September 24, 1998

The Honorable David M. Beasley, 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, 1998, was issued by Pratt-Thomas, Gumb & Co., P.A., 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,

Edgar A. Vaughn, Jr., CPA
State Auditor

EAV/trb

PATRIOTS POINT DEVELOPMENT AUTHORITY

MOUNT PLEASANT, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 1998 AND 1997

WITH

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

PATRIOTS POINT DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

June 30, 1998 and 1997

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INDEPENDENT AUDITORS' REPORT

The South Carolina State Auditor's Office
Columbia, South Carolina

We have audited the accompanying financial statements (as listed in the table of contents) of Patriots Point Development Authority (the Authority) as of and for the years ended June 30, 1998 and 1997. 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 audit.

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. Those standards require that we plan and perform the audits 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Patriots Point Development Authority, an enterprise fund of the State of South Carolina, and are not intended to present fairly the financial position of the State of South Carolina, and the results of its operations and cash flows of its proprietary fund type in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Patriots Point Development Authority, as of June 30, 1998 and 1997, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 1998 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.

Pratt-Thomas, Gumb & Co., P.A.
September 11, 1998

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINED BALANCE SHEETS
JUNE 30, 1998 AND 1997

ASSETS	1998	1997				LIABILITIES AND FUND EQUITY 1998	1997
Current Assets						Current Liabilities	
Unrestricted			Notes payable-current portion			$ -	$ 20,000
Cash and cash equivalents	$ 1,308,629	$ 1,251,241	Accounts payable			279,932	356,391
Accounts receivable				637,817	595,820	Accrued payroll and	
Inventories	328,469	208,812	related liabilities			196,050	179,715
Prepaids and deposits				8,796	8,796	Compensated absences	
			and related liabilities			161,203	144,448
			Deferred revenues			747,648	555,989
Total unrestricted	2,283,711	2,064,669	Total current liabilities			1,384,833	1,256,543
Restricted							
Cash and cash equivalents						141,754	119,268
Total current assets	2,425,465	2,183,937	Total liabilities			1,384,833	1,256,543
						Fund Equity	
			Contributed capital			11,809,341	11,809,341
Noncurrent Assets			Retained earnings (deficits)			(1,700,052)	(1,674,774)
Property and equipment, net of							
accumulated depreciation	9,068,657	9,207,173	Total fund equity			10,109,289	10,134,567
						Total Liabilities and	
Total Assets	$11,494,122	$11,391,110	Fund Equity			$11,494,122	$11,391,110

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS (DEFICITS)
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998	1997
Operating Revenues		
Admissions	$ 2,375,778	$ 2,151,839
Gift shop sales	1,177,652	1,071,942
Scouting program revenues	817,615	746,507
Lease and commission income	800,314	502,882
Donations	11,940	-
Miscellaneous revenues	37,372	40,249
Total operating revenues	5,220,671	4,513,419
Operating Expenses		
Personnel services	1,958,562	1,714,179
Employer payroll contributions	459,508	491,185
Contractual services	1,234,613	919,097
Cost of goods sold	551,943	581,785
Utilities	197,842	182,864
Supplies	242,210	188,049
Fixed charges and contributions	101,320	70,240
Travel	43,382	31,088
Depreciation	424,101	375,195
Other	39,701	69,062
Total operating expenses	5,253,182	4,622,744
Operating income (loss)	(32,511)	(109,325)
Non-operating Revenues (Expenses)		
Interest income	7,233	6,642
Total non-operating revenues (expenses)	7,233	6,642
Net Income (loss)	(25,278)	(102,683)
Retained earnings (deficits) at beginning of year	(1,674,774)	(1,572,091)
Retained earnings (deficits) at end of year	$(1,700,052)	$(1,674,774)

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1998 AND 1997

	1998	1997
Cash Flows From Operating Activities		
Operating income (loss)	$ (25,278)	$ (111,248)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	424,101	375,195
(Increase) decrease in assets and increase (decrease) in liabilities:		
Accounts receivable	(41,997)	(25,838)
Inventories	(119,657)	(38,011)
Accounts payable	(76,459)	202,079
Accrued payroll, compensated absences and related liabilities	33,090	8,445
Deferred revenue	191,659	(62,833)
Total adjustments	410,737	459,037
Net cash provided (used) by operating activities	385,459	347,789
Cash Flows From Investing Activities		
Interest income received on investments	7,233	6,642
Net cash provided by (used in) investing activities	7,233	6,642
Cash Flows From Noncapital Financing Activities		
Principal repayments	(20,000)	(20,000)
Net cash provided by (used in) noncapital financing activities	(20,000)	(20,000)
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of land improvement costs	-	66,006
Purchase and construction of property and equipment	(292,818)	(121,806)
Net cash provided (used) by capital and related financing activities	(292,818)	(55,800)
Net increase (decrease) in cash and cash equivalents	79,874	278,631
Cash and cash equivalents at beginning of year	1,370,509	1,091,878
Cash and cash equivalents at end of year	$ 1,450,383	$ 1,370,509

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

(Continued)

	1998	1997
Reconciliation to balance sheets amounts:		
Unrestricted	$ 1,308,629	$ 1,251,241
Restricted	141,754	119,268
Cash and cash equivalents at end of year	$ 1,450,383	$ 1,370,509

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINING BALANCE SHEETS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

		1998				1997
	Museum	Project	Total	Museum	Project	Total
Current Assets						
Unrestricted						
Cash and cash equivalents	$ 1,308,629	$ -	$ 1,308,629	$ 1,251,241	$ -	$ 1,251,241
Accounts receivable	637,817	-	637,817	595,820	-	595,820
Inventories	328,469	-	328,469	208,812	-	208,812
Prepaids and deposits	8,796	-	8,796	8,796	-	8,796
Total unrestricted	2,283,711	-	2,283,711	2,064,669	-	2,064,669
Restricted						
Cash and cash equivalents	141,754	-	141,754	119,268	-	119,268
Total current assets	2,425,465	-	2,425,465	2,183,937	-	2,183,937
Noncurrent assets						
Property and equipment, net of accumulated depreciation	9,068,657	-	9,068,657	9,207,173	-	9,207,173
Total assets	$11,494,122	$ -	$ 11,494,122	$11,391,110	$ -	$11,391,110
Current liabilities						
Current portion of note payable		$ -	$ -	$ -	$ 20,000	$ -
$ 20,000						
Accounts payable	279,932	-	279,932	356,391	-	356,391
Accrued payroll and related liabilities	196,050	-	196,050	179,715	-	179,715
Compensated absences and related liabilities	161,203	-	161,203	144,448	-	144,448
Deferred revenue	747,648	-	747,648	555,989	-	555,989
Total current liabilities	1,384,833	-	1,384,833	1,256,543	-	1,256,543
Total liabilities	1,384,833	-	1,384,833	1,256,543	-	1,256,543
Fund Equity (Deficit)						
Contributed capital	11,809,341	-	11,809,341	11,809,341	-	11,809,341
Retained earnings (deficits)	(1,700,052)	-	(1,700,052)	(1,674,774)	-	(1,674,774)
Total fund equity (deficit)	10,109,289	-	10,109,289	10,134,567	-	10,134,567
Total liabilities and fund equity	$11,494,122	$ -	$ 11,494,122	$11,391,110	$ -	$11,391,110

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS (DEFICITS)
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998			1997		
	Museum	Project	Total	Museum	Project	Total
Operating revenues:						
Admissions	$ 2,375,778	$ -	$ 2,375,778	$ 2,151,839	$ -	$ 2,151,839
Gift shop sales	1,177,652	-	1,177,652	1,071,942	-	1,071,942
Scouting program revenues	817,615	-	817,615	746,507	-	746,507
Lease and commission income	800,314	-	800,314	502,882	-	502,882
Donations	11,940	-	11,940	-	-	-
Miscellaneous revenues	37,372	-	37,372	40,249	-	40,249
Total operating revenues	5,220,671	-	5,220,671	4,513,419	-	4,513,419
Operating expenses:						
Personal services	1,958,562	-	1,958,562	1,714,179	-	1,714,179
Employer payroll contributions	459,508	-	459,508	491,185	-	491,185
Contractual services	1,234,613	-	1,234,613	919,097	-	919,097
Cost of goods sold	551,943	-	551,943	581,785	-	581,785
Utilities	197,842	-	197,842	182,864	-	182,864
Supplies	242,210	-	242,210	188,049	-	188,049
Fixed charges and contributions	101,320	-	101,320	70,240	-	70,240
Travel	43,382	-	43,382	31,088	-	31,088
Depreciation	424,101	-	424,101	375,195	-	375,195
Other	39,701	-	39,701	69,062	-	69,062
Total operating expenses	5,253,182	-	5,253,182	4,622,744	-	4,622,744
Operating income (loss)	(32,511)	-	(32,511)	(109,325)	-	(109,325)
Non-operating revenues (expenses):						
Interest income	7,233	-	7,233	6,642	-	6,642
Total non-operating revenues (expenses)	7,233	-	7,233	6,642	-	6,642
Net income (loss)	(25,278)	-	(25,278)	(102,683)	-	(102,683)
Retained earnings (deficits) at beginning of year	(1,674,774)	-	(1,674,774)	(1,572,091)	-	(1,572,091)
Retained earnings (deficits) at end of year	$(1,700,052)	$ -	$ (1,700,052)	$(1,674,774)	$ -	$(1,674,774)

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998			1997		
	Museum	Project	Total	Museum	Project	Total
Cash flows from operating activities:						
Operating income (loss)	$ (25,278)	$ -	$ (25,278)	$ (111,248)	$ -	$ (111,248)
Adjustments to reconcile operating income (loss) to net cash provided (used in) operating activities:						
Depreciation	424,101	-	424,101	375,195	-	375,195
(Increase) decrease in assets and increase (decrease) in liabilities:						
Accounts receivable	(41,997)	-	(41,997)	(25,838)	-	(25,838)
Inventories	(119,657)		(119,657)	(38,011)	-	(38,011)
Accounts payable	(76,459)	-	(76,459)	202,079	-	202,079
Accrued payroll, compensated absences and related liabilities	33,090	-	33,090	8,445	-	8,445
Deferred revenue	191,659	-	191,659	(62,833)		(62,833)
Total adjustments	410,737	-	410,737	459,037	-	459,037
Net cash provided by (used in) operating activities	385,459	-	385,459	347,789	-	347,789
Cash flows from investing activities:						
Interest income received on investments	7,233	-	7,233	6,642	-	6,642
Net cash provided by (used in) investing activities	7,233	-	7,233	6,642	-	6,642

Cash flows from noncapital financing activities:						
Principal repayments	(20,000)	-	(20,000)	(20,000)	-	(20,000)
Net cash provided by (used in) noncapital financing activities	(20,000)	-	(20,000)	(20,000)	-	(20,000)

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

(Continued)

	1998			1997		
	Museum	Project	Total	Museum	Project	Total
Cash flows from capital and related financing activities:						
Proceed from sale of surplus assets	-	-	-	66,006	-	66,006
Purchase and construction of property and equipment	(292,818)	-	(292,818)	(121,806)	-	(121,806)
Net cash provided by (used in) capital and related financing activities	(292,818)	-	(292,818)	(55,800)	-	(55,800)
Net increase (decrease) in cash and cash equivalent	79,874	-	79,874	278,631	-	278,631
Cash and cash equivalents at beginning of year	1,370,509	-	1,370,509	1,091,878	-	1,091,878
Cash and cash equivalents at end of year	$ 1,450,383	$ -	$ 1,450,383	$ 1,370,509	$ -	$ 1,370,509

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

1. Organization and Reporting Entity

Reporting Entity - Patriots Point Development Authority (the "Authority") was established through Section 51-13-710 of the Code of Laws of South Carolina. The Authority is dependent on 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 as defined by Governmental Accounting Standards Board Statement 14. The core of a financial reporting entity is the primary government which has a separately elected governing body. An organization other than a primary government, such as the Authority, may serve as a nucleus for a reporting entity when it issues separate financial statements.
The Authority was formed by the State to develop and improve the Patriots Point area in Charleston County, South Carolina, and 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.

Managements' 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 LAFFEY, 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, LP.

1. Organization and Reporting Entity - Continued

Reporting Entity - Continued

The Authority also operates a gift shop. A hotel and a marina have been developed on parcels leased from the Authority.

The accompanying financial statements present the financial position, results of operations, and cash flows solely of the Authority. They do not include any other agencies, funds, or account groups of the State, nor do they present the financial position of the State of South Carolina, the results of its operations or its cashflows.

2. Summary of Significant Accounting Policies

Basis of Accounting - The Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred if measurable.

The accounting policies of the Authority conform to GAAP applicable to governmental proprietary activities as prescribed by GASB. The Authority applies all applicable Government Accounting Standards Boards (GASB) pronouncements and applies all Financial Accounting Standards Board (FASB) pronouncements issued 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.

Fund Accounting - The Authority uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund. The Authority operates two proprietary funds, the Museum and the Project fund. A proprietary fund is used to account for governmental activities that are similar to activities that may be

2. Summary of Significant Accounting Policies - Continued

Fund Accounting - Continued

performed by a commercial enterprise. The Museum fund accounts for 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. The Project fund primarily accounts for the Pavilion building, from which the gift shop and certain concessions are operated, and Development Project assets described in Note 5. These projects were completed, and as a result, were transferred to the Museum fund during fiscal 1997.

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 business enterprises where the intent is that cost of providing goods or services be recovered primarily through user charges and revenues.

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 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 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. Investments in the pool are recorded at cost. Amortization of premiums and discounts is allocated and reported as interest income. Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool.

2. Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents - Continued

Although the cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 3.

Allowance for Bad Debts - The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

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

Prepaids - The Authority will receive approximately $8,800 from Mount Pleasant Waterworks and Sewer Commission, in the form of a check or in a reduction of water bills beginning during fiscal 1999. This amount is a reimbursement of electric bills in exchange for easements. The easements were completed during fiscal 1997 and the easement requires approval by the Budget and Control Board, which is pending.

Contributions - The Authority received donated assets from various organizations and individuals. The donated assets consist of various ships and artifacts for the museum. Donated assets which have been given on a permanent basis are recorded as property and equipment at fair market value as of the date of donation, which is determined generally as the donor's cost of the donated assets and as contributed capital.

Contributed capital is primarily comprised of contributions from the State of South Carolina.

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.

2. Summary of Significant Accounting Policies - Continued

Property and Equipment - Purchased property and equipment, including infrastructure assets, 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:

Building	15-25 years
Pier facilities and utilities	25-60 years
Naval museum exhibits	10-25 years
Equipment	2-25 years
Dredging	5 years

Idle development assets (See Note 5), which are not deemed to be further depreciating below the net book value, were not depreciated for fiscal year 1996. The assets were reclassified (See Note 5) as land improvements during fiscal year 1997.

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 of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave (and compensatory holiday and overtime leave) earned for which the employees are entitled to paid time off or payment at termination. The Authority calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments. The net change in the liability is recorded in the current year in the applicable expense category.

Deferred Revenues - The Authority receives rent, camping deposits, and one-time, 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.

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

2. Summary of Significant Accounting Policies - Continued

Budget Policy - Continued

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 revenues 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.

All administrative costs and rental assistance program expenditures are in the other budgeted funds category. Generally accepted accounting principles do not require budgetary comparisons to be presented for proprietary funds; therefore, none is presented.

3. Deposits

Deposits Held by State Treasurer - 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, 1998 and 1997, all State Treasurer bank balances were fully insured or collateralized with securities held by the State of its agents in the State's name.

With respect to investments in the State's cash management pool, the State Treasurer's investment policy is to limit investments to cash, repurchase agreements (collateralized by US Treasury, Federal agency or other Federally guaranteed obligations with a market value in excess of 100% of the fund advanced), United States Treasury Bills, Federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities.

The State's cash management pool underlying investments are insured and registered or are in investments for which the securities are held by the State or its agent in the State's name.

3. Deposits - Continued

Deposits Held by State Treasurer - Continued

Unrestricted cash and cash equivalents are $1,308,629 and $1,251,241 at years ended June 30, 1998 and 1997, respectively.

The amounts by component are as follows:

	June 30, 1998	June 30, 1997
Unrestricted:		
Cash on hand	$ 7,206	$ 7,206
Cash held by State Treasurer	1,301,423	1,244,035
Total Unrestricted	$ 1,308,629	$ 1,251,241
Restricted:		
Cash held by State Treasurer	$ 141,754	$ 119,268

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

4. Restricted Assets

Museum fund restricted assets held by the State Treasurer consist of $141,754 at June 30, 1998 and $119,268 at June 30, 1997, restricted by donors for specific purposes, principally for the improvement of existing museum exhibits.

5. Property and Equipment

A summary of the changes in property and equipment for the years ended June 30, 1998 and 1997 are as shown on the following page:

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1997

5. Property and Equipment - Continued

		Fiscal Year 1997				Fiscal Year 1998	
	June 30, 1996	Additions	Disposals/ Transfers	June 30, 1997	Additions	Disposals/ Transfers	June 30, 1998
Museum fund:							
Land and improvement	$ 803,566	$ -	$2,683,994	$ 3,487,560	$ 226,111	$ -	$ 3,713,671
Buildings	481,178	-	1,147,833	1,629,011	-	-	1,629,011
Golf course	2,131,881	-	-	2,131,881	-	-	2,131,881
Equipment	790,140	100,200	-	890,340	58,865	-	949,205
Naval Museum	6,404,508	13,670	580,716	6,998,894	8,544	-	7,007,438
Construction in progress	149,820	7,936	(149,820)	7,936	-	(7,936)	-
	10,761,093	121,806	4,262,723	15,145,622	293,520	(7,936)	15,431,206
Project fund:							
Buildings	1,147,833	-	(1,147,833)	-	-	-	-
Naval Museum	430,897	-	(430,897)	-	-	-	-
Construction in progress	2,750,000	-	(2,750,000)	-	-	-	-
	4,328,730	-	(4,328,730)	-	-	-	-
Combined funds:							
Land and improvement	803,566	-	2,683,994	3,487,560	226,111	-	3,713,671
Buildings	1,629,011	-	-	1,629,011	-	-	1,629,011
Golf course	2,131,881	-	-	2,131,881	-	-	2,131,881
Equipment	790,140	100,200	-	890,340	58,865	-	949,205
Naval Museum	6,835,405	13,670	149,819	6,998,894	8,544	-	7,007,438
Construction in progress	2,899,820	7,936	(2,899,820)	7,936	-	(7,936)	-
Total cost	$15,089,823	$ 121,806	$ (66,007)	$15,145,622	$ 293,520	$ (7,936)	$ 15,431,206
Less accumulated depreciation:							
Museum fund	(4,518,018)	(375,195)	(1,045,236)	(5,938,449)	(424,100)	-	(6,362,549)
Project fund		(1,045,236)	-	1,045,236	-		-
Total accumulated depreciation	$(5,563,254)	$ (375,195)	$ -	$(5,938,449)	$ (424,100)	$ -	$ (6,362,549)
Net property and equipment	$ 9,526,569	$ (253,389)	$ (66,007)	$ 9,207,173	$ (130,580)	$ (7,936)	$ 9,068,657

5. <u>Property and Equipment</u> - Continued

During 1987, the Authority began a hotel and marina project, financed by bonds, which was unsuccessful, resulting in defaults on the terms of the bonds. Construction was abandoned and all of the development assets were written off except for the hotel road, main utility lines, foundation, and certain marina piers, which were written down to an estimated net realizable value of $2,750,000 and a $250,000 liability for expected demolition was recorded, based on management's plans as of June 30, 1993. As a result of new development plans initiated in 1996, as explained in Note 14, the developer is utilizing the road utility lines, building foundation and piers, and demolition and disposal was not required by the Authority. Accordingly, the liability for demolition and disposal was written off during 1996, and the development assets were reclassified as land improvements during 1997.

The Project Fund depreciation is related to the Pavilion building which was completed during fiscal 1996. During fiscal year 1997 the Pavilion building was transferred to the Museum Fund.

Amounts reported in the 1997 disposals/transfers column consist of fund transfers, a reclassification of construction in progress and the sale of an asset. The fund transfer plus asset reclassification amounts net to a total of 0.00. The asset sale relates to water and sewer credits (included in the leased land improvements) which were sold to the developer as part of the original agreement. The asset was sold for cost, resulting in no gain or loss on the sale.

The Authority is obligated to provide dredging for Fort Sumter Tours as a condition of the contract. See Note 14 for explanation of dredging.

6. Notes Payable

Unsecured notes payable at year end represent the following:

	1998	1997
Museum fund note payable to South Carolina State Budget and Control Division of General Services; non-interest bearing; $20,000 due in 1995 through 1998.	$ -	$ 20,000
Total notes payable	-	20,000
Less current portion	-	20,000
Notes payable due after one year	$ -	$ -

7. Contractual Services

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

8. Lease and Commission Income

Lease and commission income is comprised of the following:

	1998	1997
Golf course lease	$ 130,661	$ 126,780
Concession stand commissions	219,289	207,342
Hotel/amenities pre-opening lease	224,368	70,588
Flight simulation concessions	54,745	32,011
Fort Sumter tour commissions	32,972	25,577
Athletic complex lease	97,692	24,423
Land and other facility leases	40,587	16,161
Total lease and commission income	$ 800,314	$ 502,882

On October 1, 1981, the Authority entered into an agreement to lease the golf course to Kemper Sports, Inc. The initial lease term was through December 31, 1992 with a renewal option for ten additional years. The lease has been renewed through December 31, 2001. These terms provide for rent calculated as the sum of (i) 5% of golf course gross revenues, and (ii) 25% of golf course net income. During fiscal year 1997, the Authority approved the buyout of this

8. Lease and Commission Income - Continued

lease by Charleston Harbor Golf Partners, LP. The new lease agreement provides for rent calculated as 10% of golf course gross income effective January 1, 1997 through December 31, 2001. The lease is then renewable for a ten year term at 17.5% of golf course gross income.

The Authority contracts its food and beverage service to Recreational Food Service and receives 15% of the gross revenues as a commission.

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 ends July 2001.

The Authority receives commissions from Fort Sumter, a tour boat operator who sells tickets from the Authority's facility.

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 existing unfinished hotel building and three docks, including a harbormaster 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 Master Lease was approved by the General Services Division of the State Budget and Control Board on March 4, 1996. Commencement date of the lease was April 1, 1996.

The leased premises are sub-divided into parcels for the ease of administration and orderly development. Parcel A is to contain a hotel, which must be completed and open for business by July 31, 1997. Development of parcels B, C, D and E will include marina, retail shops, restaurants, rental condominiums, and office spaces. Development of parcels B, C and D are to be commenced by March 1, 2000 and parcel E by March 1, 2016. The leased land is owned by the Authority, but will be maintained by the lessee.

Lease payments are $100,000 for the pre-opening period of March 1996 through July 1997 for the entire premises. Thereafter, 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. Approximately $224,400

8. Lease and Commission Income - Continued

of lease revenue was recognized during fiscal year 1998, $70,600 was recognized during fiscal year 1997 with the remaining approximately $-0- and $5,900, respectively for fiscal years 1998 and 1997, included in deferred revenue.

The Authority is obligated to provide dredging as a condition of its contract with Fort Sumter Tours, Inc. The dredging took place during the year ended June 30, 1998. The dredging cost of approximately $225,000 was paid by Fort Sumter Tours in lieu of contract revenue until recovered in full by Fort Sumter Tours. The total amount of dredging was recognized by the Authority as land improvements. Fort Sumter Tours recovered $37,586 in lieu of contract revenue for the year ended June 30, 1998, and $188,500 remains in deferred revenue related to dredging as of June 30, 1998.

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.

The Authority entered into a nonrenewable land lease agreement effective April, 1997 with the College of Charleston to be used as an athletic complex on 35 acres. The rent revenue during 1997 was $24,423 and during 1998 was $97,692. The land is owned by the Authority; the land and the complex will be maintained by the lessee, College of Charleston. At the end of the lease, the premises and any improvements to the premises revert to the Authority. The annual lease amount for years 1-5 is $90,000. Year 6's annual lease amount is $120,000. Years 7-65, the annual lease amount is equal to the prior year lease amount plus CPI increase.

As part of the lease agreement between the Authority and the College of Charleston, the Authority will receive $500,000 as a one-time lump sum upon the sale of the Remley's Point property by the College of Charleston or no later than 18 months after the lease was executed, whichever is sooner. The lease was executed during January 1997, and the land has not yet been sold. The Authority recognized this amount as a lease receivable during the year ended June 30, 1997, to be amortized over the life of the lease. The Authority recognized $1,900 of the deferred revenue during the current year and $498,100 remains deferred at year end.

The total historical cost of leased land and leased land improvements is estimated to be $5,114,371. This amount is based upon the amount actually paid for the land and does not reflect any fair value in excess of cost at the date of purchase.

8. Lease and Commission Income - Continued

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

Year ended June 30,	1999	$ 215,000
	2000	215,000
	2001	215,000
	2002	222,500
	2003	241,668
	Thereafter through 2096	18,220,000
	Total	$19,329,168

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.

9. Related Party Transactions

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

Services received at no cost from State agencies include 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.

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, property management and record keeping, and other centralized functions.

The Authority had financial transactions with various State agencies during the years ended June 30, 1998 and 1997. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail services. The amounts of fiscal year 1998 and 1997 expenses applicable to these related party transactions are not readily available.

The Authority leases an athletic complex to the College of Charleston. Lease revenues during the years ended June 30, 1998 and

9. Related Party Transactions - Continued

1997 were $97,692 and $24,423, respectively. See Note 8 for more information on the lease.

The Authority receives reimbursement of expenses (labor and repair on the Laffey) for the Tin Can Sailors program from Patriots Point Naval and Maritime Museum Foundation (the Foundation). The reimbursements are recorded as contribution revenue in the Museum fund. The amounts of the reimbursements are $10,940 and $16,900 for 1998 and 1997, respectively. Amounts receivable from the Foundation are $-0- and $4,300 for years ended June 30, 1998 and June 30, 1997, respectively. The Foundation's mission is to raise money for expansion, maintenance and improvements for the Patriots Point Development Authority Museum. The reimbursement agreement is a verbal agreement renewable on an annual basis.

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. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. The Authority is also subject to employee theft or misappropriation, for which it is self-insured. There were no significant reductions in insurance 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 two 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

10. Risk Management - Continued

4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either 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.

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 in the applicable expense categories of the Museum fund. 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

10. Risk Management - Continued

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.

In April 1995, the Authority became unable to obtain employee fidelity coverage as a result of a burglary in the gift shop. The Authority has no coverage for losses arising from employee theft or misappropriation. There was a loss of approximately $5,000 during the year ended June 30, 1995 which was covered by insurance, and no losses for the years ended June 30, 1997 and 1998.

11. Health 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 postemployment 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 requirement, 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. Currently, approximately 16,000 State retirees meet these eligibility requirements.

The Authority recorded employer contributions expenses applicable to these benefits for active employees in the amount of $119,280 and $92,554 for the years June 30, 1998 and 1997, respectively. During fiscal years 1998 and 1997, the amount paid by way of the pension surcharge for retiree insurance was approximately $27,630 and $23,885, 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 Retirement Systems to pay supplemental (cost of living) increases

11. Health Insurance, Retiree Surcharge and Deferred Compensation - Continued

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. Certainemployees of the Authority have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State associated employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its annual financial report.

12. South Carolina Retirement System

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 Retirement System (the System), a cost-sharing multiple employer defined benefit public employee retirement system. Generally all State employees are required to participate in and contribute to the System as a condition of employment unless exempted by law. This plan provided annuity benefits as well as disability and group life insurance benefits to eligible employees and retirees.

12. South Carolina Retirement System - Continued

Under SCRS, employees are eligible for a full-service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula effective July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of credit service. An early retirement option with reduced benefits is 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.

The Authority's total covered payroll for fiscal year 1998 was $1,442,081 of total personnel services expenses paid of $1,958,562 and for 1997 was $1,203,280 of total personnel services expenses paid of $1,714,179. Employee and employer contribution rates are actuarially determined. Since July 1, 1988, employees have been required to contribute 6% of all compensation. The SCRS employer contribution rate was 7.55% for fiscal years 1998, 1997, and 1996 plus a 1.985% and 2.047% surcharge to fund health and dental insurance coverage for retired employees, for 1998 and 1997, respectively. The contribution requirements for the years ended June 30, 1998, 1997, and 1996, were approximately $108,900, $90,850 and $89,100, respectively, from the employer and approximately $86,500, $72,200 and $71,000 from employees for 1998, 1997, and 1996. Amounts paid applicable to the surcharges were approximately $27,600 and $24,000 in fiscal years 1998 and 1997. These amounts were remitted to the SCRS. For the fiscal years ended June 30, 1998 and 1997, the Authority's employer and employee contributions to SCRS represented less than 1% (excluding the surcharge) of the total contributions of all State entities. The Authority contributed .15%, or $2,163 for group life insurance during the year ended June 30, 1998, and .15%, or $1,805 during the year ended June 30, 1997.

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 SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part

12. South Carolina Retirement System - Continued

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 System 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 balance sheet 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.

13. Deficit Equity Balances

At June 30, 1998 and 1997, the Museum fund had a retained earnings (deficit) balance of $(1,700,052) and $(1,674,774), respectively, and the Project fund had a retained earnings (deficit) balance of $($0.00) and ($0.00), respectively. Management expects to eliminate the deficit balances through future State support, private contributions and profitable operating leases of the property to the new developer of the hotel and amenities complex.

14. Contractual Commitments and Contingencies

The Authority must maintain its attractions to attract visitors and ensure safety. Management is in the process of developing a long-term capital projects and maintenance budget to assess their requirement and sources of financing and funding. Management forecasts that the deck of the aircraft carrier YORKTOWN will need replacement or repair within the next five years. The cost of this, as well as other significant projects, is expected to be $2,000,000 to $3,000,000, approximately. The source of funds to accomplish these projects is expected to be lease and other revenues.

The Authority is obligated to provide dredging as a condition of its contract with Fort Sumter Tours, Inc. The dredging is required approximately every eight to ten years and occurred during the fiscal year ended June 30, 1998. The cost of the dredging was $225,000. The source of funds to accomplish this project includes lease and other revenues.

A minor oil spill occurred during April 1997 at the USS Yorktown

Museum. Approximately 200,000 gallons remain in the fuel oil tanks

14. Contractual Commitments and Contingencies - Continued

on the ship. The Authority, in response to the oil spill and subsequent pollution investigation by the United States Coast Guard, plans to remove and dispose of the fuel oil and the fuel-contaminated water during the year ended June 30, 1999. The estimated cost for this project is $150,000 - $250,000. The source of funds to accomplish this project includes lease and other revenues.

15. Volunteers and Community Service

During the years ended June 30, 1998 and 1997, volunteers donated approximately 8,800 and 8,200 hours per year, respectively. Also, during the years ended June 30, 1998 and 1997, the Authority received approximately 1,450 hours of service through the Community Service program. There are no amounts recognized for the donated services in the financial statements for 1998 or 1997.

16. Legislative Audit

The Authority received notice from the Legislative Audit Council that it will undergo a management audit at the request of the Charleston County Legislative Delegation. The audit occurred during the year ended June 30, 1998.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GAS

The South Carolina State Auditor's Office
Columbia, South Carolina

We have audited the financial statements of Patriots Point Development Authority (the Authority) for the year ended June 30, 1998, and have issued our report thereon dated September 11, 1998. 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 Patriots Point Development 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 for the information of the audit committee and management of the Authority and the elected officials and management of the State of South Carolina. However, this report is a matter of public record and its distribution is not limited.

Pratt-Thomas, Gumb & Co., P.A.
September 11, 1998

Comments on Status of Prior Year's Comments

A. Other Matters

1. Lease Agreements
   The substance of this suggestion has not yet been implemented.

2. Conflict ot Interest
   We noted no potential conflicts of interest during the performance of our audit during the current year.

Comments From 1998 Audit

A. Other Matters

1. Lease Agreements

   Comment: During the course of our audit and review of the lease agreements, it came to our attention that many of the lease contracts specify that rent or commission amounts payable to the Authority are calculated as percentages of sales, revenue, net income, etc. Most of the contracts do not specify a method of verification to be used by the Authority to ensure correct calculations are used.

   Recommendation: We suggest that any and all material lease or commission contracts be amended to require annual audited financial statements from the party responsible for lease or commission payments.

   Management's Response: We will seek to amend all leases that do not specify the method of annual verification to be used to ensure lease payments are correctly calculated.

We would be pleased to further discuss the above matters or to respond to any questions, at your convenience.