

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



**Financial Statements and  
Supplementary Information**

**June 30, 2015**



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, 2015

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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 financial statements of the County of Lackawanna Transit System Authority (the Authority), a component unit of Lackawanna County, Pennsylvania, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### 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 audit. We conducted our audit 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 from 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.

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

### **Basis for Qualified Opinion**

Management was unable to provide documentation for certain transactions reported in the statement of revenues, expenses, and changes in net position. As a result, we were unable to satisfy ourselves through auditing procedures concerning the accuracy of the reported balances transactions reported in the statement of revenues, expenses, and changes in net position.

### **Qualified Opinion**

In our opinion, the statement of net position presents fairly, in all material respects, the financial position of the County of Lackawanna Transit System Authority as of June 30, 2015. Because of the significance of the matters described in the basis for qualified opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of revenues, expenses, and changes in net position for the year then ended.

### **Adoption of Governmental Accounting Standards Board Statement No. 68**

As described in Note 2 to the financial statements, in 2015 the Authority adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinion is not modified in respect to these matters.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 10 and other required supplementary information on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

## **Reporting Required by *Government Auditing Standards* and the 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 April 29, 2016, 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.



April 29, 2016  
Lancaster, Pennsylvania

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

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Management's Discussion and Analysis  
June 30, 2015

The following management's 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, 2015 with comparative financial information for the fiscal year ended June 30, 2014. 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 decreased 2% or \$82,804 for the year ended June 30, 2015, compared to an increase of 12% or \$437,994 for the year ended June 30, 2014. Passenger fare revenue is down 3% and trip reimbursement for seniors utilizing the Area Agency on Aging Program is down 23% for the year ended June 30, 2015. COLTS did increase fares for fixed route service in July 2014.

**Operating Expenses**

COLTS' operating expenses increased 1% or \$69,837 for the year ended June 30, 2015, compared to an increase of 6% or \$696,951 for the year ended June 30, 2014. This is due in large part to an increase in medical insurance of 16% or approximately \$460,000 and contractual salary increases for represented employees of approximately \$178,000. Although there was an overall increase in expenses, certain line items did increase (decrease) in fiscal year 2015. Fuel decreased by 6%, purchased transportation increased by 9%, and tire expense decreased by 19%. 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 2015, COLTS provided 1,121,301 rides. Ridership has decreased by 26,821 for the year ended June 30, 2015 compared to decreases of approximately 60,500 for the year ended June 30, 2014. 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 buses and navigate the route maps. COLTS is continuing its relationship with local universities to offer service to college students.

**County of Lackawanna Transit System Authority**  
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Management's Discussion and Analysis  
June 30, 2015

**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 required supplementary 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 revenues, expenses, and changes in net position 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, deferred outflow of resources, liabilities, and deferred inflow of liabilities. COLTS' net position is presented as the difference between COLTS' 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 34 of this report.

**Other 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 is listed in the table of contents.

**Financial Analysis**

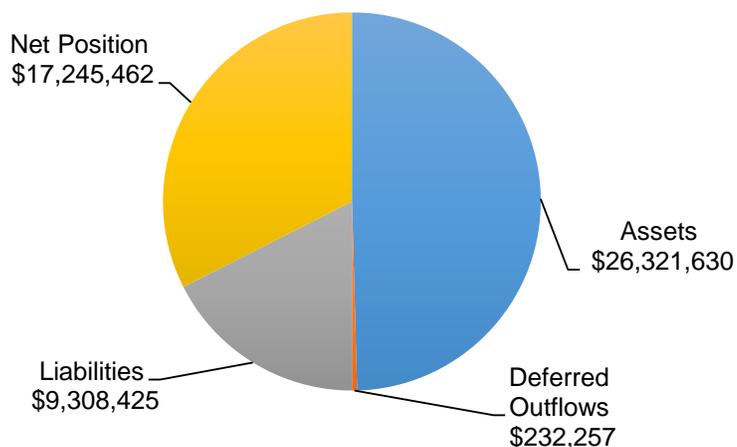
**Net Position.** Net position, when viewed over time may serve as a useful indicator of an entity's financial position. In the case of COLTS, assets and deferred outflows of resources exceed liabilities by \$17,245,462 as of June 30, 2015.

**County of Lackawanna Transit System Authority**  
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Management's Discussion and Analysis  
 June 30, 2015

**Financial Analysis (continued)**

The following chart shows the major categories of net position for the year ended June 30, 2015:



A condensed summary of COLTS' statement of net position is presented below at June 30:

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets	\$ 8,348,217	\$ 10,367,644
Noncurrent assets		
Capital assets, net	<u>17,973,413</u>	<u>13,490,290</u>
<b>Total Assets</b>	<u>26,321,630</u>	<u>23,857,934</u>
<b>Deferred Outflow of Resources</b>	<u>232,257</u>	<u>-</u>
<b>Liabilities</b>		
Current liabilities	7,295,837	8,957,292
Long-term liability	<u>2,012,588</u>	<u>1,911,027</u>
<b>Total Liabilities</b>	<u>9,308,425</u>	<u>10,868,319</u>
<b>Net Position</b>		
Invested in capital assets	17,973,413	13,490,290
Unrestricted (deficit), as restated	<u>(727,951)</u>	<u>(500,675)</u>
<b>Total Net Position, as Restated</b>	<u>\$ 17,245,462</u>	<u>\$ 12,989,615</u>

**County of Lackawanna Transit System Authority**  
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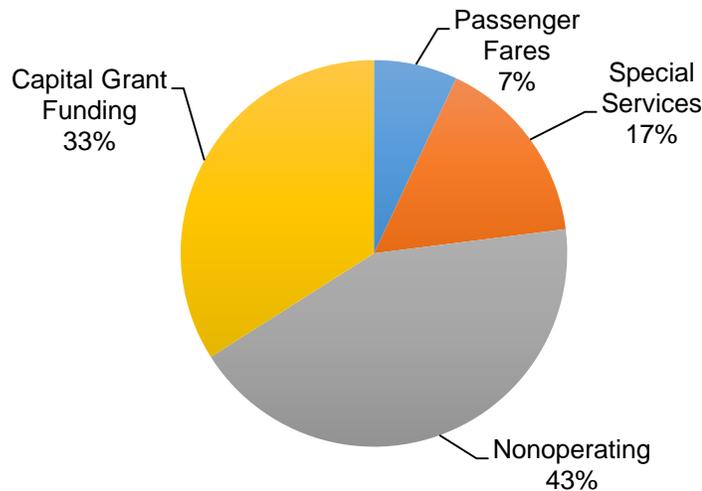
Management's Discussion and Analysis  
June 30, 2015

**Financial Analysis (continued)**

Net capital assets consisting of land, buildings, passenger coaches, service vehicles, machinery, and equipment comprise 104% of COLTS' net position as of June 30, 2015. Current liabilities include unearned revenue of \$109,613 of Act 26 funds; \$1,980,574 of Act 3 funds; \$2,600,885 of Act 44 funds, and \$14,296 of JARC 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 Position**

The following chart shows the major sources and the percentage of revenues for the year ended June 30, 2015:



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, 2015.

COLTS' major expenses are salaries and wages and benefits, which combine to equal 36% of the annual expenses. Purchased transportation for special services was equal to 9% of the annual expenses. Depreciation equals 10%. Other operating expenses are approximately 8% of the annual expenses.

**County of Lackawanna Transit System Authority**  
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Management's Discussion and Analysis  
 June 30, 2015

**Financial Analysis (continued)**

**Changes in Net Position (continued)**

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

	<u>2015</u>	<u>2014</u>
<b>Operating Revenues</b>		
Passenger fares	\$ 1,187,283	\$ 1,228,168
Route guarantees	58,500	104,810
Other contract revenue	433,093	465,094
State Medical Assistance Transportation Program	724,780	713,827
State Shared Ride Program	1,399,065	1,285,093
State Persons with Disabilities Program	34,129	31,843
Area Agency on Aging	186,694	241,348
Advertising income	46,366	46,976
Other	7,803	43,358
	<u>4,077,713</u>	<u>4,160,517</u>
<b>Operating Expenses</b>	<u>13,670,123</u>	<u>13,080,527</u>
<b>Loss from Operations</b>	<u>(9,592,410)</u>	<u>(8,920,010)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Operating grants		
Federal government	440,671	502,462
Commonwealth of Pennsylvania	36,212	64,115
Lackawanna County - Act 44 funds	594,758	566,436
Lackawanna County - other funds	15,985	15,919
Commonwealth of Pennsylvania - Act 44 Technical Assistance funds	35,347	-
Commonwealth of Pennsylvania - Act 44 funds	6,400,472	6,446,005
	<u>7,523,444</u>	<u>7,594,937</u>
Investment income	5,043	10,026
Expenses disallowed for capital funding	-	(26,472)
Miscellaneous income	519,759	-
	<u>7,528,487</u>	<u>7,578,491</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>7,528,487</u>	<u>7,578,491</u>
<b>Loss Before Capital Grant Funding</b>	<u>(1,544,164)</u>	<u>(1,341,519)</u>

**County of Lackawanna Transit System Authority**  
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Management's Discussion and Analysis  
 June 30, 2015

**Financial Analysis (continued)**

**Changes in Net Position (continued)**

	<u>2015</u>	<u>2014</u>
<b>Capital Grant Funding</b>		
Federal Government	4,580,246	1,692,939
Commonwealth of Pennsylvania	773,438	44,901
Lackawanna County	193,425	83,646
Commonwealth of Pennsylvania - Act 44 funds	21,384	-
Commonwealth of Pennsylvania - Act 3 funds	88,409	166,487
Commonwealth of Pennsylvania - Act 26 funds	143,109	128,782
<b>Total Capital Grant Funding</b>	<u>5,800,011</u>	<u>2,116,755</u>
<b>Increase in Net Position</b>	<u>\$ 4,255,847</u>	<u>\$ 775,236</u>

The 2014 change in net position was not restated for the adoption of Governmental Accounting Standards Board (GASB) 68 due to the lack of available information.

**Capital Assets**

COLTS' investment in capital assets as of June 30, 2015 (net of accumulated depreciation) amounted to \$4,483,123. Capital assets are recorded at cost and include land, buildings, buses, and support vehicles, and other garage, office equipment, and furniture.

Capital assets, net of accumulated depreciation, are as follows at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 33,486	\$ 33,486
Construction in progress	7,339,670	3,039,418
Buildings	2,624,796	2,771,162
Buses and support vehicles	6,839,805	6,486,443
Other equipment	1,135,656	1,159,781
	<u>\$ 17,973,413</u>	<u>\$ 13,490,290</u>

**Economic Factors**

COLTS receives federal capital funding through §5307 funds and discretionary grant opportunities. MAP-21, Moving Ahead for Progress in the 21<sup>st</sup> Century, was signed into law on July 6, 2012 and expired 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.

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

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Management's Discussion and Analysis  
June 30, 2015

**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 Douglas A. Hein, Director of Grants and Finance at COLTS' offices, 800 North South Road, Scranton, Pennsylvania 18504.

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

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Statement of Net Position  
June 30, 2015

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 93,449
Cash and cash equivalents - restricted	5,338,782
Investments	121,761
Accounts receivable	507,223
Inventories	129,313
Prepaid expenses	228,614
Operating grants receivable	46,094
Due from Lackawanna County	181,195
Capital grants receivable	<u>1,701,786</u>

**Total Current Assets** 8,348,217

**Capital Assets**

Capital assets not being depreciated	7,373,156
Capital assets being depreciated, net	<u>10,600,257</u>

**Total Capital Assets** 17,973,413

**Total Assets** 26,321,630

**Deferred Outflow of Resources - Pension** 232,257

**Total Assets and Deferred Outflow of Resources** 26,553,887

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

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Statement of Net Position (continued)  
June 30, 2015

***Liabilities***

**Current Liabilities**

Accounts payable	1,318,526
Accrued expenses	
Payroll and payroll taxes	211,292
Vacation	168,486
Workers' compensation claims	258,751
Unearned Lackawanna County funds	633,414
Unearned JARC funds	14,296
Unearned Commonwealth of Pennsylvania - Act 26 funds	109,613
Unearned Commonwealth of Pennsylvania - Act 3 funds	1,980,574
Unearned Commonwealth of Pennsylvania - Act 44 funds	2,600,885

**Total Current Liabilities** 7,295,837

**Long-Term Liabilities**

Accrued compensated absences	478,365
Net pension liability	1,534,223

2,012,588

**Total Liabilities** 9,308,425

***Net Position***

**Net Position**

Invested in capital assets	17,973,413
Unrestricted net deficit	(727,951)

**Total Net Position** \$ 17,245,462

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

Statement of Revenues, Expenses, and Changes in Net Position  
June 30, 2015

**Operating Revenues**

Passenger fares	\$ 1,187,283
Route guarantees	58,500
Other contract revenue	433,093
State Medical Assistance Transportation Program	724,780
State Shared Ride Program	1,399,065
State Persons with Disabilities Program	34,129
Area Agency on Aging	186,694
Advertising income	46,366
Other	7,803

**Total Operating Revenues** 4,077,713

**Operating Expenses**

Salaries and wages	4,763,933
Fringe benefits	3,862,010
Services	378,437
Fuel and lubricants	981,366
Tires and tubes	62,887
Other materials and supplies	514,615
Utilities	150,052
Casualty and liability	313,407
Purchased transportation	1,189,503
Miscellaneous expense	138,243
Depreciation	1,315,670

**Total Operating Expenses** 13,670,123

**Loss from Operations** (9,592,410)

**Nonoperating Revenues (Expenses)**

Operating grants	
Federal government	440,670
Commonwealth of Pennsylvania	36,212
Lackawanna County - Act 44 funds	594,758
Lackawanna County - other funds	15,985
Commonwealth of Pennsylvania - Act 44 Technical Assistance funds	35,347
Commonwealth of Pennsylvania - Act 44 funds	6,400,472

**Total Government Subsidies for Operations** 7,523,444

Investment income	5,043
Miscellaneous income	519,759

**Total Nonoperating Revenues (Expenses)** 8,048,246

**Loss Before Capital Grant Funding** (1,544,164)

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

Statement of Revenues, Expenses, and Changes in Net Position (continued)  
June 30, 2015

**Capital Grant Funding**

Federal Government	4,580,246
Commonwealth of Pennsylvania	773,438
Lackawanna County	193,425
Commonwealth of Pennsylvania - Act 44 funds	21,384
Commonwealth of Pennsylvania - Act 3 funds	88,409
Commonwealth of Pennsylvania - Act 26 funds	<u>143,109</u>
<b>Total Capital Grant Funding</b>	<u>5,800,011</u>
<b>Increase in Net Position</b>	4,255,847
<b>Net Position at Beginning of Year, as Restated</b>	<u>12,989,615</u>
<b>Net Position at End of Year, as Restated</b>	<u><u>\$ 17,245,462</u></u>

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

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Statement of Cash Flows  
June 30, 2015

**Cash Flows from Operating Activities**

Cash received from customers	\$ 4,438,754
Cash payments to suppliers for goods and services	(6,301,975)
Cash payments to employees for services	(4,786,369)
	<u>(6,649,590)</u>

**Cash Flows from Noncapital Financing Activities**

Receipts from operating and planning grants	<u>4,861,880</u>
	<u>4,861,880</u>

**Cash Flows from Capital and Related Financing Activities**

Receipts from capital grants	4,602,517
Purchase of capital assets	(5,798,793)
	<u>(1,196,276)</u>

**Cash Flows from Investing Activities**

Income received on investments	5,043
Proceeds from sale of investments	1,760
	<u>6,803</u>

**Net Decrease in Cash and Cash Equivalents** (2,977,183)

**Cash and Cash Equivalents at Beginning of Year** 8,409,414

**Cash and Cash Equivalents at End of Year** \$ 5,432,231

**Cash is Comprised of the Following on the Statement of Net Position**

Cash and cash equivalents	\$ 93,449
Cash and cash equivalents - restricted	5,338,782
	<u>\$ 5,432,231</u>

**County of Lackawanna Transit System Authority**  
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Statement of Cash Flows (continued)

June 30, 2015

**Reconciliation of Loss from Operations to Net Cash Used in Operating Activities**

Operating loss	\$ (9,592,410)
Adjustments to reconcile loss from operations to net cash used in operating activities	
Depreciation	1,315,670
(Increase) decrease in assets	
Accounts and other receivables	361,041
Inventories	22,332
Prepaid expenses	(841)
Increase in deferred outflow of resources - pension	(232,257)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	837,243
Net pension liability	119,873
	<hr/>
<b>Net Cash Used in Operating Activities</b>	<b>\$ (7,169,349)</b>

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

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Notes to Financial Statements  
June 30, 2015

**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 are in accordance with 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 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 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**  
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Notes to Financial Statements  
June 30, 2015

**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 grants from the federal, state, and local governments, interest income, and miscellaneous 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 accordance 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, not subject to withdrawal restrictions or penalties, and all highly-liquid debt investments purchased with a maturity of three months or less to be cash and cash equivalents.

**Investments**

The Board of Directors 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.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**Investments (continued)**

When making investments, the Board of Directors 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 state and local grants are classified as restricted assets on the statement of net position because their use is limited by the grantor.

**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, 2015 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 are those assets with a cost in excess of \$5,000 and purchased under capital grant agreements with an estimated useful life greater than one year. Capital assets are recorded at 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

Maintenance and repairs of capital assets are expensed when incurred. Upon retirement, sale, or other disposition of capital assets, the cost and accumulated depreciation are eliminated.

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.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**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 year ended June 30, 2015.

**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.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period not recognized as an outflow of resources until that future period. A deferred inflow of resources represents an acquisition of net position that applies to a future period not recognized as an inflow of resources until that future period.

**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.

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Notes to Financial Statements  
June 30, 2015

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**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.

**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 Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. The Authority adopted GASB Statement No. 68 for the 2015 financial statements. The adoption of this statement decreased the June 30, 2014 net position by \$1,612,778.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement also provides guidance for applying fair value to certain investments and disclosures related to fair value measurements. This guidance is effective for reporting periods beginning after June 15, 2015. The Authority is currently evaluating what effect, if any, the adoption of this guidance will have on the Authority's financial statements.

**Note 3 - Budget Matters**

The Authority adopts an annual budget, however, it is not required by the Pennsylvania Municipality Authorities Act.

**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.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**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, 2015, the carrying amount of the Authority's bank deposits were \$5,553,992 and the corresponding bank balance was \$5,919,991, of which \$5,419,991, was 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.

The Authority has the following investments as of June 30, 2015:

	<u>Cost</u>	<u>Fair Value</u>
<b>Mutual Funds</b>		
Federal	\$ 100,000	\$ 96,426
Diversified debt securities	<u>25,000</u>	<u>25,335</u>
	<u>\$ 125,000</u>	<u>\$ 121,761</u>

**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. The average maturity of the related debt securities held by the various mutual funds is between 5 and 10 years.

**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, 2015, \$121,761 is held by the investment's counterparties, although owned by the Authority.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**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 consist of the following at June 30, 2015:

Lackawanna County funds	\$ 633,414
JARC funds	14,296
Act 26 funds	109,613
Act 3 funds	1,980,574
Act 44 funds	2,600,885
	<hr/>
	\$ 5,338,782
	<hr/> <hr/>

**Note 7 - Inventories**

The classification of inventories is as follows at June 30, 2015:

Parts and supplies	\$ 114,774
Fuel and lubricants	14,539
	<hr/>
	\$ 129,313
	<hr/> <hr/>

**Note 8 - Operating Grants Receivable**

The following amounts were due on operating grants at June 30, 2015:

County of Lackawanna - local share	\$ 26,413
Planning grants	19,681
	<hr/>
	\$ 46,094
	<hr/> <hr/>

**Note 9 - Capital Grants Receivable**

The following amounts are due on capital project grants at June 30, 2015:

Federal government	\$ 914,441
Commonwealth of Pennsylvania	787,345
	<hr/>
	\$ 1,701,786
	<hr/> <hr/>

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
 June 30, 2015

**Note 10 - Capital Assets**

Capital asset activity was as follows for the year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 33,486	\$ -	\$ -	\$ 33,486
Construction in progress	3,039,418	4,300,252	-	7,339,670
<b>Total Capital Assets Not Being Depreciated</b>	<u>3,072,904</u>	<u>4,300,252</u>	<u>-</u>	<u>7,373,156</u>
<b>Capital Assets Being Depreciated</b>				
Buildings	6,105,056	-	-	6,105,056
Buses and support vehicles	19,955,861	1,486,990	-	21,442,851
Other equipment	2,631,970	11,551	-	2,643,521
<b>Total Capital Assets Being Depreciated</b>	<u>28,692,887</u>	<u>1,498,541</u>	<u>-</u>	<u>30,191,428</u>
<b>Less Accumulated Depreciation</b>				
Buildings	3,333,894	146,366	-	3,480,260
Buses and support vehicles	13,469,418	1,133,628	-	14,603,046
Other equipment	1,472,189	35,676	-	1,507,865
<b>Less Accumulated Depreciation</b>	<u>18,275,501</u>	<u>1,315,670</u>	<u>-</u>	<u>19,591,171</u>
<b>Capital Assets Being Depreciated, Net</b>	<u>10,417,386</u>	<u>182,871</u>	<u>-</u>	<u>10,600,257</u>
<b>Capital Assets, Net</b>	<u>\$ 13,490,290</u>	<u>\$ 4,483,123</u>	<u>\$ -</u>	<u>\$ 17,973,413</u>

**Note 11 - Unearned Lackawanna County Funds**

Local grant funds from Lackawanna County, in the amount of \$633,414 at June 30, 2015, is 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, 2015

**Note 12 - 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 (DOT), up to 50%, or an amount approved by the DOT 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 DOT preapproved capital projects. Any funds not used in any given year must be carried over and used for capital projects. This funding was replaced with Commonwealth of Pennsylvania funding under Act 44 beginning July 1, 2007. The following transactions occurred relative to the Act 26 Dedicated Tax account for the year ended June 30, 2015:

<b>Balance at July 1, 2014</b>	\$ 250,070
Interest income	<u>1,016</u>
<b>Total Available</b>	<b>251,086</b>
Funds expended	<u>(141,473)</u>
<b>Balance at June 30, 2015</b>	<b><u>\$ 109,613</u></b>

**Note 13 - 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.

The following transactions occurred relative to the Act 3 Base Supplemental Grant account for the year ended June 30, 2015:

<b>Balance at July 1, 2014</b>	\$ 2,061,211
Interest income	<u>7,772</u>
<b>Total Available</b>	<b>2,068,983</b>
Funds expended	<u>(88,409)</u>
<b>Balance at June 30, 2015</b>	<b><u>\$ 1,980,574</u></b>

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**Note 14 - 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. The following transactions occurred in relation to the Act 44 account for the year ended June 30, 2015:

<b>Balance at July 1, 2014</b>	\$ 4,627,398
Funds received	<b>4,393,100</b>
Interest income	<u>2,243</u>
<b>Total Available</b>	<b>9,022,741</b>
Funds expended	<u>(6,421,856)</u>
<b>Balance at June 30, 2015</b>	<b><u>\$ 2,600,885</u></b>

**Note 15 - 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 year ended June 30, 2015 amounted to \$303,469.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**Note 15 - 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 year ended June 30, 2015 amounted to \$556,805.

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. The following are changes in the workers' compensation liability for the year ended June 30, 2015:

<b>Balance at July 1</b>	<b>\$ 43,859</b>
Claims expense and changes in reserves	<u>214,892</u>
<b>Balance at June 30</b>	<u><u>\$ 258,751</u></u>

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

For the year ended June 30, 2015, 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, 2015, 2014, and 2013.

**Note 16 - 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 contribution of \$48,612 was charged to operations for the year ended June 30, 2015.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**Note 16 - 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 \$34,484 was charged to operations for the year ended June 30, 2015.

**Note 17 - County of Lackawanna Transit System Authority and Local 168, Scranton, PA, Amalgamated Transit Union Pension Plan for Bargaining Employees Local 168, Scranton, PA, Amalgamated Transit Union, and Non-Bargaining Employees Plan**

**Plan Description**

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.

**Benefits Provided**

The pension plan provides pension benefits for normal retirement at the age of 65, with an option for early retirement benefits at age 55. Benefits are calculated based on the years of benefit service.

**Contributions**

Members contribute \$76 per pay 26 times per year and are credited with 5.5% annual interest. The Authority is required to contribute amounts necessary to fund the Plan using the actuarial basis specific by statute.

**Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the Authority reported a liability of \$1,534,223 for its net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of December 31, 2013.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
 June 30, 2015

**Note 17 - County of Lackawanna Transit System Authority and Local 168, Scranton, PA, Amalgamated Transit Union Pension Plan for Bargaining Employees Local 168, Scranton, PA, Amalgamated Transit Union, and Non-Bargaining Employees Plan (continued)**

For the year ended June 30, 2015, the Authority recognized pension expense of \$151,578. The Authority reported deferred outflows of resources and deferred inflows of resources related to the Cumberland-Dauphin-Harrisburg Transit Authority Pension Plan from the following sources at June 30, 2015:

	<b>Deferred Outflows of Resources</b>
Difference between projected and actual earnings on pension plan investments	\$ 154,417
Authority contributions subsequent to the measurement date	<u>77,840</u>
	<u><u>\$ 232,257</u></u>

An amount of \$77,840 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ended June 30:

2016	\$ 30,883
2017	30,883
2018	30,883
2019	30,883
2020	30,885

**Actuarial Assumptions**

The total pension liability in the January 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 %
Salary increases	5.00
Investment rate of return	8.00

Mortality rates were based on the RP2000 Table for males and females.

The actuarial assumptions used in the valuation were based on past experience under the plan and reasonable future expectations which represent our best estimate of anticipated experience under the plan.

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Notes to Financial Statements  
 June 30, 2015

**Note 17 - County of Lackawanna Transit System Authority and Local 168, Scranton, PA, Amalgamated Transit Union Pension Plan for Bargaining Employees Local 168, Scranton, PA, Amalgamated Transit Union, and Non-Bargaining Employees Plan (continued)**

**Actuarial Assumptions (continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of December 31, 2014:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	60.00 %	7.00 %
Fixed income	35.00	2.50
Cash	5.00	-

**Discount Rate**

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that municipal contributions to the Plan will be made at actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
 June 30, 2015

**Note 17 - County of Lackawanna Transit System Authority and Local 168, Scranton, PA, Amalgamated Transit Union Pension Plan for Bargaining Employees Local 168, Scranton, PA, Amalgamated Transit Union, and Non-Bargaining Employees Plan (continued)**

**Changes in Net Position Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balance at December 31, 2013</b>	<b>\$ 4,190,814</b>	<b>\$ 2,776,464</b>	<b>\$ 1,414,350</b>
Service cost	121,557	-	121,557
Interest cost	332,638	-	332,638
Contributions - employer	-	163,840	(163,840)
Contributions - member	-	155,648	(155,648)
Net investment income	-	28,959	(28,959)
Benefit payments, including refunds of member contributions	(308,798)	(308,798)	-
Administrative expense	-	(14,125)	14,125
Net changes	145,397	25,524	119,873
<b>Balance at December 31, 2014</b>	<b>\$ 4,336,211</b>	<b>\$ 2,801,988</b>	<b>\$ 1,534,223</b>

**Sensitivity of the Authority's Net Pension Liability to Changes in the Discount Rate**

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 8.00% as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
<b>Net Pension Liability</b>	<b>\$ 1,898,706</b>	<b>\$ 1,534,223</b>	<b>\$ 1,215,712</b>

**Note 18 - Advertising Costs**

Advertising costs included in the statement of revenues, expenses, and changes in net position for the year ended June 30, 2015 was \$22,831.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**Note 19 - 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 30, 2016.

**Fuel**

The Authority has entered into an agreement to purchase a certain amount of fuel at a fixed price with a total purchase price of \$538,538. The agreement runs through June 30, 2016.

**Intermodal Facility Construction**

The Authority is in the process of constructing a new intermodal facility with an estimated cost of approximately \$11,300,000. The total costs incurred on the project at June 30, 2015 are \$6,358,840. These expenditures will be funded through federal, state, and local grants.

**Capital Purchases**

The Authority has capital commitments of approximately \$1,070,000 at June 30, 2015. These expenditures will be funded through federal, state, and local capital grants and are for the purchase of two new buses and three new vans.

**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.

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
 June 30, 2015

**Note 19 - Commitments and Contingencies (continued)**

**Contingencies (continued)**

**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 represented by the Amalgamated Transit Union, Division No. 168 through June 30, 2016. Of the Authority's total workforce, approximately 58% 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, 2017. Of the Authority's total workforce, approximately 29% are covered by the agreement.

**Note 20 - Restatement of 2014 Financial Statements**

The Authority's beginning net position has been restated to properly reflect the effect of the implementation of GASB 68. The June 30, 2014 financial statements, as previously issued, were restated for this correction.

	<b>Statement of Net Position, June 30, 2014</b>		
	<b>As Previously Reported</b>	<b>As Restated</b>	<b>Effect of Changes</b>
<b>Assets</b>			
Net pension benefit asset	\$ 198,428	\$ -	\$ (198,428)
<b>Liabilities</b>			
Net pension liability	\$ -	\$ (1,414,350)	\$ (1,414,350)
<b>Net Position</b>			
Unrestricted net position (deficit)	\$ 1,112,103	\$ (500,675)	\$ (1,612,778)

**County of Lackawanna Transit System Authority**  
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Notes to Financial Statements  
June 30, 2015

**Note 21 - Ridership Investigation**

The Authority has been subjected to an examination of the senior ridership reporting covering periods from July 1, 2005 to June 30, 2013, 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 reduction of the Section 1513 payments began during the year ended June 30, 2015 as the payments were reduced by approximately \$1,900,000.

**Note 22 - Subsequent Events**

The Authority has evaluated subsequent events through April 29, 2016. This date is the date the financial statements were available to be issued.

In January 2016, the Authority entered into an agreement to purchase three vans at an approximate cost of \$156,000. These expenditures will be funded through federal, state, and local grants.

No other material events subsequent to June 30, 2015 were noted.

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Schedule of Changes in the Net Pension Liability and Related Ratios  
Year Ended June 30, 2015  
Last Ten Fiscal Years\*

	<u>Defined Benefit Plan</u>
<b>Total Pension Liability</b>	
Service cost	\$ 121,557
Interest	332,638
Benefit payments, including refunds of member contributions	<u>(308,798)</u>
<b>Net Change in Total Pension Liability</b>	<b>145,397</b>
<b>Total Pension Liability, Beginning</b>	<u>4,190,814</u>
<b>Total Pension Liability, Ending</b>	<u><u>\$ 4,336,211</u></u>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 163,840
Contributions - member	155,648
Net investment income	28,959
Benefit payments, including refunds of member contributions	(308,798)
Administrative expense	<u>(14,125)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>25,524</b>
<b>Plan Net Position, Beginning</b>	<u>2,776,464</u>
<b>Plan Net Position, Ending</b>	<u><u>\$ 2,801,988</u></u>
<b>Authority's Net Pension Liability</b>	<u><u>\$ 1,534,223</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<u><u>64.6%</u></u>
<b>Covered Employee Payroll</b>	<u><u>\$ 3,940,559</u></u>
<b>Authority's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<u><u>38.9%</u></u>

\* This schedule is to present the information for ten years. However, until a full ten-year trend is compiled, information for those years which information is available is shown.

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

Schedule of Pension Contributions  
 Last Ten Fiscal Years

<u>Years</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a % of Payroll</u>
2005	\$ 49,401	\$ 132,240	\$ (82,839)	\$ -	- %
2006	48,034	165,920	(117,886)	-	-
2007	105,794	136,400	(30,606)	-	-
2008	116,392	133,440	(17,048)	-	-
2009	115,237	148,080	(32,843)	-	-
2010	104,313	139,920	(35,607)	-	-
2011	100,817	130,082	(29,265)	-	-
2012	110,686	146,960	(36,274)	-	-
2013	137,385	164,600	(27,215)	-	-
2014	132,386	163,840	(31,454)	3,940,559	4.2