PATRIOTS POINT DEVELOPMENT AUTHORITY

MOUNT PLEASANT, SOUTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

State of South Carolina

Office of the State Auditor

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

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September 24, 2014

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, 2014, 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,

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

RHGjr/cwc

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Patriots Point Development Authority, South Carolina (the "Authority"), a discretely presented component unit of the State of South Carolina, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Patriots Point Development Authority, as of June 30, 2014 and 2013, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Pending Implementation of GASB Statement on Pensions

As discussed in Note K, the Governmental Accounting Standards Board recently issued Statement No. 68 *Accounting and Financial Reporting for Pensions ("GASB #68").* GASB #68, which will be adopted by the Authority for the fiscal year ended June 30, 2015, will require the Authority to report a net pension liability on its financial statements for its participation in the South Carolina Retirement System ("Plan"). Based on recent information provided by the South Carolina Public Employee Benefit Authority, it is anticipated that the Authority's share of the net pension liability associated with the Plan will decrease the Authority's net position by approximately $5,976,000. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 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* in considering the Authority's internal control over financial reporting and compliance.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 11, 2014

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 years ended June 30, 2014 and 2013. 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 a discretely presented component unit of the State of South Carolina. In fiscal year 2014, the Authority received $400,000 in State appropriated funds for the Flight Academy program. No State appropriated funds were received in 2013. The Authority funds its operations primarily through admission fees, gift shop sales, an overnight camping program, and lease and commission income.

FINANCIAL HIGHLIGHTS

The following are financial highlights for the fiscal year ended June 30, 2014 compared to 2013:

- The Authority's net position increased 1.3% or $237,351 to $17,922,712 at June 30, 2014 as a result of this year's operations.
- The Authority reported unrestricted net position of $4,232,748 at June 30, 2014, a decrease of $113,886 from the prior fiscal year.
- Total operating revenues from all sources were $10,515,823 for the year ended June 30, 2014, an increase of $398,152 from the prior fiscal year.
- The total operating expenditures were $10,582,774 for the year ended June 30, 2014, an increase of $819,666 from the prior fiscal year.
- Cash and cash equivalents increased $839,404 during the fiscal year to $5,865,736 at June 30, 2014.

The following are financial highlights for the fiscal year ended June 30, 2013 compared to 2012:

- The Authority's net position increased 1.7% or $296,351 to $17,685,361 at June 30, 2013 as a result of the year's operations.
- The Authority reported unrestricted net position of $4,346,634 at June 30, 2013, an increase of $779,563 from the prior fiscal year.
- Total operating revenues from all sources were $10,117,671 for the year ended June 30, 2013, an increase of $711,769 from the prior fiscal year.
- The total operating expenditures were $9,763,108 for the year ended June 30, 2013, an increase of $16,306 from the prior fiscal year.
- Cash and cash equivalents increased $909,776 during the fiscal year to $5,026,332 at June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Financial Statements

The Financial Statements include the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position; both of which provide an indication of the Authority's financial health. The *Statement of Net Position* 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 position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The 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 flows, 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* provide required disclosures and other information that are essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

The following is a summary of the statements of net position as of June 30, 2014 and 2013:

Condensed Statements of Net Position

	2014	2013
Assets		
Current Assets	$ 6,597,976	$ 5,658,550
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	22,389,964	22,038,727
Total Assets	28,987,940	27,697,277
Liabilities		
Current Liabilities	9,633,556	635,546
Noncurrent Liabilities	1,431,672	9,376,370
Total Liabilities	11,065,228	10,011,916
Net Position		
Net Investment in Capital Assets	13,689,964	13,338,727
Unrestricted	4,232,748	4,346,634
Total Net Position	$ 17,922,712	$ 17,685,361

The Authority's net position increased by $237,351 from 2013 to 2014 and consisted of an increase in total assets of $1,290,663 and an increase in total liabilities of $1,053,312.

The increase in total assets was primarily due to the $839,404 increase in cash and cash equivalents as a result of an increase in visitors during the current year which led to increases in admissions, parking, and gift shop revenues. Also contributing to this increase was an increase in capital assets, net of accumulated depreciation, of $351,237, largely due to the additions of the Flight Academy, Leadership Training Facility, and dredging improvements which were partially offset by depreciation expense which totaled $1,187,626 for the current fiscal year.

The increase in total liabilities was primarily due to the $687,364 increase in unearned revenue as a result of an increase of $747,651 in unearned revenue related to dredging costs paid by Fort Sumter Tours which will offset future lease payments. Also contributing to this increase was an increase in interest payable of $174,000 related to interest expense on the General Obligation Bond Payable incurred during the current fiscal year but not yet paid as of year-end.

FINANCIAL ANALYSIS (CONTINUED)

The following is a summary of the statements of net position as of June 30, 2013 and 2012:

Condensed Statements of Net Position

	2013	2012
Assets		
Current Assets	$ 5,658,550	$ 4,850,534
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	22,038,727	22,521,939
Total Assets	27,697,277	27,372,473
Liabilities		
Current Liabilities	635,546	9,293,146
Noncurrent Liabilities	9,376,370	690,317
Total Liabilities	10,011,916	9,983,463
Net Position		
Net Investment in Capital Assets	13,338,727	13,821,939
Unrestricted	4,346,634	3,567,071
Total Net Position	$ 17,685,361	$ 17,389,010

The Authority's net position increased by $296,351 from 2012 to 2013 and consisted of an increase in total assets of $324,804 and an increase in total liabilities of $28,453.

The increase in total assets was primarily due to the $909,776 increase in cash and cash equivalents as a result of an increase of $711,095 in cash generated by operating activities due to an increase in visitors. This increase was partially offset by a reduction in capital assets, net of accumulated depreciation of $483,212, largely due to depreciation expense of $1,024,174 for the year ended June 30, 2013.

FINANCIAL ANALYSIS (CONTINUED)

The following is a summary of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013:

Statements of Revenues, Expenses, and Changes in Net Position

	2014	2013
Revenues		
Admissions	$ 4,209,915	$ 3,918,930
Gift Shop Sales	1,590,845	1,568,459
Scouting Program Revenues	1,562,915	1,678,640
Leases and Commissions Income	2,331,854	2,174,972
Parking Lot Fees	581,538	560,873
Miscellaneous	238,756	215,797
Total Revenues	**10,515,823**	**10,117,671**
Expenses		
Personnel Services	3,681,521	3,238,002
Contractual Services	2,423,630	2,434,946
Cost of Goods Sold	701,976	659,025
Employer Payroll Contributions	1,191,165	1,100,556
Depreciation	1,187,626	1,024,174
Supplies	631,189	566,881
Utilities	421,639	412,566
Insurance and Rental Charges	233,308	217,127
Travel	70,446	67,258
Other	40,274	42,573
Total Expenses	**10,582,774**	**9,763,108**
Operating Income (Loss)	**(66,951)**	**354,563**
Non-Operating Revenues (Expenses)		
Interest Income	64,913	69,702
Interest Expense	(174,000)	(141,675)
State Appropriations	400,000	-
Voluntary Nonexchange Donations	13,389	13,761
Total Non-Operating Revenues (Expenses)	**304,302**	**(58,212)**
Change in Net Position	**237,351**	**296,351**
Beginning Net Position	17,685,361	17,389,010
Ending Net Position	**$ 17,922,712**	**$ 17,685,361**

The Authority's operating income decreased by $421,514 to an operating loss of $66,951. Operating revenues increased by $398,152, while operating expenses increased by $819,666. Admissions revenue increased during the current fiscal year by $290,985 due to increased museum attendance. Personnel services and payroll-related benefits increased $534,128 due to an increased number of employees during the current year related to the Flight Academy program as well as the marketing and public relations department. Also contributing to the increase in operating expenses was an increase in depreciation expense of $163,452 compared to prior year.

FINANCIAL ANALYSIS (CONTINUED)

The following is a summary of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012:

Statements of Revenues, Expenses, and Changes in Net Position

	2013	2012
Revenues		
Admissions	$ 3,918,930	$ 3,553,842
Gift Shop Sales	1,568,459	1,503,548
Scouting Program Revenues	1,678,640	1,503,605
Leases and Commissions Income	2,174,972	2,123,340
Parking Lot Fees	560,873	530,042
Miscellaneous	215,797	191,525
Total Revenues	**10,117,671**	**9,405,902**
Expenses		
Personnel Services	3,238,002	3,125,090
Contractual Services	2,434,946	2,865,284
Cost of Goods Sold	659,025	670,376
Employer Payroll Contributions	1,100,556	1,024,324
Depreciation	1,024,174	1,007,328
Supplies	566,881	320,961
Utilities	412,566	393,322
Insurance and Rental Charges	217,127	294,370
Travel	67,258	39,131
Other	42,573	6,616
Total Expenses	**9,763,108**	**9,746,802**
Operating Income (Loss)	**354,563**	**(340,900)**
Non-Operating Revenues (Expenses)		
Interest Income	69,702	64,089
Interest Expense	(141,675)	(152,250)
Voluntary Nonexchange Donations	13,761	1,942
Total Non-Operating Revenues (Expenses)	**(58,212)**	**(86,219)**
Change in Net Position	**296,351**	**(427,119)**
Beginning Net Position	17,389,010	17,816,129
Ending Net Position	**$ 17,685,361**	**$ 17,389,010**

The Authority's operating income increased by $695,463 to $354,563. Operating revenues increased by $711,769, while operating expenses only increased by $16,306. Admissions revenue increased during fiscal year 2013 by $365,088 due to increased museum attendance, and leases and commissions income increased by $51,632 due to increased lease income from the hotel lease and land and other facility leases. Also contributing to the increase in revenues was an increase in scouting program revenue of $175,035 due to increased rates.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Authority had a net investment in capital assets of $13,689,964 as of June 30, 2014, which is a $351,237 increase from the prior year balance. The increase was attributable to current year capital acquisitions of $1,538,864 offset by depreciation expense of $1,187,626.

As of June 30, 2013, the Authority had a net investment in capital assets of $13,338,727, which was a $483,212 reduction from the balance as of June 30, 2012. The reduction was attributable to current year depreciation expense of $1,024,174 offset by capital acquisitions of $540,962.

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, 2014 and 2013 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. During fiscal year 2013, the State amended the terms of the loan to extend the loan to May 2, 2015. No principal payments were made during fiscal year 2014 and 2013. The Authority made interest payments of $0 and approximately $140,000 during fiscal year 2014 and 2013, respectively.

Additional information of the Authority's capital assets and long-term debt can be found in Notes D and F, respectively, in the Notes to the Financial Statements.

ECONOMIC FACTORS

In considering the Authority's budget for fiscal year 2015, 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 POSITION - ENTERPRISE FUND

JUNE 30, 2014 AND 2013

ASSETS	**2014**	**2013**
Current Assets:		
Cash and Cash Equivalents	$ 5,865,736	$ 5,026,332
Accounts Receivable	434,007	356,699
Prepaid Expenses	8,796	8,796
Inventories	289,437	266,723
Total Current Assets	6,597,976	5,658,550
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	22,389,964	22,038,727
Total Noncurrent Assets	22,389,964	22,038,727
TOTAL ASSETS	**28,987,940**	**27,697,277**
LIABILITIES		
Current Liabilities:		
Accounts Payable	98,026	61,408
Interest Payable	188,500	14,500
Accrued Payroll and Related Liabilities	407,403	346,746
Compensated Absences and Related Liabilities, Current	22,869	17,165
Unearned Revenues, Current	216,758	195,727
General Obligation Bond Payable, Current	8,700,000	-
Total Current Liabilities	9,633,556	635,546
Noncurrent Liabilities:		
Compensated Absences and Related Liabilites, Noncurrent	398,990	310,021
Unearned Revenues, Noncurrent	1,032,682	366,349
General Obligation Bond Payable, Noncurrent	-	8,700,000
Total Noncurrent Liabilities	1,431,672	9,376,370
TOTAL LIABILITIES	**11,065,228**	**10,011,916**
NET POSITION		
Net Investment in Capital Assets	13,689,964	13,338,727
Unrestricted	4,232,748	4,346,634
TOTAL NET POSITION	**$ 17,922,712**	**$ 17,685,361**

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

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA

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

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Admissions	$ 4,209,915	$ 3,918,930
Gift Shop Sales	1,590,845	1,568,459
Scouting Program Revenues	1,562,915	1,678,640
Leases and Commissions Income	2,331,854	2,174,972
Parking Lot Fees	581,538	560,873
Miscellaneous	238,756	215,797
TOTAL OPERATING REVENUES	**10,515,823**	**10,117,671**
OPERATING EXPENSES		
Personnel Services	3,681,521	3,238,002
Contractual Services	2,423,630	2,434,946
Cost of Goods Sold	701,976	659,025
Employer Payroll Contributions	1,191,165	1,100,556
Depreciation	1,187,626	1,024,174
Supplies	631,189	566,881
Utilities	421,639	412,566
Insurance and Rental Charges	233,308	217,127
Travel	70,446	67,258
Other	40,274	42,573
TOTAL OPERATING EXPENSES	**10,582,774**	**9,763,108**
OPERATING INCOME (LOSS)	**(66,951)**	**354,563**
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	64,913	69,702
Interest Expense	(174,000)	(141,675)
State Appropriations	400,000	-
Voluntary Nonexchange Donations	13,389	13,761
TOTAL NON-OPERATING REVENUES (EXPENSES)	**304,302**	**(58,212)**
INCREASE (DECREASE) IN NET POSITION	**237,351**	**296,351**
NET POSITION, Beginning of Year	17,685,361	17,389,010
NET POSITION, End of Year	**$ 17,922,712**	**$ 17,685,361**

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

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA

STATEMENTS OF CASH FLOWS - ENTERPRISE FUND

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Admissions and Gift Shop Sales	$ 5,800,760	$ 5,487,389
Other Operating Cash Receipts	238,756	215,797
Cash Received from Parking Lot Fees	581,538	560,873
Cash Received from Lease and Rental Activities	3,683,475	3,951,281
Cash Received From Donations	13,389	13,761
Cash Paid for Employee Wages and Benefits	(4,717,356)	(4,331,697)
Cash Paid to Suppliers for Goods and Services	(3,148,320)	(3,088,996)
Cash Paid for General and Administrative Expenses	(1,360,238)	(1,277,715)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,092,004	1,530,693
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(717,513)	(540,962)
State Appropriations	400,000	-
Interest Paid on Bonds Payable	-	(139,736)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(317,513)	(680,698)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Payment on Note Payable	-	(9,921)
NET CASH USED IN NON-CAPITAL FINANCING ACTIVITIES	-	(9,921)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	64,913	69,702
NET CASH PROVIDED BY INVESTING ACTIVITIES	64,913	69,702
INCREASE IN CASH AND CASH EQUIVALENTS	**839,404**	**909,776**
CASH AND CASH EQUIVALENTS, Beginning of Year	5,026,332	4,116,556
CASH AND CASH EQUIVALENTS, End of Year	**$ 5,865,736**	**$ 5,026,332**

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (66,951)	$ 354,563
Voluntary Nonexchange Donations for Operating Maintenance	13,389	13,761
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,187,626	1,024,174
Change In:		
Accounts Receivable	(77,308)	96,785
Inventories	(22,714)	4,975
Accounts Payable	36,618	28,690
Accrued Payroll and Related Liabilities	60,657	16,548
Compensated Absences and Related Liabilities	94,673	(9,687)
Unearned Revenues	(133,986)	884
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,092,004	$ 1,530,693

NON-CASH CAPITAL FINANCING ACTIVITIES:

Capital assets of $821,350 were acquired in exchange for a reduction of future lease income. The cost of the assets was reported as unearned revenue at the time of the transaction.

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

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 discretely presented component unit 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).

NOTE A – REPORTING ENTITY (CONTINUED)

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

As required by GAAP, the financial statements must present the Authority's financial information with any of its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the Authority both appoints a voting majority of the entity's governing body, and either 1) the Authority is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the Authority. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Authority and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on the Authority.

In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the Authority having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Authority; and (c) issue bonded debt without approval by the Authority. An entity has a financial benefit or burden relationship with the Authority if, for example, any one of the following conditions exists: (a) the Authority is legally entitled to or can otherwise access the entity's resources, (b) the Authority is legally obligated or has otherwise assumed the obligation to finance the deficits or, or provide financial support to, the entity, or (c) the Authority is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above for being fiscally independent if excluding it would cause the Authority's financial statements to be misleading.

Blended component units, although legally separate entities, are in substance, part of the government's operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Authority. Based on the criteria above, the Authority does not have any component units for the year ended June 30, 2014. For the year ended June 30, 2013, the Patriots Point Naval & Maritime Museum Foundation was reported as a discretely presented component unit of the Authority based on the Foundation's resources being restricted for use by, or benefit of, the Authority. The Foundation's resources are no longer restricted for use by, or benefit of, the Authority; therefore, it is no longer reported as a component unit of the Authority.

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 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, State appropriations, and voluntary non-exchange private donations.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting, continued: The Authority implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB #65") in 2014. GASB #65 establishes accounting and financial reporting standards that require reclassification, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB #65 supplements and extends the reach of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was adopted by the Authority in 2013. The Authority's implementation of GASB #65 had no material effect on the presentation of its financial statements for the year ended June 30, 2014.

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. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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 position, 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 it 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents, continued: 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 refer to 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.

Restricted Assets: 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 position 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:

Asset Category	Useful Life Range
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	10-40 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.

Unearned 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position: Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments.

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.

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, 2014 and 2013, 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, 2014 and 2013, respectively:

	2014	2013
Cash on Hand	$ 9,406	$ 9,406
Deposits Held By State Treasurer	5,856,330	5,016,926
Total	$ 5,865,736	$ 5,026,332

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.

NOTE D – CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2014 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	465,275	48,274	-	(465,275)	48,274
Capital Assets, Depreciable:					
Depreciable Land Improvements	2,168,901	821,350	-	-	2,990,251
Building and Improvements	1,646,729	56,405	-	-	1,703,134
Machinery and Equipment	928,558	168,814	-	-	1,097,372
Depreciable Works of Art and Historic Treasures	26,214,812	444,020	-	465,275	27,124,107
Total Capital Assets	35,887,214	1,538,863	-	-	37,426,077
Less: Accumulated Depreciation for:					
Depreciable Land Improvements	(1,990,397)	(129,178)	-	-	(2,119,575)
Building and Improvements	(1,512,933)	(10,340)	-	-	(1,523,273)
Machinery and Equipment	(789,911)	(70,506)	-	-	(860,417)
Depreciable Works of Art and Historic Treasures	(9,555,246)	(977,602)	-	-	(10,532,848)
Total Accumulated Depreciation	(13,848,487)	(1,187,626)	-	-	(15,036,113)
Capital Assets, Net	$ 22,038,727	351,237	-	-	$ 22,389,964

A summary of the changes in capital assets for the year ended June 30, 2013 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	483,197	-	(143,977)	465,275
Capital Assets, Depreciable:					
Depreciable Land Improvements	2,168,901	-	-	-	2,168,901
Building and Improvements	1,646,729	-	-	-	1,646,729
Machinery and Equipment	870,793	57,765	-	-	928,558
Depreciable Works of Art and Historic Treasures	26,070,835	-	-	143,977	26,214,812
Total Capital Assets	35,346,252	540,962	-	-	35,887,214
Less: Accumulated Depreciation for:					
Depreciable Land Improvements	(1,899,204)	(91,193)	-	-	(1,990,397)
Building and Improvements	(1,501,394)	(11,539)	-	-	(1,512,933)
Machinery and Equipment	(728,914)	(60,997)	-	-	(789,911)
Depreciable Works of Art and Historic Treasures	(8,694,801)	(860,445)	-	-	(9,555,246)
Total Accumulated Depreciation	(12,824,313)	(1,024,174)	-	-	(13,848,487)
Capital Assets, Net	$ 22,521,939	(483,212)	-	-	$ 22,038,727

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

NOTE E – UNEARNED REVENUES

Unearned revenues are comprised of the following at June 30, 2014 and 2013, respectively:

	2014	2013
College of Charleston Lease	$ 366,349	$ 413,469
Fort Sumter Tours	747,651	$ -
Parcel E Prepaid Rent	-	10,000
Camping Deposits	135,440	138,607
Total Unearned Revenues	1,249,440	562,076
Less: Unearned Revenues, Current	216,758	195,727
Unearned Revenues, Non-current	$ 1,032,682	$ 366,349

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 unearned 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.

Fort Sumter Tours – During 2014, Fort Sumter Tours financed dredging operations for the Authority, resulting in the addition of a depreciable asset which is recorded in the Authority's capital assets. In exchange for this asset, the Authority recorded the cost as unearned revenue which will be earned in subsequent years as lease payments come due in accordance with the terms of the lease contract with Fort Sumter Tours.

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

NOTE F – LONG-TERM LIABILITIES

The Authority had the following outstanding debt at June 30, 2014:

General Obligation State Capital Improvement Bond, Series 2004A	$ 8,700,000

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 were 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 further payments against the principal of the general obligation bond payable were made during the current or prior years.

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, 1.75% for the period June 1, 2011 through May 31, 2013, and 2.00% for the period June 1, 2013 through May 2, 2015. The principal balance of the general obligation bond payable is due in full on May 2, 2015.

NOTE F – LONG-TERM LIABILITIES (CONTINUED)

Current obligations at June 30, 2014 are due as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 8,700,000	174,000	$ 8,874,000
Total	$ 8,700,000	174,000	$ 8,874,000

Change in Compensated Absence Obligation —The change in compensated absences and related liabilities for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences and Related Liabilities	$ 327,186	212,187	117,514	$ 421,859	$ 22,869

NOTE G – LEASE AND COMMISSION INCOME

For the years ended June 30, 2014 and 2013, respectively, lease and commission income is comprised of the following:

	2014	2013
Hotel/Amenities Lease (Parcel A)	$ 422,048	$ 398,802
Golf Course Lease	352,303	354,600
Food and Beverage Commissions	287,084	272,030
Marina Lease	139,194	121,338
Athletic Complex Lease	166,587	163,482
Flight Simulation Commissions	70,332	63,653
Fort Sumter Tour Commissions	73,699	71,805
Land and Other Facility Leases	266,773	206,281
Parcel A-1	73,834	42,981
Parcel B, C, D	360,000	360,000
Parcel E	120,000	120,000
Total Lease and Commission Income	$ 2,331,854	$ 2,174,972

Lease and commission income receivable due to the Authority at June 30, 2014 and 2013 were $434,007 and $356,699, respectively.

NOTE G – 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 restaurant. 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 are $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 February 27, 2014, the Authority entered into a contract for the food and vending services on the property with Top Shelf Catering Company LLC ("Top Shelf"). The terms of the contract began on March 16, 2014 and will continue through March 15, 2019 with the option to renew through March 15, 2021. Under the contract with Top Shelf, the Authority receives 20% of CPO galley, concessions, overnight camping meals, and 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.

NOTE G – LEASE AND COMMISSION INCOME (CONTINUED)

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.

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.

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
Capital Assets, Depreciable		
Depreciable Land Improvements	613,325	183,334
Less: Accumulated Depreciation	(613,325)	(183,334)
Total Capital Assets, Depreciable, Net	-	-
Capital Assets, Net	$ 1,430,055	$ 2,500,660

NOTE G – 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
2015	$ 159,132	927,398	$ 1,086,530
2016	159,132	920,188	1,079,320
2017	159,132	912,978	1,072,110
2018	159,132	912,978	1,072,110
2019	159,132	912,978	1,072,110
2020 - 2024	795,660	4,028,736	4,824,396
2025 - 2029	795,660	3,492,580	4,288,240
2030 - 2034	795,660	3,492,580	4,288,240
2035 - 2039	795,660	3,492,580	4,288,240
2040 - 2044	795,660	3,492,580	4,288,240
2045 - 2049	795,660	3,492,580	4,288,240
2050 - 2054	795,660	3,492,580	4,288,240
2055 - 2059	795,660	3,492,580	4,288,240
2060 - 2064	437,613	3,492,580	3,930,193
2065 - 2069	-	3,492,580	3,492,580
2070 - 2074	-	3,492,580	3,492,580
2075 - 2079	-	3,492,580	3,492,580
2080 - 2084	-	3,492,580	3,492,580
2085 - 2089	-	3,492,580	3,492,580
2090 - 2094	-	3,492,580	3,492,580
2095 - 2099	-	1,678,790	1,678,790
Total Future Rents	$ 7,598,553	59,190,166	$ 66,788,719

NOTE H – 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, 2014 and 2013, no facility rentals were provided to other State Agencies.

NOTE H – 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, 2014 and 2013. 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, 2014 and 2013 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, 2014 and 2013 was $166,587 and $163,482, respectively.

NOTE I – RISK MANAGEMENT

The Authority is exposed to various risks of loss, which include 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 (Department of Employment and Workforce);
- 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 (South Carolina Public Employee Benefit Authority – Insurance Benefits); and
- Claims of covered public employees for long-term disability and group-life insurance benefits (South Carolina Public Employee Benefit Authority – Insurance Benefits).

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 which are remitted to commercial carriers.

NOTE I – 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 Position. When applicable, these expenses 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 J – OTHER POST-EMPLOYMENT BENEFITS

Plan Description
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. The Authority contributes to the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") and the South Carolina Long-Term Disability Insurance Trust Fund ("SCLTDITF"), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division ("IB"), a part of the South Carolina Public Employee Benefit Authority ("PEBA").

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 on 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.

NOTE J – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded though annual appropriations by the State General Assembly for active employees to the IB and participating retirees to the PEBA, except the portion funded through the pension surcharge and provided from other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the SCRHITF are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was $3.22 for the years ended June 30, 2014 and 2013.

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 SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the complete financial statements for the benefit plans and the trust funds may be obtained from the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, SC 29211-1960.

NOTE K – RETIREMENT PLAN

The majority of employees of the Authority are covered by a retirement plan through the South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the PEBA. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program ("ORP"). The SCRS plan provides a life-time monthly retirement annuity benefits to eligible members, as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, SC 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

NOTE K – RETIREMENT PLAN (CONTINUED)

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the SCRS after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full services retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation ("AFC") multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to $6,000 based on years of service at retirement. Teacher and Employee Retention Incentive ("TERI") program participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

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 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 benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were $316,155, $295,005, and $256,471, respectively, and equaled the base required retirement contribution rate, excluding retiree insurance surcharge and incidental death benefit program contributions, of 10.45% for 2014, 10.45% for 2013, and 9.385% for 2012. Also, the Authority paid employer incidental death benefit program contributions of $4,538, $4,235, and $4,099, at the rate of .15% of compensation for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

NOTE K – RETIREMENT PLAN (CONTINUED)

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program ("ORP"), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS. The Authority did not make any contributions to ORP for the years ended June 30, 2014 and 2013.

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, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

Pending Implementation of GASB Statement on Pensions

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB #68"), which was issued by the GASB in June 2012, is required to be implemented by the Authority for the fiscal year ended June 30, 2015. The primary objective of GASB #68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB's intention that GASB #68 will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Authority's financial obligations to current and former employees for past services rendered.

In particular, GASB #68 will require the Authority to recognize a net pension liability (and related deferred outflows and inflows of resources) for its participation in the SCRS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The Authority has been in communications with the PEBA on the effect of implementing GASB #68. Based on recent information provided by the PEBA, it is anticipated that the Authority's proportionate share of the net pension liability associated with the SCRS will decrease the Authority's unrestricted net position for the year ended June 30, 2015 by approximately $5,976,000.

NOTE L – 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, 2014, at a cost of approximately $821,000 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 was extended during the current year and is currently set to expire April 22, 2018.

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 M – 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 $13,389 and $13,761, which were cash donations, for the fiscal years ending June 30, 2014 and 2013, respectively.

NOTE N – 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.

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

INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Patriots Point Development Authority (the "Authority") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 11, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 11, 2014