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LOWCOUNTRY REGIONAL TRANSPORTATION AUTHORITY
Burton, South Carolina

Report of Certified Public Accountants

Financial Statements

Year ended June 30, 1987



LOWCOUNTRY REGIONAL TRANSPORTATION AUTHORITY

Post Office Drawer 4517
Burton, South Carolina 29903
Telephone: 846-4441



TO OUR PUBLIC,

It was approximately one year ago that the Lowcountry Regional Transportation Authority Board received its last financial audit of the system. During that fiscal year, which ended on June 30, 1986, the Authority incurred a net loss in excess of \$207,000. The accountants report went on to state that "the Authority may be unable to continue in existence."

My colleagues and I on the Board were determined to see to it that such an event would never occur. We therefore, set in place a series of fiscal controls, including simple, tough, old fashioned belt tightening.

A year has passed and the results are encouraging.

As this years audit report indicates, LRTA's net loss for the fiscal year ending June 30, 1987, has been reduced by over \$140,000 compared to previous year. Total expenditures were down by \$189,000. Operating expenditures decreased by \$166,000. Professional and Technical Services decreased by \$55,000. LRTA capital leases decreased by \$198,000. Total liabilities were decreased by \$200,000, compared to the previous year. The financial hemorrhaging of the LRTA has been stopped. The buses continue to roll and LRTA now has the breathing room in which to address the future.

The gains of the past aside, your LRTA Board of Directors and I, as Chairman of the Board recognize that serious problems still exist. I promise you that we will approach these problems in an aggressive and positive manner. Solutions will be found. Your board has already taken the first step by contracting with ATE Management and Service Company INC., of Cincinnati, Ohio, to manage the LRTA on a daily basis.

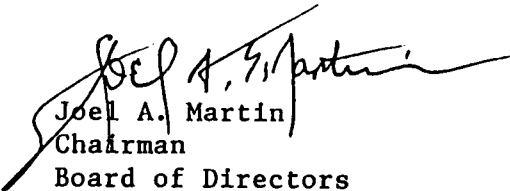
ATE currently manages over 70 client transit systems in the United States, these systems include over 14,000 employees, 7,000 vehicles, and over \$700 million in capital assets.

The board has directed ATE to undertake the following, (1) Develop a detailed financial management plan for the system; (2) Develop annual and five-year operating budgets; (3) Develop a five-year capital budget; (4) Develop and present alternatives to the lease/purchase agreements, which negatively impact on LRTA's cash flow; (5) Establish a performance monitoring system; (6) Development of a service plan; (7) Develop clear lines of accountability for staff members and departments.

The Board of Directors firmly believe these steps will allow the LRTA to not only meet the demands of the present, but the challenges presented by the future. The operation of the Lowcountry Regional Transportation Authority has had a positive impact on its five county community. The primary benefit has been a significant increase in the areas employment. Not only have jobs been created internally within our LRTA, but it has enabled citizens to obtain work on Hilton Head and other communities by providing reliable, affordable and safe transportation.

The LRTA Board is committed to the continuation of this valuable contribution to the quality of life in the Lowcountry and will continue to dedicate ourselves to its success.

Sincerely,


Joel A. Martin
Chairman
Board of Directors

LOWCOUNTRY REGIONAL TRANSPORTATION AUTHORITY
Burton, South Carolina

Report of Certified Public Accountants

Financial Statements

Year ended June 30, 1987

T A B L E O F C O N T E N T S

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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SINGLE AUDIT ACT COMPLIANCE SECTION

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SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS



REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Lowcountry Regional Transportation Authority
Burton, South Carolina

We have examined the balance sheet of the Lowcountry Regional Transportation Authority as of June 30, 1987 and the related statements of revenues, expenses, and changes in accumulated earnings and changes in financial position for the year then ended. Except as set forth in the following paragraphs, our examination was made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination disclosed that the system of internal control was seriously deficient. It was not practicable to expand our audit procedures sufficiently to satisfy ourselves as to the reliability of the accounting records.

As more fully described in Note F to the financial statements, there are potential questioned costs in the amount of \$148,461 to the Job Training Partnership Program for the period from October 1, 1983 to August 30, 1985. The Authority is in the process of resolving these items in question and the ultimate liability, if any, cannot now be determined.

As shown in the financial statements, the Authority incurred a net loss of \$67,106 during the year ended June 30, 1987, and as of that date, subject to the effects, if any, of the matters discussed in the preceding paragraphs, the company's current liabilities exceeded its current assets by \$377,823. These factors, among others, indicate that the Authority may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Authority be unable to continue in existence.

Because of the possible material effect on the financial statements of the matters discussed in the third and fourth paragraphs and since the system of internal control was seriously deficient, as noted in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements. Because of the possible material effect on the accompanying schedules of the matters discussed in the second, third and fourth preceding paragraphs, we cannot and do not express an opinion on such schedules.

Chung, Behrnt & Holland

Beaufort, South Carolina
November 24, 1987

Exhibit A

Lowcountry Regional Transportation Authority

BALANCE SHEET

June 30, 1987

ASSETS

	RTA Enterprise Fund	Charter Service Enterprise Fund	Totals (Memorandum only)	
			June 30, 1987	June 30, 1986
Current assets:				
Cash	\$ 12,182	\$ 5,279	\$ 17,461	\$ 31,421
Accounts receivable (Note I)	172,273	1,314	173,587	196,451
Accounts receivable - employees	-	-	-	993
Fuel inventory	2,278	-	2,278	17,060
Prepaid expenses	31,198	-	31,198	17,970
Due from other fund	171,682	-	171,682	54,983
Total current assets	389,613	6,593	396,206	318,878
Property and equipment:				
Fixed assets	643,216	1,542,939	2,186,155	2,280,282
Accumulated depreciation	344,632	379,879	724,511	513,668
	<u>298,584</u>	<u>1,163,060</u>	<u>1,461,644</u>	<u>1,766,614</u>
	\$688,197	\$1,169,653	\$1,857,850	\$2,085,492

LIABILITIES AND ACCUMULATED EARNINGS

Current liabilities:				
Accounts payable and accrued expenses	\$180,975	\$ 38,828	\$ 219,803	\$ 225,587
Due to other fund	-	171,682	171,682	54,983
Current portion of long-term debt (Note H)	-	178,709	178,709	142,840
Current portion of capital lease payable (Note C)	5,769	198,066	203,835	184,525
	<u>186,744</u>	<u>587,285</u>	<u>774,029</u>	<u>607,935</u>
Revolving Fund Advance (Note D)	60,000	-	60,000	60,000
Accrued liability for compensated absences	55,509	1,795	57,304	47,235
Long-term portion of debt (Note H)	-	178,102	178,102	297,415
Long-term portion of capital lease payable (Note C)	608	478,245	478,853	696,239
Contributed capital	9,000	-	9,000	9,000
Accumulated earnings (Deficit)	376,336	(75,774)	300,562	367,668
	<u>\$688,197</u>	<u>\$1,169,653</u>	<u>\$1,857,850</u>	<u>\$2,085,492</u>

The accompanying notes are an integral part of this exhibit.

Exhibit B

Lowcountry Regional Transportation Authority
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED EARNINGS
Year ended June 30, 1987

	RTA Enterprise Fund	Charter Service Enterprise Fund	Totals (Memorandum only)	
			June 30, 1987	June 30, 1986
Revenues	\$1,507,131	\$ 352,237	\$1,859,368	\$1,908,085
Expenses:				
Operations	1,171,122	305,125	1,476,247	1,642,950
General and administrative	280,028	170,199	450,227	472,958
Total expenses	1,451,150	475,324	1,926,474	2,115,908
Net earnings (loss)	55,981	(123,087)	(67,106)	(207,823)
Accumulated earnings at beginning of year	320,355	47,313	367,668	575,491
Accumulated earnings (deficit) at end of year	\$ 376,336	\$ (75,774)	\$ 300,562	\$ 367,668

The accompanying notes are an integral part of this exhibit.

Lowcountry Regional Transportation Authority

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended June 30, 1987

	Combined Total
	June 30, 1987
Funds provided by:	
Net loss	\$(67,106)
Add expenses not requiring outlay of working capital in current period:	
Depreciation	233,291
Loss on retirement of fixed assets	5,645
	171,830
Working capital provided by operations	171,830
Increase in accrued liability for compensated absences	10,069
Decrease in fixed assets (net)	66,382
Decrease in working capital (below)	88,766
	\$337,047
Funds used for:	
Increase in fixed assets	\$ 348
Decrease in long-term debt	119,313
Decrease in long-term portion of capital leases payable	217,386
	\$337,047
Increase (decrease) in working capital:	
Cash	\$(13,960)
Accounts receivable	(23,857)
Fuel inventory	(14,782)
Prepaid expenses	13,228
Accounts payable and accrued expenses	5,784
Current portion of capital lease payable	(19,310)
Current portion of long-term debt	(35,869)
	\$(88,766)

The accompanying notes are an integral part of this exhibit.

Lowcountry Regional Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

Note A - Summary of significant accounting policies:

- (a) The Lowcountry Regional Transportation Authority was established in 1977 as authorized by laws of the State of South Carolina. The Authority is governed by eight board members. Beaufort, Allendale, Colleton, Jasper and Hampton County Councils appoint one member each and the remaining three members are appointed by the Governor of the State of South Carolina upon recommendation by the local legislative delegation.
- (b) The Authority maintains the full accrual method of accounting under which revenues are recognized when they are earned and expenses are recognized when they are incurred.
- (c) Accumulated unpaid vacation, sick pay, and compensatory time are accrued when earned.
- (d) Inventories - Inventories of fuel are valued at the lower of cost (first-in, first-out) or market.
- (e) Property and equipment - Property and equipment is stated at cost. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized. Depreciation is computed using the straight-line method.
- (f) Contributed property and equipment - Contributed assets are stated at their fair market value at the date of contribution.
- (g) Accounts receivable - Accounts receivable are stated at their net realizable value. No provision for doubtful accounts has been made as they are all considered collectible. Uncollectible accounts are charged to expense as incurred.
- (h) Total (Memorandum Only) Columns - In the accompanying financial statements, the "Total (Memorandum Only)" columns are not the equivalent of consolidated totals and do not represent consolidated financial information. These columns are presented only to facilitate financial analysis.

(continued)

Lowcountry Regional Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

Note B - Pension Costs:

The Authority participated in the South Carolina Retirement System. All employees who work in excess of thirty (30) hours per week are eligible for and must become members of the South Carolina Retirement System. The normal cost is funded by contributions from the members at a rate of 4% of annual wages up to \$4,800 and 6% of annual wages in excess of \$4,800. The Authority's share of normal cost is based on 6.15% of the members wages. The Authority's contribution for the fiscal year ending June 30, 1987 was \$34,135.

Note C - Description of leasing arrangements:

(a) Capital leases - The Authority leases various items of office equipment, buses, cars and vans under capital leases at a cost of \$1,002,714. Following is a schedule of future minimum lease payments under the capitalized lease together with the present value of the net minimum lease payments as of June 30, 1987.

Year ending June 30:	RTA Enterprise Fund	Charter Service Enterprise Fund
	-----	-----
1988	\$6,424	\$265,169
1989	627	220,416
1990	-	170,916
1991	-	142,065
	-----	-----
Total minimum lease payment	7,051	798,566
Less: amount representing interest	674	122,255
	-----	-----
Present value of net minimum lease payment	\$6,377	\$676,311
	=====	=====

(continued)

Lowcountry Regional Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

(b) Following is a schedule of expense incurred under operating leases for the year ending June 30, 1987:

	RTA Enterprise Fund	Charter Service Enterprise Fund
	-----	-----
Trailer lease	\$ 2,660	\$ 420
Radio lease	1,037	163
Bus lease (Note E)	200,308	-
Land Lease	9,994	1,574
Equipment Lease	2,073	327
	-----	-----
	\$216,072	\$ 2,484
	=====	=====

There are no future minimum rental payments required under operating leases at June 30, 1987.

Note D - Revolving Fund Advance - The State of South Carolina has provided advance money in the amount of \$60,000 for the Lowcountry Regional Transportation Authority to use in meeting working capital requirements. This money has been set aside by the Authority in a separate bank account and is replenished as billings to the Federal and State grant agencies are collected.

Note E - Related party transactions:

During the year ended June 30, 1987, the Charter Service Enterprise fund leased certain buses to the RTA Enterprise fund. Total lease payments between the funds in 1987 were \$200,308.

Note F - Contingent Liability:

The Authority receives governmental assistance from the Job Training Partnership Program. This program is subject to program compliance audits by the grantors or their representatives. A compliance audit for the Job Training Partnership Program for the period from October 1, 1983 to August 30, 1985 has been conducted and questioned costs of \$148,461 were noted. A final resolution of these costs has not been determined to date.

(continued)

Lowcountry Regional Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

Note G - Fixed Assets:

A summary of fixed assets at June 30, 1987 is as follows:

	RTA Enterprise Fund	Charter Service Fund	Total
	-----	-----	-----
Vehicles	\$498,675	\$1,487,936	\$1,986,611
Office furniture & equipment	63,711	32,775	96,486
Maintenance equipment	26,818	-	26,818
Tanks	8,225	-	8,225
Tokens	5,787	-	5,787
Radios	40,000	22,228	62,228
	-----	-----	-----
Accumulated depreciation	643,216 344,632	1,542,939 379,879	2,186,155 724,511
	-----	-----	-----
	\$298,584	\$1,163,060	\$1,461,644
	=====	=====	=====

Note H - Long-term debt:

Long-term debt at June 30, 1987 consisted of the following:

	RTA Enterprise Fund	Charter Service Fund
	-----	-----
South Carolina National Bank:		
75% of Floating Prime due in semi-annual installments of \$59,483 plus accrued interest, collateralized by eight 1985 Blue Bird Buses, one diesel motor, one Allison Transmission, six air conditioners and a portion of Lowcountry Regional Transportation Authority Budget dated May 15, 1985.	\$ -	\$356,811
	-----	-----
	-	356,811
Less: current portion	-	178,709
	-----	-----
	\$ -	\$178,102
	=====	=====

(continued)

Lowcountry Regional Transportation Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

Note H - Long-term debt (continued):

The annual requirements to pay all debt outstanding as of June 30, 1987, including estimated interest payments of \$35,219 are as follows:

Year Ending June 30 -----	RTA Enterprise Fund -----	Charter Service Fund -----
1988	\$ -	\$ 203,543
1989	-	127,331
1990	-	61,156
	-----	-----
	\$ -	\$ 392,030
	=====	=====

Note I - Accounts receivable:

Accounts receivable at June 30, 1987 consisted of the following:

	RTA Enterprise Fund -----	Charter Service Fund -----	Combined Totals -----
State and Federal grant	\$ 95,693	\$ -	\$ 95,693
Other	76,580	1,314	77,894
	-----	-----	-----
	\$ 172,273	\$ 1,314	\$ 173,587
	=====	=====	=====

Note J - Interest expense:

Interest expense incurred during the year ended June 30, 1987 for capital leases and long-term debt was as follows:

	RTA Enterprise Fund -----	Charter Service Fund -----	Combined Totals -----
Capital leases	\$ 6,155	\$ 95,094	\$101,249
Long-term debt	-	25,672	25,672
	-----	-----	-----
	\$ 6,155	\$120,766	\$126,921
	=====	=====	=====

Lowcountry Regional Transportation Authority

SCHEDULE OF REVENUES

Year ended June 30, 1987

	RTA Enterprise Fund	Charter Service Enterprise Fund	Combined Totals
	-----	-----	-----
Revenues:			
Farebox	\$ 379,271	\$ -	\$ 379,271
Federal and state grants	574,169	-	574,169
County appropriations	46,000	-	46,000
Private contracts	457,694	-	457,694
Maintenance revenue	116	-	116
Equipment lease - interfund	-	200,308	200,308
Charters	-	148,083	148,083
Interest	1,813	253	2,066
Miscellaneous	302	-	302
Advertising	1,919	-	1,919
In-kind revenues	45,847	3,593	49,440
	-----	-----	-----
Total revenues	\$1,507,131	\$352,237	\$1,859,368
	=====	=====	=====

Lowcountry Regional Transportation Authority

SCHEDULE OF EXPENSES

Year ended June 30, 1987

	RTA Enterprise Fund	Charter Service Enterprise Fund	Combined Totals
	-----	-----	-----
Expenses:			
Operations:			
Salaries, wages and fringe benefits	\$ 551,158	\$ 87,589	\$ 638,747
Contract maintenance	22,641	3,567	26,208
Fuel and lubricants	170,024	26,785	196,809
Tires	28,384	4,471	32,855
Maintenance supplies	71,447	11,255	82,702
Building and van rentals (in-kind)	38,072	2,368	40,440
Depreciation	50,910	157,540	208,450
Insurance	36,010	5,673	41,683
Bus and equipment lease (\$200,308 interfund)	202,381	327	202,708
Loss on retirement of fixed assets	95	5,550	5,645
	-----	-----	-----
Total operations	1,171,122	305,125	1,476,247
	-----	-----	-----
General and administrative:			
Salaries and wages and fringe benefits	167,165	26,336	193,501
Advertising	1,017	160	1,177
Professional and technical services	24,543	3,866	28,409
Administrative supplies and postage	12,548	1,977	14,525
Utilities	14,933	2,353	17,286
Insurance	4,136	652	4,788
Dues and subscriptions	866	136	1,002
Travel and meetings	2,019	318	2,337
Operating lease expense	13,691	2,157	15,848
Interest	6,155	120,765	126,920
Building (in-kind)	7,775	1,225	9,000
Depreciation	16,063	8,778	24,841
Contract maintenance	4,342	684	5,026
Miscellaneous	548	197	745
Bad debts	453	-	453
Fines and penalties	3,774	595	4,369
	-----	-----	-----
Total general and administrative	280,028	170,199	450,227
	-----	-----	-----
Total expenses	\$1,451,150	\$475,324	\$1,926,474
	=====	=====	=====

Lowcountry Regional Transportation Authority

SUMMARY OF FIXED ASSETS AND ACCUMULATED DEPRECIATION

Year ended June 30, 1987

	Beginning Balance	Additions	Deletions	Ending Balance
	-----	-----	-----	-----
RTA Enterprise Fund:				
Property and equipment:				
Vehicles	\$ 507,675	\$ -	\$ 9,000	\$ 498,675
Office furniture & equip.	64,278	348	915	63,711
Maintenance equipment	26,818	-	-	26,818
Tanks	8,225	-	-	8,225
Tokens	5,787	-	-	5,787
Radios	40,000	-	-	40,000
	-----	-----	-----	-----
	\$ 652,783	\$ 348	\$ 9,915	\$ 643,216
	=====	=====	=====	=====
Accumulated depreciation:				
Vehicles	\$ 226,024	\$ 50,910	\$ 6,750	\$ 270,184
Office furniture & equip.	19,201	7,134	900	25,435
Maintenance equipment	18,112	3,527	-	21,639
Tanks	3,887	823	-	4,710
Tokens	2,460	579	-	3,039
Radios	15,625	4,000	-	19,625
	-----	-----	-----	-----
	\$ 285,309	\$ 66,973	\$ 7,650	\$ 344,632
	=====	=====	=====	=====
Charter Service Enterprise Fund:				
Property and equipment:				
Vehicles	\$1,572,496	\$ -	\$84,560	\$1,487,936
Radios	22,228	-	-	22,228
Office Equipment	32,775	-	-	32,775
	-----	-----	-----	-----
	\$1,627,499	\$ -	\$84,560	\$1,542,939
	=====	=====	=====	=====
Accumulated depreciation:				
Vehicles	\$ 218,137	\$157,540	\$14,798	\$ 360,879
Radios	4,733	2,223	-	6,956
Office equipment	5,489	6,555	-	12,044
	-----	-----	-----	-----
	\$ 228,359	\$166,318	\$14,798	\$ 379,879
	=====	=====	=====	=====

Lowcountry Regional Transportation Authority

SCHEDULE OF CHANGES IN FINANCIAL POSITION

Year ended June 30, 1987

	RTA Enterprise Fund	Charter Service Enterprise Fund
	-----	-----
Funds provided by:		
Net earnings (loss)	\$ 55,981	\$(123,087)
Add expenses not requiring outlay of working capital in current period:		
Depreciation	66,973	166,318
Loss on retirement of fixed assets	95	5,550
	-----	-----
Working capital provided by operations	123,049	48,781
Increase in accrued liability for compensated absences	8,274	1,795
Decrease in working capital	-	216,560
Decrease in fixed assets (net)	2,169	64,213
	-----	-----
	\$ 133,492	\$ 331,349
	=====	=====
Funds used for:		
Increase in fixed assets	\$ 348	\$ -
Decrease in long-term debt	-	119,313
Decrease in long-term portion of capital leases	5,350	212,036
Increase in working capital	127,794	-
	-----	-----
	\$133,492	\$331,349
	=====	=====
Increase (decrease) in working capital:		
Cash	\$ (6,543)	\$ (7,417)
Accounts receivable	(18,388)	(5,469)
Fuel inventory	(14,782)	-
Prepaid expenses	13,228	-
Accounts payable and accrued expenses	37,105	(31,321)
Current portion of capital lease payable	475	(19,785)
Current portion of long-term debt	-	(35,869)
Increase in due to other funds	-	(116,699)
Increase in due from other funds	116,699	-
	-----	-----
	\$ 127,794	\$(216,560)
	=====	=====

AUDITOR'S REPORT
ON INTERNAL ACCOUNTING CONTROL

The Board of Directors
Lowcountry Regional Transportation Authority
Burton, South Carolina

We have examined the general purpose financial statements of the Lowcountry Regional Transportation Authority for the year ended June 30, 1987, and have issued our report thereon dated November 24, 1987 in which we disclaimed an opinion on such statements. As part of our examination, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U. S. General Accounting Office, the Single Audit Act of 1984, and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

Cycles of the Entities' Activity

- (1) Payroll
- (2) Purchases/Cash Disbursements
- (3) Revenue/receipts
- (4) Treasury

Controls Used in Administering Federal Financial Assistance Programs

General Requirements

- (1) Davis-Bacon Act
- (2) Civil Rights
- (3) Cash management
- (4) Real property acquisition
- (5) Federal financial reports

Specific Requirements

- (1) Types of services
- (2) Reporting
- (3) Special requirements

The management of the Lowcountry Regional Transportation Authority is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended June 30, 1987, the Lowcountry Regional Transportation Authority expended 100% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of the Lowcountry Regional Transportation Authority. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs, of the Lowcountry Regional Transportation Authority. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the Lowcountry Regional Transportation Authority.

However, our study and evaluation and our examination disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal assistance program may occur and not be detected within a timely period. First, there is almost a complete lack of segregation of duties resulting in employees performing numerous incompatible functions. Secondly, the accounting records are not maintained in a fashion to provide reliable financial information during the year.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our examination of the June 30, 1987 general purpose financial statements and (2) our examination and review of the Authority's compliance with laws and regulations, noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance program. This report does not affect our reports on the general purpose financial statements and on the Authority's compliance with laws and regulations dated November 24, 1987.

This report is intended solely for the use of management, the U. S. Department of Transportation and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Lowcountry Regional Transportation Authority, is a matter of public record.

CHERRY, BEKAERT & HOLLAND

Cherry, Bekaert + Holland

Beaufort, South Carolina
November 24, 1987

COMPLIANCE REPORT BASED ON AN EXAMINATION
OF GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
THE STANDARDS FOR AUDIT BY THE GAO

The Board of Directors
Lowcountry Regional Transportation Authority
Burton, South Carolina

We have examined the general purpose financial statements of the Lowcountry Regional Transportation Authority for the year ended June 30, 1987, and have issued our report thereon dated November 24, 1987. Except as set forth in the following paragraph, our examination of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U. S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination disclosed that the system of internal control was seriously deficient. It was not practicable to expand our audit procedures sufficiently to satisfy ourselves as to the reliability of the accounting records. Additionally, there are potential questioned costs in the amount of \$148,461 to the Job Training Partnership Program for the period from October 1, 1983 to August 30, 1985. The Authority is in the process of resolving those items in question and the ultimate liability, if any, cannot now be determined.

The management of the Lowcountry Regional Transportation Authority is responsible for the Authority's compliance with laws and regulations. In connection with our examination referred to above, we selected and tested transactions and records to determine the Authority's compliance with laws and regulations noncompliance with which could have a material effect on the general purpose financial statements of the Authority.

The results of our tests indicate that for the items tested, the Lowcountry Regional Transportation Authority complied with those provisions of laws and regulations noncompliance with which could have a material effect on the general purpose financial statements. Except for the possible effects of the matters discussed in the second paragraph of this report, nothing came to our attention that caused us to believe that for the items not tested the Lowcountry Regional Transportation Authority was not in compliance with laws or regulations noncompliance with which could have a material effect on the Authority's general purpose financial statements.

CHERRY, BEKAERT & HOLLAND

Cherry, Bekaert + Holland

Beaufort, South Carolina
November 24, 1987

REPORT ON SUPPLEMENTARY INFORMATION SCHEDULE OF
FEDERAL FINANCIAL ASSISTANCE

The Board of Directors
Lowcountry Regional Transportation Authority
Burton, South Carolina

We have examined the general purpose financial statements of the Lowcountry Regional Transportation Authority for the year ended June 30, 1987, and have issued our report thereon dated November 24, 1987 in which we disclaimed an opinion on such statements. Except as set forth in the following paragraph, our examination of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U. S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination disclosed that the system of internal control was seriously deficient. It was not practicable to expand our audit procedures sufficiently to satisfy ourselves as to the reliability of the accounting records. Additionally, there are potential questioned costs in the amount of \$148,461 to the Job Training Partnership Program for the period from October 1, 1983 to August 30, 1985. The Authority is in the process of resolving those items in question and the ultimate liability, if any, cannot now be determined.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the examination of the general purpose financial statements. Because of the possible material effect on the schedule of the matters discussed in the second preceding paragraph, we cannot and do not express an opinion on such schedule.

CHERRY, BEKAERT & HOLLAND

Cherry, Bekaert & Holland

Beaufort, South Carolina
November 24, 1987

Lowcountry Regional Transportation Authority

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Year ended June 30, 1987

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Financial Assistance Receipts</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through State of			
South Carolina:			
Urban Mass Transportation			
Operating Assistance Grant	20.507	\$488,444	\$488,444
		-----	-----
<u>U.S. Department of Health and Human Services</u>			
Passed through State of			
South Carolina:			
Medical Assistance Program			
(Title XIX) Grant	13.714	314,409	314,409
		-----	-----
<u>U.S. Department of Labor</u>			
Passed through State of			
South Carolina:			
Comprehensive Employment and			
Training Act Program Grant	17.232	31,680	31,680
		-----	-----
Total Federal Assistance		\$834,533	\$834,533
		=====	=====

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Board of Directors
Lowcountry Regional Transportation Authority
Burton, South Carolina

We have examined the general purpose financial statements of the Lowcountry Regional Transportation Authority, for the year ended June 30, 1987, and have issued our report thereon dated November 24, 1987 in which we disclaimed an opinion on such statements. Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U. S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination disclosed that the system of internal control was seriously deficient. It was not practicable to expand our audit procedures sufficiently to satisfy ourselves as to the reliability of the accounting records. Additionally, there are potential questioned costs in the amount of \$148,461 to the Job Training Partnership Program for the period from October 1, 1983 to August 30, 1985. the Authority is in the process of resolving those items in question and the ultimate liability, if any, cannot now be determined.

The management of the Lowcountry Regional Transportation Authority is responsible for the Authority's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records from each major federal financial assistance program. The purpose of our testing of transactions and records from those federal financial assistance programs was to obtain reasonable assurance that the Lowcountry Regional Transportation Authority, had, in all material respects, administered major programs, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they related are identified in the accompanying schedule of findings and questioned costs.

In our opinion, subject to the effect of the ultimate resolution of those instances of noncompliance referred to in the preceding paragraph, for the year ended June 30, 1987, the Lowcountry Regional Transportation Authority, administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

CHERRY, BEKAERT & HOLLAND

Cherry, Bekaert - Holland

Beaufort, South Carolina
November 24, 1987

Lowcountry Regional Transportation Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ending June 30, 1987

Program	Finding/Noncompliance	Questioned Costs
Urban Mass Transit Administration		
1. Section 18 Contract # PTD-6-1013-4	<p>The RTA is required to maintain the records of the RTA for at least three years after the submission of the final expenditure report. It has come to our attention that the records for the year ending June 30, 1983 and part of the records for the year ending June 30, 1985 cannot be located at this time.</p> <p>The RTA is required to maintain adequate financial records during the grant period. The RTA used a set amount for its drawdowns during the contract period. The financial records did not provide information necessary for supporting such reimbursement requests.</p> <p>The RTA is required to maintain a system of internal control sufficiently strong to safeguard the assets of the organization. The system in place is seriously deficient due to a lack of segregation of duties that results in a more than likely possibility that error or irregularities would not be detected.</p>	\$ -