

Report on Audits of Financial Statements of  
Patriots Point Development Authority  
*for the years ended June 30, 2003 and 2002*

State of South Carolina



Office of the State Auditor

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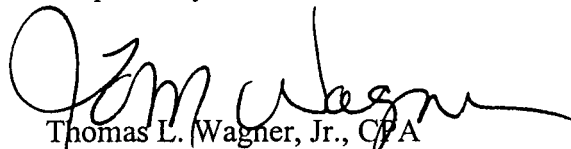
October 17, 2003

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

This report on the audit of the financial statements of the Patriots Point Development Authority for the fiscal year ended June 30, 2003, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,




Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

## Contents

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	Page
<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Required Supplementary Information - Management's Discussion and Analysis.....</b>	<b>2-6</b>
<b>Financial Statements:</b>	
Balance Sheets .....	7
Statements of Revenues, Expenses, and Changes in Net Assets .....	8
Statements of Cash Flows .....	9
Notes to Financial Statements .....	10-27
<b>Report on Compliance and on Internal Control over Financial Reporting Based on an Audit     Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>28</b>
Comments on Status of Prior Year's Comments .....	29
Comments from 2003 Audit with Management's Response .....	30
<b>Supplementary Additional Information:</b>	
Independent Auditors' Report on Additional Information .....	31
Summarized Schedule of Information on Business-Type Activities.....	32

S C O T T  M C E L V E E N L L P.

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the enterprise fund of Patriots Point Development Authority (the "Authority") as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements referred to above present only the financial position, results of operations, and cash flows for its proprietary fund type of only that portion of the funds of the State of South Carolina that are attributable to the transactions of the Authority, an enterprise fund of the State of South Carolina. They are not intended to present fairly the financial position, results of operations, and cash flows of the State of South Carolina or its other agencies, institutions, departments or funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund of Patriots Point Development Authority, as of June 30, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2003 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

*Scott McElveen, L.L.P.*  
Columbia, South Carolina  
August 29, 2003

CERTIFIED PUBLIC ACCOUNTANTS

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## Required Supplementary Information

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

The following is a discussion and analysis of Patriots Point Development Authority's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2003. Please read in conjunction with the financial statements, which follows 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 enterprise funds of the proprietary fund type. An enterprise fund accounts for operations that are financed, for the most part, and operated in a manner similar to private enterprises where the intent is that the cost of providing goods or services be recorded primarily through user charges and revenues. In fiscal year 2003 and 2002, the Authority received no State appropriated funds.

### **Using This Report**

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

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

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

### **Financial Highlights**

- The Authority's net assets increased 4% to \$13,075,979 as a result of this year's operations.
- The total operating revenues from all sources were \$7,436,704.
- The total operating expenditures were \$7,020,906.
- Voluntary nonexchange donations (gifts to the Authority) totaled \$22,127.
- The Authority reported an increase in net assets of \$566,225 for the year.
- The Authority reported unrestricted net assets of \$5,379,909 and total net assets of \$13,075,979, respectively at year-end.

## Net Assets

<b>Assets</b>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current assets	\$ 6,775,491	\$ 6,177,693
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	<u>7,696,070</u>	<u>7,589,941</u>
Total assets	<u>\$ 14,471,561</u>	<u>\$ 13,767,634</u>
<b>Liabilities and net assets</b>		
Current liabilities	\$ 1,395,582	\$ 1,257,880
Long-term liabilities	-	-
Net assets		
Invested in capital assets	7,696,070	7,589,941
Unrestricted	<u>5,379,909</u>	<u>4,919,813</u>
	<u>13,075,979</u>	<u>12,509,754</u>
Total liabilities and net assets	<u>\$ 14,471,561</u>	<u>\$ 13,767,634</u>

The Authority's Net Assets increased by \$566,225 for the year, which consisted of a \$703,927 increase in total assets and a \$137,702 increase in total liabilities. The most significant impact came from a \$579,327 increase in cash and cash equivalents.

## Revenues, Expenses and Changes in Net Assets

	June 30, 2003	June 30, 2002
<b>Operating revenues:</b>		
Admissions	\$ 2,987,052	\$ 3,251,448
Gift shop sales	1,878,792	1,994,006
Scouting program revenues	1,397,860	1,237,334
Lease and commission income	1,138,478	1,244,538
Miscellaneous revenues	34,522	55,406
Total operating revenues	<u>7,436,704</u>	<u>7,782,732</u>
<b>Operating expenses:</b>		
Personnel services	2,497,988	2,393,594
Contractual services	1,698,605	1,463,120
Cost of goods sold	985,854	995,348
Employer payroll contributions	702,087	701,692
Depreciation	320,353	394,076
Supplies	384,597	319,940
Utilities	236,370	217,306
Insurance and rental charges	109,917	150,498
Travel	16,561	16,775
Other	68,574	64,336
	<u>7,020,906</u>	<u>6,716,685</u>
Operating income	415,798	1,066,047
<b>Non-operating revenues:</b>		
Disposal of property	(22,140)	-
Interest income, net	150,440	168,697
Voluntary nonexchange donations	22,127	22,778
<b>Increase in net assets</b>	<u>566,225</u>	<u>1,257,522</u>
Total fund equity, beginning of year - as previously reported	12,509,754	11,371,763
Change in accounting principle - increase in capitalization limits	-	(119,531)
Total fund net assets, end of year	<u>\$ 13,075,979</u>	<u>\$ 12,509,754</u>

The Authority's operating income decreased by \$650,249 to \$415,798, due principally to a \$346,028 in Operating Revenues, while Operating Expenses increased \$304,221.

The majority of the decrease in Operating Revenues is attributable to a decline in attendance for general visitation, as a result of this Admissions Revenue and Gift Shop Sales were down \$379,610. Lease and commission revenues were down \$106,060 compared to the prior year. The youth camping program experienced a record setting year, revenues were up \$160,526 compared to the prior year.



The majority of the increase in Operating Expenses resulted from a increase of \$104,789 in Salaries and Employer Contributions and \$235,485 in Contractual Services. All other operating expenses decreased approximately \$36,000 compared to the prior year.

### **Cash Flows**

Cash and cash equivalents increased approximately \$579,000 during the year to \$6,156,290 at year-end. At the May 28, 2003 Authority meeting, the Patriots Point Development Authority Board earmarked the cash on hand for the following obligations:

Capital Improvements	\$1,968,000
Future Development of Museums	1,500,000
Maintenance Issues	1,000,000
Short Fall from Operations	<u>1,688,290</u>
Total Cash	<u>\$6,156,290</u>

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

During the current year the Authority removed from the books \$22,140 in land and land and land improvements. The Authority transferred to the Town of Mt. Pleasant the rights to approximately 8.62 acres road right of way and approximately 10.67 acres of additional property to construct and make substantial improvements to Patriots Point Boulevard. Construction in progress at year end was \$443,327, included in this figure is approximately \$237,000 related to the uncompleted construction of a traffic circle. The Authority has no outstanding long-term debt for the year ended June 30, 2003.

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

In considering the Authority's budget for fiscal year 2004, the Authority Board and staff were cautious as to the growth of revenues and expenditures. Overall operating expenditures are budgeted at an increase of \$215,962, or 3% greater than fiscal year 2003. Operating revenues are budgeted at an increase of \$ 444,054, or 6% greater than fiscal year 2003. The budget demonstrates the financial priorities used in the agency's decision making process, namely 1) improvements needed to sustain and maintain YORKTOWN and the other existing Museum ships as the core of the Naval and Maritime Museum far into the future, 2) future development of the museum to include reinterpretation of exhibits in the Museum to appeal more effectively to the changing visitor demographics, 3) enhancement and improvement in the various education programs we offer, and 4) continuous development of the property's remaining acreage to improve the entire Patriots Point complex as a tourism destination and a community activity hub. The Authority's overall financial position is sound, and the Authority is well-positioned to maintain its financial stability with resources being closely guarded in order to maintain the ability to react to changing economic times.

**Request for Information**

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

## Financial Statements

Patriots Point Development Authority  
Balance Sheets  
June 30,

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,156,290	\$ 5,576,963
Accounts receivable; rental activities	214,792	232,432
Prepaid expenses	66,033	8,796
Inventories	317,636	342,949
Interest receivable	20,740	16,553
Total current assets	<u>6,775,491</u>	<u>6,177,693</u>
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	<u>7,696,070</u>	<u>7,589,941</u>
Total assets	<u>\$14,471,561</u>	<u>\$13,767,634</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 269,072	\$ 195,073
Accrued payroll and related liabilities	248,895	213,476
Compensated absences and related liabilities	261,282	260,119
Deferred revenues	616,333	589,212
Total liabilities; total current liabilities	<u>1,395,582</u>	<u>1,257,880</u>
<b>Net assets</b>		
Invested in capital assets	7,696,070	7,589,941
Unrestricted	<u>5,379,909</u>	<u>4,919,813</u>
Total net assets	<u>13,075,979</u>	<u>12,509,754</u>
Total liabilities and net assets	<u>\$14,471,561</u>	<u>\$13,767,634</u>

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

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

	<u>2003</u>	<u>2002</u>
<b>Operating revenues:</b>		
Admissions	\$ 2,987,052	\$ 3,251,448
Gift shop sales	1,878,792	1,994,006
Scouting program revenues	1,397,860	1,237,334
Lease and commission income	1,138,478	1,244,538
Miscellaneous revenues	34,522	55,406
Total operating revenues	<u>7,436,704</u>	<u>7,782,732</u>
<b>Operating expenses:</b>		
Personnel services	2,497,988	2,393,594
Contractual services	1,698,605	1,463,120
Cost of goods sold	985,854	995,348
Employer payroll contributions	702,087	701,692
Depreciation	320,353	394,076
Supplies	384,597	319,940
Utilities	236,370	217,306
Insurance and rental charges	109,917	150,498
Travel	16,561	16,775
Other	68,574	64,336
Total operating expenses	<u>7,020,906</u>	<u>6,716,685</u>
Operating income	415,798	1,066,047
<b>Non-operating revenues and (loss):</b>		
Interest income, net	150,440	168,697
Loss on disposal of property and equipment	(22,140)	—
Voluntary nonexchange donations	22,127	22,778
<b>Increase in net assets</b>	<u>566,225</u>	<u>1,257,522</u>
Total fund equity, beginning of year – as previously reported	12,509,754	11,371,763
Change in accounting principle – increase in capitalization limits	—	(119,531)
Total fund net assets, end of year	<u>\$13,075,979</u>	<u>\$12,509,754</u>

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

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

	2003	2002
<b>Cash flows from operating activities:</b>		
Cash received from admission and gift shop sales	\$ 4,865,844	\$ 5,245,454
Other operating cash receipts	52,462	24,380
Cash received from lease and rental activities	2,581,099	2,434,751
Cash paid for employee wages and benefits	(3,163,493)	(3,074,556)
Cash paid to suppliers for goods and services	(3,026,981)	(2,752,376)
Cash paid for general and administrative expenses	(431,422)	(451,915)
Net cash provided by operating activities	<u>877,509</u>	<u>1,425,738</u>
<b>Cash flows from capital and related financing activities:</b>		
Cash used by capital and related financing activities; purchase of property and equipment	<u>(448,622)</u>	<u>(51,890)</u>
<b>Cash flows from investing activities:</b>		
Cash provided by investing activities; Interest income received on deposits and investments, net	<u>150,440</u>	<u>163,532</u>
Net increase in cash and cash equivalents	579,327	1,537,380
Cash and cash equivalents, beginning of year	5,576,963	4,039,583
Cash and cash equivalents, end of year	<u>\$ 6,156,290</u>	<u>\$ 5,576,963</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 415,798	\$ 1,066,047
Voluntary nonexchange donations for operating maintenance	22,127	22,778
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	320,353	394,076
(Increase) decrease in assets and increase (decrease) in liabilities:		
Accounts receivable	13,453	(15,508)
Prepaid Expenses	(57,237)	—
Inventories	25,313	(60,015)
Accounts payable	73,999	(33,983)
Accrued payroll and related liabilities	35,419	1,044
Compensated absences and related liabilities	1,163	19,686
Deferred revenues	27,121	31,613
Net cash provided by operating activities	<u>\$ 877,509</u>	<u>\$ 1,425,738</u>

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

Patriots Point Development Authority  
Notes to Financial Statements

**Note 1. Organization and Reporting Entity**

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

These financial statements exclude certain affiliated foundations because the Authority does not significantly influence operations of the related foundations nor are the affiliated foundations accountable to the Authority for fiscal matters.

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

Management's stated mission is 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 LAFHEY, submarine USS CLAMAGORE, and INGRAM Coast Guard Cutter, and various aircraft and other military exhibits. The Authority owns the Patriots Point golf course, which is managed and leased by Charleston Harbor Golf Partners, L.P.

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

Patriots Point Development Authority  
Notes to Financial Statements

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

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

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

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

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

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

**Fund Accounting** - The Authority uses an enterprise fund to report its financial position and the results of its operations. A fund is a separate fiscal and accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain government functions or activities. The activities of the Authority are accounted for within an Enterprise Fund of the Proprietary Fund category. Enterprise Funds account for business-like activities that provide goods / 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 upon determination of change in net assets, financial position, and cash flows.



Patriots Point Development Authority  
Notes to Financial Statements

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

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

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

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

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

**Allowance for Bad Debts** - The Authority considers accounts receivable to be fully collectible; accordingly, an allowance for doubtful accounts has not been established.

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

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

Patriots Point Development Authority  
Notes to Financial Statements

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

**Nonexchange Transactions** - On July 1, 2000, the Authority adopted the GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*. GASB No. 33 standardizes the accounting and financial reporting for nonexchange transactions involving financial or capital resources. For the Authority, there generally are two types of nonexchange transactions, *government-mandated nonexchange transactions* (which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose) and *voluntary nonexchange transactions* (which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for the Authority generally donated fixed assets and private donations)). The Authority recognizes nonexchange transactions when they are both measurable and probable of collection. For *government-mandated nonexchange transactions* and *voluntary nonexchange transactions* the Authority recognizes assets when all applicable eligibility requirements are met or resources are received, whichever is first and revenue when all applicable eligibility requirements are met. It is the policy of the Authority to first apply restricted assets (private donations) when an expense is incurred for purposes for which restricted and unrestricted net assets are available.

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

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

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

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

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

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

Patriots Point Development Authority  
Notes to Financial Statements

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

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

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

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

**Note 3. Deposits**

*Deposits Held by State Treasurer* - All deposits and investments of the Authority are under control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2003, 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.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 3. Deposits (continued)**

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

	2003	2002
Cash on hand	\$ 9,206	\$ 9,206
Deposits held by State Treasurer	6,147,084	5,567,757
	<u>\$ 6,156,290</u>	<u>\$ 5,576,963</u>

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

**Note 4. Property and Equipment**

A summary of the changes in property and equipment for the year ended June 30, 2003 is shown below:

	June 30, 2002	Reclassification	Additions	Disposals	June 30, 2003
Capital assets not being depreciated:					
Land and improvements	\$ 2,813,994	\$ 1,671,085	\$ —	\$ (22,140)	\$ 4,462,939
Construction in progress			443,327		443,327
Other capital assets:					
Depreciable land improvements	2,952,262	(1,671,085)	—	—	1,281,177
Buildings and improvements	1,460,493	—	—	—	1,460,493
Machinery and equipment	533,358	—	5,295	—	538,653
Depreciable works of art and historic treasures	6,966,682	—	—	—	6,966,682
	<u>14,726,789</u>	<u>—</u>	<u>448,622</u>	<u>(22,140)</u>	<u>15,153,271</u>
Less accumulated depreciation for:					
Depreciable land improvements	(1,062,059)	—	(74,967)	—	(1,137,026)
Buildings and improvements	(1,011,016)	—	(73,833)	—	(1,084,849)
Machinery and equipment	(461,455)	—	(27,362)	—	(488,817)
Depreciable works of art and historic treasures	(4,602,318)	—	(144,191)	—	(4,746,509)
Total accumulated depreciation	<u>(7,136,848)</u>	<u>—</u>	<u>(320,353)</u>	<u>—</u>	<u>(7,457,201)</u>
Capital assets, net	<u>\$ 7,589,941</u>	<u>\$ —</u>	<u>\$ 128,269</u>	<u>\$ (22,140)</u>	<u>\$ 7,696,070</u>

Depreciation expense for the years ended June 30, 2003 and 2002 was approximately \$320,000 and \$394,000, respectively.

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

Included within construction in progress at June 30, 2003 is approximately \$237,000 related to the uncompleted construction of a traffic circle. The Authority has contracted with the Town of Mount Pleasant (the "Town") to construct the traffic circle while the Town is performing certain other road work in the area. The total completion cost of the traffic circle is estimated to be \$275,000 and is considered to be a capital project.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 5. Accounts Payable**

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

	<u>2003</u>	<u>2002</u>
Accounts payable – third party	\$ 255,012	\$ 179,886
Accounts payable – State of South Carolina intergovernmental	<u>14,060</u>	<u>15,187</u>
	<u>\$ 269,072</u>	<u>\$ 195,073</u>

**Note 6. Deferred Revenues**

Deferred revenues at June 30 are comprised of the following:

	<u>2003</u>	<u>2002</u>
College of Charleston lease	\$ 451,924	\$ 459,616
Camping deposits	160,653	129,596
Marina Prepaid Rent	<u>3,756</u>	<u>—</u>
	<u>\$ 616,333</u>	<u>\$ 589,212</u>

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

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

*Marina Prepaid Rent* – As part of the lease agreement with Gulf Stream Capital Associates, LLC the Authority receives lease income on a parcel of land containing marina facilities. At year end, the Authority had received \$3,756 intended for the lease payment for the month of July.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 7. Contractual Services**

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

**Note 8. Lease and Commission Income**

	<u>2003</u>	<u>2002</u>
For the year ended June 30, lease and commission income is comprised of the following:		
Hotel/amenities lease	\$ 271,898	\$ 372,965
Golf course lease	279,024	263,523
Food and beverage commissions	188,620	161,083
Marina lease	81,364	147,429
Athletic complex lease	127,992	105,192
Flight simulation commissions	100,502	93,801
Fort Sumter tour commissions	51,415	52,358
Land and other facility leases	7,388	30,687
Parcel A	30,275	—
Parcel B, C, & D	—	17,500
Total lease and commission income	<u>\$ 1,138,478</u>	<u>\$ 1,244,538</u>

**Golf Course** - The authority leases certain real property and improvements erected thereon known as the Patriots Point Golf course (the "golf course") to Charleston Harbor Golf Partners, L.P. with a 20 year initial period that ended on December 31, 2001. Upon expiration of the initial term, the lease is automatically renewed at the start of four separate ten-year periods unless the lessee elects to terminate the lease as of the termination date of the then current term by giving written notice to Authority at least 120 days prior to the termination date of the then current lease term. The lessee has not elected to terminate the lease agreement, and thus the lease period has been extended to December 31, 2011. The terms of the lease agreement provide for the lessee to pay the greater of a base or activity driven rent, as defined by the agreement. Lease revenue from the golf course for the year ending June 30, 2003 and 2002 totaled approximately \$279,000 and \$264,000, respectively. Minimum future rental income payments have been calculated based on the greater of the prior year's rent or 60% of the previous three-year average rent.

**Food and Beverage Commissions** - The Authority contracts its food and beverage service to Recreational Food Service ("RFS") and receives 23% of vending revenue, 30% of snack bar revenue and 20% of scout meals and catering revenue as a commission. The initial contract term ended on December 31, 1997, and was extended for three additional one-year periods. Upon termination of the food contract on January 31, 2001, the Authority executed another contract with RFS through October 31, 2003. The current contract reduces the above revenue percentages to: 15% of vending revenue, 17.5% of snack bar revenue, 12% of scout meals and 10% of catering revenue for the interim period.

Patriots Point Development Authority  
Notes to Financial Statements

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

***Athletic Complex Lease*** - The Authority entered into a nonrenewable land operating lease agreement effective April 1997, with College of Charleston to provide for an athletic complex situated on approximately 32 acres of land belonging to the Authority. The land lease agreement provides for the facilities to be owned and maintained by College of Charleston during the lease term. At the end of the lease, the premises and any improvements to the premises revert to the Authority. The annual lease amounts are as follows: years 1-5 -- \$90,000, year 6 -- \$120,000, years 7-65, the prior year lease amount plus any increases in the Consumer Price Index. The rent revenue during 2003 and 2002 was approximately \$128,000 and \$105,000, respectively which includes \$7,692 for 2003 and 2002 of deferred revenue associated with the lease agreement.

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

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

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

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

Patriots Point Development Authority  
Notes to Financial Statements

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

After the pre-opening period which ended July 1997, lease payments are \$120,000 plus "percentage rents" per year thereafter for parcel A (the hotel), and certain base rents plus "percentage rents" as defined in the agreement for the remaining parcels. The "percentage rents" for parcel A are calculated as 5% of gross sales or rentals less fixed annual lease payments. The "percentage rents" for Parcel B-1 are calculated as 5% of gross sales or rentals and 1.5% of fuel sales, less fixed annual lease payments. Lease revenue from parcel A (the hotel) & parcel A-1 (the cottages) was approximately \$302,000 and \$373,000 year ending June 30, 2003 and 2002, respectively. Lease revenue for parcel B-1 (the marina) for the year ending June 30, 2003 and 2002 was approximately \$81,364 and \$147,000, respectively.

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

	<u>Golf course</u>	<u>Hotel, marina, land, and other facilities</u>
Capital assets not being depreciated:		
Land and improvements	\$ 1,430,055	\$ 2,500,660
Other capital assets:		
Depreciable land improvements	613,325	183,334
	<u>2,043,380</u>	<u>2,683,994</u>
Less accumulated depreciation for:		
Depreciable land improvements	(536,659)	(183,334)
Total accumulated depreciation	<u>(536,659)</u>	<u>(183,334)</u>
Capital assets, net	<u>\$ 1,506,721</u>	<u>\$ 2,500,660</u>



Patriots Point Development Authority  
Notes to Financial Statements

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

***Future rental payments*** - A schedule of future minimum base rental income payments receivable on noncancellable leases of the golf course, athletic complex, hotel and amenities follows:

2004	\$ 502,819
2005	483,292
2006	471,575
2007	464,545
2008	460,327
2009 to 2013	1,957,753
2014 to 2018	1,200,681
2019 to 2023	1,200,053
2024 to 2028	1,200,000
2029 to 2033	1,200,000
2034 to 2038	1,200,000
2039 to 2043	1,200,000
2044 to 2048	1,200,000
2049 to 2053	1,200,000
2054 to 2058	1,200,000
2059 to 2063	1,200,000
2064 to 2068	960,000
2069 to 2073	600,000
2074 to 2078	600,000
2079 to 2083	600,000
2084 to 2088	600,000
2089 to 2093	600,000
2094 to 2097	360,000
Total Future Rents	<u>\$ 20,661,045</u>

The above future lease revenues do not include any percentage-based lease revenues for the hotel complex, marina or golf course which cannot reasonably be estimated.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 9. Related Party Transactions**

*State of South Carolina and Agencies:*

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

From time to time the Authority will provide rental facilities to other agencies that are part of the State of South Carolina reporting entity. For the year ended June 30, 2003 and 2002, no facility rentals were provided to other State Agencies.

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

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

The Authority had financial transactions with various State agencies during the year ended June 30, 2003 and 2002. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, office supplies, printing, telephone, and interagency mail services. The amount of fiscal year 2003 and 2002 expenses applicable to these related party transactions is not readily available.

The Authority leases an athletic complex to College of Charleston. Both entities are part of the State of South Carolina reporting entity. Lease revenue during the year ended June 30, 2003 and 2002 was approximately \$128,000 and \$105,000.

*Third Parties*

The Authority has no component units. These financial statements exclude Patriots Point Naval and Maritime Museum Foundation and the Cold War Submarine Memorial Foundation, Inc., as the Authority does not appoint a voting majority of the board of directors of the foundations nor are the foundations accountable to the Authority for fiscal matters.

The objective of Patriots Point Naval and Maritime Museum Foundation (the "Foundation"), per the by-laws of the Foundation, is to: "...build an endowment fund to be expended annually by the Foundation for the exclusive benefit of the Naval and Maritime Museum..." (the Authority) and "...to receive and manage such assets including development, annual giving, and endowment funds as may be derived for the benefit of the Museum..." (the Authority). There were no funds received from or paid to the Foundation during the current year. The Authority cannot appoint any of the Board of Trustees to the Foundation; the Authority is associated only in that the Director of the Authority serves as a non-voting ex-officio member of the Foundation.

Patriots Point Development Authority  
Notes to Financial Statements

**Note 9. Related Party Transactions (continued)**

The objective of the Cold War Submarine Memorial Foundation (the "Memorial Foundation"), per its by-laws, is "to operate for the exclusive benefit of and to perform the functions of, and to carry out the purposes of Patriot Point Naval and Maritime Museum Foundation (the "Supported Charity") and shall be operated, supervised, or controlled by or in connection with the Supported Charity. There were no funds received from or paid to the Memorial Foundation during the current year. The Authority does not appoint anyone to the board of the Memorial Foundation.

**Note 10. Risk Management**

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

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

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

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

Patriots Point Development Authority  
Notes to Financial Statements

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

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

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

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

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

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

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

Patriots Point Development Authority  
Notes to Financial Statements

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

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

The Authority recorded employer contribution expenses applicable to these benefits for active employees in the approximate amount of \$254,000 for the years ended June 30, 2003 and 2002. During fiscal year 2003 and 2002, the amount paid by way of the pension surcharge for retiree insurance was approximately \$64,000 and \$56,000, respectively. By State law, the Authority has no liability to retirees for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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

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

In years past, the agency has made contributions out of operating revenues to the 401(k) account of eligible Agency employees. The Agency did not make any contributions for the year ended June 30, 2003 and 2002.

Patriots Point Development Authority  
Notes to Financial Statements

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

***Change in compensated absence obligation*** – The change in compensated absences and related liabilities for the year ended June 30, 2003 and 2002 was as follows:

	Beginning balance July 1, 2002	Increases	Decreases	Ending balance June 30, 2003
Compensated absences and related liabilities	\$ 260,119	\$ 130,720	\$ 129,557	\$ 261,282

**Note 12. South Carolina Pension Plan**

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

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

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

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

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

Patriots Point Development Authority  
Notes to Financial Statements

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

Since July 1, 1988, employees participating in the Plan have been required to contribute 6% of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50% which included a 1.95% surcharge. Effective January 1, 2000, the employer contribution rate became 9.71 percent which included a 2.16% surcharge. Effective July 1, 2000 the employer contribution rate became 10.07% which included a 2.52% surcharge to fund retiree health and dental insurance coverage. Effective July 1, 2001 the employer contribution rate became 10.40% which included a 2.85% surcharge. The Authority's actual contributions to the Plan for the three most recent fiscal years ending June 30, 2003, 2002, and 2001, were approximately \$153,000, \$149,000, and \$146,000, respectively, and equaled the required contribution of 7.55 percent (excluding the surcharge) for each year. Also, the Authority paid employer group-life insurance contributions of approximately \$3,000 in the current fiscal year at the rate of .15 percent of compensation.

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

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

**Note 13. Contractual Commitments**

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

Patriots Point Development Authority  
Notes to Financial Statements

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

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

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

**Note 14. Voluntary Nonexchange Donations**

Voluntary nonexchange donations represent amounts: 1) received by the Authority to offset maintenance expenses on the Laffey from the Tin Can Sailors program (a group comprising largely of former sailors on the Laffey). All eligibility requirements for the donation are considered immediately satisfied upon receipt of the donation by the Authority and Tin Can Sailors as recurring maintenance expense on the Laffey exceeds amounts donated. Voluntary Nonexchange Donations totaled approximately \$22,000 and \$23,000 for the fiscal years ending June 30, 2003 and 2002, respectively.

**Note 15. Cold War Submarine Memorial**

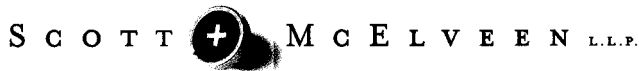
In 2003, the Authority received a Cold War Submarine Memorial (the "Memorial") from the Cold War Submarine Memorial Foundation, Inc. The estimated costs associated with construction of the Memorial were \$850,000. The Memorial was donated to the Authority and as such the Authority incurred no costs associated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

**Note 16. Adoption of Accounting Pronouncement**

On July 1, 2001, the Authority adopted Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). Concurrent with the adoption of GASB 34, the Authority had a change in accounting principle whereby it changed its capitalization threshold for property and equipment. This change in accounting principle has been treated as a prior period adjustment to net assets of \$119,531 related to the restatement of opening property and equipment.



## Compliance and Internal Control



**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit Performed in Accordance with  
*Government Auditing Standards***

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

We have audited the financial statements of Patriots Point Development Authority (the "Authority") for the years ended June 30, 2003 and 2002, and have issued our report thereon dated August 29, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
August 29, 2003

CERTIFIED PUBLIC ACCOUNTANTS

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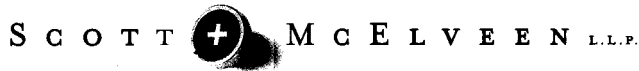
**Comments on Status of Prior Year's Comments**

There were no comments for the year ended June 30, 2002.

**Comments from 2003 Audit with Management's Response**

None

## Supplementary Information



Independent Auditors' Report  
On Additional Information

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

Our report on our audit of the basic financial statements of Patriots Point Development Authority for June 30, 2003 and 2002, appears on page 1. That report was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The summarized schedule of information on business-type activities on page 32 for the years ended June 30, 2003 and 2002, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Scott McElveen, L.L.P.*

Columbia, South Carolina  
August 29, 2003

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

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Charges for services	\$ 7,436,704	\$ 7,782,732	\$ (346,028)
Operating grants and contributions	150,440	168,697	(18,257)
Less: expenses	<u>7,020,906</u>	<u>6,716,685</u>	<u>(304,221)</u>
Net program revenue	566,238	1,234,744	(668,506)
General revenues:			
Loss on disposal of property and equipment	(22,140)	—	(22,140)
Voluntary nonexchange donations	<u>22,127</u>	<u>22,778</u>	<u>(651)</u>
Increase in net assets	566,225	1,257,522	(691,297)
Total fund equity, beginning of year- as previously reported	12,509,754	11,371,763	1,137,991
Change in accounting principal- increase in capitalization limits	—	(119,531)	119,531
Total fund net assets, end of year	<u>\$ 13,075,979</u>	<u>\$ 12,509,754</u>	<u>\$ 566,225</u>