Port Authority of Allegheny County

Single Audit

June 30, 2010

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2010

DIRECTORY

Financial Statements:

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

Port Authority of Allegheny County

Financial Statements and Required Supplementary and Additional Information

Years Ended June 30, 2010 and 2009 with Independent Auditor's Report

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PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2010 AND 2009

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Independent Auditor's Report

Board of Directors
Port Authority of Allegheny County

We have audited the accompanying financial statements of the Port Authority of Allegheny County (Authority), a component unit of Allegheny County, as of and for the years ended June 30, 2010 and 2009 as listed in the directory. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Authority's financial position as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Authority. The other additional information listed in the table of contents is presented for the purposes of additional analysis and is also not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
November 24, 2010

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

The following MD&A of the financial performance of the Port Authority of Allegheny County (Port Authority) provides both an introduction and explanation of the basic financial statements of the Port Authority for the fiscal year ended June 30, 2010 with comparative financial information for the fiscal year ended June 30, 2009. This section is designed to highlight significant financial issues and activities of the Port Authority. The following analysis should be used in conjunction with the attached financial statements:

Highlights

- Fiscal year 2010 State Operating Assistance under Act 44, a primary source of operating dollars, remained static at fiscal year 2009 levels with minimal increases seen in the two prior years. Static state funding levels combined with increasing wage and benefits costs have resulted in a fiscal year 2010 operating deficit.

- Revenues were not sufficient to meet operating expenses in fiscal year 2010. *Net Revenues Over Expenses Before Capital and Other Related Items* were ($41,567,495) primarily due to the recognition of net Other Post Employment Benefits (OPEB) expense in the amount of $33,789,120. Adjusting for the effect of this non-cash liability, which to date is not required to be funded by a governmental entity, the Port Authority's net expenses exceeded revenues before capital related items by $7,778,375.

- OPEB legacy costs continue to represent a significant obligation of the Port Authority despite steps to reduce the Port Authority's obligation in the most recent labor agreement with the Amalgamated Transit Union Local #85 (ATU-85). While cost savings of $22 million were won in negotiations, they were offset due to recent changes in the federal government's reimbursement of Medicare expenses and changes to actuarial estimates for future healthcare expense. From fiscal year 2009 to fiscal year 2010, OPEB expense increased approximately 80% from $18,815,075 to $33,789,120, respectively.

- Pension expense in fiscal year 2010 also increased by $13,022,005 over fiscal year 2009. Increased funding obligations to address Plan losses resulting from the 2008 economic downturn will affect the Port Authority's obligation over the next few years.

- The Port Authority is implementing an extensive system-wide Transit Development Plan (TDP) to provide more consistent, streamlined service with improved productivity by better matching service with passenger demand. Full implementation is occurring over a two-year period. It represents the most extensive system-wide planning effort in the history of the Port Authority with planning occurring over a two-year period and the final TDP adopted by the Board in October 2009. Implementation began in April 2010 with the first phase of route changes and will continue through March 2012. As of September 2010, approximately 80% of the route changes have been implemented with additional components of the TDP including Bus Rapid Transit, streamlined downtown bus circulation patterns, and consolidated bus stops to occur through March 2012.

- The North Shore connector project is well underway. The support structures for the elevated portion of the rail extension are complete. Work is currently being performed on the communication systems and the railway stations. The project is anticipated to be completed and operational by March 2012.

- The Port Authority has begun work on an Automated Fare Collection System (AFCS). This will permit the company to introduce a Smartcard system to simplify the customer's fare paying experience and provide the Port Authority with enhanced ridership information. It is also hoped that the new system will reduce fare avoidance and thereby increase revenues.

Basic Financial Statements

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

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

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

- **Statements of Revenues, Expenses, and Changes in Net Assets** - These financial statements provide information on the net income generated from Port Authority's continuing operations. Operating Expenses are subtracted from Operating Revenues in order to determine an Operating Gain or Loss. Non-Operating Revenues that are defined as significant recurring federal and state grants are added to the Operating Gain or Loss in order to calculate Net Revenue over Expenses Before Capital Related Items. The net revenue over expenses before capital related items is added to the change in net assets which is derived by combining capital grant contribution revenue, interest income, interest expense, unrealized gain on investments, and depreciation expense.

- **Statements of Cash Flows** - The statements of cash flows detail the cash flows generated by the Port Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding fiscal year 2010 changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2009 cash balance.

The Port Authority's Financial Condition

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

It is with the assistance of Federal, State, and County operating subsidies and grants that the Port Authority is able to provide ongoing transit service. These operating subsidies and grants are categorized as Non-Operating Revenues on the *Statements of Revenues, Expenses, and Changes in Net Assets.* Operating Expenses are subtracted from the combination of Operating Revenues and Non-Operating Revenues in order to determine the Port Authority's operating surplus or deficit. This financial result is entitled, 'Net Revenues Over Expenses Before Capital and Other Related Items' on the *Statement of Revenues, Expenses and Changes in Net Assets*. In compliance with GASB Statement No. 45 regulations, the Port Authority determined and expensed an annual required contribution (ARC) on the operating statement for Other Post Employment Benefits (OPEB). The ARC represents the amount of funds needed to cover the pay-as-you-go costs and the unfunded future years' obligation spread over 30 years. The $33,789,120 OPEB expense is net of the current year contributions. Currently, the Port Authority and other governmental entities are not required to make cash contributions to fund this liability. In fiscal year 2010, the Port Authority completed the fiscal year with net operating expenses exceeding revenues before capital related items by $41,567,495. Once capital items are accounted for the change in net assets is ($5,020,669).

The Port Authority as Trustee

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

Statements of Net Assets

The Port Authority's total assets in fiscal year 2010 increased by $9.3 million from the prior year. Total Current Assets increased by $75.4 million or 64% from $117.4 million in FY2009 to $192.8 million in fiscal year 2010. Total Non-current Assets during the same period decreased by $66.1 million. Below are explanations of significant changes in various current and non-current asset classifications.

Current Assets

Cash and cash equivalents: At year-end, the Port Authority's ending cash and cash equivalents balance was $44.7 million, a decrease of $30.7 million or 41% over the prior year. The decrease is attributable to the Port Authority using $25.9 million in Basic Supplemental Grant (BSG) for bus purchases and for short-term operational cash purposes due to delays in State Operating Assistance and Federal grant reimbursements.

Capital grant receivables: Capital grants receivable increased by $13.7 million from $24.8 million in fiscal year 2009 to $38.5 million in fiscal year 2010. This increase is principally due to a $9.3 million increase in a receivable from the Commonwealth of Pennsylvania for capital projects and a $5.9 million increase in unbilled receivables from the Federal government.

Other receivables: Other receivables increased by $6.0 million from $5.6 million in fiscal year 2009 to $11.7 million in fiscal year 2010 due to an outstanding final fiscal year 2010 operating assistance payment from the Commonwealth of Pennsylvania.

Restricted assets for capital lease obligation: Restricted assets for capital lease obligation account increased by $78.0 million from fiscal year 2010. The increase represents the re-classification of restricted assets for Port Authority's capital lease for light rail vehicles from non-current to current assets.

Net pension asset: Net pension asset increased by $7.5 million in fiscal year 2010 over the prior year due to pension payments in excess of the actuarially determined obligation.

Non-Current Assets

The Port Authority's major facilities include five bus garages, a rail center, a complex housing the Power and Way Departments, the Manchester Administrative Center and General Shops building, South Hills Village Parking Garage, fixed guideways such as the 9.1 mile Martin Luther King, Jr. East Busway, 4.3 mile South Busway, 5.0 mile West Busway, 48.9 miles of Light Rail Transit (LRT) infrastructure, the Monongahela Incline, and other various structures that are situated throughout Allegheny County.

Total non-current assets fell by $66.1 million in fiscal year 2010 principally due to an $82.6 million reduction in restricted assets for capital lease obligations. Assets were restricted for payment of principal and interest on a sale-lease back transaction for light rail vehicles that the Port Authority entered into June 1997 but re-classified from a non-current asset to a current asset as Port Authority's U.S. lease moves closer to termination.

Restricted assets for capital additions and related debt decreased by $8.2 million from fiscal year 2009 due to a $7.7 million decrease in the *Deferred Capital Project Fund.* This account represents borrowings the Port Authority must do until State funding becomes available for capital projects.

The reduction in non-current assets was partially offset by a $25.2 million increase in Capital assets, net of accumulated depreciation. This increase was the result of a $113.9 million increase in work in process coupled with an $88.0 million offsetting increase in accumulated depreciation. Work in process increased due to continued work on the North Shore Project.

Major capital project activities in fiscal year 2010 included:

- Incurred costs of approximately $90.7 million on construction of the North Shore Connector project. The total costs include:

    - Approximately $8.7 million for the construction of the tunnel,
    - $17.1 million for the Gateway Station,
    - $27.7 million for costs related to the Aerial Structure component of the project,
    - $17.7 million for costs related to the Train Systems component of the project,
    - $7.0 million for costs related to Station Finishes, and
    - $12.0 million for various Construction Management related costs.

- The Capital Budget included expenses totaling $6.6 million for the Regional Automated Fare Collection System.

Current Liabilities

The Port Authority's total current liabilities increased by $68.5 million over fiscal year 2009 levels due to the re-classification of the Port Authority's $78 million light-rail capital lease from non-current to current. Current liabilities include accounts payable; accrued compensation, benefits, and withholdings; deferred credits; reserves for claims and settlements; current portion of capital lease obligation; current portion of bonds payable; and other short-term liabilities.

Accounts payable increased by $8 million due to an $8.3 million increase in accounts payable-unvouchered. The current portion of bonds payable increased by $1.1 million over fiscal year 2009 levels contributing to the increase in total current liabilities.

Non-Current Liabilities

Port Authority's non-current liabilities include long-term debt obligations, reserves for claims and settlements, certain derivative instruments, and accrued OPEB liability. Non-current liabilities decreased by $54.2 million in fiscal year 2010 due primarily to the re-classification of its capital lease obligation as a current liability. At fiscal year-end 2010, net bonds payable totaled $272.2 million, a decrease of $21.1 million from the prior year. This decrease is attributable to a reduction in the Koch bus financing obligation. Reserves for claims and settlements decreased $1.8 million in fiscal year 2010. Accrued OPEB liability rose by $33.8 million for fiscal year 2010 as the January 1, 2009 actuarial valuation includes updated trend assumptions and reflects the impact of claim and data experience as well as actual premium increases.

Port Authority of Allegheny County Outstanding Long-Term Debt at Year-End (in millions)		
	2010	**2009**
Series of 2001	$229.8	$237.3
Koch Bus Financing	$52.65	$66.2
(Discounts) and Premiums	$.262	$.806
Deferred Amount of Refunding	$(10.51)	$(11.07)
Total	**$ 272.2**	**$ 293.3**

Net Assets

The Port Authority continues to invest in capital assets. Net of related debt, capital assets increased from $1.224 billion to $1.261 billion, or 0.3%. Total Net Assets decreased to $1.092 billion from $1.097 billion.

Financial Comparison: Fiscal Year 2010 over Fiscal Year 2009

The following discussion measures the financial performance of the Port Authority by comparing the actual revenues, expenses, and changes in net assets between fiscal year 2010 and fiscal year 2009. This section comments on revenue and expense categories that exhibited significant dollar variances between fiscal year 2010 and fiscal year 2009.

Revenues

Operating revenues increased by $.4 million in fiscal year 2010 and comprised 27.2% of total revenues required to support the operating budget, which was down slightly from 27.4% in fiscal year 2009. Non-operating revenues increased by $3.6 million between fiscal year 2009 and fiscal year 2010. The change in Non-operating revenues was predominantly attributable to a $9.2 million increase in the use of Act 44 Funds.

Fare increases effective January 2010 resulted in increased passenger revenue despite approximately 2.5 million fewer riders. The largest increase was in monthly pass sales which increased by $1.1 million.

Ticket sales increased by $713,406. Contract service revenue increased by $1.1 million with contractual increases with the University of Pittsburgh and Carnegie Mellon University. In addition, Chatham College entered into a contract with the Port Authority during fiscal year 2010. These increases were offset by a $1.7 million decrease in annual passes and a $400,000 reduction in weeklies.

As indicated in the *Port Authority Ridership Summary* below, total ridership decreased by -3.7% from fiscal year 2009 levels. Decreases were noted in all modes of service.

Port Authority Ridership Summary			
	2010	**2009**	**%Increase/ (Decrease)**
Bus, Light Rail and Incline	49,397,989	51,143,088	-3.4%
Contract Services	7,065,976	7,484,010	-5.6%
Senior Citizens	5,818,655	6,147,990	-5.3%
ACCESS	1,650,825	1,699,537	-2.9%
Free Ridership	1,752,589	1,756,092	-.2%
Total	**65,686,034**	**68,230,717**	**-3.7%**

In spite of a 2.5 million reduction in ridership in fiscal year 2010, bus, trolley and light rail revenues, including contract service revenue from local universities, increased slightly. The largest revenue category increase was in monthly pass sales which increased by $1.1 million. Ticket sales increased by $713,406. Contract service revenue increased by $1.1 million due to contractual increases with the University of Pittsburgh and Carnegie Mellon University. In addition, Chatham College entered into a contract with Port Authority during fiscal year 2010.

The Port Authority contracts with Veolia Transportation Services Inc. for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth of Pennsylvania reimburses the Port Authority for a portion of the costs incurred in providing this program. In fiscal year 2010, ACCESS revenues decreased by approximately $78,000 which was partially offset by a $32,000 decrease in ACCESS expenses.

Expenses

The Port Authority's total fiscal year 2010 operating expenses, net of capitalizations, increased by $36.9 million or 11% over fiscal year 2009. Operating expense increases were predominantly due to an $18.4 million increase in employee benefits of which $13 million was related to pension. Losses due to the economic downturn have dramatically impacted the Port Authority's payment obligation on the actuarial unfunded portion of its pension funding. Despite changes in the collective bargaining agreement with the Amalgamated Transit Union #85 (ATU-#85) that resulted in significant changes in retirement eligibility, OPEB expense increased by $15.0 million. Increased premiums for Medicare Advantage and Medicare Advantage Prescription Drug Coverage coupled with higher actuarial healthcare premium trend assumptions negated much of the anticipated reductions in OPEB.

Fiscal year 2010 wages and salaries increased by $6.9 million from fiscal year 2009 levels which were attributable to a contractual wage increase for ATU #85 personnel. Contracted wage and salary increases for International Brotherhood of Electrical Workers (IBEW) and Non-represented employees also increased.

A number of operating expense categories had decreases in fiscal year 2010 – materials and supplies, ACCESS program services, provision for injuries and damages, utilities, purchased services, and other expenses.

Materials and supplies decreased by $709,092 due to a $4.6 million decrease in the diesel fuel account that was partially offset by higher expenses for materials and supplies.

ACCESS program service expense for fiscal year 2010 was lower than fiscal year 2009 by $316,430 or -1.3%. This decrease was due to a lower number of riders using the ACCESS program and a shift of service to lower cost carriers.

The provision for injuries and damages expenses decreased from fiscal year 2009 levels by $1.8 million. This was primarily due to a $711,815 decrease in workers compensation indemnity payments, an $864,242 reduction in litigated settlements, and reduced body injury/uninsured injury expenses of $284,398.

Savings in natural gas and electricity utilities in fiscal year 2010 totaling $307,384 were partially offset by increased telecommunications expenses of $181,201.

Purchased services operating expenses decreased by $1.4 million predominantly due to a $775,725 reduction in the line-item expense of work done by outside contractors.

Other expenses decreased by $406,439 largely due to reduced litigated settlements-capital of $1.2 million and savings of $908,926 in computer equipment expense.

The capitalization category represents reimbursement from capital funds of personnel and non-personnel operating expenses incurred that are associated with capital projects. In addition, the capitalization category includes reimbursement of expenses associated with Access-to-Jobs, the Federal Flex program for New Service Initiatives, and non-fixed asset capital expenses. The amount of capitalizations subtracted from gross operating expenses decreased in fiscal year 2010 by $1.3 million from fiscal year 2009.

Non-Operating Revenues

Total fiscal year 2010 non-operating revenues increased by $3.5 million, or 1.4%, from fiscal year 2009. Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provided operating subsidies in fiscal year 2010 in the amount of $184.5 million under Act 44. The operating subsidies from Allegheny County for fiscal year 2010 were unchanged from fiscal year 2009 with the County contributing the required 15% local match.

In fiscal year 2009, Port Authority utilized $9,100,000 in preventive maintenance funding. The amount of preventive maintenance funding decreased 23% to $7.1 million in fiscal year 2010. This program involves the use of Section 5307 funding to offset the cost of salaries and wages associated with operating expenses incurred in the inspection, maintenance, and servicing of revenue vehicles.

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

The Capital Cost of Contracting component of non-operating revenues decreased by $3.2 million from fiscal year 2009 due to a delay in receipt of the Section 5307 Block Grant. These funds will be received in fiscal year 2011. These federal funds are used to offset up to 50% of the total program costs incurred for the ACCESS program.

Interest income for fiscal year 2010 and fiscal year 2009 was $32,942 and $409,345; interest expense, $122,997 and $0, respectively. Interest income in fiscal year 2010 decreased from the previous year due to lower rates of return on the Port Authority's cash reserves. In fiscal year 2009, the Port Authority had sufficient working capital making it unnecessary to use short-term financing such as a Grant Anticipation Note (GAN) or a line of credit. In fiscal year 2010, the Port Authority used a line of credit for cash flow purposes when needed which accounts for the interest expense.

Conditions Affecting Future Financial Position

Port Authority, like many transit agencies across the country, is faced with reducing service and raising fares in the absence of improved state and federal support for service delivery. At a time when the economic downturn is hurting metropolitan areas and residents across the country, these service reductions and fare increases are occurring at the worst possible time. Service cuts, layoffs, and fare increases will result in significant traffic congestion, adverse economic impact on businesses across the region, and the loss of an essential lifeline to many seniors, youth, and the disabled.

The Port Authority expected that passage of the Commonwealth's Act 44 Public Transportation Program would provide reliable and growing operating and capital dollars to meet the needs of the Port Authority. The Port Authority, however, was notified in late summer that the Commonwealth's application to the U.S. Department of Transportation to toll Interstate Highway 80 (I-80), a centerpiece of the funding plan, was denied for a second time. As a result, the Port Authority faces a significant operating deficit in its 2011 budget. To meet its balanced budget obligation, the Port Authority Board of Directors authorized on November 24, 2010 fare increases effective January 1, 2011, significant reductions in service hours effective March 13, 2011, and use of operating reserves to meet operating expense for fiscal year 2011.

The Port Authority continues to review operations and make improvements to achieve a more efficient and effective delivery of service throughout the region. A number of key initiatives are underway to improve efficiencies in operations and revenue collection despite planned reductions.

The Transit Development Plan (TDP) represents the most extensive system-wide planning effort in the history of the Port Authority. Planning occurred over a two-year period with the final TDP adopted by the Board in October 2009. The TDP provides more consistent, streamlined service with improved productivity by better matching service with passenger demand. Full implementation is occurring over a two-year period. It began in April 2010 with the first phase of route changes and will continue through March 2012. As of September 2010, approximately 80% of the route changes have been implemented with additional components of the TDP including Bus Rapid Transit, streamlined downtown bus circulation patterns, and consolidated bus stops to occur through March 2012.

The Port Authority is implementing the Automated Fare Collection System (AFCS) to improve fare collection by reducing fare avoidance currently associated with the "flash pass" system. A new Smartcard fare box system will replace the current system which in addition to providing a more reliable collection system will provide more reliable ridership information key to continued service improvements.

Pension and other post-employment benefits (OPEB) based on existing contractual commitments continue to affect the Port Authority's expense obligations despite steps to reduce these long-term liabilities. The Port Authority has been a responsible fiduciary of its pension plan assets. At January 1, 2008, its two largest Plans, ATU and IBEW, representing 72% of its long-term pension obligations, were practically fully funded at 97.3% and 98.3%, respectively. The NonRep Plan was at 67.5% funding. As with every pension plan throughout the country, the financial crisis of 2008 resulted in Plan losses. Plan assets at January 1, 2009 declined to 80.6% for the ATU Plan, 78.6% for the IBEW Plan, and 56.8% for the NonRep Plan. With market improvements since 2009, the Plans are realizing improved returns. Actuarial projections for pension expense will exceed $30 million beginning in 2012. It is expected that improvements in market returns will begin to reduce the liability in the future.

Reducing the Port Authority's long-term OPEB obligation has been a key focus of management. Contract concessions on OPEB were achieved in the last ATU negotiations providing annual savings of approximately $22 million and a reduction in the actuarial liability of $109 million. Efforts to further reduce the Port Authority's obligation are planned.

The Port Authority has decided to terminate a swaption contract and settle the transaction with the counterparty, Merrill Lynch Capital Services, Inc., for cash. The Port Authority plans to issue Special Revenue Transportation Bonds, Refunding Series of 2011 to refund the Special Revenue Transportation Bonds, Series of 2001 and terminate the swap contract.

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

With planned fare increases, service hour reductions, and planned use of reserves, the Port Authority expects to meet its current financial obligations. Long-term financial stability will require additional state and federal funding. The Port Authority will continue to work with elected officials to address funding shortfalls in the future.

THE PORT AUTHORITY OF ALLEGHENY COUNTY

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF NET ASSETS

JUNE 30, 2010 AND 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	$ 44,692,263	$ 75,365,101
Capital grants receivable	38,456,235	24,767,033
Other receivables	11,668,117	5,631,501
Prepaid expenses	338,961	266,681
Materials and supplies	9,516,913	8,785,095
Restricted assets for capital lease obligation	78,020,511	-
Net pension asset	10,098,104	2,604,062
Total current assets	192,791,104	117,419,473
Non-current assets:		
Restricted assets for capital lease obligation	16,497,200	99,586,120
Restricted assets for capital additions and related debt	37,971,154	46,173,816
Other non-current assets	805,342	848,478
Capital assets, net of accumulated depreciation	1,516,406,640	1,491,176,106
Total non-current assets	1,571,680,336	1,637,784,520
Total Assets	$ 1,764,471,440	$ 1,755,203,993
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 34,821,949	$ 26,812,502
Accrued compensation, benefits, and withholdings	14,306,058	16,851,592
Deferred credits	33,606,406	46,917,327
Reserves for claims and settlements	8,621,786	8,315,596
Current portion of capital lease obligation	78,020,511	2,872,089
Current portion of bonds payable	21,160,762	20,063,885
Other current liabilities	5,796,836	6,010,741
Total current liabilities	196,334,308	127,843,732
Non-current liabilities:		
Capital lease obligation	16,497,200	96,852,468
Bonds payable, net	272,172,707	293,313,581
Borrowing payable - swaption	9,138,841	8,787,347
Reserves for claims and settlements	5,557,659	7,368,317
Accrued OPEB liability	134,109,497	100,320,377
Embedded derivative instrument	37,837,892	22,874,166
Total non-current liabilities	475,313,796	529,516,256
Total Liabilities	671,648,104	657,359,988
Net Assets:		
Invested in capital assets, net of related debt	1,261,044,325	1,223,972,456
Restricted	-	9,200,000
Unrestricted net assets	(168,220,989)	(135,328,451)
Total Net Assets	1,092,823,336	1,097,844,005
Total Liabilities and Net Assets	$ 1,764,471,440	$ 1,755,203,993

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Operating Revenues:		
Passenger revenues:		
Bus, trolley, and light rail	$ 78,971,332	$ 78,170,030
ACCESS program services	11,810,838	12,591,155
Other income	2,438,020	2,036,747
Total operating revenues	93,220,190	92,797,932
Operating Expenses:		
Wages and salaries	143,667,656	136,737,994
Employee benefits	126,165,500	107,771,849
OPEB expense, net	33,789,120	18,815,075
Materials and supplies	41,450,883	42,159,975
ACCESS program services	23,955,544	24,271,974
Provision for injuries and damages	608,338	2,397,007
Utilities	8,411,657	8,521,429
Purchased services	7,627,725	9,056,216
Other expenses	12,095,647	12,502,086
	397,772,070	362,233,605
Less amounts capitalized	(13,977,983)	(15,306,323)
Total operating expenses	383,794,087	346,927,282
Operating Loss	(290,573,897)	(254,129,350)
Non-Operating Revenues (Expenses):		
Subsidies:		
County	27,668,700	27,668,700
State - Act 44	184,457,990	175,257,990
Vehicle improvement program	2,500,000	2,500,000
Preventive maintenance	7,050,000	9,100,000
Safety renewal program	16,000,000	16,000,000
Capital cost of contracting	11,419,767	14,619,341
Interest income	32,942	409,345
Interest expense	(122,997)	-
Total non-operating revenues (expenses)	249,006,402	245,555,376
Net Revenues Over Expenses Before Capital Related and Other Items	(41,567,495)	(8,573,974)
Capital grant contribution and other revenue	177,212,401	173,866,868
Capital project transfer	-	(27,825,080)
Interest income	8,054,295	9,609,854
Interest expense	(24,151,897)	(25,057,442)
Investment loss on embedded derivative instrument	(14,963,726)	(10,903,185)
Depreciation expense	(109,604,247)	(103,631,137)
Change in Net Assets	(5,020,669)	7,485,904
Total net assets - beginning, as restated	1,097,844,005	1,090,358,101
Total net assets - ending	$ 1,092,823,336	$ 1,097,844,005

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities:		
Receipts from customers	$ 96,670,864	$ 88,241,115
Payments for goods and services	(81,455,174)	(82,794,795)
Payments to employees	(279,872,732)	(249,847,719)
Net cash provided by (used in) operating activities	(264,657,042)	(244,401,399)
Cash Flows From Non-Capital Financing Activities:		
Draws on revolving credit loan	20,000,000	-
Payments on revolving credit loan	(20,000,000)	-
Interest paid on revolving credit loan	(122,997)	-
Operating subsidies	239,158,296	280,201,456
Net cash provided by (used in) non-capital financing activities	239,035,299	280,201,456
Cash Flows From Capital and Related Financing Activities:		
Capital grants received	150,663,149	140,483,036
Investments in transit operating property	(128,021,305)	(141,373,556)
Payments on bonds	(20,063,885)	(25,191,697)
Interest paid on bonds	(25,976,835)	(25,245,796)
Capital lease payments	(3,010,527)	(3,591,414)
Net cash provided by (used in) capital and related financing activities	(26,409,403)	(54,919,427)
Cash Flows From Investing Activities:		
Proceeds from restricted investments	18,213,132	35,374,669
Interest and dividends on investments	3,145,176	2,556,035
Net cash provided by (used in) investing activities	21,358,308	37,930,704
Net Increase (Decrease) in Cash and Cash Equivalents	(30,672,838)	18,811,334
Cash and Cash Equivalents:		
Beginning of year	75,365,101	56,553,767
End of year	$ 44,692,263	$ 75,365,101
Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided By (Used In) Operating Activities:		
Operating loss and depreciation expense	$ (400,178,144)	$ (357,760,487)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	109,604,247	103,631,137
Change in assets and liabilities:		
Other receivables	3,450,674	(4,556,817)
Materials and supplies	(731,818)	88,042
Prepaid expenses and other current assets	(72,280)	2,091,633
Other non-current assets	43,136	115,968
Accounts payable	1,195,972	(845,988)
Accrued compensation, benefits, and withholdings	(2,545,534)	697,040
Reserves for claims and settlements	(1,504,468)	(427,506)
Accrued pension liability	(7,494,042)	(6,034,916)
Accrued OPEB liability	33,789,120	18,815,075
Other current liabilities	(213,905)	(214,580)
Total adjustments	135,521,102	113,359,088
Net cash provided by (used in) operating activities	$ (264,657,042)	$ (244,401,399)
Non-Cash Capital and Related Financing Activities:		
Capital project transfer	$ -	$ (27,825,080)
Change in market value of embedded derivative instrument	$ (14,963,726)	$ (10,903,185)

See accompanying notes to financial statements.

1. ORGANIZATION

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

The financial reporting status of the Authority has been determined to be a component unit of the County for financial reporting purposes in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."* The County Chief Executive appoints the Authority's Board of Directors and the County provides substantial operating subsidies and capital funding.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. GASB is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. In applying the provisions of GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds,"* the Authority applies all GASB pronouncements and all private-sector standards of accounting and financial reporting issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies are as follows:

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Investments

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

Materials and Supplies

The Authority maintains spare parts and supplies that are used to maintain transit equipment. The inventory is stated at cost, net of an allowance for obsolete parts of $1,523,998 at June 30, 2010 and 2009.

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 2010 and 2009, no interest expense was capitalized.

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

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

Revenue, Receivables, and Deferred Revenues

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

Grants and contributions are recorded as revenue when all applicable eligibility requirements are met. The Federal Transit Administration (FTA), the Pennsylvania Department of Transportation, and the County provide financial assistance and make grants directly to the Authority for operation, acquisition of property and equipment, and other capital related expenditures. Operating grants and subsidies in the accompanying statements of revenues and expenses include only operating grants from the indicated sources. Capital grants for the acquisition of property and equipment and other capital related expenditures are recorded as capital grant contribution revenue.

In fiscal year 2008, Act 44 was enacted by the Commonwealth of Pennsylvania (Commonwealth). The Act created a dedicated source of funding called the Public Transportation Trust Fund (PTTF) which provides both operating and capital assistance to the Authority as well as all other transit agencies in the Commonwealth. PTTF includes several existing sources of state funding as well as some new sources. Also, it eliminates the filing of separate applications to receive those funds.

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

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

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

The Authority received $184,457,990 in State operating assistance for fiscal year 2010 under Act 44. These funds were comprised of $172,470,700 in Act 44 Section 1513 funds, $6,834,013 in Section 1516 funds, and $5,153,277 in PTAF operating assistance funds. The State operating assistance funds required local match of $27,668,700, which was provided by the County within fiscal year 2010. During fiscal year 2010, approximately $9.2 million of Act 44 funds were expended that the Authority received and recognized as revenue during fiscal year 2009.

Because of existing debt agreements, the Authority received capital funding under PTAF totaling $34.9 million to use for debt service. Local matching share required for this funding was $1.2 million, which was provided by the County within fiscal year 2010.

The Authority also received $44.8 million in capital funding under Act 44 to be utilized for capital improvements. Approximately $16.8 million was used for Infrastructure Safety and Renewal Programs and approximately $2.8 million was used for vehicle overhaul, which do not require County matching funds. Approximately, $25.2 million was used for other capital projects and requires County matching funds.

The Authority received a total of $8.8 million in capital funding from the County during fiscal year 2010. Of that total, $5.1 million related to funds requested for fiscal year 2010 and $3.7 million related to funds requested during fiscal year 2009 that were receivable at June 30, 2009. In addition, there were fiscal 2010 funds totaling $3.5 million that were requested but were not received as of June 30, 2010.

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

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

At June 30, 2010, the primary components of deferred revenue were: $17.4 million of State Act 3 funds to be used for bus procurement, $5.7 million of County funds to be used for capital grant matching, and $6.7 million of State PTAF funds to be used for 2011 debt service.

Amounts Capitalized

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

Compensated Absences

The Authority follows the provisions of GASB Statement No. 16, *"Accounting for Compensated Absences."* Accordingly, the Authority accrues vacation benefits earned by its employees.

Self-Insurance

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

Bond Issue Costs

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

Refunding Transactions

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

Use of Estimates in the Preparation of Financial Statements

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

Classification of Net Assets

GASB Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,"* requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external restrictions. At June 30, 2009, restricted net assets consisted of $9.2 million in cumulative Act 44 Section 1513 funds available for 2010.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Reclassifications

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

Adoption of Pronouncements

Effective July 1, 2009, the Authority adopted, GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments."* This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The standard requires that accounting changes to conform with the provisions of this statement should be applied retroactively by restating financial statements for all prior periods presented. As such, beginning net assets as of June 30, 2008 and 2009 were restated to comply with the provision of this statement as follows:

Net assets, June 30, 2008	$ 1,101,278,454
Adjustment of prior year deferred revenue for upfront payment	9,500,000
Establish borrowing payable - swaption	(8,449,372)
Establish embedded derivative instrument	(11,970,981)
Net assets, June 30, 2008, as restated	1,090,358,101
Investment loss on embedded derivative instrument	(10,903,185)
Interest expenses on borrowing payable	(337,975)
Change in net assets - 2009 financial statements	18,727,064
Net assets, June 30, 2009, as restated	$ 1,097,844,005

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 2010 and 2009 that were in violation of either state statutes or the policies of the Authority. The Authority does not have a formal investment policy which addresses custodial credit risk, interest rate risk, credit risk, or concentration of credit risk.

The Authority's unrestricted cash and investments are available for general operating purposes and restricted cash and investments are available for acquisition of assets under capital projects and scheduled payments of the Special Revenue Transportation Bonds (Note 5) and a Capital Lease Obligation (Note 12).

GASB Statement No. 40, *"Deposit and Investment Risk Disclosures,"* requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The following is a description of the Authority's deposit and investment risks:

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2010 and 2009, respectively, $34,782,603 and $41,108,498 of the Authority's bank balance of $35,532,603 and $42,137,741 were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of $25,993,868 and $38,014,456 as of June 30, 2010 and 2009, respectively, of which $7,919,137 and $12,220,116, respectively, are reported as current assets in the statements of net assets. The remaining $18,074,731 and $25,794,340, respectively, at June 30, 2010 and 2009 is included in restricted assets in the statements of net assets.

In addition to the deposits noted above, included in cash and cash equivalents on the statements of net assets are the following short-term investments: mutual funds of $13,451 and $9,925,671 at June 30, 2010 and 2009, respectively; and external investment pool (INVEST) investments of $36,759,675 and $53,219,314 at June 30, 2010 and 2009, respectively.

Other than the investments in INVEST and mutual funds noted above, the Authority held the following investment balances which are included in restricted assets on the statements of net assets at June 30, 2010:

		Maturity in years	
	Fair market value	Less than 1 year	1-5 years
U.S. Treasuries:			
Interest-only strips	$ 43,750,799	$ 26,806,161	$ 16,944,638
FHLB	10,021,570	10,021,570	-
Guaranteed investment contracts	50,766,912	50,766,912	-
Mutual funds	9,874,853	9,874,853	-
Total	$ 114,414,134	$ 97,469,496	$ 16,944,638

The fair value of the Authority's investments is the same as their carrying amount. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares.

All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the Authority's investments.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2010, the Authority's investments in INVEST, mutual funds, and FHLB were rated AAA by Standard & Poor's. Additionally, at June 30, 2010, the Authority had a guaranteed investment contract that was unrated and relates to lease transactions that are more fully described in Note 12.

As further described in Note 13, the Authority has a derivative instrument that is accounted for as an investment. Credit and interest rate risks related to this investment are described in Note 13.

Risks and Uncertainties

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

4. Capital Assets/Accumulated Depreciation

A summary of changes in capital assets is as follows:

	June 30, 2009	Increases	Decreases	June 30, 2010
Capital assets, not being depreciated:				
Land	$ 105,699,098	$ -	$ (7,316)	$ 105,691,782
Projects in progress	282,512,639	116,734,651	(2,885,833)	396,361,457
Total capital assets, not being depreciated	388,211,737	116,734,651	(2,893,149)	502,053,239
Capital assets, being depreciated:				
Buildings	218,365,983	2,117,854	-	220,483,837
Transportation equipment	659,067,048	16,020,962	(11,222,734)	663,865,276
Track, roadway, and subway stations	1,293,666,323	1,936,867	(104,792)	1,295,498,398
Other property, equipment, and assets	94,769,619	910,282	(10,331,105)	85,348,796
Total capital assets being depreciated	2,265,868,973	20,985,965	(21,658,631)	2,265,196,307
Less accumulated depreciation for:				
Buildings	(114,560,762)	(7,257,861)	-	(121,818,623)
Transportation equipment	(354,373,908)	(53,045,953)	11,212,318	(396,207,543)
Track, roadway, and subway stations	(622,476,370)	(44,985,127)	116,671	(667,344,826)
Other property, equipment, and assets	(71,493,564)	(4,298,914)	10,320,564	(65,471,914)
Total accumulated depreciation	(1,162,904,604)	(109,587,855)	21,649,553	(1,250,842,906)
Total capital assets, being depreciated, net	1,102,964,369	(88,601,890)	(9,078)	1,014,353,401
Total capital assets, net	$ 1,491,176,106	$ 28,132,761	$ (2,902,227)	$ 1,516,406,640

During 2009, $27.8 million related to the Maglev project was removed from projects in progress after a determination was made that administrative responsibility of the project would be transferred from the Authority to the Commonwealth. Accordingly, the deletion is reflected as capital project transfer on the statements of revenues, expenses, and changes in net assets.

5. LONG-TERM DEBT

On July 14, 1999, the Authority issued $71,960,000 of the Subordinate Lien Special Revenue Transportation Bonds Series of 1999 (the 1999 Sub Bonds). The proceeds from the sale of the 1999 Sub Bonds were used primarily to acquire 200 mass transit buses. Further, the proceeds may also be used to make other capital additions and improvements, fund the Debt

Service Reserve Fund related to the 1999 Sub Bonds, and pay for the costs of issuing the 1999 Sub Bonds. The bonds were repaid in full during the fiscal year 2009.

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

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

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

In connection with this advance refunding, a portion of the proceeds of the 2001 Bonds was deposited into an irrevocable trust with an escrow agent to provide for certain debt service payments on the refunded bonds. The advance refunding resulted in a deferred refunding adjustment of $15,771,597 that will be amortized over the life of the 2001 Bonds. At June 30, 2010 and 2009, $5,257,199 and $4,693,928 have been amortized, respectively. During 2009, the balance of the refunded 1999 Bonds of $225,000,000 was repaid in full from the irrevocable trust account.

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

The 2001 Bonds' discount of $1,564,785 and the 2001 Bonds' issuance costs of $1,207,946 are being amortized over the twenty-eight year term of the 2001 Bonds. At June 30, 2010, $521,595 of the 2001 Bonds premium and $465,710 of the 2001 Bonds issuance costs have been amortized. At June 30, 2009, $465,710 of the 2001 Bonds premium and $359,508 of the 2001 Bonds issuance costs have been amortized.

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

During fiscal year 2003, the Authority entered into a Master Financing Agreement (Agreement) for the purchase of fixed assets, primarily buses. As of June 30, 2010 and 2009, the Authority had incurred $131,631,500 of debt related to this financing. This debt is secured by an equity interest in the purchased fixed assets.

Interest on the debt is payable semiannually on each March 1 and September 1, commencing September 1, 2003. Interest rates are set at the time of the draw down, most recent draws outstanding bear interest at 5.25%.

The debt was issued at a premium of $6,010,768, which is being amortized over the ten-year term of the Agreement. At June 30, 2010 and 2009, $4,705,448 and $4,106,185 have been amortized, respectively.

The following is a summary of debt transactions of the Authority for the year ended June 30, 2010:

	Balance at July 1, 2009	Amortization/ Payments and Retirements	Balance at June 30, 2010
Series of 2001 Bonds	$ 244,490,000	$ (7,150,000)	$ 237,340,000
Master Financing Agreement	79,159,672	(12,913,885)	66,245,787
	323,649,672	(20,063,885)	303,585,787
Unamortized net bond premium	805,466	(543,383)	262,083
Unamortized deferred amount on refunding	(11,077,672)	563,271	(10,514,401)
Net outstanding	$ 313,377,466	$ (20,043,997)	293,333,469
Less current amounts:			
Series of 2001 Bonds			(7,560,000)
Master Financing Agreement			(13,600,762)
Total current bonds payable			(21,160,762)
Total long-term bonds payable			$ 272,172,707

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

Year Ending June 30,	Principal	Interest	Total
2011	$ 21,160,763	$ 15,491,412	$ 36,652,175
2012	22,289,175	14,361,680	36,650,855
2013	23,481,064	13,171,643	36,652,707
2014	18,345,766	11,960,475	30,306,241
2015	16,532,858	11,034,845	27,567,703
2016-2020	61,401,161	44,245,494	105,646,655
2021-2025	70,350,000	28,401,000	98,751,000
2026-2029	70,025,000	8,966,500	78,991,500
Total	$ 303,585,787	$ 147,633,049	$ 451,218,836

Restricted assets include approximately $19.9 million of cash invested in a debt service reserve fund restricted for debt service on the above bonds.

In conjunction with their swaption transaction described in Note 13, the Authority received an up front cash payment. A portion of the upfront cash payment received by the Authority was considered to be a borrowing at a rate of 4%. As of June 30, 2010 and 2009, the borrowing had an outstanding balance of $9,138,841 and $8,787,347, respectively. No payments will be made on the borrowing until the swaption is exercised by the counterparty. If exercised, principal and interest payments will begin in March 2012 and will continue until the borrowing's final maturity in 2029, as summarized in the table below. Interest is currently being accreted to the principal amount annually. Accreted interest on the borrowing was $2,005,841 and $1,654,347 at June 30, 2010 and 2009, respectively.

Year Ending June 30,	Principal	Interest	Total
2011	$ -	$ -	$ -
2012	877,137	365,554	1,242,691
2013	889,123	330,468	1,219,591
2014	851,589	294,903	1,146,492
2015	812,553	260,840	1,073,393
2016-2020	3,370,336	850,134	4,220,470
2021-2025	1,900,062	292,922	2,192,984
2026-2029	438,041	30,953	468,994
Total	$ 9,138,841	$ 2,425,774	$ 11,564,615

6. Revolving Credit Loan Agreement

In September 2009, the Authority entered into a $20,000,000 Revolving Credit Loan Agreement (Revolving Loan) with PNC Bank to provide working capital for 2010 operating expenses. The Revolving Loan was secured by the 2010 Operating Assistance Grant from the Commonwealth. The rate of interest was determined as of each drawdown date based on one of two interest rate options (Base Rate Option and Euro-Rate Option) selected by the Authority. All drawdown requests were repaid in full during 2010 and the Revolving Loan was closed on June 30, 2010.

7. ACCESS Program Services

The Authority has a contract with Veolia Transportation Services, Inc., which provides professional services to coordinate the paratransit system, ACCESS, which provides transit services within the County for elderly and handicapped individuals. Expenses under this contract amounted to $24 million in fiscal year 2010 and $24.3 million in fiscal year 2009.

The Authority currently receives partial reimbursement for these services from the Commonwealth in the form of a grant. The amount is based on ridership and average fare statistics. Revenue under this program totaled $11.8 million in fiscal year 2010 and $12.6 million in fiscal year 2009.

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

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

The Authority is self-insured for its compensation and occupational disease liability in accordance with the provisions of Article III, Section 305 of the Pennsylvania Workmen's Compensation Act (Act). On a yearly basis, the Authority carries excess workers' compensation insurance in the amount of $5,000,000 over its self-insurance retention of $1,000,000 per occurrence to further ensure that it can meet its obligation under the Workers' Compensation Act. The Authority maintains an estimate of its potential liability related to claims that have been filed as of June 30, 2010. The reserve balance is approximately $9.8 million and $10.5 million at June 30, 2010 and 2009, respectively.

9. Commitments and Contingencies

In the ordinary course of the Authority's operations and capital grants projects, there have been various legal proceedings brought against the Authority. The Authority has estimated and accrued for a provision of approximately $4.4 million of potential losses resulting from all of the cases it is currently aware of. Based on an evaluation that included consultation with an outside legal counsel concerning the legal and factual issues involved, management is of the opinion that these matters will not result in material adverse effect on the Authority's operations and financial position.

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

The Authority has entered into a full funding grant agreement with the FTA for the North Shore Connector project. It involves extending the Authority's existing Light Rail Transit system (LRT) in Pittsburgh's urban core. The project will create a 1.5-mile extension of the LRT from the Gateway Center Station to Pittsburgh's North Shore via twin bored tunnels under the Allegheny River. The capital costs of this project are estimated to be $528.8 million and will be paid from federal, state, and local sources. As of June 30, 2010, approximately $384.4 million of project costs had been incurred and the Authority's contract commitments related to this project approximated $111.5 million.

10. Pension Plans

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

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

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

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

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

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

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

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 23,775,612	$ 678,544	$ 5,013,989
Interest on net pension obligation	(319,304)	(41,395)	(35,553)
Adjustment to annual required contribution	13,885	46,784	44,133
Annual pension cost	23,470,193	683,933	5,022,569
Contributions made	28,372,784	462,598	5,486,264
Increase (decrease) in net pension obligation	(4,902,591)	221,335	(463,695)
Net pension obligation (asset) beginning of year	(3,991,305)	(517,433)	(444,415)
Net pension obligation (asset) end of year	$ (8,893,896)	$ (296,098)	$ (908,110)

Actuarial valuation date	1/1/2009	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Monthly Payments	Level Dollar Monthly Payments	Level Dollar Monthly Payments
Asset valuation method	Smoothed Mkt	Smoothed Mkt	Smoothed Mkt
Remaining amortization period:			
UAL (05 - ATU, 09 - IBEW, 06 - NonRep)	21 years	25 years	22 years
2005 Actuarial loss	12 years		
2006 Actuarial loss	13 years		13 years
Assumption change at 1/1/2007	23 years		23 years
2007 Actuarial gain	14 years		14 years
Assumption change at 1/1/2008	24 years		24 years
Plan change at 1/1/2008			24 years
2008 Actuarial loss			15 years
2009 Actuarial loss	15 years		
Assumption change at 1/1/2009	25 years		
Actuarial assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases	2% - 3%	3.5%	3.5%

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

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

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
ATU Plan:	June 30, 2010	$ 23,470,193	121%	$ (8,893,896)
	June 30, 2009	9,734,310	146%	(3,991,305)
	June 30, 2008	12,859,942	116%	481,296
IBEW Plan:	June 30, 2010	683,933	79%	(296,098)
	June 30, 2009	255,013	515%	(517,433)
	June 30, 2008	1,098,927	60%	540,401
NonRep Plan:	June 30, 2010	5,022,569	109%	(908,110)
	June 30, 2009	3,675,660	124%	(444,416)
	June 30, 2008	4,544,609	90%	431,923

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
ATU	$ 624,449	$ 774,856	$ 150,407	80.6%	$ 134,547	111.8%
IBEW	18,565	23,613	5,048	78.6%	2,897	174.2%
NonRep	57,197	100,652	43,455	56.8%	16,954	256.3%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. For the ATU actuarial valuation as of January 1, 2009, the following actuarial assumptions were changed to better reflect anticipated experience: the assumed rates of retirement changed to reflect the changes to the availability and cost-sharing of retiree medical benefits; the wage increase changed from 3.5% per year to 3% effective January 1, 2009, 2.0% effective January 1, 2010, 3.0% effective January 1, 2011, 3.0% effective January 1, 2012, and 3.5% for all years thereafter; the projection of pension wages was updated to account for the wage progression and the 2009 top operator rate.

The ATU, IBEW, and NonRep Plans had actuarial losses during 2008 (January 1, 2009 actuarial valuation) of $147 million, $5.2 million, and $11.7 million, respectively. The rate of return on the actuarial value of assets, which is the smoothed value used for funding was less than the 8.0% valuation interest assumption, resulting in actuarial losses. The next actuarial valuation will be performed as of January 1, 2010.

11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

Funding Policy. The Authority's contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2010 and 2009, the Authority contributed $32,591,679 and $31,124,023, respectively, to the plans. Plan members receiving benefits contributed $2,406,982 and $2,939,081, respectively, for the fiscal years June 30, 2010 and 2009, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing percentages for the ATU, IBEW, and Non-Rep Plans are based on the particular health care coverage that is selected by the retiree, the number of family members covered and the age of the retiree and each covered family member, an when retirement became effective.

Annual OPEB Cost. The Authority's annual OPEB cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

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

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

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 61,650,652	$ 1,931,425	$ 4,364,309
Interest on net OPEB obligation	3,834,416	151,749	26,650
Adjustment to annual required contribution	(5,330,401)	(210,953)	(37,048)
Annual OPEB cost	60,154,667	1,872,221	4,353,911
Contributions made	28,159,801	721,129	3,710,749
Increase (decrease) in net OPEB obligation	31,994,866	1,151,092	643,162
Net OPEB obligation (asset) beginning of year	95,860,409	3,793,715	666,253
Net OPEB obligation (asset) end of year	$ 127,855,275	$ 4,944,807	$ 1,309,415

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

Actuarial valuation date	1/1/2009, projected forward to 1/1/2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Asset valuation method	N/A - the plans are unfunded
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%
Health care inflation rate:	
Medical trend	8.85% in 2009, grading to 5% in 2018
Dental trend	7% in 2009, grading to 5% in 2018
Vision trend	2% per year
Mortality	RP-2000 table, with collar adjustments, and projected to 2007

The Authority's actuarial accrued liability and Annual OPEB cost increased significantly in 2010 as the January 1, 2009 actuarial valuation includes updated trend assumptions and reflects the impact of claims and data experience and actual premium increases that impacted the actuarial accrued liability and annual OPEB cost. The Authority's OPEB cost for 2010 increased approximately $16 million from 2009. The next actuarial valuation will be performed as of January 1, 2011.

Due to recent health care reform, the cost of Medicare Part D premiums may increase by more than the assumed 8.25% from 2010 to 2011. The Authority has yet to receive notification of the actual increase and is unable to determine the impact, if any, that the potential increase may have on its actuarial accrued liability and annual OPEB cost.

Three-Year Trend Information

	Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
ATU Plan:	June 30, 2010	$ 60,154,667	47%	$ 127,855,275
	June 30, 2009	44,675,402	60%	95,860,409
	June 30, 2008	63,593,737	35%	78,054,137
IBEW Plan:	June 30, 2010	1,872,221	39%	4,944,807
	June 30, 2009	1,787,170	34%	3,793,715
	June 30, 2008	1,725,178	22%	2,609,741
NonRep Plan:	June 30, 2010	4,353,911	85%	1,309,415
	June 30, 2009	3,476,526	105%	666,253
	June 30, 2008	3,553,400	107%	841,424

Funded Status and Funding Progress

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

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
ATU	$ -	$ 713,477	$ 713,477	0.0%	$ 134,547	530.3%
IBEW	-	22,325	22,325	0.0%	2,897	770.6%
NonRep	-	76,701	76,701	0.0%	16,954	452.4%

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

12. LEASE TRANSACTIONS

On June 11, 1997, the Authority entered into a sale-leaseback transaction related to some of its existing light rail vehicles (US Lease). The terms of the US Lease arrangement are 14 years and provide an option for the Authority to repurchase the light rail vehicles at the end of the initial US Lease term in 2011. This transaction meets the requirements of a capital lease obligation. A deferred gain of $3,737,955 is being amortized over the life of the US Lease arrangement. Restricted assets for capital lease obligation includes investments purchased by the Authority to meet future cash flow needs of the US Lease. As part of the US Lease arrangement, the Authority entered into a payment undertaking arrangement with a subsidiary of AIG Insurance Company (AIG), the purpose of which was to deposit funds with a subsidiary of AIG to meet future cash flow needs of the US Lease. Thus, the Authority has a receivable in the amount of $50,766,912 and $56,469,327 at June 30, 2010 and 2009, respectively, which is guaranteed by AIG. Additionally, the Authority has treasury securities in the amount of $43,750,799 and $43,116,793 at June 30, 2010 and 2009, respectively, which are restricted for US Lease payments. Interest-only payments began in fiscal year 2002 and interest and principal payments began in fiscal year 2005.

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

AIG's ratings are currently A- and A3 (November 22, 2010), which means that any further downgrade would require the Authority to replace AIG if requested by an equity investor.

In addition, the Authority also has another agreement related to the US Lease with Ambac Indemnity Corporation (Ambac). The documents require that the Authority replace Ambac in the event that (a) the long-term unsecured debt obligations of Ambac are not rated AA- by Standard & Poor's and Aa3 by Moody's and (b) the Authority is directed to do so by an equity investor. This replacement is required to occur within 60 days of receipt of the direction and would be at the sole cost of the Authority.

Ambac's ratings are currently R and Caa2 (as of November 22, 2010). During the fourth quarter of 2008, the Authority was notified by both equity investors that given the decline in the credit rating of the equity strip provider (Ambac), and pursuant to the terms of the documents, the Authority was requested to replace the Equity Strip Agreement and provider in accordance with the documents. As the market value of the underlying investments exceeded the termination value of the lease, the Authority requested that the equity investors forebear the requested replacement of the equity strip provider since the Authority has continued to make payments under the lease and the equity investors do not have any current risk exposure. The equity investors have not further pursued their requests. As of November 22, 2010, the equity value of the underlying investments remains sufficient to pay the current termination value of the lease.

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

Fiscal Year	Amount
2011	$ 79,594,515
2012	16,984,057
Subtotal	96,578,572
Less: interest	(2,060,861)
Net obligation under capital lease	$ 94,517,711

13. SWAPTION

During fiscal year 2004, the Authority entered into a swaption contract that provided the Authority an up-front payment of $10.1 million. The swaption gives the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap on the first day of each March or September during the period commencing on, and including, March 1, 2011 and terminating on March 1, 2014.

Per the swap agreement, the Authority would receive interest at the variable rate of 67% of one month LIBOR (London Interbank Offered Rate) while paying a fixed rate of 4.53%. The interest payments are calculated based on a notional amount of $234,470,000, which reduces beginning on March 1, 2012. The swap would expire on March 1, 2029.

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

As of June 30, 2010 and 2009, the swaption had a fair value of ($46,976,733) and ($31,661,513), respectively. As the swaption is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative liability and as a borrowing on the statements of net assets. The changes in fair market value of ($14,963,726) and ($10,903,185) during fiscal years 2010 and 2009, respectively, are recorded as a component of investment income on the statements of revenues, expenses, and changes in net assets. The mark to market value is calculated using a combination of the zero-coupon method and an option pricing model.

A portion of the upfront cash payment received by the Authority at the time the swaption was entered into is considered to be a borrowing at a rate of 4%. As of June 30, 2010 and 2009, the borrowing had an outstanding balance of $9,138,841 and $8,787,347, respectively and is disclosed in more detail in Note 5.

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

In connection with this transaction, the Authority has issued a Subordinate Lien Special Revenue Transportation Note, Series of 2004 (2004 Note). The 2004 Note was issued for the purpose of evidencing and securing the Authority's uninsured payment obligations with respect to the interest rate swap. The amount due under this 2004 Note agreement is dependent on the swap, but at no time may exceed $38,750,000. As of June 30, 2010 and 2009, this 2004 Note had not been drawn on and, as such, there was no balance outstanding.

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

- Credit risk is the risk that a counterparty will not fulfill its obligations. Although the underlying swap exposes the Authority to credit risk should the swap be executed, the swaption itself does not expose the Authority to credit risk. On June 30, 2010, the swaption counterparty is rated A2 by Moody's Investors Services, Inc. and A by Standard & Poor's, nationally recognized statistical rating organizations. If the option was exercised and the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swaption. However, as of both June 30, 2010 and 2009, the swaption had a negative fair market value to the Authority and as such the Authority had no credit risk exposure related to this transaction. Performance of the counterparty as it relates to this transaction is guaranteed by the counterparty's parent company. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade) the counterparty would be required to post collateral to support its obligations under the swap. As of June 30, 2010, there is no collateral posted by the Counterparty related to this transaction, nor has there been any collateral posted since inception of the swaption.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. The Authority's swaption is exercisable by the counterparty beginning in March 2011. The swaption is highly sensitive to changes in interest rates; changes in the variable rate will have a material effect on the swaption's fair market value. If exercised, the resulting interest rate swap will have scheduled maturity dates beginning in fiscal year 2012 through 2029. As of year-end, the Authority is currently evaluating alternative financing arrangements most of which include terminating the swaption prior to its exercise date.

Contingent Features

The Counterparty may require the Authority to post collateral in the event that the swaption is exercised and the fair value is a negative amount which exceeds the threshold amount which is determined by the Authority's then current S&P or Moody's rating, if any. In the event that the collateral is called, the Authority would have to post collateral of cash and short term securities up to the fair market value of the swaption at that time. As of June 30, 2010 and 2009, respectively, the Authority had not posted any collateral. As of November 22, 2010, the fair value of the swap is ($50,118,127).

14. LIQUIDITY

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

To mitigate the resulting deficit the Authority's Board of Directors voted on November 24, 2010 to increase fares and reduce expenditures resulting in a balanced budget. Fare increases will go in effect beginning January 1, 2011 with significant service reductions implemented in March 2011. Combined with use of reserves, the Authority expects to meet current financial obligations. The Authority continues to work with Commonwealth elected officials to address the funding shortfall.

The Authority has a line of credit for working capital in the amount of $20 million. In fiscal year 2010, the Authority drew a maximum of $10 million for cash flow purposes which was paid back within two months.

15. SUBSEQUENT EVENT

The Authority's swaption contract can be exercised by the Counterparty, Merrill Lynch Capital Services, Inc. on March 1, 2011. The Counterparty has indicated it will likely exercise the option and put the Authority into the associated pay-fixed, receive-variable interest rate swap. The Authority has determined it is in its best interest to terminate the option and cash settle the transaction. The Authority's Board of Directors on November 24, 2010 authorized the issuance of Special Revenue Transportation Bonds, Refunding Series of 2011 the purpose of which is to refund the Special Revenue Transportation Bonds, Series of 2001 and terminate the swap contract. The Authority is proceeding accordingly.

Required
Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

PENSION PLANS

YEAR ENDED JUNE 30, 2010
(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Liability Entry Age	(b-a) (Overfunded) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	(Overfunded)/Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
ATU Plan:						
01/01/09	$ 624,449	$ 774,856	$ 150,407	80.6%	$ 134,547	111.8%
01/01/08	741,403	762,018	20,615	97.3%	123,955	16.6%
01/01/07	706,909	754,026	47,117	93.8%	129,386	36.4%
01/01/06	690,376	711,093	20,717	97.1%	128,006	16.2%
01/01/05	703,755	706,123	2,368	99.7%	128,433	01.8%
01/01/04	721,160	690,477	(30,683)	104.4%	125,550	-24.4%
IBEW Plan:						
01/01/09	$ 18,565	$ 23,613	$ 5,048	78.6%	$ 2,897	174.2%
01/01/08	22,448	22,844	396	98.3%	3,083	12.8%
01/01/07	20,798	23,774	2,976	87.5%	3,252	91.5%
01/01/06	20,293	21,012	719	96.6%	3,233	22.2%
01/01/05	20,235	20,183	(52)	100.3%	3,107	-1.7%
01/01/04	20,274	19,483	(791)	104.1%	3,091	-25.6%
NonRep Plan:						
01/01/09	$ 57,197	$ 100,652	$ 43,455	56.8%	$ 16,954	256.3%
01/01/08	67,237	99,555	32,318	67.5%	16,242	199.0%
01/01/07	68,630	107,269	38,639	64.0%	17,481	221.0%
01/01/06	65,570	96,734	31,164	67.8%	17,039	182.9%
01/01/05	65,904	94,345	28,441	69.9%	16,687	170.4%
01/01/04	66,038	89,304	23,266	73.9%	16,089	144.6%

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2010
(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Projected Unit Credit	(b-a) (Overfunded) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	(Overfunded)/Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
ATU Plan:						
1/1/09 (projected forward to 1/1/10)	$ -	$ 713,477	$ 713,477	0.0%	$ 134,547	530.3%
1/1/07 (projected forward to 1/1/09)	-	568,970	568,970	0.0%	129,386	439.7%
1/1/07 (projected forward to 1/1/08)	-	650,103	650,103	0.0%	129,386	502.5%
IBEW Plan:						
1/1/09 (projected forward to 1/1/10)	$ -	$ 22,325	$ 22,325	0.0%	$ 2,897	770.6%
1/1/07 (projected forward to 1/1/09)	-	17,813	17,813	0.0%	3,252	547.8%
1/1/07 (projected forward to 1/1/08)	-	16,903	16,903	0.0%	3,252	519.8%
NonRep Plan:						
1/1/09 (projected forward to 1/1/10)	$ -	$ 76,701	$ 76,701	0.0%	$ 16,954	452.4%
1/1/07 (projected forward to 1/1/09)	-	61,241	61,241	0.0%	17,481	350.3%
1/1/07 (projected forward to 1/1/08)	-	62,675	62,675	0.0%	17,481	358.5%

Additional Information

Schedule S1 - FY 09/10

Local Match Provided (FY 09/10)

GRANTEE : PORT AUTHORITY OF ALLEGHENY COUNTY

List below all local cash contributions provided for the year ended June 30, 2010:

Contributor Name	Total Amount Provided	Date of Final Payment
Allegheny County (Operating Match) FY 09-10	$ 27,668,700	6/28/2010
Allegheny County (Capital Match) FY 08-09	$ 3,650,779	10/6/2009
Allegheny County (Capital Match) FY 09-10	$ 5,124,954	5/21/2010
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	
	$ -	

Schedule S2 - FY 09/10

Local Match Carryover (FY 09/10)		**Funding**
A. Local match available as of June 30, 2009		$ 4,318,388 (a)
B. Local match funds provided during year ended June 30, 2010		36,444,433
C. Section 1513 local match operating expenditures for the year ended June 30, 2010		27,668,700
D. Other local match operating expenditures for the year ended June 30, 2010 (if any) IDENTIFY MATCHED PROGRAM		-
E. Other local match operating expenditures for the year ended June 30, 2010 (if any) IDENTIFY MATCHED PROGRAM		-
F. Other local match operating expenditures for the year ended June 30, 2010 (if any) IDENTIFY MATCHED PROGRAM		-
G. Total local match operating expenditures for year ended June 30, 2010 (C+D+E+F)		27,668,700
H. Section 1514-Discretionary local match capital expenditures for year ended June 30, 2010 (if any)		465,343
I. Section 1514-Bond local match capital expenditures for year ended June 30, 2010 (if any)		4,775,399 (c)
J. Other local match capital expenditures for year ended June 30, 2010 (if any) IDENTIFY MATCHED PROGRAM	PTAF-Local match expenditures	1,201,944
K. Other local match capital expenditures for year ended June 30, 2010 (if any) IDENTIFY MATCHED PROGRAM		-
L. Other local match capital expenditures for year ended June 30, 2010 (if any) IDENTIFY MATCHED PROGRAM		-
M. Total local match capital expenditures for year ended June 30, 2010 (H+I+J+K+L)		6,442,686
N. Interest earned on local funds for year ended June 30, 2010		-
O. Local Match Funds available as of June 30, 2010 (A+B-G-M+N)		$ 6,651,436 (b)

Line Instructions

Line A – Local cash contributions remaining after all local cash expenditures prior to July 1, 2009.
Line B – Amount must agree with total on Schedule S1.
Line C – Operating expenditures of local cash to match Section 1513 for the year ended June 30, 2010.
Lines D, E, & F – Operating expenditures of local cash for the year ended June 30, 2010 other than Section 1513
Line H – Capital expenditures of local cash to match Section 1514-Discretionary for the year ended June 30, 2010.
Line I – Capital expenditures of local cash to match Section 1514-Bond for the year ended June 30, 2010.
Lines J, K, & L – Capital expenditures of local cash for the year ended June 30, 2010 other than Section 1514 -

(a) These local match funds are designated for specific federal grants that were awarded in FY 2009 and would incur expenditures in FY 2010 and later.

(b) These local match funds are designated for specific federal grants that have been awarded in FY 2010 or earlier and will incur expenditures in future periods.

(c) Section 1514 local match capital expenditures include local share expenditures paid with internal borrowings of $3,397,768 net of repayments of internal borrowings used for local share of $2,042,715.

Schedule S3 - FY 09/10

Urban PTAF/BSG/ASG Carryover (FY 09/10)

		ACT 26		ACT 3			
		PTAF *	PTAF Required Local Match	BSG	BSG Required Local Match	ASG	ASG Required Local Match
1	Funds available from prior years	$ 541,910	$ 18,687	$ 33,007,551	$ 1,138,191	$ -	$ -
2	Interest income earned in FY 2009-2010	-	-	57,731	1,991	-	-
3	Total funds available in FY 2009-2010 (Line 1 + 2)	541,910	18,687	33,065,282	1,140,182	-	-
4	Funds used for operating in FY 2009-2010	-	-	-	-	-	-
5	Funds used for capital in FY 2009-2010	327,906	11,307	10,591,633	365,229	-	-
6	Total funds used in FY 2009-2010 (Line 4 + 5)	327,906	11,307	10,591,633	365,229	-	-
7	Funds available for FY 2010-2011 (Line 3 minus 6)	$ 214,004	$ 7,379	$ 22,473,649	$ 774,953	$ -	$ -

* Note to SEPTA, PAAC, and BARTA: Do not include PTAF funds received in FY 2009-10.

Schedule S5 - FY 09/10

Urban Section 1513 Program Carryover (FY09/10)

		Section 1513 State Grant	Section 1513 Required Local Match
1	Section 1513 funds available from prior years	$ 9,200,000	$ -
2	Public Transportation Trust Fund (PTTF) Section 1513 funds received for FY 2009-10	172,470,700	27,668,700
3	PTAF Section 1513 funds received for FY 2009-2010 (applicable to SEPTA, PAAC, BARTA)	5,153,277	-
4	Total Section 1513 funds received for FY 2009-2010 (Line 2 + 3)	177,623,977	27,668,700
5	Interest income earned on Section 1513 funds in FY 2009-2010	-	-
6	Total Section 1513 funds available in FY 2009-2010 (Line 1 + 4 + 5)	186,823,977	27,668,700
7	Section 1513 funds used for operating in FY 2009-2010	186,823,977	27,668,700
8	Section 1513 funds available for FY 2010-2011 (Line 6 minus 7)	$ -	$ -

Line Instructions

LINE 1 - All prior year Section 1513 funds are considered state funds for all transit systems except those with a local match requirement of 15%. Therefore, unless your Section 1513 required local match is 15%, the entry on line 1 for REQUIRED LOCAL MATCH must be zero.

LINE 3 - Do not include PTAF funds received in FY 2008-09 for capital debt service.

LINE 4 - Amount must agree with Section 1513 funds reported on the BPT Grant Payment Confirmation Report.

LINE 8 - All Section 1513 funds available for FY 2010-11 are considered state funds for all transit systems except those with a local match requirement of 15%. Therefore, unless your Section 1513 required local match is 15%, the entry on line 8 for REQUIRED LOCAL MATCH must be zero.

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grantor's Number	Expenditures
DEPARTMENT OF TRANSPORTATION:			
FEDERAL TRANSIT ADMINISTRATION:			
Federal Transit - Capital Investment Grants:			
1995 Fixed Guideway	20.500	PA-03-0261	$ 1,336,495
1998 Fixed Guideway	20.500	PA-03-0285	6,080
1999 Fixed Guideway	20.500	PA-03-0302	841,096
Section 5309 North Shore Connector	20.500	PA-03-0315	18,257,569
FY03/FY04 Bus Procurement	20.500	PA-03-0367	42,128
FY 2009 Fare Collection	20.500	PA-03-0396	5,296,988
FY06-08 Bus Procurement	20.500	PA-04-0038	293,185
2006 Fixed Guideway	20.500	PA-05-0066	526,494
2008 Fixed Guideway	20.500	PA-05-0069	2,498,599
2009 Fixed Guideway	20.500	PA-05-0071	7,551,805
2010 Fixed Guideway	20.500	PA-05-0073	52,541
2009 S5309 Bus Procurement	20.500	PA-40-0070	587,860
Total CFDA 20.500			37,290,840
Federal Transit - Formula Grants:			
North Shore Connector Fixed Guideway - ARRA	20.507	PA-56-0003	11,466,772
1998/2004 Flex	20.507	PA-90-0359	(11,922)
2001 Block Grant	20.507	PA-90-0430	20,727
North Shore Flex	20.507	PA-90-0535	139,129
2006 Block Grant	20.507	PA-90-0569	612,331
2004 Block Grant	20.507	PA-90-0513	208,752
2008 Block Grant	20.507	PA-90-0661	2,878,419
2007 Block Grant	20.507	PA-90-0646	1,349,771
FY06 North Shore Flex	20.507	PA-90-0618	8,286,772
2009 Block Grant	20.507	PA-90-X686	19,817,417
Edgewood Train Station	20.507	PA-95-0009	57,211
FY2009 S5307 Flex Stp	20.507	PA-95-0029	1,000,651
FY2009 North Shore Flex Stp	20.507	PA-95-0034	11,512,937
FY2009 S5307 North Shore - ARRA	20.507	PA-96-X008	19,560,777
Total CFDA 20.507			76,899,744
Job Access - Reverse Commute:			
Access to Jobs	20.516	PA-37-X025	1,944,640
Access to Jobs	20.516	PA-37-X034	66,960
New Freedom	20.516	PA-57-X005	106,763
Total CFDA 20.516			2,118,363
TOTAL FEDERAL TRANSIT ADMINISTRATION			116,308,947
FEDERAL RAILROAD ADMINISTRATION:			
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA03	16,641
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA04	17,265
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA05	17,549
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA06	72,559
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	CRRA99	22,618
TOTAL FEDERAL RAILROAD ADMINISTRATION			146,632
TOTAL DEPARTMENT OF TRANSPORTATION			116,455,579
ENVIRONMENTAL PROTECTION AGENCY			
Passed through Allegheny County Health Department:			
National Clean Diesel Emissions Reduction - ARRA	66.039	107506	427,615
TOTAL ENVIRONMENTAL PROTECTION AGENCY			427,615
DEPARTMENT OF HOMELAND SECURITY:			
Passed through the Commonwealth of Pennsylvania:			
2007 Transit Security Grant	97.075	TSG07	17,619
2009 Transit Security Grant	97.075	TSG09	5,469
Rail and Transit Security Grant Program	97.075	PEMA07	811,831
TOTAL DEPARTMENT OF HOMELAND SECURITY			834,919
TOTAL FEDERAL AWARDS			$ 117,718,113

See accompanying notes to schedule of expenditures of federal awards.

1. General

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

2. Basis of Accounting

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

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

Port Authority of Allegheny County

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

Year Ended June 30, 2010

Maher Duessel
Certified Public Accountants

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

Board of Directors
Port Authority of Allegheny County

We have audited the financial statements of the Port Authority of Allegheny County (Authority) as of and for the year ended June 30, 2010 and have issued our report thereon dated November 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

* * * * * * * * * *

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

Maher Duessel

Pittsburgh, Pennsylvania
November 24, 2010

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Certified Public Accountants

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Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on its Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Port Authority of Allegheny County

Compliance

We have audited the Port Authority of Allegheny County's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control over Compliance

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

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

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

* * * * * * * * * *

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

Maher Duessel

Pittsburgh, Pennsylvania
November 24, 2010

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

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

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

4. Internal control over major programs:

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

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

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

7. Major Programs:

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

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

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

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

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

PORT AUTHORITY OF ALLEGHENY COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

Finding 09-1: Financial Statement Preparation

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

Status: During 2010, the Authority implemented additional procedures related to financial statement preparation and based on the results of our audit, the finding from prior years is no longer applicable.