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## Charleston Naval Complex Redevelopment Authority independent auditor's report and financial statements year ended June 30, 2013

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CHARLESTON NAVAL COMPLEX  
REDEVELOPMENT AUTHORITY

INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS

JUNE 30, 2013

**CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
JUNE 30, 2013**

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November 22, 2013

## INDEPENDENT AUDITOR'S REPORT

Mr. Ronald H. Anderson, Chairman  
and Members of the Authority  
Charleston Naval Complex Redevelopment Authority  
Charleston, South Carolina

We have audited the accompanying basic financial statements of the Charleston Naval Complex Redevelopment Authority, Charleston South Carolina, as of June 30, 2013, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charleston Naval Complex Redevelopment Authority, Charleston, South Carolina June 30, 2013, and the results of its operations for the year then ended, in conformity 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, budgetary comparison information on pages 15 and 16 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 historic 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.

Management has elected to omit management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information..

*Wilson, & Quirk, LLC*

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2013

Exhibit "A"

Assets

Current Assets

Cash and cash equivalents	\$ 18,584,398
Due from other governments	4,631,948
Prepaid expenses and other receivables	<u>12,490</u>

Total current assets 23,228,836

Capital Assets (net of accumulated depreciation)

Land	16,745,930
Buildings	5,615,905
Leasehold improvements	1,238,636
Furniture, equipment and automobiles	<u>10,640</u>

Total capital assets 23,611,111

Total Assets \$ 46,839,947

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 491,587
Accrued vacation	27,735
Deferred revenue	<u>7,333</u>

Total current liabilities 526,655

Net Position

Invested in capital assets, net of related debt	23,611,111
Unrestricted	<u>22,702,181</u>

Total net position 46,313,292

Total Liabilities and Net Position \$ 46,839,947

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit "B"

	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges For</u> <u>Services</u>	<u>Capital</u> <u>Grants</u>	<u>Net (Expense)</u> <u>Revenue</u> <u>Governmental</u> <u>Activities</u>
Base redevelopment	<u>\$ 3,029,827</u>	<u>\$ 88,000</u>	<u>\$ 442,190</u>	<u>\$ (2,499,637)</u>
General Revenues:				
Intergovernmental				6,798,039
Sale of assets				3,690
Interest				<u>8,400</u>
Total general revenues				<u>6,810,129</u>
Transfers				
Clemson University Grant - Wind turbine drivetrain testing facility				<u>(2,000,000)</u>
Change in net position				2,310,492
Net Position - Beginning				<u>44,002,800</u>
Net Position - Ending				<u>\$ 46,313,292</u>

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
BALANCE SHEET – GENERAL FUND  
AS OF JUNE 30, 2013

Exhibit "C"

Assets

Cash and cash equivalents	\$ 18,584,398
Due from other governments	4,631,948
Prepaid expenses and other receivables	<u>12,490</u>
Total assets	<u><u>\$ 23,228,836</u></u>

Liabilities

Accounts payable	\$ 491,587
Deferred revenue	<u>7,333</u>
Total liabilities	<u>498,920</u>

Fund Balance

Non-spendable for prepaids and other receivables	12,490
Unassigned	<u>22,717,426</u>
Total fund balance	<u>22,729,916</u>
Total liabilities and fund balance	<u><u>\$ 23,228,836</u></u>

Amounts reported for governmental activities in the statement of net position are different because:

Fund balance - shown above	\$ 22,729,916
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (net of accumulated depreciation).	23,611,111
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Long term debts are not due and payable in the current period, and therefore, are not recorded in the funds:

Accrued vacation	<u>(27,735)</u>
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Net position of governmental activities	<u><u>\$ 46,313,292</u></u>
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CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – GENERAL FUND  
FOR THE YEARS ENDED JUNE 30, 2013

Exhibit "D"  
Page 1

<u>Revenues</u>	
Intergovernmental	\$ 6,798,039
Federal grant	442,190
Rent	88,000
Interest income	<u>8,400</u>
 Total revenues	 <u>7,336,629</u>
 <u>Expenditures</u>	
Payroll	454,266
Fringe benefits	162,172
Travel	13,206
RDA office expenses	194,681
Facility operations & maintenance	139,891
Miscellaneous contracts/agreements	150,000
Professional fees	293,386
Appraisers and consultants	630,545
Rural development revenue shared	697,664
Capital outlay - Clemson grant and exp.	<u>2,000,000</u>
Total expenditures	<u>4,735,811</u>
 Excess of revenues over expenditures	 2,600,818
 Fund Balances - Beginning of Year	 <u>20,129,098</u>
Fund Balances - End of Year	<u><u>\$ 22,729,916</u></u>

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GENERAL FUND TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit "D"  
Page 2

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Excess of revenues over expenditures - general fund \$ 2,600,818

Amounts reported for governmental activities in the  
statement of activities are different because:

The cost of capital assets is allocated over  
their estimated useful lives as depreciation  
expense. In the current period  
this amount is:

Depreciation expense (300,630)

Some expenses reported in the statement of  
activities do not require the use of current  
financial resources and therefore, are not  
reported as expenditures in general fund.

This activity consists of:

Change in compensated absences 10,304

Change in Net Position \$ 2,310,492

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The General Assembly of the State of South Carolina created the Charleston Naval Complex Redevelopment Authority (the "Authority") in 1994. The Authority's purpose is to oversee the disposition of real and personal federal property that allows the turning over of such property to the State or The Redevelopment Authority as referred to in the Defense Base Closure and Realignment Act by the federal government. The Authority acts as a liaison to coordinate activities and planning for base re-use between the affected Trident region communities. It establishes and implements plans and programs related to the conversion, redevelopment and future use of the facilities. The Authority was composed of the following six members on June 30, 2013:

Ronald H. Anderson - Chairman	Representative for Berkeley County
Ronnie M. Givens	Representative for Dorchester County
Thomas A. Strock, III	Representative for City of North Charleston
James Tuten	Representative for City of North Charleston
Fred Kemmerlin	Representative for City of North Charleston
David A. Coker	Representative for Charleston County

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided by the Codification, Section 2100 has been considered as a result, there are no agencies or entities that should be, but are not, included in the statement of the Authority.

Government-wide Financial Statements and Fund Financial Statements:

The government-wide financial statements (i.e. - the statement of net position and statement of activities) display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. The Authority does not have any business-type activities.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The Authority consists of one governmental fund.

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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The general fund of the financial reporting entity is described below:

General Fund – The General Fund is the primary operating fund of the Authority and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

#### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

#### Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

In the fund financial statement the Authority utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

#### Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, the governmental fund is presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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#### Accounting Estimates

The preparation of basic 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.

#### Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

#### Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Accounts receivable consists primarily of state monies and EDA grants. The allowance for uncollectible accounts is zero at June 30, 2013.

#### Capital Assets

Capital assets, which include property, facilities and equipment are capitalized at acquisition cost or fair market value for assets transferred to the Authority by the U.S. Navy. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

Buildings and improvements	40 years
Vehicles	7 years
Furniture and office equipment	5 to 7 years

#### Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation benefits in accordance with personnel policies. There is no liability for unpaid sick leave since the Authority does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when earned.

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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Equity Classifications

Government-wide Statements:

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned and unassigned. For assigned fund balance the Authority is the governing body authorized to assign amounts to a specific purpose through the budget process. When the Authority incurs an expenditure for purposes for which both restricted and unrestricted fund balances are available, the amount is first applied to the restricted fund balance. When expenditures are incurred for purposes for which committed, assigned and unassigned fund balances are available, the amount is first applied to committed, then assigned and then unassigned. Proprietary fund equity is classified the same as in the government-wide statements.

NOTE 2. CASH IN BANK

At June 30, 2013, the carrying amount of deposits was \$18,584,398 and the bank balances were \$18,690,765. All of the bank balances were insured by federal depository insurance or by collateral held in a multiple financial institution collateral pool.

NOTE 3. DUE FROM OTHER GOVERNMENTS

Receivables due from other governments at June 30, 2012 are as follows:

Rural Development Act - State of SC	\$ 3,428,433
EDA grants - US government	<u>1,203,515</u>
Total	<u><u>\$ 4,631,948</u></u>

Rural Development Act receivables are stated at the gross amount due. A liability has been accrued for the portion of the receivable shared with the City of North Charleston and the S. C. State Port Authority.

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 4. CAPITAL ASSETS

Capital Assets consist of the following:

	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013	Accumulated Depreciation 6/30/2013
<u>Assets in Service</u>					
Land	\$16,745,930	\$ -	\$ -	\$ 16,745,930	\$ -
Buildings	6,459,000	-	-	6,459,000	843,095
Leasehold improvements	1,507,904	-	-	1,507,904	269,269
Furniture and fixtures	55,132	-	-	55,132	52,178
Autos	71,561	-	16,390	55,171	55,171
Computer equipment	18,447	-	-	18,447	10,761
<b>Total</b>	<u>\$24,857,974</u>	<u>\$ -</u>	<u>\$ 16,390</u>	<u>\$ 24,841,584</u>	<u>\$ 1,230,474</u>

Assets are depreciated using straight-line methods over the assets estimated useful life. Depreciation expense recorded in the current year was \$ 300,630.

NOTE 5. PENSION PLAN

South Carolina Retirement System Plan

Plan Description - Employees of the Authority participate in the South Carolina Retirement System Plan (SCRS) for Class II Employees of the State of South Carolina. The South Carolina Retirement System is a defined benefit retirement system and a cost-sharing multiple-employer Public Employee Retirement System (PERS). A Comprehensive Annual Financial Report containing the financial statements and supplementary information for the SCRS is issued and publicly available on the web at [www.retirement.sc.gov](http://www.retirement.sc.gov). The South Carolina State Legislature established the SCRS on July 1, 1945, for the benefit of teachers and employees of the State and its political subdivision.

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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Note 5. (continued)

All full-time employees are required to participate in and contribute to SCRS. This plan provides retirement, disability, survivor and death benefits to eligible members or beneficiaries. Cost of living adjustments are granted on an ad hoc basis, subject to approval by the SC Public Employee Benefit Authority (SC PEBA). A member of SCRS may receive reduced monthly pension benefits at early retirement age 55 with 25 years of service, reduced 4% for each year of service under 28 or full benefits at age 65 or 28 years credited service regardless of age. A member vests with 5 years of service for a deferred annuity. Group life insurance is paid with a lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active member with at least one year of service and a lump sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement.

Funding Policy - Employees covered under SCRS are required to contribute 7.00% of their annual covered salary. The Authority was required to contribute an actuarially determined rate. The current rate is 10.45% of annual covered payroll. The rate is comprised of 10.30% for retirement and .15% for group life insurance.

Required and actual contributions for the following fiscal years ended were:

June 2013	\$ 69,307
June 2012	54,794
June 2011	45,074

NOTE 6. RISK MANAGEMENT

The Charleston Naval Complex Redevelopment Authority pays premiums to the South Carolina Insurance Reserve Fund and State Accident Fund to cover risks that may occur during operation. The risks of loss to which the Authority is exposed include loss of property, general tort liability and workmen's compensation claims. The South Carolina Reserve Fund is self-sustaining through member premiums and through commercial companies that reinsure claims in excess of \$5 million for each insured event.

For the above risk management programs, the Authority has neither significantly reduced insurance coverage from the previous year nor settled claims materially in excess of insurance coverage for the last three years.

NOTE 7. OFFICE SPACE AGREEMENT

The Authority entered into an agreement with the South Carolina Public Railways (SCPR) to occupy a building owned by SCPR. The Authority agreed to fund construction and renovation costs of the building and received the right to occupy the building rent free for a period of seven years. The Authority is amortizing the leasehold improvements over the lease period.



CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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NOTE 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2013, the date on which the financial statements were available to be issued.

NOTE 9. COMMITMENTS

The Authority committed to provide a grant to Clemson University for \$8,000,000 to be used solely in support of Clemson's activities related to the Recovery Act Large Wind Turbine Drivetrain Testing Facility, located on the Charleston Naval Complex. The \$8,000,000 will be provided by the Authority in \$2,000,000 increments over a four year period. As of June 30, 2013, the Authority fulfilled its commitment.

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
 BUDGETARY COMPARISON SCHEDULE  
 JUNE 30, 2013

Schedule 1

Combined budget - general and special revenue fund	Budgeted Amounts		Actual Amounts Budgetary Basis (See Note A)	Variance with Final Budget Positive(Negative)
	Original	Final		
Budgetary Fund Balance, July 1, 2012	\$ 20,129,098	\$ 20,129,098	\$ 20,129,098	\$ -
Resources (inflows):				
Grants	3,500,000	3,500,000	442,190	(3,057,810)
Rural development	6,500,000	6,500,000	6,798,039	298,039
Rentals/leases	106,000	106,000	88,000	(18,000)
Interest	75,000	75,000	8,400	(66,600)
Disposal of personal property	20,000	20,000	-	(20,000)
Miscellaneous	5,000	5,000	-	(5,000)
Total Resources (inflows)	<u>10,206,000</u>	<u>10,206,000</u>	<u>7,336,629</u>	<u>(2,869,371)</u>
Amounts available for appropriation	<u>30,335,098</u>	<u>30,335,098</u>	<u>27,465,727</u>	<u>(2,869,371)</u>
Charges to appropriations (outflows):				
Salaries	540,000	540,000	454,266	85,734
Employee benefitis	200,000	200,000	162,172	37,828
Leased property operations	10,000	10,000	-	10,000
Office expenses	295,000	295,000	194,530	100,470
Travel	50,000	50,000	13,206	36,794
Rural development revenue shared	300,000	300,000	697,664	(397,664)
Facilities operations & maintenance	150,000	150,000	137,391	12,609
Professional fees	330,000	330,000	293,386	36,614
Clemson grant match	2,000,000	2,000,000	2,000,000	-
Appraisers and consultants	1,000,000	1,000,000	463,513	536,487
Miscellaneous contracts/agreements	300,000	300,000	150,000	150,000
Bank charges	100	100	151	(51)
Capital improvement projects	5,000,000	5,000,000	169,532	4,830,468
Total Charges to appropriations (outflows)	<u>10,175,100</u>	<u>10,175,100</u>	<u>4,735,811</u>	<u>5,439,289</u>
Budgetary Fund Balance, June 30, 2013	<u>\$ 20,159,998</u>	<u>\$ 20,159,998</u>	<u>\$ 22,729,916</u>	<u>\$ 2,569,918</u>

CHARLESTON NAVAL COMPLEX REDEVELOPMENT AUTHORITY  
 BUDGETARY COMPARISON SCHEDULE  
 JUNE 30, 2013

Schedule 1 cont.

Note A - Budget to Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenue and expenditures determined in accordance with generally accepted accounting principles follows:

	<u>Combined Funds</u>
Sources/inflows of resources:	
Actual amount (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 27,465,727
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(20,129,098)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 7,336,629</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	4,735,811
Total expenditures as reported on the statement of revenues, expenditures, and change in fund balance - governmental funds	<u>\$ 4,735,811</u>