PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 14, 2016

NEW ISSUE - BOOK-ENTRY-ONLY

RATINGS:
Moody's: MIG 1
S&P: SP-1+
Fitch: F1+
See "RATINGS" herein

Assuming the Town's continued compliance with certain covenants, in the opinion of Bond Counsel, interest on the Notes (defined herein) is excludable from gross income for federal income tax purposes under existing statutes, regulations and court decisions. Interest on the Notes is not an item of tax preference for purposes of an individual's alternative minimum tax. Under the present laws of the State of South Carolina, the Notes and the interest thereon will be exempt from all South Carolina income taxation, except estate or other transfer taxes and certain franchise taxes. Such opinion is subject to certain limitations and conditions described in the Section of this Official Statement entitled "TAX EXEMPTION AND OTHER TAX MATTERS."

$25,000,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2016
TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

Dated: Date of Delivery

Due: October 5, 2017

The $25,000,000 General Obligation Bond Anticipation Notes, Series 2016 (the "Notes") will be general obligation notes of the Town of Hilton Head Island, South Carolina (the "Town"), and as such the full faith, credit, taxing power and resources of the Town will be irrevocably pledged for the payment thereof as well as the proceeds of general obligation bonds to be issued by the Town. See "THE NOTES" – Security."

The Notes will be issued initially as a single fully registered note in book-entry only form and when issued will be registered to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), to which principal and interest payments on the Notes will be made. Individual purchases of Notes will be made in book-entry form only, in the principal amounts of $5,000 or any integral multiple thereof. So long as Cede & Co., as nominee of DTC, is the registered owner of the Notes, references herein to the holders of the Notes or registered owners of the Notes shall mean Cede & Co. and shall not mean the beneficial owners of the Notes. So long as Cede & Co. is the registered owner of the Notes, the principal and interest on the Notes are payable to Cede & Co. as nominee for DTC, which in turn will remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursements to the beneficial owners of the Notes. See "THE NOTES – Book-Entry Only System." Regions Bank in Atlanta, Georgia will serve as Registrar/Paying Agent for the Notes.

The Notes will be dated their date of delivery and will bear interest from their date payable along with principal at maturity. Interest will be calculated on the basis of a 30-day month, 360-day year. The Notes will not be subject to redemption prior to their stated maturity.

Maturity	Principal Amount	Interest Rate	Yield	CUSIP No.
October 5, 2017	$25,000,000			

The Notes are offered when, as and if issued and subject to the approving opinion as to legality of McNair Law Firm, P.A., Columbia, South Carolina. Stifel | Merchant Capital Division, Columbia, South Carolina, is serving as financial advisor to the Town with respect to the Notes. It is expected that the Notes in definitive form will be available for delivery on or about October 5, 2016.

This cover page contains certain information for quick reference only. It is **not** a summary of this issue. Investors must read the entire preliminary official statement to obtain information essential to the making of an informed decision. The Town deems this Preliminary Official Statement to be final as of its date for purposes of S.E.C. Rule 15c2-12, except information which may be omitted therefrom pursuant to Rule 15c2-12.

Dated: _____, 2016.

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement does not constitute an offering of any security other than the original offering of the Notes identified on the cover. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Town. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Notes by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, this document as the same may be supplemented or corrected by the Town from time to time, may be treated as an "official statement" with respect to the Notes that is deemed final as of the date hereof (or of any such supplement or correction) by the Town.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Town agrees that, no more than seven business days after the date of execution of a purchase contract with the Underwriter and, in any event, in sufficient time to accompany confirmations requesting payment from customers, it shall provide without cost to the Underwriter copies of this Official Statement in an amount sufficient to permit the Underwriter to comply with Reg. §240.15c2-12(b)(4) promulgated by the Securities and Exchange Commission and with the rules of the Municipal Securities Rulemaking Board.

Upon execution and delivery, the Notes will not be registered under the Securities Act of 1933 as amended or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Notes for sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT OR ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING MAY BE DISCONTINUED AT ANY TIME.

Certain information contained in this Official Statement may have been obtained from sources other than records of the Town and, while believed to be reliable, is not guaranteed as to completeness or accuracy. This Official Statement is not to be construed as a contract or agreement between the Town and the underwriter and the purchasers or owners of any of the Notes. The information and expressions of opinion in this Official Statement are subject to change, and neither the delivery of this Official Statement nor any sale made under such document shall create any implication that there has been no change in the affairs of the Town since the date hereof.

References herein to laws, rules, regulations, ordinances, agreements, reports, and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to this Official Statement, they will be furnished on request.

TOWN OF HILTON HEAD ISLAND,
SOUTH CAROLINA

One Town Center Court
Hilton Head Island, South Carolina 29928-2701

David Bennett, Mayor
William (Bill) D. Harkins, Mayor Pro-Tem
David Ames
Marc A. Grant
Thomas W. Lennox
Kimberly (Kim) W. Likins
John J. McCann

Stephen G. Riley
Town Manager

Susan M. Simmons, CPA
Director of Finance

Gregory M. Alford, Esquire
Town Attorney

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INTRODUCTION

This Official Statement is provided for the purpose of furnishing certain information in connection with the public invitation for bids for the purchase of $25,000,000 General Obligation Bond Anticipation Notes, Series 2016 (the "Notes"). This Official Statement has been prepared under the supervision of Stephen G. Riley, Town Manager and Susan Simmons, Director of Finance. The information furnished herein includes a description of the Notes, the Town and its indebtedness, tax information, economic data, financial information and other matters. Also included are certain information and data pertaining to Beaufort County, South Carolina (the "County") and the State of South Carolina (the "State").

THE NOTES

Description

The Notes will be general obligation notes of the Town; will be issuable initially as a single fully-registered note in denominations of $5,000 or any integral multiple thereof and, when issued, will be registered to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). The Notes will be dated their date of delivery and will bear interest from their date payable along with principal at maturity on October 5, 2017, as set forth on the front cover page hereof.

Book-Entry Only System

Beneficial ownership interests in the Notes will be available only in book-entry form. Beneficial owners of the Notes ("Beneficial Owners") will not receive physical Note certificates representing their interests in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, references in this Official Statement to the Holders of the Notes shall mean DTC or its nominee and shall not mean the Beneficial Owners. Unless and until the book-entry only system has been discontinued, the Notes will be available only in book-entry form in principal amounts of $5,000 or any integral multiple thereof.

THE FOLLOWING DESCRIPTION OF DTC, ITS PROCEDURES AND RECORD KEEPING ON BENEFICIAL OWNERSHIP INTERESTS IN THE NOTES, PAYMENT OF INTEREST AND OTHER PAYMENTS ON THE NOTES TO DTC PARTICIPANTS (AS DEFINED HEREIN) OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE NOTES AND OF OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

Depository Trust Company. DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Notes, in the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC Participants and Indirect Participants. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency"

registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificated notes. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Beneficial Owners. Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that the use of the book-entry only system for the Notes is discontinued.

Transfers and Exchanges. To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co., or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants; by Direct Participants to Indirect Participants; and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Notices; Redemption. Redemption notices shall be sent to DTC. If less than all of the Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Notes to be redeemed.

Consents and Voting. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Registrar, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Payment of principal, redemption premium, if any, and interest will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Registrar and Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar and Paying Agent or the Town subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Paying Agent, and disbursement of such payments to the Direct Participants will be the responsibility of DTC, and disbursements of such payments to Beneficial Owners will be the responsibility of the Direct and Indirect Participants. THE TOWN CAN GIVE NO ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its service as depository for the Notes at any time by giving reasonable notice to the Registrar or the Town. Under such circumstances, in the event that a successor depository is not obtained, Notes are required to be printed and delivered. The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Notes will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE SOLE HOLDER OF THE NOTES, THE TOWN SHALL TREAT CEDE & CO. AS THE ONLY HOLDER OF THE NOTES FOR ALL PURPOSES, INCLUDING RECEIPT OF ALL PRINCIPAL AND PREMIUM OF AND INTEREST ON THE NOTES, RECEIPT OF NOTICES, VOTING AND REQUESTING OR DIRECTING THE TOWN. THE TOWN, THE REGISTRAR AND THE PAYING AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE NOTES, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY

BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE RESOLUTION TO BE GIVEN TO BENEFICIAL OWNERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL REDEMPTION OF THE NOTES; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE NOTES, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

Discontinuance of Book-Entry-Only System. In the event that the Notes are no longer in book-entry-only form, the certificates held by DTC or a successor securities depository will be cancelled and the Town will execute and deliver the Notes in fully registered form to the Beneficial Owners of the Notes as shown on the records of the DTC Participants or the nominee of a successor securities depository. If no other securities depository is named, interest on the Notes shall be payable to the Registered Owners on each interest payment date and principal of the Notes at maturity upon presentation and surrender thereof to the Paying Agent at its corporate trust office. The Notes would be transferable on the registration books of the Town maintained by the Registrar by the registered owner in person or by his duly authorized attorney upon surrender of the Note to be transferred together with a written instrument of transfer duly executed by the registered owner or his duly authorized attorney. The Registrar will, upon receipt thereof, authenticate and deliver a new Note or Notes in like principal amounts as the Note so presented. The Town and the Paying Agent will deem and treat the person in whose name each Note is registered as the absolute owner thereof for all purposes.

Redemption Provisions

The Notes are not subject to redemption prior to their stated maturity.

Purpose

The proceeds of the Notes will be used for (i) funding capital projects and beach renourishment projects; (ii) paying costs of issuance of the Notes; and (iii) such other lawful purposes as the Town Council shall determine.

Security

The full faith, credit, taxing power and resources of the Town are irrevocably pledged for the payment of principal and interest on the Notes as they respectively mature and for the creation of such sinking fund as may be necessary therefor. The proceeds of general obligation bonds to be issued by the City are also pledged for the repayment of the Notes.

In addition, Article X, Section 14, Paragraph 5 of the Constitution of the State of South Carolina, 1895, as amended, provides:

> If at any time any political subdivision shall fail to effect the punctual payment of the principal of or interest on its general obligation debt, then, in such instance, the State Treasurer shall withhold from such political subdivision sufficient moneys from any state appropriation to which such political subdivision may be entitled and apply so much as shall be necessary to the payment of the principal and interest on the indebtedness of the political subdivision then due.

The following table shows the amount of such State appropriations subject to being withheld under the foregoing provisions of Article X received by the Town for the last five years for which information is available, and projected appropriations for the current fiscal year:

Fiscal Year Ended June 30	Amount Received
2012	$1,010,600
2013	1,181,674
2014	1,154,196
2015	1,176,192
2016*	1,162,314
2017**	1,162,000

*Unaudited
**Projected

Authorization

The Notes are being issued pursuant to and in accordance with the Constitution and laws of the State, including Article X, Section 14, of the Constitution of the State of South Carolina, 1895, as amended; Title 5, Chapter 21, Article 5 of the Code of Laws of South Carolina, 1976, as amended (the "Municipal Bond Act"), Title 11, Chapter 17 of the Code of Laws of South Carolina, 1976, as amended; and Ordinance No. 2016-09 duly enacted by the Town Council on June 7, 2016.

Initiative and Referendum

Section 5-17-20, Code of Laws of the State of South Carolina 1976, as amended (the "Code") provides that within 60 days after the enactment of any ordinance authorizing the issuance of bonds, the repayment of which requires a pledge of the full faith and credit of a county, a petition signed by 15% of the qualified electors of the town may be filed requesting that any such ordinance be repealed. If such ordinance is not repealed, the question of repeal of the ordinance must be submitted to the electors within one year.

Defeasance

If all the Notes shall have been paid and discharged, then the obligations of the Town under the Ordinance and all other rights granted thereby, shall cease and determine. Notes shall be deemed to have been paid and discharged under any of the following circumstances:

(i) Such Note or Notes shall have been purchased by the Town and surrendered to the Town for cancellation or otherwise surrendered to the Town or the Paying Agent and is canceled or subject to cancellation by the Town or the Paying Agent; or

(iii) Payment of the principal of and interest on Notes either (1) shall have been made or caused to be made in accordance with the terms thereof; or (2) shall have been provided for by irrevocably depositing with a bank or other financial institution in trust and irrevocably set aside exclusively for such payment, (a) moneys sufficient to make such payment, or (b) Government Obligations (as defined below) maturing as to principal and interest in such amounts and at such times as will ensure the availability of sufficient moneys to make such payment and all necessary and proper fees, compensation and expenses of such bank or other financial institution. At such time as such Notes shall no longer be deemed to be

outstanding under the Ordinance, such Notes shall cease to draw interest from the due date thereof and, except for purposes of any such payment from such moneys or Government Obligations as set forth in (ii) above, shall no longer be secured by or entitled to the benefits of its authorizing ordinance.

"Government Obligations" means any of the following:

(a) direct obligations of the United States of America or agencies thereof or obligations, the payment of principal or interest on which, in the opinion of the Attorney General of the United States, is fully and unconditionally guaranteed by the United States of America;

(b) non-callable, U. S. Treasury Securities - State and Local Government Series ("SLGS"); and

(c) general obligation bonds of the State, its institutions, agencies, counties and political subdivisions which, at the time of purchase, carry a AAA rating from Standard & Poor's or a Aaa rating from Moody's Investors Service; and

(d) a defeasance obligation as defined in Section 6-5-10 of the Code as such as may be amended from time to time.

(iii) Such Note or Notes shall be defeased as provided in Section 11-14-110 of the Code as such may be amended from time to time.

THE TOWN

General Description

The Town of Hilton Head Island (the "Town") is on a barrier island on the Atlantic coast of South Carolina. The Town is in Beaufort County, located 20 miles northeast of Savannah, Georgia and 60 miles southwest of Charleston, South Carolina. Approximately 54 square miles in area, Hilton Head Island is about 12 miles long and five miles wide. A four-lane bridge over the Intracoastal Waterway connects the Island with the mainland. The Town extends over approximately 42 square miles of the island; the Town does not have jurisdiction over Mariner's Cove, Blue Heron Point, or Windmill Harbor.

The Town was incorporated on May 18, 1983, and a council-manager form of government was established with legislative authority resting with a Mayor and six council members. The Town was incorporated under a concept of "Limited Services" government for growth management and to provide services of land planning and inspections. Contractual arrangements have been made with Beaufort County to provide for police services and property tax billing and collections to keep the cost of government low and to avoid duplication of services. In 1993, the Town assumed responsibility for firefighting services increasing the number of employees and operating millage.

Form of Government

Under the council-manager form of government there is a municipal council (the "Council") composed of a mayor and six council members. The Mayor and each of the Council members are elected every four years on the basis of staggered terms.

Daily activities are administered by a council-appointed manager who serves as the chief executive officer of the Town and is responsible to the Council for proper administration of all affairs of the Town. The manager serves an indefinite term and is subject to removal by a majority vote of the Council. As for financial affairs, the manager prepares the budget annually, and also prepares and submits to the Council at the end of each fiscal year a complete annual report on the finances and administrative activities as well as other financial reports from time to time.

The present members of the Council, their occupations and the dates of the beginning and ending of their respective terms of office are as follows:

Name	Occupation	Date of Commencement of Service	Date of Expiration of Term
David Bennett, Mayor	Developer	2014	2018
William (Bill) D. Harkins, Mayor Pro-Tem	Health Care Administration, Retired	2009	2018
David Ames	Planning Executive, Retired	2016[(1)]	2016
Marc A. Grant	Owner, Convenience Store	2012	2016
Thomas W. Lennox	Executive, Retired	2014	2018
Kimberly (Kim) W. Likins	Director, Boys & Girls Club of HHI	2010	2018
John J. McCann	Wall Street Executive, Retired	2012	2016

[(1)] Elected through a special election in May 2016 to fill an unexpired term.

Following are brief resumes of the Town Manager and the Director of Finance:

Stephen G. Riley, Town Manager. Mr. Riley was first employed by Beaufort County in 1985 as a planner for the Beaufort County Planning Board. In 1986 he served as Planning Director and as assistant to the City of Beaufort City Manager. In 1991 Mr. Riley became the Director for Community Development for the Town and he became the Town Manager in 1995. Mr. Riley earned a Masters degree in Urban and Regional Planning at the University of Iowa in 1985. Mr. Riley is involved in many professional associations including the American Institute of Certified Planners, the American Planning Association and the International City/County Management Association.

Susan M. Simmons, CPA, Director of Finance. Ms. Simmons has been the Director of Finance for the Town of Hilton Head Island since June 2007. She retired from the State of South Carolina where her primary positions were as an auditor for nearly 19 years at the State Auditor's Office and chief financial officer at the Adjutant General's Office for over 5 years. Ms. Simmons is a Certified Public Accountant and holds both a Bachelor of Science in Business Administration and a Masters of Accountancy from the University of South Carolina. She is a member of the Government Finance Officers Association of South Carolina and the Government Finance Officers Association of the United States and Canada.

Retirement Plans

International City Management Association (ICMA) Plan

The Town established a defined contribution money purchase pension plan on February 15, 1984 effective for the fiscal year beginning July 1, 1984 for all full-time employees. The plan was a 401(a)

plan through December 31, 1996 and was rolled over to a 401(k) plan on January 1, 1997. The plan is administered and funds are held by the International City/County Management Association – Retirement Corporation ("ICMA"), 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 plan and are fully vested after five years of service. The plan calls for employer contributions to the fund based on 5% automatic and matching 100% of the employee's first 3% contribution and 50% of the next 3% contributed. All plan amendments must be approved by the Town Manger or his designee. For the year ended June 30, 2016, employer contributions were based on a total payroll of $8,502,776. The amount contributed by the employer for the year ending June 30, 2016 was $759,006 or 8.9% of covered payroll. Employee contributions to the plan were $694,316 or 8.2% of covered payroll for year ending June 30, 2016. Employees who participate in the PORS plan made contributions of $38,066 to the 401(k). No match was made for these contributions.

South Carolina Police Officers Retirement System (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.

Both employers and employees are required to contribute to the plans under authority of Title 9 of the Code. Mandatory employee contributions of 8.74% of their total earnings are made through payroll deductions. For the year ended June 30, 2016, $7,878,206 of wages was subject to retirement. The Town pays the employer contribution at the rate of 13.34% of member service salaries except for employees hired before July 1, 1995, who complete three years of service then the employer contribution rate is 16.84%. During the year ended June 30, 2016, a total of $1,050,953 was contributed into the System for the Town's share and $687,485 for the employees' share, which represented 13.34% and 8.74% of covered payroll, respectively. The Town also contributes 0.2% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

Other Post-Employment Benefits

In January 2002, the Town instituted a plan for retiree medical expenses. Annually, the Town contributes one hundred percent of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses. Upon retirement, the value of an employee's remaining sick leave is also contributed to this account. Employees who meet their retirement plan eligibility criteria are eligible for the benefit. The plan carries to survivor or dependent at death, but is used for future contributions credit if an employee leaves for a reason other than retirement. Seven employees were eligible for the benefits for the period ending June 30, 2016.

The Town contributed $104,092 during the year ended June 30, 2016.

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

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

Insurance

In the case of McCall v. Batson the State Supreme Court, in the case of on April 18, 1985, abolished the doctrine of sovereign immunity in the State of South Carolina. In response to this decision the South Carolina General Assembly in its 1986 session enacted the South Carolina Torts Claim Act which reestablished a qualified doctrine of sovereign immunity with respect to local government in South Carolina. Subject to specific immunity set forth in the South Carolina Tort Claims Act, local governments including the Town are liable for damages not to exceed $300,000 per incident/person and $600,000 per occurrence/aggregate. No punitive or exemplary damages are permitted under the Act. Insurance protection to local government is provided from either the Insurance Reserve Fund established by the State Fiscal Accountability Authority, private carriers, self-insurance or pooled self-insurance fund. 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.

DEBT STRUCTURE

Legal Debt Limit

Article X, Section 14 of the Constitution provides that incorporated municipalities shall have the power to incur bonded indebtedness in such manner and upon such terms and conditions as the General Assembly shall prescribe by general law. General obligation debt may be incurred only for a public and corporate purpose in an amount not exceeding 8% of the assessed value of all taxable property of such incorporated municipality. The Municipal Bond Act provides that the municipal council of any municipality may issue general obligation bonds of such municipality for any corporate purpose of the municipality to the amount not exceeding the constitutional debt limit applicable. General obligation debt authorized by a majority vote of the qualified electors of the municipality voting in a referendum may be incurred without limitation as to amount.

The Town's debt limitation as of the date hereof is computed below:

Assessed Value (June 30, 2015)	$907,022,430
	x 8%
Constitutional Debt Limit	$ 72,561,794
Outstanding Debt Subject to Limit	6,600,000
Legal Debt Limit Without a Referendum	$ 65,961,794

Outstanding Indebtedness

Presently, the amount of outstanding general obligation indebtedness of the Town is $51,680,000. The following table shows general obligation indebtedness of the Town as of the end of each of the last five fiscal years:

Year Ended June 30	General Obligation Indebtedness	Year Ended June 30	General Obligation Indebtedness
2012	$58,965,000	2015	$55,945,000
2013	64,505,000	2016	51,680,000
2014	60,080,000		

Description of General Obligation Indebtedness by Issue

The following table gives specific information concerning each of the outstanding bond issues of the Town as of the date hereof.

Date of Issue	Amount Issued	Interest Rates	Maturity Dates	Amount Outstanding
03/04/08[(1)]	$12,215,000	5.00%	12/01/16-17	$ 1,590,000
09/09/09	5,005,000	2.75-3.50%	12/01/16-24	3,800,000
08/03/11[(1)]	12,385,000	2.25-4.00%	03/01/17-29	10,050,000
06/18/13[(2)]	9,000,000	2.00-5.00%	03/01/17-35	7,800,000
09/14/16[(1)]	13,080,000	1.50-4.00%	12/01/16-24	13,080,000
09/14/16[(1)]	5,770,000	2.00-4.00%	12/01/16-23	5,770,000
09/14/16[(1)]	9,035,000	2.00-4.00%	03/01/17-35	9,035,000
Total				$51,125,000

[(1)] Debt authorized by referendum or debt refunding debt authorized by referendum.
[(2)] $5,000,000 authorized by referendum;$2,800,000 counts against the 8% constitutional debt limit

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Composite Debt Service

The following table sets forth the debt service requirements for the outstanding general obligation bonds and the Notes.

Fiscal Year Ending June 30	Outstanding Bonds	Debt Service on the Notes	Total Debt Service
2017	$ 6,229,562		
2018	5,640,026		
2019	5,609,376		
2020	5,610,958		
2021	5,663,735		
2022	4,646,788		
2023	4,784,416		
2024	4,790,194		
2025	3,705,831		
2026	2,147,525		
2027	2,127,050		
2028	2,118,475		
2029	2,129,050		
2030	1,156,088		
2031	1,154,738		
2032	1,160,238		
2033	1,158,988		
2034	1,166,063		
2035	1,166,800		
Totals	$62,165,898		

Note: Totals may not add due to rounding.

Long-term Planning; Future Capital Needs

The Town's twenty-year Comprehensive Plan addresses issues of population, cultural resources, natural resources, housing, community facilities, economic development, land use, transportation, priority investment, and analysis of impediments to affordable housing. The Comprehensive Plan includes an inventory of existing conditions, a statement of needs and goals, and implementation strategies with time frames. The Comprehensive Plan was adopted in 1999 and last updated in May 2010.

Commitment to preserve the Town's natural resources includes the premier attraction of the beaches. The Town collects a Beach Preservation Fee of two percent (2%) of the local accommodations tax to fund beach renourishment every six to seven years. In fiscal year 2007, the Town completed an $18 million beach renourishment project. The Town completed an emergency Port Royal Fill Project in 2012 with an approximate cost of $12 million which was partially financed with revenue bonds. In addition, the Town is currently undergoing a beach renourishment project, a portion of which is being funded with a portion of the proceeds of the Notes.

The Mayor and Town Council review the ten-year Capital Improvement Program annually. Major projects/expenditures that are scheduled during FY 2016-2017 are as follows:

Capital Improvement Projects	Amount
Park Upgrades	$ 300,000
Recreation Center Expansion	5,000,000
Fire Station #2 Replacement	2,750,000
Town Hall Remodeling	100,000
Roadway Improvements	8,172,000
Pathway Improvements	100,000
USCB Hospitality Management Program	18,900,000
Coligny/Pope Avenue Improvements	11,350,000
Sewer Improvements	1,265,000
Beach Improvements	750,000

Overlapping Debt

The following table sets forth the total amount of general obligation indebtedness for each political subdivision overlapping the Town, either wholly or in part, as of June 30, 2015, and that portion of outstanding general obligation indebtedness of each such political subdivision actually situated within the Town:

Jurisdiction	General Obligation Bonded Debt Outstanding	Percentage Applicable to the Town[1]	Amount Applicable to the Town
School District of Beaufort County	$325,600,621	49%	$159,544,304
Beaufort County	210,665,556	49	103,226,122
Hilton Head No. 1 Public Service District	14,543,568	96	13,961,825
Broad Creek Public Service District	4,875,000	100	4,875,000

[1] Percentage calculated based on Town's total assessed value.
Source: Finance Departments of each Political Subdivision.

Legal Debt Limit of Counties and Special Purpose Districts

Under the provisions of Article X, Section 14 of the Constitution, each county and special purpose district may, in such manner and upon such terms and conditions as the General Assembly shall prescribe by general law (a) incur general obligation debt authorized by a majority vote of the qualified electors thereof voting in a referendum, without limitation as to amount and (b) incur, without an election, general obligation debt (in addition to bonded indebtedness existing on November 30, 1977), and bonded indebtedness authorized by a majority vote of qualified electors) in an amount not exceeding 8% of the assessed value of all taxable property therein.

In addition, Article X, Section 14 and Section 12 of the Constitution provides that bonded indebtedness may be incurred by counties on such terms and provisions as the General Assembly may, by general law, prescribe for sewage disposal or treatment, fire protection, street lighting, garbage collection and disposal, water service, or any other service or facility benefiting only a particular geographical section of the county, without an election and without limitation as to amount, provided a special assessment, tax, or service charge, in an amount designed to provide debt service on bonded indebtedness incurred for such purposes, shall be imposed upon the area or persons receiving the benefit therefrom; and general obligation debt so incurred shall not be considered in computing the bonded indebtedness under the 8% debt limitation.

Legal Debt Limit of School Districts

Article X, Section 15 of the Constitution empowers each school district of the State to incur general obligation debt in such manner and upon such terms and conditions as the General Assembly shall prescribe by law. After November 30, 1982, each school district may incur general obligation debt, upon such terms and conditions as the General Assembly may prescribe, in an amount not exceeding 8% of the assessed value of all taxable property of such school district. Bonded indebtedness existing on November 30, 1982, and bonded indebtedness authorized by a majority vote of the qualified electors of the school district voting in a referendum will not be considered in the computation of the 8% limitation.

Miscellaneous Debt Information

The Town has not defaulted in the payment of principal or interest, or in any other material respect, with respect to any of its securities at any time since incorporation, nor has the Town within such time issued any refunding bonds for the purpose of preventing a default in the payment of principal or interest on any of its securities then outstanding. The Town has not used the proceeds of any bonds or other securities for current operating expenses at any time within the last ten years.

Financial Statements

The financial statements of the Town for the fiscal years ending June 30, 2011, 2012 and 2013 were audited by Elliott Davis, LLC, Certified Public Accountants, Columbia, South Carolina. The financial statements of the Town for fiscal years ended June 30, 2014 and 2015 were audited by Scott and Company LLC, Certificate Public Accountants, Columbia, South Carolina. A portion of the audited general purpose financial statements of the Town for the year ended June 30, 2015 is included in Appendix A to this Official Statement. Copies of the complete audited financial statements of the Town for the year ended June 30, 2015, and for prior years are available for inspection at the Town offices.

FINANCIAL AND TAX INFORMATION

Five Year Summary of General Fund Operations

The following table sets forth a summary of the Town's General Fund operations for the fiscal years ended June 30, 2011, 2012, 2013, 2014 and 2015. The summary should be reviewed together with the Town's complete audited financial statements for the fiscal years ended June 30, 2011, 2012, 2013, 2014 and 2015 including, but not limited to, the reports of the Town's independent certified public accountants and the Notes to such financial statements.

	Fiscal Year ended				
	2011	2012	2013	2014	2015
Revenues					
Real and Personal Property Taxes	$10,956,179	$11,585,070	$11,500,914	$11,447,533	$11,894,284
Accommodations Tax	2,416,264	2,420,698	2,499,067	2,789,783	3,068,339
Business Licenses and Franchises	7,634,211	8,184,379	8,709,707	8,772,828	9,210,538
Permits	954,419	952,539	1,368,166	1,377,939	1,380,846
State Shared Funds	752,988	678,370	800,659	805,027	812,085
Donations	225	450	155	273	--
Grants	140,055	124,843	243,083	175,391	143,718
EMS Revenue	1,352,088	1,340,787	1,198,868	1,059,918	1,403,782
Public Safety Revenue	203,000	54,441	53,758	55,103	55,721
Fines and Fees	361,152	308,708	262,022	224,447	198,948
Miscellaneous Revenue	415,550	409,967	506,311	534,944	500,157
Investment Income	41,785	1,865	2,732	2,662	2,347
Total Revenues	$25,227,916	$26,062,117	$27,145,442	$27,254,848	$28,670,765
Expenditures					
Current:					
General Government	$ 1,119,831	$ 882,111	$ 968,506	$ 1,060,140	$ 1,046,890
Management Services	4,528,244	4,303,518	4,512,873	4,818,850	4,986,727
Community Services	5,740,198	5,771,788	5,996,416	6,392,687	7,238,602
Public Safety	16,174,377	16,415,919	16,448,769	16,754,759	17,136,442
Non-Departmental	4,072,932	3,154,901	2,947,442	3,497,973	3,879,828
Debt Service	---	---	---	---	---
Capital outlay	151,704	174,958	454,466	669,225	1,196,988
Total Expenditures	$31,787,286	$30,703,195	$31,328,472	$33,193,634	$35,485,477
Excess of Revenues Over (Under) Expenditures	(6,559,370)	(4,641,078)	(4,183,030)	(5,938,786)	(6,814,712)
Other Financing Sources (Uses):					
Operating Transfers In	5,681,670	5,568,350	5,673,200	6,670,458	8,128,638
Total Other Financing Sources (Uses)	5,681,670	5,568,350	5,673,200	6,670,458	8,128,638
Net Change in Fund Balance	(877,700)	927,272	1,490,170	731,672	1,313,926
Beginning Fund Balance, July 1	$15,763,985	$14,886,285	$15,813,557	$17,303,727	$18,035,399
Ending Fund Balance June 30	$14,886,285	$15,813,557	$17,303,727	$18,035,399	$19,349,325

Source: Town's Comprehensive Annual Financial Reports
See notes to financial statements.

THE TOWN OF HILTON HEAD ISLAND

Balance Sheet
General Fund

	2011	2012	2013	2014	2015
Cash and Cash Equivalents	$16,136,859	$11,566,326	$15,035,375	$15,996,982	$13,664,480
Investments	---	---	---	---	---
Accounts Receivable	1,425,304	1,827,907	3,021,240	2,641,151	2,896,676
Due from Employees	52,633	33,739	20,906	19,191	28,807
Interfund Receivables	1,955,238	9,155,896	1,314,634	1,639,874	5,481,936
Due from Other Governments	1,068,798	648,048	707,012	475,225	598,203
Total Assets	$20,638,832	$23,231,916	$20,099,167	$20,772,423	$22,670,102
LIABILITIES					
Accounts Payable	$1,066,023	$1,166,910	$1,346,034	$1,320,668	$1,653,642
Accrued Payroll and Payroll Taxes	1,088,522	857,217	1,021,577	899,063	1,064,936
Due to Other Governments	43,839	34,469	43,882	36,050	19,796
Interfund Payables	3,320,615	5,123,965	238,772	362,355	386,178
Unearned Revenue	9,524	9,523	9,524	9,524	97,248
Payable from Restricted Assets:					
Irrigation and Pool Bonds Payable	86,700	86,500	61,500	35,200	33,000
Court Bonds Payable	31,222	33,673	256	256	256
Performance Bonds Payable	106,102	106,102	73,895	73,908	65,721
Total Liabilities	$5,752,547	$7,418,359	$2,795,440	$2,737,024	$3,320,777

Source: Town's Comprehensive Annual Financial Reports
See notes to financial statements.

Budget Procedure and Accounting Policies

The Town's accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuses and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with statements in conformity with generally accepted accounting principles. In developing and evaluating the Town's accounting system, consideration is given to the adequacy of internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements. This reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management. Town management is responsible for establishing and maintaining the internal control structure.

The Town Manager submits a proposed budget for the General Fund, Capital Projects Funds and Debt Service Fund to the Town Council 60 days prior to the beginning of the fiscal year. The Budget is legally adopted and enacted by an ordinance of the Town Council. All budgetary transfers are authorized by the Town Manager; however, the Town Council must approve any amendment to the budget which causes a change in the total expenditures of any fund. Budgets are adopted on a basis consistent with

generally accepted accounting principles (GAAP). Expenditures may not legally exceed appropriations at the fund level.

Budgetary controls are maintained by having purchase orders prior to expenditures. Purchase orders under $5,000 are approved by the appropriate division heads, those up to $25,000 are approved by the appropriate department heads, and those over $50,000 are approved by Assistant Town Managers and those over $50,000 are approved by the Town Manager. A detailed budget and actual expenditures comparison is provided each month to the appropriate division heads, department heads and the Town Manager. A financial statement is presented quarterly to the Town Council.

Accommodations Tax Fund grant recommendations are submitted by the Accommodations Tax Advisory Committee to the Town Council based on collections from the prior calendar year. Town Council awards grants in January of each fiscal year.

Town Budget

The Town's General Fund Budgets for fiscal years ending June 30, 2016 and 2017 are shown below.

Revenues	Fiscal Year Ending June 30, 2016	Fiscal Year Ending June 30, 2017
Property Taxes	$12,948,587	$12,950,052
Business Licenses and Franchise Fees	9,081,590	9,371,000
Permit Fees	1,395,817	1,620,233
Funds from Prior Years (Fund Balance)	1,471,227	2,013,643
Local Accommodations Tax	2,917,990	3,119,000
All Other Revenues	4,851,512	4,689,151
Transfers In:		
State Accommodations Tax	1,264,324	1,347,181
Hospitality Tax	3,745,069	3,392,245
Beach Preservation Fee	1,111,138	1,111,138
Total	$38,787,254	$39,613,643
Expenditures		
Personnel	$22,415,295	$23,070,589
Operating	9,157,529	9,580,554
Sheriff/Other Public Safety	3,475,016	3,717,896
Capital	934,980	1,318,222
Grants	2,804,434	1,926,382
Total	$38,787,254	$39,613,643

Source: Town Fiscal Year 2016 and 2017 General Operating Budgets

Property Taxation and Assessment

Article X, Section 1 of the State Constitution requires equal and uniform assessments of property throughout the State for the following classes of property and at the following ratios of fair market value of such property:

(1) Real and personal property owned by or leased to manufacturers, utilities and mining operations and used in the conduct of such business - 10.5% of fair market value. Certain real property owned by or leased to manufacturers for use in "research and development," office buildings and warehousing and wholesale distribution of wearing apparel is excluded from this classification, and would be subject to the six percent assessment ratio for other real property. Certain new industrial facilities may be entitled to pay a "fee-in-lieu-of-taxes" computed on an assessment ratio of not less than 6% (4% for investments exceeding $400 million) of original cost less depreciation;

(2) Real and personal property owned by or leased to companies primarily engaged in transportation for hire of persons or property and used in the conduct of such business - 9.5% of fair market value;

(3) Legal residence and not more than five contiguous acres - 4% of fair market value (if the property owner makes proper application and qualifies);

(4) Agricultural real property used for such purposes owned by individuals and certain corporations - 4% of use value (if the property owner makes proper application and qualifies);

(5) Agricultural property and timberlands belonging to corporations having more than 10 shareholders - 6% of use value (if property owner makes proper application and qualifies);

(6) All other real property - 6% of fair market value;

(7) Business inventories - 6% of fair market value (as of 1988, an exemption is available from taxation of property in this category, hence this item is no longer significant, except that the assessed value of business inventory as of tax year 1987 is taken into account in determining total assessed value for purposes of the bonded debt limit);

(8) (A) Except as set forth in (B) below, all other personal property - 10.5% of fair market value; and

(B) Personal motor vehicles - 6%.

The South Carolina Department of Revenue ("DOR") has been charged with the responsibility of taking steps necessary to ensure equalization of assessments statewide in order that all property is assessed uniformly and equitably throughout the State, and may require reassessment of any part or all of the property within a county. Under law enacted by the South Carolina General Assembly in 1995, every fourth year the County and the State are required by law to effect an appraisal of all property within the County and to implement that appraisal as a new assessment in the following year. The County completed a reassessment in Fiscal Year 2013 which was implemented in Fiscal Year 2014. The next reassessment is scheduled for Fiscal Year 2018 to be implemented in Fiscal Year 2019. Regulations adopted by the DOR prior to the 1995 law and which are still in place also require that a reappraisal

program must be instituted by a county if the median appraisal for all property in such county (as a whole or for any class of property) is higher than 105% or lower than 80% of fair market value.

The Comptroller General of the State may extend the time for assessment and collection of taxes by county officials. Unpaid property taxes, both real and personal, constitute a first lien against the property taxed.

Act No. 388 adopted by the South Carolina General Assembly on June 1, 2006 ("Act 388"), provides that, beginning July 1, 2007, the growth in valuation of real property attributable to reassessment may not exceed 15% for each five-year reassessment cycle. Growth in valuation resulting from improvements to real property is exempt from this restriction. Moreover, upon the sale of any parcel of real property or other "assessable transfer of interest," including long-term leases, conveyances out of trusts, and other defined events, but excluding transfers between spouses, such parcel will be reassessed to its then-current market value. The foregoing limitation on increases in assessed value may materially affect the growth in the Town's assessed value, and, thus, debt limit, over time.

The County Assessor appraises and assesses all the real property and mobile homes located within such county and certifies the results to the County Auditor. The County Auditor appraises and assesses all motor vehicles, marine equipment, business personal property and airplanes. The DOR furnishes guides for use by the counties in the assessment of automobiles, automotive equipment, and certain other classes of property and directly assesses the real and personal property of public utilities, manufacturers and also of business equipment.

Each year the DOR certifies its assessments to the County Auditors each of whom prepares assessment summaries from the respective certifications, determines the appropriate millage levies, prepares tax bills and then in September charges the County Treasurer with the collection. South Carolina has no statewide property tax.

State Tax Reform

As described above, Act 388 was adopted in June 2006, and provides, among other things, a new mechanism for the funding of a portion of school operations and a limitation on annual growth in millage levied by political subdivisions and school districts for operations.

Sales Tax Imposition; Exemption of Owner-Occupied Property from School Operating Taxes.

Pursuant to Act 388, an additional one percent sales tax is required to be imposed State-wide beginning on June 1, 2007. The additional tax does not apply to certain items, including certain accommodations (e.g., hotels, motels, campgrounds and the like), items taxed at a defined minimum tax (e.g., automobiles, taxed at a maximum of $300, regardless of sales price), and unprepared food (3% as of October 1, 2006). Receipts from the new one percent sales tax must be credited to the "Homestead Exemption Fund" created pursuant to Act 388.

Effective beginning with tax year 2007, all owner-occupied real property in the State is exempt from ad valorem real property taxes levied for school district operations (the "New Homestead Exemption"). Proceeds of the sales tax deposited in the Homestead Exemption Fund will be distributed to all school districts of the State in substitution for the ad valorem real property taxes not collected as a consequence of the New Homestead Exemption, provided, however, that in no event shall the amount of sales taxes distributed to the school district or districts within one county be less than $2,500,000 in the aggregate.

As described above, the New Homestead Exemption is for owner-occupied real property. Commercial property and other non-owner-occupied residences will continue to be subject to ad valorem real property taxes, including for school district operations. See "*—Local Option Sales Tax for Additional Tax Relief*."

Act 388 provides that reimbursement in Fiscal Year 2007-08 for amounts not collected by reason of the New Homestead Exemption shall be equal to the amount estimated to be otherwise collected in Fiscal Year 2007-08 by the school district from school operating millage imposed on owner-occupied residential property therein. Beginning in Fiscal Year 2008-09 and continuing each year thereafter, the aggregate reimbursement to the school districts of the State will increase by an amount equal to the percentage increase in the previous year of the Consumer Price Index, Southeast Region, as published by the United States Department of Labor, Bureau of Labor Statistics plus the percentage increase in the previous year in the population of the State as determined by the Revenue and Fiscal Affairs Office. The aggregate amount of the reimbursement increase in any year will be distributed among the school districts of the State proportionately based on each school district's weighted pupil units as a percentage of statewide weighted pupil units as determined annually pursuant to the State's "Education Finance Act."

Any amounts remaining in the Homestead Exemption Fund after the distribution of moneys as described in the preceding paragraphs must be distributed to the 46 counties of the State, proportionately based upon population, and applied as a credit against ad valorem real property taxes levied against, first, owner-occupied real property, and, thereafter, to all other classes of taxable property, for county operating purposes.

To the extent revenues in the Homestead Exemption Fund are insufficient to pay all reimbursements to the school districts of the State as described above, the difference must be paid from the State's general fund. Enforcement of the requirement described in the preceding sentence is not self-executing, and will in each applicable year be subject to the appropriation of the necessary amounts by the General Assembly.

Limitation on Millage Increases

Act 388 also imposes a limitation on increases in millage levied for operational purposes by all political subdivisions and school districts. As of July 1, 2007, annual millage levies may increase only at a rate equal to the sum of (a) the increase in the consumer price index, plus (b) the rate of population growth of the political subdivision or school district, as the case may be. An amendment to Act 388 (R 91) enacted in 2011 provides that there may be added to the operating millage increase any such increase, allowed but not previously imposed, for the three property tax years preceding the year to which the current limit applies. This limitation does not apply to millage that is levied to pay bonded indebtedness. This limitation may be overridden by a vote of two-thirds of the governing body of the political subdivision or school district, as applicable, but only for the following purposes:

(1) a deficiency of the preceding year;

(2) any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;

(3) compliance with a court order or decree;

(4) taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year;

(5) compliance with a regulation promulgated or statute enacted by the federal or state government after the ratification date of Act 388 for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government;

(6) certain purchases of undeveloped real property or of the residential redevelopment rights in undeveloped real property near an operating United States Military base; or

(7) to purchase capital equipment and make expenditures related to the installation, operation, and purchase of the capital equipment, in a county having a population of less than one hundred thousand persons and having at least 40,000 acres of state forest land.

Local Option Sales Tax for Additional Tax Relief

Act 388 further authorizes the imposition within a county, subject to approval by referendum, of a local sales tax to provide additional property tax relief. The local sales tax authorized by Act 388 may only be imposed to the extent necessary to provide a 100% credit to all classes of taxable property against (a) county operating taxes, (b) school operating taxes, or (c) both, as set forth on the referendum ballot. In no event, however, may the rate of such local sales tax exceed one percent. Act 388 also provides a procedure for rescinding this local sales tax, as well as any other local sales taxes in force as of June 1, 2006. No assurance can be given that the County will not conduct such a referendum, or that such a local option sales tax will not be implemented within the County.

Act 388 further provides that if a county has enacted a tax increment financing redevelopment plan, or other financing plan that relies upon property tax for its funding to retire indebtedness or pay for project costs, the rate of the local option sales tax must be set in an amount that considers the full funding for the project or retirement of indebtedness, which includes compliance with any covenants in the governing documents authorizing the indebtedness. The revenues of such tax attributable to the funding replacement for a tax increment redevelopment financing plan or other plan that relies upon property tax for its funding must be distributed by the county treasurer pursuant to Title 4, Chapter 10 of the Code of Laws of South Carolina 1976, as amended.

Reassessment Valuations Limited

Act 388 also provides that the growth in valuation of real property attributable to reassessment may not exceed 15% for each five-year reassessment cycle. Growth in valuation resulting from improvements to real property is exempt from this restriction. Moreover, upon the sale (or other "assessable transfer of interest" including long-term leases, conveyances out of trusts, and other defined events, but excluding transfers between spouses) of any parcel of real property ("ATI Transfer"), such parcel will generally be reassessed to its then-current market value at the time of the ATI Transfer ("Market Value"). Act No. 57 adopted by the South Carolina General Assembly on June 8, 2011 ("Act 57") provides that real property subject to property tax at an assessment ratio of 6% which undergoes an ATI Transfer after 2010 will be valued for property tax purposes using an "exemption value" instead of the real property's Market Value if the property is subject to a 6% assessment ratio when held by the purchaser, unless the Market Value is lower than the value of the property reflected on the books of the property tax assessor at the time of the ATI Transfer (in which case the Market Value will be the value for property tax purposes). The "exemption value" is calculated by reducing the market value of property at

the time of an ATI Transfer by twenty-five percent of the "ATI fair market value" of the property. "ATI fair market value" is the real property's fair market value as determined at the time the property last underwent an ATI Transfer. If the twenty-five percent reduction in market value results in a value which is lower than the value of the property reflected on the books of the property tax assessor at the time of the ATI Transfer, then the value of the property reflected on the books of the property will be the "exemption value."

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Assessed Value of Taxable Property

The assessed value of all taxable real and personal property in the Town for each of the last ten years for which data is available is shown in the table below.

Town of Hilton Head Island, South Carolina
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

		Real & Personal		Motor Vehicles		Total Values		Taxable Assessed Value as a Percentage of Estimated Actual Taxable Value
Fiscal Year	Tax Year	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2006	2005	$779,621,893	$14,112,440,708	$35,956,376	$479,418,347	$815,578,269	$14,591,859,055	5.59%
2007	2006	805,913,661	15,508,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	5.26
2008	2007	806,862,365	16,944,198,458	33,601,425	621,120,250	840,463,790	17,565,318,708	4.78
2009	2008	802,241,286	16,847,155,290	30,491,101	563,626,104	832,732,387	17,410,781,394	4.78
2010	2009	919,940,422	21,597,802,014	29,614,709	426,787,952	949,555,131	22,024,589,966	4.31
2011	2010	888,578,642	20,861,509,207	29,614,709	412,914,600	918,193,351	21,274,423,507	4.32
2012	2011	900,498,390	21,431,112,174	26,653,238	432,725,467	927,151,628	21,863,837,641	4.24
2013	2012	808,486,334	16,988,790,235	31,839,682	495,902,719	840,326,016	17,484,692,954	4.81
2014	2013	786,139,446	16,519,224,042	30,959,620	482,196,000	817,099,066	17,001,420,042	4.81
2015	2014	870,403,050	16,565,140,739	36,619,380	553,832,220	907,022,430	17,118,972,959	5.30

Source: Town's Comprehensive Annual Financial Report for fiscal year ended June 30, 2015.

Budget and Tax Collection Procedure

Each year the Town Council establishes the millage rate for the Town in the Budget Ordinance. The taxes are collected for the Town by the County.

In the County, taxes are collected for county, municipal and school purposes as a single tax bill which must be paid in full by the individual taxpayer. Taxes are collected on a calendar year basis. Real and personal taxes in the County are payable on or before January 15 of each year (except taxes on motor vehicles which are due and payable during the month the motor vehicle license tax expires). If taxes are not paid on or before January 15, a penalty of 3% is added; if not paid on or before February 1, an additional penalty of 7% thereon is added; and if not paid on or before March 16, an additional penalty of 5% is added and the County Treasurer issues an execution for such taxes. The Delinquent Tax Collector is responsible for the collection of delinquent taxes and is empowered to sell so much of the defaulting taxpayer's estate - real, personal or both - as may be sufficient to satisfy the taxes.

Tax Collections for Last Ten Years

The following table sets forth the taxes levied for the Town collected as of June 30 of the year following the year in which the levy was made and the amount of delinquent taxes collected for the last ten years. Delinquent taxes include taxes levied in prior years but collected in the year shown.

Fiscal Year Ending June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	$19,543,737	$18,774,952	96.07%	$266,679	$19,041,631	97.43%
2007	19,790,118	19,014,954	96.08	275,822	19,290,776	97.48
2008	20,341,876	19,461,546	95.67	398,145	19,859,691	97.63
2009	22,753,654	21,085,178	92.67	908,468	21,993,646	96.66
2010	23,771,093	22,773,856	95.80	680,599	23,454,455	98.67
2011	24,569,917	22,860,455	93.04	744,967	23,605,422	96.07
2012	24,492,571	23,252,166	94.94	722,453	23,974,619	97.89
2013	24,492,438	23,619,196	96.43	622,946	24,242,142	98.98
2014	24,323,606	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

Source: Town's Comprehensive Annual Financial Report for fiscal year ending June 30, 2015.
NOTE: All Town property taxes are billed, collected, and revenue forwarded to the Town by the County.

Ten Largest Taxpayers

The ten largest taxpayers in the Town, the assessed value of the taxable property of each located within the Town, and the taxes billed to each for tax year 2015 are shown below.

Taxpayer	Assessed Valuation	Taxes Collected
Marriott Ownership Resorts Inc.	$19,149,190	$4,223,965.13
Palmetto Electric COOP Inc.	5,755,010	1,186,177.87
Columbia Properties Hilton Head LLC	4,764,090	1,089,722.21
Sea Pines Resort LLC	6,050,530	1,077,962.81
SCG Hilton Head Property LLC	4,260,000	963,393.81
Hargray Telephone Company Inc.	3,057,520	670,347.59
Shelter Cove Towne Centre LLC	2,164,420	516,942.96
Palmetto Dunes	2,061,990	503,547.22
Disney Vacation	1,985,380	451,609.50
William M. Foiles, Esquire	1,838,070	412,276.93

Source: County Treasurer

Millage Assessment

The property tax millage assessed for Town purposes as well as for overlapping jurisdictions during each of the last ten years is shown in the table below.

Fiscal Year Ending June 30	Tax Year	County Public Schools	County Operations	Public Service Districts[1] (Sewer & Water)	Special Purpose & Fire Districts	Town Operations	Total Millage
2006	2005	96.50	49.60	7.00	0.00	19.00	172.10
2007	2006	108.70	49.10	6.75	0.00	19.00	183.55
2008	2007	122.80	51.90	7.20	0.00	19.00	200.90
2009	2008	130.60	51.90	7.85	0.00	19.36	209.71
2010	2009	114.69	45.96	7.67	0.00	18.54	186.86
2011	2010	116.59	47.54	8.16	0.00	18.54	190.83
2012	2011	118.26	47.54	8.31	0.00	19.33	193.44
2013	2012	129.16	56.30	8.45	0.00	19.33	213.24
2014	2013	129.16	56.30	8.45	0.00	20.83	214.74
2015	2014	135.21	56.86	8.81	0.00	21.35	222.23

Source: Town's Comprehensive Annual Financial Report for fiscal year ended June 30, 2015.

(1) Water and sewerage services are provided to the Town by Hilton Head Number 1 Public Service District, South Island Public Service District and Broad Creek Public Service District, on a fee-for-usage basis. Figures reported herein are an average of the millage charges from the providers.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Local Economy

Tourism is the most important industry on Hilton Head Island (the "Island"), with approximately 2.65 million visitors annually, according to Town officials' estimates. The Island hosts major sports events such as the Heritage Golf Classic. The Island has established world-class accommodations, and the tourism industry continues to grow with an annual visitor expenditure of $1.7 billion. The Island has an international reputation as an island resort community and the climate is usually very mild in winter. The Island developed quite rapidly for several years until the recent national recession; land development, real estate sales, home building, and professional services provide a substantial number of jobs for Island residents. There are more than 30 large shopping centers on the Island and an enclosed shopping mall.

One indicator of the economic outlook in the tourism industry on the Island has been the accommodations tax. There is a two percent (2%) State sales tax and a (1%) local tax on lodging. From 2003 to 2012, gross revenue collection increased 25.0% and increased compared to the previous year in all except two years – 2009 and 2010. Although tourism-related revenues have decreased due to the economic situation, the Town has experienced less of a decrease than some other tourism communities in South Carolina and throughout the United States. Through May 2016, the local accommodations taxes are up 7% over the same period in the prior year.

Facilities Located Within and Serving the Town

Transportation. Public transportation services and resources in the Town include local fixed-route transit, commuter bus service, taxi/limousine operators, tour bus operators and human service agency transportation programs. The Town has no rail facilities. U.S. Highway 278 is the principal thoroughfare traversing the Town from north to south. U.S. 278 connects with I-95, a major north-south artery from Maine to Florida, about 26 miles from the Island. I-95 has helped the Island's tourist industry significantly.

Hospital Facilities. The Town is served by one major hospital, Hilton Head Hospital, which has 93 acute care beds.

Public Education. The Town is served by the Beaufort County School District (the "School District"). According to the School District's financial statements for the year ending June 30, 2015, the School District received $68,519,587 in State funds and $118,998,126 in funds from local sources, including property taxes. The School District currently operates 21 elementary schools, two Pre-K-8 schools, one K-8 school, six middle schools, six high schools, one alternative school and one adult education center. There are also two major private schools located in the Town, each offering grades K-12: Hilton Head Preparatory School and Hilton Head Christian Academy.

Higher Education. University of South Carolina – Beaufort ("USCB"), the Lowcountry's regional senior campus of the University of South Carolina, is located in the County. USCB itself has two campuses in the County: one in the City of Beaufort, and the other in the Town of Bluffton, near the Town. USCB offers baccalaureate degrees and provides local access to graduate courses and programs through the USC Extended Graduate Campus. USCB had a Fall 2014 headcount enrollment of 1,794 students.

Technical College of the Lowcountry, a public two-year institution, has two campuses in the County: one in the City of Beaufort, the other in the Town of Bluffton. It also has field education offices at the Marine Corps Air Station and Parris Island Marine Recruit Depot. Technical College of the Lowcountry offers more than 70 degree, diploma, or certificate programs, and is fully accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (SACS). It had a Fall 2014 headcount enrollment of 2,529 students.

Webster University, a private graduate institution, has three campuses in the County: at the Beaufort Naval Hospital, Marine Corps Air Station, and Parris Island Marine Recruit Depot. Each location offers Masters in Business Administration degrees as well as master's degrees in other subject areas.

Financial Institutions. According to the Federal Deposit Insurance Corporation, as of June 30, 2015, there were 61 branches of commercial banks and 8 branches of savings institutions in the County, with total deposits at all financial institutions in the County of nearly $3.8 billion. The continuing reorganization of the banking system in the United States, with its attendant mergers and consolidations, is likely to affect the total number of branch offices in the County.

Population Growth

The following table shows population information and estimates for the Town, Beaufort County and the State of South Carolina for the years 1980 through 2015.

	Town of Hilton Head		Beaufort County		South Carolina	
Year	Population	% change	Population	% change	Population	% change
1980	11,344	-	65,364	-	3,121,820	-
1990	23,694	109%	86,425	32%	3,486,703	12%
2000	33,862	43	120,937	40	4,012,012	15
2010	37,099	10	162,233	34	4,625,364	15
2015*	40,512	9	179,589	11	4,896,146	6

* Estimates.
Source: U.S. Bureau of the Census.

Median Age and Education Levels

The following table illustrates the changes in the median age of the Town and the percentage of the population 25 years old and older with a bachelor's degree or higher, from Census 2000 to Census 2010. Median age and education statistics for the County and the State are included for comparison purposes.

	Median Age (in years)			Percentage over 25 with bachelor's degree		
	Town	County	South Carolina	Town	County	South Carolina
2000	46.0	35.8	35.4	45.9%	33.2%	20.4%
2010	50.9	37.9	37.2	50.4	36.8	24.2

Source: U.S. Bureau of the Census.

Capital Investments

The following table sets forth the total announced capital investment for new and expanded industry within the County since 2013 in which the South Carolina Department of Commerce played a major role.

Year	Company	Industry	Project Type	Investment	Jobs
2013	DUER High Performance Composites	Manufacturing	New	$ 1,000,000	47
2015	Shelter Cove Towne Center	Retail	Redevelopment	74,000,000	250
	Walmart Super Center (Bluffton/Lady's Island)	Retail	New	25,000,000	600
	Hilton Head Hospital – Bluffton Outpatient Facility	Healthcare	New	18,000,000	120
	Medical Development Corporation	Healthcare	New	12,000,000	65

Source: South Carolina Department of Commerce and the Lowcountry Economic Network
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Labor Force

The composition of the nonagricultural civilian labor force working in the County (regardless of place of residence), for the last five years for which information is available, is as follows:

Sector	2010	2011	2012	2013	2014
Manufacturing	914	941	1,020	956	964
Non-Manufacturing:					
Construction & Mining	5,337	5,150	5,336	5,642	5,829
Transportation and Public Utilities	1,144	1,090	1,154	1,232	1,291
Wholesale and Retail Trade	11,065	11,473	11,936	12,008	12,596
Information	1,010	1,042	699	764	714
Finance, Insurance, and Real Estate	10,917	10,816	10,452	10,498	10,581
Services (including Agricultural Services)	38,542	39,257	40,946	41,517	42,764
Government	19,859	19,919	20,149	20,299	19,752
TOTAL	88,788	89,688	91,692	92,916	94,491

Source: South Carolina Department of Employment and Workforce
Notes: Totals may not add due to rounding.

The labor force participation rate of residents of the County (regardless of place of employment) for the past five years is as follows:

	2010	2011	2012	2013	2014
Civilian Labor Force	65,338	65,363	65,705	66,951	68,502
Employment	59,686	59,662	60,717	62,630	64,625
Unemployment	5,652	5,701	4,988	4,321	3,877

Source: South Carolina Department of Employment and Workforce

Major Employers

The following table shows the largest employers located within the County and the type of business for each:

Name	Type of Business	Employees
Beaufort County School District	Education	2,410
Beaufort Memorial Hospital	Healthcare	1,709
Beaufort County	Local Government	1,127
Marine Corps Community Services	Military	789
Publix Super Markets, Inc.	Retail	702
Sea Pines Resort	Real Estate	673
Wal-Mart Associates, Inc.	Retail	632
Tenet Physician Services of Hilton Head	Healthcare	167
Care Core National, LLC	Healthcare	N/A
Department of Defense	Government	N/A

Source: Beaufort County Comprehensive Annual Financial Report for fiscal year ended June 30, 2015

Employee Relations

The Town has approximately 250.2 full-time employees (excludes Town Council), which includes 144.7 fire rescue workers. None of these employees belong to a union or other collective bargaining group. Town government's relations with its employees are generally good, and there are no currently pending or threatened strikes or other work stoppages by Town employees.

Per Capita Personal Income

The Town's and the County's per capita income have remained above state and national levels every year for the past ten years for which data is available. The per capita personal income in the Town, the County, the State and the United States for each of the last five years for which information is available is shown below.

Year	Town[1]	County[2]	State[2]	United States[2]
2006	$37,212	$44,533	$31,183	$38,144
2007	41,411	45,992	32,443	39,821
2008	42,611	45,557	33,449	41,082
2009	41,951	43,371	32,499	39,376
2010	40,798	41,194	32,853	40,277
2011	41,846	43,584	34,220	42,453
2012	39,703	45,122	35,461	44,266
2013	40,853	45,222	35,472	44,438
2014	47,049	46,137	36,677	46,049
2015	46,091	N/A	N/A	N/A

Sources: [1]Town's Comprehensive Annual Financial Report for fiscal year ended June 30, 2015; [2]U.S. Bureau of Economic Analysis

Median Family Income

The table below shows the median family income for a family of four in the County, State and the United States for the last five years:

Year	County	State	United States
2012	$69,800	$55,800	$65,000
2013	67,000	55,000	64,400
2014	63,400	54,300	63,900
2015	68,900	55,500	65,800
2016	67,100	56,100	65,700

Source: U.S. Department of Housing and Urban Development

Unemployment Rate

The average unemployment rates in the Town and County for each of the last 12 months for which data is available is shown below.

Month	Town Unemployment Rate	County Unemployment Rate
June 2015	4.5%	5.7%
July 2015	4.1	5.5
August 2015	4.4	5.5
September 2015	4.4	5.3
October 2015	4.1	5.0
November 2015	3.8	4.7
December 2015	4.1	4.8
January 2016	4.5	5.2
February 2016	4.5	5.1
March 2016	4.4	5.3
April 2016	4.0	5.1
May 2016	3.7(p)	4.4(p)

(p) Preliminary.
Source: U.S. Department of Labor, Bureau of Labor Statistics

The average unemployment rate in the Town for each of the last five years is shown below. For comparison, information for the County, the State, and the United States is also shown.

Year	Town	County	State	United States
2011	6.5%	8.7%	10.6%	8.9%
2012	5.6	7.5	9.2	8.1
2013	5.0	6.4	7.6	7.4
2014	4.5	5.7	6.4	6.2
2015	4.5	5.4	6.0	5.3

Source: U.S. Department of Labor, Bureau of Labor Statistics

Retail Sales

The following table shows gross retail sales over the last five years of businesses located in the Town and Beaufort County:

Fiscal Year Ended June 30	Town	County
2010	$1,241,262,336	$3,402,899,679
2011	1,197,965,824	3,400,903,379
2012	1,262,790,386	3,683,443,341
2013	1,329,472,728	3,844,604,186
2014	1,349,120,078	3,930,141,179

Source: South Carolina Department of Revenue and Taxation

Building Permits

The following table sets forth the number of building permits for new construction issued by the Town for the fiscal years indicated:

	COMMERCIAL		RESIDENTIAL				TOTAL	
Year	Building Permits	Construction Value	Single Family Permits	Single Family Construction Value	Multi-Family Permits	Multi-Family Construction Value	Building Permits	Construction Value
2011	11	11,977,895	51	36,801,963	0	0	63	53,371,237
2012	15	7,361,044	71	44,444,483	0	4,591,379	86	51,805,526
2013	10	24,048,960	12	56,825,254	2	8,117,692	124	88,991,906
2014	15	40,103,233	196	100,171,712	0	0	211	140,274,945
2015	23	37,030,683	131	78,032,240	1	9,500,000	155	124,562,923
2016*	5	31,211,258	100	62,447,430	0	0	105	93,658,688

* Through May 10, 2016
Source: Town of Hilton Head Island Community Development Department.

TAX EXEMPTION AND OTHER TAX MATTERS

Internal Revenue Code of 1986

The Internal Revenue Code of 1986, as amended (the "IRC") includes provisions that relate to tax-exempt obligations, such as the Notes, including, among other things, permitted uses and investment of the proceeds of the Notes and the rebate of certain net arbitrage earnings from the investment of such proceeds to the United States Treasury. Noncompliance with these requirements may result in interest on the Notes becoming subject to federal income taxation retroactive to the date of issuance of the Notes. The Town has covenanted to comply with the requirements of the IRC to the extent required to maintain the exclusion of interest on the Notes from gross income for federal tax purposes. Failure of the Town to comply with the covenant could cause the interest on the Notes to be taxable retroactively to the date of issuance.

The IRC imposes an alternative minimum tax on a taxpayer's alternative minimum taxable income. The interest on the Notes is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes.

Current and future legislative proposals, if enacted into law, clarification of the IRC or court decisions may cause interest on the Notes to be subject, directly or indirectly, to federal or State income taxation, or otherwise prevent the holders thereof from realizing the full current benefit of the tax-exempt status of such interest. The introduction or enactment of any such legislative proposals, clarification of the IRC or court decisions could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Notes and could also affect, perhaps significantly, the market price for, or marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

South Carolina Taxation

The interest on the Notes is exempt from all State taxation except estate or other transfer taxes. Section 12-11-20 of the Code imposes upon every bank engaged in business in the State a fee or franchise tax computed at the rate of 4-1/2% of the entire net income of such bank. Regulations of the South Carolina Tax Commission require that the term "entire net income" includes income derived from any source whatsoever including interest on obligations of any state and any political subdivision thereof. Interest on the Notes will be included in such computation.

[Original Issue Discount

Under existing laws, regulations, rulings and judicial decisions the excess, if any, of the principal amount payable at the scheduled maturity date of the Notes of any maturity over the initial public offering prices of such Notes ("Discount Notes") constitutes original issue discount that is excludable from gross income for federal income tax purposes to the same extent as interest on the Notes. For purposes of the preceding sentence, the "initial public offering price" refers to the initial offering price to the public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Notes of such a maturity was sold.

Under Section 1288 of the IRC, original issue discount on tax-exempt bonds accrues on a compounded basis. The amount of original issue discount that accrues to an owner of a Note during any accrual period generally equals (i) the issue price of such Note plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Note (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Note during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Note. Any gain realized by an owner from a sale, exchange, payment or redemption of a Note will be treated as gain from the sale or exchange of such Note.

Purchasers of Discount Notes should consult their own tax advisors with respect to the determination and treatment of original issue discount for federal income tax purposes, and with respect to the state and local tax consequences of owning Discount Notes.

Premium Notes

Certain of the Notes have been sold at initial public offering prices which are greater than the amount payable at maturity ("Premium Notes"). An amount equal to the excess of the purchase price of the Premium Notes over their stated redemption prices at maturity constitutes premium on such Premium Notes. A purchaser of a Premium Note must amortize any premium over such Premium Note's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Note is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Note prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Notes at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Notes.]

LEGAL MATTERS

Opinion of Bond Counsel

The issuance of the Notes is subject to the favorable opinion of McNair Law Firm, P.A., Bond Counsel, as to the validity of the issuance of the Notes under the Constitution and laws of the State. The proposed form of Bond Counsel's opinion appears as Appendix B to this Official Statement.

McNair Law Firm, P.A., has assisted the Town by compiling certain information supplied to them by the Town and others and included in this Official Statement, but said firm has not made an independent investigation or verification of the accuracy, completeness or fairness of such information. The opinion of McNair Law Firm, P.A. will be limited solely to the legality and enforceability of the Notes, and no opinion will be given with respect to this Official Statement.

Litigation

There is no controversy or litigation of any nature now pending or, to the knowledge of the Town officials, threatened to restrain or enjoin the issuance, sale, execution or delivery of the Notes or the levy and collection of taxes to pay the Notes; or questioning the proceedings or authority pursuant to which the Notes are issued and taxes levied; or questioning or relating to the validity of the Notes, or contesting the corporate existence of the Town or the titles of its present officers to their respective offices. The absence of such litigation will be confirmed at the time of delivery of the Notes.

United States Bankruptcy Code

This undertaking of the Town should be considered with reference to Chapter 9 of the Bankruptcy Code, 11 U.S.C. 901, et seq., as amended, and other laws affecting creditors' rights and municipalities generally. Chapter 9 permits a municipality, political subdivision, public agency, or other instrumentality of a State that is insolvent or unable to meet its debts as such debts mature to file a petition in the United States Bankruptcy Court for the purpose of effecting a plan to adjust its debts;

directs such a petitioner to file with the court a list of its creditors; provides that the filing of the petition under that Chapter operates as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; directs a petitioner to file a plan for the adjustment of its debts; permits the petitioner in its plan to modify the rights to payment of its creditors; and provides that the plan must be accepted in writing by or on behalf of creditors; and provides that the plan must be accepted in writing by or on behalf of creditors of each impaired class of claims holding at least two-thirds in amount and more than one-half in number of the creditors which have accepted or rejected the plan. The plan may be confirmed notwithstanding the negative vote of one or more classes of claims if the court finds that the plan is in the best interest of creditors, is feasible, and is fair and equitable with respect to the dissenting classes of creditors. A petitioner has the right to reinstate indebtedness under its plan according to the original maturity schedule of such indebtedness notwithstanding any provision in the documents under which the indebtedness arose relating to the insolvency or financial condition of the debtor before the confirmation of the plan, the commencement of a case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code or by a receiver or other custodian prior to the commencement of a case under the Bankruptcy Code.

CERTIFICATE CONCERNING THE OFFICIAL STATEMENT

Concurrently with the delivery of the Notes, the Town Manager will deliver to the purchaser of the Notes a certificate which will state that, to the best of his knowledge, this Official Statement did not as of its date and as of the sale date, and the final Official Statement does not, as of the date of delivery of the Notes, contain an untrue statement of a material fact or omit to state a material fact required to be included therein for the purpose for which this Official Statement is to be used or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, providing such certificate shall not include consideration of information supplied by, or which should have been supplied by, the successful bidder for the Notes.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings. ("Fitch") (collectively, the "Rating Services") have assigned ratings of "MIG 1," "SP-1+," and "F1+," respectively, to the Notes. The ratings reflect only the respective views of the Rating Service providing such ratings, and an explanation of the significance of such ratings may be obtained only from the Rating Service providing such rating. Certain information and materials not included in the Official Statement were furnished to the Rating Services. There is no assurance that such ratings will remain in effect for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any downward revision or withdrawal of a rating may have an adverse effect on the market prices of such Notes.

UNDERWRITING

The Notes have been purchased at a competitive sale from the Town for resale by _____ (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Notes at par plus a bid premium of $_____. The initial public offering yields of the Notes are as shown on the front cover page of this Official Statement and may be changed from time to time by the Underwriter. The Underwriter may also allow a concession from the public offering prices to certain dealers. If all of the Notes are sold at the public offering yields or prices as set forth on the front cover page of this Official Statement, the Underwriter anticipates total selling compensation of $_____ for the Notes. The Purchaser has received no fee from the Town for underwriting the Notes.

FINANCIAL ADVISOR

Stifel – Merchant Capital Division ("Stifel"), Columbia, South Carolina, has served as Financial Advisor to the Town in connection with the issuance of the Notes. In this capacity, Stifel provided technical assistance in the preparation of the offering documents and assisted the Town in preparing for this financing.

CONTINUING DISCLOSURE UNDERTAKING

In order to provide certain continuing disclosure with respect to the Notes in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, the Town has entered into a Continuing Disclosure Certificate ("Disclosure Certificate") for the benefit of the holders of the Notes. The form of Disclosure Certificate is attached hereto as Appendix C.

The Town has covenanted, pursuant to Section 11-1-85 of the Code to file with a central repository for availability in the secondary bond market, an annual independent audit within 30 days of its receipt and event specific information within 30 days of an event adversely affecting more than 5% of tax revenue or the Town's tax base.

In connection with the issuance of its General Obligation Bonds described in the section hereof entitled "General Obligation Indebtedness by Issue" shown herein, its $15,250,000 Special Obligation Bonds (Hospitality Fee Pledge), Series 2011, its $8,250,000 Special Obligation Refunding Bonds (Hospitality Fee Pledge), Series 2012, and its $11,000,000 Special Obligation Bonds (Beach Preservation Pledge), Series 2011, the Town has executed Continuing Disclosure Certificates requiring the filing of annual reports with each of the nationally recognized municipal securities information repositories ("NRMSIRs") (now EMMA) by not later than February 1 of each calendar year after the end of each fiscal year (currently ending June 30). In connection with the issuance of The Hilton Head Island Public Facilities Corporation's $10,775,000 Certificates of Participation Evidencing Undivided Proportionate Interests in Base Fee Payments Under an Installment Sale Agreement (Hospitality Fee Pledge) Series 2004C and $19,000,000 Certificate of Participation Evidencing Undivided Proportionate Interests in Base Fee Payments Under an Installment Sale Agreement (Beach Preservation Fee Pledge) Series 2006 (collectively, the "Corporation COPS"), the Town has executed Continuing Disclosure Certificates requiring the filing of annual reports with each of the nationally recognized municipal securities information repositories ("NRMSIRs") (now EMMA) by not later than seven months after the end of each fiscal year (currently ending June 30).

For fiscal year ended June 30, 2011, the Town caused its comprehensive annual financial report and annual report to each be filed on EMMA on February 1, 2012, which was one day late with respect to the Corporation COPS only. On January 4, 2013, the Town caused a supplement to the annual report to be filed on EMMA to provide the updated information relating to the assessed value and market value of all taxable property in the Town.

For fiscal years ended June 30, 2012, 2013, 2014 and 2015, the Town caused its comprehensive annual financial reports and annual reports to be filed on EMMA on January 4, 2013, January 27, 2014, January 26, 2015 and January 28, 2016, respectively.

With respect to each of the annual reports referenced above, the Town was unable to provide information regarding the Town's estimated population for the current fiscal year as it was not available at the time of each annual report. For each annual report, the Town provided the Town's most recently available estimated population. Future Continuing Disclosure Certificates executed by the Town will require the Town to provide its most recently available estimated population.

On December 14, 2010, the Town caused its original issue $17,000,000 Stormwater System Revenue Bonds, Series 2002 to be refunded. The Town caused a Notice of Material Event to be filed on EMMA on March 3, 2011.

On August 3, 2011, the Town issued its $12,385,000 General Obligation Refunding Bonds, Series 2011A (the "2011A Bonds"). A portion of the proceeds of the Series 2011A Bonds were used for the purpose of effecting the refunding of the Town's $15,000,000 General Obligation Bonds, Series 2004A maturing on March 1 in the years 2024 through March 1, 2029, inclusive, on the redemption date thereof (March 1, 2013). The Town caused a Notice of Material Event to be filed on EMMA on September 24, 2014.

In the past five years there have been numerous rating actions reported by Moody's Investors Service, Standard & Poor's Rating Services and Fitch Ratings affecting the municipal bond insurance companies, some of which had insured bonds previously issued by or on behalf of the Town. Due to widespread knowledge of these rating actions, material event notices were not filed by the Town in each instance.

SECURITIES AND EXCHANGE COMMISSION ORDER PURSUANT TO THE MUNICIPALITIES CONTINUING DISCLOSURE COOPERATION INITIATIVE

In March 2014, the Securities and Exchange Commission ("SEC") announced the Municipalities Continuing Disclosure Cooperation Initiative ("MCDC"), pursuant to which municipal bond underwriters, issuers and obligated persons were permitted to self-report possible violations involving materially inaccurate statements or omissions relating to prior compliance with the continuing disclosure obligations specified in the Rule. The SEC further announced that, to the extent an issuer meets the requirements of MCDC and the enforcement division of the SEC (the "Division") decided to recommend enforcement action against the issuer, the Division would recommend that the Commission accept a settlement from the issuer on favorable settlement terms, including the issuer's undertakings to establish appropriate policies, procedures and training regarding continuing disclosure obligations, comply with existing continuing disclosure undertakings, including updating past delinquent filings, disclose the settlement in future offering documents and cooperate with any subsequent investigations by the Division.

In May 2016, the Town executed and submitted to the SEC an Offer of Settlement under MCDC, in which the Town neither admitted nor denied the findings but agreed to cease and desist from future violations and proposed settlement terms consistent with those originally announced by the SEC in March 2014. By order dated August 24, 2016 (SEC Release No. 33-10191) (the "Order"), the Commission accepted the Town's Offer of Settlement and ordered the Town to cease and desist from committing or causing any future violations of Section 17(a)(2) of the Securities Act of 1933 and comply with the following undertakings, which undertakings are consistent with those originally announced by the SEC in March 2014:

(1) within 180 days of the date of the Order, the Town will establish appropriate written policies and procedures and periodic training regarding continuing disclosure obligations to comply with the federal securities laws, including the designation of an individual or officer at the Town responsible for ensuring the Town's compliance with such policies and procedures and responsible for implementing and maintaining a record (including attendance) of such training;

(2) within 180 days of the date of the Order, the Town will comply with existing continuing disclosure undertakings, including updating past delinquent filings;

(3) the Town will disclose in a clear and conspicuous fashion the terms of the settlement described in the Order in any final official statement for an offering by the Town within five years of the date of the Order;

(4) the Town will certify, in writing, compliance with the undertakings set forth above, including certification no later than the one-year anniversary of the date of the Order and certifications made from time to time upon reasonable requests by the Commission staff for further evidence of compliance; and

(5) the Town will cooperate with any subsequent investigation by the Division regarding the false statements and/or material omissions that were the subject of the Order, including the roles of individuals and/or other parties involved.

Consistent with the original announcement of MCDC by the SEC, the Town is not subject to any civil or criminal penalty or fine arising from MCDC or the violations that were the subject of the Order. The Town has been and remains fully committed to cooperating with the SEC's efforts to ensure continuing disclosure in an appropriate and timely manner in connection with its publicly traded bond issues.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact.

Reference herein to the State Constitution and legislative enactments are only brief summaries of such provisions thereof and do not purport to describe with particularity all provisions thereof.

If there are further inquiries, or requests for additional copies of this Official Statement, please address them to Francenia B. Heizer, Esquire, McNair Law Firm, P.A., Post Office Box 11390, Columbia, South Carolina 29211, telephone (803) 799-9800; fheizer@mcnair.net or Susan Simmons, Director of Finance, One Town Center Court, Hilton Head Island, South Carolina 29928-2701, telephone (843) 341-4646 or the Town's Financial Advisor, Brent Robertson, Stifel | Merchant Capital Division, 515 Gervais Street, Columbia, South Carolina 29201, telephone (803) 331-3848, e-mail: robertsonb@stifel.com.

The delivery of this Official Statement and its use in connection with the sale of the Notes has been duly authorized by officials of the Town in their capacity.

_____

Manager, Town of Hilton Head Island, South Carolina

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE TOWN FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Town of Hilton Head Island, South Carolina

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

Prepared by the Finance Department

Town of Hilton Head Island, South Carolina
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2015

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Introductory Section

Transmittal Letter

For The Fiscal Year Ended June 30, 2015
The Town of Hilton Head Island, South Carolina

January 13, 2015

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, 2015, 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, 2015. 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.

Feeling the effects of the recession, after 5 straight years with sales tax declines from 2007 to 2011, the Town has started to emerge from the recession with three straight years of increases. 2013-2014 total gross taxable sales were $1.349 billion compared to $1.329 billion for the prior fiscal year for Hilton Head Island. Gross taxable sales for Hilton Head Island were 34.3% 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 $85 million from $3.845 billion to $3.930 during the previous fiscal year. Hilton Head Island's taxable sales are 90.6% of the highest year totals from pre-recession 2006. Beaufort County's totals are 96.8% of 2007 levels.

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

Source SC Depart of Revenue Annual Reports http://www.sctax.org/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.

<u>Adopted Financial Policies</u>
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

In fiscal year 2009, the Town implemented an expenditure reduction plan (savings plan) in an effort to offset an anticipated decline in revenues. The savings plan was implemented and carried forward through fiscal year 2015. The results were quite successful; current year expenditures were approximately $2.7 million less than the final budget. This is attributable to the Town's workforce reduction, expense reduction and a significant amount of optional maintenance projects being budgeted in fiscal year 2015, but work being performed and expended in fiscal year 2016.

	FY 2015 - General Fund		
	Final Budget	Actual	Variance
Revenue	$ 28,031,907	$ 28,670,765	$ 638,858
Appropriated Fund Balance	1,664,314	-	(1,664,314)
Transfers In	8,537,215	8,128,638	(408,577)
Expenditures	38,233,436	35,485,478	2,747,958
Revenues Over (Under) Expenditures	$ -	$ 1,313,925	$ 1,313,925

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, 2014. This was the twenty sixth 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, 2014. It was the tenth 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.

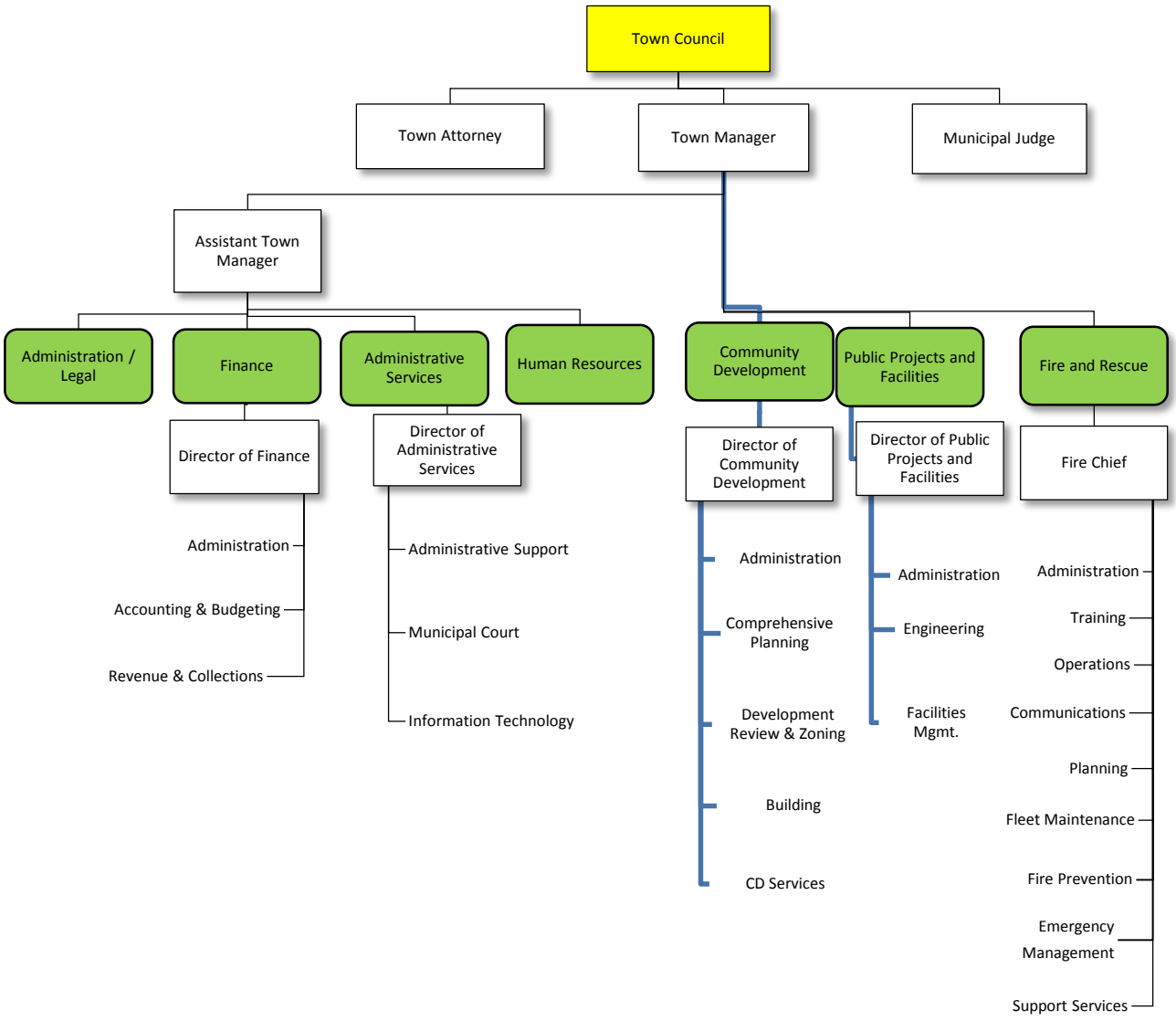
We believe that this report clearly illustrates the strong financial posture of the Town of Hilton Head Island and we wish to take this opportunity to thank you and the citizens of Hilton Head Island for the vital role you have historically played in enabling the Town to achieve and maintain this high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

Respectfully submitted,

Susan Simmons
Director of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

ORGANIZATIONAL CHART



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

Mayor

The Honorable David Bennett

Town Council

William D. Harkins, Mayor Pro Tempore

Wm. Lee Edwards

Marc A. Grant

Thomas W. Lennox

Kimberly W. Likins

John J. McCann

Administrative Staff

Stephen G. Riley, Town Manager
Gregory D. DeLoach, Assistant Town Manager Administration
Susan M. Simmons, 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, 2014

Executive Director/CEO

Financial Section

SCOTT + COMPANY
= not your average accounting firm
COLUMBIA • GREENVILLE

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, 2015, 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.

Scott and Company LLC
CERTIFIED PUBLIC ACCOUNTANTS

scottandco.com

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Post Office Box 8388
Columbia, South Carolina 29202

TEL (803) 256-6021 | FAX (803) 256-8346

220 N. Main Street
Suite 500
Greenville, South Carolina 29601

TEL (864) 660-2045

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, 2015, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Town has adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* These two GASB statements required that the Town record its share of the State of South Carolina's net pension liability and related deferred inflows and outflows of resources. Our opinion is not modified with respect to this matter.

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 and 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 January 13, 2016 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 intergral 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
January 13, 2016

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, 2015. The information in this section should be considered in conjunction with information provided in the transmittal letter and detailed financial statements contained elsewhere in this document.

Financial Highlights

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

Fiscal Year	Taxable Assessed Value	% Increase/ Decrease	Tax Revenue
2006	815,578,269		$14,976,068
2007	841,028,344	3.12%	$15,305,712
2008	840,463,790	-0.07%	$15,431,982
2009	832,732,387	-0.92%	$16,159,800
2010	949,555,131	14.03%	$17,145,943
2011	919,193,351	-3.20%	$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

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

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

Fiscal Year	Operating Millage	Debt Service Millage	Capital Projects Millage	Total Millage
2006	12.33	0.85	5.82	19.00
2007	12.33	0.85	5.82	19.00
2008	12.33	0.85	5.82	19.00
2009	12.84	5.67	0.85	19.36
2010	11.78	6.01	0.75	18.54
2011	11.78	6.01	0.75	18.54
2012	12.57	6.01	0.75	19.33
2013	12.86	5.72	0.75	19.33
2014	13.88	6.14	0.81	20.83
2015	14.37	6.14	0.84	21.35

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 stated imposed cap will have a significant impact on the Town's ability to continue funding services at their current level.

- At the close of fiscal year 2015, the assets of the Town exceeded liabilities by $211,534,453. Of this amount, $11,960,300 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The Town's total net position increased by $15,651,500 for fiscal year 2015. The balances for the governmental-type activities and business-type activities are shown in the "Statement of Activities".

- At June 30, 2015, the Town's governmental funds reported combined ending fund balances of $64,399,738.

- The Town's General Fund reported an ending fund balance of $19,349,325 for fiscal year 2015. Of this ending General Fund balance, $3,579,208 or 18.5% is available for spending at the government's discretion (Unassigned Fund Balance).

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction to the Town's financial statements. The Town's financial statements are broken down into three components (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. 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, and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in the Town's net positions are an indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

Notes to the Financial Statements

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

In addition to the basic financial statements and accompanying notes, the report also contains certain required supplementary information 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 1.8% greater than last fiscal year. This positive trend is reflected in the 2.6% increase in real estate transfer fees. Construction activity on the Island is robust. Due to strong increases in the last couple of years as many hotels and club houses underwent major renovations and the mall was almost completely rebuilt, this year's annual construction permit increase is small but still an increase.

	Real Estate Transfer Fee			Construction Permits			Total		
	Received	$ Change	%Change	Received	$ Change	%Change	Received	$ Change	%Change
FY 2013	2,255,107			1,368,166			3,623,273		
FY 2014	2,468,881	213,774	9%	1,377,939	9,773	1%	3,846,820	223,547	6%
FY 2015	2,534,932	66,051	3%	1,380,846	2,907	0%	3,915,778	68,958	2%

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 have rebounded to surpass all historical fiscal year heights. Currently, revenues from these sources are 9% higher than final amounts for the previous fiscal year.

	ATAX/ Beach Preservation Fees			Hospitality Tax			Total		
	Received	$ Change	%Change	Received	$ Change	%Change	Received	$ Change	%Change
FY 2013	11,993,892			5,250,995			17,244,887		
FY 2014	13,332,955	1,339,063	11%	5,633,430	382,435	7%	18,966,385	1,721,498	10%
FY 2015	14,498,473	1,165,518	9%	6,155,004	521,574	9%	20,653,477	1,687,092	9%

Government-Wide Financial Analysis

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

Condensed Statement of Net Position

	2015	2014	2015	2014	2015	2014
Current and other assets	$ 69,184,912	$ 72,348,011	$ 2,218,883	$ 2,318,496	$ 71,403,795	$ 74,666,507
Deferred outflows of resources	3,405,699	2,205,148	895,548	985,102	4,301,247	3,190,250
Capital assets	243,865,033	239,374,538	14,433,537	13,920,198	258,298,570	253,294,736
Total assets and deferred outflows of resources	$ 316,455,644	$ 313,927,697	$ 17,547,968	$ 17,223,796	$ 334,003,612	$ 331,151,493
Current liabilities	$ 16,890,687	$ 22,733,731	$ 1,230,222	$ 1,172,219	$ 18,120,909	$ 23,905,950
Long term liabilities & deferred outflows	94,438,250	88,129,624	9,910,000	10,760,000	104,348,250	98,889,624
Total liabilities and deferred inflows of resources	$ 111,328,937	$ 110,863,355	$ 11,140,222	$ 11,932,219	$ 122,469,159	$ 122,795,574
Net position:						
Net investment in capital assets	$ 163,062,329	$ 147,652,780	$ 4,569,085	$ 3,320,300	$ 167,631,414	$ 150,973,080
Restricted	31,942,739	35,442,375	-	-	31,942,739	35,442,375
Unrestricted	10,121,639	19,969,187	1,838,661	1,971,277	11,960,300	21,940,464
Total net position	$ 205,126,707	$ 203,064,342	$ 6,407,746	$ 5,291,577	$ 211,534,453	$ 208,355,919

Net position amounted to $211.5 million in fiscal year 2015 compared to $208.4 million in fiscal year 2014. A significant portion of the Town's net position ($167.6 million or 79.2 % of the Total net assets) reflects its investment in capital assets (e.g. land, machinery, buildings, and equipment) net of any related debt that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The 2014 Governmental Activities balances have not been restated for the implementation of GASBS 68 because the information provided by the actuary is not detailed enough to retroactively restate balances and therefore do not agree to page 17. See Note 20 for more information on restatement due to GASBS 68.

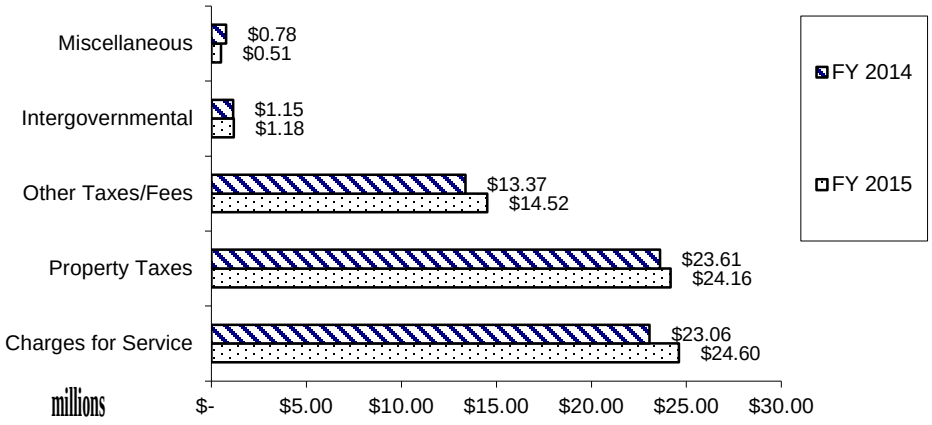
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for services	$ 24,633,147	$ 23,063,766	$ 3,551,386	$ 3,564,300	$ 28,184,533	$ 26,628,066
Operating grants and contributions	348,467	630,208	25,764	-	374,231	630,208
Capital grants and contributions	275,000	-	-	-	275,000	-
General Revenues:						
Property taxes	24,163,776	23,613,446	-	-	24,163,776	23,613,446
Other taxes	14,516,798	13,368,820	-	-	14,516,798	13,368,820
Other	3,029,329	1,937,933	450	394	3,029,779	1,938,327
Total Revenues	66,966,517	62,614,173	3,577,600	3,564,694	70,544,117	66,178,867
Program Expenses:						
Governmental Activities:						
General government	5,501,516	5,014,153	-	-	5,501,516	5,014,153
Management services	5,249,881	5,176,878	-	-	5,249,881	5,176,878
Community services	15,337,540	15,914,686	-	-	15,337,540	15,914,686
Public safety	16,529,019	14,130,095	-	-	16,529,019	14,130,095
Culture and recreation	2,429,893	1,962,094	-	-	2,429,893	1,962,094
Visitor and convention bureau	1,580,537	1,473,482	-	-	1,580,537	1,473,482
Administrative	2,500,842	1,779,235	-	-	2,500,842	1,779,235
Interest on long-term debt	3,396,216	4,114,335	-	-	3,396,216	4,114,335
Loss on sale of capital assets	-	1,085,607	-	-	-	1,085,607
Business-type Activities:						
Stormwater utility	-	-	2,367,173	1,997,630	2,367,173	1,997,630
Total Expenses	52,525,444	50,650,565	2,367,173	1,997,630	54,892,617	52,648,195
Excess before transfers	14,441,073	11,963,608	1,210,427	1,567,064	15,651,500	13,530,672
Transfers	94,258	74,163	(94,258)	(74,163)	-	-
Change in net position	14,535,331	12,037,771	1,116,169	1,492,901	15,651,500	13,530,672
Net position, beginning, restated	190,591,376	191,026,571	5,291,577	3,798,676	195,882,953	194,825,247
Net position, ending	$ 205,126,707	$ 203,064,342	$ 6,407,746	$ 5,291,577	$ 211,534,453	$ 208,355,919

Governmental activities increased the Town's net position by $14.5 million. This increase was $2.5 million more than the previous fiscal year's increase. The following highlight the significant changes from the previous year:

- Total revenues increased $4.3 million or 7%, while expenses were held to a $1.9 million or 3.7% increase.
- Charges for services increased $1.6 million or 6.8%.
- Property tax revenue, traditionally the Town's largest revenue source, increased by $0.6 million or approximately 2.3 %.
- Property taxes made up 36.1 % of the total revenue down from 37.7 % in the prior year.
- Total expenses increased by only $1.9 million. The largest part of this increase is $2.4 million in Public Safety. Budgetary spending was similar for Public Safety, but less was capitalized—primarily the Fire Station for $3.3 million from 2014 not in 2015. This was offset by no loss on the sale of capital assets as was included last year. Without those two items, all other expenses increased $561,562 or 1.6% in total.

Revenues by Source – Governmental Activities



Business-type activities increased the Town's net position by $1.1 million which is less than the $1.5 million in 2014. Stormwater revenues decreased by $0.01 million or -0.36% over the previous fiscal year.

Governmental Funds

The **General Fund**, which is the primary operating fund of the Town, recognized $28.6 million (excluding revenue transfers in from other funds) in total revenues and $8.1 million in other financing sources offset with $35.5 million in expenditures. The savings plan effort started in fiscal year 2009 was carried forward into fiscal year 2015. The results continue to be quite successful; expenditures were approximately $2.7 million less than the final budget. In addition, revenues and transfers in were $230,281 more than budget.

Fund balance at the beginning of the year was $18.0 million and, when combined with the current year, resulted in an end of year Fund Balance of $19.3 million. Of this amount, $3.6 million is unassigned fund balance, a growth of $ 0.3 million this fiscal year.

The **Debt Service Fund** recognized $5.3 million in total revenues and $12.4 million in other financing sources offset with $18.6 in expenditures and other uses. This resulted in expenditures more than revenues and other financing sources by $0.9 million due to a transfer of $1.9 million to beach fee fund to return the reserve fund when the related bonds were retired. The Fund Balance at the beginning of the year was $8.4 million and, when combined with the current year, resulted in an end of year Fund Balance of $7.5 million. These results were consistent with the Town's expectations.

The **Capital Projects Fund** recognized $1.8 million in total revenues and $5.9 million in other financing sources offset with $11.4 million in expenditures and other uses. This resulted in expenditures exceeding revenues and other financing sources by $3.5 million. The Fund Balance at the beginning of the year was $12.1 million and, when combined with the current year spending, resulted in an end of year Fund Balance of $8.6 million. This is in accordance with the Town's Capital Plan as the Town used prior year bond proceeds and other funding sources accumulated in the beginning fund balance.

The **Tax Increment Financing District Fund (TIF)** recognized $6.5 million in total revenues offset with $8.6 million in other financing uses related to debt service payments and capital expenditures. This resulted in revenues less than expenditures and other financing uses by $2.1 million. Fund Balance at the beginning of the year was $5.9 million and, when combined with the current year, resulted in an end of year Fund Balance of $3.8 million. These results are consistent with the Town's expectations.

The **Accommodations Tax Fund** recognized $5.3 million in total revenues offset with $3.7 million in expenditures and $1.3 million in other financing uses. This resulted in revenues exceeding

expenditures by $0.2 million. Fund Balance at the beginning of the year was $2.6 million and, when combined with the current year resulted in end of year Fund Balance of $2.8 million.

The **Real Estate Transfer Fee Fund** recognized $2.5 million in total revenues offset with $25 thousand in expenditures and $2.3 million in other financing uses. This resulted in revenues exceeding expenditures by $240 thousand. Fund balance at the beginning of the year was $1.5 million and, when combined with the current year, resulted in an end of year Fund Balance of $1.7 million.

The **Beach Preservation Fee Fund** recognized $6.1 million in total revenues combined with $1.9 million in other financing sources, and offset with $6.1 million in other financing uses. This resulted in additions to fund balance of $1.9 million which was a transfer from the Debt Service Fund for a reserve account released when the associated bonds matured. Fund Balance at the beginning of the year was $14.6 million and, when combined with the current year, resulted in an end of year Fund Balance of $16.5 million.

The **Hospitality Fee Fund** recognized $6.2 million in total revenues offset with $300 thousand in expenditures and $6.5 million in other financing uses. This resulted in expenditures exceeding revenues and other financing uses by $642 thousand. This is in line with the Town's expectations – using the funds as intended. The Fund Balance at the beginning of the year was $1.4 million and, when combined with the current year, resulted in an end of year Fund Balance of $700 thousand.

Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

	2015			
	Revenue	Expenditures	Fund Balance	Changes in Fund Balance
Fund				
General	$ 36,799,403	$ 35,485,477	$ 19,349,325	$ 1,313,926
Tax Increment Financing	6,487,077	8,621,747	3,781,514	(2,134,670)
Accommodations Tax (State)	5,294,083	5,048,618	2,834,620	245,465
Real Estate Transfer Fee	2,535,177	2,294,927	1,737,035	240,250
Beach Preservation Fee	8,042,664	6,105,039	16,515,766	1,937,625
Hospitality Fee	6,155,261	6,797,633	723,465	(642,372)
Debt Service	17,690,213	18,608,406	7,485,841	(918,193)
Capital Projects Fund	7,840,978	11,365,140	8,618,510	(3,524,162)
Non-Major Governmental Funds	2,967,278	2,358,576	3,353,662	608,702

	2014			
	Revenue	Expenditures	Fund Balance	Changes in Fund Balance
Fund				
General	$ 33,925,306	$ 33,193,634	$ 18,035,399	$ 731,672
Tax Increment Financing	6,434,928	6,101,422	5,916,184	333,506
Accommodations Tax (State)	4,937,085	4,405,932	2,589,155	531,153
Real Estate Transfer Fee	2,469,093	2,194,486	1,496,785	274,607
Beach Preservation Fee	5,601,894	6,545,087	14,578,141	(943,193)
Hospitality Fee	5,633,821	7,807,501	1,365,837	(2,173,680)
Debt Service	16,345,080	17,047,598	8,404,034	(702,518)
Capital Projects Fund	8,576,638	13,353,381	12,142,672	(4,776,743)
Non-Major Governmental Funds	3,140,947	1,842,907	2,744,960	1,298,040

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Original to revised expenditure budget variances:

	Original Budget	Revised Budget	Variance
General Fund by Function			
General Government	$ 1,142,951	$ 1,151,508	$ 8,557
Management Services	5,325,896	5,376,100	50,204
Community Services	7,945,300	8,219,844	274,544
Public Safety	17,427,225	17,597,437	170,212
Non-Departmental Townwide	4,465,064	4,396,221	(68,843)
Capital Outlay	1,269,932	1,492,326	222,394
	$ 37,576,368	$ 38,233,436	$ 657,068

The General Fund revenues were more than the revised budget by $638,858. Listed below is a summary of the major revenue sources comparing actual receipts to budget:

- Real and personal property taxes were above budget $83,534
- Local accommodations tax revenue was above budget $235,339
- Business license and franchise fee revenue were above budget $365,788

- Building permit revenue was below budget $67,334
- State shared revenue was above budget $12,085
- EMS and public safety revenue was above budget $89,782
- Fines and fees were below budget $31,052
- Investment income was below budget $353

The Town again 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 $2.75 million.

The favorable variance can be primarily attributed to the continuation of the expenditure reduction plan that was implemented in mid-year fiscal year 2009 and successfully continued through fiscal year 2015.

CAPITAL ASSETS

The Town's investment in capital assets for its governmental activities as of June 30, 2015 and 2014 amount to $243.9 million and $239.4 million respectively (net of accumulated depreciation). The Town's investment in capital assets for its business-type activities as of June 30, 2015 and 2014 amount to $14.4 million and $13.9 million respectively (net of accumulated depreciation). Capital assets include land, development rights, easements/right-of-ways, buildings, drainage systems, furniture, fixtures, equipment and vehicles.

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

- Shelter Cove Park Improvements $1,991,845
- Office Park Road/USCB Project $1,838,540
- Rowing and Sailing Center $952,300
- U.S. 278/Fresh Market Shoppes Pathways $950,324
- Mathews Drive/ Chaplin Area Connectivity $873,070

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 161,632,796	$ 162,679,882	$ -	$ -	$ 161,632,796	$ 162,679,882
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	3,006,890	9,610,583	1,288,894	1,408,999	4,295,784	11,019,582
Buildings	23,180,381	17,172,476	-	-	23,180,381	17,172,476
Furniture, fixtures and equipment	1,515,960	1,277,043	-	-	1,515,960	1,277,043
Vehicles	3,656,766	3,973,952	-	-	3,656,766	3,973,952
Imp. Other than buildings - park developm	14,191,487	9,051,392	-	-	14,191,487	9,051,392
Infrastructure	22,397,402	21,325,859	13,144,643	12,511,199	35,542,045	33,837,058
	$ 243,865,033	$ 239,374,538	$14,433,537	$ 13,920,198	$ 258,298,570	$ 253,294,736

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

Proprietary Fund

In fiscal year 2015, the Town received $3,551,386 in stormwater fees and incurred $2,367,173 in expenses associated with this program. Unrestricted net position at the end of the year were $1.8 million.

LONG TERM OBLIGATIONS

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

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

Outstanding Long-Term Obligations

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	$ 55,945,000	$ 60,080,000	$ -	$ -	$ 55,945,000	$ 60,080,000
Tax increment financing	-	4,010,000	-	-	-	4,010,000
Revenue/Special Obligation Bonds:						
Beach preservation fees	9,685,000	13,700,000	-	-	9,685,000	13,700,000
Hospitality tax	20,265,000	21,100,000	-	-	20,265,000	21,100,000
Stormwater	-	-	10,760,000	11,585,000	10,760,000	11,585,000
	$ 85,895,000	$ 98,890,000	$ 10,760,000	$ 11,585,000	$ 96,655,000	$ 110,475,000

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

BUDGET HIGHLIGHTS FOR FISCAL YEAR 2016

The **General Fund's** revenues for fiscal year 2016 are budgeted at $38.8 million, an increase of $565,050 or 1.5% compared to the prior year's budgeted revenues. This includes the use of $1,471,227 of fund balance in order to balance the budget. Collections from local accommodation taxes and business license revenue are expected to lead the increase in budgeted revenue. The Town will use these revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at $38.8 million. The largest components of the budget are personnel costs and contractual services.

The **Capital Projects Fund** appropriation is $34.7 million. The majority of the expenditures are budgeted for Island-wide Beach maintenance of $20.5 million, Park development for $5.7 million and $4.3 million in roadway improvements. The USCB Hospitality Management Program Building and Campus project continues.

The **Debt Service Fund** provides for the payment of principal and interest payments totaling $11.2 million. There is a $5,501,055 or 32.9% decrease in debt service costs in fiscal year 2016 – which is expected to be a temporary decrease. The Town plans to issue beach preservation fee special revenue bonds and general obligation bonds in fiscal year 2016.

Millage Rate

The assessment rate for the fiscal year beginning July 1, 2015 on taxable property located within the Town of Hilton Head Island was adopted at 22.18 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, 2014 on taxable property located within the Town of Hilton Head Island was adopted at 21.35 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

TOWN OF HILTON HEAD ISLAND

STATEMENT OF NET POSITION
JUNE 30, 2015

Exhibit A

	Primary Government		
	Governmental Activities	**Business-type Activities**	**Total**
ASSETS			
Cash and Cash Equivalents	$ 58,871,206	$ 2,312,879	$ 61,184,085
Investments	775,651	-	775,651
Accounts Receivable	6,657,344	-	6,657,344
Due from Employees	28,807	-	28,807
Due from Other Governments	2,749,848	8,060	2,757,908
Internal Balances	102,056	(102,056)	-
Non Depreciable Capital Assets	178,923,036	1,288,894	180,211,930
Depreciable Capital Assets, net	64,941,997	13,144,643	78,086,640
Total assets	313,049,945	16,652,420	329,702,365
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	2,032,664	895,548	2,928,212
Contributions to Retirement Plan after Measurement Date	1,040,900	-	1,040,900
Difference Between Expected and Actual Retirement Plan Experience	332,135	-	332,135
Total deferred outflows of resources	3,405,699	895,548	4,301,247
Total assets and deferred outflows of resources	316,455,644	17,547,968	334,003,612
LIABILITIES			
Accounts Payable	3,190,854	296,300	3,487,154
Accrued Payroll and Related Payables	1,064,936	-	1,064,936
Due to Other Governments	19,796	-	19,796
Unearned Revenue	405,711	-	405,711
Security Deposits	4,900	-	4,900
Irrigation and Pool Surety Bonds Payable	33,000	-	33,000
Court Bonds Payable	256	-	256
Performance Bonds Payable	65,721	-	65,721
Interest Payable	713,736	83,922	797,658
Debt Due Within Less than One Year	11,391,777	850,000	12,241,777
Debt Due Within More than One Year	80,551,901	9,910,000	90,461,901
Net Pension Liability	12,446,229	-	12,446,229
Total liabilities	109,888,817	11,140,222	121,029,039
DEFERRED INFLOW OF RESOURCES			
Deferred Inflows -- Pension Earnings Above Expectations	1,440,120	-	1,440,120
Total deferred inflows of resources	1,440,120	-	1,440,120
Total liabilities and deferred inflows of resources	111,328,937	11,140,222	122,469,159
NET POSITION			
Net investment in capital assets	163,062,329	4,569,085	167,631,414
Restricted:			
Deposits in Escrow	66,011	-	66,011
Economic Development	3,781,514	-	3,781,514
Tourism Promotion	2,834,620	-	2,834,620
Environmental Conservation	1,737,035	-	1,737,035
Beach Nourishment and Restoration	4,515,766	-	4,515,766
Public Health and Safety	723,465	-	723,465
Debt Service Payments	7,485,841	-	7,485,841
Construction of Major Capital Facilities	7,385,562	-	7,385,562
Underground Electrical Service	3,412,925	-	3,412,925
Unrestricted	10,121,639	1,838,661	11,960,300
Total net position	$ 205,126,707	$ 6,407,746	$ 211,534,453

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, 2015

Exhibit B

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Primary government:							
Governmental activities:							
General Government	$ 5,501,516	$ 2,455,854	$ -	$ -	$ (3,045,662)	$ -	$ (3,045,662)
Management Services	5,249,881	8,334,478	-	-	3,084,597	-	3,084,597
Community Services	15,337,540	9,802,304	-	275,000	(5,260,236)	-	(5,260,236)
Public Safety	16,529,019	1,505,579	180,416	-	(14,843,024)	-	(14,843,024)
Culture and Recreation	2,429,893	-	-	-	(2,429,893)	-	(2,429,893)
Visitor and Convention Bureau	1,580,537	-	-	-	(1,580,537)	-	(1,580,537)
Administration	2,500,842	2,534,932	168,051	-	202,141	-	202,141
Interest on Debt	3,396,216	-	-	-	(3,396,216)	-	(3,396,216)
Total governmental activities	52,525,444	24,633,147	348,467	275,000	(27,268,830)	-	(27,268,830)
Business-type activities:							
Stormwater	2,367,173	3,551,386	25,764	-	-	1,209,977	1,209,977
Total business-type activities	2,367,173	3,551,386	25,764	-	-	1,209,977	1,209,977
Total primary government	$ 54,892,617	$ 28,184,533	$ 374,231	$ 275,000	(27,268,830)	1,209,977	(26,058,853)
General revenues:							
Property Taxes					24,163,776	-	24,163,776
Accommodations Tax					8,361,794	-	8,361,794
Hospitality Taxes					6,155,004	-	6,155,004
Intergovernmental					1,176,192	-	1,176,192
Miscellaneous					226,400	-	226,400
Investment Income					50,763	450	51,213
Gain on Sale of Capital Assets					1,575,974	-	1,575,974
Transfers					94,258	(94,258)	-
Total general revenues					41,804,161	(93,808)	41,710,353
Change in net position					14,535,331	1,116,169	15,651,500
Net position - beginning, restated					190,591,376	5,291,577	195,882,953
Net position - ending					$ 205,126,707	$ 6,407,746	$ 211,534,453

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

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

Exhibit C

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Hospitality Fee	Debt Service	Capital Projects	Non-Major Governmental	Total Governmental
ASSETS										
Cash and Cash Equivilents	$ 13,664,480	$ 4,025,331	$ 1,928,440	$ 1,467,921	$ 14,453,700	$ 579,820	$ 6,522,766	$ 12,875,657	$ 3,353,091	$ 58,871,206
Investments	-	-	-	-	-	-	775,651	-	-	775,651
Accounts Receivable	2,896,676	-	-	-	2,061,049	1,579,370	-	-	120,249	6,657,344
Due from Employees	28,807	-	-	-	-	-	-	-	-	28,807
Interfund Receivables	5,481,936	-	-	-	1,269	2,401	187,424	107,576	121,920	5,902,526
Due from Other Governments	598,203	-	1,806,288	269,114	-	-	-	76,243	-	2,749,848
Total assets	$ 22,670,102	$ 4,025,331	$ 3,734,728	$ 1,737,035	$ 16,516,018	$ 2,161,591	$ 7,485,841	$ 13,059,476	$ 3,595,260	$ 74,985,382
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts Payable	1,653,642	-	638,607	-	-	-	-	877,493	21,112	3,190,854
Accrued Payroll and Employee Benefits	1,064,936	-	-	-	-	-	-	-	-	1,064,936
Due to Other Governments	19,796	-	-	-	-	-	-	-	-	19,796
Interfund Payables	386,178	243,817	261,501	-	252	1,438,126	-	3,320,516	150,080	5,800,470
Unearned Revenue	97,248	-	-	-	-	-	-	238,057	70,406	405,711
Security Deposits	-	-	-	-	-	-	-	4,900	-	4,900
Irrigation and Pool Bonds	33,000	-	-	-	-	-	-	-	-	33,000
Court Bonds	256	-	-	-	-	-	-	-	-	256
Performance Bonds	65,721	-	-	-	-	-	-	-	-	65,721
Total liabilities	3,320,777	243,817	900,108	-	252	1,438,126	-	4,440,966	241,598	10,585,644
Fund balances:										
Restricted	66,011	3,781,514	2,834,620	1,737,035	4,515,766	723,465	7,485,841	7,385,562	3,412,925	31,942,739
Committed	14,232,879	-	-	-	12,000,000	-	-	-	-	26,232,879
Assigned	1,471,227	-	-	-	-	-	-	1,232,948	-	2,704,175
Unassigned	3,579,208	-	-	-	-	-	-	-	(59,263)	3,519,945
Total fund balances	19,349,325	3,781,514	2,834,620	1,737,035	16,515,766	723,465	7,485,841	8,618,510	3,353,662	64,399,738
Total liabilities and fund balances	$ 22,670,102	$ 4,025,331	$ 3,734,728	$ 1,737,035	$ 16,516,018	$ 2,161,591	$ 7,485,841	$ 13,059,476	$ 3,595,260	$ 74,985,382

The notes to the financial statements are an intregal 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, 2015

Exhibit D

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

Ending fund balance - governmental funds	$ 64,399,738
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	243,865,033
Deferred charges on refunding are not financial resources and, therefore, are not reported in the funds.	2,032,664
Differences between expected and actual retirement plan experience is not a current finanical resource, therefore the changes are not reported in the governmental funds.	332,135
Contributions to the retirement plan after the measurement date are a deferred outflows on the statement of net position, however this represents a use of current financial resources in the funds.	1,040,900
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(713,736)
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.	(104,389,907)
Deferred inflows of resources from the retirement plan are not a use of current financial resources.	(1,440,120)
Net position of governmental activities	$ 205,126,707

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit E

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fees	Beach Preservation Fees	Hospitality Fees	Debt Service	Capital Projects	Non-major Governmental	Total Governmental
REVENUES										
Real and Personal Property Tax	$ 11,894,284	$ 6,486,071	$ -	$ -	$ -	$ -	$ 5,084,193	$ 694,238	$ -	$ 24,158,786
Accommodations Tax	3,068,339	-	5,293,455	-	-	-	-	-	-	8,361,794
Hospitality Tax	-	-	-	-	-	6,155,004	-	-	-	6,155,004
Business License and Franchise Fees	9,210,538	-	-	-	-	-	-	-	-	9,210,538
Permits	1,380,846	-	-	-	-	-	-	-	-	1,380,846
Impact Fees	-	-	-	-	-	-	-	293,931	-	293,931
Lease	-	-	-	-	-	-	-	213,996	-	213,996
Real Estate Transfer Fees	-	-	-	2,534,932	-	-	-	-	-	2,534,932
Beach Preservation Fees	-	-	-	-	6,136,679	-	-	-	-	6,136,679
Electric Franchise Fees	-	-	-	-	-	-	-	-	2,918,340	2,918,340
State Shared Funds	812,085	-	-	-	-	-	-	364,107	-	1,176,192
Federal Reimbursement - BABS	-	-	-	-	-	-	168,051	-	-	168,051
Grants	143,718	-	-	-	-	-	-	275,000	48,375	467,093
EMS Revenue	1,403,782	-	-	-	-	-	-	-	-	1,403,782
Public Safety Revenue	55,721	-	-	-	-	-	-	-	-	55,721
Fines and Fees	198,948	-	-	-	-	-	-	-	-	198,948
Miscellaneous Revenue	500,157	-	-	-	-	-	-	4,990	-	505,147
Investment Income	2,347	1,006	628	245	5,875	257	37,374	2,468	563	50,763
Total revenues	28,670,765	6,487,077	5,294,083	2,535,177	6,142,554	6,155,261	5,289,618	1,848,730	2,967,278	65,390,543
EXPENDITURES										
Current:										
General Government	1,046,890	-	-	-	-	-	-	-	-	1,046,890
Management Services	4,986,727	-	-	-	-	-	-	-	-	4,986,727
Community Services	7,238,602	-	-	-	-	-	-	-	-	7,238,602
Public Safety	17,136,442	-	-	-	-	-	-	-	66,281	17,202,723
Non-Departmental	3,879,828	-	-	-	-	-	-	-	-	3,879,828
Culture and Recreation	-	-	2,129,893	-	-	300,000	-	-	-	2,429,893
Visitor and Convention Bureau	-	-	1,580,537	-	-	-	-	-	-	1,580,537
Adminstration	-	-	-	25,349	-	-	-	-	2,291,984	2,317,333
Debt service:										
Administrative charges	-	-	-	-	-	-	11,025	-	-	11,025
Interest	-	-	-	-	-	-	3,702,272	-	-	3,702,272
Principal Retirement	-	-	-	-	-	-	12,994,999	-	-	12,994,999
Capital outlay:										
Management Services	386,896	-	-	-	-	-	-	-	-	386,896
Community Services	-	-	-	-	-	-	-	10,330,101	-	10,330,101
Public Safety	768,458	-	-	-	-	-	-	-	-	768,458
Non-Departmental	41,634	-	-	-	-	-	-	-	-	41,634
Total expenditures	35,485,477	-	3,710,430	25,349	-	300,000	16,708,296	10,330,101	2,358,265	68,917,918
Excees (deficiency) of revenues over expenditures	(6,814,712)	6,487,077	1,583,653	2,509,828	6,142,554	5,855,261	(11,418,678)	(8,481,371)	609,013	(3,527,375)
OTHER FINANCING SOURCES (USES)										
Transfers Out	-	(8,621,747)	(1,338,188)	(2,269,578)	(6,105,039)	(6,497,633)	(1,900,110)	(1,035,039)	(311)	(27,767,645)
Proceeds from Sale of Land	-	-	-	-	-	-	-	559,688	-	559,688
Transfers In	8,128,638	-	-	-	1,900,110	-	12,400,595	5,432,560	-	27,861,903
Total other financing sources and uses	8,128,638	(8,621,747)	(1,338,188)	(2,269,578)	(4,204,929)	(6,497,633)	10,500,485	4,957,209	(311)	653,946
Net change in fund balance	1,313,926	(2,134,670)	245,465	240,250	1,937,625	(642,372)	(918,193)	(3,524,162)	608,702	(2,873,429)
Fund balance -- beginning	18,035,399	5,916,184	2,589,155	1,496,785	14,578,141	1,365,837	8,404,034	12,142,672	2,744,960	67,273,167
Fund balances -- ending	$ 19,349,325	$ 3,781,514	$ 2,834,620	$ 1,737,035	$ 16,515,766	$ 723,465	$ 7,485,841	$ 8,618,510	$ 3,353,662	$ 64,399,738

The notes to the financial statements are an intregal 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, 2015

Exhibit F

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

Net change in fund balances - total governmental funds		$ (2,873,429)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	9,462,961	
Less current year depreciation	(3,837,584)	5,625,377
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.		13,169,726
Adjustment to compensated absenses 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.		(169,959)
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.		(1,134,881)
Amortization of the deferred charge on bond refunding does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		(172,484)
Amortization of the pension plan actuarial deferred inflows of resources does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		360,031
Amortization of the pension plan actuarial deferred outflows of resources does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		(86,135)
Pension plan contributions after the measurement date is a use of current resources for the governmental fund. However this is classified as a deferred outflow of resources and therefore is not included in the statement of activities.		1,040,900
The difference between actuarial deferred outflow of resources and inflows of resources is not a use of current resources, however it is presented as an expense in the statement of		(1,355,144)
Changes in long-term debt interest payable		131,329
Change in net position of governmental activities		$ 14,535,331

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, 2015

Exhibit G

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	$ 11,810,750	$ 11,810,750	$ 11,894,284	$ 83,534
Accommodations Tax	2,833,000	2,833,000	3,068,339	235,339
Business License and Franchise Fees	8,844,750	8,844,750	9,210,538	365,788
Permits	1,448,180	1,448,180	1,380,846	(67,334)
State Shared Funds	800,000	800,000	812,085	12,085
Donations	300	300	2,429	2,129
Grants	161,777	161,777	143,718	(18,059)
EMS Revenue	1,314,000	1,314,000	1,403,782	89,782
Public Safety Revenue	56,500	56,500	55,721	(779)
Fines and Fees	230,000	230,000	198,948	(31,052)
Miscellaneous Revenue	529,950	529,950	497,728	(32,222)
Investment Income	2,700	2,700	2,347	(353)
Total Revenues	28,031,907	28,031,907	28,670,765	638,858
Expenditures:				
Current:				
General Government	1,142,951	1,151,508	1,046,890	104,618
Management Services	5,325,896	5,376,100	4,986,727	389,373
Public Safety	17,427,225	17,597,437	17,136,442	460,995
Community Services	7,945,300	8,219,844	7,238,602	981,242
Non-Departmental	4,465,064	4,396,221	3,879,828	516,393
Capital Outlay	1,269,932	1,492,326	1,196,988	295,338
Total Expenditures	37,576,368	38,233,436	35,485,477	2,747,959
(Deficiency) Excess of revenues over (under) expenditures	(9,544,461)	(10,201,529)	(6,814,712)	3,386,817
Other financing sources				
Transfers In	8,537,215	8,537,215	8,128,638	(408,577)
Appropriated Fund Balance	1,007,246	1,664,314	-	(1,664,314)
Total other financing sources	9,544,461	10,201,529	8,128,638	(2,072,891)
Net change in fund balance	-	-	1,313,926	$ 1,313,926
Fund balance - beginning	18,035,399	18,035,399	18,035,399	
Fund balance - ending	$ 17,028,153	$ 16,371,085	$ 19,349,325	

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, 2015

Exhibit H

	Stormwater Fund
ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,312,879
Due from other governments	8,060
Interfund receivables	1,030
Total current assets	2,321,969
Noncurrent assets:	
Capital assets depreciable	13,144,643
Capital assets non depreciable	1,288,894
Total noncurrent assets	14,433,537
Total assets	16,755,506
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on bond refunding	895,548
Total assets and deferred outflows of resources	$ 17,651,054
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	$ 296,300
Interfund payables	103,086
Interest payable	83,922
Current portion of long-term liabilities	850,000
Total current liabilities	1,333,308
Noncurrent liabilities:	
Long-term liabilities	9,910,000
Total noncurrent liabilities	9,910,000
Total liabilities	11,243,308
NET POSITION	
Net investment in capital assets	4,569,085
Unrestricted	1,838,661
Total net position	$ 6,407,746

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit I

	Stormwater Fund
Operating revenues:	
Stormwater Fees	$ 3,551,386
Federal Grant	25,764
Total operating revenues	3,577,150
Operating expenses:	
Maintenance and Repair	680,328
Administrative - Salary/Benefits	317,573
Administrative - Operating	226,660
Depreciation	726,031
Total operating expenses	1,950,592
Operating Income	1,626,558
Nonoperating revenues (expenses):	
Investment Income	450
Administrative	(2,500)
Interest Expense	(414,081)
Total non operating (expenses)	(416,131)
Income before transfers	1,210,427
Transfers Out	(94,258)
Change in net position	1,116,169
Total net position - beginning	5,291,577
Total net position - ending	$ 6,407,746

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit J

	Stormwater Fund
OPERATING ACTIVITIES	
Receipts from other governments	$ 3,633,270
Payments to suppliers	(877,391)
Payments to employees	(446,092)
Net cash provided by operating activities	2,309,787
CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,239,373)
Payment of interest expense	(321,118)
Nonoperating administrative expenses	(2,500)
Principal payment on bonds payable	(825,000)
Net cash used for capital and related financing activities	(2,387,991)
INVESTING ACTIVITIES	
Proceeds from income on investments	450
Net cash provided by investing activities	450
Net (decrease) in cash and cash equivalents	(77,754)
Cash and cash equivalents, beginning of year	2,390,633
Cash and cash equivalents, end of year	**$ 2,312,879**
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	$ 1,626,558
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	726,031
Transfers Out to cover payroll provided by the Primary Government	(94,258)
(Increase) decrease in operating assets:	
Due from other governments	56,120
Due from other funds	(937)
Increase(Decrease) in operating liabilities:	
Accounts payable	29,597
Due to other funds	(33,324)
Net cash provided by operating activities	$ 2,309,787

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
FIREMEN'S FUND
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit K

ASSETS	
Cash and Temporary Investments	$ 35,637
LIABILITIES	
Due to Firemen's Fund Association	$ 35,637

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

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

This report includes all of the funds of the Town of Hilton Head Island, South Carolina, (the primary government) which was incorporated May 18, 1983, the Hilton Head Island Economic Development Corporation, 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.

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

Basis of Presentation

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 -- and liabilities and deferred inflows 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.

Note 1. Summary of Significant Accounting Policies (continued)

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

The Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* in the year ended June 30, 2015.

The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

The objective of GASB No. 71 is to address an issue regarding application of the transition provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

See Notes 17 and 20 for further detail of the implementation of GASB No. 68 and GASB No. 71.

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.

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation -- Fund Financial Statements (continued)

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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 positions are reported as restricted when constraints placed on net position are either: 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by laws of the State of South Carolina through constitutional provisions or enabling legislation.

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 qualifies 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 for pension earnings above expectations. These are more fully discussed in Notes 17 and 20.

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.

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, 2015, 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, 2014
Property tax due	January 15, 2015
Delinquent date	January 16, 2015
Levy date	October 2015
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.

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.

Note 1. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

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

Investments

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

Due to and from Other Funds/ Internal Balances

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

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets used in the operations of governmental funds and 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.

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

Long-Term Obligations

In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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.

Note 1. Summary of Significant Accounting Policies (continued)

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Town Council through approval of resolutions. Assigned fund balances is a limitation imposed by a 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.

Restricted Net Position

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

Program Revenues

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

Subsequent Events

In preparing the comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015, the Town evaluated events and transactions for potential recognition or disclosure through January 13, 2016.

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	$ 13,664,480	$ -	$ 13,664,480
Tax Increment Financing	4,025,331	-	4,025,331
Accommodations Tax	1,928,440	-	1,928,440
Real Estate Transfer Fees	1,467,921	-	1,467,921
Beach Preservation Fees	14,453,700	-	14,453,700
Debt Service	6,522,766	775,651	7,298,417
Hospitality Tax	579,820	-	579,820
Capital Projects	12,875,657	-	12,875,657
Town Franchise Fees	3,302,578	-	3,302,578
Home Grant	50,513	-	50,513
Total Governmental Activities	$ 58,871,206	$ 775,651	$ 59,646,857
Business-Type Activities:			
Stormwater Utility Fees	$ 2,312,879	$ -	$ 2,312,879

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, 2015, the $ 61,182,530 carrying balance and $ 61,533,366 bank balance were held in various banks of which $ 540,089 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of $ 1,555 is held in petty cash funds of the Town.

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

Investments

At June 30, 2015, the Town had investments and maturities as shown below:

	Fair Value	1 Year
Federal National Mortgage Discount Note	$ 775,651	$ 775,651
Total	$ 775,651	$ 775,651

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 afore-mentioned 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.

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, 2015, the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)
Federal National Mortgage Discount Note	$ 755,651	$ 755,651

Note 3. Receivables

At June 30, 2015, the Town's receivable balances were as follows:

	Government-wide Financial Statements				
	Fund Financial Statements				
	General Fund	Beach Preservation Fee	Hospitality Fee	Non-Major Governmental	Total
Receivables:					
EMS Fees	$ 369,709	$ -	$ -	$ -	$ 369,709
Local accomodations taxes	1,030,524	-	-	-	1,030,524
Business licenses	1,123,757	-	-	-	1,123,757
Other receivables	372,686	-	-	120,249	492,935
Beach preservation fees	-	2,061,049	-	-	2,061,049
Hospitality taxes	-	-	1,579,370	-	1,579,370
Total Receivables	$ 2,896,676	$ 2,061,049	$ 1,579,370	$ 120,249	$ 6,657,344
Receivables from Employees:					
Cobra Insurance	$ (11,019)	$ -	$ -	$ -	$ (11,019)
Computer Purchases*	39,826	-	-	-	39,826
Total Receivables from Employees	$ 28,807	$ -	$ -	$ -	$ 28,807

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

Note 4. Interfund Balances and Activities

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2015 for which payment was received/made after June 30, 2015.

Governmental activities and Proprietary Fund interfund receivables and payable balances at June 30, 2015 are as follows:

	Due From								
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Hospitality Fees	Beach Preservation Fees	Capital Projects Fund	Non-Major Governmental	Proprietary Fund	Total
Due To:									
General	$ -	$ 243,817	$ 261,501	$ 1,438,126	$ 252	$ 3,320,516	$ 114,638	$ 103,086	$ 5,481,936
Capital Project Fund	72,134	-	-	-	-	-	35,442	-	107,576
Hospitality Fee	2,401	-	-	-	-	-	-	-	2,401
Beach Preservation Fees	1,269	-	-	-	-	-	-	-	1,269
Non-Major Governmental	121,920	-	-	-	-	-	-	-	121,920
Proprietary Fund	1,030	-	-	-	-	-	-	-	1,030
Debt Service Fund	187,424	-	-	-	-	-	-	-	187,424
Total	$ 386,178	$ 243,817	$ 261,501	$ 1,438,126	$ 252	$ 3,320,516	$ 150,080	$ 103,086	$ 5,903,556

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, 2015 are summarized below:

	Recipient Fund				
Transferring Fund	**General**	**Capital Projects**	**Beach Preservation**	**Debt Service**	**Total**
Tax Increment Financing	$ 169,398	$ 4,329,873	$ -	$ 4,122,476	$ 8,621,747
Accomodations Tax	1,338,188	-	-	-	1,338,188
Hospitality Fee	4,391,195	490,011	-	1,616,427	6,497,633
Beach Preservation Fee	1,111,138	612,676	-	4,381,225	6,105,039
Capital Projects	1,024,150	-	-	10,889	1,035,039
Non-Major Governmental	311	-	-	-	311
Real Estate Transfer Fee	-	-	-	2,269,578	2,269,578
Debt Service Fund	-	-	1,900,110	-	1,900,110
Total Governmental Funds	8,034,380	5,432,560	1,900,110	12,400,595	27,767,645
Proprietary Fund	94,258	-	-	-	94,258
Total All Funds	$ 8,128,638	$ 5,432,560	$ 1,900,110	$ 12,400,595	$ 27,861,903

Note 5. Due To or From Other Governments

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

General Fund	
Property Taxes - Beaufort County	$ 142,617
Beaufort County - Oceanwoods Landscaping	4,725
E 911 - Beaufort County	46,291
Dispatch/ EMS 911 - Beaufort County	12,500
State of South Carolina - Aid to Sub-Division	188,318
State of South Carolina - Homestead Exemption	200,854
State of South Carolina - Merchant Inventory	2,898
	$ 598,203

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

Capital Projects Fund		
State Sunday Liquor Fees	$	76,243
		76,243
Accomodations Taxes		
State of South Carolina		1,806,288
Real Estate Transfer Fees		
Beaufort County		269,114
Total Due from Other Governments	**$**	**2,749,848**
Proprietary Fund		
Beaufort County	**$**	**8,060**

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

General Fund		
Municipal Court State Fees - SC State Treasurer	$	14,493
State of South Carolina - Sales & Use Tax		5,303
		19,796
Total Due to Other Governments	**$**	**19,796**

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, 2015, 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.

Note 6. Fund Balances (continued)

- **Assigned Fund Balance** includes amounts intended to be used by the Town for specific purposes that are neither restricted nor committed. Intent is expressed by (a)Town Council or (b) a body or official to which Town Council has delegated the authority to assign amounts to be used for specific purposes.

- **Unassigned Fund Balance** is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned. Hilton Head Island Town Council is the Town's highest level of decision-making 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.

Fund balances for all the major and non-major funds as of June 30, 2015, were distributed as follows:

Classification/Fund		Purpose	Amount
Restricted			
	General	Deposits in escrow	$ 66,011
	Tax Increment Financing District	Economic development	3,781,514
	Accommodations Tax	Tourism promotion	2,834,620
	Real Estate Transfer Fee	Environmental conservation	1,737,035
	Beach Preservation Fee	Beach nourishment and restoration	4,515,766
	Hospitality Fee	Public health and safety	723,465
	Debt Service	Debt service payments	7,485,841
	Capital Projects	Construction of major capital facilities	7,385,562
	Palmetto Electric	Underground electrical service	3,412,925
Committed			
	General	Disaster reserve	14,232,879
	Beach Preservation Fee	Beach renourishment	12,000,000
Assigned			
	General	FY16 Budget	1,471,227
	Capital Projects	FY16 Budget	1,232,948
Unassigned			
	HOME grant	HOME grant program	(9,991)
	Operating Grants	Operating grants	(49,272)
	General		3,579,208
	Total Fund Balances		$ 64,399,738

Note 6. Fund Balances (continued)

Committed For Disaster Recovery

- **Committed for Operating Expenditures** – The Town will establish and maintain an **operating balance based on a range with a minimum of 25% up to a maximum of 30%** of the Town's adopted fiscal year operating budget. The operating balance may be utilized for emergency purposes in post-disaster occurrences; to offset an early fiscal year tax revenue income stream deficiency; and to avoid emergency Town borrowing or use of tax anticipation notes. The Director of Finance is authorized to transfer the amount of undesignated fund balance above the 30% maximum into the debt service fund to maintain an account for the reduction of Town debt. This account shall be called debt defeasance. An annual report shall be given each year in conjunction with the budget.
- **Committed for Advertising Expenditures** – The Town will set aside 2% of the 2% local hospitality tax and 5% of the 1% local accommodations tax revenues collected annually into 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. 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.

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

Note 7. Accounts Payable

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

	Government-Wide Financial Statements					
	Fund Financial Statements					
	General Fund	Accommodations Tax Fund	Capital Project Fund	Non-Major Funds	Proprietary Fund	Total
Payables:						
Accounts payable	$ 1,653,642	$ 638,607	$ 877,493	$ 21,112	$ 296,300	$ 3,487,154
Accrued payroll	1,064,936	-	-	-	-	1,064,936
Total payables	$ 2,718,578	$ 638,607	$ 877,493	$ 21,112	$ 296,300	$ 4,552,090

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	$ 97,248
Capital Projects Fund	238,057
Nonmajor Governmental Fund - Home Grant	70,406
	$ 405,711

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 Open Space Fund.
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:

			Governmental Activities	Business-Type Activities
Net investment in capital assets				
	Net capital assets		$ 243,865,033	$ 14,433,537
	Less:	General obligation bonds	(55,945,000)	-
		Special obligation bonds	(29,950,000)	(10,760,000)
		Bond premiums	(1,829,735)	-
	Add:	Deferred charges on refunding	2,032,664	895,548
		Unspent bond proceeds	4,889,367	-
			163,062,329	**4,569,085**
Restricted for:				
	Deposits in escrow		66,011	-
	Economic development		3,781,514	-
	Tourism promotion		2,834,620	-
	Environmental conservation		1,737,035	-
	Beach nourishment and restoration		4,515,766	-
	Public health and safety		723,465	-
	Debt service payments		7,485,841	-
	Construction of major capital facilities		7,385,562	-
	Underground electrical service		3,412,925	-
Unrestricted:			10,121,639	1,838,661
	Total net position		**$ 205,126,707**	**$ 6,407,746**

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 2015: $ 1,580,537) and five percent (5%, $263,423) 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 were lapsed during the fiscal year ended June 30, 2015.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2015:

Note 9. Accommodations Tax Fund (continued)

	Appropriations	Expenditures
Grants		
Art League of Hilton Head Island	$ 45,000	$ 45,000
Arts Center of Coastal Carolina	383,250	358,659
Arts Center of Coastal Carolina	260,850	260,850
Coastal Discovery Museum	185,000	94,087
Coastal Discovery Museum	194,250	83,304
Coastal Discovery Museum	102,613	4,420
Coastal Discovery Museum & Heritage Library	8,000	8,000
David M. Carmines Memorial Foundation	4,400	4,400
Gullah Museum of Hilton Head Island	20,000	2,560
Harbour Town Merchants Association - 4th of July Fireworks	9,000	9,000
Heritage Library Foundation	17,150	17,133
Heritage Library Foundation	18,865	5,570
Heritage Library Foundation	7,242	4,816
Hilton Head Audobon Society	45,000	38,055
Hilton Head Choral Society	18,000	18,000
Hilton Head Choral Society	24,800	7,689
Hilton Head Choral Society	4,790	4,790
Hilton Head Dance Theatre	12,000	7,623
Hilton Head Dance Theatre	13,200	7,655
Hilton Head Island Concourse D'Elegance	147,400	47,777
Hilton Head Island Concourse D'Elegance	85,000	7,405
Hilton Head Island Recreation Association	7,500	7,500
Hilton Head Island St. Patrick's Day Parade	12,000	6,751
Hilton Head Island St. Patrick's Day Parade	13,200	10,963
Hilton Head Island-Bluffton Chamber of Commerce Marketing	330,000	206,284
Hilton Head Island-Bluffton Chamber of Commerce Marketing	366,500	124,361
Hilton Head Symphony Orchestra	215,000	215,000
Hilton Head Wine and Food	100,350	35,099
Hilton Head Wine and Food	130,000	114,209
Italian American Club of Hilton Head Island	5,000	5,000
Lowcountry Golf Course Owners Association	50,000	25,000
Lowcountry Golf Course Owners Association	42,510	42,422
Main Street Youth Theatre	12,000	6,396
Main Street Youth Theatre	13,200	12,331
Mitchelville Preservation Project	28,000	23,457
Mitchelville Preservation Project	30,800	9,465
Native Island Business and Community Affairs Association	95,000	50,763
Native Island Business and Community Affairs Association	104,500	92,023
Shelter Cove Harbour Company - 4th of July Fireworks	9,000	9,000
Skull Creek July 4th Celebration	9,000	9,000
The Sandbox: An Interactive Children's Museum	50,000	27,847
The Sandbox: An Interactive Children's Museum	55,000	30,717
The Sandbox: An Interactive Children's Museum	82,123	29,512
Total Grants	**$ 3,366,493**	**$ 2,129,893**
Other Financing Uses		
Transfer to General Fund - Grant Approved	$ 1,049,765	$ 1,338,188
Total Other Financing Uses	**$ 1,049,765**	**$ 1,338,188**

Note 9. Accommodations Tax Fund (continued)

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

For the year ended June 30,	Accommodations Tax Grants			
	Approved	Paid	Lapsed	Unpaid
2006	2,389,750	(1,804,388)	(30,000)	555,362
2007	2,724,393	(2,290,222)	(5,000)	429,171
2008	2,101,886	(1,718,815)	(11,079)	371,992
2009	2,014,074	(1,697,468)	(6,936)	309,670
2010	1,710,032	(1,355,384)	(12,426)	342,222
2011	1,760,009	(1,295,954)	(5)	464,050
2012	2,279,166	(1,210,594)	(2,795)	1,065,777
2013	2,734,933	(1,611,719)	(25,201)	1,098,013
2014	2,537,173	(1,662,094)	-	875,079
2015	3,366,493	(2,129,893)	-	1,236,600

Town council has approved amounts for calendar year 2016 grants as follows:

HHI Wine and Food, Inc.	130,000
HHI Chamber and VCB	385,000
Hilton Head Symphony Orchestra	230,000
Lowcountry Golf Course Owners Association	50,000
Shelter Cove Harbour Company	54,900
The Coastal Discovery Museum	239,340
The Heritage Library -- History Day	9,100
The Sandbox	49,600
Town of Hilton Head Island	1,286,058
D.M. Carmines Mem. Foundation Seafood Festival	10,000
Gullah Museum of HHI	30,000
Harbour Town Merchants Association	12,000
Hilton Head Dance Theatre	15,000
Main Street Youth Theater	15,000
Michelville Preservation Project	40,000
Native Island Business & Community	110,000
Skull Creek July 4th Celebration	12,000
Art League of HHI	55,000
HHI St. Patrick's Day Parade	14,740
Memory Matters	12,000
MLK Jr. Celebration	1,660
The Heritage Library	49,606
	$ 3,422,504

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 $85.9 million in outstanding bonds associated with governmental type activities and $10.8 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:

	Governmental Activities			Business-type Activities		
For the Year Ended June 30	Interest	Principal	Total	Interest	Principal	Total
2016	$ 3,278,426	$ 7,420,000	$ 10,698,426	$ 299,128	$ 850,000	$ 1,149,128
2017	3,006,210	7,680,000	10,686,210	275,498	875,000	1,150,498
2018	2,724,598	7,965,000	10,689,598	251,173	900,000	1,151,173
2019	2,443,231	8,230,000	10,673,231	226,153	920,000	1,146,153
2020	2,134,299	5,920,000	8,054,299	200,577	950,000	1,150,577
2021-2025	7,846,130	25,145,000	32,991,130	592,418	5,145,000	5,737,418
2026-2030	3,829,826	13,100,000	16,929,826	31,136	1,120,000	1,151,136
2031-2035	1,512,605	9,475,000	10,987,605	-	-	-
2036-2040	39,600	960,000	999,600	-	-	-
Total	$ 26,814,925	$ 85,895,000	$ 112,709,925	$ 1,876,083	$ 10,760,000	$ 12,636,083

Note 10. Long-Term Obligations (continued)

Legal Debt Limit

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

a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;

b. The provisions of Article Ten (X) Section 14; and

c. Such general obligation debt shall be issued within five years of the date of such referendum and shall mature within forty (40) years from the time such indebtedness shall be incurred.

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

Assessed Value as of August 31, 2015		**$ 907,022,430**
Debt Limit - Eight Percent (8%) of Assessed Value, without voter's approval		**72,561,794**
Council Imposed 80% Cap		**58,049,436**
Amount of Debt Applicable to Debt Limit:		
General Obligation Bonds 2009A (Refunding of Series 1999A)	4,160,000	
General Obligation Bonds 2013A (Partial)	3,588,889	
Total Amount Applicable to Debt Limit		**7,748,889**
Legal Debt Margin without a Referendum		**$ 50,300,547**

Note 10. Long-Term Obligations (continued)

GOVERNMENTAL ACTIVITIES

$24,265,000 General Obligation Bonds Dated March 15, 2005

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

		Governmental Activities		
For the Year Ending June 30	Interest Rate by Year (%)	Interest	Principal	Total
2016	5.000	$ 642,765	$ 1,785,000	$ 2,427,765
2017	5.000	551,265	1,875,000	2,426,265
2018	5.000	455,390	1,960,000	2,415,390
2019	5.000	355,015	2,055,000	2,410,015
2020	4.000	260,640	2,150,000	2,410,640
2021-2025	various	447,575	5,170,000	5,617,575
		$ 2,712,650	$ 14,995,000	$ 17,707,650

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.

Note 10. Long-Term Obligations (continued)

$12,215,000 General Obligation Bonds Dated March 4, 2008

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2016	5.000	$ 347,837	$ 745,000	$ 1,092,837
2017	5.000	313,562	775,000	1,088,562
2018	4.000	273,813	815,000	1,088,813
2019	4.250	236,338	855,000	1,091,338
2020	4.000	200,325	890,000	1,090,325
2021-2024	various	379,294	3,970,000	4,349,294
		$ 1,751,169	$ 8,050,000	$ 9,801,169

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

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2016	2.500	$ 123,476	$ 360,000	$ 483,476
2017	2.750	113,820	375,000	488,820
2018	2.750	103,370	385,000	488,370
2019	2.750	92,645	395,000	487,645
2020	3.000	81,064	410,000	491,064
2021-2025	various	196,969	2,235,000	2,431,969
		$ 711,344	$ 4,160,000	$ 4,871,344

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

Note 10. Long-Term Obligations (continued)

$12,000,000 General Obligation Bonds Dated February 3, 2010

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2016	3.850	$ 503,053	$ 460,000	$ 963,053
2017	4.000	485,343	470,000	955,343
2018	4.350	466,543	485,000	951,543
2019	4.450	445,445	500,000	945,445
2020	4.600	423,195	515,000	938,195
2021-2025	various	1,734,065	2,840,000	4,574,065
2026-2030	various	1,080,595	2,125,000	3,205,595
2031-2035	various	449,175	2,580,000	3,029,175
		$ 5,587,414	$ 9,975,000	$ 15,562,414

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

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2016	2.000	$ 340,844	$ 640,000	$ 980,844
2017	3.000	328,044	645,000	973,044
2018	3.000	308,694	660,000	968,694
2019	2.250	288,894	680,000	968,894
2020	2.750	214,225	690,000	904,225
2021-2025	various	1,088,231	3,820,000	4,908,231
2026-2029	various	321,407	3,555,000	3,876,407
		$ 2,890,339	$ 10,690,000	$ 13,580,339

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

Note 10. Long-Term Obligations (continued)

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2016	3.000	$ 176,889	$ 152,778	$ 329,667
2017	5.000	172,306	155,556	327,862
2018	5.000	164,528	163,889	328,417
2019	2.000	156,333	172,222	328,555
2020	2.000	152,889	176,400	329,289
2021-2025	various	660,141	986,119	1,646,260
2026-2030	various	429,917	1,216,677	1,646,594
2031-2035	various	180,443	1,461,292	1,641,735
		$ 2,093,446	$ 4,484,933	$ 6,578,379

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

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

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

For the Year Ending June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2016	3.000	$ 141,511	$ 122,222	$ 263,733
2017	5.000	137,844	124,444	262,288
2018	5.000	131,622	131,111	262,733
2019	2.000	125,067	137,778	262,845
2020	2.000	122,311	138,600	260,911
2021-2025	various	528,109	788,881	1,316,990
2026-2030	various	343,933	973,323	1,317,256
2031-2035	various	144,356	1,173,708	1,318,064
		$ 1,674,753	$ 3,590,067	$ 5,264,820

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

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 by $2,091,227 and to obtain an economic gain (difference between present values of old and new debt service payments) of approximately $291,878. A schedule of the amount due for this issue follows:

		Governmental Activities		
For the Year Ending June 30	Interest Rate by Year (%)	Interest	Principal	Total
2016	various	$ 210,194	$ 420,000	$ 630,194
2017	2.250	202,794	425,000	627,794
2018	various	193,231	440,000	633,231
2019	various	182,731	450,000	632,731
2020	various	165,981	465,000	630,981
2021-2025	various	587,350	2,555,000	3,142,350
2026-2028	various	133,005	1,750,000	1,883,005
		$ 1,675,286	$ 6,505,000	$ 8,180,286

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, 2015, $601,611 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.

Note 10. Long-Term Obligations (continued)

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

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

		Governmental Activities		
For the Year Ending June 30	Interest Rate by Year (%)	Interest	Principal	Total
2016	2.000	$ 567,919	$ 430,000	$ 997,919
2017	3.000	559,319	440,000	999,319
2018	3.000	546,119	455,000	1,001,119
2019	4.000	532,469	470,000	1,002,469
2020	4.290	513,669	485,000	998,669
2021-2025	various	2,224,396	2,780,000	5,004,396
2026-2030	various	1,520,969	3,480,000	5,000,969
2031-2035	various	738,631	4,260,000	4,998,631
2036	4.125	39,600	960,000	999,600
		$ 7,243,091	$ 13,760,000	$ 21,003,091

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, 2015, $1,070,011 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.

Note 10. Long-Term Obligations (continued)

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

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

		Governmental Activities		
For the Year Ending June 30	Interest Rate by Year (%)	Interest	Principal	Total
2016	4.000	$ 223,938	$ 2,305,000	$ 2,528,938
2017	3.000	141,913	2,395,000	2,536,913
2018	2.000	81,288	2,470,000	2,551,288
2019	2.250	28,294	2,515,000	2,543,294
		$ 475,433	$ 9,685,000	$ 10,160,433

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, 2015, $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.

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, 2015, $26,115,000 of bonds are considered defeased debt.

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 by $ 2,837,355 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $ 943,642, and an accounting loss of $ 1,343,322. A schedule of the amount due for this issue follows:

		Business-Type Activities		
For the Year Ending June 30	Interest Rate by Year (%)	Interest	Principal	Total
2016	2.780	$ 299,128	$ 850,000	$ 1,149,128
2017	2.780	275,498	875,000	1,150,498
2018	2.780	251,173	900,000	1,151,173
2019	2.780	226,153	920,000	1,146,153
2020	2.780	200,577	950,000	1,150,577
2021-2025	2.780	592,418	5,145,000	5,737,418
2026	2.780	31,136	1,120,000	1,151,136
		$ 1,876,083	$ 10,760,000	$ 12,636,083

Note 10. Long-Term Obligations (continued)

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	$ 60,080,000	$ -	$ 4,135,000	$ 55,945,000	$ 4,265,000
Tax increment financing	4,010,000	-	4,010,000	-	-
Special Obligation Bonds:					
Beach preservation fees	13,700,000	-	4,015,000	9,685,000	2,305,000
Hospitality tax	21,100,000	-	835,000	20,265,000	850,000
Premium on bonds	2,004,461	-	174,726	1,829,735	174,726
Total bonds and notes payable	100,894,461	-	13,169,726	87,724,735	7,594,726
Other liabilities:					
Compensated absences	4,048,984	1,155,514	985,555	4,218,943	3,797,051
Total other liabilities	4,048,984	1,155,514	985,555	4,218,943	3,797,051
Governmental activities long-term liabilities	$ 104,943,445	$ 1,155,514	$ 14,155,281	$ 91,943,678	$ 11,391,777
Business-type Activities:					
Bonds and notes payable:					
Stormwater fees	$ 11,585,000	$ -	$ 825,000	$ 10,760,000	$ 850,000
Total bonds and notes payable	11,585,000	-	825,000	10,760,000	850,000
Business-type activities long-term liabilities	$ 11,585,000	$ -	$ 825,000	$ 10,760,000	$ 850,000

Note 11. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	$ 162,679,882	$ 7,332,718	$ (8,379,804)	$ 161,632,796
Development Rights	10,734,391	-	-	10,734,391
Easements/Right-of-Ways	3,548,960	-	-	3,548,960
Construction in progress	9,610,583	6,539,377	(13,143,070)	3,006,890
Total capital assets not being depreciated	186,573,816	13,872,095	(21,522,874)	178,923,037
Capital assets being depreciated:				
Buildings	27,145,405	6,948,696	(591,006)	33,503,095
Furniture, fixtures and equipment	5,742,869	778,700	(223,870)	6,297,699
Vehicles	7,120,755	184,174	(121,874)	7,183,055
Imp. other than buildings - park development	12,133,292	5,635,139	-	17,768,431
Infrastructure	33,827,734	2,432,149	-	36,259,883
Total capital assets being depreciated	85,970,055	15,978,858	(936,750)	101,012,163
Less accumulated depreciation for:				
Buildings	9,972,929	944,757	(594,972)	10,322,714
Furniture, fixtures and equipment	4,465,826	535,816	(219,903)	4,781,739
Vehicles	3,146,803	501,361	(121,875)	3,526,289
Imp. other than buildings - park development	3,081,900	495,044	-	3,576,944
Infrastructure	12,501,875	1,360,606	-	13,862,481
Total accumulated depreciation	33,169,333	3,837,584	(936,750)	36,070,167
Total capital assets being depreciated, net	52,800,722	12,141,274	-	64,941,996
Government activity capital assets, net	$ 239,374,538	$ 26,013,369	$ (21,522,874)	$ 243,865,033
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	$ 1,408,999	$ 1,304,551	$ (1,424,656)	$ 1,288,894
Total capital assets not being depreciated	1,408,999	1,304,551	(1,424,656)	1,288,894
Capital assets being depreciated:				
Infrastructure	18,037,476	1,359,475	-	19,396,951
Total capital assets being depreciated	18,037,476	1,359,475	-	19,396,951
Less accumulated depreciation for:				
Infrastructure	5,526,277	726,031	-	6,252,308
Total accumulated depreciation	5,526,277	726,031	-	6,252,308
Total capital assets being depreciated, net	12,511,199	633,444	-	13,144,643
Business-type activity capital assets, net	$ 13,920,198	$ 1,937,995	$ (1,424,656)	$ 14,433,537

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. See Note 22 regarding land swap transaction.

Note 11. Capital Assets (continued)

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

Governmental activities:	
General Government	$ 336,210
Management Services	182,622
Community Services	1,921,564
Public Safety	1,397,187
Total depreciation expense - governmental activities	$ 3,837,583
Business-type activities:	
Stormwater	$ 726,031
Total depreciation expense - business-type activities	$ 726,031

Note 12. Capital Projects Fund

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

Public facilities, capital improvements, and land acquisition projects are underway. The projects are being financed by contributions, grants, municipal improvement district assessments, Sunday permit fees, hospitality tax, and a property tax levy. For the year ended June 30, 2015, the following categories of projects were budgeted and expenditures were made as shown:

Public Facilities	$ 2,227,088
Park Development	1,115,701
Land and Related Acquisitions and Improvements	2,012,510
Beach Maintenance	794,774
Facilities Improvements	522,052
Roadway Improvements	2,650,081
Pathways Improvements	1,007,895
Total	$ 10,330,101

Note 13. Contracted Commitments and Operating Leases

Commitments

At June 30, 2015, the Town had contractual commitments of approximately $5,269,081 in progress. Through June 30, 2015, approximately $3,772,789 in costs had been incurred on these commitments. At June 30, 2015, the Town had outstanding contractual commitments totaling approximately $1,496,292 for projects in progress.

Note 13. Contracted Commitments and Operating Leases (continued)

Operating Leases

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

2016	$ 102,467
2017	89,336
2018	38,113
2019	1
2020	1
	$ 229,918

At June 30, 2015, future minimum payment under noncancelable operating leases with remaining terms in excess of one year were as follows:

2016	$ 88,758
2017	69,675
2018	44,638
2019	35,526
2020	614
	$ 239,211

During the year, the Town incurred $129,564 in lease expenses.

Note 14. Retirement Plans

ICMA Retirement Corporation Plan

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

For the year ended June 30, 2015, 2014 and 2013, employer contributions were based on a total payroll of $8,154,046, $7,907,699 and $7,635,178 respectively. The amount contributed by the employer for the year ended June 30, 2015 was $714,502 or 8.8% of covered payroll. During the years ended June 30, 2014 and 2013, $688,480 and $653,453 were contributed to the plan by the employer, respectively. Employee contributions to the plan were $600,323 or 7.4% of covered payroll for year ended June 30, 2015. Employees who participate in the PORS plan made contributions of $52,949 to the 401(k). No match was made for these contributions.

Note 14. Retirement Plans (continued)

PORS Plan

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

PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

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.

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.

Note 14. Retirement Plans (continued)

PORS Plan

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.

Required employee contribution rates for fiscal year 2014-2015 are as follows:

PORS	
Employee Class One	$21 per month
Employee Class Two	8.41% of earnable compensation
Employee Class Three	8.41% of earnable compensation

Required employer contribution rates for fiscal year 2014-2015 are as follows:

PORS	
Employer Class One	7.80% of earnable compensation
Employer Class Two	13.01% of earnable compensation
Employer Class Three	13.01% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

Note 14. Retirement Plans (continued)

PORS Plan

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, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for PORS.

	PORS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	levels off at 4.0%
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%

Note 14. Retirement Plans (continued)

PORS Plan

Net Pension Liability

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. As of June 30, 2015, the Town's proportional share of the NPL amounts for PORS are presented below:

System	Proportional Share of Net Pension Liability
PORS	$ 12,446,229

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The Town's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2015, the Town's percentage of the PORS net pension liability was 0.6501300%.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 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.

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 end of the third quarter 2012. 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.

Note 14. Retirement Plans (continued)

PORS Plan

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	**5.0%**		
Cash	2.0	0.3%	0.01%
Short Duration	3.0	0.6	0.02
Domestic Fixed Income	**13.0**		
Core Fixed Income	7.0	1.1	0.08
High Yield	2.0	3.5	0.07
Bank Loans	4.0	2.8	0.11
Global Fixed Income	**9.0**		
Global Fixed Income	3.0	0.8	0.02
Emerging Markets Debt	6.0	4.1	0.25
Global Public Equity	**31.0**	**7.8**	**2.42**
Global Tactical Asset Allocation	**10.0**	**5.1**	**0.51**
Alternatives	**32.0**		
Hedge Funds (Low Beta)	8.0	4	0.32
Private Debt	7.0	10.2	0.71
Private Equity	9.0	10.2	0.92
Real Estate (Broad Market)	5.0	5.9	0.29
Commodities	3.0	5.1	0.15
Total Expected Real Return	100.0%		5.88
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.63%

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1.00% Increase (8.50%)**
PORS	$ 17,393,335	$ 12,446,229	$ 8,352,979

Note 14. Retirement Plans (continued)

PORS Plan

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2015, the Town recognized pension expense of $1,081,248. At June 30, 2015, the Town reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,040,900	$ –
Differences in actual and expected experience	332,135	–
Net differences between projected and actual earnings on plan investments	–	1,440,120
	$ 1,373,035	$ 1,440,120

The Town reported $1,040,900 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, 2016. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Town's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2015. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2015 was 4.856 years for PORS.

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	PORS
2015	2016	$ (273,896)
2016	2017	(273,896)
2017	2018	(273,896)
2018	2019	(286,297)
Net Balance of Deferred Outflows / (Inflows) of Resources		$ (1,107,985)

Retirement Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2015, employer contributions were based on a total payroll of $16,341,924 of which $15,916,163 or 97.39% of the total payroll was covered under the plan. Employer contributions were $1,755,402 or 11.03% of covered payroll. Employee contributions were $1,304,784 or 8.20% of covered payroll.

Note 15. Deferred Compensation Plan

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

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

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

Note 16. Health Plans

In January 2001, the Town instituted medical spending accounts whereby the Town contributes a set amount each year per employee. The employees submit reimbursement requests for medical expenses to Human Resources. Amounts not used during the calendar year are carried over to the next year, subject to a $5,000 cap. The Town's liability under this plan totaled $213,171 at June 30, 2015, and is included as a liability in the General Fund in the accrued payroll and employee payables. During the period ended June 30, 2015, the Town contributed $144,884 to this plan.

In January 2005, the Town instituted a preventive healthcare plan whereby employees are eligible for reimbursement of expenses associated with preventive care examinations and/or tests up to an established limit each year. The reimbursement is available for use by the employee or a dependent of the employee. There is only one benefit per family per year. Unused funds will be forfeited at the end of the year. For the period ended June 30, 2015, the limit was $350, and the Town's liability under this plan totaled $79,547. During the period ended June 30, 2015, the Town contributed $23,432 to this plan.

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ended June 30, 2015 the limit was $150 per covered individual, and the Town's liability under this plan totaled $77,863. During the period ended June 30, 2015, the Town contributed $21,644 to this plan.

Note 17. Other Post-Employment Benefits

In January 2002, the Town instituted a plan for reimbursement of future retiree medical expenses. Annually, the Town contributes one hundred percent of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses. Upon retirement, the value of an employee's remaining sick leave is also contributed to this account. Employees who meet their retirement plan eligibility criteria are eligible for the benefit. The plan carries to survivor or dependent at death, but is used for future contributions credit if an employee leaves for a reason other than retirement. Six (6) employees were eligible for the benefits for the period ended June 30, 2015.

The Town contributed $65,880 during the year ended June 30, 2015.

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.

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, 2015.

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 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 a deferred outflow 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:

Note 19. Deferred Outflows of Resources (continued)

Long Term Obligation	Original Face Amount of Deferred Charge	Final Maturity Date	Deferred Charge on Bond Refunding
General Obligation Bonds - March 1, 2005	$ 1,105,601	03/01/2025	$ 534,559
General Obligation Bonds - August 3, 2011	$ 1,071,450	08/03/2029	833,350
General Obligation Bonds - September 9, 2009	$ 143,484	09/09/2024	87,684
Special Obligation Bonds - October 26, 2011	$ 769,428	10/26/2027	577,071
		Total Governmental Funds	$ 2,032,664
Business-type Activitiy Bonds - December 1, 2010	1,343,322	12/01/2025	$ 895,548
		Total Business-type Activity Fund	$ 895,548

Amortization of the deferred charge on governmental and business-type activity refundings of bond payable for the year ended June 30, 2015 was $172,484 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. Restatement of Beginning Balance of Net Position

The Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* in the year ended June 30, 2015.

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68.

See Note 14 for discussion deferred outflows and inflows related to the implementation of the new pension standard. The implementation of these two GASB standards resulted in the restatement of net position as reported at June 30, 2014 as presented below:

	Governmental Activities
Net position, as previously reported	$ 203,064,342
Adjustment to net position to record the Town's share of net pension liability	(12,472,966)
Net position as of June 30, 2014, as restated	$ 190,591,376

Note 21. 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 $864,708 to the Association for the year ended June 30, 2015. 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 Lowcountry. 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 $295,069 to the Museum for the year ended June 30, 2015. The Museum issues separate audited financial statements.

Note 22. Land Swap Transaction

The Town entered into a development agreement with Shelter Cove Towne Centre, LLC (the Developer) on October 16, 2012. As part of that development agreement, the Developer would make a number of park improvements at the development site, and the Town would split the cost. These improvements totaled $3,983,690, with the Town contributing its portion at $1,991,845. The agreement further stated, in order to facilitate both the development and the park improvements, the Town and the Developer would exchange properties at the site. The exchange took place in June 2015. The Town conveyed 31.26 acres in two parcels to the Developer and the Developer conveyed 31.26 acres of property in two parcels to the Town. The Town recorded its contribution of $1,991,845 and reduced the land asset values by the historical cost of the acreage by $8,091,861 and recorded the new acreage and improvements at fair market value at the time of the exchange in the amount of $11,300,545 resulting in a one-time gain on disposal of the former Town properties of $1,216,839.

Note 23. 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 economic substance of the transactions is as follows: The Town is granted easements to the stormwater infrastructure in certain areas of the Town, and the Town takes responsibility for future maintenance of the stormwater infrastructure. The PUDs and HOAs benefit in that future maintenance of the stormwater infrastructure is performed by the Town through its Proprietary Fund. The Town benefits by increasing the overall effectiveness of the systems together by coordinating efforts between and among the varied systems. There are also economies of scale by centralizing the maintenance efforts. The Town is currently undergoing an independent system-wide cataloging and mapping project to identify all the stormwater 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 until the cataloging project is completed. Through Fiscal Year-end 2015, the Town has chosen the most conservative reporting position and not recorded any assets when originally acquired from PUDs and HOAs for stormwater features within these easements. As the project continues to specifically identify features and conditions, the Town will consider a Fair Market Valuation of these potential assets. The Town is recording assets when it incurs costs on projects that meet the capitalization criteria.

Required Supplementary Information

Schedules Related to the South Carolina Retirement System Participation

Schedule of Contributions – South Carolina Retirement System – Schedule A.

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

TOWN OF HILTON HEAD ISLAND
Required Supplemental Information -
Schedule of Contributions -
South Carolina Police Officers Retirement System
As of June 30, 2015, Last Ten Fiscal Years

Schedule A

	2015	2014	2013	2012	2011
Contractually required contribution	$ 1,040,900	$ 1,004,009	$ 889,180	$ 860,238	$ 881,261
Contributions in relation to the contractually required contribution	1,040,900	1,004,009	889,180	860,238	881,261
Contribution deficiency (excess)	-	-	-	-	-
The Town's covered - employee payroll	7,762,118	7,819,385	7,472,105	7,570,521	7,755,527
Contributions as a percentage of covered - employee payroll	13.41%	12.84%	11.90%	11.36%	11.36%

	2010	2009	2008	2007	2006
Contractually required contribution	$ 798,806	$ 815,787	$ 796,220	$ 691,685	$ 686,571
Contributions in relation to the contractually required contribution	798,806	815,787	796,220	691,685	686,571
Contribution deficiency (excess)	-	-	-	-	-
The Town's covered - employee payroll	7,500,522	7,659,969	7,730,290	6,715,389	6,665,735
Contributions as a percentage of covered - employee payroll	10.65%	10.65%	10.30%	10.30%	10.30%

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, 2015, Last Two Fiscal Years

Schedule B

	2015	2014
The Town's proportion of the net pension liability	0.650130%	0.650130%
The Town's proportionate share of the net pension liability	12,446,267	13,477,016
The Town's covered - employee payroll	7,762,118	7,819,385
The Town's proportionate share of the net pension liability as percentage of covered - employee payroll	160.35%	172.35%
Plan fiduciary net position as a percentage of the total pension liability	67.55%	62.98%

Note: The amounts above were determined as of June 30th of the preceding year.

Supplementary Information

Governmental Activities:

General Fund

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

Debt Service Fund

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

Capital Projects Fund

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

Business-Type Activities:

Stormwater Fees

The Stormwater Fund is used to account for the costs associated with the management, construction, maintenance, protections, control, regulation, use, and enhancement of stormwater systems and programs within the Town limits of Hilton Head Island in concert with Beaufort County and other water resource management programs.

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP Basis) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	$ 11,810,750	$ 11,810,750	$ 11,894,284	$ 83,534
Accommodations Tax:				
Local 1%	2,833,000	2,833,000	3,068,339	235,339
Business License and Franchise Fees:				
Business License - Town	3,500,000	3,500,000	3,941,652	441,652
Business License - MASC	4,532,000	4,532,000	4,392,826	(139,174)
Cable Television Franchise	787,000	787,000	848,708	61,708
Beach Franchise	25,750	25,750	27,352	1,602
Total	8,844,750	8,844,750	9,210,538	365,788
Permits:				
Construction	547,000	547,000	552,722	5,722
Development	6,180	6,180	15,101	8,921
Other	895,000	895,000	813,023	(81,977)
Total	1,448,180	1,448,180	1,380,846	(67,334)
State Shared Funds	800,000	800,000	812,085	12,085
Grants:				
Beaufort County Hazmat	11,677	11,677	11,677	-
Beaufort County E911	144,200	144,200	132,041	(12,159)
DHEC	4,000	4,000	-	(4,000)
Red to Green Grant	1,900	1,900	-	(1,900)
Total	161,777	161,777	143,718	(18,059)
Miscellaneous Revenue:				
Beach Services	225,500	225,500	239,358	13,858
Donations	300	300	2,429	2,129
Municipal Court Fines and Fees	230,000	230,000	198,948	(31,052)
Other	259,200	259,200	223,925	(35,275)
Public Safety- EMS	1,314,000	1,314,000	1,403,782	89,782
Public Safety- County D/T	56,500	56,500	55,721	(779)
Town Codes	250	250	46	(204)
Victims Assistance	45,000	45,000	34,399	(10,601)
Total	2,130,750	2,130,750	2,158,608	27,858
Investment Income	2,700	2,700	2,347	(353)
Total Revenues	$ 28,031,907	$ 28,031,907	$ 28,670,765	$ 638,858

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures:				
General Government:				
Town Council:				
Salaries and Benefits	$ 143,776	$ 143,776	$ 131,073	$ 12,703
Operating	356,500	363,069	277,787	85,282
Total Town Council	500,276	506,845	408,860	97,985
Town Manager:				
Salaries and Benefits	615,675	622,163	622,073	90
Operating	27,000	22,500	15,957	6,543
Total Town Manager	642,675	644,663	638,030	6,633
Total General Government	1,142,951	1,151,508	1,046,890	104,618
Management Services:				
Finance - Administration:				
Salaries and Benefits	288,498	288,498	277,475	11,023
Operating	21,900	21,900	14,431	7,469
Total Finance - Administration	310,398	310,398	291,906	18,492
Finance - Accounting:				
Salaries and Benefits	523,268	523,268	516,396	6,872
Operating	103,220	103,220	90,171	13,049
Total Finance - Accounting	626,488	626,488	606,567	19,921
Finance - Revenue and Collections:				
Salaries and Benefits	741,441	723,136	549,863	173,273
Operating	89,516	89,516	56,343	33,173
Total Finance - Revenue and Collections	830,957	812,652	606,206	206,446
Administration - Legal :				
Salaries and Benefits	454,149	454,149	451,823	2,326
Operating	38,825	38,825	21,297	17,528
Total Administration - Legal	492,974	492,974	473,120	19,854
Administrative Services - Municipal Court:				
Salaries and Benefits	340,071	341,294	329,421	11,873
Operating	85,320	85,320	75,490	9,830
Total Administration - Municipal Court	425,391	426,614	404,911	21,703

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Management Services (continued):				
Administrative Services - Administrative Support :				
Salaries and Benefits	193,322	198,715	193,236	5,479
Operating	41,430	77,730	71,649	6,081
Total Administration - Administrative Support	234,752	276,445	264,885	11,560
Adminisrative Servuces - Information Technology:				
Salaries and Benefits	985,234	992,577	990,722	1,855
Operating	845,475	850,475	811,122	39,353
Total Administration - Information Technology	1,830,709	1,843,052	1,801,844	41,208
Human Resources:				
Salaries and Benefits	435,857	435,857	428,968	6,889
Operating	138,370	151,620	108,320	43,300
Total Human Resources	574,227	587,477	537,288	50,189
Total Management Services	5,325,896	5,376,100	4,986,727	389,373
Community Services:				
Community Development - Administration:				
Salaries and Benefits	476,724	474,762	451,754	23,008
Operating	71,562	71,562	17,998	53,564
Total CD - Administration	548,286	546,324	469,752	76,572
Community Development - CD Services:				
Salaries and Benefits	296,525	299,425	299,342	83
Operating	7,975	7,075	4,066	3,009
Total CD - CD Services	304,500	306,500	303,408	3,092
Community Development - Inspection/Compliance:				
Salaries and Benefits	678,608	678,608	636,504	42,104
Operating	23,069	23,069	16,540	6,529
Total CD - Inspection/Compliance	701,677	701,677	653,044	48,633

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Community Services (continued):				
Community Development - Development, Review, Zoning:				
Salaries and Benefits	581,583	584,383	584,339	44
Operating	98,995	148,370	28,775	119,595
Total CD - DRZ	680,578	732,753	613,114	119,639
Community Development - Comprehensive Planning:				
Salaries and Benefits	507,614	507,879	506,024	1,855
Operating	17,315	17,315	12,430	4,885
Total CD - Comprehensive	524,929	525,194	518,454	6,740
Public Facilities - Administration:				
Salaries and Benefits	255,517	255,517	251,968	3,549
Operating	4,900	4,900	2,926	1,974
Total Public Facilities - Administration	260,417	260,417	254,894	5,523
Public Facilities - Engineering:				
Salaries and Benefits	438,939	438,939	422,024	16,915
Operating	852,650	1,038,758	502,913	535,845
Total Public Facilities - Engineering	1,291,589	1,477,697	924,937	552,760
Public Facilities - Facilities Management:				
Salaries and Benefits	1,018,411	1,024,369	1,018,160	6,209
Operating	2,614,913	2,644,913	2,482,839	162,074
Total Public Facilities - Facilities Management	3,633,324	3,669,282	3,500,999	168,283
Total Community Services	7,945,300	8,219,844	7,238,602	981,242
Public Safety:				
Fire Rescue - Administration:				
Salaries and Benefits	233,701	233,701	228,424	5,277
Operating	135,015	135,015	93,159	41,856
Total Fire Rescue - Administration	368,716	368,716	321,583	47,133
Fire Rescue - Logistics/Maintenance:				
Salaries and Benefits	303,573	303,573	299,226	4,347
Operating	269,250	276,641	239,090	37,551
Total Fire Rescue - Logistics/Maintenance	572,823	580,214	538,316	41,898

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Public Safety (continued):				
Fire Rescue - Operations:				
Salaries and Benefits	9,400,717	9,542,572	9,406,849	135,723
Operating	95,100	95,100	94,180	920
Total Fire Rescue - Operations	9,495,817	9,637,672	9,501,029	136,643
Fire Rescue - Communications:				
Salaries and Benefits	901,866	905,227	887,696	17,531
Operating	246,850	246,850	221,198	25,652
Total Fire Rescue - Communications	1,148,716	1,152,077	1,108,894	43,183
Fire Rescue - Training:				
Salaries and Benefits	583,175	592,102	592,090	12
Operating	135,306	130,606	121,335	9,271
Total Fire Rescue - Training	718,481	722,708	713,425	9,283
Fire Rescue - Planning:				
Salaries and Benefits	-	208,047	197,349	10,698
Total Fire Rescue - Planning	-	208,047	197,349	10,698
Fire Rescue - Emergency Management:				
Salaries and Benefits	93,604	94,204	94,168	36
Operating	47,600	47,000	38,970	8,030
Total Fire Rescue - Emergency Management	141,204	141,204	133,138	8,066
Fire Rescue - Bureau of Fire Prevention:				
Salaries and Benefits	569,611	570,080	538,611	31,469
Operating	40,800	40,800	33,637	7,163
Total Fire Rescue - Bureau of Fire Prevention	610,411	610,880	572,248	38,632
Fire Rescue - Support Services:				
Salaries and Benefits	434,931	227,384	227,338	46
Operating	394,700	400,439	345,068	55,371
Total Fire Rescue - Support Services	829,631	627,823	572,406	55,417
Fire Rescue - E911 Communications:				
Salaries and Benefits	254,669	257,729	257,641	88
Operating	28,644	27,244	-	27,244
Total Fire Rescue - E911 Communications	283,313	284,973	257,641	27,332

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Public Safety (continued):				
Sheriff/Other Public Safety				
Police Services/Contract	2,847,320	2,852,330	2,844,295	8,035
Stipend	118,000	118,000	100,100	17,900
Victims' Rights	60,728	60,728	60,728	-
Beach Services	232,065	232,065	215,290	16,775
Total Sheriff/Other Public Safety	3,258,113	3,263,123	3,220,413	42,710
Total Public Safety	17,427,225	17,597,437	17,136,442	460,995

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual		Variance With Final Positive (Negative)
Expenditures (continued):					
Non-Departmental - Townwide:					
Personnel	355,960	214,485	214,044		441
Operating:					
Travel	500	500	-		500
Professional Dues	26,000	25,630	13,990		11,640
Abandoned Property	-	80	80		-
Temporary Agency	5,000	5,000	82		4,918
Professional Services	-	12,500	-		12,500
Photocopying	10,000	10,000	8,706		1,294
Courier	18,000	18,290	18,288		2
Palmetto Pass - Town Vehicles	6,500	6,500	6,140		360
Insurance	376,100	376,100	342,136		33,964
Telephone	225,000	225,000	218,319		6,681
Cell Phones	67,000	67,000	65,694		1,306
Electricity	330,000	330,000	296,668		33,332
Utilities	155,000	88,000	53,480		34,520
Taxes & Assessments	5,000	72,000	71,534		466
Office Supplies	5,000	1,050	1,022		28
Postage	33,000	33,000	23,893		9,107
Breakroom Supplies	-	3,950	3,949		1
Vehicle Fuel	225,000	225,000	168,238		56,762
Accident Insurance Fund	35,000	35,000	9,381		25,619
Equipment Maintenance	2,000	2,000	215		1,785
Lease Payments	67,900	78,431	63,333		15,098
Printers, Fax Supplies	20,000	20,000	12,208		7,792
General Contingency/Operating Budget Adjustment	50,000	20,900	2,675		18,225
Operating Grants:					
Turtle Watch	37,300	37,300	37,300		-
Economic Development Corporation	441,012	456,972	345,063	A	111,909
EDC Other Revenue Fund Expenditures	-	-	335		(335)
Recreation Center-Operating Grant	629,278	629,278	629,278		-
Recreation Center-Capital Grant	240,650	292,158	216,545		75,613
Coastal Discovery Grant-Operating Grant	75,000	75,000	75,000		-
Coastal Discovery Grant-Capital Grant	67,700	67,700	3,064		64,636
Event Management & Hospitality Training	134,000	145,233	145,233		-
LTRA Grant	200,000	200,000	200,000		-
First Tee	150,000	150,000	150,000		-
Multidisciplinary Court	50,000	50,000	50,000		-
Solicitor Career Criminal Program	33,500	33,500	33,500		-
Community Foundation Grant - Public Art	37,500	37,500	37,500		-
Heritage Classic Foundation	351,164	351,164	351,164		-
LEPC Grant	-	-	11,771		(11,771)
Total Non-Departmental Townwide	4,465,064	4,396,221	3,879,828		516,393

A - The Town budgets its blended component unit, the Hilton Head Island Economic Development Corporation (EDC), as an operating grant for budgetary purposes. The EDC expenditures are also reported in the fund statements as non-departmental expenditures.

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Capital Outlay:				
Management Services :				
Administration - Legal				
Vehicles	26,000	26,000	22,736	3,264
Total Administration - Legal	26,000	26,000	22,736	3,264
Administrative Services - Information Technology				
Specialized Equipment	244,500	279,664	276,202	3,462
Computer Software	-	115,160	61,954	53,206
Vehicles	-	26,000	26,004	(4)
Total Administrative Services - Information Technology	244,500	420,824	364,160	56,664
Total Management Services	270,500	446,824	386,896	59,928
Public Safety:				
Police Patrol/Communications				
Specialized Equipment	6,000	990	-	990
Total Police Patrol/Communications	6,000	990	-	990
Fire Rescue - Operations				
Specialized Equipment	432	432	-	432
Total Fire Rescue - Operations	432	432	-	432
Fire Rescue - Support Services:				
Specialized Equipment	958,000	1,002,429	768,458	233,971
Total Fire Rescue - Support Services	958,000	1,002,429	768,458	233,971
Total Public Safety	964,432	1,003,851	768,458	235,393
Townwide:				
Security Cameras	35,000	41,651	41,634	17
Total Townwide	35,000	41,651	41,634	17
Total Capital Outlay	1,269,932	1,492,326	1,196,988	295,338
Total Expenditures	37,576,368	38,233,436	35,485,477	2,747,959

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, 2015

Schedule 1

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Excess (deficiency) of Revenues Over (Under) Expenditures	(9,544,461)	(10,201,529)	(6,814,712)	3,386,817
Other Financing Sources:				
Transfers In:				
Beach Preservation Fee Fund	1,111,138	1,111,138	1,111,138	-
Captial Projects Fund:				
Ad Valorem Taxes	654,000	654,000	594,000	(60,000)
Lease	12,000	12,000	12,000	-
Sunday Liquor Fees	418,150	418,150	418,150	-
Hospitality Tax Fund	4,726,069	4,726,069	4,391,195	(334,874)
Tax Increment Financing Fund	169,398	169,398	169,398	-
State Accommodations Tax Fund	1,264,324	1,264,324	1,338,188	73,864
Electricity Franchise Fee Fund	87,878	87,878	311	(87,567)
Stormwater Utility Fund	94,258	94,258	94,258	-
Appropriated Fund Balance	1,007,246	1,664,314	-	(1,664,314)
Total Other Financing Sources	9,544,461	10,201,529	8,128,638	(2,072,891)
Net change in fund balance	-	-	1,313,926	$ 1,313,926
Fund Balance - beginning	18,035,399	18,035,399	18,035,399	
Fund Balance - ending	$ 17,028,153	$ 16,371,085	$ 19,349,325	

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, 2015

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	$ 5,047,962	$ 5,047,962	$ 5,084,193	$ 36,231
Federal Reimbursement - BABS	164,880	164,880	168,051	3,171
Investment Income	36,905	36,905	37,374	469
Total Revenues	5,249,747	5,249,747	5,289,618	39,871
Expenditures:				
Administrative	19,000	19,000	11,024	7,976
Debt Service:				
Principal	12,995,000	12,995,000	12,995,000	-
Interest	3,702,756	3,702,756	3,702,272	484
Total Expenditures	16,716,756	16,716,756	16,708,296	8,460
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,467,009)	(11,467,009)	(11,418,678)	48,331
Other Financing Sources				
Transfers In:				
Beach Preservation Fees	4,378,838	4,378,838	4,381,225	2,387
Hospitality Tax	1,629,813	1,629,813	1,616,427	(13,386)
Tax Increment Financing	4,122,960	4,122,960	4,122,476	(484)
Real Estate Transfer Fees	2,268,727	2,268,727	2,269,578	851
Lease Revenue	65,336	65,336	10,889	(54,447)
Transfers Out to Beach Preservation Fees	-	-	(1,900,110)	(1,900,110)
Total Other Financing Sources	12,465,674	12,465,674	10,500,485	(1,965,189)
Net Change in Fund Balance	998,665	998,665	(918,193)	$ (1,916,858)
Fund Balance - beginning	8,404,034	8,404,034	8,404,034	
Fund Balance - ending	$ 9,402,699	$ 9,402,699	$ 7,485,841	

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, 2015

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Real and Personal Property Taxes	$ 689,244	$ 689,244	$ 694,238	$ 4,994
Grants	-	-	275,000	275,000
Other Revenue	-	200,000	-	(200,000)
Sunday Permit Fees	478,150	478,150	364,107	(114,043)
Lease Revenue	89,336	245,336	213,996	(31,340)
Impact Fees	-	36,019	293,931	257,912
Refund of Prior Year Expenditures	-	-	4,990	4,990
Investment Income	-	-	2,468	2,468
Total Revenues	1,256,730	1,648,749	1,848,730	199,981
Expenditures:				
Public Facilities:				
Coligny/Pope Avenue Area Initiative	-	129,091	116,941	12,150
Northwest Quadrant - Coligny	-	250,000	23,200	226,800
Office Park Road/USCB	2,600,000	2,693,866	1,838,540	855,326
Sewer Service - Barker Field	-	80,277	68,966	11,311
Sewer Service - Gum Tree Road	500,000	500,000	2,633	497,367
58 Shelter Cove Lane Building - BCSO	-	178,924	175,113	3,811
58 Shelter Cove Lane Building - Town Upfit	-	58,546	1,695	56,851
Total Public Facilities	3,100,000	3,890,704	2,227,088	1,663,616
Park Development:				
Chaplin Linear Park w/ Boardwalk	2,000,000	23,103	5,000	18,103
Island Recreation Center Expansion	750,000	504,511	34,841	469,670
Rowing and Sailing Center	-	961,361	952,300	9,061
Park Upgrades	60,000	200,000	123,560	76,440
Shelter Cove Park Parking	-	200,000	-	200,000
Total Park Development	2,810,000	1,888,975	1,115,701	773,274
Land Acquisition:				
Shelter Cove Park	-	2,500,000	1,991,845	508,155
Pineland Tract	-	2,437	2,437	-
T. Wright Parcel	-	6,900	6,769	131
Cordillo Tennis Courts	-	1,517	1,517	-
T. Segars Parcel	-	1,354	1,354	-
Adventure Cove/Folly Field Parcels	-	2,844	2,844	-
Palmetto Bay Road Parcels	-	3,250	3,250	-
D. Berry Sale	-	2,494	2,494	-
Total Land Acquisition	-	2,520,796	2,012,510	508,286

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, 2015

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Beach Maintenance:				
Beach Management & Monitoring	500,000	674,340	195,025	479,315
Islandwide Beach Renourishment	750,000	1,001,457	575,358	426,099
Port Royal Plantation - Ocean Point	-	24,391	24,391	-
Total Beach Maintenance	1,250,000	1,700,188	794,774	905,414
Facilities Improvements:				
Fire Station #2 Replacement	150,000	150,000	39,056	110,944
Fire Station #6 Replacement	-	325,198	325,198	0
Town Hall Renovations	-	15,234	8,943	6,291
Town Hall Office Space Configuration	150,000	150,000	33,544	116,456
Coligny Parking Lot Enhancements	-	150,000	115,311	34,689
Total Facilities Improvements	300,000	790,432	522,052	268,380
Roadway Improvements:				
Heritage Road Extension	350,000	10,882	2,806	8,076
Mathews Dr/Chaplin Area Connectivity	-	902,846	873,070	29,776
Bluffton Parkway Phase 5A Beautification	250,000	250,000	-	250,000
Honey Horn Apron Improvements	200,000	233,294	214,577	18,717
Private Dirt Roads Acquisition	50,000	154,940	154,939	1
US 278/Leamington/Fresh Market Shoppes	-	108,661	106,412	2,249
Office Park Road Intersection Improvements	150,000	150,000	-	150,000
Marshland Road Roundabout	1,000,000	843,166	757,893	85,273
Intersection Improvements	30,000	30,000	5,780	24,220
Traffic Signal System Pre-Emp	-	368,194	368,194	-
Traffic Signal Mast Arms	150,000	155,556	146,887	8,669
Emergency Access Gates	-	95,588	19,523	76,065
Total Roadway Improvements	2,180,000	3,303,127	2,650,081	653,046
Pathway Improvements:				
US 278 Fresh Market Shoppes to Shelter Cove	1,320,000	955,686	950,324	5,362
Pembroke Drive	-	4,172	2,131	2,041
Gardner Drive	-	1,413	1,413	-
U.S. 278 Gumtree to Squire Pope Road	-	16,740	16,740	-
Pathway Safety Improvements	400,000	483,621	28,033	455,588
Mathews Dr./Marshland South	-	60,000	3,908	56,092
Pope Avenue (Off Road)	-	100,000	5,346	94,654
Total Pathway Improvements	1,720,000	1,621,632	1,007,895	613,737
Total Capital Outlay/Community Services	11,360,000	15,715,854	10,330,101	5,385,753

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, 2015

Schedule 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Debt Issue Costs:				
Debt Issue Costs	250,000	125,000	-	125,000
Total Debt Issue Costs	250,000	125,000	-	125,000
Total Expenditures	11,610,000	15,840,854	10,330,101	5,510,753
Excess of Revenues Over (Under) Expenditures	(10,353,270)	(14,192,105)	(8,481,371)	5,710,734
Other Financing Sources (Uses):				
Proceeds from Sale of Property	-	20,796	498,798	478,002
Proceeds from Sale of Other Assets	-	-	60,890	60,890
Issuance of New Bonds:				
Tax Increment Financing	3,075,000	-	-	-
GO Bond	1,375,000	4,379,511	-	(4,379,511)
Transfers In:				
Beach Preservation Fees	1,250,000	1,700,188	612,676	(1,087,512)
Hospitality Tax	600,000	168,454	490,011	321,557
Tax Increment Financing	3,300,000	6,424,315	4,329,873	(2,094,442)
Transfers Out:				
General Fund	(1,084,150)	(944,150)	(1,024,150)	(80,000)
Debt Service	(65,336)	(65,336)	(10,889)	54,447
Total Other Financing Sources (Uses)	8,450,514	11,683,778	4,957,209	(6,726,569)
Net change in fund balance	(1,902,756)	(2,508,327)	(3,524,162)	$ (1,015,835)
Fund Balance - beginning	12,142,672	12,142,672	12,142,672	
Fund Balance - ending	$ 10,239,916	$ 9,634,345	$ 8,618,510	

Beginning Fund Balance Sources Budgeted for Use:		
Bond Proceeds:		
2011 Hospitality Tax Bond	$ (1,870,000)	(2,208,884)
2013 GO Bond	-	(103,201)
Property Taxes	(32,756)	(196,242)
Total Beginning Balance Sources Budgeted	(1,902,756)	(2,508,327)

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, 2015

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Operating Revenues:				
Stormwater Utility Fees	$ 3,564,900	$ 3,564,900	$ 3,551,386	$ (13,514)
Federal Grant	-	-	25,764	25,764
Total Operating Revenues	3,564,900	3,564,900	3,577,150	12,250
Operating Expenses:				
Planned Unit Developments:				
Hilton Head Plantation:				
Stormwater Maintenance	50,000	43,357	43,357	-
Inventory and Modeling	-	25,101	25,101	-
Golden Hind	-	380	380	-
Golden Hind Cap	250,000	205,614	203,630	1,984
Cypress Golf Course - Sinkhole	-	33,639	33,639	-
Cypress Golf Course Maintenance	-	5,487	5,487	-
Edgewood Dr/Ct Fld Cap	-	32,648	32,108	540
Edgewood Dr/Ct Fld Flooding	25,000	-	-	-
Santa Maria Dr - Sinkhole	-	13,873	13,873	-
Sweetwater Capital	-	18,327	18,326	1
Sweetwater Maintenance	-	3,364	1,033	2,331
Total Hilton Head Plantation	325,000	381,790	376,934	4,856
Indigo Run Plantation:				
Stormwater Maintenance	20,000	2,970	2,504	466
Inventory and Modeling	100,000	160,534	90,941	69,593
Colonial Drive Flooding	-	40,000	34,763	5,237
Sunningdale to Sussex Channel Maintenance	-	18,250	18,250	-
Total Indigo Run Plantation	120,000	221,754	146,458	75,296
Long Cove Club:				
Stormwater Maintenance	15,000	15,000	13,512	1,488
Friendfield Court Weir Rehab	-	75,980	5,102	70,878
Total Long Cove Club	15,000	90,980	18,614	72,366
Leamington Plantation:				
Stormwater Maintenance	15,000	15,000	1,677	13,323
Inventory and Modeling	-	31,481	28,311	3,170
Total Leamington Plantation	15,000	46,481	29,988	16,493

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, 2015

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Operating Expenses (continued):				
Planned Unit Developments (continued):				
Palmetto Dunes Plantation:				
Stormwater Maintenance	20,000	3,889	3,888	1
Mooring Buoy Culvert Replacement	50,000	-	-	-
Queens Folly Flooding	-	2,084	2,084	-
Inventory and Modeling	-	122,280	109,798	12,482
Longboat Row to Man O'War Drive Pipe Cleaning	-	16,111	15,863	248
Total Palmetto Dunes Plantation	70,000	144,364	131,633	12,731
Palmetto Hall Plantation:				
Stormwater Maintenance	15,000	4,280	4,280	-
Sedge Fern Drive	-	41,861	-	41,861
Clyde Lane	-	10,000	5,409	4,591
Total Palmetto Hall Plantation	15,000	56,141	9,689	46,452
Port Royal Plantation:				
Stormwater Maintenance	30,000	30,000	12,169	17,831
Inventory and Modeling	-	28,417	26,828	1,589
Total Port Royal Plantation	30,000	58,417	38,997	19,420
Shipyard Plantation:				
Stormwater Maintenance	25,000	25,000	8,406	16,594
Shipyard Pump Station	10,000	10,000	7,607	2,393
Total Shipyard Plantation	35,000	35,000	16,013	18,987
Sea Pines Plantation:				
Stormwater Maintenance	50,000	40,000	6,522	33,478
Lawton Station Culvert Lining	-	160,000	143,828	16,172
Governor's Road	-	26,887	26,887	-
Harbour Town Hole 14 Weir	25,000	30,449	20,055	10,394
Port and Lagoon Villas/Wren Dr. Outfall	20,000	20,000	-	20,000
Sea Pines Pump Station	30,000	220,000	193,116	26,884
Windjammer Drainage Cleaning	15,000	15,000	-	15,000
Inventory and Modeling	95,000	137,476	73,936	63,540
Total Sea Pines Plantation	235,000	649,812	464,344	185,468

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, 2015

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Operating Expenses (continued):				
Planned Unit Developments (continued):				
Wexford Plantation:				
Stormwater Maintenance	20,000	20,000	4,038	15,962
Ditch Work Along Powerline Easement	40,000	40,000	15,310	24,690
Outfall Cleaning Clubhouse Maintenance	25,000	25,000	6,561	18,439
Wexford Pump Station	11,000	16,000	14,055	1,945
Total Wexford Plantation	96,000	101,000	39,964	61,036
Total Planned Unit Developments	956,000	1,785,739	1,272,634	513,105
Non-Planned Unit Developments:				
Stormwater Maintenance	225,000	106,154	25,743	80,411
County Maintenance	-	11,264	11,264	-
Ashmore Channel Maintenance	-	8,563	8,563	-
Driessen Beach Channel Maintenance	-	3,781	3,780	1
Jarvis Pump Station	150,000	150,000	42,417	107,583
Jarvis Creek Channel Maintenance	-	12,268	12,268	-
Palmetto Headlands Ditch Cleaning	-	24,595	24,595	-
Mathews & Matilda Drive Bank Erosion	25,000	-	-	-
Old Woodlands Pond Wier/Channel	-	16,398	16,398	-
Inventory and Modeling - Shelter Cove	42,000	22,000	5,272	16,728
Unaffiliated Watersheds Inventory & Modeling	27,000	58,968	39,711	19,257
Myrtle & Hickory Lane	135,000	352,517	323,341	29,176
Gardner Drive Channel Maintenance	-	9,250	9,250	-
Gum Tree Road South Outfall	-	148	148	-
Gum Tree Channel Maitenance	-	13,325	13,325	-
Gum Tree Channel @ Katie Miller Road	-	102,254	112	102,142
Oakview Channel Maintenance	-	16,000	9,300	6,700
Squire Pope Outfall Maintenance	-	3,815	3,815	-
Woodward Ave	-	31,174	31,173	1
Woodward Ave Sinkhole Repair	-	9,091	9,091	-
Sea Cloisters, Folly Field	-	50	46	4
Arrow Road Rear Channel Maintenance	-	10,236	10,236	-
Arrow Road	-	6,160	6,160	-
Arrow/Target Culvert	5,000	13,807	12,523	1,284
87 Main Street Pipe Rehab	-	13,779	13,778	1
Folly Field Beach Park Flooding	8,000	8,000	540	7,460
State Misc.	-	11,358	11,358	-
Cordillo Pkwy - Channel/Pipe Cleaning	50,000	10,000	-	10,000
Folly Field (Island Club to Fiddler)	35,000	30,908	2,860	28,048
Total Non-Planned Unit Development	702,000	1,055,863	647,067	408,796

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, 2015

Schedule 4

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Operating Expenses (continued):				
Other Operating Expenses:				
Administrative Salaries/Benefits	357,399	357,399	317,573	39,826
Administrative Operating	290,092	268,753	226,660	42,093
Infrastructure Capitalized	-	-	(1,239,373)	1,239,373
Depreciation	-	-	726,031	(726,031)
Total Other Operating Expenses	647,491	626,152	30,891	595,261
Total Operating Expenses	2,305,491	3,467,754	1,950,592	1,517,162
Operating Income	1,259,409	97,146	1,626,558	1,529,412
Nonoperating Income (Expenses):				
Investment Income	-	-	450	450
Administrative	(3,000)	(3,000)	(2,500)	500
Loss on Refunding	-	-	(89,554)	(89,554)
Principal	(825,000)	(825,000)	(825,000)	-
Interest Expense	(322,000)	(322,000)	(324,527)	(2,527)
Total Nonoperating Income (Expenses)	(1,150,000)	(1,150,000)	(1,241,131)	(91,131)
Income (Loss) Before Transfers/Bond Proceeds	109,409	(1,052,854)	385,427	1,438,281
Transfers Out	(94,258)	(94,258)	(94,258)	-
Net Change in Fund Net Position	15,151	(1,147,112)	291,169	$ 1,438,281
Net Position - Beginning, as restated	5,291,577	5,291,577	5,291,577	
Net Position - Ending	$ 5,306,728	$ 4,144,465	$ 5,582,746	

Reconciliation to GAAP Budget:

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Operating Expenses per Budget	2,305,491	3,467,754	1,950,592	1,517,162
Nonoperating Expenses	1,150,000	1,150,000	1,241,131	(91,131)
Transfers Out	94,258	94,258	94,258	-
Proprietary Fund Budget per Town	3,549,749	4,712,012	3,285,981	1,426,031
Adjustments to GAAP Budgeting				
Add: Depreciation	726,031	726,031	-	726,031
Deduct: Principal on Debt	(825,000)	(825,000)	(825,000)	-
Adjusted to GAAP Expenses Budget	3,450,780	4,613,043	2,460,981	2,152,062

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.

TOWN OF HILTON HEAD ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

Schedule 5

	Special Revenue Funds			
	Palmetto Electric Franchise Fees	Operating Grants	Home Grant	Total Nonmajor Governmental Funds
ASSETS:				
Cash and Cash Equivalents	$ 3,302,576	$ -	$ 50,515	$ 3,353,091
Accounts Receivable	110,349	-	9,900	120,249
Interfund Receivables	-	121,920	-	121,920
Total assets	$ 3,412,925	$ 121,920	$ 60,415	$ 3,595,260
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	$ -	$ 21,112	$ -	$ 21,112
Interfund Payables	-	150,080	-	150,080
Unearned Revenue	-	-	70,406	70,406
Total liabilities	-	171,192	70,406	241,598
Fund balances (deficit):				
Restricted	3,412,925		-	3,412,925
Unassisgned	-	(49,272)	(9,991)	(59,263)
Total fund balances (deficit)	3,412,925	(49,272)	(9,991)	3,353,662
Total liabilities and fund balances	$ 3,412,925	$ 121,920	$ 60,415	$ 3,595,260

TOWN OF HILTON HEAD ISLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 6

	Special Revenue Funds			
	Palmetto Electric Franchise Fees	Operating Grants	Home Grant	Total Nonmajor Governmental Funds
Revenues:				
Electric Franchise Fees	$ 2,918,340	$ -	$ -	$ 2,918,340
Grant Revenue	-	48,375	-	48,375
Investment Income	555	-	8	563
Total revenues	2,918,895	48,375	8	2,967,278
Expenditures:				
Current:				
Administrative	2,291,984	-	-	2,291,984
Public Safety	-	64,850	1,431	66,281
Total expenditures	2,291,984	64,850	1,431	2,358,265
Excess expenditures over revenues	626,911	(16,475)	(1,423)	609,013
Other Financing Uses:				
Transfers Out	(311)	-	-	(311)
Total other financing uses	(311)	-	-	(311)
Net change in fund balance	626,600	(16,475)	(1,423)	608,702
Fund balance - beginning	2,786,325	(32,797)	(8,568)	2,744,960
Fund balance (deficit) - ending	$ 3,412,925	$ (49,272)	$ (9,991)	$ 3,353,662

Supplementary Information

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

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

TOWN OF HILTON HEAD ISLAND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FIREMEN'S FUND
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 7

	Beginning Balance	Increases	Decreases	Ending Balance
ASSETS:				
Cash and Temporary Investments	$ 40,027	$ 619,899	$ 624,289	$ 35,637
LIABILITIES:				
Due to Firemen's Fund Association	$ 40,027	$ 666,560	$ 670,950	$ 35,637

Statistical Section
(Unaudited)

Statistical Section

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

Contents **Pages**

Financial Trends 94-98

These schedules contain trend information to help the reader understand how the Town's financial performance and well being have changed over time.

Revenue Capacity 99-104

These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.

Debt Capacity

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. 105-109

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments. 110-111

Operating Information

These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs. 112-115

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
Net investment in capital assets	$ 93,060,926	$ 93,895,834	$ 98,661,331	$ 114,310,240	$ 126,379,257	$ 137,940,358	$ 127,695,520	$ 134,730,092	$ 147,652,780	$ 163,062,329
Restricted	23,111,481	23,682,142	25,168,338	23,590,106	20,750,147	29,367,859	39,307,871	42,860,346	35,442,375	31,942,739
Unrestricted	35,349,883	35,803,517	34,433,182	27,448,750	27,806,762	19,070,840	12,610,400	15,130,825	19,969,187	10,121,639
Total governmental activities net position	$ 151,522,290	$ 153,381,493	$ 158,262,851	$ 165,349,096	174,936,166	186,379,057	179,613,791	192,721,263	203,064,342	205,126,707
Business-type activities										
Net investment in capital assets					(263,488)	1,969,503	587,800	1,985,756	3,320,300	4,569,085
Unrestricted					2,441,371	1,588,215	1,776,610	1,965,359	1,971,277	1,838,661
Total business-type activities net position					2,177,883	3,557,718	2,364,410	3,951,115	5,291,577	6,407,746
Total					$ 177,114,049	$ 189,936,775	$ 181,978,201	$ 196,672,378	$ 208,355,919	$ 211,534,453

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General Government	$ 3,059,753	$ 3,376,831	$ 3,777,076	$ 3,823,670	$ 5,821,050	$ 5,590,651	$ 4,353,125	$ 4,457,904	$ 5,014,153	$ 5,501,516
Management Services	3,765,726	3,875,696	4,099,915	4,747,193	4,589,627	4,617,092	4,387,130	4,781,208	5,176,878	5,249,881
Community Services	10,095,045	24,378,607	18,498,051	14,003,774	8,502,048	8,592,108	30,544,682	13,292,741	15,914,686	15,337,540
Public Safety	15,605,366	16,207,323	17,528,471	17,717,708	17,068,317	17,332,968	16,535,835	16,425,512	14,130,095	16,529,019
Culture and Recreation	1,305,306	2,071,003	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594	1,907,032	1,962,094	2,429,893
Visitor & Convention Bureau	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019	1,341,508	1,473,482	1,580,537
Administration	2,149,451	1,813,259	2,884,106	2,204,684	2,695,438	3,280,258	3,611,539	1,797,946	1,779,235	2,500,842
Interest on Debt	5,585,734	5,727,606	5,669,171	5,566,777	4,329,058	4,414,431	3,658,811	4,051,860	4,114,335	3,396,216
Other Charges	-	295,486	235,742	-	-	-	-	-	-	-
Total governmental activities expenses	$ 42,709,280	$ 58,926,486	$ 55,629,379	$ 50,911,720	45,390,500	46,175,688	65,397,735	48,055,711	49,564,958	52,525,444
Business-type activities:										
Stormwater					1,397,226	1,616,827	4,449,857	1,757,863	1,997,630	2,367,173
Total Expenses					$ 46,787,726	$ 47,792,515	$ 69,847,592	$ 49,813,574	$ 51,562,588	$ 54,892,617
Program Revenues (see Schedule 3)										
Governmental activities:										
Charges for services:										
General Government	$ 590,577	$ 592,441	$ 588,996	$ 608,137	$ 3,886,767	$ 3,950,975	$ 3,799,757	$ 2,565,756	$ 2,579,305	$ 2,455,854
Management Services	7,723,373	7,668,657	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622	7,774,138	7,795,909	8,334,478
Community Services	8,419,282	7,497,902	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471	8,262,464	9,055,993	9,802,304
Public Safety	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780	1,163,678	1,505,579
Administration	6,020,689	3,676,835	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459	2,255,107	2,468,881	2,534,932
Operating grants and contributions	347,325	134,793	152,140	130,796	206,897	140,555	305,329	338,378	630,208	348,467
Capital grants and contributions	180,900	48,246	61,843	52,525	17,697	-	1,044,854	142,116	-	275,000
Total governmental activities program revenues	$ 24,564,748	$ 21,032,700	$ 21,021,288	$ 18,383,750	19,842,121	20,463,103	21,956,539	22,644,739	23,693,974	25,256,614
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
Operating grants and contributions					-	-	-	-	-	25,764
Total Program Revenues					$ 22,396,092	$ 23,840,882	$ 25,448,418	$ 26,225,184	$ 27,258,274	$ 28,833,764
Net (Expense)Revenue										
Total governmental activities net expense	$ (18,144,532)	$ (37,893,786)	$ (34,608,091)	$ (32,527,970)	(25,548,379)	(25,712,585)	(43,441,196)	(25,410,972)	(25,870,984)	(27,268,830)
Total business-type activites net expense					1,156,745	1,760,952	(957,978)	1,822,582	1,566,670	1,209,977
Total Net (Expense) Revenue					$ (24,391,634)	$ (23,951,633)	$ (44,399,174)	$ (23,588,390)	$ (24,304,314)	$ (26,058,853)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property Taxes	$ 19,041,631	$ 19,290,776	$ 19,859,691	$ 21,993,646	$ 23,454,455	$ 23,605,422	$ 23,974,619	$ 24,242,142	$ 23,613,446	$ 24,163,776
Other Taxes	11,144,997	11,277,083	11,637,286	10,836,674	10,178,254	10,866,276	11,259,227	12,246,755	13,368,820	14,516,798
Intergovernmental	1,155,021	1,268,534	2,198,691	2,012,649	1,531,261	1,317,756	1,010,600	1,181,674	1,154,196	1,176,192
Investment earnings	2,951,972	4,236,702	2,521,431	876,095	356,176	260,608	124,415	87,660	69,810	50,763
Miscellaneous	3,286,231	3,679,894	3,921,488	3,895,151	584,455	1,105,414	307,069	760,213	(297,517)	1,896,632
Total governmental activities	$ 37,579,852	$ 39,752,989	$ 40,138,587	$ 39,614,215	$ 36,104,601	$ 37,155,476	$ 36,675,930	$ 38,518,444	$ 37,908,755	$ 41,804,161
Business-type activities:										
Investment earnings					83,128	8,612	-	253	394	450
Transfers					(302,763)	(389,729)	(235,330)	(236,130)	(74,163)	(94,258)
Total business-type activities					$ (219,635)	$ (381,117)	$ (235,330)	$ (235,877)	$ (73,769)	$ (93,808)
Change in Net Position										
Governmental activities	$ 19,435,320	$ 1,859,203	$ 5,530,496	$ 7,086,245	10,556,222	11,442,891	(6,765,266)	13,107,472	12,037,771	14,535,331
Business-type activities					937,110	1,379,835	(1,193,308)	1,586,705	1,492,901	1,116,169
Total Change in Net Position					$ 11,493,332	$ 12,822,726	$ (7,958,574)	$ 14,694,177	$ 13,530,672	$ 15,651,500

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Function/Program										
Governmental activities:										
Charges for services:										
General Government	$ 590,577	$ 591,441	$ 588,996	$ 608,137	$ 3,886,767	$ 3,950,975	$ 3,799,757	$ 2,565,756	$ 2,579,305	$ 2,455,854
Management Services	7,723,373	7,668,657	8,133,032	7,459,058	7,103,499	6,900,425	7,254,622	7,774,138	7,795,909	8,334,478
Community Services	8,419,282	7,497,902	7,651,429	6,867,736	6,345,242	6,008,094	6,189,471	8,262,464	9,055,993	9,802,304
Public Safety	1,282,602	1,413,826	1,493,422	1,416,505	274,007	1,623,810	1,457,047	1,306,780	1,163,678	1,505,579
Administration	6,020,689	3,676,835	2,940,426	1,848,993	2,008,012	1,839,244	1,905,459	2,255,107	2,468,881	2,534,932
Operating grants and contributions	347,325	134,793	152,140	130,796	206,897	140,555	305,329	338,378	630,208	348,467
Capital grants and contributions	180,900	48,246	61,843	52,525	17,697	-	1,044,854	142,116	-	275,000
Total governmental activities	$ 24,564,748	$ 21,031,700	$ 21,021,288	$ 18,383,750	19,842,121	20,463,103	21,956,539	22,644,739	23,693,974	25,256,614
Business-type activities:										
Stormwater					2,553,971	3,377,779	3,491,879	3,580,445	3,564,300	3,551,386
Operating grants and contributions					-	-	-	-	-	25,764
Total Program Revenues					$ 22,396,092	$ 23,840,882	$ 25,448,418	$ 26,225,184	$ 27,258,274	$ 28,833,764

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

	2006	2007	2008	2009	2010	2011*	2012	2013	2014	2015
General Fund										
Reserved	$ 328,984	$ 157,080	$ 283,748	$ 164,731	$ 145,008					
Unreserved	14,366,799	16,269,658	15,990,383	15,697,038	15,618,977					
Total General Fund	$ 14,695,783	$ 16,426,738	$ 16,274,131	$ 15,861,769	$ 15,763,985					
All Other Governmental Funds										
Reserved	$ 17,402,001	$ 18,556,583	$ 24,013,184	$ 18,634,944	$ 24,398,924					
Unreserved, reported in:										
Special revenue funds	30,798,191	27,088,384	26,375,485	21,814,650	22,479,639					
Capital projects funds	16,841,628	14,520,788	16,735,177	4,924,286	5,796,855					
Debt service funds	524,408	2,237,167	269,253	-	-					
Total All Other Governmental Funds	$ 65,566,228	$ 62,402,922	$ 67,393,099	$ 45,373,880	$ 52,675,418					
General Fund										
Nonspendable						$ 21,304	$ 15,308	$ 8,896	$ 9,796	$ -
Restricted						98,163	98,182	65,985	65,998	66,011
Committed						11,366,314	11,865,342	12,366,509	13,593,096	14,232,879
Assigned						-	817,455	674,725	1,007,245	1,471,227
Unassigned						3,400,504	3,017,270	4,187,612	3,359,264	3,579,208
Total General Fund						$ 14,886,285	$ 15,813,557	$ 17,303,727	$ 18,035,399	$ 19,349,325
All Other Governmental Funds										
Restricted						$ 33,894,568	$ 39,209,689	$ 42,850,943	$ 35,376,377	$ 31,876,728
Committed						12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Assigned						-	3,293	554,229	1,902,756	1,232,948
Unassigned						-	(8,581)	(8,576)	(41,365)	(59,263)
Total All Other Governmental Funds						$ 45,894,568	$ 51,204,401	$ 55,396,596	$ 49,237,768	$ 45,050,413

*In 2011, the Town implemented GASBS Statement 54, and changed its presentation of the equity section of the Governmental Fund Balance Sheets.

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Taxes (see Schedule 6)[a]	$ 30,186,628	$ 30,567,859	$ 31,496,978	$ 32,830,320	$ 33,632,709	$ 34,471,698	$ 35,233,846	$ 36,488,897	$ 36,982,266	$ 38,675,584
Licenses, fees, and permits[b]	24,528,805	21,488,134	21,387,485	19,202,835	14,843,258	18,131,546	18,633,421	20,163,249	21,316,864	22,475,266
Fines and penalties	362,466	419,313	465,065	407,422	423,042	361,152	308,708	262,022	224,447	198,948
Charges for services	1,613,063	1,606,874	1,661,201	1,604,565	1,598,482	1,761,128	1,602,410	1,461,624	1,242,959	1,673,499
Intergovernmental	1,155,021	1,268,534	1,312,571	1,309,391	1,199,622	1,317,756	1,202,313	1,371,308	1,325,351	1,344,243
Investment earnings	2,951,973	4,236,702	2,521,430	876,095	356,179	260,606	124,417	87,660	69,810	50,763
Other revenues	1,346,643	1,198,272	2,615,149	1,702,252	5,404,922	602,262	1,420,411	797,171	1,000,494	972,240
Total revenues	$ 62,144,599	$ 60,785,688	$ 61,459,879	$ 57,932,880	$ 57,458,214	$ 56,906,148	$ 58,525,526	$ 60,631,931	$ 62,162,191	$ 65,390,543
Expenditures										
General Government	$ 1,395,347	$ 1,360,932	$ 1,551,674	$ 1,100,621	$ 1,044,477	$ 1,119,831	$ 882,111	$ 968,506	$ 1,060,140	$ 1,046,890
Management Services	3,642,659	3,651,665	3,921,014	4,563,007	4,497,250	4,528,244	4,303,518	4,512,873	4,818,850	4,986,727
Community Services	6,073,095	6,549,522	6,964,349	6,530,162	6,478,745	6,210,506	5,771,788	5,996,416	6,392,687	7,238,602
Public Safety	14,760,157	15,428,220	16,921,361	16,836,081	16,161,922	16,174,377	16,415,919	16,448,769	17,019,825	17,202,723
Non-Departmental	1,664,406	1,745,509	2,018,190	2,397,182	2,662,132	4,072,932	3,154,901	2,947,442	3,497,973	3,879,828
Accommodations Tax Grants	1,305,306	2,071,003	1,718,815	1,697,468	1,355,384	1,295,954	1,210,594	1,907,032	1,962,094	2,429,893
Visitor & Convention Bureau	1,142,899	1,180,675	1,218,032	1,150,446	1,029,578	1,052,226	1,096,019	1,341,508	1,473,482	1,580,537
Administration	2,149,451	1,948,281	2,884,106	2,088,285	2,361,361	2,944,586	3,208,001	1,335,906	1,481,219	2,317,333
Capital Outlay	13,999,379	35,090,202	23,255,954	27,050,704	10,505,379	8,479,627	26,380,099	13,597,119	13,428,124	11,527,089
Debt Service										
Principal	5,615,555	6,591,134	11,837,139	11,220,000	11,415,000	12,305,000	12,105,000	11,645,000	12,950,000	12,994,999
Interest	6,179,615	5,496,034	5,645,093	5,680,505	4,335,765	4,524,266	3,914,974	4,265,011	4,080,573	3,702,272
Fiscal charges	-	-	-	-	-	-	-	-	-	-
Debt issue costs	-	-	451,841	-	391,417	-	525,364	150,792	132,022	11,025
Total expenditures	$ 57,927,869	$ 81,113,177	$ 78,387,568	$ 80,314,461	$ 62,238,410	$ 62,707,549	$ 78,968,288	$ 65,116,374	$ 68,296,989	$ 68,917,918
Excess of revenues over (under) expenditures	4,216,730	(20,327,489)	(16,927,689)	(22,381,581)	(4,780,196)	(5,801,401)	(20,442,762)	(4,484,443)	(6,134,798)	(3,527,375)
Other Financing Sources (Uses)										
Bonds issued	$ -	$ 19,000,000	$ 34,215,000	$ -	$ 12,000,000	$ -	$ 26,250,000	$ 9,000,000	$ -	$ -
Other uses/sources	-	-	-	(50,000)	-	-	-	-	-	-
Refunding bonds issued	-	-	-	-	5,005,000	-	20,635,000	-	-	-
Debt Issue costs	-	(408,813)	-	-	-	-	-	-	-	-
Payments to escrow agent	-	-	(11,955,000)	-	(5,248,484)	-	(21,675,878)	-	-	-
Premium on bond issuance	-	303,951	154,397	-	155,632	-	970,485	664,056	-	-
Proceeds from sale of land and equipment	-	-	-	-	-	324,774	264,930	266,622	175,000	559,688
Reimbursement of prior year expenditures	-	-	-	-	-	-	-	-	458,479	-
Transfers in	15,762,506	24,612,718	13,676,941	22,593,584	19,037,120	20,268,594	22,476,082	23,329,394	24,269,122	27,861,903
Transfers out	(15,762,506)	(24,612,718)	(13,676,941)	(22,593,584)	(18,734,358)	(19,878,865)	(22,240,752)	(23,093,264)	(24,194,959)	(27,767,645)
Total other financing sources (uses)	$ -	$ 18,895,138	$ 22,414,397	$ (50,000)	$ 12,214,910	$ 714,503	$ 26,679,867	$ 10,166,808	$ 707,642	$ 653,946
Net change in fund balances	$ 4,216,730	$ (1,432,351)	$ 5,486,708	$ (22,431,581)	$ 7,434,714	$ (5,086,898)	$ 6,237,105	$ 5,682,365	$ (5,427,156)	$ (2,873,429)
Debt Service as a Percentage of Noncapital Expenditures	24.2%	19.3%	27.5%	29.1%	30.9%	30.6%	22.3%	28.8%	29.1%	28.1%

Notes: [a]Property Tax Reassessments performed in 2013.
[b]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 considerered charges for service.

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

Fiscal Year	Property	Accommodations	Hospitality	Total
2006	19,041,631	6,058,319	5,086,678	30,186,628
2007	19,290,776	6,168,555	5,108,528	30,567,859
2008	19,859,691	6,404,449	5,232,837	31,496,977
2009	21,993,646	6,010,356	4,826,318	32,830,320
2010	23,454,455	5,469,447	4,708,807	33,632,709
2011	23,605,422	5,948,685	4,917,591	34,471,698
2012	23,974,619	6,099,093	5,160,134	35,233,846
2013	24,242,142	6,995,760	5,250,995	36,488,897
2014	23,613,446	7,735,390	5,633,430	36,982,266
2015	24,158,786	8,361,794	6,155,004	38,675,584
Change 2006-2015	26.9%	38.0%	21.0%	28.1%

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 Assessed Value	Real & Personal Property Estimated Actual Value	Motor Vehicles Assessed Value	Motor Vehicles Estimated Actual Value	Total Taxable Assessed Value	Total Taxable Estimated Actual Value	Total Direct Tax Rate	Taxable Assessed Value as a Percentage of Estimated Actual Taxable Value
2006	2005	779,621,893	14,112,440,708	35,956,376	479,418,347	815,578,269	14,591,859,055	19.00	5.59%
2007	2006	805,913,661	15,508,728,060	35,114,683	468,195,773	841,028,344	15,976,923,833	19.00	5.26%
2008	2007	806,862,365	16,944,198,458	33,601,425	621,120,250	840,463,790	17,565,318,708	19.00	4.78%
2009	2008	802,241,286	16,847,155,290	30,491,101	563,626,104	832,732,387	17,410,781,394	19.36	4.78%
2010	2009	919,940,422	21,597,802,014	29,614,709	426,787,952	949,555,131	22,024,589,966	18.54	4.31%
2011	2010	888,578,642	20,861,509,207	29,614,709	412,914,300	918,193,351	21,274,423,507	18.54	4.32%
2012	2011	900,498,390	21,431,112,174	26,653,238	432,725,467	927,151,628	21,863,837,641	19.33	4.24%
2013	2012	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%

Source: Beaufort County Assessor's Office.

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 7.5% 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)

		Town Direct Rates				Overlapping Rates[a]			
Fiscal Year	Tax Year	General Fund	Debt Service	Capital Improvements Program	Total Direct Rate	County Public Schools	County Operations	Public Service Districts[1]	Total Rate
2006	2005	12.33	0.85	5.82	19.00	96.50	49.60	7.00	172.10
2007	2006	12.33	0.85	5.82	19.00	108.70	49.10	6.75	183.55
2008	2007	12.33	0.85	5.82	19.00	122.80	51.90	7.20	200.90
2009	2008	12.84	5.67	0.85	19.36	130.60	51.90	7.85	209.71
2010	2009	11.78	6.01	0.75	18.54	114.69	45.96	7.67	186.86
2011	2010	11.78	6.01	0.75	18.54	116.59	47.54	8.16	190.83
2012	2011	12.57	6.01	0.75	19.33	118.26	47.54	8.31	193.44
2013	2012	12.86	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

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.

[a]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.

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

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

	Tax Year 2014			Tax Year 2005		
Taxpayer	**Total Assessed Value**	**Rank**	**Percentage of Total Town Taxable Assessed Value**	**Total Assessed Value**	**Rank**	**Percentage of Total Town Taxable Assessed Value**
Marriott Ownership Resorts Inc	$ 19,917,510	1	2.20%	$ 18,002,251	1	2.21%
Palmetto Electric Co-op Inc	5,406,580	2	0.60%	6,764,874	2	0.83%
Columbia Properties Hilton Head LLC	4,764,090	3	0.53%	3,885,920	4	0.48%
SCG Hilton Head Property LLC	4,260,000	4	0.47%	3,678,552	5	0.45%
Sea Pines Resort LLC	3,240,360	5	0.36%	3,147,746	6	0.39%
Hargray Telephone Company Inc	3,029,210	6	0.33%	-	-	-
Shelter Cove Towne Center LLC	1,711,420	7	0.19%	-	-	-
HPT IHG-2 Properties Trust	1,440,000	8	0.16%	1,730,960	7	0.21%
Hilton Head Health System LP	1,423,500	9	0.16%	1,139,891	9	0.14%
Festival Center (E&A) LLC	1,031,340	10	0.11%	-	-	-
Heritage Golf Port Royal LLC	-	-	-	1,086,000	10	0.13%
Greenwood Development	-	-	-	3,971,048	3	0.49%
PVI Shelter Cove Limited	-	-	-	1,500,000	8	0.18%
Total	**$ 46,224,010**		**5.10%**	**$ 44,907,242**		**5.51%**

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
2006	19,543,737	18,774,952	96.07%	266,679	19,041,631	97.43%
2007	19,790,118	19,014,954	96.08%	275,822	19,290,776	97.48%
2008	20,341,876	19,461,546	95.67%	398,145	19,859,691	97.63%
2009	22,753,654	21,085,178	92.67%	908,468	21,993,646	96.66%
2010	23,771,093	22,773,856	95.80%	680,599	23,454,455	98.67%
2011	24,569,917	22,860,455	93.04%	744,967	23,605,422	96.07%
2012	24,492,571	23,252,166	94.94%	722,453	23,974,619	97.89%
2013	24,492,438	23,619,196	96.43%	622,946	24,242,142	98.98%
2014	24,323,606	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%

Source: Town of Hilton Head Island Finance Department

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

Fiscal Year	Town Direct Rate	Beaufort County	South Carolina
2006	0%	0%	5%
2007	0%	1%	6%
2008	0%	1%	6%
2009	0%	1%	6%
2010	0%	1%	6%
2011	0%	1%	6%
2012	0%	1%	6%
2013	0%	0%	6%
2014	0%	0%	6%
2015	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[a]	Per Capita[a]
2006	71,240,000	34,060,000	-	-	8,995,000	343,075	874,106	(1,311,369)	114,200,812	8.99%	3,344
2007	67,460,000	51,565,000	-	-	7,955,000	67,140	1,091,582	(1,202,912)	126,935,810	9.04%	3,746
2008	63,680,000	66,885,000	-	-	6,905,000	-	1,149,855	(1,094,455)	137,525,400	9.52%	4,055
2009	59,705,000	60,720,000	-	-	5,825,000	-	1,053,730	(985,999)	126,317,731	8.79%	3,688
2010	67,120,000	39,995,000	14,325,000	-	4,730,000	-	1,098,868	(1,013,055)	126,255,813	8.34%	3,403
2011	62,010,000	33,930,000	13,810,000	-	3,600,000	-	929,177	(2,148,800)	112,130,377	7.13%	2,983
2012	58,965,000	53,075,000	13,170,000	-	2,445,000	-	1,710,331	(3,714,344)	125,650,987	8.25%	3,275
2013	64,505,000	46,075,000	12,390,000	-	1,260,000	-	2,186,424	(3,452,296)	122,964,128	7.85%	3,205
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	-	-	-	1,829,735	(2,928,212)	95,556,523	5.18%	2,387

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

[a]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

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value[a] of Property	Per Capita[b]
2006	70,725,513	0.48%	2,071
2007	67,007,347	0.42%	1,977
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	60,080,000	0.35%	1,524
2015	55,945,000	0.33%	1,397

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

[a]See Schedule 7 for property value data.

[b]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, 2015

Government Unit	Debt Outstanding	Estimated Percentage Applicable[a]	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Beaufort County School District	$ 357,440,621	49%	$ 175,860,786
Beaufort County	233,933,174	49%	115,095,122
Broad Creek Public Service District	4,875,000	100%	4,875,000
Hilton Head No. 1 Public Service District	14,543,569	96%	13,961,826
Subtotal, overlapping debt			**309,792,734**
Town direct debt			87,724,735
Total direct and overlapping debt			**$ 397,517,469**

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.

[a]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 Fiscal Year 2015

Assessed value (as of December 31, 2014)		$ 907,022
Debt Limit (8% of assessed value)		72,562
Debt applicable to limit:		
General Obligation Bonds:		
2009A	$ 4,160	
2013B	3,589	
Total net debt applicable to limit		7,749
Legal Debt Margin (without a referendum)		$ 64,813

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Debt limit	$ 65,867	$ 65,196	$ 66,174	$ 66,619	$ 75,964	$ 73,455	$ 74,172	$ 67,226	$ 65,368	$ 72,562
Total net debt applicable to limit	15,855	14,180	12,325	10,295	8,160	5,930	5,005	8,870	8,227	7,749
Legal debt margin	50,012	51,016	53,849	56,324	67,804	67,525	69,167	58,356	57,141	64,813
Total net debt applicable to the limit as a percentage of debt limit	24.07%	21.75%	18.63%	15.45%	10.74%	8.07%	6.75%	13.19%	12.59%	10.68%

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.

[a] Town Council imposed an eighty percent (80%) cap on the debt limit in 2009. With this cap, the debt limit for 2015 cannot exceed: $ 58,049

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

Hospitality Tax Bonds

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

Tax Increment Bonds

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

Stormwater Revenue Bonds

Fiscal Year	Collections	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2006	1,324,277	505,000	742,971	1,247,971	1.06
2007	1,351,871	520,000	727,596	1,247,596	1.08
2008	1,501,389	535,000	712,708	1,247,708	1.20
2009	1,572,183	550,000	697,369	1,247,369	1.26
2010	2,553,971	565,000	679,938	1,244,938	2.05
2011	3,377,779	515,000	660,665	1,175,665	2.87
2012	3,491,879	640,000	379,470	1,019,470	3.43
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

Beach Preservation Fee Revenue Bonds

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

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

Calendar Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Annual Unemployment Rate
2006	34,156	1,271,013	37,212	4.3%
2007	33,890	1,403,419	41,411	3.7%
2008	33,913	1,445,067	42,611	4.3%
2009	34,249	1,436,780	41,951	7.4%
2010	37,099	1,513,565	40,798	6.5%
2011	37,585	1,572,782	41,846	6.0%
2012	38,366	1,523,245	39,703	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%

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

Employer	2015 Employees	2005 Employees
SERG Group Restaurants	764	N/A
Sea Pines Resort	622	N/A
Hilton Head Medical Ctr and Clinics	547	600
Marriott Vacation Club Intl	500	N/A
Beaufort County School District	445	N/A
Cypress of Hilton Head	360	310
Salty Dog	350	N/A
Westin Hotel and Resorts	266	450
Hilton Head Marriott Golf and Beach Resort	245	520
Town of Hilton Head Island	243	N/A

Sources: Beaufort County Sched 18 (Principal Employers), Beaufort County website (Major Employers) and our historical reports. In many cases 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

	Full-time-Equivalent Employees as of June 30,									
Function/Program	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
General Government										
Town Council	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Town Manager	3.0	4.0	4.0	5.0	5.0	4.0	5.0	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	17.0	17.0	19.0	19.0	17.0	17.0	18.0	18.0	17.0	16.6
Administration	23.5	23.5	23.5	22.5	23.5	21.0	22.0	22.0	22.0	22.0
Community Services										
Community Development	36.0	36.0	36.0	36.0	30.0	27.0	27.0	27.0	25.0	25.0
Public Projects & Facilities	19.0	20.0	21.0	21.0	22.0	22.0	22.0	22.0	22.0	21.0
Public Safety										
Fire & Rescue	144.8	147.3	147.3	147.6	146.0	145.0	147.1	145.1	143.0	143.7
Police Services[a]	-	-	-	-	-	-	-	-	-	-
Total	254.3	258.8	261.8	262.1	254.5	247.0	252.1	249.1	244.0	243.3

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 2,880 hours per year (including vacation and sick leave).

[a]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

	Fiscal Year									
Function/Program	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
General Government										
Management Services										
Business license permits issued	5,312	5,409	5,638	5,644	5,549	5,718	5,802	5,997	6,434	6,291
Business license inspections	360	546	150	396	127	1,460	605	2,324	283	529
Business license audits	101	55	-	-	-	117	49	123	124	46
Hospitality tax accounts	411	357	343	356	325	359	373	419	437	440
Bed tax accounts	701	675	732	775	752	863	891	1,232	1,312	1,308
Beach passes issued	2,116	2,729	2,009	2,434	1,885	2,602	2,224	2,688	2,428	2,845
Number of court cases docketed	9,033	9,366	10,687	8,380	9,159	8,016	7,152	6,156	5,111	3,459
Number of court cases disposed	8,952	9,123	10,881	8,607	8,854	8,363	7,221	6,271	5,271	3,525
Number of search warrants issued	15	16	41	19	22	33	27	28	8	9
Number of arrest warrants issued	477	437	410	460	415	349	216	502	307	363
Number of bench warrants issued	801	531	894	693	777	576	610	363	389	353
Community Services										
Community Development										
Building inspections conducted	22,167	18,146	15,297	13,053	11,604	10,773	11,813	12,133	19,024	13,907
Building permits issued	440	168	104	63	51	68	89	130	212	156
Miscellaneous permits issued	3,146	4,233	5,121	4,470	4,913	4,805	4,345	4,619	5,070	5,390
Public Projects and Facilities										
# of capital improvement projects to manage	84	76	51	64	62	53	45	38	20	20
# of beach access/parks to maintain	8	8	8	8	8	8	8	8	8	8
Miles of pathways to maintain	51	51	53	55	56	57	58	60	62	64
Maintenance work orders	2,373	2,517	2,150	2,800	4,187	4,406	4,500	5,212	5,150	5,025
Public Safety										
Fire and Rescue service calls	6,167	6,030	6,246	6,088	5,957	6,034	5,796	6,291	6,518	6,809
Actual fires extinguished	147	139	153	151	127	80	130	166	81	93
Inspections	2,271	2,357	2,649	2,626	2,390	2,902	2,281	1,937	1,855	2,121
Telephone requests	55,584	73,475	75,099	77,352	72,361	61,435	65,522	66,710	55,841	50,789
Public training programs	366	687	614	791	520	609	518	493	415	514

Sources: Various Town departments.

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

	Fiscal Year									
Function/Program	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
General Government										
Town-owned parcels	113	113	116	183	185	182	175	142	168	223
Town-owned property acreage	1,142	1,142	n/a	n/a	n/a	n/a	1,202	1,319	1,321	1,312
Town-owned development rights	n/a	n/a	n/a	7	8	8	8	8	8	8
Town-owned easements	n/a	n/a	n/a	73	75	80	80	50	91	52
Management Services										
Town vehicles	39	38	38	39	40	39	38	38	38	36
Public Safety										
Emergency Apparatus Vehicles	24	24	24	24	24	24	24	25	28	28
Police Vehicles	-	-	-	-	-	-	-	-	-	-
General Vehicles	19	22	22	23	30	30	30	25	19	19
Fire Stations	7	7	7	7	7	7	7	7	7	7
Public Projects and Facilities*										
Traffic signals	22	22	22	22	23	22	22	22	23	23
Pathways (miles)	50	51	53	55	56	57	58	60	62	64
Beach access/parks	7	8	8	8	8	8	8	8	8	8

Sources: Various Town departments.

* All Town roads are deeded to Beaufort County

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

Schedule 22
Town of Hilton Head Island, SC
Principal Stormwater Customers
Year Ended June 30, 2015

Customer	Type of Business	Equivalent Single Family Residential Units	Stormwater Fees Billed	Percentage of Total Billed
Town of Hilton Head Island	town government	691.44	$ 75,160	2.12%
Beaufort County Schools	education	468.93	50,973	1.44%
Beaufort County	aircraft transportation	431.17	46,868	1.32%
Sea Pines Resort LLC	resort and golf	377.00	40,980	1.15%
Marriott Ownership Resorts	timeshare condominium	266.86	29,008	0.82%
Palmetto Hall Golf	golf course & club	219.83	23,896	0.67%
Shelter Cove Towne Centre	shopping center	207.01	22,502	0.63%
Festival Center	shopping center	183.09	19,902	0.56%
Heritage Golf-Port Royal LLC	golf course & club	162.47	17,661	0.50%
Heritage Golf-Shipyard LLC	golf course & club	98.10	10,664	0.30%
Publix Super Markets Inc	grocery store	94.94	10,320	0.29%
Total			$ 347,934	9.80%
Total Stormwater Fees Billed			$ 3,551,386	

Supplementary Financial Information

Schedule 23
Town of Hilton Head Island, SC
Municipal Fines, Assessments and Surcharges
For the Year Ended June 30, 2015

Court Fines	
Court fines collected	$ 198,948
Court fines retained by the Town	198,948
Court fines remitted to the State Treasurer	-
Court Assessments	
Court assessments collected	$ 193,125
Court assessments retained by the Town	21,330
Court assessments remitted to the State Treasurer	171,795
Court Surcharges	
Court surcharges collected	$ 94,887
Court surcharges retained by the Town	13,069
Court surcharges remitted to the State Treasurer	81,818
Victims Services	
Court assessments allocated to victim services	$ 34,399
Victim Services expenditures	60,728
Funds available for carryforward	(26,329)

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, 2015, 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 January 13, 2016.

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
January 13, 2016

APPENDIX B

FORM OF LEGAL OPINION OF McNAIR LAW FIRM, P.A.

[Date of Delivery]

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

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA,
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2016, $_____

We have served as bond counsel for the Town of Hilton Head Island, South Carolina (the "Town") in connection with the issuance of $_____ General Obligation Bond Anticipation Notes, Series 2016 dated _____ __, 2016 (the "Notes"). In such capacity, we have examined such law and certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on the representations of the Town contained in the Ordinance of the Town authorizing the Notes and the Federal Tax Certificate of the Town dated the date hereof, and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation. We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to the issuance of the Notes have been duly authorized, executed and delivered by all parties thereto other than the Town, and we have further assumed the due organization, existence and powers of such other parties other than the Town.

As bond counsel, we have been retained solely for the purpose of examining the validity and legality of the Notes and of rendering the specific opinion herein stated and for no other purpose. We have not acted as a municipal advisor (within the meaning of Section 15B of the Securities Exchange Act of 1934) to the Town in connection with the execution and delivery of the Notes. We have not verified the accuracy, completeness or fairness of any representation or information concerning the business or financial condition of the Town or the purchaser of the Notes in connection with the sale of the Notes. Accordingly, we express no opinion on the completeness, fairness or adequacy of any such representation or information.

We refer you to the Notes and the Ordinance for a further description of the Notes, the purposes for which the Notes are issued, the uses of the proceeds from the sale of the Notes and the security therefor.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Notes have been authorized and executed by the Town and are valid and binding general obligations of the Town.

2. The Notes are payable from the receipt of the proceeds of general obligation bonds to be issued by the Town, and in addition, the full faith, credit and taxing power of the Town is pledged to the payment of the principal of and interest on the Notes. For payment on the general obligation bonds, the Town has the power and is obligated to levy and collect annually a tax, without limit, on all taxable property in the Town sufficient to pay the principal of and interest on the general obligation bonds as they respectively mature and to create such sinking fund as may be necessary therefor.

3. Interest on the Notes is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Town comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Town has covenanted to comply with such requirements. Failure to comply with certain of such requirements may cause interest on the Notes to be included in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes.

4. Under the laws of the State of South Carolina, the Notes and the interest thereon are presently exempt from all taxation in the State, except estate or other transfer taxes. It should be noted, however, that Section 12-11-20, Code of Laws of South Carolina 1976, as amended, imposes upon every bank engaged in business in the State a fee or franchise tax computed on the entire net income of such bank which includes interest paid on the Notes.

The rights of the owners of the Notes and the enforceability of the Notes are limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Notes. Further, we express no opinion regarding tax consequences arising with respect to the Notes other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

McNAIR LAW FIRM, P.A.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Town of Hilton Head Island, South Carolina (the "Town") in connection with the issuance of $_____ General Obligation Bond Anticipation Notes, Series 2016 (the "Notes"). The Notes are being issued pursuant to an Ordinance adopted by the Town Council (the "Council"). The Town covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Town for the benefit of the beneficial owners and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below).

SECTION 2. Definitions. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Town pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" shall mean the Town or any successor Dissemination Agent designated in writing by the Town and which has filed with the Town a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean for purposes of the Rule, the Electronic Municipal Market Access (EMMA) system created by the Municipal Securities Rulemaking Board.

"Notes" shall mean the $_____ General Obligation Bond Anticipation Notes, Series 2016 of the Town of Hilton Head Island, South Carolina, dated _____ __, 2016.

"Participating Underwriter" shall mean _____ and any other original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

"Repository" shall mean each National Repository and each State Depository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private repository or entity designated by the State of South Carolina as a state depository for the purpose of the Rule. As of the date of this Certificate, there is no State Depository.

SECTION 3. Provision of Annual Reports.

(a) The Town shall, or shall cause the Dissemination Agent to provide, not later than February 1 of each year, commencing in 2017, to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) business days prior to such date the Town shall provide the Annual Report to the Dissemination Agent, if other than the Town; provided, that if the audited financial statements required pursuant to Section 4 hereof to be included in the Annual Report are not available for inclusion in the Annual Report as of such date, unaudited financial statements of the Town may be included in such Annual Report in lieu thereof, and

the Town shall replace such unaudited financial statements with audited financial statements within fifteen (15) days after such audited financial statements become available for distribution. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Town may be submitted separately from the balance of the Annual Report.

(b) If the Town is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Town shall send a notice to the Municipal Securities Rulemaking Board and State Depository, if any, in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Depository, if any; and

(2) if the Dissemination Agent is other than the Town, file a report with the Town and (if the Dissemination Agent is not the Registrar) the Registrar certifying whether the Annual Report has been provided pursuant to this Disclosure Certificate, and, if provided, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Town's Annual Report shall contain or incorporate by reference the most recent audited financial statements, which shall be prepared in conformity with generally accepted accounting principles (or, if not in such conformity, to be accompanied by a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information) applicable to governmental entities such as the Town, and shall, in addition, contain or incorporate by reference the following information concerning the most recently completed fiscal year:

(a) Town population (most recently available);
(b) Total state appropriations subject to withholding under Article X, Sec. 14, South Carolina Constitution;
(c) Outstanding indebtedness of the Town;
(d) Market value/assessment summary of taxable property in the Town;
(e) Tax levy for the Town;
(f) Tax collections for the Town; and
(g) Ten largest taxpayers (including fee-in-lieu-of-tax) for the Town.

Any or all of the items listed above may be incorporated by reference from other documents, including Official Statements of debt issues with respect to which the Town is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, it must be available from the Municipal Securities Rulemaking Board. The Town shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Town shall give, or cause to be given, notice of the occurrence of any of the following events (the "Listed Events"):

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
(7) Modifications to rights of security holders;
(8) Bond calls;
(9) Tender offers;
(10) Defeasances;
(11) Release, substitution, or sale of property securing repayment of the securities;
(12) Rating changes;
(13) Bankruptcy, insolvency, receivership or similar event of the Town;
(14) The consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
(15) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the Town obtains knowledge of the occurrence of a Listed Event described in subsections (a)(2), (7), (8), (11), (14), or (15) above, the Town shall as soon as possible determine if such event would be material under applicable federal securities laws. If the Town determines that knowledge of the occurrence of such event would be material under applicable federal securities laws, the Town shall promptly, and no later than 10 days after the occurrence of the event, file a notice of such occurrence with the Repository.

(c) Whenever the Town obtains knowledge of the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (9), (10), (12), or (13) above, the Town shall promptly, and no later than 10 days after the occurrence of the event, file a notice of such occurrence with the Repository.

(d) Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8), (9), and (10) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Notes. For the purposes of the event identified in (a)(13) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of

reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town.

SECTION 6. Termination of Reporting Obligation. The Town's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Notes.

SECTION 7. Dissemination Agent. The Town may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Town.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Town may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Town, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Town from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Town chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Town shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Town, or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any beneficial owner may take such actions as may be necessary and appropriate, including seeking injunctive relief or specific performance by court order, to cause the Town, or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the Town, or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Town agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Town under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Town, the Dissemination Agent, the Participating Underwriters, and Holders from time to time of the Notes, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

TOWN OF HILTON HEAD ISLAND,
SOUTH CAROLINA

By:_____
Town Manager

Dated: _____ __, 2016

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Town:	Town of Hilton Head Island, South Carolina
Name of Issue:	$_____ General Obligation Bond Anticipation Notes, Series 2016 of the Town of Hilton Head Island, South Carolina
Date of Issuance:	_____ __, 2016

NOTICE IS HEREBY GIVEN that the Town of Hilton Head Island, South Carolina (the "Town") has not provided an Annual Report with respect to the above-named Notes as required by Sections 3 and 4 of the Continuing Disclosure Certificate executed and delivered by the Town as Dissemination Agent. The Town has notified us in writing that the Annual Report will be filed by _____.

Dated:_____

TOWN OF HILTON HEAD ISLAND,
SOUTH CAROLINA