

PATRIOTS POINT DEVELOPMENT AUTHORITY

MOUNT PLEASANT, SOUTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 4, 2012

The Honorable Nikki R. Haley, 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, 2012, was issued by Greene, Finney & Horton, LLP, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of the Patriots Point Development Authority, South Carolina (the "Authority"), a non-major enterprise fund of the State of South Carolina, as of and for the years ended June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the financial statements of the Patriots Point Naval and 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 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to previously present fairly, in all material respects, the respective financial position of the Authority and the discretely presented component unit of the Authority, as of June 30, 2012 and 2011, 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.

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note S to the financial statements, the Authority's general obligation bond payable due to the State Treasurer of the State of South Carolina for \$8,700,000 is due on May 2, 2013, and it does not appear that the Authority has the ability to pay this amount in full on the due date. This condition raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note S. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 the 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 audits 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 assurance.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 14, 2012

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

The following is a discussion and analysis of Patriots Point Development Authority's financial performance and provides an overview of the activities for the fiscal year ended June 30, 2012. Please read in conjunction with the financial statements, which follow this analysis.

Patriots Point Development Authority (the "Authority") was established through Section 51-13710 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 enterprise funds 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 years 2012 and 2011, the Authority received no State appropriated funds. The Authority funds its operations primarily through admission fees, gift shop sales, an overnight camping program and lease and commission income.

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased 2.4% or \$427,119 to \$17,389,010 as a result of this year's operations.
- The Authority reported unrestricted net assets of \$3,567,071 at June 30, 2012, an increase of \$331,605 from the prior fiscal year.
- Total operating revenues from all sources were \$9,405,902 at June 30, 2012, an increase of \$446,955 from the prior fiscal year.
- The total operating expenditures were \$9,746,802 at June 30, 2012, an increase of \$1,132,878 from the prior fiscal year.
- Cash and cash equivalents increased \$373,098 during the fiscal year to \$4,116,556 at June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts – the *Financial Section* (which includes management's discussion and analysis and the basic financial statements) and the *Compliance Section*.

Basic Financial Statements

The Basic Financial Statements include the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets; both of which 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, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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 Basic Financial Statements also include the *Statement of Cash Flows* which provides information about the Authority's cash receipts, cash payments and changes in cash resulting from operations, investments, and non-capital financing activities as well as capital and related financing activities. From the statement of cash flow, the reader can obtain information on the sources and uses of cash and the change in the cash balance from the beginning of the current fiscal year.

The *Notes to the Financial Statements* are also part of the Basic Financial Statements and provide required disclosures and other information that are essential to a full understanding of the data provided in the financial statements.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS

Condensed Statements of Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets	\$ 4,850,534	\$ 4,511,652
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	22,521,939	23,280,663
Total Assets	<u>27,372,473</u>	<u>27,792,315</u>
Liabilities		
Current Liabilities	9,293,146	610,860
Noncurrent Liabilities	690,317	9,365,326
Total Liabilities	<u>9,983,463</u>	<u>9,976,186</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	13,821,939	14,580,663
Unrestricted	3,567,071	3,235,466
Total Net Assets	<u>\$ 17,389,010</u>	<u>\$ 17,816,129</u>

The Authority's Net Assets decreased by \$427,119 for the year and consisted of a decrease in total assets of \$419,842 and an increase in total liabilities of \$7,277.

The reduction in total assets was primarily due to the \$758,724 reduction in capital assets, net of accumulated depreciation, largely due to depreciation expense of \$1,007,327 that was recorded during the fiscal year. This decrease was partially offset by a \$373,098 increase in cash and cash equivalents. The increase in cash and cash equivalents was primarily due cash generated by operating activities of \$819,598, partially offset by capital asset acquisitions of \$248,603 during the current year.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS (CONTINUED)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Revenues		
Admissions	\$ 3,553,842	\$ 3,393,355
Gift Shop Sales	1,503,548	1,527,493
Scouting Program Revenues	1,503,605	1,513,477
Leases and Commissions Income	2,123,340	1,941,937
Parking Lot Fees	530,042	498,198
Miscellaneous	191,525	84,487
Total Revenues	<u>9,405,902</u>	<u>8,958,947</u>
Expenses		
Personnel Services	3,125,090	2,848,511
Contractual Services	2,865,284	1,972,879
Cost of Goods Sold	670,376	694,024
Employer Payroll Contributions	1,024,324	900,522
Depreciation	1,007,328	988,880
Supplies	320,961	331,597
Utilities	393,322	392,250
Insurance and Rental Charges	294,370	362,909
Travel	39,131	26,871
Other	6,616	95,481
Total Expenses	<u>9,746,802</u>	<u>8,613,924</u>
Operating Income (Loss)	<u>(340,900)</u>	<u>345,023</u>
Non-Operating Revenues (Expenses)		
Interest Income	64,089	69,082
Interest Expense	(152,250)	(84,775)
Voluntary Nonexchange Donations	1,942	9,659
Grant Revenue	-	34,320
Total Non-Operating Revenues (Expenses)	<u>(86,219)</u>	<u>28,286</u>
Change in Net Assets	<u>(427,119)</u>	<u>373,309</u>
Beginning Net Assets	17,816,129	17,442,820
Ending Net Assets	<u><u>\$ 17,389,010</u></u>	<u><u>\$ 17,816,129</u></u>

The Authority's operating income decreased by \$685,923 to an operating loss of \$340,900. Operating revenues increased by \$446,955, however operating expenses increased by \$1,132,878. Admissions revenue increased during the current fiscal year by \$160,487 due to increased museum admissions, and leases and commissions income increased by \$181,403 due to increased lease income from the hotel lease and land and other facility leases. Also contributing to the increase revenues were increased miscellaneous revenues of \$107,038.

The increase in operating expenses was primarily due to \$1,103,180 in contractual services incurred due to the move of the USS Laffey from a shipyard in North Charleston, where it underwent repairs in the prior fiscal year, to Patriots Point and the move of the USS Clamagore to a new berth at Patriots Point. The remainder of the operating expenses increase is primarily due to increased personnel services expenses and increased employer payroll contributions.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

The Authority had \$22,521,939 invested in net capital assets of June 30, 2012, which is a \$758,724 reduction from the prior year balance. The reduction was attributable to current year depreciation expense of \$1,007,328.

In fiscal year 2009, the Authority borrowed \$9,200,000 from the Bond Proceeds Account of the General Obligation State Capital Improvement Bonds, Series 2004A of the State of South Carolina. The amount outstanding at June 30, 2012 was \$8,700,000. The Authority borrowed the money for the emergency dry-docking and critical maintenance repairs to the USS Laffey. The original terms of the bond called for the Authority to repay the amount in full plus accrued interest on December 1, 2010. During fiscal year 2011, a principal payment of \$500,000 was made and the due date of the bond was extended to May 2, 2013. The Authority does not have the financial resources to pay the bond in full on May 2, 2013 and is working to develop a repayment plan for the loan and present it to the Budget and Control Board by May 2013.

ECONOMIC FACTORS

In considering the Authority's budget for fiscal year 2013, the Authority Board and staff were cautious as to the growth of revenues and expenditures. The budget demonstrates the financial priorities used in the agency's decision making process, namely 1) increasing visitation to the museum 2) improvements needed to sustain and maintain the USS Yorktown and the other existing museum ships as the core of the Naval and Maritime Museum far into the future, 3) future development of the museum to include reinterpretation of exhibits in the museum to appeal more effectively to the changing visitor demographics, 4) enhancement and improvement in the various education programs we offer, and 5) planned development of 36 acres to improve the entire Patriots Point complex as a tourism destination and a community activity hub.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

STATEMENTS OF NET ASSETS - ENTERPRISE FUND

JUNE 30, 2012 AND 2011

ASSETS	2012	2011
Current Assets:		
Cash and Cash Equivalents	\$ 4,116,556	\$ 3,743,458
Accounts Receivable	453,484	463,825
Prepaid Expenses	8,796	8,796
Inventories	271,698	295,573
Total Current Assets	<u>4,850,534</u>	<u>4,511,652</u>
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	22,521,939	23,280,663
Total Noncurrent Assets	<u>22,521,939</u>	<u>23,280,663</u>
TOTAL ASSETS	<u>27,372,473</u>	<u>27,792,315</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	32,718	21,631
Interest Payable	12,561	112,375
Accrued Payroll and Related Liabilities	330,198	295,967
Compensated Absences and Related Liabilities, Current	21,558	21,942
Deferred Revenues, Current	186,190	149,023
Note Payable, Current	9,921	9,922
General Obligation Bond Payable, Current	8,700,000	-
Total Current Liabilities	<u>9,293,146</u>	<u>610,860</u>
Noncurrent Liabilities:		
Compensated Absences and Related Liabilities, Noncurrent	315,315	272,711
Deferred Revenues, Noncurrent	375,002	382,694
Note Payable	-	9,921
General Obligation Bond Payable	-	8,700,000
Total Noncurrent Liabilities	<u>690,317</u>	<u>9,365,326</u>
TOTAL LIABILITIES	<u>9,983,463</u>	<u>9,976,186</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	13,821,939	14,580,663
Unrestricted	3,567,071	3,235,466
TOTAL NET ASSETS	<u>\$ 17,389,010</u>	<u>\$ 17,816,129</u>

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' report.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - ENTERPRISE FUND

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Admissions	\$ 3,553,842	\$ 3,393,355
Gift Shop Sales	1,503,548	1,527,493
Scouting Program Revenues	1,503,605	1,513,477
Leases and Commissions Income	2,123,340	1,941,937
Parking Lot Fees	530,042	498,198
Miscellaneous	191,525	84,487
TOTAL OPERATING REVENUES	<u>9,405,902</u>	<u>8,958,947</u>
OPERATING EXPENSES		
Personnel Services	3,125,090	2,848,511
Contractual Services	2,865,284	1,972,879
Cost of Goods Sold	670,376	694,024
Employer Payroll Contributions	1,024,324	900,522
Depreciation	1,007,327	988,880
Supplies	320,961	331,597
Utilities	393,322	392,250
Insurance and Rental Charges	294,370	362,909
Travel	39,131	26,871
Other	6,617	95,481
TOTAL OPERATING EXPENSES	<u>9,746,802</u>	<u>8,613,924</u>
OPERATING INCOME (LOSS)	<u>(340,900)</u>	<u>345,023</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	64,089	69,082
Interest Expense	(152,250)	(84,775)
Voluntary Nonexchange Donations	1,942	9,659
Grant Revenue	-	34,320
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(86,219)</u>	<u>28,286</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(427,119)</u>	<u>373,309</u>
NET ASSETS, Beginning of Year	17,816,129	17,442,820
NET ASSETS, End of Year	<u>\$ 17,389,010</u>	<u>\$ 17,816,129</u>

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' report.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

STATEMENTS OF CASH FLOWS - ENTERPRISE FUND

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Admissions and Gift Shop Sales	\$ 5,057,390	\$ 4,920,848
Other Operating Cash Receipts	191,525	84,487
Cash Received from Parking Lot Fees	530,042	498,198
Cash Received from Lease and Rental Activities	3,666,761	3,458,688
Cash Received From Donations	1,942	9,659
Cash Paid for Employee Wages and Benefits	(4,072,963)	(3,738,570)
Cash Paid to Suppliers for Goods and Services	(3,511,785)	(2,668,714)
Cash Paid for General and Administrative Expenses	(1,043,314)	(1,255,173)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>819,598</u>	<u>1,309,423</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(248,603)	(24,984)
Principal Paid on Bonds Payable	-	(500,000)
Interest Paid on Bonds Payable	(252,064)	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(500,667)</u>	<u>(524,984)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant Proceeds	-	34,320
Proceeds from Note Payable	-	19,843
Payment on Note Payable	(9,922)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(9,922)</u>	<u>54,163</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	64,089	75,047
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>64,089</u>	<u>75,047</u>
INCREASE IN CASH AND CASH EQUIVALENTS	373,098	913,649
CASH AND CASH EQUIVALENTS, Beginning of Year	3,743,458	2,829,809
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 4,116,556</u>	<u>\$ 3,743,458</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (340,900)	\$ 345,023
Voluntary Nonexchange Donations for Operating Maintenance	1,942	9,659
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,007,327	988,880
Change In:		
Accounts Receivable	10,341	86,724
Inventories	23,875	(1,811)
Accounts Payable	11,087	(46,065)
Accrued Payroll and Related Liabilities	34,231	503
Compensated Absences and Related Liabilities	42,220	9,960
Deferred Revenues	29,475	(83,450)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 819,598</u>	<u>\$ 1,309,423</u>

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' report.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

**STATEMENTS OF FINANCIAL POSITION - COMPONENT UNIT
PATRIOTS POINT NAVAL AND MARITIME MUSEUM FOUNDATION**

JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 250,142	\$ 182,734
Investments	249,576	371,092
Accounts Receivable	15,887	14,969
Unconditional Promises to Give, Net of Discount of \$0 and \$4,607, respectively	37,500	37,393
Prepaid Expenses	-	345
TOTAL ASSETS	\$ 553,105	\$ 606,533
LIABILITIES		
Due to Patriots Point Development Authority (PPDA)	\$ 1,417	\$ 9,289
Accounts Payable	5,121	3,551
TOTAL LIABILITIES	6,538	12,840
NET ASSETS		
Unrestricted:		
Designated for Support of the PPDA	34,854	70,731
Undesignated	120,026	132,974
Total Unrestricted	154,880	203,705
Temporarily Restricted	391,687	389,988
TOTAL NET ASSETS	546,567	593,693
TOTAL LIABILITIES AND NET ASSETS	\$ 553,105	\$ 606,533

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' report.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - COMPONENT UNIT
PATRIOTS POINT NAVAL AND MARITIME MUSEUM FOUNDATION**

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUES:						
Contributions	\$ 19,650	115,488	135,138	63,179	91,839	\$ 155,018
Photo Concession Revenue	69,009	-	69,009	69,408	-	69,408
Other Income	-	-	-	18,416	-	18,416
Interest Income	964	70	1,034	5,488	-	5,488
TOTAL PUBLIC SUPPORT AND REVENUES	89,623	115,558	205,181	156,491	91,839	248,330
NET ASSETS RELEASED FROM RESTRICTIONS	113,859	(113,859)	-	109,508	(109,508)	-
EXPENSES						
Program Services:						
Education Programs	179,473	-	179,473	110,691	-	110,691
Other PPDA Programs	45,612	-	45,612	94,911	-	94,911
Supporting Services:						
Management and General	27,222	-	27,222	15,884	-	15,884
TOTAL EXPENSES	252,307	-	252,307	221,486	-	221,486
TOTAL CHANGE IN NET ASSETS	(48,825)	1,699	(47,126)	44,513	(17,669)	26,844
NET ASSETS, Beginning of Year	203,705	389,988	593,693	159,192	407,657	566,849
NET ASSETS, End of Year	\$ 154,880	391,687	546,567	203,705	389,988	\$ 593,693

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' report.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE A – 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 is 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 to assist in 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 Patriots 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, and submarine USS Clamagore, and various aircraft and other military exhibits. The Authority owns the Patriots Point golf course, which is managed and leased by GINN-LA Fund IV Charleston PP Golf, LLC.

The Authority operates a gift shop. A hotel and a marina have been developed on parcels leased from the Authority. Primary sources of operating revenue are museum admissions, sales at the museum gift shop, educational programs such as the youth education and camping programs, and commissions from lease functions, on-site vending franchises and the Patriots Point Links. The Authority charges fees for its goods and services and parking lot to users external to the State of South Carolina (the public).

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE A – REPORTING ENTITY (CONTINUED)

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 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 is 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 nonprofit organization that reports its financial activity under Financial Accounting Standards Board ("FASB") Statements. Most significant to the Foundation's operations and reporting are FASB ASC 958-605 Accounting for Contributions Received and Contributions Made, and FASB ASC 958-205 Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205, 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 Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. 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.

NOTE B – 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, 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. 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, non-operating revenues include interest income and voluntary non-exchange private donations.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of Significant Accounting Policies: The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America applicable to governmental proprietary activities as prescribed by the 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 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.

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.

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 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 the 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 and other 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 bad debt 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.

Non-exchange 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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

<u>Asset Category</u>	<u>Useful Life Range</u>
Depreciable Land Improvements	5-50 years
Building and Improvements	5-25 years
Machinery and Equipment	5-10 years
Depreciable Works of Art and 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.

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. 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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Unit Accounting Policies

Cash and Cash Equivalents: For the Foundation, cash and cash equivalents include all monies in banks and certificates of deposit with an original maturity of three months or less.

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.

Functional Expenses: The Foundation reports expenses as charged directly to program or management and general categories based on specific identification.

NOTE C – 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, 2012 and 2011, 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.

Cash and cash equivalents by component are as follows at June 30, 2012 and 2011, respectively:

	2012	2011
Cash on Hand	\$ 9,406	\$ 9,406
Deposits Held By State Treasurer	4,107,150	3,734,052
Total	\$ 4,116,556	\$ 3,743,458

Information pertaining to the reported amounts, fair value, credit and other risks as required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. Copies of this report may be obtained from the South Carolina Office of the Comptroller General, 1200 Senate Street, 305 Wade Hampton Office Building, Columbia, South Carolina 29201 or by visiting the Comptroller General's website at <http://www.cg.sc.gov>.

Component Unit

Cash and cash equivalents consist of the following at June 30, 2012 and 2011, respectively:

	2012	2011
Bank Accounts	\$ 250,142	\$ 182,734
Certificates of Deposit	249,576	371,092
Total	\$ 499,718	\$ 553,826

Concentration of Credit Risk — The Foundation did not have any uninsured amounts at June 30, 2012.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE D – CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2012 is shown below:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land and Improvements	\$ 4,462,939	-	-	-	\$ 4,462,939
Construction in Progress	126,055	-	-	-	126,055
Capital Assets, Depreciable:					
Depreciable Land Improvements	2,168,901	-	-	-	2,168,901
Building and Improvements	1,500,188	146,541	-	-	1,646,729
Machinery and Equipment	768,731	102,062	-	-	870,793
Depreciable Works of Art and Historic Treasures	26,070,835	-	-	-	26,070,835
Total Capital Assets	35,097,649	248,603	-	-	35,346,252
Less: Accumulated Depreciation for:					
Depreciable Land Improvements	(1,808,011)	(91,193)	-	-	(1,899,204)
Building and Improvements	(1,491,763)	(9,631)	-	-	(1,501,394)
Machinery and Equipment	(675,657)	(53,257)	-	-	(728,914)
Depreciable Works of Art and Historic Treasures	(7,841,555)	(853,246)	-	-	(8,694,801)
Total Accumulated Depreciation	(11,816,986)	(1,007,327)	-	-	(12,824,313)
Capital Assets, Net	\$ 23,280,663	(758,724)	-	-	\$ 22,521,939

A summary of the changes in capital assets for the year ended June 30, 2011 is shown below:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land and Improvements	\$ 4,462,939	-	-	-	\$ 4,462,939
Construction in Progress	580,310	-	-	(454,255)	126,055
Capital Assets, Depreciable:					
Depreciable Land Improvements	2,084,879	-	-	84,022	2,168,901
Building and Improvements	1,500,188	-	-	-	1,500,188
Machinery and Equipment	743,747	24,984	-	-	768,731
Depreciable Works of Art and Historic Treasures	25,700,602	-	-	370,233	26,070,835
Total Capital Assets	35,072,665	24,984	-	-	35,097,649
Less: Accumulated Depreciation for:					
Depreciable Land Improvements	(1,716,818)	(91,193)	-	-	(1,808,011)
Building and Improvements	(1,489,459)	(2,304)	-	-	(1,491,763)
Machinery and Equipment	(633,520)	(42,137)	-	-	(675,657)
Depreciable Works of Art and Historic Treasures	(6,988,309)	(853,246)	-	-	(7,841,555)
Total Accumulated Depreciation	(10,828,106)	(988,880)	-	-	(11,816,986)
Capital Assets, Net	\$ 24,244,559	(963,896)	-	-	\$ 23,280,663

Depreciation expense for the years ended June 30, 2012 and 2011 was \$1,007,327 and \$988,880, 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
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE E – DEFERRED REVENUES

Deferred revenues are comprised of the following at June 30, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
College of Charleston Lease	\$ 421,161	\$ 390,387
Parcel E Prepaid Rent - July 2012	10,000	10,000
Camping Deposits	130,031	114,758
Fort Sumter Tours	-	16,572
Total Deferred Revenues	<u>561,192</u>	<u>531,717</u>
Less: Deferred Revenues, Current	186,190	149,023
Deferred Revenues, Non-current	<u>\$ 375,002</u>	<u>\$ 382,694</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 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.

Fort Sumter Tours, Inc. — During 2005, Fort Sumter Tours, Inc. financed dredging operations for the Authority resulting in the addition of a depreciable asset, which is recorded in the Authority's property and equipment. In exchange for this asset, the Authority recorded the amount as deferred revenue and in subsequent years applied amounts owed by Fort Sumter Tours, Inc. against the remaining deferred revenue balance.

NOTE F – LONG-TERM LIABILITIES

The Authority had the following outstanding debt at June 30, 2012:

General Obligation State Capital Improvement Bond, Series 2004A	\$ 8,700,000
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In December 2008, the Patriots Point operations department discovered critical problems with the hull of the destroyer USS Laffey of such significance that the Authority was faced with the possibility that it could sink at the dock if significant hull repairs are not immediately undertaken. On June 30, 2009, the Authority obtained a general obligation bond payable from the State Treasurer of the State of South Carolina in the amount of \$9,200,000 for the purpose of funding the destroyer USS Laffey repairs. During the year ended June 30, 2011, the Authority paid \$500,000 of the general obligation bond payable. No payments against the principal of the general obligation bond payable were made during the current year.

The general obligation bond payable bears interest at 0.50% for the period June 30, 2009 through November 30, 2010; 0.75% for the period December 1, 2010 through May 31, 2011; and 1.75% for the period June 1, 2011 through May 2, 2013. The general obligation bond payable is due in full on May 2, 2013.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE F – LONG-TERM LIABILITIES (CONTINUED)

The Authority received a grant from the South Carolina Energy Office during the year ended June 30, 2011. As a condition for receiving the grant, the Authority agreed to a note payable to the South Carolina Energy Office for \$19,843, which in theory represents a portion of the energy savings that the Authority would receive from improvements funded by the grant. The Authority paid \$9,922 towards this obligation in the year ended June 30, 2012 and will pay the remaining \$9,921 in the year ended June 30, 2013.

Current obligations at June 30, 2012 are due as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,709,921	139,736	\$ 8,849,657
Total	<u>\$ 8,709,921</u>	<u>139,736</u>	<u>\$ 8,849,657</u>

NOTE G – CONTRACTURAL SERVICES

Amounts shown in the financial statements as contractual services represent advertising, janitorial, maintenance, repairs, security, professional services and other services generally obtained on a contractual basis. During the year ended June 30, 2012, the Authority incurred \$1,138,784 related to the move of the USS Laffey from the shipyard in North Charleston where it had been undergoing repairs and the related move of the USS Clamagore to a new berth at Patriots Point.

NOTE H – LEASE AND COMMISSION INCOME

For the years ended June 30, 2012 and 2011, respectively, lease and commission income is comprised of the following:

	<u>2012</u>	<u>2011</u>
Hotel/Amenities Lease (Parcel A)	\$ 387,417	\$ 317,186
Golf Course Lease	365,409	347,558
Food and Beverage Commissions	254,941	271,054
Marina Lease	111,769	105,609
Athletic Complex Lease	157,765	154,097
Flight Simulation Commissions	67,020	72,999
Fort Sumter Tour Commissions	75,376	68,472
Land and Other Facility Leases	182,390	88,904
Parcel A-1	41,253	41,058
Parcel B, C, D	360,000	355,000
Parcel E	120,000	120,000
Total Lease and Commission Income	<u>\$ 2,123,340</u>	<u>\$ 1,941,937</u>

Lease and commission income receivable due to the Authority at June 30, 2012 and 2011 were \$453,484 and \$463,825, respectively.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE H – LEASE AND COMMISSION INCOME (CONTINUED)

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. The leased land is owned by the Authority, but will be maintained by the lessee. 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 subdivided into parcels for the ease of administration and orderly development. Parcel A contains a hotel. Parcel A-1 contains ten cottages (with two more cottages planned for construction), a clubhouse, and a pool. Parcel B-1 is the marina. Development of parcels B, C, D, and E may include retail shops, restaurants, and rental condominiums. Development of parcels B, C, and D commenced in 2012 with the construction of a hotel. Development of parcel E has not yet commenced. The Authority has the right to approve the master plan for each parcel prior to commencement of development of that parcel. Furthermore, the Authority has the right to review and approve all plans and specifications for construction.

Lease payments for the hotel (parcel A) is comprised of a "base rent", which is adjusted annually based upon movements of the Consumer Price Index, and "percentage rent" based upon the revenues generated by the property. Lease payments for the cottages (parcel A-1) are "percentage rent" based upon the revenues generated by the property. Lease payments for the marina (parcel B-1) are comprised of a "base rent" and "percentage rent" based on revenues generated by the property. Until development is completed on parcels B, C, and D, monthly lease payments are \$30,000 per month. Lease payments on Parcel E \$10,000 per month until development occurs. After development, lease payments on parcels B, C, D and E will be comprised of a "base rent" and "percentage rent" based upon revenues generated.

Golf Course —The Authority leases certain real property and improvements erected thereon known as the Patriots Point Golf course (the "golf course") to GINN-LA Fund IV Charleston PP Golf, LLC. 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, 2021. 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.

Food and Beverage Commissions — On September 13, 2005, the Authority entered into a contract for the food and vending services on the property with Corporate Events and Catered Affairs ("CECA"). The terms of the contract began immediately on September 13, 2005, and continued through January 1, 2009. The contract automatically extended on the anniversary date at the prices, terms, and conditions contained in the original contract, for up to three additional one year periods. Either party may elect not to extend the contract on the anniversary date. If CECA elects not to extend on the anniversary date, it must notify the Authority in writing at least ninety days prior to the automatic renewal date. Under the contract with CECA, the Authority receives 20% of vending, CPO galley, and scout meal revenues, 25% of snack bar/concessions revenue, and 21% of catering revenue as a commission.

Athletic Complex Lease — The Authority entered into a nonrenewable land operating lease agreement effective April 1997, with the 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; year 6 - \$120,000; years 7 through 65 - the prior year lease amount plus any increases in the Consumer Price Index.

Flight Simulation Commissions — The Authority entered into an agreement 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 most recent contract term expired February 28, 2012, although both parties continue to operate under the terms of the contract while working on a new contract.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE H – LEASE AND COMMISSION INCOME (CONTINUED)

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, Inc. renewed the contract through January 2016. In accordance with the dredging operations funded by Fort Sumter Tours, Inc. mentioned in Note E, the Authority on this lease agreement received no cash, until all of the deferred revenue was recognized. All of the deferred revenue was recognized during the year ended June 30, 2012.

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:

	<u>Golf Course</u>	<u>Hotel, Marina, Land, and Other Facilities</u>
Capital Assets, Not Being Depreciated:		
Land and Improvements	\$ 1,430,055	\$ 2,500,660
Capital Assets, Depreciable		
Depreciable Land Improvements	613,325	183,334
Less: Accumulated Depreciation	(613,325)	(183,334)
Total Capital Assets, Depreciable, Net	<u>-</u>	<u>-</u>
Capital Assets, Net	<u>\$ 1,430,055</u>	<u>\$ 2,500,660</u>

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE H – LEASE AND COMMISSION INCOME (CONTINUED)

Future Minimum Rental Payments — A schedule of future minimum base rental income payments on non-cancellable leases of the hotel, cottages, marina, undeveloped parcels, golf courses, and athletic complex are as follows:

	College Charleston	Non-State of South Carolina Parties	Total
2013	153,868	908,593	\$ 1,062,461
2014	153,868	886,603	1,040,471
2015	153,868	886,603	1,040,471
2016	153,868	880,595	1,034,463
2017	153,868	872,184	1,026,052
2018 - 2022	769,340	4,254,866	5,024,206
2023 - 2027	769,340	3,300,360	4,069,700
2028 - 2032	769,340	3,300,360	4,069,700
2033 - 2037	769,340	3,300,360	4,069,700
2038 - 2042	769,340	3,300,360	4,069,700
2043 - 2047	769,340	3,300,360	4,069,700
2048 - 2052	769,340	3,300,360	4,069,700
2053 - 2057	769,340	3,300,360	4,069,700
2058 - 2062	769,340	3,300,360	4,069,700
2063 - 2067	-	3,300,360	3,300,360
2068 - 2072	-	3,300,360	3,300,360
2073 - 2077	-	3,300,360	3,300,360
2078 - 2082	-	3,300,360	3,300,360
2083 - 2087	-	3,300,360	3,300,360
2088 - 2092	-	3,300,360	3,300,360
2093 - 2097	-	2,767,824	2,767,824
2098 - 2102	-	-	-
2103 - 2107	-	-	-
Total Future Rents	<u>\$ 7,693,400</u>	<u>\$ 57,662,310</u>	<u>\$ 65,355,710</u>

NOTE I – RELATED PARTY TRANSACTIONS

State of South Carolina and Agencies:

The Authority has significant transactions with the State and various State agencies. From time to time the Authority will provide rental facilities to other agencies that are part of the State reporting entity. For the years ended June 30, 2012 and 2011, no facility rentals were provided to other State Agencies.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE I – RELATED PARTY TRANSACTIONS (CONTINUED)

State of South Carolina and Agencies (Continued):

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 years ended June 30, 2012 and 2011. 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 amounts of expenses for the years ended June 30, 2012 and 2011 applicable to these related party transactions are 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, 2012 and 2011 was \$154,097 and \$154,097, respectively.

NOTE J – 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:

- Claims of State employees for unemployment compensation benefits (Employment Security Commission);
- Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
- Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
- 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
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE J – RISK MANAGEMENT (CONTINUED)

The Authority and other entities pay premiums to the State's Insurance Reserve Fund (the "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:

- Theft of, damage to, or destruction of assets;
- Real property, its contents, and other equipment;
- Motor vehicles, aircraft, and watercraft (inland marine);
- Torts;
- Business interruptions; and
- 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.

NOTE K – 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 provides postemployment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The Authority contributes to the Retiree Medical Plan ("RMP") and the Long-term Disability Plan, cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program ("EIP"), a part of the State Budget and Control Board ("SBCB"). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability ("BLTD") benefits are provided to active State, public school district and participating local government employees approved for disability.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE K – INSURANCE, RETIREE SURCHARGE AND DEFERRED COMPENSATION (CONTINUED)

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget. The EIP sets the employer contribution rate based on a pay-as-you-go basis. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

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 Authority has made contributions out of operating revenues to the 401(k) account of eligible Authority employees. The Authority did not make any contributions for the years ended June 30, 2012 and 2011.

Change in Compensated Absence Obligation —The change in compensated absences and related liabilities for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences and Related Liabilities	\$ 294,653	217,090	174,870	\$ 336,873	\$ 21,558

NOTE L – 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 Authority 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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE L – SOUTH CAROLINA PENSION PLAN (CONTINUED)

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 (this requirement does not apply if the disability is the result of a job related injury). 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.

From July 1, 2006, employees participating in the Plan are required to contribute 6.5% of all compensation. Effective July 1, 2011, the employer contribution rate became 13.685% which included a 4.3% surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the Plan for the three most recent fiscal years ending June 30, 2012, 2011, and 2010 were \$256,471, \$222,103, and \$191,700, respectively, and equaled the required contribution of 8.05% (excluding the surcharge) for fiscal years ending June 30, 2012, 2011, and 2010. Also, the Authority paid employer group-life insurance contributions at the rate of .15% of compensation which totaled \$4,099 and \$3,606 in the fiscal years ended June 30, 2012 and 2011, respectively.

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 M – COMMITMENTS

The Authority has a lease agreement with Fort Sumter Tours, Inc. expiring January 31, 2016. 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 ended June 30, 2005, at a cost of approximately \$450,000 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, 2013.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE M – COMMITMENTS (CONTINUED)

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

NOTE N – VOLUNTARY NONEXCHANGE DONATIONS

Voluntary nonexchange donations represent amounts received by the Authority to either offset maintenance expenses or assist in the funding of educational programs. All eligibility requirements for the donations are considered immediately satisfied upon receipt of the donations by the Authority. Voluntary nonexchange donations totaled \$1,942 and \$9,659, which were cash donations, for the fiscal years ending June 30, 2012 and 2011, respectively.

NOTE O – 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 P – COMPONENT UNIT RESTRICTIONS ON NET ASSETS

The Foundation has recorded the following temporarily restricted net assets at June 30, 2012 and 2011, respectively:

	2012	2011
American Legion Exhibit Fund	\$ 3,600	\$ 3,600
Chapel Fund	263,547	263,350
Combat Air Crew Honor Roll	4,692	4,692
Curator Fund	11,561	11,561
Education Projects Fund	29,978	49,614
Hobson/Shipyards Display Fund	6,000	6,000
Laffey Association Fund	4,647	1,606
Monterey Display Fund	5,475	5,475
Museum Study Fund	20,189	15,992
MOWW Youth Development Foundation Fund	526	526
Naval Support Base Fund	947	947
POMFLANT Exhibit Fund	8,875	8,875
Jeffrey Fund	5,000	-
Hootie and the Blowfish Fund	7,500	-
Skywarrior Restoration Fund	1,400	-
Scholarship Fund	17,750	17,750
Total	<u>\$ 391,687</u>	<u>\$ 389,988</u>

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE P – COMPONENT UNIT RESTRICTIONS ON NET ASSETS (CONTINUED)

The restrictions on these amounts are further described below:

- **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.
- **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.
- **Education Projects Fund** — To fund, maintain and upgrade a Marine Education Center and other educational projects.
- **Hobson/Shipyards Display Fund** — For maintaining, restoring and preserving the Shipyards Display.
- **Laffey Association Fund** — For maintaining, restoring and preserving the ship USS Laffey.
- **Monterey Display Fund** — For display aboard the aircraft carrier USS Yorktown.
- **Museum Study Fund** — For the support, maintenance and preservation of the Naval Museum.
- **MOWW Youth Development Foundation Fund** — For underwriting youth programs.
- **Naval Support Base Fund** — For maintaining, restoring and preserving the Naval Support Base and its wide variety of displays.
- **POMFIANT Exhibit Fund** — For maintaining, restoring and preserving a multi-faceted display constructed by the Navy as an historic tribute to Charleston Naval Station and Shipyards.
- **Jeffrey Fund** — To be used for projects at the Board of Directors discretion for the maintenance and repair or new projects on the aircraft carrier USS Yorktown
- **Hootie and the Blowfish Fund** — To be used to offset program's administrative costs and transportation expense to bring 750 students from Georgetown County to the USS Yorktown.
- **Skywarrior Restoration Fund** — To be used in the restoration of the A-3 Skywarrior, a carrier based jet aircraft.
- **Scholarship Fund** — For scholarships to qualifying students and/or student groups. Applications are made by the Authority to support students who are deemed disadvantaged.

NOTE Q – COMPONENT UNIT UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give of the Foundation are recorded as receivables and revenue when received. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Pledges are expected to be realized in the following periods:

	<u>2012</u>
In One Year or Less	\$ 37,500
Between One and Five Years	-
Total Unconditional Promise to Give	<u>\$ 37,500</u>

For the year ended June 30, 2012, 100% of the outstanding balances of promises to give were from three donors.

NOTE R – SUBSEQUENT EVENT

In September 2012, the Authority entered into a marketing contract for \$540,000.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE S – GOING CONCERN

As noted in Note F, the Authority has an \$8,700,000 general obligation bond payable due to the State which is due in full on May 2, 2013. The Authority does not have the financial resources available to pay the State the full amount owed on May 2, 2013, nor does it believe that it will have the financial resources to satisfy the obligation in full by May 2, 2013. The Authority's Board has firmly indicated its intention to deliver an alternative payment plan for the \$8,700,000 obligation to the State not later than November 1, 2012. If the Authority cannot meet its obligation or if it does not receive approval from the State for an alternative payment arrangement, there would be doubt about the Authority's ability to continue as a going concern.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the statement of net assets of the Patriots Point Development Authority (the "Authority") as of and for the year ended June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year ended, and have issued our report thereon dated September 14, 2011. Our report includes a reference to other auditors. The financial statements of the Authority as of and for the year ended June 30, 2010 were audited by other auditors who issued a report thereon dated September 14, 2010. 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the Authority's basic financial statements. The financial statements of the discretely presented component unit, which was audited by other auditors, was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic 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 basic 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, the Board of Commissioners, 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.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 14, 2011