

**Port Authority of Allegheny County**

**Single Audit**

**June 30, 2009**

# PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2009

## DIRECTORY

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**Port Authority of Allegheny County**

**Financial Statements and Required  
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**Years Ended June 30, 2009 and 2008 with  
Independent Auditor's Reports**

# PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2009 AND 2008

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### Independent Auditor's Report

Board of Directors  
Port Authority of Allegheny County

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, 2009 and 2008 as listed in the directory. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Authority's financial position as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

The Management's Discussion and Analysis on pages i through xiv and the required supplementary information presented on pages 31 and 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Maher Duessel*

Pittsburgh, Pennsylvania  
November 18, 2009

## **Port Authority of Allegheny County Management Discussion and Analysis (MD&A)**

The following Management, Discussion and Analysis of the financial performance of the Port Authority of Allegheny County (Port Authority) provides both an introduction and explanation of the basic financial statements of Port Authority for the fiscal year ended June 30, 2009 with comparative financial information for the fiscal year ended June 30, 2008. This section is designed to highlight significant financial issues and activities of Port Authority. The following analysis should be used in conjunction with the attached financial statements.

### **Highlights**

- ◆ FY2009 Net Expenses exceeded Revenues Before Capital Related Items by (\$8,573,974). This shortfall is primarily due to the adoption of GASB 45 which resulted in the recognition of the Other Post-Employment Benefits (OPEB) expense in the amount of \$18,815,075. Excluding the effect of the adjustment for OPEB, which is currently unfunded and not a budgeted item, Port Authority's Revenues exceeded Net Expenses Before Capital Related Items by \$10,241,101.
- ◆ Port Authority's labor agreement with its largest union, the Amalgamated Transit Union Local #85 (ATU-#85) resulted in savings in OPEB. OPEB expense was reduced from \$42,154,853 in FY2008 to \$18,815,075 in FY2009.
- ◆ Port Authority's financial results were also assisted by a \$7,335,073 increase in Bus, Trolley, and Light Rail Revenues. This increase was due to a number of factors. Foremost, Port Authority's FY2009 ridership (excluding ACCESS rides) increased by 946,724 from FY2008 levels. Secondarily, Passenger Revenues increased over the previous fiscal year due to operating at a \$2.00 base fare for the entire fiscal year. The base fare increased from \$1.75 midway through FY2008, in January 2008. In addition, Passenger Revenues increased due to a \$746,521 increase in Contracted Service revenue due to contractual increases with the University of Pittsburgh and Carnegie Mellon University to transport students and staff.
- ◆ FY2009 was the second year Port Authority operated under Act 44. Act 44 has had both positive and negative impacts on Port Authority's financial position. The legislation gave Port Authority a dedicated and predictable source of funding. Act 44 also had the positive impact of consolidating various state funding programs into one single operating assistance program. This resulted in reduced administrative burden associated with accessing the State operating assistance dollars. The downside to the legislation is that the increase in State Operating Assistance from FY2008 levels was less than 1%. This increase was less than the inflationary increases Port Authority incurred in areas such as wages, benefits, materials, supplies, and utilities.

- ◆ The North Shore Connector Project is currently underway. The boring of the twin tunnels under the Allegheny River is complete. The support structures for the elevated portion of the rail extension are now being constructed.
- ◆ In addition, Port Authority has begun work on an Automated Fare Collection System (AFCS). This will permit the company to introduce a Smartcard system to simplify the customer's farepaying experience and provide the Port Authority with enhanced ridership information and revenues.

## Basic Financial Statements

The Port Authority's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (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 Assets** - 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 assets increase 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 Assets** - These financial statements provide information on the net income generated from 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 and state grants are added to the Operating Gain or Loss in order to calculate Net Revenue over Expenses Before Capital Related Items. The net revenue over expenses before capital related items is added to the change in net assets which is derived by combining capital grant contribution revenue, interest income, interest expense, unrealized gain on investments, and depreciation expense.
- ◆ **Statements of Cash Flows** - The statements of cash flows detail the cash flows generated by Port Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding FY2009 changes in cash flows from operating activities,



non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2008 cash balance.

## **The Port Authority's Financial Condition**

The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets 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. Increases or decreases in the Port Authority's net assets are 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.

It is with the assistance of Federal, State, and County operating subsidies and grants that the Port Authority is able to provide ongoing transit service. These operating subsidies and grants are categorized as Non-Operating Revenues on the Statements of Revenues, Expenses, and Changes in Net Assets. Operating Expenses are subtracted from the combination of Operating Revenues and Non-Operating Revenues in order to determine the Port Authority's operating surplus or deficit. This financial result is entitled Net Revenues Over Expenses Before Capital and Other Related Items on the Statement of Revenues, Expenses and Changes in Net Assets. In compliance with GASB 45 regulations, Port Authority determined and expensed an annual required contribution (ARC) on the operating statement for 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. The \$18,815,075 OPEB expense is net of the current year contributions. In FY2009, the Port Authority completed the fiscal year with Net Operating Expenses over Revenues Before Capital Related Items of (\$8,573,974).

## **The Port Authority as Trustee**

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, along 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), Port Authority follows its guidelines and has separate, external audits of these plans conducted.

## **Statement of Net Assets**

Port Authority's Total Assets decreased by (\$30.4) million from FY2008. Total Non-current Assets decreased by (\$25.5) million. Total Current Assets decreased by (\$4.9) million from \$122.3 million in FY2008 to \$117.4 million in FY2009. Below are explanations of significant changes in various current asset classifications followed by explanations of changes in Total Non-current Assets:

### **CURRENT ASSETS**

#### **Cash**

At year-end, the Port Authority's ending cash and cash equivalents balance was \$75.4 million, an increase of \$18.8 million in comparison to the prior year. The increase in this account is partially attributable to Port Authority receiving all its Operating Assistance from Allegheny County by the end of FY2009.

#### **Capital Grants Receivable**

Capital Grants Receivable decreased by (\$1.2) million from \$26.0 million in FY2008 to \$24.8 million in FY2009. This reduction is principally due to a (\$1.4) million reduction in a receivable from Allegheny County to match Public Transportation Assistance Funds (PTAF).

#### **Due from Allegheny County**

As mentioned previously, at the end of FY2008, Port Authority was awaiting \$27,453,060 in local Operating Assistance from Allegheny County. The County Executive delayed payment until Port Authority reached a satisfactory settlement with its largest union, the Amalgamated Transit Union #85 (ATU #85). Both the FY2008 and FY2009 County Operating Assistance was received by the end of FY2009.

#### **Other Receivables**

Other Receivables increased by \$4.5 million from \$1.1 million in FY2008 to \$5.6 million in FY2009. This increase was due to a \$3.0 million increase in the receivable for the ACCESS paratransit program. This increase was due to a change in the reimbursement procedure with the Commonwealth of Pennsylvania (Commonwealth). In FY2008, the Commonwealth would reimburse for a full year of paratransit activity, with the final quarterly reimbursement made on projected ridership data. Under the new system, Port Authority can only request reimbursement monthly, based on actual ridership data. This delays the reimbursement from the Commonwealth.

### **Prepaid Expenses**

The Port Authority's prepaid expense experienced a net decrease of (\$2.1) million when compared to the prior fiscal year. This was due to a (\$2.0) million reduction in Prepaid Healthcare Premiums. This reduction was due to a early payment of premiums in FY2008.

### **Net Pension Asset**

The Port Authority had Net Pension Asset of \$2.6 million at the end of FY2008. This was due to Port Authority making payments to its pension funds in excess of the actuarially determined required contributions.

### **NON-CURRENT ASSETS**

The Port Authority's major facilities include five 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, 48.9 miles of Light Rail Transit (LRT) infrastructure, the Monongahela Incline, and other various structures that are situated throughout Allegheny County.

Total Non-current Assets fell by (\$25.5) million from FY2008 levels. This change was principally due to a (\$24.4) million reduction in Restricted Assets for Capital Additions and Related Debt. Restricted Assets for Capital Additions and Related Debt fell as a result of a \$20.2 million reduction in the Deferred Capital Project Fund.

Restricted Assets for Capital Lease Obligations fell by (\$3.8) million from FY2008 levels. These assets are restricted for payment of principal and interest on a sale-lease back transaction of light rail vehicles that the Port Authority entered into June 1997. This decrease was due to a reduction in Accrued Interest Receivable US Lease.

Major capital project activities during the reporting year included the following:

- Incurred costs of approximately \$89.2 million on construction of the North Shore Connector project. The total costs include:
  - Approximately \$39.0 million for the construction of the tunnel.
  - \$20.6 million for the Gateway Station.
  - \$10.3 million for costs related to the Aerial Structure component of the project.
- The capital budget included expenses of \$38.1 million for bus purchases.

- Capital expenses in FY2009 included progress and support payments of \$9.8 towards the rehabilitation of the 55 existing LRVs.

## **LIABILITIES AND NET ASSETS**

In FY1999, the Port Authority incurred \$225 million of 30-year, long-term debt to finance the aforementioned projects in addition to other capital projects. Subsequently, in FY2001, the Port Authority refinanced the 1999 borrowing with a refunding amount of \$250.6 million.

The Port Authority used its dedicated funding as a source of security for the debt issuance. The issuance received a credit rating of "Aaa" and "AAA" from Moody's Investors Service, Inc. and Standard & Poor's Rating Services respectively.

In FY2003, the Port Authority entered into a 10-year lease agreement with Koch Financial to finance the purchase of new buses manufactured by the Gillig Corporation.

In FY2004, the Port Authority was able to take advantage of a low interest rate environment to sell an option on refunding outstanding Series 2001 bonds with variable rate bonds. This transaction, also referred to as a Swaption, allowed the Port Authority to receive an upfront net benefit of \$9,500,000 after expenses.

At the year-end, the Port Authority had a total of \$293.3 million in long-term bonds outstanding versus \$313.6 million for FY2008, a decrease of \$20.3 as shown below. Most of this decrease is attributable to a reduction in the Koch Bus Financing due to payments of principal and interest towards this financing arrangement.

<b>Port Authority of Allegheny County Outstanding Long-term Debt at Year-End</b>		
	<b>2009</b>	<b>2008</b>
Series of 2001	\$237.34	\$244.49
Koch Bus Financing	\$66.24	\$79.16
(Discounts) and Premiums	\$.806	\$1.61
Deferred Amount of Refunding	<u>\$(11.07)</u>	<u>\$(11.64)</u>
Totals	\$ 293.31	\$ 313.62

### **Other Liabilities**

In addition to long-term debt obligations, the Port Authority has other short-term, current liabilities. These other obligations include accounts payable, accrued compensation, benefits, and withholdings, deferred credits, reserves for claims and settlements, current portions of capital leases and bonds payable and other current liabilities. The Port Authority's total current liabilities decreased by (\$45.4) million from

FY2008 levels. The decrease in current liabilities was partially due to a (\$7.9) million decrease in Accounts Payable. The net decrease in Accounts Payable was primarily due to a decrease of unvouchered Accounts Payable of (\$3.4) million with vouchered Accounts Payable decreased by (\$4.5) million.

A (\$27.0) million decrease in Deferred Credits also contributed to the decrease in current liabilities. The decrease in the Deferred Credits was attributable to a \$10.6 million deferred grant credit related to the payback of a loan against the Public Transportation Assistance Fund (PTAF) and a (\$18.0) million reduction in the Deferred Grant Credit related to the Basic Supplemental Grant (BSG) fund.

The decrease in Total Current Liabilities also occurred due to a (\$1.6) million decrease in Reserves for Claims and Settlements. This account is set up to reflect potential liabilities for both public liability and workers' compensation claims.

Total Current Liabilities also decreased during FY2009 due to a (\$5.1) million decrease in the Current portion of bonds payable. This reduction is due to Port Authority paying off its Subordinate Lien Special Revenue Transportation Bond of 1999.

The Port Authority's non-current liabilities decreased by (\$3.7) million in FY2009 due primarily to a decrease in Bonds Payable, net. This decrease was partially offset by the \$18.8 million increase in the Accrued OPEB Liability account.

### **Net Assets (Deficits)**

The Port Authority's investment in capital assets, net of related debt, increased from \$1.220 billion to \$1.223 billion, or 0.3%. Total Net Assets increased to \$1.12 billion from \$1.10 billion.

## **Financial Comparison (FY2009 versus FY2008)**

The following discussion measures the financial performance of the Port Authority by comparing the actual revenue, expenditure, and total asset changes between FY2009 and FY2008. This section comments on revenue and expense categories that exhibited significant dollar variances between FY2009 and FY2008.

### **Revenues**

Operating Revenues comprised 27.4% of total revenues required to support the operating budget, which was up slightly from 26.3% in FY2008. The amount of Total Operating Revenue increased by \$5.4 million from FY2008 to FY2009. Non-Operating Revenues increased by \$0.3 million between FY2008 and FY2009. The change in Non-Operating Revenues was predominantly attributable to an \$8.6 million increase in Preventive Maintenance.

Bus, trolley and light rail revenues, including contract service revenue from the local universities, increased by \$7.3 million. All passenger revenue categories experienced an increase as a result of a January 2008 base fare increase. In addition, this revenue increase was due to a 946,724 increase in ridership, excluding ACCESS passengers. The largest revenue category increase was in Monthly Pass Sales, which increased by \$2.2 million, while Farebox Collections increased by \$2.1 million. Contract Service revenue increased by \$746,521 due to contractual increases with the University of Pittsburgh and Carnegie Mellon University.

As indicated in the Port Authority Ridership Summary below, total ridership increased by 1.4% from FY2008 levels. Increases were noted in all modes of service.

<b>Port Authority Ridership Summary</b>			
	<b>2009</b>	<b>2008</b>	<b>%Increase/ (Decrease)</b>
Bus, Light Rail, and Incline	50,995,648	50,685,856	0.6%
Contract Services	7,484,010	7,085,301	5.6%
Senior Citizens	6,147,990	5,970,729	2.9%
ACCESS	1,699,537	1,693,648	0.4%
Free Ridership	1,903,532	1,842,570	3.3%
<b>Total</b>	<b>68,230,717</b>	<b>67,278,104</b>	<b>1.4%</b>

The Port Authority contracts with Veolia Transportation Services, Inc. for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth also reimburses the Port Authority for a portion of the costs incurred in providing this program. In FY2009, ACCESS revenues decreased by (\$0.4) million or -2.9%. This revenue decrease was more than offset by a decrease in ACCESS expenses of (\$1.1) million.

### **Expenses**

The Port Authority total operating expenses, net of capitalizations, decreased by (\$15.3) million or -4.2% from FY2008 to FY2009. The reduction in Total Operating Expenses was predominantly due to the (\$23.3) million reduction in OPEB. The expense category of Employee Benefits decreased by (\$1.0) million from FY2008. This decrease is predominantly attributable to a (\$6.2) million decrease in Pension expense. Each of the Pension Plans representing the three major employee classifications at Port Authority, Amalgamated Transit Union #85 (ATU- #85), International Brotherhood of Electrical Workers (IBEW) and those employees Not Represented by a Union, experienced reduced expenses in FY2009.

ACCESS Program Service expense for FY2009 was lower than FY2008 by (\$1.1) million or -4.4%. This decrease in Port Authority's ACCESS expense was due to a higher level of

revenues originating from ACCESS riders and third-party organizations that subsidize ACCESS riders.

The Provision for Injuries and Damages category of expenses decreased from FY2008 levels by (\$2.2) million. This was mostly due to a decrease in Workers' Compensation Indemnity Payments of (\$1.5) million and Litigated Settlements of (\$1.2) million, resulting in decreased total expenses within this category.

The Operating Expense categories that experienced increases from FY2008 to FY2009 were Wages & Salaries, Materials & Supplies, Utilities, Purchased Services, and Other Expenses.

The Wages & Salaries expense category increased by \$2.8 million from FY2008 levels. Most of this increase is attributable to contractual wage increases for ATU-#85 personnel. To a lesser extent, wage and salary increases for International Brotherhood of Electrical Workers (IBEW) and Non-represented employees also contributed to this increase.

Materials & Supplies increased by \$5.0 million due to a \$2.5 million increase in the Material line-item account and a \$2.2 million increase in diesel fuel.

Purchased Services Operating Expenses increased by \$1.1 million, predominantly due to a \$581,521 increase in line-item expense of Work Done-By-Outside Contractors.

Finally, the Other Expenses expense category increased by \$1.2 million from FY2008. Increases in Litigated Settlements of \$1.2 million and Miscellaneous Expense by \$1.3 were the main reasons for the increase in Other Expenses.

Utilities increased by \$604,282 over FY2008 expense totals. Port Authority uses high amounts of electricity to power the Light Rail System and facilities. It also relies on natural gas to keep garage facilities comfortable during winter months. Port Authority incurred increases in Propulsion Power of \$371,080 and electricity of \$110,604 and Tele-Communications of \$149,312.

The capitalization category represents reimbursement from capital funds of personnel and non-personnel operating expenses incurred that are associated with capital projects. In addition, the capitalization category includes reimbursement of expenses associated with Access-to-Jobs, the Federal Flex program for New Service Initiatives and non-fixed asset capital expenses. The amount of capitalizations subtracted from gross operating expenses decreased in FY2009 by (\$1.8) million from FY2008. This reduction is due to a decrease in capitalizations associated with the Access-to-Jobs and New Service Initiatives programs. Reductions in the Access-to-Jobs and New Service Initiative, program capitalizations are the result of fewer Port Authority routes qualifying for program funding.

## **Non-Operating Revenues**

Total FY2009 Non-Operating Revenues increased by \$.32 million, or 0.1%, from FY2008. Non-operating revenues originate from a number of sources. The Commonwealth provided operating subsidies in FY2009 in the amount of \$184.5 million under Act 44, of which \$9.2 million was deferred for use in future years. The operating subsidies from Allegheny County for FY2009 increased by \$0.2 million due to the required 15% local match on the increased amount of State Operating Assistance.

In FY2008, Port Authority utilized \$494,000 in Preventive Maintenance funding. The amount of Preventive Maintenance funding increased to \$9.1 million in FY2009. This program involves the use of Section 5307 funding to offset the cost of salaries and wages associated with operating expenses incurred in the inspection, maintenance, and servicing of revenue vehicles.

The Infrastructure Safety Renewal Program utilizes state capital funds to offset operating expenses related to the renovation and/or rehabilitation of transit and railroad bridges, track stations, signals, power, and miscellaneous components of the Port Authority's transit and rail systems. The Vehicle Improvement Program uses state capital funds to cover labor and material costs incurred in performing overhaul activities on motorbus and light rail vehicles. The Port Authority has available a total of \$18.5 million from the Commonwealth each fiscal year to be divided between these two programs.

The Capital Cost of Contracting component of non-operating revenues decreased very slightly (-\$380,659) from FY2008. These federal funds (Section 5307) are used to offset up to 50% of total program costs incurred for the ACCESS program.

Interest income for FY2009 and FY2008 was \$409,345 and \$1,651,250, and interest expense was \$0 and \$886,756, respectively. Interest Income in FY2009 decreased from the previous year due to lower rates of return on Port Authority's cash reserves. In FY2009, Port Authority had sufficient cash reserves which made it unnecessary to use short-term financing such as a Grant Anticipation Note (GAN) as it had in FY2008. As a consequence, Port Authority had no interest expense for Operating Budget purposes in FY2009.

## **CONDITIONS AFFECTING FUTURE FINANCIAL POSITION**

Port Authority is constantly adapting to the forces that impact it on a daily basis. For at least the past decade, it has been confronted with financial uncertainty that has forced the organization to alter and sometimes change course. External parties from both the Commonwealth and Allegheny County have reviewed operations and made suggestions for improvement. The company has incorporated many of these suggestions into the daily business model of Port Authority.



It was hoped that with the Commonwealth's passage of the Act 44 Public Transportation Program that Port Authority could experience a period where Operating and Capital funds were reliable and growing to meet the needs of the company. Unfortunately, the Commonwealth's increase in State Operating Assistance to Port Authority grew by less than 1% from FY2008 to FY2009 and is unchanged for FY2010. Most likely, the current funding structure of the Act 44 legislation will need to be re-visited unless the aspect of the legislation that required tolling Interstate Highway #80 is approved at the federal level.

Port Authority continues to be pro-active in reviewing its operations and introducing methods to conduct business in the most efficient way possible. To that end, it has completed a Transit Development Plan (TDP) that involved reviewing each of its 187 routes. A transportation consultant analyzed each route and suggested route creations, eliminations and alterations. Input was garnered at public hearings throughout the region to minimize impact on the customer base. The goal of the TDP was to enhance the utilization of Port Authority services. Act 44 funding incorporates performance measurement standards whereby Port Authority will be evaluated against peer transportation agencies from within the Commonwealth. It is hoped that Act 44 will enhance Port Authority's efficiency and increase its standing versus other transit agencies requiring funding within the State.

Another project that has the potential to increase Port Authority's efficiency is the Automated Fare Collection System (AFCS). The AFCS will involve the replacement of all fareboxes within the system with new fareboxes that incorporate a Smartcard system. The Smartcard system can be configured in numerous ways that offer the customer new fare options. In addition, the system will provide Port Authority with more reliable ridership information and has the potential to reduce fare avoidance associated with the current "flash pass" system. The AFCS project will also involve the participation of other regional transit agencies. This will permit public transit riders from throughout the Southwestern Pennsylvania region to ride with one commonly accepted Smartcard.

Another operating budget item that will require attention in the short-term is the company's pension expense. The downturn in the Stock Market has negatively impacted Port Authority's defined benefit pension plans. These plans have experienced returns consistent with the overall market. Port Authority FY2009 pension expense actually decreased by \$6.2 million from FY2008 to \$13.8 million. However, the most recently conducted actuarial valuations indicate Port Authority pension expense will almost double to \$26.6 million.

In addition, retiree healthcare continues to be a focus of Port Authority due to GASB #45, which requires recognition of OPEB expense. Despite negotiated changes to the ATU #85 contract that provided over \$22.0 million in OPEB expense savings, Port Authority continues to incur high OPEB expense.

With regard to large scale capital programs, the Port Authority continues to be focused on keeping its infrastructure system in a state of good repair and finishing construction of the North Shore Connector Project.

The Federal Transit Administration has committed to funding \$348 million toward the cost of the North Shore Connector Project and construction is currently underway. The 1.2 mile extension represents the most significant transit construction work that downtown Pittsburgh has experienced since the early 1980s, when Port Authority built Stage I of the existing subway system. Revenue service is scheduled to begin in 2012 on the North Shore Connector.

Port Authority's future will continue to be filled with both opportunities and challenges. The organization with its many programs and projects will be well positioned to take advantage of opportunities and confront its challenges in the future.

# **THE PORT AUTHORITY OF ALLEGHENY COUNTY**

## **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** – 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 Port Authority's 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 ASSETS

JUNE 30, 2009 AND 2008

Assets	2009	2008
<b>Current assets:</b>		
Cash and cash equivalents	\$ 75,365,101	\$ 56,553,767
Capital grants receivable	24,767,033	26,002,498
Due from Allegheny County	-	27,453,060
Other receivables	5,631,501	1,074,684
Prepaid expenses	266,681	2,358,314
Materials and supplies	8,785,095	8,873,137
Net pension asset	2,604,062	-
Total current assets	117,419,473	122,315,460
<b>Non-current assets:</b>		
Restricted assets for capital lease obligation	99,586,120	103,411,358
Restricted assets for capital additions and related debt	46,173,816	70,536,969
Other non-current assets	848,478	964,446
Capital assets, net of accumulated depreciation	1,491,176,106	1,488,348,376
Total non-current assets	1,637,784,520	1,663,261,149
<b>Total Assets</b>	\$ 1,755,203,993	\$ 1,785,576,609
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 26,812,502	\$ 34,748,100
Accrued compensation, benefits, and withholdings	16,851,592	16,154,552
Deferred credits	46,917,327	73,934,259
Reserves for claims and settlements	8,315,596	9,889,000
Current portion of capital lease obligation	2,872,089	3,591,413
Current portion of bonds payable	20,063,885	25,191,697
Accrued pension liability	-	3,430,854
Other current liabilities	6,010,741	6,278,792
Total current liabilities	127,843,732	173,218,667
<b>Non-current liabilities:</b>		
Capital lease obligation	57,845,703	60,717,793
Bonds payable, net	293,313,581	313,616,499
Reserves for claims and settlements	7,368,317	6,222,419
Accrued OPEB liability	100,320,377	81,505,302
Deferred interest payable - capital lease	38,868,328	39,102,152
Deferred credits	9,638,437	9,915,323
Total non-current liabilities	507,354,743	511,079,488
<b>Total Liabilities</b>	635,198,475	684,298,155
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	1,223,972,456	1,220,077,149
Restricted	9,200,000	-
Unrestricted net assets	(113,166,938)	(118,798,695)
Total Net Assets	1,120,005,518	1,101,278,454
<b>Total Liabilities and Net Assets</b>	\$ 1,755,203,993	\$ 1,785,576,609

See accompanying notes to financial statements.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>Operating Revenues:</b>		
Passenger revenues:		
Bus, trolley, and light rail	\$ 78,170,030	\$ 70,834,957
ACCESS program services	12,591,155	12,969,007
Other income	2,036,747	3,600,954
Total operating revenues	92,797,932	87,404,918
<b>Operating Expenses:</b>		
Wages and salaries	136,737,994	133,930,757
Employee benefits	107,771,849	108,870,681
OPEB expense, net	18,815,075	42,154,853
Materials and supplies	42,159,975	37,175,180
ACCESS program services	24,271,974	25,394,315
Provision for injuries and damages	2,397,007	4,627,858
Utilities	8,521,429	7,917,147
Purchased services	9,056,216	8,001,752
Other expenses	12,502,086	11,257,852
	362,233,605	379,330,395
Less amounts capitalized	(15,306,323)	(17,134,641)
Total operating expenses	346,927,282	362,195,754
<b>Operating Loss</b>	(254,129,350)	(274,790,836)
<b>Non-Operating Revenues (Expenses):</b>		
Subsidies:		
County	27,668,700	27,453,060
State - Act 44	175,257,990	183,020,400
Vehicle improvement program	2,500,000	2,500,000
Preventive maintenance	9,100,000	494,000
Safety renewal program	16,000,000	16,000,000
Capital cost of contracting	14,619,341	15,000,000
Interest income	409,345	1,651,250
Interest expense	-	(886,756)
Total non-operating revenues (expenses)	245,555,376	245,231,954
<b>Net Revenues Over Expenses</b>		
<b>Before Capital Related and Other Items</b>	(8,573,974)	(29,558,882)
Capital grant contribution and other revenue	173,866,868	159,652,797
Capital project transfer	(27,825,080)	-
Interest income	9,610,252	13,159,809
Interest expense	(24,719,467)	(27,698,658)
Unrealized gain (loss) on investments	(398)	(59,893)
Depreciation expense	(103,631,137)	(102,187,238)
<b>Change in Net Assets</b>	18,727,064	13,307,935
Total net assets - beginning	1,101,278,454	1,087,970,519
Total net assets - ending	\$ 1,120,005,518	\$ 1,101,278,454

See accompanying notes to financial statements.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers	\$ 88,241,115	\$ 87,831,765
Payments for goods and services	(82,794,795)	(79,945,275)
Payments to employees	(249,847,719)	(241,772,996)
Net cash provided by (used in) operating activities	(244,401,399)	(233,886,506)
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Proceeds from issuance of grant anticipation notes	-	20,405,000
Payment of grant anticipation notes	-	(20,405,000)
Interest paid on grant anticipation notes	-	(886,756)
Operating subsidies	280,201,456	218,841,506
Net cash provided by (used in) non-capital financing activities	280,201,456	217,954,750
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Capital grants received	140,483,036	156,528,107
Investments in transit operating property	(141,373,556)	(111,488,749)
Payments on bonds	(25,191,697)	(23,915,385)
Interest paid on bonds	(25,245,796)	(26,787,607)
Capital lease payments	(3,591,414)	(3,330,184)
Net cash provided by (used in) capital and related financing activities	(54,919,427)	(8,993,818)
<b>Cash Flows From Investing Activities:</b>		
Proceeds from restricted investments	35,374,669	7,115,825
Interest and dividends on investments	2,556,035	5,512,608
Net cash provided by (used in) investing activities	37,930,704	12,628,433
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	18,811,334	(12,297,141)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	56,553,767	68,850,908
End of year	\$ 75,365,101	\$ 56,553,767
<b>Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided By (Used In) Operating Activities:</b>		
Operating loss and depreciation expense	\$ (357,760,487)	\$ (376,978,074)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	103,631,137	102,187,238
Change in assets and liabilities:		
Other receivables	(4,556,817)	426,847
Materials and supplies	88,042	133,796
Prepaid expenses and other current assets	2,091,633	(2,012,245)
Other non-current assets	115,968	113,492
Accounts payable	(845,988)	(2,307,259)
Accrued compensation, benefits, and withholdings	697,040	247,131
Reserves for claims and settlements	(427,506)	2,071,923
Accrued pension liability	(6,034,916)	781,311
Accrued OPEB liability	18,815,075	42,154,853
Other current liabilities	(214,580)	(705,519)
Total adjustments	113,359,088	143,091,568
Net cash provided by (used in) operating activities	\$ (244,401,399)	\$ (233,886,506)
<b>Non-Cash Capital and Related Financing Activities:</b>		
Capital project transfer	\$ (27,825,080)	\$ -

See accompanying notes to financial statements.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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### 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 the Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*." The County Chief Executive appoints the Authority's Board of Directors and the County provides substantial operating subsidies and capital funding.

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. GASB is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. In applying the provisions of GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds*," the Authority applies all GASB pronouncements and all FASB pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of these 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.

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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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 assets available, it is the Authority's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

### 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.

### 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 \$1,523,998 at June 30, 2009 and \$167,779 at June 30, 2008.

### 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 2009 and 2008, no interest expense was capitalized.

Depreciation is recorded using the straight-line method based on estimated useful lives that generally range from 4 to 30 years.

Projects in progress primarily consist of the North Shore Connector project. The Authority has entered into various construction contracts related to the completion of this project.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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### Revenue, Receivables, and Deferred 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. Revenues from pass sales are generally recognized upon receipt.

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. Capital grants for the acquisition of property and equipment and other capital related expenditures are recorded as capital grant contribution revenue.

In fiscal year 2008, Act 44 was enacted by the Commonwealth of Pennsylvania. The Act created 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 of Pennsylvania. 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 of Pennsylvania to fund PTTF are:

- a. A percentage from sales tax (4.4%). (This source was formerly used to provide General Fund operating and Act 3 grants.)
- b. Lottery funds for the Free Transit for Senior Citizens Program.
- c. State bond funding for capital projects.
- d. Remainder of 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.

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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The Authority received \$184,457,990 in State operating assistance for fiscal year 2009 under Act 44. These funds were comprised of \$180,763,433 in Act 44 Section 1513 funds and \$3,694,557 PTAF operating assistance funds. The State operating assistance funds required local match of \$27,668,700, which was provided by the County within fiscal year 2009. Of the total Act 44 funds received from the State in fiscal year 2009, \$9.2 million was unspent and considered available for fiscal year 2010 and is included in capital grant contribution and other revenue on the statements of revenues, expenses, and changes in net assets.

Because of existing debt agreements, the Authority received capital funding under PTAF totaling \$40.6 million to use for debt service. Local matching share required for this funding was \$1.4 million, which was provided by the County within fiscal year 2009. As required by Act 44, there were offsets to other capital programs to accommodate the PTAF funding.

The Authority also received \$30.2 million in capital funding under Act 44 to be utilized for capital improvements. Approximately \$16 million was used for Infrastructure Safety and Renewal Programs and approximately \$2.7 million was used for vehicle overhaul, which does not require County matching funds. Approximately \$11.5 million was used for other capital projects and requires County matching funds of approximately \$2.3 million, which were provided by the County within fiscal year 2009.

Capital costs of contracting included in non-operating revenues and expenses in the accompanying statements of revenues, expenses, and changes in net assets are the portion capital grants utilized by the Authority to obtain reimbursement for the capital component of amounts paid to ACCESS (see Note 7). Similarly, preventive maintenance represents capital grants used for vehicle maintenance costs.

In 2009, the Authority recognized revenue of \$10.6 million related to previously deferred State PTAF funds that had been designated for capital purposes, but were borrowed to cover operating costs in prior years. The recognition occurred after receiving approval from the State to change the purpose restriction on the funds. This amount is included in capital grant contribution and other revenue on the statement of revenues, expenses, and changes in net assets.

### Amounts Capitalized

The Authority is permitted to utilize certain capital funds for operating expenses including labor, fringe benefits, materials and supplies, and other expense classifications. Amounts capitalized are subsidies applied to these expenses.

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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### Compensated Absences

The Authority follows the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences.*" Accordingly, 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.

### Bond Issue Costs

Bond issue costs related to debt issued are deferred and amortized over the life of the related bonds using the effective interest method. The unamortized balance is maintained as an asset on the statements of net assets.

### Refunding Transactions

In accordance with GASB Statement No. 23, "*Accounting and Reporting for Refunding of Debt for Proprietary Activities,*" the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a reduction to long-term debt on the statement of net assets 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 Assets

GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,*" requires the

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets 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 assets consists of constraints placed on net asset use through external restrictions. At June 30, 2009, restricted net assets consist of \$9.2 million in cumulative Act 44 Section 1513 funds available for 2010.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

### Pending Pronouncements

In June 2008, GASB issued Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*.” This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and will be effective for the Authority’s financial statements for the year ended June 30, 2010. The Authority is currently considering the impact that this new pronouncement will have on the financial statements.

### **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

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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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 of Pennsylvania (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 2009 and 2008 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) and a Capital Lease Obligation (Note 12).

GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*," 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 following is a description of the Authority's deposit and investment risks:

**Custodial Credit Risk** - 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, 2009 and 2008, respectively, \$41,108,498 and \$49,176,030 of the Authority's bank balance of \$42,137,741 and \$49,603,627 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. These deposits have carrying amounts of \$38,014,456 and \$47,339,336 as of June 30, 2009 and 2008, respectively, of which \$12,220,116 and \$1,337,933, respectively, are reported as current assets in the statements of net assets.

In addition to the deposits noted above, included in cash and cash equivalents on the statements of net assets are the following short-term investments: mutual funds of \$9,925,671 and \$14,050,819, and \$53,219,314 and \$41,165,015 invested in the external investment pool (INVEST) at June 30, 2009 and 2008, respectively.

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

At June 30, 2009, the Authority held the following investment balances:

	Fair market value	Maturity in years	
		Less than 1 year	1-5 years
U.S. Treasuries:			
Interest-only strips	\$ 43,108,379	\$ 100,931	\$ 43,007,448
FHLB	10,018,996	10,018,996	-
Guaranteed investment contracts	56,469,327	7,955,216	48,514,111
Mutual funds	20,294,565	20,294,565	-
INVEST	53,219,314	53,219,314	-
Total	<u>\$ 183,110,581</u>	<u>\$ 91,589,022</u>	<u>\$ 91,521,559</u>

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.

**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.

**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, 2009, the Authority's investments in INVEST, mutual funds, and FHLB were rated AAA by Standard & Poor's. Additionally, At June 30, 2009, the Authority had a guaranteed investment contract that was unrated and relates to lease transactions that are more fully described in Note 12.

### 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

# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

occur in the near-term and that such change could materially affect the amount reported on the statements of net assets.

### 4. CAPITAL ASSETS/ACCUMULATED DEPRECIATION

A summary of changes in capital assets is as follows:

	June 30, 2008	Increases	Decreases	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 100,685,362	\$ 5,013,736	\$ -	\$ 105,699,098
Projects in progress	236,497,163	73,840,557	(27,825,081)	282,512,639
Total capital assets, not being depreciated	<u>337,182,525</u>	<u>78,854,293</u>	<u>(27,825,081)</u>	<u>388,211,737</u>
Capital assets, being depreciated:				
Buildings	218,250,600	115,383	-	218,365,983
Transportation equipment	630,839,563	53,395,130	(25,167,645)	659,067,048
Track, roadway, and subway stations	1,292,595,205	1,083,209	(12,091)	1,293,666,323
Other property, equipment, and assets	94,048,583	835,935	(114,899)	94,769,619
Total capital assets being depreciated	<u>2,235,733,951</u>	<u>55,429,657</u>	<u>(25,294,635)</u>	<u>2,265,868,973</u>
Less accumulated depreciation for:				
Buildings	(107,354,311)	(7,206,451)	-	(114,560,762)
Transportation equipment	(332,896,683)	(46,516,782)	25,039,557	(354,373,908)
Track, roadway, and subway stations	(577,218,910)	(45,291,631)	34,171	(622,476,370)
Other property, equipment, and assets	(67,098,196)	(4,510,266)	114,898	(71,493,564)
Total accumulated depreciation	<u>(1,084,568,100)</u>	<u>(103,525,130)</u>	<u>25,188,626</u>	<u>(1,162,904,604)</u>
Total capital assets, being depreciated, net	<u>1,151,165,851</u>	<u>(48,095,473)</u>	<u>(106,009)</u>	<u>1,102,964,369</u>
Total capital assets, net	<u>\$ 1,488,348,376</u>	<u>\$ 30,758,820</u>	<u>\$ (27,931,090)</u>	<u>\$ 1,491,176,106</u>

During the year, \$27.8 million related to the Maglev project was removed from projects in progress after a determination was made that administrative responsibility of the project would be transferred from the Authority to the Commonwealth. Accordingly, the deletion is reflected as capital project transfer on the statements of revenues expenses and changes in net assets.



# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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### 5. SPECIAL REVENUE TRANSPORTATION BONDS

On July 14, 1999, the Authority issued \$71,960,000 of the Subordinate Lien Special Revenue Transportation Bonds Series of 1999 (the 1999 Sub Bonds). The proceeds from the sale of the 1999 Sub Bonds were used primarily to acquire 200 mass transit buses. Further, the proceeds may also be used to make other capital additions and improvements, fund the Debt Service Reserve Fund related to the 1999 Sub Bonds, and pay for the costs of issuing the 1999 Sub Bonds. The bonds were repaid in full during the fiscal year 2009.

Interest on the 1999 Sub Bonds was payable semiannually on each June 1 and December 1, commencing December 1, 1999. Interest rates ranged from 4.50% to 5.50% throughout the term of the 1999 Sub Bonds.

The 1999 Sub Bonds' premium of \$1,592,387 and the 1999 Sub Bonds' issuance costs of \$703,579 were amortized over the ten-year term of the 1999 Sub Bonds. At June 30, 2009, all of the 1999 Sub Bonds premium and issuance costs have been amortized. At June 30, 2008, \$1,427,586 of the 1999 Sub Bonds premium and \$630,762 of the 1999 Sub Bonds issuance costs have been amortized.

On November 4, 1999, the Authority issued \$225,000,000 of the Special Revenue Transportation Bonds Series of 1999 (the 1999 Bonds). The proceeds from the sale of the 1999 Bonds were used primarily to fund certain capital additions and improvements to the Authority's public transit system.

On March 1, 2001, the Authority issued \$250,695,000 of the Special Revenue Transportation Bonds Series of 2001 (the 2001 Bonds). Approximately, \$240 million of the proceeds from the sale of the 2001 Bonds were used to advance refund the 1999 Bonds. An additional \$7.5 million was realized for capital projects.

In connection with this advance refunding, a portion of the proceeds of the 2001 Bonds was deposited into an irrevocable trust with an escrow agent to provide for certain debt service payments on the refunded bonds. The advance refunding resulted in a deferred refunding adjustment of \$15,771,597 that will be amortized over the life of the 2001 Bonds. At June 30, 2009 and 2008, \$4,693,928 and \$4,130,654 have been amortized, respectively. During 2009, the balance of the refunded 1999 Bonds of \$225,000,000 was repaid in full from the irrevocable trust account.

Interest on the 2001 Bonds is payable semiannually on each March 1 and September 1, commencing September 1, 2001. Interest rates range from 3.75% to 5.75% throughout the terms of the 2001 Bonds.

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The 2001 Bonds' discount of \$1,564,785 and the 2001 Bonds' issuance costs of \$1,207,946 are being amortized over the twenty-eight year term of the 2001 Bonds. At June 30, 2009, \$465,710 of the 2001 Bonds premium and \$359,508 of the 2001 Bonds issuance costs have been amortized. At June 30, 2008, \$409,913 of the 2001 Bonds premium and \$316,367 of the 2001 Bonds issuance costs have been amortized.

The bond agreements, for the above issues, require among other things, that the Authority maintain a Debt Service Reserve Fund for each issue. The Debt Service Reserve Fund is required to be funded at all times in an amount equal to the relevant debt service requirement relating to each series of bonds outstanding.

During fiscal year 2003, the Authority entered into an agreement with Koch Financial Corporation (Koch) for the purchase of fixed assets, primarily buses. As of June 30, 2009 and 2008, 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 Koch Bonds are payable semiannually on each March 1 and September 1, commencing September 1, 2003. Interest rates are set at the time of the draw down, current Koch Bonds outstanding bear interest at 5.25%.

The Koch Bonds were issued at a premium of \$6,010,768, which is being amortized over the ten-year term of the Koch Bonds. At June 30, 2009 and 2008, \$4,106,185 and \$3,403,522 have been amortized, respectively.

The following is a summary of debt transactions of the Authority for the year ended June 30, 2009:

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	Balance at July 1, 2008	Amortization/ Payments and Retirements	Balance at June 30, 2009
Series of 1999 Sub Bonds	\$ 11,935,000	\$ (11,935,000)	\$ -
Series of 2001 Bonds	245,485,000	(995,000)	244,490,000
Koch Bonds	91,421,369	(12,261,697)	79,159,672
	<u>348,841,369</u>	<u>(25,191,697)</u>	<u>323,649,672</u>
Unamortized net bond premium	1,607,770	(802,304)	805,466
Unamortized deferred amount on refunding	(11,640,943)	563,271	(11,077,672)
Net outstanding	<u>\$ 338,808,196</u>	<u>\$ (25,430,730)</u>	<u>313,377,466</u>
Less current amounts:			
Series of 2001 Bonds			(7,150,000)
Koch Bonds			(12,913,885)
Total current bonds payable			<u>(20,063,885)</u>
Total long-term bonds payable			<u>\$ 293,313,581</u>

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

Year Ending June 30,	Principal	Interest	Total
2010	\$ 20,063,885	\$ 16,589,415	\$ 36,653,300
2011	21,160,763	15,491,412	36,652,175
2012	22,289,175	14,361,680	36,650,855
2013	23,481,064	13,171,643	36,652,707
2014	18,345,766	11,960,475	30,306,241
2015-2019	65,839,019	47,626,601	113,465,620
2020-2024	66,970,000	31,779,738	98,749,738
2025-2029	85,500,000	13,241,500	98,741,500
Total	<u>\$ 323,649,672</u>	<u>\$ 164,222,464</u>	<u>\$ 487,872,136</u>

Restricted assets include approximately \$20.4 million of cash invested in a debt service reserve fund restricted for debt service on the above bonds.

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### **6. GRANT ANTICIPATION NOTES**

The Authority entered into a Note Agreement on August 2, 2007, for the issuance and sale of \$20,415,000 of 4.50% Grant Anticipation Notes, Series of 2007, due June 30, 2008. These 2007 Notes were repaid in full on June 30, 2008.

### **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 \$24.3 million in fiscal year 2009 and \$25.4 million in fiscal year 2008.

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 \$12.6 million in fiscal year 2009 and \$13 million in fiscal year 2008.

### **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, 2009. The reserve balance is approximately \$10.5 million at June 30, 2009 and 2008.

# PORT AUTHORITY OF ALLEGHENY COUNTY

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### 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 \$5.2 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.

The Authority has entered into a full funding grant agreement with the FTA for the North Shore Connector project. It involves extending the Authority's existing Light Rail Transit system (LRT) in Pittsburgh's urban core. The project will create a 1.5-mile extension of the LRT from the Gateway Center Station to Pittsburgh's North Shore via twin bored tunnels under the Allegheny River. The capital costs of this project are estimated to be \$539 million and will be paid from federal, state, and local sources. As of June 30, 2009, approximately \$283.8 million of project costs had been incurred and the Authority's contract commitments related to this project approximated \$193 million.

### 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

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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 benefits is available after 25 years of continuous service for all plans. Early retirement with full 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 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.

*Funding Policy.* Participants in the NonRep and ATU Plans contribute 4.5% of pension earnings to their respective plan. IBEW employees contributed 4% of pension earnings 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:

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	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	\$ 9,743,365	\$ 396,218	\$ 3,681,210
Interest on net pension obligation	38,504	43,232	34,554
Adjustment to annual required contribution	(47,559)	(184,437)	(40,104)
Annual pension cost	9,734,310	255,013	3,675,660
Contributions made	14,206,911	1,312,847	4,551,998
Increase (decrease) in net pension obligation	(4,472,601)	(1,057,834)	(876,338)
Net pension obligation (asset) beginning of year	481,296	540,401	431,923
Net pension obligation (asset) end of year	\$ (3,991,305)	\$ (517,433)	\$ (444,415)
Actuarial valuation date	1/1/2008	1/1/2008	1/1/2008
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 (at 1/1/05 for ATU and NonRep)	22 years	3.5 years	23 years
2005 Actuarial loss	13 years		
2006 Actuarial loss	14 years		14 years
Assumption change at 1/1/2007	24 years		24 years
2007 Actuarial gain	15 years		15 years
Assumption change at 1/1/2008	25 years		25 years
Plan change at 1/1/2008			25 years
Actuarial assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases	3.5%	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.

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

### Three-Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
ATU Plan:	June 30, 2009	\$ 9,734,310	146%	\$ (3,991,305)
	June 30, 2008	12,859,942	116%	481,296
	June 30, 2007	10,158,513	155%	2,577,801
IBEW Plan:	June 30, 2009	255,013	515%	(517,433)
	June 30, 2008	1,098,927	60%	540,401
	June 30, 2007	495,687	110%	102,434
NonRep Plan:	June 30, 2009	3,675,660	124%	(444,416)
	June 30, 2008	4,544,609	90%	431,923
	June 30, 2007	3,759,721	106%	(30,690)

### Funded Status and Funding Progress

The funded status of each plan as of January 1, 2008, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of Covered Payroll</u>
	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>((b-a)/c)</u>
ATU	\$ 741,403	\$ 762,018	\$ 20,615	97.3%	\$ 123,955	16.6%
IBEW	22,448	22,844	396	98.3%	3,083	12.8%
NonRep	67,237	99,555	32,318	67.5%	16,242	199.0%

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



# PORT AUTHORITY OF ALLEGHENY COUNTY

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of January 1, 2008, the following actuarial assumptions were changed to better reflect anticipated experience: 1) the withdrawal assumption has been replaced by a modified version of the rates from the Society of Actuaries 2003 Pension Plan Termination Study, 2) the percentage of participants who have attained service eligibility for pre-retirement death benefits and who are married changed from being 85% regardless of gender to 80% for male employees and 60% for female employees, and 3) for NonRep, only the retirement assumption was changed to reflect elimination of the prior \$500 supplement for 25-year retirement, the elimination of post-retirement medical benefits, and the addition of a \$500 supplement payable only from age 60 to age 65.

As noted above, certain pension information and calculations are based upon actuarial valuations performed as of January 1, 2008. The next actuarial valuation, which was performed as of January 1, 2009, has taken into account subsequent declines in the market value of investments being held in the plans. These market declines have negatively impacted the funding status of the plans and significantly increased the funding requirements of the plans beginning in fiscal year 2010.

### **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.

*Funding Policy.* The Authority's contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2009 and 2008, the Authority contributed \$31,124,023 and \$26,717,462, respectively, to the plans. Plan members receiving benefits contributed \$2,939,081 and \$1,833,812, respectively, 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

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percentages for the ATU, IBEW, and NonRep Plans are 20%, 15%, and 20%, respectively. Base years for the ATU, IBEW, and NonRep Plans are November 30, 1991, May 1, 1993, and May 1, 1989, respectively.

*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 GASB Statement No. 45. 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 were are noted below, as well as the assumptions used to calculate the required contribution. The OPEB expense on the statement of revenues, expenses, and changes in net assets is shown net of current payments included in employee benefits.

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	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	\$ 45,893,505	\$ 1,827,897	\$ 3,489,657
Interest on net OPEB obligation	3,122,165	104,390	33,657
Adjustment to annual required contribution	(4,340,268)	(145,117)	(46,788)
Annual OPEB cost	44,675,402	1,787,170	3,476,526
Contributions made	26,869,130	603,196	3,651,697
Increase (decrease) in net OPEB obligation	17,806,272	1,183,974	(175,171)
Net OPEB obligation (asset) beginning of year	78,054,137	2,609,741	841,424
Net OPEB obligation (asset) end of year	\$ 95,860,409	\$ 3,793,715	\$ 666,253

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

Actuarial valuation date	1/1/2007, projected forward to 1/1/2009
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	10% in 2007, grading to 5% in 2012
Dental trend	5% in 2007, grading to 3% in 2011
Vision trend	2% per year
Mortality	RP-2000 table, sex distinct, blue/white collar adj.

The Authority's actuarial accrued liability and Annual OPEB cost decreased significantly this year as the January 1, 2007 actuarial valuation was projected forward to January 1, 2009 to account for certain plan changes resulting from a new ATU labor contract that became effective during 2009. The actuarial valuation as of

# PORT AUTHORITY OF ALLEGHENY COUNTY

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January 1, 2009, which will be used to calculate the 2010 annual OPEB cost, includes changes in the trend assumption and reflects the impact of claims and data experience and actual premium increases that will impact the actuarial accrued liability and annual OPEB cost. The Authority's projected OPEB cost for 2010 is \$66 million, an increase of approximately \$16 million from 2009.

### Three-Year Trend Information

	<u>Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
ATU Plan:	June 30, 2009	\$ 44,675,402	60%	\$ 95,860,409
	June 30, 2008	63,593,737	35%	78,054,137
	June 30, 2007	59,168,282	38%	37,004,046
IBEW Plan:	June 30, 2009	1,787,170	34%	3,793,715
	June 30, 2008	1,725,178	22%	2,609,741
	June 30, 2007	1,622,094	22%	1,258,736
NonRep Plan:	June 30, 2009	3,476,526	105%	666,253
	June 30, 2008	3,553,400	107%	841,424
	June 30, 2007	3,614,986	70%	1,087,667

### Funded Status and Funding Progress

The funded status of each plan as of January 1, 2007 (project forward to January 1, 2009), is as follows (dollar amounts in thousands):

	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a percentage of Covered Payroll ((b-a)/c)</u>
ATU	\$ -	\$ 568,970	\$ 568,970	0.0%	\$ 129,386	439.7%
IBEW	-	17,813	17,813	0.0%	3,252	547.8%
NonRep	-	61,241	61,241	0.0%	17,481	350.3%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend

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information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

### 12. LEASE TRANSACTIONS

On June 11, 1997, the Authority entered into a sale-leaseback transaction related to some of its existing light rail vehicles (US Lease). The terms of the US Lease arrangement are 14 years and provide an option for the Authority to repurchase the light rail vehicles at the end of the initial US Lease term in 2011. This transaction meets the requirements of a capital lease obligation. A deferred gain of \$3,737,955 is being amortized over the life of the US Lease arrangement. Restricted assets for capital lease obligation includes investments purchased by the Authority to meet future cash flow needs of the US Lease. As part of the US Lease arrangement, the Authority entered into a payment undertaking arrangement with a subsidiary of AIG Insurance Company (AIG), the purpose of which was to deposit funds with a subsidiary of AIG to meet future cash flow needs of the US Lease. Thus, the Authority has a receivable in the amount of \$56,469,327 and \$62,704,395 at June 30, 2009 and 2008, respectively, which is guaranteed by AIG. Additionally, the Authority has treasury securities in the amount of \$43,116,793 and \$40,706,963 at June 30, 2009 and 2008, respectively, which are restricted for US Lease payments. Interest-only payments began in fiscal year 2002 and interest and principal payments began in fiscal year 2005. Interest payable in conjunction with this US Lease is \$38,868,328 at June 30, 2009 and \$39,102,152 at June 30, 2008.

The US Lease documents require the Authority to replace AIG as the payment undertaker in the event that (a) the long-term unsecured debt obligations of AIG are not rated A- by Standard & Poor's or A3 by Moody's and (b) the Authority is directed to do so by an equity investor (First Hawaiian Corporation and EntreCap Financial). This replacement is required to occur within 60 days of receipt of the direction and would be at the sole cost of the Authority.

AIG's ratings are currently A- and A3 (November 18, 2009), which means that any further downgrade would require the Authority to replace AIG if requested by an equity investor.

In addition, the Authority also has another agreement related to the US Lease with Ambac Indemnity Corporation (Ambac). The documents require that the Authority replace Ambac in the event that (a) the long-term unsecured debt obligations of Ambac are not rated AA- by Standard & Poor's and Aa3 by Moody's and (b) the Authority is directed to do so by an equity investor. This replacement is required to

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occur within 60 days of receipt of the direction and would be at the sole cost of the Authority.

Ambac's ratings are currently CC and Caa3 (as of November 18, 2009). During the fourth quarter of 2008, the Authority was notified by both equity investors that given the decline in the credit rating of the equity strip provider (Ambac), and pursuant to the terms of the documents, the Authority was requested to replace the Equity Strip Agreement and provider in accordance with the documents. As the market value of the underlying investments exceeded the termination value of the lease, the Authority requested that the equity investors forebear the requested replacement of the equity strip provider since the Authority has continued to make payments under the lease and the equity investors do not have any current risk exposure. The equity investors have not further pursued their requests. As of November 18, 2009, the equity value of the underlying investments remains sufficient to pay the current termination value of the lease.

The following are the net minimum lease payments due under the above capital leases at June 30:

Year Ending	US Lease	
	Principal	Interest
2010	\$ 2,872,089	\$ 7,138,380
2011	41,348,503	38,246,013
2012	16,497,200	486,857
Minimum lease payments	<u>\$ 60,717,792</u>	<u>\$ 45,871,250</u>

### 13. SWAPTION

During fiscal year 2004, the Authority entered into a swaption contract that provided the Authority an up-front payment of \$10.1 million. As a synthetic refunding of its 2001 Bonds, this payment represents the present-value, risk-adjusted savings of a refunding as of March 1, 2011, without issuing refunding bonds at March 2004. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap on the first day of each March or September during the period commencing on, and including, March 1, 2011 and terminating on March 1, 2014.

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If the option is exercised, the Authority intends to current refund the existing 2001 Bonds as of the exercise date and issue Variable Rate Refunding Bonds (Refunding Bonds). The intention of the swap is to effectively change the Authority's variable interest rate on the Refunding Bonds to a synthetic fixed rate of 4.53%.

Per the swap agreement, the Authority would receive interest at the variable rate of 67% of 1 month LIBOR (London Interbank Offered Rate) while paying a fixed rate of 4.53%. The interest payments are calculated based on a notional amount of \$234,470,000, which reduces beginning on March 1, 2012 so that the notional amount approximates the principal outstanding on the Refunding Bonds. The swap would expire on March 1, 2029 consistent with the last principal payment on the Refunding Bonds.

If the option is exercised, the Authority would make net swap payments as required by the terms of the contract, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty.

The Authority recorded a long-term deferred credit of \$9.5 million until such a time as the option component of the swaption either expires or is exercised.

As of June 30, 2009 and 2008, the swaption had a fair value of (\$31,661,513) and (\$20,840,279), respectively. The mark to market value is calculated using a combination of the zero-coupon method and an option pricing model.

The Authority has the ability to early terminate the swaption and to cash settle the transaction on any business day by providing at least five business days written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount which is comprised of the market value of the terminated transaction based on market quotations and any amounts accrued under the contract.

In connection with this transaction, the Authority has issued a Subordinate Lien Special Revenue Transportation Note, Series of 2004 (2004 Note). The 2004 Note was issued for the purpose of evidencing and securing the Authority's uninsured payment obligations with respect to the interest rate swap. The amount due under this 2004 Note agreement is dependent on the swap, but at no time may exceed \$38,750,000. As of June 30, 2009 and 2008, this 2004 Note had not been drawn on and, as such, there was no balance outstanding.

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# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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Through the use of derivative instruments such as this swaption, the Authority is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, market-access risk, and basis risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. Although the underlying swap exposes the Authority to credit risk should the swap be executed, the swaption itself does not expose the Authority to credit risk. On June 30, 2009, the swaption counterparty is rated A2 by Moody's Investors Services, Inc. and A by Standard & Poor's, nationally recognized statistical rating organizations. If the option was exercised and the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swaption. Performance of the counterparty as it relates to this transaction is guaranteed by the counterparty's parent company. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade) the counterparty would be required to post collateral to support its obligations under the swap.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. If the option is exercised, the Authority could be exposed to interest rate risk if the long-term interest rates are less than 4.53%.
- Termination risk is the risk that a derivative's unscheduled end will affect the Authority's asset/liability strategy or will present the Authority with potentially significant unscheduled termination payments to the counterparty. The counterparty to the transaction does not have the ability to voluntarily terminate the swaption; however, the Authority is exposed to termination risk in the event that the counterparty defaults.
- Market-access risk is the risk that the Authority will not be able to enter credit markets or that credit will be more costly. If the option is exercised, the Authority would be subject to market-access risk in the event that they are unable to obtain variable rate financing or that the financing is more expensive than anticipated. To reduce this exposure, the Authority has obtained insurance from a third party, Financial Security Assurance (FSA), to cover payment of principal and interest on the Refunding Bonds if they are issued. The Authority is still exposed to market-access risk to the extent that the credit quality of the third party deteriorates.



# PORT AUTHORITY OF ALLEGHENY COUNTY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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- Basis risk is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes. If the option is exercised, the Authority would be subject to basis risk if the interest index on the variable rate arm of the swap is based on 1-month LIBOR and the variable interest rate on the Refunding Bonds is based on a different index, such as a tax-exempt index like Securities Industry and Financial Markets Association (SIFMA). Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the Authority's calculated payments and, as a result, cost savings or synthetic interest rates may not be realized.

In October of 2008, the counterparty served notice to the Authority of a required collateral call related to the swaption. This collateral call was subsequently rescinded by the counterparty. As of November 17, 2009, the fair value of the swap had is (\$35,700,710).

## Required Supplementary Information

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF FUNDING PROGRESS

### PENSION PLANS

YEAR ENDED JUNE 30, 2009

(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Liability Entry Age	(b-a) (Overfunded) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	(Overfunded)/Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
<b>ATU Plan:</b>						
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%
01/01/06	690,376	711,093	20,717	97.1%	128,006	16.2%
01/01/05	703,755	706,123	2,368	99.7%	128,433	01.8%
01/01/04	721,160	690,477	(30,683)	104.4%	125,550	-24.4%
01/01/03	721,999	672,207	(49,792)	107.4%	123,070	-40.5%
<b>IBEW Plan:</b>						
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%
01/01/06	20,293	21,012	719	96.6%	3,233	22.2%
01/01/05	20,235	20,183	(52)	100.3%	3,107	-1.7%
01/01/04	20,274	19,483	(791)	104.1%	3,091	-25.6%
01/01/03	20,539	19,154	(1,385)	107.2%	3,010	-46.0%
<b>NonRep Plan:</b>						
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%
01/01/06	65,570	96,734	31,164	67.8%	17,039	182.9%
01/01/05	65,904	94,345	28,441	69.9%	16,687	170.4%
01/01/04	66,038	89,304	23,266	73.9%	16,089	144.6%
01/01/03	60,062	84,401	24,339	71.2%	17,053	142.7%

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF FUNDING PROGRESS

### OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2009

(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Projected Unit Credit	(b-a) (Overfunded) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	(Overfunded)/Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
<b>ATU Plan:</b>						
1/1/07 (projected forward to 1/1/09)	\$ -	\$ 568,970	\$ 568,970	0.0%	\$ 129,386	439.7%
1/1/07 (projected forward to 1/1/08)	-	650,103	650,103	0.0%	129,386	502.5%
1/1/07	-	612,832	612,832	0.0%	129,386	473.6%
<b>IBEW Plan:</b>						
1/1/07 (projected forward to 1/1/09)	\$ -	\$ 17,813	\$ 17,813	0.0%	3,252	547.8%
1/1/07 (projected forward to 1/1/08)	-	16,903	16,903	0.0%	3,252	519.8%
1/1/07	-	15,442	15,442	0.0%	3,252	474.8%
<b>NonRep Plan:</b>						
1/1/07 (projected forward to 1/1/09)	\$ -	\$ 61,241	\$ 61,241	0.0%	17,481	350.3%
1/1/07 (projected forward to 1/1/08)	-	62,675	62,675	0.0%	17,481	358.5%
1/1/07	-	62,246	62,246	0.0%	17,481	356.1%

**Additional Information**

GRANTEE : Port Authority of Allegheny County

URBAN SUMMARY OF ACT 26 PTAF AND ACT 3 DEDICATED FUNDS

	Act 26			Act 3			
	PTAF	LOCAL SHARE		BSG	LOCAL SHARE	ASG	LOCAL SHARE
<b>BEGINNING BALANCE July 1, 2008</b>	\$ 9,279,525	\$ 319,984		\$ 35,546,378	\$ 1,225,737	\$ 84	\$ 3
PTAF Funds Received Fiscal Year 2008-09	54,515,823	1,774,565					
INTEREST INCOME	132,431	4,413		330,899	11,410	-	-
<b>SUBTOTAL</b>	63,927,779	2,098,962		35,877,277	1,237,147	84	3
<b>FUND EXPENDITURES</b>							
USED FOR OPERATING	3,694,557	-		(14,500,000)	(500,000)	84	3
USED FOR CAPITAL ASSISTANCE	12,458,829	429,615		17,369,726	598,956	-	-
USED FOR DEBT SERVICE	40,710,727	1,435,761		-	-	-	-
<b>FUND BALANCE June 30, 2009</b>	\$ 7,063,666	\$ 233,586		\$ 33,007,551	\$ 1,138,191	\$ -	\$ -

Schedule A-4 Transit Operating Assistance - FY 08-09

**Port Authority of Allegheny County**  
**ACT 44 Section 1513 Transit Operating Assistance**  
**FYE June 30, 2009**

	STATE	LOCAL SHARE
<b><u>Grant for fiscal year ended June 30, 2008</u></b>		
Section 1513 funds received for 2007-08	\$ 180,032,045	\$ 27,453,060
Interest income earned	(566,189)	-
Amount of Funds Available	179,465,856	27,453,060
Amount of Section 1513 used for operating	179,465,856	27,453,060
<b>Cumulative Section 1513 Funds available for 2008-09</b>	-	-
PTAF used for Operating-SEPTA, PAAC, BARTA, ATA	3,554,544	-
<b>Total Funds Used For Operating Assistance</b>	<b><u>\$ 183,020,400</u></b>	

	STATE	LOCAL SHARE
<b><u>Grant for fiscal year ended June 30, 2009</u></b>		
<b><u>Section 1513 funds available from prior years</u></b>	\$ -	
Section 1513 funds received for 2008-09	\$ 180,763,433	\$ 27,668,700
Interest income earned	-	-
Amount of Funds Available	180,763,433	27,668,700
Amount of Section 1513 used for operating	171,563,433	27,668,700
<b>Cumulative Section 1513 Funds available for 2009-10</b>	<b>9,200,000</b>	-
PTAF used for Operating	3,694,557	-
<b>Total Funds Used For Operating Assistance</b>	<b><u>\$ 175,257,990</u></b>	

<b><u>Grant for fiscal year ended June 30, 2010</u></b>		
<b><u>Section 1513 Funds available from prior years</u></b>	<b>\$ 9,200,000</b>	<b> </b>

**Note:**

1. Interest income earned line for June 30, 2008 represents an overpayment of Capital PTAF.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<b><u>DEPARTMENT OF TRANSPORTATION:</u></b>			
<b><u>FEDERAL TRANSIT ADMINISTRATION:</u></b>			
<b><u>Federal Transit - Capital Investment Grants:</u></b>			
Airport Busway-Wabash HOV	20.500	PA-03-0227	\$ 13,117
1995 Fixed Guideway	20.500	PA-03-0261	442,066
1998 Fixed Guideway	20.500	PA-03-0285	157,968
1999 Fixed Guideway	20.500	PA-03-0302	832,065
Section 5309 North Shore Connector	20.500	PA-03-0315	58,053,467
FY 2009 Fare Collection	20.500	PA-03-0396	246,854
FY06-08 Bus Procurement	20.500	PA-04-0038	3,069,000
2006 Fixed Guideway	20.500	PA-05-0066	127,878
2008 Fixed Guideway	20.500	PA-05-0069	7,546,104
Total CFDA 20.500			70,488,519
<b><u>Federal Transit - Formula Grants:</u></b>			
1999 Block Grant	20.507	PA-90-0380	29,112
1998/2004 Flex	20.507	PA-90-0359	28,843
2001 Block Grant	20.507	PA-90-0430	(2,661)
North Shore Flex	20.507	PA-90-0535	4,107,902
2005 Flex Grant	20.507	PA-90-0545	84,200
2006 Block Grant	20.507	PA-90-0569	1,139,223
2004 Block Grant	20.507	PA-90-0513	545,648
2008 Block Grant	20.507	PA-90-0661	19,860,735
2007 Block Grant	20.507	PA-90-0646	3,854,991
FY06 North Shore Flex	20.507	PA-90-0618	4,285,928
FY2007 North Shore Flex CMAQ	20.507	PA-90-0016	5,000,000
2009 Block Grant	20.507	PA-90-X686	2,864,186
Total CFDA 20.507			41,798,107
Public Transportation Research - Bus Rapid Transit	20.514	PA-26-7011	3,693
<b><u>Job Access - Reverse Commute:</u></b>			
Access to Jobs	20.516	PA-37-X025	1,771,439
Access to Jobs	20.516	PA-37-X034	69,771
New Freedom	20.516	PA-57-X005	268,950
Total CFDA 20.516			2,110,160
<b><u>Passed through the Southwestern Pennsylvania Corporation:</u></b>			
Federal Transit - Metropolitan Planning Grants - Technical Studies Grant	20.505	03-04	184,000
TOTAL FEDERAL TRANSIT ADMINISTRATION			114,584,479
<b><u>FEDERAL RAILROAD ADMINISTRATION:</u></b>			
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRR06	705
TOTAL DEPARTMENT OF TRANSPORTATION			114,585,184
<b><u>DEPARTMENT OF HOMELAND SECURITY:</u></b>			
<b><u>Passed through the Commonwealth of Pennsylvania:</u></b>			
Rail and Transit Security Grant Program	97.075	PEMA07	83,234
TOTAL FEDERAL AWARDS			\$ 114,668,418

See accompanying notes to schedule of expenditures of federal awards.



# **PORT AUTHORITY OF ALLEGHENY COUNTY**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2009

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### **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.

Negative amounts reported in individual grants represent transfers of eligible costs incurred in prior years to other federal grants in the current year.

**Port Authority of Allegheny County**

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

**Year Ended June 30, 2009**

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 the financial statements of the Port Authority of Allegheny County (Authority) as of and for the year ended June 30, 2009 and have issued our report thereon dated November 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 09-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

Board of Directors  
Port Authority of Allegheny County  
Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters

deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated November 18, 2009.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses, and, accordingly, we express no opinion on them.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Maher Duessel*

Pittsburgh, Pennsylvania  
November 18, 2009

Independent Auditor's Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control over Compliance in Accordance with  
OMB Circular A-133

Board of Directors  
Port Authority of Allegheny County

Compliance

We have audited the compliance of the Port Authority of Allegheny County (Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 requirements referred to above that could have a direct and material effect on its major federal programs occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Board Directors  
Port Authority of Allegheny County  
Independent Auditor's Report on Compliance with  
Requirements Applicable to Each Major Program

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maher Duessel*

Pittsburgh, Pennsylvania  
November 18, 2009

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

1. Summary of Auditor's Results:
  - i. The auditor's report on the financial statements was an unqualified opinion.
  - ii. There was a significant deficiency in internal control that was disclosed by the audit of the financial statements.
  - iii. The audit did not disclose noncompliance which was material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*.
  - iv. There were no significant deficiencies or material weaknesses in internal control over major federal programs that were disclosed by the audit.
  - v. The auditor's report on compliance of each of its major federal programs was an unqualified opinion.
  - vi. The audit did not disclose any audit findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.
  - vii. The major federal programs were: Federal Transit Cluster; Federal Transit - Capital Investment Grants CFDA #20.500; Federal Transit - Formula Grants CFDA #20.507
  - viii. The dollar threshold used to distinguish between type A and type B programs was \$3,000,000.
  - ix. The Port Authority of Allegheny County (Authority) did not qualify as a low-risk auditee.
2. Findings related to financial statements, which are required to be reported in accordance with GAGAS.

### **Finding 09-1: Financial Statement Preparation**

*Statement of Condition:* In 2008, we reported a finding related to 1) year-end closing entries necessary to consolidate the Authority's separate operating and capital trial balances and 2) additional material adjustments needed to present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In 2009, the Authority implemented procedures whereas the capital and operating trial balances were consolidated on a monthly basis for interim financial reporting purposes. Our 2009 audit indicated no deficiencies related to this consolidation; however, material adjustments needed to present the financial statements in accordance with GAAP did result from the audit. The entries primarily related to adjusting accounts receivable, accounts payable, and deferred revenue balances.

# PORT AUTHORITY OF ALLEGHENY COUNTY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

*Criteria:* Reliance on auditors to ensure comprehensive financial reporting is considered to be a significant deficiency.

*Cause:* The Authority's current internal control structure does not provide for reconciliations of accounts receivable, accounts payable, and deferred revenue balances on the capital trial balance, resulting in material adjustments identified through the year-end audit process.

*Effect:* The Authority risks reliance on book balances that likely contain errors that are only detected through the year-end audit process.

*Recommendation:* We commend the Authority for the significant improvements made to its financial reporting process during 2009. In order to further improve this process, we recommend that the Authority implement procedures that provide for monthly reconciliations of the accounts receivable, accounts payable, and deferred revenue balances on the capital trial balance.

*Views of Responsible Officials:* During 2008, the Authority committed the resources to prepare its own consolidated financial statements on a monthly basis. The accounting process was reengineered to meet practices prescribed by GAAP and resulted in greater efficiencies and improved recordkeeping.

To enhance the review and reconciliation procedures that are part of the process, the Authority developed a diagnostic reporting tool that analyzes the trial balances for each grant, immediately identifies unusual items and prompts the grants accountant to investigate. This reporting tool helps the staff to complete the reconciliations on a timely basis. The diagnostic report became fully functional in September 2009.



# PORT AUTHORITY OF ALLEGHENY COUNTY

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Prior Year Audit Findings:

### **Finding 08-1: Financial Statement Preparation**

*Statement of Condition:* The Port Authority of Allegheny County (Authority) currently maintains two separate trial balances (capital and operating) that are consolidated for financial reporting purposes. The capital component is maintained to facilitate grant reporting and the Authority's year-end closing process results in conversion entries necessary to reflect accounting practices prescribed by accounting principles generally accepted in the United States of America (GAAP). During the 2007 audit, we identified additional material adjustments needed to present the financial statements in accordance with GAAP. The adjustments were primarily related to recording current and prior year debt transactions and to correct unreconciled differences on the capital trial balance.

*Status:* Although significant progress regarding financial statement preparation was made during 2009, the condition continues to exist. See Finding 09-1.

### **Finding 08-2: Cash Management**

*Program:* U.S. Department of Transportation - Federal Transit Cluster; Federal Transit - Capital Investment Grants CFDA #20.500; Federal Transit - Formula Grants CFDA #20.507

*Questioned Costs:* \$0

*Statement of Condition:* The Federal Transit Administration provides grant funding to the Authority on a reimbursement basis. During the year, the Authority drew federal funds amounting to approximately \$660,000 in excess of expenses incurred. The overdraw was only discovered as part of the audit.

*Status:* The overdrawn funds were returned to the FTA in December 2008. Procedures have been implemented to ensure that overdraws do not occur. The finding has been removed for 2009.