Allegheny County Airport Authority

(A Component Unit of the County of Allegheny, Pennsylvania)

Auditor’s Report and Financial Statements

December 31, 2014 and 2013

Allegheny County Airport Authority
(A Component Unit of County of Allegheny, Pennsylvania)

Contents

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Independent Auditor's Report

To the Board of Directors of
Allegheny County Airport Authority
Pittsburgh, Pennsylvania

We have audited the accompanying basic financial statements, which are comprised of the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic financial statements, as listed in the table of contents, of Allegheny County Airport Authority (Authority), a component unit of the County of Allegheny, Pennsylvania.

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. Those standards require that we plan and perform the audit 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 Allegheny County Airport Authority as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not 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.

BKD, LLP

Indianapolis, Indiana
March 24, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The Allegheny County Airport Authority's (Authority) discussion and analysis is presented to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, and (c) identify changes in the Authority's financial position. Management encourages the reader to consider Management's Discussion and Analysis (MD&A) of the Authority's financial performance in conjunction with the information contained in the Authority's financial statements.

The Airline Operating Agreement

The Authority is responsible for the operation of the facilities at Pittsburgh International Airport (PIT or the Airport) and the Allegheny County Airport (AGC). PIT is operated by the Authority pursuant to an Amended and Restated Airline Operating Agreement (the AOA). The AOA has been signed by American Airlines, British Airways, Chautauqua Airlines, Delta Airlines, JetBlue Airways, Mesa Airlines, PEOPLExpress, Republic Airlines, Southwest Airlines, United Airlines, and US Airways (the Signatory Airlines).

Airline revenue at PIT is based upon a residual arrangement as determined in the AOA. Signatory Airlines agree to pay for the operations of the Airport, as well as fund certain capital expenditures, based upon rates and charges that take into account all revenues, expenses and debt service at PIT. The AOA is designed to minimize the landing fee, terminal rent, and ramp fee costs to the Signatory Airlines, while assuring the payment of all net operating costs and debt service related to PIT.

Overview of the Financial Statements

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned, and expenses are recognized when incurred. Capital assets are recorded in land, building, and equipment accounts and are depreciated over their useful lives (except land). See Notes 1 and 2 to the financial statements for a summary of the Authority's organization and significant accounting policies. Following this discussion and analysis are the basic financial statements of the Authority, including the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's financial position and activities.

The Statements of Net Position present information on all of the Authority's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Authority's financial condition.

The Statements of Revenues, Expenses and Changes in Net Position present information showing the change in the Authority's net position during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

The Statements of Cash Flows relate to the flows of cash and cash equivalents. Consequently, only transactions that provide or use cash are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

Significant Events/Financial Highlights

Enplaned passengers at the Airport increased 1.5% as compared to 2013, which followed a 1.8% decrease in 2013. The Airport has maintained a diversified portfolio of airlines with nine carriers providing regularly scheduled service to over 37 nonstop destinations. A number of carriers experienced passenger increases at the Airport in 2014. Of the nine carriers, seven showed increased passenger levels compared to 2013, while a total of four carriers experienced more than one million passengers. Existing carriers accounting for the increase in passengers versus 2013 include Frontier at 9.2%, Delta at 5.6%, JetBlue at 5.1%, American/US Airways at 4.0% and Air Canada at 3.9%. United and Southwest/AirTran showed passenger level decreases in 2014 of 4.8% and 1.3%, respectively.

Management is pleased to see the consistency in passenger levels through the strength of the origin and destination traffic (nonconnecting passengers who begin or end their trip at PIT), and is optimistic the added routes and frequencies in 2014 will continue predictable passenger levels. The Pittsburgh economy continues to improve and management attributes the performance in 2014 passenger levels to new carriers and routes at PIT that have succeeded in attracting more travelers with the growth of the regional economy. In 2014, PIT was able to launch additional service on JetBlue to the popular destination of Fort Lauderdale as well as announce the establishment of a focus city in Pittsburgh by Sun Air Express to serve regional markets in Altoona, PA, Lancaster, PA, Bradford, PA, Franklin, PA, and Jamestown, NY. Additionally, service added previously to destinations in Nashville and Houston on Southwest have matured to increased passenger levels. With the most recent data available from the U.S. Bureau of Economic Analysis, Pittsburgh generated $131.3 billion in economic activity in 2013, growing at an average rate of 3.4% per year. By comparison, the U.S. GDP grew at an annual growth rate of 2.2% per year during this period.

Pursuant to Federal Aviation Administration (FAA) approval, the Authority continued to apply Passenger Facility Charges (PFC) revenue to reduce debt service costs, resulting in decreased airline rates and charges. The total amount of PFCs allocated to debt service in 2014 and 2013 was $6.3 and $12.4 million, respectively. The Authority anticipates future applications of PFC revenues will predominantly be used for eligible debt service costs.

The Authority has been designated a recipient of revenues generated from casinos and racinos authorized to operate pursuant to the Pennsylvania Race Horse Development and Gaming Act (Gaming Act). The Authority is eligible to receive up to 5% of the annual net revenues, on an annual basis not to exceed $150 million for up to a 12-year period, generated from gaming operations in Pennsylvania. The County of Allegheny (County), the prior recipient of the funds, received $42.5 million of these revenues prior to the close of 2009 to complete the repayment of the $42.5 million capital contribution that the County made toward the original construction of the Airport, which the County funded with the issuance of its General Obligation Bonds.

In June 2009, the Authority executed a grant anticipation loan (Gaming Grant Anticipation Loan) with PNC Bank, N.A. in the amount of $20 million. The proceeds of this transaction were used to reimburse the Authority for $6.5 million utilized to reduce rates and charges in 2008 and to apply $4.6 million to reduce airline rates and charges in 2009. The Gaming Grant Anticipation Loan was secured by a pledge of the future installments of the Gaming Revenues to be received. The Authority repaid $5 million of the Grant Anticipation Loan in January 2010, which was in excess of, and in advance of, the first installment of $4 million due on January 15, 2011. Additionally in January 2011, the Authority repaid $8 million of principal against the loan. In January 2012, the Authority repaid the remaining $7 million of principal on the Gaming Grant Anticipation Loan. The Authority anticipates applying the remaining $68.1 million of gaming grants to (i) reduce debt service payments on the Authority's General Airport Revenue Bonds (GARBs), thereby reducing the costs charged to the airlines operating from PIT; and (ii) for other purposes permitted under the Gaming Act.

The parking operation at PIT is the largest non-aeronautical operating revenue generator for the Airport. There was $30 million of parking revenue included in the results of the Airport for 2014. Management expects net parking revenues to continue to improve in 2015 as they are directly related to budgeted enplanements. The Airport currently has approximately 2,100 short-term parking spaces, 3,100 long-term parking spaces, and 8,000 extended-term parking spaces.

Consistent with the AOA, the net cost of operating the Airport is passed on to the Signatory air carriers through airline rates and charges. Therefore, any reduction in fees directly benefits the carriers' level of profitability at the Airport. The Authority intends to continue the application of these funds throughout the duration of the receipt of Gaming Act revenues and the PFC authorization applicable to the use of PFC funds. Management is actively monitoring and adjusting the operation of the Airport to match the activity of the airline tenants. Operating costs have been reduced wherever possible, non-airline revenues enhanced, and innovative ideas that improve the efficiency of the Airport implemented.

On December 5, 2012, the Authority opened bids for the exploration, drilling and production of minerals, namely Marcellus Shale natural gas, on the properties of PIT and AGC. CNX Gas Company LLC was the sole qualified bidder and they remitted $2.1 million as a bid security deposit. On February 8, 2013, the Authority Board awarded the bid and authorized execution of a lease with CNX Gas Company LLC. Upon execution, the Authority received an up-front bonus payment of $42.8 million with an additional $3.5 million held in escrow until certain property deed mineral rights issues are resolved, but not later than two years from the date of the lease execution. These bonus payments, including the security deposit and escrow (when disbursed), will be accreted proratably over the five-year initial term of the lease based upon straight-line methodology. During 2014, approximately $580,000 of the escrow payment was received and included in the remaining amortization over the life of the lease. Additional releases from the escrow will occur in future years. In addition to these initial payments, the Authority will receive monthly royalty revenue payments once mineral production begins. Royalty revenues over the life of the drilling operations will be recognized as earned. During 2014, ground and rental rent payments were received for any drill pads that were completed. These payments will be amortized over the remaining life of the lease from the date of payment. Lease execution with CNX occurred on February 22, 2013. Net revenues from the natural gas lease are being used to reduce airline rates and charges and for capital expenditures, including economic development, at the Airport. During 2014 and 2013, $9.1 million and $7.1 million, respectively, was accreted from the bonus payment and escrow release with $4.9 million and $4.0 million, respectively, allocated to reduce airline rates and charges.

The following is a summary of the Authority's statements of revenues, expenses and changes in net position for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012	% Change 2014/2013
Total operating revenues	$ 151,326	$ 139,278	$ 139,051	8.7%
Total nonoperating revenues	46,021	41,585	36,077	10.7%
Total revenues	197,347	180,863	175,128	9.1%
Operating expenses	148,751	144,982	151,324	2.6%
Total nonoperating expenses	15,288	18,116	19,534	-15.6%
Total expenses	164,039	163,098	170,858	0.6%
Income (loss) before capital contributions and grants	33,308	17,765	4,270	87.5%
Capital contributions and grants	20,144	3,220	18,394	525.6%
Increase in net position	53,452	20,985	22,664	154.7%
Net Position - beginning of year	476,817	455,832	433,168	4.6%
Net position - end of year	$ 530,269	$ 476,817	$ 455,832	11.2%

2014

Total operating revenues finished the year approximately $12 million, or 8.7%, higher compared to 2013. Changes in landing and terminal fees were primarily a result of airline rate changes between 2014 and 2013, as well as changes in airline operations. Other aeronautical revenues were $11.4 million higher in 2014 compared to 2013 with the major contributor to this favorable variance being a $11.2 million settlement from an American Airlines bankruptcy claim. Parking and rent-a-car revenues finished the year approximately $2.5 million more than 2013. This can be attributed to an increase in rental car revenue of approximately $0.9 million along with an increase in parking revenue of approximately $1.6 million, with the latter resulting from a full year use of the parking garage that underwent refurbishment in 2013.

Total operating expenses (including depreciation) were $3.8 million, or 2.6%, more in 2014 as compared to 2013. The largest drivers for this increase are salaries, wages and benefits, utilities, professional services and depreciation. Salaries, wages and benefits contributed approximately $0.9 million or 2.4% due to normal pay increases. Utilities increased by $0.3 million due to electricity of which a polar vortex surcharge from our energy provider contributed $77.5k and the balance of the variance is attributable to usage. Professional services increased by $1.2 million versus 2013 primarily due to (1) an increase of $460k in potential litigation claims as determined by independent legal, (2) an increase of $230k in information technology support services due to implementation of a document management system, (3) $200k for an arc flash study conducted by the engineering department, and (4) $116k related to the design and implementation of an employee training system. Finally, depreciation was $0.7 million higher than 2013 due to the capitalization of $48.3 million of new assets during 2014.

Total nonoperating revenues (expenses) were approximately $7.3 million higher in 2014 as compared to 2013, or 30.9%. Interest expense was approximately $2.8 million lower, reflecting the amortization of long-term debt and lower interest payments required on short-term, variable-rate instruments. Accretion of gas drilling revenues was $1.9 million higher in 2014 as compared to 2013. A full twelve months of gas drilling bonus payment was recognized in 2014 as compared to ten months of gas drilling bonus payment recognization in 2013 from CNX's up-front bonus payment.

Capital contributions and grants were up approximately $16.9 million in 2014 compared to 2013, or 525.7%. Grant funding increased by $10MM primarily due to the utilization of $7MM of grants in 2014 that were approved late in 2013 after the restoration of funding from the sequestration of the Federal government to reach a bi-partisan budget during 2013. Capital contributions were $6.6MM in 2014 versus zero for 2013. The largest portions of the 2014 contributions were $4.7MM for the Airmall Blue Sky project and $1.0MM for baggage claim terrazzo flooring.

2013

Total operating revenues finished the year approximately $0.2 million, or 0.2%, higher compared to 2012. Changes in landing and terminal fees were primarily a result of airline rate changes between 2013 and 2012, as well as changes in airline operations. Parking and rent-a-car revenues finished the year approximately $0.4 million more than 2012. This can be attributed to an increase in rental car revenue of approximately $0.5 million along with a drop in parking revenue of approximately $0.1 million, with the latter resulting from short-term parking garage construction and an associated drop in enplanements. Total operating expenses were $6.3 million, or 4.2%, less in 2013 as compared to 2012. The largest drivers for this decrease are professional services and depreciation. Professional services contributed approximately $2.2 million due to nonutilization of on-call services contracts. Depreciation is approximately $9.2 million less than 2012 due primarily to certain capital assets reaching the end of their useful lives.

Total nonoperating revenues (expenses) were approximately $6.9 million higher in 2013 as compared to 2012, or 41.9%. Interest expense was approximately $1.5 million lower, reflecting the amortization of long-term debt and lower interest payments required on short-term, variable-rate instruments. Accretion of gas drilling revenues of approximately $7.1 million in 2013 was the most favorable item as compared to 2012. Ten months of gas drilling bonus payment was recognized in 2013 from CNX's up-front bonus payment.

Capital contributions and grants were down approximately $15.2 million in 2013 compared to 2012, or 82.5%, principally due to the sequestration of the Federal government to reach a bi-partisan budget.

Financial Position

The following represents a summary of the Authority's financial position at December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012	% Change 2014/2013
Assets and Deferred Outflows of Resources				
Assets				
Current assets - unrestricted	$ 84,254	$ 73,489	$ 33,380	14.65%
Current assets - restricted	136,645	147,210	155,825	-7.18%
Net property and equipment	649,456	656,043	682,565	-1.00%
Other assets	4,022	4,357	8,091	-7.69%
Total assets	874,377	881,099	879,861	-0.76%
Deferred Outflows of Resources	5,239	6,837	9,446	-23.37%
Total assets and deferred outflows of resources	$ 879,616	$ 887,936	$ 889,307	-0.94%

	2014	2013	2012	% Change 2014/2013
Liabilities				
Current payables from unrestricted assets	$ 28,251	$ 27,981	$ 18,380	0.96%
Current payables from restricted assets	58,726	56,325	55,897	4.26%
Long-term liabilities	260,763	322,722	351,184	-19.20%
Total liabilities	347,740	407,028	425,461	-14.57%
Deferred Inflows of Resources	1,606	4,091	8,014	-60.74%
Total liabilities and deferred inflows of resources	349,346	411,119	433,475	-15.03%
Net Position				
Net investment in capital assets	432,655	401,876	389,896	7.66%
Restricted	61,237	57,264	54,072	6.94%
Unrestricted	36,378	17,677	11,864	105.79%
Total net position	$ 530,270	$ 476,817	$ 455,832	11.21%

The Authority's net position continues to increase benefiting from Gaming Revenues, Customer Facility Charges (CFCs), PFCs, gas drilling bonus payments and contracts from governmental agencies.

Capital Asset and Debt Administration

Capital Assets - The Authority's capital assets, net of depreciation as of December 31, 2014 and 2013, amounted to $649,455,586 and $656,043,402, respectively. The capital assets include land and land improvements (including runways and taxiways); buildings and building improvements; equipment, furniture and fixtures; as well as construction in progress. The total increase in the Authority's capital assets before accumulated depreciation for 2014 was 2.3% compared to 1.4% in 2013.

Major capital projects in progress and expenditures incurred during 2014 included the following:

2014		
Rehabilitation of taxiways and runways	$	13,512,562
People mover		5,161,997
Roadways		12,901,002

Major capital projects in progress and expenditures incurred during 2013 included the following:

2013		
Rehabilitation of taxiways and runways	$	4,890,957
Terminal enhancements		7,702,621
Garage and parking lots		6,293,369
Roadways		1,156,055

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. Acquisitions are funded using a variety of financing techniques, including federal grants, state grants, PFCs, debt issuance and cost recovery through airline rates and charges. Major commitments include $13.2 million of grant funds for runway and taxiway rehab, South Matrix Explosive Detection System, Master Planning, and other projects, $8.2 million of 2012 bond funds primarily for People Mover Rehabilitation, Airside Terrazzo Flooring and terminal roof rehabilitation, $1.9 million in discretionary capital funds primarily for Hangar and other building repairs as well as terminal repairs and upgrades and master plan updates and $1.2 million in restricted capital funds primarily for runway rehabilitation. Further detailed information on the Authority's capital assets can be found in Note 5 to the financial statements.

Debt Administration - As of December 31, 2014 and 2013, the Authority's long-term debt outstanding totaled $291,319,633 and $343,999,009, respectively. Principal payments of $50,983,082 and $48,885,561 were made in 2014 and 2013, respectively. During 2014, the Authority received two credit rating affirmations. The Authority currently has the highest ratings in its history – Fitch A-, Moody's A3, S&P A – and all outlooks are stable. Detailed information regarding the Authority's long-term debt can be found in Note 7 to the financial statements.

Economic Factors and Other Matters

Statistics, as provided by the Allegheny County Airport Authority Traffic Statistics for 2014, indicate that domestic air travel increased as compared to 2013. Total passengers at PIT were approximately 8.0 million in 2014, an increase of 1.5% compared to 2013. The increase can be attributed to new carriers and routes at PIT that have succeeded in attracting more travelers with the growth of the regional economy. In 2014, PIT was able to launch additional service on JetBlue to the popular destination of Fort Lauderdale as well as announce the establishment of a focus city in Pittsburgh by Sun Air Express to serve regional markets in Altoona, PA, Lancaster, PA, Bradford, PA, Franklin, PA, and Jamestown, NY. Previous service additions that arrived at PIT in previous years have matured such as new Southwest Airlines daily service to Houston Hobby and Nashville, while also continuing seasonal service to West Palm Beach (WN). Additionally, Vacation Express began service to Pittsburgh in 2014 with direct service to the Bahamas and is expanding service in 2015 with service to Punta Cana, Cancun, and new nonstop, expanded service to Grand Bahama Island. Delta Air Lines also continued to grow its presence in Pittsburgh by continuing seasonal Orlando service, weekly service to Punta Cana, and announcing new service to Cancun in June 2015. Delta Air Lines will continue for the 7th year nonstop service to Paris by increasing the total number of flights through adding daily service during the summer peak season and also upgrading the premium product to lie flat seating. In 2014, US Airways and American (who are in the process of merging) carried the most passengers at the Airport with 34.73% of the total passenger traffic. Southwest and Delta are the next most active carriers handling 26.61% and 18.57%, respectively, of 2014's total passengers.

The Authority was able to announce over ten new routes on four operators in 2014 including new 2015 service on Pittsburgh's first scheduled ultra low cost carrier, Allegiant Air. Allegiant will be providing nonstop scheduled service to three Florida destinations: Jacksonville, Tampa/St. Pete - Clearwater, and Ft. Myers/Punta Gorda. This is welcomed news and confirms the stabilization and rebound of service levels for our traveling public. However, as the economy continues to recover and airline mergers progress at major airlines, medium-size airports continue to feel the bulk of airline cutbacks and capacity restraint. On December 9, 2013, US Airways and American Airlines' merged as a new holding company under the name American Airlines Group, Inc. Both airlines have operating agreements with the Authority and will continue to operate separately while their operations are merged into one Airline Operating Certificate (AOC). Consistent with recently completed airline mergers between other carriers operating out of PIT, the US Airways/American Airlines merger will not modify the terms or conditions of these agreements and does not initially appear to have an impact on air service.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to James R. Gill, Chief Operating Officer, Landside Terminal, 4th Floor Mezz., Pittsburgh, PA 15231-0370 or via the "Contact Us" area of the Authority's website at www.flypittsburgh.com.

Allegheny County Airport Authority

(A Component Unit of the County of Allegheny, Pennsylvania)

Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current Assets		
Unrestricted Assets		
Cash and cash equivalents	$ 73,623,896	$ 63,339,653
Accounts receivable, trade - net allowance for doubtful accounts of $108,940 and $217,518 in 2014 and 2013, respectively	4,296,388	4,586,381
Grants receivable from governmental agencies	2,748,146	2,282,522
Inventory	1,938,643	2,023,335
Other assets	1,646,703	1,257,080
Total unrestricted current assets	84,253,776	73,488,971
Restricted Assets		
Cash and cash equivalents	130,894,138	141,477,583
Investments	4,240,558	4,228,365
Accrued interest receivable	1,833	1,829
Passenger and customer facility charge receivables	1,508,798	1,501,884
Total restricted current assets	136,645,327	147,209,661
Total current assets	220,899,103	220,698,632
Noncurrent Assets		
Cash and cash equivalents - unrestricted	1,875,772	1,080,368
Derivative instruments - forward delivery agreements	1,606,542	2,494,651
Prepaid bond insurance costs	539,931	781,714
Capital assets, at cost - net of accumulated depreciation of $1,370,414,850 and $1,318,519,004 in 2014 and 2013, respectively	649,455,586	656,043,402
Total noncurrent assets	653,477,831	660,400,135
Total assets	874,376,934	881,098,767
Deferred Outflows of Resources - Deferred losses on refundings of debt	5,239,169	6,837,722
Total assets and deferred outflows of resources	879,616,103	887,936,489

Allegheny County Airport Authority
(A Component Unit of the County of Allegheny, Pennsylvania)
Statements of Net Position (Continued)
December 31, 2014 and 2013

	2014	2013
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Payable from Unrestricted Assets		
Accounts payable	$ 6,209,907	$ 7,081,246
Due to County of Allegheny	1,766,150	892,226
Accrued liabilities	4,116,016	4,093,286
Amounts due to airlines	1,865,874	3,023,608
Unearned revenue	14,293,276	12,891,035
Total current liabilities - payable from unrestricted assets	28,251,223	27,981,401
Payable from Restricted Assets		
Accounts payable	2,113,349	953,436
Accrued liabilities	1,815,587	2,800,234
Retainage payable	1,217,203	890,091
Accrued interest payable	-	43,781
Other liabilities	982,414	667,440
Current portion of long-term debt	52,597,030	50,970,287
Total current liabilities - payable from restricted assets	58,725,583	56,325,269
Total current liabilities	86,976,806	84,306,670
Long-Term Liabilities		
Long-term debt	238,722,603	293,028,722
Accrued postemployment benefits	58,521	129,275
Unearned revenue	21,895,788	29,477,940
Other long-term liabilities	86,295	85,083
Total long-term liabilities	260,763,207	322,721,020
Total liabilities	347,740,013	407,027,690
Deferred Inflows of Resources - Forward delivery agreements	1,606,541	4,091,498
Total liabilities and deferred inflows of resources	349,346,554	411,119,188
Net Position		
Net investment in capital assets	432,654,829	401,875,598
Restricted for:		
Capital	41,551,209	37,423,426
Debt service	19,685,858	19,840,923
Total restricted	61,237,067	57,264,349
Unrestricted	36,377,653	17,677,354
Total net position	$ 530,269,549	$ 476,817,301

Allegheny County Airport Authority

(A Component Unit of the County of Allegheny, Pennsylvania)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Landing fees	$ 14,361,523	$ 16,175,824
Terminal area airline rentals and fees	58,931,950	58,843,123
Other aeronautical revenue	19,765,780	8,361,062
Parking revenues	29,964,552	28,319,696
Rental car revenues	12,117,122	11,229,331
Terminal concessions	7,261,383	7,084,889
Other nonaeronautical revenue	5,975,443	6,472,957
Total Pittsburgh International Airport revenues	148,377,753	136,486,882
Allegheny County Airport revenues	2,948,259	2,791,541
Total operating revenues	151,326,012	139,278,423
Operating Expenses		
Salaries, wages and benefits	38,706,910	37,787,004
Utilities	11,173,533	10,867,128
Cleaning and maintenance services	16,134,004	15,863,165
Professional services	16,392,772	15,203,481
Other	8,597,630	8,433,613
Total Pittsburgh International Airport expenses	91,004,849	88,154,391
Allegheny County Airport expenses	2,964,068	2,761,368
Depreciation	54,781,801	54,065,640
Total operating expenses	148,750,718	144,981,399
Income (Loss) From Operations	2,575,294	(5,702,976)
Nonoperating Revenues (Expenses)		
Interest expense	(15,278,047)	(18,070,409)
Investment income	2,803,774	1,048,441
Customer facility charges	4,982,379	5,060,175
Passenger facility charges	15,561,599	15,546,574
Loss on disposal of capital assets	(10,499)	(45,525)
Gaming act revenues	12,400,000	12,400,000
Gas drilling revenues	9,072,202	7,143,289
Miscellaneous	1,136,594	395,709
Net increase (decrease) in fair value of investments	64,730	(9,173)
Total nonoperating revenues, net	30,732,732	23,469,081
Income Before Capital Contributions and Grants	33,308,026	17,766,105
Capital Contributions and Grants	20,144,222	3,219,515
Increase in Net Position	53,452,248	20,985,620
Net Position, Beginning of Year	476,817,301	455,831,681
Net Position, End of Year	$ 530,269,549	$ 476,817,301

Allegheny County Airport Authority
(A Component Unit of the County of Allegheny, Pennsylvania)
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash receipts from customers and users	$ 151,954,481	$ 141,021,874
Cash payments to vendors for goods and services	(55,281,351)	(53,209,461)
Cash payments for employee services	(39,036,724)	(38,544,677)
Net cash provided by operating activities	57,636,406	49,267,736
Cash Flows From Capital and Related Financing Activities		
Receipt of passenger facility charges	15,552,945	15,632,359
Additions to capital assets	(47,752,255)	(29,399,602)
Interest paid on long-term debt	(15,177,786)	(17,049,048)
Principal payments of long-term debt	(50,983,082)	(48,885,561)
Grants from governmental agencies received	19,678,598	3,689,497
Proceeds from sale of capital assets	50,149	40,935
Net cash used in capital and related financing activities	(78,631,431)	(75,971,420)
Cash Flows From Noncapital and Related Financing Activities		
Receipt of customer facility charges	4,984,119	4,977,396
Gas drilling rent receipts	2,847,649	40,804,151
Gaming Act receipts	12,400,000	12,400,000
Net cash provided by noncapital and related financing activities	20,231,768	58,181,547
Cash Flows From Investing Activities		
Maturities of investment securities	16,600,202	16,742,542
Purchases of investment securities	(16,547,665)	(12,491,631)
Termination payment from forward delivery agreement	604,871	-
Investment income	602,051	582,198
Net cash provided by investing activities	1,259,459	4,833,109
Net Increase in Cash and Cash Equivalents	496,202	36,310,972
Cash and Cash Equivalents, Beginning of Year	205,897,604	169,586,632
Cash and Cash Equivalents, End of Year	$ 206,393,806	$ 205,897,604
Cash and Cash Equivalents, End of Year, Consists of:		
Unrestricted cash and cash equivalents	$ 73,623,896	$ 63,339,653
Restricted cash and cash equivalents	130,894,138	141,477,583
Cash and cash equivalents designated for noncurrent uses	1,875,772	1,080,368
	$ 206,393,806	$ 205,897,604

Allegheny County Airport Authority

(A Component Unit of the County of Allegheny, Pennsylvania)

Statements of Cash Flows (Continued)

Years Ended December 31, 2014 and 2013

	2014	2013
Noncash Transactions From Capital and Related Financing Activities - capital asset acquisitions included in accounts payable	$ 5,146,139	$ 4,643,761
Noncash Transactions From Noncapital and Related Financing Activities - amortization of gas drilling deposit	$ 8,629,590	$ -
Noncash Transactions From Investing Activities - net increase (decrease) in fair value of investments	$ 64,730	$ (9,173)
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities		
Income (loss) from operations	$ 2,575,294	$ (5,702,976)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Depreciation	54,781,801	54,065,640
Amortization of deferred revenue	(582,456)	(444,444)
Changes in assets and liabilities:		
Accounts receivable - trade	1,426,587	602,250
Inventories	84,692	(82,213)
Other current assets	(389,623)	414,703
Accounts and other payables	(2,029,073)	3,342,977
Due to County of Allegheny	873,924	(815,631)
Other current liabilities	964,802	(2,018,541)
Other long-term liabilities	(69,542)	(94,029)
Net cash provided by operating activities	$ 57,636,406	$ 49,267,736

Note 1: Organization

Organization

The Allegheny County Airport Authority (Authority) presently leases and operates the Pittsburgh International Airport (PIT or the Airport) and the Allegheny County Airport (AGC) (collectively, the Airport System). The Authority's activities are commercial in nature and are intended to be self-sustaining. The Authority is a body corporate and politic existing under the laws of the Commonwealth of Pennsylvania pursuant to the Municipality Authorities Act of 1945, approved May 2, 1945, P.L. 382, subsequently amended by the Municipal Authority Act, Act 22 of 2001. The Authority was organized by the County of Allegheny, Pennsylvania (County) on June 17, 1999. On September 16, 1999, pursuant to an Airport Operation, Management and Transfer Agreement, and Lease between the County and the Authority (Transfer Agreement), as amended, the County transferred and leased the Airport System to the Authority for an initial term of 25 years with two 25-year extension options exercisable at the option of the Authority. In connection with the Transfer Agreement, the County transferred to the Authority all of the County's rights, title, and interest in the property utilized by the County in connection with the Airport System. In addition, all contractual rights, obligations, and liabilities pertaining to the Airport System, including revenue and general obligation bonds issued by the County to finance construction and development of PIT, were transferred to the Authority by the County. Prior to the organization of the Authority, the operations were included in the County's Department of Aviation.

Board members of the Authority are appointed by the County Executive subject to confirmation by a majority of the County Council. The Authority's financial statements are presented as a component unit in the County's General Purpose Financial Statements and Comprehensive Annual Financial Report. Given the relationship of the parties to the Transfer Agreement, no adjustments were made to the historical carrying values of the Airport System's assets and liabilities and equity. The accompanying financial statements reflect the financial position and results of operations of the Authority as of and for the years ended December 31, 2014 and 2013.

Note 2: Summary of Significant Accounting Policies

Financial Statement Presentation

The Governmental Accounting Standards Board (GASB) establishes standards for external financial reporting for state and local governments and components thereof. The Authority's net position is classified into three categories according to external donor restrictions or availability of assets for satisfaction of Authority obligations. The Authority's net position is classified as follows:

Net investment in Capital Assets - This represents the Authority's total investment in capital assets - net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position - This includes resources for which the Authority is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Position - Unrestricted net position represents resources derived from operations that may be used at the discretion of the Board of Directors for any purpose.

Basis of Accounting

The Authority is accounted for as single-purpose, business-type entity since its operations are financed and operated in a manner similar to a private business. The Authority's financial statements are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when earned or when services are provided, and expenses are recognized when the related obligations are incurred.

Revenues and Expenses

Revenues from airlines, concessionaires, lessees and parking are reported as operating revenues. Operating expenses include the cost of administering the airport system, plus depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions and grants.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

Recognition of Revenue and Unearned Revenue

Airline Operating Agreement—Landing fees and terminal building lease rental revenues include amounts computed in accordance with the Airline Operating Agreement (AOA) between the Authority and those airlines serving PIT that sign this agreement (Signatory Airlines). The term of the AOA will expire no earlier than May 8, 2018, or when all of the Authority's debt service requirements have been funded. Such revenues are also realized from certain fixed fees for nonscheduled airlines and private users of AGC.

American/US Airways, who are in the process of merging, together with its affiliated commuter airlines, accounted for approximately 35% and 34% of total enplaned passengers at PIT in 2014 and 2013, respectively. The American/US Airways revenue represents 37% and 33% of PIT operating revenue in 2014 and 2013, respectively. No other airline represents more than 10% of operating revenue.

The AOA provides that the aggregate of airline fees and charges together with other revenues, including non-airline revenues, for each fiscal year should be sufficient to pay the operating expenses of the cost centers included in the AOA and to make all deposits and payments under bond ordinance and indentures issued in connection with financings of capital projects for the Authority.

Concession and rental car revenues—Concession and rental car revenues are generally based on a fixed percentage of tenant revenues subject to certain minimum monthly fees. Concessions are operated under a Master Lease Development and Concession Agreement (Master Lease). During 2002, the Master Lease was extended through December 31, 2017. In return for the extension, the concessionaire agreed to provide a nonrefundable up-front payment of $6,666,667, which has been recorded as unearned revenue and is being amortized to operating revenues over the initial extended term of the Master Lease.

On December 27, 2012, the Authority executed the Fourth Amended and Restated Master Lease, Development and Concession Agreement with AirMall Pittsburgh, Inc. through December 31, 2029. AirMall Pittsburgh, Inc. agreed to expend an estimated $5,000,000 for expansion improvements to enhance retail premises by the completion date of June 30, 2014 or remit to the Authority 77% of any unexpended amount less than $5,000,000. During 2014, the expansion improvements were completed for a total of $4,665,729 and recorded as contribution revenue. The AirMall Pittsburgh, Inc. expects to spend the remaining balance of $334,271 for similar improvements during 2015. Additionally, under the terms of the amendment, rent will increase to 77% of gross income effective January 1, 2018. Such improvements will be recognized as contribution revenue upon the earlier of the assets being placed in service or becoming available for use.

Parking revenues—Parking revenues are derived from a third-party operator and are based on a fixed percentage of net revenues, as defined in the associated management agreement.

Gas drilling revenues—In February 2013, a lease was executed with CNX Gas Company LLC for the exploration, drilling and production of minerals, namely Marcellus Shale natural gas, on the properties of Pittsburgh International and Allegheny County Airports. The Authority's contract includes an approximate $46.3 million nonrefundable bonus amount, of which approximately $3.5 million is held in escrow until certain property deed mineral rights issues are resolved. The bonus payments received to date of $42.8 million have been recognized as unearned revenue and are being amortized to nonoperating revenues over the five-year initial term (March 2013 through February 2018) of the lease based upon straight-line methodology. Any amounts received from the escrow will be recognized over the remaining term of the initial lease period. In 2014, escrow funds of approximately $580,000 were released with the remaining balance expected to be released in future years. In addition to these initial payments, the Authority will receive monthly royalty revenue payments once mineral production begins. During 2014, the Authority began to receive surface and ground rents for the completed oil pads that are to be amortized over the remaining life of the contract. The total received during 2014 approximated $2.3 million. The Authority will continue to receive additional funds for surface and ground rents as the oil pads are completed.

Passenger Facility Charges (PFCs)—On October 1, 2001, the airlines began collecting PFCs on qualifying enplaning passengers at PIT on behalf of the Authority. PFCs are fees imposed on enplaning passengers by airports to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system; fund noise mitigation at the airport; or furnish opportunities for enhanced competition between or among air carriers. Recent regulations have been promulgated by the Federal Aviation Administration (FAA) that enhance the eligibility of PFC usage to include, among other things, debt service payments. Both the fee imposed and the intended uses must be reviewed and approved by the FAA.

Previously, the Authority received approval to impose and use a $3.00 PFC. Effective December 1, 2004, the FAA approved an increase to the PFC, allowing the Authority to collect at the current maximum rate of $4.50. The project summary was approved by the FAA in its Record of Decision, dated July 2001, and subsequently amended through November 16, 2007, as follows:

Reimbursement for preapplication projects (to be applied to debt service)	$ 215,055,143
Safety- and security-related projects	174,503,105
Environmental-related projects	86,395,101
Terminal development projects	50,819,327
	$ 526,772,676

The Authority has expended $242,718,756 on these projects through December 31, 2014.

PFC revenues are classified as nonoperating in the statements of revenues, expenses and changes in net position and are restricted for capital improvements, debt service and certain other uses approved by the FAA.

Customer Facility Charges (CFCs)—Beginning June 1, 2011, the Authority began collecting CFCs from all rental car concessionaires that operate at PIT. Currently, $3.00 is charged to each on-airport rental car concessionaire customer on a per transaction day basis. CFC revenues are classified as nonoperating in the statements of revenues, expenses and changes in net position. Such amounts are restricted for operating and maintenance expense, capital improvements, and debt service related to the rental car operation at the Airport or for any rental car related purpose the Authority determines is a reasonable use of such funds.

Federal and state grants—Outlays for airport capital improvements and, from time to time, certain airport operating expenses are subject to reimbursement from federal grant programs. Funds are also received for airport development from the State of Pennsylvania. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred and are recorded as a component of capital contributions and grants. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

Tenant financed improvements—Unearned revenues also include amounts funded by tenants of the Authority for certain capital assets. These unearned revenue amounts are being amortized to contribution revenue using the straight-line method over the depreciable lives of the related assets through credits to current rents payable.

Cash and Cash Equivalents

For purposes of the accompanying statements of cash flows, the Authority considers all cash on hand and highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. Cash equivalents at December 31, 2014 consisted of money market mutual funds and a U.S. Government-sponsored enterprise security.

Investments

Investments are carried at fair value, based on quoted market prices, and changes in the fair value of investments are reported as nonoperating revenues in the statement of revenues, expenses and changes in net position.

Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the weighted-average method of accounting. Inventories are comprised of construction-related materials and parts used for maintenance of facilities and equipment.

Capital Assets

Capital assets are stated at historical cost unless contributed, in which case they are recorded at fair value as of the date contributed. The Authority's capitalization threshold for capital assets is $5,000. Costs incurred for major improvements are carried in construction in progress until the assets are placed in service or are available for use, whichever occurs first. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Capitalized Interest

Interest incurred during construction periods is capitalized and included in the cost of property and equipment. Interest capitalized on projects funded by internally generated funds is based on the weighted-average borrowing rate of the Authority and actual expenditures during the period of construction. Interest capitalized on projects funded from bond proceeds is based on the interest cost of the specific borrowing, less interest earned on unspent construction-related bond proceeds during the construction period. Interest is not capitalized on project costs that are reimbursed from government grants or PFCs.

Total interest expense for the Authority was approximately $15.3 million and $18.1 million for the years ended December 31, 2014 and 2013, respectively, while interest capitalized as part of the cost of constructed assets was approximately $0.9 million and $1.5 million, respectively.

Compensated Absences

In accordance with the vesting method provided under GASB Statements No. 16, *Accounting for Compensated Absences*, accumulated vacation is accrued based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

Certain firefighters employed by the Authority earn vested sick benefits that are paid at termination or retirement. Liabilities for such benefits are accrued at current rates of compensation, plus appropriate taxes.

Use of Estimates

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 the reported amounts of assets, deferred outflows, liabilities and deferred inflows, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

New Pronouncements

In 2015, the Authority will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The effects of implementing this statement is expected to have a material effect on net position. The Authority will be required to recognize its proportionate share of the collective net pension liability to the Allegheny County Employees' Retirement System. This number is expected to approximate the Authority's proportionate share of the unfunded accrued actuarial. The Authority will also be required to recognize a new measure of pension expense, which will be different from the actuarially determined contributions (annual required contributions) for the plan. Note disclosures and required supplementary information will be based on the new measures.

Note 3: Cash, Cash Equivalents and Investment Securities

Deposits

Commonwealth of Pennsylvania law requires that the Authority's deposits be placed in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation, or the National Credit Union Insurance Fund. To the extent that such accounts are so insured, and for any amounts above the insured maximum, the approved collateral as provided by law shall be pledged by the depository.

The Authority's cash deposits are insured up to $250,000 at financial institutions insured by the FDIC. Any cash deposits in excess of the $250,000 FDIC limits are uninsured and collateralized by financial institutions via single collateral pool arrangements as permitted by Act No. 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors.

Investments

The Authority's investment policy is to follow Section 5611 of the Commonwealth of Pennsylvania Municipality Authorities Act (the Act). In accordance with the Act, the Authority is authorized to invest in (1) U.S. Treasury bills; (2) short-term obligations of the U.S. government or its agencies or instrumentalities; (3) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision; and (4) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 if the only investments of that company are in the authorized investments for authority funds listed (1) through (3) above.

The maturity ranges and credit ratings for the Authority's investment securities at December 31, 2014 and 2013 follow:

	2014				
	Carrying Amount	Percentage of Total Investments	Maturity Date	Standard & Poor's	Moody's
U.S. Government-sponsored enterprise securities (GSEs)					
Federal Home Loan Bank	$ 4,240,558	3.7%	5/18/2015	AAAm	Aaa-mf
Federal National Mortgage Association	4,182,916	3.7%	2/3/2015	AA+	Aaa
Total GSEs	8,423,474	7.4%			
Money market mutual funds					
PNC Investments - Blackrock Federal Trust Fund	5,015,248	4.4%	< 90 days	AAAm	AAA-mf
Wells Fargo Investments - Wells Fargo Advantage Government Fund	68,563,590	60.0%	< 90 days	AAAm	Aaa-mf
Deutsche Bank Investments - Goldman Sachs Financial Square Treasury Fund	84,995	0.1%	< 90 days	AAAm	Aaa-mf
Mellon Investments - Goldman Sachs Financial Square Government #465	32,155,726	28.1%	< 90 days	AAAm2	Aaa3
Total money market mutual funds	105,819,559	92.6%			
Total investments	$ 114,243,033	100.0%			

	2013				
	Carrying Amount	Percentage of Total Investments	Maturity Date	Standard & Poor's	Moody's
U.S. Government-sponsored enterprise securities (GSEs)					
Federal Home Loan Bank	$ 4,228,365	3.3%	4/4/2014	AAAm	Aaa-mf
Federal National Mortgage Association	4,175,919	3.2%	1/2/2014	AA+	Aaa
Total GSEs	8,404,284	6.5%			
Money market mutual funds					
PNC Investments - Blackrock Federal Trust Fund	5,014,602	3.9%	< 90 days	AAAm	AAA-mf
Wells Fargo Investments - Wells Fargo Advantage Government Fund	82,274,787	63.9%	< 90 days	AAAm	Aaa-mf
Deutsche Bank Investments - Goldman Sachs Financial Square Treasury Fund	931,527	0.7%	< 90 days	AAAm	Aaa-mf
Mellon Investments - Goldman Sachs Financial Square Government #465	32,142,866	25.0%	< 90 days	AAAm2	Aaa3
Total money market mutual funds	120,363,782	93.5%			
Total investments	$ 128,768,066	100.0%			

Interest Rate Risk: the risk that changes in interest rates of debt securities will adversely affect the value of an investment. The Authority does not have an investment policy that manages exposure to fair value losses arising from rising interest rates.

Credit Risk: the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Act provides for investment of governmental funds into certain authorized investment types. Statutes do not prescribe regulations related to demand deposits; however, they do allow pooling of governmental funds for investment. The Authority has no investment policy that would further limit its investment choices. The deposit and investment policy of the Authority adheres to state statutes, related trust indentures, and prudent business practice.

Custodial Credit Risk: the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2014 and 2013, the Authority's investments were not exposed to custodial credit risk. The Authority's investments in U.S. government-sponsored enterprise securities are held by the pledging financial institution's trust department or agent in the Authority's name. The Authority's open-end money market mutual funds are not subject to custodial credit risk at December 31, 2014 and 2013 as their existence is not evidenced by securities that exist in physical or book entry form. The Authority's investment policy does not address how investment securities and securities underlying repurchase agreements are to be held.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority has no current concentrations of credit risk.

Foreign Currency Risk: This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Authority's investment policy prohibits investments in foreign investments.

Summary of Carrying Values

Cash, cash equivalents, and investment securities included in the statements of net position are classified as follows:

	2014	2013
Cash and cash equivalents		
Current - unrestricted	$ 73,623,896	$ 63,339,653
Current - restricted	130,894,138	141,477,583
Noncurrent - unrestricted	1,875,772	1,080,368
Total cash and cash equivalents	206,393,806	205,897,604
Investments securities		
Restricted investments	4,240,558	4,228,365
	$ 210,634,364	$ 210,125,969

Investment Income

Investment income for the years ended December 31, 2014 and 2013 consisted of:

	2014	2013
Interest and dividend income	$ 2,803,774	$ 1,048,441

Restricted Cash, Cash Equivalents and Investments

Cash, cash equivalents and investment securities are restricted as follows:

	2014	2013
2012 Capital projects fund	$ 12,022,409	$ 26,165,891
Debt service funds	3,352,088	3,550,938
Debt service reserve funds	61,612,567	61,351,015
Operation and maintenance reserve	15,328,806	15,012,093
Renewal and replacement fund	2,000,000	2,000,000
Debt service coverage fund	16,331,937	16,331,937
Airport system capital fund	18,656,398	15,721,246
Equipment and capital outlay fund	2,105,600	1,745,882
Other aviation facilities fund	1,274,258	1,442,321
Energy savings project account	84,995	931,527
Hangar loan project account	705,874	785,658
Deposits held for others	982,415	667,440
PFC account	677,349	-
	$ 135,134,696	$ 145,705,948

Bond Ordinance Number 1008-88 was adopted by the Board of County Commissioners of Allegheny County on July 22, 1988, and supplemented on June 7, 1990; February 20, 1992; June 3, 1993; and August 8, 1997 by the County and supplemented on December 1, 1999; October 1, 2001; October 3, 2002; October 3, 2007; August 11, 2010; and May 8, 2012 by the Authority (Bond Ordinance). The Bond Ordinance provides, among other things, that certain accounting procedures be followed and certain Funds (as therein defined) be established and maintained to provide bondholders a degree of security against certain contingencies.

Under the AOA, the Authority must also maintain certain Funds and Accounts (as therein defined). The AOA further requires the use of a cost-center structure. In general, revenues from Included Cost Centers are pledged to the payment of the Authority's Revenue Bonds, while revenues from Excluded Cost Centers are not.

The Bond Ordinance requires the Authority to maintain, charge, and collect rates, rentals, and other charges for the use of the Included Cost Centers, which, together with Other Available Funds, will be sufficient to provide in each fiscal year: (a) Revenues equal to the total amounts required to be deposited to the Funds established by the Bond Ordinance and (b) Net Revenues at least equal to 125% of the Debt Service Requirement with respect to the Authority's Revenue Bonds during the then current fiscal year. The Bond Ordinance generally defines the Debt Service Requirements as the sum of the amounts required to be deposited in respect of interest on (to the extent not payable as Capitalized Interest) and principal of the Authority's Revenue Bonds outstanding in any fiscal year. The Bond Ordinance defines Other Available Funds as all unexpended and unencumbered amounts in the Revenue Fund remaining after all transfers and payments required to be made have been made.

All Revenues of the Authority are deposited into the Revenue Fund and disbursed in accordance with the Authority's annual budget to provide for current operations and maintenance expenses and to replenish balances in the Funds to their required levels under the Bond Ordinance. Withdrawals from the Revenue Fund for deposit in any of the Funds and Accounts established under the AOA may only be made after all required deposits under the Bond Ordinance have been satisfied. Amounts in the Revenue Fund are pledged to secure the Authority's Revenue Bonds, but all current operations and maintenance expenses of the Authority are paid prior to debt service on the Authority's Revenue Bonds.

The Debt Service and Debt Service Reserve Funds are used for the payment of bond principal and interest and redemption premiums, if any, on the Authority's Revenue Bonds. The Operation and Maintenance Reserve Fund must be maintained at a balance at least equal to one-sixth of the Authority's current operating budget as a reserve for payment of operation and maintenance expenses. The balance of the Renewal and Replacement Fund must be maintained at $2,000,000 and can be disbursed by the Authority only for extraordinary repairs and replacements to property within the Included Cost Centers. Finally, amounts in the Debt Service Coverage Fund are used for the purpose of establishing future coverage on the Authority's Revenue Bonds.

The Passenger Facility Charge Fund provides for the segregation of PFC receipts, as required by the FAA. Such revenues are to be expended only for allowable capital projects, or to repay debt issued for allowable capital projects, under a Record of Decision granted by the FAA.

All other restricted Funds and Accounts (including those established under the AOA) of the Authority represent amounts held for specific capital projects or deposits held on behalf of others.

Note 4: Derivative Financial Instruments

The Authority had entered into six forward delivery agreements (the Forward Delivery Agreements). The Forward Delivery Agreements require the counterparties to deposit securities in certain of the Authority's debt service and debt service reserve trust accounts and provide the Authority with a guaranteed rate of return. The securities that are deposited into these accounts are timed to mature prior to scheduled debt service payment dates on the associated revenue bonds. During 2014, four forward delivery agreements were terminated, and the Authority received $604,871 as settlement of the obligation, which is reported as a component of investment income.

Eligible securities under the Forward Delivery Agreements are generally limited to: (a) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America; (b) U.S. government-sponsored enterprises; and (c) commercial paper and prime commercial paper, in each case, with an original maturity of not more than 365 days (and in some cases, 270 days) rated in the highest categories by Moody's and Standard and Poor's and issued by any corporation, finance company or banking institution organized and existing under the laws of the United States of America or any state thereof.

Objective of the Forward Delivery Agreements

The Forward Delivery Agreements allow the Authority to earn a guaranteed fixed rate of return over the life of the investments. These agreements are utilized by the Authority to earn a rate of return in excess of a rate that would otherwise be feasible by investing in securities with a shorter term.

Terms

The general terms of each agreement are set forth in the table below:

	Effective Date of Agreement	Termination Date	Scheduled Amount	Guaranteed Rate	Fair Value at December 31 2014	Fair Value at December 31 2013
Series 1999 Debt Service Reserve Account	9/20/2000	1/1/2018	$ 5,749,171	5.6869%	$ -	$ 918,403
Series 2001 Debt Service Reserve Account	10/4/2001	7/1/2022	8,329,078	4.7200%	1,342,462	973,403
Series 2002 Debt Service Reserve Account	10/1/2002	1/1/2023	10,523,560	4.0148%	-	503,268
Series 2007A Bond Subaccount	9/8/2000	12/31/2015	4,341,465	5.2713%	-	1,153,719
Series 2007B Bond Subaccount	1/31/2002	12/31/2018	429,354	0.0000%	-	(1,363,932)
Series 2010 Bond Account	9/1/2000	1/1/2018	453,611	5.6869%	264,080	309,790
					$ 1,606,542	$ 2,494,651

The future investment earnings under the 2002, 2007A (formerly 1997A) and 2007B (formerly 1997B) agreements, discounted at the financial institution's cost of funds on the contract date, were received by the Authority through up-front payments totaling $6,978,000. The amount of the up-front payments was previously recorded as a deferred inflow of resources and was being amortized to investment income over the term of the associated agreements. During 2014, the entire balance was recognized due to the sale of the 2002, 2007A and 2007B agreements. There is no remaining balance as of December 31, 2014. The unamortized balance of deferred investment income was $1,596,847 at December 31, 2013.

Fair Value

The fair value of each Forward Delivery Agreements is based on the value of the future discounted cash flows expected to be received over the life of the agreement relative to an estimate of discounted cash flows that could be received over the same term based on current market conditions. The fair values of the Forward Delivery Agreements are classified as a noncurrent asset in the Authority's statements of net position for the years ended December 31, 2014 and 2013. As the Forward Delivery Agreements are effective hedging instruments, the offsetting balances are reflected as deferred inflows. The changes in fair value of the Forward Delivery Agreements of $323,349 and $(3,445,075) for the years ended December 31, 2014 and 2013, respectively, are shown as an adjustment to the carrying amount of the related deferred inflows in the statements of net position.

Credit Risk

Credit risk is the risk that a counterparty will not fulfill its obligations. Under the terms of the Forward Delivery Agreements, the Authority is either holding cash or an approved security within certain debt service and debt service reserve funds. None of the principal amount of an investment under the Forward Delivery Agreements is at risk to the credit of the counterparty. Should the counterparty default, the Authority's maximum exposure is the positive termination value, if any, related to these agreements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or cash flows. The fair market values of the Forward Delivery Agreements are expected to fluctuate over the life of the agreements in response to changes in interest rates. The Authority does not have a formally adopted policy related to interest rate risk on the Forward Delivery Agreements.

Termination Risk

The Authority or the counterparties may terminate the Forward Delivery Agreements if the other party fails to perform under the terms of the contract. If the Forward Delivery Agreements have a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equivalent to the fair market value of the instrument at the time of termination.

Allegheny County Airport Authority
(A Component Unit of County of Allegheny, Pennsylvania)
Notes To Financial Statements
December 31, 2014 and 2013

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2014 and 2013, is as follows:

	2014					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance	Useful Lives
Capital assets, not being depreciated:						
Land	$ 90,895,771	$ -	$ (1,823)	$ 29,062	$ 90,923,010	
Construction in progress	17,775,923	41,666,147	-	(37,248,342)	22,193,728	
Total capital assets, not being depreciated	108,671,694	41,666,147	(1,823)	(37,219,280)	113,116,738	
Capital assets, being depreciated:						
Terminal buildings	715,501,714	5,109,164	-	12,871,847	733,482,725	10-30 years
Airfield (runways/taxiways/deicing)	514,524,659	332,349	(1,901,498)	12,854,524	525,810,034	20 years
Site development	81,493,578	-	-	-	81,493,578	30-50 years
Parking garage/lots/etc.	111,940,861	875,309	-	3,216,234	116,032,404	15-40 years
Hangars	43,970,275	20,944	-	307,906	44,299,125	5-30 years
Other structures	160,527,685	84,883	-	1,719,831	162,332,399	10-30 years
Roadways	66,229,850	35,510	-	1,802,778	68,068,138	10-20 years
Mobile and other equipment	53,123,038	85,113	(1,045,108)	2,668,106	54,831,149	10-20 years
Computer/security equipment and systems	53,041,006	47,039	-	602,565	53,690,610	5-20 years
Utilities	48,156,857	-	-	135,913	48,292,770	10-40 years
Other assets	17,381,189	-	-	1,039,576	18,420,765	10-30 years
Total capital assets being depreciated	1,865,890,712	6,590,311	(2,946,606)	37,219,280	1,906,753,697	
Less accumulated depreciation for:						
Terminal buildings	(572,526,976)	(15,883,322)	1,901,497	-	(586,508,801)	
Airfield (runways/taxiways/deicing)	(340,358,562)	(18,052,077)	-	-	(358,410,639)	
Site development	(39,893,832)	(1,761,942)	-	-	(41,655,774)	
Parking garage/lots/etc.	(56,285,663)	(4,890,696)	-	-	(61,176,359)	
Hangars	(37,457,213)	(778,677)	-	-	(38,235,890)	
Other structures	(95,472,121)	(5,807,649)	-	-	(101,279,770)	
Roadways	(58,896,487)	(535,524)	-	-	(59,432,011)	
Mobile and other equipment	(45,675,974)	(1,637,750)	984,459	-	(46,329,265)	
Computer/security equipment and systems	(25,480,600)	(3,028,167)	-	-	(28,508,767)	
Utilities	(35,239,460)	(1,543,440)	-	-	(36,782,900)	
Other assets	(11,232,116)	(862,557)	-	-	(12,094,673)	
Total accumulated depreciation	(1,318,519,004)	(54,781,801)	2,885,956	-	(1,370,414,849)	
Net depreciable assets	547,371,708	(48,191,490)	(60,650)	37,219,280	536,338,848	
Net capital assets	$ 656,043,402	$ (6,525,343)	$ (62,473)	$ -	$ 649,455,586	

	2013					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance	Useful Lives
Capital assets, not being depreciated:						
Land	$ 90,871,245	$ -	$ -	$ 24,526	$ 90,895,771	
Construction in progress	37,357,459	25,961,351	-	(45,542,887)	17,775,923	
Total capital assets, not being depreciated	128,228,704	25,961,351	-	(45,518,361)	108,671,694	
Capital assets, being depreciated:						
Terminal buildings	710,177,249	591,371	-	4,733,094	715,501,714	10-30 years
Airfield (runways/taxiways/deicing)	511,300,081	375,766	-	2,848,812	514,524,659	20 years
Site development	81,493,578	-	-	-	81,493,578	30-50 years
Parking garage/lots/etc.	104,756,758	483,569	-	6,700,534	111,940,861	15-40 years
Hangars	43,946,379	-	-	23,896	43,970,275	5-30 years
Other structures	137,404,890	129,500	-	22,993,295	160,527,685	10-30 years
Roadways	63,050,213	89,323	-	3,090,314	66,229,850	10-20 years
Mobile and other equipment	51,514,644	-	(322,328)	1,930,722	53,123,038	10-20 years
Computer/security equipment and systems	52,012,275	-	-	1,028,731	53,041,006	5-20 years
Utilities	46,535,535	-	-	1,621,322	48,156,857	10-40 years
Other assets	16,833,548	-	-	547,641	17,381,189	10-30 years
Total capital assets being depreciated	1,819,025,150	1,669,529	(322,328)	45,518,361	1,865,890,712	
Less accumulated depreciation for:						
Terminal buildings	(556,849,228)	(15,677,748)	-	-	(572,526,976)	
Airfield (runways/taxiways/deicing)	(322,454,817)	(17,903,745)	-	-	(340,358,562)	
Site development	(38,131,890)	(1,761,942)	-	-	(39,893,832)	
Parking garage/lots/etc.	(51,690,175)	(4,595,488)	-	-	(56,285,663)	
Hangars	(36,689,482)	(767,731)	-	-	(37,457,213)	
Other structures	(89,925,564)	(5,546,557)	-	-	(95,472,121)	
Roadways	(58,469,297)	(427,190)	-	-	(58,896,487)	
Mobile and other equipment	(44,229,864)	(1,681,978)	235,868	-	(45,675,974)	
Computer/security equipment and systems	(22,401,876)	(3,078,724)	-	-	(25,480,600)	
Utilities	(33,539,991)	(1,699,469)	-	-	(35,239,460)	
Other assets	(10,307,048)	(925,068)	-	-	(11,232,116)	
Total accumulated depreciation	(1,264,689,232)	(54,065,640)	235,868	-	(1,318,519,004)	
Net depreciable assets	554,335,918	(52,396,111)	(86,460)	45,518,361	547,371,708	
Net capital assets	$ 682,564,622	$ (26,434,760)	$ (86,460)	$ -	$ 656,043,402	

As of December 31, 2014 and 2013, construction in progress related primarily to runway and taxiway rehabilitation, garage and parking lots, terminal enhancements and non-airfield property development.

As of December 31, 2014, the Authority had equipment purchase and construction commitments of approximately $27.6 million.

The Authority maintains various collections of inexhaustible assets to which no value can be determined. Such collections could include contributed works of art, historical treasures, literature, etc., that are held for exhibition and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Note 6: Changes in Long-Term Liabilities

Long-term obligation activity for the Authority for the years ended December 31, 2014 and 2013, is as follows:

2014

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	$ 333,672,158	$ -	$ (51,267,076)	$ 282,405,082	$ 51,130,000
Industry Drive loan	1,135,170	-	(63,840)	1,071,330	66,906
PA Department of Transportation loan	423,922	-	(106,725)	317,197	110,830
Business-in-Our-Sites Program loan	1,832,224	-	(106,304)	1,725,920	119,347
Hangar loan	910,000	-	(65,000)	845,000	65,000
Ewing Road loan	810,893	-	(91,081)	719,812	94,792
Energy savings equipment lease purchase	5,214,642	-	(979,350)	4,235,292	1,010,155
Subtotal	343,999,009	-	(52,679,376)	291,319,633	52,597,030
Other long-term liabilities	85,083	1,212	-	86,295	-
Unearned revenue	42,368,975	2,847,650	(9,027,561)	36,189,064	14,293,276
Accrued postemployment benefits	129,275	-	(70,754)	58,521	-
Total long-term liabilities	$ 386,582,342	$ 2,848,862	$ (61,777,691)	$ 327,653,513	

2013

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	$ 383,078,577	$ -	$ (49,406,419)	$ 333,672,158	$ 49,548,177
Industry Drive loan	1,196,084	-	(60,914)	1,135,170	63,840
PA Department of Transportation loan	526,340	-	(102,418)	423,922	106,725
Business-in-Our-Sites Program loan	1,944,910	-	(112,686)	1,832,224	116,114
Hangar loan	975,000	-	(65,000)	910,000	65,000
Ewing Road loan	898,408	-	(87,515)	810,893	91,081
Energy savings equipment lease purchase	6,164,126	-	(949,484)	5,214,642	979,350
Subtotal	394,783,445	-	(50,784,436)	343,999,009	50,970,287
Other long-term liabilities	180,010	-	(94,927)	85,083	-
Unearned revenue	9,261,139	40,728,889	(7,621,053)	42,368,975	12,891,035
Accrued postemployment benefits	128,377	898	-	129,275	-
Total long-term liabilities	$ 404,352,971	$ 40,729,787	$ (58,500,416)	$ 386,582,342	

Note 7: Long-Term Debt

At December 31, 2014 and 2013, long-term debt consisted of the following:

	2014	2013
Airport Revenue Bonds, Series 2012 A-1 (AMT), interest rates of 4.0% - 5.0%, due through 2028	$ 21,130,000	$ 21,130,000
Airport Revenue Bonds, Series 2012 A-2 (AMT), interest rate of 2.05%, due through 2020	10,465,000	12,435,000
Airport Revenue Bonds, Series 2012 B (Non-AMT), interest rate of 4.0%, due through 2032	13,900,000	13,900,000
Airport Revenue Refunding Bonds, Series 2010 A, interest rates of 3.0% - 5.0%, due through 2018	12,975,000	17,610,000
Airport Revenue Refunding Bonds, Series 2007 A, interest rate of 5.0%, due through 2016	25,235,000	53,445,000
Airport Revenue Refunding Bonds, Series 2007 B, interest rate of 5.0%, due through 2019	100,375,000	100,375,000
Airport Revenue Refunding Bonds, Series 2002 A, interest rates of 4.0% - 4.5%, due through 2015	-	1,635,000
Airport Revenue Refunding Bonds, Series 2002 B, interest rates of 4.5% - 5.0%, due through 2023	44,565,000	50,075,000
Airport Revenue Refunding Bonds, Series A 2001, interest rates of 4.0% - 4.5%, due through 2016	530,000	6,425,000
Airport Revenue Refunding Bonds, Series B 2001, interest rate of 5.0%, due through 2022	45,500,000	45,500,000
Airport Revenue Bonds, Subordinate Lien Series A 2001, interest rate of 5.5%, due through 2017	2,445,000	2,445,000
Airport Revenue Bonds, Subordinate Lien Series B 2001, interest rates of 6.63% - 6.73%, due through 2017	1,260,000	2,940,000
Total revenue bond debt	278,380,000	327,915,000
General Obligation Refunding Bonds, Series C-56, County of Allegheny, interest rates of 1.25% - 5.0%, due through 2016	-	35,312
Hangar loan, variable interest rate, due through 2028	845,000	910,000
Commonwealth of PA Department of Transportation Infrastructure Bank Aviation Loan, interest rate of 4.125%, due through 2017	317,197	423,922
Industry Drive loan, interest rate of 4.7%, due through 2028	1,071,330	1,135,170
Business-in-Our-Sites Program loan, interest rate of 3.0%, due through 2027	1,725,920	1,832,224
Ewing Road loan, interest rate of 4.0%, due through 2021	719,812	810,893
Energy savings equipment lease purchase loan, interest rate of 3.101%, due through 2018	4,235,292	5,214,642
Total other debt	8,914,551	10,326,851
Total long-term debt	287,294,551	338,277,163
Plus: net unamortized premiums	4,025,082	5,721,846
Total long-term debt including premiums	291,319,633	343,999,009
Less: current maturities	(52,597,030)	(50,970,287)
	$ 238,722,603	$ 293,028,722

The scheduled debt service requirements of long-term debt for years subsequent to December 31, 2014, assuming the current interest rates remain the same for the term of the debt are as follows:

	Principal*	Interest	Total
2015	$ 52,597,030	$ 13,708,882	$ 66,305,912
2016	55,504,870	11,142,620	66,647,490
2017	53,742,999	8,444,312	62,187,311
2018	51,658,277	5,877,903	57,536,180
2019	12,241,803	3,400,564	15,642,367
2020 - 2024	38,024,698	9,071,485	47,096,183
2025 - 2029	16,344,874	3,510,021	19,854,895
2030 - 2032	7,180,000	433,600	7,613,600
	$ 287,294,551	$ 55,589,387	$ 342,883,938

* Principal includes the bonds due January 1 of the succeeding years, as the Authority has paid January 1, 2015, in December 2014 and plans to continue that practice.

Airport Revenue Bonds

In July 2001, the Authority issued its Subordinate Lien Airport Revenue Bonds, Series A 2001 (Pittsburgh International Airport Energy System Project) (Series A Bonds), in the amount of $2,445,000, and the Subordinate Lien Airport Revenue Bonds, Series B Bonds (Taxable) (Pittsburgh International Airport Energy System Project) (Series B Bonds), in the amount of $16,670,000. The Series A Bonds and Series B Bonds are referred to together as the 2001 Subordinate Lien Bonds. The proceeds of the 2001 Subordinate Lien Bonds were used to (1) acquire the equipment constituting the Energy Service Facility (Facility) located at PIT and (2) pay the costs of issuance of the 2001 Bonds. The 2001 Subordinate Lien Bonds are limited obligations of the Authority, secured by a pledge of Net Revenues (as defined in the Original Indenture) of the Authority that is subordinate to the pledge of Net Revenues made to support the Authority's other outstanding revenue bond debt.

In October 2001, the Authority issued its Airport Revenue Bonds, Refunding Series A of 2001, in the amount of $52,600,000, and Refunding Series B of 2001, in the amount of $52,575,000 (individually, the Series A 2001 Refunding Bonds and the Series B 2001 Refunding Bonds, and collectively, the 2001 Refunding Bonds). The proceeds of the 2001 Refunding Bonds were used to (1) pay a portion of the cost of refunding the Authority's Airport Revenue Notes, Series 1999A (PIT) outstanding under the Trust Indenture (Original Indenture) dated as of December 1, 1999, by and between the Authority and National City Bank of Pennsylvania, as Trustee, and the concomitant refunding of the County of Allegheny Airport Revenue Bonds Series A and B of 1992 outstanding under the Certain Resolution of the County of Allegheny dated July 22, 1988, as supplemented and amended and (2) pay the cost of issuance of the 2001 Refunding Bonds.

In October 2002, the Authority issued its Airport Revenue Bonds, Refunding Series A of 2002, in the amount of $57,250,000 and Airport Revenue Bonds, Refunding Series B of 2002, in the amount of $57,250,000 (individually, the Series A Refunding Bonds and the Series B Refunding Bonds, and collectively, the 2002 Refunding Bonds). The proceeds of the 2002 Refunding Bonds were used to refund the outstanding principal balance of the County of Allegheny, Airport Revenue Bonds, Series 1993, which were equal to and represented by the outstanding principal balance of the Authority's Airport Revenue Notes, Series 1999B. All remaining principal on the 2002 Refunding Bonds was paid in full during 2014.

In October 2007, the Authority issued its Airport Revenue Bonds, Refunding Series 2007A, in the amount of $53,445,000, and Airport Revenue Bonds, Refunding Series 2007B, in the amount of $100,375,000 (the 2007 Refunding Bonds). The proceeds of the 2007 Refunding Bonds together with investment income were used to (1) refund the County of Allegheny Airport Revenue Bonds Series 1997 A-1 (AMT) ($54,130,000) and 1997 Series B ($103,045,000) and (2) pay the cost of issuance of the 2007 Refunding Bonds.

In September 2010, the Authority issued its Airport Revenue Bonds, Refunding Series 2010A (AMT), in the amount of $30,310,000 (the 2010 Refunding Bonds). The proceeds of the 2010 Refunding Bonds together with investment income were used to (1) refund the County of Allegheny Airport Revenue Bonds, Series 1999, (2) pay the bond insurance premium, and (3) pay the cost of issuance of the 2010 Refunding Bonds.

On May 8, 2012, the Authority issued its Airport Revenue Bonds: Series 2012 A-1 (AMT), 2012 A-2 (AMT), and Series 2012B (Non-AMT) (the 2012 Bonds) in the amounts of $21,130,000, $14,365,000 and $13,900,000, respectively. The proceeds of the 2012 Bonds were used to pay (1) a portion of the costs of certain projects under the Authority's long-term capital improvement plan, (2) the costs of funding capitalized interest on and a debt service reserve account for the 2012 Bonds, and (3) the costs of issuing the 2012 Bonds.

Airport Revenue Bond obligations (Revenue Bonds) of the Authority totaled $278,380,000 and $327,915,000 at December 31, 2014 and 2013, respectively. The principal, interest and redemption premiums, if any, related to the Revenue Bonds are payable by the Authority only out of Net Revenues (as defined in the Original Indenture) and from such other monies as may be available for such purpose. Certain of the Authority's Revenue Bonds are subject to various optional and mandatory sinking fund redemption requirements. The Revenue Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any of the Authority's properties, including PIT, or upon any of its income or receipts of revenues, except as noted above. The holders of the Revenue Bonds have no claim upon the taxing power or tax revenues of the County.

Payment of Airport Revenue Bonds Under Operating Agreements

The Authority's ability to derive net revenues from the operation of PIT depends upon various factors, many of which are not within the control of the Authority. The primary source of net revenues is the AOA between the Authority and the Signatory Airlines. The AOA provides for the landing fees, terminal rentals, and ramp fees to be charged to the airlines. In addition, the Signatory Airlines are obligated to pay costs associated with aircraft support systems and tenant improvements.

At any point in time, the U.S. economy, excess airline capacity, and industry-wide competition through airfare discounting may create significant constraints on the operations of the airlines. Due to these factors, the financial results of PIT are largely dependent upon conditions in the national economy and the U.S. airline industry, and the financial condition of air carriers serving PIT.

The scheduled payments of principal and interest on the Revenue Bonds when due are guaranteed by various third-party insurers and guarantors. Payment of the principal and interest on the Series 2001 Refunding Bonds is insured by Municipal Bond Insurance Association. Payment of the principal and interest on the Series 2002 Refunding Bonds is insured by Financial Guaranty Insurance Company. Payments of the principal and interest on the Series 2007 Refunding Bonds and 2010 Refunding Bonds is insured by AGM (formerly, Financial Security Assurance, Inc.). The ultimate ability of such insurers and guarantors to meet their obligations with respect to the Authority's Revenue Bonds will be predicated on their future financial condition.

Allegheny County Airport Hangar Loan

In January 2008, the Authority entered into a loan agreement with Citizens Bank to provide a $1,300,000 loan for the purpose of constructing 18 new T-hangars and certain taxi lane improvements. Terms of this loan are 40 equal consecutive quarterly payments of $16,250, which commenced in April 2008, and one final payment of all outstanding balances of principal and interest accrued. The interest rate is variable and is based on the one-month LIBOR, plus 1.5%. The LIBOR interest rate at December 31, 2014 and 2013 was approximately 0.17%.

Commonwealth of Pennsylvania Department of Transportation Loan

In September 2007, the Authority entered into a loan agreement with the Commonwealth of Pennsylvania, Department of Transportation, to provide a portion of funding necessary to complete the Authority's South Ramp Taxi lanes Relocation and Hangar Redevelopment Project at the Allegheny County Airport. The estimated project cost was $4,100,000, of which the Department of Transportation agreed to loan the Authority $1,000,000 at an annual interest rate of 4.125%. The term of the loan is 120 months and requires monthly payments of $10,184. The remaining project costs were funded through Authority funds, FAA grants, Pennsylvania Department of Transportation grants, and an additional $1,300,000 10-year term loan. The Authority has the ability to prepay this loan, in $1,000 increments, without penalty.

Industry Drive Loan

In March 2003, the Authority entered into an agreement with the Redevelopment Authority of Allegheny County (RAAC), an authority organized by the County of Allegheny, Pennsylvania, under the Urban Redevelopment Law of Pennsylvania, the Act of May 24, 1945, P.L. 991, et seq., as amended. This agreement provides funding for the construction of an extension of the existing public road known as Industry Drive to permit further development of the undeveloped land lying mostly to the north of the Industry Drive Extension right-of-way between the right-of-way and the Pennsylvania Route 60 Bypass. RAAC agreed to lend $4,000,000 at an annual interest rate of 4.7% to the Authority for this project and the Authority agreed to contribute $2,800,000. The repayment terms are $9,652 per month on a 20-year term.

Commonwealth Financing Authority Business-in-Our-Sites Program

In January 2007, the Authority entered into a loan agreement with the Commonwealth Finance Authority to provide a $2,000,000 loan for the purpose of completing the Cherrington Parkway Extension. Terms of this loan are 20 years with a 3% interest rate. Per requirements of the agreement, all principal and interest payments were initially deferred; however, monthly payments began in August 2012.

Ewing Road Loan

In March 2009, the Authority entered into a loan agreement with the RAAC to provide a $1,003,000 loan for the construction of roadway improvements at the intersection of Ewing Road and Hookstown Grade Road and Business Route I-376 to promote the development of US Airways Operations Control Center and the further development of the Cherrington office complex, both located in Moon Township. While the loan document was executed in 2009, the proceeds were not distributed and the repayment schedule did not begin until September 2011. The term of the loan is 10 years and the interest rate is 4%.

Energy Savings Equipment Lease Purchase Agreement

In July 2011, the Authority entered into a lease purchase agreement with Grant Capital Management to provide a $7,000,000 loan for energy savings projects at PIT. Grant Capital Management assigned this lease purchase agreement to Capital One Public Funding on July 14, 2011. Deutsche Bank National Trust Company was named as the servicing agent on behalf of Capital One. Terms of the loan include an interest rate of 3.101% with repayment schedule beginning January 1, 2012 through December 1, 2018. Capital One Public Funding has a secured interest in the equipment purchased under this agreement with no revenues pledged as security. The loan is collateralized by any unexpended loan proceeds and capital assets with a net book value of approximately $10,238,915, as of December 31, 2014.

Pledge of Revenues

On November 1, 2005, the Authority entered into a Funding and Development Agreement with the RAAC. This agreement provided Tax Increment Financing (TIF) for the development and financing of the Clinton Industrial Park Project, which included certain substantial public on-site and off-site improvements. RAAC issued a series of TIF Notes (the 2005 TIF Notes) in an aggregate principal of $5,000,000 to fund public improvements relating to Phase I of the Clinton Industrial Park Project with another $500,000 unissued notes.

On May 1, 2008, the Authority entered into a Funding and Development Agreement with RAAC for a second TIF for the development of the Northfield Site Phase I Project. RAAC issued a TIF Note (the 2008 TIF Note) in the amount of $5,000,000 to fund the improvements related to the Northfield site. Proceeds from the financing were used to fund certain on-site and off-site public infrastructure and improvements. The source of repayment of this TIF is the tax revenues and lease rental income, generated by the project, as defined in the agreements. Repayment terms are through April 1, 2028, at 6.0% interest rate.

The 2005 TIF Notes and 2008 TIF Note are limited obligations of the RAAC and are generally payable from the positive tax increments realized from the associated tax increment districts and 75% of the gross revenues received by the Authority from leasing the land in the Clinton Industrial Park and Northfield Site Phase I Projects. As additional security and credit enhancement, the Commonwealth Financing Authority has agreed to guarantee payment of the 2005 TIF Notes and 2008 TIF Note. While the Authority has pledged to assign certain of its revenues to the trustee for the 2005 TIF Notes and 2008 TIF Note, the Authority is not a party to the respective trust indentures and is under no obligation to repay the 2005 TIF Notes and 2008 TIF Note; therefore, the 2005 TIF Notes and 2008 TIF Note are not reflected as liabilities of the Authority in these financial statements.

Note 8: Transactions With the County of Allegheny

The Authority has entered into intergovernmental agreements with the County that provide for, among other things, contractual services for County police services and certain accounting and professional services. Expenses relating to these services are included in professional services for the years ended December 31, 2014 and 2013, in the accompanying statements of revenues, expenses, and changes in net position and amounted to $10,446,098 and $10,319,424, respectively.

Note 9: Risk Management and Insurance Arrangements

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; illnesses or injuries to employees; and natural disasters. The Authority carries commercial insurance to cover these risks of loss. The commercial insurance coverage is on a guaranteed-cost basis covering any expense of the Authority. Settled claims have not exceeded this commercial coverage in any of the past three years. The range of deductibles is from $0 on aviation liability to a maximum of $100,000 on employees and officers and property insurance.

Self-insured employee medical benefit claims are accrued as incurred in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. The liability for reported claims and claims incurred but not reported, an estimate of which is based on historical experience and management projections, is reflected as a long-term liability.

Changes in the estimated claims payable liability for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Balance - beginning of year	$ 85,083	$ 180,010
Claim payments	(23,245)	(97,483)
Increase in reserve liability	24,457	2,556
Balance - end of year	$ 86,295	$ 85,083

Note 10: Retirement Benefits

Retirement Plan Description

The County sponsors the Allegheny County Employees' Retirement System (Retirement System), a single-employer, defined-benefit contributory retirement plan that covers substantially all Authority employees. Employees contribute to the Retirement System through payroll withholdings based on a contracted rate.

The Retirement System membership, including Authority employees, as of January 1, 2014 and 2013, consisted of the following:

	2014	2013
Participants:		
Retirees and beneficiaries receiving benefits	4,444	4,420
Terminated employees entitled to benefits, but not yet receiving them	227	165
	4,671	4,585
Current employees:		
Vested:		
Nonuniform	4,026	4,345
Police and fire	142	156
Nonvested:		
Nonuniform	2,723	2,927
Police and fire	112	98
	7,003	7,526
Total	11,674	12,111

Benefit and contribution provisions for the Retirement System are determined under statutes enacted by the General Assembly of the Commonwealth of Pennsylvania. The Retirement System Board (Board) administers the Retirement System and consists of seven members: the County Executive, the County Controller, the County Treasurer, two members elected by the County employees and retirees, one member appointed by the County Executive and one member appointed by the County Council. The Board, pursuant to express statutory authority, has the right to increase the employee contributions in the event it is actuarially determined that a contribution increase is required in order for the Retirement System to meet its funding requirements. Any increase in employee contributions imposes a statutory requirement upon the County to match the employee contributions. Also, the obligation of the Retirement System to pay retirement benefits is further secured by a statutory obligation imposed upon the County to utilize its taxing authority to meet such obligation.

Monthly benefit payments are determined for each individual member according to the retirement option selected and the age and length of service at retirement. Under normal retirement, employees hired prior to February 21, 2014 (attainment of age 50 with 20 years of service for police and firefighters; age 55 with 20 years of service for jail guards, sheriffs, deputy sheriffs and probation officers; and age 60 with 20 years of service for non-uniformed employees), the retirement benefit is equal to 50% of final average salary plus 1% of final average salary for each full year of service between 20 and 40 years. Final average salary is the monthly average of the 24 highest months of compensation in the last 48 months of employment preceding retirement.

Act 125, signed into law December 23, 2013, became effective 60 days later and applies to County employees hired or re-hired on or after February 21, 2014. Act 125 revises the Retirement System's vesting requirement from eight to ten years and the service requirement from 20 to 25 years. The determination of final average salary is changed to equal the monthly average of the highest 48 months of compensation out of the last eight years of service. Additionally, overtime compensation is limited to 10% of base pay.

Funding Policy, Annual Pension Cost and Schedule of Funding

Beginning January 1, 2012, Authority employees were required to contribute 8% of covered compensation. The Board increased the required employee contribution to 8.5% of covered compensation effective December 29, 2013. Employee contributions are matched equally by the County, as prescribed by the Second Class County Code of the Commonwealth of Pennsylvania, and deposited in the Pension Trust Fund. Employees with at least 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions, plus interest thereon. Employees with less than 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions only.

The annual required contribution for the current year was determined as part of an actuarial valuation as of January 1, 2014, using the entry-age normal actuarial cost method. Significant actuarial assumptions and amortization methods used include (1) a level dollar amortization method with an open, 15-year amortization period; (2) a rate of return on the investment of present and future assets of 7.75% per year compounded annually (net of investment related expenses); (3) projected salary increases ranging from 3.25% per year to 5.75% per year according to age, compounded annually, attributable to inflation and seniority/merit; (4) an inflation assumption of 2.75%; (5) mortality rates based on the RP-2000 Combined Health Annuitants Mortality Table; and (6) an asset valuation method of market value.

The annual pension cost for the Retirement System, including the Authority, is as follows:

Fiscal Years Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
* 2014	Not Available	Not Available	Not Available
2013	52,490,697	52.6%	203,222,678
2012	57,277,962	47.5%	178,319,070

* In 2014, the Retirement System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* and the County early adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, so the 2014 trend information under GASB Statement No. 27 is not available. The Authority will adopt GASB Statement No. 68 in 2015.

The schedule of funding progress for the Retirement System is as follows (amounts are in thousands):

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
January 1, 2014	$ 825,844	$ 1,344,361	$ (518,517)	61.4%	$ 337,016	153.9%
January 1, 2013	758,446	1,273,872	(515,426)	59.5%	339,905	151.6%
January 1, 2012	685,100	1,235,830	(550,730)	55.4%	340,881	161.6%

Pension expense of the Authority for the three years ended December 31, 2014, 2013 and 2012, was $2,259,332; $2,108,323 and $2,012,528, respectively. The Authority contributed all required amounts for the years ended December 31, 2014, 2013 and 2012.

The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to: Allegheny County Employees' Retirement System, 106 County Office Building, 542 Forbes Avenue, Pittsburgh, PA 15219.

Note 11: Postemployment Benefits

The Authority's Postemployment Medical Benefits Plan is a single-employer, defined-benefit health care plan administered by the Authority. The plan provides reimbursement for medical benefits to eligible firefighter retirees hired before May 1, 2005, and their spouses. Benefits are provided upon the retiree's date of retirement. The retiree is responsible for any premium cost in excess of the provided benefit. Payments to the retirees are made on a reimbursement basis. The Authority does not have a funding policy for postemployment benefits at this time.

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. An actuarial valuation was performed for 2012 and the following table shows the components of the Authority's annual OPEB cost for the year, the amount actuarially contributed to the plan, and the changes in the net OPEB obligation:

	2014	2013
Annual required contribution (ARC)	$ 142,353	$ 142,353
Interest on net OPEB obligation	4,134	4,134
Adjustment to annual required contribution	(51,120)	(18,054)
Annual OPEB cost	95,367	128,433
Contributions made	166,121	127,535
Increase (decrease) in net OPEB obligation	(70,754)	898
Net OPEB obligation - beginning of year	129,275	128,377
Net OPEB obligation - end of year	$ 58,521	$ 129,275

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and 2013 are as follows:

Fiscal Year Ended	Net OPEB Obligation	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed
December 31, 2014	$ 58,521	$ 95,367	174.2%
December 31, 2013	129,275	128,433	99.3%
December 31, 2012	128,377	140,510	82.2%

As of January 1, 2012, the date of the most recent actuarial valuation date, the actuarial accrued liability for benefits was $1,375,694, all of which was unfunded. The contributions were made on a pay-as-you-go basis. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. There is no schedule of funding progress, which would present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, since there is no funding as of December 31, 2014.

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.

In the January 1, 2012 actuarial valuation, the following actuarial assumptions were used:

Actuarial cost method	Projected unit credit
Interest rate	4% compounded annually
Amortization method	Level dollar
Amortization period	30 years closed
General inflation rate	3.0%
Healthcare trend rates	8.0% reducing to 5.0% in 2018 and later

Note 12: Purchase Commitments

Natural Gas

The Authority has a contract with a natural gas provider for the purchase of approximately 246,000 dth of natural gas each year. A Blend and Extend Agreement was executed in December 2011 reducing the purchase rate to $0.373 per dth beginning January 1, 2012 through December 31, 2017. The Authority subsequently executed a Blend and Extend Agreement in February 2014 that further reduced the purchase rate to $.20 per dth effective March 1, 2014 through December 31, 2018. The Authority is responsible for the nominations under the contract and can adjust the monthly nominations of the natural gas purchases up to 20% each year. The Authority anticipates using the full amount of the commitment.

Electricity

The Authority had previously executed a contract with an electricity provider for the purchase of electricity for specific meters at a rate of $5.74/kWh through December 1, 2013. The Authority executed another contract in January 2013 for the period January 1, 2014 through December 31, 2015 that further reduced rates to $5.68/kWh. The commitment includes all of the Authority's forecasted electricity usage.

Note 13: Contingencies

Deicing

The Pennsylvania Department of Environmental Protection (DEP) issued an Administrative Order dated January 26, 1998, to the County, which alleges violations of a January 1994 Consent Order and Adjudication and violations of the Pennsylvania Clean Streams Law at the PIT. The Administrative Order cited several violations, all of which have been resolved, except for the deicing. The Authority has withdrawn a previous appeal without prejudice and continues to negotiate with the DEP to reach a resolution of the matter. The Authority continues to address the deicing issues and has spent, and continues to budget for, significant capital funding in an attempt to resolve the deicing issue.

Other

In the ordinary course of the Authority's operations, there have been various legal proceedings brought against the Authority. Authority management is of the opinion that these matters will not have a materially adverse effect on the Authority's financial position or results of operations.