Port Authority of Allegheny County

Single Audit

June 30, 2016

MaherDuessel
Certified Public Accountants

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PORT AUTHORITY OF ALLEGHENY COUNTY

JUNE 30, 2016

DIRECTORY

PORT AUTHORITY OF ALLEGHENY COUNTY

YEARS ENDED JUNE 30, 2016 AND 2015

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Independent Auditor's Report

Board of Directors
Port Authority of Allegheny County

Report on the Financial Statements

We have audited the accompanying financial statements of the Port Authority of Allegheny County (Authority), a component unit of Allegheny County, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ix and the pension and OPEB information on pages 30 to 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
November 30, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The following management's discussion and analysis of the financial performance and activity of the Port Authority of Allegheny County (the Authority) is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the years ended June 30, 2016 (Fiscal Year 2016) and June 30, 2015 (Fiscal Year 2015). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes which follow this section.

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

HIGHLIGHTS

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

- Preliminary projections provided by the Pennsylvania Department of Transportation (PennDOT) were that by the fifth year of legislation, the Authority should receive approximately $80 million annually in additional capital funding and almost $50 million in additional operating revenue. Actual additional State capital and operating funding has trended below initial estimates, but has remained well above historical levels.

- Act 44 State Operating Assistance in Fiscal Year 2016 increased $9.2 million over the prior year from $212.4 million in Fiscal Year 2015 to $221.6 million in Fiscal Year 2016. Local match requirements of 15% on the additional Commonwealth funding were met through additional drink tax revenue from Allegheny County and a grant from the Regional Asset District.

- Prior to the PennDOT required entry to defer grant revenue, the Authority ended Fiscal Year 2016 with a $14.2 million operating surplus, which is classified as deferred grant revenue per PennDOT's adopted regulations. Combined with Fiscal Year 2015 Deferred Revenues of $16.3 million, Fiscal Year 2014 Deferred Revenue of $21.9 million, Fiscal Year 2013 Deferred Revenue of $24.8 million, and Fiscal Year 2012 deferred grant revenue of $4.8 million, the Authority continues to improve its cash position.

- The Authority continues to address its long-term liabilities. A Labor Management Committee has endorsed a new healthcare plan design and cost sharing model. Future hires in the non-represented, Police, and IBEW units are no longer provided with a defined benefit pension plan, but are enrolled in a defined contribution program similar to private sector 401(k) plans. Those employees remaining in the defined benefit plan bear a greater share of the Plan obligations with contributions increasing from 4.5% to 10.5% for non-represented, Police and ATU Local #85 employees. In Fiscal Year 2015, the Authority came to an agreement with IBEW to increase the employee pension contribution from 5% to 10.5% over a two year period.

- Marketing for ridership growth and enhancing the public image continues. Expansion of real time technology, *TrueTime,* to rail and Wayfinding is underway. The organization continued to fine tune its Real Time software that permits riders to follow the next available bus on their smartphone or computer. The Authority has begun to install the same hardware and software on its light rail vehicles, so that rail riders will be able to track the arrival of their next train. The Authority has also embarked on a campaign to replace its aging street signs with a modern, easier to understand way-finding sign system to better inform potential riders.

- Another initiative formally adopted by the Board of Directors during the fiscal year was a change in fare structure to a single fare regardless of trip distance. Effective January 1, 2017, all trips using a Connectcard will cost $2.50 with a 25 cent upcharge for those using cash. It is hoped this will simplify the process for riding transit and increase ridership by making the process less confusing.

- The Board has formally adopted PAAC Transit-Oriented Development Guidelines this spring, setting forth best practice standards for TOD in and around the Authority's fixed guideways. TOD has proven to be a successful line of business for many of our peer agencies. High quality TOD not only benefits residents, commuters, shoppers, developers, and our riders, but also the revenue potential for the agency. Income from rents, value capture, and other creative mechanisms are a valuable addition to our bottom line.

- The Authority has also formally adopted *PAAC Transit Service Guidelines* that provide a framework for ranking new service requests. The guidelines set standards for service, report by route adherence to those standards, evaluate and rank new service requests on an annual basis, and provide recommendations for minor and major service changes to meet guidelines on existing routes as well as changes to expand service. Our first *Annual Service Report 2015* was issued in May and is the basis for service expansion in Fiscal Year 2017.

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

- The Authority's smart-card based Automated Fare Collection System, branded "ConnectCard," is implemented with all products online. The Authority has reached an interoperability agreement with five regional transit agencies whereby Smartcards will be cross-functional, regardless of where the card was loaded with stored value. This system offers transit riders the regionalism component that transit riders have been demanding. In Fiscal Year 2017, the final piece of the system, a web portal for companies and social service agencies, will become operational leading to the elimination of all flash pass media.

BASIC FINANCIAL STATEMENTS

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

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

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

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

- **Statements of Cash Flows -** The statements of cash flows detail the cash flows generated by the Authority's operations, non-capital financing, and capital and related financing activities. These statements incorporate a direct approach by adding Fiscal Year 2016 changes in cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities to the fiscal year-end 2015 cash balance.

THE PORT AUTHORITY'S FINANCIAL CONDITION

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

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

In compliance with Governmental Accounting Standards Board (GASB) Statement No. 45 regulations, the Authority expenses an annual required contribution (ARC) on the operating statement for Other Post-Employment Benefits (OPEB). The ARC represents the amount of funds needed to cover the pay-as-you-go costs and the unfunded future years' obligation spread over 30 years. For Fiscal Year 2016, the Authority expensed $21.8 million for its OPEB obligation, which is net of the current year contributions. Fiscal Year 2015 OPEB expense was much higher at $36.8 million. The reduction in OPEB expense was attributable to a change in actuarial assumptions, lower claims data, and a change in healthcare insurance providers which lowered healthcare premiums from original projections. To date, the Authority and other governmental entities are not required to make cash contributions to fund this liability.

In Fiscal Year 2016, the Authority completed the fiscal year with net operating expenses exceeding revenues before capital grant funding by $159.2 million. Adjusting for the effect of the non-cash items such as depreciation and OPEB and pension obligation adjustments, the Authority's *Net Revenues over Expenses before Capital Grant Funding* are balanced. In July 2012, PennDOT adopted new regulations on grant revenue recognition requiring all fixed route public transit agencies to report balanced operating result, i.e., no surplus or deficit of funds after the use of operating grant funds, at the end of each fiscal year and to do so by classifying any surplus as unearned grant revenue. The Authority deferred $14.2 million in Commonwealth of Pennsylvania Act 44 grant revenue to meet required regulations for surpluses. Once capital items are accounted for, net position declined by $64.4 million.

THE PORT AUTHORITY AS TRUSTEE

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

STATEMENTS OF NET POSITION

The Authority's Total Assets in Fiscal Year 2016 decreased by $17.2 million from the prior year, from $1.523 billion in Fiscal Year 2015 to $1.506 billion in Fiscal Year 2016. Total Current Assets increased by $15.8 million or 10.7%, from $146.8 million in Fiscal Year 2015 to $162.6 million in Fiscal Year 2016. Total Non-current Assets during the same period decreased by $32.9 million. Below are explanations of significant changes in various current and non-current asset classifications.

Current Assets

Cash and cash equivalents: The Authority's ending cash and cash equivalents balance was $128.8 million, an increase of $21.6 million or 20.2% over Fiscal Year 2015. With the passage of Act 89, the Authority should continue to have significant cash reserves over the next few years.

Capital grants receivable: Capital grants receivable increased by $6.0 million or 72.3%, from $8.3 million in Fiscal Year 2015 to $14.3 million in Fiscal Year 2016, due principally to a increase in accounts receivables from the Federal and State Governments.

Other receivables: Other receivables decreased $12.2 million or 67.2%, from $18.1 million in Fiscal Year 2015 to $5.9 million in Fiscal Year 2016 as a result of timing.

Materials and Supplies: Materials and Supplies increased by $833,695 from Fiscal Year 2015 largely due to an increase in Materials and Supplies Inventory.

Non-Current Assets

The Authority's major operating facilities include four bus garages, a rail center, a complex housing the Power and Way Departments, the Manchester Administrative Center and General Shops building, South Hills Village Parking Garage, fixed guideways such as the 9.1 mile Martin Luther King, Jr. East Busway, 4.3-mile South

Busway, 5.0-mile West Busway, 25.4 miles of Light Rail Transit (LRT) infrastructure, the Monongahela Incline, and other various structures that are situated throughout Allegheny County. Service reductions in March 2011 resulted in the closure of Harmar Garage, dividing operations among the remaining four garages. The Authority continues to own the Harmar facility. In total, non-current assets in Fiscal Year 2016 decreased by $32.9 million from Fiscal Year 2015 values.

Restricted assets for capital additions and related debt: In Fiscal Year 2016, restricted assets for capital additions and related debt decreased by $6.4 million or 20.0% compared to Fiscal Year 2015.

Capital assets, net of accumulated depreciation: Capital assets, net of accumulated depreciation, decreased $26.5 million or 2.0% from Fiscal Year 2015.

Current Liabilities

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

In Fiscal Year 2016, total current liabilities increased by $12.0 million or 8.1% over Fiscal Year 2015 levels due to increases in Unearned Revenues. Unearned Revenue increased by $17.5 million or 21.1%, due largely to a deferral of State Operating totaling $14.2 million.

Non-Current Liabilities

The Authority's non-current liabilities include long-term debt obligations, reserves for claims and settlement, and accrued OPEB liability. At year-end, net bonds payable totaled $198.8 million, a decline of $14.1 million over Fiscal Year 2015. OPEB liability rose by $21.8 million, from $314.8 million in Fiscal Year 2015 to $336.6 million in Fiscal Year 2016, as the Authority's actuarially determined annual OPEB cost exceeded the pay-as-you-go contribution. In Fiscal Year 2016, total non-current liabilities increased by $120.6 million over Fiscal Year 2015. A majority of this increase in non-current liabilities is attributable to an Increase in Net Pension liability due to changes in retirement patterns.

Net Position

The Authority's Net Position decreased by $64.4 million from $594 million to $529.6 million.

FINANCIAL COMPARISON: FISCAL YEAR 2016 OVER FISCAL YEAR 2015

The following discussion measures the financial performance of the Authority by comparing the actual revenues, expenses, and changes in net position. This section comments on revenue and expense categories that exhibited significant dollar variances between Fiscal Year 2016 and Fiscal Year 2015.

Revenues

Total operating revenues in Fiscal Year 2016 increased by $173,808 or .16% over Fiscal Year 2015. An increase in Advertising Revenue was primarily responsible for this increase in total operating revenues. A slight decrease in the number of passengers transported during the fiscal year contributed to the Passenger Revenue decrease of $177,687. In Fiscal Year 2016, Passenger Fares supported 23.5% of the Authority's Total Operating Expense, excluding OPEB, depreciation expense and a pension expense accounting entry.

The Authority experienced a significant increase in Advertising Revenue during Fiscal Year 2016. Advertising revenue increased by $229,056 or 10.9%. Advertising Revenue increased with new strategies to entice both national and local advertisers as well as expanded space throughout the system.

The Authority contracts with Transdev Services Inc., a privately-owned transportation company, for professional services to coordinate door-to-door, demand-response transportation service for elderly and handicapped citizens. The Commonwealth of Pennsylvania reimburses the Authority for the costs incurred in providing the Shared Ride program, which is available to persons over 65 years of age. ACCESS Shared Ride revenues in Fiscal Year 2016 decreased by $162,759 when compared to Fiscal Year 2015.

As indicated in the *Port Authority Ridership Statistics* below, total ridership in Fiscal Year 2016 has decreased by 2.1% over Fiscal Year 2015 levels. Originating Ridership statistics for bus, light rail, and the incline decreased by 3.95% in Fiscal Year 2016 over Fiscal Year 2015, whereas contract services ridership increased by 2.37%. Senior ridership rose by approximately 145,527 rides in Fiscal Year 2016 from Fiscal Year 2015 levels. Ridership on ACCESS in Fiscal Year 2016 increased slightly over Fiscal Year 2015. Ridership within the Downtown Free-Zone increased 4.29% over Fiscal Year 2015, as the popularity of the North Shore Connector continues, which now serves the various entertainment venues, restaurants, and fringe parking on the North Shore of the City of Pittsburgh.

Port Authority Ridership Statistics

	Fiscal Year 2016	**Fiscal Year 2015**	**Percent +/(-)**
Originating	43,096,029	44,867,131	-3.95%
Transfers	3,302,801	3,375,823	-2.16%
Contracted Services	7,814,368	7,633,572	2.37%
Seniors	4,957,590	4,812,063	3.02%
ACCESS	1,527,690	1,517,351	.68%
Free Ridership	3,125,035	2,996,373	4.29%
	63,823,513	**65,202,313**	**-2.11%**

Expenses

Total Operating Expenses increased from $507.4 million in Fiscal Year 2015 to $537.8 million in Fiscal Year 2016 or 5.9%. The increase in expenses was negatively impacted by a $27 million non-cash charge to Pension Expense. Excluding this pension charge, Total Operating Expenses increased by only $3.4 million or .67% predominantly due to reduced fuel and lubricant Expenses.

Salary and Wages increased by $8.8 million or 6.2% due to contractual wage increases and increased personnel levels largely due to service expansion. Total employee benefits in Fiscal Year 2016 increased $13.8 million over Fiscal Year 2015, mainly due to a higher health insurance and pension expense. Health care expenses increased by $6.7 million due to higher healthcare premiums. Pension expense increased by $6.0 million due to investment returns below expected levels.

Services expense in Fiscal Year 2016 increased $5.0 million or 41% over Fiscal Year 2015. Predominantly, this increase was due to an increase in the Work-Done-by-Outside Contractors direct expense item. Other Materials and Supplies increased by $1.7 million from Fiscal Year 2015 with most of the increase attributable to a $2 million increase in Materials. Miscellaneous Expense increased by $1.25 million or 36% due to increases in marketing and software license expense.

Finally, depreciation expense decreased by $6.8 million or 6.4% from Fiscal Year 2015, which helped to offset some of the smaller increases in the other expense lines.

Non-Operating Revenues

In total, non-operating revenues in Fiscal Year 2016 increased $21.9 million or 8.8% from the Fiscal Year 2015 level. Non-operating revenues originate from a number of sources. The Commonwealth of Pennsylvania provides Act 89 subsidy for operating, which in Fiscal Year 2016 increased 5.7% from $196.1 million in Fiscal Year 2015 to $207.4 million after the State mandated accounting adjustment to defer any operating assistance above the level required to meet expenses. In Fiscal Year 2015, the Authority received a portion of its State Operating Assistance from the Public Transportation Assistance Fund (PTAF). The Authority was required to use a portion of PTAF revenues towards debt service payments in Fiscal Year 2015. In Fiscal Year 2016, the Authority received an additional $9.2 million in gross Operating Assistance due to Act 89 after accounting for the use of Public Transportation Assistance Funds (PTAF) towards debt service in Fiscal Year 2016. Another phase of the lifting of the Oil Company Franchise Tax (OCFT) was implemented during the year which generated increased Act 89 revenues. The operating subsidy from Allegheny County for Fiscal Year 2016 was higher than Fiscal Year 2015 based on the increased State funding that requires a local match. The Regional Asset District (RAD) contributed $3,000,000 of the $31.9 million in local governments Act 44 matching.

Capital funds used for operating assistance increased by $8.4 million or 25.3% from Fiscal Year 2015. In Fiscal Year 2016, the Authority used higher amounts of Federal, State and Local government Capital Funds in order to support operations of the Authority.

CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

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

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

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

Another initiative the Authority is implementing that will enhance the rider experience is instituting a flat fare and pay-on-enter program. Currently, the Authority utilizes a two zone system whereby passengers riding a longer route pay $3.75 and those riding shorter routes pay $2.50. The fare will be $2.50 effective January 1, 2017 regardless of trip length. At the same time, the Authority will move to a pay-on-enter system in order to reduce fare evasion.

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2016 AND 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 128,816,996	$ 107,174,473
Capital grants receivable	14,320,514	8,345,534
Other receivables	5,928,875	18,062,333
Prepaid expenses	459,505	1,007,297
Materials and supplies	13,064,548	12,230,853
Total current assets	162,590,438	146,820,490
Non-current assets:		
Restricted assets for capital additions and related debt	25,824,712	32,264,229
Capital assets, net of accumulated depreciation	1,317,796,814	1,344,284,279
Total non-current assets	1,343,621,526	1,376,548,508
Total Assets	1,506,211,964	1,523,368,998
Deferred Outflows of Resources		
Deferred charge on refunding	10,006,143	10,796,101
Related to pensions	104,469,234	18,125,554
Total Deferred Outflows of Resources	114,475,377	28,921,655
Liabilities		
Current liabilities:		
Accounts payable	14,874,002	20,487,416
Accrued compensation, benefits, and withholdings	19,245,161	17,470,201
Unearned revenue	100,378,225	82,889,427
Reserves for claims and settlements	7,529,955	7,224,088
Current portion of bonds payable	13,498,817	15,232,343
Other current liabilities	3,613,118	3,870,001
Total current liabilities	159,139,278	147,173,476
Non-current liabilities:		
Bonds payable, net	198,794,149	212,907,967
Reserves for claims and settlements	5,197,770	5,472,398
Accrued OPEB liability	336,644,473	314,801,109
Net pension liability	391,037,472	277,926,735
Total non-current liabilities	931,673,864	811,108,209
Total Liabilities	1,090,813,142	958,281,685
Deferred Inflows of Resources		
Related to pensions	262,169	-
Net Position		
Net investment in capital assets	1,170,694,075	1,188,563,671
Unrestricted	(641,082,045)	(594,554,703)
Total Net Position	$ 529,612,030	$ 594,008,968

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating Revenues:		
Passenger fares	$ 91,844,867	$ 92,022,554
State Shared Ride Program	12,639,664	12,802,423
Advertising	2,328,226	2,099,170
Miscellaneous income	806,314	521,116
Total operating revenues	107,619,071	107,445,263
Operating Expenses:		
Salaries and wages	149,541,878	140,753,582
Fringe benefits	140,458,832	130,536,140
Pension expense, net	27,029,226	(3,873,872)
OPEB expense, net	21,843,364	36,837,567
Services	17,330,724	12,301,049
Fuel and lubricant	16,294,676	22,271,186
Tires and tubes	1,847,109	1,753,808
Other materials and supplies	22,045,673	20,315,020
Utilities	7,486,315	7,957,948
Casualty and liability	2,937,600	2,140,865
Purchased transportation	26,356,045	26,252,873
Leases and rentals	1,500,447	1,514,277
Miscellaneous expense	4,710,583	3,460,859
Depreciation	98,412,562	105,163,957
Total operating expenses	537,795,034	507,385,259
Operating Loss	(430,175,963)	(399,939,996)
Non-Operating Revenues (Expenses):		
Capital funds used for operating assistance:		
Federal government	27,760,292	21,973,552
Commonwealth of Pennsylvania	9,724,920	8,242,199
Local governments	4,176,530	3,024,434
Operating grants:		
Commonwealth of Pennsylvania	207,389,251	196,133,732
Local governments - matching	33,238,401	31,867,438
Total government subsidies for operations	282,289,394	261,241,355
Interest income	34,445	16,178
Interest expense	(11,393,229)	(12,248,402)
Total non-operating revenues (expenses)	270,930,610	249,009,131
Loss Before Capital Grant Funding	(159,245,353)	(150,930,865)
Capital grant funding:		
Federal	44,972,524	38,366,904
State	46,344,082	39,492,903
Local	3,531,809	2,946,638
Total capital grant funding	94,848,415	80,806,445
Change in Net Position	(64,396,938)	(70,124,420)
Total net position - beginning	594,008,968	664,133,388
Total net position - ending	$ 529,612,030	$ 594,008,968

See accompanying notes to financial statements.

PORT AUTHORITY OF ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts from customers	$ 107,334,430	$ 109,782,529
Payments for goods and services	(108,687,367)	(92,690,630)
Payments to employees	(288,225,750)	(269,840,923)
Net cash provided by (used in) operating activities	(289,578,687)	(252,749,024)
Cash Flows From Non-Capital Financing Activities:		
Operating subsidies	312,196,291	280,747,577
Cash Flows From Capital and Related Financing Activities:		
Capital grants received	88,873,435	88,636,397
Investments in transit operating property	(69,614,980)	(52,546,602)
Payments on bonds	(15,242,134)	(17,497,860)
Interest paid	(11,465,364)	(12,386,196)
Net cash provided by (used in) capital and related financing activities	(7,449,043)	6,205,739
Cash Flows From Investing Activities:		
Proceeds from (deposits to) restricted assets	6,439,517	3,945,260
Interest and dividends on investments	34,445	16,178
Net cash provided by (used in) investing activities	6,473,962	3,961,438
Net Increase (Decrease) in Cash and Cash Equivalents	21,642,523	38,165,730
Cash and Cash Equivalents:		
Beginning of year	107,174,473	69,008,743
End of year	$ 128,816,996	$ 107,174,473
Reconciliation of Operating Loss and Depreciation Expense to Net Cash Provided by (Used in) Operating Activities:		
Operating loss	$ (430,175,963)	$ (399,939,996)
Adjustments to reconcile operating loss and depreciation expense to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	98,412,562	105,163,957
Change in assets, liabilities, and deferred outflows and inflows:		
Other receivables	(284,641)	2,337,266
Materials and supplies	(833,695)	(1,027,534)
Prepaid expenses and other current assets	547,792	(572,293)
Accounts payable	(7,923,531)	6,887,533
Accrued compensation, benefits, and withholdings	1,774,960	906,525
Reserves for claims and settlements	31,239	(10,451)
Accrued OPEB liability	21,843,364	36,837,567
Net pension liability	113,110,737	4,552,007
Deferred outflows of resources for pension	(86,343,680)	(7,883,605)
Deferred inflows of resources for pension	262,169	-
Total adjustments	140,597,276	147,190,972
Net cash provided by (used in) operating activities	$ (289,578,687)	$ (252,749,024)

See accompanying notes to financial statements.

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

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 $426,163 and $519,941 at June 30, 2016 and 2015, 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 2016 and 2015, no interest expense was capitalized.

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

Projects in progress remaining at June 30, 2016 primarily consist of communication, computer, and infrastructure upgrades as well as various building improvements.

Revenue, Receivables, and Unearned Revenues

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

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

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

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

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

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

The Authority received $221.6 million in State Operating Assistance during fiscal year 2016. After recognizing unearned revenue for State Operating Assistance carried forward to future years, the Authority recognized $207.4 million in State Operating Assistance for fiscal year 2016 under Act 44. The State operating assistance funds required a 15% local match of $33.2 million. Allegheny County provided $30.2 million in local match with an additional $3 million provided by the Regional Asset District (RAD).
Because of existing debt agreements, the Authority obtained capital funding under PTAF totaling $25.7 million to use for debt service. Local matching share required for this funding was provided by the County.

The Authority was awarded $106.4 million in capital funding under Act 44 to be utilized for capital improvements in fiscal year 2016. The Authority utilized $6.9 million of this capital funding in its operating budget. In fiscal year 2016, $2.3 million was used to match federal grants for other state of good repair capital projects and $4.6 million was utilized to support the Bus and Railcar overhaul program.

The Authority was awarded a total of $10 million in capital funding from the County during fiscal year 2016, which is used to match federal and state capital grants.

At June 30, 2016, the primary components of unearned revenue were: $82.1 million of State operating assistance carryover, $7.6 million of County funds to be used for capital grant matching, and $7.2 million of State PTAF funds to be used for 2017 debt service.

Deferred Outflows and Inflows of Resources

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

Compensated Absences

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

Self-Insurance

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

Refunding Transactions

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

Use of Estimates in the Preparation of Financial Statements

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

Classification of Net Position

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

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

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

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

Pensions

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

Adopted Pronouncements

The requirements of the following Governmental Accounting Standards Board (GASB) Statements were adopted for the Authority's financial statements:

GASB Statement No. 72, *"Fair Value Measurement and Application,"* was adopted during the current year by the Authority. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement did not have a significant impact on the Authority's financial statements for the year ended June 30, 2016.

GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants,"* was adopted in the current year by the Authority. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. This statement included additional financial disclosure for the Authority's financial statements for the year ended June 30, 2016.

Pending Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 74 (OPEB Plans), 75 (OPEB Employer), 76 (GAAP Hierarchy), 77 (Tax Abatement), 80 (Component Units), 81 (Split-Interest Agreements), 82 (Pensions). Management has not yet determined the impact of these statements on the Authority's financial statements.

Reclassification

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

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 2016 and 2015 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:

	2016		2015	
	Cash and Cash Equivalents	Restricted for Capital and Debt	Cash and Cash Equivalents	Restricted for Capital and Debt
Deposits	$ 26,242,477	$ -	$ 25,090,998	$ -
INVEST	102,574,519	14,781,137	82,083,475	21,221,191
Money Market	-	11,043,575	-	11,043,038
Total	$ 128,816,996	$ 25,824,712	$ 107,174,473	$ 32,264,229

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, 2016 and 2015, respectively, $25,359,291 and $24,274,072 of the Authority's bank balance of $25,859,291 and $24,774,072 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, 2016, 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. The Authority can withdraw funds from INVEST without limitations or fees.

4. Capital Assets/Accumulated Depreciation

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

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

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	June 30, 2014	Increases	Decreases	June 30, 2015
Capital assets, not being depreciated:				
Land	$ 105,162,502	$ -	$ -	$ 105,162,502
Projects in progress	25,326,236	555,924	-	25,882,160
Total capital assets, not being depreciated	130,488,738	555,924	-	131,044,662
Capital assets, being depreciated:				
Buildings	356,804,576	9,027,378	-	365,831,954
Transportation equipment	655,761,332	27,842,757	(2,468,306)	681,135,783
Track, roadway, and subway stations	1,639,032,138	3,230,158	(230,526)	1,642,031,770
Other property, equipment, and assets	160,786,595	11,346,364	(273,854)	171,859,105
Total capital assets being depreciated	2,812,384,641	51,446,657	(2,972,686)	2,860,858,612
Less accumulated depreciation for:				
Buildings	(161,375,262)	(10,852,982)	-	(172,228,244)
Transportation equipment	(422,896,618)	(33,377,470)	2,468,306	(453,805,782)
Track, roadway, and subway stations	(866,174,441)	(49,771,516)	230,526	(915,715,431)
Other property, equipment, and assets	(94,981,403)	(11,161,989)	273,854	(105,869,538)
Total accumulated depreciation	(1,545,427,724)	(105,163,957)	2,972,686	(1,647,618,995)
Total capital assets, being depreciated, net	1,266,956,917	(53,717,300)	-	1,213,239,617
Total capital assets, net	$ 1,397,445,655	$ (53,161,376)	$ -	$ 1,344,284,279

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

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

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

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

The following is a summary of debt transactions of the Authority for the year ended June 30, 2015:

	Balance at July 1, 2014	Issuance	Amortization/ Payments and Retirements	Balance at June 30, 2015
Series of 2011 Bonds	$ 224,025,000	$ -	$ (10,305,000)	$ 213,720,000
Master Financing Agreement	13,753,811	-	(7,192,860)	6,560,951
	237,778,811	-	(17,497,860)	220,280,951
Unamortized net bond premium	8,490,486	-	(631,127)	7,859,359
Net outstanding	$ 246,269,297	$ -	$ (18,128,987)	228,140,310
Less current amounts:				
Series of 2011 Bonds				(10,820,000)
Master Financing Agreement				(4,412,343)
Total current bonds payable				(15,232,343)
Total long-term bonds payable				$ 212,907,967

The annual debt service requirements related to the Bonds and Master Financing Agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 13,498,817	$ 10,789,094	$ 24,287,911
2018	11,925,000	10,161,098	22,086,098
2019	12,520,000	9,566,538	22,086,538
2020	13,140,000	8,943,088	22,083,088
2021	13,830,000	8,255,888	22,085,888
2022-2026	80,760,000	29,661,263	110,421,263
2027-2029	59,365,000	6,886,363	66,251,363
Total	$ 205,038,817	$ 84,263,332	$ 289,302,149

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

6. ACCESS Program Services

The Authority has a contract with Transdev Services, Inc., which provides professional services to coordinate the paratransit system, ACCESS, which provides transit services within the County for elderly and handicapped individuals. Expenses under this contract amounted to $26.4 million and $26.3 million for fiscal years 2016 and 2015, respectively.

The Authority currently receives partial reimbursement for these services from the Commonwealth in the form of a grant. The amount is based on ridership and average fare statistics. Revenue under this program totaled $12.6 million in fiscal year 2016 and $12.8 million in fiscal year 2015.

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

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

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

The Authority maintains an estimate of its potential liability related to claims that have been filed as of June 30, 2016. The reserve balance is approximately $12.7 million at June 30, 2016 and 2015.

8. Commitments and Contingencies

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

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

9. PENSION PLANS

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

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

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

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

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

Benefit provisions for the ATU and IBEW Plans are established and amended by the Retirement and Disability Allowance Committees for each plan, as stated in written agreements.

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

	ATU	IBEW	NonRep	Total
Inactive plan members or beneficiaries currently receiving benefits	2,911	145	416	3,472
Participants who transferred to another plan	46	28	73	147
Inactive plan members entitled to but not yet receiving benefits	19	2	28	49
Active plan members	2,154	45	163	2,362
Total plan members	5,130	220	680	6,030

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

Net Pension Liability. The Authority's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2015. There were no plan changes between the January 1, 2015 valuation date and the December 31, 2015 liability measurement date. Standard actuarial techniques were used to roll forward the total pension liability from the valuation date to the measurement date.

Actuarial Assumptions. The total pension liability in the January 1, 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age normal
Actuarial assumptions:	
Investment rate of return	7.25%
Underlying inflation rate	2.50%
Salary projection	3.50% (with exceptions for years covered by the ATU collective bargaining agreement)

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

Actuarial assumptions based on actuarial experience study for the period January 1, 2014 to December 31, 2014.

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

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2016:

	NonRep and IBEW	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equity	43.0%	6.8%
International equity	18.0%	8.3%
Private real estate	3.0%	4.0%
REITs	3.0%	6.2%
Fixed income	33.0%	1.1%
	100.0%	

	ATU	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US large cap equity	32.0%	5.7%
US small cap equity	3.0%	7.2%
Non-US developed markets	20.0%	6.0%
Non-US emerging markets	5.0%	7.9%
Private equity	2.5%	9.2%
Equity long/short	5.0%	4.7%
Fixed income	27.5%	2.1%
Absolute return	5.0%	3.5%
	100.0%	

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

Changes in Net Pension Liability. Changes in the Authority's net pension liability for the year ended June 30, 2016 are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 6/30/15	$ 1,063,025,714	$ 785,098,979	$ 277,926,735
Changes for the year:			
Service cost	18,360,069	-	18,360,069
Interest	79,466,396	-	79,466,396
Differences between expected and actual experience	3,723,311	-	3,723,311
Changes of benefit terms	16,606	-	16,606
Changes of assumptions	51,147,667	-	51,147,667
Employer contributions	-	28,757,230	(28,757,230)
Member contributions	-	14,713,657	(14,713,657)
Net investment income	-	(3,083,932)	3,083,932
Benefit payments, including refunds of employee contributions	(76,287,328)	(76,287,328)	-
Employer reimbursement for healthcare expenses	2,099,350	2,099,350	-
Administrative expenses	-	(783,643)	783,643
Balances at 6/30/16	$ 1,141,551,785	$ 750,514,313	$ 391,037,472

The change in assumption above relates to the expectation that members will retire at younger ages.

Changes in Net Pension Liability. Changes in the Authority's net pension liability for the year ended June 30, 2015 are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 6/30/14	$ 1,046,171,042	$ 772,796,314	$ 273,374,728
Changes for the year:			
Service cost	15,731,584	-	15,731,584
Interest	74,121,243	-	74,121,243
Employer contributions	-	26,176,245	(26,176,245)
Member contributions	-	14,329,767	(14,329,767)
Net investment income	-	45,546,595	(45,546,595)
Benefit payments, including refunds of employee contributions	(75,029,231)	(75,029,231)	-
Employer reimbursement for healthcare expenses	2,031,076	2,031,076	-
Administrative expenses	-	(751,787)	751,787
Balances at 6/30/15	$ 1,063,025,714	$ 785,098,979	$ 277,926,735

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ATU, IBEW, and NonRep financial reports that can be obtained from the Authority's Finance Department.

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
ATU	$ 430,439,590	$ 331,777,935	$ 247,202,780
IBEW	11,054,993	8,200,112	5,803,808
NonRep	64,576,912	51,059,425	39,690,590
	$ 506,071,495	$ 391,037,472	$ 292,697,178

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the years ended June 30, 2016 and 2015, the Authority recognized pension expense of $56,477,501 and $23,483,828, respectively. Cash payments into the plan are included in fringe benefits on the statement of revenues, expenses, and changes in net position and any remaining excess (deficiency) is reported as pension expense, net.

At June 30, 2016 and 2015, the Authority reported deferred outflows of resources related to pensions from the following sources:

	2016	2015
Differences between expected and actual experience	$ 2,967,074	$ -
Changes of assumptions	37,586,752	-
Net difference between projected and actual earnings on pension plan investments	52,343,395	7,244,424
Contributions made subsequent to the measurement date	11,572,013	10,881,130
	$ 104,469,234	$ 18,125,554

At June 30, 2016 and 2015, the Authority reported deferred inflows of resources related to pensions from the following sources:

	2016	2015
Differences between expected and actual experience	$ 262,169	$ -

Deferred outflows of resources related to Authority pension contributions subsequent to the measurement date of $11,572,013 and $10,881,130 are recognized as a reduction of the net pension liability in the years ended June 30, 2016 and 2015, respectively.

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

Year Ending June 30:		
2017	$	28,117,947
2018		28,117,947
2019		24,603,326
2020		11,795,832
	$	92,635,052

10. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

Funding Policy. The Authority's contribution is based on projected pay-as-you-go financing requirements. For fiscal years 2016 and 2015, the Authority contributed $29.3 million (excluding the implicit rate subsidy) and $29.8 million, respectively, to the plans. Plan members receiving benefits contributed $1.8 and $2 million for fiscal years June 30, 2016 and 2015, respectively, through their contributions as required by the cost sharing provisions of the Plans. Under these provisions, retirees receiving benefits pay a certain percentage of any cost increases after the base year, as determined by the respective plans. Retiree cost sharing percentages for the ATU, IBEW, and Non-Rep Plans are based on the particular health care coverage that is selected by the retiree, the number of family members covered and the age of the retiree and each covered family member, and when retirement became effective.

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

A summary of changes in the net OPEB obligation for the year ended June 30, 2015 is as follows:

	ATU Plan	IBEW Plan	NonRep Plan	Total
Annual required contribution	$ 72,978,479	$ 2,125,741	$ 4,711,620	$ 79,815,840
Interest on net OPEB obligation	10,630,877	374,272	113,393	11,118,542
Adjustment to annual required contribution	(14,778,477)	(520,293)	(157,633)	(15,456,403)
Annual OPEB cost	68,830,879	1,979,720	4,667,380	75,477,979
Contributions made*	33,296,774	851,997	4,491,641	38,640,412
Increase (decrease) in net OPEB obligation	35,534,105	1,127,723	175,739	36,837,567
Net OPEB obligation beginning of year	265,771,914	9,356,794	2,834,834	277,963,542
Net OPEB obligation end of year	$ 301,306,019	$ 10,484,517	$ 3,010,573	$ 314,801,109

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

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

Actuarial valuation date	1/1/2015
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Asset valuation method	N/A - the plans are unfunded
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%
Health care inflation rate:	
Medical trend	6.5% in 2015, grading to 4.0% in 2058
Dental trend	4.0% per year
Vision trend	3.0% per year
Mortality	RP-2000 table, with collar adjustments

Three-Year Trend Information

	Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
ATU Plan:	June 30, 2016	$ 52,595,408	61%	$ 321,581,037
	June 30, 2015	68,830,879	48%	301,306,019
	June 30, 2014	67,811,055	47%	265,771,914
IBEW Plan:	June 30, 2016	1,814,734	46%	11,460,996
	June 30, 2015	1,979,720	43%	10,484,517
	June 30, 2014	1,943,325	42%	9,356,794
NonRep Plan:	June 30, 2016	4,561,604	87%	3,602,440
	June 30, 2015	4,667,380	96%	3,010,573
	June 30, 2014	4,732,001	91%	2,834,834

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2015 (projected forward to 1/1/16) 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	$ -	$ 728,365	$ 728,365	0.0%	$ 117,324	620.8%
IBEW	-	24,941	24,941	0.0%	2,723	915.9%
NonRep	-	74,577	74,577	0.0%	16,749	445.3%

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

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

The most significant changes in actuarial assumptions are noted below:

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

Required
Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

YEAR JUNE 30, 2016 AND 2015

	2016	2015
Total Pension Liability:		
Service cost	$ 18,360,069	$ 15,731,584
Interest	79,466,396	74,121,243
Changes of benefit terms	16,606	-
Differences between expected and actual experience	3,723,311	-
Changes of assumptions	51,147,667	-
Benefit payments, including refunds of member contributions and certain healthcare expenses	(76,287,328)	(75,029,231)
Employer reimbursement for healthcare expenses	2,099,350	2,031,076
Net Changes in Total Pension Liability	78,526,071	16,854,672
Total Pension Liability - Beginning	1,063,025,714	1,046,171,042
Total Pension Liability - Ending (a)	$ 1,141,551,785	$ 1,063,025,714
Plan Fiduciary Net Position:		
Plan member contributions	$ 14,713,657	$ 14,329,767
Employer actuarially recommended contributions	28,757,230	26,176,245
Net investment income	(3,083,932)	45,546,595
Benefit payments, including refunds of member contributions and certain healthcare expenses	(76,287,328)	(75,029,231)
Employer reimbursement for healthcare expenses	2,099,350	2,031,076
Administrative expense	(783,643)	(751,787)
Net Change in Plan Fiduciary Net Position	(34,584,666)	12,302,665
Plan Fiduciary Net Position - Beginning	785,098,979	772,796,314
Plan Fiduciary Net Position - Ending (b)	$ 750,514,313	$ 785,098,979
Net Pension Liability - Ending (a-b)	$ 391,037,472	$ 277,926,735
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.75%	73.86%
Covered Employee Payroll	$ 140,212,768	$ 136,492,015
Net Pension Liability as a Percentage of Covered Employee Payroll	278.89%	203.62%

See accompanying note to required supplementary pension schedules.

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF AUTHORITY CONTRIBUTIONS - PENSIONS

YEARS ENDED JUNE 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution:										
ATU	$ 22,261,679 *	$ 20,047,266	$ 17,602,620	$ 13,984,742	$ 23,546,814	$ 17,480,911	$ 23,346,064	$ 9,908,915	$ 12,622,026	$ 10,145,028
IBEW	828,090	815,889	848,189	774,765	653,215	477,378	679,059	381,249	1,092,732	519,027
NonRep	5,667,461	5,313,090	6,100,903	4,674,158	5,254,033	4,734,816	5,037,719	3,687,745	4,471,985	3,767,772
	28,757,230	26,176,245	24,551,712	19,433,665	29,454,062	22,693,105	29,062,842	13,977,909	18,186,743	14,431,827
Contributions in relation to the actuarially determined contribution:										
ATU	22,261,679	20,047,266	17,602,620	13,984,742	23,546,814	17,480,911	23,346,064	9,908,915	12,622,026	10,145,028
IBEW	828,090	815,889	848,189	774,765	653,215	477,378	679,059	381,249	1,092,732	519,027
NonRep	5,667,461	5,313,090	6,100,903	4,674,158	5,254,033	4,734,816	5,037,719	3,687,745	4,471,985	3,767,772
	28,757,230	26,176,245	24,551,712	19,433,665	29,454,062	22,693,105	29,062,842	13,977,909	18,186,743	14,431,827
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll:										
ATU	$ 127,714,679	$ 123,363,442	$ 120,440,624	$ 121,432,288	$ 122,817,450	$ 128,613,838	$ 125,199,519	$ 124,938,277	$ 123,451,501	$ 123,273,413
IBEW	1,916,931	2,130,900	2,267,698	2,404,723	2,775,982	2,902,075	2,850,839	2,815,850	2,978,603	3,222,452
NonRep	10,581,158	10,997,673	11,821,211	14,030,280	16,665,376	17,946,884	17,457,219	16,330,872	16,057,672	16,907,131
	$ 140,212,768	$ 136,492,015	$ 134,529,533	$ 137,867,291	$ 142,258,808	$ 149,462,797	$ 145,507,577	$ 144,084,999	$ 142,487,776	$ 143,402,996
Contributions as a percentage of covered employee payroll	20.51%	19.18%	18.25%	14.10%	20.70%	15.18%	19.97%	9.70%	12.76%	10.06%

Note to Required Supplementary Pension Schedules:

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

Methods and assumptions used to determine the contribution rates:

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

The NonRep plan was closed to new participants effective September 1, 2011
The IBEW plan was closed to new participants effective January 1, 2012
* Preliminary contributions for 2016, reflecting updated data and assets but prior ro the effect of actuarial assumption changes under consideration by the Retirement Committee

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFIT PLANS

YEAR ENDED JUNE 30, 2016
(dollars in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Asset	(b) Actuarial Accrued Projected Unit Credit	(b-a) Unfunded Actuarial Accrued Liability	(a/b) Funded Ratio	(c) Covered Payroll	Unfunded Actuarial Accrued Liability (b-a) as a Percentage of Covered Payroll ((b-a)/c)
ATU Plan:						
1/1/15 (projected forward to 1/1/16)	$ -	$ 728,365	$ 728,365	0.0%	$ 117,324	620.8%
1/1/13 (projected forward to 1/1/15)	-	872,249	872,249	0.0%	125,566	694.7%
1/1/13 (projected forward to 1/1/14)	-	847,994	847,994	0.0%	125,566	675.3%
1/1/11 (projected forward to 1/1/13)	-	788,881	788,881	0.0%	138,441	569.8%
1/1/11 (projected forward to 1/1/12)	-	768,690	768,690	0.0%	138,441	555.2%
1/1/09 (projected forward to 1/1/11)	-	733,436	733,436	0.0%	134,547	545.1%
IBEW Plan:						
1/1/15 (projected forward to 1/1/16)	-	24,961	24,961	0.0%	2,723	916.7%
1/1/13 (projected forward to 1/1/15)	-	24,476	24,476	0.0%	2,440	1003.1%
1/1/13 (projected forward to 1/1/14)	-	23,638	23,638	0.0%	2,440	968.8%
1/1/11 (projected forward to 1/1/13)	-	23,540	23,540	0.0%	2,991	787.0%
1/1/11 (projected forward to 1/1/12)	-	22,923	22,923	0.0%	2,991	766.4%
1/1/09 (projected forward to 1/1/11)	-	23,059	23,059	0.0%	2,897	796.0%
NonRep Plan:						
1/1/15 (projected forward to 1/1/16)	-	74,577	74,577	0.0%	16,749	445.3%
1/1/13 (projected forward to 1/1/15)	-	78,083	78,083	0.0%	15,290	510.7%
1/1/13 (projected forward to 1/1/14)	-	79,153	79,153	0.0%	12,590	628.7%
1/1/11 (projected forward to 1/1/13)	-	78,841	78,841	0.0%	18,274	431.4%
1/1/11 (projected forward to 1/1/12)	-	80,351	80,351	0.0%	18,274	439.7%
1/1/09 (projected forward to 1/1/11)	-	75,321	75,321	0.0%	16,954	444.3%

Supplementary Information

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grantor Number or Pass-Through Grantor Number	Amount Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION:				
FEDERAL TRANSIT ADMINISTRATION:				
Federal Transit - Capital Investment Grants:				
North Shore Connector	20.500	PA-03-0315	$ -	$ 57,645
FY 2009 Fare Collection	20.500	PA-03-0396	-	473,481
2010 Fixed Guideway	20.500	PA-05-0073	-	760,245
2010 S5309 Fixed Guideway	20.500	PA-05-0076	-	986,941
FY 2011 S5309 Fixed Guideway	20.500	PA-05-0079	-	1,633,025
FY 2012 S5309 Fixed Guideway	20.500	PA-05-0082	-	3,988,590
Total CFDA 20.500			-	7,899,927
Federal Transit - Formula Grants:				
S1602 EB Ext Phases 1&2	20.507	PA-90-0429	-	134,809
FY 2014 Transit Enhancements	20.507	PA-90-X799	-	769,953
2012 Block Grant	20.507	PA-90-X743	-	336,546
2009 Block Grant	20.507	PA-90-X686	-	73,911
2010 Block Grant	20.507	PA-90-0700	-	3,329
2011 Block Grant	20.507	PA-90-0725	-	382,033
FY 2009 North Shore Flex Surface Transportation Program	20.507	PA-95-0034	-	93,022
FY 2012 Transit Way	20.507	PA-90-X753	-	195,538
FY 2013 Block Grant	20.507	PA-90-X766	-	415,874
FY 2014 Block Grant	20.507	PA-90-X803	-	1,585,854
FY 2013 Flex Bus Rapid Transportation	20.507	PA-95-X099	-	92,354
FY Urban Area Formula Grant	20.507	PA-90-X824	-	24,550,082
FY2015 Flex Funding STP	20.507	PA-95-X109	-	6,172,200
Total CFDA 20.507			-	34,805,505
State of Good Repair Grants:				
FY 2013 State of Good Repair	20.525	PA-54-0001	-	7,962,226
FY 2014 State of Good Repair	20.525	PA-54-0004	-	1,051,492
Total CFDA 20.525			-	9,013,718
Bus and Bus Facilities Formula Program:				
FY15 S5339 Bus and Bus Facilities	20.526	PA-34-0009	-	2,722,987
FY15 S5339 State of Good Repair	20.526	PA-54-0005	-	17,489,694
Total CFDA 20.526			-	20,212,681
TOTAL FEDERAL TRANSIT CLUSTER			-	71,931,831
TOTAL FEDERAL TRANSIT ADMINISTRATION			-	71,931,831
Metropolitan Transportation Planning:				
Passed through the Commonwealth of Pennsylvania:				
Metropolitan Transportation Planning	20.505	520906-5	-	184,000
SPC UPWP Transit Planning 14-03	20.205	CSPC	-	111,501
Enhan Mobility of Seniors & Indiv w/ Disabilities - S5310 Federal Funds	20.513	CSPC	-	743,955
TOTAL METROPOLITAN TRANSPORTATION PLANNING			-	1,039,456
TOTAL DEPARTMENT OF TRANSPORTATION			-	72,971,287
DEPARTMENT OF HOMELAND SECURITY:				
2014 Transit Security Grant Program	97.075	EMW2014RA00050	-	89,816
TOTAL DEPARTMENT OF HOMELAND SECURITY			-	89,816
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ -	$ 73,061,103

See accompanying notes to schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Port Authority of Allegheny County (Authority) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of the Authority.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The Authority's federal awards made prior to December 26, 2014 are recognized following the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. The Authority's federal awards made subsequent to December 26, 2014 are recognized following the cost principles in the Uniform Guidance. The Schedule is based upon information provided by the various funding sources to the Authority and other information available at the time this Schedule was prepared. For the year ended June 30, 2016, the Authority did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Port Authority of Allegheny County

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2016

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

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

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

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

Board of Directors
Port Authority of Allegheny County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port Authority of Allegheny County (Authority), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maher Duessel

Pittsburgh, Pennsylvania
November 30, 2016

MaherDuessel
Certified Public Accountants

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Main 724.285.6800
Fax 724.285.6875

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

Board of Directors
Port Authority of Allegheny County

Report on Compliance for its Major Federal Program

We have audited the Port Authority of Allegheny County's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2016. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on its Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

Maher Duessel

Pittsburgh, Pennsylvania
November 30, 2016

PORT AUTHORITY OF ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

I. Summary of Audit Results

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

2. Internal control over financial reporting:

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

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

4. Internal control over major program:

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

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

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

7. Major Program:

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

8. Dollar threshold used to distinguish between type A and type B programs: $2,191,833

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, 2016

NONE