

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

Auditor's Report and Financial Statements

December 31, 2015

**Allegheny County Airport Authority**  
**(A Component Unit of County of Allegheny, Pennsylvania)**  
**December 31, 2015**

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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 a statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year 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 audit. We conducted our audit 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, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, in 2015, the Authority changed its method of accounting for pensions with the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents 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  
April 4, 2016

## **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/US Airways, British Airways, Chautauqua Airlines, Delta Airlines, JetBlue Airways, Mesa Airlines, PEOPLExpress, Republic Airlines, Southwest Airlines, United Airlines, and Allegiant Airlines (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 Statement of Net Position presents 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 Statement of Revenues, Expenses and Changes in Net Position presents 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 Statement of Cash Flows relates 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 by 1.3% in 2015 as compared to 2014, which followed a 1.5% increase in 2014. The Airport has maintained a diversified portfolio of airlines with ten carriers providing regularly scheduled service to 53 airports nonstop in April 2016, up from 37 at the beginning of 2014. A number of carriers experienced passenger increases at the Airport in 2015. Of the ten carriers, three carriers showed increased passenger levels compared to 2014 with four new, additional carriers serving the airport in 2015. This past year, a total of four carriers experienced more than one million passengers. Existing carriers accounting for the increase in passengers versus 2014 include JetBlue at 41.8%, Air Canada at 10.6%, and Delta at 2.2%. Pittsburgh International Airport welcomed Allegiant, OneJet, and Porter Airlines to the airport in 2015. Additionally, Sun Air Express, who began service at the end of 2014 expanded service and was considered a new carrier to offer a fair traffic growth comparison. Southwest, United, and American/US Airways showed passenger level decreases in 2015 of 3.4%, 3.2% and 2.1%, respectively.

Management is pleased to see the growth 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 2015 will continue predictable passenger levels. In the first two months of 2016, Pittsburgh International Airport has announced 8 additional routes on Allegiant, OneJet and Frontier, who will begin service to Pittsburgh in June 2016. The Pittsburgh economy continues to improve and management attributes the performance in 2015 passenger levels to new carriers and routes at PIT that have succeeded in attracting more travelers with the growth of the regional economy. In 2015, Pittsburgh International Airport began service to 16 routes on a diverse mix of international, ultra-low cost, business, and incumbent airlines. New airlines such as Allegiant started service to 5 airports – Jacksonville, St. Petersburg, Punta Gorda, and Orlando Sanford in Florida while also beginning service to the popular vacation destination of Myrtle Beach. OneJet began service to key business markets of Milwaukee, WI and Indianapolis, IN and has announced service to Hartford, CT with a public comment to add four additional routes in 2016. Southwest began service to Dallas Love Field, TX, Sun Air began regional service to Bradford, PA; Franklin, PA; and Hagerstown, MD, and Vacation Express added service to Cancun, MX; Punta Cana, DR; and Freeport, Bahamas. Additionally, international carrier Porter Airlines started service to Toronto City Centre Airport bringing new international air service to the airport. Delta Air Lines nonstop service to Paris also increased the total number of international flights by adding daily service during the entire service season. With the most recent data available from the U.S. Bureau of Economic Analysis, Pittsburgh generated \$135.7 billion (2009 dollars) in economic activity in 2015, growing at an average rate of 4.5% per year. By comparison, the U.S. GDP grew at an annual growth rate of 2.4% 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 2015 and 2014 was \$15.3 and \$6.3 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 \$30.9 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 \$30.6 million of parking revenue included in the results of the Airport for 2015. Management expects net parking revenues to continue to improve in 2016 as they are directly related to 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 2015, approximately \$2,730,000 of the escrow payment was received and included in the remaining amortization over the life of the lease. All bonus payments have been received bringing the total bonus amount to \$46,128,000. 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, 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 rents received during 2015 approximated \$278,000. These payments are being 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 2015 and 2014, \$10.2 million and \$9.1 million, respectively, was accreted from the bonus payment and escrow release with \$5.2 million and \$4.9 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, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>	<b>% Change 2015/2014</b>
Total operating revenues	\$ 137,227	\$ 151,326	-9.3%
Total nonoperating revenues	44,714	46,021	-2.8%
Total revenues	<u>181,941</u>	<u>197,347</u>	-7.8%
Operating expenses	153,577	148,751	3.2%
Total nonoperating expenses	12,769	15,288	-16.5%
Total expenses	<u>166,346</u>	<u>164,039</u>	1.4%
Income before capital contributions and grant	15,595	33,308	-53.2%
Capital contributions and grants	<u>14,759</u>	<u>20,144</u>	-26.7%
Increase in net position	<u>30,354</u>	<u>53,452</u>	-43.2%
Net position - beginning of year, as previously reported	530,269	476,817	11.2%
Change in accounting principle	<u>(51,686)</u>	-	
Net position - beginning of year, as restated	<u>478,583</u>	<u>476,817</u>	
Net position - end of year	<u>\$ 508,937</u>	<u>\$ 530,269</u>	-4.0%

## 2015

Total operating revenues finished the year approximately \$14 million, or 9.3%, less compared to 2014. The decrease in landing and terminal fees of \$3.7 million were primarily a result of airline rate changes between 2015 and 2014, as well as changes in airline operations. Other aeronautical revenues were \$11.1 million lower in 2015 compared to 2014 with the major contributor to this unfavorable variance being a \$11.2 million settlement from an American Airlines bankruptcy claim in 2014. Parking and rent-a-car revenues finished the year approximately essentially flat compared to 2014. This can be attributed to a drop in rental car revenue of approximately \$.6 million along with an increase in parking revenue of approximately \$.6 million. The decrease in rental car revenue is attributed to the downturn in the natural gas drilling industry and worker related travel. Additionally, price wars between the rental car companies occurred due to an overstock of rental vehicle inventory related to an unexpected loss of gas drilling customers and associated price wars between the rental car companies attempting to mitigate their loss in revenues from idle vehicles.



Total operating expenses (including depreciation) were \$4.8 million, or 3.2%, more in 2015 as compared to 2014. The largest drivers for this increase are salaries, wages and benefits, cleaning and maintenance, professional services, other services and depreciation. Salaries, wages and benefits contributed approximately \$1.2 million or 2.0% due to normal pay increases and the implementation of GASB 68. Utilities decreased by \$0.6 million due to opportunistic buying practices of natural gas and water and sewage rate decrease of \$.2 million from 2014 due to repairing several water main leaks discovered in the hangar and field area. Cleaning and maintenance increased by \$0.3 million due to on-call usage and normal contractual increases. Professional services increased by \$1.1 million versus 2014 primarily due to (1) an increase of \$244k for air service consulting services, (2) an increase of \$227k in contracted security guards primarily for the FIS reconfiguration, (3) an increase of \$166k for maintenance related to shared use terminal equipment, (4) \$111k related to the design and implementation of an employee performance measurement system and employee coaching, and (5) \$185k in police costs due to annual contractual increase offset somewhat by a decrease in overtime. Other services increased \$0.8 million principally related to deicing materials used during winter operations. Finally, depreciation was \$2.0 million higher than 2014 due to the capitalization of \$37.0 million of new assets during 2015. Total nonoperating revenues (expenses) were approximately \$1.2 million higher in 2015 as compared to 2014, or 3.9%. Interest expense was approximately \$2.5 million lower, reflecting the amortization of long-term debt and lower interest payments required on short-term, variable-rate instruments. Investment income is \$2.2 million lower in 2015 as compared to 2014 due to lower investment rates. Passenger facility charges are \$0.3 million higher than 2014 and this is directly related to the increase in passengers. Accretion of gas drilling revenues was \$1.1 million higher in 2015 as compared to 2014 due to completion of the legal remedies for defective land deeds and final escrow release.

Capital contributions and grants were down approximately \$5.4 million in 2015 compared to 2014, or 26.7%. Grant funding decreased by \$673,000 primarily due to timing of the related capital expenditures. Capital contributions were \$1.8 million in 2015 versus \$6.6 million for 2014, a decrease of \$4.7 million, primarily due to the receipt of the majority (\$4.7 million) of the Airmall Blue Sky Project contributions during 2014.

## Financial Position

The following represents a summary of the Authority's financial position at December 31, 2015 and 2014 (in thousands):

	2015	2014	% Change 2015/2014
<b>Assets and Deferred Outflows of Resources</b>			
<b>Assets</b>			
Current assets - unrestricted	\$ 83,364	\$ 84,254	-1.06%
Current assets - restricted	131,275	136,645	-3.93%
Net property and equipment	627,507	649,456	-3.38%
Other assets	3,750	4,022	-6.76%
Total assets	<u>845,896</u>	<u>874,377</u>	-3.26%
<b>Deferred Outflows of Resources</b>	<u>11,310</u>	<u>5,239</u>	115.88%
Total assets and deferred outflows of resources	<u>\$ 857,206</u>	<u>\$ 879,616</u>	-2.55%
	2015	2014	% Change 2015/2014
<b>Liabilities</b>			
Current payables from unrestricted assets	\$ 29,764	\$ 28,251	5.36%
Current payables from restricted assets	62,438	58,726	6.32%
Long-term liabilities	244,108	260,763	-6.39%
Total liabilities	<u>336,310</u>	<u>347,740</u>	-3.29%
<b>Deferred Inflows of Resources</b>	<u>11,959</u>	<u>1,606</u>	644.65%
Total liabilities and deferred inflows of resources	<u>348,269</u>	<u>349,346</u>	-0.31%
<b>Net Position</b>			
Net investment in capital assets	453,273	432,655	4.77%
Restricted	65,143	61,237	6.38%
Unrestricted	<u>(9,479)</u>	<u>36,378</u>	-126.06%
Total net position	<u>\$ 508,937</u>	<u>\$ 530,270</u>	-4.02%

The Authority's total net position declined \$21.3 million from 2014 and is directly related to the implementation of GASB 68. The impact of GASB 68 on beginning net position was \$51.7 million.

## Capital Asset and Debt Administration

**Capital Assets** - The Authority's capital assets, net of depreciation as of December 31, 2015 and 2014, amounted to \$627,507,169 and \$649,455,586, 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 2015 was 1.6% compared to 2.3% in 2014.

Major capital projects in progress and expenditures incurred during 2015 included the following:

2015		
Rehabilitation of taxiways and runways	\$	7,099,000
People mover		3,621,000
Terminal upgrades		8,079,000

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

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 \$22.8 million of grant funds for runway and taxiway rehab, industrial site development and other projects, \$5.4 million in discretionary capital funds primarily for people mover and baggage system optimization as well as terminal repairs and upgrades and master plan updates and \$1.7 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, 2015 and 2014, the Authority's long-term debt outstanding totaled \$237,414,298 and \$291,319,633, respectively. Principal payments of \$53,905,335 and \$52,679,376 were made in 2015 and 2014, respectively. During 2015, the Authority received one credit rating affirmation from Moody's. 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 2015, indicate that domestic air travel increased as compared to 2014. Total passengers at PIT were over 8.1 million in 2015, an increase of 1.6% compared to 2014, the first time since 2012 the airport has served more than 8 million passengers. 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 2015, Pittsburgh International Airport began service to 16 routes on a diverse mix of international, ultra-low cost, business, and incumbent airlines. In addition, a total of four carriers experienced more than one million passengers. Existing carriers accounting for the increase in passengers versus 2014 include JetBlue at 41.8%, Air Canada at 10.6%, and Delta at 2.2%. Pittsburgh International Airport welcomed Allegiant, OneJet, and Porter Airlines to the airport in 2015. Additionally, Sun Air Express, who began service at the end of 2014 expanded service and was considered a new carrier to offer a fair traffic growth comparison. Southwest, United, and American/US Airways showed passenger level decreases in 2015 of 3.4%, 3.2% and 2.1%, respectively.

The Authority was able to announce over 16 new routes on seven operators in 2015 including new service on Pittsburgh's first scheduled ultra-low cost carrier, Allegiant Air, international Canadian carrier Porter, and on a new business airline OneJet. The Airport has maintained a diversified portfolio of airlines with ten carriers providing regularly scheduled service to over 53 airports nonstop in April 2016, up from 37 at the beginning of 2014. 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 as the industry faces a pilot shortage, medium-size airports continue to feel the bulk of airline cutbacks and capacity restraint.

## **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/Chief Financial Officer, Landside Terminal, 4<sup>th</sup> Floor Mezz., Pittsburgh, PA 15231-0370 or via the "Contact Us" area of the Authority's website at [www.flypittsburgh.com](http://www.flypittsburgh.com).

**Allegheny County Airport Authority**  
**(A Component Unit of County of Allegheny, Pennsylvania)**  
**Statement of Net Position**  
**December 31, 2015**

**Assets and Deferred Outflows of Resources**

**Current Assets**

**Unrestricted Assets**

Cash and cash equivalents	\$ 70,202,448
Accounts receivable, trade - net allowance for doubtful accounts of \$115,102	4,039,470
Grants receivable from governmental agencies	6,789,323
Inventory	1,659,069
Other assets	673,482
Total unrestricted current assets	<u>83,363,792</u>

**Restricted Assets**

Cash and cash equivalents	120,903,247
Investments	8,476,744
Accrued interest receivable	3,188
Passenger and customer facility charge receivables	1,891,363
Total restricted current assets	<u>131,274,542</u>

Total current assets	<u>214,638,334</u>
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**Noncurrent Assets**

Cash and cash equivalents - unrestricted	1,990,282
Derivative instruments - forward delivery agreements	1,408,617
Prepaid bond insurance costs	351,217
Capital assets, at cost - net of accumulated depreciation of \$1,425,095,647	627,507,169
Total noncurrent assets	<u>631,257,285</u>
Total assets	<u>845,895,619</u>

**Deferred Outflows of Resources**

Total assets and deferred outflows of resources	<u>857,205,289</u>
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**Allegheny County Airport Authority**  
**(A Component Unit of County of Allegheny, Pennsylvania)**  
**Statement of Net Position (Continued)**  
**December 31, 2015**

**Liabilities and Deferred Inflows of Resources**

**Current Liabilities**

**Payable from Unrestricted Assets**

Accounts payable	\$ 6,801,891
Due to County of Allegheny	1,259,053
Accrued liabilities	4,173,172
Amounts due to airlines	2,128,776
Unearned revenue	15,399,678
Total current liabilities - payable from unrestricted assets	29,762,570

**Payable from Restricted Assets**

Accounts payable	2,465,361
Accrued liabilities	2,298,450
Retainage payable	1,153,082
Accrued interest payable	19,131
Other liabilities	997,923
Current portion of long-term debt	55,504,167
Total current liabilities - payable from restricted assets	62,438,114
Total current liabilities	92,200,684

**Long-Term Liabilities**

Long-term debt	181,910,131
Net pension liability	48,915,429
Unearned revenue	13,148,785
Other long-term liabilities	133,796
Total long-term liabilities	244,108,141
Total liabilities	336,308,825

**Deferred Inflows of Resources**

Total liabilities and deferred inflows of resources	11,959,118
	348,267,943

**Net Position**

Net investment in capital assets	453,272,524
Restricted for:	
Capital	45,164,846
Debt service	19,978,735
Total restricted	65,143,581
Unrestricted	(9,478,759)
Total net position	\$ 508,937,346

**Allegheny County Airport Authority**  
**(A Component Unit of County of Allegheny, Pennsylvania)**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2015**

<b>Operating Revenues</b>	
Landing fees	\$ 12,448,844
Terminal area airline rentals and fees	57,159,010
Other aeronautical revenue	8,695,472
Parking revenues	30,554,032
Rental car revenues	11,519,067
Terminal concessions	7,455,056
Other nonaeronautical revenue	6,414,724
Total Pittsburgh International Airport revenues	134,246,205
Allegheny County Airport revenues	2,980,767
Total operating revenues	137,226,972
<b>Operating Expenses</b>	
Salaries, wages and benefits	39,943,997
Utilities	10,596,853
Cleaning and maintenance services	16,479,835
Professional services	17,468,184
Other	9,387,942
Total Pittsburgh International Airport expenses	93,876,811
Allegheny County Airport expenses	2,917,479
Depreciation	56,782,417
Total operating expenses	153,576,707
<b>Operating Loss</b>	(16,349,735)
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	(12,769,066)
Investment income	559,527
Customer facility charges	5,030,877
Passenger facility charges	15,856,825
Gain on disposal of capital assets	39,551
Gaming act revenues	12,400,000
Gas drilling revenues	10,192,316
Miscellaneous	599,277
Net increase in fair value of investments	35,676
Total nonoperating revenues, net	31,944,983
<b>Income Before Capital Contributions and Grants</b>	15,595,248
<b>Capital Contributions and Grants</b>	14,759,396
<b>Increase in Net Position</b>	30,354,644
<b>Net Position, Beginning of Year</b> , As Previously Reported	530,269,549
<b>Change in Accounting Principle</b>	(51,686,847)
<b>Net Position, Beginning of Year</b> , As Restated	478,582,702
<b>Net Position, End of Year</b>	\$ 508,937,346

**Allegheny County Airport Authority**  
**(A Component Unit of County of Allegheny, Pennsylvania)**  
**Statement of Cash Flows**  
**Year Ended December 31, 2015**

<b>Cash Flows From Operating Activities</b>	
Cash receipts from customers and users	\$ 137,905,731
Cash payments to vendors for goods and services	(55,272,235)
Cash payments for employee services	(39,686,184)
Net cash provided by operating activities	<u>42,947,312</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Receipt of passenger facility charges	15,464,120
Additions to capital assets	(33,050,370)
Interest paid on long-term debt	(13,690,577)
Principal payments of long-term debt	(52,582,272)
Grants from governmental agencies received	10,718,219
Proceeds from sale of capital assets	89,498
Net cash used in capital and related financing activities	<u>(73,051,382)</u>
<b>Cash Flows From Noncapital and Related Financing Activities</b>	
Receipt of customer facility charges	5,041,017
Gas drilling rent receipts	3,007,562
Gaming Act receipts	12,400,000
Net cash provided by noncapital and related financing activities	<u>20,448,579</u>
<b>Cash Flows From Investing Activities</b>	
Maturities of investment securities	12,490,607
Purchases of investment securities	(16,691,117)
Investment income	558,172
Net cash used in investing activities	<u>(3,642,338)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(13,297,829)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>206,393,806</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 193,095,977</u>
<b>Cash and Cash Equivalents, End of Year, Consists of:</b>	
Unrestricted cash and cash equivalents	\$ 70,202,448
Restricted cash and cash equivalents	120,903,247
Cash and cash equivalents designated for noncurrent uses	1,990,282
	<u>\$ 193,095,977</u>



**Allegheny County Airport Authority**  
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**Statement of Cash Flows (Continued)**  
**Year Ended December 31, 2015**

<b>Noncash Transactions From Capital and Related Financing</b>	
Activities - capital asset acquisitions included in accounts payable	<u>\$ 5,916,893</u>
<b>Noncash Transactions From Noncapital and Related Financing</b>	
Activities - amortization of gas drilling deposit	<u>\$ 9,960,741</u>
<b>Noncash Transactions From Investing Activities - net</b>	
increase in fair value of investments	<u>\$ 35,676</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Loss from operations	\$ (16,349,735)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:	
Depreciation	56,782,417
Pension expense in excess of contributions made	452,052
Amortization of unearned revenue	(582,456)
Changes in assets and liabilities:	
Accounts receivable - trade	856,195
Inventories	279,574
Other current assets	973,221
Accounts and other payables	854,886
Due to County of Allegheny	(507,097)
Other current liabilities	199,275
Other long-term liabilities	<u>(11,020)</u>
Net cash provided by operating activities	<u>\$ 42,947,312</u>

**Allegheny County Airport Authority**  
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**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 year ended December 31, 2015.

**Allegheny County Airport Authority**  
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**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.

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.

***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.

**Allegheny County Airport Authority**  
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***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 Airlines, who completed its merger with US Airways in 2015, together with its affiliated commuter airlines, accounted for approximately 33% of total enplaned passengers at PIT in 2015. The American Airlines revenue represents 32% of PIT operating revenue in 2015. 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.

**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.

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**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 was held in escrow until certain property deed mineral rights issues are resolved. The initial bonus payments received 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 2015, escrow funds of approximately \$2.7 million 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 rent payments received during 2015 approximated \$278,000. 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	<u>50,819,327</u>
	<u><u>\$ 526,772,676</u></u>

The Authority has expended \$258,628,095 on these projects through December 31, 2015.

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.

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**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, 2015 consisted entirely of money market mutual funds.

***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.

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***Deferred Outflows of Resources***

As of December 31, 2015, deferred outflows of resources consisted of the following components:

Net difference between projected and actual earnings on pension plan investments	\$ 4,428,606
Change of assumptions - net pension liability	598,367
Change in proportion - net pension liability	2,300,058
Deferred losses on refunding of debt	<u>3,982,639</u>
Total deferred outflows of resources	<u><u>\$ 11,309,670</u></u>

***Deferred Inflows of Resources***

As of December 31, 2015, deferred inflows of resources consisted of the following components:

Change of assumptions - net pension liability	\$ 10,469,622
Net difference between expected and actual experience	80,879
Forward delivery agreements	<u>1,408,617</u>
Total deferred inflows of resources	<u><u>\$ 11,959,118</u></u>

***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 \$12.8 million for the year ended December 31, 2015, while interest capitalized as part of the cost of constructed assets was approximately \$1.1 million.

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***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.

***Defined-Benefit Pension Plan***

The Authority participates in a single-employer defined-benefit pension plan sponsored by the County, known as the Allegheny County Employees' Retirement System (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***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 of resources, liabilities and deferred inflows of resources, 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.

***Adoption of New Accounting Standard***

The Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* (GASB 68), during 2015. The primary objective of GASB 68 is to improve financial reporting by state and local governments of pensions. With the implementation of GASB 68, the Authority recorded a net pension liability of \$48,915,429 as of December 31, 2015, which was not previously included in the statement of net position. This amount represents the Authority's proportionate share of the net pension liability of the Allegheny County Employees' Retirement System. Adoption of GASB 68 resulted in a decrease of \$51,686,847 in beginning net position as of January 1, 2015.

In addition, deferred outflows of resources of \$7,237,031 and deferred inflows of resources of \$10,550,501 as of December 31, 2015 were recognized within the statement of net position, as a result of the Authority's adoption of GASB 68.



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**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.

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The maturity ranges and credit ratings for the Authority's investment securities at December 31, 2015 follow:

	2015				
	Carrying Amount	Percentage of Total Investments	Maturity Date	Standard & Poor's	Moody's
U.S. Government-sponsored enterprise securities (GSEs)					
Federal Home Loan Bank	\$ 4,250,932	4.0%	5/25/2016	AA+	Aaa
Federal Home Loan Mortgage Corporation	4,225,812	4.0%	4/15/2016	AA+	Aaa
Total GSEs	8,476,744	8.0%			
Money market mutual funds					
BNY Mellon - Blackrock Federal Trust Fund	5,015,818	4.8%	< 90 days	AAAm	Aaa-mf
Wells Fargo Investments - Wells Fargo Advantage Government Fund	59,672,944	56.7%	< 90 days	AAAm	Aaa-mf
Mellon Investments - Morgan Stanley Government Instl #8302	32,166,592	30.5%	< 90 days	AAAm	Aaa-mf
Total money market mutual funds	96,855,354	92.0%			
Total investments	\$ 105,332,098	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, 2015, 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, 2015 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.

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*Summary of Carrying Values*

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

	<b>2015</b>
Cash and cash equivalents	
Current - unrestricted	\$ 70,202,448
Current - restricted	120,903,247
Noncurrent - unrestricted	1,990,282
Total cash and cash equivalents	193,095,977
Investments securities	
Restricted investments	8,476,744
	\$ 201,572,721

***Investment Income***

Investment income for the year ended December 31, 2015 consisted of:

	<b>2015</b>
Interest and dividend income	\$ 559,527

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***Restricted Cash, Cash Equivalents and Investments***

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

	<b>2015</b>
2012 Capital projects fund	\$ 3,669,421
Debt service funds	3,662,740
Debt service reserve funds	60,817,527
Operation and maintenance reserve	15,623,970
Renewal and replacement fund	2,000,000
Debt service coverage fund	16,331,938
Airport system capital fund	21,617,066
Equipment and capital outlay fund	1,983,776
Other aviation facilities fund	1,696,361
Hangar loan project account	626,959
Deposits held for others	997,923
PFC account	352,310
	<b>\$ 129,379,991</b>

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.

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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.

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**Note 4: Derivative Financial Instruments**

The Authority is a party to two 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.

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:

	<b>Effective Date of Agreement</b>	<b>Termination Date</b>	<b>Scheduled Amount</b>	<b>Guaranteed Rate</b>	<b>Fair Value at December 31, 2015</b>
Series 2001 Debt Service Reserve Account	10/4/2001	7/1/2022	8,329,078	4.7200%	\$ 1,246,061
Series 2010 Bond Account	9/1/2000	1/1/2018	453,611	5.6869%	162,556
					<u>\$ 1,408,617</u>

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***Fair Value***

The fair value of each Forward Delivery Agreement 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 year ended December 31, 2015. 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 \$197,925 for the year ended December 31, 2015 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.

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**Note 5: Capital Assets**

Capital assets activity for the year ended December 31, 2015, is as follows:

	2015				Ending Balance	Useful Lives
	Beginning Balance	Additions	Disposals	Transfers		
Capital assets, not being depreciated:						
Land	\$ 90,923,010	\$ 252,564	\$ -	\$ 178,906	\$ 91,354,480	
Construction in progress	22,193,728	32,793,072	-	(34,973,214)	20,013,586	
Total capital assets, not being depreciated	<u>113,116,738</u>	<u>33,045,636</u>	<u>-</u>	<u>(34,794,308)</u>	<u>111,368,066</u>	
Capital assets, being depreciated:						
Terminal buildings	733,482,725	558,175	-	22,820,672	756,861,572	10-30 years
Airfield (runways/taxiways/deicing)	525,810,034	338,691	(1,771,357)	7,235,004	531,612,372	20 years
Site development	81,493,578	-	-	-	81,493,578	30-50 years
Parking garage/lots/etc.	116,032,404	91,371	-	339,507	116,463,282	15-40 years
Hangars	44,299,125	-	-	150,690	44,449,815	5-30 years
Other structures	162,332,399	806,944	-	526,317	163,665,660	10-30 years
Roadways	68,068,138	43,130	-	668,631	68,779,899	10-20 years
Mobile and other equipment	54,831,149	-	(380,209)	845,344	55,296,284	10-20 years
Computer/security equipment and systems	53,690,610	-	-	401,270	54,091,880	5-20 years
Utilities	48,292,770	-	-	27,091	48,319,861	10-40 years
Other assets	18,420,765	-	-	1,779,782	20,200,547	10-30 years
Total capital assets being depreciated	<u>1,906,753,697</u>	<u>1,838,311</u>	<u>(2,151,566)</u>	<u>34,794,308</u>	<u>1,941,234,750</u>	
Less accumulated depreciation for:						
Terminal buildings	(588,410,298)	(17,251,809)	-	-	(605,662,107)	
Airfield (runways/taxiways/deicing)	(356,509,141)	(18,377,253)	1,771,357	-	(373,115,037)	
Site development	(41,655,774)	(1,761,942)	-	-	(43,417,716)	
Parking garage/lots/etc.	(61,176,359)	(4,976,613)	-	-	(66,152,972)	
Hangars	(38,235,890)	(799,752)	-	-	(39,035,642)	
Other structures	(101,279,770)	(5,719,540)	-	-	(106,999,310)	
Roadways	(59,432,011)	(606,236)	-	-	(60,038,247)	
Mobile and other equipment	(46,329,266)	(1,587,089)	330,262	-	(47,586,093)	
Computer/security equipment and systems	(28,508,767)	(3,028,030)	-	-	(31,536,797)	
Utilities	(36,782,900)	(1,546,550)	-	-	(38,329,450)	
Other assets	(12,094,673)	(1,127,603)	-	-	(13,222,276)	
Total accumulated depreciation	<u>(1,370,414,849)</u>	<u>(56,782,417)</u>	<u>2,101,619</u>	<u>-</u>	<u>(1,425,095,647)</u>	
Net depreciable assets	<u>536,338,848</u>	<u>(54,944,106)</u>	<u>(49,947)</u>	<u>34,794,308</u>	<u>516,139,103</u>	
Net capital assets	<u>\$ 649,455,586</u>	<u>\$ (21,898,470)</u>	<u>\$ (49,947)</u>	<u>\$ -</u>	<u>\$ 627,507,169</u>	

As of December 31, 2015, 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, 2015, the Authority had equipment purchase and construction commitments of approximately \$38.6 million.



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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 year ended December 31, 2015, is as follows:

	2015				
	Beginning Balance (1)	Additions	Reductions	Ending Balance	Current Portion
Bonds payable, net	\$ 282,405,082	\$ -	\$ (52,453,063)	\$ 229,952,019	\$ 53,990,000
Industry Drive loan	1,071,330	-	(61,210)	1,010,120	70,119
PA Department of Transportation loan	317,197	-	(101,767)	215,430	115,489
Business-in-Our-Sites Program loan	1,725,920	-	(119,348)	1,606,572	122,977
Hangar loan	845,000	-	(65,000)	780,000	65,000
Ewing Road loan	719,812	-	(94,792)	625,020	98,653
Energy savings equipment lease purchase	4,235,292	-	(1,010,155)	3,225,137	1,041,929
Subtotal	291,319,633	-	(53,905,335)	237,414,298	55,504,167
Net pension liability	40,088,306	11,292,783	(2,465,660)	48,915,429	-
Other long-term liabilities	144,816	-	(11,020)	133,796	-
Unearned revenue	36,189,064	3,134,172	(10,774,773)	28,548,463	15,399,678
Total long-term liabilities	<u>\$ 367,741,819</u>	<u>\$ 14,426,955</u>	<u>\$ (67,156,788)</u>	<u>\$ 315,011,986</u>	

(1) - Restated for the implementation of GASB 68.

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**Note 7: Long-Term Debt**

At December 31, 2015, long-term debt consisted of the following:

	<b>2015</b>
Airport Revenue Bonds, Series 2012 A-1 (AMT), interest rates of 4.0% - 5.0%, due through 2028	\$ 21,130,000
Airport Revenue Bonds, Series 2012 A-2 (AMT), interest rate of 2.05%, due through 2020	8,455,000
Airport Revenue Bonds, Series 2012 B (Non-AMT), interest rate of 4.0%, due through 2032	13,900,000
Airport Revenue Refunding Bonds, Series 2010 A, interest rates of 3.0% - 5.0%, due through 2018	8,120,000
Airport Revenue Refunding Bonds, Series 2007 B, interest rate of 5.0%, due through 2019	96,625,000
Airport Revenue Refunding Bonds, Series 2002 B, interest rates of 4.5% - 5.0%, due through 2023	37,155,000
Airport Revenue Refunding Bonds, Series B 2001, interest rate of 5.0%, due through 2022	39,955,000
Airport Revenue Bonds, Subordinate Lien Series A 2001, interest rate of 5.5%, due through 2017	1,910,000
Total revenue bond debt	227,250,000
Hangar loan, variable interest rate, due through 2018	780,000
Commonwealth of PA Department of Transportation Infrastructure Bank Aviation Loan, interest rate of 4.125%, due through 2017	215,430
Industry Drive loan, interest rate of 4.7%, due through 2028	1,010,120
Business-in-Our-Sites Program loan, interest rate of 3.0%, due through 2027	1,606,572
Ewing Road loan, interest rate of 4.0%, due through 2021	625,020
Energy savings equipment lease purchase loan, interest rate of 3.101%, due through 2018	3,225,137
Total other debt	7,462,279
Total long-term debt	234,712,279
Plus: net unamortized premiums	2,702,019
Total long-term debt including premiums	237,414,298
Less: current maturities	(55,504,167)
	<b>\$ 181,910,131</b>

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The scheduled debt service requirements of long-term debt for years subsequent to December 31, 2015, assuming the current interest rates remain the same for the term of the debt are as follows:

	<b>Principal*</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 55,504,167	\$ 11,144,671	\$ 66,648,838
2017	53,751,960	8,446,240	62,198,200
2018	52,242,649	5,889,092	58,131,741
2019	12,176,152	3,391,918	15,568,070
2020	12,668,637	2,851,244	15,519,881
2021 - 2025	28,134,979	7,179,526	35,314,505
2026 - 2030	16,573,735	2,803,855	19,377,590
2031 - 2032	3,660,000	146,400	3,806,400
	<u>\$ 234,712,279</u>	<u>\$ 41,852,946</u>	<u>\$ 276,565,225</u>

\* Principal includes the bonds due January 1 of the succeeding years, as the Authority has paid January 1, 2016, in December 2015 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. All remaining principal on the 2001 Series B Subordinate Lien Airport Revenue Bonds was paid in full during 2015.

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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. All remaining principal on the Series A 2001 Refunding Bonds was paid in full during 2015.

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 Series A 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. All remaining principal on the 2007 Refunding Series A Bonds was paid in full during 2015.

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.

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Airport Revenue Bond obligations (Revenue Bonds) of the Authority totaled \$227,250,000 at December 31, 2015. 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.

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***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 Authority does have the option to refinance the loan at maturity in 2018. The interest rate is variable and is based on the one-month LIBOR, plus 1.5%. The LIBOR interest rate at December 31, 2015 was approximately 0.43%.

***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.

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***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 \$9,503,000, as of December 31, 2015.

***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.

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On December 15, 2015, the Authority entered into a Funding and Development Agreement with RAAC for a third TIF for the continued development of the Clinton Industrial Park Project - Phase II. RAAC issued a TIF Note (the 2015 TIF Note) in the amount of \$5,700,000 to fund the development. Proceeds from the financing were used to fund certain public infrastructure and improvements. Repayment terms are through December 1, 2025, at 5.0% interest rate.

The 2005 TIF Notes, 2008 TIF Note and 2015 TIF Note (collectively, the TIF Notes) 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 TIF Notes. While the Authority has pledged to assign certain of its revenues to the trustee for the TIF Notes, the Authority is not a party to the respective trust indentures and is under no obligation to repay the TIF Notes; therefore, the TIF Notes 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 year ended December 31, 2015, in the accompanying statements of revenues, expenses, and changes in net position and amounted to \$10,633,602.

**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.



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**Note 10: Pension Plan**

***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.

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. 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.

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.

***Benefits Provided***

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 (generally, attainment of 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 participating 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.

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In addition to retirement benefits, the Retirement System also provides disability and survivor benefits. Any eligible employee who has completed at least 12 years of service and who was employed prior to attaining age 55 who becomes mentally incapacitated or totally and permanently disabled is eligible to receive a disability retirement benefit. There is no age requirement to receive this benefit. Additionally, any eligible employee may elect the spouse's benefit at any time prior to retirement. The election is irrevocable after attained age 50. If this election is made, the surviving spouse shall be eligible to receive certain benefits, depending on type of coverage selected.

***Contributions***

Beginning December 29, 2013, Authority employees were required to contribute 8.5% of covered compensation. The Board increased the required employee contribution to 9.0% of covered compensation effective December 28, 2014. 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. The Board, pursuant to express statutory authority, has the right to increase or decrease the contribution rate in the event it is actuarially determined that a contribution change is required in order for the Board to meet its funding requirements. 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, 2015, and are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended December 31, 2015, contributions to the pension plan from the Authority were \$2,559,020 (or 9.0% of covered payroll). The Authority contributed all required amounts for the year ended December 31, 2015.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2015, the Authority reported a liability of \$48,915,429 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015, rolled forward to October 31, 2015. Member census data as of December 31, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between December 31, 2014 and December 31, 2015. Standard actuarial roll forward techniques were used to project the total pension liability computed as of the January 1, 2015 valuation date to the December 31, 2015 measurement date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Authority's proportion was 7.7721%, which was an increase of .5113% from its proportion measured as of December 31, 2014.

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For the year ended December 31, 2015, the Authority recognized pension expense of \$3,011,072. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2015</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 80,879
Changes of assumptions	598,367	10,469,622
Differences between projected and actual earnings on pension plan investments	4,428,606	-
Changes in proportionate share	2,300,058	-
Total	\$ 7,327,031	\$ 10,550,501

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2015, related to pensions will be recognized in pension expense as follows:

2016	\$ (839,792)
2017	(839,792)
2018	(839,792)
2019	(960,236)
2020	256,142
	\$ (3,223,470)

**Actuarial Assumptions**

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25% - 5.75% average, including inflation
Ad hoc cost of living adjustments	1.0% average
Long-term expected rate of return	7.75% net of pension plan investment expense

Mortality rates were based on the RP-2000 Combined Healthy Annuitants Mortality Table (Base Year – 2010), with blue-collar adjustments and adjustments for mortality improvements based on Scale AA. The most recent experience study was for the period 2011 to 2014.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
U.S. Equity	16%	4.55%
Non-U.S. Equity	19%	4.75%
Private Equity/Venture Capital	20%	7.10%
Core Fixed Income	10%	1.65%
High Yield	12%	3.45%
Real Estate	10%	4.00%
TIPS	5%	1.20%
Commodities	8%	2.00%
	<u>100%</u>	

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75% for the year ended December 31, 2015. Of note, the discount rate prior to December 31, 2014 was 6.35%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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***Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The Authority's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Authority's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Authority's proportionate share of the net pension liability	\$ 61,135,323	\$ 48,915,429	\$ 38,515,528

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of Allegheny County Employees' Retirement System.

**Note 11: 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 \$0.0568/kWh through December 31, 2015. The Authority subsequently executed another contract for the period December 29, 2015 through December 26, 2017 that further reduced rates to \$0.0539/kWh. The commitment includes all of the Authority's forecasted electricity usage.

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**Note 12: 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.

## **Required Supplementary Information [Unaudited]**

**Allegheny County Airport Authority**  
**(A Component Unit of the County of Allegheny, Pennsylvania)**  
**Schedule of Required Supplementary Information**  
**Schedules of the Authority's Proportionate Share of the Net Pension Liability**  
**Allegheny County Employees' Retirement System**  
**Last 2 Fiscal Years\***

	<b>2015</b>	<b>2014</b>
Authority's proportion of the net pension liability	7.7721%	7.2608%
Authority's proportionate share of the net pension liability	\$ 48,915,429	\$ 40,088,306
Authority's covered payroll	\$ 28,433,558	\$ 26,486,921
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	172%	151%
Plan fiduciary net position as a percentage of the total pension liability	56.62%	60.26%

\*The amounts presented for each fiscal year were determined as of December 31 (measurement date).

Note: Ten years of information is required to be disclosed and will be added as the information becomes available.



**Allegheny County Airport Authority**  
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**Schedules of Required Supplementary Information**  
**Schedule of Authority Contributions**  
**Allegheny County Employees' Retirement System**  
**Last 2 Fiscal Years\***

	<b>2015</b>	<b>2014</b>
Statutorily required contribution	\$ 2,559,020	\$ 2,245,908
Contributions in relation to the statutorily required contribution	\$ 2,559,020	\$ 2,245,908
Contribution deficiency (excess)	\$ -	\$ -
Authority's covered payroll	\$ 28,433,558	\$ 26,486,921
Contributions as a percentage of covered payroll	9.00%	8.48%

**Notes to Schedule:**

**Benefit changes:** For those hired or rehired on or after February 21, 2014, the following changes to benefits were reflected within the actuarially determined pension amounts:

- Increased vesting from 8 to 10 years
- Elimination of overtime pay in excess of 10% of base pay from pensionable compensation
- Final pay formula adjusted to highest 48 months compensation of last 8 years of service

**Changes of assumptions:** retirement and termination rates were changed based upon recent plan experience.

\* The amounts presented for each fiscal year were determined as of December 31 (Authority's most recent fiscal year-end).

Note: Ten years of information is required to be disclosed and will be added as the information becomes available.