SEPTA

Fiscal Year 2013 Annual Report

Our Future Looks Bright

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SEPTA beefs up its 'social' assets
By Heather Redfern
CBS 3
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U.S. Open Fans Impressed With SEPTA's Special Service
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SEPTA tapping riders for Instagram submis
SEPTA Regional rail ridership sees
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6abc.com ACTION NEWS
SEPTA sets ridership record
SEPTA
at it's regional ridership increased by 2.2 percent between July 1, 2012,
00 riders. Systemwide, SEPTA recorded 337.3 million trips on its trains,
vious year's mark of 337.3 million trips. SEPTA, which averages about one
ed by a two-day shutdown due to Hurricane Sandy.
y said. "We will continue to work on
rship growth."
SEPTA Named Best Large Trans
in North America
July 27, 2012 1:17 PM
(The SEPTA concourse at Market East, in center city Philadelphia. Credit: Steve Tawa)
PAOLI / THORNDALE LINE
SPECIAL US OPEN TIMETABLE
REGIONAL RAIL
Employees Participate In Dr. Ian's
er Nation
All-Time High in SEPTA Regional Rail Ridership
The number of people who rode SEPTA's Regional is at an all-time high since the transit agency took operation in 1981.
40 million
35
FY 1981
'96 '98 '00 '02
PHILADELPHIA DAILY NEWS
TUESDAY FEB. 26, 2013
THE PEOPLE PAPER
RIDING HIGH
NATION'S TOP TRANSIT SYSTEM? IT'S SEPTA PAGE 3
NEWS COVER STORY
Transit Oscar: A how-to
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Opens at Suburban Statio
SEPTA garage at Norristow
Center filled to c
By CARL ROTENBERG
crotenberg@timesherald.com
Wednesday, June 12, 2013
SEPTA, Upper Darby
Primos train station
Published: Monday, May 20, 2013
Transit cap increase w
commuters
By MICHAEL ALAN GOLDBERG
Wednesday, January 9, 2013
Inquirer Exp
PHOTOS: SEPTA loans 30 buses to N.J. Transit to help shuttle riders to NYC
SEPTA has loaned buses to N.J. Transit to help the state's remaining operable vehicles shuttle riders between New Jersey and New York City. Jersey's transit system – especially its light and commuter railways – were hard-hit by Hurricane Sandy, leading to statewide service suspensions.
SEPTA Upgrading Mass Transit
US Open Crowds in Merion, Pa.
August 6, 2012 3:53 PM
EXSEPTIONAL
How chairman got transit agency on track to become No. 1
Regional Forecast
Sixers pep squad pumps up commuters
The 76ers Dream Team added a little cheer to Suburban Station on Thursday
Members of the 76ers Dream Team were on hand to pump up commuters on Thursday during a lunchtime pep rally at SEPTA's Suburban Station. The Dream Team, along with the Sixers' Flight Squad, encouraged passersby to vote for Jrue Holiday, Spencer Hawes and Thaddeus Young to play in the 2013 NBA All-Star Game. The contest closes this Monday, but fans can still cast a ballot in person at the Wells Fargo Center and on the NBA's website.
SEPTA ridership at an all-time high
By Paul Nussbaum
INQUIRER STAFF WRITER
SEPTA commuter trains had more passengers than ever in the year that ended June 30, carrying just over 36 million riders, SEPTA officials said Monday.
The trend was mirrored nationwide, as public transit in general and trains in particular have been gaining riders in recent years.
SEPTA Regional Rail trains carried 36.0 million riders, up from 35.3 million in fiscal 2012 and above the previous record of 35.5 million in 2008. As recently as 1993, SEPTA carried just 19.2 million riders.
SEPTA trains also recorded their best on-time performance in fiscal 2013, arriving within five minutes of schedule 93 percent of the time, deputy manager Jeffrey D. Knueppel said.
SEPTA Instagram Contest: Take Hipster Photos of Philly Transit
#ISEPTAPHILLY
Are you an Instagram all-star? Or can you put your creative iPhone hat on for a minute to say why you SEPTA Philly?
SEPTA is trying to get younger, hipper public transit riders by launching a SEPTA Instagram Contest starting today.
SEPTA to run extra trains for U.S. Open
PTA said Regional Rail
p has increased 50 perc
the last 15 years. The age
outed some of the recent rise
new Silverliner V rail cars
replaced cars that dated
to the mid-1960s.
e transit authority plans to
begin conversion to a smart-card
system later this year, although
Regional Rail riders are not ex-
King of Prussia
Natalie Kostelni
Reporter- Philadelphia Business Journal
SEPTA has picked a team of consultants to evaluate the environmental impact and feasibility of extending the Norristown High Speed Line into King of Prussia, Pa.
The team is headed up by AECOM, a Los Angeles engineering firm with offices in Philadelphia, and includes: Bergmann Associates, a Rochester, N.Y., architectural and engineering firm with offices in King of

SEPTA®

Vision

SEPTA's vision is to be the region's premier choice for transportation. We will earn that choice through:

- ◇ Connecting the region for integrated mobility
- ◇ Sustaining our environment and preserving our system for future generations
- ◇ Committing to continuous improvement and innovation
- ◇ Providing excellent service by a team of dedicated employees

Mission

Our employees are dedicated to delivering safe, courteous, convenient and dependable public transit services for the people of our region. We contribute to the region's economic vitality, sustainability and enhanced quality of life.

Core Values

As a company and as individuals we value:

- ◇ Public transportation as a vital service that should be safe, reliable, efficient, accessible, clean and customer-focused
- ◇ Integrity, honesty and personal responsibility
- ◇ Respect for employees, diversity and ensuring a challenging and inclusive environment
- ◇ Teamwork, courage, creativity and constructive criticism

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SEPTA was honored by the American Public Transportation Association (APTA) with the 2012 "Outstanding Public Transportation System Achievement Award" for efforts to enhance service, efficiencies and overall effectiveness.

Management Letter

In Fiscal Year 2013, the Southeastern Pennsylvania Transportation Authority (SEPTA) continued to meet the needs of our riders and strengthen the economy of the Commonwealth of Pennsylvania. The nation's sixth largest public transportation agency connected people to jobs, education, healthcare, and beyond. Riders took 337.3 million trips on our buses, subways, trains, trolleys, and Customized Community Transportation vehicles.

Ridership on Regional Rail was at its highest point in history with more than 36 million annual trips, an increase of 2.2 percent over last year. On time performance across all vehicle modes showed significant improvement, thanks in large part to a 4.4% jump on Regional Rail, including several days with 100 percent RRD on time performance. New vehicles – 120 Silverliner V rail cars replaced half-century old Silverliner II and II models, targeted infrastructure repairs and enhanced operational coordination each played an important role in achieving this key customer service objective.
The increase in ridership is a good example of how residents throughout Philadelphia, Bucks, Chester, Delaware, and Montgomery Counties recognize the essential role that SEPTA plays in their mobility. We expect ridership growth to continue thanks to better customer service and demographic trends that favor car-free lifestyles.

SEPTA management continued its strong policy of fiscal discipline in Fiscal Year 2013 with the 14th consecutive year of balanced budgets. Furthermore, in keeping with the recommendations of the Pennsylvania Transportation Funding and Reform Commission calling for a policy of predictable fare increases, the Authority raised fares effective July 1, 2013. Those fare increases contained adjustments for services throughout the system, including the first increase to the base cash fare since 2001 from $2.00 to $2.25.

The fare increase also reflected the forthcoming retirement of SEPTA's antiquated fare collection system to "contactless" New Payment Technology (NPT). As stations, fare boxes, turnstiles, and supportive functions are upgraded, the fare changes will encourage the transition to the "contactless" payment devices that NPT will offer.

Our accomplishments in Fiscal Year 2013 continued to define SEPTA as an economic engine. We facilitated economic growth by purchasing millions of dollars in goods and services from Pennsylvania vendors. We also continued to bring jobs to Pennsylvania with assembly of Silverliner V railcars in South Philadelphia.

SEPTA strategically invested in its infrastructure by championing projects that modernize mobility and create jobs. Projects such as renewal of a major bus loop at 33rd and Dauphin Streets in Philadelphia and the new Primos Station in Delaware County are just two examples of SEPTA efforts to bring our assets to a state of good repair.

Among our many cost-saving initiatives was a continued commitment to energy conservation. The Authority's Sustainability Program is recognized as a national model and annually saves more than one million gallons of diesel fuel through the operation of hybrid-electric buses, and more than 10 million kilowatt hours of electricity through implementation of a globally-recognized regenerative braking/wayside energy storage initiative. These grant-funded initiatives have saved millions of dollars in energy costs.

The Authority's strategic business planning and customer service initiatives paid great dividends in customer satisfaction and rider retention. SEPTA added new riders as well as retained current riders through a number of customer service-focused initiatives. We continued to provide access to real-time service through internet tools such as Google Transit, Online Chat, online videos, and website surveys. And as internet users spent more time on social media sites, we promoted and improved the Authority's Facebook, Twitter, Instagram, and Foursquare presence. SEPTA remains committed to superior customer service with emphasis on the four C's–Cleanliness, Communications, Convenience, and Courtesy. As always, safety remained the cornerstone of service. To this end, we held a system-wide Safety Awareness Day in May. SEPTA reminded the public of the dangers of walking along or near tracks or vehicles. Recent fatalities, whether accidental or intentional, are a national problem.

Fiscal Year 2013 defined SEPTA as essential to economic competitiveness and quality of life in the region and in the Commonwealth of Pennsylvania. We provided mobility, facilitated economic growth, and improved the quality of life for our customers, residents and visitors to this region.

Pasquale T. Deon, Sr.
CHAIRMAN

Joseph M. Casey
GENERAL MANAGER

SEPTA Board Members

Back Row: (L to R) Charles H. Martin, Kevin L. Johnson, P.E., Christopher H. Franklin, Honorable Stewart J. Greenleaf, Cuyler H. Walker, Esq., Daniel J. Kubik, John I. Kane, and Thomas E. Babcock.
Front Row: (L to R) Leslie S. Richards, Beverly Coleman, Kenneth Lawrence, Jr., James C. Schwartzman, Esq., Rina Cutler, Pasquale T. Deon, Sr., and Thomas Jay Ellis, Esq.

SEPTA Officers
General Manager
Joseph M. Casey, CPA

Chief Financial Officer/
Treasurer
Richard G. Burnfield

General Counsel
James B. Jordan, Esquire

Controller to the Board
Stephen A. Jobs, CPA

Secretary to the Board
Carol R. Looby

SEPTA Board Members
Chairman
Pasquale T. Deon, Sr.

Vice Chairman
Thomas E. Babcock

Bucks County
Pasquale T. Deon, Sr.
Honorable Charles H. Martin

Chester County
Cuyler H. Walker, Esquire
Kevin L. Johnson, P.E.

Delaware County
Thomas E. Babcock
Daniel J. Kubik

Montgomery County
Kenneth Lawrence, Jr.
Leslie S. Richards

Philadelphia
Beverly Coleman
Rina Cutler

Governor's Appointee
Thomas Jay Ellis, Esquire

Senate Majority
Leader Appointee
Honorable Stewart J. Greenleaf

Senate Minority
Leader Appointee
James C. Schwartzman, Esquire

House Majority
Leader Appointee
Christopher H. Franklin

House Minority
Leader Appointee
John I. Kane

Created by the State Legislature in 1964, the Southeastern Pennsylvania Transportation Authority was formed to plan, develop and coordinate a regional transportation system for Bucks, Chester, Delaware, Montgomery and Philadelphia counties. It has the right to acquire, construct, operate, lease and otherwise function in public transport in these five counties. The SEPTA Board determines policy for the Authority. Its 15 members represent the five counties served by SEPTA and the governing bodies of the Commonwealth.

Connecting the Region for Integrated Mobility

In **Fiscal Year 2013**, SEPTA kept the region moving by getting Pennsylvanians to work, play and everywhere in between. Overall, the Authority took riders on 337.3 million trips on buses, subways, trains, trolleys and Customized Community Transportation vehicles. This is the second highest recorded total since 1989. Our strongest showing was on Regional Rail with ridership of 36 million annual trips, an increase of 2.2% over last fiscal. Regional Rail trains recorded their best on-time performance, arriving within five minutes of schedule 93% of the time. And new state-of-the-art Silverliner V cars made riding better than ever.

On-time Performance: System-wide, on-time performance increased 1.3% to 91%. This was in large part due to a 4.4% jump on Regional Rail. Contributing to this rise was the completed replacement of old cars with 120 new Silverliner V railcars, targeted infrastructure repairs, and improved operational coordination.

System Safety: Performance improved by 3.3% based on an index measure that equally weights vehicular, passenger and station accidents as well as employee injuries. Intensified education and awareness campaigns contributed to the positive momentum.

SEPTA kept riders informed of how to ride better and safer.

Safe and Reliable Service: These are the cornerstones of the system. Safe and reliable service made SEPTA the choice transportation option. In fact, for the first time in SEPTA history, Regional Rail surpassed 36 million trips.

Fiscal Responsibility and Customer Service: When investing public dollars in transit improvements, the Authority invested well. For the fourth consecutive year, SEPTA exceeded its target for meeting capital project deadlines. Additionally, SEPTA continued to prioritize employee customer service, with nearly 40% of management having completed training.

SEPTA Key Performance Indicators:

CORPORATE OBJECTIVE	METRIC	GOAL	UNIT	FY2009 (BASE)	FY2010	FY2011	FY2012	FY2013
Customer Service	**1:** On-Time Performance	90%	OTP	88.5%	89.2%	89.3%	89.7%	91.0%
	2: Commendations	+20%	ANNUAL	1272	1489	1640	2391	1926
Sustainability	**3:** Carbon Emissions	-5%	ANNUAL	n/a	0.642	0.578	0.553	0.538
	4: TOD Project Deadlines	90%	DEADLINES	n/a	n/a	100.0%	100.0%	100.0%
Safety/ Security	**5:** Accident Rates	-5%	ANNUAL	n/a	n/a	n/a	Vs. 2009 Vs. 2012	+3.3% -3.1%
	6: Customer Perception	+10%	BY 2014	6.2/10	n/a	7.4/10	n/a	7.2/10
Ridership Growth	**7:** Ridership	+1%	ANNUAL	329.6M	321.0M	334.0M	339.3M	337.3M
	8: New Service Initiatives	+1	ANNUAL	n/a	0	2	1	3
New Technologies	**9:** New Tech Initiatives	+1	ANNUAL	n/a	2	3	1	2
	10: NPT Project Deadlines	90%	DEADLINES	n/a	100.0%	100.0%	100%	78%
Rebuilding the System	**11:** Capital Project Deadlines	80%	DEADLINES	n/a	82.6%	82.7%	86.8%	84.8%
	12: Green Tech Initiatives	5	ANNUAL	n/a	5	5	6	5
Human Capital Development	**13:** Training Attendance	+5%	ANNUAL	n/a	9.1%	11.3%	18.0%	8.8%
	14: Turnover Rate	-10%	RATE	19.3%	12.3%	20.6%	16.3%	18.7%

GREEN – GOAL ACHIEVED YELLOW – PROGRESS MADE RED – GOAL NOT ACHIEVED

Connecting the Region for Integrated Mobility

Transit originally spurred the growth of Philadelphia and its suburbs, populating neighborhoods along trolley routes and creating commuter rail access to undeveloped outlying areas. And while development has moved far beyond the boundaries of public transit, the benefits of **transit-oriented development** (TOD) persist.

Recent studies showed that residents of transit-served communities have a lower cost of living and live healthier lifestyles than those who depend on cars for mobility. Rising transportation costs mean that consumers are once again recognizing the benefits of living near transit and developers are building to meet that demand.

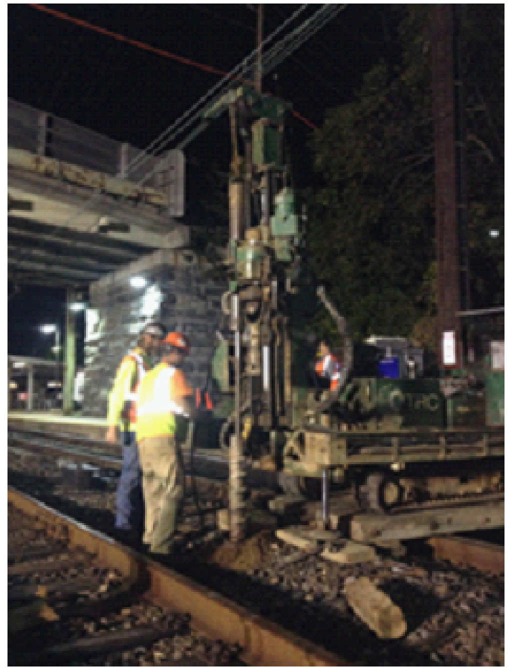
TOD also economically strengthens communities. The Boiler House in Ambler has become a cornerstone in Montgomery County's revitalization program. Summit Realty Advisers purchased the Boiler House building in part for its proximity to SEPTA's train station.

SEPTA helped provide access to fresh food in West Philadelphia. The Walnut Hill Community Farm is on a plot of land SEPTA formerly used to stage subway rebuilding. With rebuilding complete, the Authority turned it into a community asset by leasing it to the Enterprise Center Community Development Corporation.

The Boiler House building stands within walking distance to the Ambler train station.

SEPTA, in conjunction with a consortium of stakeholders, designated the Darby Road Extension Alternative as the preferred site for the proposed **Paoli Intermodal Transportation Center**. The Plan envisions a modern transportation hub in Chester County. Chester remains one of Pennsylvania's fastest growing counties in population.

The Plan calls for the Transportation Center to include a fully-accessible station and a multi-story parking garage. Road, streetscape and track improvements will improve life not just for riders, but for pedestrians and cyclists too. The project will go hand-in-hand with vital upgrades to Amtrak's Keystone Corridor train service. These upgrades will result in faster trains and shorter travel times. The Center will also benefit the local economy, as new businesses will open there to serve commuters.



SEPTA tested the soil of the future site.

Currently, the Paoli Regional Rail Station serves about 1,300 riders daily who board SEPTA's largest train line, the Paoli/Thorndale Line. It is a connecting point for the bustling AMTRAK Philadelphia/Harrisburg Keystone Corridor. Also converging there are SEPTA buses and private shuttle buses serving large corporate centers.

13 Regional Rail lines cover 280 one-way miles, with a fleet of 412 train cars.

Connecting the Region for Integrated Mobility

A **rail extension from the Norristown High Speed Line (NHSL) in Delaware County to destinations in King of Prussia** in Montgomery County would provide a direct, one-seat ride for thousands who regularly travel between the regions. This kind of public transportation means better access to jobs and less congestion on the roads. The King of Prussia area is a burgeoning employment and retail center. It is home to nearly 20,000 residents, 12,500 jobs at the King of Prussia Mall, and 19,000 jobs in corporate centers. In addition, the Mall enjoys about 25 million visits annually.

Moving forward, SEPTA held three public information sessions that gave residents, businesses and other interested parties a voice in determining the best travel options for the extension. The meetings featured an open house/information session that showed the travel studies. This included a comprehensive mapping display, followed by a presentation and workshop. Representatives from SEPTA and the King of Prussia Rail consultant team answered questions and took comments. The extension study is expected to be completed in 2014.

Byron S. Comati, Director of Strategic Planning & Analysis (right), describes transit studies.

Norristown High Speed line runs 13.4 one-way miles, with 26 train cars.

Over the past four years, SEPTA has regularly introduced and upgraded the tools we use to **make customers' rides more interactive**. For example, the Authority's transit customers can request the next four scheduled trips or schedule information for their specific routes via text message by using an assigned route stop identification number. The "System Status" feature on SEPTA's website lists all routes and rail lines, giving details of detours, service alerts and advisories. Trainview provides SEPTA Regional Rail customers with an online glimpse of trains out on the rails and if service is running on or close to schedule. Twitter updates announce service delays (and when normal service has resumed) almost as soon as they happen. In addition to tools designed by SEPTA's in-house IT team, the Authority has also invited the local tech community to create their own apps for riders. SEPTA continues to sharpen its powerful technology tools to be more interactive with riders.

While helpful in getting passengers to and from their destinations, the apps and web tools don't lend themselves to being very "social" - there is little or no opportunity for customers to offer feedback or ask questions and interact with staff. **SEPTA's Facebook page** has helped by allowing customers to respond to the Authority's posts about special events, activities and construction, post questions for staff and "converse" with fellow riders. SEPTA's Facebook page began the Fiscal Year with 2,906 Likes and ended it with an impressive 6,057 Likes and climbing. Customers used Facebook to ask questions of Authority staff, as well as to chat with fellow riders. To increase Likes, SEPTA used contesting and fresh, engaging content to keep them coming back.

If It's SEPTA Ride It

The Hack-A-Thon yielded a number of successful programs utilizing SEPTA data.

Connecting the Region for Integrated Mobility

Two **national events** provided SEPTA with the opportunity to promote public transportation as the best travel option.

SEPTA was in the spotlight when the Merion Golf Club in Ardmore, Pennsylvania hosted the **U.S. Open** golf championship for seven days in June. More than half (15,000) of all spectators rode SEPTA daily. According to United States Golf Association (USGA) officials, it was the best experience they'd ever had with a public transportation agency. SEPTA spruced up stations, increased train and trolley service, arranged parking shuttles, and stepped-up security. Additionally, the USGA paid SEPTA to build a temporary pedestrian bridge over tracks linking the course to hospitality areas. And above all, SEPTA kept regular riders moving.

Another high-profile event was the world's largest indoor flower show, the annual **Philadelphia Flower Show**. For eight days in March, SEPTA took thousands to and from the Pennsylvania Convention Center. A strong relationship between SEPTA and creators of the Show - the Pennsylvania Horticultural Society - resulted in successful promotional efforts with Regional Rail ridership rising 14%.

For the first time in more than 30 years, the Merion Golf Club hosted the U.S. Open Championship. SEPTA was the ticket for getting there.

SEPTA Staff and Ambassadors made sure everything came up roses for thousands of Flower Show visitors making their way through Market East Station.

SEPTA gets you where you need to go.

Connecting the Region for Integrated Mobility

SEPTA was awarded funding for a number of projects that will renew and rebuild aging infrastructure. **FY13 Grant Highlights include:**

TRACK PROJECTS

Route 10 Lancaster Avenue Trolley Track Renewal
$3 million project funded by FY12 and FY13 grants to demolish the track and track bed within the trolley right-of-way and replace with new rail, steel ties and elastomeric boot around the rail and new concrete poured in its place. Renew 7,400 ft of street track on the Route 10 Trolley Line in West Philadelphia; 7,000 ft of street track on Lancaster Avenue between 40th and 44th and from 48th to Girard Avenue; and 400 ft of street track on 41st Street on the Route 10 diversion between Lancaster Avenue and Wallace Avenue.

Route 11 Main Street Trolley Track Renewal
$3.2 million project funded by FY13 and FY14 grants to demolish the track and track bed within the trolley right-of-way and replace with new rail, steel ties, elastomeric boot and new concrete pavement poured in place. Renew approximately 9,400 ft of street track in Southwest Philadelphia and 9,400 ft of street track on Main Street in Darby Borough, Delaware County.

Broad Street Subway Continuous Welded Rail
$4.56 million project funded by FY12 and FY13 grants. Renewal of over 17,316 feet of continuously welded rail on the Broad Street Line from Snyder Station to AT&T Station in South Philadelphia. The scope of work includes the completion of 440 electric flash butt welds creating continuous welded rail strings, replacement of deteriorated rail fixations, removal and disposal of old rail within the tunnel and power washing and cleaning of the track slab and surface drains.

Route 15 Trolley Richmond Street Relocation
As part of the I-95 Reconstruction Project-Girard Avenue Interchange, Richmond Street is being relocated about 50 yds east between Girard Avenue and Ann Street in Philadelphia. In partnership with PennDOT, SEPTA is relocating the Route 15 Trolley street track and wire system on Richmond Street from Ann Street up to and including the Girard Avenue Bridge.

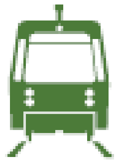
CATENARY PROJECTS

Lansdale/Doylestown Regional Rail Line Overhead Catenary System
$3.55 million project supported by FY12 and FY13 grant funds. Rehabilitate the Overhead Contact System (OCS), the support hardware, new down guys at the support structures and new insulators and fittings along the Lansdale/Doylestown Regional Rail Line.

Media/Elwyn Regional Rail Line Overhead Contact System
$8.65 million project funded by FY13 and FY14 grants. Rehabilitate the OCS, the support hardware, new down guys at the support structures and new insulators and fittings along the Media/Elwyn Regional Rail Line which supplies electric power to trains on the line.

Positive Train Control (PTC)
$21.6 million in FY13 grant funds to support the $157 million PTC project. Provide the ability to enforce a stop, civil speed restrictions and temporary speed restrictions through a network of transponders. Installation of this system will ensure interoperability with Amtrak and various freight carriers. In October 2008, Congress passed HR 2095 - Rail Safety Improvement Act of 2008 requiring, among other things, that all carriers providing intercity rail passenger transportation or commuter rail passenger transportation have a system of PTC in operation by December 31, 2015.

Regional Railroad Grade Crossing Surface Renewal
$4.47 million project funded by FY12, FY13 and future FY14 grants. FY13 funds support part of a three-year program to renew and upgrade track and highway surfaces at 15 locations on the Manayunk/Norristown and Warminster Regional Rail lines. Scope of work includes upgrading the existing asphalt and rubber surfaces to state-of-the-art full depth precast concrete surface; replacing the track system within the limits of the crossings and the adjacent approaches; and repaving roadway adjoining the crossing panels at four locations.



8 Trolley/Light Rail routes run 68 one-way miles, utilizing a fleet of 159 vehicles.

Steadfast on the Road to Fiscal Responsibility

On May 23, 2013, the SEPTA Board approved a proposal to increase fares and simplify the payment process for riders in preparation for the FY14 move to a modernized fare system under the New Payment Technologies (NPT) project. The increase became effective July 1, 2013 - the start of FY14.

The Plan contained fare adjustments for services throughout the system. It included the first increase since 2001 to the base cash fare for buses, subways and trolleys. The cash fare increased from $2.00 to $2.25. Discounted single-trip fares of $1.80 will be available with tokens, and this price reduction will remain in effect under NPT.

SEPTA strove to simplify fares in anticipation of NPT. This included elimination of extra-fare zone charges on dozens of routes and consolidation of some Regional Rail zones. SEPTA also eliminated gender stickers on passes. The Plan included a number of changes made in response to public feedback received during a series of 10 public hearings held between April 15 and April 22, 2013.

Base Fare Comparison with Peer Agencies

TRANSIT AGENCY - City	CASH BASE	REDUCED BASE
MTA - New York	$2.75	$2.50
MARTA - Atlanta	$2.50	$2.50
MBTA - Boston	$2.50	$2.00
PAAC - Pittsburgh	$2.50	$2.50
TRIMET - Portland	$2.50	$2.50
SEPTA - Philadelphia	$2.25	$1.80
CTA - Chicago	$2.25	$2.25
METRO - Minneapolis	$2.25	$2.25
MDT - Miami	$2.00	$2.00

SEPTA Means Business in Pennsylvania

The Economy League of Greater Philadelphia and Econsult Solutions released a report "Understanding SEPTA's Statewide Economic Value" on April 29, 2013. The analysis showed how important SEPTA is to the regional economy and the Commonwealth. The Report includes examination of the Authority's stewardship of public funds, performance and economic and fiscal impacts. It concludes that the Authority is a wise investment for Pennsylvania. Here are the numbers at a glance:

- 26,000 jobs
- $3.21 billion in economic output
- $62.5 million in tax revenue
- 77% of transit riders use SEPTA
- $31,000 to $37,000 average property-value premium for being close to a rail station

On March 20, 2013, SEPTA's final **Silverliner V** railcar took to the streets of Philadelphia, completing delivery of 120 new cars for Regional Rail. Not only do these railcars get people to work, they are an economic investment benefitting the Commonwealth for years to come. This is because SEPTA purchased Silverliner V parts from Pennsylvania manufacturers. It is estimated that 3,000 to 4,000 Pennsylvania jobs were supported through $150 million in contracts with Pennsylvania-based suppliers.

Assembly took place in a South Philadelphia factory, creating 250 skilled jobs. And these workers continue to be employed after the final Silverliner V was completed. They are building 75 cars for Boston's transit system to be followed by 56 cars for Denver.

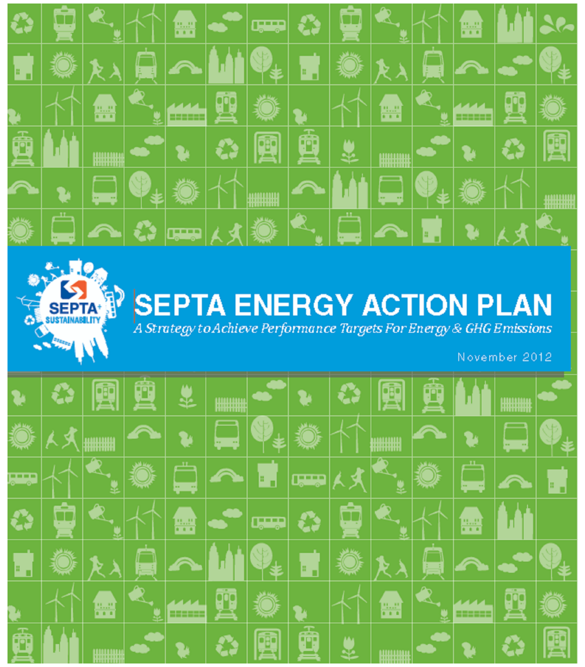
In addition, the railcar itself saves SEPTA money. Its power-saving braking system lets the train create its own electricity, even feeding any remaining electricity to the overhead system to power other railcars.

Sustaining Our Environment and Preserving Our System for Future Generations

Strides in Sustainability

SEPTA's Sustainability Annual Report detailed progress on efforts to pursue a "triple bottom-line" strategy to become environmentally, socially and economically sustainable. Results were shown in a number of areas. On the environmental end, SEPTA achieved more than 10% in water and energy intensity reductions. Work on social goals resulted in the hosting of four farmers markets on SEPTA property. And on the economic front, sustainability efforts helped control operating expenses.

SEPTA pursued alternative approaches of investing in infrastructure with its first-ever **Energy Action Plan** introduced November 12, 2012. This comprehensive initiative is aimed at reducing costs through increased efficiencies, while preserving the sustainable environmental benefits. The Plan adopted the principle of “budget neutrality” for initiatives and offered a menu of strategies to achieve this.



Implementation will reduce energy consumption costs by more than $2.2 million per year, with potentially hundreds of thousands of dollars of additional savings from shifting certain energy loads to cheaper sources. And the full benefits are even more far-reaching. As the age of the system presents operating and maintenance challenges, strategic energy investments can ease some burden. Initiatives will simultaneously improve infrastructure state-of-good-repair, reliability and advance environmental sustainability all while reducing utility costs. Added benefits will accrue from reduced maintenance costs and, in certain cases, new sources of revenue to fund additional projects.

Reaching Future Generations

"SEPTA is the vehicle, but the journey is yours." The Authority's trains, buses and trolleys transport people across the Philadelphia region, but where riders choose to go as they "SEPTA Philly" is entirely up to them. And the recently redesigned ISEPTAPHILLY.com website can serve as a commuter's treasure map - full of ideas for places to visit, lists of discounts for SEPTA pass holders, how-to videos and links to SEPTA schedules, maps and a trip planner.

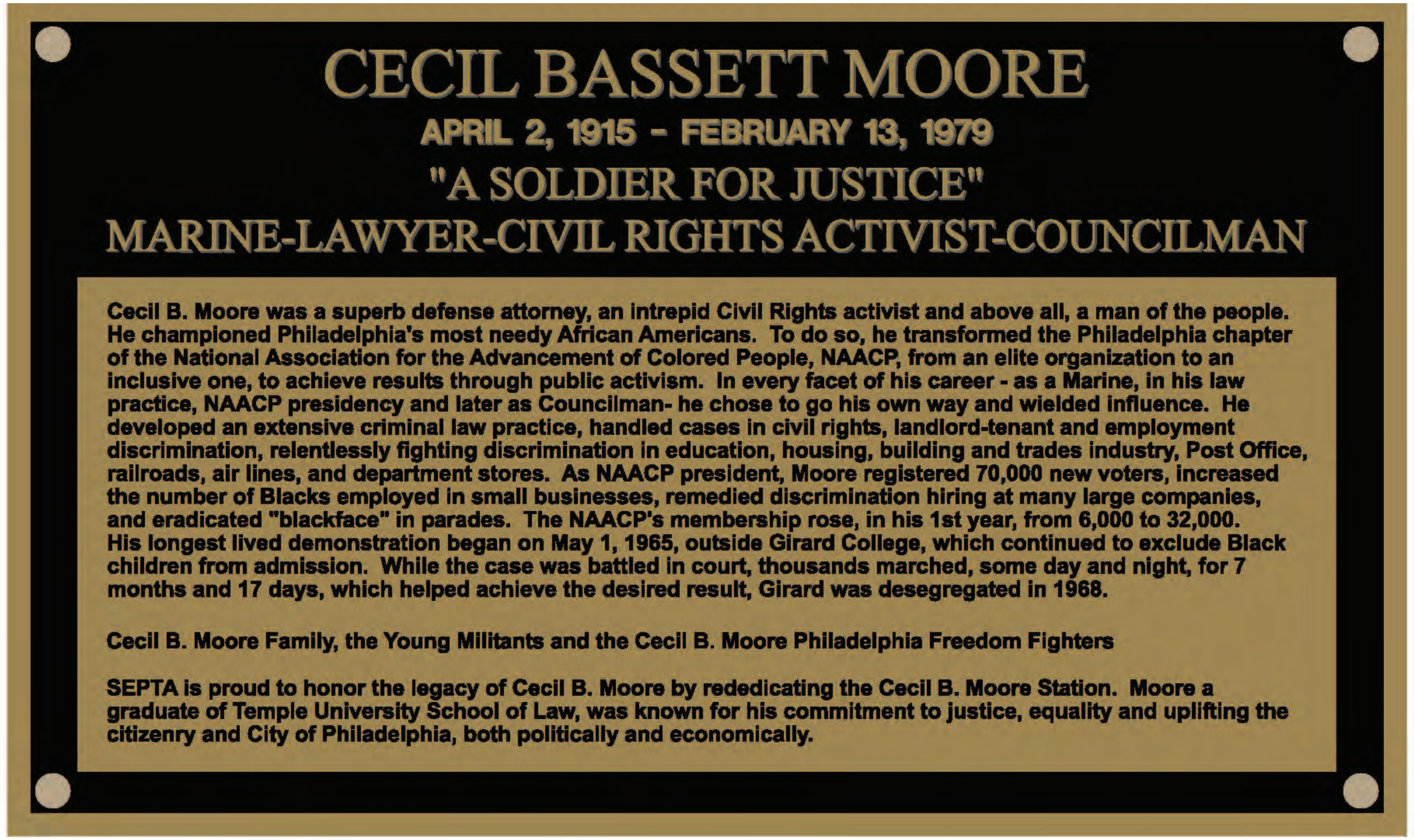
When ISEPTAPHILLY launched, the goal was to have our commuters, especially those between the ages of 18-34, upload videos and Instagram photos of their mass transit stories to inspire others to use our system. It has evolved into a place where new and potential riders can get information they need to create their own SEPTA stories.

The Authority launched its ISEPTAPHILLY campaign to attract the next generation of public transit riders - a group that is leading the trend away from cars. A recent report by the U.S.PIRG Education Fund showed that across the nation, Millennials (ages 18 to 29), have the steepest reductions in driving. They are trading in their car keys and saving money on gas, maintenance, insurance and parking. They also believe in helping the environment.

Sustaining Our Environment and Preserving Our System for Future Generations

On June 10, 2013, SEPTA re-dedicated the **Cecil B. Moore Station** to honor the legacy of its namesake and unveiled a mosaic and plaque highlighting Moore's life and many accomplishments.

The Station, which is a stop on the Broad Street Line in North Philadelphia, was originally dedicated to celebrate Moore in 1995. Now, a new mosaic and plaque highlight the key aspects of his story including his military, legal and political careers, and his legacy as a civil rights leader. SEPTA gathered with local elected officials, the Cecil B. Moore Freedom Fighters, Moore family members and community leaders to announce the commission and installation of the plaque.



Jonathan Mandell c. 2013

The exhibit stands in a non-paid area, allowing both riders and the general public to view it. The Station is one of the busiest stops on Line, serving over 7,500 riders daily. It serves as a transit hub and provides service to Temple University, where Moore attended law school, as well as the North Broad Street business corridor.

His message **inspires future generations**, with the central panel depicting Moore in his role as a community leader and public speaker. It includes a famous quote from Moore that speaks to the heart of his life's work, "Stand up and be an American Citizen and exercise your rights."

SEPTA and the Cecil B. Moore Freedom Fighters commissioned local artist Jonathan Mandell for the piece. It was made using ceramic tile embellished with hand-blown glass shards, metals, and semi-precious stones and minerals.

Committing to Continuous Improvement and Innovation

Riders and Rebuilding

Station renewal asks that riders be patient for that light at the end of the tunnel. And patient they were at the Malvern Regional Rail Station in Chester County during the 24-month construction that improved parking and pedestrian safety. In return, the Authority thanked riders as they boarded the Paoli/Thorndale Line the morning of September 19, 2012. SEPTA enlisted WMMR-FM and coffee shop Caffe Craze to commemorate completion of the $9.2 million project at the heavily relied-upon station. Caffe Craze is located inside the Station.

Funded through the American Recovery and Reinvestment Act, improvements included construction of 46 additional parking spaces and installation of Americans with Disabilities Accessible ramps. SEPTA also installed canopies and a new pedestrian tunnel. Efficiencies included improved storm water drainage, energy-efficient lighting and electronic revenue collection of parking fees.

Modernity and Harmony at New Bus Loop

On September 10, 2012, SEPTA, government officials and community leaders joined together to celebrate the start of reconstruction of a major and beloved transit hub in North Philadelphia. SEPTA began full renovation of the 33rd and Dauphin Bus Loop to replace the aging Loop with a modern facility enabling thousands to get to jobs, school and more. Design of the Loop included feedback from neighboring businesses and residents who view it as a cornerstone in local revitalization efforts. The $4.4 million initiative, funded by a competitive grant from the Federal Transit Administration, emphasized both restoration and modernity. It included new amenities such as shelters, benches, enhanced lighting, bike racks and an Art-in-Transit project. Traffic and pedestrian safety and access will also be improved. And it will be fully accessible under the Americans with Disabilities Act.

Other features include a "green roof" that uses plant modules and other materials. In addition to improving sustainability and helping create a more livable urban environment, a green roof reduces storm-water run-off. A new underground storm-water management system will also enhance drainage.

Birth of a Station at Primos

On May 16, 2013, SEPTA cut the ribbon on Primos Regional Rail Station in Delaware County. This modern facility stands where there recently was just a trailer with little parking.

By contrast, the new station has a raised platform and 55 additional parking spaces. It represents a successful effort to upgrade compliance with the Americans with Disabilities Act and improve safety and boarding. Local businesses also lauded construction and promoted close proximity to the station as a selling point. SEPTA General Manager Joseph M. Casey said, "Projects like this demonstrate that through wise investment of capital resources and a dedicated team of employees and contractors, we can build transit facilities that are economical and service the needs of our customers today and for decades to come."

Elected officials, community leaders and members of the SEPTA Advisory Committee for Accessible Transportation cut the ribbon on the $8.3 million project.

Construction was completed in four phases with little effect on riders or service.

Advancing New Payment Technologies With Open Payment

The New Payment Technologies (NPT) System will process Open Payment, Contactless Smart Media and Magnetic Fare Media for fare payment and fare verification purposes. The integrated, electronic system will feature Smart Media Processors (SMPs) and Magnetic Media Swipe Readers (MMSRs) incorporated into equipment such as: Fare Vending Machines (Fare Kiosks), Subway/Elevated Turnstiles, Bus On-Board Processors (Validators) and Parking Payment Stations.

When SEPTA began gathering information from the public about fare collection, we discovered people wanted to pay for transit the same way they paid for everything else — with their own credit and debit cards or mobile devices. An open payment system allows customers to choose how they want to pay their fare. It is in essence easier for passengers to use and more straightforward and beneficial to passengers and transit agencies alike.

Open payment provides passengers with the convenience of carrying a card or device that can serve multiple purposes, including fare payment. Open payment offers flexibility other systems don't because it more generally resembles a customer's retail experience on a day-to-day basis. Another benefit of an open payment is it allows transit agencies to mitigate the risk of credit card fees, security breaches and handling large amounts of cash. The end result is a more secure revenue accounting and collection system than we have today.

Open payment will give SEPTA the opportunity to create a uniform payment system across all its services. Today, if someone is riding the SEPTA Regional Rail system and also riding a bus, they have to buy two different fare instruments. Open payment also cuts down on waste. Passengers today who have weekly and monthly passes have to buy new cards every week or every month. The old cards have to be thrown away, new cards have to be purchased. With the new system, SEPTA contactless cards will have a multi-year life. Users will be able to sign up for auto-load without having to visit a third-party site or vending machine. They also have the option of using their own contactless debit or credit cards.

A "contactless" card, which contains a computer chip and an antenna, allows a user to make a payment by merely holding the card close to an electronic reader. About 15% of the 750 million credit and debit cards in the United States are contactless, but that number is expected to grow rapidly as banks and card companies move customers and merchants toward contactless cards. Customers will no longer have to buy a special card just to ride transit. An open payment system lowers the hurdle for customers to ride.

In the Spring 2013, SEPTA hosted an information-sharing Open Payments Summit attended by NJ Transit, DelDot and PATCO. Speakers included the Federal Reserve Bank and MasterCard. The summit looked at what other transit agencies are doing throughout the country and what their plans are for the future. For example, BART in San Francisco and WMATA in Washington, DC are planning to move from a closed to an open payment system. And London has already implemented open payments.

SEPTA has opened the system to allow other transit agencies to join by procuring an NPT System license for all PA and neighboring agencies. Agencies can procure NPT equipment using a variety of operating scenarios. These agencies can maintain all of their current fare policies.

The Future of Fare Technology
The APTA Rail Conference was held in Philadelphia June 2 through June 5. SEPTA's Deputy General Manager, Jeffrey Knueppel, presented "The Future of Fare Technology." The presentation included three key points: Customer Focus, Infrastructure Readiness and Communication & Education.

SEPTA's NPT system is designed with our customers in mind. Through stakeholder sessions, online market research and focus groups, SEPTA has identified customer needs and payment preferences. Our customers have said balance protection is a "must have." More than half of our customers would pay their transit fare with a bank card, debit card or cell phone if given the option. We learned more than 93% of our riders carry a cell phone. Customers are adamant that SEPTA retain calendar passes under the new system, offer auto-reload and favor off-train Regional Rail payment.

There are 5 companion projects necessary to ready SEPTA's infrastructure. We must overhaul 1,800 fare boxes, build 5 zone offices, extend power to fare lines and vending machines, complete elevator control modifications at subway-elevated stations and install Regional Rail station waiting room security.

NPT communication and education will focus on two audiences: employees and customers/ special constituencies. Employees will receive specialized training to enhance customer skills, current ambassador outreach will be linked to the implementation schedule and a new NPT Training Center has been established to consolidate mode-specific training.

In order to ensure that NPT messaging is on track and reaching all constituents, customer communication must be a give and take. Customer input will be a key influencer in brand development and roll-out. This includes the creation of mode-specific materials like brochures and how-to videos, fare transparency, pilot testing with "friendly-users," complete backend system including customer support and interactive websites and registration of disabled and special clientele. The customer is key.


RRD Fox Chase Buried Conduit Installation


69th Street Zone Office Construction


Hunting Park Turnstile Dismantling Exercise


19th Street Subway Surface Turnstile Installation – Site Preparation

Committing to Continuous Improvement and Innovation

Innovative Advertising Generates Revenue
In Fiscal Year 2013 SEPTA raised $13.4 million in advertising revenue for selling and posting ads on vehicles and in stations. Whether it was an ad wrapped around a bus or on a digital sign in our station, it reaped substantial ad revenues for SEPTA. Transit advertising also was rewarding because it is independent of the fare box or subsidy.

And riders were reached in innovative and enjoyable ways. For instance, we had a major partner in the National Constitution Center (NCC). To advertise its exhibit "American Spirits: The Rise and Fall of Prohibition," the NCC wrapped the inside of a Silverliner V car in Prohibition-themed images. Beyond the visual excitement, the Speakeasy had a smart and fun social media component for riders. They were encouraged to post a photo to Twitter or Facebook, tagging the NCC and SEPTA for a chance to win tickets to the exhibition. Beyond this, SEPTA pass holders also received discounted admission.

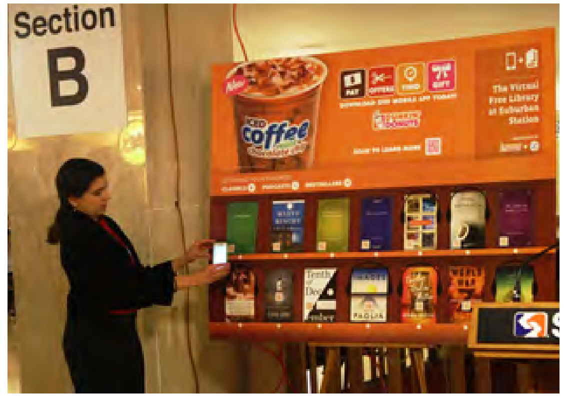
Overall, this enhancement of the rider experience demonstrated that SEPTA is the way to go when visiting cultural institutions throughout the region.


Wrapped Market-Frankford Line Car

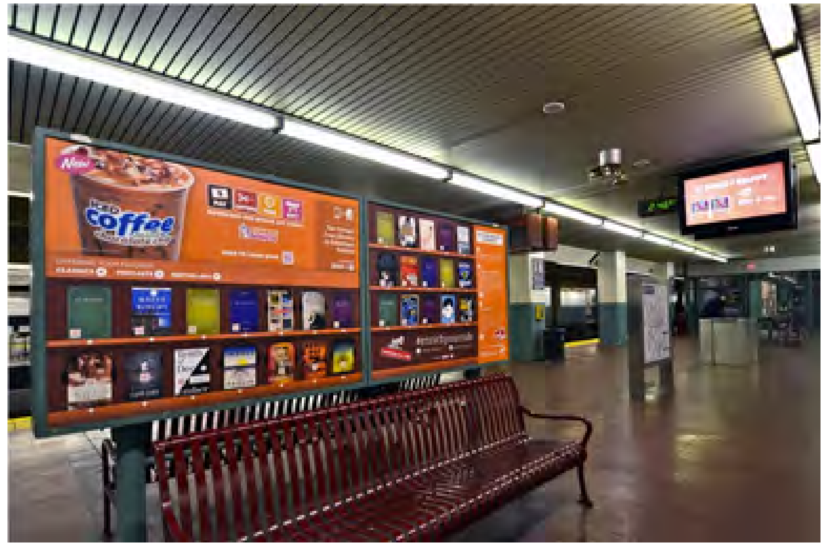

NCC Silverliner V Wrapped Car

Thanks to technology and partnership, commuters grabbed a good book with their ride. SEPTA, the Free Library of Philadelphia and Dunkin' Donuts celebrated National Library Week (April 14-20) by **featuring a first in the United States**: a virtual library branch in a train station.

SEPTA and these partners brought books to riders via the virtual library at Suburban Station in Philadelphia during the month of April. Riders were delighted with a sample of 80,000 e-books, 8,000 audiobooks, and 1,000 author podcasts. Located on Suburban Station's platforms, the campaign's 76 brightly colored displays — filled with selections from the Free Library's extensive digital collection — put a new spin on the typical "to go" menu. Riders step up to the boards, scan QR codes with their smart phone or tablet and download the Free Library's ebooks and author podcasts to their devices. Almost instantaneously, passengers have new reading or listening materials to enjoy. To further engage riders, SEPTA held a social media contest. SEPTA riders were encouraged to submit titles of books they were reading to the SEPTA Facebook page or @SEPTA_Social Twitter feed, with **#enrichyourride**, to win prizes including passes to the Free Library's conversations with noted authors, a Dunkin' Donuts prize pack and a SEPTA monthly pass.



Free Library employees demonstrated the technology that allowed riders to access the collection.

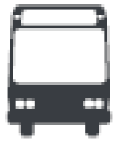


Surviving Hurricane Sandy
SEPTA crews worked around-the-clock to repair damage caused by Hurricane Sandy, which moved through the Philadelphia area on Monday, October 29 and Tuesday, October 30, 2012. These efforts helped restore operations soon after the storm. A carefully considered decision to suspend service was announced on Sunday afternoon, October 28, ahead of Sandy's arrival. "Suspending our service in the face of an unprecedented storm like Sandy was in the best interest of the safety of our customers and employees," said General Manager Joseph M. Casey. "It also helped us protect our vehicles and infrastructure, which put us in position to restore service as soon as possible after the storm."

"SEPTA has exceeded expectations," said Mayor Michael A. Nutter of the Authority's efforts to get the system running in Sandy's aftermath. "SEPTA's operation is critical to this City and this region. It is the way we move people, goods and services around this region, and that's why we're such strong supporters of SEPTA and mass transit."


SEPTA Operators prepare to deliver buses to New Jersey.

In an effort to help, SEPTA loaned 30 buses to NJ Transit when its rail operations were severely impacted by Hurricane Sandy. The Authority's efforts to assist its sister agency were not unnoticed. Federal Transportation Administration Administrator Peter Rogoff telephoned Casey to express his appreciation.


117 Bus routes run 1,445 one-way miles, served by a fleet of 1,390 vehicles.


A wire train crew worker heads up to repair Regional Rail catenary.

Providing Excellent Service by a Team of Dedicated Employees

Knueppel Named Deputy General Manager
SEPTA promoted Jeffrey D. Knueppel, P.E, to the newly-created position of Deputy General Manager on August 13, 2012. He reports directly to General Manager Joseph M. Casey. In this capacity he oversees the Engineering, Maintenance and Construction (EM&C) Division and the Operations Division. Knueppel is also launching SEPTA's new fare-collection system. Knueppel had been Assistant General Manager/Chief Engineer of EM&C, a position he held for the last six years of his 24-year career with SEPTA. There, his Stimulus Team was nationally recognized as being "shovel-ready" to wisely use $191 million in American Recovery and Reinvestment Act-funded projects. SEPTA started shoveling soon after the bill was signed into law. Knueppel's philosophy when tackling projects is to "stretch SEPTA's dollar" and "make it fast." For instance, for construction projects he employs a hybrid system of in-house workers with third-party agencies, delegating work to the group most proficient in that area. Speed is also a factor when making station improvements that call for service outages. Knueppel schedules more work during the summer when less people are riding. He then holds longer single shutdowns as opposed to weekend work to complete projects faster.

Knueppel graduated from the Cooper Union for the Advancement of Science and Art in New York. He holds undergraduate and graduate degrees in Civil Engineering and is a registered Professional Engineer in the Commonwealth of Pennsylvania. He is a member of ASCE, AREMA and the American Public Transportation Association. In 2009, Knueppel received AMTRAK's State Partner Award. In addition, Knueppel is active in the March of Dimes mission for healthy babies and is currently Chair of its Transportation, Building & Construction Awards Luncheon.

New Police Chief Makes an Impact
SEPTA hired Thomas Nestel III as the Authority's top Transit Police Officer on August 20, 2012. The SEPTA Police Transit Police Department is the fifth largest police department in the Commonwealth of Pennsylvania with over 260 sworn police officers.

Chief Nestel acted fast on making SEPTA safer and better. He implemented a plan to drive crime away from "hot spot" Somerset Station (on the eastern end of the Market-Frankford Line) by deploying more officers and engaging the community for feedback. Three months later, SEPTA had made 200 arrests and citations, confiscated two guns, and seized many narcotics. Chief Nestel also has social media in his crime-fighting arsenal. He uses Twitter to get the word out when a criminal strikes. He tweets the wanted criminal's photo and regularly promises them "cheese sandwiches" in jail.

"Chief Nestel is a distinguished professional with 30 years of experience who brings a wealth of law enforcement experience, knowledge, and educational training to the SEPTA Transit Police Department," said GM Joseph M. Casey.

A fourth-generation police officer, Nestel joined law enforcement as a patrol officer with SEPTA in 1982. He later joined the Philadelphia Police Department, dedicating more than 22 years and earning 24 commendations. Prior to joining the Authority, he was the Chief of Police in Upper Moreland Township, Pennsylvania. Nestel has several degrees and is presently pursuing his dissertation to complete a Doctorate in Criminology at the University of Pennsylvania.

Also, SEPTA promoted to the rank of Sergeant, James Zuggi, a 14-year veteran, and Brian Schwenger, who has been on the force for 10 years. "The Sergeant is the lynchpin to this department's success," Nestel said. "They are the motivators who encourage people to excel. They are the model that displays the work ethic, appearance, and attitude that will be reflected by every officer that stands roll call each day."

Providing Excellent Service by a Team of Dedicated Employees

Helping Thousands, Face-to-Face

SEPTA scored at the U.S. Open and Philadelphia Flower Show with shining service and stations. But one of the most important elements was the human element. SEPTA called upon Employee Ambassadors to answer thousands of customer questions face-to-face.

Trained to know all about riding, Employee Ambassadors in their white shirts and red jackets do more than give information. "Ambassadors send a simple message to people - you matter," said Patricia Morris, Senior Director of Finance and Administration in the Operations/EM&C Division, and co-administrator of the Employee Ambassador Program.

The Program began as a customer service initiative 13 years ago. Morris has deployed Employee Ambassadors for everything from planned events to service delays. Now 1,000 strong, Employee Ambassadors will be heavily relied upon during the introduction of New Payment Technologies. "We already have started training Ambassadors for what will be SEPTA's biggest customer service challenge yet," said Morris. "We are ready to help everyone get through this change."

Patricia Morris, (right), Senior Director of Finance and Administration in the Operations/EM&C Division, and Chrystalle Cooper, (left), Project Manager of Statistical Reporting, co-administer the Employee Ambassador Program. Their talents will be invaluable as they mobilize Ambassadors to teach riders the new fare system.

SEPTA Gets "Social"

In this age of smart phones, tablets, Twitter, Facebook and other social media, rapid transit has taken on a new meaning. Passengers not only want to get to their destinations fast, they want information about their trips in an instant - sometimes while even on the go.

In response, SEPTA launched the **@SEPTA_Social** Twitter feed. Manned by a "Social Media Team," the feed is live seven days a week. The Social Media Team is dedicated solely to the Authority's social media efforts. In addition to tweeting pertinent information and responding to customers' comments and questions, they also monitor major social media platforms for all-things SEPTA related. After a tweet or post is spotted, the social media specialists will respond directly or gather additional details if needed. This information is passed on to supervisors or other additional internal channels if the situation requires action or attention.

@SEPTA_Social rolled out with a soft launch, but is gaining an average of 75 new followers a week through users re-tweeting responses, online mentions via other social media platforms and marketing efforts. "The early response to @SEPTA_Social not only demonstrates our passengers' desire for information about SEPTA service, but also their wanting to be heard other than via traditional methods such as in person and by letter or e-mail or phone call," said Kim Scott Heinle, SEPTA's Assistant General Manager of Customer Service. "As we continue to build upon our culture of customer service, we will expand upon the ways in which we socially interact with passengers."

To date, the initiative has been lauded by riders, the media and U.S. Transportation Industry peers.

Providing Excellent Service by a Team of Dedicated Employees

Strong Buildings Start with Strong Designers
Building strong and sustainable buildings starts early. Just ask Lead Designer Melissa Cooper. SEPTA hired Cooper upon her 2006 graduation from Philadelphia University where she earned a Bachelor of Architecture. Soon she was working on the renovation of a Broad Street Line station. She helped design colorful wall paneling, gleaming stainless steel column covers and intricate tile work. Then it was on to a Bus Loop to reconfigure traffic patterns and work with the Philadelphia Mural Arts Commission to install a special mural.

Next, Cooper helped turn dilapidated Primos Regional Rail Station in Delaware County into a vision of modernity. “Primos was the full package,” Cooper said. SEPTA reconstructed it with all the amenities including a ticket office, waiting area, parking and more. Now she is applying that experience to Exton Regional Rail Station in Chester County.

Cooper marvels at how soon she was permitted to undertake important work upon college graduation. “My favorite part is seeing my plans come to life,” said Cooper. “My projects can be underway as soon as one month after I design them. I don’t have to wait years and years, as often happens.”

Cooper credits the support she received from her supervisor Michael Shapiro, Director of Engineering/Design, and others for her early professional progress. “I’ve learned a lot from SEPTA’S construction crews in the field too,” said Cooper. “They have my complete respect and I feel that I have earned theirs.” She has similar admiration for her co-workers in the office. “It’s a great camaraderie. Answers are just steps away.”

Lillie Claitt Wins Diversity Award
SEPTA's Disadvantaged Business Enterprise (DBE) Program Director Lillie Claitt received the highly-regarded Diversity Award from the Philadelphia Chapter of the Women's Transportation Seminar (WTS). WTS works toward advancing women in the transportation industry both in the United States and internationally.

Claitt was honored for working to maximize opportunities for small, minority and women-owned businesses throughout her career. A 31-year SEPTA employee, Claitt began as a secretary and held a variety of positions. She has amassed over 20 years of experience in all aspects of the DBE Program and is recognized in the transportation industry as an authority in DBE management, compliance and outreach. She was promoted to the position of Director of SEPTA’s DBE Program Office in 2007. Claitt holds a degree in Business Management from Rutgers University.

In addition to being a member of WTS, Claitt is a member of the Conference of Minority Transportation Officials, the American Public Transportation Association’s Capital Projects Subcommittee, the National Association of Female Executives and is Chairperson of the Pennsylvania Unified Certified Program Oversight Committee. (Note: Claitt recently retired from SEPTA).

SEPTA's proposed overall Disadvantaged Business Enterprise (DBE) participation goal for Federal Fiscal Year 2012 through 2014 is 14%. This proposed goal and its rationale have been developed in accordance with the Federal Transit Administration's regulations 49 CFR Part 26. SEPTA is committed in our efforts to expand contracting opportunities for small, minority and women-owned businesses. Our DBE Program Office provides technical assistance, training and other resources for vendors looking to do business with us.

Lillie Claitt (center) was honored by General Manager Joseph M. Casey (left) and Administrative General Manager of Business Services Neil Patel (right).

Top Honors at Rail Rodeo
Eighteen of North America's best rail operators and maintenance teams flocked to SEPTA's Fern Rock Maintenance Facility for the 2013 International Rail Rodeo Competition.

SEPTA took top honors with the Rail Transit Team Achievement Award. This score is the combined total of the Operations Team and Maintainer Team. The Rail Rodeo competition featured the latest and greatest rail car equipment. Participants competed against their peers, showcasing their professional skills in separate competitions for train operator and maintainer teams. SEPTA's 2013 International Rail Rodeo Team included Nicholas Baldassarre, Donald Chakov, Robert Brooks, Sharon Mapp and Adrian "Sonny" Mapp.

The annual event was held in June 2013 in conjunction with the American Public Transportation Association's (APTA) Rail Conference, the largest and most comprehensive conference for the rail industry.

RAIL RODEO
SEPTA
PHILADELPHIA, PA
2013

Healthy Employees are Happy Employees
"Any company who cares about their employees, cares about their health," said Dr. Ian K. Smith, medical/diet expert for six seasons on VH1's Celebrity Fit Club and host of a nationally-syndicated radio show.

Dr. Ian, as he is known, hosted employee information sessions as part of the SEPTA Human Resources Wellness Connection Program. The Wellness Connection empowers employees and their families to achieve and maintain a healthy lifestyle. Examples include on-site health education, access to farm produce, free glucose, cholesterol and blood pressure screenings and discount health club memberships.

"It's a great thing that SEPTA cares about the health of its employees," said Dr. Ian. He discussed his new weight loss program and book, SHRED, The Revolutionary Diet., and challenged employees to follow its program. Many rose to the challenge. After following the six-week plan, 42 employees lost a combined 450 pounds. In addition to SHRED, SEPTA encourages employees to follow various healthy weight loss programs such as Weight Watchers and NutriSystem.

Providing Excellent Service by a Team of Dedicated Employees

SEPTA Employees Give Back
SEPTA is committed to consistently deliver a positive customer experience. We are driven by our customers needs and fueled by their expectations. But it's important to note our commitment to people goes beyond public transportation. We care about the residents living in the neighborhoods we serve and those living near our many facilities. We care about future generations and seniors alike. And because we care, we give back.

Caring for Seniors
Some members of the Greater Philadelphia region would have been alone on Thanksgiving if not for the open doors and open hearts at Center City’s Market East Station. Here 200 older Philadelphians from the Philadelphia Corporation for Aging (PCA) enjoyed turkey dinner with all of the fixings, donated by Reading Terminal Market merchants. PCA, a nationally recognized Area Agency on Aging, has hosted the Thanksgiving dinner since 2000. This marked the first year SEPTA hosted the holiday celebration. We had a grand time, with SEPTA staff and their families on hand to meet and serve.

Bringing Cheer to Children in Need
Bright red collection barrels burst at the seams, overflowing with 10,000 presents donated by our employees. Employees gave them knowing that their presents could be the only ones some children receive. The games, dolls, basketballs and bikes were donated to deserving children across the Greater Philadelphia Region during the Authority's 32nd annual Yule Toy Drive. The Yule Toy recipient organizations serve families facing financial and sometimes medical hardships.

SEPTA for a Cleaner Philadelphia
Spring is time to tidy up - break out the brooms and sweep away the remnants of a long, cold winter. For the Authority's employees, that means heading out to SEPTA locations across the city for Mayor Michael A. Nutter's Annual "Philly Spring Clean-Up." For the sixth consecutive year, more than 600 SEPTA volunteers, their family members and City Year Corps members headed to 14 of the Authority's sites. "This is always a worthwhile event," said General Manager Joe Casey. "The pride we show in SEPTA and this city is overwhelming. What makes it even more wonderful is the fact that our employees get their families, even young children, involved." The group received a personal thank you from Mayor Nutter, who stopped by the party to applaud SEPTA's and City Year's annual involvement in his Clean-Up. "People want a cleaner, safer city and SEPTA is committed to safety in the system and on the streets," said Mayor Nutter, who noted that he was excited to be with staff from the "best transit agency in the country" and the "best City Year organization in America."

Financial Highlights for the Years Ended June 30 (millions of dollars)

	2013	2012	2011	2010**	2009**	2008	2007	2006	2005	2004
OPERATING REVENUES										
Passenger	443.0	$ 446.8	$ 439.4	$ 396.0	$ 404.8	$ 392.5	$ 344.4	$ 329.9	$ 326.9	$ 323.3
Shared ride subsidies	17.4	18.0	18.7	18.7	19.0	19.8	65.8	67.7	68.9	69.5
Route guarantees	3.3	3.4	3.2	3.0	3.0	3.6	8.1	2.9	3.5	3.8
Other	32.5	30.8	30.7	29.7	31.2	29.9	26.7	25.6	21.5	26.1
Total operating revenues	496.2	499.0	492.0	447.4	458.0	445.8	445.0	426.1	420.8	422.7
OPERATING EXPENSES										
Operating expenses, excluding depreciation *	1,297.8	1,290.7	1,260.0	1,211.9	1,167.9	1,100.2	943.5	893.5	881.3	825.0
Depreciation	330.9	330.4	320.5	302.3	289.5	275.5	264.6	246.1	237.0	213.6
Total operating expenses	1,628.7	1,621.1	1,580.5	1,514.2	1,457.4	1,375.7	1,208.1	1,139.6	1,118.3	1,038.6
NONOPERATING REVENUES (EXPENSES)										
Operating grants & assistance *										
Federal	72.9	68.9	60.8	39.5	32.2	32.6	99.6	126.4	83.7	56.2
State	587.2	582.0	551.1	580.7	537.2	489.9	367.5	309.2	348.1	323.7
Local	83.1	82.3	78.5	79.2	72.8	64.7	66.4	69.2	68.4	63.8
Total operating grants & assistance	743.2	733.2	690.4	699.4	642.2	587.2	533.5	504.8	500.2	443.7
Other nonoperating revenues (expenses)										
Investment income	1.0	2.3	10.4	(4.3)	(14.7)	9.4	6.8	3.2	2.9	1.5
Interest expense	(19.4)	(18.8)	(16.0)	(24.9)	(21.0)	(20.5)	(19.8)	(21.0)	(21.8)	(22.3)
Other	(2.8)	-	-	(0.3)	(0.4)	(0.1)	-	(0.1)	(0.4)	-
Total other nonoperating revenues (expenses)	(21.2)	(16.5)	(5.6)	(29.5)	(36.1)	(11.2)	(13.0)	(17.9)	(19.3)	(20.8)
Total nonoperating revenues (expenses)	722.0	716.7	684.8	669.9	606.1	576.0	520.5	486.9	480.9	422.9
CAPITAL GRANTS	214.7	244.3	360.4	438.4	457.1	441.1	349.2	343.8	316.3	332.9
Increase (decrease) in net position	$ (195.8)	$ (161.1)	$ (43.3)	$ 41.5	$ 63.8	$ 87.2	$ 106.6	$ 117.2	$ 99.7	$ 139.9
OTHER										
Working capital surplus (deficiency)	$ (64.7)	$ (41.9)	$ (69.2)	$ (30.9)	$ (28.6)	$ (50.0)	$ (34.5)	$ (18.9)	$ (42.7)	$ (48.5)

Reclassifications: Certain amounts prior to Fiscal Year 2013 were reclassified to conform to the Fiscal 2013 presentation.

* Operating expenses subsequent to Fiscal Year 2007 include other postemployment benefit expenses related to the adoption in Fiscal Year 2008 of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Beginning in Fiscal Year 2008, the source of subsidies also changed with the passage of Act 44 legislation. The former state system for funding transit including asset maintenance subsidies received under Act 3 and Act 26 was repealed and certain senior citizen subsidies received directly from the state lottery fund were eliminated and replaced with the new PTTF fund. For further discussion, see Note 1 of the financial statements.

** Fiscal Year 2010 reflects the adoption of Governmental Accounting Standards Board Statement Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively. Certain Fiscal Year 2009 amounts were restated accordingly.

Statistical Highlights for the Years Ended June 30

	2013	2012	2011	2010**	2009**	2008	2007	2006	2005	2004
Passenger Trips *(linked, in millions)*										
Transit	212.2	214.0	211.6	200.0	206.1	200.9	190.3	183.9	186.2	185.5
Regional Rail	36.0	35.3	35.4	34.9	35.4	35.4	31.7	30.4	28.6	28.3
Total	248.2	249.3	247.0	234.9	241.5	236.3	222.0	214.3	214.8	213.8
Average Weekday Passenger Trips *(unlinked, in thousands)*										
Transit	1,011	1,007	991	966	979	963	930	920	920	930
Regional Rail	126	122	123	122	124	124	111	107	101	101
Total	1,137	1,129	1,114	1,088	1,103	1,087	1,041	1,027	1,021	1,031
Financial Statistics *(per passenger trip)*										
Operating revenues	$ 2.00	$ 2.00	$ 1.98	$ 1.90	$ 1.90	$ 1.89	$ 2.01	$ 1.99	$ 1.96	$ 1.97
Operating expenses *	6.56	6.50	6.40	6.45	6.04	5.82	5.44	5.32	5.21	4.86
Operating grants & assistance	2.99	2.94	2.80	2.98	2.66	2.48	2.40	2.36	2.33	2.08
Other nonoperating revenues (expenses), net	(0.09)	(0.07)	(0.02)	(0.12)	(0.15)	(0.05)	(0.06)	(0.08)	(0.09)	(0.10)
Capital grants	0.87	0.98	1.46	1.87	1.89	1.87	1.57	1.60	1.47	1.56
Increase (decrease) in net position	$ (0.79)	$ (0.65)	$ (0.18)	$ 0.18	$ 0.26	$ 0.37	$ 0.48	$ 0.55	$ 0.46	$ 0.65

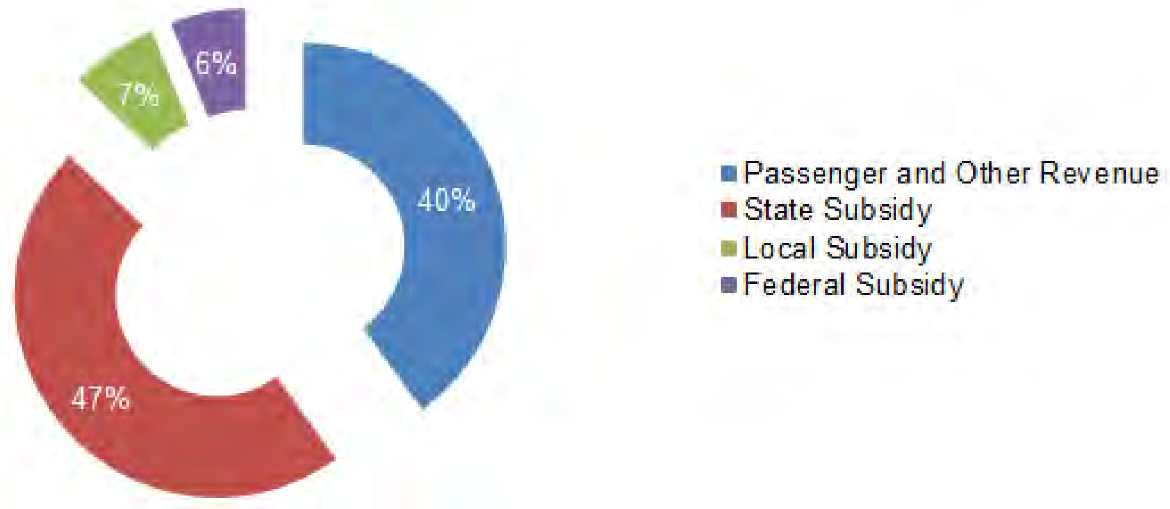
Reclassifications: Certain financial statistic amounts prior to Fiscal Year 2013 were reclassified to conform to the Fiscal 2013 presentation.

* Operating expenses subsequent to Fiscal Year 2007 include other postemployment benefit expenses related to the adoption in Fiscal Year 2008 of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

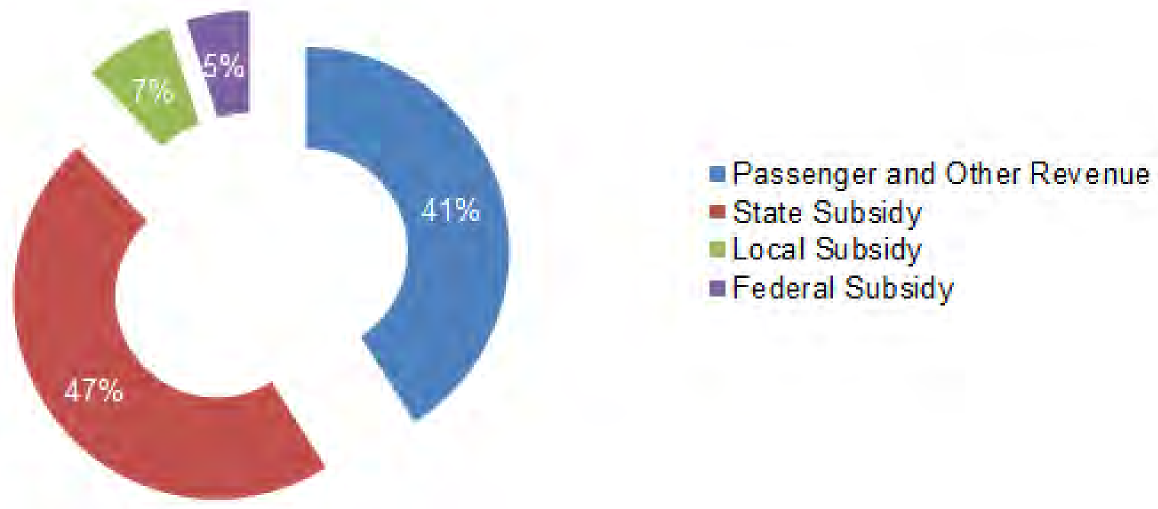
** Fiscal Year 2010 reflects the adoption of Governmental Accounting Standards Board Statement Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively. Certain Fiscal Year 2009 amounts were restated accordingly.

SOURCES OF REVENUE & DISTRIBUTION OF EXPENSES
FY 2013 vs. FY 2012

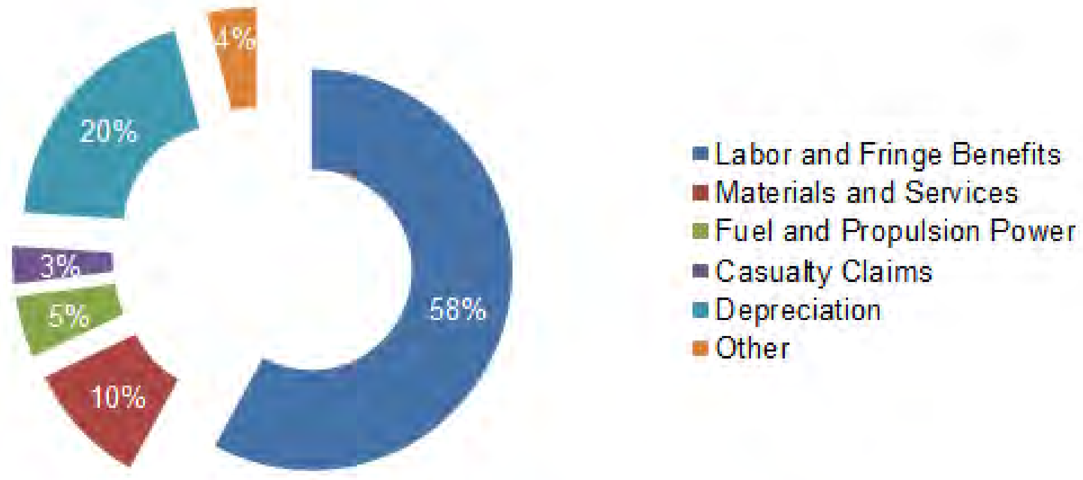
FY 2013 SOURCES OF REVENUE



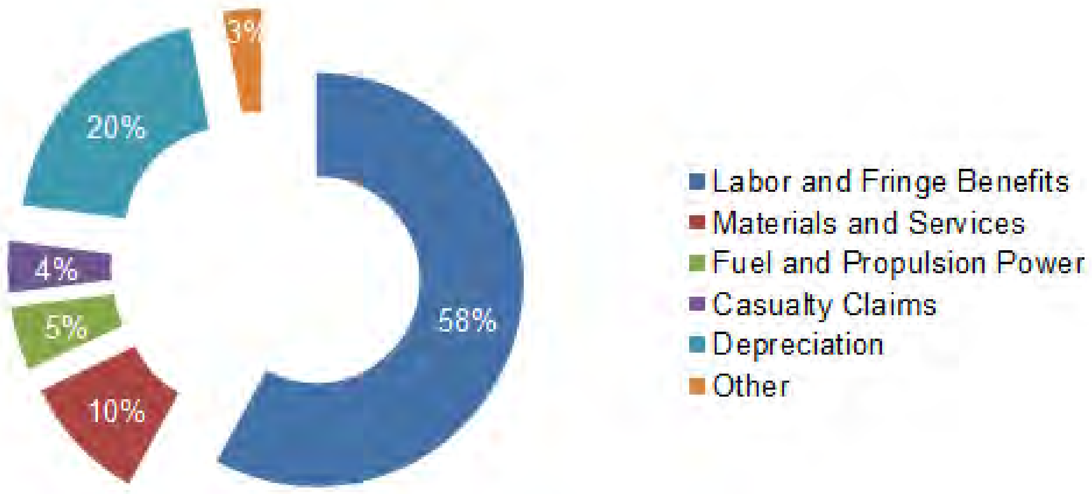
FY 2012 SOURCES OF REVENUE



FY 2013 DISTRIBUTION OF EXPENSES



FY 2012 DISTRIBUTION OF EXPENSES



Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Members of the Board
Southeastern Pennsylvania Transportation
Authority Philadelphia, Pennsylvania

We have audited the accompanying financial statements of the business-type activities of SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (the AUTHORITY), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the AUTHORITY's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the AUTHORITY, as of June 30, 2013 and 2012, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Pronouncements

As described in Note 1 to the financial statements, in 2013 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". Our opinion is not modified with respect to this matter.

Zelenkofske Axelrod LLC

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 50 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Harrisburg, Pennsylvania
December 5, 2013

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

This section of the Southeastern Pennsylvania Transportation Authority's ("Authority") annual financial statements presents a discussion and analysis of the Authority's performance during the fiscal years that ended June 30, 2013 and 2012. Certain Fiscal Year 2012 and 2011 amounts have been reclassified to conform to the Fiscal Year 2013 presentation. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which immediately follows this section.

2013 FINANCIAL HIGHLIGHTS

Passenger revenues decreased .9% from $446.8 million to $443.0 million primarily due to a .4% decrease in ridership that was impacted by the suspension of rail and transit service on October 29th and 30th, 2012 due to Hurricane Sandy and stagnant employment growth in the area. Other operating revenue increased 2.0% from $52.2 million to $53.2 million primarily due to higher advertising revenue.

Operating expenses increased .5% from $1,621.1 million to $1,628.7 million primarily due to an increase in wages, fuel, maintenance materials and the cost to terminate light rail vehicle leases. These cost increases were partially offset by lower casualty claim and fringe benefit costs.

Total government subsidies increased 1.4% from $733.2 million to $743.2 million primarily due to an increase in Federal, State and local matching subsidies needed to support operations for the year.

Total assets decreased 2.6% from $4,357.3 million to $4,243.4 primarily due to the use of restricted state and local service stabilization funds to support operations in Fiscal Year 2013, a decrease in capital assets, and the use of restricted debt proceeds during the year to acquire the new Silverliner V Regional Railcars and to rehabilitate the Wayne Junction Intermodal facility. Total liabilities increased 4.5% from $1,709.8 million to $1,786.3 million primarily due to the increased recognition of other postemployment benefit obligations offset by a reduction in long-term debt. Total net position decreased 7.3% from $2,669.5 million to $2,473.6 million due to capital grants and nonoperating revenues being lower than the net loss from operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of: management's discussion and analysis (this section), basic financial statements and notes to the financial statements.

The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows provide information about the Authority's financial position and recent activities. The financial statements also include notes that explain some of the information in the financial statements, provide more detailed data, and provide more information about the Authority's overall financial status. The Authority's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net position. Total net position of the Authority as of June 30, 2013 and 2012 decreased $195.8 million and $161.1 million, respectively, compared to June 30 of the prior fiscal year. At June 30, 2013, total assets decreased $113.9 million or 2.6% to $4,243.4 million and total liabilities increased $76.5 million or 4.5% to $1,786.3 million. At June 30, 2012, total assets and total liabilities increased 2.6% and 19.0%, respectively.

Net Position
(thousands of dollars)

	As of June 30,		
	2013	**2012**	**2011**
Current assets	$ 439,493	$ 465,038	$ 462,552
Restricted funds	116,291	166,048	29,448
Capital assets	3,678,985	3,716,830	3,747,560
Other assets	8,644	9,417	8,414
Total assets	4,243,413	4,357,333	4,247,974
Deferred outflows of resources	16,482	21,930	19,226
Total assets and deferred outflows	4,259,895	4,379,263	4,267,200
Current liabilities	504,206	506,883	531,775
Public liability, property damage and workers' compensation claims	138,871	133,923	124,569
Long-term debt	496,135	518,771	332,501
Long-term capitalized lease obligation	15,574	15,434	15,272
Deferred capital grant revenue	-	-	7,578
Other postemployment benefits	610,834	512,201	415,790
Other liabilities	20,637	22,571	9,149
Total liabilities	1,786,257	1,709,783	1,436,634
Net position:			
Net investment in capital assets	3,225,203	3,314,318	3,417,464
Restricted	12,716	12,726	4,153
Unrestricted (deficit)	(764,281)	(657,564)	(591,051)
Total net position	2,473,638	2,669,480	2,830,566
Total liabilities and net position	$4,259,895	$4,379,263	$4,267,200

The $25.5 million decrease in current assets includes decreases in restricted funds of $26.1 million, net receivables of $15.4 million, prepaid expenses of $1.6 million offset by an increase in unrestricted cash and investments of $16.7 million and material and supplies of $.9 million. The restricted funds decrease reflects the use of $25.3 million of Act 44 state service stabilization funds that includes local match and interest needed to support operations in Fiscal Year 2013. The net receivable decrease and related unrestricted fund increase was primarily due to lower governmental capital grant receivables of $9.5 million and other receivables of $5.4 million. The other receivable decrease reflects a reduction in the Philadelphia School District outstanding receivable balance for student passes from the prior year.

The $2.5 million increase in current assets as of June 30, 2012 from the previous year was primarily due to a net receivable increase of $23.4 million and related unrestricted fund decrease that resulted from an agreement with the Philadelphia School District to defer collection on $35.3 million in student passes purchased during the year.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

The $49.8 million decrease in noncurrent restricted funds is primarily due to the use of $67.1 million of proceeds from the issuance of the 2011 Capital Grants Receipts Bonds to acquire the new Silverliner V Regional Railcars and to rehabilitate the Wayne Junction Intermodal facility. The decrease was offset by available renewal and replacement restricted funds. In addition to restricted funds, the Authority maintains various unrestricted designated funds, a majority of which were adopted by resolution of the Authority's Board to cover a portion of the public liability and property damage and workers' compensation claims for which the Authority is self-insured. These Board designated amounts totaled $48.1 million as of June 30, 2013, $48.7 million as of June 30, 2012 and $48.3 million at June 30, 2011. The Authority also maintains an unrestricted designated fund, derived from swaption proceeds received in March 2003, which is being amortized over the remaining life of the related outstanding bonds issued. The remaining swaption fund balance was $3.9 million as of June 30, 2013 and was $4.8 million as of June 30, 2012.

For Fiscal Year ending June 30, 2013, total capital assets increased $296.0 million, less $43.3 million of retirements, and accumulated depreciation increased $330.9 million, less $40.4 million of retirements, resulting in a net capital asset decrease of $37.8 million. At June 30, 2012, net capital assets had decreased $30.7 million over the prior year. Major expenditures during both Fiscal Years 2013 and 2012 were incurred for various transit and regional rail infrastructures improvements, new regional rail cars and buses, and the vehicle overhaul program.

The decrease in other assets of $.8 million is related to amortized costs in connection with all of the Authority's outstanding debt. The $1.0 million increase in other assets as of June 30, 2012 from the previous year was primarily due to costs incurred with the issuance of Capital Grants Receipts Bonds and another loan to fund the New Payment Technology project.

Total liabilities at June 30, 2013 increased $76.5 million primarily due to the recognition of the other postemployment benefit obligation increase of $98.6 million, accounts payable of $15.1 million, accrued expenses of $2.5 million, and public liability, property damage and workers' compensation claims of $1.4 million. The accounts payable increase includes a $19.0 million higher liability due to the Authority converting from a provider premium based healthcare plan on August 1, 2012 to a self—insured plan. The accrued expense increase of $2.5 million, or 1.5%, was primarily related to employee payroll wages and taxes. The increased claims liability of .6% reflects higher costs incurred to litigate and settle claims. Offsetting the June 30, 2013 liability increases were reductions in long-term debt of $21.5 million, deferred revenue of $17.8 million, and other liabilities of $1.9 million. The long-term debt decrease reflects debt service payments of $27.6 million, a favorable change in the market value of the Authority's swaps of $5.9 million, and amortized costs of $3.1 million related to bond premiums and refundings. Offsetting the June 30, 2013 debt decrease were additional loan borrowings during the year of $15.1 million to fund the New Payment Technology project. The deferred revenue decrease was primarily related to a reduction in unearned state operating subsidies available that were received under Act 44.

At June 30, 2012, total liabilities had increased 19.0% from $1,436.6 million to $1,709.8 million primarily due to the increased recognition of the other postemployment benefit obligation of $96.4 million and the issuance of $201.6 million in Capital Grant Receipts Bonds, Series 2011 to finance the new railcars and rehabilitate the Wayne Junction facility.

Net investment in capital assets consists of capital assets net of accumulated depreciation, reduced by the amount of long-term debt and liabilities attributable to the acquisition of those assets. Restricted net position represents deposits that are not available for general use because of third-party restrictions. Unrestricted net position represents net assets that are available for general use. The unrestricted net position deficit increased $106.7 million and $66.5 million in Fiscal Years 2013 and 2012, respectively, to a total deficit amount of $764.3 million at June 30, 2013 primarily due to the recognition of the accrued other postemployment benefit obligation increase in each of those fiscal years. The deficit in unrestricted net position is not expected to have an adverse impact on continuing operations primarily due to the amount of noncurrent liabilities for other postemployment benefits and public liability, property damage, and workers' compensation claims. These liabilities previously served, directly or indirectly, to increase the deficit; however, the liability amounts are not expected to be significantly liquidated in the upcoming year, which therefore would not require the use of monetary assets.

In Fiscal Year 2008, the Authority began receiving State funding pursuant to Act 44 which was enacted by the State legislature in July 2007 and signed into law by the Governor on July 18, 2007. This legislation established a Public Transportation Trust Fund ("PTTF") in the State Treasury and completely restructured the way public transportation was funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997 was repealed and replaced with the PTTF dedicated fund. The PTTF provides State funding, in conjunction with required local matching funds, for five programs, namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives. In March 2010, the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to begin tolling Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA's annual capital budget was cut by 25 percent, or $110 million, beginning in Fiscal Year 2011 which has continued into Fiscal Year 2014. Without approved sources of funding to replace this funding gap, SEPTA must continue to program State funding for capital projects at the reduced Fiscal Year 2010 level and the funding shortfall will have negative consequences on the operating budget and the service provided. In April 2011, the Transportation Funding Advisory Commission ("TFAC") was established by Executive Order at the direction of the Pennsylvania Governor. The purpose of the Commission was to develop a comprehensive strategic proposal for addressing the transportation funding needs of Pennsylvania. On August 1, 2011, the TFAC submitted its final report. The report outlines several modernization proposals and a recommended funding package to address transportation needs for both highway and transit, throughout the Commonwealth. In June 2013, the Pennsylvania Senate passed Senate Bill 1 which would provide for a significant increase in transportation funding. The additional funding is expected to generate sufficient capital for the Authority to continue to provide the level of service it does today. In November 2013, the Pennsylvania General Assembly passed a transportation funding legislation that was signed into law by Governor Corbett on November 25, 2013. The legislation is Act 89 of 2013.

Changes in Net Position. Net position for the Fiscal Year ended June 30, 2013 decreased $195.8 million to $2,473.6 million. The decrease in net position as compared to Fiscal Years 2012 and 2011 is described below. For Fiscal Year 2013, total operating revenues decreased .6% and total operating expenses increased .5%. In Fiscal Year 2012, total operating revenues and operating expenses had increased 1.4% and 2.6%, respectively.

Changes in Net Position
(thousands of dollars)

	For the Years ended June 30,		
	2013	2012	2011
Operating revenues			
Passenger	$ 443,017	$ 446,827	$ 439,408
Other income	53,228	52,181	52,599
Total operating revenues	496,245	499,008	492,007
Operating expenses			
Operating expenses excluding depreciation	1,297,803	1,290,721	1,260,011
Depreciation	330,934	330,364	320,504
Total operating expenses	1,628,737	1,621,085	1,580,515
Loss from operations	(1,132,492)	(1,122,077)	(1,088,508)
Nonoperating revenues (expenses)			
Subsidies	743,172	733,194	690,371
Nonoperating expenses - net	(21,187)	(16,496)	(5,556)
Total nonoperating revenues (expenses)	721,985	716,698	684,815
Capital grant funding	214,665	244,293	360,410
(Decrease) in net position	(195,842)	(161,086)	(43,283)
Net position, beginning of year	2,669,480	2,830,566	2,873,849
Net position, end of year	$2,473,638	$2,669,480	$2,830,566

In Fiscal Year 2013, passenger revenues decreased .9% primarily due to a .4% decrease in ridership which was impacted by the suspension of rail and transit service on October 29th and 30th due to Hurricane Sandy as well as stagnant employment growth in the region. In Fiscal Year 2012, passenger revenues increased 1.7% primarily due to a .9% increase in ridership. Other income increased 2.0% in Fiscal Year 2013 primarily due to higher advertising revenue. In Fiscal Year 2012, other income had decreased .8% primarily due to lower income from real estate leases.

Subsidies increased by 1.4% in Fiscal Year 2013 to cover the operating expense increase of .5% and the operating revenue decrease of .6%. In Fiscal Year 2012, subsidies increased 6.2% to meet the budgeted expense increase of 3.8% and the new debt service requirements related to the acquisition of the new railcars and the rehabilitation of the Wayne Junction facility.

Other nonoperating expenses, which increased by $4.7 million in Fiscal Year 2013, includes a loss from the early retirement of capital assets of $2.9 million, an interest expense increase of $.5 million and an investment income decrease of $1.3 million. The early retirement loss on capital assets was primarily related to an unsuccessful regional railcar microprocessor propulsion upgrade project that was acquired with a research grant. The interest expense increase was primarily related to interest in connection with the Capital Grant Receipts Bonds issued in August 2011. The investment income decrease in Fiscal Year 2013 was due to a less favorable change in the market value of its remaining outstanding Swap as compared to FY 2012.

In Fiscal Year 2012, other nonoperating expenses increased $10.9 million due to higher interest expenses related to the Capital Grant Receipt Bonds and lower investment income due to an investment gain recognized in Fiscal Year 2011 for a Swap agreement that was terminated.

Capital grant funding decreased in both Fiscal Years 2013 and 2012 primarily due to a reduction in capital project work performed as a result of lower capital funds being made available by both the federal and state governments.

Operating Expenses
(thousands of dollars)

	For the Years ended June 30,		
	2013	2012	2011
Salaries and wages	$ 466,119	$ 455,324	$ 443,898
Fringe benefits	393,870	400,466	380,445
Other postemployment benefits	98,633	96,411	109,400
Services	53,912	53,561	53,932
Fuel & lubricants	46,260	42,920	40,608
Tires & tubes	2,809	2,413	2,026
Other material & supplies	55,120	48,152	48,981
Utilities	49,058	49,827	51,454
Casualty & liability	44,511	66,266	51,554
Taxes	1,887	2,044	2,168
Purchased transportation	42,765	40,182	42,195
Leases and rentals	30,315	29,595	28,869
Miscellaneous	12,544	3,560	4,481
Depreciation	330,934	330,364	320,504
Total operating expenses	$1,628,737	$1,621,085	$1,580,515

Salaries and wages increased $10.8 million, or 2.4%, in Fiscal Year 2013 and 2.6% in Fiscal Year 2012 primarily due to contractual and budgeted increases. Fringe benefit expenses decreased $6.6 million, or 1.6%, in Fiscal Year 2013 primarily due to a reduction in the workers' compensation liability and railroad employee claim payouts under the Federal Employees Liability Act ("FELA"). In Fiscal Year 2012, fringe benefits increased 5.3% due to higher costs for health care, pensions, and FELA claims.

Other postemployment benefit expenses increased 2.3% in Fiscal Year 2013 reflecting the increasing cost of postemployment health and prescription drug benefits. Expenses decreased 11.9% in Fiscal Year 2012 primarily due to a decrease in prescription drug costs.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Fuel, tires, and other material and supplies increased 7.8%, 16.4%, and 14.5% due to higher costs. Other material and supplies also reflects the removal of obsolete material associated with the retired SL-II and SL-III retired railcar fleet.

Utilities and taxes decreased 1.5% and 7.7% primarily due to lower propulsion power generation costs.

Purchased transportation expenses increased $2.6 million or 6.4% in Fiscal Year 2013 primarily due to higher carrier costs in the current year.

Casualty and liability expenses decreased $21.8 million in Fiscal Year 2013, or 32.8%, primarily due to a reduction in claims paid and a lower claims liability reserve increase. In Fiscal Year 2012, claims expenses increased 28.5% due to higher claim settlement costs and a claims liability reserve increase, particularly in the areas of corporate and FELA claims.

Lease and rental expenses increased 2.4% primarily due to an increase in regional rail track lease costs.

Miscellaneous expenses increased $9.0 million in Fiscal Year 2013 primarily due to the termination of light rail vehicle leases with three equity investors at a cost of $7.6 million as a result of the lease insurer's credit rating being downgraded. The Fiscal Year 2012 decrease of $.9 million was primarily due to a decrease in collateral costs for a railcar lease.

Depreciation increased .2% in Fiscal Year 2013 and 3.1% in Fiscal Year 2012 primarily due to the replacement of the fully depreciated SL-II and SL-III railcars with the new SL-V vehicles.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was $8,157.2 million. Net of accumulated depreciation of $4,478.2 million, net capital assets totaled $3,679.0 million. This amount represents a net decrease, including additions and disposals net of depreciation, of $37.8 million or 1.0% below June 30, 2012.

As of June 30, 2013, the Authority has commitments for various unexpended construction and design contracts of approximately $242 million and commitments for unexpended revenue vehicle purchases primarily for regional rail cars and electric-diesel buses of approximately $202 million. The Authority's capital budget for Fiscal Year 2014 includes capital asset additions in the amount of $226.5 million. A significant portion of the additions is scheduled for the normal replacement and overhaul of transit revenue vehicles, and various infrastructure improvement capital programs, including the Regional Rail Signal System Modernization Project.

Debt Administration. As of June 30, 2013, the Authority's long-term debt, including current maturities, was $479.7 million. This amount excludes the swap derivative liability of $18.1 million and $27.1 million for unamortized premium and amounts deferred in connection with defeased debt (or $524.9 million in total). Long-term debt increased $15.1 million from borrowings on a loan to fund costs incurred on the New Payment Technology project. Offsetting the long-term debt increase were regularly scheduled debt service payments of $27.6 million.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, customers, and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer/Treasurer, Southeastern Pennsylvania Transportation Authority, 1234 Market Street, Philadelphia, PA 19107-3780.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012
(THOUSANDS OF DOLLARS)

ASSETS AND DEFERRED OUTFLOWS	2013	2012
CURRENT ASSETS		
Unrestricted funds (Note 2)		
Cash and cash equivalents	$ 40,150	$ 21,436
Investments	56,775	58,841
Restricted funds (Note 2)		
Cash and cash equivalents	81,305	62,013
Investments	25,186	70,603
Receivables		
Operating subsidies	1,573	2,043
Capital grants (Note 3)	107,612	117,088
Other	43,860	49,289
Material and supplies	68,360	67,499
Prepaid expenses	14,672	16,226
Total current assets	439,493	465,038
NONCURRENT ASSETS		
Restricted funds (Note 2)		
Cash and cash equivalents	51,900	31,125
Investments	64,391	134,923
Capital assets, net (Notes 3, 4, 5 & 6)	3,678,985	3,716,830
Other	8,644	9,417
Total noncurrent assets	3,803,920	3,892,295
Total assets	4,243,413	4,357,333
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivative (Note 5)	16,482	21,930
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 4,259,895	$ 4,379,263

LIABILITIES AND NET POSITION	2013	2012
CURRENT LIABILITIES		
Current maturities of		
Long-term debt (Note 5)	$ 28,730	$ 27,555
Accounts payable - trade	69,513	54,448
Accrued expenses (Note 7)	166,028	163,552
Current portion of public liability, property damage and workers' compensation claims (Note 11)	86,057	89,627
Deferred revenue	153,878	171,701
Total current liabilities	504,206	506,883
NONCURRENT LIABILITIES		
Public liability, property damage and workers' compensation claims (Note 11)	138,871	133,923
Long-term debt (Note 5)	496,135	518,771
Long-term capitalized lease obligation (Note 6)	15,574	15,434
Other postemployment benefits (Note 8)	610,834	512,201
Other liabilities (Note 6)	20,637	22,571
Commitments and contingencies (Notes 5, 6, 10, 11 and 12)		
Total noncurrent liabilities	1,282,051	1,202,900
Total liabilities	1,786,257	1,709,783
NET POSITION		
Net investment in capital assets	3,225,203	3,314,318
Restricted	12,716	12,726
Unrestricted (deficit)	(764,281)	(657,564)
Total net position	2,473,638	2,669,480
TOTAL LIABILITIES AND NET POSITION	$ 4,259,895	$ 4,379,263

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(THOUSANDS OF DOLLARS)

	2013	2012
OPERATING REVENUE:		
Passenger Fare	$ 443,017	$ 446,827
Route Guarantees	3,306	3,393
State Shared Ride Program	15,737	16,218
Area Agency on Aging	1,608	1,663
Other contract revenue	487	99
Advertising	13,398	12,688
Miscellaneous income	18,692	18,120
Total revenue available from operations	496,245	499,008
OPERATING EXPENSES:		
Salaries and wages	466,119	455,324
Fringe benefits	393,870	400,466
Other postemployment benefits	98,633	96,411
Services	53,912	53,561
Fuel & lubricants	46,260	42,920
Tires & tubes	2,809	2,413
Other materials & supplies	55,120	48,152
Utilities	49,058	49,827
Casualty & liability	44,511	66,266
Taxes	1,887	2,044
Purchased transportation	42,765	40,182
Leases and rentals	30,315	29,595
Miscellaneous	12,544	3,560
Depreciation	330,934	330,364
Total operating expenses	1,628,737	1,621,085
Loss from operations	(1,132,492)	(1,122,077)
NON-OPERATING REVENUES/(EXPENSES):		
Capital funds used for operating assistance and planning grants:		
Federal government	72,860	68,957
Commonwealth of Pennsylvania	42,922	43,863
Local governments	1,410	1,546
Operating grants:		
Commonwealth of Pennsylvania Act 44 Funds	544,330	538,111
Local Governments Act 44 Matching Funds	81,650	80,717
Total government subsidies for operations	743,172	733,194
Other Private/Public Sources		
Investment income	1,029	2,311
Gain/(Loss) on disposal of capital assets	(2,859)	-
Interest expense (Note 5)	(19,357)	(18,807)
Total nonoperating revenues (expenses)	721,985	716,698
Loss before capital grant funding	(410,507)	(405,379)
CAPITAL GRANT FUNDING:		
Federal	123,838	150,035
State	83,707	88,620
Local	7,120	5,638
Total capital grant funding	214,665	244,293
DECREASE IN NET POSITION	(195,842)	(161,086)
Net position, beginning	2,669,480	2,830,566
Net position, ending	$ 2,473,638	$ 2,669,480

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(THOUSANDS OF DOLLARS)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	$ 454,716	$ 412,492
Other receipts	53,917	48,892
Payments for salaries, wages and fringe benefits	(842,995)	(859,164)
Payments for fuel, utilities and taxes	(97,226)	(93,842)
Payments for casualty and liability claims	(35,716)	(46,583)
Payments for other operating expenses	(200,383)	(176,684)
Net cash used in operating activities	(667,687)	(714,889)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts of operating subsidies	720,880	720,829
Net cash provided by noncapital financing activities	720,880	720,829
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	223,026	258,282
Increase in deferred capital grant revenue and other liabilities	-	6,454
Acquisition of operating property and construction in progress	(299,815)	(332,216)
Proceeds from issuance of debt	15,100	223,219
Increase in long-term capitalized lease obligation	140	162
Repayment/reduction of long-term debt	(27,555)	(28,040)
Interest paid	(23,200)	(22,156)
Net cash (used in) provided by capital and related financing activities	(112,304)	105,705
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	284,988	229,034
Receipt of interest	1,336	740
Purchase of investments	(168,432)	(387,360)
Net cash provided by (used in) investing activities	117,892	(157,586)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,781	(45,941)
CASH AND CASH EQUIVALENTS		
Beginning of year	114,574	160,515
End of year	$ 173,355	$ 114,574
CASH AND CASH EQUIVALENTS		
Unrestricted	$ 40,150	$ 21,436
Restricted	133,205	93,138
Total	$ 173,355	$ 114,574
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (1,132,492)	$ (1,122,077)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	330,934	330,364
Decrease (increase) in receivables	6,129	(37,745)
(Increase) in materials & supplies	(861)	(1,936)
Decrease (increase) in prepaid expenses	1,554	(1,622)
Increase in accounts payable - trade	18,797	3,519
Increase (decrease) in accrued expenses and other liabilities net of other assets and deferred outflows	8,241	(1,105)
Increase in public liability and property damage claims	1,378	19,302
Increase in other postemployment benefits	98,633	96,411
Total adjustments	464,805	407,188
Net cash used in operating activities	$ (667,687)	$ (714,889)

See accompanying notes to Financial Statements.

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SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)
JUNE 30, 2013 AND 2012

1. Summary of Significant Accounting Policies

Basis of Presentation and Nature of Authority

The Southeastern Pennsylvania Transportation Authority ("Authority" or "SEPTA"), an instrumentality of the Commonwealth of Pennsylvania created by the State legislature, operates transportation facilities in the five-county Philadelphia metropolitan area which encompasses approximately 2,200 square miles. The Authority's operations are accounted for in the following separate divisions: City Transit, Regional Rail and Suburban Operations (Victory and Frontier). All material interdivisional transactions have been eliminated.

The City Transit Division serves the City of Philadelphia ("City") with a network of 86 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 651 thousand passenger trips per day. The Regional Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 126 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 46 interurban trolley, light rail and bus routes, as well as demand response services, providing approximately 60 thousand passenger trips per day.

There are two principal sources of revenue: passenger revenue and governmental subsidies. The subsidies are dependent upon annual appropriations, which are not determinable in advance, from Federal, State and local sources. The subsidies for Fiscal Years 2013 and 2012 are summarized as follows:

	2013	2012
Federal subsidies:		
Preventive maintenance reimbursements	$ 35,994	$ 34,847
Leasehold/debt service reimbursements	35,674	34,110
Emergency Relief - Hurricane Sandy	1,192	-
State and local subsidies:		
Act 44 operating subsidies	625,980	618,828
Act 3 and Act 44 leasehold/debt service reimbursements	44,332	45,409
Total subsidies	$ 743,172	$ 733,194

For FY 2012, the federal funding is pursuant to the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users ("SAFETEA-LU"). SAFETEA-LU was enacted in August 2005 and covers funding for Fiscal Years 2004 through 2009. For Fiscal Years 2010 through 2012, Congress extended SAFETEA-LU several times through Federal continuing resolutions which allowed federal funding to continue through June 30, 2012. On July 6, 2012, the President signed "Moving Ahead for Progress in the 21st Century (MAP-21)" into law. This legislation included language that extended SAFETEA-LU, federal funding through September 30, 2012. In addition, MAP-21 authorized funding for Fiscal Years 2013 and 2014. Federal subsidies are providing for the reimbursement of vehicle, fixed guideway and structure preventive maintenance, debt service and certain capital lease expenses.

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Nature of Authority (Continued)

Beginning in Fiscal Year 2008, State funding is pursuant to Act 44 of 2007 ("Act 44"). Act 44 was enacted by the State legislature in July 2007 and signed into law by the Governor on July 18, 2007. This legislation established a Public Transportation Trust Fund ("PTTF") in the State Treasury and completely restructures the way public transportation is funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997 was repealed and replaced with the PTTF dedicated fund. The PTTF provides State funding, in conjunction with required local governmental matching funds, from the five-county SEPTA region for five programs namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives.

State funding represents the largest single source of subsidy revenue and the City is the largest single provider of local subsidies. Senior Citizen subsidies are primarily funded by the State and beginning in Fiscal Year 2008 only includes subsidies related to the State Shared Ride program. It is the Authority's policy to record all subsidies on a basis consistent with the time period specified in the governmental grant for federal and state subsidies. Local government subsidies were recorded based upon the matching funding requirements of Act 44 and Act 3.

Accounting and Financial Reporting

The Authority follows Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" (GASB Statement No. 34), which requires a Management's Discussion and Analysis to provide an analytical overview and discussion of financial activities. In Fiscal Year 2013, the Authority implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement provides reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net assets reporting requirements in Statement No. 34 to a measure of net position. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Authority has a Swap that qualifies for reporting in this category. The cash flow statement is prepared using the direct method.

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from the Authority's principal operation of providing passenger service. The principal operating revenues are passenger fares and essentially all operating expenses relate to the delivery of passenger transportation. All other revenues and expenses are reported as nonoperating revenues or expenses, or capital grants.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits

During Fiscal Year 2008, the Authority adopted Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB Statement No. 45"). The statement establishes standards for the measurement, recognition, and display of other postemployment benefits ("OPEB") expense/expenditures and related liabilities and note disclosures. The statement requires recognition of the cost of OPEB in the periods when the related employees' services are received and requires reporting certain information, such as funding policy and actuarial evaluation process and assumptions. The impact of GASB Statement No. 45 is more fully described in Note 8.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported period. Actual results could differ from those estimates.

Renewal and Replacement

Certain agreements with the City require the Authority to provide a portion of its gross revenues to be used for renewal and replacements of operating property, including, when approved, the matching of State or Federal grant funding for the acquisition of capital assets. These funds are included in the restricted cash and investments by the Authority.

Investments

The Authority accounts for investments at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. Investments are more fully described in Note 2.

Materials and Supplies

The inventory of materials and supplies of maintenance parts is valued on an average cost basis.

Capital Assets

It is the Authority's policy to capitalize and depreciate capital assets acquired with capital grants, renewal and replacement and other operating funds, as more fully described in Note 4.

Pensions

The Authority maintains five trusteed, single-employer, defined benefit pension plans covering substantially all of its full-time employees, other than regional rail union employees. Regional rail union employees are covered under pension provisions of the Railroad Retirement Act. The pension plans are more fully described in Note 7.

Self-Insurance

The Authority provides for the present value of the self-insurance portion of public liability, property damage, workers' compensation claims, and pollution remediation obligations. As of August 1, 2012, the Authority elected to self-insure, through a third-party administrator, the medical coverage it provides to most employees and certain retirees. The Authority is also self-insured for prescription drug benefits it provides to all employees and certain retirees through a third-party administrator. The Authority's self-insurance is more fully described in Note 11.

Grants and Subsidies

All capital grants, meeting the timing and eligibility requirements of the grant agreement, are recorded as an increase in the Statement of Revenues, Expenses and Changes in Net Position.

Statements of Cash Flows

For the purpose of the Statements of Cash Flows, the Authority considers cash equivalents to be all highly liquid investments with a maturity of ninety days or less at the time of purchase

Reclassifications

Certain Fiscal 2012 amounts have been reclassified to conform to the Fiscal 2013 presentation.

2. Cash, Cash Equivalents and Investments

The investments in the accompanying financial statements are reported at fair value.

The components of cash and cash equivalents as of June 30 are:

	2013	2012
Cash on hand	$ 3,253	$ 1,774
Cash in bank	50,649	29,211
Money market funds	134,842	93,164
Outstanding checks	(15,389)	(9,575)
Total cash and cash equivalents	173,355	114,574
Less current portion - unrestricted	40,150	21,436
Less current portion - restricted	81,305	62,013
Total noncurrent portion - restricted	$ 51,900	$ 31,125

The components of investments as of June 30 are:

	2013	2012
U.S. Government and agencies	$ 116,781	$ 155,469
Certificates of Deposit	4,121	3,913
Commercial paper	7,488	40,993
Municipal Securities	2,431	9,842
Mutual funds	15,531	54,150
Total investments	146,352	264,367
Less current portion - unrestricted	56,775	58,841
Less current portion - restricted	25,186	70,603
Total noncurrent portion - restricted	$ 64,391	$134,923

2. Cash, Cash Equivalents and Investments (Continued)

The Authority has set aside cash, cash equivalents and investments primarily to provide for the payment of a portion of its future obligations. These include amounts restricted primarily for: State dedicated funds in accordance with Act 44 and contractual agreements between the Authority and external parties. The amounts restricted, as of June 30, are as follows:

	2013	2012
Restricted:		
State dedicated funding provided by Act 44, including local match	$ 56,015	$ 81,344
Debt Service Funds:		
Capital Grant Receipts Bonds, Series of 2011	25,492	25,626
Revenue Refunding Bonds, Series of 2010	20,930	20,932
Special Revenue Bonds, Series of 2007	12,397	13,286
Capital Project Funds:		
Silverliner V railcar and Wayne Junction Intermodal Facility Fund (Unspent proceeds – Capital Grant Receipts Bonds, Series 2011)	53,012	120,106
City Hall Dilworth Plaza Fund	8,000	8,000
Market-Frankford Elevated Haunch Repair Fund	6,254	6,250
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	641	675
Light rail cars	1,517	1,718
Renewal & Replacement Fund to be used as City match for specific capital projects	18,801	-
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	15,067	15,411
Cross border lease transaction proceeds to be used for capital or operating needs which require FTA approval	283	1,163
Security deposits and other	4,373	4,153
Total	$ 222,782	$ 298,664

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2013, allowable investments of the Authority were specified by Act 3 of 1994 ("Act 3"). In general, the Authority may invest in obligations of the U. S. Government and its agencies, repurchase agreements, which are secured by investments allowable by Act 3, and mutual funds which invest in the foregoing items. Act 3 does specifically limit investments in municipal bonds and commercial paper to any of the three highest and the highest rating categories, respectively, issued by nationally recognized statistical rating organizations. All the Authority's investment transactions are executed with recognized and established securities dealers and commercial banks, and conducted in the open market at competitive prices.

As of June 30, 2013, the Authority's investments in money market funds, mutual funds, municipal securities and bonds of U.S. agencies were rated Aaa by Moody's Investor Service. They also rated 100% of corporate securities as P-1. The Authority's general investment policy is to apply the prudent-person rule while adhering to the investment restrictions as prescribed in Act 3, the Authority's enabling legislation: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments.

The Authority places no limit on the amount the Authority may invest in any one issuer. More than five percent of the Authority's cash equivalents and investments are in the money market and mutual funds held by Morgan Stanley Government Institutional Money Market Fund, Federal Home Loan Bank, Morgan Stanley Treasury Fund and Federated Obligations Fund. These cash equivalents and investments are 27.57%, 25.98%, 10.04% and 6.45%, respectively, of the Authority's total cash equivalents and investments.

For a deposit, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2013, $50,399 of the Authority's cash in the bank of $50,649 was fully collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2013, $150,373 of the Authority's cash equivalent and investment balance of $281,194 was exposed to custodial credit risk as follows:

Money market funds	$ 134,842
Mutual funds	15,531
Total	$ 150,373

The money market funds and mutual funds invest solely in securities that are issued or guaranteed by the U.S. Government, its agencies or instrumentalities. Fund shares are not insured or guaranteed. SEPTA's policy requires that all deposits with financial institutions must be collateralized to the extent not protected by F.D.I.C. insurance and in accordance with the Commonwealth of Pennsylvania Act No. 72 of 1971. Securities that can be accepted as collateral are limited to U.S. Government Securities, Federal Agency Securities and Municipal Securities. Also, in accordance with its policy, SEPTA's investments, except for money market funds and mutual funds, are held in the Authority's name by a third-party safe-keeping custodian that is separate from the counterparty or in the custody of a trust department, as required by bond covenants.

2. Cash, Cash Equivalents and Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates and is a measure of the cash-weighted average term to maturity of the investment. The higher the duration, the greater the changes in fair value when interest rates change. The Authority measures interest rate risk using effective duration expressed in years. Effective duration takes into consideration the changes in expected cash flows for securities with embedded options or redemption features, when the prevailing interest rates change. As of June 30, 2013 the Authority had the following investments in its portfolio:

Investment Type:	Fair Value	Effective Duration
U. S. agencies	$116,781	2.414
Certificates of deposit	4,121	0.748
Commercial paper	7,488	0.315
Municipal securities	2,431	0.350
Money market funds	134,842	0.003
Mutual funds	15,531	0.003
	281,194	
Cash in bank	50,649	
Total fair value including accrued interest	$331,843	
Portfolio effective duration		0.872

Through its investment policy, the Authority manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its operating cash investments to less than six months, and its entire invested portfolio to less than one year. The Authority's operating cash invested at fiscal year-end was $19.1 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was $331.8 million with an effective duration of 0.872 years.

The nature and composition of the Authority's deposits and investments during the year were similar to those at year-end.

3. Capital Contributions and Grants

Capital Contributions and Grants Received

Under the Federal Transit Act, as amended, the United States Department of Transportation ("U.S. DOT"), the State and the local governments have approved capital grants aggregating approximately $7.8 billion from inception to June 30, 2013 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2013, the Authority had incurred costs of approximately $7.5 billion against these grants of which $214.7 million and $244.3 million were incurred in Fiscal Years 2013 and 2012, respectively.

The terms of these grants require, among other things, the Authority to utilize the equipment and facilities for the purpose specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the asset, and comply with the equal employment opportunity and affirmative action programs as required by the Federal Transit Act. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the U.S. DOT. In management's opinion, the Authority is in substantial compliance with these requirements as of June 30, 2013.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. Capital Assets

Capital assets are summarized as follows:

	June 30, 2012	Additions	Reclassifications	Retirements	June 30, 2013
Capital Assets					
Revenue vehicles	$ 2,299,489	$ 42,462	$ 71,725	$ 29,664	$ 2,384,012
Transit facilities, rail stations, & depots	2,551,204	41,909	2,702	-	2,595,815
Track, roadway & signals	2,438,415	74,297	5,777	-	2,518,489
Intangibles	28,181	6,078	-	-	34,259
Other	521,727	15,711	16,426	13,614	540,250
Total	7,839,016	180,457	96,630	43,278	8,072,825
Construction in progress	65,525	115,491	(96,630)	-	84,386
Total	7,904,541	295,948	-	43,278	8,157,211
Accumulated depreciation					
Property and equipment	4,187,711	330,934	-	40,419	4,478,226
Total	4,187,711	330,934	-	40,419	4,478,226
Capital assets, net	$ 3,716,830	$ (34,986)	$ -	$ 2,859	$ 3,678,985

	June 30, 2011	Additions	Reclassifications	Retirements	June 30, 2012
Capital Assets					
Revenue vehicles	$ 2,102,611	$ 156,062	$ 54,547	$ 13,731	$ 2,299,489
Transit facilities, rail stations, & depots	2,450,976	75,817	24,411	-	2,551,204
Track, roadway & signals	2,400,930	33,588	3,897	-	2,438,415
Intangibles	28,025	156	-	-	28,181
Other	503,731	21,785	(3,406)	383	521,727
Total	7,486,273	287,408	79,449	14,114	7,839,016
Construction in progress	132,454	12,520	(79,449)	-	65,525
Total	7,618,727	299,928	-	14,114	7,904,541
Accumulated depreciation					
Property and equipment	3,871,167	330,364	-	13,820	4,187,711
Total	3,871,167	330,364	-	13,820	4,187,711
Capital assets, net	$ 3,747,560	$ (30,436)	$ -	$ 294	$ 3,716,830

Capital assets are acquired with capital grants, renewal and replacement and other operating funds. Capital assets are stated at cost and depreciation is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are generally 12 to 30 years for revenue vehicles, 30 years for structures, track and roadway, and 4 to 10 years for intangibles, signals and other equipment. Vehicle overhaul costs are capitalized and depreciated as capital assets over the extended useful lives of the vehicles estimated at 4 or 5 years. Capital assets which are inexhaustible and intangible assets with indefinite useful lives are not subject to depreciation.

As of June 30, 2013, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. Capital Assets (Continued)

As of June 30, 2013, the Authority has commitments for various unexpended construction contracts of approximately $242 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately $202 million.

5. Long-Term Debt and Swaps

Long-term debt as of June 30, 2013 and 2012 consists of the following:

Long-Term Debt:	June 30, 2012	Additions	Market Value Change	Payments/ Reductions	June 30, 2013	Due Within One Year
Capital Grants Receipts Bonds, Series 2011, due in varying amounts through 2029, with annual interest rates from 3% to 5%	$ 194,260	$ -	$ -	$ 7,775	$186,485	$ 8,105
New Payment Technology Loan with annual interest rate of 1.75%	4,083	15,100	-	-	19,183	-
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	195,875	-	-	12,005	183,870	12,525
Variable Rate Revenue Refunding Bonds, Series of 2007, with interest based on 67% of 1-month LIBOR plus 1.05% through 2022	97,950	-	-	7,775	90,175	8,100
	492,168	15,100	-	27,555	479,713	$ 28,730
Unamortized bond premium, net of discount	34,815	-	-	3,768	31,047	
Less amounts deferred in connection with refunded debt	(4,692)	-	-	(680)	(4,012)	
Subtotal Long-Term Debt	522,291	15,100	-	30,643	506,748	
Swaps:						
Series of 2007 Swap	21,930	-	(5,448)	-	16,482	
Series of 2010 Basis Swap (formerly Series of 1999A/1999B)	2,105	-	(470)	-	1,635	
Subtotal Swaps	24,035	-	(5,918)	-	18,117	
Total Long-Term Debt, including Swaps	$ 546,326	$ 15,100	$ (5,918)	$ 30,643	$524,865	

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt:	June 30, 2011	Additions	Market Value Change	Payments/ Reductions	June 30, 2012	Due Within One Year
Capital Grants Receipts Bonds, Series 2011, due in varying amounts through 2029, with annual interest rates from 3% to 5%	$ -	$201,615	$ -	$ 7,355	$194,260	$7,775
New Payment Technology Loan with annual interest rate of 1.75%	-	4,083	-	-	4,083	-
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	209,135	-	-	13,260	195,875	12,005
Variable Rate Revenue Refunding Bonds, Series of 2007, due in varying amounts through 2022	105,375	-	-	7,425	97,950	7,775
	314,510	205,698	-	28,040	492,168	$27,555
Unamortized bond premium, net of discount	21,002	17,521	-	3,708	34,815	
Less amounts deferred in connection with refunded debt	(5,416)	-	-	(724)	(4,692)	
Subtotal Long-Term Debt	330,096	223,219	-	31,024	522,291	
Swaps:						
Series of 2007 Swap	19,226	-	2,704	-	21,930	
Series of 2010 Basis Swap (formerly Series of 1999A/1999B)	3,864	-	(1,759)	-	2,105	
Subtotal Swaps	23,090	-	945	-	24,035	
Total Long-Term Debt, including Swaps	$353,186	$223,219	$ 945	$ 31,024	$546,326	

Long-Term Debt:

In 1968, the Authority and the City entered into concurrent lease agreements whereby the Authority leased the former Philadelphia Transportation Company owned properties, which the Authority acquired in 1968, to the City and the City leased those properties, as well as certain City-owned transit properties, to the Authority. The agreements provided for the City to make rental payments to the Authority in amounts equal to the debt service (principal and interest) on the Authority's Rental Revenue Bonds which matured during Fiscal Year 2003. Also, the Authority had paid fixed rent to the City in the amounts necessary to meet the debt service on the self-supporting City bonds. The final fixed rent payment was made in 2005 as planned. The Authority will also pay to the City, out of the net revenues from leased property, cumulative additional rent in amounts equal to the debt service on the Authority's Rental Revenue Bonds and non-cumulative additional rents. The Authority's obligation to meet the cumulative additional rent requirements has been forgiven with the exception of fiscal years 1969, 1970 and 1995 through 1998 and fiscal years 2001 through 2003. The Authority has paid the cumulative additional rent for fiscal years 1995 and 1996. The Authority has an unrecorded contingent liability for cumulative additional rent for fiscal years 1969, 1970, 1997, 1998, and 2001 through 2003 totaling approximately $24.7 million. These leases were to expire when the Authority would make the last payment of fixed rent or cumulative additional rent, or December 31, 2005, whichever would be later.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. **Long-Term Debt and Swaps (Continued)**

It is and has been the Authority's position that the lease and leaseback agreements did not expire on December 31, 2005, but that, in accordance with their terms, the agreements continue in full force and effect, *inter alia*, while cumulative additional rent and debt service on the Authority's bonds remain outstanding. In October 2005, the Authority and the City entered into a standstill agreement by which they agreed that the lease and leaseback agreements would remain in full force and effect during the term of the standstill agreement without waiver, admission or prejudice to the parties' respective positions. The standstill agreement, initially in effect until December 31, 2007, was subsequently extended for two additional one-year terms which expired December 31, 2009. In December 2009, the standstill agreement was amended to continue on a month-to-month basis unless terminated by either party or upon completion of a master agreement.

In February 1999, the Authority issued $262.0 million of Special Revenue Bonds, Series of 1999A ("1999A Bonds") and 1999B ("1999B Refunding Bonds"), due in varying amounts through 2029, with annual interest from 3.25% to 5.25%. The net proceeds of the 1999A Bonds were used to finance a portion of the Market-Frankford Subway-Elevated line vehicle acquisition program; refinance a bridge loan for payment of a portion of the vehicle acquisition program; reimburse the Authority for a portion of the costs of certain capital projects and pay a portion of the premium for a debt service reserve fund insurance policy. The net proceeds of the 1999B Refunding Bonds were used to refund $73.2 million of the 1995A Bonds, and pay a portion of the premium for a debt service reserve fund insurance policy. In October 2010, the Authority terminated the 1999 Series Bonds and issued $222.5 million of Revenue Refunding Bonds, Series of 2010 ("2010 Bonds"), due in varying amounts through 2028 with remaining annual interest rates between 3.0% and 5.0%. The proceeds of the 2010 Bonds along with other funds of the Authority were used to refund the Authority's outstanding Special Revenue Bonds, Series of 1999A and 1999B, fund termination payments in connection with the Swap Agreements relating to the 1999 Bonds, fund accrued amounts payable on the Swap Agreements through the date of termination and fund certain costs and expenses incurred in connection with the issuance of the 2010 Bonds. Excluding the additional debt issued associated with termination of the swap, the net refunding transaction decreased the Authority's debt service payments by $34.5 million and resulted in an economic gain of $23.4 million. This amount represents the difference between the present value of the debt service on the old and new bonds. The Basis Swap in connection with the 1999 Bonds was amended so that it is now associated with the 2010 Bonds.

In March 2007, the Authority issued $131.7 million of Variable Rate Revenue Refunding Bonds, Series of 2007 ("2007 Bonds"), due in varying amounts through 2022. The net proceeds of the 2007 Bonds were used to retire the Authority's outstanding Special Revenue Bonds, Series of 1997 ("1997 Bonds") due in varying amounts through 2022, with annual interest from 4.00% to 5.75% and pay the premium for a debt service reserve fund insurance policy. The net proceeds of the 1997 Bonds were used to reimburse the Authority for a portion of the costs of certain capital projects; refund certain leases entered into by the Authority for a building and related equipment; pay the costs of certain capital projects and pay the premium for a debt service reserve fund insurance policy. On October 5, 2010, in conjunction with the issuance of the 2010 Bonds, the Authority converted the interest rate mode of its 2007 Bonds from a weekly mode to a daily mode based on SIFMA (Securities Industry and Financial Markets Association). On December 20, 2012, the Authority converted the interest rate mode of $98.0 million of its then outstanding principal amount Variable Rate Revenue Refunding Bonds, Series 2007, from a daily mode to an indexed mode. The interest rate on the bonds are now set monthly at a rate equal to 67% of 1-month LIBOR (London Interbank Offered Rate) plus 105 basis points. The converted indexed Variable Rate Revenue Refunding Bonds, Series 2007, may not be converted from an indexed mode to a different mode.

The 2007 and 2010 Bonds are secured by dedicated funding received pursuant to Act 44.

5. **Long-Term Debt and Swaps (Continued)**

In August 2011, the Authority issued $201.6 million of Capital Grant Receipts Bonds, Series 2011 ("2011 Bonds"), due in varying amounts through 2029 with annual interest rates ranging from 3.0% to 5.0%. The net proceeds from the sale of the 2011 Capital Grant Receipts Bonds are being used to finance the acquisition of 116 Silverliner V Regional Railcars, finance the rehabilitation of the Wayne Junction Intermodal Facility, fund a deposit to the Debt Service Reserve Fund, and fund certain costs and expenses in connection with the issuance and sale of the 2011 Bonds.

In March 2012, the Authority entered into an agreement with PIDC (Philadelphia Industrial Development Corporation) Regional Center for a construction-like loan for an amount not to exceed $175 million to fund the New Payment Technology (NPT) Project. The NPT Project will modernize SEPTA's current fare payment system. There are three loan tranches with terms ranging between five and six years with an interest rate for each loan tranche of 1.75% payable semi-annually on the outstanding loan balance. The first tranche of $35 million was available as of March 29, 2012 and will have a term of 5 years. The second tranche for $75 million was made available as of February 1, 2013 and will have a term of 5.5 years. The third tranche for $65 million was made available July 1, 2013 and will have a term of 6 years. The drawdown of the loan is expected to take place over a three year loan period to fund the construction and other related costs of the NPT project. The Authority drew down $15.1 million during Fiscal Year 2013 and the outstanding balance on the loan as of June 30, 2013 is $19.2 million.

At June 30, 2013, the aggregate debt service requirements of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

	2014	2015	2016	2017	2018
Debt maturities	$ 28,730	$ 30,005	$ 31,180	$ 51,773	$ 34,075
Debt related interest	18,743	17,875	17,021	15,921	14,493
Hedging derivative, net	4,131	3,760	3,367	2,954	2,520
Net Cash Flows	$ 51,604	$ 51,640	$ 51,568	$ 70,648	$ 51,088

	2019 - 2023	2024 - 2028	2029
Debt maturities	$ 160,240	$ 127,440	$ 16,270
Debt related interest	53,380	23,562	798
Hedging derivative, net	5,298	-	-
Net Cash Flows	$ 218,918	$ 151,002	$ 17,068

The above amounts assume that current interest rates on the 2007 Variable Rate Refunding Bonds, which was 1.184% as of June 30, 2013 and the current reference rates on its related hedging (effective) derivative instrument will remain the same for their term. As rates vary, interest payments on the variable rate refunding bonds and receipts on the hedging derivative instrument will vary.

Swaps:

In March 2003, the Authority entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA, the "Counterparty"), related to its $131.7 million Special Revenue Bonds, Series 1997, that provided the Authority an up-front payment of $8.1 million. The swaption provided the Counterparty an option to obligate the Authority to enter into a pay-fixed, receive-variable interest rate swap at a future date. On March 1, 2007 the option associated with the Special Revenue Bonds, Series 1997 was exercised by the Counterparty, the bonds were called, and the Authority then issued Variable Rate Revenue Refunding Bonds, Series 2007. Concurrently, the Authority entered into a pay-fixed receive variable interest rate swap with the Counterparty. On December 20, 2012, the Authority converted the Variable Rate Revenue Bonds, Series 2007 from a daily rate interest mode to an indexed mode. The swap, now associated with the converted indexed Variable Rate Revenue Refunding Bonds, Series 2007, has a March 1, 2022 termination date, and a notional amount of $90.2 million as of June 30, 2013.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

In March 2003, the Authority also entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA) and Salomon Brothers (now Citibank, NA), collectively, the "Counterparties", related to its 1999 Special Revenue Bonds (the "Underlying Swap Agreement"). On December 29, 2005, the Authority restructured the Underlying Swap Agreement associated with its Special Revenue Bonds, Series 1999 with the Counterparties by converting the variable receive rate from 67% of one-month LIBOR, to the SIFMA Index, to reduce the likelihood the swaption would be exercised. To pay for the conversion, the Authority simultaneously entered into an off-market swap with Bank of America, NA (the "Basis Swap Agreement"), whereby the Authority agreed to pay the SIFMA Index rate and receive 67% of 3-month LIBOR plus 13.52 basis points, and an upfront payment equivalent to the Basis Swap Agreement conversion cost. In October 2010, the Authority refunded the Special Revenue Bonds, Series 1999, and issued the Revenue Refunding Bonds, Series 2010. Concurrently, the Underlying Swap Agreement was terminated, and the Basis Swap Agreement was amended on substantially the same terms, but is now associated with the Series 2010 Bonds, with a termination date of March 1, 2028, and a notional amount of $173.7 million as of June 30, 2013.

The outstanding swaps are associated with the Revenue Refunding Bonds, Series of 2010 and with the Variable Rate Revenue Refunding Bonds, Series of 2007, which refunded the 1999 series bonds and 1997 series bonds, respectively.

As of June 30, 2013, the Authority had the following derivative instruments outstanding:

	Notional Amount	Fair Value Classification	Fair Value Amount	Changes in Fair Value Classification	Changes in Fair Value Amount
Business-type activities:					
Cash flow hedge:					
A. Pay-fixed interest rate swap	$ 90,175	Debt	$ (16,482)	Deferred outflow	$ 5,448
Fair value hedge:					
B. Pay-variable interest rate swap	$ 173,730	Debt	$ (1,635)	Investment Income	$ 470

Derivative Instrument Types

Hedge effectiveness: As of June 30, 2013 and 2012, the derivative instrument B associated with the 2010 (formerly 1999) series bonds did not meet the criteria for effectiveness. Accordingly, the accumulated changes in fair value were reported within the investment income classification as $470 at June 30, 2013 and $1,759 at June 30, 2012. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2013 was evaluated to be effective using the regression analysis method. This method measures the statistical relationship between changes in the fair value or cash flows of the potential hedging derivative and the hedgeable item. For the potential hedging derivative instrument evaluated using regression analysis to be considered effective, the analysis must meet the following 3-criteria: an R-squared of at least 0.80, an F-statistic that indicates statistical significance at the 95 percent confidence interval, and a regression coefficient for the slope between -1.25 and -0.80.

5. Long-Term Debt and Swaps (Continued)

Hedging Derivative Instrument – Objective and Terms:

The objectives and terms of the Authority's cash flow hedging derivative instrument outstanding at June 30, 2013 and the counterparty credit rating of Bank of America, NA is as follows:

Instrument	Derivative Type	Counterparty Credit Rating	Objective	Notional Amount	Effective Date	Termination Date	Terms
A	Pay-fixed interest rate swap	A3/A/A	Hedge changes in cash flows on the 2007 variable rate refunding Bonds	$ 90,175	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR;pay 4.706% fixed

Fair Value

As of June 30, 2013, the swaps had a negative fair value totaling $18.1 million, estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Rollover Risk

The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that may be terminated prior to maturity of the hedged debt. If these hedges were to be terminated prior to maturity of the debt, the Authority would be exposed to the risks being hedged by the derivative instrument.

Credit Risk

As of June 30, 2013, the Authority was not exposed to credit risk, or the risk of economic loss due to a counterparty default on its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Authority would be exposed to credit risk in the amount of the derivatives' fair value. As of June 30, 2013, the counterparty for both the Authority's swaps was Bank of America, NA which had a counterparty rating previously indicated in the terms for instrument A as rated by Moody's Investors Services, Standard & Poor's and Fitch, respectively. The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Basis Risk

The Authority has basis risk on the swap related to the Revenue Refunding Bonds, Series of 2010, issued October 1, 2010. This is because the floating rate that the Authority pays and the floating rate that the Authority receives from the basis swap counterparty, will vary with market conditions (basis differential). The basis differential could be either a positive or negative cash flow event, depending upon the relationship between SIFMA and LIBOR, the floating rate indexes underlying the basis swap.

5. Long-Term Debt and Swaps (Continued)

Interest Rate Risk

As of June 30, 2013, the Authority had an ineffective derivative investment with the following maturity:

Investment Type	Fair Value	Investment Maturity More Than 10 Years
Derivative Instrument B	$(1,635)	$(1,635)

Termination Risk

The Authority or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

6. Leases

Leased property consists primarily of transit properties and equipment. Leased transit properties which are related to long-term debt obligations are described in Note 5. The leased properties, described within this note, are lease/leaseback agreements and operating leases.

Lease/leaseback Agreements

During Fiscal Year 2002, the Authority entered into a head lease agreement to lease for approximately 28 years 219 rail cars, that are currently in service on the Market-Frankford subway-elevated line, and simultaneously lease the vehicles back. The Authority received prepayments under the head lease of $336.1 million, of which it paid $269.9 million to two debt payment undertakers to defease rents payable under the debt portion of the agreement, $41.6 million to the equity payment undertaker to defease rents payable under the equity portion of the agreement, and $3.2 million in transaction expenses. The rental obligations under the lease/leaseback, except for $15.6 million as of June 30, 2013, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, have been excluded from the Authority's financial statements. The proceeds, net of expenses, from the transaction of $21.4 million are being used, starting in Fiscal Year 2007, as reimbursement of state share on capital grants, which use has been approved by the Federal Transit Administration. The leaseback includes a purchase option, which upon exercise, will be funded in installments from funds used to defease the debt during the period from January 2, 2030 through December 15, 2030, that will allow the Authority to buy out the equity investor's remaining rights under the agreement, thereby terminating the entire transaction. In December 2008, the Authority terminated its lease debt and equity payment undertaking agreements with the payment undertaker and received $89.9 million upon termination. Of this amount, the Authority deposited $75.2 million with a trustee and U.S. Treasury Securities were purchased to defease the remaining lease payments under the Equity Payment Undertaking Agreement (EPUA). The securities purchased are scheduled to mature in amounts and on dates required to make the lease payments. The remaining $14.7 million was restricted and invested to satisfy payments due under the Supplemental Payment Undertaking Agreement (SPUA). In July 2009, SEPTA paid an additional $6.5 million to Wachovia Bank (now Wells Fargo) for a waiver of certain requirements in connection with its railcar lease.

During Fiscal Year 2003, the Authority entered into a head lease agreement with three equity investors to lease for approximately 20 years 138 light rail vehicles that are currently in service, and simultaneously lease the vehicles back. The Authority received prepayments under the head leases of $303.6 million, of which it paid $240.2 million to the debt payment undertaker to defease rents payable under the debt portion of the agreement, $47.9 million in security to the collateral agent to defease rents payable under the equity collateral security agreement, and $0.1 million in transaction expenses. The rental obligations under the lease/leaseback are considered to be defeased in substance and therefore the related debt, as

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6. Leases (Continued)

well as the trust assets, have been excluded from the Authority's financial statements. The proceeds, net of expenses, from the transaction of $15.4 million are being used, starting in Fiscal Year 2007, as reimbursement of State share on capital grants, which use has been approved by the Federal Transit Administration. Certain payments under the lease transaction were insured by policies put in place at lease inception with Assured Guaranty Municipal ("AGM"). The lease documents contained terms requiring AGM to maintain agreed-upon credit ratings throughout the term of the transaction. During FY 2013, AGM's credit rating was downgraded by Moody's below the required threshold, and the Authority was unable to replace AGM with an alternate insurer or negotiate waivers of the rating requirement on favorable economic terms. In June 2013, the Authority terminated the lease transactions with the three equity investors at a cost of $7.6 million.

In Fiscal Year 2012, the Authority received two settlements of $8.0 million and $6.3 million related to work performed in previous years on the Market-Frankford Elevated Project. The Federal Transportation Administration (FTA) has approved the Authority's request to use these settlements toward the renovation of Dilworth Plaza and the repair of the Market-Frankford Elevated haunch failures, respectively.

Available proceeds, including changes for Fiscal Years 2013 and 2012, from the above lease/leaseback transactions, the cross border lease that terminated in 2010, the Market-Frankford Elevated settlements, and unamortized swaption proceeds are included in the following liabilities:

Other Liabilities	Beginning Balance	Additions	Reductions *	Investment Earnings	Ending Balance
2013	$ 22,571	$ -	$ (1,947)	$ 13	$ 20,637
2012	$ 9,149	$ 14,250	$ (851)	$ 23	$ 22,571

* Includes reductions of lease/leaseback agreement and swaption proceeds.

Operating Leases

The Authority leases equipment, facilities and utility vehicles, with leases expiring at various dates. Rental expense for these operating leases was $2.6 million for both Fiscal Years 2013 and 2012.

7. Pension Plans

Plan Description

The Authority maintains five trusteed, single-employer, defined benefit pension plans covering substantially all of its full-time employees, other than regional rail union employees. Regional rail union employees are covered under pension provisions of the Railroad Retirement Act. The Authority's five single-employer pension plans are as follows: Retirement Plan for Supervisory, Administrative and Management Employees (SAM), Retirement Plan for Transit Police (TP), and Pension Plans for certain Bargaining Employees - City Transit Division (CTD), Red Arrow Division (RAD) and Frontier Division (FD). Each of the plans provide retirement, disability and death benefits based on an employee's years of service, age and compensation.

A bargaining unit employee (except for transit police) may retire with an unreduced pension benefit at age 62 with completion of 5 years of credited service or with 30 years of credited service with no restriction on age. A transit police employee may retire with an unreduced pension benefit at age 50 with completion of 25 years of credited service and a SAM employee may retire with an unreduced pension benefit at age 62 with completion of 5 years of credited service or age 55 with 30 years of credited service. An employee's pension benefit is based on a formula that uses average annual compensation. Employees vest after five years of credited service.

7. Pension Plans (Continued)

The SEPTA Board has the authority to establish and amend benefit provisions to each of the pension plans; however, the plans for Transit Police and certain Bargaining Employees - CTD, RAD and FD are based on the respective union bargaining agreement in effect at the time of retirement.

Membership of each plan consisted of the following at July 1, 2012, the date of the latest actuarial valuation:

	SAM	TRANSIT POLICE	CITY TRANSIT	RED ARROW	FRONTIER	TOTAL
Retirees and beneficiaries receiving benefits	1,418	11	2,860	228	30	4,547
Terminated plan members entitled to but not yet receiving benefits	470	47	740	104	27	1,388
Active plan members	1,755	234	5,059	519	222	7,789
Total	3,643	292	8,659	851	279	13,724

Funding Policy

The Authority establishes and may amend the employer contribution requirements. The Authority's policy provides employer contributions for all plans sufficient to satisfy the actuarially determined annual required contributions generally in either the current or subsequent fiscal year. The Authority may amend the contribution requirements of SAM Plan members. The contribution requirements for the bargaining union plans are based on the respective union agreements in effect during the period of employment. During Fiscal Year 2013 the CTD, RAD, and FD plan member contribution rate increased from 2.5% to 3.5%. Administrative costs of all pension plans are financed through the plans' investment earnings.

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2013 are as follows:

	SAM	TRANSIT POLICE	CITY TRANSIT	RED ARROW	FRONTIER
Contribution rates:					
SEPTA	27.02%	10.69%	18.54%	14.60%	7.90%
Plan members	*	3.85%	3.50%	3.50%	3.50%

* 0.9% of pay up to Social Security covered compensation plus 1.1% of pay in excess of Social Security covered compensation.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Annual Pension Cost and Related Information

The Authority's annual pension cost and related information for Fiscal Year 2013 were as follows:

	SAM	TRANSIT POLICE	CITY TRANSIT	RED ARROW	FRONTIER	TOTAL
Annual Pension Cost	$35,353	$1,444	$47,588	$ 3,805	$ 809	$88,999
Contributions made	34,550	1,389	49,218	3,953	921	90,031
Increase (decrease) in accrued pension liability	803	55	(1,630)	(148)	(112)	(1,032)
Accrued pension liability, beginning of year	34,395	1,386	48,934	3,934	918	89,567
Accrued pension liability, end of year	$35,198	$1,441	$47,304	$ 3,786	$ 806	$88,535
Actuarial valuation date	7/1/12	7/1/12	7/1/12	7/1/12	7/1/12	
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed	Level dollar, closed	Level dollar, closed	
Amortization period[4]	28 years	28 years	28 years	28 years	28 years	
Asset valuation method	Actuarial value	Actuarial value	Actuarial value	Actuarial value	Actuarial value	
Actuarial assumptions:						
Investment rate of return[1]	7.75%	7.75%	7.75%	7.75%	7.75%	
Salary increases[3]	3.50%	[2]	[2]	[2]	[2]	
Cost-of-living adjustments	None	None	None	None	None	

[1] Interest is gross of investment-related expenses.
[2] Salary scale rates vary by years of service.
[3] Reflects underlying inflation assumption of 2.75%.
[4] Amortization period has been decreased by 1 year.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Analysis of Pension Funding

	YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED
SAM	6/30/13	$35,353	100.0%
SAM	6/30/12	$34,550	100.0%
SAM	6/30/11	$32,462	100.0%
SAM	6/30/10	$31,213	100.0%
SAM	6/30/09	$25,284	100.0%
SAM	6/30/08	$28,819	100 0%
Transit Police	6/30/13	1,444	100.0%
Transit Police	6/30/12	1,389	100.0%
Transit Police	6/30/11	1,190	100.0%
Transit Police	6/30/10	1,031	100.0%
Transit Police	6/30/09	733	100.0%
Transit Police	6/30/08	779	100.0%
City Transit	6/30/13	47,588	100.0%
City Transit	6/30/12	49,218	100.0%
City Transit	6/30/11	48,635	100.0%
City Transit	6/30/10	43,320	100.0%
City Transit	6/30/09	38,534	100.0%
City Transit	6/30/08	35,690	100.0%
Red Arrow	6/30/13	3,805	100.0%
Red Arrow	6/30/12	3,953	100.0%
Red Arrow	6/30/11	3,811	100.0%
Red Arrow	6/30/10	3,319	100.0%
Red Arrow	6/30/09	2,908	100.0%
Red Arrow	6/30/08	2,620	100.0%
Frontier	6/30/13	809	100.0%
Frontier	6/30/12	921	100.0%
Frontier	6/30/11	911	100.0%
Frontier	6/30/10	709	100.0%
Frontier	6/30/09	586	100.0%
Frontier	6/30/08	556	100.0%
TOTAL	6/30/13	$88,999	100.0%
TOTAL	6/30/12	$90,031	100.0%
TOTAL	6/30/11	$87,009	100.0%
TOTAL	6/30/10	$79,592	100.0%
TOTAL	6/30/09	$68,045	100.0%
TOTAL	6/30/08	$68,464	100.0%

The percentage of annual pension cost contributed is based on the contribution accrued. The Authority's current practice, in accordance with its funding policy, is to contribute the actuarially determined annual required contributions during the successive fiscal year.

7. Pension Plans (Continued)

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
SAM	7/1/12	$423,293	$632,186	$208,893	67.0%	$130,846	159.6%
SAM	7/1/11	$395,190	$601,014	$205,824	65.8%	$128,215	160.5%
SAM	7/1/10	$357,290	$552,099	$194,809	64.7%	$124,931	155.9%
SAM	7/1/09	$341,869	$529,415	$187,546	64.6%	$122,325	153.3%
SAM	7/1/08	$376,919	$499,524	$122,605	75.5%	$118,656	103.3%
SAM	7/1/07	$355,391	$498,208	$142,817	71.3%	$118,832	120.2%
Transit Police	7/1/12	23,049	27,483	4,434	83.9%	13,513	32.8%
Transit Police	7/1/11	20,209	25,000	4,791	80.8%	12,553	38.2%
Transit Police	7/1/10	17,172	21,393	4,221	80.3%	11,546	36.6%
Transit Police	7/1/09	15,386	18,872	3,486	81.5%	10,523	33.1%
Transit Police	7/1/08	15,908	16,367	459	97.2%	10,430	4.4%
Transit Police	7/1/07	14,303	15,089	786	94.8%	9,983	7.9%
City Transit	7/1/12	457,299	817,103	359,804	56.0%	256,667	140.2%
City Transit	7/1/11	426,221	785,762	359,541	54.2%	251,418	143.0%
City Transit	7/1/10	382,757	736,230	353,473	52.0%	248,484	142.3%
City Transit	7/1/09	365,702	684,997	319,295	53.4%	242,762	131.5%
City Transit	7/1/08	397,906	661,740	263,834	60.1%	232,168	113.6%
City Transit	7/1/07	379,856	620,111	240,255	61.3%	260,569	92.2%
Red Arrow	7/1/12	37,049	63,648	26,599	58.2%	26,065	102.0%
Red Arrow	7/1/11	34,336	61,497	27,161	55.8%	25,155	108.0%
Red Arrow	7/1/10	30,762	56,928	26,166	54.0%	24,709	105.9%
Red Arrow	7/1/09	29,452	52,552	23,100	56.0%	23,447	98.5%
Red Arrow	7/1/08	31,582	50,200	18,618	62.9%	22,278	83.6%
Red Arrow	7/1/07	29,836	46,495	16,659	64.2%	26,704	62.4%
Frontier	7/1/12	13,506	16,004	2,498	84.4%	10,239	24.4%
Frontier	7/1/11	12,072	15,178	3,106	79.5%	9,903	31.4%
Frontier	7/1/10	10,089	13,385	3,296	75.4%	9,484	34.8%
Frontier	7/1/09	9,054	11,529	2,475	78.5%	8,984	27.5%
Frontier	7/1/08	9,307	10,619	1,312	87.6%	8,267	15.9%
Frontier	7/1/07	8,492	9,647	1,155	88.0%	9,386	12.3%
TOTAL	7/1/12	$954,196	$1,556,424	$602,228	61.3%	$437,330	137.7%
TOTAL	7/1/11	$888,028	$1,488,451	$600,423	59.7%	$427,244	140.5%
TOTAL	7/1/10	$798,070	$1,380,035	$581,965	57.8%	$419,154	138.8%
TOTAL	7/1/09	$761,463	$1,297,365	$535,902	58.7%	$408,041	131.3%
TOTAL	7/1/08	$831,622	$1,238,450	$406,828	67.2%	$391,799	103.8%
TOTAL	7/1/07	$787,878	$1,189,550	$401,672	66.2%	$425,474	94.4%

7. Pension Plans (Continued)

The actuarial value of assets is adjusted to reflect the timing of the payment of the employer contribution receivable and recognizes one-third of investment earnings that are greater than or less than those expected by the assumed rate of return. As a result, the actuarial value of assets differs from the market value of assets and the net position held in trust for pension benefits.

The annual pension cost for Fiscal Year 2013 and 2012 was affected by the reduction of the 30 year amortization period by 1 year beginning in Fiscal 2012 and now is 28 years. In Fiscal 2012, the annual pension cost was also affected by the lowering of the investment return assumption from 8.0% to 7.75% per year. The annual pension costs in Fiscal Year 2012 for the Union Plans and the SAM Plan increased by $2.5 million and $1.7 million, respectively, due to the changes. The change in the investment rate of return resulted in an increase to the actuarial accrued liability for the Union Plans of $23.6 million and the SAM Plan of $16.0 million.

The annual pension cost for Fiscal Year 2011 and the actuarial accrued liability as of July 1, 2010 were affected by changes to pension provisions modifying the formula for determining plan benefits. The annual pension costs for the Union plans increased by $4.6 million due to the change. The increase to the actuarial accrued liability for the Union plans was $32.9 million.

The annual pension cost for Fiscal Year 2009 was affected by changes in actuarial assumptions on salary growth, withdrawal and retirement in accordance with an Experience Study conducted in 2008. The annual pension costs for the Union Plans increased $2.1 million while the cost for the SAM Plan decreased $4.2 million. Additionally, a new agreement was ratified with the Transit Police Union on June 26, 2008, which included two changes in the plan provisions. These changes increased the annual pension cost for the Fiscal Year ending June 30, 2009 by $122 thousand.

The annual pension cost for Fiscal Year 2008 and the actuarial accrued liability as of July 1, 2007 were affected by a change in the mortality assumption projected for future mortality improvements using a generational approach. The annual pension costs for the Union Plans and the SAM Plan each increased by $4.0 million due to the mortality change. The actuarial accrued liability for the Union Plans and the SAM Plan increased $27.8 million and $30.3 million, respectively, due to the change.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF PLAN NET POSITION
as of June 30, 2013

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2013 Total
Assets:						
Receivables						
Employer contributions	$ 35,353	$ 1,444	$ 47,588	$ 3,805	$ 809	$ 88,999
Plan member contributions	196	95	1,611	160	68	2,130
Interest and dividends	1,028	62	1,088	89	36	2,303
Sales pending settlement	720	42	762	62	25	1,611
Total receivables	37,297	1,643	51,049	4,116	938	95,043
Cash equivalents and Investments, at fair value						
Cash equivalents	20,580	1,220	21,796	1,784	720	46,100
U.S. Government obligations	25,409	1,506	26,909	2,202	889	56,915
Corporate and other government obligations	58,741	3,481	62,213	5,091	2,054	131,580
Preferred stocks	46	3	48	4	2	103
Common stocks	239,998	14,226	254,178	20,800	8,391	537,593
Private equity	65,942	3,909	69,839	5,714	2,305	147,709
Real estate	14,411	854	15,262	1,249	504	32,280
Total investments	425,127	25,199	450,245	36,844	14,865	952,280
Total assets	462,424	26,842	501,294	40,960	15,803	1,047,323
Liabilities:						
Purchases pending settlement	922	54	978	78	32	2,064
Net position held in trust for pension benefits	$461,502	$26,788	$500,316	$40,882	$15,771	$1,045,259

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF PLAN NET POSITION
as of June 30, 2012

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2012 Total
Assets:						
Receivables						
Employer contributions	$ 34,550	$ 1,389	$ 49,218	$ 3,953	$ 921	$ 90,031
Plan member contributions	189	88	1,111	111	45	1,544
Interest and dividends	900	50	945	77	30	2,002
Sales pending settlement	2,814	157	2,949	239	94	6,253
Total receivables	38,453	1,684	54,223	4,380	1,090	99,830
Cash equivalents and Investments, at fair value						
Cash equivalents	31,011	1,731	32,534	2,643	1,035	68,954
U.S. Government obligations	30,672	1,712	32,179	2,615	1,024	68,202
Corporate and other government obligations	43,962	2,454	46,122	3,748	1,467	97,753
Preferred stocks	43	2	45	4	1	95
Common stocks	218,599	12,200	229,335	18,634	7,298	486,066
Private equity	42,751	2,386	44,852	3,644	1,428	95,061
Real estate	12,579	702	13,197	1,072	421	27,971
Total investments	379,617	21,187	398,264	32,360	12,674	844,102
Total assets	418,070	22,871	452,487	36,740	13,764	943,932
Liabilities:						
Purchases pending settlement	5,356	298	5,619	456	178	11,907
Net position held in trust for pension benefits	$412,714	$22,573	$446,868	$36,284	$13,586	$932,025

7. Pension Plans (Continued)

STATEMENTS OF CHANGES IN PLAN NET POSITION
for the Year Ended June 30, 2013

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2013 Total
Additions						
Contributions						
Employer	$ 35,353	$1,444	$ 47,588	$ 3,805	$ 809	$ 88,999
Plan member	1,023	523	7,928	768	316	10,558
Total contributions	36,376	1,967	55,516	4,573	1,125	99,557
Investment income (loss)						
Net realized gain	14,301	825	15,069	1,230	491	31,916
Net increase in fair value of investments	22,294	1,264	23,403	1,907	757	49,625
Interest	3,714	214	3,912	319	128	8,287
Dividends	4,765	275	5,021	410	164	10,635
Total investment gain	45,074	2,578	47,405	3,866	1,540	100,463
Less investment expense	1,279	73	1,346	110	44	2,852
Net investment income	43,795	2,505	46,059	3,756	1,496	97,611
Total additions	80,171	4,472	101,575	8,329	2,621	197,168
Deductions						
Benefits	32,033	249	47,726	3,622	47	83,677
Asset transfer for transferred employees	(751)	-	268	98	385	-
Administrative expense	101	8	133	11	4	257
Total deductions	31,383	257	48,127	3,731	436	83,934
Net increase	48,788	4,215	53,448	4,598	2,185	113,234
Net position held in trust for pension benefits						
Beginning of year	412,714	22,573	446,868	36,284	13,586	932,025
End of year	$461,502	$26,788	$500,316	$40,882	$15,771	$1,045,259

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF CHANGES IN PLAN NET POSITION
for the Year Ended June 30, 2012

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2012 Total
Additions						
Contributions						
Employer	$ 34,550	$1,389	$ 49,218	$ 3,953	$ 921	$ 90,031
Plan member	1,058	522	5,730	568	225	8,103
Total contributions	35,608	1,911	54,948	4,521	1,146	98,134
Investment income (loss)						
Net realized gain	10,962	598	11,437	926	355	24,278
Net (decrease)in fair value of investments	(21,441)	(1,146)	(22,279)	(1,801)	(675)	(47,342)
Interest	3,929	213	4,096	332	127	8,697
Dividends	4,157	227	4,340	352	135	9,211
Total investment loss	(2,393)	(108)	(2,406)	(191)	(58)	(5,156)
Less investment expense	1,461	80	1,525	123	47	3,236
Net investment loss	(3,854)	(188)	(3,931)	(314)	(105)	(8,392)
Total additions	31,754	1,723	51,017	4,207	1,041	89,742
Deductions						
Benefits	29,281	239	45,306	3,476	46	78,348
Asset transfer for transferred employees	(318)	53	307	(85)	43	-
Administrative expense	123	8	158	12	4	305
Total deductions	29,086	300	45,771	3,403	93	78,653
Net increase	2,668	1,423	5,246	804	948	11,089
Net position held in trust for pension benefits						
Beginning of year	410,046	21,150	441,622	35,480	12,638	920,936
End of year	$412,714	$22,573	$446,868	$36,284	$13,586	$932,025

7. Pension Plans (Continued)

Summary of Significant Accounting Policies
Basis of Accounting
SEPTA Pension Plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period which the contributions are due. Employer contributions to each plan are recognized when due. The employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments
Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Investments
There are certain assets of the pension plans that are commingled for investment purposes. Each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

8. Other Postemployment Benefits

Plan Description
The Authority sponsors single-employer defined benefit plans that provide postemployment benefits other than pensions ("OPEB") for the following employee groups: Supervisory Administrative and Management employees (SAM), Transit Police (TP), Non-Railroad Union Groups, and Railroad Union Groups. The Authority does not issue financial reports for these plans.

The Authority provides postemployment health, prescription drug and life insurance benefits to substantially all employees, which generally commence on the first day an employee retires. Health insurance benefits are generally provided for three years, except Health Maintenance Organization plan coverage is provided for fifty months. Prescription drug benefits are generally provided over the retiree's lifetime for SAM and Non-Railroad Union Groups, except for employees hired after November 2005 for whom coverage ends at age 65. Prescription drug benefits end at the earlier of three years or age 65 for Railroad Union Groups, and at age 65 for TP. In addition, the Authority provides life insurance coverage to substantially all retirees. Life insurance is provided in various amounts to a maximum of annual final salary for SAM which decreases annually to 20% after four years.

The Authority provides long-term disability insurance with benefit eligibility after one year of employment for SAM and TP. Disability benefits are not covered by the OPEB valuation since generally the benefits are fully insured and paid while an employee is actively employed. The union employees are eligible for disability benefits from their respective pension plans.

Benefits provisions for SAM employees are established and may be amended in accordance with recognized Authority policy. The bargaining union employees receive benefits based on the respective union agreements in effect at the time of retirement.

Funding Policy and Related Information
For SAM employees, contribution requirements are established and may be amended in accordance with recognized Authority policy. Contribution requirements for bargaining unit employees are based on the respective union agreements in effect at the time of retirement. Contributions are made by the Authority

8. Other Postemployment Benefits (Continued)

on a pay-as-you-go basis. The Authority's OPEB cost for each plan 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 normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The Authority's OPEB cost and change in net OPEB obligation for Fiscal Year 2013 are as follows:

	SAM	Transit Police	Non-Railroad Union Groups	Railroad Union Groups	Total
Annual required contribution	$ 38,162	$ 1,896	$ 97,483	$ 9,204	$146,745
Interest on net OPEB obligation	5,021	312	13,814	1,341	20,488
Adjustment to annual required contribution	(7,259)	(451)	(19,972)	(1,939)	(29,621)
Annual OPEB cost (expense)	35,924	1,757	91,325	8,606	137,612
Contributions made	12,115	82	24,174	2,608	38,979
Increase in net OPEB obligation	23,809	1,675	67,151	5,998	98,633
Net OPEB obligation, beginning of year	125,523	7,806	345,351	33,521	512,201
Net OPEB obligation, end of year	$ 149,332	$ 9,481	$412,502	$ 39,519	$610,834

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for Fiscal Years 2013, 2012 and 2011 for each of the plans are as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
SAM	6/30/13	$ 35,924	33.7%	$149,332
SAM	6/30/12	$ 34,988	32.5%	$125,523
SAM	6/30/11	$ 37,133	29.1%	$101,911
Transit Police	6/30/13	1,757	4.7%	9,481
Transit Police	6/30/12	1,650	2.7%	7,806
Transit Police	6/30/11	1,794	1.7%	6,201
Non-Railroad Union Groups	6/30/13	91,325	26.5%	412,502
Non-Railroad Union Groups	6/30/12	88,332	26.0%	345,351
Non-Railroad Union Groups	6/30/11	95,290	21.7%	279,960
Railroad Union Groups	6/30/13	8,606	30.3%	39,519
Railroad Union Groups	6/30/12	8,183	29.1%	33,521
Railroad Union Groups	6/30/11	8,539	21.5%	27,718
Total	6/30/13	$137,612	28.3%	$610,834
Total	6/30/12	$133,153	27.6%	$512,201
Total	6/30/11	$142,756	23.4%	$415,790

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Projections of benefits are based on the substantive plan (the plan as understood by the Authority and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefits costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities.

Significant methods and assumptions are as follows:

	SAM	Transit Police	Non-Railroad Union Groups	Railroad Union Groups
Actuarial valuation date	7/01/11	7/01/11	7/01/11	7/01/11
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open	Level dollar, open
Amortization period	30 years	30 years	30 years	30 years
Actuarial assumptions:				
Investment rate of return	4%	4%	4%	4%
Projected salary increases for life insurance	3.50%	-	-	-
Healthcare inflation rate	6.6%-6.8% Initial 5.3%-5.4% Ultimate	6.6%-6.8% Initial 5.3%-5.4% Ultimate	6.6%-6.8% Initial 5.3%-5.4% Ultimate	6.6%-6.8% Initial 5.3%-5.4% Ultimate

Schedule of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SAM	7/01/11	$ -	$ 418,748	$ 418,748	0.0%	$117,759	355.6%
SAM	7/01/09	$ -	$ 417,244	$ 417,244	0.0%	$114,982	362.9%
SAM	7/01/07	$ -	$ 373,043	$ 373,043	0.0%	$108,401	344.1%
Transit Police	7/01/11	-	13,767	13,767	0.0%	10,898	126.3%
Transit Police	7/01/09	-	13,191	13,191	0.0%	9,429	139.9%
Transit Police	7/01/07	-	9,676	9,676	0.0%	9,167	105.6%
Non-Railroad Union Groups	7/01/11	-	921,352	921,352	0.0%	285,585	322.6%
Non-Railroad Union Groups	7/01/09	-	915,857	915,857	0.0%	280,424	326.6%
Non-Railroad Union Groups	7/01/07	-	801,605	801,605	0.0%	259,216	309.2%
Railroad Union Groups	7/01/11	-	72,882	72,882	0.0%	72,151	101.0%
Railroad Union Groups	7/01/09	-	69,505	69,505	0.0%	69,415	100.1%
Railroad Union Groups	7/01/07	-	76,757	76,757	0.0%	64,994	118.1%
Total	7/01/11	$ -	$1,426,749	$1,426,749	0.0%	$486,393	293.3%
Total	7/01/09	$ -	$1,415,797	$1,415,797	0.0%	$474,250	298.5%
Total	7/01/07	$ -	$1,261,081	$1,261,081	0.0%	$441,778	285.5%

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans 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. The schedule of funding progress presents the actuarial value of plan assets, if any, for comparison to the actuarial accrued liability for benefits. The next scheduled valuation will be as of July 1, 2013.

9. Deferred Compensation

The Authority offers an employee savings/deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits employees to defer includible compensation, as defined in the Internal Revenue Code, in an amount generally not to exceed $17.5 and $17.0 thousand annually on a pre-tax basis for calendar years 2013 and 2012, respectively. Includible compensation comprises the contributions made by both the employee and employer. Effective January 1, 2000, the Authority began to provide SAM employees with a 10 percent matching contribution, subject to limitations, which amounted to $356 thousand and $343 thousand for Fiscal Years 2013 and 2012, respectively.

The Deferred Compensation Plan (DCP) Trust Agreement provides that all assets and income of the DCP are to be held in the DCP Trust for the exclusive benefit of participants and their beneficiaries and as a result are not recorded in the Authority's financial statements. The costs and expenses of administering the plan are borne by the participants.

10. Commitments and Contingencies

The Authority is involved in various legal matters arising from the normal course of operations. In management's opinion, the resolution of these legal matters will not have a material adverse effect on the Authority's financial position.

Derivative Instruments

To obtain budget certainty and control volatility in fuel prices, the Authority entered into financial derivative agreements for its fuel purchases. The Authority has collateral posting requirements related to these instruments tied to its credit rating and dollar level of exposure to the counterparty. During the year ended June 30, 2013, the Authority was not required to post collateral for any fuel derivative agreements. Had the collateral posting requirement been triggered at June 30 2013, the Authority would have been required to post collateral of $442 thousand. The Authority is also a counterparty in two swap agreements as noted in the swap section of Note 5. These swap agreements require the Authority to post collateral if the long-term unenhanced rating of the Authority's Bonds is withdrawn, suspended or falls below (1) Baa3 as determined by Moody's Investors Service ("Moody's"), (2) BBB- as determined by Standard & Poor's Ratings Service ("S&P") or (3) BBB- as determined by Fitch Ratings ("Fitch"). If the Authority failed to post the collateral when required, the counterparty may terminate the hedging derivative instrument. If the collateral posting requirement had been triggered at June 30, 2013, the maximum amount the Authority would have been required to post to its counterparties is $18.1 million. Because the Authority's unenhanced debt obligations were rated "A1" by Moody's, "AA-" by S&P, and "AA" by Fitch at June 30, 2013, no collateral has been required or posted. The Authority's obligation to make payments under the swap agreements is limited to available money under the applicable indentures pursuant to Section 1310 of the Public Transportation Assistance Law. The payment obligation is not a general obligation of the Authority, and is not secured by any lien on other assets of the Authority.

11. Self-Insurance

Public Liability, Property Damage and Workers' Compensation Claims

The Authority is self-insured for claims arising from public liability and property damage. The Authority also maintains a self-funded insurance trust for excess amounts of $5 million to $20 million as of June 30, 2013. The Authority provides a liability for the self-insured portion based on the present value of the estimated ultimate cost of settling claims, discounted at 2.5%, using past experience adjusted for current trends as of June 30. The valuation incorporates the effects of the statutory limitation on damages (the liability cap). The annual public liability and property damage claims expense for Fiscal Year 2013 decreased $21.8 million. The related liability as of June 30, 2013 increased $8.8 million, which includes the impact of higher claim settlement and litigation costs. The expense for pollution remediation activities at various SEPTA locations where underground storage tanks were previously removed and replaced was $0.5 million and $24 thousand for Fiscal Year 2012 and 2013, respectively. The Pennsylvania Department of Environmental Protection (PADEP) Act 2, "Underground Storage Tank Program", involves follow-up testing, site characterization and remediation action plans as mandated by PADEP. The liability was developed by the Authority's engineers specializing in environmental remediation which is similar to situations at other sites with which the Authority has experience. The estimate is subject to change due to price increases, changes in technology, or other factors. The Authority has also recognized within capital grants the expected reimbursement of such costs.

The Authority is self-insured for workers' compensation claims for its employees. The Authority provides a liability for the self-insured amount based on an actuarial valuation that uses the present value of the estimated ultimate cost of settling claims, discounted at 2.5%, utilizing a case-by-case review of all claims, adjusted for estimates of future adverse claims development, as of June 30. The Authority also maintains excess workers' compensation insurance coverage with an insurance carrier for employee claims, on a per accident basis, which exceeds a self-insured retention of $5 million up to a $10 million liability limit.

Total claims liabilities, including changes for Fiscal Years 2013 and 2012, are as follows:

	Public Liability and Property Damage	Workers' Compensation	Totals
Balance at June 30, 2011	$ 149,931	$ 54,317	$ 204,248
Claims expense	66,266	17,794	84,060
Pollution remediation expense	508	-	508
Payment of claims	(46,583)	(18,235)	(64,818)
Payments for pollution remediation	(448)	-	(448)
Balance at June 30, 2012	169,674	53,876	223,550
Claims expense	44,511	11,621	56,132
Pollution remediation expense	24	-	24
Payment of claims	(35,716)	(18,071)	(53,787)
Payments for pollution remediation	(991)	-	(991)
Balance at June 30, 2013	$ 177,502	$ 47,426	$ 224,928
Balance at June 30, 2013 due within one year	$ 75,060	$ 10,997	$ 86,057

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

11. Self-Insurance (Continued)

Employee Medical and Prescription Drug

As of August 1, 2012, the Authority became self-insured in providing group medical coverage for most of its employees and certain retirees. A third-party administers the group medical coverage for the Authority. The Authority is liable for all claims up to $500,000 per individual for any one plan year. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of $500,000 per plan year. The liability for unpaid claims, if any, is estimated using the prior period history of actual claims paid.

Total claims liabilities, which is included in Accounts Payable-Trade in the Statement of Net Position, including changes for Fiscal Years 2013, are as follows:

	Medical Liability
Balance at June 30, 2012	$ 0
Claims expense	111,110
Payment of claims	(92,141)
Balance at June 30, 2013	$ 18,969
Balance at June 30, 2013 due within one year	$ 18,969

The Authority is also self-insured for prescription drug benefits through a third-party administrator for all employees and certain retirees. The annual prescription expense for Fiscal Year 2013 and 2012, was $49.6 million and $53.4 million, respectively.

12. Dependency on Governmental Funding

The Authority is particularly dependent on its external governmental funding sources keeping pace with additional future costs due to normal inflationary increases, infrastructure repairs, revenue fleet replacements, technological advances and changing regulatory requirements. Historically, funding sources, coupled with cost reductions and passenger fare increases have been adequate; however, should the external funding sources, which comprise over half the Authority's operating budget and essentially all of its capital budget not keep pace with future cost levels, the negative effect on future operations would be significant. Although the Authority had anticipated that the PTTF would provide for a reliable and growing source of funds to meet future budgetary needs, when Act 44 was enacted in 2007, this growth has not yet been realized. The economic recession has resulted in limited growth in Statewide Sales Tax Revenue. This funding source is a key component of the Trust Fund. Further compounding the problem, in March 2010 the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to toll Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA's annual capital budget was cut by 25 percent, or $110 million, beginning in Fiscal Year 2011 which has continued annually into fiscal Year 2014. Without approved sources of funding to replace this funding gap, SEPTA must continue to utilize State funding for capital projects at the reduced Fiscal Year 2010 level and the funding shortfall will have negative consequences on future operating budgets and services. In April 2011, the Transportation Funding Advisory Commission ("TFAC") was established by Executive Order at the direction of the Pennsylvania Governor. The purpose of the Commission was to develop a comprehensive strategic proposal for addressing the transportation funding needs of Pennsylvania. On August 1, 2011, the TFAC submitted its final report. The report outlines several modernization proposals and a recommended funding package to address transportation needs for both highway and transit, throughout the Commonwealth. In June 2013, the Pennsylvania Senate passed Senate Bill 1 which would provide for a significant increase in

12. Dependency on Governmental Funding (Continued)

transportation funding. The additional funding is expected to generate sufficient capital for the Authority to continue to provide the level of service it does today. The Pennsylvania House is currently considering State transportation funding legislation. The Authority remains optimistic that the General Assembly will tackle the task of passing this critical piece of legislation by the end of calendar year 2013.

13. Subsequent Event

In November 2013, the Pennsylvania General Assembly passed a transportation funding legislation that was signed into law by Governor Corbett on November 25, 2013. The legislation is Act 89 of 2013.

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