

Port Authority of Allegheny County

Single Audit

June 30, 2017

MaherDuessel

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

PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2017

DIRECTORY

Financial Statements:

Independent Auditor's Report	
Management's Discussion and Analysis	i
Financial Statements	1
Required Supplementary Information	31
Supplementary Information	36

Independent Auditor's Reports Required by the Uniform Guidance:

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 <i>Government Auditing Standards</i>	38
Independent Auditor's Report on Compliance for its Major Program and on Internal Control over Compliance Required by the Uniform Guidance	40
Schedule of Findings and Questioned Costs	43
Summary Schedule of Prior Audit Findings	44

PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
---	---

Financial Statements:

Statements of Net Position	1
Statements of Revenues, Expenses, and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	4

Required Supplementary Information:

Schedule of Changes in the Net Pension Liability and Related Ratios:	
- ATU	31
- IBEW	32
- NonRep	33
Schedule of Authority Contributions – Pensions	34
Schedule of Funding Progress – Other Post-Employment Benefit Plans	35

Supplementary Information:

Schedule of Expenditures of Federal Awards	36
Notes to Schedule of Expenditures of Federal Awards	37

Independent Auditor's Report

**Board of Directors
Port Authority of Allegheny County**

Report on the Financial Statements

We have audited the accompanying financial statements of the Port Authority of Allegheny County (Authority), a component unit of Allegheny County, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through x and the pension and OPEB information on pages 31 to 35 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to

prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mahe Duessel

Pittsburgh, Pennsylvania
December 8, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The following management's discussion and analysis of the financial performance and activity of the Port Authority of Allegheny County (the Authority) is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the years ended June 30, 2017 (Fiscal Year 2017) and June 30, 2016 (Fiscal Year 2016). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes which follow this section.

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

HIGHLIGHTS

- In November 2013, the Pennsylvania State legislature passed the Act 89 Transportation Funding package, which provided additional funding for statewide transportation projects including roads, bridges, and public transportation. Preliminary estimates were that in five years the legislation had the potential to provide \$2.3 billion annually in additional transportation funding, of which public transit agencies would receive almost \$500 million statewide.
- Preliminary projections provided by the Pennsylvania Department of Transportation (PennDOT) were that by the fifth year of legislation, the Authority should receive approximately \$80 million annually in additional capital funding and almost \$50 million in additional operating revenue. Actual additional State capital and operating funding has trended below initial estimates, but has remained well above historical levels.
- Act 44 State Operating Assistance in Fiscal Year 2017 increased \$3.3 million over the prior year from \$221.6 million in Fiscal Year 2016 to \$224.9 million in Fiscal Year 2017. Local match requirements of 15% on the additional Commonwealth funding were met through additional drink tax revenue from Allegheny County and a grant from the Regional Asset District.
- Prior to the PennDOT required entry to defer grant revenue, the Authority ended Fiscal Year 2017 with a \$19.1 million operating surplus, which is classified as deferred grant revenue per PennDOT's adopted regulations. Combined with Fiscal Year 2016 Deferred Revenues of \$14.2 million, Fiscal Year 2015 Deferred Revenue of 16.3 million, Fiscal Year 2014 Deferred Revenue of \$21.9 million, Fiscal Year 2013 Deferred Revenue of \$24.8 million, and Fiscal Year 2012 deferred grant revenue of \$4.8 million, the Authority continues to improve its cash position.
- The Authority continues to address its long-term liabilities. A Labor Management Committee has endorsed a new healthcare plan design and cost sharing model that Future hires in the non-represented,

Police, and IBEW units are no longer provided with a defined benefit pension plan, but are enrolled in a defined contribution program similar to private sector 401(k) plans. Those employees remaining in the defined benefit plan bear a greater share of the Plan obligations with contributions increasing from 4.5% to 10.5% for non-represented, Police and ATU Local #85 employees. In Fiscal Year 2015, the Authority came to an agreement with IBEW to increase the employee pension contribution from 5% to 10.5% over a two-year period.

- Marketing for ridership growth and enhancing the public image continues. Expansion of real time technology, *TrueTime*, to rail and Wayfinding is underway. The Authority continued to fine tune its Real Time software that permits riders to follow the next available bus on their smartphone or computer. The Authority has begun to install the same hardware and software on its light rail vehicles, so that rail riders will be able to track the arrival of their next train. The Authority has also embarked on a campaign to replace its aging street signs with a modern, easier to understand way-finding sign system to better inform potential riders.
- Another initiative formally adopted by the Board of Directors during the fiscal year was a change in fare structure to a single fare regardless of trip distance. Effective January 1, 2017, all trips using a Connectcard will cost \$2.50 with a 25 cent upcharge for those using cash. It is hoped this will simplify the process for riding transit and increase ridership by making the process less confusing.
- The Board formally adopted PAAC Transit-Oriented Development (TOD) Guidelines, setting forth best practice standards for TOD in and around the Authority's fixed guideways. TOD has proven to be a successful line of business for many of our peer agencies. High quality TOD not only benefits residents, commuters, shoppers, developers and our riders, but also the revenue potential for the agency. Income from rents, value capture, and other creative mechanisms are a valuable addition to our bottom line.
- The Authority has also formally adopted *PAAC Transit Service Guidelines* that provide a framework for ranking new service requests. The guidelines set standards for service, report by route adherence to those standards, evaluate and rank new service requests on an annual basis, and provide recommendations for minor and major service changes to meet guidelines on existing routes as well as changes to expand service. Out first *Annual Service Report 2015* was issued in May and is the basis for service expansion in Fiscal Year 2017.
- The Authority continues its data-based performance management program, *TransitStat*, to improve resource allocation and contain costs. The program involves bringing together Authority management from throughout the organization to discuss business process improvements on such topics as reducing overtime, improving on-time performance, system-wide crime statistics, and enhancing customer service. Follow-up meetings are conducted every few months to measure progress on the various topics.
- The Authority's smart-card based Automated Fare Collection System, branded "Connect Card," is implemented with all products online. The Authority has reached an interoperability agreement with five regional transit agencies whereby Smartcards will be cross-functional, regardless of where the card was loaded with stored value. This system offers transit riders the regionalism component that transit riders have been demanding. In Fiscal Year 2017, the final piece of the system, a web portal for

companies and social service agencies, became operational leading to the elimination of all flash pass media.

BASIC FINANCIAL STATEMENTS

The Authority's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) that apply to U.S. governmental units. The Authority uses the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred. Since the 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 Authority's financial position:

- ◆ **Statements of Net Position** - These financial statements summarize the Authority's capital structure as to whether company assets were financed with equity or by incurring a liability. Net position increases when revenues exceed expenses. Increases in assets without a corresponding increase in liabilities generally indicate an improved financial condition.
- ◆ **Statements of Revenues, Expenses, and Changes in Net Position** - These financial statements provide information on the net income generated from the 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 Gain or Loss Before Capital Grant Funding. The Capital Grant Funding is added to the Gain or Loss Before Capital Grant Funding that results in the Change in Net Position. The Change in Net Position is added to the Total Net Position from the end of the previous fiscal year. This summation results in the Total Net Position for the current fiscal year.
- ◆ **Statements of Cash Flows** - The statements of cash flows detail the cash flows generated by the Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding Fiscal Year 2017 changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2016 cash balance.

THE PORT AUTHORITY'S FINANCIAL CONDITION

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

Public transit service is provided with the assistance of Federal, State and County operating subsidies and grants which are categorized as non-operating revenues on the *Statements of Revenues, Expenses, and*

Changes in Net Position. Operating expenses are subtracted from Operating Revenues in order to determine the Authority's operating surplus or loss. Non-Operating Revenues (Expenses) are added to the Operating Loss. This financial result is entitled Loss Before Capital Grant Funding on the *Statement of Revenues, Expenses and Changes in Net Position*.

In compliance with Governmental Accounting Standards Board (GASB) Statement No. 45 regulations, the Authority expenses an annual required contribution (ARC) on the operating statement for Other Post-Employment Benefits (OPEB). The ARC represents the amount of funds needed to cover the pay-as-you-go costs and the unfunded future years' obligation spread over 30 years. For Fiscal Year 2017, the Authority expensed \$10.6 million for its OPEB obligation, which is net of the current year contributions. Fiscal Year 2016 OPEB expense was much higher at \$21.8 million. The reduction in OPEB expense was attributable to lower claims data and a change in healthcare insurance providers which lowered healthcare premiums from original projections. To date, the Authority and other governmental entities are not required to make cash contributions to fund this liability.

In Fiscal Year 2017, the Authority completed the fiscal year with net operating expenses exceeding revenues before capital grant funding by \$148.5 million. Adjusting for the effect of the non-cash items such as depreciation and OPEB and pension obligation adjustments, the Authority's *Net Revenues over Expenses before Capital Grant Funding* are balanced. In July 2012, PennDOT adopted new regulations on grant revenue recognition requiring all fixed route public transit agencies to report balanced operating result, i.e., no surplus or deficit of funds after the use of operating grant funds, at the end of each fiscal year and to do so by classifying any surplus as unearned grant revenue. The Authority deferred \$19.1 million in Commonwealth of Pennsylvania Act 44 grant revenue to meet required regulations for surpluses. Once capital items are accounted for, net position declined by \$42.5 million.

THE PORT AUTHORITY AS TRUSTEE

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

STATEMENTS OF NET POSITION

The Authority's Total Assets in Fiscal Year 2017 increased by \$2.9 million from the prior year, from \$1.506 billion in Fiscal Year 2016 to \$1.509 billion in Fiscal Year 2017. Total Current Assets decreased by \$8.7 million or 5.4%, from \$162.6 million in Fiscal Year 2016 to \$153.9 million in Fiscal Year 2017. Total Non-current Assets during the same period increased by \$11.6 million. Below are explanations of significant changes in various current and non-current asset classifications.

Current Assets

Cash and cash equivalents: The Authority's ending cash and cash equivalents balance was \$110.7 million, a decrease of \$18.1 million or 14% compared to Fiscal Year 2016. With the passage of Act 89, the Authority should continue to have significant cash reserves over the next few years.

Capital grants receivable: Capital grants receivable increased by \$8.5 million or 59.5%, from \$14.3 million in Fiscal Year 2016 to \$22.8 million in Fiscal Year 2017, due principally to an increase in accounts receivables from the Pennsylvania Government.

Other receivables: Other receivables increased \$913,039 or 15.4%, from \$5.9 million in Fiscal Year 2016 to \$6.8 million in Fiscal Year 2017 as a result of timing.

Materials and supplies: Materials and supplies decreased \$79,797 or 0.6%, from \$13.1 million in Fiscal Year 2016 to \$13.0 million in Fiscal Year 2017.

Non-Current Assets

The Authority's major operating facilities include four bus garages, a rail center, a complex housing the Power and Way Departments, the Manchester Administrative Center and General Shops building, South Hills Village Parking Garage, fixed guideways such as the 9.1 mile Martin Luther King, Jr. East Busway, 4.3-mile South Busway, 5.0-mile West Busway, 25.4 miles of Light Rail Transit (LRT) infrastructure, the Monongahela Incline, and other various structures that are situated throughout Allegheny County. Service reductions in March 2011 resulted in the closure of Harmar Garage, dividing operations among the remaining four garages. The Authority continues to own the Harmar facility. In total, non-current assets in Fiscal Year 2017 increased by \$11.7 million from Fiscal Year 2016 values.

Restricted assets for capital additions and related debt: In Fiscal Year 2017, restricted assets for capital additions and related debt decreased by \$6.6 million or 25.6% compared to Fiscal Year 2016.

Reserve fund: During Fiscal Year 2017, the Authority adopted a resolution to implement and maintain an operating reserve fund. Approximately \$35 million, or one month of the Authority's operating expenses based on the Fiscal Year 2018 budget was transferred into the fund.

Capital assets, net of accumulated depreciation: Capital assets, net of accumulated depreciation, decreased \$16.8 million or 1.3% from Fiscal Year 2016.

Current Liabilities

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

In Fiscal Year 2017, total current liabilities increased by \$20.3 million or 12.7% over Fiscal Year 2016 levels due to increases in Unearned Revenues. Unearned Revenue increased by \$18.7 million or 18.6%, due largely to a deferral of State Operating totaling \$19.1 million.

Non-Current Liabilities

The Authority's non-current liabilities include long-term debt obligations, reserves for claims and settlement, and accrued OPEB liability. At year-end, net bonds payable totaled \$186.3 million, a decline of \$12.5 million over Fiscal Year 2016. OPEB liability rose by \$10.6 million, from \$336.6 million in Fiscal Year 2016 to \$347.2 million in Fiscal Year 2017, as the Authority's actuarially determined annual OPEB cost exceeded the pay-as-you-go contribution. In Fiscal Year 2017, total non-current liabilities increased by \$4.8 million over Fiscal Year 2016. A majority of this increase in non-current liabilities is attributable to an increase in Net Pension liability due to changes in retirement patterns.

Net Position

The Authority's Net Position decreased by \$42.5 million from \$529.6 million to \$487.1 million.

FINANCIAL COMPARISON: FISCAL YEAR 2017 OVER FISCAL YEAR 2016

The following discussion measures the financial performance of the Authority by comparing the actual revenues, expenses, and changes in net position. This section comments on revenue and expense categories that exhibited significant dollar variances between Fiscal Year 2017 and Fiscal Year 2016.

Revenues

Total operating revenues in Fiscal Year 2017 decreased by \$3.0 million or 2.8% below Fiscal Year 2016. A \$2.5 million decrease in Passenger Revenue due to the introduction of the single zone fare policy was primarily responsible for this decrease in total operating revenues. An increase in Advertising Revenue helped offset some of the decrease in Passenger Revenue. In Fiscal Year 2017, Passenger Fares supported 22.7% of the Authority's Total Operating Expense, excluding OPEB, Depreciation expense and a pension expense accounting entry.

The Authority continues to see year-over-year increases in Advertising Revenue. For Fiscal Year 2017, this increase was \$193,000 or 8.3%. Advertising Revenue increased with new strategies to entice both national and local advertisers as well as expanded space throughout the system.

The Authority contracts with Transdev 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 Authority for the costs incurred in providing the Shared Ride program, which is available to persons over 65 years of age. ACCESS Shared Ride revenues in Fiscal Year 2017 decreased by \$513,000 when compared to Fiscal Year 2016.

As indicated in the *Port Authority Ridership Statistics* below, total ridership in Fiscal Year 2017 has decreased by -0.9% compared to Fiscal Year 2016 levels. Originating Ridership statistics for bus, light rail, and the incline increased by 0.87% in Fiscal Year 2017 over Fiscal Year 2016, whereas contract services ridership increased by 6.27%. Senior ridership fell by approximately 175,806 rides in Fiscal Year 2017 from Fiscal Year 2016 levels. Ridership on ACCESS in Fiscal Year 2017 decreased by 2.68% compared to Fiscal Year 2016. Ridership within the Downtown Free-Zone decreased 11.26% and Transfers decreased 26.93% vs. Fiscal Year 2016. These decreases occurred due to the fare policy changes instituted in January 2017 which removed the Downtown Free-Zone from the bus mode and removed paper transfers from accepted fare products.

Port Authority Ridership Statistics

	<u>FY2017</u>	<u>FY2016</u>	<u>Percent + / (-)</u>
Originating	43,471,394	43,096,029	0.87%
Transfers	2,413,418	3,302,801	(26.93%)
Contracted Services	8,303,947	7,814,368	6.27%
Seniors	4,781,784	4,957,590	(3.55%)
ACCESS	1,486,771	1,527,690	(2.68%)
Free Ridership	2,773,304	3,125,035	(11.26%)
	<u>63,230,618</u>	<u>63,823,513</u>	(0.93%)

Expenses

Total Operating Expenses decreased from \$537.8 million in Fiscal Year 2016 to \$529.8 million in Fiscal Year 2017 or -1.5%. The decrease in expenses was largely attributable to a reduction in the OPEB expense. Excluding the OPEB and Pension expenses; Total Operating Expenses increased by roughly \$3.1 million or .63%.

Salary and Wages increased by \$3.1 million or 2.1% due to contractual wage increases and increased personnel levels largely due to service expansion. Total employee benefits in Fiscal Year 2017 increased \$8.9 million compared to Fiscal Year 2016, mainly due to the continued rise in health insurance and pension costs. Health care expenses increased by \$2.6 million due to higher healthcare premiums. Pension expense increased by \$5.8 million due to investment returns below expected levels.

Services expense in Fiscal Year 2017 decreased \$5.3 million or 31% below Fiscal Year 2016. Predominantly, this decrease was due to a reduction in the Work-Done-by-Outside Contractors direct expense item.

Fuels and Lubricants continued to trend lower as the Fiscal Year 2017 expense was 3.8% lower than Fiscal Year 2016.

Other Materials and Supplies decreased by \$1.7 million from Fiscal Year 2016 with most of the decrease attributable to a \$1.2 million reduction in materials expense. Miscellaneous Expense increased by \$130,000 or 2.8% due to increases in marketing expense and software license expense.

Finally, depreciation expense decreased by \$822k or 0.8% from Fiscal Year 2016, which helped to offset some of the smaller increases in the other expense lines.

Non-Operating Revenues

In total, non-operating revenues in Fiscal Year 2017 increased \$5.8 million or 2.1% from the Fiscal Year 2016 level. Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provides Act 89 subsidy for operating, which in Fiscal Year 2017 decreased 0.7% from \$207.4 million in

Fiscal Year 2016 to \$205.9 million after the State mandated accounting adjustment to defer any operating assistance above the level required to meet expenses. In Fiscal Year 2017, the Authority received a portion of its State Operating Assistance from the Public Transportation Assistance Fund (PTAF). The Authority was required to use a portion of PTAF revenues towards debt service payments in Fiscal Year 2017. In Fiscal Year 2017, the Authority received an additional \$3.3 million in gross Operating Assistance due to Act 89 after accounting for the use of Public Transportation Assistance Funds (PTAF) towards debt service in Fiscal Year 2017. The final phase of the lifting of the Oil Company Franchise Tax (OCFT) was implemented during the year resulted in increased Act 89 revenues. The operating subsidy from Allegheny County for Fiscal Year 2017 was higher than Fiscal Year 2016 based on the increased State funding that requires a local match. The Regional Asset District (RAD) contributed \$3,000,000 of the \$33.7 million in local governments Act 44 matching.

Capital funds used for operating assistance increased by \$8.1 million or 19.5% from Fiscal Year 2016. In Fiscal Year 2017, the Authority used higher amounts of Federal, State and Local government Capital Funds in order to support operations of the Authority.

CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

Act 89 has strengthened the Authority's financial position and, with prudent management and decision-making, should sustain current service levels for the next seven to eight years. After years of downsizing, new capital dollars will enable the Authority to address long standing state of good repairs to infrastructure and facilities as well as enable investments in technology to achieve efficiencies.

As the Commonwealth's second largest public transportation system, the Authority is an essential partner in the southwestern Pennsylvania region's economy, moving 200,000 people each weekday to and from work, school, and entertainment. The Authority acknowledges that its services are integral to the lives of many Allegheny County residents. Clearly the Authority wishes it could meet every demand for restoration of bus and rail service, but as a practical matter, this will not be financially possible. Any significant increase in service must be funded through increased operating revenue, either increase fare revenue as a result of ridership increases or advertising revenue.

The Authority will focus on enhancing the service that is already offered and making it more appealing for riders. The Authority has been able to make subtle changes to existing routes in order to offer service in areas without public transit opportunities. Routes have to perform in order to remain viable. Underperforming routes will need to be re-evaluated, which has the potential to create disruption to those few who do take advantage of the route. With this in mind the Authority issued, and the Board approved, *Transit Service Guidelines* which will be used to develop service change recommendations and will be used to evaluate, adjust, and improved service as demand and conditions change. The anticipated result of this strategy will be to attract new riders and increase the utilization of existing riders. Increasing ridership will increase passenger revenue and potentially increase future State Operating Assistance, which is formula driven.

The company will continue to make significant investments to upgrade its technology backbone to both enhance the rider experience and increase the productivity and accountability of its current resources. Examples of this investment in technology are the "Real Time" system whereby bus riders can now monitor the arrival time of nearby buses. Real time on rail is expected to be completed in 2017. In addition, the company is working on a new work order system to improve efficiency, to better monitor maintenance activities, and to more quickly return bus and rail equipment to service.

The Authority will also continue to monitor how current resources are allocated. The Authority will remain vigilant for opportunities where it can partner in the community, whether in the form of Transit Oriented Development (TOD), sustainability initiatives, enhancing high-volume Park and Rides, or adding fuel diversity to the fleet.

The Authority's Board of Directors, management, and employees are poised to fulfill the faith shown in public transit generally and the Authority specifically by our State and County leaders who supported the passage of Act 89.

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 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 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 Authority's mission statement.

North Shore Connector Project -- The 1.2 mile extension of the 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 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 Authority’s transit services.

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

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

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 110,733,902	\$ 128,816,996
Capital grants receivable	22,835,785	14,320,514
Other receivables	6,841,914	5,928,875
Prepaid expenses	481,391	459,505
Materials and supplies	12,984,751	13,064,548
Total current assets	153,877,743	162,590,438
Non-current assets:		
Restricted and designated assets:		
Restricted assets for capital additions and related debt	19,218,875	25,824,712
Designated for reserve fund	34,982,415	-
Capital assets, net of accumulated depreciation	1,301,040,065	1,317,796,814
Total non-current assets	1,355,241,355	1,343,621,526
Total Assets	1,509,119,098	1,506,211,964
Deferred Outflows of Resources		
Deferred charge on refunding	9,216,185	10,006,143
Related to pensions	89,970,551	104,469,234
Total Deferred Outflows of Resources	99,186,736	114,475,377
Liabilities		
Current liabilities:		
Accounts payable	17,803,802	14,874,002
Accrued compensation, benefits, and withholdings	20,303,531	19,245,161
Unearned revenue	119,056,165	100,378,225
Reserves for claims and settlements	6,942,474	7,529,955
Current portion of bonds payable	11,925,000	13,498,817
Other current liabilities	3,387,032	3,613,118
Total current liabilities	179,418,004	159,139,278
Non-current liabilities:		
Bonds payable, net	186,296,449	198,794,149
Reserves for claims and settlements	4,224,706	5,197,770
Accrued OPEB liability	347,244,319	336,644,473
Net pension liability	398,745,666	391,037,472
Total non-current liabilities	936,511,140	931,673,864
Total Liabilities	1,115,929,144	1,090,813,142
Deferred Inflows of Resources		
Related to pensions	5,260,632	262,169
Net Position		
Net investment in capital assets	1,160,613,048	1,170,694,075
Unrestricted	(673,496,990)	(641,082,045)
Total Net Position	\$ 487,116,058	\$ 529,612,030

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Revenues:		
Passenger fares	\$ 89,370,256	\$ 91,844,867
State Shared Ride Program	12,126,941	12,639,664
Advertising	2,520,834	2,328,226
Miscellaneous income	595,038	806,314
Total operating revenues	104,613,069	107,619,071
Operating Expenses:		
Salaries and wages	152,634,259	149,541,878
Fringe benefits	149,354,492	140,458,832
Pension expense, net	27,205,340	27,029,226
OPEB expense, net	10,599,846	21,843,364
Services	12,023,377	17,330,724
Fuel and lubricant	15,675,308	16,294,676
Tires and tubes	1,921,029	1,847,109
Other materials and supplies	20,310,579	22,045,673
Utilities	8,023,033	7,486,315
Casualty and liability	2,119,581	2,937,600
Purchased transportation	26,037,079	26,356,045
Leases and rentals	1,496,226	1,500,447
Miscellaneous expense	4,840,862	4,710,583
Depreciation	97,590,489	98,412,562
Total operating expenses	529,831,500	537,795,034
Operating Loss	(425,218,431)	(430,175,963)
Non-Operating Revenues (Expenses):		
Capital funds used for operating assistance:		
Federal government	33,395,942	27,760,292
Commonwealth of Pennsylvania	10,255,869	9,724,920
Local governments	6,114,120	4,176,530
Operating grants:		
Commonwealth of Pennsylvania	205,856,490	207,389,251
Local governments - matching	33,728,043	33,238,401
Total government subsidies for operations	289,350,464	282,289,394
Interest income	155,438	34,445
Interest expense	(10,307,985)	(11,393,229)
Loss on sale of land	(2,443,486)	-
Total non-operating revenues (expenses)	276,754,431	270,930,610
Loss Before Capital Grant Funding	(148,464,000)	(159,245,353)
Capital grant funding:		
Federal	36,685,394	44,972,524
State	65,412,076	46,344,082
Local	3,870,558	3,531,809
Total capital grant funding	105,968,028	94,848,415
Change in Net Position	(42,495,972)	(64,396,938)
Total net position - beginning	529,612,030	594,008,968
Total net position - ending	\$ 487,116,058	\$ 529,612,030

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Receipts from customers	\$ 91,281,931	\$ 107,334,430
Payments for goods and services	(93,848,031)	(108,687,367)
Payments to employees	(300,930,381)	(288,225,750)
Net cash provided by (used in) operating activities	(303,496,481)	(289,578,687)
Cash Flows From Non-Capital Financing Activities:		
Operating subsidies	320,446,503	312,196,291
Cash Flows From Capital and Related Financing Activities:		
Capital grants received	97,452,757	88,873,435
Proceeds from the sale of land	850,000	-
Investments in transit operating property	(81,299,103)	(69,614,980)
Payments on bonds	(13,498,817)	(15,242,134)
Interest paid	(10,316,813)	(11,465,364)
Net cash provided by (used in) capital and related financing activities	(6,811,976)	(7,449,043)
Cash Flows From Investing Activities:		
Proceeds from (deposits to) restricted/designated assets	(28,376,578)	6,439,517
Interest and dividends on investments	155,438	34,445
Net cash provided by (used in) investing activities	(28,221,140)	6,473,962
Net Increase (Decrease) in Cash and Cash Equivalents	(18,083,094)	21,642,523
Cash and Cash Equivalents:		
Beginning of year	128,816,996	107,174,473
End of year	\$ 110,733,902	\$ 128,816,996
Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided by (Used in) Operating Activities:		
Operating loss	\$ (425,218,431)	\$ (430,175,963)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	97,590,489	98,412,562
Change in assets, liabilities, and deferred outflows and inflows:		
Accounts receivable	(13,331,138)	(284,641)
Materials and supplies	79,797	(833,695)
Prepaid expenses and other current assets	(21,886)	547,792
Accounts payable	101,677	(7,923,531)
Accrued compensation, benefits, and withholdings	1,058,370	1,774,960
Reserves for claims and settlements	(1,560,545)	31,239
Accrued OPEB liability	10,599,846	21,843,364
Net pension liability	7,708,194	113,110,737
Deferred outflows of resources for pension	14,498,683	(86,343,680)
Deferred inflows of resources for pension	4,998,463	262,169
Total adjustments	121,721,950	140,597,276
Net cash provided by (used in) operating activities	\$ (303,496,481)	\$ (289,578,687)

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

1. Organization

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

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

As discussed in Note 6, the Authority contracts with Transdev Services, Inc. for professional services to coordinate ACCESS, a paratransit system, which provides transit service within the Authority's jurisdiction. ACCESS financial statements have not been included in the reporting entity because the Authority has neither control, financial responsibility, nor accountability for ACCESS.

2. Summary of Significant Accounting Policies

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

Basis of Accounting

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

Operating revenues and expenses consist of those revenues and expenses that result from ongoing principal operations of the Authority. Operating revenues consist primarily of user

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to grants and other financing and investing types of activities.

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

Cash and Cash Equivalents

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

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 \$392,137 and \$426,163 at June 30, 2017 and 2016, 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 2017 and 2016, no interest expense was capitalized.

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

Projects in progress remaining at June 30, 2017 primarily consist of communication, computer, and infrastructure upgrades as well as various building improvements.

Revenue, Receivables, and Unearned Revenues

Passenger Fares are recorded as revenue at the time services are performed. During Fiscal Year 2017, the Authority transitioned its Ticket, Weekly, and Annual fare products to the

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

electronic based Connectcard system. Monthly “flash” passes continued to be sold on a consignment basis to vendors who maintained the right to return unsold passes. In fiscal year 2018, the automated fare collection system (AFCS) will eventually eliminate the remaining products sold on consignment.

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 expenses. Operating grants and subsidies in the accompanying statements of revenues and expenses include only operating grants from the indicated sources. The Authority is permitted to utilize certain capital funds for operating expenses including labor, fringe benefits, materials and supplies, and other expense classifications. Capital funds used for operating assistance represent capital grant funds applied to these expenses. Capital grants for the acquisition of property and equipment and other capital related expenditures are recorded as capital grant funding.

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

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

1. A percentage from sales tax (4.4%).
2. Lottery funds for the Free Transit for Senior Citizens Program.
3. State bond funding for capital projects.
4. Remainder of Public Transportation Assistance Fund (PTAF) after funding payments on existing debt.
5. 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.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

The Authority received \$224.9 million in State Operating Assistance during fiscal year 2017. After recognizing unearned revenue for State Operating Assistance carried forward to future years, the Authority recognized \$205.9 million in State Operating Assistance for fiscal year 2017 under Act 44. The State operating assistance funds required a 15% local match of \$33.7 million. Allegheny County provided \$30.7 million in local match with an additional \$3 million provided by the Regional Asset District (RAD).

Because of existing debt agreements, the Authority obtained capital funding under PTAF totaling \$24.1 million to use for debt service. Local matching share required for this funding was provided by the County.

The Authority was awarded \$106.4 million in capital funding under Act 44 to be utilized for capital improvements in fiscal year 2017. The Authority utilized \$49.8 million of this capital funding in its operating budget. The remaining \$56.6 million was used to match federal grants for other state of good repair capital projects, debt service payments, and to support bus purchases.

The Authority was awarded a total of \$8.5 million in capital funding from the County during fiscal year 2017, which is used to match federal and state capital grants.

At June 30, 2017, the primary components of unearned revenue were: \$101.2 million of State operating assistance carryover, \$6.9 million of County funds to be used for capital grant matching, and \$7.4 million of State PTAF funds to be used for 2018 debt service.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report separate sections for deferred outflows and inflows of resources. These separate financial statement elements represent a consumption (outflows) or addition (inflow) of net position that applies to a future period and so will not be recognized as an outflow (expense) or inflow (revenue) of resources until then.

Compensated Absences

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

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Self-Insurance

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

Refunding Transactions

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of Net Position

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

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- Restricted – This component of net position consists of constraints placed on assets through external restrictions, reduced by liabilities related to those assets.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, as well as additions to and deductions from the pension plan fiduciary net position have been determined on the same basis as they are reported in the financial statements of the pension plans. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value.

Pending Pronouncements

The Governmental Accounting Standards Board (GASB) has issued statements that will become effective in future years including Statement Nos. 75 (OPEB Employer), 81 (Split-Interest Agreements), 82 (Pensions) 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus 2017), 86 (Certain Debt Extinguishment Issues), and 87 (Leases). Management has not yet determined the impact of these statements on the Authority’s financial statements.

3. Cash and Investments

The investment and deposit policy of the Authority funds is governed by the by-laws of the Authority and the Second-Class County Port Authority Act. In accordance with these regulations, the Authority has established investment procedures that require that monies be deposited with FDIC-insured banks in demand deposit accounts or certificates of deposit (which are required to be 100% collateralized by 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

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

2017 and 2016 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 in the amount of \$19,218,875 are available for acquisition of assets under capital projects and scheduled payments of the Special Revenue Transportation Bonds (Note 5). Board designated funds in the amount of \$34,982,415 are available to supplement future operating deficits.

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

	2017		2016	
	Cash and Cash Equivalents	Restricted and Designated	Cash and Cash Equivalents	Restricted and Designated
Deposits	\$ 647,010	\$ 34,982,415	\$ 26,242,477	\$ -
INVEST	110,086,892	8,174,183	102,574,519	14,781,137
Money Market	-	11,044,692	-	11,043,575
Total	<u>\$ 110,733,902</u>	<u>\$ 54,201,290</u>	<u>\$ 128,816,996</u>	<u>\$ 25,824,712</u>

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2017 and 2016, respectively, \$35,345,233 and \$25,359,291 of the Authority's bank balance of \$35,845,233 and \$25,859,291 were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

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

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017, the Authority's investments in INVEST and money markets were rated AAA by Standard & Poor's.

The Authority's investments in money markets and INVEST are reported at cost which approximates fair value. 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. The Authority can withdraw funds from INVEST without limitations or fees.

4. Capital Assets/Accumulated Depreciation

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	June 30, 2016	Increases	Decreases	June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 106,897,385	\$ -	\$ (3,308,875)	\$ 103,588,510
Projects in progress	24,740,784	43,687,439	(23,226,655)	45,201,568
Total capital assets, not being depreciated	<u>131,638,169</u>	<u>43,687,439</u>	<u>(26,535,530)</u>	<u>148,790,078</u>
Capital assets, being depreciated:				
Buildings	373,698,208	3,175,743	(19,859,991)	357,013,960
Transportation equipment	701,698,893	34,483,782	(56,463,832)	679,718,843
Track, roadway, and subway stations	1,654,657,073	19,033,020	(29,848,482)	1,643,841,611
Other property, equipment, and assets	153,634,925	6,973,738	(8,207,368)	152,401,295
Total capital assets being depreciated	<u>2,883,689,099</u>	<u>63,666,283</u>	<u>(114,379,673)</u>	<u>2,832,975,709</u>
Less accumulated depreciation for:				
Buildings	(183,231,283)	(11,296,728)	17,702,254	(176,825,757)
Transportation equipment	(456,520,715)	(31,212,288)	56,460,739	(431,272,264)
Track, roadway, and subway stations	(958,686,010)	(42,495,449)	29,845,080	(971,336,379)
Other property, equipment, and assets	(99,092,446)	(12,586,024)	10,387,148	(101,291,322)
Total accumulated depreciation	<u>(1,697,530,454)</u>	<u>(97,590,489)</u>	<u>114,395,221</u>	<u>(1,680,725,722)</u>
Total capital assets, being depreciated, net	<u>1,186,158,645</u>	<u>(33,924,206)</u>	<u>15,548</u>	<u>1,152,249,987</u>
Total capital assets, net	<u>\$ 1,317,796,814</u>	<u>\$ 9,763,233</u>	<u>\$ (26,519,982)</u>	<u>\$ 1,301,040,065</u>

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	June 30, 2015	Increases	Decreases	June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 105,162,502	\$ 1,734,883	\$ -	\$ 106,897,385
Projects in progress	25,882,160	24,170,517	(25,311,893)	24,740,784
Total capital assets, not being depreciated	<u>131,044,662</u>	<u>25,905,400</u>	<u>(25,311,893)</u>	<u>131,638,169</u>
Capital assets, being depreciated:				
Buildings	365,831,954	7,898,653	(32,399)	373,698,208
Transportation equipment	681,135,783	47,720,956	(27,157,846)	701,698,893
Track, roadway, and subway stations	1,642,031,770	13,869,319	(1,244,016)	1,654,657,073
Other property, equipment, and assets	171,859,105	1,842,662	(20,066,842)	153,634,925
Total capital assets being depreciated	<u>2,860,858,612</u>	<u>71,331,590</u>	<u>(48,501,103)</u>	<u>2,883,689,099</u>
Less accumulated depreciation for:				
Buildings	(172,228,244)	(11,035,438)	32,399	(183,231,283)
Transportation equipment	(453,805,782)	(29,872,779)	27,157,846	(456,520,715)
Track, roadway, and subway stations	(915,715,431)	(44,205,922)	1,235,343	(958,686,010)
Other property, equipment, and assets	(105,869,538)	(13,289,750)	20,066,842	(99,092,446)
Total accumulated depreciation	<u>(1,647,618,995)</u>	<u>(98,403,889)</u>	<u>48,492,430</u>	<u>(1,697,530,454)</u>
Total capital assets, being depreciated, net	<u>1,213,239,617</u>	<u>(27,072,299)</u>	<u>(8,673)</u>	<u>1,186,158,645</u>
Total capital assets, net	<u>\$ 1,344,284,279</u>	<u>\$ (1,166,899)</u>	<u>\$ (25,320,566)</u>	<u>\$ 1,317,796,814</u>

5. Long-Term Debt

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

Interest on the 2011 Bonds is payable semiannually on each March 1 and September 1, commencing September 1, 2011. Interest rates range from 2% to 5.25% throughout the

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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 capital assets, primarily buses. The Authority has financed a total of \$131,631,500 under this Agreement. This debt is secured by an equity interest in the purchased capital 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 matured during 2017.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

The following is a summary of debt transactions of the Authority for the year ended June 30, 2017:

	Balance at July 1, 2016	Issuance	Amortization/ Payments and Retirements	Balance at June 30, 2017
Series of 2011 Bonds	\$ 202,900,000	\$ -	\$ (11,360,000)	\$ 191,540,000
Master Financing Agreement	2,138,817	-	(2,138,817)	-
	205,038,817	-	(13,498,817)	191,540,000
Unamortized net bond premium	7,254,149	-	(572,700)	6,681,449
Net outstanding	\$ 212,292,966	\$ -	\$ (14,071,517)	198,221,449
Less current amount:				
Series of 2011 Bonds				(11,925,000)
Total long-term bonds payable, net				\$ 186,296,449

The following is a summary of debt transactions of the Authority for the year ended June 30, 2016:

	Balance at July 1, 2015	Issuance	Amortization/ Payments and Retirements	Balance at June 30, 2016
Series of 2011 Bonds	\$ 213,720,000	\$ -	\$ (10,820,000)	\$ 202,900,000
Master Financing Agreement	6,560,951	-	(4,422,134)	2,138,817
	220,280,951	-	(15,242,134)	205,038,817
Unamortized net bond premium	7,859,359	-	(605,210)	7,254,149
Net outstanding	\$ 228,140,310	\$ -	\$ (15,847,344)	212,292,966
Less current amounts:				
Series of 2011 Bonds				(11,360,000)
Master Financing Agreement				(2,138,817)
Total current bonds payable				(13,498,817)
Total long-term bonds payable, net				\$ 198,794,149

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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

Year Ending June 30,	Principal	Interest	Total
2018	\$ 11,925,000	\$ 10,161,098	\$ 22,086,098
2019	12,520,000	9,566,538	22,086,538
2020	13,140,000	8,943,088	22,083,088
2021	13,830,000	8,255,888	22,085,888
2022	14,555,000	7,534,050	22,089,050
2023-2027	84,910,000	25,508,300	110,418,300
2028-2029	40,660,000	3,505,275	44,165,275
Total	<u>\$ 191,540,000</u>	<u>\$ 73,474,237</u>	<u>\$ 265,014,237</u>

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

6. ACCESS Program Services

The Authority has a contract with Transdev 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 \$26 million and \$26.4 million for fiscal years 2017 and 2016, respectively.

The Authority currently receives partial reimbursement for these services from the Commonwealth in the form of a grant. The amount is based on ridership and average fare statistics. Revenue under this program totaled \$12.1 million in fiscal year 2017 and \$12.6 million in fiscal year 2016.

7. 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

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017. The reserve balance is approximately \$11.2 million and \$12.7 million at June 30, 2017 and 2016, respectively.

8. 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. 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.

9. Pension Plans

General Information About the Pension Plans. The Authority offers three single-employer defined benefit retirement and disability plans for eligible employees. 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). The IBEW and NonRep Plans are closed to new participation.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

No new employees are permitted to start participation in the NonRep and IBEW Plans effective September 2011 and January 2012, respectively. Current participants in the Plans have the option to continue participation in the Plan or to exit the Plan and roll their current accumulated contributions to a Section 457 deferred compensation plan. New employees are required to participate in the newly offered Section 457 deferred compensation plan.

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.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Employees Covered by Benefit Terms. As of the most recent actuarial valuations, the following employees were covered by the benefit terms:

	<u>ATU</u>	<u>IBEW</u>	<u>NonRep</u>	<u>Total</u>
Inactive plan members or beneficiaries				
currently receiving benefits	2,932	146	422	3,500
Participants who transferred to another plan	43	31	66	140
Inactive plan members entitled to but				
not yet receiving benefits	22	2	26	50
Active plan members	<u>2,176</u>	<u>38</u>	<u>151</u>	<u>2,365</u>
Total plan members	<u><u>5,173</u></u>	<u><u>217</u></u>	<u><u>665</u></u>	<u><u>6,055</u></u>

Contributions. Participants in the NonRep Plan and ATU Plan contribute 10.5% of earnings to their respective plans. Effective May 1, 2015, the participant contribution rate in the IBEW Plan were incrementally increased from 5.0% to 10.5% of earnings by May 1, 2017. The Authority's contributions to the plans are based on actuarially determined rates.

Net Pension Liability. The Authority's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2016. There were no plan changes between the January 1, 2016 valuation date and the December 31, 2016 liability measurement date. Standard actuarial techniques were used to roll forward the total pension liability from the valuation date to the measurement date.

Actuarial Assumptions. The total pension liability in the January 1, 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method Individual entry age normal

Actuarial assumptions:

Investment rate of return: 7.25%
Underlying inflation rate 2.50%
Salary projection: 3.50%*

*with exceptions for years covered by the ATU and IBEW collective bargaining agreement

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

For healthy lives, mortality is in accordance with the RP-2000 Combined Mortality Table adjusted for white collar employees and with fully –generational projected mortality improvement under Scale AA. For disabled lives, mortality is in accordance with the disabled mortality table specified in IRS Revenue Ruling 96-7 for disabilities occurring prior to 1995.

Actuarial assumptions are based on actuarial experience study for the period January 1, 2016 to December 31, 2016.

Long-Term Expected Rate of Return. The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2017:

Asset Class	NonRep and IBEW	
	Target Allocation	Long-Term Expected Real Rate of Return
US equity	40.0%	6.8%
International equity	21.0%	8.3%
U.S. REITs	3.0%	6.1%
Core Real Estate	3.0%	4.0%
Fixed income	32.0%	1.1%
Cash	1.0%	0.5%
	<u>100.0%</u>	

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Asset Class	ATU	
	Target Allocation	Long-Term Expected Real Rate of Return
US large cap equity	32.5%	5.7%
US small cap equity	3.5%	7.4%
Non-US developed markets	19.5%	6.0%
Non-US emerging markets	4.5%	6.4%
Private equity	2.5%	9.3%
Equity long/short	5.0%	3.9%
Fixed income	27.5%	2.1%
Absolute return	5.0%	3.4%
	<u>100.0%</u>	

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Authority's contributions will be made based on the actuarially determined contribution. Based on those assumptions, the fiduciary net position of each plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Changes in Net Pension Liability. Changes in the Authority's net pension liability for the year ended June 30, 2017 are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 6/30/16	\$ 1,141,551,785	\$ 750,514,313	\$ 391,037,472
Changes for the year:			
Service cost	19,056,826	-	19,056,826
Interest	80,936,680	-	80,936,680
Differences between expected and actual experience	(1,496,528)	-	(1,496,528)
Changes of benefit terms	-	-	-
Changes of assumptions	(2,196,402)	-	(2,196,402)
Employer contributions	-	33,184,797	(33,184,797)
Member contributions	-	15,176,285	(15,176,285)
Net investment income	-	40,884,329	(40,884,329)
Benefit payments, including refunds of employee contributions	(77,040,393)	(77,040,393)	-
Employer reimbursement for healthcare expenses	2,183,154	2,183,154	-
Administrative expenses	-	(653,029)	653,029
Balances at 6/30/17	\$ 1,162,995,122	\$ 764,249,456	\$ 398,745,666

The change in assumption above relates to scheduled salary changes for the ATU plan and a change in the retirement assumption for the IBEW and NonRep plans.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Sensitivity of the Net Pension Liability to Changes in Discount Rate. The following presents the net pension liability of the Authority, calculated using the discount rate of 7.25%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
ATU	\$ 437,360,323	\$ 338,396,425	\$ 253,505,828
IBEW	11,286,286	8,536,934	6,215,801
NonRep	65,174,372	51,812,307	40,533,782
	<u>\$ 513,820,981</u>	<u>\$ 398,745,666</u>	<u>\$ 300,255,411</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the years ended June 30, 2017 and 2016, the Authority recognized pension expense of \$62,233,973 and \$56,477,501, respectively. Cash payments into the plan are included in fringe benefits on the statement of revenues, expenses, and changes in net position and any remaining excess (deficiency) is reported as pension expense, net.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

At June 30, 2017 and 2016, the Authority reported deferred outflows of resources related to pensions from the following sources:

	<u>2017</u>	<u>2016</u>
Differences between expected and actual experience	\$ 2,425,807	\$ 2,967,074
Changes of assumptions	25,470,052	37,586,752
Net difference between projected and actual earnings on pension plan investments	48,658,905	52,343,395
Contributions made subsequent to the measurement date	<u>13,415,787</u>	<u>11,572,013</u>
	<u>\$ 89,970,551</u>	<u>\$ 104,469,234</u>

At June 30, 2017 and 2016, the Authority reported deferred inflows of resources related to pensions from the following sources:

	<u>2017</u>	<u>2016</u>
Differences between expected and actual experience	\$ 1,959,939	\$ 262,169
Changes of assumptions	<u>3,300,693</u>	<u>-</u>
	<u>\$ 5,260,632</u>	<u>\$ 262,169</u>

Deferred outflows of resources related to Authority pension contributions subsequent to the measurement date of \$13,415,787 and \$11,572,013 are recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016, respectively.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Other amounts reported as deferred outflows of resources and deferred inflows or resources related to pension will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	
2018	\$ 29,965,660
2019	25,943,635
2020	12,921,303
2021	2,463,534
	<u>\$ 71,294,132</u>

10. Post-Employment Benefits Other Than Pensions

Plan Descriptions. In addition to the pension benefits described in Note 9, the Authority provides certain post-retirement healthcare benefits to its retirees. In accordance with the ATU, IBEW, and NonRep Retirement and Disability Allowance Plans, post-retirement benefits are provided to those who become entitled to receive a pension allowance or a disability allowance. Post-retirement benefits consisting of medical, hospital, prescription, dental, and vision insurance coverage, and Medicare Part B premium reimbursement are provided for the retiree.

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

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

A new bargaining agreement effective May 1, 2015 has eliminated post-retirement health care for any IBEW employee hired on or after May 1, 2015.

Funding Policy. The Authority's contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2017 and 2016, the Authority contributed \$27.3 million and \$29.3 million (excluding the implicit rate subsidy), respectively, to the plans.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Plan members receiving benefits contributed \$1.9 and \$1.8 million for fiscal years June 30, 2017 and 2016, respectively, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing 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, and 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

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

contribution. The OPEB expense on the statements of revenues, expenses, and changes in net position is shown net of current payments included in employee benefits.

A summary of changes in the net OPEB obligation for the year ended June 30, 2017 is as follows:

	ATU Plan	IBEW Plan	NonRep Plan	Total
Annual required contribution	\$ 47,736,405	\$ 1,660,585	\$ 4,582,766	\$ 53,979,756
Interest on net OPEB obligation	12,863,241	458,440	144,098	13,465,779
Adjustment to annual required contribution	(17,881,792)	(637,299)	(200,317)	(18,719,408)
Annual OPEB cost	42,717,854	1,481,726	4,526,547	48,726,127
Contributions made*	33,238,259	866,516	4,021,506	38,126,281
Increase (decrease) in net OPEB obligation	9,479,595	615,210	505,041	10,599,846
Net OPEB obligation beginning of year	321,581,037	11,460,996	3,602,440	336,644,473
Net OPEB obligation end of year	\$ 331,060,632	\$ 12,076,206	\$ 4,107,481	\$ 347,244,319

* Expected claims cost including implicit rate subsidy, net of expected retiree contributions

A summary of changes in the net OPEB obligation for the year ended June 30, 2016 is as follows:

	ATU Plan	IBEW Plan	NonRep Plan	Total
Annual required contribution	\$ 57,297,549	\$ 1,978,354	\$ 4,608,587	\$ 63,884,490
Interest on net OPEB obligation	12,052,241	419,381	120,423	12,592,045
Adjustment to annual required contribution	(16,754,382)	(583,001)	(167,406)	(17,504,789)
Annual OPEB cost	52,595,408	1,814,734	4,561,604	58,971,746
Contributions made*	32,320,390	838,255	3,969,737	37,128,382
Increase (decrease) in net OPEB obligation	20,275,018	976,479	591,867	21,843,364
Net OPEB obligation beginning of year	301,306,019	10,484,517	3,010,573	314,801,109
Net OPEB obligation end of year	\$ 321,581,037	\$ 11,460,996	\$ 3,602,440	\$ 336,644,473

* Expected claims cost including implicit rate subsidy, net of expected retiree contributions

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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

Actuarial valuation date	1/1/2015
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	6.5% in 2015, grading to 4.0% in 2058
Dental trend	4.0% per year
Vision trend	3.0% per year
Mortality	RP-2000 table, with collar adjustments

Three-Year Trend Information

	<u>Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
ATU Plan:	June 30, 2017	\$ 42,717,854	78%	\$ 331,060,632
	June 30, 2016	52,595,408	61%	321,581,037
	June 30, 2015	68,830,879	48%	301,306,019
IBEW Plan:	June 30, 2017	1,481,726	58%	12,076,206
	June 30, 2016	1,814,734	46%	11,460,996
	June 30, 2015	1,979,720	43%	10,484,517
NonRep Plan:	June 30, 2017	4,526,547	89%	4,107,481
	June 30, 2016	4,561,604	87%	3,602,440
	June 30, 2015	4,667,380	96%	3,010,573

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2015 (projected forward to 1/1/17) 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	\$ -	\$ 654,138	\$ 654,138	0.0%	\$ 117,324	557.5%
IBEW	-	22,665	22,665	0.0%	2,723	832.4%
NonRep	-	73,855	73,855	0.0%	16,749	441.0%

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

The January 1, 2015 valuation included various changes in actuarial assumptions. These changes resulted in an overall decrease of \$16.5 million to the annual OPEB cost and a \$112.6 million decrease to the unfunded accrued liability.

The most significant changes in actuarial assumptions are noted below:

- There was a significant net reduction in liability attributable to claims experience and premium reductions for retirees over age 65 who are covered under Medicare Advantage plans.
- A significant number of ATU employees have retired prior to attaining eligibility for retiree medical coverage. The revised assumptions were changed to reflect this trend.

The projected liability as of January 1, 2017 includes plan provisions related to cost-sharing and actuarial assumption changes as a result of a new ATU bargaining agreement effective January 1, 2017. The significant changes are noted below:

Plan provisions related to active and post-2016 employees prior to age 65.

PORT AUTHORITY OF ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

- Participant contributions required to maintain healthcare coverage changed from 3% of wages to 8% of the Authority's premium.
- The cost-sharing amount is frozen for tier 2 and 5 employees prior to age 65 in the year of retirement.
- The cost-sharing amount will increase at the same rate as active employee premiums for retirees hired on or after July 1, 2012 (coverage limited to three years).

Actuarial Assumptions

- Percentage of post-2016 retirees who elect spousal coverage has been reduced.
- Male percentage has been changed from 75% to 70% and female percentage changed from 25% to 30%.
- For assumed retirements on and after January 1, 2017, projected claims costs are limited to the projected Excise Tax threshold for each future year.

REQUIRED SUPPLEMENTARY INFORMATION

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF CHANGES IN THE NET
PENSION LIABILITY AND RELATED RATIOS - ATU

YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:			
Service cost	\$ 17,641,994	\$ 16,952,228	\$ 14,262,520
Interest	70,211,764	69,033,870	64,022,119
Differences between expected and actual experience	(2,141,941)	3,688,462	-
Changes of assumptions	(4,479,512)	47,574,706	-
Benefit payments, including refunds of member contributions and certain healthcare expenses	(65,950,889)	(65,427,602)	(64,382,251)
Employer reimbursement for healthcare expenses	1,936,792	1,864,037	1,808,498
Net Changes in Total Pension Liability	17,218,208	73,685,701	15,710,886
Total Pension Liability - Beginning	992,091,882	918,406,181	902,695,295
Total Pension Liability - Ending (a)	<u>\$ 1,009,310,090</u>	<u>\$ 992,091,882</u>	<u>\$ 918,406,181</u>
Plan Fiduciary Net Position:			
Plan member contributions	\$ 13,930,234	\$ 13,482,012	\$ 13,068,460
Employer actuarially recommended contributions	26,080,452	22,261,679	20,047,266
Net investment income	35,100,028	(2,750,524)	39,425,414
Benefit payments, including refunds of member contributions and certain healthcare expenses	(65,950,889)	(65,427,602)	(64,382,251)
Employer reimbursement for healthcare expenses	1,936,792	1,864,037	1,808,498
Administrative expense	(496,899)	(583,165)	(530,846)
Net Change in Plan Fiduciary Net Position	10,599,718	(31,153,563)	9,436,541
Plan Fiduciary Net Position - Beginning	660,313,947	691,467,510	682,030,969
Plan Fiduciary Net Position - Ending (b)	<u>\$ 670,913,665</u>	<u>\$ 660,313,947</u>	<u>\$ 691,467,510</u>
Net Pension Liability - Ending (a-b)	<u>\$ 338,396,425</u>	<u>\$ 331,777,935</u>	<u>\$ 226,938,671</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>66.47%</u>	<u>66.56%</u>	<u>75.29%</u>
Covered Employee Payroll	<u>\$ 131,743,024</u>	<u>\$ 127,714,679</u>	<u>123,363,442</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	256.86%	259.78%	183.96%

See accompanying note to required supplementary pension schedules.

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF CHANGES IN THE NET
PENSION LIABILITY AND RELATED RATIOS - IBEW

YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:			
Service cost	\$ 238,162	\$ 252,182	\$ 278,428
Interest	1,860,812	1,830,476	1,804,357
Changes of benefit terms	-	16,606	-
Differences between expected and actual experience	(259,056)	(327,711)	-
Changes of assumptions	650,549	669,288	-
Benefit payments, including refunds of member contributions and certain healthcare expenses	(2,108,295)	(2,095,130)	(2,134,184)
Employer reimbursement for healthcare expenses	<u>60,528</u>	<u>60,633</u>	<u>56,122</u>
Net Changes in Total Pension Liability	442,700	406,344	4,723
Total Pension Liability - Beginning	<u>26,145,938</u>	<u>25,739,594</u>	<u>25,734,871</u>
Total Pension Liability - Ending (a)	<u>\$ 26,588,638</u>	<u>\$ 26,145,938</u>	<u>\$ 25,739,594</u>
Plan Fiduciary Net Position:			
Plan member contributions	\$ 155,496	\$ 120,620	\$ 106,547
Employer actuarially recommended contributions	913,536	828,090	815,889
Net investment income	1,127,108	(62,544)	1,266,792
Benefit payments, including refunds of member contributions and certain healthcare expenses	(2,108,295)	(2,095,130)	(2,134,184)
Employer reimbursement for healthcare expenses	60,528	60,633	56,122
Administrative expense	<u>(42,495)</u>	<u>(59,812)</u>	<u>(60,407)</u>
Net Change in Plan Fiduciary Net Position	105,878	(1,208,143)	50,759
Plan Fiduciary Net Position - Beginning	<u>17,945,826</u>	<u>19,153,969</u>	<u>19,103,210</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 18,051,704</u>	<u>\$ 17,945,826</u>	<u>\$ 19,153,969</u>
Net Pension Liability - Ending (a-b)	<u>\$ 8,536,934</u>	<u>\$ 8,200,112</u>	<u>\$ 6,585,625</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>67.89%</u>	<u>68.64%</u>	<u>74.41%</u>
Covered Employee Payroll	<u>\$ 1,864,753</u>	<u>\$ 1,916,931</u>	<u>\$ 2,130,900</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	457.81%	427.77%	309.05%

See accompanying note to required supplementary pension schedules.

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF CHANGES IN THE NET
PENSION LIABILITY AND RELATED RATIOS - NonRep

YEARS ENDED JUNE 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:			
Service cost	\$ 1,176,670	\$ 1,155,659	\$ 1,190,636
Interest	8,864,104	8,602,050	8,294,767
Differences between expected and actual experience	904,469	362,560	-
Changes of assumptions	1,632,561	2,903,673	-
Benefit payments, including refunds of member contributions and certain healthcare expenses	(8,981,209)	(8,764,596)	(8,512,796)
Employer reimbursement for healthcare expenses	185,834	174,680	166,456
Net Changes in Total Pension Liability	3,782,429	4,434,026	1,139,063
Total Pension Liability - Beginning	123,313,965	118,879,939	117,740,876
Total Pension Liability - Ending (a)	<u>\$ 127,096,394</u>	<u>\$ 123,313,965</u>	<u>\$ 118,879,939</u>
Plan Fiduciary Net Position:			
Plan member contributions	\$ 1,090,555	\$ 1,111,025	\$ 1,154,760
Employer actuarially recommended contributions	6,190,809	5,667,461	5,313,090
Net investment income	4,657,193	(270,864)	4,854,389
Benefit payments, including refunds of member contributions and certain healthcare expenses	(8,981,209)	(8,764,596)	(8,512,796)
Employer reimbursement for healthcare expenses	185,834	174,680	166,456
Administrative expense	(113,635)	(140,666)	(160,534)
Net Change in Plan Fiduciary Net Position	3,029,547	(2,222,960)	2,815,365
Plan Fiduciary Net Position - Beginning	72,254,540	74,477,500	71,662,135
Plan Fiduciary Net Position - Ending (b)	<u>\$ 75,284,087</u>	<u>\$ 72,254,540</u>	<u>\$ 74,477,500</u>
Net Pension Liability - Ending (a-b)	<u>\$ 51,812,307</u>	<u>\$ 51,059,425</u>	<u>\$ 44,402,439</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>59.23%</u>	<u>58.59%</u>	<u>62.65%</u>
Covered Employee Payroll	<u>\$ 10,153,575</u>	<u>\$ 10,581,158</u>	<u>\$ 10,997,673</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	510.29%	482.55%	403.74%

See accompanying note to required supplementary pension schedules.

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF AUTHORITY CONTRIBUTIONS - PENSIONS

YEARS ENDED JUNE 30

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution:										
ATU	\$ 25,162,906	\$ 23,179,225 *	\$ 20,047,266	\$ 17,602,620	\$ 13,984,742	\$ 23,546,814	\$ 17,480,911	\$ 23,346,064	\$ 9,908,915	\$ 12,622,026
IBEW	913,536	828,090	815,889	848,189	774,765	653,215	477,378	679,059	381,249	1,092,732
NonRep	6,190,809	5,667,461	5,313,090	6,100,903	4,674,158	5,254,033	4,734,816	5,037,719	3,687,745	4,471,985
	<u>32,267,251</u>	<u>29,674,776</u>	<u>26,176,245</u>	<u>24,551,712</u>	<u>19,433,665</u>	<u>29,454,062</u>	<u>22,693,105</u>	<u>29,062,842</u>	<u>13,977,909</u>	<u>18,186,743</u>
Contributions in relation to the actuarially determined contribution:										
ATU	25,162,906	23,179,225	20,047,266	17,602,620	13,984,742	23,546,814	17,480,911	23,346,064	9,908,915	12,622,026
IBEW	913,536	828,090	815,889	848,189	774,765	653,215	477,378	679,059	381,249	1,092,732
NonRep	6,190,809	5,667,461	5,313,090	6,100,903	4,674,158	5,254,033	4,734,816	5,037,719	3,687,745	4,471,985
	<u>32,267,251</u>	<u>29,674,776</u>	<u>26,176,245</u>	<u>24,551,712</u>	<u>19,433,665</u>	<u>29,454,062</u>	<u>22,693,105</u>	<u>29,062,842</u>	<u>13,977,909</u>	<u>18,186,743</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll:										
ATU	\$ 131,743,024	\$ 127,714,679	\$ 123,363,442	\$ 120,440,624	\$ 121,432,288	\$ 122,817,450	\$ 128,613,838	\$ 125,199,519	\$ 124,938,277	\$ 123,451,501
IBEW	1,864,753	1,916,931	2,130,900	2,267,698	2,404,723	2,775,982	2,902,075	2,850,839	2,815,850	2,978,603
NonRep	10,153,575	10,581,158	10,997,673	11,821,211	14,030,280	16,665,376	17,946,884	17,457,219	16,330,872	16,057,672
	<u>\$ 143,761,352</u>	<u>\$ 140,212,768</u>	<u>\$ 136,492,015</u>	<u>\$ 134,529,533</u>	<u>\$ 137,867,291</u>	<u>\$ 142,258,808</u>	<u>\$ 149,462,797</u>	<u>\$ 145,507,577</u>	<u>\$ 144,084,999</u>	<u>\$ 142,487,776</u>
Contributions as a percentage of covered employee payroll	22.45%	21.16%	19.18%	18.25%	14.10%	20.70%	15.18%	19.97%	9.70%	12.76%

Note to Required Supplementary Pension Schedules:

Valuation date: Actuarial calculations are performed each year as of January 1. Contributions noted above are as of each pension plan's calendar year ending December 31 using actuarially determined contribution rates calculated as of January 1, one year prior to the end of the calendar year in which contributions are reported.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level-dollar monthly payments
Remaining amortization period	15 years
Asset valuation method	Smoothed market value (with phase-in)
Inflation	2.50%
Salary increases	3.50% (with exceptions for years covered by the ATU and IBEW collective bargaining agreement)
Investment rate of return	7.25% IBEW and NonRep (8.00% for 2013 and prior) 8.00% ATU (8.50% for 2008 and prior)
Mortality	For healthy lives, mortality is in accordance with the RP-2000 Combined Mortality Table adjusted for white collar employees with fully-generational projected mortality improvement under Scale AA. For disabled lives, mortality is in accordance with the disabled mortality table specified in IRS Revenue Ruling 96-7 for disabilities occurring prior to 1995.

The NonRep plan was closed to new participants effective September 1, 2011

The IBEW plan was closed to new participants effective January 1, 2012

* Preliminary contributions of \$22,261,679 had been determined for the 2015 plan year. The final contribution determination for 2015, reflecting changes approved by the Retirement Committee, was completed in January 2017. A final contribution of \$917,546 toward the 2015 plan year funding was made by the Authority in February 2017.

See accompanying note to required supplementary pension schedules.

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2017

(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Projected Unit Credit	(b-a) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
ATU Plan:						
1/1/15 (projected forward to 1/1/17)	\$ -	\$ 654,138	\$ 654,138	0.0%	\$ 117,324	557.5%
1/1/15 (projected forward to 1/1/16)	-	728,365	728,365	0.0%	117,324	620.8%
1/1/13 (projected forward to 1/1/15)	-	872,249	872,249	0.0%	125,566	694.7%
1/1/13 (projected forward to 1/1/14)	-	847,994	847,994	0.0%	125,566	675.3%
1/1/11 (projected forward to 1/1/13)	-	788,881	788,881	0.0%	138,441	569.8%
1/1/11 (projected forward to 1/1/12)	-	768,690	768,690	0.0%	138,441	555.2%
IBEW Plan:						
1/1/15 (projected forward to 1/1/17)	-	22,665	22,665	0.0%	2,723	832.4%
1/1/15 (projected forward to 1/1/16)	-	24,961	24,961	0.0%	2,723	916.7%
1/1/13 (projected forward to 1/1/15)	-	24,476	24,476	0.0%	2,440	1003.1%
1/1/13 (projected forward to 1/1/14)	-	23,638	23,638	0.0%	2,440	968.8%
1/1/11 (projected forward to 1/1/13)	-	23,540	23,540	0.0%	2,991	787.0%
1/1/11 (projected forward to 1/1/12)	-	22,923	22,923	0.0%	2,991	766.4%
NonRep Plan:						
1/1/15 (projected forward to 1/1/17)	-	73,855	73,855	0.0%	16,749	441.0%
1/1/15 (projected forward to 1/1/16)	-	74,577	74,577	0.0%	16,749	445.3%
1/1/13 (projected forward to 1/1/15)	-	78,083	78,083	0.0%	15,290	510.7%
1/1/13 (projected forward to 1/1/14)	-	79,153	79,153	0.0%	12,590	628.7%
1/1/11 (projected forward to 1/1/13)	-	78,841	78,841	0.0%	18,274	431.4%
1/1/11 (projected forward to 1/1/12)	-	80,351	80,351	0.0%	18,274	439.7%

SUPPLEMENTARY INFORMATION

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Number or Pass-Through Grantor Number</u>	<u>Amount Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
DEPARTMENT OF TRANSPORTATION:				
FEDERAL TRANSIT ADMINISTRATION:				
<u>Federal Transit - Capital Investment Grants:</u>				
FY 2009 Fare Collection	20.500	PA-03-0396	\$ -	\$ 299,522
2010 Fixed Guideway	20.500	PA-05-0073	-	112,374
2010 S5309 Fixed Guideway	20.500	PA-05-0076	-	301,653
FY 2011 S5309 Fixed Guideway	20.500	PA-05-0079	-	318,356
FY 2012 S5309 Fixed Guideway	20.500	PA-05-0082	-	2,781,264
Total CFDA 20.500			-	3,813,169
<u>Federal Transit - Formula Grants:</u>				
2012 Block Grant	20.507	PA-90-X743	-	171,714
2010 Block Grant	20.507	PA-90-0700	-	313,961
2011 Block Grant	20.507	PA-90-0725	-	348,927
FY 2012 Transit Way	20.507	PA-90-X753	-	432,143
FY 2013 Block Grant	20.507	PA-90-X766	-	381,155
FY 2014 Block Grant	20.507	PA-90-X803	-	770,684
FY 2013 Flex Bus Rapid Transportation	20.507	PA-95-X099	-	1,835
FY Urban Area Formula Grant	20.507	PA-90-X824	-	1,674,106
PA-2016-026-00 Super Grant	20.507	PA-95-0002	-	6,172,200
PA-2016-026-00 Super Grant	20.507	PA-90-X857	-	26,004,992
Total CFDA 20.507			-	36,271,717
<u>State of Good Repair Grants:</u>				
FY 2013 State of Good Repair	20.525	PA-54-0001	-	2,364,164
FY 2014 State of Good Repair	20.525	PA-54-0004	-	3,256,881
PA-2016-026-00 Super Grant	20.525	PA-54-0011	-	19,924,886
Total CFDA 20.525			-	25,545,931
<u>Bus and Bus Facilities Formula Program:</u>				
FY15 S5339 State of Good Repair	20.526	PA-54-0005	-	630,613
PA-2016-026-00 Super Grant	20.526	PA-54-0011	-	2,678,877
Total CFDA 20.526			-	3,309,490
TOTAL FEDERAL TRANSIT CLUSTER			-	68,940,307
TOTAL FEDERAL TRANSIT ADMINISTRATION			-	68,940,307
<u>Metropolitan Transportation Planning:</u>				
Passed through the Commonwealth of Pennsylvania: Metropolitan Transportation Planning	20.505	520906-5	-	184,000
Highway Planning and Construction Cluster: SPC UPWP Transit Planning 14-03	20.205	CSPC	-	98,682
Transit Services Programs Cluster: Enhan Mobility of Seniors & Indiv w/ Disabilities - S5310 Federal Funds	20.513	CSPC	-	384,413
TOTAL METROPOLITAN TRANSPORTATION PLANNING			-	667,095
TOTAL DEPARTMENT OF TRANSPORTATION			-	69,607,402
DEPARTMENT OF HOMELAND SECURITY:				
2014 Transit Security Grant Program	97.075	EMW2014RA00050	-	10,829
2015 Transit Security Grant Program	97.075	EMW2015RA00038	-	80,545
2016 Transit Security Grant Program	97.075	EMW2016RA00032	-	3,571
TOTAL DEPARTMENT OF HOMELAND SECURITY			-	94,945
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 69,702,347

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, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Port Authority of Allegheny County (Authority) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of the Authority.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The Authority's federal awards made prior to December 26, 2014 are recognized following the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. The Authority's federal awards made subsequent to December 26, 2014 are recognized following the cost principles in the Uniform Guidance. The Schedule is based upon information provided by the various funding sources to the Authority and other information available at the time this Schedule was prepared. For the year ended June 30, 2017, the Authority did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**Port Authority of
Allegheny County**

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2017

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

**Board of Directors
Port Authority of Allegheny County**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port Authority of Allegheny County (Authority), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maier Duessel

Pittsburgh, Pennsylvania
December 8, 2017

**Independent Auditor’s Report on Compliance for its Major Program
and on Internal Control over Compliance Required by the Uniform Guidance**

**Board of Directors
Port Authority of Allegheny County**

Report on Compliance for its Major Federal Program

We have audited the Port Authority of Allegheny County’s (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority’s major federal program for the year ended June 30, 2017. 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.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Authority’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirement referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

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

Board Directors
Port Authority of Allegheny County
Independent Auditor's Report on Compliance
for its Major Program

Opinion on its Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

Board Directors
Port Authority of Allegheny County
Independent Auditor's Report on Compliance
for its Major Program

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

Maher Duessel

Pittsburgh, Pennsylvania
December 8, 2017

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

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 program:

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 program: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Program:

CFDA Number(s)

20.500, 20.507, 20.525,
and 20.526

Name of Federal Program or Cluster

Federal Transit Cluster

8. Dollar threshold used to distinguish between type A and type B programs: \$2,091,070

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, 2017

NONE