,755
Coastal Discovery Grant-Operating Grant	75,000	75,000	75,000	-
Coastal Discovery Grant-Capital Grant	61,500	77,345	47,252	30,093
Coastal Discovery Grant-Mitchellville Grant	100,000	100,000	11,313	88,687
Event Management & Hospitality Training	144,830	159,195	127,488	31,707
LTRA Grant	250,000	250,000	200,000	50,000
First Tee	50,000	50,000	49,740	260
Multidisciplinary Court	50,000	50,000	50,000	-
Solicitor Career Criminal Program	33,500	33,500	33,500	-
Community Foundation Grant - Public Art	50,000	50,000	-	50,000
Heritage Classic Foundation	125,000	125,000	125,000	-
Total Non-Departmental Townwide	<u>4,236,434</u>	<u>4,178,782</u>	<u>3,505,217</u>	<u>673,565</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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Capital Outlay:				
Management Services :				
Legal Administration				
Equipment	\$ 28,000	\$ 28,000	\$ 27,734	\$ 266
Total Legal Administration	<u>28,000</u>	<u>28,000</u>	<u>27,734</u>	<u>266</u>
Administrative Services - Information Technology				
Specialized Equipment	148,722	148,722	107,291	41,431
Computer Software	-	50,000	637	49,363
Total Administrative Services - Information Technology	<u>148,722</u>	<u>198,722</u>	<u>107,928</u>	<u>90,794</u>
Total Management Services	<u>176,722</u>	<u>226,722</u>	<u>135,662</u>	<u>91,060</u>
Community Development :				
CD Administration				
Equipment	50,000	50,000	46,047	3,953
Total Community Development	<u>50,000</u>	<u>50,000</u>	<u>46,047</u>	<u>3,953</u>
Fire Rescue - Support Services:				
Specialized Equipment	1,009,500	1,071,915	1,015,562	56,353
Total Fire Rescue - Support Services	<u>1,009,500</u>	<u>1,071,915</u>	<u>1,015,562</u>	<u>56,353</u>
Total Public Safety	<u>1,009,500</u>	<u>1,071,915</u>	<u>1,015,562</u>	<u>56,353</u>
Townwide:				
Security Cameras	32,000	43,988	32,000	11,988
Total Townwide	<u>32,000</u>	<u>43,988</u>	<u>32,000</u>	<u>11,988</u>
Total Capital Outlay	<u>1,268,222</u>	<u>1,392,625</u>	<u>1,229,271</u>	<u>163,354</u>
Total Expenditures	<u>39,613,643</u>	<u>40,270,830</u>	<u>36,430,883</u>	<u>3,839,947</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, 2017

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Excess (deficiency) of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (9,411,207)	\$ (10,068,394)	\$ (5,568,112)	\$ 4,500,282
<u>Other Financing Sources(Uses):</u>				
Transfers In:				
Beach Preservation Fee Fund	1,111,138	1,111,138	1,111,138	-
Capital Projects Fund:				
Ad Valorem Taxes	628,000	628,000	628,000	-
Sunday Liquor Fees	50,000	50,000	50,000	-
Sale of Property	-	-	-	-
Hospitality Tax Fund	3,392,245	3,392,245	3,392,245	-
Tax Increment Financing Fund	175,000	175,000	175,000	-
State Accommodations Tax Fund	1,347,181	1,347,181	1,696,220	349,039
Electricity Franchise Fee Fund	90,000	90,000	90,000	-
Stormwater Utility Fund	95,000	95,000	95,000	-
Road Usage Fee	509,000	509,000	658,135	149,135
Special Revenue -- Federal	-	-	12,164	12,164
Transfers Out:				
Special Revenue -- Grant Fund	-	(38,000)	(38,000)	-
Disasters Fund	-	(7,150,000)	(7,150,000)	-
Total Other Financing Sources	<u>7,397,564</u>	<u>209,564</u>	<u>719,902</u>	<u>510,338</u>
<b>(Appropriated) Fund Balance /Net change in Fund Balance</b>	(2,013,643)	(9,858,830)	(4,848,210)	<u>\$ 5,010,620</u>
<b>Fund Balance - beginning</b>	<u>20,951,432</u>	<u>20,951,432</u>	<u>20,951,432</u>	-
<b>Fund Balance - ending</b>	<u>\$ 18,937,789</u>	<u>\$ 11,092,602</u>	<u>\$ 16,103,222</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, 2017

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 5,324,419	\$ 5,324,419	\$ 5,229,221	\$ (95,198)
Federal Reimbursement - BABS	169,870	169,870	79,889	(89,981)
Investment Income	38,801	38,801	36,251	(2,550)
Total Revenues	<u>5,533,090</u>	<u>5,533,090</u>	<u>5,345,361</u>	<u>(187,729)</u>
<u>Expenditures:</u>				
Administrative	38,790	38,790	17,125	21,665
Cost of Issue	750,000	750,000	472,186	277,814
Debt Service:				
Principal	7,680,000	7,680,000	8,040,000	(360,000)
Interest	5,078,710	5,078,710	2,432,746	2,645,964
Total Expenditures	<u>13,547,500</u>	<u>13,547,500</u>	<u>10,962,057</u>	<u>2,585,443</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(8,014,410)</u>	<u>(8,014,410)</u>	<u>(5,616,696)</u>	<u>2,397,714</u>
<u>Other Financing Sources(Uses)</u>				
Transfers In:				
Beach Preservation Fees	3,336,913	3,336,913	2,536,913	(800,000)
Hospitality Tax	1,627,113	1,627,113	1,627,113	-
Real Estate Transfer Fees	2,237,884	2,237,884	2,193,515	(44,369)
Lease Revenue	65,000	65,000	65,336	336
TIF taxes	772,500	772,500	-	(772,500)
Bonds Issued	-	-	27,885,000	27,885,000
Bond Premiums	-	-	1,574,351	1,574,351
Payments to Escrow Agent	(25,000)	(25,000)	(28,966,152)	(28,941,152)
Total Other Financing Sources	<u>8,014,410</u>	<u>8,014,410</u>	<u>6,916,076</u>	<u>(1,098,334)</u>
Net Change in Fund Balance	-	-	1,299,380	<u>\$ 1,299,380</u>
Fund Balance - beginning	<u>8,586,770</u>	<u>8,586,770</u>	<u>8,586,770</u>	
Fund Balance - ending	<u>\$ 8,586,770</u>	<u>\$ 8,586,770</u>	<u>\$ 9,886,150</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, 2017

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes	\$ 705,000	\$ 878,231	\$ 715,398	\$ (162,833)
Grants	525,000	675,336	1,260,180	584,844
Other Revenue	-	200,000	117,140	(82,860)
Sunday Permit Fees	350,000	749,848	335,765	(414,083)
Lease Revenue	-	-	108,536	108,536
Impact Fees	-	26,500	308,226	281,726
Investment Income	-	-	6,725	6,725
<b>Total Revenues</b>	<b>1,580,000</b>	<b>2,529,915</b>	<b>2,851,970</b>	<b>322,055</b>
<u>Expenditures:</u>				
Public Facilities:				
Coligny/Pope Avenue Area Initiative	9,850,000	10,228,136	252,524	9,975,612
Northwest Quadrant - Coligny/Sandbox	1,500,000	1,502,580	18,114	1,484,466
Office Park Road/USCB	18,900,000	19,474,358	152,102	19,322,256
Sewer Service - Spanish Wells	-	1,820,582	702,442	1,118,140
Sewer Service - Dillon Road	-	530,712	95,234	435,478
Sewer Service - Marshland Road Area	950,000	878,139	213,829	664,310
Sewer Service - Stoney/Wild Honey	-	19,625	19,625	-
Sewer Service - Gumtree	315,000	319,651	319,650	1
Sewer Service - Fishhaul	-	36,805	36,805	-
Sewer Service - Squire Pope	-	22,980	22,980	-
<b>Total Public Facilities</b>	<b>31,515,000</b>	<b>34,833,568</b>	<b>1,833,305</b>	<b>33,000,263</b>
Park Development:				
Island Recreation Center Expansion	5,000,000	13,534,315	2,672,556	10,861,759
Rowing and Sailing Center	-	30,000	-	30,000
Park Upgrades	100,000	-	-	-
Crossing Park -- Field Drains	-	469,936	356,288	113,648
Chaplain Irrigation	-	229,912	189,196	40,716
Cordillo Court Tennis Courts	200,000	-	-	-
Shelter Cove Park Upgrades	-	589,254	-	589,254
Shelter Cove Park Parking	-	200,000	-	200,000
<b>Total Park Development</b>	<b>5,300,000</b>	<b>15,053,417</b>	<b>3,218,040</b>	<b>11,835,377</b>
Land Acquisition:				
Miscellaneous	-	10,450	9,926	524
<b>Total Land Acquisition</b>	<b>-</b>	<b>10,450</b>	<b>9,926</b>	<b>524</b>

See accompanying Independent Auditor's Report

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, 2017

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Beach Maintenance:				
Beach Management & Monitoring	\$ 250,000	\$ 388,604	\$ 196,017	\$ 192,587
Islandwide Beach Renourishment	500,000	17,465,489	17,017,152	448,337
Total Beach Maintenance	<u>750,000</u>	<u>17,854,093</u>	<u>17,213,169</u>	<u>640,924</u>
Facilities Improvements:				
Fire Station #2 Replacement	2,750,000	3,855,753	12,905	3,842,848
Town Hall Renovations	100,000	192,732	133,353	59,379
Total Facilities Improvements	<u>2,850,000</u>	<u>4,048,485</u>	<u>146,258</u>	<u>3,902,227</u>
Roadway Improvements:				
Matthews/Chaplin	-	43	42	1
Leamington/Fresh Market US 278	-	920	919	1
South Forest Beach Drive Improvements	650,000	344,212	3,254	340,958
Traffic Signal Pembroke US 278	-	140,000	-	140,000
Wiley Road	200,000	238,570	84,550	154,020
Marshland Road Roundabout	-	1,447	998	449
Intersection Improvements Squire Pope	-	24,160	-	24,160
Extension of Lagoon Road	2,500,000	2,511,175	656,549	1,854,626
Miscellaneous Turn Lane Improvements	150,000	73,700	50,998	22,702
Turn Lane Improvements -- Beach City	75,000	138,800	67,664	71,136
Private Dirt Roads Acquisition	372,250	197,792	770	197,022
Palmetto Dunes Swing About	-	136,905	26,497	110,408
Office Park Road Intersection Improvements	1,600,000	3,069,688	313,514	2,756,174
Reconstruction of Nassau Street	1,100,000	2,241,025	9,158	2,231,867
Lagoon Road - Pope Road	-	1,188,660	52,078	1,136,582
Pope Avenue Repaving	325,000	325,000	-	325,000
Dirt Road Paving CDBG	200,000	332,000	1,892	330,108
Cobia Court	-	10,171	10,171	-
Paving	-	203,297	198,297	5,000
Bluffton Beautification	1,000,000	1,000,000	-	1,000,000
Total Roadway Improvements	<u>8,172,250</u>	<u>12,177,565</u>	<u>1,477,351</u>	<u>10,700,214</u>
Debt Issue Costs:				
Debt Issue Costs	300,000	653,458	64,000	589,458
Total Debt Issue Costs	<u>300,000</u>	<u>653,458</u>	<u>64,000</u>	<u>589,458</u>

See accompanying Independent Auditor's Report

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, 2017

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Pathway Improvements:	\$ 100,000	\$ 206,057	\$ 30,824	\$ 175,233
Total Pathway Improvements	<u>100,000</u>	<u>206,057</u>	<u>30,824</u>	<u>175,233</u>
 Total Capital Outlay/Community Services	 <u>48,687,250</u>	 <u>84,183,635</u>	 <u>23,928,873</u>	 <u>60,254,762</u>
Total Expenditures	48,987,250	84,837,093	23,992,873	60,844,220
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(47,407,250)</u>	<u>(82,307,178)</u>	<u>(21,140,903)</u>	<u>61,166,275</u>
<u>Other Financing Sources (Uses):</u>				
Issuance of New Bonds:				
Bond Proceeds (Tax Increment Financing)	30,250,000	33,208,000	-	(33,208,000)
Bond Proceeds (Beach Preservation)	-	16,351,159	-	(16,351,159)
Bond Proceeds (Hospitality Fees)	1,750,000	1,855,753	-	(1,855,753)
Bond Proceeds (General Obligation)	8,265,000	21,002,063	-	(21,002,063)
Bond Proceeds (BAN)	-	-	25,000,000	25,000,000
Bond Premium (BAN)	-	-	762,750	762,750
Transfers In:				
Beach Preservation Fees	750,000	1,627,934	900,583	(727,351)
Hospitality Tax	425,000	703,638	258,883	(444,755)
Tax Increment Financing	5,575,000	7,166,381	1,346,037	(5,820,344)
Road Usage Fee	322,250	322,250	112,559	(209,691)
Transfers Out:				
General Fund	(453,000)	(453,000)	(678,000)	(225,000)
Debt Service	-	-	(65,336)	(65,336)
Total Other Financing Sources (Uses)	<u>46,884,250</u>	<u>81,784,178</u>	<u>27,637,476</u>	<u>(54,146,702)</u>
<b>Net change in fund balance</b>	(523,000)	(523,000)	6,496,573	<u>\$ 7,019,573</u>
<b>Fund Balance - beginning</b>	<u>5,503,307</u>	<u>5,503,307</u>	<u>5,503,307</u>	
<b>Fund Balance - ending</b>	<u>\$ 4,980,307</u>	<u>\$ 4,980,307</u>	<u>\$ 11,999,880</u>	

See accompanying Independent Auditor's Report

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, 2017

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Revenues:</u>				
Stormwater Utility Fees	\$ 3,725,000	\$ 3,725,000	\$ 3,583,005	\$ (141,995)
Total Operating Revenues	<u>3,725,000</u>	<u>3,725,000</u>	<u>3,583,005</u>	<u>(141,995)</u>
<u>Operating Expenses:</u>				
<u>Planned Unit Developments:</u>				
Hilton Head Plantation:				
Stormwater Maintenance	-	6,223	6,222	1
Country Club Capital	-	20,301	20,301	-
Sawtooth Capital	-	15,120	15,120	-
Drainage Maintenance	5,000	8,306	4,018	4,288
Sinkhole Repairs	-	32,124	32,124	-
Pine Island / Barrier Beach	100,000	100,000	100,000	-
Sweetwater Capital	-	4,400	4,400	-
Myrtle Bank	-	7,080	7,080	-
Dolphin Point Capital	10,000	10,000	7,400	2,600
Old Fort Capital	151,000	51,000	18,207	32,793
Cygnets Capital	-	41,474	41,474	-
Total Hilton Head Plantation	<u>266,000</u>	<u>296,028</u>	<u>256,346</u>	<u>39,682</u>
Indigo Run Plantation:				
Stormwater Maintenance	-	2,330	70	2,260
Drainage Maintenance	3,000	3,000	-	3,000
Inventory and Modeling	-	27,441	-	27,441
Total Indigo Run Plantation	<u>3,000</u>	<u>32,771</u>	<u>70</u>	<u>32,701</u>
Long Cove Club:				
Stormwater Maintenance	-	5,000	140	4,860
Drainage Maintenance	15,000	15,000	-	15,000
Long Cove Club Dr Capital	10,000	10,000	-	10,000
Total Long Cove Club	<u>25,000</u>	<u>30,000</u>	<u>140</u>	<u>29,860</u>
Leamington Plantation:				
Stormwater Maintenance	-	7,201	70	7,131
Total Leamington Plantation	<u>-</u>	<u>7,201</u>	<u>70</u>	<u>7,131</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, 2017

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Planned Unit Developments (continued):</u>				
Palmetto Dunes Plantation:				
Drainage/ Stormwater Maintenance	\$ 3,000	\$ 8,000	\$ 338	\$ 7,662
Inventory and Modeling	-	1,145	-	1,145
Shelter Cove Lane Capital and Infrastructure	-	4,207	4,207	-
Chamber of Commerce Dr Capital and Infrastructure	-	22,433	22,433	-
Total Palmetto Dunes Plantation	<u>3,000</u>	<u>35,785</u>	<u>26,978</u>	<u>8,807</u>
Palmetto Hall Plantation:				
Stormwater Maintenance	-	11,869	879	10,990
Capital and Infrastructure Arthur Hills Course	50,000	32,271	-	32,271
Total Palmetto Hall Plantation	<u>50,000</u>	<u>44,140</u>	<u>879</u>	<u>43,261</u>
Port Royal Plantation:				
Stormwater Maintenance	-	25,473	174	25,299
Silt Cleaning	-	25,029	-	25,029
Port Royal Channel Maintenance	70,000	70,000	-	70,000
Ft. Walker Dr Capital	-	5,200	5,050	150
Pipe & Inlet Cleaning	6,000	6,000	-	6,000
Total Port Royal Plantation	<u>76,000</u>	<u>131,702</u>	<u>5,224</u>	<u>126,478</u>
Shipyards Plantation:				
Stormwater Maintenance	-	5,038	177	4,861
Bank Erosion Stabilization	25,000	25,000	907	24,093
Pipe & Inlet Cleaning	3,000	3,000	750	2,250
The Cottages Capital and Infrastructure	-	18,153	18,153	-
Galleon Fairways Flooding/Dredging	-	12,710	5,309	7,401
Shipyards Channel Maintenance	-	18,445	18,445	-
Shipyards Pump Station	25,000	43,000	7,378	35,622
Total Shipyards Plantation	<u>53,000</u>	<u>125,346</u>	<u>51,119</u>	<u>74,227</u>
Sea Pines Plantation:				
Stormwater Maintenance	-	20,750	13,740	7,010
Sea Pines Channel Maintenance	25,000	25,000	-	25,000
Spotted Sandpiper Capital	140,000	140,000	-	140,000
Duck Hawk Road Capital	60,000	60,000	46,317	13,683
Baynard Cove -- Structure	120,000	97,725	97,725	-
Baynard Cove -- Gate	-	10,829	-	10,829
Lift Gate and Flap Gate Maintenance	20,000	20,000	-	-
Sea Pines Pump Station	50,000	63,757	7,270	56,487
Ruddy Turnstone Capital	30,000	32,652	-	32,652
Ocean Course Capital	40,000	34,800	34,800	-
Mizzenmast Ct Capital	-	30,000	23,270	6,730
Inventory and Modeling	-	87,435	-	87,435
Total Sea Pines Plantation	<u>485,000</u>	<u>622,948</u>	<u>223,122</u>	<u>379,826</u>

See accompanying Independent Auditor's Report

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, 2017

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
<u>Planned Unit Developments (continued):</u>				
Wexford Plantation:				
Stormwater Maintenance	\$ -	\$ 5,000	\$ 140	\$ 4,860
Wexford Club Drive Flooding	-	16,784	715	16,069
Pipe & Inlet Cleaning	18,000	17,790	17,333	457
Powerline Easement Ditch	30,000	30,000	-	30,000
Wexford Pump Station	25,000	51,372	46,497	4,875
Total Wexford Plantation	<u>73,000</u>	<u>120,946</u>	<u>64,685</u>	<u>56,261</u>
Total Planned Unit Developments	<u>1,034,000</u>	<u>1,446,867</u>	<u>628,633</u>	<u>798,234</u>
<u>Non-Planned Unit Developments:</u>				
Stormwater Maintenance:				
Channel Cleaning & Maintenance	206,000	273,265	67,025	206,240
Nassau / Tanglewood Capital & Infrastructure	-	9,420	-	9,420
LeMoyne Ave. Flooding	-	99,942	-	99,942
Mathews Drive Pathway Outflow	15,000	77,187	1,437	75,750
Lawton Woods Drainage	150,000	150,000	53,147	96,853
SCDOT Repairs	-	12,048	7,619	4,429
Pump Station	50,000	74,000	40,502	33,498
Unaffiliated Watersheds Inventory and Modeling	50,000	104,450	953	103,497
Total Non-Planned Unit Development	<u>471,000</u>	<u>800,312</u>	<u>170,683</u>	<u>629,629</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, 2017

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Operating Expenses (continued):</u>				
Other Operating Expenses:				
Administrative Salaries/Benefits	\$ 370,887	\$ 370,887	\$ 283,155	\$ 87,732
Administrative Operating	702,100	739,970	340,856	399,114
Depreciation	-	-	1,066,043	(1,066,043) A
Total Other Operating Expenses	<u>1,072,987</u>	<u>1,110,857</u>	<u>1,690,054</u>	<u>(579,197)</u>
Total Operating Expenses	2,577,987	3,358,036	2,489,370	848,666
Operating Income	1,147,013	366,964	1,093,635	726,671
<u>Non-operating Income (Expenses):</u>				
Investment Income	300	300	1,202	902
Administrative	(3,000)	(3,000)	(2,500)	500
Loss on Refunding	-	-	(89,554)	(89,554) A
Principal	(875,000)	(875,000)	-	875,000
Interest Expense	(275,000)	(275,000)	(275,499)	(499)
Total Nonoperating Income (Expenses)	<u>(1,152,700)</u>	<u>(1,152,700)</u>	<u>(366,351)</u>	<u>786,349</u>
Income (Loss) Before Transfers/Bond Proceeds	(5,687)	(785,736)	727,284	1,513,020
Transfers Out	<u>(95,000)</u>	<u>(1,095,000)</u>	<u>(1,095,000)</u>	<u>-</u>
<b>Net Change in Fund Net Position</b>	(100,687)	(1,880,736)	(367,716)	<u>\$ 1,513,020</u>
<b>Net Position - Beginning</b>	<u>7,154,464</u>	<u>7,154,464</u>	<u>7,154,464</u>	
<b>Net Position - Ending</b>	<u>\$ 7,053,777</u>	<u>\$ 5,273,728</u>	<u>\$ 6,786,748</u>	

A - The Town does not budget for depreciation nor the amortization of loss on refunding.

See accompanying Independent Auditor's Report

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# 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. **Operating Grants** – This fund was established to account for revenues and expenditures of the Town's operating grants.
3. **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.
4. **Federal Grants** – This fund was established to account for revenues and expenditures of the Town's federal grants.
5. **Road Usage Fee** – This fund was established to account for revenues and expenditures of the Town's Road Usage Fee.

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TOWN OF HILTON HEAD ISLAND  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017

Schedule 5

	Special Revenue Funds					
	Palmetto Electric Franchise Fees	Operating Grants	Home Grant	Federal Grants	Road Usage Fee	Total Nonmajor Governmental Funds
<b>ASSETS:</b>						
Cash and Cash Equivalents	\$ 5,765,952	\$ -	\$ 70,446	\$ -	\$ -	\$ 5,836,398
Accounts Receivable	249,890	-	-	-	-	249,890
Due from Other Governments	-	-	-	-	183,344	183,344
Interfund Receivables	-	64,401	-	-	-	64,401
<b>Total assets</b>	<b>6,015,842</b>	<b>64,401</b>	<b>70,446</b>	<b>-</b>	<b>183,344</b>	<b>6,334,033</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts Payable	-	1,631	-	-	-	1,631
Interfund Payables	-	60,878	-	-	183,344	244,222
Unearned Revenue	-	-	70,406	-	-	70,406
<b>Total liabilities</b>	<b>-</b>	<b>62,509</b>	<b>70,406</b>	<b>-</b>	<b>183,344</b>	<b>316,259</b>
<b>Fund balances:</b>						
Restricted	6,015,842	1,892	40	-	-	6,017,774
Unassigned	-	-	-	-	-	-
<b>Total fund balances</b>	<b>6,015,842</b>	<b>1,892</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>6,017,774</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,015,842</b>	<b>\$ 64,401</b>	<b>\$ 70,446</b>	<b>\$ -</b>	<b>\$ 183,344</b>	<b>\$ 6,334,033</b>

TOWN OF HILTON HEAD ISLAND  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

Schedule 6

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Palmetto Electric Franchise Fees	Operating Grants	Home Grant	Federal Grants	Road Usage Fee	
<b>Revenues:</b>						
Electric Franchise Fees	\$ 2,758,691	\$ -	\$ -	\$ -	\$ -	\$ 2,758,691
Grant Revenue	-	69,327	-	754	-	70,081
Road Usage Fees	-	-	-	-	770,694	770,694
Investment Income	1,946	-	22	-	-	1,968
Total revenues	<u>2,760,637</u>	<u>69,327</u>	<u>22</u>	<u>754</u>	<u>770,694</u>	<u>3,601,434</u>
<b>Expenditures:</b>						
Current:						
Public Safety	-	92,684	-	-	-	92,684
Community Services	988,458	-	8,000	-	-	996,458
Total expenditures	<u>988,458</u>	<u>92,684</u>	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>1,089,142</u>
Excess revenues over(under) expenditures	1,772,179	(23,357)	(7,978)	754	770,694	2,512,292
<b>Other Financing Uses:</b>						
Transfers In	-	24,050	18,000	-	-	42,050
Transfers Out	(90,000)	-	-	(16,214)	(770,694)	(876,908)
Total other financing (uses)	<u>(90,000)</u>	<u>24,050</u>	<u>18,000</u>	<u>(16,214)</u>	<u>(770,694)</u>	<u>(834,858)</u>
<b>Net change in fund balance</b>	1,682,179	693	10,022	(15,460)	-	1,677,434
Fund balance (deficit) - beginning	<u>4,333,663</u>	<u>1,199</u>	<u>(9,982)</u>	<u>15,460</u>	<u>-</u>	<u>4,340,340</u>
Fund balance - ending	<u>\$ 6,015,842</u>	<u>\$ 1,892</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,017,774</u>

## 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.

**Airport Noise Abatement Fund** – This fund is used to account for the custodial accumulation of resources granted from Beaufort County and the Town to assist in the efforts toward a County Noise Abatement Project.

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TOWN OF HILTON HEAD ISLAND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND  
FIREMEN'S FUND AND AIRPORT NOISE ABATEMENT  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 7

<b>FIREMEN'S FUND</b>	Beginning Balance	Increases	Decreases	Ending Balance
<u>ASSETS:</u>				
Cash and Temporary Investments	\$ 96,633	\$ 628,724	\$ 663,513	\$ 61,844
 <u>LIABILITIES:</u>				
Due to Firemen's Fund Association	\$ 96,633	\$ 628,724	\$ 663,513	\$ 61,844
 <b>AIRPORT NOISE ABATEMENT</b>				
	Beginning Balance	Increases	Decreases	Ending Balance
<u>ASSETS:</u>				
Due from General Fund	\$ 995,340	\$ -	\$ 236,921	\$ 758,419
 <u>LIABILITIES:</u>				
Due to County Noise Abatement Project	\$ 995,340	\$ -	\$ 236,921	\$ 758,419
 <b>TOTAL</b>				
	Beginning Balance	Increases	Decreases	Ending Balance
<u>ASSETS:</u>				
Cash and Temporary Investments	\$ 96,633	\$ 628,724	\$ 663,513	\$ 61,844
Due from General Fund	995,340	-	236,921	758,419
TOTAL	\$ 1,091,973	\$ 628,724	\$ 900,434	\$ 820,263
 <u>LIABILITIES:</u>				
Due to Firemen's Fund Association	\$ 96,633	\$ 628,724	\$ 663,513	\$ 61,844
Due to County Noise Abatement Project	995,340	-	236,921	758,419
TOTAL	\$ 1,091,973	\$ 628,724	\$ 900,434	\$ 820,263

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**Statistical Section  
(Unaudited)**

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## 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.*

<b><u>Contents</u></b>	<b><u>Pages</u></b>
<b>Financial Trends</b> <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>	94-98
<b>Revenue Capacity</b> <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>	99-104
<b>Debt Capacity</b> <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>	105-109
<b>Demographic and Economic Information</b> <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>	110-111
<b>Operating Information</b> <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>	112-115

**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.*

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental activities										
Net investment in capital assets	\$ 98,661,331	\$ 114,310,240	\$ 126,379,257	\$ 137,940,358	\$ 127,695,520	\$ 134,730,092	\$ 147,652,780	\$ 163,062,329	\$ 169,753,952	\$ 135,775,025
Restricted	25,168,338	23,590,106	20,750,147	29,367,859	39,307,871	42,860,346	35,442,375	31,942,739	31,347,375	49,428,416
Unrestricted	34,433,182	27,448,750	27,806,762	19,070,840	12,610,400	15,130,825	19,969,187	10,121,639	13,639,863	(1,211,516)
Total governmental activities net position	<u>\$ 158,262,851</u>	<u>\$ 165,349,096</u>	<u>174,936,166</u>	<u>186,379,057</u>	<u>179,613,791</u>	<u>192,721,263</u>	<u>203,064,342</u>	<u>205,126,707</u>	<u>214,741,190</u>	<u>183,991,925</u>
Business-type activities										
Net investment in capital assets			(263,488)	1,969,503	587,800	1,985,756	3,320,300	4,569,085	4,759,203	4,478,605
Unrestricted			2,441,371	1,588,215	1,776,610	1,965,359	1,971,277	1,838,661	2,395,261	2,308,143
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>	<u>5,291,577</u>	<u>6,407,746</u>	<u>7,154,464</u>	<u>6,786,748</u>
Total			<u>\$ 177,114,049</u>	<u>\$ 189,936,775</u>	<u>\$ 181,978,201</u>	<u>\$ 196,672,378</u>	<u>\$ 208,355,919</u>	<u>\$ 211,534,453</u>	<u>\$ 221,895,654</u>	<u>\$ 190,778,673</u>

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Expenses</b>										
Governmental activities:										
General Government	\$ 3,777,076	\$ 3,823,670	\$ 5,821,050	\$ 5,590,651	\$ 4,353,125	\$ 4,457,904	\$ 5,014,153	\$ 5,501,516	\$ 6,119,293	\$ 9,177,681
Management Services	4,099,915	4,747,193	4,589,627	4,617,092	4,387,130	4,781,208	5,176,878	5,249,881	5,240,408	5,030,374
Community Services	18,498,051	14,003,774	8,502,048	8,592,108	30,544,682	13,292,741	15,914,686	15,337,540	18,658,764	28,419,138
Public Safety	17,528,471	17,717,708	17,068,317	17,332,968	16,535,835	16,425,512	14,130,095	16,529,019	19,802,724	63,979,026
Culture and Recreation	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594	1,907,032	1,962,094	2,429,893	2,652,668	2,583,815
Visitor & Convention Bureau	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019	1,341,508	1,473,482	1,580,537	1,709,995	1,831,924
Administration	2,884,106	2,204,684	2,695,438	3,280,258	3,611,539	1,797,946	1,779,235	2,500,842	212,356	751,591
Interest on Debt	5,669,171	5,566,777	4,329,058	4,414,431	3,658,811	4,051,860	4,114,335	3,396,216	3,042,722	2,079,168
Other Charges	235,742	-	-	-	-	-	-	-	-	-
Total governmental activities expenses	<u>\$ 55,629,379</u>	<u>\$ 50,911,720</u>	45,390,500	46,175,688	65,397,735	48,055,711	49,564,958	52,525,444	57,438,930	113,852,717
Business-type activities:										
Stormwater			1,397,226	1,616,827	4,449,857	1,757,863	1,997,630	2,367,173	2,755,139	2,856,923
<b>Total Expenses</b>			<u>\$ 46,787,726</u>	<u>\$ 47,792,515</u>	<u>\$ 69,847,592</u>	<u>\$ 49,813,574</u>	<u>\$ 51,562,588</u>	<u>\$ 54,892,617</u>	<u>\$ 60,194,069</u>	<u>\$ 116,709,640</u>
<b>Program Revenues</b> (see Schedule 3)										
Governmental activities:										
Charges for services:										
General Government	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757	\$ 2,565,756	\$ 2,579,305	\$ 2,455,854	\$ 3,168,940	\$ 1,943,264
Management Services	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622	7,774,138	7,795,909	8,334,478	8,224,310	9,289,682
Community Services	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471	8,262,464	9,055,993	9,802,304	10,016,676	10,806,905
Public Safety	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780	1,163,678	1,505,579	1,486,087	1,480,903
Administration	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459	2,255,107	2,468,881	2,534,932	2,887,147	2,780,312
Operating grants and contributions	152,140	130,796	206,897	140,555	305,329	338,378	630,208	348,467	838,915	12,923,774
Capital grants and contributions	61,843	52,525	17,697	-	1,044,854	142,116	-	275,000	19,956	1,330,261
Total governmental activities program revenues	<u>\$ 21,021,288</u>	<u>\$ 18,383,750</u>	19,842,121	20,463,103	21,956,539	22,644,739	23,693,974	25,256,614	26,642,031	40,555,101
Business-type activities:										
Charges for services:										
Stormwater			2,553,971	3,377,779	3,491,879	3,580,445	3,564,300	3,551,386	3,551,400	3,583,005
Operating grants and contributions			-	-	-	-	-	25,764	44,272	-
<b>Total Program Revenues</b>			<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>	<u>\$ 26,225,184</u>	<u>\$ 27,258,274</u>	<u>\$ 28,833,764</u>	<u>\$ 30,237,703</u>	<u>\$ 44,138,106</u>
<b>Net (Expense)Revenue</b>										
Total governmental activities net expense	<u>\$ (34,608,091)</u>	<u>\$ (32,527,970)</u>	(25,548,379)	(25,712,585)	(43,441,196)	(25,410,972)	(25,870,984)	(27,268,830)	(30,796,899)	(73,297,616)
Total business-type activities net expense			1,156,745	1,780,952	(957,978)	1,822,582	1,566,670	1,209,977	840,533	726,082
<b>Total Net (Expense) Revenue</b>			<u>\$ (24,391,634)</u>	<u>\$ (23,951,633)</u>	<u>\$ (44,399,174)</u>	<u>\$ (23,588,390)</u>	<u>\$ (24,304,314)</u>	<u>\$ (26,058,853)</u>	<u>\$ (29,956,366)</u>	<u>\$ (72,571,534)</u>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property Taxes	\$ 19,859,691	\$ 21,993,646	\$ 23,454,455	\$ 23,605,422	\$ 23,974,619	\$ 24,242,142	\$ 23,613,446	\$ 24,163,776	\$ 22,576,837	\$ 23,111,039
Other Taxes	11,637,286	10,836,674	10,178,254	10,866,276	11,259,227	12,246,755	13,368,820	14,516,798	15,447,140	16,223,664
Intergovernmental	2,198,691	2,012,649	1,531,261	1,317,756	1,010,600	1,181,674	1,154,196	1,176,192	1,131,882	1,185,671
Investment earnings	2,521,431	876,095	356,176	260,608	124,415	87,660	69,810	50,763	48,922	57,785
Miscellaneous	3,921,488	3,895,151	584,455	1,105,414	307,069	760,213	(297,517)	1,896,632	1,206,601	1,970,192
Total governmental activities	<u>\$ 40,138,587</u>	<u>\$ 39,614,215</u>	<u>\$ 36,104,601</u>	<u>\$ 37,155,476</u>	<u>\$ 36,675,930</u>	<u>\$ 38,518,444</u>	<u>\$ 37,908,755</u>	<u>\$ 41,804,161</u>	<u>\$ 40,411,382</u>	<u>\$ 42,548,351</u>
Business-type activities:										
Investment earnings			83,128	8,612	-	253	394	450	443	1,202
Transfers			(302,763)	(389,729)	(235,330)	(236,130)	(74,163)	(94,258)	(94,258)	(1,095,000)
Total business-type activities			<u>\$ (219,635)</u>	<u>\$ (381,117)</u>	<u>\$ (235,330)</u>	<u>\$ (235,877)</u>	<u>\$ (73,769)</u>	<u>\$ (93,808)</u>	<u>\$ (93,815)</u>	<u>\$ (1,093,798)</u>
<b>Change in Net Position</b>										
Governmental activities	<u>\$ 5,530,496</u>	<u>\$ 7,086,245</u>	10,556,222	11,442,891	(6,765,266)	13,107,472	12,037,771	14,535,331	9,614,483	(30,749,265)
Business-type activities			937,110	1,379,835	(1,193,308)	1,586,705	1,492,901	1,116,169	746,718	(367,716)
<b>Total Change in Net Position</b>			<u>\$ 11,493,332</u>	<u>\$ 12,822,726</u>	<u>\$ (7,958,574)</u>	<u>\$ 14,694,177</u>	<u>\$ 13,530,672</u>	<u>\$ 15,651,500</u>	<u>\$ 10,361,201</u>	<u>\$ (31,116,981)</u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Function/Program</b>										
Governmental activities:										
Charges for services:										
General Government	\$ 588,996	\$ 608,137	\$ 3,886,767	\$ 3,950,975	\$ 3,799,757	\$ 2,565,756	\$ 2,579,305	\$ 2,455,854	\$ 3,168,940	\$ 1,943,264
Management Services	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622	7,774,138	7,795,909	8,334,478	8,224,310	9,289,682
Community Services	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471	8,262,464	9,055,993	9,802,304	10,016,676	10,806,905
Public Safety	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780	1,163,678	1,505,579	1,486,087	1,480,903
Administration	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459	2,255,107	2,468,881	2,534,932	2,887,147	2,780,312
Operating grants and contributions	152,140	130,796	206,897	140,555	305,329	338,378	630,208	348,467	838,915	12,923,774
Capital grants and contributions	61,843	52,525	17,697	-	1,044,854	142,116	-	275,000	19,956	1,330,261
Total governmental activities	<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>	<u>\$ 23,693,974</u>	<u>\$ 25,256,614</u>	<u>\$ 26,642,031</u>	<u>\$ 40,555,101</u>
Business-type activities:										
Stormwater			2,553,971	3,377,779	3,491,879	3,580,445	3,564,300	3,551,386	3,551,400	3,583,005
Operating grants and contributions								25,764	44,272	-
<b>Total Program Revenues</b>			<u>\$ 22,396,092</u>	<u>\$ 23,840,882</u>	<u>\$ 25,448,418</u>	<u>\$ 26,225,184</u>	<u>\$ 27,258,274</u>	<u>\$ 28,833,764</u>	<u>\$ 30,237,703</u>	<u>\$ 44,138,106</u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund										
Reserved	\$ 283,748	\$ 164,731	\$ 145,008							
Unreserved	15,990,383	15,697,038	15,618,977							
Total General Fund	<u>\$ 16,274,131</u>	<u>\$ 15,861,769</u>	<u>\$ 15,763,985</u>							
All Other Governmental Funds										
Reserved	\$ 24,013,184	\$ 18,634,944	\$ 24,398,924							
Unreserved, reported in:										
Special revenue funds	26,375,485	21,814,650	22,479,639							
Capital projects funds	16,735,177	4,924,286	5,796,855							
Debt service funds	269,253	-	-							
Total All Other Governmental Funds	<u>\$ 67,393,099</u>	<u>\$ 45,373,880</u>	<u>\$ 52,675,418</u>							
General Fund										
Nonspendable				\$ 21,304	\$ 15,308	\$ 8,896	\$ 9,796	\$ -	\$ -	\$ -
Restricted				98,163	98,182	65,985	65,998	66,011	66,025	66,025
Committed				11,366,314	11,865,342	12,366,509	13,593,096	14,232,879	15,171,715	11,515,420
Assigned				-	817,455	674,725	1,007,245	1,471,227	2,013,643	821,728
Unassigned				3,400,504	3,017,270	4,187,612	3,359,264	3,579,208	3,700,049	3,700,049
Total General Fund				<u>\$ 14,886,285</u>	<u>\$ 15,813,557</u>	<u>\$ 17,303,727</u>	<u>\$ 18,035,399</u>	<u>\$ 19,349,325</u>	<u>\$ 20,951,432</u>	<u>\$ 16,103,222</u>
All Other Governmental Funds										
Restricted				\$ 33,894,568	\$ 39,209,689	\$ 42,850,943	\$ 35,376,377	\$ 31,876,728	\$ 31,282,350	\$ 49,362,392
Committed				12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	5,080,404
Assigned				-	3,293	554,229	1,902,756	1,232,948	2,273,000	-
Unassigned				-	(8,581)	(8,576)	(41,365)	(59,263)	6,677	1,932
Total All Other Governmental Funds				<u>\$ 45,894,568</u>	<u>\$ 51,204,401</u>	<u>\$ 55,396,596</u>	<u>\$ 49,237,768</u>	<u>\$ 45,050,413</u>	<u>\$ 45,562,027</u>	<u>\$ 54,444,728</u>
Total Fund Balance	\$ 83,667,230	\$ 61,235,649	\$ 68,439,403	\$ 60,780,853	\$ 67,017,958	\$ 72,700,323	\$ 67,273,167	\$ 64,399,738	\$ 66,513,459	\$ 70,547,950

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Revenues</b>										
Taxes (see Schedule 6) <sup>a</sup>	\$ 31,496,978	\$ 32,830,320	\$ 33,632,709	\$ 34,471,698	\$ 35,233,846	\$ 36,488,897	\$ 36,982,266	\$ 38,675,584	\$ 38,023,977	\$ 39,334,703
Licenses, fees, and permits <sup>b</sup>	21,387,485	19,202,835	14,843,258	18,131,546	18,633,421	20,163,249	21,316,864	22,475,266	23,738,338	24,465,801
Fines and penalties	465,065	407,422	423,042	361,152	308,708	262,022	224,447	198,948	210,243	245,826
Charges for services	1,661,201	1,604,565	1,598,482	1,761,128	1,602,410	1,461,624	1,242,959	1,673,499	1,556,125	1,536,927
Intergovernmental	1,312,571	1,309,391	1,199,622	1,317,756	1,202,313	1,371,308	1,325,351	1,344,243	1,295,538	15,492,218
Investment earnings	2,521,430	876,095	356,179	260,606	124,417	87,660	69,810	50,763	48,922	57,785
Other revenues	2,615,149	1,702,252	5,404,922	602,262	1,420,411	797,171	1,000,494	972,240	1,242,066	858,358
Total revenues	<u>\$ 61,459,879</u>	<u>\$ 57,932,880</u>	<u>\$ 57,458,214</u>	<u>\$ 56,906,148</u>	<u>\$ 58,525,526</u>	<u>\$ 60,631,931</u>	<u>\$ 62,162,191</u>	<u>\$ 65,390,543</u>	<u>\$ 66,115,209</u>	<u>\$ 81,991,618</u>
<b>Expenditures</b>										
General Government	\$ 1,551,674	\$ 1,100,621	\$ 1,044,477	\$ 1,119,831	\$ 882,111	\$ 968,506	\$ 1,060,140	\$ 1,046,890	\$ 1,203,788	\$ 4,419,410
Management Services	3,921,014	4,563,007	4,497,250	4,528,244	4,303,518	4,512,873	4,818,850	4,986,727	4,947,486	4,990,115
Community Services	6,964,349	6,530,162	6,478,745	6,210,506	5,771,788	5,996,416	6,392,687	7,238,602	7,804,951	8,730,949
Public Safety	16,921,361	16,836,081	16,161,922	16,174,377	16,415,919	16,448,769	17,019,825	17,202,723	17,926,916	62,181,211
Non-Departmental	2,018,190	2,397,182	2,662,132	4,072,932	3,154,901	2,947,442	3,497,973	3,879,828	4,350,151	4,358,634
Accommodations Tax Grants	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594	1,907,032	1,962,094	2,429,893	2,652,668	2,583,815
Visitor & Convention Bureau	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019	1,341,508	1,473,482	1,580,537	1,709,995	1,831,924
Administration	2,884,106	2,088,285	2,361,361	2,944,586	3,208,001	1,335,906	1,481,219	2,317,333	28,871	27,817
Capital Outlay	23,255,954	27,050,704	10,505,379	8,479,627	26,380,099	13,597,119	13,428,124	11,527,089	13,839,880	25,222,144
Debt Service										
Principal	11,837,139	11,220,000	11,415,000	12,305,000	12,105,000	11,645,000	12,950,000	12,994,999	7,420,000	8,040,000
Interest	5,645,093	5,680,505	4,335,765	4,524,266	3,914,974	4,265,011	4,080,573	3,702,272	3,278,425	2,432,746
Fiscal charges	-	-	-	-	-	-	-	-	11,025	17,125
Debt issue costs	451,841	-	391,417	-	525,364	150,792	132,022	11,025	-	472,186
Total expenditures	<u>\$ 78,387,568</u>	<u>\$ 80,314,461</u>	<u>\$ 62,238,410</u>	<u>\$ 62,707,549</u>	<u>\$ 78,968,288</u>	<u>\$ 65,116,374</u>	<u>\$ 68,296,989</u>	<u>\$ 68,917,918</u>	<u>\$ 65,174,156</u>	<u>\$ 125,308,076</u>
Excess of revenues over (under) expenditures	(16,927,689)	(22,381,581)	(4,780,196)	(5,801,401)	(20,442,762)	(4,484,443)	(6,134,798)	(3,527,375)	941,053	(43,316,458)
<b>Other Financing Sources (Uses)</b>										
Bonds issued	\$ 34,215,000	\$ -	\$ 12,000,000	\$ -	\$ 26,250,000	\$ 9,000,000	\$ -	\$ -	\$ -	\$ 45,000,000
Other uses/sources	-	(50,000)	-	-	-	-	-	-	-	-
Refunding bonds issued	-	-	5,005,000	-	20,635,000	-	-	-	-	27,885,000
Debt Issue costs	-	-	-	-	-	-	-	-	-	-
Payments to escrow agent	(11,955,000)	-	(5,248,484)	-	(21,675,878)	-	-	-	-	(28,966,152)
Premium on bond issuance	154,397	-	155,632	-	970,485	664,056	-	-	-	2,337,101
Proceeds from sale of land and equipment	-	-	-	324,774	264,930	266,622	175,000	559,688	1,078,410	-
Reimbursement of prior year expenditures	-	-	-	-	-	-	458,479	-	-	-
Transfers in	13,676,941	22,593,584	19,037,120	20,268,594	22,476,082	23,329,394	24,269,122	27,861,903	24,374,977	37,140,890
Transfers out	(13,676,941)	(22,593,584)	(18,734,358)	(19,878,865)	(22,240,752)	(23,093,264)	(24,194,959)	(27,767,645)	(24,280,719)	(36,045,890)
Total other financing sources (uses)	<u>\$ 22,414,397</u>	<u>\$ (50,000)</u>	<u>\$ 12,214,910</u>	<u>\$ 714,503</u>	<u>\$ 26,679,867</u>	<u>\$ 10,166,808</u>	<u>\$ 707,642</u>	<u>\$ 653,946</u>	<u>\$ 1,172,668</u>	<u>\$ 47,350,949</u>
Net change in fund balances	<u>\$ 5,486,708</u>	<u>\$ (22,431,581)</u>	<u>\$ 7,434,714</u>	<u>\$ (5,086,898)</u>	<u>\$ 6,237,105</u>	<u>\$ 5,682,365</u>	<u>\$ (5,427,156)</u>	<u>\$ (2,873,429)</u>	<u>\$ 2,113,721</u>	<u>\$ 4,034,491</u>
Debt Service as a % of Noncapital Expenditures	27.5%	29.1%	30.9%	30.6%	22.3%	28.8%	29.1%	28.1%	19.2%	9.5%

**Notes:** <sup>a</sup>Property Tax Reassessments performed in 2013.

<sup>b</sup>Starting 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)*

<b>Fiscal Year</b>	<b>Property</b>	<b>Accommodations</b>	<b>Hospitality</b>	<b>Total</b>
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
2014	23,613,446	7,735,390	5,633,430	36,982,266
2015	24,163,776	8,361,794	6,155,004	38,680,574
2016	22,576,837	8,940,834	6,506,306	38,023,977
2017	23,111,039	9,561,791	6,661,873	39,334,703
Change 2008-2017	16.4%	49.3%	27.3%	24.9%

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		
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	808,486,334	16,988,790,235	31,839,682	495,902,719	840,326,016	17,484,692,954	19.33	4.81%
2014	2013	786,139,446	16,519,224,042	30,959,620	482,196,000	817,099,066	17,001,420,042	20.83	4.81%
2015	2014	870,403,050	16,565,140,739	36,619,380	553,832,220	907,022,430	17,118,972,959	21.35	5.30%
2016	2015	881,046,120	16,740,310,118	37,685,410	582,386,500	918,731,530	17,322,696,618	22.18	5.30%
2017	2016	886,106,320	16,836,456,410	40,547,190	626,612,158	926,653,510	17,463,068,567	22.18	5.31%

Source: Beaufort County Assessor's Office & Town Finance Departement Extrapolations.

Notes: Property in Beaufort County is reassessed once every five years on average. The county assesses at 6% and 4% percent of actual value for real property; 10.5% for personal property and 6.0% percent for motor vehicles.

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 <sup>a</sup>			
		General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts <sup>1</sup>	Total Rate
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	12.86	5.72	0.75	19.33	129.16	56.30	8.45	213.24
2014	2013	13.88	6.14	0.81	20.83	129.16	56.30	8.45	214.74
2015	2014	14.37	6.14	0.84	21.35	135.21	56.86	8.81	222.23
2016	2015	15.20	6.14	0.84	22.18	135.21	59.15	8.75	225.29
2017	2016	15.20	6.14	0.84	22.18	143.21	61.27	8.66	235.32

**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.

<sup>a</sup>Overlapping 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.

<sup>1</sup>Water 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 Taxpayers  
Current Year and Ten Years Ago**

<u>Taxpayer</u>	<u>Tax Year 2016</u>			<u>Tax Year 2007</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 Resorts Inc	\$ 19,250,660	1	2.12%	\$ 18,425,470	1	2.19%
Palmetto Electric Co-op Inc	5,809,630	2	0.64%	6,902,501	2	0.82%
Sea Pines Resort LLC	4,777,900	3	0.53%	3,798,538	4	0.45%
Columbia Properties Hilton Head LLC	4,764,090	4	0.53%	3,939,414	3	0.47%
SCG Hilton Head Property LLC	4,260,000	5	0.47%	3,692,358	6	0.44%
AGRE NV HH Property Owner LLC	2,641,630	6	0.29%	-	-	0.00%
Hargray Telephone Company Inc	2,568,590	7	0.28%	3,788,107	5	0.45%
Coligny Plaza Limited P/S	2,423,340	8	0.27%	-	-	0.00%
Palmetto Dunes	2,168,130	9	0.24%	-	-	0.00%
Shelter Cove III LLC	2,100,560	10	0.23%	1,500,000	9	0.18%
Greenwood Development	-	-	0.00%	3,411,004	7	0.41%
Hilton Head Health Systems	-	-	0.00%	1,928,215	8	0.23%
Heritage Golf-Port Royal	-	-	0.00%	1,179,490	10	0.14%
						0.00%
<b>Total</b>	<b>\$ 50,764,530</b>		<b>5.48%</b>	<b>\$ 48,565,097</b>		<b>5.78%</b>

**Source:** Beaufort County

**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
2008	\$ 20,342,371	\$ 19,461,546	95.67%	\$ 398,145	\$ 19,859,691	97.63%
2009	22,752,971	21,085,178	92.67%	908,468	21,993,646	96.66%
2010	23,772,292	22,773,856	95.80%	680,599	23,454,455	98.66%
2011	24,570,566	22,860,455	93.04%	744,967	23,605,422	96.07%
2012	24,491,432	23,252,166	94.94%	722,453	23,974,619	97.89%
2013	24,493,618	23,619,196	96.43%	622,946	24,242,142	98.97%
2014	24,323,902	23,207,435	95.41%	406,011	23,613,446	97.08%
2015	24,844,827	23,885,817	96.14%	277,959	24,163,776	97.26%
2016	23,311,081	22,201,474	95.24%	375,364	22,576,838	96.85%
2017	23,599,662	22,490,478	95.30%	620,561	23,111,039	97.93%

**Source:** Beaufort County and 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**

<b>Fiscal Year</b>	<b>Town Direct Rate</b>	<b>Beaufort County</b>	<b>South Carolina</b>
2008	0%	1%	6%
2009	0%	1%	6%
2010	0%	1%	6%
2011	0%	1%	6%
2012	0%	1%	6%
2013	0%	0%	6%
2014	0%	0%	6%
2015	0%	0%	6%
2016	0%	0%	6%
2017	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	Charge on Refunding	Total	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
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
2014	60,080,000	38,810,000	11,585,000	-	-	-	2,004,461	(3,190,250)	109,289,211	5.89%	2,773
2015	55,945,000	29,950,000	10,760,000	-	-	-	1,829,733	(2,928,212)	95,556,521	5.18%	2,387
2016	51,680,000	26,795,000	9,910,000	-	-	-	1,655,008	(2,666,197)	87,373,811	4.81%	2,157
2017	46,345,000	23,535,000	9,035,000	45,000,000	-	-	3,104,407	(2,151,893)	124,867,514	6.50%	3,083

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

<sup>a</sup>See 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**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Percentage of Actual Taxable Value<sup>a</sup> of Property</b>	<b>Per Capita<sup>b</sup></b>
2008	\$ 63,441,166	0.36%	\$ 1,871
2009	59,518,350	0.34%	1,738
2010	66,998,519	0.30%	1,806
2011	61,943,135	0.29%	1,648
2012	58,088,744	0.27%	1,514
2013	64,348,465	0.37%	1,677
2014	59,955,995	0.35%	1,521
2015	58,846,475	0.34%	1,470
2016	51,606,596	0.30%	1,274
2017	92,457,411	0.53%	2,283

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

<sup>a</sup>See Schedule 7 for property value data.

<sup>b</sup>See 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, 2017**

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable<sup>a</sup></u>	<u>Estimated Share of Direct and Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Beaufort County School District	\$ 309,770,621	48%	\$ 149,979,558
Beaufort County	283,501,455	48%	137,260,993
Broad Creek Public Service District	3,790,000	100%	3,790,000
Hilton Head No. 1 Public Service District	13,460,389	96%	12,921,973
<b>Subtotal, overlapping debt</b>			<b>303,952,524</b>
<b>Town direct debt</b>			<b>115,832,514</b>
<b>Total direct and overlapping debt</b>			<b>\$ 419,785,038</b>

**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.

<sup>a</sup>For 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.

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

**Legal Debt Margin Calculation for Tax Year 2016 - Fiscal Year 2017**

Assessed value (as of December 31, 2016)	\$ 926,654
Debt Limit (8% of assessed value)	74,132
Council-imposed limit for Disasters (20%)	(14,826)
Implement Disaster limit	14,826
Debt applicable to limit:	
General Obligation Bonds:	
2016 BAN	\$ 25,000
2017 BAN	20,000
2009A	3,425
2013B	<u>3,342</u>
Total net debt applicable to limit	<u>51,767</u>
Legal Debt Margin (without a referendum)	<u><u>\$ 22,365</u></u>

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Debt limit	\$ 66,174	\$ 66,619	\$ 75,964	\$ 73,455	\$ 74,172	\$ 67,226	\$ 65,368	\$ 72,562	\$ 73,499	74,132
Total net debt applicable to limit	12,325	10,295	8,160	5,930	5,005	8,870	8,227	7,749	7,268	51,767
Legal debt margin	53,849	56,324	67,804	67,525	69,167	58,356	57,141	64,813	66,231	22,365
Total net debt applicable to the limit as a percentage of debt limit	18.63%	15.45%	10.74%	8.07%	6.75%	13.19%	12.59%	10.68%	9.89%	69.83%

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

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

<sup>a</sup> Town Council imposed an eighty percent (80%) cap on the debt limit in 2009 for Natural Disasters.

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

Hospitality Tax Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2008	\$ 5,232,837	\$ 305,000	\$ 448,970	\$ 753,970	6.94
2009	4,826,318	315,000	439,820	754,820	6.39
2010	4,708,807	325,000	428,007	753,007	6.25
2011	4,917,591	340,000	416,632	756,632	6.50
2012	5,160,134	775,000	503,346	1,278,346	4.04
2013	5,250,995	805,000	827,312	1,632,312	3.22
2014	5,633,430	820,000	811,213	1,631,213	3.45
2015	6,155,004	835,000	776,427	1,611,427	3.82
2016	6,506,306	850,000	778,113	1,628,113	4.00
2017	6,661,873	865,000	762,113	1,627,113	4.09

Tax Increment Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2008	\$ 4,427,710	\$ 3,760,000	\$ 374,015	\$ 4,134,015	1.07
2009	5,833,846	3,140,000	824,163	3,964,163	1.47
2010	6,308,512	3,270,000	717,538	3,987,538	1.58
2011	6,369,085	3,405,000	606,461	4,011,461	1.59
2012	6,148,490	3,550,000	490,446	4,040,446	1.52
2013	6,562,575	3,695,000	369,432	4,064,432	1.61
2014	6,433,568	3,850,000	243,289	4,093,289	1.57
2015	6,486,071	4,009,999	112,477	4,122,476	1.57
2016	4,090,780	-	-	-	-
2017	4,194,830	-	-	-	-

Stormwater Revenue Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2008	\$ 1,501,389	\$ 535,000	\$ 712,708	\$ 1,247,708	1.20
2009	1,572,183	550,000	697,369	1,247,369	1.26
2010	2,553,971	565,000	679,938	1,244,938	2.05
2011	3,377,779	515,000	660,665	1,175,665	2.87
2012	3,491,879	640,000	379,470	1,019,470	3.43
2013	3,580,445	780,000	366,077	1,146,077	3.12
2014	3,564,300	805,000	333,245	1,138,245	3.13
2015	3,551,386	825,000	321,877	1,146,877	3.10
2016	3,551,400	850,000	299,128	1,149,128	3.09
2017	3,583,005	875,000	275,498	1,150,498	3.11

Beach Preservation Fee Revenue Bonds

Fiscal Year	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2008	\$ 4,634,690	\$ 2,080,000	\$ 780,610	\$ 2,860,610	1.62
2009	4,210,460	2,160,000	679,810	2,839,810	1.48
2010	4,008,272	2,240,000	569,810	2,809,810	1.43
2011	4,768,381	2,320,000	570,073	2,890,073	1.65
2012	4,841,395	2,405,000	445,977	2,850,977	1.70
2013	4,998,132	2,500,000	608,854	3,108,854	1.61
2014	5,597,565	2,595,000	508,968	3,103,968	1.80
2015	6,136,679	4,015,000	363,838	4,378,838	1.40
2016	6,431,700	2,305,000	223,938	2,528,938	2.54
2017	6,860,758	2,395,000	141,913	2,536,913	2.70

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

<b>Calendar Year</b>	<b>Population</b>	<b>Personal Income (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Annual Unemployment Rate</b>
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	6.1%
2013	38,366	1,567,366	40,853	5.2%
2014	39,412	1,854,295	47,049	4.5%
2015	40,039	1,845,438	46,091	4.9%
2016	40,512	1,817,733	44,869	5.0%
2017	40,500	1,921,887	47,454	3.6%

**Sources:** Population provided by U.S. Census Bureau, Quick Facts;  
Per Capital Personal Income provided by U.S. Census Bureau;  
Unemployment Rate provided by U.S. Bureau of Labor Statistics

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

<u>Employer</u>	<u>2017</u> <u>Employees</u>	<u>2008</u> <u>Employees</u>
SERG Group Restaurants	869	n/a
Sea Pines Resort	672	500
Hilton Head Medical Ctr and Clinics	558	585
Beaufort County School District	518	n/a
Marriott Vacation Club Intl	463	565
Salty Dog	388	n/a
Cypress of Hilton Head	352	310
Westin Hotel and Resorts	350	450
Omni Hilton Head Oceanfront Resort	300	n/a
Sonesta Resort HHI	280	n/a

**Source:** Employment head counts were verified via telephone calls to the above companies.

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

<b>Function/Program</b>	<b>Full-time-Equivalent Employees as of June 30,</b>									
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Town Manager	4.0	5.0	5.0	4.0	5.0	4.0	4.0	4.0	4.0	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	19.0	19.0	17.0	17.0	18.0	18.0	17.0	16.6	15.6	17.6
Administration	23.5	22.5	23.5	21.0	22.0	22.0	22.0	22.0	21.0	22.1
Community Services										
Community Development	36.0	36.0	30.0	27.0	27.0	27.0	25.0	25.0	25.0	27.7
Public Projects & Facilities	21.0	21.0	22.0	22.0	22.0	22.0	22.0	21.0	22.0	23.0
Public Safety										
Fire & Rescue	147.3	147.6	146.0	145.0	147.1	145.1	143.0	143.7	143.7	140.9
Police Services <sup>a</sup>	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>261.8</b>	<b>262.1</b>	<b>254.5</b>	<b>247.0</b>	<b>252.1</b>	<b>249.1</b>	<b>244.0</b>	<b>243.3</b>	<b>242.3</b>	<b>246.3</b>

**Source:** Town of Hilton Head Island HR Dept.

**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 2,923 hours per year (including vacation and sick leave).

<sup>a</sup>The police services for the Town are provided by the Beaufort County Sheriff's Department as contracted through Beaufort County.

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Government										
Management Services										
Business license accounts issued	5,638	5,644	5,549	5,718	5,802	5,997	6,434	6,291	5,908	6,507
Business license inspections	150	396	127	1,460	605	2,324	283	529	293	391
Business license audits	-	-	-	117	49	123	124	46	66	28
Hospitality tax accounts	343	356	325	359	373	419	437	440	461	380
Bed tax accounts	732	775	752	863	891	1,232	1,312	1,308	1,399	1,472
Beach passes issued	2,009	2,434	1,885	2,602	2,224	2,688	2,428	2,845	2,850	3,287
Number of court cases docketed	10,687	8,380	9,159	8,016	7,152	6,156	5,111	3,459	3,862	4,886
Number of court cases disposed	10,881	8,607	8,854	8,363	7,221	6,271	5,271	3,525	3,860	5,004
Number of search warrants issued	41	19	22	33	27	28	8	9	6	5
Number of arrest warrants issued	410	460	415	349	216	502	307	363	307	284
Number of bench warrants issued	894	693	777	576	610	363	389	353	312	390
Community Services										
<b>Community Development</b>										
Building inspections conducted	15,297	13,053	11,604	10,773	11,813	12,133	19,024	13,907	15,647	16,957
Building permits issued	104	63	51	68	89	130	212	156	144	206
Miscellaneous permits issued	5,121	4,470	4,913	4,805	4,345	4,619	5,070	5,390	5,015	5,641
<b>Public Projects and Facilities</b>										
# of capital improvement projects to manage	51	64	62	53	45	38	20	20	22	34
# of beach access/parks to maintain	8	8	8	8	8	8	8	8	8	7
Miles of pathways to maintain	53	55	56	57	58	60	62	64	64	64
Maintenance work orders	2,150	2,800	4,187	4,406	4,500	5,212	5,150	5,025	5,100	5,000
Public Safety										
Fire and Rescue service calls	6,246	6,088	5,957	6,034	5,796	6,291	6,518	6,809	7,119	7,576
Actual fires extinguished	153	151	127	80	130	166	81	93	105	146
Inspections	2,649	2,626	2,390	2,902	2,281	1,937	1,855	2,121	3,196	1,960
Telephone requests	75,099	77,352	72,361	61,435	65,522	66,710	55,841	50,789	49,842	52,981
Public training programs	614	791	520	609	518	493	415	514	418	352

**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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Government										
Town-owned parcels	116	183	185	182	175	142	168	223	224	221
Town-owned property acreage	n/a	n/a	n/a	n/a	1,202	1,319	1,321	1,312	1,307	1,307
Town-owned development rights	n/a	7	8	8	8	8	8	8	8	8
Town-owned easements	n/a	73	75	80	80	50	91	52	51	51
Management Services										
Town vehicles	38	39	40	39	38	38	38	36	38	38
Public Safety										
Emergency Apparatus Vehicles	24	24	24	24	24	25	28	28	28	29
Police Vehicles	-	-	-	-	-	-	-	-	-	-
General Vehicles	22	23	30	30	30	25	19	19	19	20
Fire Stations	7	7	7	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	22	22	23	22	22	22	23	23	23	23
Pathways (miles)	53	55	56	57	58	60	62	64	64	64
Beach access/parks	8	8	8	8	8	8	8	8	8	7

**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, 2017**

<b>Customer</b>	<b>Type of Business</b>	<b>Stormwater Fees Billed</b>	<b>Percentage of Total Billed</b>
Town of Hilton Head Island	town government	\$ 81,174	2.27%
Marriott Ownership Resorts	timeshare condominium	49,336	1.38%
Beaufort County Schools	education	40,639	1.13%
Sea Pines Resort LLC	resort and golf	35,223	0.98%
Heritage Golf-Port Royal LLC	golf course & club	26,421	0.74%
Beaufort County	aircraft transportation	21,417	0.60%
Shelter Cove Towne Centre	shopping center	20,457	0.57%
Publix Super Markets Inc	grocery store	17,596	0.49%
Long Cove	golf course & club	15,600	0.44%
Hilton Head Plantation	golf course & club	14,644	0.41%
Topper Golf World LLC-Palmetto Hall	golf course & club	13,915	0.39%
Swope Properties	shopping center	11,884	0.33%
indigo Run	golf course & club	11,694	0.33%
<b>Total</b>		<b>\$ 360,000</b>	<b>10.05%</b>
<b>Total Stormwater Fees Billed</b>		<b>\$ 3,583,005</b>	

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The Stormwater fee is composed of three components:

Administrative fee of \$24 on each account.

Gross Area charge on the total acreage of the parcel. The minimum fee is \$21 for the first two acres with a declining charge for additional acres.

Impervious area charge based on \$105 for every 4,906 of square feet.

The residential accounts' Impervious area charge is based on established tiers and percentages.



## Supplemental Financial Information

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**Schedule 23**  
**Town of Hilton Head Island, SC**  
**Municipal Fines, Assessments and Surcharges**  
**For the Year Ended June 30, 2017**

**Court Fines**

Court fines collected	\$ 245,826
Court fines retained by the Town	<u>245,826</u>
Court fines remitted to the State Treasurer	<u><u>-</u></u>

**Court Assessments**

Court assessments collected	\$ 236,302
Court assessments retained by the Town	<u>26,259</u>
Court assessments remitted to the State Treasurer	<u><u>210,043</u></u>

**Court Surcharges**

Court surcharges collected	\$ 96,703
Court surcharges retained by the Town	<u>12,266</u>
Court surcharges remitted to the State Treasurer	<u><u>84,437</u></u>

**Victims Services**

Court assessments allocated to victim services	\$ 38,525
Victim Services expenditures	<u>63,542</u>
Funds available for carryforward	<u><u>(25,017)</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, 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 activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison schedule of the general fund of the Town of Hilton Head Island, South Carolina (the “Town”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Hilton Head Island, South Carolina’s basic financial statements, and have issued our report thereon dated December 28, 2017.

**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.

*Scott and Company LLC*

Columbia, South Carolina  
December 28, 2017

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