# Port Authority of Allegheny County

Single Audit

June 30, 2013

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

# PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2013

DIRECTORY

**Financial Statements:**



**Independent Auditor's Reports in Accordance with OMB Circular A-133:**

# PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2013 AND 2012

TABLE OF CONTENTS

MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

# Independent Auditor's Report

Board of Directors
Port Authority of Allegheny County

## Report on the Financial Statements

We have audited the accompanying financial statements of the Port Authority of Allegheny County (Authority), a component unit of Allegheny County, as of and for the years ended June 30, 2013 and 2012, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ix and the pension and OPEB information on pages 26 to 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reported dated November 22, 2013, 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* in considering the Authority's internal control over financial reporting and compliance.

*Maher Duessel*

Pittsburgh, Pennsylvania
November 22, 2013

# MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The following management's discussion and analysis of the financial performance and activity of the Port Authority of Allegheny County (the Port Authority) is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Port Authority for the years ended June 30, 2013 (Fiscal Year 2013) and June 30, 2012 (Fiscal Year 2012). The management of the Port Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes which follow this section.

The Port Authority was established in January, 1958 pursuant to the Enabling Act. The Port Authority began transit operations on March 1, 1964 with the consolidation of 33 private transit carriers, including the Pittsburgh Railways Company and 32 other bus and inclined plane companies. The Port Authority was formed for the purpose of, among other things, planning, acquiring, holding, constructing, improving, maintaining and operating a comprehensive public transportation system within Allegheny County, which includes the City of Pittsburgh, and outside of Allegheny County to the extent necessary for an integrated system.

## HIGHLIGHTS

- A four-year concessionary bargaining agreement with the ATU Local 85, new revenues through fare increases, increased state support, and agency-wide expenditure reductions enabled the Port Authority to reissue a balanced Fiscal Year 2013 operating budget and restore transit service to the region.

- Act 44 State Operating Assistance awarded in Fiscal Year 2013 increased $1.36 million over the prior year. In addition, per the collective bargaining agreement with ATU Local 85, the Commonwealth made its $30 million annual commitment for increased operating support. Local match requirements on the additional monies were met through additional drink tax revenue from Allegheny County and a grant from the Allegheny County Regional Asset District (RAD).

- The Port Authority ended Fiscal Year 2013 with a $24.8 million operating surplus, which is classified as unearned revenue per PennDOT's newly adopted regulations. Combined with Fiscal Year 2012 unearned revenue of $4.8 million, the Port Authority continues to improve its cash position.

- Reducing the escalating cost of retiree medical promises has been a long-standing issue for Port Authority management. A new collective bargaining agreement effective August 8, 2012 was negotiated with ATU Local 85 that changed retiree medical benefits for ATU employees hired on and after July 1, 2012. These employees will receive a maximum of three years of healthcare coverage in retirement. These changes also apply to IBEW employees hired on and after July 1, 2013. Post-retirement healthcare for non-represented employees and police was eliminated in 2007.

- The Port Authority's pension obligation in Fiscal Year 2013 decreased by $11.1 million over Fiscal Year 2012 as a result of a change in the asset valuation method used to determine the Port Authority's annual funding requirement for the ATU Pension Plan. A 10-year smoothing method will be used for actuarial valuations on and after January 1, 2012. Additionally, ATU employee contributions to their defined benefit plan increased from 5.5% to 10.5% per the collective bargaining agreement.

- The Port Authority continues to cap its pension liabilities. Future hires in the non-represented, police and IBEW units are no longer provided with a defined benefit pension plan but are enrolled in a defined contribution program similar to private sector 401(k) plans. Those employees remaining in the defined benefit plan bear a greater share of the plan obligations, with contributions increasing from 4.5% to 10.5%.

- Cost containment and service efficiency efforts continue. According to the Fiscal Year 2011 National Transit Database Report published by the Federal Transit Administration of the U.S. Department of Transportation, the most recently available data, the Port Authority's total bus operating expenses to total agency expenses are below the statewide median of 60% for transit systems across Pennsylvania. Port Authority bus operating expenses are 55% of total agency expenses, on par with our counterpart across the state, SEPTA.

- The Port Authority's smart-card based Automated Fare Collection System, branded "Connect Card," is fully implemented with all products online. Five regional transit agencies are coming online over the coming year, thus allowing for a contiguous fare payment system.

## BASIC FINANCIAL STATEMENTS

The Port Authority's consolidated financial statements are prepared in conformity with generally accepted accounting principles (GAAP) that apply to U.S. governmental units. The Port Authority uses the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred. Since the Port Authority is comprised of a single enterprise fund, no individual fund level financial statements are presented.

The following financial statements, along with the "Notes to Financial Statements," serve as the basis for the analysis and understanding of the Port Authority's financial position:

♦ **Statements of Net Position** - These financial statements summarize the Port Authority's capital structure as to whether company assets were financed with equity or by incurring a liability. Net position increases when revenues exceed expenses. Increases in assets without a corresponding increase in liabilities generally indicate an improved financial condition.

♦ **Statements of Revenues, Expenses, and Changes in Net Position** - These financial statements provide information on the net income generated from the Port Authority's continuing operations. Operating Expenses are subtracted from Operating Revenues in order to determine an Operating Gain or Loss. Non-Operating Revenues that are defined as significant recurring federal, state, and local grants are added to the Operating Gain or Loss in order to calculate Gain or Loss Before Capital Grant Funding. The Capital Grant Funding is added to the Gain or Loss Before Capital Grant Funding that results in the Change in Net Position. The Change in Net Position is added to the Total Net Position from the end of the previous fiscal year. This summation results in the Total Net Position for the current fiscal year.

♦ **Statements of Cash Flows -** The statements of cash flows detail the cash flows generated by the Port Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding Fiscal Year 2013 changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2012 cash balance.

## THE PORT AUTHORITY'S FINANCIAL CONDITION

The *Statements of Net Position* and the *Statements of Revenues, Expenses, and Changes in Net Position* report information about the Port Authority as a whole and detail changes in the Port Authority's financial position. These statements include all assets and liabilities using the accrual basis of accounting. An increase or decrease in the Port Authority's net position is one indicator of whether its financial health has improved or deteriorated over a period of time. Other less tangible factors, such as the age of the revenue vehicle fleet, new service initiatives, health of the local economy, labor union contractual issues, significant capital projects, and the level of inter-governmental financial support, all combine to influence the current and future financial health of the organization.

Public transit service is provided with the assistance of Federal, State, and County operating subsidies and grants, which are categorized as non-operating revenues on the *Statements of Revenues, Expenses, and Changes in Net Position.* Operating expenses are subtracted from Operating Revenues in order to determine the Port Authority's operating surplus or loss. Non-Operating Revenues (Expenses) are added to the Operating Loss. This financial result is entitled Loss Before Capital Grant Funding on the *Statement of Revenues, Expenses, and Changes in Net Position*.

In compliance with Governmental Accounting Standards Board Statement No. 45 regulations, the Port Authority expenses an annual required contribution (ARC) on the operating statement for Other Post-Employment Benefits (OPEB). The ARC represents the amount of funds needed to cover the pay-as-you-go costs and the unfunded future years' obligation spread over 30 years. For Fiscal Year 2013, the Port Authority expensed $38.8 million for its OPEB obligation, which is net of the current year contributions. Fiscal Year 2012 OPEB expense was slightly lower at $35.2 million. To date, the Port Authority and other governmental entities are not required to make cash contributions to fund this liability.

In Fiscal Year 2013, the Port Authority completed the fiscal year with net operating expenses exceeding revenues before capital related items by $37.5 million. Adjusting for the effect the OPEB non-cash liability and net pension obligation adjustment of $1.3 million, depreciation, and capital-related interest income and expense, the Port Authority's *Net Revenues over Expenses before Capital Grant Funding* are balanced. In July 2012, PennDOT adopted new regulations on grant revenue recognition requiring all fixed route public transit agencies to report balanced operating result, i.e., no surplus or deficit of funds after the use of operating grant funds, at the end of each fiscal year and to do so by classifying any surplus as unearned revenue. The Port Authority deferred $24.8 million in grant revenue to meet required regulations for surpluses. Once capital items are accounted for, the net position declined by $75.7 million.

## THE PORT AUTHORITY AS TRUSTEE

The Port Authority is a trustee of the Port Authority of Allegheny County Retirement and Disability Allowance Plan for Employees Represented by Local 29 of the International Brotherhood of Electrical Workers and the Port Authority of Allegheny County Retirement and Disability Allowance Plan for Employees Not Represented by a Union. In addition, the Port Authority serves as a joint trustee with the Amalgamated Transit Union (ATU) Local #85 on the Port Authority of Allegheny County Retirement and Disability Plan for Employees Represented by Local 85 of the Amalgamated Transit Union. Although not subject to the Employee Retirement Income Security Act (ERISA), the Port Authority follows its guidelines and has separate, external audits of these plans conducted.

## STATEMENTS OF NET POSITION

The Port Authority's Total Assets in Fiscal Year 2013 decreased by $42.5 million from the prior year, from $1.64 billion in Fiscal Year 2012 to $1.60 billion in Fiscal Year 2013. Total Current Assets increased by $19.7 million or 21%, from $92.9 million in Fiscal Year 2012 to $112.7 million in Fiscal Year 2013. Total Non-current Assets during the same period decreased by $62.2 million. Below are explanations of significant changes in various current and non-current asset classifications.

### Current Assets

**Cash and cash equivalents:** The Port Authority's ending cash and cash equivalents balance was $74.1 million, an increase of $35.7 million or 93% over Fiscal Year 2012. Without a statewide funding solution, the Port Authority will rely on cash reserves and one-time funding solutions while holding the line on costs.

**Capital grant receivables:** Capital grants receivable decreased by $7.6 million or 38%, from $20.1 million in Fiscal Year 2012 to $12.5 million in Fiscal Year 2013, due principally to the winding down of the North Shore Connector Project.

**Other receivables:** Other receivables decreased $10.1 million or 60%, from $17 million in Fiscal Year 2012 to $6.8 million in Fiscal Year 2013 as a result of timing issues.

**Net pension asset**: Net pension asset reflects the Port Authority's annual pension costs and net pension obligations to the plans for the current year. For Fiscal Year 2013, net pension asset is $9,050,060, an increase of $1,271,218 million over Fiscal Year 2012.

### Non-Current Assets

The Port Authority's major operating facilities include four bus garages, a rail center, a complex housing the Power and Way Departments, the Manchester Administrative Center and General Shops building, South Hills Village Parking Garage, fixed guideways such as the 9.1 mile Martin Luther King, Jr. East Busway, 4.3-mile South Busway, 5.0-mile West Busway, 25.4 miles of Light Rail Transit (LRT) infrastructure, the Monongahela Incline, and other various structures that are situated throughout Allegheny County. Service reductions in March 2011 resulted in the closure of Harmar Garage, dividing operations among the remaining four garages. The Port Authority continues to own the Harmar facility. In total, non-current assets in Fiscal Year 2013 decreased by $62.2 million from Fiscal Year 2012 values.

**Restricted assets for capital additions and related debt:** Reimbursements from State Bonds for the North Shore Connector and other capital projects resulted in an increase of $7.3 million over Fiscal Year 2012.

**Capital assets, net of accumulated depreciation:** Capital assets, net of depreciation, decreased $69.6 million or 5.0% from Fiscal Year 2012.

### Current Liabilities

Current liabilities include accounts payable; accrued compensation, benefits, and withholdings; unearned revenue; reserves for claims and settlements; current portion of capital lease obligation; and current portion of bonds payable; and other short-term liabilities.

In Fiscal Year 2013, total current liabilities increased by $14.3 million or 15% over Fiscal Year 2012 levels due to increases in Unearned Revenue. Unearned Revenue increased by 124%, $23.4 million over Fiscal Year 2012.

### Non-Current Liabilities

The Port Authority's non-current liabilities include long-term debt obligations, reserves for claims and settlement, and accrued OPEB liability. At year-end, net bonds payable totaled $246.9 million, a decline of $20.2 million over Fiscal Year 2012. OPEB liability rose by $38.8 million, a 19% increase, in Fiscal Year 2013, as the actuarially determined annual OPEB cost exceeded the Port Authority's pay-as-you-go contribution. In Fiscal Year 2013, total non-current liabilities increased 4% or $18 million over Fiscal Year 2012.

Total liabilities increased by $32 million or 6% in Fiscal Year 2013 over Fiscal Year 2012, from $570.4 million to $602.7 million, principally due to the Accrued OPEB Liability and Unearned Revenue.

### Net Position

Fiscal Year 2013 net investment in capital assets decreased approximately $37.6 million over Fiscal Year 2012. Total Net Position decreased to $1.010 billion from $1.085 billion in Fiscal Year 2012.

## FINANCIAL COMPARISON: FISCAL YEAR 2013 OVER FISCAL YEAR 2012

The following discussion measures the financial performance of the Port Authority by comparing the actual revenue, expenditure, and changes in net position. This section comments on revenue and expense categories that exhibited significant dollar variances between Fiscal Year 2013 and Fiscal Year 2012.

### Revenues

Total operating revenues in Fiscal Year 2013 increased by $2.8 million or 2.8% over Fiscal Year 2012. The Port Authority increased its fare structure at the beginning of Fiscal Year 2013, which resulted in increased revenues. In Fiscal Year 2013, the Port Authority began implementing an Automated Fare Collection System (AFCS). Passenger Revenues increased due to a $1.9 million increase in Stored Value transactions from Fiscal Year 2012. Overall, including passenger revenue, ACCESS program services, and other income, operating revenue comprised 31% of the total revenues supporting the Fiscal Year 2013 budget.

In Fiscal Year 2013, contract service revenue through the Port Authority's U-Pass program with the University of Pittsburgh, Carnegie Mellon University, and Chatham University increased by $424,032 over Fiscal Year 2012, due mainly to new contractual agreements between the Port Authority and the three universities.

The Port Authority contracts with Veolia Transportation Services Inc., a privately-owned transportation company, for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth of Pennsylvania reimburses the Port Authority for a portion of the costs incurred in providing this program. ACCESS Shared Ride revenues increased in Fiscal Year 2013 by $474,164 when compared with Fiscal Year 2012. Other income rose 5% largely due to increases in advertising income.

As indicated in the *Port Authority Ridership Statistics* below, total ridership in Fiscal Year 2013 has decreased by 3.0% over Fiscal Year 2012 levels. Ridership statistics for bus, light rail, and the incline decreased 4.7% in Fiscal Year 2013 over Fiscal Year 2012, whereas contract services ridership increased 1.8%. Senior ridership fell 2.9% in Fiscal Year 2013 from Fiscal Year 2012 levels. Ridership on ACCESS in Fiscal Year 2013 decreased 3% over Fiscal Year 2012. Ridership within the Downtown Free-Zone has increased 27.2% over Fiscal Year 2012, due principally to the opening of the North Shore Connector in March 2012, which now serves the various entertainment venues, restaurants, and fringe parking on the North Shore of the City.

**Port Authority Ridership Statistics**

| | **2013** | **2012** | **Percent + / (-)** |
|---|---|---|---|
| Originating (Bus, Light Rail, Incline) | 43,718,737 | 45,887,230 | -4.7% |
| Transfers | 3,608,342 | 3,884,494 | -7.1% |
| Contracted Services | 7,542,272 | 7,410,453 | 1.8% |
| Senior Citizens | 4,895,348 | 5,042,824 | -2.9% |
| ACCESS | 1,716,098 | 1,769,543 | -3.0% |
| Free Ridership | 2,377,168 | 1,869,312 | 27.2% |
| **Total** | **63,857,965** | **65,863,856** | **-3.0%** |

## Expenses

Despite a reduction in pension obligations due to a contractual agreement between the ATU Local 85 to increase employee contributions to 10.5% and Non-Represented employees increasing their contribution to 10.5%, the Port Authority's total Fiscal Year 2013 operating expenses increased marginally by $720,417 or less than 1% over Fiscal Year 2012. The Port Authority had a contractual wage freeze for Fiscal Year 2013. At year-end, Fiscal Year 2013 had salary and wage expenses below Fiscal Year 2012 by approximately $200,000.

Total employee benefits in Fiscal Year 2013 decreased $12.7 million or 10% over Fiscal Year 2012 due to significant savings in pension obligations. Pension liabilities for the Port Authority's three defined benefit plans decreased by $11.2 million or 36% in Fiscal Year 2013. Employee medical, dental, and vision premiums for active employees and retirees in Fiscal Year 2013 increased 1.3% or $841,834 over Fiscal Year 2012. Non-cash OPEB expense increased 10% in Fiscal Year 2013 over Fiscal Year 2012.

In Fiscal Year 2013, expenses for fuel and lubricants, materials and supplies, purchased transportation, miscellaneous expenses, and utilities decreased. Services and causality and liabilities increased.

Other materials and supplies decreased by $913,013 or 4%. Fuel and lubricants decreased by $512,764 or 2% due to aggressive procurement of diesel fuels. Purchased transportation, which is the ACCESS program, service expense for Fiscal Year 2013 decreased by $1.02 million or 3.9% over Fiscal Year 2012. Service expenses in Fiscal Year 2013 increased $3.09 million or 30.8% over Fiscal Year 2012 due to increased expenses for work done by outside contractors, equipment purchases for buses, and general engineering expenses related to capital infrastructure.

Casualty and liability increased $439,943 or 22% over Fiscal Year 2012, as general insurance and litigated settlements increased.

Fiscal Year 2013 utility costs, covering largely propulsion power, electricity, and natural gas, fell by $451,392 or 6% over Fiscal Year 2012 as a result of successful price locks throughout the year. Miscellaneous expenses in Fiscal Year 2013 decreased by $1.8 million over Fiscal Year 2012 as a result of continued cost controls across divisions.

### Non-Operating Revenues (Expenses)

In total, non-operating revenues in Fiscal Year 2013 decreased $16.2 million or 6.5% from the Fiscal Year 2012 level. Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provides Act 44 subsidy for operating, which in Fiscal Year 2013 was reduced 2% from $165 million in Fiscal Year 2012, decreased by $3.2 million in Fiscal Year 2013. This reduction is due to the deferral of State Operating Assistance. The operating subsidy from Allegheny County for Fiscal Year 2013 increased from Fiscal Year 2012, with Allegheny County contributing the required 15% local match or $30.5 million. RAD contributed $1.3 million of the required local match. In July 2012, PennDOT adopted new regulations on grant revenue recognition, requiring all transit agencies to report balanced operating result, i.e., no surplus or deficit of funds after the use of operating grant funds, at the end of each fiscal year and to do so by classifying any surplus as unearned revenue. The Port Authority deferred $24.8 million in grant revenue in Fiscal Year 2013 to meet required regulations for surpluses.

Capital funds used for operating assistance decreased by $16.7 million from Fiscal Year 2012 totals. Predominantly, this was the result of $14.1 million less in Preventive Maintenance grant funds being used in Fiscal Year 2013.

Interest expense for the Port Authority was $14 million for Fiscal Year 2013, a decrease of $860,000 over Fiscal Year 2012.

## CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

The need for immediate and substantive investment in Pennsylvania’s transportation infrastructure is well documented. A decade’s worth of state and national analyses, including reports by Pennsylvania’s own Transportation Funding and Reform Commission, Transportation Advisory Committee, and Transportation Funding Advisory Commission, all point to a widening gap between asset conditions and funding available to bring them to a state of good repair. Most recently, Governor Corbett’s Transportation Funding Advisory Commission (TFAC) estimated Pennsylvania’s transportation needs at $3.5 billion and recommended a package of funding sources that added approximately $2.5 billion by Year 5 for highways, bridges, and transit.

As the Commonwealth’s second largest public transportation system, the Port Authority is an essential partner in the southwestern Pennsylvania region’s economy, moving 220,000 people daily to and from work, school, services, and entertainment. Despite fare increases, cost containment efforts including service reductions, and concessionary union agreements, the Port Authority cannot keep pace alone with cost inflation in healthcare, fuel and materials, and services. Long-term stability is needed so that every year individuals, corporations, universities, businesses, and organizations that rely on the Port Authority can be certain that service routes on our maps today will be there tomorrow.

On June 5, 2013, Senate Bill #1 passed the Senate on a bipartisan vote and was referred to the House; however, a comprehensive reliable funding solution was not achieved by the close of legislative session on June $30^{th}$. Efforts to reach consensus on the terms of the bill continue into the fall.

The Port Authority supports Senate Bill #1. It will permit the Port Authority to stabilize operations for the long-term and, equally important, enable the Port Authority to address many capital projects designed to enhance service in the region. Among the capital projects in the pipeline are bus rapid transit between Oakland and Downtown, real time arrival for bus and rail service, Wayfinders signage, alternative energy bus purchases, and improved regional partnerships. The Port Authority continues to work with the Governor's Office, PENNDOT, the State legislature, and statewide advocacy groups in support of a strong and reliable funding package.

Should a comprehensive transportation funding bill not pass the state legislature in Fiscal Year 2014, the Port Authority expects to meet its current financial obligations in Fiscal Year 2014.

## GLOSSARY OF TERMS

**ACCESS Program** – A program that provides subsidized door-to-door, advanced reservation transportation services for the elderly and handicapped residents of Allegheny County. (The Port Authority's demand responsive service.)

**Balanced Budget** – A budget where total Revenues, Grants, and Operating Assistance equals total expenses.

**Base Fare** – Cash fare that is charged to an adult for regular local transit service.

**Capital Improvement Program** – A financial plan for the allocation of Capital Project funds necessary to acquire, improve, or maintain the Port Authority's fixed assets.

**Fixed Guideway –** A separate right-of-way for the exclusive use of public transportation vehicles.

**Fixed Route** – An established route where transit vehicles follow a schedule over a prescribed route.

**Incline** – A fixed facility that is comprised of two (2) vehicles operating in opposite directions on angled, parallel tracks.

**Light Rail** – A type of electric rail transit system that typically operates on dedicated right-of-way or in mixed traffic with other vehicles. Typically involves short distances between stops.

**Operating Budget –** Combines the financial plan for the allocation of projected revenues and expenses consumed in the daily operations of the transit system and specific programs to support achievement of the Port Authority's mission statement.

**North Shore Connector Project --** The 1.2 mile extension of Port Authority's Light Rail Transit System of which the centerpiece is a tunnel underneath the Allegheny River.

**Paratransit –** Flexible forms of public transportation services that are not provided over a fixed route. (The Port Authority's ACCESS Program.)

**Passenger Revenues –** Revenues consisting of farebox collections, ticket sales, school permits and pass sales, weekend fare receipts, weekly permit sales, monthly pass sales, and special event fare receipts.

**Ridership –** Number of customers using the Port Authority's transit services.

**Vehicle Improvement Program** – The terminology used by the Port Authority for rehabilitation of its revenue vehicle fleet.

SOURCE: American Public Transit Association, A Glossary of Transit Terminology, September 1984.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 74,185,268 | $ 38,409,805 |
| Capital grants receivable | 12,514,465 | 20,155,230 |
| Other receivables | 6,817,924 | 17,009,336 |
| Prepaid expenses | 383,264 | 315,947 |
| Materials and supplies | 9,773,367 | 9,307,538 |
| Net pension asset | 9,050,060 | 7,778,842 |
| Total current assets | 112,724,348 | 92,976,698 |
| Non-current assets: | | |
| Restricted assets for capital additions and related debt | 30,854,577 | 23,493,322 |
| Capital assets, net of accumulated depreciation | 1,456,900,367 | 1,526,520,462 |
| Total non-current assets | 1,487,754,944 | 1,550,013,784 |
| **Total Assets** | 1,600,479,292 | 1,642,990,482 |
| **Deferred Outflows of Resources** | | |
| Deferred charge on refunding | 12,376,017 | 13,165,975 |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | 18,183,696 | 20,329,950 |
| Accrued compensation, benefits, and withholdings | 16,062,676 | 15,856,234 |
| Unearned revenue | 42,343,123 | 18,893,015 |
| Reserves for claims and settlements | 9,487,556 | 9,846,735 |
| Current portion of bonds payable | 19,400,766 | 24,636,064 |
| Other current liabilities | 4,464,847 | 6,073,435 |
| Total current liabilities | 109,942,664 | 95,635,433 |
| Non-current liabilities: | | |
| Bonds payable, net | 246,952,356 | 267,156,639 |
| Reserves for claims and settlements | 5,144,243 | 5,690,015 |
| Accrued OPEB liability | 240,712,061 | 201,896,260 |
| Total non-current liabilities | 492,808,660 | 474,742,914 |
| **Total Liabilities** | 602,751,324 | 570,378,347 |
| **Net Position** | | |
| Net investment in capital assets | 1,263,137,211 | 1,300,746,428 |
| Unrestricted | (253,033,226) | (214,968,318) |
| **Total Net Position** | $ 1,010,103,985 | $ 1,085,778,110 |

See accompanying notes to financial statements.

# PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **Operating Revenues:** | | |
| Passenger fares | $ 89,761,603 | $ 86,817,780 |
| State Shared Ride Program | 12,374,391 | 11,900,227 |
| Advertising | 1,541,524 | 1,458,982 |
| Miscellaneous income | 537,730 | 1,237,454 |
| Total operating revenues | 104,215,248 | 101,414,443 |
| **Operating Expenses:** | | |
| Salaries and wages | 134,122,043 | 134,319,383 |
| Fringe benefits | 115,173,736 | 127,874,411 |
| OPEB expense, net | 38,815,801 | 35,210,129 |
| Services | 13,134,626 | 10,040,841 |
| Fuel and lubricant | 24,133,025 | 24,645,789 |
| Tires and tubes | 1,491,755 | 1,466,796 |
| Other materials and supplies | 19,714,151 | 20,627,164 |
| Utilities | 6,845,104 | 7,296,496 |
| Casualty and liability | 2,445,997 | 2,006,054 |
| Purchased transportation | 25,154,899 | 26,184,443 |
| Leases and rentals | 1,381,742 | 1,356,434 |
| Miscellaneous expense | 4,411,885 | 6,261,199 |
| Depreciation | 118,525,155 | 107,340,363 |
| Total operating expenses | 505,349,919 | 504,629,502 |
| **Operating Loss** | (401,134,671) | (403,215,059) |
| **Non-Operating Revenues (Expenses):** | | |
| Capital funds used for operating assistance: | | |
| Federal government | 26,566,873 | 42,001,088 |
| Commonwealth of Pennsylvania | 23,759,185 | 24,181,610 |
| Local governments | 2,602,712 | 3,407,604 |
| Operating grants: | | |
| Commonwealth of Pennsylvania Act 44 | 161,756,198 | 165,037,154 |
| Local governments Act 44 matching | 30,518,699 | 27,668,700 |
| Total government subsidies for operations | 245,203,667 | 262,296,156 |
| Interest income | 21,153 | 18,916 |
| Interest expense | (14,093,619) | (14,953,298) |
| Total non-operating revenues (expenses) | 231,131,201 | 247,361,774 |
| **Loss Before Capital Grant Funding** | (170,003,470) | (155,853,285) |
| Capital grant funding: | | |
| Federal | 38,008,156 | 82,930,904 |
| State | 51,508,357 | 48,228,957 |
| Local | 4,812,832 | 7,956,445 |
| Total capital grant funding | 94,329,345 | 139,116,306 |
| **Change in Net Position** | (75,674,125) | (16,736,979) |
| Total net position - beginning, as restated | 1,085,778,110 | 1,102,515,089 |
| Total net position - ending | $ 1,010,103,985 | $ 1,085,778,110 |

See accompanying notes to financial statements.

# PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Receipts from customers | $ 103,509,321 | $ 101,042,603 |
| Payments for goods and services | (101,865,491) | (100,278,636) |
| Payments to employees | (250,360,555) | (261,659,313) |
| Net cash provided by (used in) operating activities | (248,716,725) | (260,895,346) |
| **Cash Flows From Non-Capital Financing Activities:** | | |
| Draws on revolving credit loan | 25,000,000 | 14,100,000 |
| Payments on revolving credit loan | (25,000,000) | (14,100,000) |
| Interest paid on revolving credit loan | (145,302) | (118,993) |
| Operating subsidies | 279,551,114 | 247,752,040 |
| Net cash provided by (used in) non-capital financing activities | 279,405,812 | 247,633,047 |
| **Cash Flows From Capital and Related Financing Activities:** | | |
| Capital grants received | 101,970,110 | 149,767,096 |
| Investments in transit operating property | (50,561,019) | (119,142,488) |
| Payments on bonds | (24,626,276) | (23,684,175) |
| Interest paid | (14,356,337) | (15,327,564) |
| Capital lease payments | - | (16,993,595) |
| Net cash provided by (used in) capital and related financing activities | 12,426,478 | (25,380,726) |
| **Cash Flows From Investing Activities:** | | |
| Proceeds from (deposits to) restricted assets | (7,361,255) | 27,188,633 |
| Interest and dividends on investments | 21,153 | 18,916 |
| Net cash provided by (used in) investing activities | (7,340,102) | 27,207,549 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 35,775,463 | (11,435,476) |
| **Cash and Cash Equivalents:** | | |
| Beginning of year | 38,409,805 | 49,845,281 |
| End of year | $ 74,185,268 | $ 38,409,805 |
| **Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided by (Used in) Operating Activities:** | | |
| Operating loss | $ (401,134,671) | $ (403,215,059) |
| Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities: | | |
| Depreciation | 118,525,155 | 107,340,363 |
| Change in assets and liabilities: | | |
| Other receivables | (705,927) | (371,840) |
| Materials and supplies | (465,829) | 593,999 |
| Prepaid expenses and other current assets | (67,317) | 18,667 |
| Accounts payable | (490,295) | (365,968) |
| Accrued compensation, benefits, and withholdings | 206,442 | 616,912 |
| Reserves for claims and settlements | (904,951) | (411,455) |
| Accrued pension liability | (1,271,218) | (1,512,595) |
| Accrued OPEB liability | 38,815,801 | 35,210,129 |
| Other current liabilities | (1,223,915) | 1,201,501 |
| Total adjustments | 152,417,946 | 142,319,713 |
| Net cash provided by (used in) operating activities | $ (248,716,725) | $ (260,895,346) |

See accompanying notes to financial statements.

## 1. Organization

The Port Authority of Allegheny County (Authority) was established under the Second-Class County Port Authority Act of 1956 and is responsible for the management and operation of certain transit facilities serving the County of Allegheny, Pennsylvania (County) and portions of adjacent counties. The Authority is not subject to federal or state income taxes.

The financial reporting status of the Authority has been determined to be a component unit of the County for financial reporting purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). The County provides substantial operating subsidies and capital funding and the County Chief Executive appoints the Authority's Board of Directors. Pursuant to Pennsylvania Act 72 of 2013, signed into law on July 19, 2013, the Authority's board appointments were restructured whereas the County Chief Executive has six appointments and the remaining five members are appointed by the Governor and legislative leaders of the State Senate and House.

As discussed in Note 7, the Authority contracts with Veolia Transportation Services, Inc. for professional services to coordinate ACCESS, a paratransit system, which provides transit service within the Authority's jurisdiction. ACCESS financial statements have not been included in the reporting entity because the Authority has neither control, financial responsibility, nor accountability for ACCESS.

## 2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The Authority's significant accounting policies are as follows:

### Basis of Accounting

The Authority's accounts are reported as an Enterprise Fund on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating revenues and expenses consist of those revenues and expenses that result from ongoing principal operations of the Authority. Operating revenues consist primarily of user charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to grants and other financing and investing types of activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments, with a maturity date within three months of the date acquired by the Authority.

Investments

The Authority records investments at fair value in the statements of net position. Interest revenue and realized and unrealized gains and losses on investments are reflected in the statements of revenues, expenses, and changes in net position. Fair value has been determined based on quoted market prices.

Materials and Supplies

The Authority maintains spare parts and supplies that are used to maintain transit equipment. The inventory is stated at cost, net of an allowance for obsolete parts of $1,057,685 and $1,164,738 at June 30, 2013 and 2012, respectively.

Capital Assets

Transit operating property and equipment are recorded at cost and include certain property acquired from predecessor private mass transportation companies. Transit operating property and equipment also include certain capitalized labor and overhead expenses incurred to ready such property and equipment for use. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During both fiscal years 2013 and 2012, no interest expense was capitalized.

Depreciation is recorded using the straight-line method based on estimated useful lives that generally range from four to 30 years.

Projects in progress remaining at June 30, 2013 primarily consist of the Automated Fare Collection System project, which will provide a smart-card based fare collection system that can be utilized by all regional transit operators that elect to participate in the project.

Revenue, Receivables, and Unearned Revenues

Passenger fares are recorded as revenue at the time services are performed. Revenues from ticket sales are recognized at the point of sale. Weekly and monthly passes are sold on a consignment basis to vendors who maintain the right of return on unsold passes.

Grants and contributions are recorded as revenue when all applicable eligibility requirements are met. The Federal Transit Administration (FTA), the Pennsylvania Department of Transportation, and the County provide financial assistance and make grants directly to the Authority for operation, acquisition of property and equipment, and other capital related expenditures. Operating grants and subsidies in the accompanying statements of revenues and expenses include only operating grants from the indicated sources. The Authority is permitted to utilize certain capital funds for operating expenses including labor, fringe benefits, materials and supplies, and other expense classifications. Capital funds used for operating assistance represent capital grant funds applied to these expenses. Capital grants for the acquisition of property and equipment and other capital related expenditures are recorded as capital grant funding.

The Commonwealth of Pennsylvania (Commonwealth) created Act 44 to provide a dedicated source of funding called the Public Transportation Trust Fund (PTTF), which provides both operating and capital assistance to the Authority as well as all other transit agencies in the Commonwealth. PTTF includes several existing sources of state funding as well as some new sources. Also, it eliminates the filing of separate applications to receive those funds.

The sources of revenue available to the Commonwealth to fund PTTF are:

a. A percentage from sales tax (4.4%).
b. Lottery funds for the Free Transit for Senior Citizens Program.
c. State bond funding for capital projects.
d. Remainder of Public Transportation Assistance Fund (PTAF) after funding payments on existing debt.
e. Annual payments from the Turnpike Commission.

Five program accounts have been created within the new trust fund: Transit Operating Assistance, Asset Improvement Program, Capital Improvements Program, New Initiatives, and Programs of Statewide Significance. Local matching funds are required to receive assistance under most of the programs.

The Authority recognized $161.8 million in State operating assistance for fiscal year 2013 under Act 44. These funds were comprised of $125.6 million in Act 44 Section 1513 funds, $6.2 million in PTAF operating assistance funds, and $30 million in additional operating assistance. The State operating assistance funds required a local match of $29.2 million, which was provided by the County. An additional $1.4 million was provided by the Regional Asset District (RAD).

Because of existing debt agreements, the Authority obtained capital funding under PTAF totaling $37.6 million to use for debt service. Local matching share required for this funding was provided by the County.

The Authority was awarded $32.4 million in capital funding under Act 44 to be utilized for capital improvements. Approximately, $15 million was used for Infrastructure Safety and Renewal Programs and approximately $3.2 million was used for vehicle overhaul, which do not require County matching funds. The remaining $14.2 million was used for other capital projects and requires County matching funds.

The Authority was awarded a total of $8.8 million in capital funding from the County during fiscal year 2013, which is used to match federal and state capital grants.

At June 30, 2013, the primary components of unearned revenue were: $29.7 million of State operating assistance carryover, $1.2 million of County funds to be used for capital grant matching, and $9.8 million of State PTAF funds to be used for 2013 debt service.

Compensated Absences

In accordance with GAAP, the Authority accrues vacation benefits earned by its employees.

Self-Insurance

The Authority has a self-insurance program for public liability, property damage, and workers' compensation claims. Estimated cost of these self-insurance programs are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management and legal counsel of the Authority. Estimates of claim liabilities are accrued based on projected settlements for claims and include estimates for claims incurred but not reported. Any adjustments made to previously recorded reserves are reflected in current operating results.

Refunding Transactions

In accordance with applicable guidance, the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred outflow of resources on the statements of net position and amortized as a component of interest expense over the shorter of the term of the refunding issue or refunded bonds.

Use of Estimates in the Preparation of Financial Statements

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of Net Position

Accounting standards requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

- Restricted – This component of net position consists of constraints placed on assets through external restrictions, reduced by liabilities related to those assets.

- Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "net investment in capital assets."

Adoption of Accounting Pronouncements

The requirements of the following GASB Statement were adopted for the Authority's 2013 financial statements:

GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Under the provisions of this Statement, bond issuance costs are to be expensed in the period incurred rather than deferred and amortized. The Authority's net position as of July 1, 2011 and July 1, 2012 has been restated by $1,673,828 and $1,579,080, respectively, to reflect this change. The other primary impact of this Statement to the Authority was to classify the deferred amounts on refunding as deferred outflows of resources. The provisions of this Statement were applied retroactively for all periods presented.

Pending Pronouncements

GASB has issued the following statements which will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Authority's financial statements.

GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27."* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will become effective for periods beginning after June 15, 2014.

GASB has issued Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees,"* effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

Because the Authority is a component unit of the County, GASB standards are implemented by the Authority in the fiscal period that relates to the calendar year of implementation by the County.

Reclassifications

Certain comparative amounts for the prior year have been reclassified to conform to the current year presentation. Such reclassifications did not affect net position or changes therein.

## 3. CASH AND INVESTMENTS

The investment and deposit policy of the Authority funds is governed by the by-laws of the Authority and the Second-Class County Port Authority Act. In accordance with these regulations, the Authority has established investment procedures that require that monies be deposited with FDIC-insured banks in demand deposit accounts or certificates of deposit (which are required to be 100% collateralized by separately identified United States obligations, if not covered by FDIC insurance). Investments are limited to United States obligations and repurchase agreements. Repurchase agreements must be purchased from banks located within the Commonwealth and the underlying collateral securities must have a market value of at least 100% of the cost of the related repurchase agreement. The Authority's investment procedures do not require the delivery of the underlying securities to the Authority; however, it is the obligation of the bank to deposit the pledged obligations with either the Federal Reserve Bank, the trust department of the financial institution issuing the repurchase agreement, or another bank, trust company, or depository satisfactory to the Authority. There were no deposit or investment transactions during 2013 and 2012 that were in violation of either state statutes or the policies of the Authority. The Authority does not have a formal investment policy which addresses custodial credit risk, interest rate risk, credit risk, or concentration of credit risk.

The Authority's unrestricted cash and investments are available for general operating purposes and restricted cash and investments are available for acquisition of assets under capital projects and scheduled payments of the Special Revenue Transportation Bonds (Note 5).

GAAP requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The Authority's cash and investments as reported on the statements of net position consist of the following:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Cash and Cash Equivalents | Restricted for Capital and Debt | Cash and Cash Equivalents | Restricted for Capital and Debt |
| Deposits | $ 55,447,141 | $ - | $ 18,771,412 | $ - |
| INVEST | 18,738,127 | 19,810,371 | 19,638,393 | 12,449,964 |
| Money Market | - | 11,044,206 | - | 11,043,358 |
| Total | $ 74,185,268 | $ 30,854,577 | $ 38,409,805 | $ 23,493,322 |

The following is a description of the Authority's deposit and investment risks:

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2013 and 2012, respectively, $55,192,826 and $18,250,819 of the Authority's bank balance of $55,692,826 and $19,846,284 were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the Authority's investments. The investments noted above have maturities of less than one year.

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2013, the Authority's investments in INVEST and money markets were rated AAA by Standard & Poor's.

The fair value of the Authority's investments is the same as their carrying amount. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth.

Risks and Uncertainties

Financial instruments, which potentially expose the Authority to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, the Authority maintains cash balances only with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such change could materially affect the amount reported on the statements of net position.

## 4. CAPITAL ASSETS/ACCUMULATED DEPRECIATION

A summary of changes in capital assets is as follows:

| | June 30, 2012 | Increases | Decreases | June 30, 2013 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 105,716,028 | $ - | $ - | $ 105,716,028 |
| Projects in progress | 22,070,335 | 59,586 | (9,308,434) | 12,821,487 |
| Total capital assets, not being depreciated | 127,786,363 | 59,586 | (9,308,434) | 118,537,515 |
| Capital assets, being depreciated: | | | | |
| Buildings | 353,561,949 | 2,707,890 | - | 356,269,839 |
| Transportation equipment | 660,341,840 | 31,344,626 | (37,995,030) | 653,691,436 |
| Track, roadway, and subway stations | 1,624,991,219 | 11,003,951 | (1,704,072) | 1,634,291,098 |
| Other property, equipment, and assets | 146,503,675 | 13,097,441 | (665,034) | 158,936,082 |
| Total capital assets being depreciated | 2,785,398,683 | 58,153,908 | (40,364,136) | 2,803,188,455 |
| Less accumulated depreciation for: | | | | |
| Buildings | (137,782,523) | (11,940,197) | - | (149,722,720) |
| Transportation equipment | (415,166,260) | (40,348,481) | 37,995,030 | (417,519,711) |
| Track, roadway, and subway stations | (761,238,925) | (54,851,620) | 1,704,071 | (814,386,474) |
| Other property, equipment, and assets | (72,476,876) | (11,384,857) | 665,035 | (83,196,698) |
| Total accumulated depreciation | (1,386,664,584) | (118,525,155) | 40,364,136 | (1,464,825,603) |
| Total capital assets, being depreciated, net | 1,398,734,099 | (60,371,247) | - | 1,338,362,852 |
| Total capital assets, net | $ 1,526,520,462 | $ (60,311,661) | $ (9,308,434) | $ 1,456,900,367 |

## 5. LONG-TERM DEBT

On March 1, 2011, the Authority issued $252,845,000 of the Special Revenue Transportation Bonds, Refunding Series of 2011 (the 2011 Bonds). The proceeds from the sale of the 2011 Bonds together with the amounts on deposit in the 2001 debt service reserve fund were used to provide funds required for 1) refunding the Authority’s 2001 Bonds and 2) terminating the Swap Agreement.

Interest on the 2011 Bonds is payable semiannually on each March 1 and September 1, commencing September 1, 2011. Interest rates range from 2% to 5.25% throughout the term of the 2011 Bonds. The 2011 Bonds were issued at a premium of $10.3 million, which is being amortized over the life of the 2011 Bonds.

The 2011 Bonds are subject to optional redemption prior to maturity by the Authority on any date on or after March 1, 2021 and also include $59.4 million of term bonds due March 1, 2029 that are subject to mandatory redemption prior to maturity beginning March 1, 2027.

The 2011 Bonds are secured by funds distributed to the Authority by the Commonwealth pursuant to Section 1310 of the Public Transportation Assistance Law, specifically including all monies distributed from PTAF.

During fiscal year 2003, the Authority entered into a Master Financing Agreement (Agreement) for the purchase of fixed assets, primarily buses. As of June 30, 2013 and 2012, the Authority had incurred $131,631,500 of debt related to this financing. This debt is secured by an equity interest in the purchased fixed assets.

Interest on the debt is payable semiannually on each March 1 and September 1, commencing September 1, 2003. Interest rates are set at the time of the draw down, most recent draws outstanding bear interest at 5.25%. The debt was issued at a premium of $6 million, which is being amortized over the term of the Agreement. The debt matures in 2017.

The following is a summary of debt transactions of the Authority for the year ended June 30, 2013:

| | Balance at July 1, 2012 | Issuance | Amortization/ Payments and Retirements | Balance at June 30, 2013 |
|---|---|---|---|---|
| Series of 2011 Bonds | $ 243,485,000 | $ - | $ (9,550,000) | $ 233,935,000 |
| Master Financing Agreement | 38,320,850 | - | (15,076,273) | 23,244,577 |
| | 281,805,850 | - | (24,626,273) | 257,179,577 |
| Unamortized net bond premium | 9,986,853 | - | (813,308) | 9,173,545 |
| Net outstanding | $ 291,792,703 | $ - | $ (25,439,581) | 266,353,122 |
| Less current amounts: | | | | |
| Series of 2011 Bonds | | | | (9,910,000) |
| Master Financing Agreement | | | | (9,490,766) |
| Total current bonds payable | | | | (19,400,766) |
| Total long-term bonds payable | | | | $ 246,952,356 |

The annual debt service requirements related to the Bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 19,400,766 | $ 13,241,679 | $ 32,642,445 |
| 2015 | 17,497,858 | 12,406,673 | 29,904,531 |
| 2016 | 15,232,343 | 11,544,294 | 26,776,637 |
| 2017 | 13,508,610 | 10,789,094 | 24,297,704 |
| 2018 | 11,925,000 | 10,161,098 | 22,086,098 |
| 2019-2023 | 69,360,000 | 41,069,475 | 110,429,475 |
| 2024-2028 | 89,365,000 | 21,054,088 | 110,419,088 |
| 2029 | 20,890,000 | 1,189,575 | 22,079,575 |
| Total | $ 257,179,577 | $ 121,455,976 | $ 378,635,553 |

Restricted assets include approximately $11 million of cash invested in a debt service fund restricted for debt service on the above bonds.

## 6. Revolving Credit Loan Agreement

The Authority entered into a $25,000,000 Revolving Credit Loan Agreement (Revolving Loan) with a local bank to provide working capital for 2013 operating expenses. The Revolving Loan was secured by the 2013 Operating Assistance Grant from the Commonwealth. The rate of interest was determined as of each drawdown date based on one of two interest rate options selected by the Authority and was 1.175% at June 30, 2013. All drawdown requests were repaid in full during 2013 and the Revolving Loan was closed as of June 30, 2013.

## 7. ACCESS Program Services

The Authority has a contract with Veolia Transportation Services, Inc., which provides professional services to coordinate the paratransit system, ACCESS, which provides transit services within the County for elderly and handicapped individuals. Expenses under this contract amounted to $25.2 million in fiscal year 2013 and $26.2 million in fiscal year 2012.

The Authority currently receives partial reimbursement for these services from the Commonwealth in the form of a grant. The amount is based on ridership and average fare statistics. Revenue under this program totaled $12.4 million in fiscal year 2013 and $11.9 million in fiscal year 2012.

## 8. Public Liability, Property Damage, and Workers' Compensation Claims

The Supreme Court of Pennsylvania has held the Authority to be a Commonwealth Agency as defined in the Political Subdivision Tort Claims Act. As such, the Authority is immune from certain claims and its liability is limited to $1,000,000 per occurrence and $250,000 per plaintiff claim arising out of an occurrence. As the result of this holding, it has not been necessary for the Authority to purchase excess public liability insurance, and it is self-insured for public liability claims.

The Authority is self-insured for its compensation and occupational disease liability in accordance with the provisions of Article III, Section 305 of the Pennsylvania Workmen's Compensation Act (Act). On a yearly basis, the Authority carries excess workers' compensation insurance in the amount of $5,000,000 over its self-insurance retention of $1,000,000 per occurrence to further ensure that it can meet its obligation under the Workers' Compensation Act.

The Authority maintains an estimate of its potential liability related to claims that have been filed as of June 30, 2013. The reserve balance is approximately $14.6 million and $15.5 million at June 30, 2013 and 2012, respectively.

## 9. Commitments and Contingencies

In the ordinary course of the Authority's operations and capital grants projects, there have been various legal proceedings brought against the Authority. The Authority has estimated and accrued for a provision of approximately $6 million of potential losses resulting from all of the cases it is currently aware of. Based on an evaluation that included consultation with an outside legal counsel concerning the legal and factual issues involved, management is of the opinion that these matters will not result in material adverse effect on the Authority's operations and financial position.

The Authority is subject to state and federal audits by grantor agencies. These laws and regulations are complex and subject to interpretation. The Authority is not aware of any pending audit involving prior or current years; however, compliance with such laws and regulations can be subject to future reviews and interpretation which could result in disallowed costs.

## 10. Pension Plans

*Plan Descriptions.* All full-time employees of the Authority are eligible to participate in one of three retirement and disability allowance plans to which the Authority contributes. The three plans are as follows: Plan for Employees Represented by Local 85 of the Amalgamated Transit Union (the ATU Plan), Plan for Employees Represented by Local Union 29 of the International Brotherhood of Electrical Workers (the IBEW Plan), and Plan for Employees who are Not Represented by a Union (the NonRep Plan).

Under each of the three plans, employees' eligibility for normal benefits begins at age 65, at which time the individual is entitled to an annual retirement benefit, payable monthly for life. This benefit is equal to 2.25% of the average annual compensation for the last 16 quarters of employment times the years and months of continuous service or the average of the highest four of the last eight years immediately preceding the date of retirement, whichever is highest.

Early retirement is available to all participants who have reached the age of 55 and have at least 10 years of service or who meet certain continuous service requirements. Early retirement with full pension benefits is available after 25 years of continuous service for all plans. Early retirement with full pension benefits is also available after age 55 to those participants meeting certain service requirements. Individuals not meeting these requirements who retire after age 55 but prior to the date for normal benefits receive reduced benefits. The cost sharing of health care benefits is provided from Authority operating revenues for ATU and IBEW employees. Health care benefits for retirees in the NonRep Plan were eliminated for those retiring on or after July 1, 2007.

For new hires, the plans have been amended to replace the eligibility requirement for unreduced early retirement benefits from 25 years of service without regard to age, to 25 years of service and age 55. These amendments were effective as of December 1, 2005 for the ATU and NonRep Plans and May 1, 2006 for the IBEW Plan.

Benefit provisions for the ATU and IBEW Plans are established and amended by the Retirement and Disability Allowance Committees for each plan, as stated in written agreements. All three plans issue separate audited financial statements that can be obtained from the Authority's Finance Department.

Effective September 2011, no new employees are permitted to start participation in the NonRep Plan. Current participants in the Plan have the option to continue participation in the Plan or to exit the Plan and roll their current accumulated contributions to a Section 457 deferred compensation plan. New employees are required to participate in the newly offered Section 457 deferred compensation plan.

*Funding Policy.*

Effective October 1, 2012, participants in the NonRep Plan contribute 10.5% of pension earnings. Prior to this plan amendment, NonRep employees contributed 5.5% to their respective plan. Participants in the IBEW Plan contribute 5.0% of pension earnings to their respective plan.

On August 8, 2012, the Authority reached a new collective bargaining agreement with the ATU. Effective October 1, 2012, ATU employees contribute 10.5% to their respective plan. Prior to the new collective bargaining agreement, ATU employees contributed 5.5% to their respective plan. The Authority's contributions to the plans are based on actuarially determined rates.

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension costs and net pension obligations to the plans for the current year were as follows, as well as the assumptions used to calculate the required contribution:

| | ATU Plan | IBEW Plan | NonRep Plan |
|---|---|---|---|
| Annual required contribution | $ 13,916,034 | $ 785,945 | $ 4,653,639 |
| Interest on net pension obligation | (564,696) | (18,805) | (36,775) |
| Adjustment to annual required contribution | 1,140,340 | 25,115 | 49,323 |
| Annual pension cost | 14,491,678 | 792,255 | 4,666,187 |
| Contributions made | 15,595,551 | 819,672 | 4,806,116 |
| Increase (decrease) in net pension obligation (asset) | (1,103,873) | (27,417) | (139,929) |
| Net pension obligation (asset) beginning of year | (7,058,703) | (260,446) | (459,692) |
| Net pension obligation (asset) end of year | $ (8,162,576) | $ (287,863) | $ (599,621) |

| | ATU Plan | IBEW Plan | NonRep Plan |
|---|---|---|---|
| Actuarial valuation date | 1/1/2012 | 1/1/2012 | 1/1/2012 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization method | Level Dollar Monthly Payments | Level Dollar Monthly Payments | Level Dollar Monthly Payments |
| Asset valuation method | Smoothed Mkt | Smoothed Mkt | Smoothed Mkt |
| Remaining amortization period: | | | |
| UAL (05 - ATU, 09 - IBEW, 06 - NonRep) | 18 years | 22 years | 19 years |
| 2005 Actuarial loss | 9 years | | |
| 2006 Actuarial loss | 10 years | | 10 years |
| Assumption change at 1/1/2007 | 20 years | | 20 years |
| 2007 Actuarial gain | 11 years | | 11 years |
| Assumption change at 1/1/2008 | 21 years | | 21 years |
| Plan change at 1/1/2008 | | | 21 years |
| 2008 Actuarial loss | 12 years | | 12 years |
| 2009 Actuarial gain | 13 years | 13 years | 13 years |
| Assumption change at 1/1/2009 | 22 years | | |
| 2010 Actuarial loss | 14 years | 14 years | 14 years |
| Assumption change at 1/1/2011 | | 24 years | 24 years |
| 2011 Actuarial loss | 15 years | 15 years | 15 years |
| Assumption change at 1/1/2012 | 25 years | | |
| Plan change at 1/1/2012 | 25 years | 25 years | 25 years |
| Method change at 1/1/2012 | 25 years | | |
| Actuarial assumptions: | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% |
| Projected salary increases | 3% | 3.5% | 3.5% |

Mortality Table – RP-2000 for healthy lives; for disabled lives, mortality is in accordance with the mortality table specified in the IRS Revenue Ruling 96-7 for disabilities occurring prior to 1995.

Retirement Age – Retirement probabilities at each age applied, beginning with the earliest eligibility for retirement and ending at age 65.

Three-Year Trend Information

| | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|---|---|---|---|---|
| ATU Plan: | June 30, 2013 | $ 14,491,678 | 108% | $ (8,162,576) |
| | June 30, 2012 | 24,506,300 | 107% | (7,058,703) |
| | June 30, 2011 | 18,545,754 | 81% | (5,317,467) |
| IBEW Plan: | June 30, 2013 | 792,255 | 103% | (287,863) |
| | June 30, 2012 | 668,102 | 107% | (260,446) |
| | June 30, 2011 | 475,086 | 82% | (211,196) |
| NonRep Plan: | June 30, 2013 | 4,666,187 | 103% | (599,621) |
| | June 30, 2012 | 5,329,323 | 95% | (459,692) |
| | June 30, 2011 | 4,769,164 | 96% | (737,584) |

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

| | Value of Assets (a) | Liability (AAL) Entry Age (b) | AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| ATU | $ 697,819 | $ 799,194 | $ 101,375 | 87.3% | $ 131,187 | 77.3% |
| IBEW | 17,886 | 24,120 | 6,234 | 74.2% | 2,558 | 243.7% |
| NonRep | 62,139 | 107,501 | 45,362 | 57.8% | 15,685 | 289.2% |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

For the ATU actuarial valuation as of January 1, 2012, the asset valuation method changed to use a 10-year smoothing period rather than a 5-year smoothing period, in accordance with the terms of the July 1, 2012 collective bargaining agreement. This change has reduced the unfunded liability by approximately $67.4 million.

The ATU, IBEW, and NonRep Plans had actuarial losses during 2011 (January 1, 2012 actuarial valuation) of $42.8 million, $1.5 million, and $3.3 million, respectively. The rate of return on the actuarial value of assets, which is the smoothed value used for funding was less than the 8.0% valuation interest assumption, resulting in actuarial losses. The next actuarial valuation will be performed as of January 1, 2013.

## 11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

*Plan Descriptions*. In addition to the pension benefits described in Note 10, the Authority provides certain post-retirement healthcare benefits to its retirees. In accordance with the ATU, IBEW, and NonRep Retirement and Disability Allowance Plans, post-retirement benefits are provided to those who become entitled to receive a pension allowance or a disability allowance. Post-retirement benefits consisting of medical, hospital, prescription, dental, and vision insurance coverage, and Medicare Part B premium reimbursement are provided for the retiree.

Benefit provisions for the ATU and IBEW Plans are established and amended through negotiations between the Authority and the respective unions. For the NonRep Plan, that authority rests with the Authority's Board of Directors. The Plans do not issue publicly available financial reports.

On August 8, 2012, the Authority reached a new collective bargaining agreement with the ATU. The agreement included the elimination of lifetime retiree healthcare. New hires are eligible for only three years of healthcare coverage at full retirement.

*Funding Policy*. The Authority's contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2013 and 2012, the Authority contributed $32.2 million and $34.4 million, respectively, to the plans. Plan members receiving benefits contributed $2.1 for each of the fiscal years June 30, 2013 and 2012, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing percentages for the ATU, IBEW, and Non-Rep Plans are based on the particular health care coverage that is selected by the retiree, the number of family members covered and the age of the retiree and each covered family member, an when retirement became effective.

*Annual OPEB Cost.* The Authority's annual OPEB cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of applicable guidance. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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 value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions*. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB costs and net OPEB obligations to the plans for the current year are noted below, as well as the assumptions used to calculate the required contribution. The OPEB expense on the statements of revenues, expenses, and changes in net position is shown net of current payments included in employee benefits.

| | ATU Plan | IBEW Plan | NonRep Plan |
|---|---|---|---|
| Annual required contribution | $ 67,732,013 | $ 1,988,682 | $ 4,488,755 |
| Interest on net OPEB obligation | 7,722,220 | 284,449 | 69,181 |
| Adjustment to annual required contribution | (10,735,018) | (395,426) | (96,172) |
| Annual OPEB cost | 64,719,215 | 1,877,705 | 4,461,764 |
| Contributions made | 27,727,413 | 750,000 | 3,765,470 |
| Increase (decrease) in net OPEB obligation | 36,991,802 | 1,127,705 | 696,294 |
| Net OPEB obligation beginning of year | 193,055,500 | 7,111,223 | 1,729,537 |
| Net OPEB obligation end of year | $ 230,047,302 | $ 8,238,928 | $ 2,425,831 |

Note: methods and assumptions are the same for each of the three plans

| | |
|---|---|
| Actuarial valuation date | 1/1/2011, projected forward to 1/1/2013 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level dollar |
| Asset valuation method | N/A - the plans are unfunded |
| Remaining amortization period | 30 years |
| Actuarial assumptions: | |
| Investment rate of return | 4.0% |
| Projected salary increases | 3.5% |
| Health care inflation rate: | |
| Medical trend | 8.10% in 2011, grading to 4.5% in 2027 |
| Dental trend | 5.85% in 2011, grading to 4.5% in 2027 |
| Vision trend | 2% per year |
| Mortality | RP-2000 table, with collar adjustments, and projected to 2018 |

Three-Year Trend Information

| | Year Ending | Annual OPEB Cost (AOC) | Percentage of AOC Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|---|
| ATU Plan: | June 30, 2013 | $ 64,719,215 | 43% | $ 230,047,302 |
| | June 30, 2012 | 63,216,838 | 47% | 193,055,500 |
| | June 30, 2011 | 61,634,712 | 49% | 159,284,765 |
| IBEW Plan: | June 30, 2013 | 1,877,705 | 40% | 8,238,928 |
| | June 30, 2012 | 1,833,337 | 45% | 7,111,223 |
| | June 30, 2011 | 1,922,499 | 40% | 6,098,612 |
| NonRep Plan: | June 30, 2013 | 4,461,764 | 84% | 2,425,831 |
| | June 30, 2012 | 4,553,399 | 91% | 1,729,537 |
| | June 30, 2011 | 4,266,145 | 100% | 1,302,754 |

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2013 (as projected forward from January 1, 2011), is as follows (dollar amounts in thousands):

| | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| ATU | $ - | $ 788,881 | $ 788,881 | 0.0% | $ 138,441 | 569.8% |
| IBEW | - | 23,540 | 23,540 | 0.0% | 2,991 | 787.0% |
| NonRep | - | 78,841 | 78,841 | 0.0% | 18,274 | 431.4% |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

## 12. LIQUIDITY

In April 2011, Governor Tom Corbett established the Governor's Transportation Funding Advisory Commission (TFAC) to determine the status of the Pennsylvania's infrastructure across all modes of transportation. TFAC's final report was released in August 2011 and recommended a package of funding sources that on its face would be sufficient to address the revenue needs of the Authority. As a result of the TFAC findings, Senate Bill #1 was crafted in order to address the level of resources devoted to transportation across the Commonwealth. The Pennsylvania State Legislature continues to debate the issue of transportation funding. On June 5, 2013, the Pennsylvania State Senate passed Senate Bill #1 which would have provided the Authority adequate funding to maintain service levels for the next six to seven years. As of the date of this writing, the Pennsylvania State House has yet to introduce similar legislation to its assembly for a vote. While no assurances can be given, the Authority remains hopeful that the Legislature will pass legislation in fiscal year 2014 that will provide adequate and reliable transit funding.

In the interim, the Authority has sufficient funding for fiscal year 2014. Principal sources are: (1) Act 44 State operating assistance, (2) a commitment for an additional $30 million in Commonwealth support, (3) County local 15% match which includes a grant through the Allegheny Regional Asset District (RAD), (4) fares and other operating revenue, and (4) bank and cash balances. The Authority began fiscal year 2014 with $74.2 million in cash and cash equivalents which is an increase of $35.8 million from fiscal year 2013.

State funding anticipated in fiscal year 2014 includes Act 44 operating support totaling $162.9 million and the Governor's commitment of $30 million in additional operating support that was pledged for each year of the current contract with the Amalgamated Transit Union Local #85 (ATU #85). The contract period with ATU #85 is from fiscal year 2013 through fiscal year 2016. Only $15 million of the additional $30 million has been identified by the Commonwealth at this time. The Authority has submitted a grant application to access the $15 million in additional funding currently available.

In the event an additional $15 million is not identified by the Commonwealth and received by the Authority prior to June 30, 2014, the Authority is prepared with the requisite preliminary plans for service and personnel reductions. However, it is the Authority's firm belief that the Commonwealth will honor its commitment.

A 15% local match is required on all Commonwealth operating support. Therefore, in addition to the County's annual local match of $27.6 million on Act 44 monies, the County has committed the necessary $4.5 million necessary to match the new $30 million State support. The match on the new money will be comprised of an additional $1.5 million in alcoholic beverage and rental vehicle tax receipts and $3 million in a grant from Allegheny

RAD. RAD is a special purpose area-wide unit of local government authorized by an act of the Pennsylvania Legislature (Act 77 of 1993) that provides operating and capital grants from the proceeds of a 1% County Sales and Use Tax. The Authority has filed its request for $3 million which is subject to approval by the RAD Board. The Authority's $3 million dollar RAD request was granted in fiscal year 2013 and its fiscal year 2014 request has been preliminarily approved with a final vote expected in December.

The Authority holds a revolving credit facility effective July 1, 2013 – June 30, 2014 in the amount of $25 million with Huntington National Bank for working capital. Interest is payable monthly and based on the actual number of days that principal is outstanding over a year of 360 days. The interest rate is a variable rate based on the 30 day LIBOR + .098%.

The Authority continues to work with the Commonwealth, the State legislature, and local civic and business leaders to lobby for sufficient, reliable, transit funding that grows with inflation.

# Required
# Supplementary Information

# PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

PENSION PLANS

YEAR ENDED JUNE 30, 2013
(dollars in thousands)

| Actuarial Valuation Date | (a) Actuarial Value of Asset | (b) Actuarial Accrued Liability Entry Age | (b-a) Unfunded Actuarial Accrued Liability | (a/b) Funded Ratio | (c) Covered Payroll | Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| **ATU Plan:** | | | | | | |
| 01/01/12 | $ 697,819 | $ 799,194 | 101,375 | 87.3% | $ 131,187 | 77.3% |
| 01/01/11 | 660,428 | 801,542 | 141,114 | 82.4% | 138,441 | 101.9% |
| 01/01/10 | 681,207 | 780,955 | 99,748 | 87.2% | 136,286 | 73.2% |
| 01/01/09 | 624,449 | 774,856 | 150,407 | 80.6% | 134,547 | 111.8% |
| 01/01/08 | 741,403 | 762,018 | 20,615 | 97.3% | 123,955 | 16.6% |
| 01/01/07 | 706,909 | 754,026 | 47,117 | 93.8% | 129,386 | 36.4% |
| **IBEW Plan:** | | | | | | |
| 01/01/12 | 17,886 | 24,120 | 6,234 | 74.2% | 2,558 | 243.7% |
| 01/01/11 | 19,236 | 24,031 | 4,795 | 80.0% | 2,991 | 160.3% |
| 01/01/10 | 20,150 | 23,434 | 3,284 | 86.0% | 2,961 | 110.9% |
| 01/01/09 | 18,565 | 23,613 | 5,048 | 78.6% | 2,897 | 174.2% |
| 01/01/08 | 22,448 | 22,844 | 396 | 98.3% | 3,083 | 12.8% |
| 01/01/07 | 20,798 | 23,774 | 2,976 | 87.5% | 3,252 | 91.5% |
| **NonRep Plan:** | | | | | | |
| 01/01/12 | 62,139 | 107,501 | 45,362 | 57.8% | 15,685 | 289.2% |
| 01/01/11 | 63,616 | 107,279 | 43,663 | 59.3% | 18,274 | 238.9% |
| 01/01/10 | 63,845 | 103,358 | 39,513 | 61.8% | 18,415 | 214.6% |
| 01/01/09 | 57,197 | 100,652 | 43,455 | 56.8% | 16,954 | 256.3% |
| 01/01/08 | 67,237 | 99,555 | 32,318 | 67.5% | 16,242 | 199.0% |
| 01/01/07 | 68,630 | 107,269 | 38,639 | 64.0% | 17,481 | 221.0% |

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF FUNDING PROGRESS

## OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2013
(dollars in thousands)

| Actuarial Valuation Date | (a) Actuarial Value of Asset | (b) Actuarial Accrued Projected Unit Credit | (b-a) Unfunded Actuarial Accrued Liability | (a/b) Funded Ratio | (c) Covered Payroll | Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| **ATU Plan:** | | | | | | |
| 1/1/11 (projected forward to 1/1/13) | $ - | $ 788,881 | $ 788,881 | 0.0% | 138,441 | 569.7% |
| 1/1/11 (projected forward to 1/1/12) | - | 768,690 | 768,690 | 0.0% | 138,441 | 569.7% |
| 1/1/09 (projected forward to 1/1/11) | - | 733,436 | 733,436 | 0.0% | 134,547 | 545.1% |
| 1/1/09 (projected forward to 1/1/10) | - | 713,477 | 713,477 | 0.0% | 134,547 | 530.3% |
| 1/1/07 (projected forward to 1/1/09) | - | 568,970 | 568,970 | 0.0% | 123,955 | 459.0% |
| 1/1/07 (projected forward to 1/1/08) | - | 650,103 | 650,103 | 0.0% | 123,955 | 524.5% |
| **IBEW Plan:** | | | | | | |
| 1/1/11 (projected forward to 1/1/13) | $ - | $ 23,540 | $ 23,540 | 0.0% | 2,991 | 787.0% |
| 1/1/11 (projected forward to 1/1/12) | - | 22,923 | 22,923 | 0.0% | 2,991 | 766.4% |
| 1/1/09 (projected forward to 1/1/11) | - | 23,059 | 23,059 | 0.0% | 2,897 | 796.0% |
| 1/1/09 (projected forward to 1/1/10) | - | 22,325 | 22,325 | 0.0% | 2,897 | 770.6% |
| 1/1/07 (projected forward to 1/1/09) | - | 17,813 | 17,813 | 0.0% | 3,083 | 577.8% |
| 1/1/07 (projected forward to 1/1/08) | - | 16,903 | 16,903 | 0.0% | 3,083 | 548.3% |
| **NonRep Plan:** | | | | | | |
| 1/1/11 (projected forward to 1/1/13) | $ - | $ 78,841 | $ 78,841 | 0.0% | 18,274 | 431.4% |
| 1/1/11 (projected forward to 1/1/12) | - | 80,351 | 80,351 | 0.0% | 18,274 | 439.7% |
| 1/1/09 (projected forward to 1/1/11) | - | 75,321 | 75,321 | 0.0% | 16,954 | 444.3% |
| 1/1/09 (projected forward to 1/1/10) | - | 76,701 | 76,701 | 0.0% | 16,954 | 452.4% |
| 1/1/07 (projected forward to 1/1/09) | - | 61,241 | 61,241 | 0.0% | 16,242 | 377.1% |
| 1/1/07 (projected forward to 1/1/08) | - | 62,675 | 62,675 | 0.0% | 16,242 | 385.9% |

# Supplementary Information

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

| Federal Grantor / Pass-Through Grantor / Program Title | Federal CFDA Number | Grantor's Number | Expenditures |
|---|---|---|---|
| DEPARTMENT OF TRANSPORTATION: | | | |
| FEDERAL TRANSIT ADMINISTRATION: | | | |
| Federal Transit - Capital Investment Grants: | | | |
| 1995 Fixed Guideway | 20.500 | PA-03-0261 | $ 173,312 |
| Section 5309 North Shore Connector | 20.500 | PA-03-0315 | 1,940,787 |
| FY 2009 Fare Collection | 20.500 | PA-03-0396 | 6,590,491 |
| 2006 Fixed Guideway | 20.500 | PA-05-0066 | 345,168 |
| FY08 Fixed Guideway | 20.500 | PA-05-0069 | 1,482,654 |
| 2009 Fixed Guideway | 20.500 | PA-05-0071 | 66,448 |
| 2010 Fixed Guideway | 20.500 | PA-05-0073 | 1,936,882 |
| 2010 S5309 Fixed Guideway | 20.500 | PA-05-0076 | 4,157,522 |
| FY11 S5309 Fixed Guideway | 20.500 | PA-05-0079 | 4,448,518 |
| FY12 S5309 Fixed Guideway | 20.500 | PA-05-0082 | 5,264,959 |
| FY10 S5309 Fixed Guideway | 20.500 | PA-04-0094 | 3,829,842 |
| Total CFDA 20.500 | | | 30,236,583 |
| Federal Transit - Formula Grants: | | | |
| S1602 EB Ext Phases 1&2 | 20.507 | PA-90-0429 | 185,033 |
| 2006 Block Grant | 20.507 | PA-90-0569 | 23,910 |
| 2008 Block Grant | 20.507 | PA-90-0661 | 793,605 |
| FY2011 Transit Enhancement | 20.507 | PA-90-X738 | 83,430 |
| 2012 Block Grant | 20.507 | PA-90-X743 | 15,382,079 |
| 2009 Block Grant | 20.507 | PA-90-X686 | 1,842,550 |
| 2010 Block Grant | 20.507 | PA-90-0700 | 1,994,788 |
| 2011 Block Grant | 20.507 | PA-90-0725 | 2,872,998 |
| FY2009 North Shore Flex Stp | 20.507 | PA-95-0034 | 1,788,121 |
| FY 2012 Flex Stp | 20.507 | PA-95-X068 | 6,172,200 |
| FY 2012 Transit Way | 20.507 | PA-90-X753 | 634 |
| FY 2013 Block Grant | 20.507 | PA-90-X766 | 67,634 |
| Total CFDA 20.507 | | | 31,206,982 |
| Job Access - Reverse Commute: | | | |
| Access to Jobs | 20.516 | PA-37-X048 | 1,101,308 |
| Urban New Freedom Program | 20.521 | PA-57-X009-01 | 110,807 |
| Urban New Freedom Program | 20.521 | PA-57-X016-01 | 727,827 |
| Total CFDA 20.521 | | | 838,634 |
| Alternatives Analysis: | | | |
| FY 2012 FLEX BRT | 20.522 | PA-39-0002 | 85,705 |
| TOTAL FEDERAL TRANSIT ADMINISTRATION | | | 63,469,212 |
| TOTAL DEPARTMENT OF TRANSPORTATION | | | 63,469,212 |
| DEPARTMENT OF HOMELAND SECURITY: | | | |
| 2009 Transit Security Grant Program | 97.075 | 2009-RA-T9-0046 | 75,820 |
| 2010 Transit Security Grant Program | 97.075 | 2010-RA-T000021 | 37,830 |
| 2012 Transit Security Grant Program | 97.075 | EMW2012RA00046 | 68,332 |
| Passed through the Commonwealth of Pennsylvania: | | | |
| 2007 Transit Security Grant Program | 97.075 | 2007-RL-T7-K022 | 104,062 |
| 2008 Transit Security Grant Program | 97.075 | 2008-RL-T8-0024 | 128,250 |
| TOTAL DEPARTMENT OF HOMELAND SECURITY | | | 414,294 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 63,883,506 |

See accompanying notes to schedule of expenditures of federal awards.

## 1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the Port Authority of Allegheny County.

## 2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

# Port Authority of Allegheny County

Independent Auditor's Reports in Accordance with OMB Circular A-133

Year Ended June 30, 2013

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

MaherDuessel
Certified Public Accountants

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Port Authority of Allegheny County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port Authority of Allegheny County (Authority), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maher Duessel*

Pittsburgh, Pennsylvania
November 22, 2013

MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Port Authority of Allegheny County

**Report on Compliance for Each Major Federal Program**

We have audited the Port Authority of Allegheny County's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirement referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Maher Duessel*

Pittsburgh, Pennsylvania
November 22, 2013

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

   Material weakness(es) identified? ☐ yes ☒ no
   Significant deficiencies identified that are not considered to be material weakness(es)?
   ☐ yes ☒ none reported

3. Noncompliance material to financial statements noted? ☐ yes ☒ no

4. Internal control over major programs:

   Material weakness(es) identified? ☐ yes ☒ no
   Significant deficiencies identified that are not considered to be material weakness(es)?
   ☐ yes ☒ none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ yes ☒ no

7. Major Programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 20.500 and 20.507 | Federal Transit Cluster |
| 20.516 and 20.521 | Transit Services Program Cluster |

8. Dollar threshold used to distinguish between type A and type B programs: $1,916,505

9. Auditee qualified as low-risk auditee? ☒ yes ☐ no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

**No matters were reported**.

III. Findings and questioned costs for federal awards.

**No matters were reported**.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

# NONE