

Report on Audits of Financial Statements of

Patriots Point Development Authority

*for the years ended June 30, 2004 and 2003*

State of South Carolina



Office of the State Auditor

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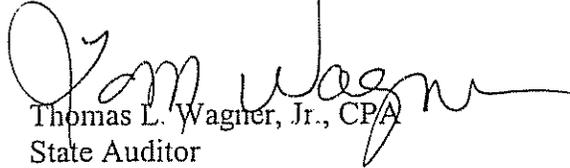
November 1, 2004

The Honorable Mark Sanford, Governor  
and  
Members of the Authority  
Patriots Point Development Authority  
Mt. Pleasant, South Carolina

This report on the audit of the financial statements of the Patriots Point Development Authority for the fiscal year ended June 30, 2004, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

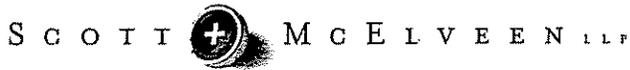
  
Thomas L. Wagner, Jr., CPA  
State Auditor

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## Independent Auditors' Report

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The Office of the State Auditor and Board of Commissioners  
 Patriots Point Development Authority  
 Mount Pleasant, South Carolina

We have audited the accompanying financial statements of the business-type activities of Patriots Point Development Authority (the "Authority"), a non-major enterprise fund of the State of South Carolina, as of and for the years ended June 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Patriots Point Naval & Maritime Museum Foundation (the "Foundation"), a discretely presented component unit of the Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of other auditors.

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

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of the Authority, an enterprise fund of the State of South Carolina, and its component unit. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Patriots Point Development Authority and its discretely presented component unit, Patriots Point Naval & Maritime Museum Foundation, as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CERTIFIED PUBLIC ACCOUNTANTS

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
September 2, 2004

## Required Supplementary Information

## **Management's Discussion and Analysis**

The following is a discussion and analysis of Patriots Point Development Authority's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2004. Please read in conjunction with the financial statements, which follow this analysis.

Patriots Point Development Authority (the "Authority") was established through Section 51-13-710 of the Code of Laws of South Carolina. The Authority is part of the primary government of the State of South Carolina (the "State") and its funds are included in the State's Comprehensive Annual Financial Report. The activities of the Authority are accounted for as an enterprise fund of the proprietary fund type. An enterprise fund accounts for operations that are financed, for the most part, and operated in a manner similar to private enterprises where the intent is that the cost of providing goods or services be recorded primarily through user charges and revenues. In fiscal year 2004 and 2003, the Authority received no State appropriated funds.

### **Using This Report**

The audit report that follows consists of a series of financial statements and reflects the self-supporting activities of the Authority funded primarily through admission fees, gift shop sales, an overnight camping program and lease and commission income. The Authority financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and notes to the financial statements.

### **Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows**

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of the Authority's financial health. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The Statement of Revenues, Expenses and Changes in Net Assets reports all of the current year's revenues and expenses regardless of when cash is received or paid. The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for capital additions.

### **Financial Highlights**

- The Authority's net assets increased 6.2% to \$13,891,063 as a result of this year's operations.
- The total operating revenues from all sources were \$7,513,708.
- The total operating expenditures were \$6,975,947.
- Voluntary nonexchange donations (gifts to the Authority) totaled \$31,422.
- The Authority reported an increase in net assets of \$815,084 for the year.
- The Authority reported unrestricted net assets of \$4,151,199 and total net assets of \$13,891,063, respectively at year-end.

## Net Assets

<b>Assets</b>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets	\$ 5,958,010	\$ 6,775,491
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	<u>9,739,864</u>	<u>7,696,070</u>
Total assets	<u>\$ 15,697,874</u>	<u>\$ 14,471,561</u>
<b>Liabilities and net assets</b>		
Current liabilities	\$ 1,806,811	\$ 1,395,582
Net assets		
Invested in capital assets	9,739,864	7,696,070
Unrestricted	<u>4,151,199</u>	<u>5,379,909</u>
	<u>13,891,063</u>	<u>13,075,979</u>
Total liabilities and net assets	<u>\$ 15,697,874</u>	<u>\$ 14,471,561</u>

The Authority's Net Assets increased by \$815,084 for the year, which consisted of a \$1,226,313 increase in total assets and a \$411,229 increase in total liabilities. The most significant impact came from a \$2,043,794 increase in property and equipment, net of accumulated depreciation.

## Revenues, Expenses and Changes in Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<b>Operating revenues:</b>		
Admissions	\$ 2,853,700	\$ 2,987,052
Gift shop sales	1,910,027	1,878,792
Scouting program revenues	1,400,027	1,397,860
Lease and commission income	1,118,864	1,138,478
Miscellaneous revenues	76,090	34,522
Total operating revenues	<u>7,358,708</u>	<u>7,436,704</u>
<b>Operating expenses:</b>		
Personnel services	2,513,097	2,497,988
Contractual services	1,680,313	1,698,605
Cost of goods sold	926,582	985,854
Employer payroll contributions	748,516	702,087
Depreciation	285,255	320,353
Supplies	362,845	384,597
Utilities	253,548	236,370
Insurance and rental charges	126,093	109,917
Travel	34,831	16,561
Other	44,867	68,574
Total operating expenses	<u>6,975,947</u>	<u>7,020,906</u>
Operating income	382,761	415,798
<b>Non-operating revenues and (expenses):</b>		
Disposal of property	-	(22,140)
Interest income, net	245,901	150,440
Voluntary nonexchange donations	31,422	22,127
	<u>277,323</u>	<u>150,427</u>
Income before special item	660,084	566,225
Special item:		
Sale of property easement	155,000	-
<b>Increase in net assets</b>	<u>815,084</u>	<u>566,225</u>
Total net assets, beginning of year	13,075,979	12,509,754
Total net assets, end of year	<u>\$ 13,891,063</u>	<u>\$ 13,075,979</u>

The Authority's operating income decreased by \$33,037 to \$382,761, due principally to a \$77,996 decrease in operating revenues, while operating expenses decreased \$44,959.

The majority of the decrease in operating revenues is attributable to a \$133,352 decrease in Admissions revenues. All other operating revenues increased \$55,356 compared to the prior year.

The majority of the decrease in operating expenses resulted from a decrease of \$59,272 in cost of goods sold. All other operating expenses increased \$14,313 compared to the prior year.

## **Cash Flows**

Cash and cash equivalents increased approximately \$780,314 during the year to \$5,375,976 at year-end. At the May 25, 2004 Authority meeting, the Patriots Point Development Authority Board earmarked the cash on hand for the following obligations:

Capital Improvements	\$3,375,970
Short Fall from Operations	<u>2,000,000</u>
Total Cash	<u>\$5,375,970</u>

## **Capital Asset and Long-term Debt Activity**

Construction in progress at year end was \$2,392,649. Included in this figure is approximately \$1,886,000 related to the Yorktown Flight Deck Overhaul project and approximately \$400,000 related to the Yorktown Hull Restoration project. The Authority has no outstanding long-term debt for the year ended June 30, 2004.

### **Known facts expected to have a significant effect on financial position and results of operations**

In considering the Authority's budget for fiscal year 2005, the Authority Board and staff were cautious as to the growth of revenues and expenditures. The operating expenditures budget for fiscal year 2005 is approximately \$10,000 less than fiscal year 2004. The operating revenues budget for fiscal year is approximately \$50,000 greater than fiscal year 2004. The budget demonstrates the financial priorities used in the agency's decision making process, namely 1) improvements needed to sustain and maintain YORKTOWN and the other existing Museum ships as the core of the Naval and Maritime Museum far into the future, 2) future development of the museum to include reinterpretation of exhibits in the Museum to appeal more effectively to the changing visitor demographics, 3) enhancement and improvement in the various education programs we offer, and 4) continuous development of the property's remaining acreage to improve the entire Patriots Point complex as a tourism destination and a community activity hub. The Authority's overall financial position is sound, and the Authority is well-positioned to maintain its financial stability with resources being closely guarded in order to maintain the ability to react to changing economic times.

### **Request for Information**

This financial report is designed to provide a general overview of the Patriots Point Development Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Controller, Patriots Point Development Authority, 40 Patriots Point Road, Mt. Pleasant, South Carolina, 29464.

## Financial Statements

Patriots Point Development Authority  
Balance Sheets  
June 30,

	2004	2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,375,976	\$ 6,156,290
Accounts receivable	200,558	214,792
Prepaid expenses	40,207	66,033
Inventories	324,382	317,636
Interest receivable	16,887	20,740
Total current assets	5,958,010	6,775,491
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	9,739,864	7,696,070
Total assets	\$15,697,874	\$14,471,561
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 692,723	\$ 269,072
Accrued payroll and related liabilities	237,218	248,895
Compensated absences and related liabilities	275,496	261,282
Deferred revenues	601,374	616,333
Total liabilities; total current liabilities	1,806,811	1,395,582
Net assets		
Invested in capital assets	9,739,864	7,696,070
Unrestricted	4,151,199	5,379,909
Total net assets	13,891,063	13,075,979
Total liabilities and net assets	\$15,697,874	\$14,471,561

*The accompanying notes are an integral part of these financial statements.*

Patriots Point Development Authority  
 Statements of Revenues, Expenses and Changes in Net Assets  
 for the years ended June 30,

	2004	2003
<b>Operating revenues:</b>		
Admissions	\$ 2,853,700	\$ 2,987,052
Gift shop sales	1,910,027	1,878,792
Scouting program revenues	1,400,027	1,397,860
Lease and commission income	1,118,864	1,138,478
Miscellaneous revenues	76,090	34,522
Total operating revenues	7,358,708	7,436,704
<b>Operating expenses:</b>		
Personnel services	2,513,097	2,497,988
Contractual services	1,680,313	1,698,605
Cost of goods sold	926,582	985,854
Employer payroll contributions	748,516	702,087
Depreciation	285,255	320,353
Supplies	362,845	384,597
Utilities	253,548	236,370
Insurance and rental charges	126,093	109,917
Travel	34,831	16,561
Other	44,867	68,574
Total operating expenses	6,975,947	7,020,906
Operating income	382,761	415,798
<b>Non-operating revenues and (expenses):</b>		
Interest income, net	245,901	150,440
Loss on disposal of property and equipment	—	(22,140)
Voluntary nonexchange donations	31,422	22,127
Net non-operating revenues	277,323	150,427
<b>Income before special item</b>	660,084	566,225
<b>Special Item:</b>		
Sale of property easement	155,000	—
<b>Increase in net assets</b>	815,084	566,225
Total net assets, beginning of year	13,075,979	12,509,754
Total net assets, end of year	\$ 13,891,063	\$ 13,075,979

*The accompanying notes are an integral part of these financial statements.*

Patriots Point Development Authority  
Statements of Cash Flows  
for the years ended June 30,

	2004	2003
<b>Cash flows from operating activities:</b>		
Cash received from admission and gift shop sales	\$ 4,763,727	\$4,865,844
Other operating cash receipts	107,512	56,636
Cash received from lease and rental activities	2,518,166	2,581,099
Cash paid for employee wages and benefits	(3,259,076)	(3,163,493)
Cash paid to suppliers for goods and services	(2,527,009)	(3,026,981)
Cash paid for general and administrative expenses	(459,339)	(431,422)
Net cash provided by operating activities	1,143,981	881,683
 <b>Cash flows from capital and related financing activities:</b>		
Proceeds from the sale of property easement	155,000	—
Cash used by capital and related financing activities; purchase of property and equipment	(2,329,049)	(448,622)
Net cash used by capital and related financing activities	(2,174,049)	(448,622)
 <b>Cash flows from investing activities:</b>		
Cash provided by investing activities; Interest income received on deposits and investments, net	249,754	146,266
Net (decrease) increase in cash and cash equivalents	(780,314)	579,327
Cash and cash equivalents, beginning of year	6,156,290	5,576,963
Cash and cash equivalents, end of year	\$ 5,375,976	\$ 6,156,290
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 382,761	\$ 415,798
Voluntary nonexchange donations for operating maintenance	31,422	22,127
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	285,255	320,353
(Increase) decrease in assets and increase (decrease) in liabilities:		
Accounts receivable	14,234	17,640
Prepaid expenses	25,826	(57,237)
Inventories	(6,746)	25,313
Accounts payable	423,651	73,986
Accrued payroll and related liabilities	(11,677)	35,419
Compensated absences and related liabilities	14,214	1,163
Deferred revenues	(14,959)	27,121
Net cash provided by operating activities	\$ 1,143,981	\$ 881,683

*The accompanying notes are an integral part of these financial statements.*

Patriots Point Naval & Maritime Museum Foundation  
 Charleston, South Carolina  
 Statements of Financial Position  
 June 30,

	2004	2003
<b>Assets</b>		
Cash and cash equivalents	<b>\$ 320,003</b>	\$ 267,168
Total assets	<b>\$ 320,003</b>	\$ 267,168
<b>Liabilities and Net Assets</b>		
Net assets		
Unrestricted	76,064	37,240
Temporarily restricted	<b>243,939</b>	229,928
Total net assets	<b>320,003</b>	267,168
Total liabilities and net assets	<b>\$ 320,003</b>	\$ 267,168

*The accompanying notes are an integral part of these financial statements.*

Patriots Point Naval & Maritime Museum Foundation  
 Charleston, South Carolina  
 Statements of Activities and Changes in Net Assets  
 For the years ended June 30,

	2004		2003	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>Public Support and Revenues</b>				
Contributions	\$13,399	\$10,623	\$8,926	\$11,382
Photo concession income	44,326	-	-	-
Interest income	660	3,656	1,268	4,219
Net assets released from restrictions	268	(268)	1,466	(1,466)
<b>Total public support and revenues</b>	<b>58,653</b>	<b>14,011</b>	<b>11,660</b>	<b>14,135</b>
		<b>\$24,022</b>		<b>\$20,308</b>
		<b>44,326</b>		<b>5,487</b>
		<b>4,316</b>		<b>-</b>
		<b>-</b>		<b>25,795</b>
		<b>72,664</b>		<b>-</b>
<b>Expenses</b>				
Museum programs:				
Education program	8,799	-	-	-
MOWW Youth Development Fund Program	-	-	1,466	-
Other museum programs	738	-	43	43
Administration	10,292	-	10,292	-
<b>Total expenses</b>	<b>19,829</b>	<b>-</b>	<b>11,801</b>	<b>-</b>
		<b>19,829</b>		<b>11,801</b>
<b>Total changes in net assets</b>	<b>38,824</b>	<b>14,011</b>	<b>(141)</b>	<b>14,135</b>
<b>Net assets at beginning of year</b>	<b>37,240</b>	<b>229,928</b>	<b>37,381</b>	<b>215,793</b>
		<b>267,168</b>		<b>253,174</b>
<b>Net assets at end of year</b>	<b>\$76,064</b>	<b>\$243,939</b>	<b>\$37,240</b>	<b>\$229,928</b>
		<b>\$320,003</b>		<b>\$267,168</b>

*The accompanying notes are an integral part of these financial statements.*

Patriots Point Development Authority  
Notes to Financial Statements

**Note 1. Organization and Reporting Entity**

**Reporting Entity** – Patriots Point Development Authority (the “Authority”), also known as the Naval and Maritime Museum, was established through Section 51-13-710 of the Code of Laws of South Carolina. The Authority is dependent on the State of South Carolina (the “State”) for debt financing and appointment of its Board by the Governor. Although the Authority operates somewhat independently, it lacks full corporate powers. In addition, the Authority is financially accountable to and dependent on the State and subject to various State procurement, budget, personnel, and other regulations. The Authority is a part of the primary government of the State of South Carolina and its funds are included in the State’s Comprehensive Annual Financial Report. The Authority is reported as a separate non-major enterprise fund of the State of South Carolina. The core of a financial reporting entity is the primary government, which has a separately elected governing body. An organization other than a primary government, such as the Authority, may serve as a nucleus for a reporting entity when it issues separate financial statements.

The Authority was formed by the State to develop and improve the Patriots Point area in Charleston County, South Carolina, and assist developing Patriots Point by acquiring, constructing, equipping, and maintaining museum buildings, aquariums, laboratories, public exhibits, entertainment facilities, historical monuments, and lodging at Patriots Point. The Authority has a statutory mandate to improve the Patriot Point area in order to provide a self-sufficient place of naval and maritime history, a repository of state and national heritage and other educational and recreational activities fostering pride and patriotism.

Management’s stated mission is to 1) establish, develop and operate a national museum of ships, naval and maritime equipment, artifacts, manuscripts, art and other historic military displays for the purpose of fostering patriotism, generating pride and respect for the United States of America and for memorializing all soldiers, sailors and airmen who have given their lives in the service of their country, and 2) develop and enhance Patriots Point and its contiguous water areas to support the operation of its historic ships and aircraft, provide a place of education and recreation, and stimulate national and international travel by providing museums, attractions, lodging and accommodations.

During 1974 and 1975, the Authority acquired land, from which it now operates on the Charleston Harbor, in the Town of Mt. Pleasant, across the Cooper River from the City of Charleston. The Authority currently displays for tour the USS YORKTOWN aircraft carrier, destroyer USS LAFFEY, submarine USS CLAMAGORE, and INGRAM Coast Guard Cutter, and various aircraft and other military exhibits. The Authority owns the Patriots Point golf course, which is managed and leased by Charleston Harbor Golf Partners, L.P.

The Authority operates a gift shop. A hotel and a marina have been developed on parcels leased from the Authority. In addition, the Authority leases other parcels of its land to various entities, most of whom have made leasehold improvements to accommodate their particular activities.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 1. Organization and Reporting Entity (continued)**

The Authority charges fees for its goods and services to users external to the State of South Carolina (the public).

**Component Unit** – The financial statements include the accounts of the Authority, as the primary government reporting unit, and the accounts of Patriots Point Naval & Maritime Museum Foundation (the “Foundation”), its component unit. The Authority is part of the primary government of the State of South Carolina. However, based on the nature and significance of the Foundation’s relationship with the State of South Carolina, the Foundation is not a component unit of the State of South Carolina. The Foundation is a legally separate nonprofit organization that was formed in April 1976 to build an endowment fund to be expended annually by the Foundation Trustees for the exclusive benefit of the Naval and Maritime Museum (the Authority) and to receive and manage such assets, including development, annual giving and endowment funds, as may be derived for the benefit of the Museum. The board of the Foundation is self-perpetuating and consists of four voting positions and a fifth nonvoting position held by the executive director of the Authority. Although the Authority does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Authority. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Authority, the Foundation is considered a component unit of the Authority. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below. The Internal Revenue Service has declared the Foundation to be exempt from federal and state taxes under IRS code section 501(C)(3). Financial statements for the Foundation can be obtained by mailing a request to: Patriots Point Naval & Maritime Museum Foundation, 171 Church Street, Suite 120, Charleston, South Carolina 29401.

The Foundation is a private not-for-profit organization that reports its financial activity under Financial Accounting Standards Board (“FASB”) Statements. Most significant to the Foundation’s operations and reporting are FASB Statement of Financial Accounting Standards (“SFAS”) Statement No. 116 *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117 *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management’s discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Foundation presently has no permanently restricted net assets. No modifications have been made to the Foundation’s financial information in the Authority’s financial reporting entity for these differences. However, significant note disclosures to the Authority’s financial statements have been incorporated into the Authority’s notes to the financial statements.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies**

The accompanying financial statements present the financial position, results of operations, and cash flows solely of the Authority and the Foundation in conformity with accounting principles generally accepted in the United States of America. They do not include any other agencies or funds of the State, nor do they present the financial position of the State of South Carolina, the results of its operations, or its cash flows.

**Basis of Accounting** – The Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred if measurable. It is the policy of the Authority to use the guidance in GASB 9 to distinguish between operating and non-operating revenues and expenses. The Authority accounts for its activities (operations of the maritime museum, which includes revenues from admissions, scout camping and activities, a golf course lease, leases of other parcels being developed and various concessions) as operating revenues and expenses using the economic resources measurement focus and the accrual basis of accounting. For the Authority, nonoperating revenues include interest income and voluntary nonexchange private donations.

The accounting policies of the Authority conform to generally accepted accounting principles (“GAAP”) in the United States of America applicable to governmental proprietary activities as prescribed by the Government Accounting Standards Board (“GASB”), the recognized standard setting body in the United States of America for governmental entities. The Authority applies all financial accounting and reporting pronouncements issued by the GASB and all Financial Accounting Standards Board (“FASB”), and the predecessor organizations to the FASB, that are still in effect and issued by FASB (or predecessor organizations) on or before November 30, 1989, when not in conflict with GASB pronouncements. In accordance with GASB Statement 20, the Authority has elected not to implement FASB Statements 103 and after, and FASB Interpretations 39 and after.

**Fund Accounting** – The Authority uses an enterprise fund to report its financial position and the results of its operations. A fund is a separate fiscal and accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain government functions or activities. The activities of the Authority are accounted for within an Enterprise Fund of the Proprietary Fund category. Enterprise Funds account for business-like activities that provide goods and services to the public financed primarily through user charges. A Proprietary Fund is used to account for activities similar to those found in the private sector. The measurement focus of Proprietary Funds is based upon determination of change in net assets, financial position, and cash flows.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

**Cash and Cash Equivalents** – The amounts shown in the financial statements as cash and cash equivalents represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State’s internal cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, and collateralized repurchase agreements.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each agency’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Authority records and reports its deposits in the general deposit account at cost. The Authority reports its deposits in the special deposit accounts at fair value. Investments held by the pool are reported at fair value. Interest earnings are allocated based on the percentage of the Authority’s accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains or losses arising from changes in the fair value of investments held by the pool are accrued and allocated at year-end based on the Authority’s percentage ownership in the pool.

Although the cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the cash management pool see the footnote on deposits.

**Allowance for Bad Debts** – The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

**Inventories** – Inventories represent gift shop merchandise for resale and are carried at the lower of cost or market. Cost is determined on the average cost basis.

**Reclassifications** – Certain prior year amounts were reclassified to conform with the current year presentation.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

**Nonexchange Transactions** – It is the policy of the Authority to first apply restricted assets (private donations) when an expense is incurred for purposes for which restricted and unrestricted net assets are available.

**Property and Equipment** – Purchased property and equipment are recorded at cost and are depreciated over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

Depreciable land improvements	5-50 years
Building and improvements	5-25 years
Machinery and equipment	5-10 years
Depreciable works of art & historic treasures	10-25 years

Donated assets are capitalized at fair market value as of the date of donation. Fair market value is generally determined as the price at which an asset would change hands if both buyer and seller are willing parties and have knowledge of all related facts.

Self-constructed assets are accounted for by the cost of labor and materials involved in constructing the asset.

Expenditures for purchases of property and equipment or for major improvements that are greater than \$5,000 for machinery and equipment, \$100,000 for buildings and improvements, and \$100,000 for depreciable land improvements; and have a useful life greater than one year; and extend the useful life of property and equipment are capitalized. Maintenance and repairs, which do not significantly improve or extend the life of respective assets, are expensed as incurred.

**Deferred Revenues** – The Authority receives rent, camping deposits, and initial lease amounts for future periods. The camping deposits are recognized as revenue when the camping trip occurs. The advance rents and leases are recognized as revenue proportionately over the time period for which the amounts properly apply.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

**Compensated Absences and Related Liabilities** – Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency’s workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave based upon maximum payout guidelines of the State of South Carolina. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory time earned for which the employees are entitled to paid time off or payment at termination. That liability is calculated at fiscal year-end current salary costs and the cost of the salary-related benefit payments.

**Budget Policy** – The appropriation as enacted by the General Assembly becomes the legal operating budget for the Authority. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit and within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State’s budgetary accounting system only if enough cash and appropriation authorization exist. For the current year, the Authority received no State General fund appropriations. Generally accepted accounting principles do not require budgetary comparisons to be presented for proprietary funds; therefore, none are included in these statements.

**Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Component Unit Accounting Policies***

**Cash and Cash Equivalents** – For the Foundation, cash and cash equivalents include all monies in banks and certificates of deposit.

**Revenue Recognition** – The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 2. Summary of Significant Accounting Policies (continued)**

Advertising – The Foundation reports advertising costs, which are principally included in operating expenses, are expensed as incurred. The foundation did not incur any advertising expense in the current or preceding year.

Functional Expenses – The Foundation reports expenses as charged directly to program or management in general categories based on specific identification. The summarized costs of providing the various programs and activities are on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 3. Deposits**

*Deposits Held by State Treasurer* – All deposits and investments of the Authority are under control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2004, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agents in the State’s name. With respect to investments in the State’s internal cash management pool, all of the State Treasurer’s investments are insured or registered or are in investments for which the securities are held by the State or its agents in the State’s name.

The amounts by component as of June 30 are as follows:

	2004	2003
Cash on hand	\$ 11,206	\$ 9,206
Deposits held by State Treasurer	5,364,770	6,147,084
	\$ 5,375,976	\$ 6,156,290

Information pertaining to the reported amounts, fair value, and credit risk of the State Treasurer’s investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Component Unit

Cash and cash equivalents consist of the following:

	2004	2003
Bank Accounts	\$ 140,004	\$ 102,168
Certificates of Deposit	180,000	165,000
Total	\$ 320,004	\$ 267,168

Concentration of Credit Risk – Insurance provided by the federal government (FDIC) does not cover the total cash held by the Foundation as of June 30, 2004 and 2003, by \$ 220,004 and \$167,168 in deposits, respectively. However, the Foundation has provided continuous additional coverage for the excess throughout its existence, the most recent renewal being in the amount of \$ 250,000 and \$ 175,000 at June 30, 2004 and 2003 respectively.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 4. Property and Equipment**

A summary of the changes in property and equipment for the year ended June 30, 2004 is shown below:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Capital assets not being depreciated:				
Land and improvements	\$ 4,462,939	\$ —	\$ —	\$ 4,462,939
Construction in progress	443,327	2,249,972	(300,650)	2,392,649
Other capital assets:				
Depreciable land improvements	1,281,177	300,650	—	1,581,827
Buildings and improvements	1,460,493	42,123	—	1,502,616
Machinery and equipment	538,653	16,158	—	554,811
Depreciable works of art and historic treasures	6,966,682	20,796	—	6,987,478
	<u>15,153,271</u>	<u>2,629,699</u>	<u>(300,650)</u>	<u>17,482,320</u>
Less accumulated depreciation for:				
Depreciable land improvements	(1,137,026)	(43,099)	—	(1,180,125)
Buildings and improvements	(1,084,849)	(78,045)	—	(1,162,894)
Machinery and equipment	(488,817)	(26,471)	—	(515,288)
Depreciable works of art and historic treasures	(4,746,509)	(137,640)	—	(4,884,149)
Total accumulated depreciation	<u>(7,457,201)</u>	<u>(285,255)</u>	<u>—</u>	<u>(7,742,456)</u>
Capital assets, net	<u>\$ 7,696,070</u>	<u>\$ 2,344,444</u>	<u>\$ (300,650)</u>	<u>\$ 9,739,864</u>

Depreciation expense for the years ended June 30, 2004 and 2003 was approximately \$285,000 and \$320,000, respectively.

Property and equipment does not include certain exhibits to which the right of ownership resides with the government of the United States of America.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 5. Accounts Payable**

At June 30 accounts payable to third parties and the State are as follows:

	<u>2004</u>	<u>2003</u>
Accounts payable – third party	\$ 643,136	\$ 255,012
Accounts payable – State of South Carolina intergovernmental	<u>49,587</u>	<u>14,060</u>
	<u>\$ 692,723</u>	<u>\$ 269,072</u>

**Note 6. Deferred Revenues**

Deferred revenues at June 30 are comprised of the following:

	<u>2004</u>	<u>2003</u>
College of Charleston lease	\$ 444,232	\$ 451,924
Camping deposits	157,142	160,653
Marina Prepaid Rent	<u>—</u>	<u>3,756</u>
	<u>\$ 601,374</u>	<u>\$ 616,333</u>

*College of Charleston* – As part of the lease agreement between the Authority and College of Charleston, the Authority received a \$500,000 one-time lump sum payment in September 1998. The payment was initially recorded as deferred revenue and is being amortized, at a yearly amount of \$7,692, into lease income using the straight-line method over the term of the lease agreement.

*Camping Deposits* – Camping deposits represent amounts received and not yet earned for the rental of certain Authority facilities.

*Marina Prepaid Rent* – As part of the lease agreement with Gulf Stream Capital Associates, LLC the Authority receives lease income on a parcel of land containing marina facilities.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 7. Contractual Services**

Amounts shown in the financial statements as contractual services represent advertising, janitorial, maintenance, repairs, security, and other services generally obtained on a contractual basis.

**Note 8. Lease and Commission Income**

	2004	2003
For the year ended June 30, lease and commission income is comprised of the following:		
Hotel/amenities lease	\$ 268,629	\$ 271,898
Golf course lease	329,891	279,024
Food and beverage commissions	142,012	188,620
Marina lease	92,942	81,364
Athletic complex lease	129,649	127,992
Flight simulation commissions	80,190	100,502
Fort Sumter tour commissions	49,765	51,415
Land and other facility leases	14,786	7,388
Parcel A	11,000	30,275
Total lease and commission income	\$ 1,118,864	\$ 1,138,478

**Golf Course** – The authority leases certain real property and improvements erected thereon known as the Patriots Point Golf course (the “golf course”) to Charleston Harbor Golf Partners, L.P. with a 20 year initial period that ended on December 31, 2001. Upon expiration of the initial term, the lease is automatically renewed at the start of four separate ten-year periods unless the lessee elects to terminate the lease as of the termination date of the then current term by giving written notice to the Authority at least 120 days prior to the termination date of the then current lease term. The lessee has not elected to terminate the lease agreement, and thus the lease period has been extended to December 31, 2011. The terms of the lease agreement provide for the lessee to pay the greater of a base or activity driven rent, as defined by the agreement. Lease revenue from the golf course for the year ending June 30, 2004 and 2003 totaled approximately \$330,000 and \$279,000, respectively. Minimum future rental income payments have been calculated based on the previous three-year average rent.

**Food and Beverage Commissions** – The Authority contracts its food and beverage service to Recreational Food Service (“RFS”) and receives 23% of vending revenue, 30% of snack bar revenue and 20% of scout meals and catering revenue as a commission. The initial contract term ended on December 31, 1997, and was extended for three additional one-year periods. Upon termination of the food contract on January 31, 2001, the Authority executed another contract with RFS through October 31, 2004. The current contract reduces the above revenue percentages to: 15% of vending revenue, 17.5% of snack bar revenue, 15% of scout meals and 15% of catering revenue for the interim period.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 8. Lease and Commission Income (continued)**

***Athletic Complex Lease*** – The Authority entered into a nonrenewable land operating lease agreement effective April 1997, with College of Charleston to provide for an athletic complex situated on approximately 32 acres of land belonging to the Authority. The land lease agreement provides for the facilities to be owned and maintained by College of Charleston during the lease term. At the end of the lease, the premises and any improvements to the premises revert to the Authority. The annual lease amounts are as follows: years 1 through 5 \$90,000 per year; year 6 \$120,000; years 7 through 65 the prior year lease amount plus any increases in the Consumer Price Index. The rent revenue during 2004 and 2003 was approximately \$130,000 and \$128,000, respectively which includes \$7,692 for 2004 and 2003 of deferred revenue associated with the lease agreement.

***Flight Simulation Commissions*** – The Authority entered into an agreement beginning August 1996 with Flight Avionics of North America, Inc. to receive commissions on flight simulator revenues. The commission is calculated as 50% of the flight simulator net profit. The initial contract term ended July 2001. The Authority and Flight Avionics have entered into another contract for an additional five years, which expires February 28, 2007.

***Fort Sumter Tour Commissions*** – The Authority receives commissions and facility rent from Fort Sumter Tours, Inc., a tour boat operator who sells tickets from the Authority's facility. The valuation basis for the commissions is 1.5% of gross receipts. The initial contract term, which ended January 31, 1991, had the option to renew for ten five-year terms, and Fort Sumter Tours has renewed the contract through January 31, 2006.

***Hotel, Marina, Land, and Other Facility Leases*** – On February 26, 1996, the Authority entered into a 99-year non-renewable lease with Gulf Stream Capital Associates, LLC for the development of approximately 35.6 acres of the Authority's property. The leased premises include land and land improvements consisting of the hotel building and three docks, including a harbor master building. The leasehold improvements are owned by the lessee during the lease period and at the expiration of the lease, ownership of the assets reverts to the lessor.

The leased premises are sub-divided into parcels for the ease of administration and orderly development. Parcel A contains a hotel. Parcel A-1 contains ten cottages, a clubhouse, and a pool. Additionally, two more cottages are planned for construction on Parcel A-1. Parcel B-1 is the Marina which was completed and opened for business on July 4, 1998. Development of parcels B, C, D and E will include retail shops, restaurants, and rental condominiums. Development of parcels B, C and D are to commence in the near term and parcel E by March 1, 2016. The leased land is owned by the Authority, but will be maintained by the lessee. The Authority has the right to approve the master plan for each parcel prior to commencement of development of that parcel. Further, the Authority has the right to review and approve all plans and specifications for construction.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 8. Lease and Commission Income (continued)**

After the pre-opening period which ended July 1997, lease payments are \$120,000 plus “percentage rents” per year thereafter for parcel A (the hotel). For parcel A-1 (the cottages) lease payments are a minimum of \$62,872 as adjusted by the Consumer Price Index plus “percentage rents” as defined in the agreement beginning in calendar 2008 and ending July 1, 2095. Parcels B, C, D minimum monthly lease payments increase from \$10,000 beginning August 1, 2004 to \$15,000 ending July 31, 2007, at which point lease payments are calculated based upon “percentage rents” as defined in the agreement until the termination of the lease December 31, 2096. Lease revenue from parcel A (the hotel) & parcel A-1 (the cottages) was approximately \$280,000 and \$302,000 year ending June 30, 2004 and 2003, respectively. Lease revenue for parcel B-1 (the marina) for the year ending June 30, 2004 and 2003 was approximately \$93,000 and \$81,000, respectively.

**Historical Cost of Leased Land and Improvements** – The total historical cost and net value of land and depreciable land improvements leased to parties external to the State of South Carolina reporting entity, is as follows:

	Golf course	Hotel, marina, land, and other facilities
Capital assets not being depreciated:		
Land and improvements	\$ 1,430,055	\$ 2,500,660
Other capital assets:		
Depreciable land improvements	613,325	183,334
	2,043,380	2,683,994
Less accumulated depreciation for:		
Depreciable land improvements	(562,215)	(183,334)
Total accumulated depreciation	(562,215)	(183,334)
Capital assets, net	\$ 1,481,165	\$ 2,500,660

Patriots Point Development Authority  
Notes to Financial Statements

**Note 8. Lease and Commission Income (continued)**

*Future rental payments* – A schedule of future minimum base rental income payments on noncancellable leases of the golf course, athletic complex, hotel, cottages, and marina are as follows:

	College of Charleston	Non-State of South Carolina Parties	Total
2005	\$ 120,000	\$ 576,579	\$ 696,579
2006	120,000	619,273	739,273
2007	120,000	610,889	730,889
2008	120,000	469,297	589,297
2009	120,000	480,916	600,916
2010 to 2014	600,000	1,651,406	2,251,406
2015 to 2019	600,000	915,153	1,515,153
2020 to 2024	600,000	914,436	1,514,436
2025 to 2029	600,000	914,375	1,514,375
2030 to 2034	600,000	914,375	1,514,375
2035 to 2039	600,000	914,375	1,514,375
2040 to 2044	600,000	914,375	1,514,375
2045 to 2049	600,000	914,375	1,514,375
2050 to 2054	600,000	914,375	1,514,375
2055 to 2059	600,000	914,375	1,514,375
2060 to 2064	360,000	914,375	1,274,375
2065 to 2069	—	914,375	914,375
2070 to 2074	—	914,375	914,375
2075 to 2079	—	914,375	914,375
2080 to 2084	—	914,375	914,375
2085 to 2089	—	914,375	914,375
2090 to 2094	—	914,375	914,375
2095	—	188,115	188,115
<b>Total Future Rents</b>	<b>\$ 6,960,000</b>	<b>\$ 19,227,314</b>	<b>\$ 26,187,314</b>

The above future lease revenues do not include any percentage which cannot reasonably be estimated.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 9. Related Party Transactions**

*State of South Carolina and Agencies:*

The Authority has significant transactions with the State of South Carolina and various State agencies.

From time to time the Authority will provide rental facilities to other agencies that are part of the State of South Carolina reporting entity. For the year ended June 30, 2004 and 2003, no facility rentals were provided to other State Agencies.

The Authority receives certain services at no cost from State agencies. The main services received by the Authority from State agencies are: maintenance of certain accounting records and payroll and disbursement processing from the State Comptroller General, check preparation and banking functions from the State Treasurer, and legal services from the State Attorney General. For certain of these services the Authority also utilizes the services of third parties.

Other services which are available at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, personnel, management, assistance in the preparation of the State budget, review and approval of certain budget amendments, and other centralized functions.

The Authority had financial transactions with various State agencies during the year ended June 30, 2004 and 2003. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, office supplies, printing, telephone, and interagency mail services. The amount of fiscal year 2004 and 2003 expenses applicable to these related party transactions is not readily available.

The Authority leases an athletic complex to College of Charleston. Both entities are part of the State of South Carolina reporting entity. Lease revenue during the years ended June 30, 2004 and 2003 was approximately \$130,000 and \$128,000, respectively.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 10. Risk Management**

The Authority is exposed to various risks of loss, which are property damage, automobile liability, injury and illness to employees, injury to visitors, injury to volunteers, tort liability, and business interruption. The Authority maintains State insurance coverage for each of these risks. In addition, the Authority maintains a commercial crime policy for theft. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claims/losses have not exceeded this coverage in any of the past three years for the insured risks or for self-insured employee fidelity losses in the past three years.

The Authority pays insurance premiums to certain other State agencies to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage either through a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 10. Risk Management (continued)**

The Authority and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following Authority assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Business interruptions; and
6. Natural disasters

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. Also, the IRF purchases reinsurance for catastrophic property insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The Authority has recorded insurance premium expense as insurance and rental charges in the Statement of Revenues, Expenses and Changes in Net Assets. When applicable, these expenditures include, and the related liability has been recorded for, probable and reasonably estimable premium adjustments resulting from actual loss experience for workers compensation coverage provided by the insurer for the fiscal year for all entities it insures. The Authority is insured for such coverage under a retrospectively rated policy and premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the Authority's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be recorded at year-end. Therefore, no loss accrual has been recorded.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 11. Insurance, Retiree Surcharge and Deferred Compensation**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provided certain healthcare, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The State provides post-employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. These benefits are provided through annual appropriations by the General Assembly to the Authority for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the Authority for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis.

The Authority recorded employer contribution expenses applicable to these benefits for active employees in the approximate amount of \$228,000 for the years ended June 30, 2004 and 2003. During fiscal year 2004 and 2003, the amount paid by way of the pension surcharge for retiree insurance was approximately \$68,000 and \$64,000, respectively. By State law, the Authority has no liability to retirees for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the South Carolina Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are funded primarily from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually.

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Authority have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

In years past, the agency has made contributions out of operating revenues to the 401(k) account of eligible Agency employees. The Agency did not make any contributions for the years ended June 30, 2004 and 2003.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 11. Insurance, Retiree Surcharge and Deferred Compensation (continued)**

*Change in compensated absence obligation* -- The change in compensated absences and related liabilities for the year ended June 30, 2004 and 2003 was as follows:

	Beginning balance July 1, 2003	Increases	Decreases	Ending balance June 30, 2004
Compensated absences and related liabilities	\$ 261,282	\$ 154,857	\$ 140,643	\$ 275,496

**Note 12. South Carolina Pension Plan**

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Substantially all active employees of the Authority are covered by a retirement plan through the South Carolina Pension Plan (the Plan), a cost sharing multiple employer defined benefit public employee retirement system.

Generally, all State employees are required to participate in and contribute to the Plan as a condition of employment unless exempted by law. This plan provides annuity benefits as well as disability and group life insurance benefits to eligible employees and retirees.

Under the Plan, employees are eligible for a full-service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula effective July 1, 1989, for the Plan is 1.82% of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after 5 years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 12. South Carolina Pension Plan (continued)**

Since July 1, 1988, employees participating in the Plan have been required to contribute 6% of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50% which included a 1.95% surcharge. Effective January 1, 2000, the employer contribution rate became 9.71 percent which included a 2.16% surcharge. Effective July 1, 2000 the employer contribution rate became 10.07% which included a 2.52% surcharge to fund retiree health and dental insurance coverage. Effective July 1, 2001 the employer contribution rate became 10.40% which included a 2.85% surcharge. The Authority's actual contributions to the Plan for the three most recent fiscal years ending June 30, 2004, 2003, and 2002, were approximately \$155,000, \$153,000, and \$149,000, respectively, and equaled the required contribution of 7.55 percent (excluding the surcharge) for each year. Also, the Authority paid employer group-life insurance contributions of approximately \$3,000 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Authority for pension benefits and group life are included in employer payroll contributions expenses in the accompanying financial statements. Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for the pension plan. Employee and employer contribution rates to the Plan are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation). The Plan does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Authority of the actuarial computed value of vested benefits over the total of the pension fund and any statement of net asset accruals, less any pension prepayments or deferred charges, is not available. By State law, the Authority's liability under the retirement plan is limited to the amounts appropriated on behalf of the Authority for the plan in the South Carolina Appropriation Act for applicable year. Accordingly, the Authority recognizes no contingent liability for unfunded costs associated with participation in the Plan. All actuarially required contributions due to the plan were met.

At retirement, employees participating in the Plan receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

**Note 13. Contractual Commitments**

The Authority must maintain its attractions to attract visitors and ensure safety. Under the donation agreement from the Department of Navy for the YORKTOWN, the Authority is required to perform routine maintenance as considered necessary to provide for appropriate presentation of the YORKTOWN. Costs associated with maintenance of the YORKTOWN and other exhibits are expensed as incurred. The revenue source for the ongoing maintenance is expected to be amounts generated from admissions to the exhibits of the Authority.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 13. Contractual Commitments (continued)**

The Authority has a lease agreement with Fort Sumter Tours, Inc. expiring January 31, 2006. As a condition of the contract with Fort Sumter Tours, Inc., the Authority is obligated to provide dredging of the boat docking facilities at the Authority. The most recent dredging took place during fiscal year 1998, at a cost of approximately \$226,000 paid for by Fort Sumter Tours, Inc., and it is anticipated that additional dredging will be required every eight to ten years. The Authority anticipates paying for the cost of future dredging from lease and other revenues.

As a condition of locating the Congressional Medal of Honor Museum at Patriots Point, the Authority is obligated to pay the Congressional Medal of Honor Society approximately \$36,000 per year during the period that the Congressional Medal of Honor Museum is located at the Authority. The contract with the Congressional Medal of Honor Museum Society is currently set to expire April 22, 2008.

**Note 14. Voluntary Nonexchange Donations**

Voluntary nonexchange donations represent amounts: 1) received by the Authority to offset maintenance expenses on the Laffey from the Tin Can Sailors program (a group comprising largely of former sailors on the Laffey). All eligibility requirements for the donation are considered immediately satisfied upon receipt of the donation by the Authority and Tin Can Sailors as recurring maintenance expense on the Laffey exceeds amounts donated. Voluntary Nonexchange Donations totaled approximately \$31,000 and \$22,000 for the fiscal years ending June 30, 2004 and 2003, respectively.

**Note 15. Cold War Submarine Memorial**

In 2003, the Authority received a Cold War Submarine Memorial (the "Memorial") from the Cold War Submarine Memorial Foundation, Inc. The estimated costs associated with construction of the Memorial were \$850,000. The Memorial was donated to the Authority and as such the Authority incurred no costs associated with the Memorial. No amount has been recorded within these financial statements for the donation as the authoritative accounting guidance provides that additions such as this should not be recorded when the following conditions are met (such conditions are considered met): a) held for public exhibition and education, rather than for financial gain, b) protected and preserved, and c) subject to an organizational policy that requires the proceeds for any sale to be used to acquire other items for collections.

**Note 16. Construction Commitments**

The Authority has approximately \$2,200,000 in outstanding construction commitments at June 30, 2004 related to ongoing refurbishment of certain of its exhibits. It is expected that substantially all of this will be capitalized as property additions in the coming year(s).

**Note 17. Special Item (Sale of Property Easement)**

The Authority has recorded \$155,000 as a special item related to the sale of a property easement to an electrical company. This sale is considered a special item for accounting purposes as this transaction was unusual and within the control of management.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 18. Component Unit Restrictions on Net Assets**

The Foundation has recorded temporarily restricted net assets as follows:

	2004	2003
Aircraft Preservation/Restoration Fund	\$ 1,000	\$ 1,000
American Legion Exhibit Fund	3,600	3,600
Chapel Fund	194,886	181,360
US Coast Guard Fund	607	607
Combat Air Crew Honor Roll	1,693	940
Curator Fund	11,561	11,561
Hobson/Shipyard Display Fund	6,000	6,000
Laffey Association Fund	4,681	4,949
Monterey Display Fund	5,475	5,475
MOWW Youth Development Foundation Fund	526	526
Naval Support Base Fund	947	947
Pan Am Exhibit Fund	2,618	2,618
POMFLANT Exhibit Fund	8,875	8,875
Super Carrier Exhibit Fund	1,470	1,470
	\$ 243,939	\$ 229,928
Totals		

The restrictions on these amounts are further described below:

*Aircraft Preservation/Restoration Fund:* For the care and upkeep of the Museum's collection of combat aircraft

*American Legion Exhibit Fund:* For the maintenance of the American Legion space on the USS Yorktown

*Chapel Fund:* For construction of a non-denominational Seaman's Chapel at Patriots Point

*US Coast Guard Fund:* For maintaining, restoring and preserving the ship USS Ingham

*Combat Air Crew Honor Roll:* For supporting activities associated with the Roll of Honor.

*Curator Fund:* To fund the benefactor plaque program and the ceremony associated with their induction into the Hall of Fame

*Hobson Shipyard Display Fund:* For maintaining, restoring and preserving the Shipyard Display

*Laffey Association Fund:* For maintaining, restoring and preserving the ship USS Laffey

*Monterey Display Fund:* For display aboard the aircraft carrier Yorktown

*MOWW – Youth Development Fund:* For underwriting youth programs

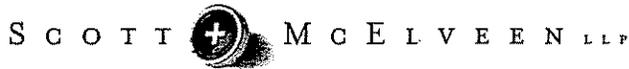
*Naval Support Base Fund:* For maintaining, restoring and preserving the Naval Support Base and its wide variety of displays

*Pan Am Exhibit Fund:* For maintaining, restoring and preserving an exhibit in-the-making located within the Naval Support Base, recognizing the sustained support of Pan American Airways

*POMFLANT Exhibit Fund:* For maintaining, restoring and preserving a multi-faceted display constructed by the Navy as an historic tribute to Charleston Naval Station and Shipyard

*Super Carrier Exhibit Fund:* For maintaining, preserving and growth of the Super Carrier Exhibit

## Compliance and Internal Control



**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Required by *Government Auditing Standards***

The Office of the State Auditor and Board of Commissioners  
Patriots Point Development Authority  
Mount Pleasant, South Carolina

We have audited the financial statements of the business-type activities of Patriots Point Development Authority (the "Authority") as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the State Auditor, management of the Authority, and the elected officials and management of the State of South Carolina and is not intended to be and should not be used by anyone other than these specified parties.

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
September 2, 2004

CERTIFIED PUBLIC ACCOUNTANTS

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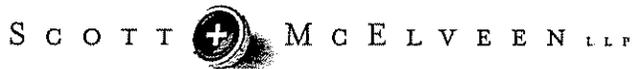
**Comments on Status of Prior Year's Comments**

There were no comments for the year ended June 30, 2003.

**Comments from 2004 Audit with Management's Response**

There were no comments for the year ended June 30, 2004.

## Supplementary Information



Independent Auditors' Report  
On Additional Information

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The Office of the State Auditor and Board of Commissioners  
Patriots Point Development Authority  
Mount Pleasant, South Carolina

Our report on our audits of the basic financial statements of Patriots Point Development Authority for June 30, 2004 and 2003, appears on page 1. That report was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The summarized schedule of information on business-type activities on the following page for the years ended June 30, 2004 and 2003, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
September 2, 2004

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Patriots Point Development Authority  
Summarized Schedule of Information on Business-Type Activities  
For the Year Ended June 30,

	2004	2003	Increase (Decrease)
Charges for services	\$ 7,358,708	\$ 7,436,704	\$ (77,996)
Operating grants and contributions (interest income, net)	245,901	150,440	95,461
Less: expenses	6,975,947	7,020,906	(44,959)
Net program revenue	628,662	566,238	62,424
General revenues:			
Special item: sale of property easement	155,000	—	155,000
Loss on disposal of property and equipment	—	(22,140)	22,140
Voluntary nonexchange donations	31,422	22,127	9,295
Increase in net assets	815,084	566,225	248,859
Total fund net asset, beginning of year	13,075,979	12,509,754	566,225
Total fund net assets, end of year	<u>\$ 13,891,063</u>	<u>\$ 13,075,979</u>	<u>\$ 815,084</u>