County of Lackawanna Transit System Authority

COLTS
County of Lackawanna Transit System

Financial Statements

June 30, 2012

rkl LLP
REINSEL KUNTZ LESHER
certified public accountants & consultants
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County of Lackawanna Transit System Authority

Financial Statement

June 30, 2012

Contents

REINSEL KUNTZ LESHER
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Independent Auditor's Report on the Financial Statement

To the Board of Directors
County of Lackawanna Transit
System Authority
Scranton, Pennsylvania

We have audited the accompanying basic financial statements of the County of Lackawanna Transit System Authority as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the County of Lackawanna Transit System Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of Lackawanna Transit System Authority as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further described in Note S, the Authority changed its method of accounting for certain grants received from the Commonwealth of Pennsylvania, Department of Transportation.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012 on our consideration of the County of Lackawanna Transit System Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information on Pages 3-9 and Pages 30 and 31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed as supplementary information in the table of contents on Pages 30 and 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Reinsel Kuntz Lesher LLP

December 28, 2012

COUNTY OF LACKAWANNA TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the County of Lackawanna Transit System (COLTS) provides both an introduction and explanation of the basic financial statements of COLTS for the fiscal year ended June 30, 2012 with comparative financial information for the fiscal year ended June 30, 2011. The section is designed to highlight significant financial issues and activities of COLTS. The following analysis should be used in conjunction with the attached financial statements, which begin on page 10.

Highlights

Operating Revenues

COLTS' operating revenue has increased 349% or $ 3,718,021 in comparison to June 30, 2011, due in large part to the contract arrangement for Shared Ride services with The Lackawanna County Coordinated Transportation System. Increase was also attributable to the successful negotiation of fixed price contracts with the University of Scranton and Marywood University. COLTS did increase fares in July 2012. As a result, COLTS does anticipate a slight decrease in ridership, but fully expects revenues to remain consistent with prior years.

Operating Expenses

COLTS' operating expenses increased approximately 43% or $ 3,796,708 from June 30, 2011. This is due in large part to the contract arrangement for Shared Ride services with The Lackawanna County Coordinated Transportation System. Additionally, the increase was due to a contractually negotiated raise of 3% for all represented employees and fuel costs continued to climb in accordance with current market trends. COLTS joined a fuel consortium about three years ago and has been able to take advantage of fuel prices below market pricing. The increase was offset by a 35% decrease recognized in materials and supplies due to less maintenance work performed on buses in 2012 versus 2011.

Service Highlights

In fiscal year 2012, COLTS provided 1,505,838 rides. Ridership has decreased by approximately 120,000 when compared to fiscal year 2011. Most of the riders lost were seniors; however, ridership of fare-paying passengers has increased 12%. This is due in large part to extensive outreach to the college community in Scranton. Seniors continue to ride for free. COLTS' Director of Communications conducted several outreach sessions at area senior centers and Travel Training Days to teach seniors how to ride the busses and navigate the route maps.

Overview of the Financial Statements

COLTS' basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows. The report also includes notes to the financial statements and other relevant supplemental information.

COLTS' financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, the current year's revenues earned and expenses incurred are accounted for in the Statement of Activities regardless of when cash is received or paid.

Statement of Nets Assets

The statement of net assets presents the financial position of COLTS. It presents information on COLTS' assets and liabilities. COLTS' net assets are presented as the difference between the Authority's assets and liabilities on this report. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of COLTS is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents information showing how COLTS' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned, but unused vacation leave).

Statement of Cash Flows

The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in COLTS' financial statements. The notes to the financial statements can be found on pages 13-27 of this report.

Supplemental Information

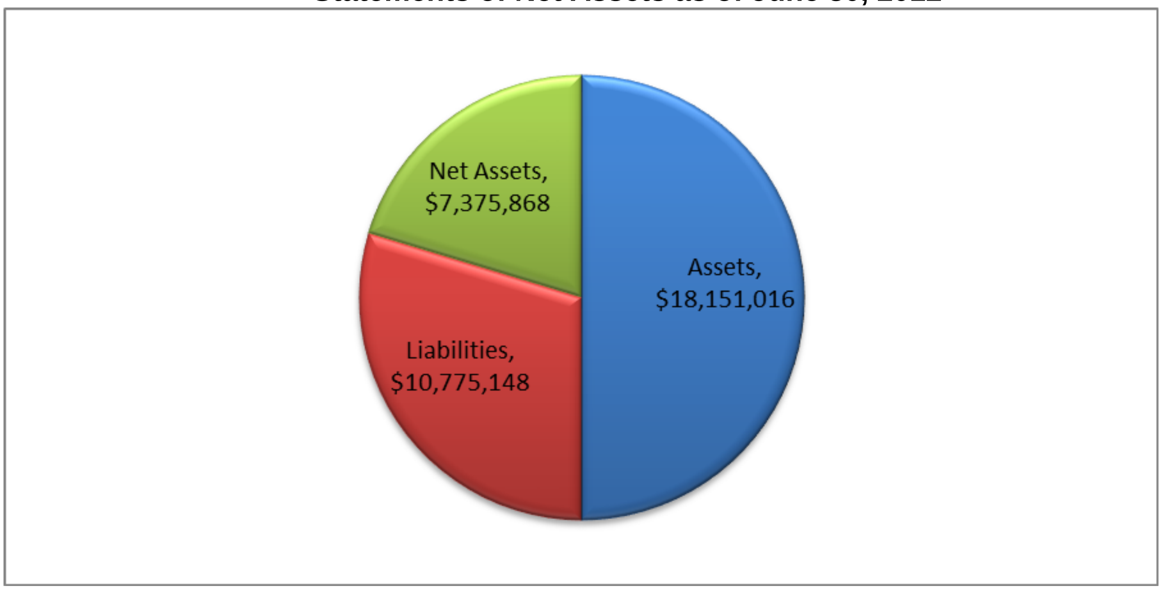
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning COLTS' progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on page 28 of this report.

Financial Analysis

Net Assets

Net assets, when viewed over time, may serve as a useful indicator of an entity's financial position. Effective July 1, 2011, the Authority changed its method of accounting for certain grant funds received from the Commonwealth of Pennsylvania, Department of Transportation (PennDOT). Based on new policy issued by PennDot and their *Financial Reporting Manual* issued April 17, 2012, all state grant funds provided through PennDOT that have purpose restrictions also have timing restriction related to budget approvals, and the time restrictions take precedent in applying Government Accounting Standard Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* Approximately $ 8,100,000 was reclassified from net assets to deferred revenues, a liability. In the case of COLTS, assets exceed liabilities by $ 7,375,868 as of June 30, 2012.

Statements of Net Assets as of June 30, 2012



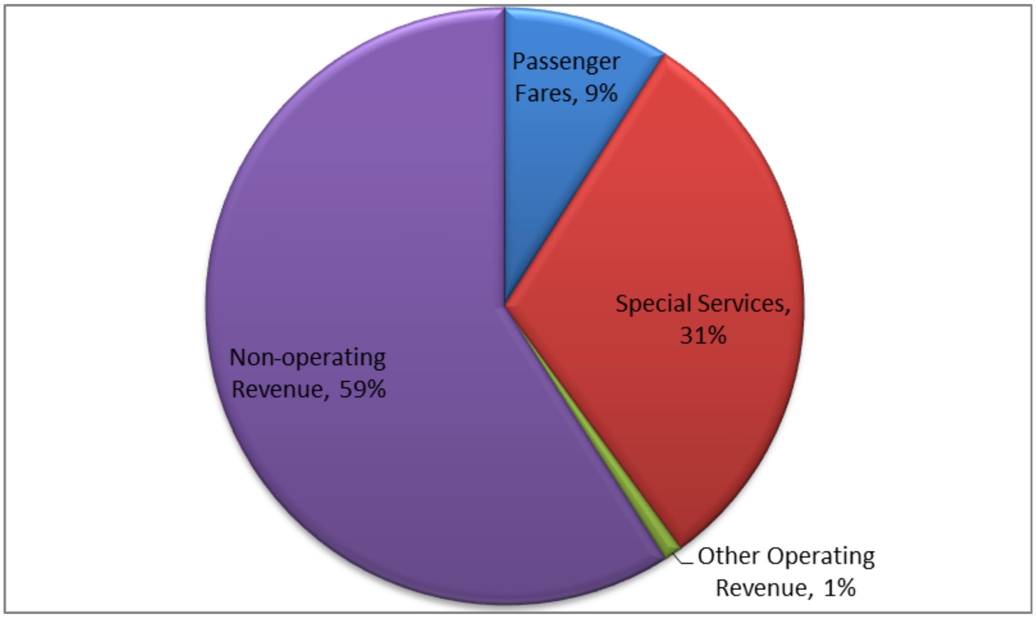
A condensed summary of COLTS' statement of net assets as of June 30 is presented below:

	2012	2011
Current assets	**$ 11,509,217**	$ 10,413,900
Noncurrent assets:		
Capital assets, net	**6,496,796**	7,175,729
Net pension benefit	**145,003**	107,019
Total assets	**18,151,016**	17,696,648
Current liabilities	**10,217,088**	9,135,485
Long-term liability	**558,060**	570,738
Total liabilities	**10,775,148**	9,706,223
Net assets:		
Invested in capital assets	**6,496,796**	7,175,739
Unrestricted	**879,072**	814,686
Total net assets	**$ 7,375,868**	$ 7,990,425

Net capital assets consisting of land, buildings, passenger coaches, service vehicles, machinery and equipment comprise 88% of COLTS' net assets as of June 30, 2012. Due to a change in accounting, deferred revenue from certain state grants accounts for 75% of COLTS' liabilities. This is comprised of $ 376,590 of Act 26 funds, $ 3,151,345 of Act 3 funds and $ 4,601,613 of Act 44 funds. These funds are matching funds to federal grants for current and future capital projects. With budget constraints at the federal and state levels, COLTS prioritizes the allocation of capital funds to future bus procurement projects first, then to other capital projects. All capital grant funding assets are restricted funds to purchase capital assets to be used exclusively to provide transportation services to citizens in Lackawanna County. Due to the restrictions placed on their use and disposal, these capital assets are not available for future spending.

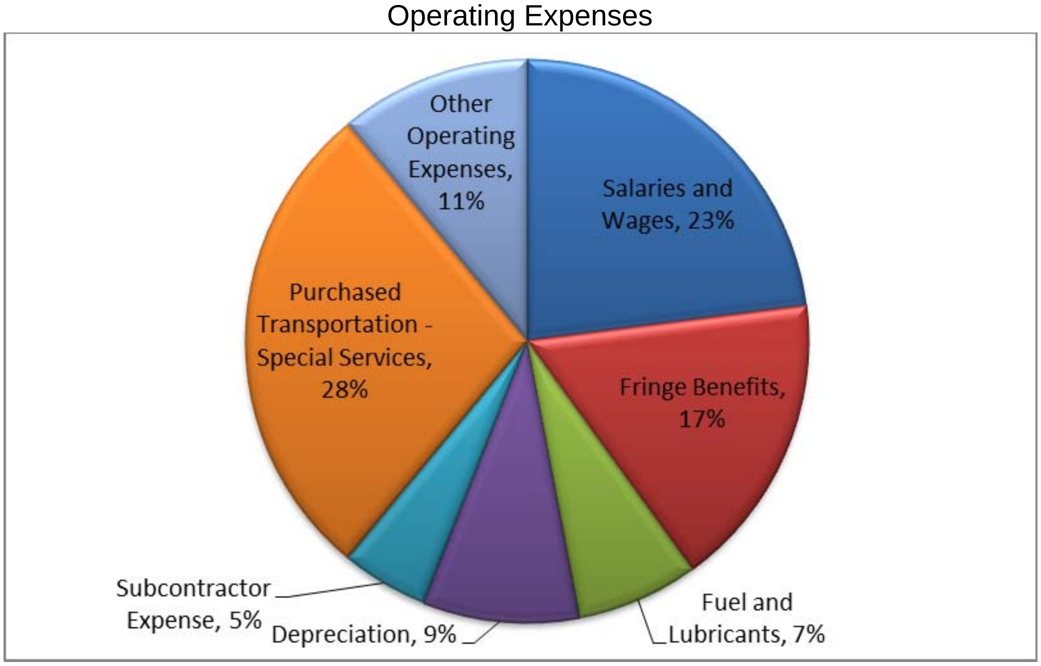
Changes in Net Assets

Revenues



COLTS is primarily dependent upon federal, state and local government grants to fund its operations. These grant funds are included in the nonoperating revenues shown in the chart above for the year ended June 30, 2012.

Operating Expenses



COLTS' major expenses are salaries and wages and benefits, which combine to equal 40% of the annual expenses. Purchased transportation for special services was equal to 28% of the annual expenses. Depreciation equals 9%. Other operating expenses are approximately 11% of the annual expenses. The above chart illustrates the major categories of COLTS' expenses for the year ended June 30, 2012.

A summary of COLTS' statements of revenues, expenses, and changes in nets assets for the year ended June 30, 2012 is presented below:

Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011
Operating revenues:		
Passenger fares	**$ 1,065,381**	$ 954,173
Special services revenue	**1,023,189**	-
Medical Assistance Transportation Program Grant	**1,508,965**	-
Persons with Disabilities Program Grant	**10,050**	-
State Lottery Shared Ride Program Grant	**1,060,095**	-
Advertising income	**58,564**	61,439
Other	**58,184**	39,745
Total operating revenues	**4,784,428**	1,055,357
Operating expenses	**12,699,329**	8,902,621
Loss from operations	**(7,914,901)**	(7,847,264)
Nonoperating revenues (expenses):		
Operating and planning grants:		
Federal government	**410,913**	387,553
Commonwealth of Pennsylvania	**67,456**	-
Local governments	**523,236**	495,587
Commonwealth of Pennsylvania, Act 26 funds	**26,019**	72,876
Commonwealth of Pennsylvania, Act 3 funds	**26,133**	61,987
Commonwealth of Pennsylvania, Act 44 funds	**5,952,049**	6,258,980
	7,005,806	7,276,983
Investment income	**11,276**	-
Expenses disallowed for capital funding	**(65,839)**	-
Total nonoperating revenues (expenses)	**6,951,243**	7,276,983
Loss before capital grant funding	**(963,658)**	(570,281)
Capital grant funding	**349,101**	3,287,560
Increase (decrease) in net assets	**(614,557)**	2,717,279
Net assets, beginning of year	**7,990,425**	5,273,146
Net assets, end of year	**$ 7,375,868**	$ 7,990,425

Capital Assets

COLTS' investment in capital assets as of June 30, 2012 and 2011 (net of accumulated depreciation) amounted to $ 6,496,796 and $ 7,201,725, respectively. Capital assets are recorded at cost and include land, buildings, buses and support vehicles, and other garage and office equipment and furniture.

Capital Assets at June 30 (Net of Accumulated Depreciation)

	2012	2011
Land	**$ 33,486**	$ 33,486
Construction in progress	**193,031**	507,870
Building	**3,190,986**	2,820,222
Buses and support vehicles	**1,971,246**	2,733,990
Other equipment	**1,108,047**	1,106,157
	$ 6,496,796	$ 7,201,725

Economic Factors

COLTS receives Federal capital funding through §5307 funds and congressional earmarks. The current extension of transportation bill, SAFTEA-LU, expired on June 30, 2012. MAP-21, Moving Ahead for Progress in the 21st Century, was signed into law on July 6, 2012 and is set to expire on October 1, 2014. COLTS will continue to remain active in and work with the national transit association, APTA, to ensure that funding for public transportation is not compromised.

Pennsylvania introduced Act 44 in July 2007 and relied on tolls for Interstate 80 to fund this initiative. However, the Federal Highway Administration denied PennDOT's request to have Interstate 80 tolled and securing a sustainable source of funds is in serious jeopardy. COLTS' Act 44 funds were cut by 3.7% in fiscal year 2011, but have remained level for fiscal year 2012. Act 44 is COLTS' source of operating assistance. COLTS is working with Pennsylvania Public Transit Association to influence the state legislature to secure a funding source.

Contacting the Authority’s Financial Management

This financial report is designed to provide our customers, the public and funding agencies with a general overview of COLTS' finances and to show accountability for the money it receives. If there are any questions about this report, please contact Jennifer Honick, Director of Finance and Administration at COLTS' offices, 800 North South Road, Scranton, Pennsylvania 18504.

County of Lackawanna Transit System Authority

Statement of Net Assets

	JUNE 30, 2012
Assets	
Current Assets	
Cash and cash equivalents	$ 1,769,130
Cash and equivalents, restricted	8,129,548
Investments	125,949
Accounts receivable	246,087
Inventories	112,585
Prepaid expenses	184,449
Operating grants receivable	686,111
Capital grants receivable	255,358
Total Current Assets	11,509,217
Capital Assets	
Capital assets not being depreciated	226,517
Capital assets being depreciated, net	6,270,279
Total Capital Assets	6,496,796
Other Assets, Net Pension Asset	145,003
Total Assets	$ 18,151,016

See accompanying notes.

	JUNE 30, 2012
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	**$ 690,744**
Accrued expenses:	
Payroll and payroll taxes	**118,687**
Vacation	**142,707**
Worker's compensation claims	**249,889**
Deferred revenue, Lackawanna County	**885,513**
Deferred revenue, Act 26	**376,590**
Deferred revenue, Act 3	**3,151,345**
Deferred revenue, Act 44	**4,601,613**
Total Current Liabilities	**10,217,088**
Long Term Liability, Accrued Compensated Absences	**558,060**
Commitments and Contingencies	**-**
Net Assets	
Invested in capital assets	**6,496,796**
Unrestricted	**879,072**
Total Net Assets	**7,375,868**
Total Liabilities and Net Assets	**$ 18,151,016**

County of Lackawanna Transit System Authority

Statement of Revenues, Expenses and Changes in Net Assets

	YEAR ENDED JUNE 30, 2012
Operating Revenues	
Passenger fares	$ 1,065,381
Special services revenue	1,023,189
Medical Assistance Transportation Program Grant	1,508,965
Persons with Disabilities Program Grant	10,050
State Lottery Shared Ride Program Grant	1,060,095
Advertising income	58,564
Other	58,184
Total Operating Revenues	4,784,428
Operating Expenses	12,699,329
Loss From Operations	(7,914,901)
Nonoperating Revenues (Expenses)	
Operating and planning grants:	
Federal government	410,913
Commonwealth of Pennsylvania	67,456
Lackawanna County	523,236
Commonwealth of Pennsylvania Act 26 funds	26,019
Commonwealth of Pennsylvania Act 3 funds	26,133
Commonwealth of Pennsylvania Act 44 funds	5,952,049
	7,005,806
Investment income	11,276
Expenses disallowed for capital funding	(65,839)
Total Nonoperating Revenues (Expenses)	6,951,243
Loss Before Capital Grant Funding	(963,658)
Capital Grant Funding	349,101
Decrease in Net Assets	(614,557)
Net Assets, Beginning of Year	7,990,425
Net Assets, End of Year	$ 7,375,868

See accompanying notes.

County of Lackawanna Transit System Authority

Statement of Cash Flows

	YEAR ENDED JUNE 30, 2012
Cash Flows From Operating Activities	
Cash received from customers	$ 4,606,611
Cash payments to suppliers for goods and services	(8,838,931)
Cash payments to employees for services	(3,021,847)
Net Cash Used In Operating Activities	(7,254,167)
Cash Flows From Noncapital Financing Activities	
Receipts from operating and planning grants	8,115,393
Net Cash Provided By Noncapital Financing Activities	8,115,393
Cash Flows From Capital and Related Financing Activities	
Receipts from capital grants	484,343
Purchase of capital assets	(409,602)
Net Cash Provided By Capital and Related Financing Activities	74,741
Cash Flows From Investing Activities	
Income received on investments	3,535
Net Cash Provided By Investing Activities	3,535
Net Increase in Cash and Cash Equivalents	939,502
Cash and Cash Equivalents at Beginning of Year	8,959,176
Cash and Cash Equivalents at End of Year	$ 9,898,678

County of Lackawanna Transit System Authority

Statement of Cash Flows (Continued)

	YEAR ENDED JUNE 30, 2012
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Operating loss	**$ (7,914,901)**
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation	**1,088,545**
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts and other receivables	**(177,817)**
Inventories	**(112,585)**
Prepaid expenses	**(121,220)**
Pension asset	**(37,994)**
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	**21,805**
Net Cash Used In Operating Activities	**$ (7,254,167)**

See accompanying notes.

County of Lackawanna Transit System Authority

Notes to Financial Statements

June 30, 2012

Note A - Nature of Activity

The Lackawanna County Transit System Authority (the "Authority") was created November 1, 1972 by the County of Lackawanna, Pennsylvania, under the laws of the Commonwealth of Pennsylvania, in compliance with the Pennsylvania Municipality Authorities Act, for the purpose of providing public transportation within Lackawanna County.

The Authority provides standard bus service on fixed routes to the general public and under contract with the Lackawanna County Coordinated Transportation Services door-to-door transportation services to qualifying elderly and handicapped persons at special fares.

The Authority is funded by a combination of passenger fares, other operating revenues and federal, state and local operating and capital grants.

Note B - Summary of Significant Accounting Policies

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies used by the Authority.

The Financial Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no agencies or entities that should be presented with the Authority.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed to the extent these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected to follow subsequent private-sector guidance, subject to the same limitation.

Note B - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for transportation services. Operating expenses include the cost of providing transportation services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are operating, planning and capital grant revenue grants from the federal, state and local governments and interest income.

Assets, Liabilities, Net Assets, Revenues and Expenses

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of reporting cash flows, the Authority considers all cash accounts, including accounts subject to withdrawal restrictions or penalties, accounts designated for specific purposes and all highly-liquid debt investments purchased with a maturity of three months or less to be cash.

Investments:

The Board is permitted to invest the Authority's funds as defined in the Pennsylvania Municipality Authorities Act. Authorized types of investments include the following:

1. U. S. Treasury Bills.

2. Short-term obligations of the U. S. Government and federal agencies.

3. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.

4. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.

5. Shares of mutual funds whose investments are restricted to the above categories.

Note B - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Net Assets, Revenues and Expenses (Continued)

Investments (continued):

When making investments, the Board can combine monies from more than one fund under the Authority's control for the purchase of a single investment and join with other political subdivisions and municipal authorities in the purchase of a single investment.

Investments are stated at fair value.

Restricted assets:

Certain proceeds from the Authority's dedicated state tax revenues are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by state statute.

Accounts receivable:

All accounts receivable are shown net of an allowance for uncollectibles, as applicable. Accounts receivable in excess of 90 days are evaluated for collectibility and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories and prepaid expenses:

Inventories are valued at the lower of cost or market on a first-in, first-out basis method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital assets:

Capital assets include property, plant and equipment and are recorded at historical cost and depreciated utilizing the straight-line method over their estimated useful lives as follows:

Buildings	10 to 39 years
Passenger coaches	5 to 12 years
Service vehicles	5 years
Shop and garage equipment	5 to 10 years
Furniture and office equipment	5 to 10 years
Miscellaneous revenue equipment	5 to 10 years

It is the Authority's policy to capitalize and depreciate capital assets with a cost of more than $ 5,000.

Note B - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Net Assets, Revenues and Expenses (Continued)

Capital assets (continued):

Upon the sale of capital assets, the proceeds, net of disposal costs, may be required to be returned to the various funding sources that initially funded the acquisition of these items.

Maintenance and repairs of capital assets are expensed when incurred.

Compensated absences:

The Authority records its obligation to compensate employees for vacation and sick time as the liability is incurred. The liability has been determined according to personnel policies of the Authority and bargaining agreements.

Deferred revenues:

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts are measurable, but are not available.

Net assets:

Net assets are classified into three categories as follows:

Invested in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net assets are amounts that have externally imposed restrictions on how the funds can be spent.

Unrestricted net assets are amounts that do not meet the definitions of "invested in capital assets" or "restricted" and are available for Authority operations.

Capital grants:

Capital grants are recorded for amounts restricted to capital acquisition. The Authority recognizes capital grants when earned (generally when the related capital expenditure is incurred). Capital grants are reported in the statement of revenues, expenses and changes in net assets, after nonoperating revenues.

Advertising costs:

Advertising costs are expensed as incurred.

Employee benefits:

The Authority participates in three pension plans covering substantially all employees. Pension plan expense is determined as specified in each plan. The Authority's policy is to fund all required pension costs.

Note C - Budget Matters

The Authority is not required to adopt a budget.

Note D - Stewardship, Compliance and Accountability

Compliance With Finance-Related Legal and Contractual Provisions

The Authority had no material violations of finance-related legal and contractual provisions.

Note E - Cash and Cash Equivalents

The Authority has custodial credit risk on cash deposits. This is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

As of June 30, 2012, the carrying amounts of the Authority's bank deposits were $ 9,898,528 and the corresponding bank balances were $ 10,055,854, of which $ 9,555,854 were exposed to custodial risk because they were uninsured but are collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

Cash and cash equivalents, whose use is limited to a specific purpose, has been classified as "restricted" in the financial statements. Restricted assets at June 30, 2012 consist of the following:

Act 26 funds	$ 376,590
Act 3 funds	3,151,345
Act 44 funds	4,601,613
	$ 8,129,548

Note F - Investments

As of June 30, 2012, the Authority has the following investments and maturities:

	Cost	Fair Value
Mutual funds	$ 125,000	$ 125,949

Credit Risk

The Authority limits the type of investments permitted as defined in the Municipal Authority's Act. Permitted investments are defined in Note B. When making investments, the Authority can combine monies from more than one fund under the Authority's control for the purchase of a single investment and join with other political subdivisions in the purchase of a single investment.

Note F - Investments (Continued)

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2012, $ 125,949 is held by the investment's counterparties, although owned by the Authority.

Note G - Inventories

The classification of inventories at June 30, 2012 is as follows:

Parts and supplies	$	**101,431**
Fuel and lubricants		**11,154**
	$	**112,585**

Note H - Operating Grants Receivable

At June 30, 2012, the following amounts were due on operating grants:

Federal JARC funds	$	**24,495**
State JARC funds		**27,914**
County of Lackawanna, local share		**542,481**
Planning grants		**91,221**
	$	**686,111**

Note I - Capital Grants Receivable

At June 30, 2012, the following amounts are due on capital project grants:

Federal government	$	**212,457**
Commonwealth of Pennsylvania		**42,901**
	$	**255,358**

Note J - Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Reclass	Deletions	Balance June 30, 2012
Capital assets not being depreciated:					
Land	$ 33,486	$ -	$ -	$ -	$ 33,486
Construction in progress	507,870	178,989	(467,842)	(25,986)	193,031
Total capital assets not being depreciated	541,356	178,989	(467,842)	(25,986)	226,517
Capital assets being depreciated:					
Building	5,486,324	124,111	467,842	-	6,078,277
Buses and support vehicles	13,144,756	82,790	-	-	13,227,546
Other equipment	2,502,279	23,712	-	-	2,525,991
Total capital assets being depreciated	21,133,359	230,613	467,842	-	21,831,814
Less accumulated depreciation for:					
Building	2,666,102	221,189	-	-	2,887,291
Buses and support vehicles	10,410,766	845,534	-	-	11,256,300
Other equipment	1,396,122	21,822	-	-	1,417,944
Total accumulated depreciation	14,472,990	1,088,545	-	-	15,561,535
Total capital assets being depreciated, net	6,660,369	(857,932)	467,842	-	6,270,279
Total capital assets, net	$ 7,201,725	$ (678,943)	$ -	$ (25,986)	$ 6,496,796

Note K - Dedicated Taxes Under Commonwealth of Pennsylvania Act 26/Deferred Revenue

In August 1991, the Pennsylvania legislature passed a dedicated source of funding for public transportation. This legislation, known as Act 26, provided for additional sales taxes to be collected by the Department of Revenue and passed through the Department of Transportation to transit authorities for both capital and capital asset maintenance costs. Under regulations promulgated by the Department of Transportation, up to 50% or an amount approved by the Department of the Act 26 funds estimated to be received in each given year may be used for capital asset maintenance, and the balance may be used to fund Department preapproved capital projects. Any funds not used in any given year must be carried over and used for capital projects only. This funding was replaced with Commonwealth of Pennsylvania funding under Act 44 beginning July 1, 2007. For the year ended June 30, 2012, the following transactions occurred relative to the Act 26 Dedicated Tax deferred revenue account:

Balance, July 1, 2011	$	**402,063**
Interest income		**546**
Total available		**402,609**
Funds expended		**(26,019)**
Balance, June 30, 2012	$	**376,590**

Note L - Dedicated Taxes Under Commonwealth of Pennsylvania Act 3 Base Supplemental Grant/Deferred Revenue

In April 1997, the Pennsylvania legislature passed a dedicated source of funding for public transportation. This legislation, known as Act 3, provided for the transfer of sales taxes to be collected by the Department of Revenue and passed through the Department of Transportation to transit authorities for both capital and capital asset maintenance costs. Under regulations promulgated by the Department of Transportation, Act 3 Base Supplemental Grant funds may be used for operating deficits, capital asset maintenance and preapproved capital projects. This funding was replaced with Commonwealth of Pennsylvania funding under Act 44 on July 1, 2007. Any funds not used in any given year may be carried over and used for the above purposes.

For the year ended June 30, 2012, the following transactions occurred relative to the Act 3 Base Supplemental deferred revenue account:

Balance, July 1, 2011	$	**3,169,374**
Interest income		**8,104**
Total available		**3,177,478**
Funds expended, net		**(26,133)**
Balance, June 30, 2012	$	**3,151,345**

Note M - Funding Under Commonwealth of Pennsylvania Act 44/Deferred Revenue Account

In July 2007, the Pennsylvania legislature enacted Act 44 which provides a dedicated source of funding for public transportation. The funding under this Act replaces state operating grants, the State Senior Citizens Program Grant and dedicated tax revenues under Act 26 and Act 3. Funding under Act 44 is to be used for operating purposes and requires certain levels of local government support. Funds not expended in the year of receipt can be carried forward for future operating expenses. For the year ended June 30, 2012, the following transactions occurred in relation to the Act 44 deferred revenue account:

	State	Local	Total
Balance, July 1, 2011	$ 4,253,444	$ -	$ 4,253,444
Funds received, state	6,289,608	513,774	6,803,382
Interest income	10,610	-	10,610
Total available	10,553,662	513,774	11,067,436
Funds expended	(5,952,049)	(513,774)	(6,465,823)
Balance, June 30, 2012	$ 4,601,613	$ -	$ 4,601,613

Note N - Board-Designated Unrestricted Net Assets

At June 30, 2012, the Board of Directors of the Authority has designated unrestricted net assets of $ 237,326 for the remaining liability under the self-insured workers' compensation program.

Note O - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority has joined together with other transit organizations in the Commonwealth of Pennsylvania to form the State Association for Transportation Insurance Property & Liability Pool, a public entity risk pool currently operating as a common risk management and insurance program. The Authority pays annual premiums to the State Association for Transportation Insurance Property & Liability Pool for its property, general liability, automobile liability, automobile physical damage, and crime, boiler and machinery and public officials' errors and omissions insurance coverage. The agreement for formation of the State Association for Transportation Insurance Property & Liability Pool provides that the State Association for Transportation Insurance Property & Liability Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain amounts specified for each type of coverage. In the event annual premiums are not sufficient to fund operations or obligations of the State Association for Transportation Insurance Property & Liability Pool, additional supplementary premiums may be assessed to members on a pro-rata basis. Premiums paid to the State Association for Transportation Insurance Property & Liability Pool and charged to operations during the year ended June 30, 2012 amounted to $ 200,882.

Note O - Risk Management (Continued)

The Authority has joined together with other transit organizations in the Commonwealth of Pennsylvania to form the State Association for Transportation Insurance Workers' Compensation Pool, a public entity risk pool currently operating as a common risk management and insurance program. The Authority pays annual premiums to the State Association for Transportation Insurance Workers' Compensation Pool for its workers' compensation insurance coverage. The agreement for formation of the State Association for Transportation Insurance Workers' Compensation Pool provides that the State Association for Transportation Insurance Workers' Compensation Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain amounts specified. In the event annual premiums are not sufficient to fund operations or obligations of the State Association for Transportation Insurance Workers' Compensation Pool, additional supplementary premiums may be assessed to members on a pro-rata basis. Premiums paid to the State Association for Transportation Insurance Workers' Compensation Pool and charged to operations during the year ended June 30, 2012 amounted to $ 135,190.

The Authority was self-insured for workers' compensation for claims through June 30, 2011. All claims handling procedures are performed by an independent claims administrator. The Authority is responsible for the first $ 400,000 due to any one claimant, depending on job classification. The Authority has insurance coverage for claims in excess of the retention amount. Changes in the workers' compensation liability for the year ended June 30, 2012 were:

Balance, July 1, 2011	**$**	**336,829**
Claims expense and changes in reserves		**(86,940)**
Balance, June 30, 2012	**$**	**249,889**

The Authority carries commercial insurance for other risks of loss, including employee health and accident insurance.

For the year ended June 30, 2012, there has been no significant reduction in insurance coverage from coverage in the prior years. Settled claims have not exceeded the insurance coverage purchased for the years ended June 30, 2012, 2011 and 2010.

Note P - Defined Contribution Plan

The Authority provides pension benefits for its nonunion employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who have 12 months of entry service are eligible to participate. The Authority contributes an amount equal to 9% of each covered employee's annual compensation.

The Authority's contribution of $ 57,461 was charged to operations for the year ended June 30, 2012.

Note Q - Pension Plan and Related Expenses

The Authority administers and contributes to a single-employer defined benefit pension plan covering all full time employees who have completed 90 days of service. The assets of the plan are invested separately, and the plan's assets may be used only for the payment of benefits to the members of the plan, in accordance with the terms of the plan. The Plan issues a publicly available financial report which may be obtained by contacting the Authority.

Valuation of Investments

All investments of the pension plans are reported at fair value based on quoted market values. Investments that do not have an established market value are reported at estimated fair value, insurance holdings, if any, are valued at reported contract values.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	49
Terminated plan members entitled to but not yet receiving benefits	6
Active plan members	70
	125

Contributions

The contribution requirements of plan members are established and amended by the Authority under the terms of the collective bargaining agreement. Plan members are required to contribute $ 76 each pay period. The Authority is required to contribute $ 160 per month for each eligible employee.

Annual Pension Cost and Net Pension Obligation (Asset)

The Authority's annual pension cost and net pension obligation (asset) for the single-employer defined benefit pension plan for the current year are as follows:

Annual required contribution	**$ 110,686**
Interest on net pension obligation	**-**
Adjustments	**-**
Annual pension cost	**110,686**
Contributions made	**(148,680)**
Change in net pension obligation (asset)	**(37,994)**
Net pension obligation (asset), beginning of year	**(107,009)**
Net pension obligation (asset), end of year	**$ (145,003)**

Note Q - Pension Plan and Related Expenses (Continued)

Annual Pension Cost and Net Pension Obligation (Asset) (Continued)

The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) 5% projected salary increases. The assumptions included turnover assumption and mortality tables. Retirement is based upon normal retirement age or age on valuation date if greater, and the form of annuity is straight life. Retirement benefits are payable at the rate of $ 40 per month for each full year of credited service. The unfunded actuarial liability is being amortized over 9 years. The actuarial value of assets was determined by fair market value.

Three-Year Trend Information:

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/12	$ 110,686	134%	$ (145,003)
6/30/11	100,817	127%	(107,009)
6/30/10	104,313	137%	(79,744)

The funded status of the Plan as of January 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
$ 2,865,154	$ 3,808,931	$ 943,777	75.2%	$ 3,215,487	29.4%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The information about the funded status is prepared using the entry age normal actuarial cost method.

Note R - Advertising

Advertising costs included in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2012 were $ 73,797.

Note S - Accounting Change

Effective July 1, 2011, the Authority changed its method of accounting for certain grant funds received from the Commonwealth of Pennsylvania, Department of Transportation (PennDOT). Based on new policy issued by PennDot and their *Financial Reporting Manual* issued April 17, 2012, all state grant funds provided through PennDOT that have purpose restrictions also have timing restriction related to budget approvals, and the time restrictions take precedent in applying Government Accounting Standard Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* The following financial statement line items for the year ended June 30, 2012 were affected by this change:

	Statement of Net Assets, June 30, 2012		
	Under Previous Method	Under New Method	Effect of Change
Cash and cash equivalents	$ 9,898,678	$ 1,769,130	$ (8,129,548)
Cash and cash equivalents, restricted	-	8,129,548	8,129,548
Total	$ 9,898,678	$ 9,898,678	$ -
Deferred revenue, Act 26 funds	$ -	$ 376,590	$ 376,590
Deferred revenue, Act 3 funds	-	3,151,345	3,151,345
Deferred revenue, Act 44 funds	-	4,601,613	4,601,613
Total	$ -	$ 8,129,548	$ 8,129,548
Net assets restricted	$ 8,129,548	$ -	$ (8,129,548)

	Statement of Revenues, Expenses and Changes in Net Assets, June 30, 2012		
	Under Previous Method	Under New Method	Effect of Change
Commonwealth of Pennsylvania:			
Act 26 funds	$ -	$ 26,019	$ 26,019
Act 3 funds	-	26,133	26,133
Act 44 funds	6,289,608	5,952,049	(337,559)
Interest income	30,536	11,276	(19,260)
Total	$ 6,320,144	$ 6,015,477	(304,667)
Net assets, beginning	$15,815,306	$ 7,990,425	(7,824,881)
Net assets restricted	$ 8,129,548	$ -	$ (8,129,548)

Note T - Commitments and Contingencies

Commitments

Lease:

The Authority leases bus tires under the terms of an operating lease that calls for monthly payments based on actual mileage. Mileage rates are based on the billing rate per tire mile in effect during the preceding month based on calculations included in the lease agreement. The lease runs through June 2016.

Capital purchases:

The Authority has capital commitments of approximately $ 7,600,000 at June 30, 2012. These expenditures will be funded through federal, state and local capital grants.

Contingencies

Grants:

A significant portion of the Authority's support is received from federal, state and local governments in the form of operating and capital grant assistance. A significant reduction in the level of this support would have a material effect on the Authority's operations.

Capital assets:

Although title to the capital assets rests with the Authority, upon disposition, the proceeds may need to be returned to the federal, state and local governments that initially funded their acquisition under the terms of the capital grants.

Audit:

The grants received by the Authority are subject to audit by the federal and state governments. As of the date of this report, management is unaware of any material adjustments that will be required as a result of such audits.

Litigation:

In the normal course of business, the Authority is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

Concentration of labor:

The Authority entered into a collective bargaining agreement with certain employees through June 30, 2013. Of the Authority's total workforce, approximately 86% is covered by the agreement.

Note U - Subsequent Events

The Company has evaluated subsequent events through December 28, 2012. The following event was noted:

Effective July 1, 2013, COLTS will become the County of Lackawanna's designated Shared Ride Provider through a merger with the Lackawanna County Coordinated Transportation System.

County of Lackawanna Transit System Authority

Pension Plan

Schedule of Funding Progress
Pension Plan for Bargaining Unit Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2011	$ 2,865,154	$ 3,808,931	$ 943,777	75.2%	$ 3,215,487	29.4%
January 1, 2009	2,508,004	3,494,489	986,485	71.8%	2,848,911	34.6%
January 1, 2007	2,076,215	3,041,015	964,800	68.3%	2,636,999	36.6%

See accompanying notes.

County of Lackawanna Transit System Authority

Operating Expenses

	YEAR ENDED JUNE 30, 2012
Salaries and Fringe Benefits	
Salaries:	
Operators	$ 1,814,905
Other	1,094,425
Fringe benefits:	
Vacations	217,604
Holiday	52,913
Sick leave	146,698
Other paid absence	246,656
Medical insurance	923,449
Payroll taxes	281,894
Pension	168,147
Life insurance	19,000
Other	95,035
Total Salaries and Fringe Benefits	5,060,726
Public liability and property damage	200,081
Workers' compensation	277,147
Fuel and lubricants	892,593
Materials and supplies	199,659
Maintenance service	28,625
Utilities	106,969
Subcontractor expense	667,525
Purchased transportation - special services	3,602,299
Custodial and security service	27,002
Professional and technical	261,420
Advertising	82,294
General and administrative, other	149,083
Depreciation	1,088,545
Tire lease	55,361
Total Operating Expenses	$ 12,699,329

See accompanying notes.

County of Lackawanna Transit System Authority

Change in Net Assets

	YEAR ENDED JUNE 30, 2012		
	Invested in Capital Assets	Unrestricted Net Assets	Board-Designated Self-Insurance Unrestricted Net Assets
Net Assets, Beginning	$ 7,175,739	$ 671,626	$ 143,060
Operating revenues		-	
Operating expenses	-	(5,525,927)	(141,157)
Depreciation expense	(1,088,545)	-	-
Interest income		3,002	7,326
Transfers	-	(228,097)	228,097
Purchase of capital assets under Act 26	19,241	-	-
Purchase of capital assets under Act 3	26,133	-	-
Purchase of Capital assets under Act 44	15,127	-	-
Capital grant funding:			
Federal government	298,888	-	-
Commonwealth of Pennsylvania	37,655	-	-
Lackawanna County	12,558	-	-
Net Assets, Ending	$ 6,496,796	$ (5,079,396)	$ 237,326

See accompanying notes.