

Allegheny County Airport Authority

(A Component Unit of County of Allegheny,
Pennsylvania)

Financial Statements as of and for the Years
Ended December 31, 2008 and 2007, and
Independent Auditors' Report

ALLEGHENY COUNTY AIRPORT AUTHORITY
(A Component Unit of County of Allegheny, Pennsylvania)

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INDEPENDENT AUDITORS' REPORT

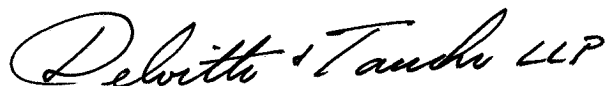
To the Board of Directors of
Allegheny County Airport Authority:

We have audited the accompanying statements of net assets of the Allegheny County Airport Authority (the "Authority"), a component unit of County of Allegheny, Pennsylvania, as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 2 to 9, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



March 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Allegheny County Airport Authority's (the "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

Pittsburgh International Airport ("PIT" or the "Airport") is operated by the Authority pursuant to the Airline Operating Agreement ("AOA"). The AOA is structured as a residual agreement and has been signed by: Air Tran, American Airlines, British Airways, Chautauqua Airlines, Continental Air, Delta Airlines, JetBlue Airways, Mesa Airlines, Northwest Airlines, Southwest Airlines, United Airlines, and US Airways.

Airline revenue at PIT is based upon a residual arrangement as determined in the AOA. Airlines that sign this agreement ("Signatory Airlines") agree to pay for the operations of the airport based upon a Rates and Charges calculation that takes into account all revenues, expenses and debt service at PIT, as well as creating certain funds to be used for capital expenditures. The agreement 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. This is important to understand in relation to the past, and ongoing US Airways, Independence Air (now liquidated), Delta Airlines, Northwest Airlines, and United Airlines bankruptcy filings, indicating continued uncertainty and the absence of consistent profitability in the airline industry. Note that US Airways exited from bankruptcy on September 29, 2005, and United Airlines exited bankruptcy on February 1, 2006. Delta Airlines and Northwest Airlines, both of which began 2007 under bankruptcy protection, emerged from this protection in the Spring of 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. 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 to the financial statements for a summary of the Authority's Organization and significant financial policies.

The Authority is responsible for the operation of the facilities at PIT and the Allegheny County Airport ("AGC").

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 Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Authority's financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing the change in the Authority's net assets during the fiscal year. All changes in net assets 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 affect the Authority's cash accounts are recorded in this statement. 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

Throughout 2008, the Authority continued to adjust to the reduction in scheduled service from PIT by US Airways, PIT's largest airline. As a result of the US Airways "de-hubbing" of PIT, US Airways realigned its operations to where it now accounts for less than 40% of all enplaned passengers. Total enplanements in 2008 at PIT declined approximately 11% as compared to 2007. However, management remains pleased that O&D traffic (non-connecting passengers who begin or end their trip at Pittsburgh International) remains strong. Of the 10 major carriers that served PIT in 2008 and 2007, five carriers ended 2008 with higher enplaned passengers compared to 2007 and showed increased passenger levels over 12%. Management attributes the strong performance in O&D enplanements to lower fares charged by the low cost carriers operating at PIT that have succeeded in attracting more travelers. PIT's average fare of \$141 continues to be below the national average of \$148 (per Aviation Data Group 3rd quarter 2008) as a result of increased competition. Similar sized airport cities such as Cleveland (average fare \$161) and Cincinnati (average fare \$208) reflect dominant carrier pricing. In addition, passengers that flew from PIT are, as a result of the lower fares, coming from a larger geographic area.

Pursuant to Federal Aviation Administration approval received, ACAA continued to apply \$16.5 million of PFC revenue in 2008 to reduce debt service costs. In accordance with the approved PFC program, the Authority anticipates future application of PFC revenues in a similar fashion. Additionally, Allegheny County (the "County") is a designee under the Pennsylvania Race Horse Development and Gaming Act (the "Gaming Act"). The Gaming Act legalizes slot machine parlors in race tracks and stand alone facilities. The County is eligible to receive up to five percent (5%) of the annual net revenues, on an annual basis not to exceed \$150 million for up to a twelve-year period, generated from slot machine operations in Pennsylvania. The County, the direct recipient of the funds, received \$32.3 million of the project funds prior to the close of 2008. These funds were applied to the repayment of \$42.5 million County's capital contribution made toward the original construction of Pittsburgh International Airport, which the County funded with the issuance of General Obligation Bonds. The Authority expects that future receipts from the fund to be first used toward the remaining County capital contribution of \$10.2 million. After the \$42.5 million is received by the County, the Authority anticipates receiving the remaining \$107.5 million and applying such receipts to reduce debt service payments on the Authority's General Airport Revenue Bonds, thereby reducing the costs charged to the airlines operating from PIT.

The Parking operation at PIT is the largest non-aviation revenue generator for the Airport. Over \$24 million of parking revenue was included in the results of the Airport for 2008 and 2007. Management expects parking revenues to increase in 2009 because all of the spaces were not available in 2008, an anticipated rate increase, and increased O&D traffic. The Airport currently has 2,100 short term parking spaces, 3,100 long term parking spaces, and 8,000 extended term parking spaces.

On February 21, 2007, the Authority and US Airways, Inc. executed agreements for the Authority to lease to US Airways, Inc. certain property for the construction of an Operations and Control Center (“OCC”). The Authority anticipates being a conduit for whatever method of financing would be used for the project. The initial term of the lease is for 20 years, with the option to renew the lease for two terms of ten years each. The OCC construction was complete in October 2008 at which time US Airways took occupancy of the facility.

As a result of US Airways’ announcement to reduce operations at the airport, the airline indicated that, effective January 2008, it would no longer need to operate approximately 13 non-signatory gates. These gates were not part of US Airways’ lease agreement with the Authority; therefore the airline had the ability to return these facilities back to the Authority and cease paying rental charges. To mitigate the costs of operating the terminal facilities, the Authority decided in January 2008 to decommission a portion of the A and B concourses that were not expected to be needed for current airline activity levels. These areas are the extensions of the A and B concourses and consist of 26 gates and approximately 97,500 square feet. The annual savings from reduced utilities, custodial costs, and contracted maintenance and repair on the moving sidewalks was approximately \$950,000. These areas continue to be maintained with necessary heating and cooling to preserve facility conditions and either, or both, areas on the two concourses could be reactivated and ready for occupancy in several days if needed for future operational expansion.

In anticipation of cost cutting measures and a restructuring of the Authority’s debt profile, the Authority reduced airline costs by \$11.9 million mid-year in 2008. Consistent with the Airline Operating Agreement, the net cost of operating the Airport is passed on to Signatory air carriers through airline rates and charges. This reduction in fees directly benefited carriers level of profitability at the Airport. Similarly, the Authority expects to lower its 2009 established rates and charges by approximately \$10 million during the course of 2009 pending completion of a proposed grant anticipation loan.

Management is actively monitoring and adjusting the operation of the Airport to match the activity of the tenants. Operating costs have been reduced wherever possible, non-airline revenues enhanced, and innovative ideas that improve the efficiency of the Airport implemented.

The following represents the Authority’s summary of changes in net assets (in thousands):

	2008	2007	2006	% Change 2008 / 2007
Operating Revenue	\$ 131,922	\$ 143,445	\$ 130,731	(8.0)%
Operating Expenses	<u>85,031</u>	<u>82,347</u>	<u>76,015</u>	3.3 %
Operating Income before Depreciation	46,891	61,098	54,716	(23.3)%
Depreciation and Amortization	<u>66,411</u>	<u>69,159</u>	<u>67,017</u>	(4.0)%
Operating (Loss) Income	(19,520)	(8,061)	(12,301)	142.2 %
Non-Operating Income	42,891	50,460	57,550	(15.0)%
Non-Operating Expenses	<u>(28,746)</u>	<u>(30,574)</u>	<u>(39,772)</u>	(6.0)%
Increase (Decrease) in Net Assets	(5,375)	11,825	5,477	(145.5)%
Net Assets, beginning of year	<u>371,745</u>	<u>359,920</u>	<u>354,443</u>	3.3 %
Net Assets, end of year	<u>\$ 366,370</u>	<u>\$ 371,745</u>	<u>\$ 359,920</u>	(1.4)%

REVENUES

A summary of revenues for the years ended December 31, 2008, 2007 and 2006, is as follows (in thousands):

Operating Revenue	2008	2007	2006	% Change 2008 / 2007
Aviation	\$ 38,835	\$ 40,614	\$ 38,957	(4.4)%
Rentals	41,818	49,614	43,393	(15.7)%
Parking	24,077	24,022	21,067	0.2 %
Concessions	17,618	18,488	17,402	(4.7)%
Other	9,574	10,707	9,912	(10.6)%
Total Operating Revenue	<u>\$ 131,922</u>	<u>\$ 143,445</u>	<u>\$ 130,731</u>	(8.0)%
Operating Expense	2008	2007	2006	% Change 2008 / 2007
Salaries, wages and benefits	\$ 32,565	\$ 33,422	\$ 31,096	(2.6)%
Utilities	13,417	13,120	12,369	2.3 %
Cleaning and maintenance services	14,174	14,036	13,239	1.0 %
Professional services	16,466	14,302	13,970	15.1 %
Depreciation and amortization	66,411	69,159	67,017	(4.0)%
Other	8,409	7,467	5,341	12.6 %
Total Operating Expense	<u>\$ 151,442</u>	<u>\$ 151,506</u>	<u>\$ 143,032</u>	(0.0)%
Nonoperating Revenue (Expense)	2008	2007	2006	% Change 2008 / 2007
Interest expense	\$ (28,259)	\$ (30,742)	\$ (32,627)	(8.1)%
Interest income	5,494	9,845	8,722	(44.2)%
Passenger facility charge income	17,680	20,519	20,854	(13.8)%
Grants from governmental agencies	19,180	19,946	27,823	(3.8)%
Swap termination costs	-	-	(6,840)	
(Loss) gain on disposal of assets	(436)	150	(232)	(390.7)%
Miscellaneous income	539	197	150	173.6 %
Other	(52)	(29)	(73)	79.3 %
Total Nonoperating Revenue (Expense)	<u>\$ 14,146</u>	<u>\$ 19,886</u>	<u>\$ 17,777</u>	(28.9)%

2008

Total operating revenues finished the year \$11.5 million, or 8%, lower compared to 2007. Changes in Aviation and Rentals are primarily a result of lower net costs passed through to the airlines via the rate base primarily due to lower debt service costs in 2008.

Total operating expenses were \$64,000 less in 2008 as compared to 2007. A reduction in headcount of ten contributed to a decrease in salaries, wages and benefits along with depreciation expense being less due to certain assets becoming fully depreciated. The increase in professional services expense is principally due to police expenses, including the arbitration award of police, and legal fees.

Interest income in 2008 was almost \$4.4 million less than in 2007, which was partially offset by lower interest expenses of nearly \$2.5 million – both being driven by lower interest rates in general. Also, as Authority debt matures or is refunded, as in the case of a portion of the Series 1997 Bonds, interest expense will continue to decline. Additionally, PFC revenues were about \$2.8 million lower. Approximately \$10.0 million of the PFC revenues were used to offset debt service as approved by the FAA. Additionally \$6.5 million of other internal financing was applied to debt service.

2007

Total operating revenues finished the year \$12.7 million, or 9.7%, higher compared to 2006. Parking revenues accounted for over \$2.9 million of the operating revenue increase. For another year, rental car revenues performed better than the previous year by over \$900,000, an increase of over 11%. Changes in Aviation and Rentals are primarily a result in changes to rates charged to airlines who have executed an Airline Operating Agreement and Terminal Building Lease with the Authority.

Operating expenses were \$8.5 million higher in 2007 as compared to 2006. This 5.9% increase includes a \$2.1 million increase in depreciation. The primary increased operating expenses were inflationary increases in chemicals used for airfield snow and ice removal increased dramatically in 2007 and material price increases for diesel fuel used in Authority equipment and vehicles as well as inventoried supplies such as electrical parts. The increase in other expenses can be attributed to several major factors offset by a decrease in the recorded bad debts expense as a result of carriers emerging from bankruptcy and continuing their operations at PIT.

Although governmental grants in 2007 were almost \$7.9 million less than those in 2006, total non-operating revenues were \$2.1 million higher than the previous year. This decrease in grant revenues was offset by higher interest earnings on Authority cash, lower debt interest costs and the fact that the swap termination fee paid in 2006 was not a recurring event. Interest income is expected to increase as the Authority continues to improve its investment strategy while maintaining the liquidity and safety of its funds. In 2007, interest income rose \$1.1 million, or 12.9%. Likewise, as Authority debt matures or is refunded, as in the case of a portion of the Series 1997 Bonds, interest expense will also continue to decline. PFC revenues remained relatively consistent as compared to 2006 showing a decrease of \$335,000. Approximately \$15 million of the PFC revenues was used to offset debt service as approved by the FAA.

FINANCIAL POSITION

The following represents the Authority's financial position at December 31, 2008, 2007 and 2006:

Assets	2008	2007	2006	% Change 2008 / 2007
Current Assets – Unrestricted	\$ 24,047	\$ 22,620	\$ 15,783	6.3 %
Current Assets – Restricted	124,085	173,370	167,544	(28.4)%
Net Property and Equipment	792,390	796,179	815,765	(0.5)%
Other Assets	<u>5,212</u>	<u>5,769</u>	<u>5,232</u>	(9.7)%
Total Assets	<u>\$ 945,734</u>	<u>\$ 997,938</u>	<u>\$ 1,004,324</u>	(5.2)%
Liabilities	2008	2007	2006	% Change 2008 / 2007
Current payable from Unrestricted Assets	\$ 16,865	\$ 16,808	\$ 22,960	0.3 %
Current payable from Restricted Assets	68,599	80,628	50,817	(14.9)%
Long-Term Liabilities	<u>493,899</u>	<u>528,757</u>	<u>570,627</u>	(6.6)%
Total Liabilities	<u>\$ 579,363</u>	<u>\$ 626,193</u>	<u>\$ 644,404</u>	(7.5)%
Net Assets	2008	2007	2006	% Change 2008 / 2007
Invested in Capital Assets, net of Related Debt	\$ 316,592	\$ 266,109	\$ 260,073	19.0 %
Restricted Net Assets	74,007	99,791	88,027	(25.8)%
Unrestricted Net Assets (Deficit)	<u>(24,229)</u>	<u>5,845</u>	<u>11,820</u>	(514.5)%
Total Net Assets	<u>\$ 366,370</u>	<u>\$ 371,745</u>	<u>\$ 359,920</u>	(1.4)%

The decrease in current assets – restricted is due to the decrease in cash and cash equivalents and investments attributable to continued pay down on long-term liabilities and the unfavorable market conditions coupled with the decrease in grants receivable from governmental agencies. Net assets continue to moderately fluctuate each year as a result of the reduction of long-term liabilities from year to year as well as benefiting from PFC's and grant income. The unrestricted net assets deficit at December 31, 2008 was a result of an increase in borrowing on the revolving line of credit of \$12.5M and internally financing \$6.5 million through operating cash to reduce the rates and charges to the airlines.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets — The Authority's capital assets at cost, net of depreciation as of December 31, 2008 and 2007, respectively, amounted to \$792,389,920 and \$796,178,564. 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 2008 and 2007 was 3.3% and 2.3%, respectively.

Major capital projects in progress and expenditures incurred during 2008 included the following:

• Rehabilitation of Taxiways and runways @ PIT	\$17,773,523
• Security system enhancements	8,633,464
• Terminal enhancements	10,352,337
• Non-airfield property development	6,159,808
• Snow removal and deicing facilities	12,225,686

Major capital projects in progress and expenditures incurred during 2007 included the following:

• Rehabilitation of Taxiways and runways @ PIT	\$12,906,467
• Security system enhancements	5,269,981
• Terminal enhancements	4,046,152
• Non-airfield property development	9,564,269
• Snow removal and deicing facilities	7,538,834

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, PFC's, debt issuance, and airline rates and charges. Further detailed information can be found in the notes to the financial statements.

Debt Administration — As of December 31, 2008 and 2007, the Authority's long-term debt outstanding totaled \$499,414,823 and \$549,553,823, respectively. Principal payments of \$54,250,276 and \$23,812,039 were made in 2008 and 2007. The increase in principal payments in 2008 compared to 2007 is the result of the debt service payments due to the bondholders on January 1, 2009 were paid at the end of December 2008 of \$35,450,000.

Detailed information regarding the Authority's long-term debt can be found in the notes to the financial statements.

BUDGETARY HIGHLIGHTS

The Authority is required to prepare an estimate of the Signatory Airlines Annual Rates and Charges to be submitted to the Signatory Airlines for review and comment. In order to prepare the estimated Annual Rates and Charges calculation the Authority prepares an operating budget for all revenues, expenses and capital items. The budget is prepared in accordance with the covenants contained in bond indentures and the AOA. The Authority is not required to demonstrate statutory compliance with its operating budget. Accordingly, budgetary data is not included in the basic financial statements. Unexpended operating appropriations lapse at fiscal year-end.

ECONOMIC FORECAST

Economic conditions expected for 2009 are highlighted by a lagging national economy consistent with recessionary problems. Although economic activity and job growth in the Pittsburgh area has slowed, consistent with national trends, the region is expected to perform comparatively better than other hard hit U.S. regional markets. Unemployment rates in the Pittsburgh region are expected to remain below national averages throughout 2009. The recent decrease on oil prices as compared with high per barrel costs in 2008 of almost \$150 has provided the airline industry with some relief. Airline profitability is more likely with more

modest fuel prices but tenuous in light of a suffering national economy. Considering these economic factors, airlines appear to be poised to achieve levels of profitability in line with historic trends in 2009 versus the last several years in which oil prices have made profitability elusive.

Statistics for 2008 indicate that domestic air travel declined during the year as compared to 2007. Looking forward to 2009, passenger growth is expected to decline by approximately 5% unless significant changes occur in the national marketplace. Total enplanements at PIT were 4.3 million in 2008, a decrease of about 11% compared to 2007. Other airlines with service at PIT continue to add flights, increase their capacity and enplanements, with the result that US Airways is now serving less than 40% of the travelers from PIT, down from a high of 87.6% in 2001. Delta announced a new flight to Paris (CDG) which will begin in June 2009 which should increase PIT's O/D traffic. Southwest Airlines is now the second most active carrier at PIT measured by the number of enplanements. Other airlines realizing over 10% increases in passengers compared to 2007 were Air Tran, Continental, Myrtle Beach Direct Air, and Air Canada.

Strategically, the Authority is committed to making PIT a low cost, high quality airport. Management believes that this goal will be achieved by not incurring any new bond debt, diligently managing expenditures for both operating and capital items, and maximizing non-airline revenues. It is expected that the Authority will make continued extensive use of PFC's to fund capital projects. The use of PFC's will be critical to performing the routine capital repair and replacement projects that can be expected of a facility that is now 18 years old. Planning for these capital expenditures now is a key to managing the projects on a cost effective basis. Furthermore, FAA authorization proposals presented by the House of Representatives call for an increase in PFC levels. Short-term funding extensions have taken place since the last formal reauthorization bill expired June 30, 2007. Additional expansion of these levels will assist the Authority in achieving these goals. The Authority has relied upon federal grant funding for various capital projects at the Airports. The Authority is very fortunate to have approximately 9,000 acres of land surrounding the airport, of which approximately 1,300 acres are developable. The Authority has been actively engaged in the development of its property to stimulate the economies of the region as well as stimulating activity in the airport corridor. Construction of a build-to-suit facility for a printing company was completed in 2008 and is currently occupied. Additionally, a 200,000 square foot building designed for bulk warehousing was completed in 2008. The bulk of the 200,000 square feet is now leased and the Developer has begun the process of expanding the building to 400,000 square feet total. Cherrington commerce park, a 160 acre business park, was completed in 2008. The first building is scheduled to begin in 2009. A 100 acre cargo park was begun in 2008 with completion scheduled for summer of 2009 and we expect the first building to begin in the fall. Also, Dicks Sporting Goods signed a lease for 116 acres on airport property and began construction of their world headquarters building. This facility consists of a 670,000 square foot office complex and a 70,000 square foot corporate hangar. Dicks will begin occupying the building in the last quarter of 2009.

The Authority's plan for the next ten years is to maintain a low cost environment for the airlines that operate from PIT. In 2009 through 2018 management expects to apply \$15 million of PFC revenues and a significant amount of expected gaming revenues to reduce the annual debt service payments and, therefore, reduce the cost for airlines operating out of Pittsburgh International Airport.

ALLEGHENY COUNTY AIRPORT AUTHORITY
(A Component Unit of County of Allegheny, Pennsylvania)

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents	\$ 15,819,245	\$ 14,948,238
Accounts receivable — trade — net of allowance for doubtful accounts of \$23,068 and \$106,080 in 2008 and 2007, respectively	4,955,671	4,877,721
Inventory	1,686,117	1,564,828
Other unrestricted assets	<u>1,585,962</u>	<u>1,229,696</u>
Total unrestricted assets	<u>24,046,995</u>	<u>22,620,483</u>
Restricted assets:		
Cash and cash equivalents	104,154,426	131,292,389
Short-term investments	10,022,204	23,401,314
Grants receivable from governmental agencies	8,578,697	17,009,615
Accrued interest receivable	59,000	61,218
Other receivables	<u>1,270,283</u>	<u>1,605,074</u>
Total restricted assets	<u>124,084,610</u>	<u>173,369,610</u>
Total current assets	<u>148,131,605</u>	<u>195,990,093</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	795,942	556,760
Capital assets — at cost — net of accumulated depreciation	792,389,920	796,178,564
Deferred financing costs	<u>4,416,306</u>	<u>5,212,627</u>
Total noncurrent assets	<u>797,602,168</u>	<u>801,947,951</u>
TOTAL	<u><u>\$ 945,733,773</u></u>	<u><u>\$ 997,938,044</u></u>

(Continued)

ALLEGHENY COUNTY AIRPORT AUTHORITY
(A Component Unit of County of Allegheny, Pennsylvania)

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES — Payable from unrestricted assets:		
Accounts payable	\$ 5,197,154	\$ 6,175,397
Due to County of Allegheny	1,105,803	953,411
Accrued liabilities	3,833,438	2,848,940
Amounts due to airlines	555,301	709,362
Deferred revenue	<u>6,173,384</u>	<u>6,121,515</u>
Total current liabilities — payable from unrestricted assets	<u>16,865,080</u>	<u>16,808,625</u>
CURRENT LIABILITIES — Payable from restricted assets:		
Revolving line of credit	16,500,000	4,000,000
Accounts payable	4,513,113	6,674,313
Accrued liabilities	5,402,438	5,963,641
Retainage payable	2,226,132	2,391,290
Accrued interest payable		4,594,538
Other liabilities	1,380,724	1,757,943
Deferred revenue	1,089,749	1,089,749
Current maturities of long-term debt and loans repayable on demand	<u>37,487,275</u>	<u>54,156,025</u>
Total current liabilities — payable from restricted assets	<u>68,599,431</u>	<u>80,627,499</u>
LONG-TERM LIABILITIES:		
Long-term debt — net — less current maturities	452,010,454	485,621,368
Advance airline fundings	32,204,743	32,354,837
Accrued postemployment benefits	798,942	764,090
Deferred revenue	8,745,012	9,834,761
Other long-term liabilities	<u>140,072</u>	<u>182,237</u>
Total long-term liabilities	<u>493,899,223</u>	<u>528,757,293</u>
Total liabilities	<u>579,363,734</u>	<u>626,193,417</u>
NET ASSETS:		
Invested in capital assets — net of related debt	<u>316,591,776</u>	<u>266,109,224</u>
Restricted net assets (expendable):		
Capital	10,454,946	11,341,766
Debt service	<u>63,552,177</u>	<u>88,449,331</u>
Total restricted net assets	<u>74,007,123</u>	<u>99,791,097</u>
Unrestricted net assets (deficit)	<u>(24,228,860)</u>	<u>5,844,306</u>
Total net assets	<u>366,370,039</u>	<u>371,744,627</u>
TOTAL	<u>\$ 945,733,773</u>	<u>\$ 997,938,044</u>

See notes to financial statements.

(Concluded)

ALLEGHENY COUNTY AIRPORT AUTHORITY
(A Component Unit of County of Allegheny, Pennsylvania)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Aviation — principally landing fees	\$ 38,834,848	\$ 40,613,914
Rentals	41,818,290	49,613,520
Parking fees	24,077,204	24,021,702
Concession fees	17,617,688	18,487,842
Other	<u>9,574,062</u>	<u>10,707,535</u>
Total operating revenues	<u>131,922,092</u>	<u>143,444,513</u>
OPERATING EXPENSES:		
Salaries, wages, and related expenses	32,565,314	33,420,595
Utilities	13,417,325	13,120,161
Cleaning and maintenance services	14,174,127	14,036,213
Professional services	16,465,843	14,302,229
Depreciation and amortization	66,411,104	69,159,246
Other	<u>8,408,870</u>	<u>7,467,407</u>
Total operating expenses	<u>151,442,583</u>	<u>151,505,851</u>
LOSS FROM OPERATIONS	<u>(19,520,491)</u>	<u>(8,061,338)</u>
NONOPERATING INCOME (EXPENSE):		
Interest expense	(28,258,783)	(30,741,749)
Investment income	5,493,686	9,845,315
Passenger Facility Charge income	17,679,620	20,518,454
Grants from governmental agencies	19,179,858	19,946,340
(Loss) gain on disposal of capital assets	(435,552)	150,413
Miscellaneous income — net	538,817	196,567
Net decrease in fair value of investments	<u>(51,743)</u>	<u>(28,944)</u>
Total nonoperating income	<u>14,145,903</u>	<u>19,886,396</u>
(DECREASE) INCREASE IN NET ASSETS	<u>(5,374,588)</u>	<u>11,825,058</u>
NET ASSETS — Beginning of year	<u>371,744,627</u>	<u>359,919,569</u>
NET ASSETS — End of year	<u>\$366,370,039</u>	<u>\$371,744,627</u>

See notes to financial statements.

ALLEGHENY COUNTY AIRPORT AUTHORITY
(A Component Unit of County of Allegheny, Pennsylvania)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 79,365,723	\$ 83,168,944
Concession and parking receipts	43,297,825	42,262,529
Payments to and on behalf of employees	(33,013,558)	(32,954,451)
Payments for utilities and maintenance	(27,225,543)	(27,632,013)
Professional services	(16,259,152)	(14,834,421)
Other revenue (payments) receipts — net	<u>(112,171)</u>	<u>3,197,142</u>
Net cash provided by operating activities	<u>46,053,124</u>	<u>53,207,730</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipt of Passenger Facility Charges	18,014,411	20,858,552
Additions to capital assets	(66,306,291)	(45,465,963)
Proceeds from revolving line of credit	12,500,000	
Proceeds from borrowings	3,855,767	1,370,292
Proceeds from Swaption	833,995	124,427
Interest paid on long-term debt	(31,976,411)	(23,068,559)
Principal payments of long-term debt	(54,250,276)	(23,812,039)
Net proceeds from revenue bond issuance		159,586,870
Refunded revenue bonds		(157,175,000)
Refunded revenue bonds escrow transfer		(2,411,872)
Capital grants received	27,610,776	13,343,069
Other	<u>94,372</u>	<u>(243,452)</u>
Net cash used in capital and related financing activities	<u>(89,623,657)</u>	<u>(56,893,675)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investment securities	153,682,936	606,567,009
Purchases of investment securities	(140,355,571)	(606,661,114)
Interest received on investments	<u>4,215,394</u>	<u>8,498,936</u>
Net cash provided by investing activities	<u>17,542,759</u>	<u>8,404,831</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(26,027,774)	4,718,886
CASH AND CASH EQUIVALENTS — Beginning of year	<u>146,797,387</u>	<u>142,078,501</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 120,769,613</u>	<u>\$ 146,797,387</u>
CASH AND CASH EQUIVALENTS — End of year consist of:		
Unrestricted cash and cash equivalents	\$ 15,819,245	\$ 14,948,238
Restricted cash and cash equivalents	104,154,426	131,292,389
Cash and cash equivalents designated for noncurrent uses	<u>795,942</u>	<u>556,760</u>
	<u>\$ 120,769,613</u>	<u>\$ 146,797,387</u>

(Continued)

ALLEGHENY COUNTY AIRPORT AUTHORITY
(A Component Unit of County of Allegheny, Pennsylvania)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
NONCASH TRANSACTIONS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Increase in additions to capital assets included in accounts payable	\$ 3,264,780	\$ 3,794,998
Additional capital costs applicable to TIF loan	16,500	157,202
Additional costs applicable to TIF loan	239,011	204,258
Additional capital costs applicable to industry drive loan	<u> </u>	<u>6,395</u>
	<u>\$ 3,520,291</u>	<u>\$ 4,162,853</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net loss from operations	\$(19,520,491)	\$ (8,061,338)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation and amortization	66,411,104	69,159,246
Bad debt recovery	(83,012)	(698,152)
Changes in asset and liabilities:		
Decrease (increase) in accounts receivable	5,062	(1,030,928)
Increase in inventories	(121,289)	(244,214)
(Increase) decrease in other unrestricted assets	(383,177)	32,841
Increase (decrease) in due to Allegheny County	165,310	(466,209)
Decrease in other current liabilities	(94,959)	(5,684,753)
Decrease in deferred operating revenues	(168,017)	(202,264)
(Decrease) increase in deferred funding reserve	(150,094)	301,911
Increase in accrued vested sick benefits	34,852	111,958
Increase in accrued postemployment benefits		30,598
Decrease in other long-term liabilities	<u>(42,165)</u>	<u>(40,966)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 46,053,124</u>	<u>\$ 53,207,730</u>

See notes to financial statements.

(Concluded)

ALLEGHENY COUNTY AIRPORT AUTHORITY

(A Component Unit of County of Allegheny, Pennsylvania)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. ORGANIZATION

Organization — The Allegheny County Airport Authority (the “Authority”) presently leases and operates the Pittsburgh International Airport (PIT) and the Allegheny County Airport (AGC), (collectively, the “Airport System”). The Authority’s activities are commercial in nature and are intended to be self-supporting. 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 (the “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, as amended (the “Transfer Agreement”), 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 and 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 County Council. The Authority’s financial statements are presented as a component unit in the County’s General Purpose Financial Statements and Comprehensive Annual Financial Report. Given the relationship of the parties to the Transfer Agreement, no adjustments were made to the historical carrying values of the Airport System’s assets and liabilities and equity. The accompanying financial statements reflect the financial position and results of operations of the Authority as of and for the years ended December 31, 2008 and 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation — During fiscal 2002, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for state and local governments and components thereof. GASB Statement No. 34 reports equity as “net assets” rather than “fund equity.” Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Authority obligations. The Authority’s net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt — 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 invested in capital assets — net of related debt.

Restricted Net Assets, Expendable — This includes resources in which the Authority is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Assets, Nonexpendable — This includes endowment and similar-type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Authority does not have any restricted nonexpendable net assets as of December 31, 2008 or 2007.

Unrestricted Net Assets — Unrestricted net assets represent resources derived from operations that may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

Basis of Accounting — The Authority's financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the related obligations are incurred. The Authority is accounted for as an enterprise fund since its operations are financed and operated in a manner similar to private business. Authority transactions are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded at the time the liability is incurred.

Recognition of Revenue, Receivables, and Deferred Revenue — Aviation and terminal building lease rental revenues include amounts computed in accordance with the Airline Operating Agreement (AOA), the term of which will expire no earlier than May 8, 2018, or when all of the debt service requirements have been funded, between the Authority and signatory airlines serving PIT. Such revenues are also realized from certain fixed fees for nonscheduled airlines and private users of AGC. US Airways, one of the scheduled airlines, which together with its affiliated commuter airlines, accounted for approximately 33% and 44% of total enplaned passengers at PIT in 2008 and 2007, respectively. The AOA provides that the aggregate of airline fees and charges together with other revenues, including nonairline 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 ordinances and indentures issued in connection with financings of capital projects for the Authority.

Concession and rental car fees 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. During 2002, the Master Lease was extended through December 31, 2017. As part of the extension, the lessee had agreed to provide \$10,000,000 in future years to inure to the benefit of both parties. During 2005, the agreement was amended to reduce the up-front fee paid to the Authority from \$10,000,000 to \$6,666,667 (received \$3,333,333 in 2003 and \$3,333,333 in 2004) and the percentage of net revenues to be received by the Authority increased effective April 1, 2006. The deferred amount is being amortized over the term of the lease agreement.

Parking fees are revenues less operating expenses and a management fee, which is based on a fixed percentage of net revenues.

The Authority began imposing Passenger Facility Charges (PFC) October 1, 2001. PFC revenues are classified as nonoperating in the statements of revenues, expenses, and changes in net assets, as the amounts are restricted for capital improvements, debt service, and certain other uses approved by the Federal Aviation Administration (FAA).

Transactions that are capital, financing, or investing related are reported as nonoperating revenues. Grants from governmental agencies for eligible construction projects are recognized as nonoperating revenue as the related expenditures are made.

Current unrestricted deferred revenue consists of prepayments made by the airlines and concessionaires for aviation and rental revenues for the following year.

Current and noncurrent restricted revenue consists of deferred interest income being amortized into income over the term of forward delivery agreements entered into by the Authority in connection with certain bond finance transactions.

Noncurrent deferred revenue also includes amounts funded by tenants of the Authority for certain capital assets. The deferred revenue amounts are being amortized using the straight-line method over the depreciable lives of the related assets through credits to current rents payable.

Cash and Cash Equivalents — Unrestricted and restricted equity in pooled cash and cash equivalents represents the accounts maintained by the Authority. Airport revenue bond investments are held in trust in accordance with the bond ordinances and/or trust indentures (see Note 7).

Short-Term Investments — Investments are carried at fair value, based on quoted market prices.

Risks and Uncertainties — Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is possible that changes in risks and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets.

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 comprise of construction-related materials and parts used for maintenance of the facilities and equipment.

Capital Assets — Land, buildings, and equipment are stated at historical cost. Capitalized interest costs, net of interest income, are recognized during the construction stage on all projects, except for those financed with grants-in-aid or funds restricted through agreements with scheduled airlines serving PIT. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Grants receivable from governmental agencies that are included in restricted assets in the accompanying statements of net assets represent earned but uncollected grants that are restricted for use in the qualifying construction projects. Gains or losses on the retirement or disposal of land, buildings, and equipment are reflected in the statements of revenues, expenses, and changes in net assets in the year of retirement or disposal. Repair and maintenance costs are expensed when incurred.

Deferred Issuance Costs — Costs incurred in connection with the issuance of all long-term debt of the Authority are deferred and amortized using the interest method. Unamortized costs are shown in the balance sheets as noncurrent deferred financing costs.

Advance Airline Fundings — The AOA provides for advance airline fundings (which are primarily maintained in the restricted cash funding reserve account) to cover capital, operating, and debt service amounts as approved by the airlines and as defined in the AOA.

Vested Sick Benefits — Certain firefighters employed by the Authority earn vested sick benefits that are paid at termination or retirement based upon current rates of compensation. Liabilities for such benefits are accrued at current rates of compensation.

Statements of Cash Flows — For purposes of the accompanying statements of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 and liabilities and 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.

Accounting Pronouncements — In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989.

Recently Adopted Governmental Accounting Standards Board Statement — The GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The Authority has implemented GASB Statement No. 45 beginning with the 2007 fiscal year. The financial information for 2007 reflects this standard (see Note 12).

The GASB has also issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement provides guidance that addresses the challenges unique to assessing and measuring pollution and contamination cleanup obligations. The Authority adopted GASB Statement No. 49 beginning with the 2008 fiscal year. There was no financial impact as a result of the adoption of this statement as of or for the year ended December 31, 2008.

The GASB has also issued GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*, effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits, thus enhancing the information disclosed in the notes to the financial statements or presented as required supplementary information. The Authority has adopted GASB Statement No. 50 and has added the additional disclosures.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has also issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The Authority has not yet determined the effect, if any, that adoption of GASB Statement No. 51 may have on its financial statements.

The GASB has also issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal years beginning after June 15, 2010. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund

type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Authority has not yet determined the effect, if any, that adoption of GASB Statement No. 54 may have on its financial statements.

3. CASH AND INVESTMENTS

Cash and Deposits — The following is a summary of the Authority’s cash deposits and time deposits, which are insured by the Federal Depository Insurance Company or which were not insured or collateralized in the Authority’s name, but were collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution’s name:

	2008	2007
Cash and deposits — in bank	\$ 116,757,038	\$ 107,241,484
Outstanding checks	<u>(981,569)</u>	<u>(2,790,197)</u>
Book balance	<u>\$ 115,775,469</u>	<u>\$ 104,451,287</u>

Cash shown above includes \$64,061,319 and \$64,693,689 of restricted cash as of December 31, 2008 and 2007, respectively, for use as required by the Authority Trust Indentures.

Investments and Cash and Cash Equivalents — Investments and cash and cash equivalents of the Authority include the following:

Unrestricted — Investments and Cash and Cash Equivalents — Investments and cash and cash equivalents held by the Authority for discretionary future projects and obligations of the Authority are \$16,615,187 and \$15,504,998 as of December 31, 2008 and 2007, respectively.

Restricted — Investments and Cash and Cash Equivalents — Investments and cash and cash equivalents held by the Authority that are restricted as to their use by terms and agreements of the Authority.

These funds, at fair value and amortized cost, as applicable, as of December 31, 2008 and 2007, consist of the following:

	2008	2007
Revenue Bond Funds:		
1988 Indenture:		
Rebate — Principal Fund	\$ 102,548	\$ 100,059
Rebate — Income Fund	1,284,360	1,253,182
1990 Indenture:		
Rebate — Principal Fund	526,032	513,263
Rebate — Income Fund	176,869	172,575
1992 Indenture —		
Capital Addition Number 2 Project Account	556,089	542,590
1993 Indenture:		
Midfield Completion Construction Fund	613,637	598,741
Midfield Claims Construction Fund	88,747	86,593
1997 Indenture:		
1997 A and B Clearing Fund	140,079	136,678
1997 B Interest Account		2,589,379
1997 B Principal Account	1	1
1997 A1 & A2 Interest Account	2,694,965	6,066,220
1997 A1 & A2 Principal Account	22,418	18,524,143
1997 A1 & A2 Debt Service Reserve	36,998,408	38,477,517
1997 Capital Projects MII9-97 Construction Fund	348,843	340,374
1997 Capital Projects MII2-98 Construction Fund	514,435	501,947
1997 Parking Garage Construction Fund	1,041,737	1,016,448
1999 Indenture:		
1999 Debt Service Reserve	6,146,957	6,079,161
1999 Debt Service Fund	121,223	122,629
2001 Subordinate Lien Indenture —		
Series A & B 2001 Sub Lien Bond	1	
2001 Fixed Rate Indenture:		
2001 A & B Debt Service Fund	1	2,579,677
2001 A & B Debt Service Reserve Fund	8,766,873	8,767,318
2001 A & B Rebate Fund	843,264	822,794
2001 A & B Principal Fund	1,489	
2002 Fixed Rate Indenture:		
2002 A & B Clearing Fund	183	320
2002 A & B Debt Service Fund	1,838	1,587,813
2002 A & B Debt Service Reserve Fund	9,643,323	9,649,573
2002 A & B ACAP Clearing Fund	145	
2007 Indenture:		
2007 A & B Debt Service Fund	3,199	1
2007 A & B Clearing Fund	41,655	95,295
	<u>70,679,319</u>	<u>100,624,291</u>
Total revenue bond funds		
Capital Funds:		
Airport Development Fund	6,877,462	7,262,889
Airport System Capital Fund — Discretionary 1	420,039	2,856,009
Airport System Capital Fund — Discretionary 2	356,270	2,671,440
Airport System Capital Fund — Restricted 1	374,554	2,239,855
Airport System Capital Fund — Restricted 2	622,059	4,774,102
Artwork — Grant	26,923	26,923
Ground Transportation Fund	920,788	744,553
Capital Development Funds		591,476
Equipment and Capital Outlay Fund	17,475	128,784
Prefunding Reserve Fund	32,204,743	32,354,837
Tax Increment Funding Reserve Fund	459,672	418,544
Hangar Loan Fund	1,217,326	
	<u>43,497,311</u>	<u>54,069,412</u>
Total capital funds		
	<u>\$ 114,176,630</u>	<u>\$ 154,693,703</u>
Total		

As of December 31, 2008 and 2007, the Authority had the following cash and cash equivalents and investments in mutual funds:

2008	Amount	Percentage of Total Investment	Maturity	Standard & Poor's	Moody's Investors Service
Wells Fargo:					
Citigroup Funding in CPDN	\$ 4,208,033	8.1 %	1/2/2009	A1	P-1
Crimson Commercial CPDN	5,749,171	11.1	1/2/2009	A1+	P-1
General Electric Capital Corporation	65,000	0.1	1/2/2009	A1+	P-1
Blackrock — Blackrock Federal Trust Fund					
	4,994,005	9.6	*	AAAm	Aaa
Mellon:					
Goldman Sachs Fin. Sq. Govt. Fund	36,885,454	71.1	*	AAAm	Aaa
American Beacon US Govt. Fund A1901	2,777		*	AAAm	Aaa
American Beacon US Govt. Fund A0064	2,709		*	AAAm	Aaa
Fidelity Govt. Oblg. Tax Managed	25,615		*	AAAm	Aaa
Fifth Third Inst. Govt. Fund	<u>3,013</u>		*	AAAm	Aaa
Total	\$ 51,935,777	100.0 %			
2007	Amount	Percentage of Total Investment	Maturity	Standard & Poor's	Moody's Investors Service
Wells Fargo:					
Centrestar Capital No. 1	\$ 37,479,000	41.0 %	1/2/2008	A1	P-1
Federal Home Loan Disc. Note	9,291,000	10.2	1/2/2008	A1+	P-1
Crimson Commercial CP	5,748,693	6.3	1/2/2008	A1+	P-1
Variable Funding Capital	4,183,246	4.6	2/14/2008	A1+	P-1
Federal Home Loan Bank	4,178,375	4.6	6/20/2008	A1+	P-1
Blackrock — Blackrock Federal Trust Fund					
	4,867,100	5.3	*	AAAm	none
Mellon:					
Goldman Sachs Fin. Sq. Govt. Fund	25,564,759	28.0	*	AAAm	Aaa
American Beacon US Govt. Fund	15,850		*	A1+	P-1
Fidelity Govt. Fund	15,803		*	AAAm	Aaa
Fifth Third Inst. Govt. Fund	<u>9,557</u>		*	AAAm	Aaa
Total	\$ 91,353,383	100.0 %			

*The underlying investments have maturities of less than 90 days.

Restricted revenue bond cash and investments of the Authority are as follows:

For Capital Projects (\$3,163,488 and \$3,086,694 at December 31, 2008 and 2007, respectively), represent remaining proceeds of the Airport revenue bonds restricted for capital projects at PIT.

For Debt Service (\$67,515,831 and \$97,537,597 at December 31, 2008 and 2007, respectively), represent funding reserves of the Airport revenue bonds restricted for debt service payments on the Airport Revenue Bonds.

Interest Rate Risk — The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk — The Pennsylvania Municipality Authorities Act of 1945 provides for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. 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. There were no deposit or investment transactions during the year that were in violation of either the statutes or the policy of the Authority.

Concentration of Credit Risk — The Authority places no limit on the amount the Authority may invest in any one issuer.

As of December 31, 2008 and 2007, the Authority’s investments summarized below are categorized by the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered, or the securities held by the Authority or its agent in the Authority’s name. Category 2 includes investments that are uninsured and unregistered, with the securities held by the broker/dealer’s trust department or agent in the Authority’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker/dealer, or by its trust department or agent, but not in the Authority’s name.

	Total Category 1	Total Category 3	Bank Balance
Cash and deposits — December 31, 2008	<u>\$ 1,317,203</u>	<u>\$ 130,456,045</u>	<u>\$ 131,773,248</u>
Cash and deposits — December 31, 2007	<u>\$ 590,973</u>	<u>\$ 172,397,819</u>	<u>\$ 172,988,792</u>

In 2002, the Authority entered into Forward Delivery Agreements with financial institutions for the continuous investment of the Series 1997 A-1 and 1997 A-2 principal and interest investments through December 2015; Series 1997 B principal and interest investments through November 2018; and Series A and B of 2002 principal and interest investments through January 2022. The future investment earnings under these contracts, discounted at the financial institution’s cost of funds on the contract date, were received by the Authority up front in lump-sum payments totaling \$6,978,000. The amount of the up-front payments is recorded as deferred interest income and is being amortized into income over the term of the agreements. The unearned amounts at December 31, 2008 and 2007, were \$3,983,312 and \$4,460,605, respectively.

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.

5. REVOLVING LINE OF CREDIT

On November 29, 2005, the Authority entered into a credit agreement with Citizens Bank of Pennsylvania for the borrowing of aggregate principal not to exceed \$40,000,000. This credit facility is a revolving line of credit (RLOC) and will be used to finance projects for which use of PFC revenue has been approved by the FAA pursuant to the PFC Statute and/or the PFC Regulations. Interest rate on this RLOC is the London InterBank Offered Rate (LIBOR) +60 basis points or the prime rate -0.25 basis points (2.50125% at December 31, 2008). The amount outstanding at December 31, 2008 and 2007, was \$16,500,000 and \$4,000,000, respectively.

On September 29, 2008, the Authority received a Reservation of Rights under Credit Agreement letter from Citizens Bank. This letter advised of an Event of Default due to PFC revenues collected for the four previous quarters ending June 30, 2008, falling below the \$20,000,000 level as stipulated in the loan agreement. Citizens Bank elected not to exercise its rights and remedies under the Agreement; however, it ceased the opportunity to require an amendment to reset the financial covenant, line of credit, and pricing terms of the agreement. An Administrative Action was approved by the Authority Board in February 2009 allowing an amendment to be entered into with Citizens Bank. The amendment changes the financial covenant requiring the minimum TTM collection level of PFC revenues from \$20,000,000 to \$16,000,000, commitment amount of the revolving line of credit from \$40,000,000 to \$35,000,000, and pricing from 30-day LIBOR advantage + 0.6%; plus 0.125% unused line fee to 30-day LIBOR advantage + 2.5%; plus 0.25% unused line fee. Additionally the amendment will modify the pricing on the AGC Hangar loan from 30-day LIBOR + 0.65% to 30-day LIBOR + 2.5%.

6. CHANGES IN LONG-TERM LIABILITIES

Long-term obligation activity for the Authority for the years ended December 31, 2008 and 2007, is as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 533,156,034	\$ -	\$ (54,194,402)	\$ 478,961,632	
Industry drive loan	1,456,228		(48,179)	1,408,049	
PA Department of transportation loan	979,691		(83,361)	896,330	
Tax increment financing	4,185,440	411,278		4,596,718	
Business in our Sites Program loan		2,000,000		2,000,000	
Moon Township Municipal Authority loan		400,000		400,000	
Hangar loan		1,300,000	(65,000)	1,235,000	
Subtotal	539,777,393	4,111,278	(54,390,942)	489,497,729	<u>\$ 37,487,275</u>
Other long-term liability	182,237		(42,165)	140,072	
Advance airline fundings	32,354,837		(150,094)	32,204,743	
Accrued postemployment benefits	764,090	86,100	(51,248)	798,942	
Deferred revenues	10,924,510		(1,089,749)	9,834,761	<u>\$ 1,089,749</u>
	<u>\$ 584,003,067</u>	<u>\$ 4,197,378</u>	<u>\$ (55,724,198)</u>	<u>\$ 532,476,247</u>	
2007	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 543,918,756	\$ 161,709,323	\$ (172,472,045)	\$ 533,156,034	
Term Loan for Parking Operation	9,609,701		(9,609,701)		
Industry drive loan	1,473,205	6,395	(23,372)	1,456,228	
PA Department of Transportation loan		1,000,000	(20,309)	979,691	
Tax increment financing	3,626,060	574,550	(15,170)	4,185,440	
Subtotal	558,627,722	163,290,268	(182,140,597)	539,777,393	<u>\$ 54,156,025</u>
Other long-term liability	223,203		(40,966)	182,237	
Advance airline fundings	32,052,926	301,911		32,354,837	
Accrued postemployment benefits	621,534	342,928	(200,372)	764,090	
Deferred revenues	12,924,506		(1,999,996)	10,924,510	<u>\$ 1,089,749</u>
	<u>\$ 604,449,891</u>	<u>\$ 163,935,107</u>	<u>\$ (184,381,931)</u>	<u>\$ 584,003,067</u>	

7. LONG-TERM DEBT

At December 31, 2008 and 2007, long-term debt consisted of the following:

	2008	2007
Airport Revenue Refunding Bonds, Series 2007 A, interest rate of 5%, due through 2016	\$ 53,445,000	\$ 53,445,000
Airport Revenue Refunding Bonds, Series 2007 B, interest rate of 5%, due through 2019	100,375,000	100,375,000
Airport Revenue Refunding Bonds, Series 2002 A, interest rates of 4% –4.50%, due through 2015	34,045,000	39,910,000
Airport Revenue Refunding Bonds, Series 2002 B, interest rates of 4.5%–5%, due through 2023	50,075,000	50,075,000
Airport Revenue Refunding Bonds, Series A 2001, interest rates of 4%–4.5%, due through 2016	32,960,000	37,750,000
Airport Revenue Refunding Bonds, Series B 2001, interest rate of 5%, due through 2022	45,500,000	45,500,000
Airport Revenue Bonds, Subordinate Lien Series A 2001, interest rate of 5.5%, due through 2017	2,445,000	2,445,000
Airport Revenue Bonds, Subordinate Lien Series B 2001, interest rates of 6.03%–6.73%, due through 2017	9,895,000	11,045,000
Airport Revenue Refunding Bonds, Series 1999, interest rates of 4.75%–6.125%, due through 2018	39,095,000	42,340,000
Airport Revenue Refunding Bonds, Series 1997 A-1, interest rates of 5%–5.75%, due through 2016	120,890,000	159,810,000
General Obligation Refunding Bonds, Series C-56, County of Allegheny, interest rates of 1.25%–5%, due through 2016	153,726	204,632
General Obligation Refunding Bonds, Series C-45, County of Allegheny		32,832
Total bonds outstanding	488,878,726	542,932,464
Industry drive loan, interest rate of 4.7%, due through 2028	1,408,049	1,456,228
Commonwealth of PA Department of Transportation Infrastructure Bank Aviation Loan, interest rate of 4.125%, due through 2017	896,330	979,691
Tax increment financing, interest rate of 5.75%, due through 2025	4,596,718	4,185,440
Business in our sites program loan, interest rate of 3%, due through 2030	2,000,000	
Moon Township Municipal Authority loan, interest rate of 3%, due through 2011	400,000	
Hangar loan, variable interest rate, due through 2028	1,235,000	
Total long-term debt	499,414,823	549,553,823
Deferred amount on refundings	(23,571,990)	(25,669,473)
Plus net unamortized premium	13,654,896	15,893,043
Less current maturities	(37,487,275)	(54,156,025)
	<u>\$ 452,010,454</u>	<u>\$ 485,621,368</u>

The scheduled maturities of long-term debt for years subsequent to December 31, 2008, are as follows:

	Principal	Interest	Total
2009	\$ 37,487,275	\$ 25,769,600	\$ 63,256,875
2010	39,420,086	23,884,540	63,304,626
2011	41,567,610	21,829,684	63,397,294
2012	44,122,064	19,590,305	63,712,369
2013	46,016,965	17,199,339	63,216,304
2014–2018	252,346,629	48,246,064	300,592,693
2019–2023	36,987,908	4,642,695	41,630,603
2024–2028	1,335,320	160,107	1,495,427
2029–2032	<u>130,966</u>	<u>2,138</u>	<u>133,104</u>
	<u>\$499,414,823</u>	<u>\$ 161,324,472</u>	<u>\$ 660,739,295</u>

Airport Revenue Bonds — On October 6, 1997, the County issued Airport Revenue Refunding Bonds, Series 1997A-1 (AMT), 1997A-2 (AMT), and 1997B (Non-AMT) (the "1997 Bonds"), in the amounts of \$337,530,000, \$10,015,000, and \$103,045,000, respectively. The proceeds of the Series 1997A-1 and Series 1997A-2 bonds have been used to redeem the remaining Series 1988 Revenue Bonds not refunded by the 1993 Bonds. The Series 1997B bonds were issued to advance refund a portion of the 1990 Bonds and 1992 Bonds. The total amount of the bonds refunded was \$457,505,000, consisting of \$433,020,000 of the 1998 Bonds, \$5,340,000 of the 1990 Bonds, and \$19,145,000 of the 1992 Bonds. Included in the 1997 Bonds were escrowed funds to advance refund \$6,790,000 of the 1992 Series A bonds (the "Non-Defeased Bonds"). The 1997 Bonds are secured by a pledge of certain net revenues of the Authority and are also guaranteed by various third-party insurers and guarantors.

The proceeds from the sale of the 1997 Bonds are being held in escrow under an escrow refunding agreement and have been invested in U.S. Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to and including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. The Non-Defeased Bonds are included in the financial statements along with the respective portion of the trust account assets. As a result of the refunding, the Authority will experience a reduction in the future cash outflows of \$181,986,253 and an economic gain of \$97,247,836. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the Authority recorded a deferred amount on refunding of \$21,095,769. This amount is being amortized over the life of the 1997 Bonds. The deferred amount is recorded as a component of long-term debt in the accompanying statements of net assets. Effective January 1, 2002, the defeased bonds were fully refunded.

On December 1, 1999, the Authority issued Airport Revenue Refunding Bonds, Series 1999 (the "1999 Bonds"), in the amount of \$63,130,000. The proceeds of the bonds, together with investment income thereon and other funds, were used (1) to pay a portion of the costs of currently refunding \$61,350,000 of the outstanding 1990 Bonds and (2) to pay the costs of issuance of the 1999 Bonds. The refunding of the 1990 Bonds resulted in a loss of defeasance of \$2,615,341. The amount is being amortized over the life of the 1999 Bonds. The 1999 Bonds are secured on a parity basis with \$681,590,000 in aggregate principal amount of promissory notes to be issued under the trust indenture

by the Authority to National City Bank of Pennsylvania, as paying agent and trustee for the holders of all outstanding airport revenue bonds that were issued by the County and the debt service obligations that have been assumed by the Authority.

On July 1, 2001, the Authority issued Subordinate Lien Airport Revenue Bonds, Series A 2001 (Pittsburgh International Airport Energy System Project) (the "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) (the "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 Bonds." The proceeds of the 2001 Bonds were used to (1) acquire the equipment constituting the Energy Service Facility (the "Facility") located at PIT and (2) pay the costs of issuance of the 2001 Bonds. The 2001 Bonds are subordinated and limited obligations of the Authority; the principal of, interest on, and premium, if any, on the 2001 Bonds are payable by the Authority only out of net revenues and from such other monies as may be available for such purpose. The general credit of the Authority is not pledged for the payment of the 2001 Bonds; accordingly, the 2001 Bonds shall not be deemed a general obligation of the Authority.

On October 1, 2001, the Authority issued the Airport Revenue Bonds, Refunding Series A of 2001, in the amount of \$52,600,000, and the Airport Revenue Bonds, 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 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 (collectively, the "2001 Refunded Bonds") and (2) pay the cost of issuance of the 2001 Refunded Bonds. The Authority recorded a deferred amount on refunding of \$8,035,439, which is being amortized over the life of the 2001 Bonds.

On October 1, 2002, the Authority issued 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 A, B, and C, which are equal to and represented by the outstanding principal balance of the Authority's Airport Revenue Note, Series 1999 B. The Authority recorded a deferred amount on refunding of \$8,208,615, which is being amortized over the life of the 2002 bonds.

On November 30, 2006, the Authority remarketed the 2001 Airport Revenue Bonds, Series A and Series B, and the 2002 Airport Revenue Bonds, Series A and Series B, for the purpose of changing the nature of the bonds from variable rate auction bonds to fixed rate serial bonds. The remarketed bonds have substantially the same repayment terms, except for the interest rate. The Authority recorded a deferred amount on the remarketing of \$8,335,129, which is being amortized over the life of the 2001 and 2002 bonds.

On October 3, 2007, the Authority issued Airport Revenue Bonds, Refunding Series A of 2007, in the amount of \$53,445,000 and Airport Revenue Bonds, Refunding Series B of 2007, 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. The Authority recorded a deferred loss on refunding of \$1,657,212, which is

being amortized over the life of the 2007 Bonds. Proceeds of the 2007 A and B Bonds were placed in escrow and with interest earned were used to redeem the refunded bonds on January 1, 2008. In accordance with the Trust Indenture, all funds related to the 1997 A-1 and B Bonds were held in their existing accounts until the bonds were redeemed on January 1, 2008. Upon the redemption of the 1997 A-1 and B Bonds, all remaining funds related to the 2007 A and B Bonds will be transferred over to the new accounts.

The Refunding Bonds are limited obligations of the Authority. The principal, interest, and premium, if any, on the Refunding Bonds are payable by the Authority solely from net revenue and proceeds of Refunding Bonds held or set aside under the Indenture. Neither the general credit of the Authority nor the credit or taxing power of the County, the Commonwealth, or any political subdivision thereof is pledged for the payment of the Refunding Bonds. The Refunding Bonds carry interest based on a variable auction rate basis. The interest rate is determined by an auction every 35 days, where the lowest interest rate bids (the "Lowest Bid") that were received are accepted, up to a maximum rate of 15% per annum (the "Maximum Rate"). Offers to sell the Refunding Bonds are only accepted, to the extent that offers to purchase at rates below the Maximum Rate were received, any offers to sell the Refunding Bonds in excess thereof are rejected ("Insufficient Clearing Bids"). Neither the Authority, nor the Refunding Bonds trustee, nor the auction agent shall have any liability in the event of Insufficient Clearing Bids.

In connection with the issuance of the Airport Revenue Bonds, the Authority agreed to certain restrictive rates and other covenants as defined in the ordinances. Additionally, the net revenues (defined as operating and other revenues after certain adjustments minus the operation and maintenance expenses) and any unexpended bond proceeds were pledged to secure the payment of the principal and interest on the Airport Revenue Bonds.

The Airport Revenue Bonds provide for both optional and mandatory redemption of certain series of the debt prior to scheduled maturities. Certain bonds within all series of debt are subject to redemption, at the option of the Authority, as a whole or in part, from time to time, beginning January 1, 2002, or at any time thereafter, upon payment of the stipulated redemption price which ranges from 100% to 102% of the principal amount plus accrued interest to the date fixed for redemption.

Airport Revenue Bond obligations (the "Revenue Bonds") of the Authority total \$488,725,000 and \$542,695,000 at December 31, 2008 and 2007, respectively. The principal, interest, and redemption premiums, if any, related to the Revenue Bonds are payable by the Authority only out of net revenues as defined and from such other monies as may be available for such purposes ("Debt Service Reserve Funds"). 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, of which US Airways is the primary airline, directly accounting for approximately 34.2% and 39.7% of the total operating revenues of PIT in 2008 and 2007, respectively. The AOA provides for the landing fees, terminal rentals, and ramp fees to be charged to the airlines. In addition, the signatory airlines are also obligated to pay costs associated with aircraft support systems and tenant improvements, and US Airways is obligated to pay costs associated with certain exclusive-use systems and facilities.

At any point in time, the U.S. economy, excess airline capacity, and industrywide 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 carriers, such as US Airways, which provide significant levels of service at 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 1997 Bonds is insured by MBIA. Payment of the principal and interest on the Series 1999 Bonds and the Series 2002 Bonds is insured by FGIC. Payment of the principal and interest on the Series 2001 Bonds is insured by MBIA. Payments of the principal and interest on the Series 2007 Bonds are insured by FSA, Inc. The ultimate ability of such insurers and guarantors to meet their obligations with respect to the Revenue Bonds will be predicated on their future financial condition.

Industry Drive Loan — On March 26, 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 By-Pass. RAAC has agreed to lend \$4,000,000 to the Authority for this project, and the Authority has agreed to contribute \$2,800,000. Total disbursements from RAAC toward the Industry Drive Project at December 31, 2008 and 2007, were \$1,484,629 and \$1,479,600, respectively. The Authority repaid \$48,179 and \$23,372 in 2008 and 2007, respectively, for total repayments of \$71,551. The repayment terms are \$9,652 per month on a 20-year term expiring in 2027.

Tax Increment Financing — On November 1, 2005, the Authority entered into an agreement with the RAAC. This agreement provides Tax Increment Financing (TIF) for the development and financing of the Clinton Industrial Park Project, which includes certain substantial public on-site and off-site improvements. RAAC will issue a series of TIF Notes in an aggregate principal of \$5,500,000 to fund public improvements relating to Phase I of the Clinton Industrial Park Project. As of December 31, 2008 and 2007, the amounts borrowed are \$4,596,718 and \$4,185,440, respectively, for construction fund deposit, debt service reserve fund, and financing fees and expenses.

Term Loan for Parking Operation — On December 28, 2006, the Authority entered into an agreement with Grant Oliver Corporation (“Grant Oliver”), the manager of the airport parking facility, to purchase certain assets from Grant Oliver in exchange for assuming a loan Grant Oliver maintained in the amount of \$9,609,701. The primary asset purchased was the revenue control system that is used to issue the tickets and collect receipts from users of the parking facility. The loan was a 10-year facility that required monthly payments of \$80,181.45. After June 30, 2007, prepayments could be made in amounts of at least \$250,000 without penalty. Prior to the end of the 2007 fiscal year, the Authority paid this debt in full.

Commonwealth Financing Authority Business in Our Sites Program — On January 18, 2007, the Authority entered into a loan agreement with 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. All principal and interest payments will be deferred, and interest will not accrue, until one of the following occurs: sale of the property, property is leased, or if five years have passed since completion of the site development work.

Moon Township Municipal Authority Loan — On September 1, 2007, the Authority entered into a loan agreement with the Moon Township Municipal Authority to provide a \$400,000 loan for the purpose of completing the Cherrington Parkway extension and the related extension of water and sanitary wastewater pipelines. Terms of this loan are five years with interest-only payments (\$12,000) due for four years from August 1, 2008 (August 1, 2009, 2010, 2011, and 2012). On or before the fifth anniversary of the agreement date, repayment principal and final interest payment is due (total \$412,000) on August 1, 2013.

Commonwealth of Pennsylvania Department of Transportation Loan — On September 12, 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 Taxilanes Relocation and Hangar Redevelopment Project at the Allegheny County Airport. The estimated project cost is \$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 are to be funded through Authority funds, FAA grants, Pennsylvania Department of Transportation grants, and an additional \$1,300,000 10-year term loan. The Authority repaid \$83,361 and \$20,309 in 2008 and 2007, respectively, for total payments of \$103,670. The Authority has the ability to prepay this loan, in \$1,000 increments, without penalty.

Allegheny County Airport Hangar Loan – On January 11, 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 taxilane improvements. Terms of this loan are 40 equal consecutive quarterly payments of \$16,250, which commenced in April 2008, and one final payment of all outstanding balances of principal and interest accrued. The interest rate is 30-day LIBOR +0.65%. The Authority repaid \$65,000 in 2008.

8. UNRESTRICTED NET ASSETS

Unrestricted net assets at December 31, 2008 and 2007, are as follows:

	2008	2007
Unrestricted net assets available for operations	\$ 12,772,856	\$ 15,534,556
Restricted deficit net — PFC funds	<u>(37,001,716)</u>	<u>(9,690,250)</u>
Unrestricted net assets per statement of net assets	<u>\$ (24,228,860)</u>	<u>\$ 5,844,306</u>

The Authority has made PFC reimbursable expenditures in excess of PFC revenues as of December 31, 2008 and 2007. The PFC deficit results in a reduction of unrestricted net assets.

9. PASSENGER FACILITY CHARGES

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 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.

The Authority chose to establish, and received approval to impose and use a \$3 PFC. Effective December 1, 2004, the FAA approved an increase to the PFC, allowing the Authority to collect at the 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 pre-application 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>\$ 526,772,676</u>

The Authority has disbursed \$181,253,109 on these projects through December 31, 2008.

10. 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 A-133 accounting and professional services. Expenses relating to these services are included in professional services for the years ended December 31, 2008 and 2007, in the accompanying statements of revenues, expenses, and changes in net assets, and amounted to \$8,924,952 and \$8,314,319, respectively.

11. 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. Claims on this coverage have not exceeded commercial premiums.

At the time the Authority was created and separated from the County, workers' compensation claims of airport personnel were transferred to the Authority. Self-insured employee medical benefit claims are accrued as incurred in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. The liability for reported claims and claims incurred, but not reported, an estimate of which is based on historical experience and management projections, is reflected as a long-term liability due to the County in the financial statements and is no longer part of the County program. As such, no new claims can occur under this plan.

Changes in the estimated claims payable liability for the years ended December 31, 2008 and 2007, are as follows:

	2008	2007
Balance — beginning of year	\$ 182,237	\$ 223,203
Claim payments	<u>(42,165)</u>	<u>(40,966)</u>
Balance — end of year	<u>\$ 140,072</u>	<u>\$ 182,237</u>

12. RETIREMENT BENEFITS

Retirement Plan Description — The County sponsors the Allegheny County Retirement System (“Retirement System”), a single-employer, defined benefit, contributory retirement plan covering substantially all employees. Employees contribute to the Retirement System through payroll withholdings based on a contracted rate.

The Retirement System membership as of January 1, 2008 and 2007, consisted of the following:

	2008	2007
Participants:		
Retirees and beneficiaries receiving benefits	4,491	4,431
Terminated employees entitled to benefits, but not yet receiving them	<u>134</u>	<u>123</u>
	<u>4,625</u>	<u>4,554</u>
Current employees:		
Vested:		
Non-uniform	3,948	3,911
Police and fire	<u>152</u>	<u>154</u>
Nonvested:		
Non-uniform	3,118	3,263
Police and fire	<u>107</u>	<u>108</u>
	<u>7,325</u>	<u>7,436</u>
Total	<u>11,950</u>	<u>11,990</u>

Benefit and contribution provisions for the Retirement System are determined under statutes enacted by the General Assembly of the Commonwealth of Pennsylvania. The Retirement 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 Board to meet its funding requirements. Any increase in employee contributions imposes a statutory requirement upon the County to match the employee contributions. Also, the obligation of the fund to pay retirement benefits is further secured by statutory obligation imposed upon the County to utilize its taxing authority to meet the Retirement Board’s obligation to make monthly benefit payments to retirees.

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

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 Retirement Board
106 County Office Building
542 Forbes Avenue
Pittsburgh, PA 15219

Funding Policy, Annual Pension Cost, and Schedule of Funding — Effective January 1, 2003 and continuing through December 31, 2008, employees were required to contribute 6% of covered compensation. For the period January 1, 2002 through December 31, 2002, employees were required to contribute 5% of covered compensation. For the period January 1, 2000 through December 31, 2001, employees were required to contribute 3.8% of covered compensation. For the period February 1, 1998 through December 31, 1999, employees were required to contribute 6% of covered compensation. Prior to February 1, 1998, employees were required to contribute 7.5%. Employee contributions are matched equally by the County, as prescribed by the Second Class County Code, and deposited in the Pension Trust Fund. Employees with at least 24 months of service who terminate prior to satisfying the minimum service requirements for a retirement benefit are entitled to refunds of their contributions plus interest thereon. Interest earned for 2008 was at 2.4% per annum on contributions. 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, 2008, using the entry-age normal actuarial cost method. Significant actuarial assumptions and amortization methods used include (1) a level percentage of payroll with an open rolling, 15-year amortization period; (2) a rate of return on the investment of present and future assets of 8% per year compounded annually; (3) projected salary increases ranging from 3.5% to 6% per year according to age, compounded annually, attributable to inflation and seniority/merit; (4) non-investment expenses equal to 1% of total contributions; (5) an asset valuation method that uses a four-year period to level the effects of short-term volatility in the fair value of investments; and (6) an increase of active liabilities by 3% (10% for uniformed groups) to provide for increased pension benefits due to overtime, vacation lump-sum payments, and military buy backs.

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

Fiscal Years Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$28,662,118	64.8 %	\$ 27,842,515
2007	26,548,600	69.4	17,757,629
2006	26,635,933	66.1	9,624,584

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

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
January 1, 2008	\$ 798,203	\$ 979,599	\$(181,396)	81.5 %	\$ 317,380	57.2 %
January 1, 2007	757,476	915,208	(157,732)	82.8	291,731	54.1
January 1, 2006	707,475	863,695	(156,220)	81.9	277,004	56.4

Pension expense of the Authority for the three years ended December 31, 2008, 2007, and 2006, was \$1,398,876, \$1,397,845, and \$1,303,176, respectively.

Other Postemployment Benefits:

Postemployment Medical Benefits — The Authority Post Employment Medical Benefits Plan is a single-employer defined benefit health care plan administered by the Authority. There is no separate audit requirement. The plan provides reimbursement for medical benefits to eligible firefighter retirees hired before May 1, 2005, and their spouses. Benefits are provided according to the retiree’s date of retirement and the benefits allotted as of the plan benefits at that date. The retiree is responsible for any premium cost in excess of the provided benefit. Payments to the retirees are made on a reimbursement basis. The Authority does not have a funding policy for postemployee benefits at this time.

The Authority’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. An actuarial valuation was performed for 2007; thus, the net OPEB obligation is an estimate for 2008. An actuarial calculation will be performed again for 2010. The following table shows the components of the Authority’s annual OPEB cost for the year, the amount actuarially contributed to the plan, and the changes in the net OPEB obligation:

	2008	2007
Annual required contribution	\$ 39,466	\$ 39,466
Interest on net OPEB obligation	4,827	4,827
Adjustment to annual required contribution	<u>57,088</u>	<u>57,088</u>
Annual OPEB cost (expense)	101,381	101,381
Contributions made	<u>85,955</u>	<u>70,783</u>
Increase in net OPEB obligation	15,426	30,598
Net OPEB obligation — beginning of year	<u>30,598</u>	<u> </u>
Net OPEB obligation — end of year	<u>\$ 46,024</u>	<u>\$ 30,598</u>

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and 2007 are as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed
December 31, 2008	\$ 101,381	84.8 %
December 31, 2007	101,381	69.8%

As of January 1, 2007, the date of the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$921,404, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,960,910, and the ratio of unfunded actuarial accrued liability to cover payroll was 31%. The contributions made as a percentage of required contributions were 179%. The OPEB obligation as of January 1, 2008, involves estimates using covered payroll of \$2,857,133, and the ratio of unfunded actuarial accrued liability to cover payroll was 45%. The contributions made as a percentage of required contributions were 218%. The contributions were made on a pay-as-you-go basis. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include

assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. There is no schedule of funding progress, presented as required supplementary information following the notes to the financial statements, which would present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits, since this is the initial year of calculation.

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

In the January 1, 2007, actuarial valuation, the following actuarial assumptions were used:

Actuarial cost method	Projected unit credit
Interest rate	5% compounded annually
Amortization method	Level dollar
Amortization period	30 years

Postemployment Life Insurance Benefits — In addition to the pension benefits described above, the County provides postemployment life insurance benefits in accordance with the requirements set forth by the Retirement Board of Allegheny County to all employees, including those of the Authority, who retire from the County. Currently, 3,729 retirees meet those eligibility requirements. The Authority's share of the life insurance premiums to be provided is determined by the bargaining unit of which the retiree was a member.

On August 1, 1998, the County became fully insured for life insurance benefits. Prior to that date, the County was self-insured for life insurance benefits on a cash basis. The County's general fund expenditures for all postemployment life insurance benefits were \$636,992 (\$695,669 net of retiree contributions of \$58,677) in 2008 and \$681,617 (\$739,941 net of retiree contributions of \$58,324) in 2007. The Authority contributions to the County for the years ended December 31, 2008 and 2007, were paid through monthly invoices and a calculated overhead that includes the cost of postemployment life insurance benefits. Therefore, costs associated with these benefits are not pre-funded or accrued. The Allegheny County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to County of Allegheny Retirement Board, Room 106, County Office Building, 542 Forbes Avenue, Pittsburgh, PA 15219, or by calling 421-350-4679.

Retiree Major Medical Insurance — The County offered to certain of its employees, including those of the Authority, who retired prior to January 1, 1994, major medical health care coverage. The coverage entitles retirees to benefits for medical services rendered that are in excess of their individual plans. Currently, 222 retirees are enrolled in the major medical insurance program. The County's expenses for major medical insurance benefits were \$266,731 (\$482,117, net of retiree contributions of \$215,386) in 2008 and \$283,332 (\$524,884, net of retiree contributions of \$241,552) in 2007. The Authority contributions to the County for the years ended December 31, 2008 and 2007, were paid through monthly invoices and a calculated overhead that includes the cost of retiree major medical insurance benefits. The costs associated with these benefits are not pre-funded or accrued. There were, however, four Authority employees in 2006 and two Authority employees in 2008 who were paid major medical

insurance benefits. These employees were part of an early retirement incentive program in 2003. The expense related to the retiree major medical insurance was \$0 and \$11,102 for the years ended 2008 and 2007, respectively.

13. PURCHASE COMMITMENTS

Natural Gas — The Authority has entered into a contract with a natural gas provider for the purchase of approximately 200,000 dth of natural gas each year. The Authority will pay the provider at the New York Mercantile Exchange rate, plus \$0.665 per dth for the cost of the commodity through December 31, 2009, and \$0.535 per dth beginning January 1, 2010 through December 31, 2013. 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 has entered into a contract with an electricity provider for the purchase of electricity for specific meters at rates ranging from \$6.235/kWh to \$6.94/kWh. The contract is in effect until December 1, 2011, and includes most of the Authority's forecasted electricity usage.

14. CONTINGENCIES

De-icing — 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 Pittsburgh International Airport. The Administrative Order cited several areas, all of which have been resolved, except for the de-icing. 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 de-icing issues and has spent and continues to budget for significant funds in capital projects in the near future to attempt to resolve the de-icing problem.

Financial Assistance — The Authority receives significant financial assistance from federal and Commonwealth of Pennsylvania governmental agencies in the form of grants and other entitlements primarily for capital improvement projects. The disbursement of resources received under such programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. The Authority's management believes disallowances, if any, will be immaterial.

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.

15. DERIVATIVE FINANCIAL INSTRUMENTS

On November 14, 2006, the Authority entered into a Constant Maturity Swap (CMS) for the purpose of reducing debt service by taking advantage of the flat interest rate curves that were in effect at the time of the remarketing of the Series 2001 and Series 2002 Bonds. The transaction is effective beginning July 1, 2007, and continues until January 1, 2023. The CMS is structured so that the Authority receives funds quarterly at the rate of 67% of the USD-ISDA-Swap Rate, minus 0.11% times a notional amount that is initially \$182,000,000 and which decreases annually as debt payments are made on the Series 2001 and Series 2002 bonds, and the Authority pays the counterparty quarterly at the USD-BMA-Municipal Swap Index rate times the notional amount as described above. The fair market value of the CMS as of December 31, 2008 and 2007, was \$(2,708,924) and \$1,625,833, respectively.

16. SUBSEQUENT EVENT

On February 13, 2009, the Authority Board approved Administrative Action No. 98-09, Grant Anticipation Note Loan Agreement, for the purpose of borrowing \$20 million secured by the projected grant receipts as negotiated with PNC Bank. The total borrowing would be available to the Authority immediately upon closing and would allow the Authority to lower rates and charges in 2009 and 2010, earlier than the projected receipt dates would otherwise allow. Terms of the grant anticipation note are 5 years with an 8-year principal amortization; floating 1-, 6-, or 12-month LIBOR + 2% (if taxable transaction); or floating at 0.65%, 1-, 6-, or 12-month LIBOR + 2.8% (if tax-exempt transaction). Closing of this loan is pending legal opinions and approvals at audit completion.

On March 11, 2009, the U.S. Secretary of Transportation, Ray LaHood, announced that Pittsburgh International and Allegheny County Airports will receive the first funding allocations for airport infrastructure projects under the American Recovery and Reinvestment Act of 2009 (ARRA). The FAA will allocate \$10 million to Pittsburgh International Airport to repair Runway 14-32, one of four commercial service runways. The project includes grading, paving, marking signs, and lighting upgrades to the runway. Additionally, the FAA will allocate \$2 million to Allegheny County Airport to renovate a taxiway and relocate a ramp. The Recovery Act requires that 50% of the funds be obligated within 120 days or June 17, 2009. ARRA funding does not require Authority matching funds.

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