

State of South Carolina



Office of the State Auditor

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March 6, 2001

The Honorable Jim Hodges, 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, 2000, 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,



Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

PATRIOTS POINT DEVELOPMENT AUTHORITY

MOUNT PLEASANT, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2000

WITH

REPORT OF INDEPENDENT AUDITORS

FOR THE YEAR ENDED JUNE 30, 2000

PATRIOTS POINT DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2000

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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 year ended June 30, 2000. 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 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 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, 2000, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2000 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.

Pratt-Thomas, Gumb & Co. P.A.

Pratt-Thomas, Gumb & Co., P.A.
September 22, 2000

**PATRIOTS POINT DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 2000**

ASSETS

Current Assets

Unrestricted

Cash and cash equivalents	\$ 2,853,754
Accounts receivable	208,209
Inventories	323,462
Prepays and deposits	<u>8,796</u>

Total unrestricted 3,394,221

Restricted

Cash and cash equivalents	<u>218,980</u>
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Total current assets 3,613,201

Noncurrent Assets

Property and equipment, net of accumulated depreciation	<u>8,442,105</u>
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Total Assets \$ 12,055,306

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
BALANCE SHEET - Continued
JUNE 30, 2000

LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts payable	\$ 319,604
Accrued payroll and related liabilities	238,044
Compensated absences and related liabilities	223,281
Deferred revenues	<u>611,335</u>

Total current liabilities 1,392,264

Total liabilities 1,392,264

Fund Equity

Contributed capital	11,809,341
Retained earnings (deficit)	<u>(1,146,299)</u>

Total fund equity 10,663,042

Total Liabilities and
Fund Equity \$ 12,055,306

See accompanying notes.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2000**

Operating Revenues	
Admissions	\$ 2,616,014
Gift shop sales	1,511,189
Scouting program revenues	906,171
Lease and commission income	1,001,134
Donations	18,050
Miscellaneous revenues	59,495
Total operating revenues	6,112,053
Operating Expenses	
Personnel services	2,292,497
Employer payroll contributions	585,755
Contractual services	1,221,408
Cost of goods sold	815,572
Utilities	200,203
Supplies	216,982
Fixed charges	116,001
Travel	39,177
Depreciation	475,500
Other	65,838
Total operating expenses	6,028,933
Operating income	83,120
Non-operating Revenues	
Appropriations from the State	250,000
Interest income	10,828
Total non-operating revenues	260,828
Non-operating Expenses	
Contribution to Cold War Submarine Memorial Foundation	250,000
Total non-operating expenses	250,000
Net Income	93,948
Retained earnings (deficit) at beginning of year	(1,240,247)
Retained earnings (deficit) at end of year	\$ (1,146,299)

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000

Cash Flows From Operating Activities	
Operating income	\$ 83,120
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	475,500
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts receivable	2,615
Inventories	56,235
Accounts payable	(79,562)
Accrued payroll	23,633
Compensated absences	31,927
Deferred revenues	(39,885)
	470,463
Total adjustments	470,463
Net cash provided by operating activities	553,583
Cash Flows From Capital and Related Financing Activities	
Purchase and construction of property and equipment	(63,752)
Appropriations from the State	250,000
Contribution to the Cold War Submarine Memorial Foundation	(250,000)
	(63,752)
Net cash used by capital and related financing activities	(63,752)
Cash Flows From Investing Activities	
Interest income received on deposits and investments	10,828
	10,828
Net cash provided by investing activities	10,828
Net increase in cash and cash equivalents	500,659
Cash and cash equivalents at beginning of year	2,572,075
Cash and cash equivalents at end of year	\$ 3,072,734
Reconciliation to balance sheets amounts:	
Unrestricted	\$ 2,853,754
Restricted	218,980
	3,072,734
Cash and cash equivalents at end of year	\$ 3,072,734

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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.

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 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.

The Authority also 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.

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 cash flows.

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.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

2. Summary of Significant Accounting Policies - Continued

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 and those still in effect which were issued by FASB's predecessor bodies 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 one proprietary fund, the Museum. A proprietary fund is used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise. The Museum fund is used to account 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 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 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 earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained. 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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

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.

Prepays and Deposits - The Authority will receive approximately \$8,800 from Mount Pleasant Waterworks and Sewer Commission. This amount is a reimbursement of electric bills in exchange for easements which were completed in fiscal year 1997. Once the easements are transferred to Mount Pleasant Waterworks and Sewer Commission, it will reimburse the Authority for electric bills paid for the treatment plant and pump stations that are part of the easement property. The easement documentation is currently being reviewed.

Contributions - Donated assets which have been given on a permanent basis are capitalized as property and equipment and an amount equal to these is added to contributed capital.

Contributed capital is primarily comprised of contributions from the State of South Carolina. Additionally the contributed capital balance has not changed in a number of years. The capital project funds received are summarized as follows:

Project	Amount
NS Savannah	\$ 639,399
Berthing Facilities	1,260,000
Golf Course	2,510,000
Model of Hanoë and Exhibit Construction	181,025
State forgiveness of loan	2,218,917
State forgiveness of loan	5,000,000
	\$ 11,809,341

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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

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

Donated assets are capitalized in the applicable fixed asset category at fair market value as of the date of donation. Fair market value is generally determined to be donor's cost.

Self-constructed assets are accounted for by the cost of labor and materials involved in the asset and appear under Naval Museum on the balance sheet.

Expenditures for purchases of property and equipment or for major improvements that are greater than \$1,000, 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.

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. 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. 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 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.

Contractual services, supplies, fixed charges, travel, equipment, cost of sales for the gift shop, utilities and sales tax expenditures are all included 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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

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, 2000, 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.

Unrestricted cash and cash equivalents totaled \$2,853,754 at June 30, 2000.

The amounts by component are as follows:

Unrestricted:		
Cash on hand	\$	7,206
Deposits held by State Treasurer		<u>2,846,548</u>
Total Unrestricted	\$	<u>2,853,754</u>
Restricted:		
Deposits held by State Treasurer	\$	<u>218,980</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.

4. Restricted Assets

Museum fund restricted assets held by the State Treasurer consist of \$218,980 at June 30, 2000, restricted by donors for specific purposes, principally for the improvement of existing museum exhibits.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

5. Property and Equipment

A summary of the changes in property and equipment for the year ended June 30, 2000 are as shown below:

	June 30, 1999	Fiscal Year 2000		June 30, 2000
		Additions	Disposals/ Transfers	
Museum fund:				
Land and improvement	\$ 3,822,532	\$ -	\$ -	\$ 3,822,532
Buildings	1,640,979	8,957	-	1,649,936
Golf course	2,131,881	-	-	2,131,881
Equipment	1,050,551	47,915	-	1,098,466
Naval Museum exhibits	7,007,438	6,880	-	7,014,318
	<u>15,653,381</u>	<u>63,752</u>	<u>-</u>	<u>15,717,133</u>
Less accumulated depreciation:	<u>(6,799,528)</u>	<u>(475,500)</u>	<u>-</u>	<u>(7,275,028)</u>
Net property and equipment	<u>\$ 8,853,853</u>	<u>\$ (411,748)</u>	<u>\$ -</u>	<u>\$ 8,442,105</u>

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. The development assets were reclassified as land improvements during 1997.

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. Deferred Revenues

Deferred revenues at June 30, 2000 are comprised of the following:

College of Charleston lease	\$ 475,001
Fort Sumter Tour contract	88,230
Camping deposits	48,104
	<u>\$ 611,335</u>

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.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

8. Lease and Commission Income

Lease and commission income is comprised of the following:

Golf course lease	\$ 195,619
Concession stand commissions	242,371
Hotel/amenities lease	276,099
Flight simulation concessions	32,277
Fort Sumter tour commissions	51,100
Marina lease	75,125
Athletic complex lease	97,692
Land and other facility leases	<u>30,851</u>
 Total lease and commission income	 <u><u>\$ 1,001,134</u></u>

On October 1, 1981, the Authority entered into an agreement to lease the golf course to Kemper Sports, Inc. The lease was 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 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. During fiscal year 1999, the Authority approved a fifth amendment to the lease agreement which became effective November 16, 1998 through December 31, 2001. The amendment provides for the lessee to encumber its leasehold interest and for the lessee to pay the greater of base rent or "percentage rent." Base rent is the greater of the prior year's rent or 60% of the three-year average rent. Percentage rent is calculated on 10% of course and grounds, pro shops, and range revenues, 5% of beverage revenue and 3% of food revenue. Upon expiration, the lease is renewable for a ten-year term at 17.5% of golf course gross income. Lease revenue from the golf course for the year ending June 30, 2000 totaled \$195,619. Minimum future rental income payments are calculated based on the greater of the prior year's rent or 60% of the three-year average rent.

The Authority contracts its food and beverage service to Recreational Food Service 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 which ended December 31, 1997 had the option to be extended for three additional one-year periods. Three one-year options have been extended to date. Upon termination of the food contract on January 31, 2001, the Authority will submit a Request for Proposal to the Materials Management Office and select a concessionaire to continue the food service contract. Based upon past experience, the Authority does not anticipate any negative impacts on the revenue stream as the successful bidder will move in on February 1, 2001.

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. The valuation basis for the commissions is 1.5% of gross revenue. The initial contract term, which ended January 31, 1991, had the option to renew for ten five-year terms. Two five-year options have been renewed to date.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

8. Lease and Commission Income - Continued

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 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. 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 contains a hotel, which was required to be completed and open for business by July 31, 1997. Parcel B-1 is the Marina which was completed and open 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 be commenced by May 1, 2001 as amended from 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. 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.

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 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) and parcel B (the marina) for the year ending June 30, 2000 totaled \$276,099 and \$75,125, respectively.

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 \$226,086 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 capitalized by the Authority as land improvements. Fort Sumter Tours recovered \$51,100 in lieu of contract revenue for the year ended June 30, 2000, and \$88,230 remains in deferred revenue related to dredging as of June 30, 2000.

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 2000 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 was to receive a \$500,000 one-time lump sum payment 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. The Authority received the payment in September 1998. The Authority has recorded the \$500,000 as deferred revenue and is using straight-line amortization to recognize lease revenue over the life of the lease. \$7,692 was recognized in fiscal year 2000. As of the year ended June 30, 2000, \$475,001 remains in deferred revenue.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

8. Lease and Commission Income - Continued

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.

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,	2001	\$	267,767
	2002		222,692
	2003		226,860
	2004		247,692
	2005		247,692
	Thereafter through 2096		18,076,541
	Total	\$	19,289,244

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 year ended June 30, 2000. 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 amount of fiscal year 2000 expenses applicable to these related party transactions is not readily available.

The Authority leases an athletic complex to the College of Charleston. Lease revenues during the year ended June 30, 2000 were \$97,692. See Note 8 for more information on the lease.

The Authority receives reimbursement of expenses (labor and repair on the Laffey) from the Tin Can Sailors program. The reimbursement agreement is a verbal agreement renewable on an annual basis. The reimbursements are recorded as donations in the Museum fund. Reimbursements totaled \$18,000 for the fiscal year ending June 30, 2000, and were collected in full by fiscal year end.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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 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 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.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

10. Risk Management - Continued

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 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 were no such losses for the year ended June 30, 2000.

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 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. Currently, approximately 20,000 State retirees meet these eligibility requirements.

The Authority recorded employer contribution expenses applicable to these benefits for active employees in the amount of \$175,029 for the year June 30, 2000. During fiscal year 2000, the amount paid by way of the pension surcharge for retiree insurance was \$37,414. Please refer to Note 12 for additional information on the pension surcharge. 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 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.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

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

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.

The State appropriated funds from unspent fiscal year 1998-1999 general fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required agencies to match the employees' contributions. The appropriated 401(k) match was limited to \$300. To be eligible, an employee must have met the following eligibility requirements:

1. The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999 and employed on the date of distribution and
2. The employee must have established a 401(k) account with annual contributions equal to the match (this requirement is not required for employees earning less than \$20,000).

In April 2000 the agency made contributions from State appropriations and other applicable funding sources of \$118 in total to the 401(k) account of each eligible State employee for a total of \$3,540 for all of the agency's employees.

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 provided 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 30 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.

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000

12. South Carolina Pension Plan - Continued

Since July 1, 1998, employees participating in the Plan have been required to contribute 6.0 percent 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 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the Plan for the three most recent fiscal years ending June 30, 2000, 1999, and 1998, were approximately \$136,190, \$124,700 and \$108,900, 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 \$2,789 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 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.

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.

13. Deficit Equity Balance

At June 30, 2000, the Museum fund had a retained earnings (deficit) balance of \$(1,146,299). The deficit resulted primarily from an interrupted development project and the related bankruptcy proceedings in the past. The interrupted project left the Authority with an unfinished hotel and marina. Management expects to eliminate the deficit balance through private contributions and profitable operating leases of the property to the new developer of the hotel and amenities complex.

14. Contractual Commitments

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 requirements and sources of financing and funding. The deck of the aircraft carrier YORKTOWN is an ongoing repair project. Personnel are currently repairing sections; work is expensed during the year it is performed. The project is ongoing and it is estimated that it will take 5 years to complete. The cost of this, as well as other significant projects, is expected to be approximately \$2,000,000 to \$3,000,000. The source of funds to accomplish these projects is expected to be lease and other revenues.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

14. Contractual Commitments - Continued

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 \$226,086. 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 on the ship. The Authority, in response to the oil spill and subsequent pollution investigation by the United States Coast Guard, removed and disposed of the fuel oil and the fuel-contaminated water during the year ended June 30, 2000. The cost for this project was \$38,384 and was expensed during fiscal year 2000. The source of funds to accomplish this project included lease and other revenues.

15. Cold War Submarine Memorial Foundation

The Authority received \$250,000 in appropriations from the State during the current fiscal year. The legislature specified that these funds must be contributed to the Cold War Submarine Memorial Foundation. The Authority recorded a corresponding contribution expense; therefore, there was no effect on the results of operations of the Authority. The Cold War Submarine Memorial Foundation is a separate legal entity and will be solely responsible for the development of the project.

16. Subsequent Events

Fort Sumter will operate from the Authority through the end of fiscal year 2001. The Authority is working with the Park Service to ensure that the Authority is a departure point even if all tours depart from downtown. The Authority is also investigating the possibility of a water shuttle from the Authority to the South Carolina Aquarium, I-Max Theater, and Fort Sumter and selling combination tickets to all of the attractions. The Appropriation Act for fiscal year 2000 allows for the earning of interest on all accounts held by the Authority; this could generate an additional \$125,000 or more per year to offset any unforeseen losses in Fort Sumter Tour revenue. Other portions of development (parcels B, C, D & E) should also generate additional funds.

PRATT-THOMAS, GUMB & CO., P.A.

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

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, 2000, and have issued our report thereon dated September 22, 2000. 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. However, we noted other matters involving the internal control over financial reporting that are described on pages 21 to 22 of this report.

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.

Pratt-Thomas, Gumb & Co. P.A.

Pratt-Thomas, Gumb & Co., P.A.
September 22, 2000

Comments on Status of Prior Year's Comments

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. This finding is repeated from the fiscal year ending June 30, 1998 and 1997 reports.

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.

Status: The Authority has amended material lease or commission contracts to require an audit of gross sales and receipts to ensure lease payments are correctly calculated.

Procurement Policy

Comment: During the course of our audit and compliance testing, we noted the Authority had not obtained the three required price quotes for three minor purchases they had made during the year. Per the State's Procurement Code, at least three price quotes as necessary to initiate a purchase.

Recommendation: We suggest the Authority review the purchasing guidelines with personnel in charge of this function. Management should ensure each purchase order has evidence that three quotes were obtained.

Status: A written policy statement is now in place specifically delineating State Procurement Code requirements. Employees who willfully neglect adhering to the requirements of the State's Procurement Code receive a written letter or reprimand and said letter is placed in the offending individual's personnel file. The procedures performed in the current year audit indicate the Authority is in compliance with the Procurement Code requirements tested.

Comments from 2000 Audit with Management's Response

A. Other Matters

1. Lease Amendments and Contract Renewals

Comment: During the course of our audit, it came to our attention that copies of lease amendments and contract renewals did not exist at the Authority's office location. These copies are available from the Authority's legal counsel.

Recommendation: We suggest the Authority obtain and keep copies of all lease amendments and contract renewals on site. This will ensure that all parties involved are aware of the changes and can easily reference the document if necessary.

Management's Response: The Authority's legal counsel and the new Executive Director had already agreed to conduct a joint inventory of all lease amendments and contract renewals to ensure both parties have all copies necessary. It is planned for this to be accomplished by the end of January 2001.

2. Travel Policy

Comment: During the course of our audit, we noted employees' local travel documentation was not adequate to support the travel taken. In addition, we noted that local miles traveled exceeded the amount approved by the department head.

Recommendation: We suggest the Authority require a travel log that details the miles and purpose for each destination reached throughout the day. If the local mileage limit has been exceeded from previously approved amounts, authorization should be given for the employee to be reimbursed for the excess miles traveled.

Management's Response: Measures will be taken to improve accountability to order to minimize potential or perceived abuse to include closer scrutiny of actual travel authorized and travel logs detailing the miles and purpose for each destination. These measures will be in place before the end of the calendar year.

3. Youth Leadership Program Records

Comment: During the course of our audit, we noted the appropriate documentation to support the Youth Leadership Program revenue was not provided to the accounting department.

Recommendation: We suggest that a registration log should be kept by the Youth Leadership Program to verify the number of participants and the amounts collected. The Authority's accounting department should receive copies of remittances and other documentation to support the revenues received from the Youth Leadership Program.

Management's Response: A reassessment of the charges involved in the Youth Leadership Program will be conducted prior to the end of the calendar year. Procedures will be tightened, and the Accounting Department will dictate to the Youth Education Department the methods and control measures to be used to document transactions related to the program. Every effort will be made to ensure that the program will result in providing a net profit versus being an expense to the agency.