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FLAWED PROCESS & \$5 MILLION DEBT TAINT GALLANT'S CHANNEL LAND TRANSFER

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Today, State Auditor Leslie Merritt released an investigative report on events that occurred during a nine-year period from 1997 to the State's 2006 acquisition of the Gallant's Channel property in Beaufort, North Carolina. While the report found that the State acquired the Gallant's Channel property well below its current fair market value, it also found that State Departments of Agriculture and Cultural Resources violated State regulations, and that the State Property Office failed to take title to Gallant's Channel after the State provided funds for its purchase in 1997 and 1998. In addition, the State Property Office failed to inform the Council of State in 2006 of \$190,000 in liens attached to the property.

"My biggest concerns are whether the State has failed to take title on other properties purchased with taxpayers' money and who might be using those properties as collateral for new loans," said State Auditor Leslie Merritt. "I think the State Property Office needs to go back and research all property acquisitions to resolve any unknown ownership issues, in addition to correcting the process moving forward," added Merritt.

The State ultimately provided \$8.9 million for the acquisition and improvement of the Gallant's Channel property which has a current fair market value of at least \$20 million. However, Friends of the Museum, a private non-profit organization, was responsible for \$5.3 million in mortgages and liens attaching to the property while the issues of ownership and management were left unresolved.

"I think the State missed the opportunity to acquire this property for the \$3.5 million paid in 1997," said State Auditor Leslie Merritt. "It's an open question as to whether the taxpayers will actually reap the full benefit from the added \$4.4 million in 'improvements to the property' that were made without State input or control," added Merritt.

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