

November 1, 1999

The Honorable James H. 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, 1999, 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/sj

PATRIOTS POINT DEVELOPMENT AUTHORITY
MOUNT PLEASANT, SOUTH CAROLINA
FINANCIAL STATEMENTS
JUNE 30, 1999
WITH
REPORT OF INDEPENDENT AUDITORS
FOR THE YEAR ENDED JUNE 30, 1999

PATRIOTS POINT DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

June 30, 1999

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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, 1999. 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, 1999, 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 3, 1999 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Pratt-Thomas, Gumb & Co., P.A.
September 3, 1999

PATRIOTS POINT DEVELOPMENT AUTHORITY
BALANCE SHEET
JUNE 30, 1999

ASSETS

Current Assets

Unrestricted

Cash and cash equivalents	\$ 2,381,923
Accounts receivable	210,824
Inventories	379,697
Prepays and deposits	<u>8,796</u>

Total unrestricted 2,981,240

Restricted

Cash and cash equivalents	<u>190,152</u>
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Total current assets 3,171,392

Noncurrent Assets

Property and equipment, net of accumulated depreciation	<u>8,853,853</u>
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Total Assets \$ 12,025,245

See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
BALANCE SHEET - Continued
JUNE 30, 1999

LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts payable	\$ 399,166
Accrued payroll and related liabilities	214,411
Compensated absences and related liabilities	191,354
Deferred revenues	<u>651,220</u>
 Total current liabilities	 <u>1,456,151</u>
 Total liabilities	 <u>1,456,151</u>

Fund Equity

Contributed capital	11,809,341
Retained earnings (deficit)	<u>(1,240,247)</u>
 Total fund equity	 <u>10,569,094</u>
 Total Liabilities and Fund Equity	 <u><u>\$ 12,025,245</u></u>

See accompanying notes.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 1999**

Operating Revenues

Admissions	\$ 2,619,127
Gift shop sales	1,412,318
Scouting program revenues	892,363
Lease and commission income	941,549
Donations	38,890
Miscellaneous revenues	12,498

Total operating revenues	5,916,745
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Operating Expenses

Personnel services	2,062,152
Employer payroll contributions	509,060
Contractual services	1,072,192
Cost of goods sold	777,501
Utilities	194,823
Supplies	226,367
Fixed charges	104,113
Travel	26,661
Depreciation	436,979
Other	56,600

Total operating expenses	5,466,448
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Operating income (loss)	450,297
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Non-operating Revenues

Interest income	9,508
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Total non-operating revenues	9,508
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Net Income	459,805
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Retained earnings (deficit) at beginning of year	(1,700,052)
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Retained earnings (deficit) at end of year	\$ (1,240,247)
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See accompanying notes.

PATRIOTS POINT DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 1999

Cash Flows From Operating Activities

Operating income	\$ 450,297
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	436,979
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts receivable	426,993
Inventories	(51,228)
Accounts payable	119,234
Accrued payroll, compensated absences and related liabilities	48,512
Deferred revenue	(96,428)
	<hr/>
Total adjustments	884,062
	<hr/>
Net cash provided by operating activities	1,334,359
	<hr/>

Cash Flows From Investing Activities

Interest income received on investments	9,508
	<hr/>
Net cash provided by investing activities	9,508
	<hr/>

Cash Flows From Capital and Related Financing Activities

Purchase and construction of property and equipment	(222,175)
	<hr/>
Net cash used by capital and related financing activities	(222,175)
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Net increase in cash and cash equivalents	1,112,184
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Cash and cash equivalents at beginning of year	1,450,383
	<hr/>

Cash and cash equivalents at end of year	\$ 2,562,567
	<hr/> <hr/>

Reconciliation to balance sheets amounts:

Unrestricted	\$ 2,381,923
Restricted	190,152
	<hr/>

Cash and cash equivalents at end of year	\$ 2,572,075
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See accompanying notes.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

1. Organization and Reporting Entity

Reporting Entity - Patriots Point Development Authority (the "Authority") was established through Section 51-13-710 of the Code of Laws of South Carolina. The Authority is dependent on the State for debt financing and appointment of its Board by the Governor. Although the Authority operates somewhat independently, it lacks full corporate powers. In addition, the Authority is financially accountable to and dependent on the State, and subject to various State procurement, budget, personnel, and other regulations. The Authority is a part of the primary government of the State of South Carolina and its funds are included in the State's Comprehensive Annual Financial Report as defined by Governmental Accounting Standards Board Statement 14. The core of a financial reporting entity is the primary government which has a separately elected governing body. An organization other than a primary government, such as the Authority, may serve as a nucleus for a reporting entity when it issues separate financial statements.

The Authority was formed by the State to develop and improve the Patriots Point area in Charleston County, South Carolina, and assist developing Patriots Point by acquiring, constructing, equipping, and maintaining museum buildings, aquariums, laboratories, public exhibits, entertainment facilities, historical monuments, and lodging at Patriots Point.

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

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

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, 1999

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 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. 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 and losses are 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, 1999**

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

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

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

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

Expenditures greater than \$1,000 for major improvements that 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
FOR THE YEAR ENDED JUNE 30, 1999**

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. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory 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.

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, 1999, 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
FOR THE YEAR ENDED JUNE 30, 1999**

3. Deposits - Continued

Deposits Held by State Treasurer - Continued

Unrestricted cash and cash equivalents are \$2,381,923 at June 30, 1999.

The amounts by component are as follows:

Unrestricted:	
Cash on hand	\$ 7,206
Cash held by State Treasurer	<u>2,374,717</u>
Total Unrestricted	<u><u>\$ 2,381,923</u></u>
Restricted:	
Cash held by State Treasurer	<u><u>\$ 190,152</u></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 \$190,152 at June 30, 1999, restricted by donors for specific purposes, principally for the improvement of existing museum exhibits.

5. Property and Equipment

A summary of the changes in property and equipment for the year ended June 30, 1999 are as shown on the following page:

	June 30, 1998	<u>Fiscal Year 1999</u>		June 30, 1999
		<u>Additions</u>	<u>Disposals/ Transfers</u>	
Museum fund:				
Land and improvement	\$ 3,713,671	\$ 108,861	\$ -	\$ 3,822,532
Buildings	1,629,011	11,968	-	1,640,979
Golf course	2,131,881	-	-	2,131,881
Equipment	949,205	101,346	-	1,050,551
Naval Museum	7,007,438	-	-	7,007,438
Construction in progress	-	-	-	-
	<u>15,431,206</u>	<u>222,175</u>	<u>-</u>	<u>15,653,381</u>
Less accumulated depreciation:	<u>(6,362,549)</u>	<u>(436,979)</u>	<u>-</u>	<u>(6,799,528)</u>
Net property and equipment	<u><u>\$ 9,068,657</u></u>	<u><u>\$ (214,804)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,853,853</u></u>

PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

5. Property and Equipment - Continued

During 1987, the Authority began a hotel and marina project, financed by bonds, which was unsuccessful, resulting in defaults on the terms of the bonds. Construction was abandoned and all of the development assets were written off except for the hotel road, main utility lines, foundation, and certain marina piers, which were written down to an estimated net realizable value of \$2,750,000. 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, 1999 are comprised of the following:

College of Charleston lease	\$ 482,692
Fort Sumter Tour contract	139,330
Camping deposits	29,198
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	\$ 651,220
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7. Contractual Services

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

8. Lease and Commission Income

Lease and commission income is comprised of the following:

Golf course lease	\$ 159,063
Concession stand commissions	211,552
Hotel/amenities lease	295,367
Flight simulation concessions	40,821
Fort Sumter tour commissions	49,195
Marina lease	65,820
Athletic complex lease	90,000
Land and other facility leases	29,731
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Total lease and commission income	\$ 941,549
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**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

8. Lease and Commission Income - Continued

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." 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, 1999 totaled \$159,063. 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. Two one-year options have been extended to date.

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.

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. Development of parcels B, C, D and E will include a marina, retail shops, restaurants, and rental condominiums. Development of parcels B, C and D are to be commenced by March 1, 2000 and parcel E by March 1, 2016. The leased land is owned by the Authority, but will be maintained by the lessee. 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

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

(the hotel) and parcel B (the marina) for the year ending June 30, 1999 totaled \$297,367 and \$65,820, respectively.

8. Lease and Commission Income - Continued

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 \$49,562 in lieu of contract revenue for the year ended June 30, 1999, and \$139,330 remains in deferred revenue related to dredging as of June 30, 1999.

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 1999 was \$90,000. 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 \$500,00 as deferred revenue and is recognizing lease revenue over the life of the lease. As of the year ended June 30, 1999, \$482,692 remains in deferred revenue.

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,	2000	\$	288,512
	2001		222,692
	2002		230,192
	2003		249,360
	2004		247,692
	Thereafter through 2095		18,294,233
	Total	\$	<u>19,532,681</u>

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

9. Related Party Transactions

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

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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.

9. Related Party Transactions - Continued

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, 1999. 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 1999 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, 1999 were \$90,000. See Note 8 for more information on the lease.

The Authority receives reimbursement of expenses (labor and repair on the Laffey) for the Tin Can Sailors program from Patriots Point Naval and Maritime Museum Foundation (the Foundation). The Foundation's mission is to raise money for expansion, maintenance and improvements for the Patriots Point Development Authority Museum. The reimbursement agreement is a verbal agreement renewable on an annual basis. The reimbursements are recorded as donations in the Museum fund. Reimbursements totaled \$30,000 for the fiscal year ending June 30, 1999, and were collected in full by fiscal year end.

10. Risk Management

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

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

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

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

10. Risk Management - Continued

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

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

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

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

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

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

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to 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, 1999.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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 19,170 State retirees meet these eligibility requirements.

The Authority recorded employer contribution expenses applicable to these benefits for active employees in the amount of \$149,585 for the year June 30, 1999. During fiscal year 1999, the amount paid by way of the pension surcharge for retiree insurance was \$33,534. 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.

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.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

12. South Carolina Retirement System

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

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

12. South Carolina Retirement System - Continued

Substantially all active employees of the Authority are covered by a retirement plan through the South Carolina

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

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

The Authority's total covered payroll for fiscal year 1999 was \$1,651,936 of total personnel services expenses paid of \$2,060,577. Employee and employer contribution rates are actuarially determined. Since July 1, 1998, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 1999, 1998, and 1997, were approximately \$124,700, \$108,900, and \$90,850, 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 \$2,478 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 SCRS 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 System does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Authority of the actuarial computed value of vested benefits over the total of the pension fund and any balance sheet accruals, less any pension prepayments or deferred charges, is not available. By State law, the Authority's liability under the retirement plan is limited to the amounts appropriated on behalf of the Authority for the plan in the South Carolina Appropriation Act for applicable year. Accordingly, the Authority recognizes no contingent liability for unfunded costs associated with participation in the Plan. All actuarially required contributions due to the plan were met.

At retirement, employees participating in the SCRS or PORS 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.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP

12. South Carolina Retirement System - Continued

provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

13. Deficit Equity Balances

At June 30, 1999, the Museum fund had a retained earnings (deficit) balance of \$(1,240,247). 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. Management forecasts that the deck of the aircraft carrier YORKTOWN will need replacement or repair within the next five years. The cost of this, as well as other significant projects, is expected to be approximately \$2,000,000 to \$3,000,000. The source of funds to accomplish these projects is expected to be lease and other revenues.

The Authority is obligated to provide dredging as a condition of its contract with Fort Sumter Tours, Inc. The dredging is required approximately every eight to ten years and occurred during the fiscal year ended June 30, 1998. The cost of the dredging was \$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, plans to remove and dispose of the fuel oil and the fuel-contaminated water during the year ended June 30, 2000. The estimated cost for this project is \$30,000. The source of funds to accomplish this project includes lease and other revenues.

15. Volunteers and Community Service

During the year ended June 30, 1999, volunteers donated approximately 7,800 hours of service. Also, during the year ended June 30, 1999, the Authority received approximately 1,060 hours of service through the Community Service program. There are no amounts recognized for the donated services in these financial statements.

16. Procurement Audit

The Authority underwent a Procurement Audit by the State of South Carolina State Budget and Control Board during the year ended June 30, 1999. The examination disclosed conditions that need correction or improvement. Corrective action based on the recommendations will in all material respects place Patriots Point Development Authority in compliance with the South Carolina Procurement Code and ensuing regulations.

**PATRIOTS POINT DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

17. Subsequent Event

Subsequent to the year ending June 30, 1999, the Authority was informed by the General Assembly that \$250,000 would be appropriated for the Cold War Submarine Memorial Project. The estimated total project cost to be funded from donations, state support, lease revenues and other sources is approximately \$1,103,000. The project is currently in the design and engineering stage.

REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Patriots Point Development Authority (the Authority) as of and for the year ended June 30, 1999, and have issued our report thereon dated September 3, 1999. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The year 2000 supplementary information on page 23 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Patriots Point Development Authority is or will become year 2000 compliant, that Patriots Point Development Authority's year 2000 remediation efforts will be successful, in whole or in part, or that parties with which Patriots Point Development Authority does business are or will become year 2000 compliant.

Pratt-Thomas, Gumb & Co., P.A.
September 3, 1999

**PATRIOTS POINT DEVELOPMENT AUTHORITY
YEAR 2000 REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 1999**

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for the example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Authority's direct control but also the systems of other entities with which the Authority transacts business. Some of the Authority's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Authority.

The Authority has employed consultants and other personnel to conduct various assessments of Y2K issues. A project plan for remediation of computer systems, including timelines, has been developed, costs determined and resources allocated. The Authority's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. The Authority has projected that Y2K compliance will cost an estimated \$6,000 and will be funded from the Museum Fund.

Work to address the year 2000 issue with respect to each system critical to conducting operations falls predominantly within one of the following states of work:

1. Awareness stage – Establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment stage – Identifying the systems and components for which year 2000 work is needed.
3. Remediation state – Making changes to systems/equipment.
4. Validation/testing stage – Validating and testing changes that were made during the remediation state.

At June 30, 1999, the Authority had completed the awareness, assessment, and remediation stages and had completed validation/testing work for systems and equipment relating to human resources, museum collections and donations, reservation information and directories.

The Authority is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to its' business.

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, 1999, and have issued our report thereon dated September 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

This report is intended for the information and use of the audit committee, 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.
September 3, 1999

Comments on Status of Prior Year's Comments

A. Other Matters

1. Lease Agreements

Comment: Same as Lease Agreements comment repeated below.

Status: The substance of this recommendation has not yet been implemented.

Comments From 1999 Audit

A. Other Matters

1. Lease Agreements

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

Management's Response: With the assistance of Patriot Point Development Authority's General Counsel, the Authority will seek to amend all leases that do not specify the method of annual verification to be used to ensure lease payments are correctly calculated.

2. 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 are 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.

Management's Response: 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 will receive a written letter or reprimand and said letter will be placed in the offending individual's personnel file.

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