SEPTA 2008

ANNUAL REPORT

CHAIRMAN
Pasquale T. Deon, Sr.

VICE CHAIRMAN
James C. Schwartzman, Esquire

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

BOARD MEMBERS

SEPTA Board
Standing along front, left to right: Hon. Stewart J. Greenleaf, Daniel J. Kubick, Kevin L. Johnson, P.E., Hon. Charles H. Martin, Joseph E. Brion, Esq., Jettie D. Newkirk, Esq., Thomas Jay Ellis, Esq., James C. Schwartzman, Esq., Pasquale T. Deon, Sr., Thomas E. Babcock; In the back, left to right: Christian A. DiCicco, Esq., Denise J. Smyler, Esq.

Not pictured: Frank G. McCartney, Michael J. O'Donoghue, Esq., Herman M. Wooden

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 Transportation Board determines policy for the Authority. Its 15 members represent the five counties served by SEPTA and the governing bodies of the Commonwealth.

SEPTA BOARD

BUCKS COUNTY
Pasquale T. Deon, Sr.
Hon. Charles H. Martin

CHESTER COUNTY
Joseph E. Brion, Esquire
Kevin L. Johnson, P.E.

DELAWARE COUNTY
Thomas E. Babcock
Daniel J. Kubik

MONTGOMERY COUNTY
Thomas Jay Ellis, Esquire
Michael J. O'Donoghue, Esquire

PHILADELPHIA
Christian A. DiCicco, Esquire
Jettie D. Newkirk, Esquire

GOVERNOR'S APPOINTEE
Denise J. Smyler, Esquire

SENATE MAJORITY LEADER APPOINTEE
Hon. Stewart J. Greenleaf

SENATE MINORITY LEADER APPOINTEE
James C. Schwartzman, Esquire

HOUSE MAJORITY LEADER APPOINTEE
Frank G. McCartney

HOUSE MINORITY LEADER APPOINTEE
Herman M. Wooden

SEPTA OFFICERS

GENERAL MANAGER
Joseph M. Casey

CHIEF FINANCIAL OFFICER / TREASURER
Richard G. Burnfield

GENERAL COUNSEL
Nicholas J. Staffieri, Esquire

CONTROLLER TO THE BOARD
Stephen A. Jobs, CPA

SECRETARY TO THE BOARD
Elizabeth M. Grant

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EXECUTIVE MESSAGE

The Southeastern Pennsylvania Transportation Authority (SEPTA) was a key driver in the Philadelphia region in Fiscal Year 2008. The nation's fifth largest public transportation agency connected people to jobs, education, healthcare and beyond in record numbers. Customers took 325 million unlinked trips in Fiscal Year 2008, 18 million more trips than compared to Fiscal Year 2007. Total ridership grew 5.8%.

Customers throughout Philadelphia, Bucks, Chester, Delaware and Montgomery Counties climbed aboard SEPTA for an economical and convenient alternative to spiking gas prices. On the City Transit Division—subways, buses, and trolleys—ridership rose 5.2%. On Regional Rail Division trains, ridership was up 11.8%. On the Suburban Transit Division—Victory and Frontier buses, trolleys, and the High-Speed Line—the rise was 3.9%.

As vehicles filled up, SEPTA responded strategically by aligning capacity to accommodate customer demand. During peak hours we added service on the Market-Frankford Line and select Regional Rail Lines. This lays the groundwork for more service in the upcoming budget. Further measures included hiring more police officers and increasing the number of external sales locations by 10%.

Efforts emphasized improving customer service. Our key priorities are the four C's - Courtesy, Cleanliness, Communications and Convenience. This included:

- Creation of a Customer Service Division
- Face-to-face interaction between riders and management
- An online customer feedback survey
- Increased vehicle cleanings

With customer and regional needs in mind, our plans advanced to acquire modern vehicles. SEPTA's new fleet carried more riders, while at the same time curbed greenhouse emissions and saved energy. This included:

- 100 new hybrid/diesel buses, with 300 more on order
- 38 new electric trolley buses
- The design of 120 new Silverliner V Regional Rail cars

SEPTA also completed projects that renewed stations and track. A few of these achievements included:

- Rebuilding four stations and track on the 100-year-old Market-Frankford Line
- Installing an elevator at a major stop on the Broad Street Line
- Upgrading the Wissahickon Transportation Center serving 140 buses daily
- Reconstructing Gulph Mills Station into an accessible hub linking bus and High-Speed Line service

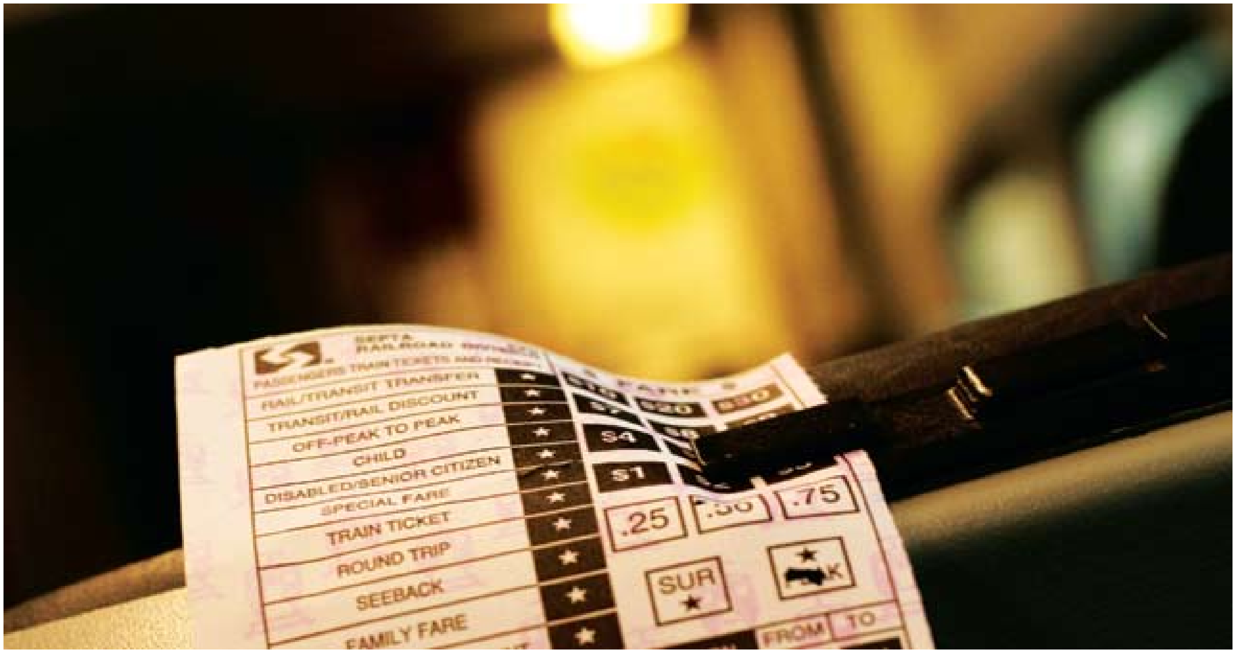
Fiscal Year 2008 was the period in which SEPTA proved that it is an invaluable resource. Customers selected SEPTA by leaving their cars behind in record numbers. State legislators voted for public transit with Act 44. Business leaders, educators and citizens believed in SEPTA by building offices and living in homes in close proximity to our service. And environmentalists saw SEPTA as a sustainability solution. With adequate funding, we stand ready to collaborate with these entities to help the economy recover.

Pasquale T. Deon, Sr.
CHAIRMAN

Joseph M. Casey
GENERAL MANAGER

SEPTA DELIVERED IN 2008

It was a year of transformation for SEPTA, the nation's fifth largest public transportation agency. People throughout Philadelphia, Bucks, Chester, Delaware and Montgomery Counties were leaving their cars behind in record numbers and climbing aboard.



RIDERSHIP RISES TO A RECORD

SEPTA provided a record 325 million unlinked trips in Fiscal Year 2008. That is 18 million more trips than last year. Overall, total ridership was up 5.8%. Regional Rail ridership rose to its highest point in 30 years.

MANY REASONS **TO RIDE**

Volatile gas prices gave new riders a reason to try our buses, trains, subways and trolleys. They discovered SEPTA to be the best, most efficient and greenest way to move around. Here are some of the reasons people preferred SEPTA:

- Takes people to jobs
- Eases roadway congestion
- Saves car costs (gas, parking and insurance)
- Reduces greenhouse gases
- Lowers demand for oil

MORE SEPTA, **MORE OFTEN**

The Authority met demand with a service expansion. SEPTA increased frequency by 12% on the Market-Frankford Line, the subway-elevated route that moves riders east to west throughout the City. SEPTA added service on selected Regional Rail lines. It also began negotiating the lease of eight NJ Transit rail cars, augmenting the existing fleet of 348, until new rail cars arrive. And to complement overall demand, SEPTA hired more police officers and increased the number of external sales locations by 10%.

THE ECONOMIC ENGINE THAT DID

Not only did SEPTA keep people moving, it provided economic vitality amidst increasing financial turmoil. As budgets became strained, the average household saved about $1,400 in transportation costs. On a wider scale, Pennsylvania's economy benefited as SEPTA spent about $1 billion doing business with companies in the state.

STABLE SOURCE OF FUNDING

The start of this transformative period in SEPTA's history was made possible by Act 44. The landmark legislation provided a stable source of funding for all Pennsylvania public transportation agencies. This meant improving mobility, along with solving the urgent problems of pollution and America's growing dependency on oil.

SEPTA continued to build and maintain one of the greenest, most energy-efficient transportation systems in the nation. It became greener before our eyes.

- Hybrid buses: SEPTA will have one of the largest public transit hybrid bus fleets in the country. It ordered 400 new diesel-electric hybrid buses to join the 32 already in service.
- New electric low-floor trolley buses: a total of 38 rolled in to make the air cleaner.
- New electrified rail cars: Regional Rail ordered 120 electrified Silverliner V cars. They will save a great deal of energy with regenerative braking.

GO GREEN GO SEPTA

SUSTAINABLE

SEPTA created a better quality of life for both riders and non-riders. It employed practices in design, construction and operations that make good sense for both business and people. Measures included integrating green building technologies throughout the system, purchasing renewable energy and converting lighting systems in subways for greater efficiency.

SEPTA became an integral aspect of the region's economic competitiveness. Said the City of Philadelphia's Director of the Office of Sustainability Mark Alan Hughes, "…SEPTA isn't just our public transit system; it's a critical element in our ability to lower and sustain our competitive energy intensity."

PROJECT COMPLETIONS
MODERNIZE THE RIDE FOR EVERYONE

From station renovations, to parking expansions, to power supply upgrades, SEPTA completed projects that made it technologically modern and accessible for all riders, especially those with disabilities.

This included:

- Accessibility for everyone at 8th Street Station on the Market-Frankford Elevated Line
- Gulph Mills Station, a major suburban connector between the Norristown Route 100 High Speed Line, buses and a private employee shuttle
- Wissahickon Transportation Center, a busy city hub serving eleven bus routes and 140 buses daily
- Smooth, reliable Regional Rail track between Paoli and Philadelphia
- A new elevator at the Broad Street Line's Walnut-Locust stop
- Parking expansions, including the new Norristown Parking Garage and the expansion of spaces at Trevose Station
- Reconstruction of stations on two miles of the western end of the 100-year-old Market-Frankford Elevated Line. Stations at 46th, 52nd, 56th & 60th Streets now have better security, communications, and access for people with disabilities.

SEPTA also began major improvement projects, including a major renovation of Wayne Station, a new phase of escalator replacement, and the start of Smart Stations 2 to upgrade subway and trolley stations with modern communications and security technologies.

General Manager Casey enjoys SEPTA's young customers.

NEW GENERAL MANAGER IS CUSTOMER DRIVEN

During Fiscal Year 2008, the SEPTA Board of Directors appointed Joseph M. Casey to the position of General Manager. Mr. Casey previously served as SEPTA's Chief Financial Officer and Treasurer. He is a disciplined fiscal manager who held budget growth and controlled spending throughout the last decade. He also oversaw transportation scheduling, route planning, long-range planning, marketing and operational analysis. Now as General Manager, Mr. Casey put forth a vision to aggressively improve the customer experience: "We are committed to exceptional customer service, safety, on-time performance and cleanliness." He focused on priorities known as the four "C"s - Courtesy, Cleanliness, Communications and Convenience.

Riders welcomed the aggressive maintenance program instituted by Mr. Casey that focused on cleanliness and overall appearance of stations and corridors. One example of success was midday vehicle cleanings in addition to routine cleanings. And an innovative arrangement between SEPTA, the City of Philadelphia, and Center City District yielded a cleaning agreement for major Center City transit corridors. Other features of the Customer Service initiative included:

- Creation of a Customer Service Division
- Face-to-face interaction between riders and management
- An online customer feedback survey

MOVING THE REGION

SEPTA proved to be an indispensable asset time and time again. Its Broad Street Line Subway carried fans as the Phillies launched a championship season. It was the best alternative for thousands who could not drive when Interstate 95 was shut down. The new Comcast Center opened next to SEPTA's Suburban Station, demonstrating the appeal of transit-oriented development to employers. And finally, it celebrated centennial service that initiated the birth of Philadelphia's western suburbs – the Route 100 Norristown High Speed Line and 69th Street Terminal, which forged an essential connection between Philadelphia and the burgeoning region at the turn-of-the-century.

Today, at the start of the new millennium, SEPTA is proud that transit still helps the region thrive and solve challenges.


Doylestown
R5
Delaware Valley College
New Britain
Chalfont
Link Belt
Colmar
Fortuna
Lansdale
Pennbrook
North Wales
Gwynedd Valley
Penllyn
Ambler
Fort Washington
Oreland
North Hills
Glenside
R1
Jenkintown-Wyncote
Warminster
R2
Hatboro
Willow Grove
Crestmont
Roslyn
Ardsley
R3
West Trenton
Yardley
Woodbourne
Langhorne
Neshaminy Falls
Trevose
Somerton
Forest Hills
Philmont
Bethayres
Meadowbrook
Rydal
Noble
Amtrak to:
New York
Boston
Montreal
NJ Transit to:
New York
New Jersey points
River Line
to Camden
R7
Trenton
Transit
Center
Delaware River
Levittown
Bristol
Croydon
Eddington
Cornwells Heights
Torresdale
Holmesburg Jct
Tacony
Bridesburg
Amtrak to:
Harrisburg
Pittsburgh
Chicago
R5
Thorndale
Downingtown
Whitford
Exton
Malvern
Paoli
Daylesford
Berwyn
Devon
Strafford
Wayne
St. Davids
Radnor
Villanova
Rosemont
Bryn Mawr
Haverford
Ardmore
Wynnewood
Narberth
Merion
Overbrook
R6
Norristown
(Elm St)
Main St,
Norristown
Norristown
Trans. Ctr.
100
Norristown
Trans. Ctr.
Conshohocken
Spring Mill
Miquon
Ivy Ridge
Manayunk
Wissahickon
East Falls
Allegheny
Schuylkill River
Bridgeport
King Manor
Hughes Park
Gulph Mills
Matsonford
County Line
Radnor
Villanova
Stadium
Garrett Hill
Rosemont
Bryn Mawr
Haverford
Ardmore Ave
Ardmore Jct
Wynnewood Rd
Beechwood-Brookline
Penfield
West Overbrook
Parkview
69th Street Terminal
R7
Chestnut
Hill East
Gravers
Wyndmoor
Mt Airy
Sedgwick
Stenton
Washington Lane
Germantown
Wister
Wayne Jct.
R8
Chestnut
Hill West
Highland
St. Martins
Allen Lane
Carpenter
Upsal
Tulpehocken
Chelten Ave
Queen Lane
N. Phila R8
N. Phila R7
Elkins
Park
Melrose
Park
Fern Rock
Trans. Ctr.
Fern
Rock
T.C.
Olney
T.C.
Logan
R8
Fox Chase
Ryers
Cheltenham
Lawndale
Olney
Frankford Trans. Ctr.
Margaret-
Orthodox
Church
Erie-Torresdale
Tioga
Allegheny
Somerset
Huntingdon
York-
Dauphin
Berks
Girard
Spring
Garden
Wyoming
Hunting Park
Erie
Allegheny
North Philadelphia
North Broad
Temple U.
Susquehanna-Dauphin
Cecil B. Moore
Girard
Fairmount
Spring Garden
Race-Vine
Fair-
mount
China-
town
R6
Cynwyd
Bala
Wynnefield Ave
Trolley Route:
10 to
Overbrook
30th Street
Station
(Amtrak/NJT)
Suburban
Station
Market
East
Station
Mill-
bourne
63rd
60th
56th
52nd
46th
40th
34th
30th
15th
13th
8th
11th
8th
5th
2nd
8th
PATCO
City Hall Camden
Walter Rand Trans. Ctr.
Ferry Ave, Camden
Collingswood
Westmont
Haddonfield
Woodcrest
Ashland
Lindenwold
NJ Transit to:
Atlantic City
36th
37th
40th
33rd
30th
22nd
19th
City Hall
Juniper
Trolley Routes:
11 to Darby
13 to Yeadon/Darby
34 to Angora
36 to Eastwick
University
City
Walnut-Locust
15th/16th
9th/10th
PATCO
12th/13th
Lombard-South
Ellsworth-Federal
Tasker-Morris
Snyder
Oregon
Pattison
Sports &
Entertainment Complex
Fairfield Ave
Walnut St
Bywood
Hilltop Rd
Beverly Hills
Congress Ave
Lansdowne Ave
Drexel Park
Irvington Rd
Drexel Hill Jct
Huey Ave
School Lane
Aronimink
Anderson Ave
Drexelbrook
Drexeline
Scenic Rd
Springfield Rd
Saxer Ave
Leamy Ave
Woodland Ave
Thomson Ave
Springfield Mall
Paper Mill Rd
Pine Ridge
Beatty Rd
Bowling Green
Manchester Ave
Edgmont St
Monroe St
Jackson St
Olive St
Veterans Sq
Media
101
Garrettford
Drexel Manor
Marshall Rd
Oakview
Baltimore Pike
Penn St
Springfield Rd
Clifton-Aldan
Shisler Ave
Providence Rd
Magnolia Ave
North St
Bartram Ave
Andrews Ave
Collingdale
102
Sharon Hill
49th St
Angora
Fernwood-Yeadon
Lansdowne
Gladstone
Clifton-Aldan
Primos
Secane
Morton
Swarthmore
Wallingford
Moylan-Rose Valley
Media
R3
Elwyn
Darby
Curtis Park
Sharon Hill
Folcroft
Glenolden
Norwood
Prospect Park
Ridley Park
Crum Lynne
Eddystone
Chester T. C.
Highland Ave
Marcus Hook
Claymont
Wilmington
Churchmans Crossing
Amtrak to:
Baltimore
Washington DC
R2
Newark
Eastwick
Terminal A
(East & West)
Terminal B
Terminals C & D
Terminal E
Philadelphia
International
Airport
R1
Delaware River

FINANCIAL HIGHLIGHTS

For the Years Ended June 30
(Millions of dollars)

	2008**	2007	2006	2005	2004	2003	2002*	2001*	2000	1999
OPERATING REVENUES										
Passenger	$ 392.5	$ 344.4	$ 329.9	$ 326.9	$ 323.3	$ 319.2	$ 315.4	$ 289.3	$ 287.9	$ 263.0
Other income	29.9	26.7	25.6	21.5	26.1	26.5	24.9	24.6	22.7	19.9
Total operating revenues	422.4	371.1	355.5	348.4	349.4	345.7	340.3	313.9	310.6	282.9
OPERATING EXPENSES										
Operating expenses, excluding depreciation	1,100.3	943.5	893.6	881.7	825.0	799.0	770.8	748.6	722.3	692.3
Depreciation	275.5	264.6	246.1	237.0	213.6	193.7	195.3	179.8	169.9	164.5
Total operating expenses	1,375.8	1,208.1	1,139.7	1,118.7	1,038.6	992.7	966.1	928.4	892.2	856.8
NONOPERATING REVENUES (EXPENSES)										
Subsidies										
Federal	32.6	99.6	126.4	83.7	56.2	30.2	30.7	32.0	27.5	27.5
State	489.9	313.3	256.3	293.9	270.1	276.0	262.4	263.4	254.6	253.2
Local	68.3	74.5	72.1	71.9	67.6	68.8	68.5	66.8	65.0	64.0
Senior citizen	19.8	65.8	67.7	68.9	69.5	68.3	67.4	60.5	55.6	54.1
Asset Maintenance	—	54.2	52.9	54.2	53.6	51.7	43.4	41.7	41.7	41.7
Total Subsidies	610.6	607.4	575.4	572.6	517.0	495.0	472.4	464.4	444.4	440.5
Investment income	9.4	6.8	3.2	2.9	1.5	2.7	4.3	9.7	10.0	6.5
Interest expense	(20.5)	(19.8)	(21.0)	(21.8)	(22.3)	(22.9)	(23.9)	(24.8)	(25.4)	(22.0)
Total nonoperating revenues (expenses)	599.5	594.4	557.6	553.7	496.2	474.8	452.8	449.3	429.0	425.0
CAPITAL CONTRIBUTIONS AND AMORTIZATION OF CONTRIBUTED CAPITAL										
Amortization of contributed capital	—	—	—	—	—	—	—	—	153.5	146.9
Capital grants	441.1	349.2	343.8	316.3	332.9	337.4	335.4	263.8	—	—
Total	441.1	349.2	343.8	316.3	332.9	337.4	335.4	263.8	153.5	146.9
Increase in net assets *	$ 87.2	$ 106.6	$ 117.2	$ 99.7	$ 139.9	$ 165.2	$ 162.4	$ 98.6		
Decrease (increase) in accumulated operating deficit									$ 0.9	$ (2.0)
OTHER										
Working capital surplus (deficiency)	$ (50.0)	$ (34.5)	$ (18.9)	$ (42.7)	$ (48.5)	$ (37.1)	$ (55.8)	$ (45.2)	$ (57.4)	$ (67.3)

* *Fiscal Year 2002 reflects the adoption of Governmental Accounting Standards Board Statement No. 34 concerning reporting requirements for the basic financial statements, resulting in the net asset classification, and the elimination of contributed capital and related amortization retroactive to July 1, 2000. Fiscal Year 2001 reflects the adoption of Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," resulting in the recognition of capital grants in the statement of revenues and expenses.*

** *Fiscal Year 2008 operating expenses include $ 97.6 million of other postemployment benefit expenses related to the adoption of the new Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."*

STATISTICAL HIGHLIGHTS

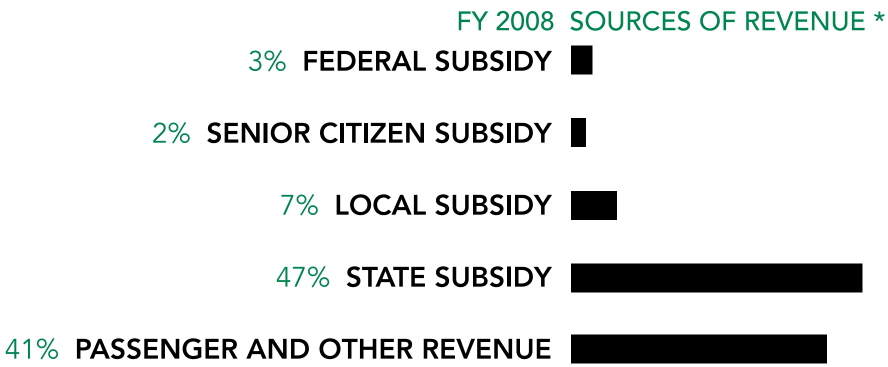
For the Years Ended June 30

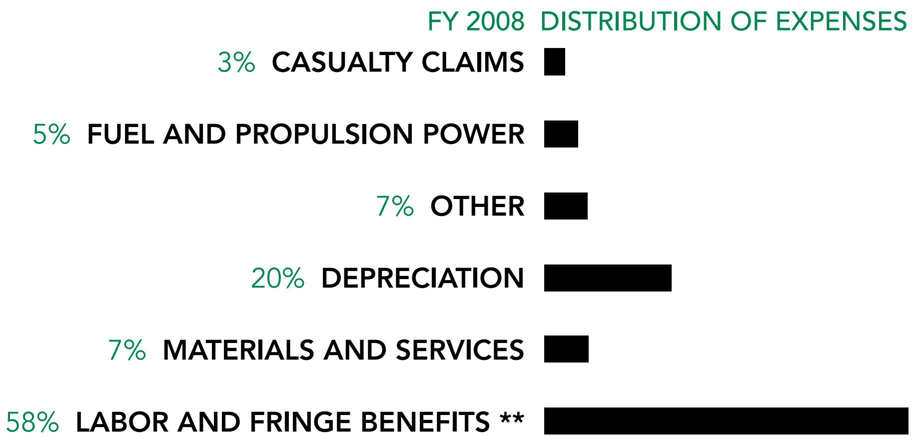
	2008**	2007	2006	2005	2004	2003	2002*	2001*	2000	1999
PASSENGER TRIPS *(linked, in millions)*										
Transit	200.9	190.3	183.9	186.2	185.5	181.0	175.4	180.5	178.5	167.1
Regional Rail	35.4	31.7	30.4	28.6	28.3	28.1	28.7	29.4	26.9	25.9
Total	236.3	222.0	214.3	214.8	213.8	209.1	204.1	209.9	205.4	193.0
AVERAGE WEEKDAY PASSENGER TRIPS *(unlinked, in thousands)*										
Transit	963	930	920	920	930	934	920	945	938	913
Regional Rail	124	111	107	101	101	101	102	103	95	92
Total	1,087	1,041	1,027	1,021	1,031	1,035	1,022	1,048	1,033	1,005
FINANCIAL STATISTICS *(per passenger trip)*										
Operating Revenues	$ 1.79	$ 1.67	$ 1.66	$ 1.62	$ 1.63	$ 1.65	$ 1.67	$ 1.50	$ 1.51	$ 1.47
Operating Expenses	5.82	5.44	5.32	5.21	4.86	4.75	4.73	4.42	4.34	4.44
Subsidies	2.58	2.74	2.69	2.67	2.42	2.37	2.31	2.21	2.15	2.28
Investment income (interest expense), net	(0.05)	(0.06)	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)	(0.07)	(0.07)	(0.08)
Capital contributions and amortization	1.87	1.57	1.60	1.47	1.56	1.61	1.64	1.26	0.75	0.76
Increase in net assets	$ 0.37	$ 0.48	$ 0.55	$ 0.46	$ 0.65	$ 0.79	$ 0.80	$ 0.47		
Decrease (increase) in accumulated operating deficit									$ 0.00	$ (0.01)

* *Fiscal Year 2002 reflects the adoption of Governmental Accounting Standards Board Statement No. 34 concerning reporting requirements for the basic financial statements, resulting in the net asset classification, and the elimination of contributed capital and related amortization retroactive to July 1, 2000. Fiscal Year 2001 reflects the adoption of Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," resulting in the recognition of capital grants in the statement of revenues and expenses.*

** *Fiscal Year 2008 operating expenses include $ 97.6 million of other postemployment benefit expenses related to the adoption of the new Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."*

SOURCES OF REVENUE & DISTRIBUTION OF EXPENSES
FY 2008





*In Fiscal Year 2008, the source of subsidies changed with the passage of the Act 44 legislation. The former state system for funding transit, including asset maintenance subsidies received under Act 3 and Act 26 was repealed. 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 2008 includes $97.6 million of other postemployment benefit expenses related to the adoption of the new Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

INDEPENDENT AUDITORS' REPORT

Members of the Board
Southeastern Pennsylvania Transportation Authority
Philadelphia, Pennsylvania

We have audited the accompanying balance sheets of SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (the AUTHORITY), as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the AUTHORITY's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the AUTHORITY as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2008 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board's Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" and Governmental Accounting Standards Board's Statement No. 50, "*Pension Disclosures.*"

The Management's Discussion and Analysis on pages 18 through 23 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Harrisburg, Pennsylvania
December 12, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

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 year that ended June 30, 2008. Please read it in conjunction with the Authority's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Passenger revenues increased 14.0% from $344.4 million to $392.6 million due to an increase in ridership and a fare increase in the beginning of Fiscal Year 2008. Other income increased 11.9% from $26.7 million to $29.9 million primarily due to an increase in real estate and advertising revenue.

Operating expenses increased 13.9% from $1,208.1 million to $1,375.8 million primarily due to cost increases in wages, fringe benefits, fuel, depreciation, and claims costs. In addition, the Authority implemented in Fiscal Year 2008 Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which resulted in the recognition of additional other postemployment benefit expenses accounting for approximately 8.1% of the operating expense increase.

Total subsidies, from Federal, State and local sources, increased 0.5% from $607.4 million to $610.6 million primarily due to an increase in State subsidies which was partially offset by decreases in the transfer of federal surface transportation funds to preventive maintenance subsidy, asset maintenance subsidy, and senior citizen subsidy brought about by the passage of Pennsylvania Act 44 in July 2007 and the creation of the Pennsylvania Transportation Trust Fund.

Total assets increased 6.3% from $3,704.0 million to $3,936.1 million primarily due to capital asset acquisitions. Total liabilities increased 14.4% from $1,006.9 million to $1,151.7 million primarily due to the recognition of other postemployment benefits under GASB 45 and an increase in accounts payable and deferred revenue. Net assets increased 3.2% from $2,697.2 million to $2,784.4 million primarily due to the recognition of capital grants and subsidies over the net operating loss.

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 balance sheets, statements of revenues, expenses and changes in net assets, 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 (GAAP) as applied to government 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 assets. Total net assets of the Authority as of June 30, 2008 increased $87.2 million, or 3.2%, compared to June 30, 2007. Total assets increased $232.1 million or 6.3% to $3,936.1 million and total liabilities increased $144.9 million or 14.4% to $1,151.7 million.

Net Assets
(thousands of dollars)

	As of June 30		Increase
	2008	2007	(decrease)
Current assets	$ 444,741	$ 298,150	49.2%
Noncurrent assets:			
Restricted funds	86,231	187,410	(54.0%)
Capital assets	3,402,440	3,215,465	5.8%
Other assets	2,700	3,003	(10.1%)
Total assets	3,936,112	3,704,028	6.3%
Current liabilities	494,701	332,639	48.7%
Noncurrent liabilities:			
Public liability, property damage and workers' compensation claims	118,183	118,857	(0.6%)
Long-term debt	337,311	351,700	(4.1%)
Long-term capitalized lease obligation	11,811	30,391	(61.1%)
Deferred capital grant revenue	60,349	114,504	(47.3%)
Other postemployment benefits	97,612	—	—
Other liabilities	31,750	58,769	(46.0%)
Total liabilities	1,151,717	1,006,860	14.4%
Net assets:			
Invested in capital assets, net of related debt	3,015,789	2,849,404	5.8%
Restricted	4,152	4,150	—
Unrestricted	(235,546)	(156,386)	50.6%
Total net assets	$2,784,395	$2,697,168	3.2%

The increase in current assets of $146.6 million is primarily related to increases in restricted funds on hand of $93.7 million, unrestricted funds of $19.8 million, operating subsidies receivables of $23.9 million and capital grant receivables of $8.6 million.

Restricted funds consist of amounts restricted by either government requirements or by contractual agreement between the Authority and external parties. The restricted funds increase in current assets includes $93.0 million for the unused portion of the new Act 44 state funds received during Fiscal Year 2008, plus local match and interest and a debt service fund deposit increase of $0.7 million. These funds will be used and recognized as operating subsidy in support of operations for the next fiscal year. The noncurrent restricted funds decrease of $101.2 million reflects a $55.8 million decrease in restricted balances relating to State funding provided by Act 3 and Act 26 in prior years used to fund current year capital expenditures, lease costs, and debt service requirements. The State Act 3 and Act 26 former funding system was repealed and replaced by the Pennsylvania Transportation Trust Fund ("PTTF") in July 2007 and existing Act 3 and Act 26 funds are expected to be completely depleted over the next couple years. The remaining decrease in restricted funds includes a reduction of $18.6 million in the lease guaranteed investment contract fund used for payment of the long-term lease obligation and the use of $26.8 million of restricted railcar vehicle lease proceeds to fund the state share on selected capital projects, in lieu of receiving traditional state funds. In addition to these 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 claims for which the Authority is self-insured. These Board designated amounts totaled $45.9 million as of June 30, 2008 and $44.6 million as of June 30, 2007. The Authority also maintains an unrestricted designated fund that was derived from swaption proceeds received in March 2003 which was intended to be amortized over the variable rate refunding bonds issued. The swaption fund balance was $19.4 million as of June 30, 2008 and was $92 thousand as of June 30, 2007 since $19.8 million of the proceeds were temporarily needed in June 2007 and replenished in July 2007. The need to temporarily use less swaption and designated funds described above accounted for the increase in the unrestricted balance as of June 30, 2008 of $19.8 million compared to June 30, 2007. The increase in operating subsidies receivables of $23.9 million was primarily related to a delay in the receipt of $24.8 million in lease cost subsidies funded by Section 1517 of the Capital Improvement Program under the new PTTF dedicated funds. Capital grant receivables increased $8.6 million primarily due to a slight increase in both state and federal capital grant receivables.

Total capital assets increased $462.6 million, less $15.0 million retirements, and accumulated depreciation increased $275.5 million, less $14.9 million retirements, resulting in a net capital asset increase of $187.0 million. Major expenditures during the year were incurred for the Market-Frankford Elevated Reconstruction program, R5 Paoli Line improvements, revenue vehicle purchases, and the vehicle overhaul program.

The decrease in other assets of $303 thousand reflects the current year amortization of Special Revenue Bond Costs incurred at the time the bonds were issued.

Total liabilities increased $144.9 million primarily due to increases in deferred revenue of $95.2 million, other postemployment benefits of $97.6 million, accounts payable of $53.2 million, and accrued expenses of $8.6 million. Deferred revenue increased $95.2 million primarily due to an increase in unearned operating subsidies derived from the new Act 44 state funds received, including local match, which will be recognized as operating subsidy in Fiscal Year 2009. The accounts payable and accrued expense increases were primarily related to higher capital payable costs and higher accrued pension liability costs, respectively. Offsetting the liability increases were decreases in deferred capital grant revenue of $54.2 million, other liabilities of $27.0 million, long-term capitalized lease obligations of $18.6 million, and long-term debt of $13.6 million. The deferred capital grant revenue decrease reflects prior years State Act 3 and Act 26 receipts that were used in the current fiscal year to fund capital expenditures, lease costs, and debt service requirements. The other liabilities decrease of $27.0 million was primarily due to the use of railcar vehicle lease proceeds received in previous years to fund the state share on selected capital projects. Long-term capitalized lease obligation decreased $18.6 million and long-term debt decreased $13.6 million primarily due to lease and bond principal payments, respectively, exclusive of amortization of discounts and deferred defeasance amounts.

Net assets invested in capital assets, net of related debt, 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 assets represents deposits that are not available for general use because of third-party restrictions. Unrestricted net assets represents net assets that are available for general use. Unrestricted net assets increased $79.2 million to a deficit amount of $235.5 million primarily due to the current year recognition of $97.6 million of additional other postemployment benefit costs in connection with the implementation of GASB Statement No. 45. The deficit in unrestricted net assets 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.

For Fiscal Year 2007, the Authority received help in balancing its operating budget through the use of federal surface transportation funds of $65.5 million which was transferred and pledged by the State and approved by the Delaware Valley Regional Planning Commission. In order to eliminate the need for taking this type of action to resolve budget shortfalls, the State passed Act 44 of 2007 ("Act 44") to provide a dedicated source of funding for the Authority's operating budget.

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 will provide 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. The Authority anticipates that the new dedicated funding will provide for a reliable and growing source of funds to meet future budgetary needs.

Changes in Net Assets. Net assets for the fiscal year ended June 30, 2008 increased $87.2 million to $2,784.4 million. The increase is 3.2% more than the increase for Fiscal Year 2007 as described below. Total operating revenues increased 13.8% to $422.5 million and total operating expenses increased 13.9% to $1,375.8 million.

Changes in Net Assets

(thousands of dollars)

	For the Years ended June 30, 2008	2007	Increase (decrease)
Operating revenues			
Passenger	$ 392,568	$ 344,411	14.0%
Other income	29,914	26,735	11.9%
Total operating revenues	422,482	371,146	13.8%
Operating expenses			
Operating expenses excluding depreciation	1,100,309	943,548	16.6%
Depreciation	275,534	264,563	4.1%
Total operating expenses	1,375,843	1,208,111	13.9%
Operating loss	(953,361)	(836,965)	13.9%
Nonoperating revenues (expenses)			
Subsidies	610,574	607,383	0.5%
Nonoperating expenses - net	(11,118)	(13,040)	(14.7%)
Total nonoperating revenues (expenses)	599,456	594,343	0.9%
Capital contributions			
Capital grants	441,132	349,193	26.3%
Total capital contributions	441,132	349,193	26.3%
Increase in net assets	87,227	106,571	(18.2%)
Total net assets, beginning of year	2,697,168	2,590,597	4.1%
Total net assets, end of year	$2,784,395	$2,697,168	3.2%

Passenger revenues increased 14.0% primarily due to an increase in ridership and a fare increase implemented in the beginning of Fiscal Year 2008. Other income increased 11.9% primarily due to higher real estate and advertising revenue.

Subsidies showed a slight increase of 0.5% primarily due to Fiscal Year 2008 passenger revenues being higher than anticipated which resulted in a reduction of subsidies needed. Although total subsidies increased only $3.2 million, the source of the subsidies changed more dramatically with passage of the Act 44 legislation. With the repeal of the former state system for funding transit, asset maintenance subsides received under Act 3 and Act 26 and senior citizen subsidies received directly from the state lottery fund were eliminated and replaced with the PTTF fund. The PTTF fund also provided sufficient funds to eliminate the Authority's need to have federal surface transportation funds transferred and pledged by the state which occurred in Fiscal Year 2007 for $65.5 million. As a result of this funding source change to the new PTTF fund, federal subsidies decreased $67.0 million, asset maintenance subsidies decreased $54.2 million, senior citizen subsidies decreased $46.0 million, and local subsidies decreased, primarily due to a change in local match requirements under Act 44, by $6.2 million. The senior citizen subsidies that continue to be reported are related to the state shared ride program. The decreases above were offset by an increase in additional state subsidies received of $176.6 million.

Other nonoperating expenses, which consist of interest expense net of interest income, decreased 14.7% primarily due to the Authority sale and termination of its constant maturity swap contract associated with its 1999 series Special Revenue Bonds which resulted in a gain of $5.4 million, reflected in investment income. Interest expense increased $639 thousand primarily due to higher variable interest expense in connection with its Variable Rate Refunding Bonds, Series of 2007.

Operating Expenses

(thousands of dollars)

	For the Years ended June 30, 2008	2007	Increase (decrease)
Transportation	$ 555,947	$ 471,070	18.0%
Purchased transportation	49,033	46,674	5.1%
Maintenance	318,185	266,851	19.2%
Administrative	106,955	98,377	8.7%
Public liability and property damage claims	43,483	33,958	28.0%
Rent and other	26,706	26,618	0.3%
Depreciation	275,534	264,563	4.1%
Total operating expenses	$1,375,843	$1,208,111	13.9%

Transportation, maintenance, and administrative expenses increased $144.8 million, or 17.3%, primarily due to the impact of recognizing $97.6 million of other postemployment benefits costs under GASB Statement No. 45 implemented in Fiscal Year 2008. Expenses were also higher due to an increase in labor costs of $17.3 million and fringe benefit costs of $21.7 million, an increase of 4.1% and 6.6%, respectively. The labor increase of 4.1% primarily reflects a wage rate increase and the fringe benefit increase of 6.6% reflects higher costs in medical, pension, employer payroll taxes, and employee injury claims. Higher fuel and material costs increased transportation expenses $5.9 million and maintenance expenses $4.1 million, respectively.

Purchased transportation expenses increased 5.1% primarily due to higher carrier expenses in the current year related to higher fuel costs and an increase in passenger trips.

Public liability and property damage claims expense increased 28.0% primarily due to higher claim settlement costs.

Rent and other expenses increased 0.3% primarily due to higher Amtrak track rental costs.

Depreciation increased 4.1% primarily due to the replacement of fully depreciated transit revenue vehicles with new vehicles, security equipment, and various infrastructure improvements including the Market-Frankford Elevated Reconstruction Program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was $6,470.9 million. Net of accumulated depreciation of $3,068.5 million, net capital assets totaled $3,402.4 million. This amount represents a net increase, including additions and disposals net of depreciation, of $187.0 million or 5.8% over June 30, 2007.

As of June 30, 2008, the Authority has commitments for various unexpended construction and design contracts, primarily related to the Market Street Elevated Reconstruction Program, of approximately $165 million and commitments for unexpended revenue vehicle purchases, for regional rail car, buses, and trackless trolley acquisitions, of approximately $485 million. The Authority's capital budget for Fiscal Year 2009 includes capital asset additions in the amount of $306.9

million. A significant portion of the additions is scheduled for the normal replacement and overhaul of transit revenue vehicles, and various infrastructure expansion and improvement capital programs, including the Market-Frankford Elevated Reconstruction Program.

Debt Administration. As of June 30, 2008, the Authority's long-term debt before reduction for unamortized discount and amounts deferred in connection with defeased debt was $357.8 million (or $352.5 million net of these reductions), a $14.4 million decrease from June 30, 2007. This decrease was due to regularly scheduled debt service payments of $8.3 million on the Special Revenue Bonds, series of 1999 and $6.1 million on the Variable Rate Revenue Refunding Bonds, Series of 2007.

The indentures for the Special Revenue Bonds and the Variable Rate Revenue Refunding Bonds limit the amount of additional bonds the Authority may issue so that when combined with all outstanding Special Revenue Bonds, 150% of the maximum annual debt service requirements generally may not exceed the annual dedicated funding received by the Authority from the State. As of June 30, 2008, the debt service requirements were less than 50% of this limitation.

CONTACTING THE AUHORITY'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.

BALANCE SHEETS
JUNE 30, 2008 AND 2007
(THOUSANDS OF DOLLARS)

ASSETS	2008	2007
CURRENT ASSETS		
Unrestricted funds (Note 2)		
Cash and cash equivalents	$ 10,978	$ 12,947
Investments	44,084	22,274
Restricted funds (Note 2)		
Cash and cash equivalents	99,566	9,584
Investments	27,161	23,468
Receivables		
Operating subsidies	25,492	1,572
Capital grants (Note 3)	160,194	151,622
Other	5,541	7,832
Material and supplies	59,804	57,541
Prepaid expenses	11,921	11,310
Total current assets	444,741	298,150
NONCURRENT ASSETS		
Restricted funds (Note 2)		
Cash and cash equivalents	41,265	129,907
Investments	44,966	57,503
Capital assets, net (Notes 3, 4, 5 & 6)	3,402,440	3,215,465
Other	2,700	3,003
Total noncurrent assets	3,491,371	3,405,878
TOTAL ASSETS	$ 3,936,112	$ 3,704,028

See accompanying notes to Financial Statements.

BALANCE SHEETS
JUNE 30, 2008 AND 2007
(THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES		
Current maturities of Long-term debt (Note 5)	$ 15,140	$ 14,360
Accounts payable - trade	122,153	68,999
Accrued expenses (Note 7)	136,323	127,719
Current portion of public liability, property damage and workers' compensation claims (Note 11)	64,727	60,358
Deferred revenue	156,358	61,203
Total current liabilities	494,701	332,639
NONCURRENT LIABILITIES		
Public liability, property damage and workers' compensation claims (Note 11)	118,183	118,857
Long-term debt (Note 5)	337,311	351,700
Long-term capitalized lease obligation (Note 6)	11,811	30,391
Deferred capital grant revenue (Note 3)	60,349	114,504
Other postemployment benefits (Note 8)	97,612	—
Other liabilities (Notes 6 and 12)	31,750	58,769
Commitments and contingencies (Notes 5, 6, 10, 11 and 12)		
Total noncurrent liabilities	657,016	674,221
Total liabilities	1,151,717	1,006,860
NET ASSETS		
Invested in capital assets, net of related debt	3,015,789	2,849,404
Restricted	4,152	4,150
Unrestricted	(235,546)	(156,386)
Total net assets	2,784,395	2,697,168
TOTAL LIABILITIES AND NET ASSETS	$ 3,936,112	$ 3,704,028

See accompanying notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(THOUSANDS OF DOLLARS)

	2008	2007
OPERATING REVENUES		
Passenger	$ 392,568	$ 344,411
Other income	29,914	26,735
Total operating revenues	422,482	371,146
OPERATING EXPENSES		
Transportation	555,947	471,070
Purchased transportation	49,033	46,674
Maintenance	318,185	266,851
Administrative	106,955	98,377
Public liability and property damage claims (Note 11)	43,483	33,958
Rent and other	26,706	26,618
Depreciation	275,534	264,563
Total operating expenses	1,375,843	1,208,111
Operating loss	(953,361)	(836,965)
NONOPERATING REVENUES (EXPENSES)		
Subsidies		
Federal	32,620	99,597
State	489,909	313,329
Local	68,243	74,457
Senior citizen	19,802	65,776
Asset maintenance	—	54,224
Total	610,574	607,383
Investment income	9,365	6,804
Interest expense (Note 5)	(20,483)	(19,844)
Total nonoperating revenues (expenses)	599,456	594,343
Loss before capital grants	(353,905)	(242,622)
CAPITAL GRANTS		
Capital grants	441,132	349,193
Total capital grants	441,132	349,193
INCREASE IN NET ASSETS	87,227	106,571
TOTAL NET ASSETS		
Beginning	2,697,168	2,590,597
Ending	$ 2,784,395	$ 2,697,168

See accompanying notes to Financial Statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(THOUSANDS OF DOLLARS)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	$ 397,764	$ 343,656
Other receipts	30,854	25,969
Payments for wages and employee benefits	(701,318)	(664,153)
Payments for fuel and propulsion	(73,886)	(66,762)
Payments for public liability & property damage claims	(36,415)	(36,846)
Payments for other operating expenses	(179,504)	(190,533)
Net cash used in operating activities	(562,505)	(588,669)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts of operating subsidies	677,464	638,092
(Decrease) in cash overdraft	—	(4,273)
Net cash provided by noncapital financing activities	677,464	633,819
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	404,750	361,089
(Decrease) in deferred capital grant revenue	(54,144)	(19,972)
Acquisition of operating property and construction in progress	(410,379)	(368,195)
Proceeds from issuance of long-term debt	—	131,675
Refunding of long-term debt	—	(132,915)
(Decrease) in long-term capitalized lease obligation	(18,580)	—
Repayment/reduction of long-term debt	(14,360)	(16,835)
Interest paid	(20,942)	(23,678)
Proceeds from sale of swap	5,420	—
Net cash used in capital and related financing activities	(108,235)	(68,831)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	212,210	138,997
Receipt of interest	5,432	9,498
Purchase of investments	(224,995)	(118,185)
Net cash (used in) provided by investing activities	(7,353)	30,310
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(629)	6,629
CASH AND CASH EQUIVALENTS		
Beginning of year	152,438	145,809
End of year	$ 151,809	$ 152,438
CASH AND CASH EQUIVALENTS		
Unrestricted	$ 10,978	$ 12,947
Restricted	140,831	139,491
Total	$ 151,809	$ 152,438
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (953,361)	$ (836,965)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	275,534	264,563
Decrease (increase) in receivables	1,919	(2,772)
(Increase) in materials & supplies	(2,263)	(12,680)
(Increase) decrease in prepaid expenses	(611)	191
Increase (decrease) in accounts payable—trade	1,506	(4,812)
Increase in accrued expenses and other liabilities net of other assets	13,464	10,614
Increase (decrease) in public liability and property damage claims	3,695	(6,808)
Increase in other postemployment benefits	97,612	—
Total adjustments	390,856	248,296
Net cash used in operating activities	$ (562,505)	$ (588,669)

See accompanying notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)
June 30, 2008 and 2007

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 85 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 614 thousand passenger trips per day. The Regional Rail Division serves all five counties with a network of 7 commuter rail lines, providing approximately 124 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 54 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 2008 and 2007 are summarized as follows:

	2008	2007
Federal subsidies:		
Preventive maintenance reimbursements	$ 32,620	$ 99,597
State and local subsidies:		
Act 44 operating subsidies	496,664	—
Act 26/3/44 leasehold/debt service reimbursements	61,488	278,492
Act 26 base operating subsidies	—	81,133
Act 3 operating subsidies	—	28,161
Senior citizen subsidies	19,802	65,776
Asset maintenance state and local subsidies:		
Act 26 subsidies	—	41,715
Act 3 subsidies	—	12,509
Total subsidies	$ 610,574	$ 607,383

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. Federal subsidies provide for the reimbursement of vehicle, roadway and structure preventive maintenance expenses. Prior to Fiscal Year 2008, the Commonwealth of Pennsylvania ("State") funding was pursuant to Act 26 of 1991 ("Act 26") which was enacted by the State legislature in August 1991 and required matching local governmental funding in the five-county SEPTA region (Bucks, Chester, Delaware, Montgomery and Philadelphia). Act 26 also provided for additional State, and required matching local governmental funding, based on a portion of certain State taxes which were effective starting October 1, 1991. The additional dedicated funding was used for Asset Maintenance operating expenditures, State-approved capital expenditures as defined by Act 26, and debt service payments. In December 1993, Act 26 also was amended by Act 81 of 1993 to permit the use of Asset Maintenance funds up to the maximum amount projected and eligible for approval under Act 26 when it was enacted in 1991. In April 1997, Act 3 of 1997 was enacted to provide for additional State funding, and required matching local governmental funding, which was used for operating, asset maintenance and capital expenditures.

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 has been 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, Act 26, 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. Additionally, GASB Statement No. 34 requires net assets to be classified as: invested in capital assets net of related debt, restricted and unrestricted. 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 contributions.

The Authority has elected an alternative which exempts the Authority from adherence to the Financial Accounting Standards Board Statements and Interpretations and other related opinions and bulletins issued after November 30, 1989.

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 cash and investments of 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. In Fiscal Year 2008, the Authority adopted the provisions of GASB Statement No. 50, Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27. The adoption of this statement had no effect on previously reported amounts. 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 and workers' compensation claims, as 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 Assets.

STATEMENTS OF CASH FLOWS

For the purposes 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 Year 2007 amounts have been reclassified to conform to the Fiscal Year 2008 presentation.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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:

	2008	2007
Cash on hand	$ 2,923	$ 2,101
Cash in bank	3,821	42,731
Money market funds	140,983	115,024
Commercial paper	21,030	9,480
Outstanding checks	(16,948)	(16,898)
Total cash and cash equivalents	151,809	152,438
Less current portion—unrestricted	10,978	12,947
Less current portion—restricted	99,566	9,584
Total noncurrent portion—restricted	$ 41,265	$ 129,907

The components of investments as of June 30 are:

	2008	2007
U.S. Government and agencies	$ 49,972	$ 34,182
Commercial paper	11,926	23,468
Mutual funds	42,502	15,204
Guaranteed investment contract	11,811	30,391
Total investments	116,211	103,245
Less current portion—unrestricted	44,084	22,274
Less current portion—restricted	27,161	23,468
Total noncurrent portion—restricted	$ 44,966	$ 57,503

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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 26, Act 3, Act 44 and contractual agreements between the Authority and external parties. The amounts restricted, as of June 30, are as follows:

	2008	2007
Restricted:		
State dedicated funding provided by Act 26, including local match	$ 26,373	$ 67,427
State funding provided by Act 3, including local match	31,330	46,064
State dedicated funding provided by Act 44, including local match	93,024	—
Debt service funds:		
Special Revenue Bonds, Series of 2007	13,368	12,506
Special Revenue Bonds, Series of 1999A and 1999B	20,335	20,547
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	6,565	20,340
Light rail cars	4,667	17,711
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	11,811	30,391
Cross border lease transaction proceeds to be used for capital or operating needs which require FTA approval	1,163	1,163
Security deposits and other	4,322	4,313
Total	$ 212,958	$ 220,462

As of June 30, 2008, 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, 2008, the Authority's investments in the bonds of U.S. agencies were rated AAA by Standard & Poor's. The investments in commercial paper were rated A1+/P1 by Standard & Poor's and in money market funds and mutual funds were rated Aaa by Moody's Investor Service. 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 Federal Home Loan Bank, Black Rock Liquidity Funds - FedFund money market and mutual funds, as well as Fidelity Government Portfolio money market and mutual funds and Enterprise Funding commercial paper. These investments are 16.16%, 50.46%, 11.01% and 5.92%, respectively, of the Authority's total 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, 2008, $3,721 of the Authority's cash in bank of $3,821 was 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

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2008, $195,296 of the Authority's cash equivalent and investment balance of $278,224 was exposed to custodial credit risk as follows:

Money market funds	$ 140,983
Mutual funds	42,502
Guaranteed investment contract (G.I.C.)	11,811
Total	$ 195,296

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. G.I.C.'s are contracts with a financial institution and not a security subject to insurance or guarantee. 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, mutual funds and the G.I.C., 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.

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 prevailing interest rates change. As of June 30, 2008 the Authority had the following investments in its portfolio:

	Fair Value	Effective Duration
Investment type		
U.S. agencies	$ 49,814	0.137
Commercial paper	32,956	0.317
Money market funds	140,983	0.003
Mutual funds	42,502	0.003
	266,255	
Accrued interest	158	
Total fair value including accrued interest	$ 266,413	
Portfolio effective duration		0.067

In addition to the above, investments include a guaranteed investment contract which matures January 2, 2030 and is fully collateralized with marketable securities.

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 $5.5 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was $266.4 million with an effective duration of 0.067 years.

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

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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 $6.3 billion from inception to June 30, 2008 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2008, the Authority had incurred costs of approximately $5.8 billion against these grants of which $441.1 million and $349.2 million were incurred in Fiscal Years 2008 and 2007, 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, 2008.

DEFERRED CAPITAL GRANT REVENUE

Deferred capital grant revenue relates principally to unexpended State dedicated funding received pursuant to Act 26 and Act 3. Annual changes for Fiscal Years 2008 and 2007 are as follows:

	Beginning Balance	Funding Additions	Investment Earnings	Disbursements	Ending Balance
2008	$114,504	$ —	$ 4,330	$ 58,485	$ 60,349
2007	$159,197	$166,357	$ 7,225	$218,275	$114,504

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. CAPITAL ASSETS

Capital assets are summarized as follows:

	June 30, 2007	Additions	Reclassifications	Retirements	June 30, 2008
Capital Assets					
Revenue vehicles	$ 1,612,614	$ 64,149	$ 23,668	$ 13,615	$ 1,686,816
Transit facilities, rail stations & depots	1,869,907	171,515	19,192	—	2,060,614
Track, roadway & signals	2,004,180	129,418	1,007	—	2,134,605
Other	431,234	15,964	(389)	1,356	445,453
Total	5,917,935	381,046	43,478	14,971	6,327,488
Capital leases—revenue vehicles	41,327	—	—	—	41,327
Construction in progress	64,000	81,576	(43,478)	—	102,098
Total	6,023,262	462,622	—	14,971	6,470,913
Accumulated depreciation					
Property and equipment	2,786,924	274,050	—	14,858	3,046,116
Capital leases	20,873	1,484	—	—	22,357
Total	2,807,797	275,534	—	14,858	3,068,473
Capital assets, net	$ 3,215,465	$ 187,088	$ —	$ 113	$ 3,402,440

	June 30, 2006	Additions	Reclassifications	Retirements	June 30, 2007
Capital Assets					
Revenue vehicles	$ 1,582,275	$ 38,525	$ 16,634	$ 24,820	$ 1,612,614
Transit facilities, rail stations & depots	1,689,296	156,699	23,912	—	1,869,907
Track, roadway & signals	1,926,037	60,703	17,440	—	2,004,180
Other	409,265	25,262	18	3,311	431,234
Total	5,606,873	281,189	58,004	28,131	5,917,935
Capital leases—revenue vehicles	41,327	—	—	—	41,327
Construction in progress	48,741	73,263	(58,004)	—	64,000
Total	5,696,941	354,452	—	28,131	6,023,262
Accumulated depreciation					
Property and equipment	2,551,935	263,080	—	28,091	2,786,924
Capital leases	19,390	1,483	—	—	20,873
Total	2,571,325	264,563	—	28,091	2,807,797
Capital assets, net	$ 3,125,616	$ 89,889	$ —	$ 40	$ 3,215,465

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. CAPITAL ASSETS (CONTINUED)

Capital assets are acquired with capital grants, renewal and replacement and other operating funds and are stated at cost. 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 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. Amortization of capital leases is included in depreciation expense.

As of June 30, 2008, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2008, the Authority has commitments for unexpended construction contracts, primarily related to the Market Street Elevated Reconstruction Program, of approximately $165 million and commitments for unexpended revenue vehicle purchases, for regional rail car and trackless trolley acquisitions, of approximately $485 million.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2007	Additions	Payments/ Reductions	June 30, 2008	Due Within One Year
Variable Rate Revenue Refunding Bonds, Series of 2007, due in varying amounts through 2022	$ 131,675	$ —	$ 6,075	$ 125,600	$ 6,425
Special Revenue Bonds, Series of 1999A and 1999B, due in varying amounts through 2029, with annual interest from 4.75% to 5.25%	240,440	—	8,285	232,155	8,715
	372,115	—	14,360	357,755	$ 15,140
Less unamortized bond premium, net of discount	1,304	—	145	1,159	
Less amounts deferred in connection with refunded debt	(7,359)	—	(896)	(6,463)	
Total	$ 366,060	$ —	$ 13,609	$ 352,451	

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. LONG-TERM DEBT (CONTINUED)

	June 30, 2006	Additions	Payments/ Reductions	June 30, 2007	Due Within One Year
Variable Rate Revenue Refunding Bonds, Series of 2007, due in varying amounts through 2022	$ —	$ 131,675	$ —	$ 131,675	$ 6,075
Special Revenue Bonds, Series of 1999A and 1999B, due in varying amounts through 2029, with annual interest from 4.75% to 5.25%	248,330	—	7,890	240,440	8,285
Special Revenue Bonds, Series of 1997, due in varying amounts through 2022, with annual interest from 5.35% to 5.75%	132,915	—	132,915	—	—
Special Revenue Bonds, Series of 1995A and 1995B, due in varying amounts through 2020, with annual interest from 5.75% to 8.75%	8,945	—	8,945	—	—
	390,190	131,675	149,750	372,115	$ 14,360
Less unamortized bond premium (discount), net	(178)	—	(1,482)	1,304	
Less amounts deferred in connection with refunded debt	(3,101)	(4,820)	(562)	(7,359)	
Total	$ 386,911	$ 126,855	$ 147,706	$ 366,060	

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 provide 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 has 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 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 (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 extended until December 31, 2008.

In February 1995, the Authority issued $117.9 million of Special Revenue Bonds, Series of 1995A ("1995A Bonds") and 1995B ("1995B Bonds"), due in varying amounts through 2020, with annual interest from 4.6% to 8.75%. The net proceeds of the bonds were used to refinance certain debt obligations, to reimburse the Authority for the costs of certain capital projects previously paid from operating funds and to make required deposits into the debt service reserve fund. During Fiscal Year 1996, the maximum annual debt service payment amount of $9.4 million was insured under a municipal bond debt service reserve fund policy and the debt service fund deposit was then made available for capital project expenditures. The 1995A Bonds and 1995B Bonds were secured by dedicated funding received pursuant to Act 26. In February 2007, the Authority called and retired the outstanding balance of these bonds, and consequently there was no remaining balance at June 30, 2007 or 2008.

In May 1997, the Authority issued $170.2 million of Special Revenue Bonds, Series of 1997 ("1997 Bonds"), due in varying amounts through 2022, with annual interest from 4.00% to 5.75%. The net proceeds of the 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. The 1997 Bonds were secured by dedicated funding received pursuant to Act 26. On March 1, 2007 the Authority issued Variable Rate Revenue Refunding Bonds, Series of 2007, and retired the 1997 Bonds with the proceeds of the bond issuance.

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 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 these Bonds were used to refund the Authority's outstanding 1997 Bonds and pay the premium for a debt service reserve fund insurance policy. Concurrent with the issuance of the 2007 Bonds, the Authority entered into a pay-fixed, receive-variable interest rate swap, with a notional amount of $131.7 million, as more fully described in Note 12.

The 1999A Bonds, the 1999B Refunding Bonds and the 2007 Bonds are secured by dedicated funding received pursuant to Act 44.

Aggregate maturities of the above described long-term debt are as follows:

	2009	2010	2011	2012	2013
Debt maturities	$ 15,140	$ 15,885	$ 16,700	$ 17,545	$ 18,425
Debt related interest	$ 17,531	$ 16,782	$ 15,996	$ 15,170	$ 14,289

	2014 - 2018	2019 - 2023	2024 - 2028	2029
Debt maturities	$107,425	$101,240	$ 53,195	$ 12,200
Debt related interest	$ 56,581	$ 28,277	$ 10,712	$ 580

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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 the cross border leases, lease/leaseback agreements and operating leases.

CROSS BORDER LEASES

In June 1994 and December 1994, the Authority entered into cross border leasing agreements and other related agreements (collectively the "Agreements") with a credit company incorporated in Sweden and others for a total of twenty-six N-5 High Speed Line Cars. The Agreements provided for the Authority to sell and lease back the N-5 cars for a period of fifteen years. The Authority deposited funds into an irrevocable trust sufficient to meet all of its payment obligations, throughout the term of the lease. Accordingly, the required lease payments have not been reflected in the balance sheets. As of June 30, 2008, the present value of the lease obligation was $35.2 million.

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 $30.4 million paid under the debt portion of the lease, - which amount is $11.8 million as of June 30, 2008, 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.

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 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. 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 5, 2022 through December 15, 2023, that will allow the Authority to buy out the equity investor's remaining rights under the agreement, thereby terminating the entire transaction.

The above cross border and lease/leaseback transactions, including changes for Fiscal Years 2008 and 2007, are included, as are unamortized swaption proceeds, in the following liabilities:

Other Liabilities	Beginning Balance	Reductions *	Investment Earnings	Ending Balance
2008	$ 58,769	$ (28,810)	$ 1,791	$ 31,750
2007	$ 60,512	$ (5,045)	$ 3,302	$ 58,769

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

OPERATING LEASES

The Authority leases equipment and utility vehicles, with leases expiring at various dates through 2008. Rental expense for these operating leases was $2.1 million for both Fiscal Years 2008 and 2007.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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.

An employee (except for transit police) may retire at age 62 with completion of 5 years of credited service or age 55 with 30 years of credited service. The normal retirement eligibility for certain bargaining unit employees who may retire at age 55 with 30 years of credited service changed to the completion of 30 years of credited service with no restriction on age. The change in retirement eligibility became effective as follows: for CTD Plan employees represented by TWU, Local 234 (March 15, 2000) and IBT, Local 500 (June 1, 2000) and RAD Plan employees represented by TWU, Local 234 (April 2, 2000) and UTU, Local 1594 (April 5, 2001) and FD Plan employees represented by TWU, Local 234 (April 8, 2000). A transit police employee may retire at age 50 with completion of 25 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.

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, 2007, the date of the latest actuarial valuation:

	SAM	Transit Police	City Transit	Red Arrow	Frontier	Total
Retirees and beneficiaries receiving benefits	1,118	5	2,508	227	18	3,876
Termintated plan members entitled to but not yet receiving benefits	545	48	893	112	28	1,626
Active plan members	1,741	197	4,966	485	201	7,590
Total	3,404	250	8,367	824	247	13,092

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. 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 for Fiscal Year 2008 are as follows:

	SAM	Transit Police	City Transit	Red Arrow	Frontier
Contribution rates:					
SEPTA	24.25%	7.80%	13.70%	9.81%	5.93%
Plan members	*	3.85%	2.00%	2.00%	2.00%

* 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 2008 were as follows:

	SAM	Transit Police	City Transit	Red Arrow	Frontier	Total
Annual Pension Cost	$28,819	$ 779	$35,690	$ 2,620	$ 556	$68,464
Contributions made	25,245	683	33,091	2,429	493	61,941
Increase in accrued pension liability	3,574	96	2,599	191	63	6,523
Accrued pension liability, beginning of year	25,089	679	32,807	2,411	491	61,477
Accrued pension liability, end of year	$28,663	$ 775	$35,406	$ 2,602	$ 554	$68,000
Actuarial valuation date	7/1/07	7/1/07	7/1/07	7/1/07	7/1/07	
Actuarial cost method	Projected unit credit	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	Level dollar, open	
Amortization period	30 years	30 years	30 years	30 years	30 years	
Asset valuation method	Actuarial value	Actuarial value	Actuarial value	Actuarial value	Actuarial value	
Actuarial assumptions:						
Investment rate of return*	8.00%	8.00%	8.00%	8.00%	8.00%	
Salary increases*	5.25%	5.00%	5.00%	5.00%	5.00%	
Cost-of-living adjustments	None	None	None	None	None	

* Reflects underlying inflation assumption of 2.75%.

(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	6/30/08	$28,819	100.0%
SAM	6/30/07	$25,245	100.0%
SAM	6/30/06	$22,971	100.0%
SAM	6/30/05	$19,104	100 0%
SAM	6/30/04	$19,179	100.0%
SAM	6/30/03	$17,046	100.0%
Transit Police	6/30/08	779	100.0%
Transit Police	6/30/07	683	100.0%
Transit Police	6/30/06	680	100.0%
Transit Police	6/30/05	474	100.0%
Transit Police	6/30/04	386	100.0%
Transit Police	6/30/03	372	100.0%
City Transit	6/30/08	35,690	100.0%
City Transit	6/30/07	33,091	100.0%
City Transit	6/30/06	29,898	100.0%
City Transit	6/30/05	26,426	100.0%
City Transit	6/30/04	26,412	100.0%
City Transit	6/30/03	25,007	100.0%
Red Arrow	6/30/08	2,620	100.0%
Red Arrow	6/30/07	2,429	100.0%
Red Arrow	6/30/06	2,135	100.0%
Red Arrow	6/30/05	1,844	100.0%
Red Arrow	6/30/04	1,807	100.0%
Red Arrow	6/30/03	1,718	100.0%
Frontier	6/30/08	556	100.0%
Frontier	6/30/07	493	100.0%
Frontier	6/30/06	411	100.0%
Frontier	6/30/05	309	100.0%
Frontier	6/30/04	311	100.0%
Frontier	6/30/03	288	100.0%
TOTAL	6/30/08	$68,464	100.0%
TOTAL	6/30/07	$61,941	100.0%
TOTAL	6/30/06	$56,095	100.0%
TOTAL	6/30/05	$48,157	100.0%
TOTAL	6/30/04	$48,095	100.0%
TOTAL	6/30/03	$44,431	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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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	7/1/07	$355,391	$ 498,208	$142,817	71.3%	$118,832	120.2%
SAM	7/1/06	$319,509	$ 444,031	$124,522	72.0%	$116,268	107.1%
SAM	7/1/05	$296,254	$ 409,221	$112,967	72.4%	$115,571	97.7%
SAM	7/1/04	$278,420	$ 367,338	$ 88,918	75.8%	$115,174	77.2%
SAM	7/1/03	$264,967	$ 349,133	$ 84,166	75.9%	$112,760	74.6%
SAM	7/1/02	$261,856	$ 332,131	$ 70,275	78.8%	$108,369	64.8%
Transit Police	7/1/07	14,303	15,089	786	94.8%	9,983	7.9%
Transit Police	7/1/06	12,034	13,103	1,069	91.8%	9,886	10.8%
Transit Police	7/1/05	10,236	11,678	1,442	87.7%	9,770	14.8%
Transit Police	7/1/04	8,786	9,488	702	92.6%	9,989	7.0%
Transit Police	7/1/03	7,682	8,011	329	95.9%	8,804	3.7%
Transit Police	7/1/02	6,873	7,276	403	94.5%	8,738	4.6%
City Transit	7/1/07	379,856	620,111	240,255	61.3%	260,569	92.2%
City Transit	7/1/06	344,644	573,726	229,082	60.1%	247,744	92.5%
City Transit	7/1/05	322,742	529,954	207,212	60.9%	247,031	83.9%
City Transit	7/1/04	304,550	483,964	179,414	62.9%	242,426	74.0%
City Transit	7/1/03	289,310	460,894	171,584	62.8%	236,333	72.6%
City Transit	7/1/02	282,228	440,265	158,037	64.1%	228,538	69.2%
Red Arrow	7/1/07	29,836	46,495	16,659	64.2%	26,704	62.4%
Red Arrow	7/1/06	26,643	42,963	16,320	62.0%	24,813	65.8%
Red Arrow	7/1/05	24,658	39,122	14,464	63.0%	24,900	58.1%
Red Arrow	7/1/04	23,043	35,911	12,868	64.2%	24,658	52.2%
Red Arrow	7/1/03	21,879	33,455	11,576	65.4%	23,362	49.6%
Red Arrow	7/1/02	21,508	32,208	10,700	66.8%	22,968	46.6%
Frontier	7/1/07	8,492	9,647	1,155	88.0%	9,386	12.3%
Frontier	7/1/06	7,138	8,271	1,133	86.3%	8,863	12.8%
Frontier	7/1/05	6,163	7,064	901	87.2%	8,426	10.7%
Frontier	7/1/04	5,357	5,990	633	89.4%	8,148	7.8%
Frontier	7/1/03	4,680	5,539	859	84.5%	7,745	11.1%
Frontier	7/1/02	4,210	5,025	815	83.8%	7,428	11.0%
TOTAL	7/1/07	$787,878	$1,189,550	$401,672	66.2%	$425,474	94.4%
TOTAL	7/1/06	$709,968	$1,082,094	$372,126	65.6%	$407,574	91.3%
TOTAL	7/1/05	$660,053	$ 997,039	$336,986	66.2%	$405,698	83.1%
TOTAL	7/1/04	$620,156	$ 902,691	$282,535	68.7%	$400,395	70.6%
TOTAL	7/1/03	$588,518	$ 857,032	$268,514	68.7%	$389,004	69.0%
TOTAL	7/1/02	$576,675	$ 816,905	$240,230	70.6%	$376,041	63.9%

7. PENSION PLANS (CONTINUED)

The actuarial value of assets is adjusted to reflect the timing of the payment of the employer contribution receivable. As a result, the actuarial value of assets differs from the market value of assets and the net assets held in trust for pension benefits.

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 SAM Plan increased $27.8 million and $30.3 million, respectively, due to the change.

The annual pension cost for Fiscal Year 2007 and the actuarial accrued liability as of July 1, 2006 were affected by a change in the formula for determining plan benefits. The change, which did not include the Transit Police Plan, increased the rate used in the calculation of Average Annual Compensation not in excess of Social Security covered compensation. The annual pension costs for the Union Plans and SAM Plan increased by $3.0 million and $2.1 million, respectively, due to the formula change. The actuarial accrued liability for the Union Plans and SAM Plan increased $22.8 million and $15.0 million, respectively, due to the change.

The annual pension cost for Fiscal Year 2006 and the actuarial accrued liability as of July 1, 2005 were affected by a change in actuarial assumptions. The change lowered the investment return assumption from 8.5% to 8.0%. The annual pension costs for the Union Plans and SAM Plan increased by $3,245 and $2,644, respectively, due to the change. The actuarial accrued liability for the Union Plans and SAM Plan increased by $30,460 and $23,698, respectively, due to the change.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. PENSION PLANS (CONTINUED)

STATEMENTS OF PLAN NET ASSETS
as of June 30, 2008

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2008 Total
Assets:						
Cash and short-term investments	$ —	$ —	$ —	$ —	$ —	$ —
Receivables						
Employer contributions	28,819	779	35,690	2,620	556	68,464
Plan member contributions	140	59	800	76	29	1,104
Interest and dividends	1,532	67	1,597	128	39	3,363
Sales pending settlement	2,040	89	2,126	171	53	4,479
Total receivables	32,531	994	40,213	2,995	677	77,410
Cash equivalents and Investments, at fair value						
Cash equivalents	18,270	795	19,050	1,526	470	40,111
U.S. Government obligations	8,276	360	8,631	691	213	18,171
Corporate and other government obligations	57,367	2,501	59,817	4,791	1,478	125,954
Preferred stocks	855	37	891	71	22	1,876
Common stocks	223,962	9,757	233,516	18,705	5,767	491,707
Private equity	12,023	524	12,536	1,004	308	26,395
Real estate	7,287	317	7,599	609	188	16,000
Total investments	328,040	14,291	342,040	27,397	8,446	720,214
Total assets	360,571	15,285	382,253	30,392	9,123	797,624
Liabilities:						
Purchases pending settlement	3,788	165	3,949	317	97	8,316
Net assets held in trust for pension benefits	$356,783	$ 15,120	$378,304	$ 30,075	$ 9,026	$789,308

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. PENSION PLANS (CONTINUED)

STATEMENTS OF PLAN NET ASSETS
as of June 30, 2007

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2007 Total
Assets:						
Cash and short-term investments	$ —	$ —	$ —	$ —	$ —	$ —
Receivables						
Employer contributions	25,245	683	33,091	2,429	493	61,941
Plan member contributions	67	33	323	33	12	468
Interest and dividends	1,781	73	1,872	148	43	3,917
Sales pending settlement	1,023	42	1,077	86	26	2,254
Total receivables	28,116	831	36,363	2,696	574	68,580
Cash equivalents and Investments, at fair value						
Cash equivalents	30,643	1,262	32,253	2,545	744	67,447
U.S. Government obligations	18,430	759	19,398	1,531	448	40,566
Corporate obligations	56,924	2,347	59,914	4,728	1,383	125,296
Preferred stocks	557	23	586	46	14	1,226
Common stocks	249,761	10,293	262,874	20,746	6,067	549,741
Private equity	5,257	217	5,532	437	126	11,569
Total investments	361,572	14,901	380,557	30,033	8,782	795,845
Total assets	389,688	15,732	416,920	32,729	9,356	864,425
Liabilities:						
Purchases pending settlement	13,879	571	14,605	1,154	338	30,547
Net assets held in trust for pension benefits	$375,809	$ 15,161	$402,315	$ 31,575	$ 9,018	$833,878

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. PENSION PLANS (CONTINUED)

STATEMENTS OF CHANGES IN PLAN NET ASSETS
for the Year Ended June 30, 2008

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2008 Total
Additions						
Contributions						
Employer	$ 28,819	$ 779	$ 35,690	$ 2,620	$ 556	$ 68,464
Plan member	936	334	4,444	431	160	6,305
Total contributions	29,755	1,113	40,134	3,051	716	74,769
Investment income (loss)						
Net realized gain	18,138	749	19,054	1,509	446	39,896
Net increase (decrease) in fair value of investments	(53,106)	(2,244)	(55,635)	(4,426)	(1,332)	(116,743)
Interest	6,007	254	6,293	501	151	13,206
Dividends	4,965	211	5,199	414	125	10,914
Total investment income (loss)	(23,996)	(1,030)	(25,089)	(2,002)	(610)	(52,727)
Less investment expense	1,718	73	1,800	143	43	3,777
Net investment income (loss)	(25,714)	(1,103)	(26,889)	(2,145)	(653)	(56,504)
Total additions	4,041	10	13,245	906	63	18,265
Deductions						
Benefits	22,894	41	37,062	2,392	51	62,440
Administrative expense	173	10	194	14	4	395
Total deductions	23,067	51	37,256	2,406	55	62,835
Net increase (decrease)	(19,026)	(41)	(24,011)	(1,500)	8	(44,570)
Net assets held in trust for pension benefits						
Beginning of year	375,809	15,161	402,315	31,575	9,018	833,878
End of year	$356,783	$15,120	$378,304	$30,075	$9,026	$789,308

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. PENSION PLANS (CONTINUED)

STATEMENTS OF CHANGES IN PLAN NET ASSETS
for the Year Ended June 30, 2007

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2007 Total
Additions						
Contributions						
Employer	$ 25,245	$ 683	$ 33,091	$ 2,429	$ 493	$ 61,941
Plan member	918	339	4,264	414	151	6,086
Total contributions	26,163	1,022	37,355	2,843	644	68,027
Investment income						
Net realized gain	24,658	984	26,077	2,046	586	54,351
Net increase in fair value of investments	17,640	699	18,671	1,463	417	38,890
Interest	6,258	249	6,621	519	148	13,795
Dividends	4,164	167	4,402	346	99	9,178
Total investment income	52,720	2,099	55,771	4,374	1,250	116,214
Less investment expense	1,753	70	1,856	145	41	3,865
Net investment income	50,967	2,029	53,915	4,229	1,209	112,349
Total additions	77,130	3,051	91,270	7,072	1,853	180,376
Deductions						
Benefits	21,840	33	35,733	2,275	54	59,935
Administrative expense	135	11	155	12	3	316
Total deductions	21,975	44	35,888	2,287	57	60,251
Net increase	55,155	3,007	55,382	4,785	1,796	120,125
Net assets held in trust for pension benefits						
Beginning of year	320,654	12,154	346,933	26,790	7,222	713,753
End of year	$375,809	$15,161	$402,315	$31,575	$9,018	$833,878

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 three years for TP and end at the earlier of three years or age 65 for Railroad Union Groups. In addition, the Authority provides life insurance coverage to substantially all retirees except TP. 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 up 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 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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The Authority's OPEB cost and change in net OBEP obligation for Fiscal Year 2008 are as follows:

	SAM	Transit Police	Non-Railroad Union Groups	Railroad Union Groups	Total
OPEB Cost and annual required contribution	$ 33,316	$ 1,375	$ 82,546	$ 8,785	$126,022
Contributions made	8,539	24	18,397	1,450	28,410
Increase in net OPEB obligation	24,777	1,351	64,149	7,335	97,612
Net OPEB obligation, beginning of year	—	—	—	—	—
Net OPEB obligation, end of year	$ 24,777	$ 1,351	$ 64,149	$ 7,335	$ 97,612

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for Fiscal Year 2008 for each of the plans are as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
SAM	6/30/08	$ 33,316	25.6%	$ 24,777
Transit Police	6/30/08	1,375	1.7%	1,351
Non-Railroad Union Groups	6/30/08	82,546	22.3%	64,149
Railroad Union Groups	6/30/08	8,785	16.5%	7,335
Total	6/30/08	$126,022	22.5%	$ 97,612

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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Significant methods and assumptions are as follows:

	SAM	Transit Police	Non-Railroad Union Groups	Railroad Union Groups
Actuarial valuation date	7/01/07	7/01/07	7/01/07	7/01/07
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	5.25%	—	—	—
Healthcare inflation rate	9.5 - 11.5% Initial 5% Ultimate	9.5 - 11.5% Initial 5% Ultimate	9.5 - 11.5% Initial 5% Ultimate	9.5 - 11.5% Initial 5% 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	7/01/07	—	$ 373,043	$ 373,043	0.0%	$108,401	344.1%
Transit Police	7/01/07	—	9,676	9,676	0.0%	9,167	105.6%
Non-Railroad Union Groups	7/01/07	—	801,605	801,605	0.0%	259,216	309.2%
Railroad Union Groups	7/01/07	—	76,757	76,757	0.0%	64,994	118.1%
Total	7/01/07	—	$1,261,081	$1,261,081	0.0%	$441,778	285.5%

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. Since the Authority adopted GASB 45 on a prospective basis in Fiscal Year 2008, only one year of information is presented above.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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 $15.5 thousand annually on a pre-tax basis. Effective January 1, 2000, the Authority began to provide SAM employees with a 10 percent matching contribution, subject to limitations, which amounted to $339 thousand and $333 thousand for Fiscal Years 2008 and 2007, respectively. The total amount of all contributions made by employee and employer generally cannot exceed $15.5 thousand annually per individual.

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.

11. 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, 2008. 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 4%, 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 2008 increased approximately $9.5 million and the related liability as of June 30, 2008 increased $7.1 million primarily due to higher claim settlement costs and a slight increase in the number of outstanding claims. The liability also includes the favorable impact of approximately $4.0 million due to a decrease in the estimated inflation rate from 8% to 6% used for litigated claim 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 4%, utilizing a case-by-case review of all claims, adjusted for estimates of future adverse claims development, as of June 30.

Total claims liabilities, including changes for Fiscal Years 2008 and 2007, are as follows:

	Public Liability and Property Damage	Workers' Compensation
Balance at June 30, 2006	$ 126,816	$ 59,207
Claims expense	33,958	12,462
Payment of claims	(36,846)	(16,382)
Balance at June 30, 2007	123,928	55,287
Claims expense	43,483	12,609
Payment of claims	(36,415)	(15,982)
Balance at June 30, 2008	$ 130,996	$ 51,914
Balance at June 30, 2008, due within one year	$ 52,400	$ 12,327

12. SWAPTION AND SWAPS

TERMS OF SWAPTION AND SWAPS

The Authority entered into three swaption contracts with two separate counterparties, Merrill Lynch Capital Services, Inc. and Citibank, N.A., in March 2003 that provided the Authority an up-front payment of $19.1 million based on a notional amount of $356.1 million. As a synthetic forward refunding of its Special Revenue Bonds, Series of 1995B, 1997, 1999A and 1999B, this payment represented the present-value savings of refundings as of March 1, 2005, 2007 and 2009, respectively, prior to the anticipated future refunding of the bonds. Each swaption gave the counterparty the option to obligate the Authority to enter into a pay-fixed, receive-variable interest rate swap. If the remaining option, which relates to the currently outstanding Special Revenue Bonds, Series of 1999A and 1999B, is exercised, the Authority expects to issue variable-rate refunding bonds. During Fiscal Year 2005, the Authority terminated the swaption contract exercisable March 1, 2005 with a notional amount of $9.5 million, reducing the up-front payment amount to $17.4 million. Effective March 1, 2007, the swaption with the notional amount of $131.3 million, associated with the Special Revenue Bonds, Series of 1997, was exercised, the associated bonds were called, and Variable Rate Revenue Refunding Bonds, Series of 2007, were issued. Concurrently, the Authority entered into a pay-fixed, receive-variable interest rate swap with a current notional amount of $125.6 million as of June 30, 2008, which terms are described in the table below. The swap was initially associated with the Series of 1997 bonds and, after the refunding, is associated with the 2007 bonds.

In December 2005, the Authority restructured the swaption contracts associated with its Special Revenue Bonds, Series of 1999A and 1999B by converting the swap variable receive rate from 67% of 1-month LIBOR to the SIFMA Index, thereby reducing the swaptions' probability of being exercised and eliminating tax risk. In order to pay for the conversion, the Authority simultaneously entered into an off-market basis swap under which the Authority agreed to pay the SIFMA Index rate and receive 67% of 3-month LIBOR plus 13.52 basis points and an upfront amount to cover the swaption's conversion costs. During Fiscal Year 2007, the Authority entered into a constant maturity swap (CMS) contract associated with its Special Revenue Bonds, Series of 1999A and 1999B, under which the Authority agreed to pay, effective March 1, 2008, 67% of 3-month LIBOR plus 13.52 basis points and receive 63.64% of ten-year USD-ISDA-Swap Rate. In January 2008, the Authority sold and terminated its CMS contract, resulting in a gain of $5.4 million recognized in investment income.

The counterparties have the one-time option to exercise the remaining swaption agreement on March 1, 2009, the first call date of the Special Revenue Bonds, Series of 1999A and 1999B. If the swaption is exercised, the swap would also commence at the call date. The swap's fixed pay rate, as indicated in the table on page 54, was set at a rate that, when added to an assumption for future remarketing and liquidity costs, will approximate the existing debt service of the "refunded" bonds.

The swaps are associated with the Special Revenue Bonds, Series of 1999A and 1999B, and with the Variable Rate Revenue Refunding Bonds, Series of 2007, which refunded the Series of 1997 bonds. The swaps' receive-variable rates are also indicated in the table on page 54 as a percentage of the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Association (SIFMA) Index.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

12. SWAPTION AND SWAPS (CONTINUED)

The swaption and swaps, with related information, as of June 30, 2008, are as follows:

Associated Revenue Bond Issue	Description	Bond Amount at Par	Bond Interest Rate	Notional Amount	Swaption/Swap Exercise and Bond Call Date	Termination Date
Series of 2007	Swap	$125,600	Variable	$125,600	3/1/2007**	3/1/2022
Series of 1999A & 1999B	Swaption	211,240	4.75% to 5.25%	215,290	3/1/2009	3/1/2028
Series of 1999A & 1999B	Basis Swap	211,240	4.75% to 5.25%	215,290	12/29/2005**	3/1/2028
Total		$336,840		$340,890		

Associated Revenue Bond Issue (continued)	Description	Swaption/Swap Pay Rate	Swaption/ Swap Variable Receive Rate	Fair Value	Credit Counterparty*	Counterparty Rating
Series of 2007	Swap	4.706%-Fixed	67% 1-Mo. LIBOR	$ (15,220)	MLCS	A1/A/A+
Series of 1999A & 1999B	Swaption	4.42%-Fixed	SFIMA Index	(10,810)	50% MLCS & CB	A1/A/A+ & Aa1/AA/AA-
Series of 1999A & 1999B	Basis Swap	SIFMA Index -Variable	67% 3-Mo. LIBOR+ 13.52 bps	(5,297)	MLCS	A1/A/A+
Total				$ (31,327)		

* MLCS = Merrill Lynch Capital Services, Inc.

* CB = Citibank, N.A., New York

** = Swap effective dates

12. SWAPTION AND SWAPS (CONTINUED)

FAIR VALUE

As of June 30, 2008, the swaption and swaps had a negative fair value totaling $31.3 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.

ISSUANCE RISK

If the option is exercised and refunding bonds are not issued at the respective call dates, the bonds would not be refunded and the Authority would make net swap payments as required by the terms of the contract - that is, making a fixed payment to the respective counterparty for the term of the swap at the above fixed swap pay rate and receiving a variable payment at the above variable swap receive rate, as a percent of LIBOR.

CREDIT RISK

As of June 30, 2008, the Authority was not exposed to credit risk, or the risk of economic loss due to a counterparty default on its outstanding swaption and swaps because the swaption and swaps had negative fair values. However, should interest rates change and the fair values of the swaption and swaps become positive the Authority would be exposed to credit risk in the amount of the derivatives' fair value. 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

Basis risk is the risk that the interest rate paid by the Authority to bondholders on underlying variable rate refunding bonds that might be issued if the swaption is exercised differs from the variable swap rate received from the applicable counterparty. The Authority has basis risk on the swap associated with the Variable Rate Refunding Revenue Bonds, Series of 2007, issued March 1, 2007. If the swaption associated with the Special Revenue Bonds, Series of 1999A and 1999B, is exercised, the resulting swap has basis risk since the Authority receives a percentage of 3-month LIBOR plus basis points to offset the actual variable bond rate the Authority would pay on its bonds. The Authority is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Authority might pay on any bonds that might be issued. If the option is exercised and the variable-rate bonds issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment received on the swap.

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.

13. 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 affect on future operations would be substantial. The Authority anticipates that external funding sources will be sufficient to support its continuing operations.

14. SUBSEQUENT EVENT

Subsequent to June 30, 2008, the capital credit market experienced significant events which negatively impacted the availability and cost of credit. Effective July 18, 2008, the Authority converted its interest rate mode on its Variable Rate Revenue Refunding Bonds, Series of 2007, from an auction mode to a weekly mode whereby the interest rate is determined on a weekly basis by the remarketing agent, PNC Capital Markets LLC.

The negative events in the credit market as well as the general economic conditions in the United States and worldwide have caused a significant decline in equity markets resulting in a significant decrease in investment values of both pension and non-pension assets either directly invested in or tied to the equity markets. At present, the investment value declines are expected to be temporary and not permanent, and equity market recovery, if it occurs, may take some time. The major resulting impact of the equity markets' decline on the Authority will be in the form of increased annual required contributions (ARC) and increased pension expense with respect to its various pension plans.

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