Port Authority of Allegheny County

Single Audit

June 30, 2012

MaherDuessel
Certified Public Accountants

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PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2012

DIRECTORY

Financial Statements:

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

Port Authority of Allegheny County

Financial Statements
and Required Supplementary
Information

Years Ended June 30, 2012 and 2011 with
Independent Auditor's Report

PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2012 AND 2011

TABLE OF CONTENTS

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Independent Auditor's Report

Board of Directors
Port Authority of Allegheny County

We have audited the accompanying financial statements of the Port Authority of Allegheny County (Authority), a component unit of Allegheny County, as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Authority's financial position as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i through x and the pension and OPEB information on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
October 26, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The following 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, 2012 (Fiscal Year 2012) and June 30, 2011 (Fiscal Year 2011). 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

- For the second year in a row, Act 44 State Operating Assistance, which accounts for over 50% of the Port Authority's revenues, is down 19% from its Fiscal Year 2011 high of $184.4 million. To achieve a balanced budget in Fiscal Year 2012, the Authority drew the remaining $11.4 million of Federal Flex funding made available by Governor Rendell in Fiscal Year 2011 and spent $27.9 million in Authority reserves. Combined with significant cost containment initiatives, year-end results before adjustments for Other Post Employment Benefits (OPEB) were positive.

- *Expenses before Capital Related and Other Items* exceeded revenue in Fiscal Year 2012 by $33.7 million primarily due to the recognition of OPEB expenses. In Fiscal Year 2012, the Authority recognized $35.2 million in OPEB expenses, up 8% from Fiscal Year 2011 OPEB expenses of $32.6 million. Adjusting for the effect of the OPEB non-cash liability coupled with a net pension obligation adjustment of $1.5 million and classification of the $4.8 million operating surplus as deferred grant revenue per PennDOT's newly adopted regulations, Port Authority's *Net Revenues over Expenses before Capital Related and Other Items* are balanced.

- Reducing the Authority's long-term obligation for OPEB expenses remains a key focus of management. Contract negotiations underway at the close of Fiscal Year 2012 resulted in the elimination of full, post-retirement healthcare for all new hires in ATU #85 and IBEW. New hires as of August 22, 2012 are eligible only for three years of healthcare coverage at full retirement. Post-retirement healthcare for non-represented employees and police, 10% of the workforce, was eliminated in 2007.

- Pension expense in Fiscal Year 2012 increased by $9.5 million over Fiscal Year 2011. Increased funding obligations to address Plan losses resulting from the 2008 economic downturn will affect the Authority's obligation over the next few years. In Fiscal Year 2013 and forward, those increases will be offset by a 6% and 5% increased employee contribution for non-represented and ATU #85 employees, respectively. Additionally, the Authority has begun to cap its pension liabilities. Future hires in the non-represented, Police and IBEW units will no longer be provided with a defined benefit pension plan but will be enrolled in a defined contribution program similar to private sector 401(k) plans.

- Cost containment efforts are ongoing. According to the Fiscal Year 2010 National Transit Database Report published by the Federal Transit Administration of the U.S. Department of Transportation, the most recently available data, the Authority spent the sixth lowest percentage of budget for administration among 21 reporting transit agencies in Pennsylvania and the fourth lowest among 23 peer agencies nationally.

- In March 2012, the Port Authority opened its long-anticipated subway extension to the North Shore following five years of construction and 15 years of planning. No debt was incurred in building this facility, which features twin bored tunnels beneath the Allegheny River. The project team adopted $35 million in project cost reductions through value engineering following the construction contract award and held total project change orders to 2% of overall value, despite the fact that it was one of the most technically complex projects in the history of Western Pennsylvania. After years of controversy, the extension has been hugely popular and an unqualified success.

- During Fiscal Year 2012, Port Authority continued development of its smart-card based Automated Fare Collection System, branded "Connect Card." Over 40,000 students, staff, and faculty at the University of Pittsburgh have been using smart cards for a year, and the installation of support equipment is ongoing. Recently, Giant Eagle Supermarkets signed on as the primary outlet for Connect Card distribution, and our annual pass holders began using Connect Cards this past March. In August, approximately 400 customers began pilot testing Connect Cards, leading to full deployment in 2013.

BASIC FINANCIAL STATEMENTS

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

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

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

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

- **Statements of Cash Flows -** The statements of cash flows detail the cash flows generated by Port Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding Fiscal Year 2012changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2011 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 Port Authority as a whole and detail changes in the Port Authority's financial position. These statements include all assets and liabilities using the accrual basis of accounting. An increases or decrease in the Port Authority's net assets is one indicator of whether its financial health has improved or deteriorated over a period of time. Other less tangible factors, such as the age of the revenue vehicle fleet, new service initiatives, health of the local economy, labor union contractual issues, significant capital projects, and the level of inter-governmental financial support all combine to influence the current and future financial health of the organization.

Public transit service is provided with the assistance of Federal, State, and County operating subsidies and grants which are categorized as non-operating revenues on the *Statements of Revenues, Expenses, and Changes in Net Position.* Operating expenses are subtracted from the combination of Operating Revenues and Non-Operating Revenues in order to determine the Port Authority's operating surplus or deficit. This financial result is entitled Net Revenues over Expenses before Capital Related and Other Related on the *Statement of Revenues, Expenses and Changes in Net Position*.

In accordance with GASB Statement No. 45, Port 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 2012, Port Authority expensed $35.2 million for its OPEB obligation which is net of the current year contributions. Fiscal Year 2011 OPEB expense was slightly lower at $32.6 million. To date, the Authority and other governmental entities are not required to make cash contributions to fund this liability.

In Fiscal Year 2012, the Port Authority completed the fiscal year with net operating expenses exceeding revenues before capital related items by $33.7 million. Adjusting for the effect the OPEB non-cash liability and net pension obligation adjustment of $1.5 million, Port Authority's *Net Revenues over Expenses before Capital Related and Other Items* are balanced. In July 2012, PennDOT adopted new regulations on grant revenue recognition requiring all fixed route public transit agencies to report balanced operating results, 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 deferred grant revenue. The Authority deferred $4.8 million in grant revenue to meet required regulations for surpluses. Once capital items are accounted for, net assets declined by $16.8 million.

THE PORT AUTHORITY AS TRUSTEE

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

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

STATEMENTS OF NET POSITION

Port Authority's Total Assets in Fiscal Year 2012 decreased by $49.0 million from the prior year from $1.69 billion in Fiscal Year 2011 to $1.64 billion in Fiscal Year 2012. Total Current Assets decreased by $35 million or 27% from $128.0 million in Fiscal Year 2011 to $92.9 million in Fiscal Year 2012. Total Non-current Assets during the same period decreased by $13.9 million. Below are explanations of significant changes in various current and non-current asset classifications.

Current Assets

Cash and cash equivalents: The Port Authority's ending cash and cash equivalents balance was $38.4 million, a decrease of $11.4 million or 23% over Fiscal Year 2011. Without a statewide funding solution, the Authority continues to rely on cash reserves and one-time funding solutions while holding the line on costs.

Capital grant receivables: Capital grants receivable decreased by $9.9 million or 33% from $30.1 million in Fiscal Year 2011 to $20.1 million in Fiscal Year 2012 due principally to the winding down of the North Shore Connector Project.

Other receivables: Other receivables increased $2.4 million or 17% from $14.6 million in Fiscal Year 2011 to $17.0 million in Fiscal Year 2012 as a result of timing issues.

Restricted assets for capital lease obligation: No obligation remains on restricted assets for capital leases at June 30, 2012, a reduction from Fiscal Year 2011 of $16.9 million. The Authority exercised its option to repurchase the Equity Investors' interest in the capital lease for light rail vehicles and thus terminated the transactions with final payment made on December 15, 2011.

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 2012, net pension asset is $7,778,842, an increase of $1,512,595 million over Fiscal Year 2011.

Non-Current Assets

The Port 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. Port Authority continues to own the Harmar facility. In total, non-current assets in Fiscal Year 2012 decreased by $13.9 million from Fiscal Year 2011 values.

Restricted assets for capital additions and related debt: In Fiscal Year 2012, restricted assets for capital additions and related debt decreased $10.1 million or 30% compared to Fiscal Year 2011.

<u>Capital assets, net of accumulated depreciation</u>: Capital assets, net depreciation decreased $3.6 million or 0.2% from Fiscal Year 2011.

Current Liabilities

Current liabilities include accounts payable; accrued compensation, benefits, and withholdings; deferred credits; reserves for claims and settlements; current portion of capital lease obligation; current portion of bonds payable; and other short-term liabilities.

In Fiscal Year 2012, total current liabilities decreased by $42.8 million or 31% over Fiscal Year 2011 levels due to reductions in accounts payable, deferred credits, and the termination of the Authority's capital leases for light rail vehicles. Accounts payable decreased 44% or $15.8 million largely due to a drop in capital accrued expenses. With the completion of the North Shore Connector, there are fewer large invoices pending. Deferred credits declined by 38.4% or $11.8 million with the recognition of all remaining State Base Supplemental Grant funds as operating revenue in Fiscal Year 2012. No current portion of capital lease obligation remains with the termination of capital leases in December 2011.

Non-Current Liabilities

Port 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 $253.9 million, a declined of $24.8 million over Fiscal Year 2011. OPEB liability rose by $35.2 million, an 8% increase, in Fiscal Year 2012 as the actuarially determined annual OPEB cost exceeded the Port Authority's pay-as-you-go contribution. In Fiscal Year 2012, total non-current liabilities increased 2% or $10.6 million over Fiscal Year 2011.

Total liabilities declined by $32.2 million or 5% in Fiscal Year 2012 over Fiscal Year 2011 from $589.4 million to $557.2 million principally due to the termination of the capital leases and reduced debt obligation.

Net Assets

Fiscal Year 2012 capital assets increased approximately $10 million over Fiscal Year 2011. Total Net Position decreased to $1.087 billion from $1.104 billion in Fiscal Year 2011.

FINANCIAL COMPARISON: FISCAL YEAR 2012 OVER FISCAL YEAR 2011

The following discussion measures the financial performance of the Port Authority by comparing the actual revenue, expenditure, and changes in net position. This section comments on revenue and expense categories that exhibited significant dollar variances between Fiscal Year 2012 and Fiscal Year 2011.

Revenues

Notwithstanding 15% service reductions in March 2011, total operating revenue in Fiscal Year 2012 increased by $2.3 million or 2% over Fiscal Year 2011 principally as a result of a full 12 months of a fare increase. Fare box collections, ticket, and weekly permit sales exceeded expectations. Overall, including passenger revenue, ACCESS program services, and other income, operating revenue comprised 29% of the total revenues supporting the Fiscal Year 2012 budget.

In Fiscal Year 2012, contract service revenue through the Authority's U-Pass program with the University of Pittsburgh, Carnegie Mellon University and Chatham University increased by only $260,379 over Fiscal Year 2011 due mainly to an agreement with the University of Pittsburgh, the largest U-Pass participant, to hold at Fiscal Year 2011 rates while negotiations continue on a *per-tap rate* for each U-Pass ride.

The Port Authority contracts with Veolia Transportation Services Inc., a privately-owned transportation company, for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth of Pennsylvania reimburses the Port Authority for a portion of the costs incurred in providing this program. ACCESS Shared Ride revenues remained relatively flat in Fiscal Year 2012 when compared with Fiscal Year 2011. Other income rose 5% largely due in increases in advertising income.

Fiscal Year 2012 non-operating revenues fell $5.5 million or 2% over Fiscal Year 2011 levels. Fiscal Year 2012 State Act 44 operating assistance increased $3.5 million or 2% over Fiscal Year 2011 as a result of improvements in statewide sales and use tax receipts. In July 2012, PennDOT adopted new regulations on grant revenue recognition requiring all 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 deferred grant revenue. The Authority deferred $4,848,824 in grant revenue in Fiscal Year 2012 to meet required regulations for surpluses. Federal Flex dollars of $45 million received from Governor Rendell in Fiscal Year 2011 were split over two years for operating support through preventive maintenance with $33.6 million expended in Fiscal Year 2011 and the balance of $11.4 million in Fiscal Year 2012. Additionally, $16.1 million in State Base Supplemental Grant reserves were expended in Fiscal Year 2012 as one-time revenue to meet operating expenses.

As indicated in the *Port Authority Ridership Statistics* below, total ridership in Fiscal Year 2012 has increased by 4.0% over Fiscal Year 2011 levels. Ridership statistics for bus, light rail, and the Incline increased 5.5% in Fiscal Year 2012 over Fiscal Year 2011; whereas contract services ridership remained generally flat. Senior ridership fell 5.3% in Fiscal Year 2012 from Fiscal Year 2011 levels. Ridership on ACCESS in Fiscal Year 2012 increased 2.7% over Fiscal Year 2011. Ridership within the Downtown Free-Zone has increased 10.5% over Fiscal Year 2011 due principally to the opening of the North Shore Connector in March 2012 which now serves the various entertainment venues, restaurant, and fringe parking on the North Shore of the City.

Port Authority Ridership Statistics

	2012	**2011**	**Percent +/ (-)**
Bus, Light Rail & Incline	49,761,877	47,179,095	5.5%
Contract Services	7,410,453	7,423,470	-0.2%
Senior Citizens	5,042,824	5,325,842	-5.3%
ACCESS	1,769,543	1,722,354	2.7%
Free Ridership	1,869,312	1,692,126	10.5%
Total	**65,854,009**	**63,342,887**	**4.0%**

Expenses

Despite significant increases in pension obligations and contractual increases in represented wages and salaries, the Port Authority's total Fiscal Year 2012 operating expenses, net of capitalizations (reimbursements for capital expenses), decreased $2.1 million or 1% over Fiscal Year 2011 chiefly due to strict cost control measures including holding open vacant position throughout the 3rd and 4th Quarter Fiscal Year 2012. At year-end Fiscal Year 2012, more than 60 operating positions remained vacant. As a result, Fiscal Year 2012 expenses for wages and salaries were $9 million or 6% below Fiscal Year 2011 wages and salaries.

Total employee benefits in Fiscal Year 2012 increased $4.3 million or 4% over Fiscal Year 2011 due to significant increases in pension obligations. Pension liabilities for the Authority's three defined benefit plans grew by $8.6 million or 36% in Fiscal Year 2012 over Fiscal Year 2011 as the Authority's funding obligations continue to grow to meet asset losses directly resulting from the 2008 Market crash as well as below target returns with the global economic downturn. Employee medical, dental and vision premiums for active employees and retirees in Fiscal Year 2012 decreased 3% or $1.9 million over Fiscal Year 2011. Non-cash OPEB expense increased 8% in Fiscal Year 2012 over Fiscal Year 2011.

In Fiscal Year 2012, expenses for materials and supplies, ACCESS program services, and purchase services saw increases; while provision for injuries and damages, utilities, and other expenses fell below Fiscal Year 2011 levels.

Materials and supplies increased by $1.5 million or 3% as a direct result of increases in the price of diesel fuel. ACCESS program service expenses for Fiscal Year 2012 were up over Fiscal Year 2011 by $473,288 or 2% due largely to fuel prices. Purchase Service expenses in Fiscal Year 2012 increased $4.8 million or 66% over Fiscal Year 2011 due to increased expenses for work done by outside contractors, equipment purchases for buses, and general engineering expenses related to capital infrastructure. All expenses are offset by capital contributions to operating.

Provision for Injuries and Damages decreased $2.5 million or 50% over Fiscal Year Y2011 as the number and dollar value of claims dropped. To eliminate sharp rises and falls in the Authority's annually-required reserves for claims, the Authority has adopted a three-year average of claims paid against the number of open claims at year-end. Reserves for public liability claims in Fiscal Year 2011 were $6 million. The new average balance reduces reserves by $486,295 leaving a balance of $5.5 million in Fiscal Year 2012.

Fiscal Year 2012 utility costs, covering largely propulsion power, electricity and natural gas, fell by $1.1 million or 13% over Fiscal Year 2011 as a result of successful price locks throughout the year. Other expenses in Fiscal Year 2012 decreased by $1.38 million over Fiscal Year 2011 as a result of continued cost controls across divisions.

Amounts capitalized represent reimbursement from capital funds of personnel and non-personnel operating expenses incurred that are associated with capital projects. In addition, the capitalization category includes reimbursement of expenses associated with Access-to-Jobs and non-fixed asset capital expenses. The amount of capitalizations subtracted from gross operating expenses in Fiscal Year 2012 increased $1.8 million or 14% over Fiscal Year 2011.

Non-Operating Revenues

In total, Non-operating revenues in Fiscal Year 2012 decreased $5.5 million or 2% from the Fiscal Year 2011 level. Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provides Act 44 subsidy for operating which in Fiscal Year 2011 was reduced 19% from $184.5 million in Fiscal Year 2010 decreased by $1.2 million in Fiscal Year 2012 due to a decline in statewide sales tax receipts. The operating subsidy from Allegheny County for Fiscal Year 2012 was unchanged from Fiscal Year 2011 with the County contributing the required 15% local match or $27.7 million.

Section 5307 funding is used in preventive maintenance support to offset the cost of salaries and wages associated with operating expenses incurred in the inspection, maintenance and servicing of revenue vehicles. In Fiscal Year 2012, Port Authority used a total of$20.9 million for preventive maintenance drawing the remaining balance of $11.4 million in emergency Federal Flex dollars provided by Governor Rendell in Fiscal Year 2011.

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

The Fiscal Year 2012 Capital Cost of Contracting decreased $3.25 million or 18% over Fiscal Year 2011. These funds are used to offset up to 50% of the total program costs incurred for the ACCESS program.

Low interest rates and declining cash balances produced $3,689 in interest income in Fiscal Year 2012 compared to $9,641 in Fiscal Year 2011. Interest expense on the Authority's line of credit was $127,854 in Fiscal Year 2012 compared to $242,572 in Fiscal Year 2011. In Fiscal Year 2012, the Authority re-bid its line-of-credit and received more favorable borrowing rates than Fiscal Year 2011. Additionally, with significant Flex funding available for operating support, the Authority's use of its $25 million line-of-credit for cash flow purposes was limited.

CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

The Authority began Fiscal Year 2013 with a $65 million gap between revenue and expenses. To close the gap, the Authority passed a Fiscal Year 2013 operating budget that increased fares and scheduled a 35% reduction in service effective September 2, 2012. Before service reductions occurred, however, a new collective bargaining agreement was settled; a new package of State and local funding commitments were approved; and further management expense reductions were made.

On August 8, 2012, the Port Authority management reached agreement with its largest bargaining unit, Amalgamated Transit Union Local 85 (ATU #85), resulting in $60 million in cash savings over the life of the four-year contract with $10.4 million in expense reductions realized in Fiscal Year 2013. The collective bargaining agreement included, for Fiscal Year 2013, a six-month wage freeze for $2.1 million in savings, and a 5% increase in employee pension contributions, for a total of 10.5% of wages yielding $5.5 million in savings to the Authority, as well as changes in vacation eligibility for savings of $2.8 million. A reduction in legacy costs was also agreed upon with the elimination of lifetime retiree healthcare. New hires are now eligible for only three years of healthcare coverage at full retirement. This was the first step in reaching a comprehensive solution to our Fiscal Year 2013 operating deficit.

The agreement triggered a $30 million commitment in increased operating support from the Commonwealth and an additional $3.6 million in State and Federal support for ACCESS. Since State operating support funds require a 15% local match or $4.5 million, County Executive Richard Fitzgerald identified $1.5 million in existing dedicated transit funds from the County's car rental and drink tax proceeds and directed the Authority to seek $3 million in Regional Asset District grant funding. A grant request was submitted to the Board of the Regional Asset District and provisionally approved by the RAD Board on September 27, 2012.

In addition to the July 1, 2012 fare increase yielding $6.5 million, $10.3 million of expenditure reductions were achieved through a wage freeze for non-represented employees, fuel hedging, position reductions, Treasury department reorganization, healthcare premium negotiations, and other cost cutting initiatives. (For information regarding liquidity, see Note 13.)

Together these new revenues and expenditure reductions enabled the Port Authority to reissue a balanced Fiscal Year 2013 operating budget and restore transit service to the Region. It does not, however, reflect a long-term solution to the funding issues facing transportation in Pennsylvania. Port Authority continues to work with the Governor's Office, PENNDOT, the State legislature, and statewide advocacy groups in support of a strong and reliable funding package.

The Authority expects to meet its current financial obligations despite declining reserves. Long-term financial stability will require additional State funding in order to maintain service at current levels and avoid further fare increases.

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

North Shore Connector Project -- The1.2 mile extension of Port Authority's Light Rail Transit System of which the centerpiece is a tunnel underneath the Allegheny River.

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

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

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

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

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

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2012 AND 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 38,409,805	$ 49,845,281
Capital grants receivable	20,155,230	30,112,157
Other receivables	17,009,336	14,591,862
Prepaid expenses	315,947	334,614
Materials and supplies	9,307,538	9,901,537
Restricted assets for capital lease obligation	-	16,993,595
Net pension asset	7,778,842	6,266,247
Total current assets	92,976,698	128,045,293
Non-current assets:		
Restricted assets for capital additions and related debt	23,493,322	33,688,360
Other non-current assets	1,579,080	1,673,828
Capital assets, net of accumulated depreciation	1,526,520,462	1,530,191,765
Total non-current assets	1,551,592,864	1,565,553,953
Total Assets	$ 1,644,569,562	$ 1,693,599,246
Liabilities and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable	$ 20,329,950	$ 36,194,699
Accrued compensation, benefits, and withholdings	15,856,234	15,239,322
Deferred credits	18,893,015	30,697,634
Reserves for claims and settlements	9,846,735	10,483,895
Current portion of capital lease obligation	-	16,993,595
Current portion of bonds payable	24,636,064	23,684,175
Other current liabilities	6,073,435	5,185,027
Total current liabilities	95,635,433	138,478,347
Non-current liabilities:		
Bonds payable, net	253,990,664	278,781,541
Reserves for claims and settlements	5,690,015	5,464,310
Accrued OPEB liability	201,896,260	166,686,131
Total non-current liabilities	461,576,939	450,931,982
Total Liabilities	557,212,372	589,410,329
Net Position:		
Net investment in capital assets	1,300,746,428	1,290,773,781
Unrestricted	(213,389,238)	(186,584,864)
Total Net Position	1,087,357,190	1,104,188,917
Total Liabilities and Net Position	$ 1,644,569,562	$ 1,693,599,246

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating Revenues:		
Passenger revenues:		
Bus, incline, and light rail	$ 86,817,780	$ 84,576,153
ACCESS program services	11,900,227	11,937,190
Other income	2,696,436	2,575,252
Total operating revenues	101,414,443	99,088,595
Operating Expenses:		
Wages and salaries	134,358,111	143,381,653
Employee benefits	126,405,519	122,127,487
OPEB expense, net	35,210,129	32,576,634
Materials and supplies	46,739,749	45,242,095
ACCESS program services	26,184,443	25,711,155
Provision for injuries and damages	2,477,810	5,005,365
Utilities	7,296,496	8,423,218
Purchased services	12,159,801	7,307,346
Other expenses	6,457,081	7,836,597
	397,289,139	397,611,550
Less amounts capitalized	(15,450,512)	(13,601,732)
Total operating expenses	381,838,627	384,009,818
Operating Loss	(280,424,184)	(284,921,223)
Non-Operating Revenues (Expenses):		
Subsidies:		
County	27,668,700	27,668,699
State - Act 44	148,922,579	150,221,302
State - BSG	16,114,575	-
Vehicle improvement program	3,750,000	3,500,000
Preventive maintenance	20,946,230	38,123,770
Safety renewal program	14,750,000	15,000,000
Capital cost of contracting	14,693,560	17,944,734
Interest expense	(118,993)	(232,931)
Total non-operating revenues (expenses)	246,726,651	252,225,574
Net Revenues Under Expenses Before Capital Related and Other Items	(33,697,533)	(32,695,649)
Capital grant contribution and other revenue	139,116,306	157,647,198
Interest income	18,916	5,728,020
Interest expense	(14,929,053)	(19,675,078)
Investment gain (loss) on embedded derivative instrument	-	7,837,451
Depreciation expense	(107,340,363)	(107,476,361)
Change in Net Position	(16,831,727)	11,365,581
Total net position - beginning	1,104,188,917	1,092,823,336
Total net position - ending	$ 1,087,357,190	$ 1,104,188,917

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Receipts from customers	$ 101,042,603	$ 100,758,126
Payments for goods and services	(84,828,124)	(84,988,733)
Payments to employees	(261,659,313)	(260,744,019)
Net cash provided by (used in) operating activities	(245,444,834)	(244,974,626)
Cash Flows From Non-Capital Financing Activities:		
Draws on revolving credit loan	14,100,000	20,000,000
Payments on revolving credit loan	(14,100,000)	(20,000,000)
Interest paid on revolving credit loan	(118,993)	(242,572)
Operating subsidies	232,301,528	248,006,870
Net cash provided by (used in) non-capital financing activities	232,182,535	247,764,298
Cash Flows From Capital and Related Financing Activities:		
Capital grants received	149,767,096	162,951,193
Investments in transit operating property	(119,142,488)	(120,032,792)
Proceeds from refunding bonds	-	263,153,549
Bond issuance costs	-	(1,705,412)
Refunded bonds	-	(229,780,000)
Redemption premium	-	(2,297,800)
Swap termination fee	-	(39,384,000)
Payments on bonds	(23,684,175)	(21,160,763)
Interest paid	(15,327,564)	(19,158,512)
Capital lease payments	(16,993,595)	(77,524,116)
Net cash provided by (used in) capital and related financing activities	(25,380,726)	(84,938,653)
Cash Flows From Investing Activities:		
Proceeds from sale of restricted investments	27,188,633	81,806,910
Interest and dividends on investments	18,916	5,495,089
Net cash provided by (used in) investing activities	27,207,549	87,301,999
Net Increase (Decrease) in Cash and Cash Equivalents	(11,435,476)	5,153,018
Cash and Cash Equivalents:		
Beginning of year	49,845,281	44,692,263
End of year	$ 38,409,805	$ 49,845,281
Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided by (Used in) Operating Activities:		
Operating loss and depreciation expense	$ (387,764,547)	$ (392,397,584)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	107,340,363	107,476,361
Change in assets and liabilities:		
Other receivables	(371,840)	1,669,531
Materials and supplies	593,999	(384,624)
Prepaid expenses and other current assets	18,667	4,347
Accounts payable	(365,968)	140,002
Accrued compensation, benefits, and withholdings	616,912	933,264
Reserves for claims and settlements	(411,455)	1,768,760
Accrued pension liability	(1,512,595)	3,831,857
Accrued OPEB liability	35,210,129	32,576,634
Other current liabilities	1,201,501	(593,174)
Total adjustments	142,319,713	147,422,958
Net cash provided by (used in) operating activities	$ (245,444,834)	$ (244,974,626)
Non-Cash Capital and Related Financing Activities:		
Change in market value of embedded derivative instrument	$ -	$ 7,837,451

See accompanying notes to financial statements.

1. Organization

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

The financial reporting status of the Authority has been determined to be a component unit of the County for financial reporting purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). The County Chief Executive appoints the Authority's Board of Directors and the County provides substantial operating subsidies and capital funding.

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

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The Authority'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, except for guaranteed interest contracts which are recorded at amortized cost. Interest revenue and realized and unrealized gains and losses on investments are reflected in the statements of revenues, expenses, and changes in net 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 $1,164,738 and $1,359,379 at June 30, 2012 and 2011, 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 2012 and 2011, 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.

The North Shore Connector project was completed and placed into service during 2012. The project involved extending the Authority's existing Light Rail Transit system (LRT) in Pittsburgh's urban core. The project created a 1.5-mile extension of the LRT from the Gateway Center Station to Pittsburgh's North Shore via twin bored tunnels under the Allegheny River.

Projects in progress remaining at June 30, 2012 primarily consist of the Automated Fare Collection System project which will provide a smart-card based fare collection system that can be utilized by all regional transit operators that elect to participate in the project.

Revenue, Receivables, and Deferred Revenues

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

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

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

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

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

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

The Authority recognized $165 million in State operating assistance for fiscal year 2012 under Act 44. These funds were comprised of $145.3 million in Act 44 Section 1513 funds, $3.6 million in PTAF operating assistance funds, and $16.1 million in Base Supplemental Grant funds. The State operating assistance funds required a local match of $27.7 million, which was provided by the County.

Because of existing debt agreements, the Authority obtained capital funding under PTAF totaling $39 million to use for debt service. Local matching share required for this funding was provided by the County.

The Authority was awarded $35.6 million in capital funding under Act 44 to be utilized for capital improvements. Approximately, $14.75 million was used for Infrastructure Safety and Renewal Programs and approximately $3.5 million was used for vehicle overhaul, which do not require County matching funds. The remaining $17.35 million was used for other capital projects and requires County matching funds.

The Authority was awarded a total of $8.9 million in capital funding from the County during fiscal year 2012, which is used to match federal and state capital grants.

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

At June 30, 2012, the primary components of deferred credits were: $4.9 million of State operating assistance carryover, $1.4 million of County funds to be used for capital grant matching, and $10.9 million of State PTAF funds to be used for 2013 debt service.

Amounts Capitalized

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

Compensated Absences

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

Self-Insurance

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

Bond Issue Costs

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

Refunding Transactions

In accordance with applicable guidance, the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a reduction to long-term debt on the statements of net 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.”

Adoption of Accounting Pronouncements

The requirements of the following GASB Statements were adopted for the Authority's 2012 financial statements:

GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The Statement codifies into the GASB standards guidance located in FASB and AICPA pronouncements.

GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The primary impact of this Statement on the Authority's 2012 financial statements related to reporting the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources as net "position," rather than net "assets." As of June 30, 2012, the Authority had no items that qualified for reporting in the deferred inflow of resources or deferred outflow of resources categories.

Pending Pronouncements

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

GASB Statement No. 61, *"The Financial Reporting Entity."* The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement will become effective for periods beginning after June 15, 2012.

GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities."* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement will become effective for periods beginning after December 15, 2012.

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.

Because the Authority is a component unit of the County, GASB standards are implemented by the Authority in the fiscal period that relates to the calendar year of implementation by the County.

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 2012 and 2011 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:

	2012			2011		
	Cash and Cash Equivalents	Restricted for Capital Lease	Restricted for Capital and Debt	Cash and Cash Equivalents	Restricted for Capital Lease	Restricted for Capital and Debt
Deposits	$ 18,771,412	$ -	$ -	$ 13,061,666	$ -	$ 22,635,433
INVEST	19,638,393	-	12,449,964	36,783,615	-	-
U.S. Treasuries						
Interest-only strips	-	-	-	-	16,993,595	-
Money Market	-	-	11,043,358	-	-	11,052,927
Total	$ 38,409,805	$ -	$ 23,493,322	$ 49,845,281	$ 16,993,595	$ 33,688,360

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, 2012 and 2011, respectively, $18,250,819 and $38,754,739 of the Authority's bank balance of $19,846,284 and $39,539,953 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, 2012, 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. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such change could materially affect the amount reported on the statements of net position.

4. Capital Assets/Accumulated Depreciation

A summary of changes in capital assets is as follows:

	June 30, 2011	Increases	Decreases	June 30, 2012
Capital assets, not being depreciated:				
Land	$ 105,417,433	$ 298,595	$ -	$ 105,716,028
Projects in progress	502,384,273	44,934,803	(525,248,741)	22,070,335
Total capital assets, not being depreciated	607,801,706	45,233,398	(525,248,741)	127,786,363
Capital assets, being depreciated:				
Buildings	224,202,997	129,358,952	-	353,561,949
Transportation equipment	660,535,961	66,232,636	(66,426,757)	660,341,840
Track, roadway, and subway stations	1,302,078,172	323,248,086	(335,039)	1,624,991,219
Other property, equipment, and assets	82,788,257	63,734,506	(19,088)	146,503,675
Total capital assets being depreciated	2,269,605,387	582,574,180	(66,780,884)	2,785,398,683
Less accumulated depreciation for:				
Buildings	(129,173,301)	(8,609,222)	-	(137,782,523)
Transportation equipment	(438,893,408)	(42,671,046)	66,398,194	(415,166,260)
Track, roadway, and subway stations	(712,316,478)	(49,257,441)	334,994	(761,238,925)
Other property, equipment, and assets	(66,832,141)	(5,672,273)	27,538	(72,476,876)
Total accumulated depreciation	(1,347,215,328)	(106,209,982)	66,760,726	(1,386,664,584)
Total capital assets, being depreciated, net	922,390,059	476,364,198	(20,158)	1,398,734,099
Total capital assets, net	$ 1,530,191,765	$ 521,597,596	$ (525,268,899)	$ 1,526,520,462

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. As of June 30, 2012 and 2011, the Authority had incurred $131,631,500 of debt related to this financing. This debt is secured by an equity interest in the purchased fixed assets.

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

The following is a summary of debt transactions of the Authority for the year ended June 30, 2012:

	Balance at July 1, 2011	Issuance	Amortization/ Payments and Retirements	Balance at June 30, 2012
Series of 2011 Bonds	$ 252,845,000	$ -	$ (9,360,000)	$ 243,485,000
Master Financing Agreement	52,645,025	-	(14,324,175)	38,320,850
	305,490,025	-	(23,684,175)	281,805,850
Unamortized net bond premium	10,931,624	-	(944,771)	9,986,853
Unamortized deferred amount on refunding	(13,955,933)	-	789,958	(13,165,975)
Net outstanding	$ 302,465,716	$ -	$ (23,838,988)	278,626,728
Less current amounts:				
Series of 2011 Bonds				(9,550,000)
Master Financing Agreement				(15,086,064)
Total current bonds payable				(24,636,064)
Total long-term bonds payable				$ 253,990,664

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

Year Ending June 30,	Principal	Interest	Total
2013	$ 24,636,065	$ 14,353,121	$ 38,989,186
2014	19,400,766	13,241,679	32,642,445
2015	17,497,858	12,406,673	29,904,531
2016	15,232,343	11,544,294	26,776,637
2017	13,498,818	10,789,094	24,287,912
2018-2022	65,970,000	44,460,660	110,430,660
2023-2027	84,910,000	25,508,300	110,418,300
2028-2029	40,660,000	3,505,275	44,165,275
Total	$ 281,805,850	$ 135,809,096	$ 417,614,946

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

6. REVOLVING CREDIT LOAN AGREEMENT

The Authority entered into a $25,000,000 Revolving Credit Loan Agreement (Revolving Loan) with a local bank to provide working capital for 2012 operating expenses. The Revolving Loan was secured by the 2011 Operating Assistance Grant from the Commonwealth. The rate of interest was determined as of each drawdown date based on one of two interest rate options selected by the Authority and was 1.225% at June 30, 2012. All drawdown requests were repaid in full during 2012 and the Revolving Loan was closed as of June 30, 2012.

A new Revolving Loan for $25 million was entered into in July 2012 to provide working capital for 2013 operating expenses.

7. ACCESS PROGRAM SERVICES

The Authority has a contract with Veolia Transportation Services, Inc., which provides professional services to coordinate the paratransit system, ACCESS, which provides transit services within the County for elderly and handicapped individuals. Expenses under this contract amounted to $26.2 million in fiscal year 2012 and $25.7 million in fiscal year 2011.

The Authority currently receives partial reimbursement for these services from the Commonwealth in the form of a grant. The amount is based on ridership and average fare statistics. Revenue under this program totaled $11.9 million in fiscal years 2012 and 2011.

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

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

The Authority is self-insured for its compensation and occupational disease liability in accordance with the provisions of Article III, Section 305 of the Pennsylvania Workmen's Compensation Act (Act). On a yearly basis, the Authority carries excess workers' compensation insurance in the amount of $5,000,000 over its self-insurance retention of $1,000,000 per occurrence to further ensure that it can meet its obligation under the Workers' Compensation Act.

The Authority maintains an estimate of its potential liability related to claims that have been filed as of June 30, 2012. The reserve balance is approximately $15.5 million and $16 million at June 30, 2012 and 2011, respectively.

9. COMMITMENTS AND CONTINGENCIES

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

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

The Authority has entered into contracts related to various capital projects. These contracts primarily relate to the North Shore Connector project and the Automated Fare Collection System project. As of June 30, 2012, the Authority's remaining contract commitments related to these two projects approximated $25 million. The Authority's capital costs are paid from federal, state, and local sources.

10. PENSION PLANS

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

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

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

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

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

Effective September 2011, no new employees 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. After the effective date, new employees are required to participate in the newly offered Section 457 deferred compensation plan.

Funding Policy. Participants in the NonRep and IBEW Plans contribute 4.5% and 4.0%, respectively, of pension earnings to their respective plan. Effective January 1, 2012, ATU employees contribute 5.5% to their respective plan. For calendar year 2011, ATU employees contributed 4.5%. The Authority's contributions to the plans are based on actuarially determined rates.

On August 8, 2012, the Authority reached a new collective bargaining agreement with the ATU. The agreement included a 5% increase in employee contributions for a total of 10.5% of pension earnings.

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	$ 24,284,015	$ 666,006	$ 5,311,817
Interest on net pension obligation	(425,397)	(16,896)	(59,007)
Adjustment to annual required contribution	647,682	18,992	76,513
Annual pension cost	24,506,300	668,102	5,329,323
Contributions made	26,247,536	717,353	5,051,431
Increase (decrease) in net pension obligation (asset)	(1,741,236)	(49,251)	277,892
Net pension obligation (asset) beginning of year	(5,317,467)	(211,196)	(737,584)
Net pension obligation (asset) end of year	$ (7,058,703)	$ (260,447)	$ (459,692)

	ATU Plan	IBEW Plan	NonRep Plan
Actuarial valuation date	1/1/2011	1/1/2011	1/1/2011
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Monthly Payments	Level Dollar Monthly Payments	Level Dollar Monthly Payments
Asset valuation method	Smoothed Mkt	Smoothed Mkt	Smoothed Mkt
Remaining amortization period:			
UAL (05 - ATU, 09 - IBEW, 06 - NonRep)	19 years	23 years	20 years
2005 Actuarial loss	10 years		
2006 Actuarial loss	11 years		11 years
Assumption change at 1/1/2007	21 years		21 years
2007 Actuarial gain	12 years		12 years
Assumption change at 1/1/2008	22 years		22 years
Plan change at 1/1/2008			22 years
2008 Actuarial loss			13 years
2009 Actuarial gain	14 years	14 years	14 years
Assumption change at 1/1/2009	23 years		
2010 Actuarial loss	15 years	15 years	15 years
Assumption change at 1/1/2011		25 years	25 years
Actuarial assumptions:			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases	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, 2012	$ 24,506,300	107%	$ (7,058,703)
	June 30, 2011	18,545,754	81%	(5,317,467)
	June 30, 2010	23,470,193	121%	(8,893,896)
IBEW Plan:	June 30, 2012	668,102	107%	(260,447)
	June 30, 2011	475,086	82%	(211,196)
	June 30, 2010	683,933	79%	(296,098)
NonRep Plan:	June 30, 2012	5,329,323	95%	(459,692)
	June 30, 2011	4,769,164	96%	(737,584)
	June 30, 2010	5,022,569	109%	(908,110)

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2011, 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	$ 660,428	$ 801,542	$ 141,114	82.4%	$ 138,441	101.9%
IBEW	19,236	24,031	4,795	80.0%	2,991	160.3%
NonRep	63,616	107,279	43,663	59.3%	18,274	238.9%

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 actuarial assumptions were unchanged for the January 1, 2011 valuation.

The ATU, IBEW, and NonRep Plans had actuarial losses during 2010 (January 1, 2011 actuarial valuation) of $38.8 million, $1.3 million, and $3.7 million, respectively. The rate of return on the actuarial value of assets, which is the smoothed value used for funding was less than the 8.0% valuation interest assumption, resulting in actuarial losses. The next actuarial valuation will be performed as of January 1, 2012.

11. Post-Employment Benefits Other Than Pensions

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

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

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 will be 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 2012 and 2011, the Authority contributed \$34.4 million and \$35.2 million, respectively, to the plans. Plan members receiving benefits contributed \$2.1 for each of the fiscal years June 30, 2012 and 2011, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing percentages for the ATU, IBEW, and Non-Rep Plans are based on the particular health care coverage that is selected by the retiree, the number of family members covered and the age of the retiree and each covered family member, an when retirement became effective.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

	ATU Plan	IBEW Plan	NonRep Plan
Annual required contribution	$ 65,702,614	$ 1,928,512	$ 4,573,730
Interest on net OPEB obligation	6,371,391	243,944	52,110
Adjustment to annual required contribution	(8,857,167)	(339,119)	(72,441)
Annual OPEB cost	63,216,838	1,833,337	4,553,399
Contributions made	29,446,103	820,726	4,126,616
Increase (decrease) in net OPEB obligation	33,770,735	1,012,611	426,783
Net OPEB obligation beginning of year	159,284,765	6,098,612	1,302,754
Net OPEB obligation end of year	$ 193,055,500	$ 7,111,223	$ 1,729,537

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

Actuarial valuation date	1/1/2011, projected forward to 1/1/2012
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Asset valuation method	N/A - the plans are unfunded
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%
Health care inflation rate:	
Medical trend	8.10% in 2011, grading to 4.5% in 2027
Dental trend	5.85% in 2011, grading to 4.5% in 2027
Vision trend	2% 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, 2012	$ 63,216,838	47%	$ 193,055,500
	June 30, 2011	61,634,712	49%	159,284,765
	June 30, 2010	60,154,667	47%	127,855,275
IBEW Plan:	June 30, 2012	1,833,337	45%	7,111,223
	June 30, 2011	1,922,499	40%	6,098,612
	June 30, 2010	1,872,221	39%	4,944,807
NonRep Plan:	June 30, 2012	4,553,399	91%	1,729,537
	June 30, 2011	4,266,145	100%	1,302,754
	June 30, 2010	4,353,911	85%	1,309,415

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2012 (as projected forward from January 1, 2011), 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	$ -	$ 788,690	$ 788,690	0.0%	$ 138,441	569.7%
IBEW	-	22,923	22,923	0.0%	2,991	766.4%
NonRep	-	80,351	80,351	0.0%	18,274	439.7%

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.

12. LEASE TRANSACTIONS

On June 11, 1997, the Authority entered into a sale-leaseback transaction related to some of its existing light rail vehicles (US Lease). The terms of the US Lease arrangement was 14 years and provided an option for the Authority to repurchase the light rail vehicles at the end of the initial US Lease term in December 2011. The final US Lease payment was made during 2012 and the repurchase option was exercised. No obligation remained at June 30, 2012 and all underlying investments were liquidated.

13. LIQUIDITY

A statewide funding shortfall for transit agencies and transportation programs in the Commonwealth of Pennsylvania remains a primary concern. In April 2011, Governor Tom Corbett established the Governor's Transportation Funding Advisory Commission (TFAC) to determine the status of the Pennsylvania's infrastructure across all modes of transportation. The Commission's final report was released in August 2011 and recommended a package of funding sources that on its face would be sufficient to address the revenue needs of the Authority. It was anticipated that legislative action would occur in Fiscal Year 2012. To date, no action has occurred to enact the recommendations of the Commission. While no assurances can be given, the Authority remains hopeful that the Legislature will take up transportation funding measures sometime in 2013.

In the interim, the Authority has sufficient funding for Fiscal Year 2013. Principal sources are: (1) Act 44 State operating assistance, (2) a commitment for an additional $30 million in Commonwealth support, (3) Allegheny County local 15% match which includes a grant through the Regional Asset District, (4) fares and other operating revenue, and (5) bank and cash balances.

State funding anticipated in Fiscal Year 2013 includes Act 44 operating support totaling $155.6 million equal to Fiscal Year 2012 state operating assistance and a new commitment of $30 million additional operating support. Only $9.1 million of the additional $30 million has been identified by the Commonwealth at this time. Per a letter dated October 2, 2012 from the Commonwealth's Office of the Secretary of Transportation and signed by Deputy Secretary for Local and Area Transportation Toby L. Fauver, $9.1 million will be funded from Act 44 Section 1514 discretionary capital funds. PennDOT and the Governor's Office are currently considering available options for funding the remaining $20.9 million.

A 15% local match is required on all Commonwealth operating support. Therefore, in addition to the County's annual local match of $27.6 million on Act 44 monies, the County has committed the necessary $4.5 million necessary to match the new $30 million State support. The match on the new money will be comprised of an additional $1.5 million in alcoholic beverage and rental vehicle tax receipts and $3 million in a grant from the Allegheny Regional Asset District (RAD). RAD is a special purpose area-wide unit of local government authorized by an act of the Pennsylvania Legislature (Act 77 of 1993) that provides operating and capital grants from the proceeds of a 1% County Sales and Use Tax. The Authority has filed its request for $3 million which is subject to approval by the RAD Board. If approved, payment will be made in 2013 in monthly installments.

The Authority holds a revolving credit facility effective July 1, 2012 – June 30, 2013 in the amount of $25 million with Huntington National Bank for working capital. Interest is payable monthly and based on the actual number of days that principal is outstanding over a year of 360 days. The interest rate is a variable rate based on the 30 day LIBOR + .098%. All non-usage fees are waived. Bank and cash balances at July 1, 2012 totaled $18.0 million.

The Authority continues to work with the Commonwealth to address the transportation funding shortfall and to endorse funding for transit that is sufficient, reliable, and grows with inflation.

Required
Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

PENSION PLANS

YEAR ENDED JUNE 30, 2012
(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:						
01/01/11	$ 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%
01/01/07	706,909	754,026	47,117	93.8%	129,386	36.4%
01/01/06	690,376	711,093	20,717	97.1%	128,006	16.2%
IBEW Plan:						
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%
01/01/07	20,798	23,774	2,976	87.5%	3,252	91.5%
01/01/06	20,293	21,012	719	96.6%	3,233	22.2%
NonRep Plan:						
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%
01/01/07	68,630	107,269	38,639	64.0%	17,481	221.0%
01/01/06	65,570	96,734	31,164	67.8%	17,039	182.9%

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2012
(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:						
1/1/11 (projected forward to 1/1/12)	$ -	$ 768,690	$ 768,690	0.0%	$ 138,441	569.7%
1/1/09 (projected forward to 1/1/11)	-	733,436	733,436	0.0%	134,547	545.1%
1/1/09 (projected forward to 1/1/10)	-	713,477	713,477	0.0%	134,547	530.3%
1/1/07 (projected forward to 1/1/09)	-	568,970	568,970	0.0%	123,955	459.0%
1/1/07 (projected forward to 1/1/08)	-	650,103	650,103	0.0%	123,955	524.5%
IBEW Plan:						
1/1/11 (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%
1/1/07 (projected forward to 1/1/08)	-	16,903	16,903	0.0%	3,083	548.3%
NonRep Plan:						
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%
1/1/07 (projected forward to 1/1/08)	-	62,675	62,675	0.0%	16,242	385.9%

Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grantor's Number	Expenditures
DEPARTMENT OF TRANSPORTATION:			
FEDERAL TRANSIT ADMINISTRATION:			
Federal Transit - Capital Investment Grants:			
1995 Fixed Guideway	20.500	PA-03-0261	$ 321,738
Section 5309 North Shore Connector	20.500	PA-03-0315	7,232,656
FY 2009 Fare Collection	20.500	PA-03-0396	8,298,938
2006 Fixed Guideway	20.500	PA-05-0066	2,398,737
FY08 Fixed Guideway	20.500	PA-05-0066	217,074
2009 Fixed Guideway	20.500	PA-05-0071	6,461,734
2010 Fixed Guideway	20.500	PA-05-0073	3,730,287
2010 S5309 Fixed Guideway	20.500	PA-05-0076	1,929,310
FY11 S5309 Fixed Guideway	20.500	PA-05-0079	611,066
FY10 Bus Procurement	20.500	PA-04-0081	700,000
FY10 S5309 Fixed Guideway	20.500	PA-04-0094	18,885,182
Total CFDA 20.500			50,786,722
Federal Transit - Formula Grants:			
S1602 EB Ext Phases 1&2	20.507	PA-90-0429	196,993
2006 Block Grant	20.507	PA-90-0569	322,934
2004/2005 Block Grant	20.507	PA-90-0513	127
2008 Block Grant	20.507	PA-90-0661	1,183,674
2007 Block Grant	20.507	PA-90-0646	845,506
FY2011 Transit Enhancement	20.507	PA-90-X738	7,960
2012 Block Grant	20.507	PA-90-X743	3,073,746
2009 Block Grant	20.507	PA-90-X686	3,839,517
2010 Block Grant	20.507	PA-90-0700	8,167,750
2011 Block Grant	20.507	PA-90-0725	20,169,810
FY2009 S5307 Flex Stp	20.507	PA-95-0029	6,581,367
FY2009 North Shore Flex Stp	20.507	PA-95-0034	16,206,140
FY2011 Preventive Maintenance Stp	20.507	PA-95-X055	11,426,230
FY2011 CMAC Flex	20.507	PA-95-X053	26,248
Total CFDA 20.507			72,048,002
Alternatives Analysis			
FY 2012 FLEX BRT	20.522	PA-39-0002	138,993
Total CFDA 20.522			138,993
TOTAL FEDERAL TRANSIT ADMINISTRATION			122,973,717
TOTAL DEPARTMENT OF TRANSPORTATION			122,973,717
DEPARTMENT OF HOMELAND SECURITY:			
Passed through the Commonwealth of Pennsylvania:			
2007 Transit Security Grant Program	97.075	2007-RL-T7-K022	340,187
2008 Transit Security Grant Program	97.075	2008-RL-T8-0024	542,072
2009 Transit Security Grant Program	97.075	2009-RA-T9-0046	883,489
TOTAL DEPARTMENT OF HOMELAND SECURITY			1,765,748
TOTAL FEDERAL AWARDS			$ 124,739,465

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 in Accordance with OMB Circular A-133

Year Ended June 30, 2012

MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
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Suite 101
Harrisburg, PA 17110
Main 717.232.1230
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Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

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

Board of Directors
Port Authority of Allegheny County

We have audited the financial statements of the Port Authority of Allegheny County (Authority) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Maher Duessel

Pittsburgh, Pennsylvania
October 26, 2012

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Certified Public Accountants

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

Board of Directors
Port Authority of Allegheny County

Compliance

We have audited the Port Authority of Allegheny County's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

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

Maher Duessel

Pittsburgh, Pennsylvania
October 26, 2012

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

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

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

4. Internal control over major programs:

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

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

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

7. Major Programs:

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

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

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

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

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

PORT AUTHORITY OF ALLEGHENY COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

NONE