PATRIOTS POINT DEVELOPMENT AUTHORITY

MOUNT PLEASANT, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

George L. Kennedy, III, CPA
State Auditor

September 20, 2017

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, 2017, 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,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA

TABLE OF CONTENTS

YEARS ENDED JUNE 30, 2017 AND 2016

FINANCIAL SECTION

COMPLIANCE SECTION

Greene, Finney & Horton, LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of 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, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Patriots Point Development Authority, as of June 30, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules, 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 20, 2017 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 20, 2017

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, 2017 and 2016. Please read in conjunction with the financial statements, which follow this analysis.

Patriots Point Development Authority (the "Authority") was established through Section 51-13-710 of the Code of Laws of South Carolina. The Authority is part of the primary government of the State of South Carolina (the "State") and its funds are included in the State's Comprehensive Annual Financial Report. The activities of the Authority are accounted for as a non-major discretely presented component unit of the State of South Carolina. In fiscal years 2017 and 2016, the Authority received $465,000 and $415,000, respectively, in 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 following are financial highlights for the fiscal year ended June 30, 2017 compared to 2016:

- The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by approximately $9,333,000 (net position). Unrestricted net position was a deficit of approximately $3,563,000 as of June 30, 2017 compared to a deficit of approximately $2,974,000 as of June 30, 2016.
- Total operating revenues from all sources were approximately $11,751,000 for the year ended June 30, 2017, an increase of approximately $600,000 from the prior fiscal year.
- The total operating expenses were approximately $13,603,000, an increase of approximately $648,000 from the prior fiscal year.
- Cash and cash equivalents decreased approximately $382,000 during the fiscal year to approximately $3,907,000 at June 30, 2017.

The following are financial highlights for the fiscal year ended June 30, 2016 compared to 2015:

- The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by approximately $10,614,000 (net position). Unrestricted net position was a deficit of approximately $2,974,000 as of June 30, 2016 compared to a deficit of approximately $2,292,000 as of June 30, 2015.
- Total operating revenues from all sources were approximately $11,151,000 for the year ended June 30, 2016, a decrease of approximately $2,000 from the prior fiscal year.
- The total operating expenses were approximately $12,955,000, an increase of approximately $945,000 from the prior fiscal year.
- Cash and cash equivalents decreased approximately $410,000 during the fiscal year to approximately $4,269,000 at June 30, 2016.

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, deferred outflows, liabilities, and deferred inflows 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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, 2017 and 2016:

Condensed Statements of Net Position

	2017	2016
Assets		
Current Assets	$ 4,769,555	$ 4,986,018
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	21,096,697	21,787,777
Total Assets	25,866,252	26,773,795
Deferred Outflows	1,731,450	819,948
Liabilities		
Current Liabilities	1,033,375	9,188,996
Net Pension Liability	8,026,178	6,682,108
Other Noncurrent Liabilities	9,196,074	1,097,140
Total Liabilities	18,255,627	16,968,244
Deferred Inflows	8,716	11,950
Net Position		
Net Investment in Capital Assets	12,896,697	13,587,777
Unrestricted	(3,563,338)	(2,974,228)
Total Net Position	$ 9,333,359	$ 10,613,549

The Authority's net position decreased by approximately $1,280,000 from 2016 to 2017.

Total assets decreased by approximately $908,000 as a result of a decrease of approximately $382,000 in cash and cash equivalents and $691,000 in net capital assets. Total liabilities increased by approximately $1,287,000 primarily as a result of an increase in the net pension liability of $1,344,000.

FINANCIAL ANALYSIS (CONTINUED)

The following is a summary of the Statements of Net Position as of June 30, 2016 and 2015:

Condensed Statements of Net Position

	2016	2015 *
Assets		
Current Assets	$ 4,986,018	$ 5,461,316
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	21,787,777	22,278,929
Total Assets	26,773,795	27,740,245
Deferred Outflows	819,948	509,907
Liabilities		
Current Liabilities	9,188,996	8,864,955
Noncurrent Liabilities	7,779,248	7,116,327
Total Liabilities	16,968,244	15,981,282
Deferred Inflows	11,950	482,128
Net Position		
Net Investment in Capital Assets	13,587,777	14,078,929
Unrestricted	(2,974,228)	(2,292,187)
Total Net Position	$ 10,613,549	$ 11,786,742

* The Authority implemented GASB #68 and GASB #71 in the year ended June 30, 2015.

The Authority's net position decreased by approximately $1,173,000 from 2015 to 2016.

Total assets decreased by approximately $966,000 as a result of a decrease of approximately $410,000 in cash and cash equivalents and $491,000 in net capital assets. Total liabilities increased by approximately $987,000 primarily as a result of an increase in the net pension liability of $987,000.

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, 2017 and 2016:

Statements of Revenues, Expenses, and Changes in Net Position

	2017	2016
Revenues		
Admissions	$ 5,475,269	$ 4,962,045
Gift Shop Sales	1,621,594	1,615,249
Scouting Program Revenues	1,724,361	1,649,484
Leases and Commissions Income	2,257,037	2,244,544
Parking Lot Fees	638,977	608,778
Miscellaneous	34,103	71,065
Total Revenues	**11,751,341**	**11,151,165**
Expenses		
Personnel Services	4,403,754	4,316,691
Contractual Services	3,489,836	3,365,884
Cost of Goods Sold	712,102	706,995
Employer Payroll Contributions	1,994,281	1,601,500
Depreciation	1,370,901	1,314,638
Supplies	760,675	824,819
Utilities	436,319	430,508
Insurance and Rental Charges	337,700	277,925
Travel	93,496	106,565
Other	3,625	9,399
Total Expenses	**13,602,689**	**12,954,924**
Operating Income (Loss)	**(1,851,348)**	**(1,803,759)**
Non-Operating Revenues (Expenses)		
Interest Income	55,607	53,381
Interest Expense	(16,234)	(7,495)
State Appropriations	465,000	415,000
Voluntary Nonexchange Donations	700	169,680
Intergovernmental Revenues	264,931	-
Other Non-Operating Expense	(198,846)	-
Total Non-Operating Revenues (Expenses)	**571,158**	**630,566**
Change in Net Position	**(1,280,190)**	**(1,173,193)**
Beginning Net Position	10,613,549	11,786,742
Ending Net Position	**$ 9,333,359**	**$ 10,613,549**

FINANCIAL ANALYSIS (CONTINUED)

The Authority's operating loss decreased by approximately $48,000 to approximately $1,851,000. Operating revenues increased approximately 600,000, while operating expenses increased by approximately $648,000. Personnel services and employer payroll contributions increased by approximately $480,000 primarily due to an increase in pension expense as a result of the net increase in net pension liability and related deferred inflows and outflows.

The following is a summary of the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2016 and 2015:

Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015 *
Revenues		
Admissions	$ 4,962,045	$ 4,727,962
Gift Shop Sales	1,615,249	1,651,521
Scouting Program Revenues	1,649,484	1,652,400
Leases and Commissions Income	2,244,544	2,304,639
Parking Lot Fees	608,778	595,083
Miscellaneous	71,065	221,398
Total Revenues	**11,151,165**	**11,153,003**
Expenses		
Personnel Services	4,316,691	3,861,181
Contractual Services	3,365,884	3,160,076
Cost of Goods Sold	706,995	718,652
Employer Payroll Contributions	1,601,500	1,365,292
Depreciation	1,314,638	1,298,758
Supplies	824,819	743,509
Utilities	430,508	440,856
Insurance and Rental Charges	277,925	282,381
Travel	106,565	121,065
Other	9,399	18,327
Total Expenses	**12,954,924**	**12,010,097**
Operating Income (Loss)	**(1,803,759)**	**(857,094)**
Non-Operating Revenues (Expenses)		
Interest Income	53,381	57,518
Interest Expense	(7,495)	(115,583)
State Appropriations	415,000	415,000
Medal of Honor Museum Appropriations Revenues	-	1,000,000
Medal of Honor Museum Appropriations Expenses	-	(1,000,000)
Voluntary Nonexchange Donations	169,680	2,305
Total Non-Operating Revenues (Expenses)	**630,566**	**359,240**
Change in Net Position	**(1,173,193)**	**(497,854)**
Beginning Net Position	11,786,742	17,922,712
Cumulative Change in Accounting Principle - GASB #68 and GASB #71	-	(5,638,116)
Net Position, Beginning of Year - As Restated	11,786,742	12,284,596
Ending Net Position	**$ 10,613,549**	**$ 11,786,742**

* The Authority implemented GASB #68 and GASB #71 in the year ended June 30, 2015.

FINANCIAL ANALYSIS (CONTINUED)

The Authority's operating loss increased by approximately $947,000 to approximately $1,804,000. Operating revenues remained consistent with prior year, while operating expenses increased by approximately $945,000. Personnel services and payroll-related benefits increased by approximately $692,000 due to an increased number of employees during the current year in the marketing and public relations department as well as an increase in pension expense as a result of the net increase in net pension liability and related deferred inflows and outflows.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2017, the Authority had a net investment in capital assets of approximately $12,897,000 which was a decrease of approximately $691,000 from the balance as of June 30, 2016. The decrease was the result of capital acquisitions of approximately $679,000 which were offset by depreciation expense of approximately $1,371,000.

As of June 30, 2016, the Authority had a net investment in capital assets of approximately $13,588,000 which was a decrease of approximately $491,000 from the balance as of June 30, 2015. The decrease was the result of capital acquisitions of approximately $823,000 which were offset by depreciation expense of approximately $1,315,000.

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, 2017 and 2016 was $8,200,000. The Authority borrowed the money for the emergency dry-docking and critical maintenance repairs to the USS Laffey. The original terms of the loan 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 loan 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. During fiscal year 2015, the Authority made a payment of approximately $804,000 that consisted of $500,000 for principal and approximately $304,000 for interest, and the due date of the loan was extended to November 1, 2015. No principal payments were made during fiscal year 2016 or 2017. Subsequent to the 2017 fiscal year end, the Authority negotiated amended payment terms on the obligation.

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 2018, 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 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.

In August 2017, the State approved a revised repayment plan for the outstanding loan payable. The State also approved a development lease which is expected to generate more than $300 million in revenue and more than $80 million in State taxes over the term of the lease.

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, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 3,886,891	$ 4,269,009
Cash and Cash Equivalents, Restricted	19,821	19,821
Accounts Receivable	539,502	386,787
Prepaid Expenses	8,796	8,796
Inventories	314,545	301,605
Total Current Assets	4,769,555	4,986,018
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	21,096,697	21,787,777
Total Noncurrent Assets	21,096,697	21,787,777
TOTAL ASSETS	**25,866,252**	**26,773,795**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Charges	1,731,450	819,948
LIABILITIES		
Current Liabilities:		
Accounts Payable	60,471	46,217
Interest Payable	7,495	7,495
Accrued Payroll and Related Liabilities	457,769	477,843
Compensated Absences and Related Liabilities, Current	250,139	242,239
Unearned Revenues, Current	257,501	215,202
Loan Payable, Current	-	8,200,000
Total Current Liabilities	1,033,375	9,188,996
Noncurrent Liabilities:		
Compensated Absences and Related Liabilities, Noncurrent	217,610	231,309
Unearned Revenues, Noncurrent	778,464	865,831
Loan Payable, Noncurrent	8,200,000	-
Net Pension Liability	8,026,178	6,682,108
Total Noncurrent Liabilities	17,222,252	7,779,248
TOTAL LIABILITIES	**18,255,627**	**16,968,244**
DEFERRED INFLOWS OF RESOURCES		
Deferred Pension Credits	8,716	11,950
NET POSITION		
Net Investment in Capital Assets	21,096,697	13,587,777
Unrestricted	(11,763,338)	(2,974,228)
TOTAL NET POSITION	**$ 9,333,359**	**$ 10,613,549**

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

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Admissions	$ 5,475,269	$ 4,962,045
Gift Shop Sales	1,621,594	1,615,249
Scouting Program Revenues	1,724,361	1,649,484
Leases and Commissions Income	2,257,037	2,244,544
Parking Lot Fees	638,977	608,778
Miscellaneous	34,103	71,065
TOTAL OPERATING REVENUES	**11,751,341**	**11,151,165**
OPERATING EXPENSES		
Personnel Services	4,403,754	4,316,691
Contractual Services	3,489,836	3,365,884
Cost of Goods Sold	712,102	706,995
Employer Payroll Contributions	1,994,281	1,601,500
Depreciation	1,370,901	1,314,638
Supplies	760,675	824,819
Utilities	436,319	430,508
Insurance and Rental Charges	337,700	277,925
Travel	93,496	106,565
Other	3,625	9,399
TOTAL OPERATING EXPENSES	**13,602,689**	**12,954,924**
OPERATING INCOME (LOSS)	**(1,851,348)**	**(1,803,759)**
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	55,607	53,381
Interest Expense	(16,234)	(7,495)
State Appropriations	465,000	415,000
Voluntary Nonexchange Donations	700	169,680
Intergovernmental Revenues	264,931	-
Other Non-Operating Expense	(198,846)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	**571,158**	**630,566**
INCREASE (DECREASE) IN NET POSITION	**(1,280,190)**	**(1,173,193)**
NET POSITION, Beginning of Year	10,613,549	11,786,742
NET POSITION, End of Year	**$ 9,333,359**	**$ 10,613,549**

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

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Admissions and Gift Shop Sales	$ 7,096,863	$ 6,577,294
Other Operating Cash Receipts	34,103	71,065
Cash Received from Parking Lot Fees	638,977	608,778
Cash Received from Lease and Rental Activities	3,783,615	3,888,611
Cash Received From Donations	700	169,680
Cash Paid for Employee Wages and Benefits	(5,994,574)	(5,648,243)
Cash Paid to Suppliers for Goods and Services	(4,214,878)	(4,076,947)
Cash Paid for General and Administrative Expenses	(1,617,561)	(1,645,099)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(272,755)	(54,861)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(679,821)	(823,486)
State Appropriations	465,000	415,000
Cash Paid for Oil Removal	(198,846)	-
Interest Paid on Loan Payable	(16,234)	-
Intergovernmental Grants Received	264,931	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(164,970)	(408,486)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	55,607	53,381
NET CASH PROVIDED BY INVESTING ACTIVITIES	55,607	53,381
DECREASE IN CASH AND CASH EQUIVALENTS	**(382,118)**	**(409,966)**
CASH AND CASH EQUIVALENTS, Beginning of Year	4,288,830	4,698,796
CASH AND CASH EQUIVALENTS, End of Year	**$ 3,906,712**	**$ 4,288,830**

	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Income (Loss)	$ (1,851,348)	$ (1,803,759)
Voluntary Nonexchange Donations for Operating Maintenance	700	169,680
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,370,901	1,314,638
Change In:		
Accounts Receivable	(152,715)	69,400
Inventories	(12,940)	(4,068)
Accounts Payable	14,254	4,117
Accrued Payroll and Related Liabilities	(20,074)	81,607
Compensated Absences and Related Liabilities	(5,799)	5,146
Unearned Revenues	(45,068)	(74,817)
Net Pension Liability	1,344,070	963,414
Changes in Deferred Outflows/Inflows of Resources:		
Deferred Pension Charges	(911,502)	(310,041)
Deferred Pension Credits	(3,234)	(470,178)
NET CASH USED IN OPERATING ACTIVITIES	$ (272,755)	$ (54,861)

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 included in the State of South Carolina's Comprehensive Annual Financial Report as a non-major discretely presented component unit. 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).

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.

NOTE A – REPORTING ENTITY (CONTINUED)

Based on these criteria, the Authority does not have any component units for the year ended June 30, 2017.

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.

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.

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 estimated acquisition value as of the date of donation.

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 working days of the month 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority currently has one type of deferred outflows of resource. The Authority reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently has one type of deferred inflows of resource. The Authority reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

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.

Pensions: The Authority recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Authority's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Authority's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. See Note K and the required supplementary information immediately following the notes to the financial statements for more information.

Budget Policy: The Appropriation Act, 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Other Postemployment Benefits: Other postemployment benefits ("OPEB") cost for retiree healthcare and similar, non-pension retiree benefits, is required to be measured and disclosed using the accrual basis of accounting (see Note J for more information). Annual OPEB cost is equal to the annual required contributions to the OPEB Plan, calculated in accordance with GAAP.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

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, 2017 and 2016, 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, 2017 and 2016, respectively:

	2017	2016
Cash on Hand	$ 9,406	$ 9,406
Deposits Held By State Treasurer	3,897,306	4,279,424
Totals	$ 3,906,712	$ 4,288,830

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, 2017 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	638,661	242,901	-	(406,447)	475,115
Capital Assets, Depreciable:					
Depreciable Land Improvements	2,990,251	-	-	-	2,990,251
Building and Improvements	1,703,134	-	-	-	1,703,134
Machinery and Equipment	1,344,652	153,954	-	-	1,498,606
Depreciable Works of Art and Historic Treasures	28,297,649	282,966	-	406,447	28,987,062
Total Capital Assets	39,437,286	679,821	-	-	40,117,107
Less: Accumulated Depreciation for:					
Depreciable Land Improvements	(2,377,931)	(129,178)	-	-	(2,507,109)
Building and Improvements	(1,543,953)	(10,340)	-	-	(1,554,293)
Machinery and Equipment	(1,026,458)	(93,186)	-	-	(1,119,644)
Depreciable Works of Art and Historic Treasures	(12,701,167)	(1,138,197)	-	-	(13,839,364)
Total Accumulated Depreciation	(17,649,509)	(1,370,901)	-	-	(19,020,410)
Capital Assets, Net	$ 21,787,777	(691,080)	-	-	$ 21,096,697

A summary of the changes in capital assets for the year ended June 30, 2016 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	334,756	534,995	-	(231,090)	638,661
Capital Assets, Depreciable:					
Depreciable Land Improvements	2,990,251	-	-	-	2,990,251
Building and Improvements	1,703,134	-	-	-	1,703,134
Machinery and Equipment	1,216,422	128,230	-	-	1,344,652
Depreciable Works of Art and Historic Treasures	27,906,298	160,261	-	231,090	28,297,649
Total Capital Assets	38,613,800	823,486	-	-	39,437,286
Less: Accumulated Depreciation for:					
Depreciable Land Improvements	(2,248,753)	(129,178)	-	-	(2,377,931)
Building and Improvements	(1,533,613)	(10,340)	-	-	(1,543,953)
Machinery and Equipment	(937,024)	(89,434)	-	-	(1,026,458)
Depreciable Works of Art and Historic Treasures	(11,615,481)	(1,085,686)	-	-	(12,701,167)
Total Accumulated Depreciation	(16,334,871)	(1,314,638)	-	-	(17,649,509)
Capital Assets, Net	$ 22,278,929	(491,152)	-	-	$ 21,787,777

NOTE D – CAPITAL ASSETS (CONTINUED)

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, 2017 and 2016, respectively:

	2017	2016
College of Charleston Lease	$ 343,272	$ 350,965
Fort Sumter Tours	517,912	596,677
Camping Deposits	174,781	133,391
Total Unearned Revenues	1,035,965	1,081,033
Less: Unearned Revenues, Current	257,501	215,202
Unearned Revenues, Non-current	$ 778,464	$ 865,831

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 approximately $7,700, 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, 2017:

General Obligation State Capital Improvement Bond, Series 2004A	$ 8,200,000

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 loan 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 loan payable. The Authority paid an additional $500,000 of the loan payable during the year ended June 30, 2015.

NOTE F – LONG-TERM LIABILITIES (CONTINUED)

In accordance with the current payment terms which became effective May 1, 2015, the loan payable had an interest rate of 0.09% for the period May 1, 2015 through November 1, 2015, at which time the full balance was due to be paid. In August 2017, the State Fiscal Accountability Authority approved a revised repayment plan for the $8,200,000 balance. The revised terms include annual interest only payments at a rate of 1.61% due August 2018 through August 2020 and annual payments of principal and interest beginning August 2021 through August 2028.

Change in Compensated Absence Obligation — The change in compensated absences and related liabilities for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences and Related Liabilities	$ 473,548	247,442	253,241	467,749	$ 250,139

NOTE G – LEASE AND COMMISSION INCOME

For the years ended June 30, 2017 and 2016, respectively, lease and commission income is comprised of the following:

	2017	2016
Hotel/Amenities Lease (Parcel A)	$ 380,099	$ 344,999
Golf Course Lease	315,340	357,024
Food and Beverage Commissions	292,561	294,453
Marina Lease	148,800	143,793
Athletic Complex Lease	170,851	170,485
Flight Simulation Commissions	65,626	59,385
Fort Sumter Tour Commissions	78,665	77,904
Land and Other Facility Leases	264,013	247,994
Parcel A-1	61,082	58,507
Parcel B, C, D	360,000	360,000
Parcel E	120,000	130,000
Total Lease and Commission Income	$ 2,257,037	$ 2,244,544

Lease and commission income receivable due to the Authority at June 30, 2017 and 2016 were approximately $540,000 and $387,000, respectively.

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.

NOTE G – LEASE AND COMMISSION INCOME (CONTINUED)

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.

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 2021.

NOTE G – LEASE AND COMMISSION INCOME (CONTINUED)

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

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
2018	$ 164,258	935,514	$ 1,099,772
2019	164,258	935,514	1,099,772
2020	164,258	935,514	1,099,772
2021	164,258	931,910	1,096,168
2022	821,290	825,352	1,646,642
2023 - 2027	821,290	3,612,000	4,433,290
2028 - 2032	821,290	3,612,000	4,433,290
2033 - 2037	821,290	3,612,000	4,433,290
2038 - 2042	821,290	3,612,000	4,433,290
2043 - 2047	821,290	3,612,000	4,433,290
2048 - 2052	821,290	3,612,000	4,433,290
2053 - 2057	821,290	3,612,000	4,433,290
2058 - 2062	780,226	3,612,000	4,392,226
2063 - 2067	-	3,612,000	3,612,000
2068 - 2072	-	3,612,000	3,612,000
2073 - 2077	-	3,612,000	3,612,000
2078 - 2082	-	3,612,000	3,612,000
2083 - 2087	-	3,612,000	3,612,000
2088 - 2092	-	3,612,000	3,612,000
2093 - 2097	-	2,451,840	2,451,840
	$ 8,007,578	57,583,646	$ 65,591,223

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, 2017 and 2016, no facility rentals were provided to other State Agencies.

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

State of South Carolina and Agencies (Continued)

Other services which are available at no cost from the State Fiscal Accountability Authority include personnel, management, assistance in the preparation of the State budget, review and approval of certain budget amendments and other centralized functions. Retirement plan administration services are provided at no cost from the Public Employee Benefit Authority ("PEBA").

The Authority had financial transactions with various State agencies during the years ended June 30, 2017 and 2016. Significant payments were made to PEBA for retirement and insurance plan contributions. The Authority also made payments to divisions of the State Department of Administration for office supplies, printing, telephone, and interagency mail services. The amounts of expenses for the years ended June 30, 2017 and 2016 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, 2017 and 2016 was approximately $170,000 and $170,000, 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.

NOTE I – RISK MANAGEMENT (CONTINUED)

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 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.

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.

NOTE I – RISK MANAGEMENT (CONTINUED)

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.

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, 5.33% of annual covered payroll for 2017 and 2016. 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, 2017 and 2016.

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 PLANS

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

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System ("SCRS"), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

NOTE K – RETIREMENT PLANS (CONTINUED)

Plan Benefits

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

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

  The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

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

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the SFAA for approval an increase in the SCRS ("Plan") employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than one-half of one percent in any one year.

If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA Board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

NOTE K – RETIREMENT PLANS (CONTINUED)

Plan Contributions (Continued)

As noted earlier, both employees and the Authority are required to contribute to the Plan at rates established and as amended by the PEBA. The Authority's contributions are actuarially determined but are communicated to and paid by the Authority as a percentage of the employees' annual eligible compensation. Required employer and employee contribution rates for the past three years are as follows:

	SCRS Rates		
	2015	2016	2017
Employer Contribution Rate:^			
Retirement	10.75%	10.91%	11.41%
Incidental Death Benefit	0.15%	0.15%	0.15%
Accidental Death Contributions	0.00%	0.00%	0.00%
	10.90%	11.06%	11.56%
Employee Contribution Rate	8.00%	8.16%	8.66%

^ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

The required contributions and percentages of amounts contributed by the Authority to the Plans for the past three years were as follows:

Year Ended	SCRS Contributions	
June 30,	Required	% Contributed
2017	$ 454,200	100%
2016	377,997	100%
2015	$ 347,863	100%

Eligible payrolls of the Authority covered under the Plans for the past three years were as follows:

Year Ended June 30,	SCRS Payroll
2017	$ 3,929,065
2016	3,417,694
2015	$ 3,191,404

NOTE K – RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future.

South Carolina state statute requires than an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. As a result of the experience study, the actuary recommended adjustments to the actuarial assumptions, which included salary increase, payroll growth, mortality, retirement, terminations, refunds, disability, inflation, and asset valuation method. The experience study also recommended reducing the long-term investment rate of return assumption, which is a prescribed assumption that is set in state statute by the General Assembly, from 7.50 to 7.25 percent. With the exception of the rate of return, all recommended assumption and method changes were adopted by both the PEBA Board and SFAA, as co-fiduciaries. The General Assembly did not change the assumed annual rate of return during the 2016 legislative session so that assumption currently remains at 7.50 percent. The newly adopted assumptions and methods will be first used to perform the July 1, 2016 actuarial valuation, the results of which will be used in determining the total pension liability as of the June 30, 2017 measurement date.

The June 30, 2016 total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2015 actuarial valuations, as adopted by the PEBA Board and the SFAA which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the Plan's fiscal year ended June 30, 2016 using generally accepted actuarial principles. Information included in these notes is based on the certification provided by GRS.

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

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Investment Rate of Return*	7.50%	7.50%
Projected Salary Increases*	3.5% to 12.5% (varies by service)	4.0% to 10.0% (varies by service)
Benefit Adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually

* Includes inflation at 2.75%.

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015 valuations for the SCRS are as follows:

NOTE K – RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

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

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015 actuarial valuations, was based upon the 30-year capital market outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

NOTE K – RETIREMENT PLANS (CONTINUED)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	**43.0%**		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	**8.0%**		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	**20.0%**		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	**17.0%**		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability ("NPL") is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2016 measurement date, for the SCRS are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 45,356,214,752	23,996,362,354	$ 21,359,852,398	52.9%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the Plans' funding requirements.

NOTE K – RETIREMENT PLANS (CONTINUED)

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2017, the Authority reported a liability of approximately $8,026,000 for its proportionate share of the net pension liability for the SCRS. The net pension liability was measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report as of July 1, 2015 that was projected forward to the measurement date. The Authority's proportion of the net pension liability were based on a projection of the Authority's long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2016 measurement date, the Authority's SCRS proportion was .038 percent, which was an increase of .003 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Authority recognized pension expense of approximately $908,000 for the SCRS. At June 30, 2017, the Authority reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	$ 83,201	$ 8,716
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	675,260	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	518,789	-
Authority's Contributions Subsequent to the Measurement Date	454,200	-
Total SCRS	$ 1,731,450	$ 8,716

Approximately $454,000 that were reported as deferred outflows of resources related to the Authority's contributions subsequent to the measurement date to the SCRS will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS
2018	$ 379,508
2019	336,019
2020	388,940
2021	164,067
Total	$ 1,268,534

NOTE K – RETIREMENT PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Authority's proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.50 percent, as well as what it would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate:

System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
The Authority's proportionate share of the net pension liability of the SCRS	$ 10,012,437	8,026,178	$ 6,372,692

Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plan administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Plan Developments

House Bill 3726 was signed by the Governor of the State on April 25, 2017 and is effective immediately. This new law increases the employer SCRS and PORS contribution rates to 13.56% and 16.24%, respectively, beginning July 1, 2017. Employer rates will continue to increase annually by 1% through July 1, 2022, which would result in the SCRS and PORS employer rate totaling 18.56% and 21.24%, respectively, for fiscal year 2023 and thereafter. The legislation (a) would also increase and cap the employee SCRS and PORS contribution rates to 9.00% and 9.75%, respectively, after June 30, 2027, (b) provide for a decrease in employer and employee contribution rates in equal amounts if the ratio between the actuarial value of assets and the actuarial value of liabilities is equal to or greater than 85%, (c) lower the assumed annual rate of return on pension investments from 7.50% to 7.25%, and (d) for some years reduce the funding period of unfunded liabilities from 30 years to 20 years.

NOTE L – COMMITMENTS

The Authority has a lease agreement with Fort Sumter Tours, Inc. expiring January 31, 2021. 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.

NOTE L – COMMITMENTS (CONTINUED)

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, 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 approximately $1,000 and $170,000, which were cash donations, for the fiscal years ending June 30, 2017 and 2016, 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.

NOTE O – SUBSEQUENT EVENTS

In August 2017, the State Fiscal Accountability Authority approved a development lease for 61.75 acres of property to Patriot Annex, LLC for a minimum term of 99 years. Lease payments are expected to begin prior to December 31, 2020.

Required Supplementary Information

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PATRIOTS POINT DEVELOPMENT AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - SOUTH CAROLINA RETIREMENT SYSTEM

LAST FOUR FISCAL YEARS

	Year Ended June 30,			
	2017	**2016**	**2015**	**2014**
Patriots Point Development Authority's Proportion of the Net Pension Liability	0.038%	0.035%	0.033%	0.033%
Patriots Point Development Authority's Proportionate Share of the Net Pension Liability	$ 8,026,178	6,682,108	5,718,694	$ 5,957,765
Patriots Point Development Authority's Covered-Employee Payroll	$ 3,417,694	3,191,404	3,015,557	$ 2,783,066
Patriots Point Development Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	234.84%	209.38%	189.64%	214.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.906%	56.992%	59.919%	56.388%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.
Only four years of data were available; thus, only four years were presented.

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PATRIOTS POINT DEVELOPMENT AUTHORITY'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

	Year Ended June 30,									
	2017	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Contractually Required Contribution	$ 454,200	377,997	347,863	319,649	295,005	256,471	222,103	191,700	197,940	$ 172,000
Contributions in Relation to the Contractually Required Contribution	454,200	377,997	347,863	319,649	295,005	256,471	222,103	191,700	197,940	172,000
Contribution Deficiency (Excess)	$ -	-	-	-	-	-	-	-	-	$ -
Patriots Point Development Authority's Covered Payroll	$ 3,929,065	3,417,694	3,191,404	3,015,557	2,783,066	2,689,785	2,365,314	2,041,534	2,107,987	$ 2,097,561
Contributions as a Percentage of Covered Payroll	11.560%	11.060%	10.900%	10.600%	10.600%	9.535%	9.390%	9.390%	8.200%	8.200%

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. George L. Kennedy, III., CPA
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 Patriots Point Development Authority (the "Authority"), a discretely presented component unit of the State of South Carolina, as of and for the years ended June 30, 2017 and 2016, 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 20, 2017.

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.*

GFHLLP.COM · INFO@GFHLLP.COM

GREENVILLE, SC 864.451.7381
MAULDIN, SC 864.232.5204
MOUNT PLEASANT, SC 843.735.5805
SPARTANBURG, SC 864.232.5204
ASHEVILLE, NC 828.771.0847 OPEN BY APPOINTMENT ONLY

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 20, 2017