Port Authority of Allegheny County

Single Audit

June 30, 2011

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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

PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2011

DIRECTORY

Financial Statements:

Independent Auditor's Report	
Management's Discussion and Analysis	i
Financial Statements	1
Required Supplementary Information	25
Supplementary Information	27

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

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*	33
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on its Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	35
Schedule of Findings and Questioned Costs	37
Summary Schedule of Prior Audit Findings	38

Port Authority of Allegheny County

Financial Statements
and Required Supplementary
and Supplementary Information

Years Ended June 30, 2011 and 2010 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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

PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2011 AND 2010

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis i

Financial Statements:

Statements of Net Assets 1

Statements of Revenues, Expenses, and Changes in Net Assets 2

Statements of Cash Flows 3

Notes to Financial Statements 4

Required Supplementary Information:

Schedule of Funding Progress – Pension Plans 25

Schedule of Funding Progress – Other Post-Employment Benefit Plans 26

Supplementary Information:

Schedules Required by the Commonwealth of Pennsylvania Department of Transportation:

Schedule S1 – Local Match Provided (FY 10/11) 27

Schedule S2 – Local Match Carryover (FY 10/11) 28

Schedule S3 – Urban PTAF/BSG/ASG Carryover (FY 10/11) 29

Schedule S5 – Urban Section 1513 Program Carryover (FY 10/11) 30

Schedule of Expenditures of Federal Awards 31

Notes to Schedule of Expenditures of Federal Awards 32

MaherDuessel
Certified Public Accountants

Pittsburgh
Three Gateway Center
Six West
Pittsburgh, PA 15222
Main 412.471.5500
Fax 412.471.5508

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

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

Independent Auditor's Report

Board of Directors
Port Authority of Allegheny County

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, 2011 and 2010 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, 2011 and 2010, 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 23, 2011 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i through xi and the pension and OPEB information on pages 25 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The schedules required by the Commonwealth of Pennsylvania Department of Transportation are presented for purposes of additional analysis and are not a required part of the financial statements. 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 also not a required part of the financial statements. The schedules required by the Commonwealth of Pennsylvania Department of Transportation and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
November 23, 2011

Port Authority of Allegheny County
Management's Discussion and Analysis (MD&A)

The following MD&A 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 the Port Authority for the fiscal year ended June 30, 2011 with comparative financial information for the fiscal year ended June 30, 2010. This section is designed to highlight significant financial issues and activities of the Port Authority. The following analysis should be used in conjunction with the attached financial statements:

Highlights

- The Port Authority experienced a 19% decrease in State (Act 44) operating subsidy, which accounts for over 50% of the Port Authority's revenues. A planned use of reserves in the Port Authority's initial operating budget and a 35% service reduction to balance the budget were averted when $45 million in one-time Federal Flex funding was made available by Governor Rendell. In order to provide the opportunity for further discussions at the State on transportation funding, the Port Authority's Board of Directors extended Flex funding use over two years - fiscal year 2011 and fiscal year 2012. In doing so, the Port Authority used $33.5 million of Flex funding in fiscal year 2011, implemented service reductions of 15%, and eliminated 260 positions on March 27, 2011. Failure of the State to enact adequate funding for transportation in fiscal year 2012 is expected to result in additional service reductions and fare increases in fiscal year 2013.

- Act 44 State Operating Assistance decreased by $34.2 million in fiscal year 2011. With the State's failure to receive approval for the tolling of Interstate 80, State assistance declined by $27.4 million. Additionally, reduced statewide Sales and Use Tax revenues resulted in an additional $6.8 million decrease in revenue. As a consequence, Act 44 dollars available to support fiscal year 2011 operating expenses fell to $150.2 million from $184.4 million, a 19% drop over fiscal year 2010. Allegheny County subsidies remained unchanged.

- In February 2011, the Port Authority's Refunding Series of 2011 bonds were issued to refund the Series of 2001 bonds and to raise sufficient monies in a low-interest rate market to pay the termination fee on a 2004 Swaption contract with Bank of America Merrill Lynch due March 1, 2011. Termination of the derivative eliminated an estimated $7.5 million added interest rate risk in fiscal year 2012, as well as increased interest payments through 2029.

- Expenses before Capital Related and Other Items exceeded revenue in fiscal year 2011 by $32.7 million, primarily due to the recognition of Other Post-Employment Benefits (OPEB) expenses in accordance with Governmental Accounting Standards Board Statement No. 45. In fiscal year 2011, the Port Authority recognized $32.6 million in OPEB expenses, down slightly from fiscal year 2010 OPEB expenses of $33.8 million. Adjusting for the effect of this non-cash liability, which to date is not required to be funded by a governmental entity, the Port Authority's net Revenues over Expenses before Capital Related and Other Items was $76,330.

- OPEB expense remains a significant obligation of the Port Authority and a key focus of management's efforts to reduce the Port Authority's long-term obligations. Contract concessions on OPEB were achieved in the last ATU #85 negotiations, providing annual savings of approximately $22 million and a reduced actuarial liability of $109 million. Post-retirement healthcare for non-represented employees and police, 10% of the workforce, has been eliminated.

Efforts to control growth in retirement benefits are a primary focus of ATU #85 union negotiations at the expiration of the current contract on June 30, 2012.

- Pension expense in fiscal year 2011 increased by $13 million over fiscal year 2010. Increased funding obligations to address Plan losses resulting from the 2008 economic downturn will affect the Port Authority's obligation over the next few years. However, the Port Authority has begun to cap its pension liabilities with the implementation of a defined contribution plan for all new hires in the non-represented, IBEW, and police workforce. Implementing a similar provision in the ATU #85 labor contract is a focus of the upcoming labor negotiations at the expiration of the contract on June 30, 2012.

- The Port Authority has completed its extensive system-wide Transit Development Plan (TDP) to provide more consistent, streamlined service with improved productivity by better matching service with passenger demand. Service efficiency has improved by over 20%, active bus and rail stops have been reduced by half, the average number of riders per vehicle trip has increased by over 15%, and, on average, each current route in the system has 60% more trips than it did four years ago. Despite reductions in service hours due to financial position, the Port Authority has retained over 92% of its riders.

- The North Shore connector project, a 1.2 mile extension of the light-rail system from the Gateway Center Station, under the Allegheny River to the North Shore, will be completed and operational by March 2012. The connector will serve PNC Park, Heinz Field, Carnegie Science Center, Community College of Allegheny County, North Shore Park, the Rivers Casino, and various other North Shore developments. The project will also connect North Shore fringe parking with the downtown "Golden Triangle" central business district and facilitate potential future extensions into the North Side and Ohio Valley/Airport areas.

- The Port Authority's Automated Fare Collection System (AFCS) will begin a measured rollout in March 2012, with full implementation underway by January 2013. The new Smartcard system is designed to simplify the customer's fare-paying experience and provide the Port Authority with enhanced ridership information, reduced fare avoidance, and increased 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 the Port Authority's continuing operations.

Operating Expenses are subtracted from Operating Revenues in order to determine an Operating Gain or Loss. Non-Operating Revenues that are defined as significant recurring federal 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 the Port Authority's operations, non-capital financing, capital and related financing activities, and investing activities. These statements incorporate a direct approach by adding fiscal year 2011 changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2010 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. An increases or decrease in the Port Authority's net assets is one indicator of whether its financial health has improved or deteriorated over a period of time. Other less tangible factors, such as the age of the revenue vehicle fleet, new service initiatives, health of the local economy, labor union contractual issues, significant capital projects and the level of inter-governmental financial support all combine to influence the current and future financial health of the organization.

Public transit service is provided with the assistance of Federal, State, and County operating subsidies and grants, which are categorized as non-operating revenues on the *Statements of Revenues, Expenses, and Changes in Net 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 Related and Other Related Items on the *Statement of Revenues, Expenses, and Changes in Net Assets*.

In compliance with GASB 45 regulations, the Port Authority expensed an annual required contribution (ARC) on the operating statement for Other Post-Employment Benefits (OPEB). The ARC represents the amount of funds needed to cover the pay-as-you-go costs and the unfunded future years' obligation spread over 30 years. For the fiscal year 2011, the Port Authority expensed $32.6 million for its OPEB obligation, which is net of the current year contributions. Fiscal year 2010 OPEB expense was slightly higher at $33.8 million. To date, the Port Authority and other governmental entities are not required to make cash contributions to fund this liability.

In fiscal year 2011, the Port Authority completed the fiscal year with net operating expenses exceeding revenues before capital related items by $32.7 million. Once capital items are accounted for, the change in net assets is $11.4 million.

The Port Authority as Trustee

The Port Authority is a trustee of the Port Authority of Allegheny County Retirement and Disability Allowance Plan for Employees Represented by Local 29 of the International Brotherhood of Electrical Workers and the Port Authority of Allegheny County Retirement and Disability Allowance Plan for Employees Not Represented by a Union. In addition, the Port Authority serves as a joint trustee, 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.

Statements of Net Assets

The Port Authority's Total Assets in fiscal year 2011 decreased by $70.8 million from the prior year from $1.76 billion in fiscal year 2010 to $1.69 billion in fiscal year 2011. Total Current Assets decreased by $64.7 million or 34% from $192.8 million in fiscal year 2010 to $128 million in fiscal year 201. Total Non-current Assets during the same period decreased by $6.1 million. Below are explanations of significant changes in various current and non-current asset classifications.

Current Assets

Cash and cash equivalents: The Port Authority's ending cash and cash equivalents balance was $49.8 million, an increase of $5.1 million or 12% over the prior year. The Port Authority implemented a fare increase on January 1, 2011 and reduced expenditures through a 15% service cut and associated workforce reductions in March 2011.

Capital grant receivables: Capital grants receivable decreased by $8.4 million from $38.5 million in fiscal year 2010 to $30.1 million in fiscal year 2011. This decrease is due principally to timely receipt of State capital grant support.

Other receivables: Other receivables increased by $2.9 million from $11.7 million in fiscal year 2010 to $14.6 million in fiscal year 2011, as a result of timing issues.

Restricted assets for capital lease obligation: Restricted assets for capital lease obligation account decreased by $61 million from fiscal year 2010 due to the Port Authority's decision to exercise its option to repurchase the Equity Investors' interest in the capital lease for light rail vehicles, and thus terminate the transactions. The first purchase price payments were made on January 2, 2011 and will be completed on December 15, 2011. The Port Authority holds Treasury bonds sufficient to make the remaining payments.

Net pension asset: Net pension asset decrease of $3.8 million in fiscal year 2011 is a result of calendar year versus fiscal year payment of obligations. Fiscal year 2011 pension payments were reduced as a result of over-payments made in the prior fiscal year.

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. As a result of the March 2011 service reductions, the Port Authority closed its Harmar Garage, dividing operations among the remaining four garages. In total, non-current assets in fiscal year 2011 decreased by $6.1 million compared to fiscal year 2010.

Restricted assets for capital lease obligation: Restricted assets for capital lease obligations were reclassified as current assets, as the Port Authority's U.S. capital leases will terminate in December 2011.

Assets had been restricted for payment of principal and interest on a sale-lease back transaction for light rail vehicles that the Port Authority entered into June 1997.

Restricted assets for capital additions and related debt: In fiscal year 2011, restricted assets for capital additions and related debt decreased $4.3 million over fiscal year 2010. With the issuance of the Refunding Series of 2011 bonds, the Port Authority liquidated the debt service reserve fund required on the Refunding Series of 2001bonds, using the proceeds toward the termination price of the 2004 Swaption contract on the Series of 2001 bonds.

Capital assets, net of accumulated depreciation: An increase of $13.8 million in capital assets, net of accumulated depreciation, was largely the result of a $106 million increase in work in process due to continued work on the North Shore Project.

Current Liabilities

In fiscal year 2011, total current liabilities decreased by $57.9 million over fiscal year 2010 levels due in large part to the Port Authority's decision to exercise its option to terminate the capital leases for light rail vehicles. Current liabilities include accounts payable; accrued compensation, benefits, and withholdings; deferred credits; reserves for claims and settlements; current portion of capital lease obligation; current portion of bonds payable; and other short-term liabilities.

Non-Current Liabilities

The Port Authority's non-current liabilities include long-term debt obligations, reserves for claims and settlement, certain derivative instruments, and accrued OPEB liability. Non-current liabilities decreased by $24.4 million in fiscal year 2011, due primarily to the termination of the 2004 Swaption contract entered into in connection with the Series of 2001 bonds and separately to the reclassification of the capital lease obligation from a non-current liability to a current liability. Termination of the 2004 swap contract derivative eliminated an estimated $7.5 million added interest rate risk in fiscal year 2012 as well as increased interest payments through 2029. At year-end fiscal year 2011, net bonds payable totaled $278.8 million.

Outstanding Long-Term Debt at Year End (in millions)

	2011	2010
Series of 2011 Bonds	$ 243.48	$ 229.80
Koch Bus Financing	38.33	52.65
(Discounts) & Premiums	10.93	0.26
Deferred Amount of Refunding	(13.96)	(10.51)
Total	**$ 278.78**	**$ 272.20**

OPEB liability rose by $32.6 million for fiscal year 2011, as the actuarially determined annual OPEB cost exceeded the Port Authority's pay-as-you-go contribution.

Total liabilities declined by $82.2 million in fiscal year 2011 over fiscal year 2010 from $671.6 million to $589.4 million, principally as the capital leases and other debt obligations decline.

Net Assets

The Port Authority continues to invest in capital assets. Net of related debt, fiscal year 2011 capital assets increased $29.7 million. Total Net Assets increased to $1.104 billion from $1.092 billion in fiscal year 2010.

Financial Comparison: Fiscal Year 2011 over Fiscal Year 2010

The following discussion measures the financial performance of the Port Authority by comparing the actual revenue, expenditure, and changes in net assets. This section comments on revenue and expense categories that exhibited significant dollar variances between fiscal year 2011 and fiscal year 2010.

Revenues

Notwithstanding service reductions in March 2011, operating revenues increased by $5.9 million in fiscal year 2011, largely as a result of a January 2011 fare increase. Including passenger revenue, ACCESS program services, and other income, operating revenues comprised 27.1% of the total revenues supporting the fiscal year 2011 budget. Efficiencies in operations were achieved with the completion of the system-wide Transit Development Plan (TDP) providing a more consistent, streamlined service with improved productivity matching service with passenger demand.

Fiscal year 2011 non-operating revenues were significantly reduced when Act 44 State Operating Assistance was cut by $34.2 million. First, the State's I-80 tolling proposal was rejected by the federal government, resulting in a $27.3 million reduction in Act 44 revenue for the Port Authority in fiscal year 2011. Second, falling Sales and Use Tax revenues further reduced Act 44 state assistance by $6.84 million. Generally, 54% of the Port Authority's operating budget is comprised of approximately Act 44 State Operating Assistance, with Allegheny County's local match making up approximately 8%. Overall, this reduction significantly affected the fiscal year 2011 operating budget and led ultimately to a 15% reduction in service in March 2011.

Fare increases effective January 2011 are largely responsible for $5.6 million increase in passenger revenue over fiscal year 2010. The largest increase was in ticket sales, which increased by $2.6 million over fiscal year 2010 sales. Sales of weekly permits increased over fiscal year 2010 by $1.4 million. Contract service revenue increased by $808,215 under agreements with the University of Pittsburgh, Carnegie Mellon University, and Chatham University.

As indicated in the *Port Authority Ridership Statistics* below, total ridership in fiscal year 2011 decreased by 3.6% from fiscal year 2010 levels.

Port Authority Ridership Statistics

	2011	**2010**	**Percent + / (-)**
Bus, Light Rail & Incline	47,179,095	49,395,535	-4.5%
Contract Services	7,423,470	7,068,430	5.0%
Senior Citizens	5,325,842	5,818,655	-8.5%
ACCESS	1,722,354	1,651,372	4.3%
Free Ridership	1,692,126	1,752,589	-3.4%
Total	**63,342,887**	**65,686,581**	**-3.6%**

Fare revenues on bus, light rail, and the incline, as well as through University contracts, increased slightly at 2.2% and 5.1%, respectively. Ticket sales and weekly permit sales saw the greatest increase. Contract service revenue increased by $1.1 million due to contractual increases with the University of Pittsburgh, Carnegie Mellon University, and the addition of Chatham University.

The Port Authority contracts with Veolia Transportation Services Inc., a privately-owned transportation company, for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth of Pennsylvania reimburses the Port Authority for a portion of the costs incurred in providing this program. ACCESS Shared Ride revenues increased by $126,352 over fiscal year 2010 levels due to a slight increase in Shared Ride trips, which are reimbursed by the Commonwealth of Pennsylvania. ACCESS Program Service expense increased by $1.75 million from fiscal year 2010 due to an increase in ADA (American with Disabilities Act) rides, which are not subsidized by the Port Authority. In addition, ACCESS was confronted by increasing fuel costs that impacted its expense levels in fiscal year 2011.

Expenses

Despite significant increases in healthcare costs and pension obligations, the Port Authority's total fiscal year 2011 operating expenses, net of capitalizations (reimbursements for capital expenses), increased less than one tenth of one percent or $20,386 over fiscal year 2010 as the result of 4th Quarter service cuts and personnel reductions. Fiscal year 2011 medical premiums increased by 6% and pension funding requirements rose by $13 million due to 2008 asset losses with the global economic downturn. Non-cash OPEB expense has remained essentially the same in fiscal year 2011.

Even with contractual wage increases in fiscal year 2011, wages and salaries decreased two tenths of one percent or $286,003 from fiscal year 2010 levels. Employee benefits fell 3.2% or $4 million over fiscal year 2010. The total workforce was reduced by 261 personnel or 9.5% in the 4th Quarter.

A number of operating expense categories had increases in fiscal year 2011 - materials and supplies, ACCESS program services, and provision for injuries and damages; while utilities, purchased services, and other expenses fell below fiscal year 2010 levels.

Materials and supplies increased by $3.8 million or 9% due largely to significant increases in the price of diesel fuel.

ACCESS program service expenses for fiscal year 2011 were up over fiscal year 2010 by $1.75 million or 7.3% due largely to fuel prices and increased ridership in part due to the Port Authority's service cuts.

Swings in Provision for Injuries and Damages between fiscal year 2010 and fiscal year 2011 are a result in changes in reserve estimates. While no significant change occurred in the number of open liability claims, the Port Authority increased significantly its reserve estimates for workers' compensation indemnity payments and litigated settlements.

Fiscal year 2011 utility costs, covering largely propulsion power, electricity, and natural gas, remained relatively flat at $8.4 million. Purchased services expense decreased by 4.2% or $320,379. Cost controls in fiscal year 2011 kept other expenses below budget and under fiscal year 2010 spending.

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 in fiscal year 2011 fell slightly by 1.3% or $180,906.

Non-Operating Revenues

Non-operating revenues in fiscal year 2011 increased by $3.2 million or 1.3% from fiscal year 2010 and did so despite the $34.2 million decrease in State Operating Assistance to the operating budget. The funding shortfall was offset by $45 million in Federal Flex funding received from Governor Rendell in the 3rd Quarter. The Port Authority used $33.5 million in Federal Flex funding in fiscal year 2011, reserving the balance for fiscal year 2012.

Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provides Act 44 subsidy for operating, which in fiscal year 2011 was reduced 19% from $184.5 million in fiscal year 2010 to $150.2 million in fiscal year 2011. The operating subsidies from Allegheny County for fiscal year 2011 were unchanged from fiscal year 2010, with the County contributing the required 15% local match or $27.7 million.

Section 5307 funding is used in preventive maintenance support to offset the cost of salaries and wages associated with operating expenses incurred in the inspection, maintenance, and servicing of revenue vehicles. In fiscal year 2011, the Port Authority used a total of $38.1 million for preventive maintenance, drawing $33.5 million of the $45 million in emergency Federal Flex dollars.

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 of Pennsylvania each fiscal year to be divided between these two programs.

The fiscal year 2011 Capital Cost of Contracting increase over fiscal year 2010 reflects the late payment of fiscal year 2010 federal capital dollars. These funds are used to offset up to 50% of the total program costs incurred for the ACCESS program.

Interest income as a result of lower interest rates on cash investments was $32,942 in fiscal year 2010 and $9,641 in fiscal year 2011. Interest expense on the Port Authority's line of credit was $122,997 in fiscal year 2010 and $242,572 in fiscal year 2011. In fiscal year 2011, the Port Authority used its line of credit in the amount of $20 million for cash flow purposes for limited periods when needed, which accounts for the interest expense.

Conditions Affecting Future Financial Position

Public transportation in the Greater Pittsburgh Region is robust and well utilized, providing important access to the region's key economic centers - Downtown Pittsburgh and Oakland. Like many transit agencies across the country, the Port Authority's ability to maintain current service levels is at risk without increased state and federal support. Although service and fare levels will remain stable through June 2012, the future is uncertain. The Port Authority must have sufficient, reliable, and dedicated federal, state, and local funding that grows with inflation in order to support operations and invest in transit capital infrastructure maintenance.

In light of this, Governor Corbett appointed a "Transportation Funding Advisory Commission" (TFAC) to study statewide transportation needs and recommend a means of raising necessary funds. The

Commission's final report recommends raising $2.7 billion in new funds for transportation by the fifth year of the program, including approximately $400 million in new funding for public transportation. The Port Authority continues to work with the Governor's Office, the Pennsylvania Department of Transportation, the State legislature, and statewide advocacy groups in support of a strong and reliable funding package.

Apart from the identification of additional funding sources, the Port Authority is also seeking changes in the legislative language associated with the distribution of these funds (and supported by other transit agencies through the Pennsylvania Public Transportation Association. This is necessary to assure that the Port Authority (and similarly situated agencies) sees some level of annual funding increase from State Operating Assistance, with overall growth in the program. Specifically, the following changes are sought: (1) a change in the method of calculating base year allocations from a fixed base year to a rolling base year approach; (2) a change in the method for distributing capital funds to a historic method that recognizes the intense capital infrastructure in the possession of the Port Authority and SEPTA; (3) concentration of the majority of new State dollars in the capital (asset improvement) program; and (4) formalization of the State's waiver process to allow operating dollars to be applied toward capital expenses, and vice versa, upon approval of the Pennsylvania Department of Transportation.

The Port Authority continues to review operations and make improvements to achieve a more efficient and effective delivery of service throughout the region. With the completion of the Transit Development Plan (TDP), service efficiency has improved by over 20%. Active bus and rail stops have been reduced by half, the average number of riders per vehicle trip has increased by over 15%, and, on average, each current route in the system has 60% more trips than it did four years ago. As with any service change of this magnitude, the Port Authority anticipated short-term ridership loss as customers adjusted travel patterns. In the most recent quarter, evidence has begun to accumulate suggesting that this adjustment period is at its end, and the positive ridership impacts associated with the service plan will begin (adjusted, of course, for any future fare increases and service reductions).

Cost reduction initiatives over the last five years include a reduction in administrative staff/management by 20%, the elimination of post-retirement healthcare for members of the non-represented and police workforce, increased healthcare cost sharing across all employee groups, increased operating income by $16 million, and renegotiated University pass programs to double annual income.

The Port Authority is implementing the Automated Fare Collection System (AFCS) to improve fare collection by reducing fare avoidance currently associated with the "flash pass" system. A new Smartcard fare box system will replace the current system, which, in addition to providing a more reliable collection system, will provide more reliable ridership information key to continued service improvements. Based on national experience, the Port Authority also anticipates revenue growth of 5-10% (independent of ridership/fare levels) after full deployment of the Smartcard/automated fare collection system.

Pension and other post-employment benefits (OPEB) based on existing contractual commitments continue to affect adversely the Port Authority's expense obligations despite steps to reduce these long-term liabilities. Pension expense in fiscal year 2011 increased by $13 million over fiscal year 2010. Increased funding obligations to address Plan losses resulting from the 2008 economic downturn will affect the Port Authority's obligation over the next few years. However, the Port Authority has begun to cap its pension liabilities with the implementation of a defined contribution plan for all new hires in the non-represented, IBEW, and police workforce. Implementing a similar provision in the ATU #85 labor contract is a focus of the upcoming labor negotiations at the expiration of the contract on June 30, 2012.

The Port Authority has been a responsible fiduciary of its pension plan assets. At January 1, 2008, its two largest Plans, ATU and IBEW, representing 72% of its long-term pension obligations, were funded at 97.3% and 98.3% levels, respectively. The Non-Represented Plan was at 67.5% funding. As with every pension plan throughout the country, the financial crisis of 2008 resulted in Plan losses. Plan assets at the January 1, 2010 declined to 87.2% for the ATU Plan, 86.0% for the IBEW Plan, and 61.8% for the Non-Represented Plan. With market improvements since 2010, the Plans are realizing improved returns. Improvements in market returns will begin to reduce the liability in the future.

Reducing the Port Authority's long-term OPEB obligation has been a key focus of management. Contract concessions on OPEB were achieved in the last ATU negotiations, providing annual savings of approximately $22 million and a reduction in the actuarial liability of $109 million. Retiree healthcare has been eliminated for non-represented and police, further reducing the Port Authority's long-term liabilities. Further efforts to reduce OPEB liabilities are planned through collective bargaining. The current contract with ATU #85 expires on June 30, 2012.

In February 2011, the Port Authority's Refunding Series of 2011 bonds were issued to capture lower interest rates and raise sufficient monies to pay the termination fee on the 2004 Swaption contract with Bank of America Merrill Lynch due by March 1, 2011. The final bond principal amount as issued was $252.8 million with an average coupon of 5.297% and having the same maturities as the Series of 2001 bonds.

The Port Authority continues to keep its infrastructure in a state of good repair and its North Shore Connector Project on time and under budget. This 1.2 mile extension represents the most significant transit construction work in downtown Pittsburgh since the early 1980s when the Port Authority built Stage I of the existing subway system. Revenue service is scheduled to begin March 2012.

The Port Authority expects to meet its current financial obligations. The Port Authority has reserves of approximately $40 million and a line of credit for working capital in the amount of $25 million for fiscal year 2012. Long-term financial stability will require additional state and federal funding in order to maintain service at current levels and avoid further fare increases.

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 the Port Authority's Light Rail Transit System, of which the centerpiece is a tunnel underneath the Allegheny River.

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

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

Ridership – Number of customers using the Port Authority's 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, 2011 AND 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	$ 49,845,281	$ 44,692,263
Capital grants receivable	30,112,157	38,456,235
Other receivables	14,591,862	11,668,117
Prepaid expenses	334,614	338,961
Materials and supplies	9,901,537	9,516,913
Restricted assets for capital lease obligation	16,993,595	78,020,511
Net pension asset	6,266,247	10,098,104
Total current assets	128,045,293	192,791,104
Non-current assets:		
Restricted assets for capital lease obligation	-	16,497,200
Restricted assets for capital additions and related debt	33,688,360	37,971,154
Other non-current assets	1,673,828	805,342
Capital assets, net of accumulated depreciation	1,530,191,765	1,516,406,640
Total non-current assets	1,565,553,953	1,571,680,336
Total Assets	$ 1,693,599,246	$ 1,764,471,440
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 36,194,699	$ 34,821,949
Accrued compensation, benefits, and withholdings	15,239,322	14,306,058
Deferred credits	30,707,964	33,606,406
Reserves for claims and settlements	10,483,895	8,621,786
Current portion of capital lease obligation	16,993,595	78,020,511
Current portion of bonds payable	23,684,175	21,160,762
Other current liabilities	5,174,697	5,796,836
Total current liabilities	138,478,347	196,334,308
Non-current liabilities:		
Capital lease obligation	-	16,497,200
Bonds payable, net	278,781,541	272,172,707
Borrowing payable - swaption	-	9,138,841
Reserves for claims and settlements	5,464,310	5,557,659
Accrued OPEB liability	166,686,131	134,109,497
Embedded derivative instrument	-	37,837,892
Total non-current liabilities	450,931,982	475,313,796
Total Liabilities	589,410,329	671,648,104
Net Assets:		
Invested in capital assets, net of related debt	1,290,773,781	1,261,044,325
Unrestricted net assets	(186,584,864)	(168,220,989)
Total Net Assets	1,104,188,917	1,092,823,336
Total Liabilities and Net Assets	$ 1,693,599,246	$ 1,764,471,440

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues:		
Passenger revenues:		
Bus, trolley, and light rail	$ 84,576,153	$ 78,971,332
ACCESS program services	11,937,190	11,810,838
Other income	2,575,252	2,438,020
Total operating revenues	99,088,595	93,220,190
Operating Expenses:		
Wages and salaries	143,381,653	143,667,656
Employee benefits	122,127,487	126,165,500
OPEB expense, net	32,576,634	33,789,120
Materials and supplies	45,242,095	41,450,883
ACCESS program services	25,711,155	23,955,544
Provision for injuries and damages	5,005,365	608,338
Utilities	8,423,218	8,411,657
Purchased services	7,307,346	7,627,725
Other expenses	7,836,597	12,095,647
	397,611,550	397,772,070
Less amounts capitalized	(13,601,732)	(13,977,983)
Total operating expenses	384,009,818	383,794,087
Operating Loss	(284,921,223)	(290,573,897)
Non-Operating Revenues (Expenses):		
Subsidies:		
County	27,668,699	27,668,700
State - Act 44	150,221,302	184,457,990
Vehicle improvement program	3,500,000	2,500,000
Preventive maintenance	38,123,770	7,050,000
Safety renewal program	15,000,000	16,000,000
Capital cost of contracting	17,944,734	11,419,767
Interest expense	(232,931)	(90,055)
Total non-operating revenues (expenses)	252,225,574	249,006,402
Net Revenues Over Expenses Before Capital Related and Other Items	(32,695,649)	(41,567,495)
Capital grant contribution and other revenue	157,647,198	177,212,401
Interest income	5,728,020	8,054,295
Interest expense	(19,675,078)	(24,151,897)
Investment gain (loss) on embedded derivative instrument	7,837,451	(14,963,726)
Depreciation expense	(107,476,361)	(109,604,247)
Change in Net Assets	11,365,581	(5,020,669)
Total net assets - beginning	1,092,823,336	1,097,844,005
Total net assets - ending	$ 1,104,188,917	$ 1,092,823,336

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Receipts from customers	$ 100,758,126	$ 96,670,864
Payments for goods and services	(84,988,733)	(81,455,174)
Payments to employees	(260,744,019)	(279,872,732)
Net cash provided by (used in) operating activities	(244,974,626)	(264,657,042)
Cash Flows From Non-Capital Financing Activities:		
Draws on revolving credit loan	20,000,000	20,000,000
Payments on revolving credit loan	(20,000,000)	(20,000,000)
Interest paid on revolving credit loan	(242,572)	(122,997)
Operating subsidies	248,006,870	239,158,296
Net cash provided by (used in) non-capital financing activities	247,764,298	239,035,299
Cash Flows From Capital and Related Financing Activities:		
Capital grants received	162,951,193	150,663,149
Investments in transit operating property	(120,032,792)	(128,021,305)
Proceeds from refunding bonds	263,153,549	-
Bond issuance costs	(1,705,412)	-
Refunded bonds	(229,780,000)	-
Redemption premium	(2,297,800)	-
Swap termination fee	(39,384,000)	-
Payments on bonds	(21,160,763)	(20,063,885)
Interest paid	(19,158,512)	(25,976,835)
Capital lease payments	(77,524,116)	(3,010,527)
Net cash provided by (used in) capital and related financing activities	(84,938,653)	(26,409,403)
Cash Flows From Investing Activities:		
Proceeds from sale of restricted investments	81,806,910	18,213,132
Interest and dividends on investments	5,495,089	3,145,176
Net cash provided by (used in) investing activities	87,301,999	21,358,308
Net Increase (Decrease) in Cash and Cash Equivalents	5,153,018	(30,672,838)
Cash and Cash Equivalents:		
Beginning of year	44,692,263	75,365,101
End of year	$ 49,845,281	$ 44,692,263
Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided by (Used in) Operating Activities:		
Operating loss and depreciation expense	$ (392,397,584)	$ (400,178,144)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	107,476,361	109,604,247
Change in assets and liabilities:		
Other receivables	1,669,531	3,450,674
Materials and supplies	(384,624)	(731,818)
Prepaid expenses and other current assets	4,347	(72,280)
Other non-current assets	-	43,136
Accounts payable	140,002	1,195,972
Accrued compensation, benefits, and withholdings	933,264	(2,545,534)
Reserves for claims and settlements	1,768,760	(1,504,468)
Accrued pension liability	3,831,857	(7,494,042)
Accrued OPEB liability	32,576,634	33,789,120
Other current liabilities	(593,174)	(213,905)
Total adjustments	147,422,958	135,521,102
Net cash provided by (used in) operating activities	$ (244,974,626)	$ (264,657,042)
Non-Cash Capital and Related Financing Activities:		
Change in market value of embedded derivative instrument	$ 7,837,451	$ (14,963,726)

See accompanying notes to financial statements.

1. ORGANIZATION

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

The financial reporting status of the Authority has been determined to be a component unit of the County for financial reporting purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). The County 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. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The Authority applies all GASB pronouncements and all private-sector standards of accounting and financial reporting 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.

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.

Investments

The Authority records investments at fair value in the statements of net assets, except for guaranteed interest contracts which are recorded at amortized cost. Interest revenue and realized and unrealized gains and losses on investments are reflected in the statements of revenues, expenses, and changes in net assets. Fair value has been determined based on quoted market prices.

Materials and Supplies

The Authority maintains spare parts and supplies that are used to maintain transit equipment. The inventory is stated at cost, net of an allowance for obsolete parts of $1,359,379 and $1,523,998 at June 30, 2011 and 2010, respectively.

Capital Assets

Transit operating property and equipment are recorded at cost and include certain property acquired from predecessor private mass transportation companies. Transit operating property and equipment also include certain capitalized labor and overhead expenses incurred to ready such property and equipment for use. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During both fiscal years 2011 and 2010, no interest expense was capitalized.

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

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

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.

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

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

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

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

The Authority received $150.2 million in State operating assistance for fiscal year 2011 under Act 44. These funds were comprised of $145.6 million in Act 44 Section 1513 funds and $4.6 million in PTAF operating assistance funds. The State operating assistance funds required local match of $27.7 million, which was provided by the County within fiscal year 2011.

Because of existing debt agreements, the Authority received capital funding under PTAF totaling $37 million to use for debt service. Local matching share required for this funding was provided by the County within fiscal year 2011.

The Authority also received $33 million in capital funding under Act 44 to be utilized for capital improvements. Approximately $15 million was used for Infrastructure Safety and Renewal Programs and approximately $3.5 million was used for vehicle overhaul, which do not require County matching funds. Approximately, $14.5 million was used for other capital projects and requires County matching funds.

The Authority was awarded a total of $8.8 million in capital funding from the County during fiscal year 2011, which is used to match federal and state capital grants.

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 of 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.

At June 30, 2011, the primary components of deferred revenue were: $17.4 million of State Act 3 funds to be used for bus procurement, $3.5 million of County funds to be used for capital grant matching, and $6.0 million of State PTAF funds to be used for 2012 debt service.

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 capital grant funds applied to these expenses.

Compensated Absences

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

Self-Insurance

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

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 applicable guidance, 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 statements 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

Accounting standards requires the 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.

- 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.”

3. CASH AND INVESTMENTS

The investment and deposit policy of the Authority funds is governed by the by-laws of the Authority and the Second-Class County Port Authority Act. In accordance with these regulations, the Authority has established investment procedures that require that monies be deposited with FDIC-insured banks in demand deposit accounts or certificates of deposit (which are required to be 100% collateralized by separately identified United States obligations, if not covered by FDIC insurance). Investments are limited to United States obligations and repurchase agreements. Repurchase agreements must be purchased from banks located within the Commonwealth and the underlying collateral securities must have a market value of at least 100% of the cost of the related repurchase agreement. The Authority's investment procedures do not require the delivery of the underlying securities to the Authority; however, it is the obligation of the bank to deposit the pledged obligations with either the Federal Reserve Bank, the trust department of the financial institution issuing the repurchase agreement, or another bank, trust company, or depository satisfactory to the Authority. There were no deposit or investment transactions during 2011 and 2010 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).

GAAP requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The 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, 2011 and 2010, respectively, \$38,754,739 and \$34,782,603 of the Authority's bank balance of \$39,539,953 and \$35,532,603 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 \$35,697,099 and \$25,993,868 as of June 30, 2011 and 2010, respectively, of which \$13,061,666 and \$7,919,137, respectively, are reported as current assets in the statements of net assets. The remaining \$22,635,433 and \$18,074,731, respectively, at June 30, 2011 and 2010 is included in restricted 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 $0 and $13,451 at June 30, 2011 and 2010, respectively; and external investment pool (INVEST) investments of $36,783,615 and $36,759,675 at June 30, 2011 and 2010, respectively.

Other than the investments in INVEST and mutual funds noted above, the Authority held the following investment balances which are included in restricted assets on the statements of net assets at June 30, 2011:

	Fair market value
U.S. Treasuries:	
Interest-only strips	$ 16,993,595
Money Market	11,052,927
Total	$ 28,046,522

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. The investments noted above have maturities of less than one year.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2011, the Authority's investments in INVEST were rated AAA by Standard & Poor's.

Risks and Uncertainties

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

4. Capital Assets/Accumulated Depreciation

A summary of changes in capital assets is as follows:

	June 30, 2010	Increases	Decreases	June 30, 2011
Capital assets, not being depreciated:				
Land	$ 105,691,782	$ 5,715	$ (280,064)	$ 105,417,433
Projects in progress	396,361,457	114,429,693	(8,406,877)	502,384,273
Total capital assets, not being depreciated	502,053,239	114,435,408	(8,686,941)	607,801,706
Capital assets, being depreciated:				
Buildings	220,483,837	3,719,160	-	224,202,997
Transportation equipment	663,865,276	4,711,275	(8,040,590)	660,535,961
Track, roadway, and subway stations	1,295,498,398	6,627,597	(47,823)	1,302,078,172
Other property, equipment, and assets	85,348,796	187,675	(2,748,214)	82,788,257
Total capital assets being depreciated	2,265,196,307	15,245,707	(10,836,627)	2,269,605,387
Less accumulated depreciation for:				
Buildings	(121,818,623)	(7,354,678)	-	(129,173,301)
Transportation equipment	(396,207,543)	(50,726,454)	8,040,589	(438,893,408)
Track, roadway, and subway stations	(667,344,826)	(45,031,354)	59,702	(712,316,478)
Other property, equipment, and assets	(65,471,914)	(4,096,563)	2,736,336	(66,832,141)
Total accumulated depreciation	(1,250,842,906)	(107,209,049)	10,836,627	(1,347,215,328)
Total capital assets, being depreciated, net	1,014,353,401	(91,963,342)	-	922,390,059
Total capital assets, net	$ 1,516,406,640	$ 22,472,066	$ (8,686,941)	$ 1,530,191,765

5. Long -Term Debt

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 Special Revenue Transportation Bonds Series of 1999. An additional $7.5 million was realized for capital projects.

On March 1, 2011, the Authority issued $252,845,000 of the Special Revenue Transportation Bonds, Refunding Series of 2011 (the 2011 Bonds). The proceeds from the sale of the 2011 Bonds together with the amounts on deposit in the 2001 debt service reserve fund were used to provide funds required for 1) refunding the 2001 Bonds and 2) terminating the Swap Agreement (Note 13).

The refunding resulted in a deferred refunding adjustment of $14.2 million that will be amortized over the life of the 2011 Bonds. The refunding resulted in an economic gain (difference between the present values of the old and the new debt service payments) of $380,000. The debt service requirements of the refunded 2001 Bonds exceed that of the 2011 Bonds, excluding the new portion related to the swap termination, by approximately $1.8 million.

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

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

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

During fiscal year 2003, the Authority entered into a Master Financing Agreement (Agreement) for the purchase of fixed assets, primarily buses. As of June 30, 2011 and 2010, the Authority had incurred $131,631,500 of debt related to this financing. This debt is secured by an equity interest in the purchased fixed assets.

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

The following is a summary of debt transactions of the Authority for the year ended June 30, 2011:

	Balance at July 1, 2010	Issuance	Amortization/ Payments and Retirements	Balance at June 30, 2011
Series of 2001 Bonds	$ 237,340,000	$ -	$(237,340,000)	$ -
Series of 2011 Bonds	-	252,845,000	-	252,845,000
Master Financing Agreement	66,245,787	-	(13,600,762)	52,645,025
	303,585,787	252,845,000	(250,940,762)	305,490,025
Unamortized net bond premium	262,083	10,308,549	360,992	10,931,624
Unamortized deferred amount on refunding	(10,514,401)	(14,219,252)	10,777,720	(13,955,933)
Net outstanding	$ 293,333,469	$ 248,934,297	$(239,802,050)	302,465,716
Less current amounts:				
Series of 2011 Bonds				(9,360,000)
Master Financing Agreement				(14,324,175)
Total current bonds payable				(23,684,175)
Total long-term bonds payable				$ 278,781,541

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

Year Ending June 30,	Principal	Interest	Total
2012	$ 23,684,175	$ 15,302,240	$ 38,986,415
2013	24,636,065	14,353,121	38,989,186
2014	19,400,766	13,241,679	32,642,445
2015	17,497,858	12,406,673	29,904,531
2016	15,232,343	11,544,294	26,776,637
2017-2021	64,913,818	47,715,704	112,629,522
2022-2026	80,760,000	29,661,263	110,421,263
2027-2029	59,365,000	6,886,364	66,251,364
Total	$ 305,490,025	$ 151,111,338	$ 456,601,363

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

6. Revolving Credit Loan Agreement

On July 15, 2010, the Authority entered into a $25,000,000 Revolving Credit Loan Agreement (Revolving Loan) with PNC Bank to provide working capital for 2011 operating expenses. The Revolving Loan was secured by the 2011 Operating Assistance Grant from the Commonwealth. The rate of interest was determined as of each drawdown date based on one of two interest rate options (Base Rate Option and Euro-Rate Option) selected by the Authority. All drawdown requests were repaid in full during 2011 and the Revolving Loan was closed as of June 30, 2011.

7. ACCESS Program Services

The Authority has a contract with Veolia Transportation Services, Inc., which provides professional services to coordinate the paratransit system, ACCESS, which provides transit services within the County for elderly and handicapped individuals. Expenses under this contract amounted to $25.7 million in fiscal year 2011 and $24 million in fiscal year 2010.

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 $11.9 million in fiscal year 2011 and $11.8 million in fiscal year 2010.

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, 2011. The reserve balance is approximately $9.9 million and $9.8 million at June 30, 2011 and 2010, respectively.

9. COMMITMENTS AND CONTINGENCIES

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

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

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 $523.3 million and will be paid from federal, state, and local sources. As of June 30, 2011, approximately $473.5 million of project costs had been incurred and the Authority's remaining contract commitments related to this project approximated $35.6 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 service or the average of the highest four of the last eight years immediately preceding the date of retirement, whichever is highest.

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

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

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

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

Funding Policy. Participants in the NonRep and IBEW Plans contribute 4.5% and 4.0%, respectively, of pension earnings to their respective plan. Effective January 1, 2011, ATU employees contribute 4.5% to their respective plan. For calendar year 2010, ATU employees contributed 5.5%. The Authority's contributions to the plans are based on actuarially determined rates.

<u>Annual Pension Cost and Net Pension Obligation</u>

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 17,762,610	$ 474,857	$ 4,750,270
Interest on net pension obligation	(676,338)	(23,688)	(72,649)
Adjustment to annual required contribution	1,459,482	23,917	91,543
Annual pension cost	18,545,754	475,086	4,769,164
Contributions made	14,969,325	390,184	4,598,638
Increase (decrease) in net pension obligation	3,576,429	84,902	170,526
Net pension obligation (asset) beginning of year	(8,893,896)	(296,098)	(908,110)
Net pension obligation (asset) end of year	$ (5,317,467)	$ (211,196)	$ (737,584)

Actuarial valuation date	1/1/2010	1/1/2010	1/1/2010
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Monthly Payments	Level Dollar Monthly Payments	Level Dollar Monthly Payments
Asset valuation method	Smoothed Mkt	Smoothed Mkt	Smoothed Mkt
Remaining amortization period:			
UAL (05 - ATU, 09 - IBEW, 06 - NonRep)	20 years	24 years	21 years
2005 Actuarial loss	11 years		
2006 Actuarial loss	12 years		12 years
Assumption change at 1/1/2007	22 years		22 years
2007 Actuarial gain	13 years		13 years
Assumption change at 1/1/2008	23 years		23 years
Plan change at 1/1/2008			23 years
2008 Actuarial loss			14 years
2009 Actuarial gain	15 years	15 years	15 years
Assumption change at 1/1/2009	24 years		
Actuarial assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases	2% - 3%	3.5%	3.5%

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

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

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
ATU Plan:	June 30, 2011	$ 18,545,754	81%	$ (5,317,467)
	June 30, 2010	23,470,193	121%	(8,893,896)
	June 30, 2009	9,734,310	146%	(3,991,305)
IBEW Plan:	June 30, 2011	475,086	82%	(211,196)
	June 30, 2010	683,933	79%	(296,098)
	June 30, 2009	255,013	515%	(517,433)
NonRep Plan:	June 30, 2011	4,769,164	96%	(737,584)
	June 30, 2010	5,022,569	109%	(908,110)
	June 30, 2009	3,675,660	124%	(444,416)

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2010, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
ATU	$ 681,207	$ 780,955	$ 99,748	87.2%	$ 136,286	73.2%
IBEW	20,150	23,434	3,284	86.0%	2,961	110.9%
NonRep	63,845	103,358	39,513	61.8%	18,415	214.6%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. For the ATU actuarial valuation as of January 1, 2010, the following actuarial assumptions were changed to better reflect anticipated experience: the wage increase changed from 3.5% per year to 2.0% effective January 1, 2010, 3.0% again effective January 1, 2011, and 3.0% again effective January 1, 2012 until the current collective bargaining agreement expires on June 30, 2012, and employee contributions were assumed at 5.5% for all future years.

The ATU, IBEW, and NonRep Plans had actuarial gains during 2009 (January 1, 2010 actuarial valuation) of $45 million, $1.7 million, and $2.9 million, respectively. The rate of return on the actuarial value of assets, which is the smoothed value used for funding was greater than the 8.0% valuation interest assumption, resulting in actuarial gains. The next actuarial valuation will be performed as of January 1, 2011.

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 2011 and 2010, the Authority contributed $35.2 million and $32.6 million, respectively, to the plans. Plan members receiving benefits contributed $2.4 for each of the fiscal years June 30, 2011 and 2010, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing percentages for the ATU, IBEW, and Non-Rep Plans are based on the particular health care coverage that is selected by the retiree, the number of family members covered and the age of the retiree and each covered family member, an when retirement became effective.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 63,630,004	$ 1,999,667	$ 4,286,579
Interest on net OPEB obligation	5,114,211	197,792	52,377
Adjustment to annual required contribution	(7,109,503)	(274,960)	(72,811)
Annual OPEB cost	61,634,712	1,922,499	4,266,145
Contributions made	30,205,222	768,694	4,272,806
Increase (decrease) in net OPEB obligation	31,429,490	1,153,805	(6,661)
Net OPEB obligation (asset) beginning of year	127,855,275	4,944,807	1,309,415
Net OPEB obligation (asset) end of year	$ 159,284,765	$ 6,098,612	$ 1,302,754

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

Actuarial valuation date	1/1/2009, projected forward to 1/1/2011
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Asset valuation method	N/A - the plans are unfunded
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%
Health care inflation rate:	
Medical trend	8.85% in 2009, grading to 5% in 2018
Dental trend	7% in 2009, grading to 5% in 2018
Vision trend	2% per year
Mortality	RP-2000 table, with collar adjustments, and projected to 2007

The OPEB cost for fiscal year 2012 will be determined using an actuarial valuation as of January 1, 2011.

Three-Year Trend Information

	Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
ATU Plan:	June 30, 2011	$ 61,634,712	49%	$ 159,284,765
	June 30, 2010	60,154,667	47%	127,855,275
	June 30, 2009	44,675,402	60%	95,860,409
IBEW Plan:	June 30, 2011	1,922,499	40%	6,098,612
	June 30, 2010	1,872,221	39%	4,944,807
	June 30, 2009	1,787,170	34%	3,793,715
NonRep Plan:	June 30, 2011	4,266,145	100%	1,302,754
	June 30, 2010	4,353,911	85%	1,309,415
	June 30, 2009	3,476,526	105%	666,253

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2011 (as projected forward from January 1, 2009), is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
ATU	$ -	$ 733,436	$ 733,436	0.0%	$ 134,547	545.1%
IBEW	-	23,059	23,059	0.0%	2,897	796.0%
NonRep	-	75,321	75,321	0.0%	16,954	444.3%

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

12. 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 December 2011. This transaction meets the requirements of a capital lease obligation. Restricted assets for capital lease obligation include 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. The Authority had a receivable in the amount of $50.8 million at June 30, 2010, which was guaranteed by AIG. There were several balloon payments made on the lease obligations during fiscal year 2011 and the AIG receivable and a portion of the other restricted investments for these leases were used. As such, there was no receivable balance at June 30, 2011. Additionally, the Authority has treasury securities in the amount of $17 million and $43.7 million at June 30, 2011 and 2010, respectively, which are restricted for US Lease payments. Lease payments due through December 2011 total $17 million. The market value of the underlying investments remains sufficient to pay the final payments of the lease.

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. 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.

As discussed in Note 5, the Swap Agreement was terminated in conjunction with the Authority's issuance of the 2011 Bonds. At termination, the Authority paid a settlement amount totaling $39.4 million based on the fair value at the time of termination.

As of June 30, 2010, the swaption had a fair value of ($47 million). As the swaption was considered to be an investment type derivative instrument per accounting standards, it was reported as a derivative liability and as a borrowing on the statements of net assets. The changes in fair market value of $7 million and ($15 million) during fiscal years 2011 and 2010, respectively, are recorded as a component of investment income on the statements of revenues, expenses, and changes in net assets. The mark to market value was calculated using a combination of the zero-coupon method and an option pricing model.

14. LIQUIDITY

Act 44, which is the source of State operating assistance to the Authority and other transit agencies, was enacted by the Commonwealth of Pennsylvania in 2007. A key funding provision of the Act required Federal Highway Administration approval of the tolling of Interstate 80. During the fiscal year 2010, the Federal government rejected that request and to date the State has not provided adequate alternative funding. As a result, a funding shortfall for transit agencies and transportation programs currently exists throughout Pennsylvania.

To mitigate the resulting deficit the Authority's Board of Directors voted on November 24, 2010 to increase fares and reduce expenditures through service reductions to achieve a balanced budget. Fare increases took effect beginning January 1, 2011 with 15% service reductions implemented in March 2011. More significant service cuts were averted when on December 2, 2010 former PA Governor Rendell redirected $45 million in one-time Federal funds for use in closing the Authority's operating deficit. The Authority Board of Directors voted to extend the use of the Federal monies over fiscal year 2011 and fiscal year 2012 to allow more time for the State to resolve its transportation funding crisis.

Resolving the funding crisis confronting the Commonwealth's transportation system continues to be the primary concern. In April 2011 Governor Tom Corbett established the Governor's Transportation Funding Advisory Commission (TFAC) to review the existing status of the State's infrastructure across all modes of transportation. The Commission's final report was released in August 2011 and recommended a package of funding sources that on its face would be sufficient to address the revenue needs of the Authority. No action to enact the recommendations of the Commission has been taken and there can be no assurance that legislative measures will be introduced, passed and signed by the Governor in fiscal year 2012.

While the Authority has sufficient reserves to support current operations through fiscal year 2012, without new funding that is sufficient, reliable, and grows with inflation, the Authority will be forced to raise fares and make significant cuts to service in fiscal year 2013.

Required
Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

PENSION PLANS

YEAR ENDED JUNE 30, 2011
(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)
ATU Plan:						
01/01/10	$ 681,207	$ 780,955	$ 99,748	87.2%	$ 136,286	73.2%
01/01/09	624,449	774,856	150,407	80.6%	134,547	111.8%
01/01/08	741,403	762,018	20,615	97.3%	123,955	16.6%
01/01/07	706,909	754,026	47,117	93.8%	129,386	36.4%
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%
IBEW Plan:						
01/01/10	$ 20,150	$ 23,434	$ 3,284	86.0%	$ 2,961	110.9%
01/01/09	18,565	23,613	5,048	78.6%	2,897	174.2%
01/01/08	22,448	22,844	396	98.3%	3,083	12.8%
01/01/07	20,798	23,774	2,976	87.5%	3,252	91.5%
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%
NonRep Plan:						
01/01/10	$ 63,845	$ 103,358	$ 39,513	61.8%	$ 18,415	214.6%
01/01/09	57,197	100,652	43,455	56.8%	16,954	256.3%
01/01/08	67,237	99,555	32,318	67.5%	16,242	199.0%
01/01/07	68,630	107,269	38,639	64.0%	17,481	221.0%
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%

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2011
(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)
ATU Plan:						
1/1/09 (projected forward to 1/1/11)	$ -	$ 733,436	$ 733,436	0.0%	$ 134,547	545.1%
1/1/09 (projected forward to 1/1/10)	-	713,477	713,477	0.0%	134,547	530.3%
1/1/07 (projected forward to 1/1/09)	-	568,970	568,970	0.0%	123,955	459.0%
1/1/07 (projected forward to 1/1/08)	-	650,103	650,103	0.0%	123,955	524.5%
IBEW Plan:						
1/1/09 (projected forward to 1/1/11)	$ -	$ 23,059	$ 23,059	0.0%	$ 2,897	796.0%
1/1/09 (projected forward to 1/1/10)	-	22,325	22,325	0.0%	2,897	770.6%
1/1/07 (projected forward to 1/1/09)	-	17,813	17,813	0.0%	3,083	577.8%
1/1/07 (projected forward to 1/1/08)	-	16,903	16,903	0.0%	3,083	548.3%
NonRep Plan:						
1/1/09 (projected forward to 1/1/11)	$ -	$ 75,321	$ 75,321	0.0%	$ 16,954	444.3%
1/1/09 (projected forward to 1/1/10)	-	76,701	76,701	0.0%	16,954	452.4%
1/1/07 (projected forward to 1/1/09)	-	61,241	61,241	0.0%	16,242	377.1%
1/1/07 (projected forward to 1/1/08)	-	62,675	62,675	0.0%	16,242	385.9%

Supplementary Information

Schedule S1 - FY 10/11

GRANTEE : **PORT AUTHORITY** **Local Match Provided (FY 10/11)**

List below all local cash contributions provided for the year ended June 30, 2011:

Contributor Name	Total Amount Provided	Date of Final Payment
Allegheny County (Operating Match) FY10-11	$ 27,668,699	6/28/2011
Allegheny County (Capital Match) FY09-10	$ 3,489,954	4/25/2011
Allegheny County (Capital Match) FY09-10	$ 1,489,954	6/9/2011
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	

Schedule S2 - FY 10/11

Local Match Carryover (FY 10/11)			**Funding**
A.	Local match available as of June 30, 2010		$ 6,651,436
B.	Local match funds provided during year ended June 30, 2011		32,648,607
C.	Section 1513 local match operating expenditures for the year ended June 30, 2011		27,668,699
D.	Other local match operating expenditures for the year ended June 30, 2011 (if any) IDENTIFY MATCHED PROGRAM		-
E.	Other local match operating expenditures for the year ended June 30, 2011 (if any) IDENTIFY MATCHED PROGRAM		-
F.	Other local match operating expenditures for the year ended June 30, 2011 (if any) IDENTIFY MATCHED PROGRAM		-
G.	Total local match operating expenditures for year ended June 30, 2011 (C+D+E+F)		27,668,699
H.	Section 1514-Discretionary local match capital expenditures for year ended June 30, 2011 (if any)		20,443
I.	Section 1514-Bond local match capital expenditures for year ended June 30, 2011 (if any)		6,748,089
J.	Other local match capital expenditures for year ended June 30, 2011 (if any) IDENTIFY MATCHED PROGRAM	PTAF-Local match expenditures	1,200,544
K.	Other local match capital expenditures for year ended June 30, 2011 (if any) IDENTIFY MATCHED PROGRAM	Federal Fixed Guideway Grant Match - 1st Avenue Station Reclass	124,473
L.	Other local match capital expenditures for year ended June 30, 2011 (if any) IDENTIFY MATCHED PROGRAM	Bike Rack - RK Mellon & Capital Fixed Asset Disposal Proceeds	21,632
M.	Total local match capital expenditures for year ended June 30, 2011 (H+I+J+K+L)		8,115,181
N.	Interest earned on local funds for year ended June 30, 2011		4,417
O.	Local Match Funds available as of June 30, 2011 (A+B-G-M+N)		$ 3,520,580

Schedule S3 - FY 10/11

Urban PTAF/BSG/ASG Carryover (FY 10/11)

		ACT 26		ACT 3			
		PTAF *	PTAF Required Local Match	BSG	BSG Required Local Match	ASG	ASG Required Local Match
1	Funds available from prior years	$ 214,004	$ 7,379	$ 22,473,649	$ 774,953	$ -	$ -
2	Interest income earned in FY 2010-2011	-	-	12,150	419	-	-
3	Total funds available in FY 2010-2011 (Line 1 + 2)	214,004	7,379	22,485,799	775,372	-	-
4	Funds used for operating in FY 2010-2011	-	-	34,455	1,188	-	-
5	Funds used for capital in FY 2010-2011	214,004	7,379	62,212	2,145	-	-
6	Total funds used in FY 2010-2011 (Line 4 + 5)	214,004	7,379	96,667	3,333	-	-
7	Funds available for FY 2011-2012 (Line 3 minus 6)	$ -	$ -	$ 22,389,132	$ 772,039	$ -	$ -

Schedule S5 - FY 10/11

Urban Section 1513 Program Carryover (FY10/11)

		Section 1513 State Grant	Section 1513 Required Local Match
1	Section 1513 funds available from prior years	$ -	$ -
2	Public Transportation Trust Fund (PTTF) Section 1513 funds received for FY 2010-11	145,631,592	27,668,699
3	PTAF Section 1513 funds received for FY 2010-2011 (applicable to SEPTA, PAAC, BARTA)	4,589,710	-
4	Total Section 1513 funds received for FY 2010-2011 (Line 2 + 3)	150,221,302	27,668,699
5	Interest income earned on Section 1513 funds in FY 2010-2011	-	-
6	Total Section 1513 funds available in FY 2010-2011 (Line 1 + 4 + 5)	150,221,302	27,668,699
7	Section 1513 funds used for operating in FY 2010-2011	150,221,302	27,668,699
8	Section 1513 funds available for FY 2011-2012 (Line 6 minus 7)	$ -	$ -

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grantor's Number	Expenditures
DEPARTMENT OF TRANSPORTATION:			
FEDERAL TRANSIT ADMINISTRATION:			
Federal Transit - Capital Investment Grants:			
1995 Fixed Guideway	20.500	PA-03-0261	$ 91,562
1999 Fixed Guideway	20.500	PA-03-0302	642,339
Section 5309 North Shore Connector	20.500	PA-03-0315	8,573,944
FY 2009 Fare Collection	20.500	PA-03-0396	11,897,227
2006 Fixed Guideway	20.500	PA-05-0066	319,737
2008 Fixed Guideway	20.500	PA-05-0069	1,566,532
2009 Fixed Guideway	20.500	PA-05-0071	8,230,265
2010 Fixed Guideway	20.500	PA-05-0073	9,819,016
2009 S5309 Bus Procurement	20.500	PA-40-0070	117,573
2010 S5309 Fixed Guideway	20.500	PA-05-0076	520,114
Total CFDA 20.500			41,778,309
Federal Transit - Formula Grants:			
ARRA - North Shore Connector Fixed Guideway	20.507	PA-56-0003	7,015,611
1998/2004 Flex	20.507	PA-90-0359	558,394
2001 Block Grant	20.507	PA-90-0430	(9,076)
S1602 EB Ext Phases 1&2	20.507	PA-90-0429	362,049
2006 Block Grant	20.507	PA-90-0569	413,916
2004 Block Grant	20.507	PA-90-0513	270,963
2008 Block Grant	20.507	PA-90-0661	1,656,828
2007 Block Grant	20.507	PA-90-0646	1,194,488
FY06 North Shore Flex	20.507	PA-90-0618	1,732,872
2009 Block Grant	20.507	PA-90-X686	3,251,218
2010 Block Grant	20.507	PA-90-0700	17,774,737
2011 Block Grant	20.507	PA-90-0725	2,931,822
FY2009 S5307 Flex Stp	20.507	PA-95-0029	350,207
FY2009 North Shore Flex Stp	20.507	PA-95-0034	23,917,545
ARRA - FY2009 S5307 North Shore	20.507	PA-96-X008	26,935,157
FY2011 Preventive Maintenance STP	20.507	PA-95-X055	33,573,770
FY2011 CMAC Flex	20.507	PA-95-X053	66,402
Total CFDA 20.507			121,996,903
Job Access - Reverse Commute:			
Access to Jobs	20.516	PA-37-X025	444,373
Access to Jobs	20.516	PA-37-X034	504,634
New Freedom	20.516	PA-57-X005	42,368
Total CFDA 20.516			991,375
TOTAL FEDERAL TRANSIT ADMINISTRATION			164,766,587
FEDERAL RAILROAD ADMINISTRATION:			
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA04	14,976
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA99	3,132
TOTAL FEDERAL RAILROAD ADMINISTRATION			18,108
TOTAL DEPARTMENT OF TRANSPORTATION			164,784,695
ENVIRONMENTAL PROTECTION AGENCY			
Passed through Allegheny County Health Department:			
ARRA - National Clean Diesel Emissions Reduction Program	66.039	107506	579,885
TOTAL ENVIRONMENTAL PROTECTION AGENCY			579,885
DEPARTMENT OF HOMELAND SECURITY:			
Passed through the Commonwealth of Pennsylvania:			
2007 Transit Security Grant Program	97.075	TSG07	466,652
2009 Transit Security Grant Program	97.075	TSG09	206,188
TOTAL DEPARTMENT OF HOMELAND SECURITY			672,840
TOTAL FEDERAL AWARDS			$ 166,037,420

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, 2011

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

Port Authority of Allegheny County

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

Year Ended June 30, 2011

MaherDuessel
Certified Public Accountants

Pittsburgh
Three Gateway Center
Six West
Pittsburgh, PA 15222
Main 412.471.5500
Fax 412.471.5508

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

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

Independent Auditor's Report on 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, 2011 and have issued our report thereon dated November 23, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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.*

* * * * * * * * * *

This report is intended solely for the information and use of the Board of Directors, management, others within the Authority, 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 23, 2011

MaherDuessel
Certified Public Accountants

Pittsburgh
Three Gateway Center
Six West
Pittsburgh, PA 15222
Main 412.471.5500
Fax 412.471.5508

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

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

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on its 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 Port Authority of Allegheny County's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The Authority's major federal program is 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 its major federal program 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. 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

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 a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, 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 23, 2011

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

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

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

4. Internal control over major programs:

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

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

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

7. Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.500 and 20.507	Federal Transit Cluster

8. Dollar threshold used to distinguish between type A and type B programs: $3,000,000

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

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

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

PORT AUTHORITY OF ALLEGHENY COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

NONE