

Report on Audit of Financial Statements of
Patriots Point Development Authority
June 30, 2001

State of South Carolina



Office of the State Auditor

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October 22, 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, 2001, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

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SCOTT  MCELVEEN L.L.P.

Independent Auditors' Report

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

We have audited the accompanying balance sheet of Patriots Point Development Authority (the "Authority") as of June 30, 2001 and the related statements of revenues, expenses and changes in retained earnings (deficit) and cash flows for the year then ended. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Patriots Point Development Authority, as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2001 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.

Scott McElveen, L.L.P.

Columbia, South Carolina
August 30, 2001

CERTIFIED PUBLIC ACCOUNTANTS

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Patriots Point Development Authority
Balance Sheet
June 30, 2001

Assets

Current assets:

Cash and cash equivalents	\$ 4,039,583
Accounts receivable rental activities	216,924
Accounts receivable other	8,796
Inventories	282,934
Interest receivable	11,388
Total current assets	4,559,625

Noncurrent assets:

Property and equipment, net of accumulated depreciation	8,051,658
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Total assets	\$12,611,283
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Liabilities and fund equity

Current liabilities:

Accounts payable	\$ 229,056
Accrued payroll and related liabilities	212,432
Compensated absences and related liabilities	240,433
Deferred revenues	557,599
Total liabilities; total current liabilities	1,239,520

Fund Equity

Contributed capital	11,809,341
Retained earnings (deficit)	(437,578)
Total fund equity	11,371,763

Total liabilities and fund equity	\$12,611,283
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The accompanying notes are an integral part of these financial statements.

Patriots Point Development Authority
Statement of Revenues, Expenses and Changes in Retained Earnings (Deficit)
for the year ended June 30, 2001

Operating revenues:	
Admissions	\$ 2,989,232
Gift shop sales	1,731,136
Scouting program revenues	1,085,292
Lease and commission income	1,013,094
Voluntary nonexchange donations	25,274
Miscellaneous revenues	45,718
Total operating revenues	6,889,746
 Operating expenses:	
Personnel services	2,271,063
Contractual services	1,347,637
Cost of goods sold	878,021
Employer payroll contributions	646,985
Depreciation	462,718
Supplies	266,343
Utilities	209,892
Insurance and rental charges	127,631
Travel	24,751
Other	31,439
Total operating expenses	6,266,480
Operating income	623,266
 Non-operating revenues:	
Interest income	85,455
Net income	708,721
Retained earnings (deficit), beginning of year	(1,146,299)
Retained earnings (deficit), end of year	\$ (437,578)

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

Patriots Point Development Authority
Statement of Cash Flows
for the year ended June 30, 2001

Cash flows from operating activities:	
Operating income	\$ 623,266
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	462,718
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts receivable	(8,715)
Inventories	40,528
Accounts payable	(90,548)
Accrued payroll and related liabilities	(25,612)
Compensated absences and related liabilities	17,152
Deferred revenues	(53,736)
Net cash provided by operating activities	965,053
 Cash flows from capital and related financing activities:	
Net cash used by capital and related financing activities; purchase of property and equipment	(72,271)
 Cash flows from investing activities:	
Net cash provided by investing activities; interest income received on deposits and investments	74,067
Net increase in cash and cash equivalents	966,849
Cash and cash equivalents, beginning of year	3,072,734
Cash and cash equivalents, end of year	\$ 4,039,583

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

Patriots Point Development Authority
Notes to Financial Statements

Note 1. Organization and Reporting Entity

Reporting Entity - Patriots Point Development Authority (the “Authority”), also known as the Naval and Maritime Museum, was established through Section 51-13-710 of the Code of Laws of South Carolina. The Authority is dependent on the State 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.

These financial statements exclude the affiliated foundations listed in Note 8 because the Authority does not significantly influence operations of the related foundations nor are the affiliated foundations accountable to the Authority for fiscal matters.

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

Management’s stated mission is 1) establish, develop and operate a national museum of ships, naval and maritime equipment, artifacts, manuscripts, art and other historic military displays for the purpose of fostering patriotism, generating pride and respect for the United States of America and for memorializing all soldiers, sailors and airmen who have given their lives in the service of their country, and 2) develop and enhance Patriots Point and its contiguous water areas to support the operation of its historic ships and aircraft, provide a place of education and recreation, and stimulate national and international travel by providing museums, attractions, lodging and accommodations.

During 1974 and 1975, the Authority acquired land, from which it now operates on the Charleston Harbor, in the Town of Mt. Pleasant, across the Cooper River from the City of Charleston. The Authority currently displays for tour the USS YORKTOWN aircraft carrier, destroyer USS 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.

Patriots Point Development Authority
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies

The accompanying financial statements present the financial position, results of operations, and cash flows solely of the Authority in conformity with accounting principles generally accepted in the United States of America. They do not include any other agencies, 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.

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

Fund Accounting - The Authority uses funds to report its financial position and the results of its operations. A fund is a separate fiscal and accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain government functions or activities. The activities of the Authority are accounted for as Enterprise Funds of the Proprietary Fund category. Enterprise Funds account for business-like activities that provide goods / services to the public financed primarily through user charges. A Proprietary Fund is used to account for activities similar to those found in the private sector. The measurement focus of Proprietary Funds is upon determination of net income, financial position, and cash flows. The Authority accounts for its activities (operations of the maritime museum, which includes revenues from admissions, scout camping and activities, a golf course lease, leases of other parcels being developed and various concessions) in an Enterprise Fund.

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.

Patriots Point Development Authority
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

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

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

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

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

Nonexchange Transactions - On July 1, 2000 the Authority adopted the GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*. GASB No. 33 standardizes the accounting and financial reporting for nonexchange transactions involving financial or capital resources. The statement requires that adoption be accounted for as an adjustment of prior periods, however for the Authority a prior period adjustment was not required due to the nature of past transactions of the Authority, and a provision in the Statement under footnote #18 which states that "governments should not restate contributed capital arising from periods prior to implementation of this Statement". The adoption of this Standard resulted in classifying private donations made during the current year in the amount of \$25,274 as voluntary nonexchange donations. For the Authority, there generally are two types of nonexchange transactions, *Government-mandated nonexchange transactions* (which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose) and *voluntary nonexchange transactions* (which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for the Authority generally donated fixed assets and private donations)). The Authority recognizes nonexchange transactions when they are both measurable and probable of collection. For *Government-mandated nonexchange transactions* and *voluntary nonexchange transactions* the Authority recognizes assets when all applicable eligibility requirements are met or resources are received, whichever is first and revenue when all applicable eligibility requirements are met.

Patriots Point Development Authority
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Contributed Capital - Prior to the adoption of GASB No. 33, the Authority's policy for accounting for donated fixed assets which have been given to the Authority on a permanent basis was to capitalize such items as property and equipment and to record an equal amount as contributed capital. As noted above (see Nonexchange Transactions) such accounting treatment is still allowed for previously recorded transactions, however any contributions received subsequent to July 1, 2000 are accounted for under the provisions of GASB No. 33. 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. Contributed capital assets are capitalized in the appropriate capital asset categories. The contributed capital assets and contributed funds are summarized below:

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.

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:

Land and improvements	0-50 years
Building	5-25 years
Golf course	5-24 years
Equipment	2-10 years
Naval Museum exhibits	5-25 years

Donated assets are capitalized at fair market value as of the date of donation. Fair market value is generally determined to be the 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.

Patriots Point Development Authority
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

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

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

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

Note 3. Deposits

Deposits Held by State Treasurer - All deposits and investments of the Authority are under control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are in investments for which the securities are held by the State or its agents in the State's name.

Patriots Point Development Authority
Notes to Financial Statements

Note 3. Deposits (continued)

The amounts by component are as follows:

Cash on hand	\$	9,206
Deposits held by State Treasurer		4,030,377
	\$	4,039,583

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

Note 4. Property and Equipment

A summary of the changes in property and equipment for the year ended June 30, 2001 is shown below:

	June 30, 2000	Fiscal year 2001		June 30, 2001
		Additions	Disposals	
Land and improvement	\$3,822,532	\$ 5,880	\$ —	\$ 3,828,412
Buildings	1,649,936	—	—	1,649,936
Golf course	2,131,881	—	—	2,131,881
Equipment	1,098,466	66,391	—	1,164,857
Naval Museum exhibits	7,014,318	—	—	7,014,318
	15,717,133	72,271	—	15,789,404
Accumulated depreciation:	(7,275,028)	(462,718)	—	(7,737,746)
Net property and equipment	\$8,442,105	\$ (390,447)	\$ —	\$ 8,051,658

Note 5. Deferred Revenues

Deferred revenues at June 30, 2001 are comprised of the following:

College of Charleston lease	\$	467,308
Fort Sumter Tour contract		33,639
Camping deposits		56,652
	\$	557,599

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

Patriots Point Development Authority
Notes to Financial Statements

Note 5. Deferred Revenues (continued)

Fort Sumter Tour contract - As a condition of the lease agreement with Fort Sumter Tours, Inc. (see footnote 7) the Authority is obligated to perform periodic dredging of the dockage facilities at the Authority (see footnote 13). The cost of the most recent dredging in 1998, approximately \$226,000, was paid by Fort Sumter Tours, Inc. in lieu of contract revenue under the lease agreement. The Authority and Fort Sumter Tours, Inc. have agreed to reduce amounts paid to the Authority under the lease agreement until the cost of the dredging has been recovered in full. During the year ended June 30, 2001, Fort Sumter Tours retained approximately \$54,600 that would otherwise have been paid to the Authority as contract revenue and facility rent.

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

Note 6. Contractual Services

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

Note 7. Lease and Commission Income

For the year ended June 30, 2001, lease and commission income is comprised of the following:

Golf course lease	\$ 214,392
Food and beverage commissions	195,266
Hotel/amenities lease	296,992
Athletic complex lease	97,692
Marina lease	69,940
Flight simulation commissions	62,502
Fort Sumter tour commissions	54,592
Land and other facility leases	21,718
Total lease and commission income	<u>\$ 1,013,094</u>

Golf Course - The authority leases a certain real property and improvements erected thereon known as the Patriots Point Golf course “golf course” to Charleston Harbor Golf Partners, L.P. with a 20 year initial period ending December 31, 2001. Upon expiration of the initial term, the lease is automatically renewed at the start of four separate ten-year periods unless the lessee elects to terminate the lease as of the termination date of the then current term by giving written notice to Authority at least 120 days prior to the termination date of the then current lease term. The lessee has not elected to terminate the lease agreement, and thus the lease period has been extended to December 31, 2011. The terms of the lease agreement provide for the lessee to pay the greater of a base or activity driven rent, as defined by the agreement. Lease revenue from the golf course for the year ending June 30, 2001, totaled approximately \$214,000. Minimum future rental income payments have been calculated based on the greater of the prior year’s rent or 60% of the previous three-year average rent.

Patriots Point Development Authority
Notes to Financial Statements

Note 7. Lease and Commission Income (continued)

Food and Beverage Commissions - The Authority contracts its food and beverage service to Recreational Food Service (“RFS”) and receives 23% of vending revenue, 30% of snack bar revenue and 20% of scout meals and catering revenue as a commission. The initial contract term which ended December 31, 1997, was extended for three additional one-year periods. Upon termination of the food contract on January 31, 2001, the Authority executed an interim contract with RFS for the period of April 1, 2001 through October 31, 2001. The interim contract reduces the above revenue percentages to: 15% of vending revenue, 17.5% of snack bar revenue, 12% of scout meals and 10% of catering revenue for the interim period. Upon termination of the interim contract, the Authority will submit a Request for Proposal to the Materials Management Office to solicit bids for a contract with a concessionaire to provide food service. The Authority currently cannot reasonably estimate the resulting financial results from changing contract service providers.

Athletic Complex Lease - The Authority entered into a nonrenewable land lease agreement effective April 1997, with College of Charleston to provide for an athletic complex situated on approximately 32 acres of land belonging to the Authority. The land lease agreement provides that, the facilities are owned and maintained by College of Charleston during the lease term. At the end of the lease, the premises and any improvements to the premises revert to the Authority. The annual lease amounts are as follows: years 1-5 -- \$90,000, year 6 -- \$120,000, years 7-65, the prior year lease amount plus any increases in the Consumer Price Index. The rent revenue during 2001 was approximately \$98,000, which includes \$7,692 of deferred revenue associated with the lease agreement (see footnote 5).

Flight Simulation Commissions - The Authority entered into an agreement beginning August 1996 with Flight Avionics of North America, Inc. to receive commissions on flight simulator revenues. The commission is calculated as 50% of the flight simulator net profit. The initial contract term ends July 2001. The Authority is currently in the process of working with the South Carolina Materials Management Office to issue a request for proposal on a replacement contract for the operation of the flight simulator. The Authority anticipates that a replacement contract will be entered into readily and that the terms of the replacement contract, and associated revenue to the Authority, will be substantially the same as under the contract expiring July 2001.

Fort Sumter Tour Commissions - The Authority receives commissions and facility rent from Fort Sumter Tours, Inc., a tour boat operator who sells tickets from the Authority’s facility. The valuation basis for the commissions is 1.5% of gross receipts. The initial contract term, which ended January 31, 1991, had the option to renew for ten five-year terms, and Fort Sumter Tours has renewed the contract through January 31, 2006. See further discussion in footnote 13 concerning the Authorities obligation to perform periodic dredging of the dockage facilities at the Authority for the tour boat. See further discussion in footnote 5 concerning deferred revenue related to the Fort Sumter Tours contract.

Patriots Point Development Authority
Notes to Financial Statements

Note 7. Lease and Commission Income (continued)

Hotel, Marina, Land, and Other Facility Leases - On February 26, 1996, the Authority entered into a 99-year non-renewable lease with Gulf Stream Capital Associates, LLC for the development of approximately 35.6 acres of the Authority’s property. The leased premises include land and land improvements consisting of the hotel building and three docks, including a 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.

Leases The leased premises are sub-divided into parcels for the ease of administration and orderly development. Parcel A contains a hotel. Parcel A-1 contains six cottages and six additional cottages, a clubhouse and pool will be constructed on the property. 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 commence by February 1, 2002, as amended, 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-1 are calculated as 5% of gross sales or rentals and 1.5% of fuel sales, less fixed annual lease payments. Lease revenue from parcel A (the hotel), parcel A-1 (the cottages) and parcel B-1 (the marina) for the year ending June 30, 2001, totaled approximately \$277,000, \$20,000 and \$70,000, respectively.

Historical Cost of Leased land and Improvements - The total historical cost of leased land and leased land improvements, for the golf course, athletic complex, hotel and marina, is estimated to be approximately \$5,100,000. This amount is based upon the amount actually paid for the land and improvements and does not reflect any fair value in excess of cost at the date of purchase.

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

2002	\$ 478,656
2003	488,538
2004	476,799
2005	470,756
2006	467,131
Thereafter through 2096	19,018,727
Total	<u>\$ 21,400,607</u>

Patriots Point Development Authority
Notes to Financial Statements

Note 7. Lease and Commission Income (continued)

Historical Cost of Leased land and Improvements (continued) - 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.

Note 8. Related Party Transactions

State of South Carolina and Agencies thereof:

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

From time to time the Agency will provide rental facilities to other agencies that are part of the State of South Carolina reporting entity for the year ended June 30, 2001 no facility rentals were provided to other State Agencies

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

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

The Authority had financial transactions with various State agencies during the year ended June 30, 2001. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, office supplies, printing, telephone, and interagency mail services. The amount of fiscal year 2001 expenses applicable to these related party transactions is not readily available.

The Authority leases an athletic complex to College of Charleston, both entities are part of the State of South Carolina reporting entity. Lease revenue during the year ended June 30, 2001, was approximately \$98,000 (See Note 7).

Third Parties

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

Patriots Point Development Authority
Notes to Financial Statements

Note 8. Related Party Transactions (continued)

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

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

Note 9. 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 and recognizes any associated loss resulting from theft as such losses occur. The Authority has no coverage for losses arising from employee theft or misappropriation, primarily as a result of a burglary that took place in the gift shop of the Authority in April 1995. 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).

Patriots Point Development Authority
Notes to Financial Statements

Note 9. Risk Management (continued)

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

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

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

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

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

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

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

Patriots Point Development Authority
Notes to Financial Statements

Note 10. Insurance, Retiree Surcharge and Deferred Compensation

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

The Authority recorded employer contribution expenses applicable to these benefits for active employees in the approximate amount of \$211,000 for the year June 30, 2001. During fiscal year 2001, the amount paid by way of the pension surcharge for retiree insurance was approximately \$49,000 (See Note 11). By State law, the Authority has no liability to retirees for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

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

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

The agency made contributions out of current year operating revenues to the 401(k) account of eligible Agency employees. The total amount contributed for the year ended June 30, 2001 was approximately \$11,000.

Patriots Point Development Authority
Notes to Financial Statements

Note 11. 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 28 years credited service regardless of age. The benefit formula effective July 1, 1989, for the Plan is 1.82% of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after 5 years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an employee with a minimum of one year of credited service.

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

Patriots Point Development Authority
Notes to Financial Statements

Note 11. South Carolina Pension Plan (continued)

Since July 1, 1988, employees participating in the Plan have been required to contribute 6% of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50% which included a 1.95% surcharge. Effective January 1, 2000, the employer contribution rate became 9.71 percent which included a 2.16% surcharge. Effective July 1, 2000 the employer contribution rate became 10.07% which included a 2.52% surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the Plan for the three most recent fiscal years ending June 30, 2001, 2000, and 1999, were approximately \$146,000, \$136,000, and \$125,000, respectively, and equaled the required contribution of 7.55 percent (excluding the surcharge) for each year. Also, the Authority paid employer group-life insurance contributions of approximately \$3,000 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Authority for pension benefits and group life are included in employer payroll contributions expenses in the accompanying financial statements. Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for the pension plan. Employee and employer contribution rates to the Plan are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation). The Plan does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Authority of the actuarial computed value of vested benefits over the total of the pension fund and any 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.

Note 12. Deficit Equity Account Balance

At June 30, 2001, the Authority had a deficit balance of \$437,578 in its retained earnings account. The deficit resulted primarily from an interrupted development project and the related bankruptcy proceedings in the past. The interrupted project and bankruptcy left the Authority with an unfinished hotel and marina. The Authority has since contracted with Gulf Stream Capital Associates, LLC, (see Note 7), to complete development and operate, under a lease agreement, the developed properties for tourist and other activities.

Patriots Point Development Authority
Notes to Financial Statements

Note 12. Deficit Equity Account Balance (continued)

Management expects to eliminate the deficit balance through profitable operating leases of certain real property and the structures thereon. Additionally, management expects that a change in state law allowing the Authority to earn and retain interest on deposits will significantly benefit the operating results of the Authority. Interest income on deposits totaled approximately \$74,000 in the year ending June 30, 2001.

Note 13. Contractual Commitments

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

The Authority has a lease agreement with Fort Sumter Tours, Inc. expiring January 31, 2006 (see further discussion in footnote 7). As a condition of the contract with Fort Sumter Tours, Inc., the Authority is obligated to provide dredging of the boat docking facilities at the Authority. The most recent dredging took place during fiscal year 1998, at a cost of approximately \$226,000 paid for by Fort Sumter Tours, Inc. (see footnote 5), and it is anticipated that additional dredging will be required every eight to ten years. The Authority anticipates paying for the cost of future dredging from lease and other revenues.

As a condition of locating the Congressional Medal of Honor Museum at Patriots Point, the Authority is obligated to pay the Congressional Medal of Honor Society approximately \$36,000 per year during the period that the Congressional Medal of Honor Museum is located at the Authority. The contract with the Congressional Medal of Honor Museum Society is currently set to expire April 22, 2003.

Note 14. Voluntary Nonexchange Donations

Voluntary nonexchange donations represents amounts received by the Authority to offset maintenance expenses on the Laffey from the Tin Can Sailors program (a group comprising largely of former sailors on the Laffey). All eligibility requirements for the donation are considered immediately satisfied upon receipt of the donation by the Authority and Tin Can Sailors as recurring maintenance expense on the Laffey exceeds amounts donated. Voluntary Nonexchange Donations totaled approximately \$25,000 for the fiscal year ending June 30, 2001.

Patriots Point Development Authority
Notes to Financial Statements

Note 15. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

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

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

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

We have audited the financial statements of Patriots Point Development Authority (the Authority) for the year ended June 30, 2001, and have issued our report thereon dated August 30, 2001. 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 following 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.

Scott McElveen, L.L.P.

Columbia, South Carolina
August 30, 2001

CERTIFIED PUBLIC ACCOUNTANTS

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Comments on Status of Prior Year's Comments

A. Other Matters

1. Lease Amendments and Contract Renewals

Comment: During the course of the prior audit, it came to the prior auditors' 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: The prior auditor suggested 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.

Status: The Authority's legal counsel and the Executive Director conducted a joint inventory of all lease amendments and contract renewals to ensure both parties have all copies necessary. This was accomplished by the end of fiscal year ended June 30, 2001.

2. Travel Policy

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

Recommendation: The prior auditor suggested 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 were 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 included additional required documentation on purposes of travel and were in place by the end of fiscal year ended June 30, 2001.

3. Youth Leadership Program Records

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

Recommendation: The prior auditor suggested 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: Procedures were tightened, and the Accounting Department dictated to the Youth Education Department the methods and control measures to be used to document transactions related to the program.

Comments from 2001 Audit with Management's Response

A. Other Matters

1. Lack of mandatory vacations for individuals in key control positions

Criteria: Good internal controls provided that persons in key control positions should have their duties performed by other individuals periodically so that other individuals can examine the work performed and perform the job duties independent of the person that traditionally performs the duties of the job.

Comment: Lack of mandatory vacations for individuals in key control positions creates an environment whereby theft or misappropriation of assets may take place and not be detected in a timely manner.

Recommendation: We recommend that the Authority establish a mandatory annual vacation policy for all individuals in key control positions. Additionally, we recommend that when vacations take place for key positions, that another individual perform the functions of the person on leave.

Management's Response: See attached correspondence from Patriots Point Development Authority.

2. Cash Accountability

Criteria: Good policy manuals provide that policies and procedure be in place that provide for appropriate corrective disciplinary action when job duties that provide for an individual to handle assets susceptible to misappropriation, and such assets are reported as lost or otherwise unaccountable for.

Comment: The Authorities policies do not provide for the termination of individuals that handle cash when excessive differences between computer generated cash deposit report totals and actual cash deposit overages and shortages take place beyond a pre specified dollar amount. During the course of our discussions with Authority management we became aware that nominal differences routinely exist between the computer generated report totals for cash amounts to be deposited for ticket and merchandise sales differ with the amounts remitted to the Authorities accounting department.

Recommendation: During the course of our discussions with Authority management we became aware that nominal differences routinely exist between the computer generated report totals for cash amounts to be deposited for ticket and merchandise sales differ with the amounts remitted to the Authorities accounting department. We recommend that a policy be established whereby employee infractions of a policy on cash deposit overages and shortages beyond a pre-specified dollar amount would provide for appropriate disciplinary action.

Management's Response: See attached correspondence from Patriots Point Development Authority.

3. Annual Employee Evaluations

Criteria: State of South Carolina Human Resource Regulations provide that certain employee related administrative functions be routinely performed.

Comment: Annual employee evaluations for all employees are not being performed on January 16th as is the policy of the Development Authority.

Recommendation: We recommend that annual evaluations should be timely performed for all employees, further we recommend that the Authority follow the State of South Carolina Human Resource Regulations 19-704.03A and B set forth the requirements for establishing and maintaining performance review dates for original appointments and after employment status changes.

Management's Response: See attached correspondence from Patriots Point Development Authority.

FROM: Royce Breland
TO: Randy Scott
SUBJECT: Audit Responses
DATE: September 29,2001

1. Lack of mandatory vacations:

Response: The Authority is working with the Budget Control Board's Office of Human Resources regarding a policy on mandatory vacations.

2. Cash Accountability:

Response: The Authority has established a written policy whereby an employee can be terminated when too many overages or shortages take place. Every overage or shortage will be investigated using all available reports and records and employees identified as a cause of overages or shortages will be reassigned or terminated.

3. Annual Employee Evaluations:

Response: It is currently recognized that the agency's adherence to the state's EPMS system requirement for annual employee evaluations is not consistent and is not adhered to in most cases. This is a situation that has existed for many years, and there has been a certain amount of inertia involved in correcting the problem having to do with administrative shortcomings in our agency infrastructure. It is hoped that a proposal that has been made to OHR involving a much more efficient technique using a modified version of the employee's Position Description as the form on which the evaluation is prepared vice the cumbersome forms currently promulgated will be approved and will remove the last impediment to successful implementation of the requirement.