Port Authority of Allegheny County

Single Audit

June 30, 2014

MaherDuessel
Certified Public Accountants

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PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2014

DIRECTORY

Financial Statements:

Independent Auditor's Reports Required by OMB Circular A-133:

PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2014 AND 2013

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Independent Auditor's Report

Board of Directors
Port Authority of Allegheny County

Report on the Financial Statements

We have audited the accompanying financial statements of the Port Authority of Allegheny County (Authority), a component unit of Allegheny County, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through viii and the pension and OPEB information on pages 24 to 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
November 21, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The following management's discussion and analysis of the financial performance and activity of the Port Authority of Allegheny County (the Authority) is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the years ended June 30, 2014 (Fiscal Year 2014) and June 30, 2013 (Fiscal Year 2013). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes which follow this section.

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

HIGHLIGHTS

- In November 2013, the Pennsylvania State legislature passed the Act 89 Transportation Funding package, which provides additional funding for statewide transportation projects including roads, bridges, and public transportation. Preliminary estimates are that in five years the legislation has the potential to provide $2.3 billion annually in additional transportation funding, of which public transit agencies would receive almost $500 million statewide.

- Preliminary projections provided by the Pennsylvania Department of Transportation (PennDOT) are that by the fifth year of legislation, the Authority should receive approximately $80 million annually in additional capital funding and almost $50 million in additional operating revenue.

- Prior to the PennDOT- required entry to defer grant revenue, Act 44 State Operating Assistance in Fiscal Year 2014 increased $12.9 million over the prior year. Passage of Act 89 contributed an additional $5 million in State Operating Assistance during Fiscal Year 2014. The remaining increase was due to the Authority having reduced debt service requirements, which permitted Public Transportation Assistance Funding (PTAF) to be used for operating assistance purposes. Local match requirements on the additional monies were met through additional drink tax revenue from Allegheny County and a grant from the Regional Asset District.

- The Authority ended Fiscal Year 2014 with a $21.9 million operating surplus, which is classified as deferred grant revenue per PennDOT's adopted regulations. Combined with Fiscal Year 2013 Deferred Revenue of $24.8 million and Fiscal Year 2012 deferred grant revenue of $4.8 million, the Authority continues to improve its cash position.

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

- Cost containment and service efficiency efforts continue. According to the Fiscal Year 2012 National Transit Database Report published by the Federal Transit Administration of the U.S. Department of

Transportation, the most recently available data, the Authority's total bus operating expenses to total agency expenses are below the statewide median of 60% for transit systems across Pennsylvania. Authority bus operating expenses are 55% of total agency expenses, on par with our counterpart across the state, SEPTA. Likewise, the Authority's farebox recovery ratio is 27%, which is above the median level of 20% for other Pennsylvania transit agencies.

- The Authority has embarked on a data-based performance management program, TransitStat, to improve resource allocation and contain costs. The program involves bringing together Authority management from throughout the organization to discuss business process improvements on such topics as reducing overtime, improving on-time performance, and enhancing customer service. Follow-up meetings are conducted every few months to measure progress on the various topics.

- The Authority's smart-card based Automated Fare Collection System, branded "Connect Card," is implemented with all products online. The Authority has reached an interoperability agreement with five regional transit agencies whereby Smartcards will be cross-functional, regardless of where the card was loaded with stored value. This system offers transit riders the regionalism component that transit riders have been demanding.

BASIC FINANCIAL STATEMENTS

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

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

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

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

♦ **Statements of Cash Flows -** The statements of cash flows detail the cash flows generated by the Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding Fiscal Year 2014 changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2013 cash balance.

THE PORT AUTHORITY'S FINANCIAL CONDITION

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

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

In compliance with Governmental Accounting Standards Board (GASB) Statement No. 45 regulations, the Authority expenses an annual required contribution (ARC) on the operating statement for Other Post-Employment Benefits (OPEB). The ARC represents the amount of funds needed to cover the pay-as-you-go costs and the unfunded future years' obligation spread over 30 years. For Fiscal Year 2014, the Authority expensed $37.3 million for its OPEB obligation, which is net of the current year contributions. Fiscal Year 2013 OPEB expense was slightly higher at $38.8 million. To date, the Authority and other governmental entities are not required to make cash contributions to fund this liability.

In Fiscal Year 2014, the Authority completed the fiscal year with net operating expenses exceeding revenues before capital grant funding by $166.2 million. Adjusting for the effect of the non-cash items such as depreciation and OPEB and pension obligation adjustments, the Authority's *Net Revenues over Expenses before Capital Grant Funding* are balanced. In July 2012, PennDOT adopted new regulations on grant revenue recognition requiring all fixed route public transit agencies to report balanced operating result, i.e., no surplus or deficit of funds after the use of operating grant funds, at the end of each fiscal year and to do so by classifying any surplus as unearned grant revenue. The Authority deferred $21.9 million in grant revenue to meet required regulations for surpluses. Once capital items are accounted for, net position declined by $77.8 million.

THE PORT AUTHORITY AS TRUSTEE

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

STATEMENTS OF NET POSITION

The Authority's Total Assets in Fiscal Year 2014 decreased by $45.5 million from the prior year, from $1.60 billion in Fiscal Year 2013 to $1.55 billion in Fiscal Year 2014. Total Current Assets increased by $8.6 million or 7.6%, from $112.7 million in Fiscal Year 2013 to $121.3 million in Fiscal Year 2014. Total Non-current Assets during the same period decreased by $54.1 million. Below are explanations of significant changes in various current and non-current asset classifications.

Current Assets

Cash and cash equivalents: The Authority's ending cash and cash equivalents balance was $69 million, a decrease of $5.2 million or 6.9% over Fiscal Year 2013. With the passage of Act 89, the Authority should continue to have significant cash reserves over the next few years.

Capital grants receivable: Capital grants receivable increased by $3.7 million or 29.2%, from $12.5 million in Fiscal Year 2013 to $16.2 million in Fiscal Year 2014, due principally to an increase in accounts receivables from the Federal Government.

Other receivables: Other receivables increased $12.7 million or 186%, from $6.8 million in Fiscal Year 2013 to $19.5 million in Fiscal Year 2014 as a result of timing.

Net pension asset: Net pension asset reflects the Authority's annual pension costs and net pension obligations to the plans for the current year. For Fiscal Year 2014, net pension asset is $5 million, a decrease of $4 million over Fiscal Year 2013.

Non-Current Assets

The Authority's major operating facilities include four bus garages, a rail center, a complex housing the Power and Way Departments, the Manchester Administrative Center and General Shops building, South Hills Village Parking Garage, fixed guideways such as the 9.1 mile Martin Luther King, Jr. East Busway, 4.3-mile South Busway, 5.0-mile West Busway, 25.4 miles of Light Rail Transit (LRT) infrastructure, the Monongahela Incline, and other various structures that are situated throughout Allegheny County. Service reductions in March 2011 resulted in the closure of Harmar Garage, dividing operations among the remaining four garages. The Authority continues to own the Harmar facility. In total, non-current assets in Fiscal Year 2014 decreased by $54.01 million from Fiscal Year 2013 values.

Restricted assets for capital additions and related debt: In Fiscal Year 2014, restricted assets for capital additions and related debt increased by $5.4 million or 17.3% compared to Fiscal Year 2013.

Capital assets, net of accumulated depreciation: Capital assets, net of accumulated depreciation, decreased $59.5 million or 4.1% from Fiscal Year 2013.

Current Liabilities

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

In Fiscal Year 2014, total current liabilities increased by $12.3 million or 11.2% over Fiscal Year 2013 levels due to increases in Unearned Revenue. Unearned Revenue increased by $20.1 million or 47.5%, due to a deferral of State Operating totaling $21.9 million.

Non-Current Liabilities

The Authority's non-current liabilities include long-term debt obligations, reserves for claims and settlement, and accrued OPEB liability. At year-end, net bonds payable totaled $246.3 million, a decline of $20 million over Fiscal Year 2013. OPEB liability rose by $37.3 million, from $241 million in Fiscal Year 2013 to $278 million in Fiscal Year 2014, as the Authority's actuarially determined annual OPEB cost exceeded the pay-as-you-go contribution. In Fiscal Year 2014, total non-current liabilities increased by $19.2 million over Fiscal Year 2013.

Net Position

Net position decreased by $77.8 million in Fiscal Year 2014, which follows a reduction of $75.7 million in Fiscal Year 2013. The total net position decreased from $1.01 billion to $932.3 million at the end of Fiscal Year 2014.

FINANCIAL COMPARISON: FISCAL YEAR 2014 OVER FISCAL YEAR 2013

The following discussion measures the financial performance of the Authority by comparing the actual revenues, expenses, and changes in net position. This section comments on revenue and expense categories that exhibited significant dollar variances between Fiscal Year 2014 and Fiscal Year 2013.

Revenues

Total operating revenues in Fiscal Year 2014 decreased by $500,000 over Fiscal Year 2013. A $440,000 reduction in Passenger Revenues was primarily responsible for this reduction in Total operating revenues. A slight reduction in the number of passengers transported during the fiscal year contributed to the Passenger Revenue decline. Overall, including Passenger Revenue, ACCESS program services, and Other Income, Operating Revenue comprised 29% of the total revenues supporting the Fiscal Year 2014 budget.

Despite the reduction in Passenger Fares, contract service revenue through the Authority's U-Pass program with the University of Pittsburgh, Carnegie Mellon University, and Chatham University increased by $914,000 over Fiscal Year 2013, due mainly to an agreement with the University of Pittsburgh, the largest U-Pass participant, changing the contractual basis by which it pays for student trips to a *per-tap rate* for each U-Pass ride.

The Authority contracts with Transdev Services Inc., a privately-owned transportation company, for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth of Pennsylvania reimburses the Authority for the costs incurred in providing the Shared Ride program, which is available to persons over 65 years of age. ACCESS Shared Ride revenues in Fiscal Year 2014 fell by $273,000 when compared to Fiscal Year 2013. Other income rose 10%, largely due to increases in advertising income and miscellaneous revenue.

As indicated in the *Port Authority Ridership Statistics* below, total ridership in Fiscal Year 2014 has decreased by 1.5% over Fiscal Year 2013 levels. Ridership statistics for bus, light rail, and the incline decreased by 1.8% in Fiscal Year 2014 over Fiscal Year 2013, whereas contract services ridership remained generally flat. Senior ridership fell 1.6% in Fiscal Year 2014 from Fiscal Year 2013 levels. Ridership on ACCESS in Fiscal Year 2014 decreased 7.1% over Fiscal Year 2013. Ridership within the Downtown Free-Zone has increased 4.8% over Fiscal Year 2013, due principally to the continued increasing popularity of the North Shore Connector, which now serves the various entertainment venues, restaurants, and fringe parking on the North Shore of the City of Pittsburgh.

Port Authority Ridership Statistics

	2014	2013	Percent + / (-)
Originating (Bus, Light Rail & Incline)	42,669,238	43,460,659	-1.8%
Transfers	3,483,350	3,601,222	-3.3%
Contracted Services	7,595,422	7,533,595	0.8%
Senior Citizens	4,799,145	4,878,315	-1.6%
ACCESS	1,593,914	1,716,098	-7.1%
Free Ridership	2,477,794	2,363,997	4.8%
Total	**62,618,863**	**63,553,886**	**-1.5%**

Expenses

Total Operating Expenses increased slightly from $505.3 million in Fiscal Year 2013 to $510.8 million in Fiscal Year 2014 or 1.09%. This relatively low rate of increase was due to a salary and wage freeze for non-union and Amalgamated Transit Union Local #85 (ATU #85) employees that kept the Authority's Salary and Wages expense increase at $1.06 million, an increase of less than 1%.

Total employee benefits in Fiscal Year 2014 increased $8.4 million or 5.5% over Fiscal Year 2013, due to increases in pension obligations and health programs. Pension liabilities for the Authority's three defined benefit plans grew by $5.5 million or 27% in Fiscal Year 2014 over Fiscal Year 2013. Employee medical, dental, and vision premiums for active employees and retirees in Fiscal Year 2014 decreased 6% or $3.96 million over Fiscal Year 2013.

Services expense in Fiscal Year 2014 increased $2.7 million or 20.3% over Fiscal Year 2013. Predominantly, this increase was due to growth in the Work-Done-by-Outside Contractors expense item. The Authority continues to pay increased expenses for maintenance agreements associated with its Automated Fare Collection System (AFCS) project.

Casualty and liability expense decreased $1.2 million or 48.5% over Fiscal Year 2013. A significant portion of this reduction is due to litigated expense ending the year $1.5 million lower than last fiscal year.

Leases and rentals increased by $335,272 or 24.3% above Fiscal Year 2013. The Authority incurred higher costs by virtualizing a portion of its computer servers with an outside vendor.

Finally, depreciation expense decreased by $6.7 million from Fiscal Year 2013, which helped to offset some of the smaller increases in the other expense lines such as fuel and lubricants, tires and tubes, utilities, and purchased transportation.

Non-Operating Revenues

In total, non-operating revenues in Fiscal Year 2014 increased $9.8 million or 4.3% from the Fiscal Year 2013 level. Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provides Act 89 subsidy for operating, which in Fiscal Year 2014 increased 9.8% from $161.8 million in Fiscal Year 2013 to $177.6 million. Three events contributed to this increase in State Operating Assistance. First, the Authority received an additional $5 million in Operating Assistance due to Act 89. Secondly, the Authority experienced a reduction in its debt service payments, of which a portion of State

Operating Assistance is used to pay. Finally, slightly higher Fiscal Year 2014 expenses caused more State Operating Assistance to be utilized and, therefore, a lower deferral in Fiscal Year 2014. In Fiscal Year 2014, the Authority deferred $21.9 in State Operating Assistance versus $24.8 million in Fiscal Year 2013. The operating subsidy from Allegheny County for Fiscal Year 2014 was higher than Fiscal Year 2013 based on the Commonwealth requirement for a local match of 15% of State Operating Assistance before any adjustments for debt service use or deferrals. The Regional Asset District contributed $3,000,000 of the $32.2 million in local governments Act 44 matching.

Capital funds used for operating assistance decreased by $8.7 million or 16.4% from Fiscal Year 2013. In Fiscal Year 2014, the Authority made a concerted effort to use fewer capital funds from the Commonwealth of Pennsylvania and a higher amount of capital funds from the Federal Government. This strategic shift accounts for the $15.4 million reduction in Fiscal Year 2014 in Commonwealth of Pennsylvania capital funds used for operating assistance and the $5.3 million increase in Federal Government capital funds used in the operating budget.

CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

The passage of Act 89 has strengthened the Authority's financial position in the short-term and, with prudent decision-making, should sustain current service levels for the next eight to ten years. The intent of Act 89 was to stabilize the Authority's operations after years of downsizing and to provide new capital funding to address years of neglect to its infrastructure due to inadequate funding. Large complex capital projects such as the Stage II rail project and North Shore Connector project diverted significant capital resources away from basic preventive maintenance of infrastructure.

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

The company focus will be on enhancing the service that is already offered and making it more appealing for riders. The anticipated result of this strategy will be to attract new riders and increase the utilization of existing riders. Increasing ridership will increase passenger revenue and potentially increase future State Operating Assistance, which is formula driven.

The Authority will also continue to monitor how current resources are allocated. By definition, public transit relies on a subsidy in order to offer bus and rail service. Obviously, some routes require more subsidy than others. Routes have to perform in order to remain viable. Underperforming routes will need to be re-evaluated, which has the potential to create disruption to those few who do take advantage of the route.

The Authority will remain vigilant for opportunities where it can partner in the community, whether in the form of Transit Oriented Development (TOD), enhancing high-volume Park and Rides, or adding fuel diversity to the fleet. Each of these opportunities, as well as other like them, requires resources over and above projected levels of new funds from Act 89.

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2014 AND 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 69,008,743	$ 74,185,268
Capital grants receivable	16,175,486	12,514,465
Other receivables	19,468,114	6,817,924
Prepaid expenses	435,004	383,264
Materials and supplies	11,203,319	9,773,367
Net pension asset	5,021,855	9,050,060
Total current assets	121,312,521	112,724,348
Non-current assets:		
Restricted assets for capital additions and related debt	36,209,489	30,854,577
Capital assets, net of accumulated depreciation	1,397,445,655	1,456,900,367
Total non-current assets	1,433,655,144	1,487,754,944
Total Assets	1,554,967,665	1,600,479,292
Deferred Outflows of Resources		
Deferred charge on refunding	11,586,059	12,376,017
Liabilities		
Current liabilities:		
Accounts payable	14,143,904	18,183,696
Accrued compensation, benefits, and withholdings	16,563,676	16,062,676
Unearned revenue	62,451,720	42,343,123
Reserves for claims and settlements	7,400,458	9,487,556
Current portion of bonds payable	17,497,858	19,400,766
Other current liabilities	4,166,626	4,464,847
Total current liabilities	122,224,242	109,942,664
Non-current liabilities:		
Bonds payable, net	228,771,439	246,952,356
Reserves for claims and settlements	5,306,479	5,144,243
Accrued OPEB liability	277,963,542	240,712,061
Total non-current liabilities	512,041,460	492,808,660
Total Liabilities	634,265,702	602,751,324
Net Position		
Net investment in capital assets	1,228,331,278	1,263,137,211
Unrestricted	(296,043,256)	(253,033,226)
Total Net Position	$ 932,288,022	$ 1,010,103,985

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues:		
Passenger fares	$ 89,321,282	$ 89,761,603
State Shared Ride Program	12,102,955	12,374,391
Advertising	1,628,520	1,541,524
Miscellaneous income	662,466	537,730
Total operating revenues	103,715,223	104,215,248
Operating Expenses:		
Salaries and wages	135,180,418	134,122,043
Fringe benefits	125,160,350	115,173,736
OPEB expense, net	37,251,481	38,815,801
Services	15,806,731	13,134,626
Fuel and lubricant	24,827,875	24,133,025
Tires and tubes	1,673,461	1,491,755
Other materials and supplies	19,177,676	19,714,151
Utilities	7,506,420	6,845,104
Casualty and liability	1,259,752	2,445,997
Purchased transportation	25,188,638	25,154,899
Leases and rentals	1,717,014	1,381,742
Miscellaneous expense	4,244,138	4,411,885
Depreciation	111,853,403	118,525,155
Total operating expenses	510,847,357	505,349,919
Operating Loss	(407,132,134)	(401,134,671)
Non-Operating Revenues (Expenses):		
Capital funds used for operating assistance:		
Federal government	31,915,734	26,566,873
Commonwealth of Pennsylvania	8,387,477	23,759,185
Local governments	3,943,947	2,602,712
Operating grants:		
Commonwealth of Pennsylvania Act 44	177,570,951	161,756,198
Local governments Act 44 matching	32,168,699	30,518,699
Total government subsidies for operations	253,986,808	245,203,667
Interest income	16,662	21,153
Interest expense	(13,038,121)	(14,093,619)
Total non-operating revenues (expenses)	240,965,349	231,131,201
Loss Before Capital Grant Funding	(166,166,785)	(170,003,470)
Capital grant funding:		
Federal	41,792,536	38,008,156
State	42,295,527	51,508,357
Local	4,262,759	4,812,832
Total capital grant funding	88,350,822	94,329,345
Change in Net Position	(77,815,963)	(75,674,125)
Total net position - beginning	1,010,103,985	1,085,778,110
Total net position - ending	$ 932,288,022	$ 1,010,103,985

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Receipts from customers	$ 109,198,964	$ 103,509,321
Payments for goods and services	(104,137,901)	(101,865,491)
Payments to employees	(255,811,563)	(250,360,555)
Net cash provided by (used in) operating activities	(250,750,500)	(248,716,725)
Cash Flows From Non-Capital Financing Activities:		
Draws on revolving credit loan	-	25,000,000
Payments on revolving credit loan	-	(25,000,000)
Interest paid on revolving credit loan	-	(145,302)
Operating subsidies	255,961,474	279,551,114
Net cash provided by (used in) non-capital financing activities	255,961,474	279,405,812
Cash Flows From Capital and Related Financing Activities:		
Capital grants received	84,689,801	101,970,110
Investments in transit operating property	(57,108,841)	(50,561,019)
Payments on bonds	(19,400,766)	(24,626,276)
Interest paid	(13,229,443)	(14,356,337)
Net cash provided by (used in) capital and related financing activities	(5,049,249)	12,426,478
Cash Flows From Investing Activities:		
Proceeds from (deposits to) restricted assets	(5,354,912)	(7,361,255)
Interest and dividends on investments	16,662	21,153
Net cash provided by (used in) investing activities	(5,338,250)	(7,340,102)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,176,525)	35,775,463
Cash and Cash Equivalents:		
Beginning of year	74,185,268	38,409,805
End of year	$ 69,008,743	$ 74,185,268
Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided by (Used in) Operating Activities:		
Operating loss	$ (407,132,134)	$ (401,134,671)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	111,853,403	118,525,155
Change in assets and liabilities:		
Other receivables	5,483,741	(705,927)
Materials and supplies	(1,429,952)	(465,829)
Prepaid expenses and other current assets	(51,740)	(67,317)
Accounts payable	670,358	(490,295)
Accrued compensation, benefits, and withholdings	501,000	206,442
Reserves for claims and settlements	(1,924,862)	(904,951)
Accrued pension liability	4,028,205	(1,271,218)
Accrued OPEB liability	37,251,481	38,815,801
Other current liabilities	-	(1,223,915)
Total adjustments	156,381,634	152,417,946
Net cash provided by (used in) operating activities	$ (250,750,500)	$ (248,716,725)

See accompanying notes to financial statements.

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Investments

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

Materials and Supplies

The Authority maintains spare parts and supplies that are used to maintain transit equipment. The inventory is stated at cost, net of an allowance for obsolete parts of $813,770 and $1,057,685 at June 30, 2014 and 2013, respectively.

Capital Assets

Transit operating property and equipment are recorded at cost and include certain property acquired from predecessor private mass transportation companies. Transit operating property and equipment also include certain capitalized labor and overhead expenses incurred to ready such property and equipment for use. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During both fiscal years 2014 and 2013, no interest expense was capitalized.

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

Projects in progress remaining at June 30, 2014 primarily consist of communication and computer upgrades that will allow for real-time tracking of buses, as well as various building improvements.

Revenue, Receivables, and Unearned Revenues

Passenger fares are recorded as revenue at the time services are performed. Monthly “flash” passes are sold on a consignment basis to vendors who maintain the right of return on unsold passes. The automated fare collection system (AFCS) will eventually eliminate the consignment system through use of a Smart Card.

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

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

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

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

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

The Authority recognized $177.6 million in State operating assistance for fiscal year 2014 under Act 44. These funds were comprised of $142.6 million in Act 44 Section 1513 funds and $35 million in additional operating assistance. The State operating assistance funds required a local match of $29.2 million, which was provided by the County. An additional $3 million was provided by the Regional Asset District (RAD).

Because of existing debt agreements, the Authority obtained capital funding under PTAF totaling $27.8 million to use for debt service. Local matching share required for this funding was provided by the County.

The Authority was awarded $30 million in capital funding under Act 44 to be utilized for capital improvements. $15 million was allocated to be used for Infrastructure Safety and Renewal Programs and $3.5 million was allocated to be used for bus and light rail vehicle overhaul, which do not require County matching funds. The remaining $11.5 million of state funds, in conjunction with County matching funds, was used to match federal grants for other state of good repair capital projects.

The Authority was awarded a total of $8.8 million in capital funding from the County during fiscal year 2014, which is used to match federal and state capital grants.

At June 30, 2014, the primary components of unearned revenue were: $51.6 million of State operating assistance carryover, $1.9 million of County funds to be used for capital grant matching, and $6.9 million of State PTAF funds to be used for 2014 debt service.

Compensated Absences

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

Self-Insurance

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

Refunding Transactions

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

Use of Estimates in the Preparation of Financial Statements

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

Classification of Net Position

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

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

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

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

Pending Pronouncement

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

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

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 2014 and 2013 that were in violation of either state statutes or the policies of the Authority. The Authority does not have a formal investment policy which addresses custodial credit risk, interest rate risk, credit risk, or concentration of credit risk.

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

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

	2014		2013	
	Cash and Cash Equivalents	Restricted for Capital and Debt	Cash and Cash Equivalents	Restricted for Capital and Debt
Deposits	$ 33,875,714	$ -	$ 55,447,141	$ -
INVEST	35,133,029	25,167,830	18,738,127	19,810,371
Money Market	-	11,041,659	-	11,044,206
Total	$ 69,008,743	$ 36,209,489	$ 74,185,268	$ 30,854,577

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2014 and 2013, respectively, $35,730,275 and $55,192,826 of the Authority's bank balance of $36,230,275 and $55,692,826 were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2014, the Authority's investments in INVEST and money markets were rated AAA by Standard & Poor's.

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

Risks and Uncertainties

Financial instruments, which potentially expose the Authority to concentrations of credit risk, include cash and investments in marketable securities. As a matter of policy, the Authority maintains cash balances only with financial institutions having a high credit quality. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and market risks.

4. CAPITAL ASSETS/ACCUMULATED DEPRECIATION

A summary of changes in capital assets is as follows:

	June 30, 2013	Increases	Decreases	June 30, 2014
Capital assets, not being depreciated:				
Land	$ 105,716,028	$ -	$ (553,526)	$ 105,162,502
Projects in progress	12,821,487	16,480,496	(3,975,747)	25,326,236
Total capital assets, not being depreciated	118,537,515	16,480,496	(4,529,273)	130,488,738
Capital assets, being depreciated:				
Buildings	356,269,839	534,737	-	356,804,576
Transportation equipment	653,691,436	32,856,152	(30,786,256)	655,761,332
Track, roadway, and subway stations	1,634,291,098	4,741,040	-	1,639,032,138
Other property, equipment, and assets	158,936,082	2,464,430	(613,917)	160,786,595
Total capital assets being depreciated	2,803,188,455	40,596,359	(31,400,173)	2,812,384,641
Less accumulated depreciation for:				
Buildings	(149,722,720)	(11,652,542)	-	(161,375,262)
Transportation equipment	(417,519,711)	(36,166,059)	30,789,152	(422,896,618)
Track, roadway, and subway stations	(814,386,474)	(51,787,967)	-	(866,174,441)
Other property, equipment, and assets	(83,196,698)	(12,396,946)	612,241	(94,981,403)
Total accumulated depreciation	(1,464,825,603)	(112,003,514)	31,401,393	(1,545,427,724)
Total capital assets, being depreciated, net	1,338,362,852	(71,407,155)	1,220	1,266,956,917
Total capital assets, net	$ 1,456,900,367	$ (54,926,659)	$ (4,528,053)	$ 1,397,445,655

5. LONG-TERM DEBT

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

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

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

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

During fiscal year 2003, the Authority entered into a Master Financing Agreement (Agreement) for the purchase of fixed assets, primarily buses. The Authority has financed a total of $131,631,500 this Agreement. This debt is secured by an equity interest in the purchased fixed assets.

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

The following is a summary of debt transactions of the Authority for the year ended June 30, 2014:

	Balance at July 1, 2013	Issuance	Amortization/ Payments and Retirements	Balance at June 30, 2014
Series of 2011 Bonds	$ 233,935,000	$ -	$ (9,910,000)	$ 224,025,000
Master Financing Agreement	23,244,577	-	(9,490,766)	13,753,811
	257,179,577	-	(19,400,766)	237,778,811
Unamortized net bond premium	9,173,545	-	(683,059)	8,490,486
Net outstanding	$ 266,353,122	$ -	$ (20,083,825)	246,269,297
Less current amounts:				
Series of 2011 Bonds				(10,305,000)
Master Financing Agreement				(7,192,858)
Total current bonds payable				(17,497,858)
Total long-term bonds payable				$ 228,771,439

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

Year Ending June 30,	Principal	Interest	Total
2015	$ 17,497,858	$ 12,406,673	$ 29,904,531
2016	15,232,343	11,544,294	26,776,637
2017	13,508,610	10,789,094	24,297,704
2018	11,925,000	10,161,098	22,086,098
2019	12,520,000	9,566,538	22,086,538
2020-2024	72,955,000	37,468,813	110,423,813
2025-2029	94,140,000	16,277,788	110,417,788
Total	$ 237,778,811	$ 108,214,298	$ 345,993,109

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

6. ACCESS PROGRAM SERVICES

The Authority has a contract with Transdev Services, Inc., which provides professional services to coordinate the paratransit system, ACCESS, which provides transit services within the County for elderly and handicapped individuals. Expenses under this contract amounted to $25.2 million for fiscal years 2014 and 2013.

The Authority currently receives partial reimbursement for these services from the Commonwealth in the form of a grant. The amount is based on ridership and average fare statistics. Revenue under this program totaled $12.1 million in fiscal year 2014 and $12.4 million in fiscal year 2013.

7. PUBLIC LIABILITY, PROPERTY DAMAGE, AND WORKERS' COMPENSATION CLAIMS

The Supreme Court of Pennsylvania has held the Authority to be a Commonwealth Agency as defined in the Political Subdivision Tort Claims Act. As such, the Authority is immune from certain claims and its liability is limited to $1,000,000 per occurrence and $250,000 per plaintiff claim arising out of an occurrence. As the result of this holding, it has not been 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, 2014. The reserve balance is approximately $12.7 million and $14.6 million at June 30, 2014 and 2013, respectively.

8. COMMITMENTS AND CONTINGENCIES

In the ordinary course of the Authority's operations and capital grants projects, there have been various legal proceedings brought against the Authority. Based on an evaluation that included consultation with an outside legal counsel concerning the legal and factual issues involved, management is of the opinion that these matters will not result in material adverse effect on the Authority's operations and financial position.

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

9. Pension Plans

Plan Descriptions. The Authority offers three retirement and disability plans for eligible employees. The three plans are as follows: Plan for Employees Represented by Local 85 of the Amalgamated Transit Union (the ATU Plan), Plan for Employees Represented by Local Union 29 of the International Brotherhood of Electrical Workers (the IBEW Plan), and Plan for Employees who are Not Represented by a Union (the NonRep Plan). The IBEW and NonRep Plans are closed to new participation.

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

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

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

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

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

Funding Policy. Participants in the NonRep Plan and ATU Plan contribute 10.5% and participants in the IBEW Plan contribute 5.0% of pension earnings to their respective plans. The Authority's contributions to the plans are based on actuarially determined rates.

Annual Pension Cost and Net Pension Obligation

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 17,553,957	$ 860,338	$ 6,098,335
Interest on net pension obligation	(653,006)	(23,029)	(43,472)
Adjustment to annual required contribution	1,193,359	28,643	64,755
Annual pension cost	18,094,310	865,952	6,119,618
Contributions made	13,489,766	893,918	6,667,991
Increase (decrease) in net pension obligation (asset)	4,604,544	(27,966)	(548,373)
Net pension obligation (asset) beginning of year	(8,162,576)	(287,863)	(599,621)
Net pension obligation (asset) end of year	$ (3,558,032)	$ (315,829)	$ (1,147,994)
Actuarial valuation date	1/1/2013	1/1/2013	1/1/2013
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

	ATU Plan	IBEW Plan	NonRep Plan
Remaining amortization period:			
UAL (05 - ATU, 09 - IBEW, 06 - NonRep)	17 years	21 years	18 years
2006 Actuarial loss	9 years		9 years
Assumption change at 1/1/2007	19 years		19 years
2007 Actuarial gain	10 years		10 years
Assumption change at 1/1/2008	20 years		20 years
Plan change at 1/1/2008			20 years
2008 Actuarial loss	11 years		11 years
2009 Actuarial gain	12 years	12 years	12 years
Assumption change at 1/1/2009	21 years		
2010 Actuarial loss	13 years	13 years	13 years
Assumption change at 1/1/2011		23 years	24 years
2011 Actuarial loss	14 years	14 years	14 years
Assumption change at 1/1/2012	24 years		
Plan change at 1/1/2012	24 years	24 years	24 years
Method change at 1/1/2012	24 years		
2012 Actuarial Loss	15 years	15 years	
Assumption change at 1/1/2013	25 years	25 years	
UAL at 1/1/2013			15 years
Actuarial assumptions:			
Investment rate of return	8.0%	7.25%	8%
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, 2014	$ 18,094,310	75%	$ (3,558,032)
	June 30, 2013	14,491,678	108%	(8,162,576)
	June 30, 2012	24,506,300	107%	(7,058,703)
IBEW Plan:	June 30, 2014	865,952	103%	(315,829)
	June 30, 2013	792,255	103%	(287,863)
	June 30, 2012	668,102	107%	(260,446)
NonRep Plan:	June 30, 2014	6,119,618	109%	(1,147,994)
	June 30, 2013	4,666,187	103%	(599,621)
	June 30, 2012	5,329,323	95%	(459,692)

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2013, 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	$ 695,525	$ 826,439	$ 130,914	84.2%	$ 125,566	104.3%
IBEW	16,843	23,773	6,930	70.8%	2,440	284.0%
NonRep	60,635	117,589	56,954	51.6%	12,590	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.

The ATU Plan had a net actuarial loss of $28.5 million during 2012 (January 1, 2013 actuarial valuation) which was comprised of the following:

- An actuarial loss on investments of $16.4 million. The rate of return on the actuarial value of assets, which is the smoothed value used for funding, was 5.58%. Since this is less than the 8% valuation interest assumption, an actuarial loss resulted.
- An experience loss of $12.1 million related to pay increases and rates of mortality, disability, and withdrawal deviating from underlying assumptions.

Additionally, the mortality assumption of the ATU Plan was changed to reflect mortality improvements resulting in an increase in liability of $8.6 million.

The IBEW and NonRep Plans had net actuarial losses of $650,000 and $3.7 million, respectively, during 2012 (January 1, 2013 actuarial valuation) primarily due to the rate of return on the actuarial value of assets being less than the 8.0% valuation interest assumption. Additionally, the NonRep Plan had assumption changes beginning with the 2013 plan year, resulting in an increase in liability of $9.3 million primarily related to the interest rate assumption being reduced from 8.0% to 7.25%.

10. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

Funding Policy. The Authority's contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2014 and 2013, the Authority contributed $32.3 million (excluding the implicit rate subsidy) and $32.2 million, respectively, to the plans. Plan members receiving benefits contributed $2.2 and $2.1 million for fiscal years June 30, 2014 and 2013, respectively, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing percentages for the ATU, IBEW, and Non-Rep Plans are based on the particular health care coverage that is selected by the retiree, the number of family members covered and the age of the retiree and each covered family member, and when retirement became effective.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 71,401,142	$ 2,071,901	$ 4,769,858
Interest on net OPEB obligation	9,201,892	329,557	97,033
Adjustment to annual required contribution	(12,791,979)	(458,133)	(134,890)
Annual OPEB cost	67,811,055	1,943,325	4,732,001
Contributions made*	32,086,443	825,459	4,322,998
Increase (decrease) in net OPEB obligation	35,724,612	1,117,866	409,003
Net OPEB obligation beginning of year	230,047,302	8,238,928	2,425,831
Net OPEB obligation end of year	$ 265,771,914	$ 9,356,794	$ 2,834,834

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

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

Actuarial valuation date	1/1/2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Asset valuation method	N/A - the plans are unfunded
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%
Health care inflation rate:	
Medical trend	9.0% in 2013, grading to 4.0% in 2082
Dental trend	4.0% per year
Vision trend	2.0% per year
Mortality	RP-2000 table, with collar adjustments, and projected to 2018

Three-Year Trend Information

	Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
ATU Plan:	June 30, 2014	$ 67,811,055	47%	$ 265,771,914
	June 30, 2013	64,719,215	43%	230,047,302
	June 30, 2012	63,216,838	47%	193,055,500
IBEW Plan:	June 30, 2014	1,943,325	42%	9,356,794
	June 30, 2013	1,877,705	40%	8,238,928
	June 30, 2012	1,833,337	45%	7,111,223
NonRep Plan:	June 30, 2014	4,732,001	91%	2,834,834
	June 30, 2013	4,461,764	84%	2,425,831
	June 30, 2012	4,553,399	91%	1,729,537

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2013 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	$ -	$ 847,994	$ 847,994	0.0%	$ 125,566	675.3%
IBEW	-	23,638	23,638	0.0%	2,440	968.8%
NonRep	-	79,153	79,153	0.0%	12,590	628.7%

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.

The January 1, 2013 valuation included various changes in actuarial assumptions. These changes resulted in an overall increase of $3.4 million to the annual OPEB cost and a $75.7 million increase to the unfunded accrued liability.

The changes in actuarial assumptions are noted below:

- The mortality improvement (that is, reduction to age-based mortality rates in connection with future medical advances) has been changed from a fixed year to fully-generational, which is based on each participant's year of birth.

- 100% participation is assumed for ATU and IBEW employees at retirement (previously, 95% were assumed) and 25% of Non-Rep employees were assumed to elect retiree healthcare coverage (previously, 0% was assumed).

- Medical trend rates have been revised. The period of time to reach the ultimate assumed trend rate has been extended. The ultimate assumed trend rate has been reduced from 4.5% to 4%.

- Medical claim costs were expected to increase by over 16%. Actual experience included no increase in Medicare Advantage coverage and a 5.7% increase in premiums for under-65 coverage. Additionally, the number of active participants who could potentially receive retiree medical benefits decreased from 2,665 to 2,378 since the prior valuation.

- The Patient Protection and Affordable Care Act (ACA) contains a provision effective in 2018 that imposes a 40% excise tax on high-cost plans. The tax is charged on premium amounts that exceed certain thresholds. The excise tax provision is expected to apply to all employers, including governmental units. Reflecting the assumptions used for the January 1, 2013 valuation, the actuarial accrued liability has increased by 4.9% due to the inclusion of the projected value of the excise tax.

Required
Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

PENSION PLANS

YEAR ENDED JUNE 30, 2014
(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Liability Entry Age	(b-a) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
ATU Plan:						
01/01/13	$ 695,525	$ 826,439	$ 130,914	84.2%	$ 125,566	104.3%
01/01/12	697,819	799,194	101,375	87.3%	131,187	77.3%
01/01/11	660,428	801,542	141,114	82.4%	138,441	101.9%
01/01/10	681,207	780,955	99,748	87.2%	136,286	73.2%
01/01/09	624,449	774,856	150,407	80.6%	134,547	111.8%
01/01/08	741,403	762,018	20,615	97.3%	123,955	16.6%
IBEW Plan:						
01/01/13	16,843	23,773	6,930	70.8%	2,440	284.0%
01/01/12	17,886	24,120	6,234	74.2%	2,558	243.7%
01/01/11	19,236	24,031	4,795	80.0%	2,991	160.3%
01/01/10	20,150	23,434	3,284	86.0%	2,961	110.9%
01/01/09	18,565	23,613	5,048	78.6%	2,897	174.2%
01/01/08	22,448	22,844	396	98.3%	3,083	12.8%
NonRep Plan:						
01/01/13	60,635	117,589	56,954	51.6%	12,590	452.4%
01/01/12	62,139	107,501	45,362	57.8%	15,685	289.2%
01/01/11	63,616	107,279	43,663	59.3%	18,274	238.9%
01/01/10	63,845	103,358	39,513	61.8%	18,415	214.6%
01/01/09	57,197	100,652	43,455	56.8%	16,954	256.3%
01/01/08	67,237	99,555	32,318	67.5%	16,242	199.0%

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2014
(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Projected Unit Credit	(b-a) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
ATU Plan:						
1/1/13 (projected forward to 1/1/14)	$ -	$ 847,994	$ 847,994	0.0%	$ 125,566	675.3%
1/1/11 (projected forward to 1/1/13)	-	788,881	788,881	0.0%	138,441	569.8%
1/1/11 (projected forward to 1/1/12)	-	768,690	768,690	0.0%	138,441	555.2%
1/1/09 (projected forward to 1/1/11)	-	733,436	733,436	0.0%	134,547	545.1%
1/1/09 (projected forward to 1/1/10)	-	713,477	713,477	0.0%	134,547	530.3%
1/1/07 (projected forward to 1/1/09)	-	568,970	568,970	0.0%	123,955	459.0%
IBEW Plan:						
1/1/13 (projected forward to 1/1/14)	-	23,638	23,638	0.0%	2,440	968.8%
1/1/11 (projected forward to 1/1/13)	-	23,540	23,540	0.0%	2,991	787.0%
1/1/11 (projected forward to 1/1/12)	-	22,923	22,923	0.0%	2,991	766.4%
1/1/09 (projected forward to 1/1/11)	-	23,059	23,059	0.0%	2,897	796.0%
1/1/09 (projected forward to 1/1/10)	-	22,325	22,325	0.0%	2,897	770.6%
1/1/07 (projected forward to 1/1/09)	-	17,813	17,813	0.0%	3,083	577.8%
NonRep Plan:						
1/1/13 (projected forward to 1/1/14)	-	79,153	79,153	0.0%	12,590	628.7%
1/1/11 (projected forward to 1/1/13)	-	78,841	78,841	0.0%	18,274	431.4%
1/1/11 (projected forward to 1/1/12)	-	80,351	80,351	0.0%	18,274	439.7%
1/1/09 (projected forward to 1/1/11)	-	75,321	75,321	0.0%	16,954	444.3%
1/1/09 (projected forward to 1/1/10)	-	76,701	76,701	0.0%	16,954	452.4%
1/1/07 (projected forward to 1/1/09)	-	61,241	61,241	0.0%	16,242	377.1%

Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

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:			
Section 5309 North Shore Connector	20.500	PA-03-0315	$ 422,722
FY 2009 Fare Collection	20.500	PA-03-0396	3,423,278
2006 Fixed Guideway	20.500	PA-05-0066	89,824
FY 2008 Fixed Guideway	20.500	PA-05-0069	50,857
2009 Fixed Guideway	20.500	PA-05-0071	104,811
2010 Fixed Guideway	20.500	PA-05-0073	571,816
2010 S5309 Fixed Guideway	20.500	PA-05-0076	2,000,839
FY 2011 S5309 Fixed Guideway	20.500	PA-05-0079	7,834,478
FY 2012 S5309 Fixed Guideway	20.500	PA-05-0082	4,043,985
Total CFDA 20.500			18,542,610
Federal Transit - Formula Grants:			
S1602 EB Ext Phases 1&2	20.507	PA-90-0429	226,787
2006 Block Grant	20.507	PA-90-0569	37,274
2008 Block Grant	20.507	PA-90-0661	60,822
FY 2011 Transit Enhancement	20.507	PA-90-X738	116,205
2012 Block Grant	20.507	PA-90-X743	7,314,991
2009 Block Grant	20.507	PA-90-X686	225,457
2010 Block Grant	20.507	PA-90-0700	637,890
2011 Block Grant	20.507	PA-90-0725	1,445,770
FY 2009 North Shore Flex Surface Transportation Program	20.507	PA-95-0034	406,796
FY 2012 Transit Way	20.507	PA-90-X753	14,135
FY 2013 Block Grant	20.507	PA-90-X766	19,163,018
FY 2011 Congestion Mitigation and Air Quality Flex	20.507	PA-95-X053	82,350
FY 2013 Flex Surface Transportation Program	20.507	PA-95-X077	6,172,200
FY 2013 Flex Bus Rapid Transportation	20.507	PA-95-X099	13,750
Total CFDA 20.507			35,917,445
State of Good Repair Grants:			
FY 2013 State of Good Repair	20.525	PA-54-0001	5,944,813
FY 2014 State of Good Repair	20.525	PA-54-0004	8,727,263
Total CFDA 20.525			14,672,076
Bus and Bus Facilities Formula Program:			
FY 2013 Bus and Bus Facilities	20.526	PA-34-0001	2,870,200
Job Access - Reverse Commute:			
Access to Jobs	20.516	PA-37-X048	247,317
Urban New Freedom Program	20.521	PA-57-X016-01	1,118,281
Alternatives Analysis:			
FY 2012 Flex Bus Rapid Transportation	20.522	PA-39-0002	15,302
TOTAL FEDERAL TRANSIT ADMINISTRATION			73,383,231
Metropolitan Transportation Planning:			
Passed through the Commonwealth of Pennsylvania:			
Metropolitan Transportation Planning	20.505		184,000
TOTAL DEPARTMENT OF TRANSPORTATION			73,567,231
DEPARTMENT OF HOMELAND SECURITY:			
FEMA Public Assistance Grant	97.036	FEMA-4149-DR-PA-003-UVTGS-00	40,468
2012 Transit Security Grant Program	97.075	EMW2012RA00046	95,133
TOTAL DEPARTMENT OF HOMELAND SECURITY			135,601
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 73,702,832

See accompanying notes to schedule of expenditures of federal awards.

1. General

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

2. Basis of Accounting

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

Port Authority of
Allegheny County

Independent Auditor's Reports
Required by OMB Circular A-133

Year Ended June 30, 2014

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port Authority of Allegheny County (Authority), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maher Duessel

Pittsburgh, Pennsylvania
November 21, 2014

MaherDuessel
Certified Public Accountants

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

Board of Directors
Port Authority of Allegheny County

Report on Compliance for its Major Federal Program

We have audited the Port Authority of Allegheny County's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2014. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on its Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

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

Maher Duessel

Pittsburgh, Pennsylvania
November 21, 2014

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

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

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

4. Internal control over major program:

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

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

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

7. Major Program:

CFDA Number(s)	Name of Federal Program or Cluster
20.500, 20.507, 20.525, and 20.526	Federal Transit Cluster

8. Dollar threshold used to distinguish between type A and type B programs: $2,211,085

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, 2014

NONE