

**County of Lackawanna
Transit System Authority
A Component Unit of Lackawanna County**



**Financial Statements and
Supplementary Information**

June 30, 2014 and 2013



REINSEL KUNTZ LESHER
certified public accountants & consultants

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County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

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June 30, 2014 and 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the County of Lackawanna Transit System Authority (the Authority), a component unit of Lackawanna County, Pennsylvania, which comprise the statement of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of the Pennsylvania Department of Transportation. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 23 to the financial statements, the Authority has been subjected to an examination of the senior ridership reporting covering the years ended June 30, 2006 to June 30, 2011. As a result, the Pennsylvania Department of Transportation has ordered the Authority to repay approximately \$5,700,000 through reduction of future operating subsidies and forfeit \$771,000 of future capital funds. On November 11, 2014, the Authority engaged a CPA firm to conduct a forensic examination related to this matter. Only preliminary information gathering had occurred on the forensic examination as of the date of this report. Our opinion is not modified with respect to this matter.

Report on Required Supplementary Information

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 4 to 11 and Page 34 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 audits 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.

Report of Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole that collectively comprise the Authority's basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Report of Supplementary Information (continued)

The supplementary 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. Such 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 financial statements as a whole.

Reporting Required by *Government Auditing Standards* and Pennsylvania Department of Transportation

In accordance with *Government Auditing Standards* and the audit requirements of the Pennsylvania Department of Transportation, we have also issued our report dated March 7, 2015 on our consideration of the Authority's internal control over financial reporting and on 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 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 the audit requirements of the Pennsylvania Department of Transportation in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Reinsel Kuntz Lesker LLP".

March 7, 2015
Wyomissing, Pennsylvania

County of Lackawanna Transit System
Management Discussion and Analysis (MD&A)

The following Management 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, 2014 with comparative financial information for the fiscal years ended June 30, 2013 and 2012. 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.

Highlights

Operating Revenues

COLTS' operating revenue has increased 12% or \$437,994 for the year ended June 30, 2014, compared to a decrease of 22% or \$1,061,905 and an increase of 349% or \$3,718,021 for the years ended June 30, 2013 and 2012, respectively. Passenger fare revenue is up 12% and trip reimbursement for seniors utilizing the Shared-Ride Program is up 11% for the year ended June 30, 2014. COLTS did increase fares for fixed route service in July 2013.

Operating Expenses

COLTS' operating expenses increased 6% or \$696,951 for the year ended June 30, 2014, compared to a decrease of 2% or \$315,753 and increase of 43% or \$3,796,708 for the years ended June 30, 2013 and 2012, respectively. This is due in large part to an increase in medical insurance of 28% or \$337,562 and contractual salary increases for represented employees of \$408,691. Although there was an overall increase in expenses, certain line items did decrease in fiscal year 2014. Fuel decreased by 5%, purchased transportation decreased by 14% and tire expense decreased by 17%. COLTS has been very successful in negotiating with a local vendor for the price of tires used on the shared-ride vans. The Supervisor of Purchasing closely monitors the tire inventory and works with mechanics to find tires with desirable features at the lowest cost.

Fixed-Route Service Highlights

In fiscal year 2014 COLTS provided 1,148,122 rides. Ridership has decreased by approximately 60,500 for the year ended June 30, 2014 compared to decreases of approximately 23,000 and 120,000 for the years ended June 30, 2013 and 2012, respectively. On July 1, 2012, COLTS began a two-year fare increase initiative. Although seniors continue to ride for free, the ridership for this demographic has decreased 25%. 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. COLTS is continuing its relationship with local universities to offer service to college students.

Overview of the Financial Statements

COLTS' basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flow. 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 Net Position

The statement of net position presents the financial position of COLTS. It presents information on COLTS' assets and liabilities. COLTS' net position is presented as the difference between the Authority's assets and liabilities on this report. Increases or decreases in net position 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 Position

The statement of revenues, expenses, and changes in net position presents information showing how COLTS' net position changed during the most recent fiscal year. All changes in net position 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 17 to 33 of this report.

Overview of the Financial Statements (continued)

Supplemental Information

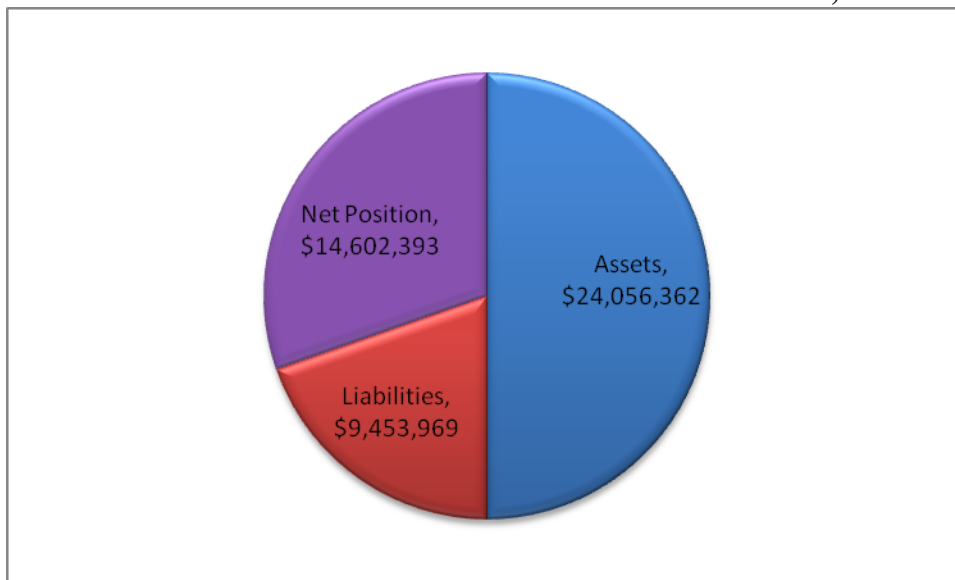
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning COLTS' progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on page 34 of this report.

Financial Analysis

Net Position

Net position, when viewed over time may serve as useful indicator of an entity's financial position. In the case of COLTS, assets exceed liabilities by \$14,602,393 as of June 30, 2014.

Statements of Net Position as of June 30, 2014



Financial Analysis (continued)

Net Position (continued)

A condensed summary of COLTS' net position as of June 30, 2014, 2013 and 2012 is presented below:

Statement of Net Position

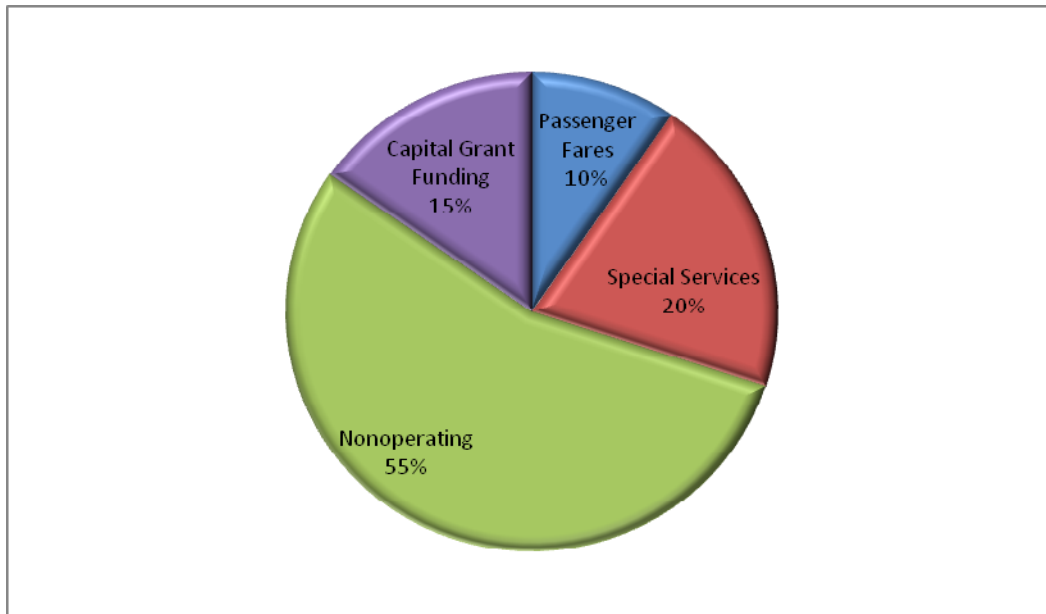
	2014	2013	2012
Current assets	\$ 10,367,644	\$ 10,401,628	\$ 11,509,217
Noncurrent assets:			
Capital assets, net	13,490,290	12,778,676	6,496,796
Net pension benefit	198,428	163,766	145,003
 Total assets	 <u>24,056,362</u>	 <u>23,344,070</u>	 <u>18,151,016</u>
 Current liabilities	 8,957,292	 8,973,821	 10,217,088
Long-term liability	496,677	543,092	558,060
 Total liabilities	 <u>9,453,969</u>	 <u>9,516,913</u>	 <u>10,775,148</u>
 Net position:			
Invested in capital assets	13,490,290	12,778,676	6,496,796
Unrestricted	1,112,103	1,048,481	879,072
 Total net position	 <u>\$ 14,602,393</u>	 <u>\$ 13,827,157</u>	 <u>\$ 7,375,868</u>

Net capital assets consisting of land, buildings, passenger coaches, service vehicles, machinery and equipment comprise 92% of COLTS' net position as of June 30, 2014. Current liabilities include unearned revenue of \$250,070 of Act 26 funds; \$2,061,211 of Act 3 funds; \$4,627,398 of Act 44 funds; \$723,538 of local match funds and \$193,575 of Medical Assistance Transportation 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.

Financial Analysis (continued)

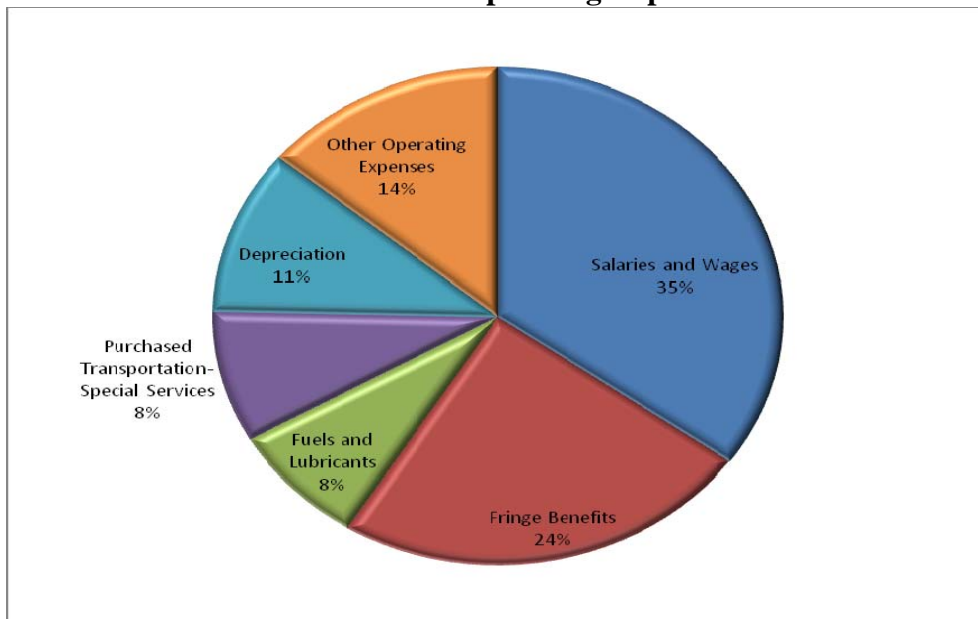
Changes in Net Position

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, 2014.

Operating Expenses



COLTS' major expenses are salaries and wages and benefits, which combine to equal 59% of the annual expenses. Purchased transportation for special services was equal to 8% of the annual expenses. Depreciation equals 11%. Other operating expenses are approximately 14% of the annual expenses. The above chart illustrates the major categories of COLTS' expenses for the year ended June 30, 2014.

Financial Analysis (continued)

Changes in Net Position (continued)

A summary of COLTS' statements of revenues, expenses, and changes in nets assets for the years ended June 30, 2014, 2013 and 2012 is presented below:

	2014	2013	2012
Operating Revenues			
Passenger fares	\$ 1,228,168	\$ 1,095,407	\$ 1,065,381
Route guarantees	104,810	101,600	-
Other contract revenue	465,094	267,428	315,664
State Medical Assistance Transportation Program	713,827	826,387	1,508,965
State Shared Ride Program	1,285,093	1,155,573	1,060,095
State Persons with Disabilities Program	31,843	24,776	10,050
Area Agency on Aging	241,348	203,925	707,525
Advertising income	46,976	41,000	58,564
Other	43,358	6,427	58,184
Total Operating Revenues	4,160,517	3,722,523	4,784,428
Operating Expenses	13,080,527	12,383,576	12,699,329
Loss From Operations	(8,920,010)	(8,661,053)	(7,914,901)
Nonoperating Revenues (Expenses)			
Operating and planning grants:			
Federal government	502,462	434,244	410,913
Commonwealth of Pennsylvania	64,115	61,016	67,456
Lackawanna County, Act 44 funds	566,436	539,463	513,774
Lackawanna County, other funds	15,919	254,782	9,462
Commonwealth of Pennsylvania, Act 44			
Technical Assistance funds	-	14,237	6,778
Commonwealth of Pennsylvania, Act 44 funds	6,446,005	6,214,205	5,936,922
	7,594,937	7,517,947	6,945,305
Investment income	10,026	3,642	11,276
Expenses disallowed for capital funding	(26,472)	-	(65,839)
Total Nonoperating Revenues (Expenses)	7,578,491	7,521,589	6,890,742
Loss Before Capital Grant Funding	(1,341,519)	(1,139,464)	(1,024,159)

Financial Analysis (continued)

Changes in Net Position (continued)

	2014	2013	2012
Capital Grant Funding			
Federal Government	\$ 1,692,939	\$ 5,588,547	\$ 298,888
Commonwealth of Pennsylvania	44,901	155,173	37,655
Lackawanna County	83,646	204,640	12,558
Commonwealth of Pennsylvania, Act 3 funds	166,487	944,465	26,133
Commonwealth of Pennsylvania, Act 44 Technical Assistance funds	-	36,121	19,241
Commonwealth of Pennsylvania, Act 26 funds	128,782	-	-
Commonwealth of Pennsylvania, Act 44 funds	-	23,153	15,127
Total Capital Grant Funding	<u>2,116,755</u>	<u>6,952,099</u>	<u>409,602</u>
Capital Assets Contributed	<u>-</u>	<u>638,654</u>	<u>-</u>
Increase (Decrease) in Net Position	775,236	6,451,289	(614,557)
Net Position at Beginning of Year	<u>13,827,157</u>	<u>7,375,868</u>	<u>7,990,425</u>
Net Position at End of Year	<u>\$ 14,602,393</u>	<u>\$ 13,827,157</u>	<u>\$ 7,375,868</u>

Capital Assets

COLTS' investment in capital assets as of June 30, 2014 (net of accumulated depreciation) amounted to \$13,490,290. Capital assets are recorded at cost and include land, buildings, buses and support vehicles, and other garage and office equipment and furniture.

Capital assets, net of accumulated depreciation at June 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Land	\$ 33,486	\$ 33,486	\$ 33,486
Construction in progress	3,039,418	1,142,231	193,031
Building	2,771,162	2,988,442	3,190,986
Buses and support vehicles	6,486,443	7,488,359	1,971,240
Other equipment	1,159,781	1,126,158	1,108,047
	<u>\$ 13,490,290</u>	<u>\$ 12,778,676</u>	<u>\$ 6,496,790</u>

Economic Factors

COLTS receives Federal capital funding through §5307 funds and discretionary grant opportunities. 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.

In 2013, Governor Tom Corbett signed into law Act 89 which replaces Act 44 and presents a stable funding stream for transportation in Pennsylvania. Much like Act 44, Act 89 is COLTS' primary source of operating assistance.

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
A Component Unit of Lackawanna County

Statement of Net Position

	June 30,	
	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 747,197	\$ 596,657
Cash and cash equivalents, restricted	7,662,217	8,062,043
Investments	123,521	121,226
Accounts receivable	868,264	593,503
Inventories	151,645	128,426
Prepaid expenses	227,773	211,805
Operating grants receivable	82,735	269,139
Capital grants receivable	504,292	418,829
Total Current Assets	10,367,644	10,401,628
Capital Assets		
Capital assets not being depreciated	3,072,904	1,175,717
Capital assets being depreciated, net	10,417,386	11,602,959
Total Capital Assets	13,490,290	12,778,676
Other Asset		
Net pension asset	198,428	163,766
Total Assets	24,056,362	23,344,070

See accompanying notes.

	June 30,	
	2014	2013
Liabilities		
Current Liabilities		
Accounts payable	\$ 673,739	\$ 234,552
Accrued expenses:		
Payroll and payroll taxes	186,981	158,344
Vacation	196,921	154,071
Worker's compensation claims	43,859	99,242
Due to Lackawanna County	193,575	301,569
Unearned Lackawanna County funds	723,538	701,409
Unearned Commonwealth of Pennsylvania, Act 26 funds	250,070	378,967
Unearned Commonwealth of Pennsylvania, Act 3 funds	2,061,211	2,218,384
Unearned Commonwealth of Pennsylvania, Act 44 funds	4,627,398	4,727,283
Total Current Liabilities	8,957,292	8,973,821
Long-Term Liabilities		
Accrued compensated absences	496,677	543,092
Total Liabilities	9,453,969	9,516,913
Net Position		
Net Position		
Invested in capital assets	13,490,290	12,778,676
Unrestricted	1,112,103	1,048,481
Total Net Position	\$ 14,602,393	\$ 13,827,157

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Statement of Revenues, Expenses and Changes in Net Position

	Years Ended June 30,	
	2014	2013
Operating Revenues		
Passenger fares	\$ 1,228,168	\$ 1,095,407
Route guarantees	104,810	101,600
Other contract revenue	465,094	267,428
State Medical Assistance Transportation Program	713,827	826,387
State Shared Ride Program	1,285,093	1,155,573
State Persons with Disabilities Program	31,843	24,776
Area Agency on Aging	241,348	203,925
Advertising income	46,976	41,000
Other	43,358	6,427
Total Operating Revenues	4,160,517	3,722,523
Operating Expenses	13,080,527	12,383,576
Loss from Operations	(8,920,010)	(8,661,053)
Nonoperating Revenues (Expenses)		
Operating and planning grants:		
Federal government	502,462	434,244
Commonwealth of Pennsylvania	64,115	61,016
Lackawanna County, Act 44	566,436	520,504
Lackawanna County, other funds	15,919	273,742
Commonwealth of Pennsylvania, Act 44 Technical Assistance	-	14,237
Commonwealth of Pennsylvania, Act 44 funds	6,446,005	6,214,204
	7,594,937	7,517,947
Investment income	10,026	3,642
Expenses disallowed for capital funding	(26,472)	-
Total Nonoperating Revenues (Expenses)	7,578,491	7,521,589
Loss before Capital Grant Funding	(1,341,519)	(1,139,464)

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Statement of Revenues, Expenses and Changes in Net Position (continued)

	Years Ended June 30,	
	2014	2013
Capital Grant Funding		
Federal Government	\$ 1,692,939	\$ 5,588,547
Commonwealth of Pennsylvania	44,901	155,173
Lackawanna County	83,646	204,640
Commonwealth of Pennsylvania, Act 3 funds	166,487	944,465
Commonwealth of Pennsylvania, Act 26 funds	128,782	-
Commonwealth of Pennsylvania, Act 44 Technical Assistance	-	36,121
Commonwealth of Pennsylvania, Act 44 funds	-	23,153
Capital assets received from Lackawanna County Coordinated Transportation System	-	638,654
Total Capital Grant Funding	2,116,755	7,590,753
Increase in Net Position	775,236	6,451,289
Net Position at Beginning of Year	13,827,157	7,375,868
Net Position at End of Year	\$ 14,602,393	\$ 13,827,157

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Statement of Cash Flows

	Years Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,885,756	\$ 3,375,107
Cash payments to suppliers for goods and services	(6,782,007)	(7,914,656)
Cash payments to employees for services	(4,558,400)	(3,792,793)
Net Cash Used in Operating Activities	(7,454,651)	(8,332,342)
Cash Flows from Noncapital Financing Activities		
Receipts from operating and planning grants	7,309,521	7,247,470
Net Cash Provided by Noncapital Financing Activities	7,309,521	7,247,470
Cash Flows from Capital and Related Financing Activities		
Receipts from capital grants	2,004,820	6,788,628
Purchase of capital assets	(2,116,707)	(6,952,099)
Net Cash Used in Capital and Related Financing Activities	(111,887)	(163,471)
Cash Flows from Investing Activities		
Income received on investments	10,026	3,642
Purchase of investments	(2,295)	-
Proceeds from sale of investments	-	4,723
Net Cash Provided by Investing Activities	7,731	8,365
Net Decrease in Cash and Cash Equivalents	(249,286)	(1,239,978)
Cash and Cash Equivalents at Beginning of Year	8,658,700	9,898,678
Cash and Cash Equivalents at End of Year	\$ 8,409,414	\$ 8,658,700

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Statement of Cash Flows (continued)

	Years Ended June 30,	
	2014	2013
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities		
Operating loss	\$ (8,920,010)	\$ (8,661,053)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	1,405,093	1,308,873
(Increase) decrease in assets:		
Accounts and other receivables	(274,761)	(347,416)
Inventories	(23,219)	(15,841)
Prepaid expenses	(15,968)	(27,356)
Pension asset	(34,662)	(18,763)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	408,876	(570,786)
Net Cash Used in Operating Activities	\$ (7,454,651)	\$ (8,332,342)
Supplemental Schedule of Noncash Capital Activities		
Capital assets received from Lackawanna County Coordinated Transportation System	\$ -	\$ 638,654

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Notes to Financial Statements
June 30, 2014 and 2013

Note 1 - Nature of Activity

The Lackawanna County Transit System Authority (the Authority) was organized November 1, 1972 by Lackawanna County, 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 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 2 - 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.

Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria that is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the above criteria. There are no agencies or entities which should be presented with the Authority.

The Authority is a component unit of Lackawanna County.

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.

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - 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 position. 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.

When restricted and unrestricted resources are available for use, it is the Authority's policy to use unrestricted resources for current operating purposes first.

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.

Assets, Liabilities, Net Position, Revenues and Expenses

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 and cash equivalents.

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:

- A. U. S. Treasury Bills.
- B. Short-term obligations of the U. S. Government and federal agencies.
- C. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions.
- D. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.
- E. Shares of mutual funds whose investments are restricted to the above categories.

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Net Position, 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 position 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. The allowance at June 30, 2014 and 2013 is \$-0-.

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:

Building	10 to 39 years
Buses and support vehicles	5 to 12 years
Other 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.

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.

County of Lackawanna Transit System Authority
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Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Net Position, Revenues and Expenses (continued)

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and discount rates reflecting varying degrees of perceived risk. Management has concluded that no impairment adjustments were required during the years ended June 30, 2014 and 2013, respectively.

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.

Unearned Revenues

Unearned 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 Position

Net position is classified into three categories as follows:

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

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

Unrestricted net position is amounts that do not meet the definitions of "invested in capital assets" or "restricted" and is 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 position after nonoperating revenues.

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Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Net Position, Revenues and Expenses (continued)

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.

Recent Accounting Pronouncement

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. The objective of this Statement is to improve accounting and reporting by governments for pension plans, including recognition as a liability the unfunded pension liability. This Statement is effective for periods beginning after June 15, 2014 and the Authority will adopt this Statement in its June 30, 2015 financial statements.

Note 3 - Budget Matters

The Authority is not required to adopt a budget.

Note 4 - 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 5 - Cash and Cash Equivalents, Deposits and Investments

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, 2014 and 2013, the carrying amounts of the Authority's bank deposits were \$8,409,414 and \$8,658,700, respectively, and the corresponding bank balances were \$8,586,001 and \$8,964,681, respectively, of which \$8,086,001 and \$8,464,681, respectively, 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.

County of Lackawanna Transit System Authority
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Notes to Financial Statements
 June 30, 2014 and 2013

Note 5 - Cash and Cash Equivalents, Deposits and Investments (continued)

As of June 30, 2014 and 2013, the Authority has the following investments:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 125,000	\$ 123,521	\$ 125,000	\$ 121,226

Credit Risk

The Authority limits the type of investments permitted as defined in the Pennsylvania Municipal Authorities Act. Permitted investments are defined in Note 2. 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. The Authority's investment policy is consistent with these limitations.

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, 2014 and 2013, \$123,521 and \$121,226, respectively, is held by the investment's counterparties, although owned by the Authority.

Note 6 - Restricted Cash and Cash Equivalents

Cash and cash equivalents, whose use is limited to a specific purpose, have been classified as "restricted" in the financial statements. Restricted assets at June 30, 2014 and 2013 consist of the following:

	2014	2013
Lackawanna County	\$ 723,538	\$ 737,409
Act 26 funds	250,070	378,967
Act 3 funds	2,061,211	2,218,384
Act 44 funds	4,627,398	4,727,283
	<u>\$ 7,662,217</u>	<u>\$ 8,062,043</u>

County of Lackawanna Transit System Authority
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Notes to Financial Statements
 June 30, 2014 and 2013

Note 7 - Inventories

The classification of inventories at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Parts and supplies	\$ 144,653	\$ 107,602
Fuel and lubricants	6,992	20,824
	<u>\$ 151,645</u>	<u>\$ 128,426</u>

Note 8 - Operating Grants Receivable

At June 30, 2014 and 2013, the following amounts were due on operating grants:

	<u>2014</u>	<u>2013</u>
Federal JARC funds	\$ 5,307	\$ 28,640
State JARC funds	31,334	23,281
County of Lackawanna, local share	26,413	152,315
Planning grants	19,681	14,545
State, Act 44 Technical Assistance	-	50,358
	<u>\$ 82,735</u>	<u>\$ 269,139</u>

Note 9 - Capital Grants Receivable

At June 30, 2014 and 2013, the following amounts are due on capital project grants:

	<u>2014</u>	<u>2013</u>
Federal government	\$ 489,885	\$ 264,675
Commonwealth of Pennsylvania	14,407	154,154
	<u>\$ 504,292</u>	<u>\$ 418,829</u>

County of Lackawanna Transit System Authority
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Notes to Financial Statements
 June 30, 2014 and 2013

Note 10 - Capital Assets

Capital asset activity for the years ended June 30, 2014 and 2013 was as follows:

	Balance July 1, 2013	Additions	Reclass	Deletions	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 33,486	\$ -	\$ -	\$ -	\$ 33,486
Construction in progress	1,142,231	1,897,187	-	-	3,039,418
Total capital assets not being depreciated	<u>1,175,717</u>	<u>1,897,187</u>	-	-	<u>3,072,904</u>
Capital assets being depreciated:					
Building	6,105,056	-	-	-	6,105,056
Buses and support vehicles	19,800,023	155,838	-	-	19,955,861
Other equipment	2,568,288	63,682	-	-	2,631,970
Total capital assets being depreciated	<u>28,473,367</u>	<u>219,520</u>	-	-	<u>28,692,887</u>
Less accumulated depreciation for:					
Building	3,116,614	217,280	-	-	3,333,894
Buses and support vehicles	12,311,664	1,157,754	-	-	13,469,418
Other equipment	1,442,130	30,059	-	-	1,472,189
Total accumulated depreciation	<u>16,870,408</u>	<u>1,405,093</u>	-	-	<u>18,275,501</u>
Total capital assets being depreciated, net	<u>11,602,959</u>	<u>(1,185,573)</u>	-	-	<u>10,417,386</u>
Total capital assets, net	<u>\$ 12,778,676</u>	<u>\$ 711,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,490,290</u>

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Notes to Financial Statements
June 30, 2014 and 2013

Note 10 - Capital Assets (continued)

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reclass</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:					
Land	\$ 33,486	\$ -	\$ -	\$ -	\$ 33,486
Construction in progress	<u>193,031</u>	<u>954,730</u>	<u>(5,530)</u>	<u>-</u>	<u>1,142,231</u>
Total capital assets not being depreciated	<u>226,517</u>	<u>954,730</u>	<u>(5,530)</u>	<u>-</u>	<u>1,175,717</u>
Capital assets being depreciated:					
Building	6,078,277	26,779	-	-	6,105,056
Buses and support vehicles	13,227,546	6,572,477	-	-	19,800,023
Other equipment	<u>2,525,991</u>	<u>36,767</u>	<u>5,530</u>	<u>-</u>	<u>2,568,288</u>
Total capital assets being depreciated	<u>21,831,814</u>	<u>6,636,023</u>	<u>5,530</u>	<u>-</u>	<u>28,473,367</u>
Less accumulated depreciation for:					
Building	2,887,291	229,323	-	-	3,116,614
Buses and support vehicles	11,256,300	1,055,364	-	-	12,311,664
Other equipment	<u>1,417,944</u>	<u>24,186</u>	<u>-</u>	<u>-</u>	<u>1,442,130</u>
Total accumulated depreciation	<u>15,561,535</u>	<u>1,308,873</u>	<u>-</u>	<u>-</u>	<u>16,870,408</u>
Total capital assets being depreciated, net	<u>6,270,279</u>	<u>5,327,150</u>	<u>5,530</u>	<u>-</u>	<u>11,602,959</u>
Total capital assets, net	<u>\$ 6,496,796</u>	<u>\$ 6,281,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,778,676</u>

Note 11 - Due to Lackawanna County

The Authority has a liability of \$193,575 and \$301,569 at June 30, 2014 and 2013, respectively, to Lackawanna County for transportation services under the State Medical Assistance Transportation Program.

Note 12 - Unearned Lackawanna County Funds

Local grant funds from Lackawanna County in the amount of \$723,538 and \$701,409 at June 30, 2014 and 2013, respectively, are the local share for operating assistance and capital projects received in advance.

County of Lackawanna Transit System Authority
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Notes to Financial Statements
 June 30, 2014 and 2013

Note 13 - Unearned Commonwealth of Pennsylvania, Act 26 Funds

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, 2014, the following transactions occurred relative to the Act 26 Dedicated Tax account:

Balance at July 1, 2013	\$ 378,967
Interest income	<u>1,521</u>
Total available	380,488
Funds expended	<u>(130,418)</u>
Balance at June 30, 2014	<u>\$ 250,070</u>

Note 14 - Unearned Commonwealth of Pennsylvania, Act 3 Base Supplemental Grant Funds

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, 2014, the following transactions occurred relative to the Act 3 Base Supplemental Grant account:

Balance at July 1, 2013	\$ 2,218,384
Interest income	<u>9,314</u>
Total available	2,227,698
Funds expended	<u>(166,487)</u>
Balance at June 30, 2014	<u>\$ 2,061,211</u>

County of Lackawanna Transit System Authority
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Notes to Financial Statements
June 30, 2014 and 2013

Note 15 - Unearned Commonwealth of Pennsylvania, Act 44 Funds

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, 2014, the following transactions occurred in relation to the Act 44 account:

Balance at July 1, 2013	\$ 4,727,283
Funds received	6,336,434
Interest income	<u>9,686</u>
Total available	11,073,403
Funds expended	<u>(6,446,005)</u>
Balance at June 30, 2014	<u>\$ 4,627,398</u>

Note 16 - Board-Designated Unrestricted Net Position

At June 30, 2014 and 2013, the Board of Directors of the Authority has designated a portion of the unrestricted net position in the amount of \$309,512 and \$247,559, respectively, for remaining expenses under the self-insured workers' compensation program.

Note 17 - 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 (SAFTI) 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 SAFTI 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 SAFTI Property & Liability Pool provides that the SAFTI 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 SAFTI Property & Liability Pool, additional supplementary premiums may be assessed to members on a pro-rata basis. Premiums paid to the SAFTI Property & Liability Pool and charged to operations during the years ended June 30, 2014 and 2013 amounted to \$236,345 and \$187,134, respectively.

County of Lackawanna Transit System Authority
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Notes to Financial Statements
 June 30, 2014 and 2013

Note 17 - Risk Management (continued)

The Authority has joined together with other transit organizations in the Commonwealth of Pennsylvania to form the SAFTI 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 SAFTI Workers' Compensation Pool for its workers' compensation insurance coverage. The agreement for formation of the SAFTI Workers' Compensation Pool provides that the SAFTI 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 SAFTI Workers' Compensation Pool, additional supplementary premiums may be assessed to members on a pro-rata basis. Premiums paid to the SAFTI Workers' Compensation Pool and charged to operations during the years ended June 30, 2014 and 2013 amounted to \$400,595 and \$294,581, respectively.

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 years ended June 30, 2014 and 2013 were:

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 99,242	\$ 249,889
Claims expense and changes in reserves	<u>(55,383)</u>	<u>(150,647)</u>
Balance at June 30	<u>\$ 43,859</u>	<u>\$ 99,242</u>

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

For the year ended June 30, 2014, 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, 2014, 2013 and 2012.

Note 18 - Defined Contribution Pension Plan and Related Expenses

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 eligible compensation. The Authority's contributions of \$92,559 and \$72,103 were charged to operations for the years ended June 30, 2014 and 2013, respectively.

County of Lackawanna Transit System Authority
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Notes to Financial Statements
June 30, 2014 and 2013

Note 18 - Defined Contribution Pension Plan and Related Expenses (continued)

The Authority provides pension benefits for its employees represented by Service Employees International Union, AFL-CIO, Local 668 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 3% of each covered employee's annual eligible compensation. Participating employees may contribute, on an after-tax basis, a nondeductible amount not to exceed 85% of his/her compensation. The Authority's contribution of \$24,979 and \$12,618 was charged to operations for the years ended June 30, 2014 and 2013, respectively.

Note 19 - Defined Benefit 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, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	50
Terminated plan members entitled to but not yet receiving benefits	6
Active plan members	<u>75</u>
	<u>131</u>

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.

County of Lackawanna Transit System Authority
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Notes to Financial Statements
 June 30, 2014 and 2013

Note 19 - Defined Benefit Pension Plan and Related Expenses (continued)

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	\$ 132,386
Interest on net pension asset	-
Adjustments	-
	<hr/>
Annual pension cost	132,386
Contributions made	<u>(167,048)</u>
Change in net pension obligation (asset)	(34,662)
Net pension obligation (asset) at beginning of year	<u>(163,766)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (198,428)</u></u>

The annual required contribution for the current year was determined as part of the January 1, 2013 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 remaining amortization period is 8 years. The actuarial value of assets was determined by fair market value.

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/14	\$ 132,386	126%	\$ (198,428)
6/30/13	137,385	114%	(163,766)
6/30/12	110,686	134%	(145,003)

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Notes to Financial Statements
 June 30, 2014 and 2013

Note 19 - Defined Benefit Pension Plan and Related Expenses (continued)

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

The funded status of the Plan as of January 1, 2013, 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)
\$ 2,454,621	\$ 3,979,181	\$ 1,524,560	61.7%	\$ 3,554,248	42.9%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear 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 20 - Advertising

Advertising costs included in the statement of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013 were \$28,962 and \$45,438, respectively.

Note 21 - Merger with the Lackawanna County Coordinated Transportation System

Effective January 1, 2013, the Authority merged with the Lackawanna County Coordinated Transportation System to become the County's designated Shared Ride Provider. As part of the merger, assets with a fair market value of \$638,654 were transferred to the Authority.

Note 22 - 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.

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Notes to Financial Statements
June 30, 2014 and 2013

Note 22 - Commitments and Contingencies (continued)

Commitments (continued)

Intermodal Facility Construction

The Authority is in the process of constructing a new intermodal facility with an estimated cost of approximately \$10,000,000. The total costs incurred on the project at June 30, 2014 are \$2,058,588. These expenditures will be funded through federal, state and local grants.

Capital Purchases

The Authority has capital commitments of approximately \$1,293,000 at June 30, 2014. These expenditures will be funded through federal, state and local capital grants and are for the purchase of three new buses.

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.

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Notes to Financial Statements
June 30, 2014 and 2013

Note 22 - Commitments and Contingencies (continued)

Contingencies (continued)

Concentration of Labor

The Authority entered into a collective bargaining agreement with certain employees represented by the Amalgamated Transit Union, Division No. 168 through June 30, 2016. Of the Authority's total workforce, approximately 55% are covered by the agreement.

The Authority entered into a collective bargaining agreement with certain employees represented by the Service Employees International Union, AFL-CIO, Local 668 through June 30, 2014. Of the Authority's total workforce, approximately 25% are covered by the agreement. On January 20, 2015, the Authority entered into a new collective bargaining agreement which runs through June 30, 2017.

Note 23 - Ridership Investigation

The Authority has been subjected to an examination of the senior ridership reporting covering periods from July 1, 2005 to June 30, 2011, which stemmed from the Pennsylvania Department of Transportation analyzing senior ridership trends. As a result of the examination, senior ridership totals previously reported have been reduced by more than 30% in some years and the operating subsidy has been recalculated based on these reductions. The Pennsylvania Department of Transportation has ordered the Authority to repay approximately \$5,700,000 in operating subsidies through reduction of future subsidies over the next three years and to forfeit an additional \$771,000 in future capital improvement funds. The Authority has requested an extension of the repayment term, but the outcome of this request was still uncertain as of the report date.

On November 11, 2014, the Authority engaged a CPA firm to conduct a forensic examination of ridership for the periods July 1, 2005 to June 30, 2011. The scope of the examination is to determine who initiated the over reporting of ridership, verify the Pennsylvania Department of Transportation's calculation of the repayment amount and review current procedures related to ridership reporting. As of the date of this report, only preliminary information gathering has occurred.

Note 24 - Subsequent Events

The Authority has evaluated subsequent events through March 7, 2015. This date is the date the financial statements were available to be issued. No material events subsequent to June 30, 2014 were noted.

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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, 2013	\$ 2,454,621	\$ 3,979,181	\$ 1,524,560	61.7%	\$ 3,554,248	42.9%
January 1, 2011	2,446,382	3,808,931	1,362,549	64.2%	3,215,487	42.4%
January 1, 2009	2,508,004	3,494,489	986,485	71.8%	2,848,911	34.6%

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Operating Expenses

	Years Ended June 30,	
	2014	2013
Salaries and Wages		
Salaries:		
Operators	\$ 3,083,484	\$ 2,674,793
Other	1,499,988	1,646,908
Total Salaries and Wages	4,583,472	4,321,701
Fringe Benefits		
Vacations	315,883	252,352
Holiday	101,366	85,732
Sick leave	272,069	259,079
Other paid absence	69,721	66,858
Medical insurance	1,532,453	1,194,891
Workers' compensation	(13,031)	106,134
Payroll taxes	463,224	430,497
Pension	249,923	242,542
Insurance	102,194	69,361
Other	54,084	62,917
Total Fringe Benefits	3,147,886	2,770,363
Services	361,620	305,817
Fuels and lubricants	1,039,959	1,090,052
Tires and tubes	77,955	94,464
Other material and supplies	388,615	369,725
Utilities	133,328	138,052
Casualty and liability insurance	636,940	483,499
Purchased transportation	1,129,685	1,307,881
Miscellaneous expenses	175,974	193,149
Depreciation	1,405,093	1,308,873
Total Operating Expenses	\$ 13,080,527	\$ 12,383,576

County of Lackawanna Transit System Authority
A Component Unit of Lackawanna County

Changes in Net Position

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Invested in Capital Assets	Unrestricted Net Position	Board- Designated Self-Insurance Unrestricted Net Position	Invested in Capital Assets	Unrestricted Net Position	Board- Designated Self-Insurance Unrestricted Net Position
Net Position at Beginning of Year	\$ 12,778,676	\$ 800,922	\$ 247,559	\$ 6,496,796	\$ 641,746	\$ 237,326
Gain (loss) from operations	-	42,916	13,031	-	258,235	(97,191)
Depreciation expense	(1,405,093)	-	-	(1,308,873)	-	-
Interest income	-	1,822	5,805	-	1,898	6,467
Transfers	(48)	(43,069)	43,117	-	(100,957)	100,957
Capital assets received from Lackawanna Coordinated Transportation System	-	-	-	638,654	-	-
Commonwealth of Pennsylvania Act 44 Technical Assistance	-	-	-	36,121	-	-
Purchase of capital assets under Act 26	128,782	-	-	-	-	-
Purchase of capital assets under Act 3	166,487	-	-	944,465	-	-
Purchase of capital assets under Act 44	-	-	-	23,153	-	-
Capital grant funding:						
Federal government	1,692,939	-	-	5,588,547	-	-
Commonwealth of Pennsylvania	44,901	-	-	155,173	-	-
Lackawanna County	83,646	-	-	204,640	-	-
Net Position at End of Year	\$ 13,490,290	\$ 802,591	\$ 309,512	\$ 12,778,676	\$ 800,922	\$ 247,559