



# SPARKING PROGRESS

2009 ANNUAL REPORT



**SEPTA**

Southeastern Pennsylvania Transportation Authority

# Board Members

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Pasquale T. Deon, Sr.

## Vice Chairman

James C. Schwartzman, Esquire

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## SEPTA Officers

### General Manager

Joseph M. Casey, CPA

### 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

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. Copyright SEPTA 2010.



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Michael J. O'Donoghue,  
Esquire



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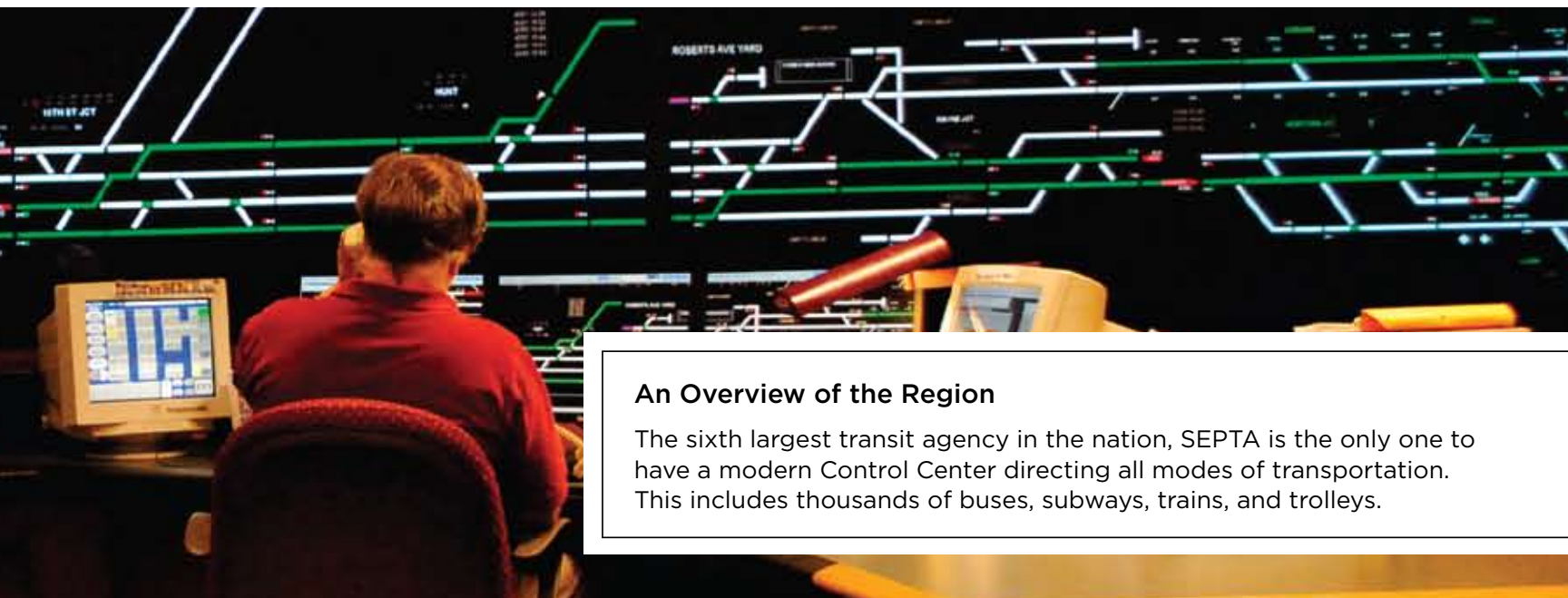
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and Changes in Net Assets



### **An Overview of the Region**

The sixth largest transit agency in the nation, SEPTA is the only one to have a modern Control Center directing all modes of transportation. This includes thousands of buses, subways, trains, and trolleys.

# Management Letter

2 In Fiscal Year 2009, SEPTA experienced its third straight year of increased ridership, with Regional Rail reaching its highest levels in 25 years. There were also significant increases on the Transit side. During the year ending June 30, 2009, our customers took 329.6 million unlinked trips, which represented an increase of 4.4 million, or one percent, over fiscal year 2008. Passenger revenue grew by \$12 million, or three percent, over last year. These increases created the opportunity to implement a broad-reaching service enhancement program with 65 initiatives to address overcrowding, and improve travel convenience with additional peak and off peak service.

SEPTA continued its fleet renewal program with the purchase of new Paratransit vehicles and 100 new diesel-electric hybrid buses. These new hybrid buses are just one of several initiatives SEPTA advanced during the year as part of a comprehensive Authority Sustainability Program.

With the receipt of \$191 million in federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of 2009, SEPTA identified and began mobilizing 32

shovel-ready capital construction projects. Our program has become a national model and SEPTA's contractors were among the first to begin work to improve stations, infrastructure and bridges. These projects are creating new construction and manufacturing employment opportunities critically needed to help our local economy. Stimulus funds were also used to purchase 40 additional diesel-electric hybrid buses, which will bring our hybrid fleet to 472 buses by 2011. SEPTA also enhanced security by hiring 12 new Transit Police Officers with ARRA funding.

Fiscal Year 2009 was a period in which SEPTA made great strides in sustainability, technology, and customer service. Green systems such as recycling and energy savings were introduced in our administrative offices, maintenance shops, and stations. In keeping with our commitment to improving Customer Service, resources were allocated for vehicle and station cleaning and customer communications initiatives. Enhanced training and an employee customer service rewards program are just two ways we are working to provide a better face-to-face experience for riders. Communications advanced via

new technology, including real-time service alerts on our website. Finally, a One Day Independence Pass was introduced, making seamless travel on all SEPTA services more user-friendly and economical.

Our accomplishments over the past year define SEPTA as an organization responsive to the needs of its customers and an invaluable regional resource, especially in difficult economic times. We provided mobility, generated jobs, facilitated economic growth, improved air quality, and lessened dependence on foreign oil.

Fiscal Year 2009 was a period in which SEPTA made great strides in sustainability, technology, and customer service.



**Pasquale T. Deon, Sr.**  
**CHAIRMAN**



**Joseph M. Casey**  
**GENERAL MANAGER**

# Sparking Progress

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**S**ervice, stimulus, and sustainability. These three terms best describe what Fiscal Year 2009 was all about at SEPTA. While economic hardships impacted every sector around the world, SEPTA was nonetheless able to make strides in improving the customer experience, attracting funding for shovel-ready projects, and making the entire system more environmentally friendly. This trifecta kept SEPTA on the right track for ridership growth, job creation, and responsibility to the public.

SEPTA is best known by the public, the business community, and elected officials for three things: people, vehicles, and infrastructure. This 2009 Annual Report looks at advances made in each of these areas.

People – riders around the region – are the past, present, and future of SEPTA. They make every project, schedule, and trip worth the effort. Vehicles are the lifeblood. Buses, subways, trains, trolleys, and CCT Paratransit service keep the people moving throughout Southeastern Pennsylvania, getting to work, events, shopping, and to visit family and friends. SEPTA's infrastructure is more than just functional. The stations are iconic. From the 69th Street Terminal to Suburban Square in Ardmore to Market East, SEPTA stations are among the area's most loved landmarks.

This year's focus – people, vehicles, and infrastructures – provides an exciting look at Fiscal Year 2009. More importantly, it sets the stage for future successes, to benefit the City of Philadelphia, region, and State of Pennsylvania for years to come.







### **Connecting the Future**

New wires make the ride more dependable. SEPTA works to replace 80-year-old wires so riders reach their destinations smoothly and reliably.

# The Economic Ripple Effect of Transit in Pennsylvania

Rebuilding a more competitive landscape is the new economic reality in the United States. Pennsylvania has a head start in becoming more competitive thanks to investments in transit. These investments mean improvements and growth that ultimately benefit the entire Commonwealth.

SEPTA has always meant jobs, wages, and business income. Now, stimulus funding from the American Recovery and Reinvestment Act of 2009 has intensified the positive economic impact transit has on Pennsylvania.

## Transit Drives State Strength

### Pennsylvania Transit Agencies:

- Spend over \$1 billion each year with Pennsylvania businesses
- Buy “Made in Pennsylvania” products and services, ranging from steel to foam seating to security
- Patronize more than 2,000 state businesses

### Transit Investment:

- Generates a four-to-one return on investment for every dollar spent by transit agencies
- Reduces fuel consumption state-wide
- Opens roads for better movement of goods and services
- Employs about 15,000 people directly and thousands more indirectly

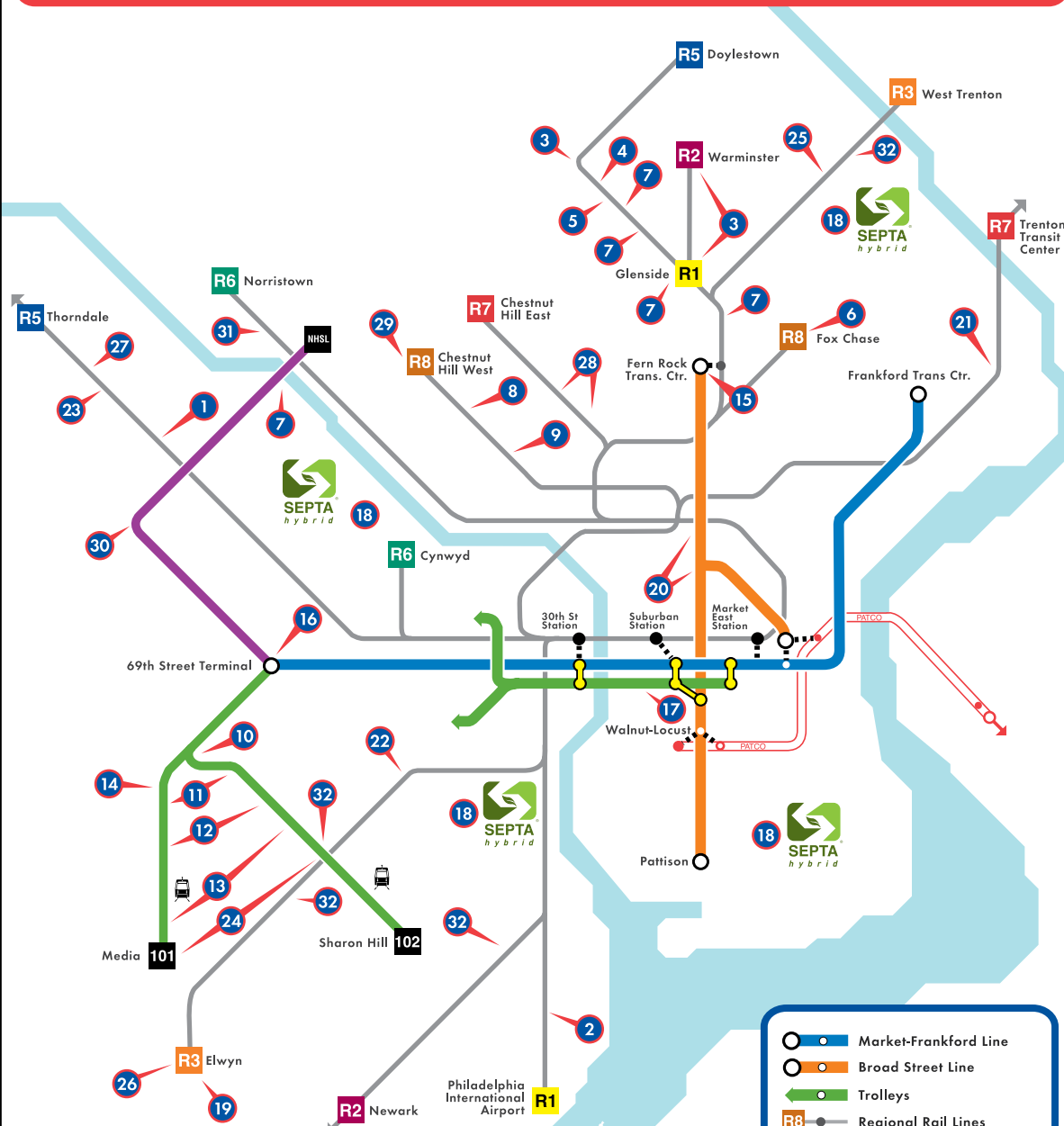


### SEPTA = Jobs

ArcelorMittal's steel plant in Steelton, Dauphin County, kept more jobs because of stimulus work to produce trolley rails for SEPTA. Some of the Steelton plant's 670 workers might have been out of a job without SEPTA orders worth \$3.7 million, ArcelorMittal General Manager David Wirick said. SEPTA uses the steel on trolley lines. Workers celebrated with SEPTA General Manager Joe Casey, United States Congressman Tim Holden, and ArcelorMittal General Manager David Wirick as the first shipment headed out.

SEPTA also purchased the services of Akens Engineering of Shiremanstown, PA, in Fiscal Year 2009 for its Fern Rock Yard renewal.

# What does \$191 million in stimulus funds mean for SEPTA? Major station improvements, 5,000 jobs and more.



## STIMULUS IMPROVEMENTS

- 1 **Paoli/Thorndale**  
More signs for less guesswork
- 2 **Airport Line**  
Fencing so everyone feels safer
- 3 **Warminster and Glenside Stations, Lansdale Substation**  
Roof repairs to keep the elements at bay
- 4 **North Wales Station Renovation**  
A building makeover long overdue
- 5 **Gwynedd Cut**  
Stabilizing slopes for more reliable service
- 6 **Fox Chase Station Rehab**  
Station reconstruction with easier access
- 7 **Lansdale/Doylestown Line**  
Face-lifts and rehabs on four bridges and replacement of the old Lansdale Bridge
- 8 **Chestnut Hill West Stations**  
More station updates for more happy riders
- 9 **Tulpehocken Station**  
Canopy repairs to beat the heat
- 10 **Routes 101/102**  
Fresh paint on overhead power support poles
- 11 **Routes 101/102**  
Track renewal and brush cutting along the lines
- 12 **Routes 101/102**  
Grade crossing renewals
- 13 **Routes 101/102**  
Fiber optic cable for power control and passenger information
- 14 **Route 101**  
Warning devices at ten intersections to prevent accidents
- 15 **Fern Rock Yard**  
New tracks to improve efficiencies
- 16 **69th Street Terminal**  
New restrooms for customer comfort
- 17 **Trolley Routes 10, 11, 13, 34 & 36**  
Computer-based control upgrades improve reliability
- 18 **All across the region**  
More hybrid buses for greener commutes
- 19 **Media/Elwyn Rail Line**  
Repairs to track bed for trouble-free service
- 20 **Broad Street Line**  
Rebuilt stations at Spring Garden and Girard with full accessibility
- 21 **Croydon Station**  
Get ready for new platforms, shelters and lots of extra parking
- 22 **Darby Transportation Center**  
Station expansion and renovation including windscreens
- 23 **Malvern Station**  
More parking and pedestrian improvements
- 24 **Routes 101/102**  
Traction power sectionalization to manage service better
- 25 **Philmont Station**  
Rehab station building and site improvements
- 26 **Elwyn Station**  
Much needed parking to make mornings less stressful
- 27 **Frazer Rail Yard**  
Catenary pole replacement
- 28 **Chestnut Hill East Line**  
Improvements to Germantown and Wister Stations and general site improvements
- 29 **Chestnut Hill West Station**  
Canopy repairs for weather protection and retaining wall repair for weather resistance
- 30 **Norristown High Speed Line**  
Fiber optic cables for power control and passenger information
- 31 **Norristown Rail Line**  
Overhaul substation for improved traction power delivery
- 32 **Langhorne, Folcroft, Morton and Clifton-Aldan Stations**  
Rehabilitate station buildings for more comfortable commutes

## The Bottom Line

Stimulus means more jobs now and better transportation in the near future. This map provides a look at where the funding is going and its positive impact on Pennsylvania's economy.

- Market-Frankford Line
- Broad Street Line
- Trolleys
- Regional Rail Lines
- Norristown High Speed Line
- Route 101 & 102 Trolleys
- PATCO Line
- Free Interchange
- Pedestrian Connection

# People

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**S**EPTA values people above everything else. Riders – whether they live in the city or suburbs, whether they ride to work every day or a Phillies game on occasion, whether they take a bus, train, or trolley – are the driving force for everything the organization does.

People are the future of SEPTA. For that reason, customer service was the single highest priority for 2009. A renewed dedication to providing in-person assistance in stations, new technology innovations to improve the planning process, special passes to make it more affordable to ride, and new safety initiatives were all hallmarks of the year.

All of this led to an increase in ridership for the third year in a row. Riders took nearly 330 million trips in Fiscal Year 2009.







### **Inspiring Future Riders**

SEPTA will give four-year-old Charlie mobility, affordability, and a cleaner world. Public transit is part of a mix of solutions to make life better for future generations like his.

# People

# Service

## From One to Many

SEPTA's state-of-the-art Audio Visual Public Address system and Web-based alert notification service allows communications with thousands of riders.



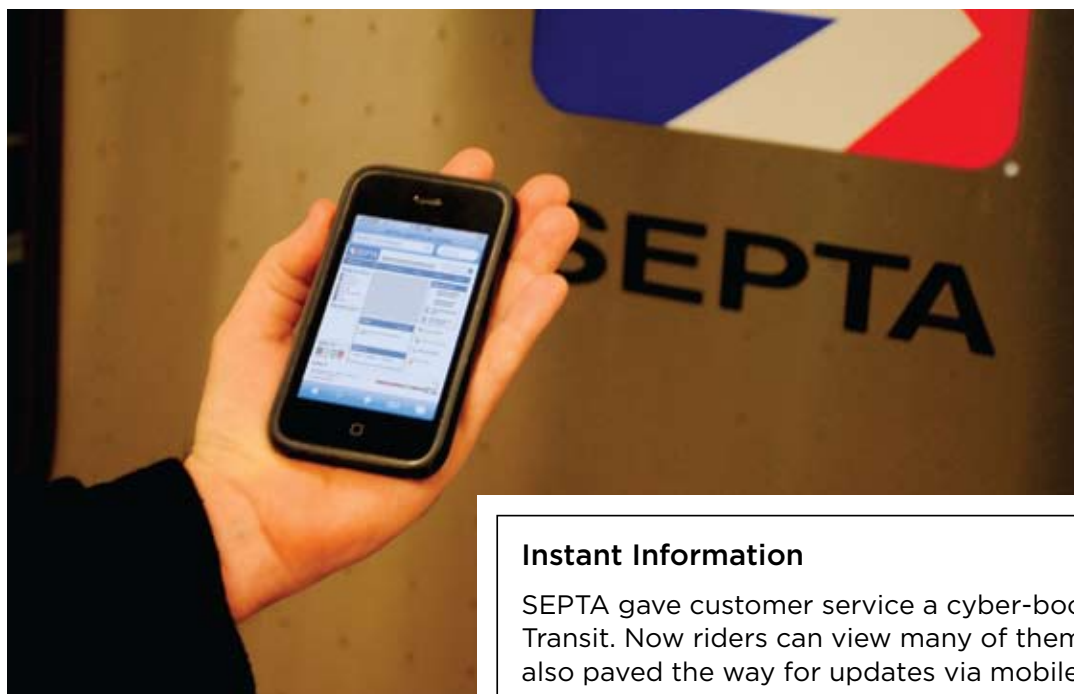




### **A Personal Connection**

Technology tools are terrific, but face time is also a powerful aspect of our Customer Service Program.

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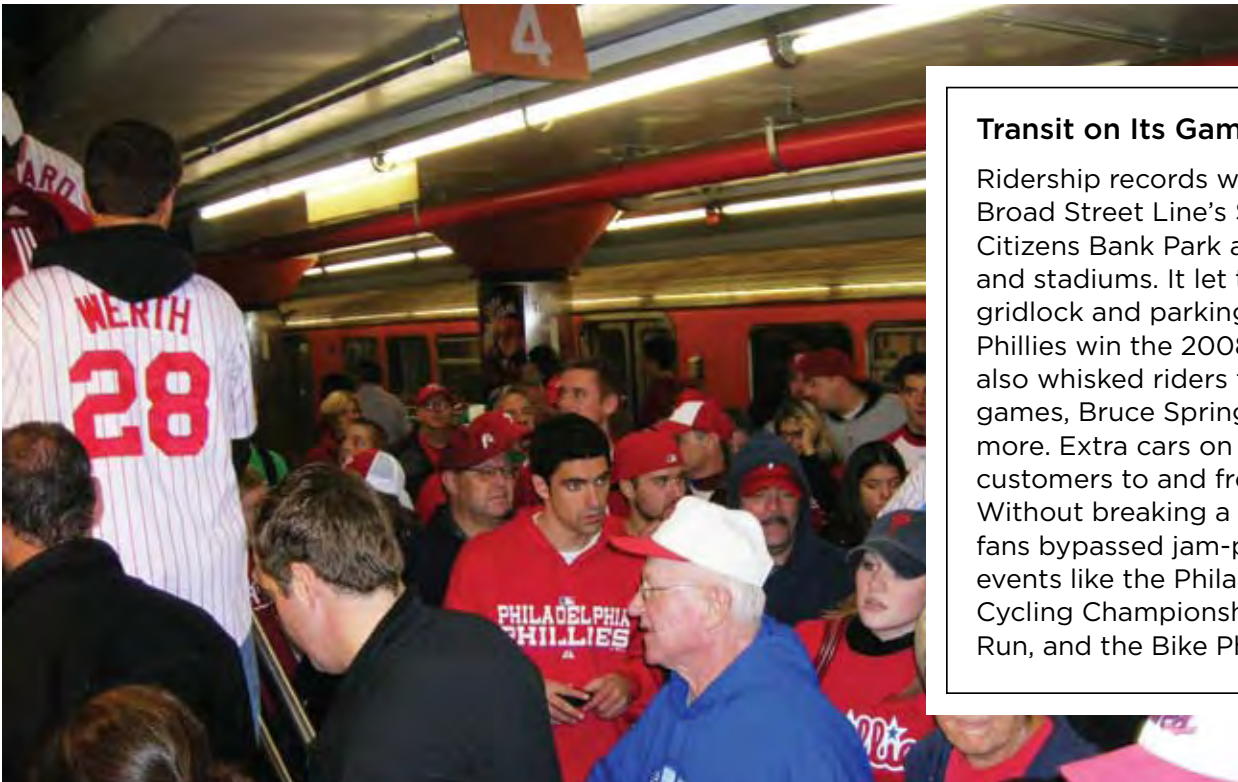
### **Instant Information**

SEPTA gave customer service a cyber-boost by launching schedules on Google Transit. Now riders can view many of them with a click on Google Maps. This has also paved the way for updates via mobile devices, real-time communications, and closed-circuit television in "Smart" Stations, as well as Web site improvements.

# People

## Service

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### Transit on Its Game

Ridership records were smashed on the Broad Street Line's Sports Express to Citizens Bank Park and Philly's arenas and stadiums. It let thousands beat gridlock and parking costs to see the Phillies win the 2008 World Series. It also whisked riders to Eagles and Flyers games, Bruce Springsteen concerts, and more. Extra cars on Regional Rail carried customers to and from the suburbs. Without breaking a sweat, athletes and fans bypassed jam-packed streets to events like the Philadelphia International Cycling Championship, the Broad Street Run, and the Bike Philly event.





## Connecting with the Customer

Face-to-face mattered when it came to making a better ride. The Customer Connection program let customers talk to SEPTA staff during their commute. At bus, train, subway, and trolley stations, riders told management their concerns enabling quick action to be taken. In response to customer feedback, SEPTA intensified the cleaning of stations and vehicles. And riders easily reached beloved attractions like the Zoo and Please Touch Museum with SEPTA support on the Philly Phlash.



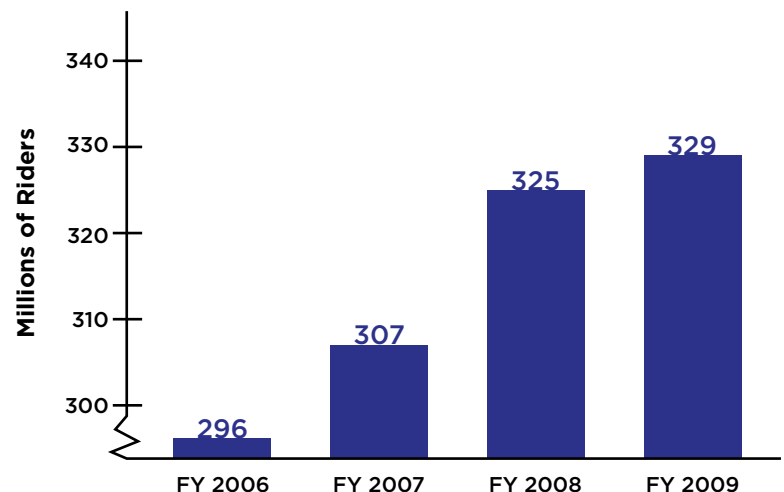
## Special Passes for Special People

The One Day Independence Pass made it easy and economical for tourists and those on staycations to see the City of Brotherly Love on SEPTA. A One Day Race for the Cure Pass gave those in the fight against cancer a special rate on rides. And free rides for children on Mother's Day spoke volumes about customer care.

## A Moment of Silence

Riders asked for a more relaxing ride and Regional Rail's new QuietRide Car was born. Cell phones and loud voices went mute on the front train car of rush hour trains. The result? Silence was golden.

## Steady Ridership Growth



# People

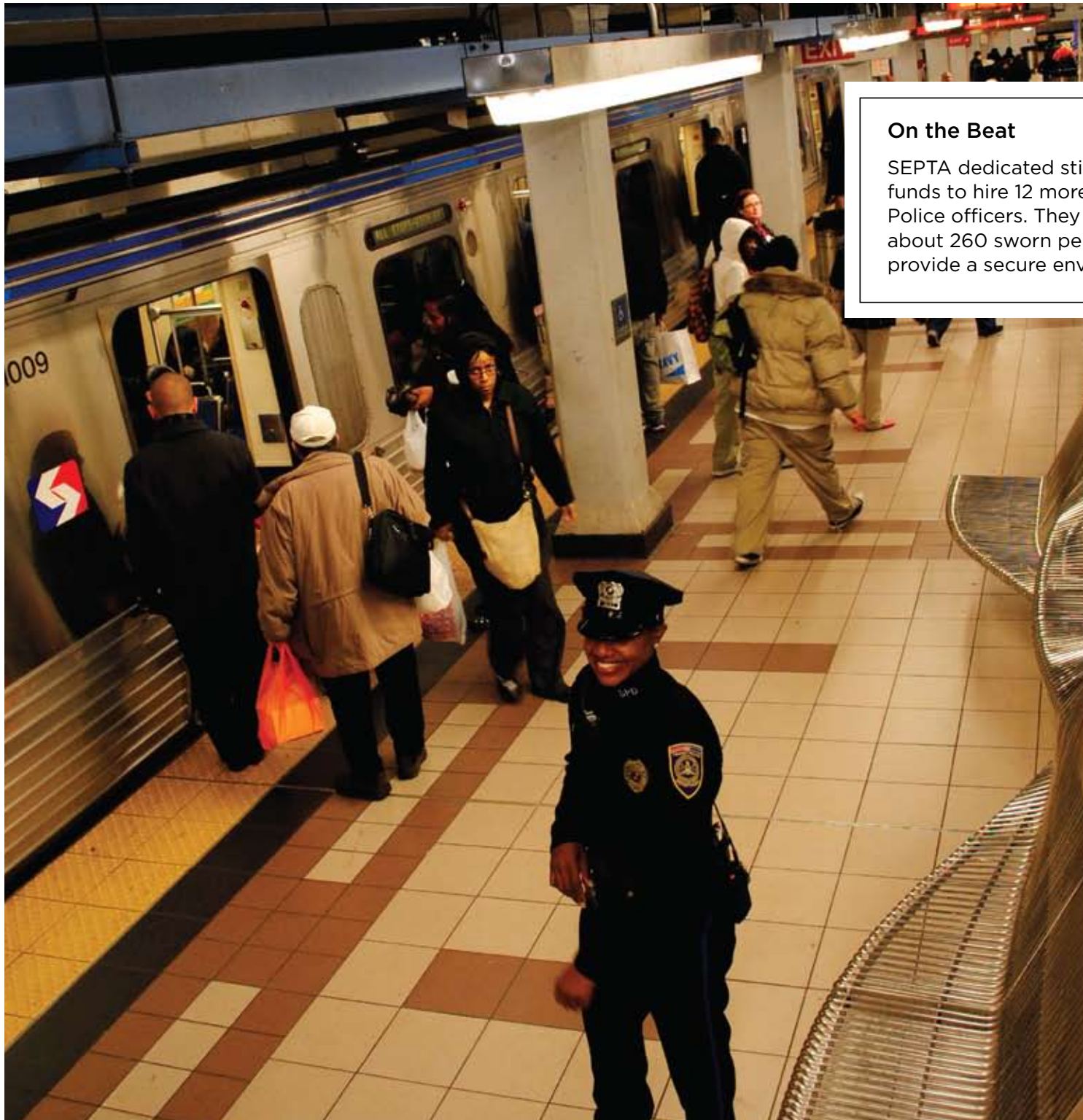
# Stimulus

## Rider Rewards

Stimulus dollars benefited riders and their employers who chose transit. It offered tax savings of up to \$1,000 per year to workers who ride transit through employer-sponsored commuter benefits programs. Employers could save up to an additional \$100 per employee per year in payroll taxes.







### **On the Beat**

SEPTA dedicated stimulus funds to hire 12 more Transit Police officers. They will join about 260 sworn personnel to provide a secure environment.

# People

## Sustainability



### Go Green, Go SEPTA

SEPTA was honored as a leader in the green movement by the Delaware Valley Regional Planning Commission. It gave SEPTA's "Go Green, Go SEPTA" campaign its Regional Transportation Program of the Year award. The award also recognized SEPTA for leadership in pioneering acquisition of diesel-electric hybrid vehicles. Finally, The PENJERDEL Council also recognized the SEPTA campaign for its green vision. SEPTA was a major partner in efforts to clean and beautify the communities it serves. More than 400 employees pitched in at the "Philly Spring Cleanup." Philadelphia Mayor Michael Nutter (left) and SEPTA General Manager Joe Casey both pitched in at the Cleanup.



# ECOTISTICAL.



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## Route to Cleaner Air

SEPTA continued to be the best route to cleaner air and efficient energy use. The second phase of its “Go Green, Go SEPTA” advertising campaign let riders know they were helping the environment by taking public transportation.

# Vehicles

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Clean, modern, and energy-efficient vehicles took to the streets and rails in Fiscal Year 2009. SEPTA made major investments to provide additional and improved transportation, from late-night rides to more frequent trips. An advertising campaign that touted the benefits of expanded service included “Five More Minutes” with a loved one, and “Ten More Minutes Yelling That’s My Boy” at a child’s football game.

New diesel-electric buses and trackless trolleys were purchased and delivered, making SEPTA one of the most environmentally friendly public transportation systems. And a strong future for trains was heralded with delivery of the Silverliner V railcar in mock up form for testing and integration.

Seniors and the disabled continued to receive door-to-door transportation to appointments, thanks to 80 new Customized Community Transportation minibuses. All this investment had a high return for the system and riders throughout the region.



### So Many Places, So Little Time

SEPTA provided about 330 million trips while covering about 2,200 square miles in Fiscal Year 2009.





# Vehicles

## Service

### Expanded Brotherly Love

Sixty-five service initiatives increased capacity and convenience to meet growing demand. Bus riders enjoyed expanded hours, accommodating early morning and late-night activities. Seating increased as large buses replaced smaller ones. Regional Rail riders rode late night trains on weekends and enjoyed extended hours to buy tickets at Center City ticket offices. Overall, these initiatives created more than 100 jobs.







### **Revolutionizing the Railroad**

SEPTA moved closer to putting 120 new Regional Rail cars on the tracks with arrival of the mock up of the new Silverliner V at the Port of Philadelphia. The Silverliner V fleet, at a cost of \$330 million, will replace older cars and increase capacity and comfort. The manufacturing of the Silverliner V also helps build the local economy. Assembly will create about 300 jobs at a South Philadelphia plant, and dozens of local companies are building parts, including HVAC systems, gear units, propulsion systems, and doors. To ease Regional Rail overcrowding in the meantime, SEPTA leased eight rail cars from New Jersey Transit.

# Vehicles

## Service

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### Door-to-Door Service

SEPTA made transportation even more accessible as its Customized Community Transportation (CCT) operation acquired 80 new minibuses at a cost of \$5 million. This vital shared-ride paratransit service provided a high level of quality, safety, and sensitivity to people with disabilities who can't use fixed-route buses. The vehicles also served Philadelphia seniors ages 65 and older. CCT's total fleet of 427 vehicles made about 7,000 paratransit trips per day from Monday to Friday.

A romantic couple is shown in a close embrace on a train platform at night. The woman has long, dark, curly hair and is wearing a dark top. The man is wearing a dark jacket and a flat cap. They are standing near a train, with the platform lights and tracks visible in the background.

### SEPTA Makes Time for Riders

SEPTA's ad campaign announced more service, like late night trains. It increased awareness and gained a little of that famous brotherly love.

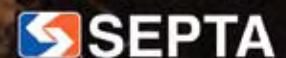
# FIVE MORE MINUTES

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### THE NEW LATE NIGHT TRAINS.

SEPTA now has late night trains on Friday and Saturday to and from Center City. Take the R5 to Paoli or Malvern along the Main Line, the R6 to Norristown via Manayunk, and the R7 to Trenton or NYC via NJT rail. So now you can say goodbye even longer.

To learn more visit [www.SEPTA.org](http://www.SEPTA.org) or call 215-580-7800.





# Vehicles

## Stimulus

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### Brakes for Begonias

Diesel-electric hybrid buses reduced engine exhaust emissions and increased fuel economy. SEPTA aggressively added quiet diesel-electric hybrid buses. Plans were put in place to purchase 40 hybrids with \$17.8 million under the American Recovery and Reinvestment Act (ARRA) of 2009. By the end of 2011, about one of every three SEPTA buses will be a diesel-electric hybrid. A total of 472 green machines will travel throughout all five counties. These buses contribute to the sustainability of the earth. They refresh their own battery banks by harnessing the normally wasted energy of braking. When brakes are applied, the energy redirects to charge the rooftop energy storage system to help power the bus.



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### Open to the Public

One of SEPTA's diesel-electric buses was displayed at the Franklin Institute in Philadelphia. The public was invited to take a closer look at how it saves energy and keeps the air cleaner. SEPTA has one of the largest hybrid bus fleets in the nation.

*go green go*



**SEPTA**  
*hybrid*

# Vehicles

## Sustainability

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### A Good Seed

SEPTA pleasantly reminded riders to “Go Green” using a reverse graffiti method to power wash dirt from a well-traveled sidewalk.





### **Frugal, Clean, and Green**

SEPTA's future is cleaner with the use of recycled water to wash buses.

# Infrastructure

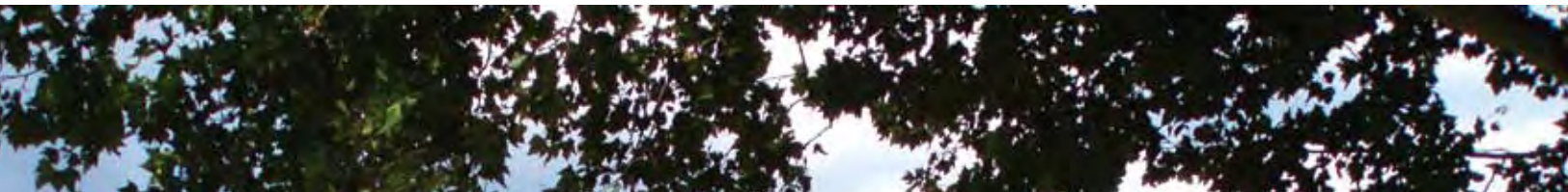
In Fiscal Year 2009, the nation's fifth largest transit agency responded to a critical need to rebuild its infrastructure. Change dawned in all five counties with increased comfort, safety, and reliability. Modern stations, more parking, better access, new track, technological advancements, new power and signal systems, and safety enhancements made this a good year for riders.

28 All this construction had a positive economic impact by putting people to work. SEPTA was recognized by the state and federal governments for its shovel-ready proposed projects across Southeastern Pennsylvania while improving the quality of life for existing and new riders.

At the same time, SEPTA set new standards in and around Philadelphia for "greenness," winning an award for an effort to make its headquarters at 1234 Market Street more environmentally friendly.







### **Walkin' in Sunshine**

The Market-Frankford Line's new 63rd Street Station transformed the streetscape. Pictured in the final stage of construction, a new streamlined station and structure replaced double columns. Previously shadowed streets now encourage pedestrians and shoppers, thanks to more sunlight.





# Infrastructure

## Service



### Excitement in Exton

SEPTA added 186 parking spaces to 456 already at Exton Station, and repaved many existing spots. The new lot is in full compliance with the Americans with Disabilities Act. SEPTA also put into motion lighting, signage, landscaping, and storm water drainage improvements.





### Rising Again

Rebuilding was highlighted by substantial completion of SEPTA's largest construction project ever, the \$740 million Market Street Elevated Reconstruction Project. SEPTA built six new stations and rebuilt two miles of elevated track along the western end of its subway workhorse, the Market-Frankford Line. The 10 year venture necessitated massive shuttling, all-night demolition, and true feats of engineering to rebuild the elevated structure. It also forged unprecedented cooperation between SEPTA and government leaders, businesses, residents, riders, and community organizations. In the end, the area from West Philadelphia to eastern Delaware County had brightly-lit stations with elevators, escalators, and public art to stimulate economic growth.



# Infrastructure

## Service

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### Investing in the Ride

SEPTA's in-house maintenance and construction forces completed an aggressive Regional Rail project improving safety, reliability and operational flexibility for more than 235 daily trains. Crews from Track, Communications & Signals, Power, and Buildings & Bridges Departments got the job done at the K-interlocking portion of the ZOO Interlocking. Not only was this a big feat of construction, SEPTA kept trains running most of the time. Work included installation or replacement of: 32,000 feet of welded rail, 4,300 ties, 13 track switches, a crossover, power supply and facilities, catenary in key areas, a 400-foot long retaining wall, and a signal system.







### **The Unseen SEPTA**

Much of SEPTA's infrastructure is never seen by the average rider. The switches, signals, and rail yards are all just as important to the infrastructure of the system as the stations. In 2009, the Infrastructure Safety Renewal Program helped protect rider safety through signal and track upgrades. SEPTA also invested in work facilities, including power substations at Fairmount and 30th Streets.

# Infrastructure

## Stimulus

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### Shovel-Ready SEPTA

SEPTA was among the first organizations ready when the American Recovery and Reinvestment Act of 2009 (ARRA) announced the economic stimulus package. Work began quickly on 32 SEPTA shovel-ready projects to improve routes, vehicles, and stations throughout the five-county region.

The first projects included replacement of the Regional Rail Croydon shelter with a modern station in Bucks County. The \$12 million project includes new walkways and elevated sidewalks, signage, platform passenger shelters, bus shelters and improved underground storm detention. The project will take approximately two years and is expected to be complete by summer 2011. Seated at the groundbreaking, (l to r) PA Representative Anthony J. Melio, PA Senator Robert Tomlinson, U.S. Congressman Patrick Murphy, U.S. Senator Arlen Specter, SEPTA Board Chairman Pasquale T. Deon, Assistant General Manager/Chief Engineer Jeff Knueppel, Bristol Township Mayor Sam Fenton, Father Larry Crehan, Harry and Mary Fawkes, and Bucks County Commissioner James F. Cawley.







# Infrastructure

## Sustainability

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### Ahead of the Class

SEPTA administrative offices at 1234 Market Street in Philadelphia won the prestigious Office Building of the Year Award from the Building Owners and Managers Association (BOMA). SEPTA instituted energy-efficient lighting, recycling, and more throughout the building.



## A Deposit for the Future

SEPTA's dedication to being "green" was extended to customers, as they were able to become more environmentally responsible just by riding. Recycling cans like this one were placed in SEPTA stations system-wide to collect used paper, cans, and bottles. But recycling in offices, shops, and stations was just the first step as SEPTA continued implementation of green technologies and practices everywhere. This included the purchase of renewable energy, use of energy-efficient lighting, implementation of fuel-efficient boilers and chillers, and safe waste material disposal. Green measures at SEPTA's administrative offices saved about \$100,000 in electric bills, which is expected to increase annually. Also, 2.5 million pounds of greenhouse gas emissions were diverted thanks to reduced energy consumption. SEPTA realized a 50 percent increase in recycling and a 20 percent reduction in waste.



# Looking to the Future

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**S**EPTA stimulus funding will continue working hard toward the completion of the \$191 million in stimulus projects that have been put into motion. This means more than 5,000 jobs on 32 much-needed initiatives. These projects include rebuilding stations, improving service, and putting hybrid buses on the road where customers live and work.



**SEPTA**  
**STIMULUS**  
**WORKING FOR YOU**







### Ahead at the Chase

SEPTA has begun an extensive two year, \$1.5 million construction project to repair, enhance, and upgrade the current Fox Chase Station with a new state-of-the-art transportation facility. At the groundbreaking, SEPTA General Manager Joseph Casey (r) digs deep with (l-r) Fox Chase Homeowners Association President Matthew Braden, SEPTA Board Member Thomas Ellis, PA Representative John Perzel, City Councilman Brian O'Neill, PA Representative Brendan F. Boyle, and U.S. Representative Allyson Schwartz at Fox Chase Station.

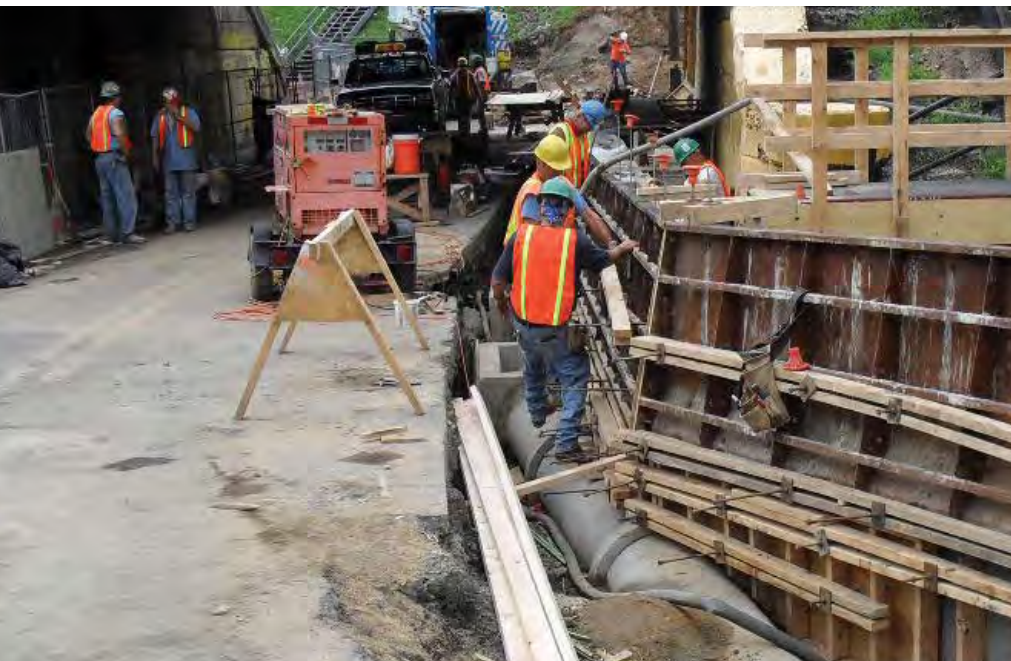


### Re-building on Broad

The architectural rendering of Spring Garden Station shows a bright, clean future with City Hall in the background. The \$30 million renovation of the Broad Street Line's Spring Garden and Girard Stations is employing 30 local companies.







## A Better Bucks

The Croydon Station in Bucks County was the first SEPTA project funded by stimulus dollars to break ground. The \$12 million dollar project includes new walkways and elevated sidewalks, signage, platforms, passenger shelters, bus shelters and improved underground storm detention.

## An Easier Trip in Elwyn

To meet rider demand, SEPTA is expanding parking facilities for commuters who use Elwyn Regional Rail Station. Other Delaware County stimulus projects include improvements to the trolley line between Upper Darby and Media and remodeled public facilities at 69th Street Terminal. This is just a sampling of the \$50 million in transit improvements for the people of Delaware County. Joining SEPTA General Manager Joseph Casey (third from left) at the Elwyn Station Parking Expansion groundbreaking are (l-r) Middletown Township City Council Vice Chair Lorraine Bradshaw, U.S. Congressman Joe Sestak Staffer Laura Ness, PA Representative Thomas Killion, SEPTA Board Member Daniel J. Kubik, PA Senator Dominic Pileggi, SEPTA Board Member Thomas E. Babcock, and Elwyn, Inc. Senior Vice President Dan Reardon.





## Moving in Malvern

Malvern Station on the R5 Paoli/Thorndale Line is getting a makeover. SEPTA will construct a new pedestrian underpass, install energy-efficient lighting, fencing, and more. Expansion of the parking lot shows how SEPTA is responding to growing transit usage in Chester County.



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## Making Progress in Montgomery County

Over \$17.4 million in stimulus funds are revitalizing 13 SEPTA facilities in Montgomery County. This will employ a total of 300 area workers. Projects include work on North Wales Station, Lansdale Substation, Glenside Station, Philmont Station, bridges, and more. SEPTA General Manager Joseph Casey (2nd from left) broke ground at North Wales Station. Joining him are (l-r) PA Representative Kate Harper, PA Senator Stewart Greenleaf, North Wales Borough Council Member Jocelyn Tenney, District Director for U.S. Representative Allyson Schwartz Julie Slavet, North Wales Borough Township Manager Susan Patton, North Wales Borough Council Member Bill Van Sant, and Upper Gwynedd Township Manager Len Perrone.



SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

**FINANCIAL HIGHLIGHTS**

For the Years Ended June 30  
(Millions of dollars)

	2009**	2008**	2007	2006	2005	2004	2003	2002*	2001*	2000
<b><u>OPERATING REVENUES</u></b>										
Passenger	\$ 404.8	\$ 392.5	\$ 344.4	\$ 329.9	\$ 326.9	\$ 323.3	\$ 319.2	\$ 315.4	\$ 289.3	\$ 287.9
Other income	31.2	29.9	26.7	25.6	21.5	26.1	26.5	24.9	24.6	22.7
Total operating revenues	436.0	422.4	371.1	355.5	348.4	349.4	345.7	340.3	313.9	310.6
<b><u>OPERATING EXPENSES</u></b>										
Operating expenses, excluding depreciation	1,168.3	1,100.3	943.5	893.6	881.7	825.0	799.0	770.8	748.6	722.3
Depreciation	289.5	275.5	264.6	246.1	237.0	213.6	193.7	195.3	179.8	169.9
Total operating expenses	1,457.8	1,375.8	1,208.1	1,139.7	1,118.7	1,038.6	992.7	966.1	928.4	892.2
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>										
Subsidies										
Federal	32.2	32.6	99.6	126.4	83.7	56.2	30.2	30.7	32.0	27.5
State	537.2	489.9	313.3	256.3	293.9	270.1	276.0	262.4	263.4	254.6
Local	75.8	68.3	74.5	72.1	71.9	67.6	68.8	68.5	66.8	65.0
Senior citizen	19.0	19.8	65.8	67.7	68.9	69.5	68.3	67.4	60.5	55.6
Asset maintenance	—	—	54.2	52.9	54.2	53.6	51.7	43.4	41.7	41.7
Total subsidies	664.2	610.6	607.4	575.4	572.6	517.0	495.0	472.4	464.4	444.4
Investment income	1.6	9.4	6.8	3.2	2.9	1.5	2.7	4.3	9.7	10.0
Interest expense	(21.0)	(20.5)	(19.8)	(21.0)	(21.8)	(22.3)	(22.9)	(23.9)	(24.8)	(25.4)
Total nonoperating revenues (expenses)	644.8	599.5	594.4	557.6	553.7	496.2	474.8	452.8	449.3	429.0
<b><u>CAPITAL CONTRIBUTIONS AND AMORTIZATION OF CONTRIBUTED CAPITAL</u></b>										
Amortization of contributed capital	—	—	—	—	—	—	—	—	—	153.5
Capital grants	457.2	441.1	349.2	343.8	316.3	332.9	337.4	335.4	263.8	—
Total	457.2	441.1	349.2	343.8	316.3	332.9	337.4	335.4	263.8	153.5
Increase in net assets *	\$ 80.2	\$ 87.2	\$ 106.6	\$ 117.2	\$ 99.7	\$ 139.9	\$ 165.2	\$ 162.4	\$ 98.6	
Decrease (increase) in accumulated operating deficit										\$ 0.9
<b><u>OTHER</u></b>										
Working capital surplus (deficiency)	\$ (28.6)	\$ (50.0)	\$ (34.5)	\$ (18.9)	\$ (42.7)	\$ (48.5)	\$ (37.1)	\$ (55.8)	\$ (45.2)	\$ (57.4)

\* 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.

\*\* Operating expenses for Fiscal Year 2009 and 2008 include \$101.9 million and \$97.6 million, respectively, of other postemployment benefit expenses related to the adoption in Fiscal Year 2008 of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Beginning in Fiscal Year 2008, the source of subsidies also changed with the passage of Act 44 legislation. The former state system for funding transit, including asset maintenance subsidies received under Act 3 and Act 26 was repealed. Certain senior citizen subsidies received directly from the state lottery fund were eliminated and replaced with the new PTF fund. For further discussion, see Note 1 of the financial statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

**STATISTICAL HIGHLIGHTS**

For the Years Ended June 30

	2009**	2008**	2007	2006	2005	2004	2003	2002*	2001*	2000
<b><u>Passenger Trips (linked, in millions)</u></b>										
Transit	206.1	200.9	190.3	183.9	186.2	185.5	181.0	175.4	180.5	178.5
Regional Rail	<u>35.4</u>	<u>35.4</u>	<u>31.7</u>	<u>30.4</u>	<u>28.6</u>	<u>28.3</u>	<u>28.1</u>	<u>28.7</u>	<u>29.4</u>	<u>26.9</u>
Total	<u>241.5</u>	<u>236.3</u>	<u>222.0</u>	<u>214.3</u>	<u>214.8</u>	<u>213.8</u>	<u>209.1</u>	<u>204.1</u>	<u>209.9</u>	<u>205.4</u>
<b><u>Average Weekday Passenger Trips (unlinked, in thousands)</u></b>										
Transit	979	963	930	920	920	930	934	920	945	938
Regional Rail	<u>124</u>	<u>124</u>	<u>111</u>	<u>107</u>	<u>101</u>	<u>101</u>	<u>101</u>	<u>102</u>	<u>103</u>	<u>95</u>
Total	<u>1,103</u>	<u>1,087</u>	<u>1,041</u>	<u>1,027</u>	<u>1,021</u>	<u>1,031</u>	<u>1,035</u>	<u>1,022</u>	<u>1,048</u>	<u>1,033</u>
<b><u>Financial Statistics (per passenger trip)</u></b>										
Operating Revenues	\$ 1.81	\$ 1.79	\$ 1.67	\$ 1.66	\$ 1.62	\$ 1.63	\$ 1.65	\$ 1.67	\$ 1.50	\$ 1.51
Operating Expenses	6.04	5.82	5.44	5.32	5.21	4.86	4.75	4.73	4.42	4.34
Subsidies	2.75	2.58	2.74	2.69	2.67	2.42	2.37	2.31	2.21	2.15
Investment income										
(interest expense), net	(0.08)	(0.05)	(0.06)	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)	(0.07)	(0.07)
Capital contributions										
and amortization	<u>1.89</u>	<u>1.87</u>	<u>1.57</u>	<u>1.60</u>	<u>1.47</u>	<u>1.56</u>	<u>1.61</u>	<u>1.64</u>	<u>1.26</u>	<u>0.75</u>
Increase in net assets	<u>\$ 0.33</u>	<u>\$ 0.37</u>	<u>\$ 0.48</u>	<u>\$ 0.55</u>	<u>\$ 0.46</u>	<u>\$ 0.65</u>	<u>\$ 0.79</u>	<u>\$ 0.80</u>	<u>\$ 0.47</u>	
Decrease (increase) in										
accumulated operating deficit										<u>\$ 0.00</u>

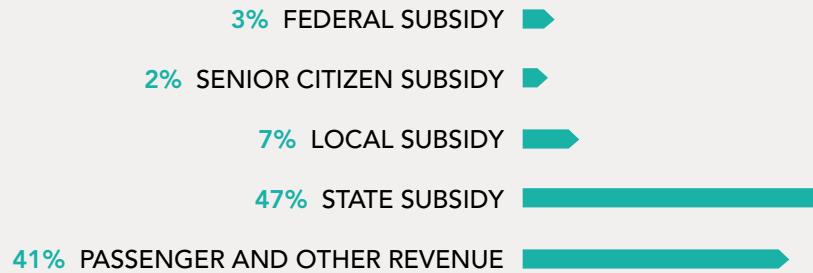
\* Fiscal Year 2002 reflects the adoption of Governmental Accounting Standards Board Statement No. 34 concerning reporting requirements for the basic financial statements, resulting in the net asset classification, and the elimination of contributed capital and related amortization retroactive to July 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.

\*\* Operating expenses for Fiscal Year 2009 and 2008 include \$101.9 million and \$97.6 million, respectively, of other postemployment benefit expenses related to the adoption in Fiscal Year 2008 of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Beginning in Fiscal Year 2008, the source of subsidies also changed with the passage of Act 44 legislation. The former state system for funding transit, including asset maintenance subsidies received under Act 3 and Act 26 was repealed. 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.

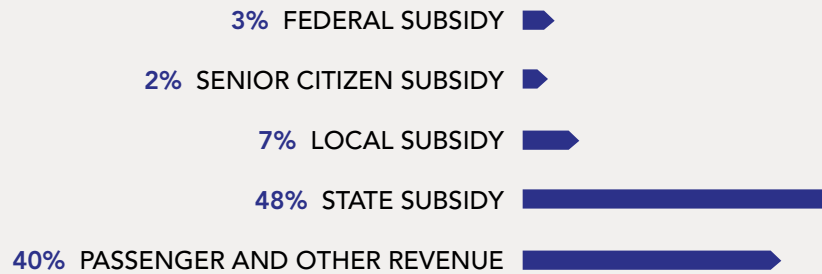
# SOURCES OF REVENUE & DISTRIBUTION OF EXPENSES

## FY 2009 vs. FY 2008

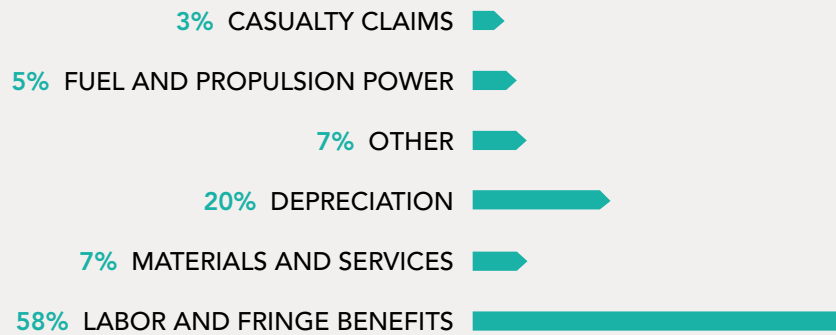
### FY 2008 SOURCES OF REVENUE



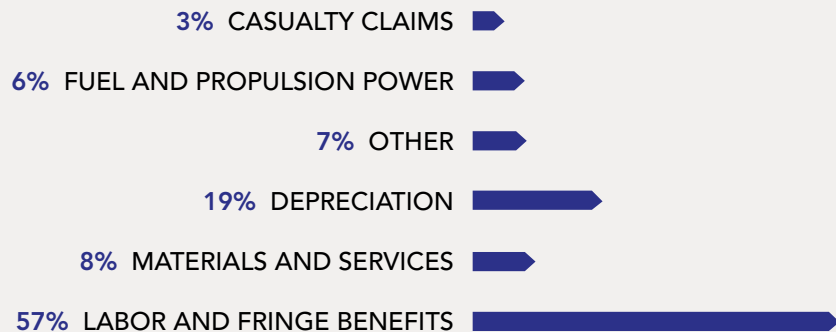
### FY 2009 SOURCES OF REVENUE



### FY 2008 DISTRIBUTION OF EXPENSES



### FY 2009 DISTRIBUTION OF EXPENSES





# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

Members of the Board  
Southeastern Pennsylvania Transportation Authority  
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of the business-type activities of SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (the AUTHORITY), as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. 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 business-type activities of the AUTHORITY as of June 30, 2009 and 2008, and the respective 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 2009 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board's Statement No. 49, "Accounting and Financial Reporting For Pollution Remediation Obligations", Governmental Accounting Standards Board's Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and Governmental Accounting Standards Board's Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

The Management's Discussion and Analysis on pages 46 through 51 is not a required part of the basic 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.



ZELENKOFSCKE AXELROD LLC

Harrisburg, Pennsylvania  
November 24, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

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, 2009. Please read it in conjunction with the Authority's financial statements which follow this section.

**FINANCIAL HIGHLIGHTS**

Passenger revenues increased 3.1% from \$392.6 million to \$404.8 million due to an increase in ridership and the full impact of a fare increase implemented during the first half of Fiscal Year 2008. Other income increased 4.4% from \$29.9 million to \$31.2 million primarily due to an increase in income from the sale of scrap rail.

Operating expenses increased 6.0% from \$1,375.8 million to \$1,457.8 million primarily due to cost increases in wages, fringe benefits, fuel, depreciation, and material and service costs, which were partially impacted by sixty-five new service initiatives implemented during Fiscal Year 2009.

Total subsidies, from Federal, State and local sources, increased 8.8% from \$610.6 million to \$664.2 million primarily due to an increase in State and local matching subsidies brought about by the passage of Pennsylvania Act 44 in July 2007 and the creation of the Pennsylvania Transportation Trust Fund.

Total assets increased 3.8% from \$3,936.1 million to \$4,084.4 million primarily due to capital asset acquisitions. Total liabilities increased 5.9% from \$1,151.7 million to \$1,219.8 million primarily due to the increased recognition of other postemployment benefit obligations under Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," implemented by the Authority in Fiscal Year 2008. Net assets increased 2.9% from \$2,784.4 million to \$2,864.6 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 governmental units. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

## FINANCIAL ANALYSIS OF THE AUTHORITY

**Net assets.** Total net assets of the Authority as of June 30, 2009 increased \$80.2 million, or 2.9%, compared to June 30, 2008. Total assets increased \$148.2 million or 3.8% to \$4,084.4 million and total liabilities increased \$68.1 million or 5.9% to \$1,219.8 million.

### Net Assets (thousands of dollars)

	<u>As of June 30</u>		<u>Increase (decrease)</u>
	<u>2009</u>	<u>2008</u>	
Current assets	\$ 488,447	\$ 444,741	9.8%
Noncurrent assets:			
Restricted funds	42,500	86,231	(50.7%)
Capital assets	3,550,309	3,402,440	4.3%
Other assets	<u>3,096</u>	<u>2,700</u>	<u>14.7%</u>
Total assets	<u>4,084,352</u>	<u>3,936,112</u>	<u>3.8%</u>
Current liabilities	517,031	494,701	4.5%
Noncurrent liabilities:			
Public liability, property damage and workers' compensation claims	119,991	118,183	1.5%
Long-term debt	322,135	337,311	(4.5%)
Long-term capitalized lease obligation	14,384	11,811	21.8%
Deferred capital grant revenue	22,184	60,349	(63.2%)
Other postemployment benefits	199,498	97,612	104.4%
Other liabilities	<u>24,573</u>	<u>31,750</u>	<u>(22.6%)</u>
Total liabilities	<u>1,219,796</u>	<u>1,151,717</u>	<u>5.9%</u>
Net assets:			
Invested in capital assets, net of related debt	3,212,289	3,015,789	6.5%
Restricted	3,986	4,152	(4.0%)
Unrestricted	<u>(351,719)</u>	<u>(235,546)</u>	<u>49.3%</u>
Total net assets	<u>\$2,864,556</u>	<u>\$2,784,395</u>	<u>2.9%</u>

The \$43.7 million increase in current assets is primarily related to increases in unrestricted funds on hand of \$20.9 million, restricted funds of \$8.8 million, net receivables of \$10.0 million and material and supplies of \$4.1 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 \$9.0 million related to the Act 44 state service stabilization fund, plus local match and interest offset by a \$0.2 million decrease in debt service fund deposits. These funds will be used, and recognized as operating subsidy, in support of operations for the next fiscal year. The \$43.7 million decrease in noncurrent restricted funds reflects a \$40.0 million decrease in restricted balances relating to State funding provided by Act 3 and Act 26 in prior years used to fund current year



## FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

capital expenditures and certain 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 within the next year. The remaining decrease in restricted funds includes the use of \$6.0 million of restricted railcar lease proceeds to fund the state share on selected capital projects in lieu of receiving traditional state funds. This decrease was offset by an increase in the lease collateral contract fund of \$2.6 million which will be used to pay the long-term lease obligation. 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 \$46.6 million as of June 30, 2009 and \$45.9 million as of June 30, 2008. The Authority also maintains an unrestricted designated fund, derived from swaption proceeds received in March 2003, which was intended to be amortized over the remaining life of the variable rate refunding bonds issued. The swaption fund balance was \$18.2 million as of June 30, 2009 and was \$19.4 million as of June 30, 2008. In order to fund the Board designated unrestricted amounts above in Fiscal Year 2009, the Authority notified the State of its intent to unrestrict a portion of its Act 44 restricted receipts due to delays in the receipt of Federal and State capital funding. The amount unrestricted by the Authority totaled \$40.5 million which accounted for the increase in the unrestricted fund balance as of June 30, 2009. The net receivables increase of \$10.0 million primarily consisted of \$30.8 million increase in state and federal capital grant receivables and \$2.8 million increase in other receivables related to the state shared ride program offset by a reduction in state lease cost reimbursement receivables of \$20.7 million.

Total capital assets increased \$439.6 million, less \$29.3 million of retirements, and accumulated depreciation increased \$289.5 million, less \$27.1 million of retirements, resulting in a net capital asset increase of \$147.9 million. Major expenditures during the year were incurred for the Market-Frankford Elevated Reconstruction Program, revenue vehicle purchases, and the vehicle overhaul program.

The increase in other assets of \$396 thousand reflects the additional costs incurred by the Authority of \$783 thousand to convert its interest rate mode on its Variable Rate Revenue Refunding Bonds, Series of 2007 in July 2008, net of the \$387 thousand in current year amortization of Special Revenue Bond costs incurred primarily at the time the bonds were issued.

Total liabilities increased \$68.1 million primarily due to the recognition of a liability increase in other postemployment benefit obligations of \$101.9 million as well as liability increases in deferred revenue of \$44.3 million and accrued expenses of \$6.3 million. Deferred revenue reflects an increase of \$46.7 million in unearned operating subsidies derived from the Act 44 state funds received, including local match, which will

be recognized as operating subsidy in Fiscal Year 2010. The accrued expense increase was primarily related to higher accruals for wage and interest costs. Offsetting the liability increases were decreases in deferred capital grant revenue of \$38.2 million, accounts payable of \$32.9 million, and long-term debt of \$14.4 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 and certain debt service requirements. The accounts payable decrease reflects lower capital project payable costs and the long-term debt decrease was due to bond principal payments, net of unamortized 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 \$116.2 million to a deficit amount of \$351.7 million primarily due to the current year recognition of \$101.9 million of additional other postemployment benefit costs incurred in connection with GASB Statement No. 45, implemented in Fiscal Year 2008. 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.

In Fiscal Year 2009, the Authority began receiving State funding pursuant to Act 44 which was enacted by the State legislature in July 2007 and signed into law by the Governor on July 18, 2007. This legislation established a Public Transportation Trust Fund ("PTTF") in the State Treasury and completely restructured the way public transportation was funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997 was repealed and replaced with the PTTF dedicated fund. The PTTF provides State funding, in conjunction with required local matching funds, for five programs, namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives. Although the Authority anticipates that the PTTF will provide for a reliable and growing source of funds to meet future budgetary needs, there is growing uncertainty concerning these funds beyond Fiscal Year 2010. Because the Pennsylvania Turnpike Commission has been unable to obtain approval of the Federal Highway Administration to begin tolling Interstate 80, payment into the PTTF could decline, resulting in serious negative consequences to the Authority's capital budget.

**Changes in Net Assets.** Net assets for the fiscal year ended June 30, 2009 increased \$80.2 million to \$2,864.6 million. The increase is 2.9% more than the increase for Fiscal Year 2008 as described below. Total operating revenues increased 3.2% to \$436.1 million and total operating expenses increased 6.0% to \$1,457.8 million.

### Changes in Net Assets (thousands of dollars)

	<u>2009</u>	<u>For the Years ended June 30, 2008</u>	<u>Increase (decrease)</u>
Operating revenues			
Passenger	\$ 404,837	\$ 392,568	3.1%
Other income	<u>31,240</u>	<u>29,914</u>	<u>4.4%</u>
Total operating revenues	<u>436,077</u>	<u>422,482</u>	<u>3.2%</u>
Operating expenses			
Operating expenses excluding depreciation	1,168,357	1,100,309	6.2%
Depreciation	<u>289,481</u>	<u>275,534</u>	<u>5.1%</u>
Total operating expenses	<u>1,457,838</u>	<u>1,375,843</u>	<u>6.0%</u>
Operating loss	<u>(1,021,761)</u>	<u>(953,361)</u>	<u>7.2%</u>
Nonoperating revenues (expenses)			
Subsidies	664,148	610,574	8.8%
Nonoperating expenses - net	<u>(19,375)</u>	<u>(11,118)</u>	<u>74.3%</u>
Total nonoperating revenues (expenses)	<u>644,773</u>	<u>599,456</u>	<u>7.6%</u>
Capital contributions			
Capital grants	<u>457,149</u>	<u>441,132</u>	<u>3.6%</u>
Total capital contributions	<u>457,149</u>	<u>441,132</u>	<u>3.6%</u>
 Increase in net assets	 80,161	 87,227	 (8.1%)
 Total net assets, beginning of year	 <u>2,784,395</u>	 <u>2,697,168</u>	 <u>3.2%</u>
Total net assets, end of year	<u>\$2,864,556</u>	<u>\$2,784,395</u>	<u>2.9%</u>

Passenger revenues increased 3.1% primarily due to an increase in ridership and the full impact of a fare increase implemented during the first half of Fiscal Year 2008. Other income increased 4.4% primarily due to higher income from the sale of scrap rail.

Subsidies increased by 8.8% due primarily to the budgeted expense increase for the new service initiatives as well as anticipated wage, fringe benefit, and fuel cost increases. The sixty-five new

service initiatives implemented in Fiscal Year 2009 helped to reduce overcrowding on vehicles and expand the frequency of service and resulted in a 2.2% increase in service miles operated. The \$53.6 million increase in subsidies was primarily funded by \$47.3 million of additional state subsidies and \$7.5 million of matching local subsidies. Senior citizen subsidies, which decreased \$852 thousand, are funds that were received in connection with the state shared ride program.

Other nonoperating expenses, which consist of an interest expense increase of \$498 thousand net of an interest income decrease of \$7.8 million, changed by 74.3% primarily due to a Fiscal Year 2008 Authority sale and termination of a constant maturity swap contract which resulted in a gain of \$5.4 million that was reflected in investment income in

the prior year as well as lower investment returns in the current year. Interest expense increased \$498 thousand primarily due to higher interest expense in connection with the swaption contract exercised March 1, 2009, which is associated with Special Revenue Bonds, Series of 1999.

### Operating Expenses (thousands of dollars)

	<u>2009</u>	<u>For the Years ended June 30, 2008</u>	<u>Increase (decrease)</u>
Transportation	\$ 592,986	\$ 555,947	6.7%
Purchased transportation	49,889	49,033	1.7%
Maintenance	338,719	318,185	6.5%
Administrative	116,148	106,955	8.6%
Public liability and property damage claims	40,615	43,483	(6.6%)
Rent and other	30,000	26,706	12.3%
Depreciation	<u>289,481</u>	<u>275,534</u>	<u>5.1%</u>
Total operating expenses	<u>\$1,457,838</u>	<u>\$1,375,843</u>	<u>6.0%</u>

Transportation, maintenance, and administrative expenses increased \$66.8 million, or 6.8%, primarily due to increases in labor, fringe benefits, fuel, and material and services. Labor expenses increased \$24.3 million, or 5.5%, due to wage rate increases and a slight increase in headcount to support the additional 2.2% increase in service miles operated as a result of the service initiatives implemented in Fiscal Year 2009. Fringe benefit expenses increased \$15.9 million, or 3.6%, primarily due to higher costs for medical, employer payroll taxes, accrued workers' compensation and other postemployment benefit costs. Higher vehicle fuel and propulsion power costs, due in part to an increase in service, also increased transportation expenses \$10.6 million. Maintenance costs included an increase of \$6.6 million related to higher costs for material, services, and accrued pollution remediation costs. Administrative expenses also includes an increase of \$6.9 million primarily due to higher costs for legal and other third party services in connection with claims and advertising costs incurred to market the current year expansion in service provided.

Purchased transportation expenses increased 1.7% primarily due to higher carrier and administrative expenses in the current year, due in

part, to an increase in passenger trips.

Public liability and property damage claims expense decreased 6.6% primarily due to lower corporate claim costs.

Rent and other expenses increased 12.3% primarily due to higher Amtrak track rental costs and an increase in the early retirement of fixed assets.

Depreciation increased 5.1% primarily due to the replacement of fully depreciated transit revenue vehicles with new vehicles, and various infrastructure improvements including the Market-Frankford Elevated Reconstruction Program.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2009, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$6,881.2 million. Net of accumulated depreciation of \$3,330.9 million, net capital assets totaled \$3,550.3 million. This amount represents a net increase, including additions and disposals net of depreciation, of \$147.9 million or 4.3% over June 30, 2008.

As of June 30, 2009, the Authority has commitments for various unexpended construction and design contracts of approximately \$220



million and commitments for unexpended revenue vehicle purchases primarily for regional rail cars and buses of approximately \$394 million. The Authority's capital budget for Fiscal Year 2010 includes capital asset additions in the amount of \$339.6 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, 2009, the Authority's long-term debt before reduction for unamortized discount and amounts deferred in connection with defeased debt was \$342.6 million (or \$338.0 million net of these reductions), a \$15.1 million decrease from June 30, 2008. This decrease was due to regularly scheduled debt service payments of \$8.7 million on the Special Revenue Bonds, Series of 1999 and \$6.4 million on the Variable Rate Revenue Refunding Bonds, Series of 2007.

With the passage of Act 44 on July 18, 2007, any new debt issuance would require the approval of the Pennsylvania Department of Transportation.

#### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

BALANCE SHEETS  
JUNE 30, 2009 AND 2008  
(THOUSANDS OF DOLLARS)

ASSETS	<u>2009</u>	<u>2008</u>
<b><u>CURRENT ASSETS</u></b>		
Unrestricted funds (Note 2)		
Cash and cash equivalents	\$ 29,448	\$ 10,978
Investments	46,503	44,084
Restricted funds (Note 2)		
Cash and cash equivalents	102,597	99,566
Investments	32,952	27,161
Receivables		
Operating subsidies	4,579	25,492
Capital grants (Note 3)	188,258	160,194
Other	8,364	5,541
Material and supplies	63,902	59,804
Prepaid expenses	<u>11,844</u>	<u>11,921</u>
Total current assets	<u>488,447</u>	<u>444,741</u>
<b><u>NONCURRENT ASSETS</u></b>		
Restricted funds (Note 2)		
Cash and cash equivalents	26,592	41,265
Investments	15,908	44,966
Capital assets, net (Notes 3, 4, 5 & 6)	3,550,309	3,402,440
Other	3,096	2,700
Total noncurrent assets	<u>3,595,905</u>	<u>3,491,371</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,084,352</u></u>	<u><u>\$ 3,936,112</u></u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

BALANCE SHEETS  
JUNE 30, 2009 AND 2008  
(THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	<u>2009</u>	<u>2008</u>
<b><u>CURRENT LIABILITIES</u></b>		
Current maturities of		
Long-term debt (Note 5)	\$ 15,885	\$ 15,140
Accounts payable - trade	89,249	122,153
Accrued expenses (Note 7)	142,639	136,323
Current portion of public liability, property damage and workers' compensation claims (Note 11)	68,606	64,727
Deferred revenue	<u>200,652</u>	<u>156,358</u>
Total current liabilities	<u>517,031</u>	<u>494,701</u>
<b><u>NONCURRENT LIABILITIES</u></b>		
Public liability, property damage and workers' compensation claims (Note 11)	119,991	118,183
Long-term debt (Note 5)	322,135	337,311
Long-term capitalized lease obligation (Note 6)	14,384	11,811
Deferred capital grant revenue (Note 3)	22,184	60,349
Other postemployment benefits (Note 8)	199,498	97,612
Other liabilities (Notes 6 and 12)	24,573	31,750
Commitments and contingencies (Notes 5, 6, 10, 11 and 12)		
Total noncurrent liabilities	<u>702,765</u>	<u>657,016</u>
Total liabilities	<u>1,219,796</u>	<u>1,151,717</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	3,212,289	3,015,789
Restricted	3,986	4,152
Unrestricted	<u>(351,719)</u>	<u>(235,546)</u>
Total net assets	<u>2,864,556</u>	<u>2,784,395</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 4,084,352</u></u>	<u><u>\$ 3,936,112</u></u>

See accompanying notes to Financial Statements.



SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(THOUSANDS OF DOLLARS)

	<u>2009</u>	<u>2008</u>
<b><u>OPERATING REVENUES</u></b>		
Passenger	\$ 404,837	\$ 392,568
Other income	<u>31,240</u>	<u>29,914</u>
Total operating revenues	<u>436,077</u>	<u>422,482</u>
<b><u>OPERATING EXPENSES</u></b>		
Transportation	592,986	555,947
Purchased transportation	49,889	49,033
Maintenance	338,719	318,185
Administrative	116,148	106,955
Public liability and property damage claims (Note 11)	40,615	43,483
Rent and other	30,000	26,706
Depreciation	<u>289,481</u>	<u>275,534</u>
Total operating expenses	<u>1,457,838</u>	<u>1,375,843</u>
Operating loss	<u>(1,021,761)</u>	<u>(953,361)</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Subsidies		
Federal	32,200	32,620
State	537,211	489,909
Local	75,787	68,243
Senior citizen	<u>18,950</u>	<u>19,802</u>
Total	664,148	610,574
Investment income	1,606	9,365
Interest expense (Note 5)	<u>(20,981)</u>	<u>(20,483)</u>
Total nonoperating revenues (expenses)	<u>644,773</u>	<u>599,456</u>
Loss before capital grants	(376,988)	(353,905)
<b><u>CAPITAL GRANTS</u></b>		
Capital grants	<u>457,149</u>	<u>441,132</u>
Total capital grants	<u>457,149</u>	<u>441,132</u>
<b><u>INCREASE IN NET ASSETS</u></b>	80,161	87,227
<b><u>TOTAL NET ASSETS</u></b>		
Beginning	<u>2,784,395</u>	<u>2,697,168</u>
Ending	<u>\$ 2,864,556</u>	<u>\$ 2,784,395</u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

(THOUSANDS OF DOLLARS)

	<u>2009</u>	<u>2008</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Passenger receipts	\$ 403,510	\$ 397,764
Other receipts	27,748	30,854
Payments for wages and employee benefits	(736,235)	(701,318)
Payments for fuel and propulsion	(86,626)	(73,886)
Payments for public liability & property damage claims	(39,346)	(36,415)
Payments for other operating expenses	(199,041)	(179,504)
Net cash used in operating activities	<u>(629,990)</u>	<u>(562,505)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>		
Receipts of operating subsidies	<u>731,985</u>	<u>677,464</u>
Net cash provided by noncapital financing activities	<u>731,985</u>	<u>677,464</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Capital grants received	422,970	404,750
(Decrease) in deferred capital grant revenue	(37,996)	(54,144)
Acquisition of operating property and construction in progress	(471,690)	(410,379)
Increase (decrease) in long-term capitalized lease obligation	2,573	(18,580)
Repayment/reduction of long-term debt	(15,140)	(14,360)
Interest paid	(18,651)	(20,942)
Proceeds from sale of swap	-	5,420
Net cash used in capital and related financing activities	<u>(117,934)</u>	<u>(108,235)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from sale of investments	255,349	212,210
Receipt of interest	3,060	5,432
Purchase of investments	(235,642)	(224,995)
Net cash (used in) provided by investing activities	<u>22,767</u>	<u>(7,353)</u>
<b><u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u></b>	<u>6,828</u>	<u>(629)</u>
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	151,809	152,438
End of year	<u>\$ 158,637</u>	<u>\$ 151,809</u>
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Unrestricted	\$ 29,448	\$ 10,978
Restricted	129,189	140,831
Total	<u>\$ 158,637</u>	<u>\$ 151,809</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (1,021,761)	\$ (953,361)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	289,481	275,534
Increase (decrease) in receivables	(3,127)	1,919
(Increase) in materials & supplies	(4,098)	(2,263)
Decrease (increase) in prepaid expenses	77	(611)
Increase in accounts payable – trade	1,544	1,506
Increase in accrued expenses and other liabilities net of other assets	321	13,464
Increase in public liability and property damage claims	5,687	3,695
Increase in other postemployment benefits	101,886	97,612
Total adjustments	<u>391,771</u>	<u>390,856</u>
Net cash used in operating activities	<u>\$ (629,990)</u>	<u>\$ (562,505)</u>

See accompanying notes to Financial Statements.

# SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

June 30, 2009 and 2008

### 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 632 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 47 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 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Federal subsidies:		
Preventive maintenance reimbursements	\$ 32,200	\$ 32,620
State and local subsidies:		
Act 44 operating subsidies	547,140	496,664
Act 26/3/44 leasehold/debt service reimbursements	65,858	61,488
Senior citizen subsidies	<u>18,950</u>	<u>19,802</u>
Total subsidies	<u>\$ 664,148</u>	<u>\$ 610,574</u>

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.

In Fiscal Year 2009, the Authority adopted the requirements of GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The Authority also adopted the requirements of GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards." The adoption of these statements had no effect on previously reported amounts.

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.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **INVESTMENTS**

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

### **MATERIALS AND SUPPLIES**

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

### **CAPITAL ASSETS**

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

### **PENSIONS**

The Authority maintains five trustee, 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, workers' compensation claims, and pollution remediation obligations as more fully described in Note 11. Governmental Accounting Standards Board Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" ("GASB Statement No. 49"), is effective for the Authority's fiscal year beginning July 1, 2008. This statement establishes the standards for the measurement and recognition of pollution remediation liabilities and note disclosures. Specifically, GASB Statement No. 49 explains when pollution remediation-related obligations should be reported and how those costs and liabilities should be determined.

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

(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:

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 2,794	\$ 2,923
Cash in bank	4,528	3,821
Money market funds	184,650	140,983
Commercial paper	—	21,030
Outstanding checks	<u>( 33,335)</u>	<u>( 16,948)</u>
Total cash and cash equivalents	158,637	151,809
Less current portion – unrestricted	29,448	10,978
Less current portion – restricted	<u>102,597</u>	<u>99,566</u>
Total noncurrent portion – restricted	<u>\$ 26,592</u>	<u>\$ 41,265</u>

The components of investments as of June 30 are:

	<u>2009</u>	<u>2008</u>
U.S. Government and agencies	\$ 56,538	\$ 49,972
Commercial paper	32,952	11,926
Mutual funds	5,873	42,502
Guaranteed investment contract	<u>—</u>	<u>11,811</u>
Total investments	95,363	116,211
Less current portion – unrestricted	46,503	44,084
Less current portion – restricted	<u>32,952</u>	<u>27,161</u>
Total noncurrent portion – restricted	<u>\$ 15,908</u>	<u>\$ 44,966</u>



**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:

	<u>2009</u>	<u>2008</u>
Restricted:		
State dedicated funding provided by Act 26, including local match	\$ 1,752	\$ 26,373
State funding provided by Act 3, including local match	15,980	31,330
State dedicated funding provided by Act 44, including local match	102,001	93,024
Debt service funds:		
Special Revenue Bonds, Series of 2007	13,214	13,368
Special Revenue Bonds, Series of 1999A and 1999B	20,334	20,335
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	2,716	6,565
Light rail cars	2,519	4,667
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	14,384	11,811
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	<u>3,986</u>	<u>4,322</u>
Total	<u>\$ 178,049</u>	<u>\$ 212,958</u>

As of June 30, 2009, 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, 2009, 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, Western Asset Institutional Government Money Market Fund, money market and mutual funds, as well as HSBC Finance Corp. commercial paper. These investments are 14.66%, 58.35%, and 11.77%, 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, 2009, \$4,278 of the Authority's cash in bank of \$4,528 was

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able

to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2009, \$190,523 of the Authority's cash equivalent and investment balance of \$280,013 was exposed to custodial credit risk as follows:

Money market funds	\$ 184,650
Mutual funds	<u>5,873</u>
Total	<u>\$ 190,523</u>

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

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, 2009 the Authority had the following investments in its portfolio:

	<u>Fair Value</u>	<u>Effective Duration</u>
Investment type		
U.S. agencies	\$ 56,417	0.961
Commercial paper	32,952	0.481
Money market funds	184,650	0.003
Mutual funds	<u>5,873</u>	0.003
	279,892	
Accrued interest	<u>121</u>	
Total fair value including accrued interest	<u>\$280,013</u>	
Portfolio effective duration		0.096

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

\$1.4 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$280.0 million with an effective duration of 0.096 years.

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

### 3. CAPITAL CONTRIBUTIONS AND GRANTS

#### CAPITAL CONTRIBUTIONS AND GRANTS RECEIVED

Under the Federal Transit Act, as amended, the United States Department of Transportation ("U.S. DOT"), the State and the local governments have approved capital grants aggregating approximately \$6.8 billion from inception to June 30, 2009 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2009, the Authority had incurred costs of approximately \$6.2 billion against these grants of which \$457.1 million and \$441.1 million were incurred in Fiscal Years 2009 and 2008, 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, 2009.

#### 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 2009 and 2008 are as follows:

	<u>Beginning Balance</u>	<u>Funding Additions</u>	<u>Investment Earnings</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2009	\$ 60,349	\$ -	\$ 558	\$ 38,723	\$ 22,184
2008	\$114,504	\$ -	\$ 4,330	\$ 58,485	\$ 60,349



(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

#### 4. CAPITAL ASSETS

Capital assets are summarized as follows:

	June 30, 2008	Additions	Reclassifications	Retirements	June 30, 2009
Capital Assets					
Revenue vehicles	\$ 1,686,816	\$ 98,773	\$ 8,405	\$ 13,295	\$ 1,780,699
Transit facilities, rail stations & depots	2,060,614	96,262	29,227	8,623	2,177,480
Track, roadway & signals	2,134,605	60,339	49,425	5,217	2,239,152
Other	<u>445,453</u>	<u>45,944</u>	<u>4,578</u>	<u>2,170</u>	<u>493,805</u>
Total	6,327,488	301,318	91,635	29,305	6,691,136
Capital leases—revenue vehicles	41,327	—	—	—	41,327
Construction in progress	<u>102,098</u>	<u>138,256</u>	<u>(91,635)</u>	<u>—</u>	<u>148,719</u>
Total	<u>6,470,913</u>	<u>439,574</u>	<u>—</u>	<u>29,305</u>	<u>6,881,182</u>
Accumulated depreciation					
Property and equipment	3,046,116	287,997	—	27,081	3,307,032
Capital leases	<u>22,357</u>	<u>1,484</u>	<u>—</u>	<u>—</u>	<u>23,841</u>
Total	<u>3,068,473</u>	<u>289,481</u>	<u>—</u>	<u>27,081</u>	<u>3,330,873</u>
Capital assets, net	<u>\$ 3,402,440</u>	<u>\$ 150,093</u>	<u>\$ —</u>	<u>\$ 2,224</u>	<u>\$ 3,550,309</u>
	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	<u>431,234</u>	<u>15,964</u>	<u>(389)</u>	<u>1,356</u>	<u>445,453</u>
Total	5,917,935	381,046	43,478	14,971	6,327,488
Capital leases—revenue vehicles	41,327	—	—	—	41,327
Construction in progress	<u>64,000</u>	<u>81,576</u>	<u>(43,478)</u>	<u>—</u>	<u>102,098</u>
Total	<u>6,023,262</u>	<u>462,622</u>	<u>—</u>	<u>14,971</u>	<u>6,470,913</u>
Accumulated depreciation					
Property and equipment	2,786,924	274,050	—	14,858	3,046,116
Capital leases	<u>20,873</u>	<u>1,484</u>	<u>—</u>	<u>—</u>	<u>22,357</u>
Total	<u>2,807,797</u>	<u>275,534</u>	<u>—</u>	<u>14,858</u>	<u>3,068,473</u>
Capital assets, net	<u>\$ 3,215,465</u>	<u>\$ 187,088</u>	<u>\$ —</u>	<u>\$ 113</u>	<u>\$ 3,402,440</u>

**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, 2009, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2009, the Authority has commitments for various unexpended construction contracts of approximately \$220 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$394 million.

**5. LONG-TERM DEBT**

Long-term debt consists of the following:

	June 30, 2008	Additions	Payments/ Reductions	June 30, 2009	Due Within One Year
Variable Rate Revenue Refunding Bonds, Series of 2007, due in varying amounts through 2022	\$ 125,600	\$ –	\$ 6,425	\$ 119,175	\$ 6,725
Special Revenue Bonds, Series of 1999A and 1999B, due in varying amounts through 2029, with annual interest from 4.75% to 5.25%	232,155	–	8,715	223,440	9,160
	357,755	–	15,140	342,615	<u>\$ 15,885</u>
Less unamortized bond premium, net of discount	1,159	–	140	1,019	
Less amounts deferred in connection with refunded debt	(6,463)	–	(849)	(5,614)	
Total	<u>\$ 352,451</u>	<u>\$ –</u>	<u>\$ 14,431</u>	<u>\$ 338,020</u>	

	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	<u>\$ 15,140</u>
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	<u>\$ 366,060</u>	<u>\$ –</u>	<u>\$ 13,609</u>	<u>\$ 352,451</u>	

**5. LONG-TERM DEBT (CONTINUED)**

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

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

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 the 2007 Bonds were used to retire the Authority's outstanding Special Revenue Bonds, Series of 1997 ("1997 Bonds") due in varying amounts through 2022, with annual interest from 4.00% to 5.75% and pay the premium for a debt service reserve fund insurance policy. The net proceeds of the 1997 Bonds were used to reimburse the Authority for a portion of the costs of certain capital projects; refund certain leases entered into by the Authority for a building and related equipment; pay the costs of certain capital projects and pay the premium for a debt service reserve fund insurance policy. 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. Due to significant events in 2008 which negatively impacted the availability and cost of credit in the capital credit market, 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 effective July 18, 2008, whereby the interest rate is determined on a weekly basis by the remarketing agent, PNC Capital Markets LLC.

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:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Debt maturities	\$ 15,885	\$ 16,700	\$ 17,545	\$ 18,425	\$ 19,310
Debt related interest	\$ 16,782	\$ 15,996	\$ 15,170	\$ 14,289	\$ 13,364
	<u>2015 – 2019</u>	<u>2020 – 2024</u>	<u>2025 – 2029</u>		
Debt maturities	\$113,045	\$ 85,985	\$ 55,720		
Debt related interest	\$ 51,188	\$ 23,414	\$ 8,185		



## 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, 2009, the present value of the lease obligation was \$32.1 million.

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 \$14.4 million as of June 30, 2009, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, have been excluded from the Authority's financial statements. The proceeds, net of expenses, from the transaction of \$21.4 million are being used, starting in Fiscal Year 2007, as reimbursement of state share on capital grants, which use has been approved by the Federal Transit Administration. The leaseback includes a purchase option, which upon exercise, will be funded in installments from funds used to defease the debt during the period from January 2, 2030 through December 15, 2030, that will allow the Authority to buy out the equity

investor's remaining rights under the agreement, thereby terminating the entire transaction. In December 2008, the Authority terminated its lease debt and equity payment undertaking agreements with the payment undertaker and received \$89.9 million upon termination. Of this amount, the Authority deposited \$75.2 million with a trustee and U.S. Treasury Securities were purchased to defease the remaining lease payments under the Equity Payment Undertaking Agreement (EPUA). The securities purchased are scheduled to mature in amounts and on dates required to make the lease payments. The remaining \$14.7 million was restricted and invested to satisfy payments due under the Supplemental Payment Undertaking Agreement (SPUA).

### LEASE/LEASEBACK AGREEMENTS

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 2009 and 2008, are included, as are unamortized swaption proceeds, in the following liabilities:

<u>Other Liabilities</u>	<u>Beginning Balance</u>	<u>Reductions *</u>	<u>Investment Earnings</u>	<u>Ending Balance</u>
2009	\$ 31,750	\$ ( 7,460)	\$ 283	\$ 24,573
2008	\$ 58,769	\$ (28,810)	\$ 1,791	\$ 31,750

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

**6. LEASES (CONTINUED)****OPERATING LEASES**

The Authority leases equipment and utility vehicles, with leases expiring at various dates through 2009. Rental expense for these operating leases was \$2.3 million and \$2.1 million for Fiscal Years 2009 and 2008, respectively.

**7. PENSION PLANS****PLAN DESCRIPTION**

The Authority maintains five trustee, 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, 2008, the date of the latest actuarial valuation:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>	<u>TOTAL</u>
Retirees and beneficiaries receiving benefits	1,160	5	2,555	233	19	3,972
Terminated plan members entitled to but not yet receiving benefits	575	48	915	116	30	1,684
Active plan members	<u>1,716</u>	<u>203</u>	<u>4,953</u>	<u>487</u>	<u>203</u>	<u>7,562</u>
Total	<u>3,451</u>	<u>256</u>	<u>8,423</u>	<u>836</u>	<u>252</u>	<u>13,218</u>

## 7. PENSION PLANS (CONTINUED)

### 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 2009 are as follows:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>
Contribution rates:					
SEPTA	21.31%	7.03%	16.60%	13.05%	7.09%
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 2009 were as follows:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>	<u>TOTAL</u>
Annual Pension Cost	\$25,284	\$ 733	\$38,534	\$ 2,908	\$ 586	\$68,045
Contributions made	<u>28,819</u>	<u>779</u>	<u>35,690</u>	<u>2,620</u>	<u>556</u>	<u>68,464</u>
Increase (decrease) in accrued pension liability	(3,535)	(46)	2,844	288	30	(419)
Accrued pension liability, beginning of year	<u>28,663</u>	<u>775</u>	<u>35,406</u>	<u>2,602</u>	<u>554</u>	<u>68,000</u>
Accrued pension liability, end of year	<u>\$25,128</u>	<u>\$ 729</u>	<u>\$38,250</u>	<u>\$ 2,890</u>	<u>\$ 584</u>	<u>\$67,581</u>
Actuarial valuation date	7/1/08	7/1/08	7/1/08	7/1/08	7/1/08	
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 <sup>1</sup>	8.00%	8.00%	8.00%	8.00%	8.00%	
Salary increases <sup>3</sup>	3.50%	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	
Cost-of-living adjustments	None	None	None	None	None	

<sup>1</sup> Interest is gross of investment-related expenses

<sup>2</sup> Salary scale rates vary by years of service

<sup>3</sup> Reflects underlying inflation assumption of 2.75%.



(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

## 7. PENSION PLANS (CONTINUED)

<u>Analysis of Pension Funding</u>		<u>ANNUAL</u>	<u>PERCENTAGE</u>
	<u>YEAR</u>	<u>PENSION</u>	<u>OF APC</u>
	<u>ENDED</u>	<u>COST (APC)</u>	<u>CONTRIBUTED</u>
SAM	6/30/09	\$25,284	100.0%
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%
Transit Police	6/30/09	733	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%
City Transit	6/30/09	38,534	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%
Red Arrow	6/30/09	2,908	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%
Frontier	6/30/09	<u>586</u>	<u>100.0%</u>
Frontier	6/30/08	<u>556</u>	<u>100.0%</u>
Frontier	6/30/07	<u>493</u>	<u>100.0%</u>
Frontier	6/30/06	<u>411</u>	<u>100.0%</u>
Frontier	6/30/05	<u>309</u>	<u>100.0%</u>
Frontier	6/30/04	<u>311</u>	<u>100.0%</u>
TOTAL	6/30/09	<u>\$68,045</u>	<u>100.0%</u>
TOTAL	6/30/08	<u>\$68,464</u>	<u>100.0%</u>
TOTAL	6/30/07	<u>\$61,941</u>	<u>100.0%</u>
TOTAL	6/30/06	<u>\$56,095</u>	<u>100.0%</u>
TOTAL	6/30/05	<u>\$48,157</u>	<u>100.0%</u>
TOTAL	6/30/04	<u>\$48,095</u>	<u>100.0%</u>

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	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Level Dollar	Unfunded AAL (UAAL)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ( (b - a) / c )
	<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b - a)</u>			<u>( (b - a) / c )</u>
SAM	7/1/08	\$376,919	\$ 499,524	\$122,605	75.5%	\$118,656	103.3%
SAM	7/1/07	\$355,391	\$ 498,208	\$142,817	71.3%	\$118,832	120.2%
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%
Transit Police	7/1/08	15,908	16,367	459	97.2%	10,430	4.4%
Transit Police	7/1/07	14,303	15,089	786	94.8%	9,983	7.9%
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%
City Transit	7/1/08	397,906	661,740	263,834	60.1%	232,168	113.6%
City Transit	7/1/07	379,856	620,111	240,255	61.3%	260,569	92.2%
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%
Red Arrow	7/1/08	31,582	50,200	18,618	62.9%	22,278	83.6%
Red Arrow	7/1/07	29,836	46,495	16,659	64.2%	26,704	62.4%
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%
Frontier	7/1/08	<u>9,307</u>	<u>10,619</u>	<u>1,312</u>	<u>87.6%</u>	<u>8,267</u>	<u>15.9%</u>
Frontier	7/1/07	<u>8,492</u>	<u>9,647</u>	<u>1,155</u>	<u>88.0%</u>	<u>9,386</u>	<u>12.3%</u>
Frontier	7/1/06	<u>7,138</u>	<u>8,271</u>	<u>1,133</u>	<u>86.3%</u>	<u>8,863</u>	<u>12.8%</u>
Frontier	7/1/05	<u>6,163</u>	<u>7,064</u>	<u>901</u>	<u>87.2%</u>	<u>8,426</u>	<u>10.7%</u>
Frontier	7/1/04	<u>5,357</u>	<u>5,990</u>	<u>633</u>	<u>89.4%</u>	<u>8,148</u>	<u>7.8%</u>
Frontier	7/1/03	<u>4,680</u>	<u>5,539</u>	<u>859</u>	<u>84.5%</u>	<u>7,745</u>	<u>11.1%</u>
TOTAL	7/1/08	<u>\$831,622</u>	<u>\$1,238,450</u>	<u>\$406,828</u>	<u>67.2%</u>	<u>\$391,799</u>	<u>103.8%</u>
TOTAL	7/1/07	<u>\$787,878</u>	<u>\$1,189,550</u>	<u>\$401,672</u>	<u>66.2%</u>	<u>\$425,474</u>	<u>94.4%</u>
TOTAL	7/1/06	<u>\$709,968</u>	<u>\$1,082,094</u>	<u>\$372,126</u>	<u>65.6%</u>	<u>\$407,574</u>	<u>91.3%</u>
TOTAL	7/1/05	<u>\$660,053</u>	<u>\$ 997,039</u>	<u>\$336,986</u>	<u>66.2%</u>	<u>\$405,698</u>	<u>83.1%</u>
TOTAL	7/1/04	<u>\$620,156</u>	<u>\$ 902,691</u>	<u>\$282,535</u>	<u>68.7%</u>	<u>\$400,395</u>	<u>70.6%</u>
TOTAL	7/1/03	<u>\$588,518</u>	<u>\$ 857,032</u>	<u>\$268,514</u>	<u>68.7%</u>	<u>\$389,004</u>	<u>69.0%</u>

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

The annual pension cost for Fiscal Year 2008 and the actuarial accrued liability as of July 1, 2007 were affected by a change in the mortality assumption projected for future mortality improvements using a generational approach. The annual pension costs for the Union Plans and the SAM Plan each increased by \$4.0 million due to the mortality change. The actuarial accrued liability for the Union Plans and 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 \$3.2 million and \$2.6 million, respectively, due to the change. The actuarial accrued liability for the Union Plans and SAM Plan increased by \$30.5 million and \$23.7 million, 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, 2009

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2009 Total</u>
Assets:						
Cash and short-term investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables						
Employer contributions	25,284	733	38,534	2,908	586	68,045
Plan member contributions	73	32	372	35	14	526
Interest and dividends	1,428	68	1,475	120	39	3,130
Sales pending settlement	<u>1,362</u>	<u>63</u>	<u>1,406</u>	<u>115</u>	<u>38</u>	<u>2,984</u>
Total receivables	<u>28,147</u>	<u>896</u>	<u>41,787</u>	<u>3,178</u>	<u>677</u>	<u>74,685</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	17,704	832	18,282	1,487	492	38,797
U.S. Government obligations	12,951	609	13,374	1,088	360	28,382
Corporate and other government obligations	49,051	2,308	50,650	4,118	1,365	107,492
Preferred stocks	907	43	936	76	25	1,987
Common stocks	157,764	7,421	162,900	13,247	4,387	345,719
Private equity	15,117	711	15,608	1,269	420	33,125
Real estate	<u>5,796</u>	<u>273</u>	<u>5,985</u>	<u>487</u>	<u>161</u>	<u>12,702</u>
Total investments	<u>259,290</u>	<u>12,197</u>	<u>267,735</u>	<u>21,772</u>	<u>7,210</u>	<u>568,204</u>
Total assets	287,437	13,093	309,522	24,950	7,887	642,889
Liabilities:						
Purchases pending settlement	<u>2,631</u>	<u>124</u>	<u>2,716</u>	<u>222</u>	<u>73</u>	<u>5,766</u>
Net assets held in trust for pension benefits	<u>\$284,806</u>	<u>\$ 12,969</u>	<u>\$306,806</u>	<u>\$ 24,728</u>	<u>\$ 7,814</u>	<u>\$637,123</u>



(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

## 7. PENSION PLANS (CONTINUED)

### STATEMENTS OF PLAN NET ASSETS as of June 30, 2008

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2008 Total</u>
<b>Assets:</b>						
Cash and short-term investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Receivables</b>						
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	<u>2,040</u>	<u>89</u>	<u>2,126</u>	<u>171</u>	<u>53</u>	<u>4,479</u>
Total receivables	<u>32,531</u>	<u>994</u>	<u>40,213</u>	<u>2,995</u>	<u>677</u>	<u>77,410</u>
<b>Cash equivalents and Investments, at fair value</b>						
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	<u>7,287</u>	<u>317</u>	<u>7,599</u>	<u>609</u>	<u>188</u>	<u>16,000</u>
Total investments	<u>328,040</u>	<u>14,291</u>	<u>342,040</u>	<u>27,397</u>	<u>8,446</u>	<u>720,214</u>
Total assets	360,571	15,285	382,253	30,392	9,123	797,624
<b>Liabilities:</b>						
Purchases pending settlement	<u>3,788</u>	<u>165</u>	<u>3,949</u>	<u>317</u>	<u>97</u>	<u>8,316</u>
Net assets held in trust for pension benefits	<u>\$356,783</u>	<u>\$ 15,120</u>	<u>\$378,304</u>	<u>\$ 30,075</u>	<u>\$ 9,026</u>	<u>\$789,308</u>

(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, 2009

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2009 Total</u>
Additions						
Contributions						
Employer	\$ 25,284	\$ 733	\$ 38,534	\$ 2,908	\$ 586	\$ 68,045
Plan member	<u>976</u>	<u>425</u>	<u>4,670</u>	<u>447</u>	<u>174</u>	<u>6,692</u>
Total contributions	<u>26,260</u>	<u>1,158</u>	<u>43,204</u>	<u>3,355</u>	<u>760</u>	<u>74,737</u>
Investment income (loss)						
Net realized gain (loss)	(51,744)	(2,348)	(53,631)	(4,340)	(1,392)	(113,455)
Net increase (decrease) in fair value of investments	(29,285)	(1,217)	(30,716)	(2,444)	(725)	(64,387)
Interest	4,863	221	5,043	408	131	10,666
Dividends	<u>3,924</u>	<u>178</u>	<u>4,070</u>	<u>330</u>	<u>105</u>	<u>8,607</u>
Total investment income (loss)	(72,242)	(3,166)	(75,234)	(6,046)	(1,881)	(158,569)
Less investment expense	<u>1,415</u>	<u>64</u>	<u>1,468</u>	<u>119</u>	<u>38</u>	<u>3,104</u>
Net investment income (loss)	<u>(73,657)</u>	<u>(3,230)</u>	<u>(76,702)</u>	<u>(6,165)</u>	<u>(1,919)</u>	<u>(161,673)</u>
Total additions (loss)	<u>(47,397)</u>	<u>(2,072)</u>	<u>(33,498)</u>	<u>(2,810)</u>	<u>(1,159)</u>	<u>(86,936)</u>
Deductions						
Benefits	24,392	72	37,811	2,522	48	64,845
Administrative expense	<u>188</u>	<u>7</u>	<u>189</u>	<u>15</u>	<u>5</u>	<u>404</u>
Total deductions	<u>24,580</u>	<u>79</u>	<u>38,000</u>	<u>2,537</u>	<u>53</u>	<u>65,249</u>
Net increase (decrease)	(71,977)	(2,151)	(71,498)	(5,347)	(1,212)	(152,185)
Net assets held in trust for pension benefits						
Beginning of year	<u>356,783</u>	<u>15,120</u>	<u>378,304</u>	<u>30,075</u>	<u>9,026</u>	<u>789,308</u>
End of year	<u>\$284,806</u>	<u>\$12,969</u>	<u>\$306,806</u>	<u>\$24,728</u>	<u>\$7,814</u>	<u>\$637,123</u>

**7. PENSION PLANS (CONTINUED)**STATEMENTS OF CHANGES IN PLAN NET ASSETS  
for the Year Ended June 30, 2008

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

## **7. PENSION PLANS (CONTINUED)**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **BASIS OF ACCOUNTING**

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

### **METHOD USED TO VALUE INVESTMENTS**

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

#### **INVESTMENTS**

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

## **8. OTHER POSTEMPLOYMENT BENEFITS**

### **PLAN DESCRIPTION**

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

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

The Authority provides long-term disability insurance with benefit eligibility after one year of employment for SAM and TP. Disability benefits are not covered by the OPEB valuation since generally the benefits are fully insured and paid 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 OPEB obligation for Fiscal Year 2009 are as follows:

	<u>SAM</u>	<u>Transit Police</u>	<u>Non-Railroad Union Groups</u>	<u>Railroad Union Groups</u>	<u>Total</u>
Annual required contribution	\$ 34,820	\$ 1,485	\$ 88,871	\$ 8,907	\$134,083
Interest on net OPEB obligation	991	54	2,566	293	3,904
Adjustment to annual required contribution	<u>1,405</u>	<u>77</u>	<u>3,638</u>	<u>416</u>	<u>5,536</u>
Annual OPEB cost (expense)	34,406	1,462	87,799	8,784	132,451
Contributions made	<u>9,428</u>	<u>44</u>	<u>19,520</u>	<u>1,573</u>	<u>30,565</u>
Increase in net OPEB obligation	24,978	1,418	68,279	7,211	101,886
Net OPEB obligation, beginning of year	<u>24,777</u>	<u>1,351</u>	<u>64,149</u>	<u>7,335</u>	<u>97,612</u>
Net OPEB obligation, end of year	<u>\$ 49,755</u>	<u>\$ 2,769</u>	<u>\$132,428</u>	<u>\$ 14,546</u>	<u>\$199,498</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for Fiscal Years 2009 and 2008 for each of the plans are as follows:

	<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
SAM	6/30/09	\$ 34,406	27.4%	\$ 49,755
SAM	6/30/08	33,316	25.6%	24,777
Transit Police	6/30/09	1,462	3.0%	2,769
Transit Police	6/30/08	1,375	1.7%	1,351
Non-Railroad Union Groups	6/30/09	87,799	22.2%	132,428
Non-Railroad Union Groups	6/30/08	82,546	22.3%	64,149
Railroad Union Groups	6/30/09	<u>8,784</u>	17.9%	<u>14,546</u>
Railroad Union Groups	6/30/08	<u>8,785</u>	16.5%	<u>7,335</u>
Total	6/30/09	<u>\$132,451</u>	23.1%	<u>\$199,498</u>
Total	6/30/08	<u>\$126,022</u>	22.5%	<u>\$ 97,612</u>

**8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

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

short-term volatility in actuarial accrued liabilities. During 2008, new demographic (termination, retirement and disability) assumptions were adopted for the pension valuations, based on the 2007 Experience Study. These results reflect the assumptions adopted in that study.

Significant methods and assumptions are as follows:

	<u>SAM</u>	<u>Transit Police</u>	<u>Non-Railroad Union Groups</u>	<u>Railroad Union Groups</u>
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	3.50%	—	—	—
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	—	<u>\$1,261,081</u>	<u>\$1,261,081</u>	0.0%	<u>\$441,778</u>	<u>285.5%</u>

## **8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents the actuarial value of

plan assets, if any, for comparison to the actuarial accrued liability for benefits. The Authority adopted GASB 45 on a prospective basis in Fiscal Year 2008 and only one year of information is presented. The next scheduled valuation will be as of July 1, 2009. The Schedule of Funding Progress above does not reflect current year changes to demographic assumptions.

## **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 \$16.5 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 \$338 thousand and \$339 thousand for Fiscal Years 2009 and 2008,

respectively. The total amount of all contributions made by employee and employer generally cannot exceed \$16.5 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, 2009. 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 2009 decreased approximately \$2.9 million primarily due to lower corporate claim costs. The related liability as of June 30, 2009 increased approximately \$4.0 million primarily due to approximately \$2.7 million related to pollution remediation efforts and higher claim settlement costs. The Authority adopted GASB Statement No. 49 on a prospective basis in Fiscal Year 2009. This resulted in the recognition of \$3.2 million in expense for pollution remediation activities at various SEPTA locations where underground storage tanks were previously removed and replaced. The Pennsylvania Department

of Environmental Protection (PADEP) Act 2, "Underground Storage Tank Program," involves follow-up testing, site characterization and remediation action plans as mandated by PADEP. The liability was developed by the Authority's engineers specializing in environmental remediation which is similar to situations at other sites with which the Authority has experience. The estimate is subject to change due to price increases, changes in technology, or other factors. The Authority has also recognized within capital grants the expected reimbursement of such costs.

For Fiscal Year 2008, 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.

**11. PUBLIC LIABILITY, PROPERTY DAMAGE AND WORKERS' COMPENSATION CLAIMS (CONTINUED)**

Total claims liabilities, including changes for Fiscal Years 2009 and 2008, are as follows:

	Public Liability and Property Damage	Workers' Compensation	Totals
Balance at June 30, 2007	\$ 123,928	\$ 55,287	\$ 179,215
Claims expense	43,483	12,609	56,092
Payment of claims	<u>(36,415)</u>	<u>(15,982)</u>	<u>(52,397)</u>
Balance at June 30, 2008	130,996	51,914	182,910
Claims expense	40,615	17,017	57,632
Pollution remediation expense	3,188	–	3,188
Payments for pollution remediation	(476)	–	(476)
Payment of claims	<u>(39,346)</u>	<u>(15,311)</u>	<u>(54,657)</u>
Balance at June 30, 2009	<u>\$ 134,977</u>	<u>\$ 53,620</u>	<u>\$ 188,597</u>
Balance at June 30, 2009, due within one year	<u>\$ 56,180</u>	<u>\$ 12,426</u>	<u>\$ 68,606</u>

**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. The remaining option, which relates to the currently outstanding Special Revenue Bonds, Series of 1999A and 1999B, was exercised on March 1, 2009. The Authority expects to issue variable-rate refunding bonds but has yet to do so due to an inability to secure adequate letters of credit. 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 \$119.2 million as of June 30, 2009, 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 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 below as a percentage of the London Interbank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA) Index.



(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

## 12. SWAPTION AND SWAPS (CONTINUED)

Information related to the swaps, as of June 30, 2009 are as follows:

<u>Associated Revenue Bond Issue</u>	<u>Description</u>	<u>Bond Amount at Par</u>	<u>Bond Interest Rate</u>	<u>Notional Amount</u>	<u>Swap Exercise and Bond Call Date</u>	<u>Termination Date</u>
Series of 2007	Swap	\$119,175	Variable	\$119,175	3/1/2007**	3/1/2022
Series of 1999A & 1999B	Swap	211,240	4.75% to 5.25%	215,290	3/1/2009**	3/1/2028
Series of 1999A & 1999B	Basis Swap	<u>211,240</u>	4.75% to 5.25%	<u>215,290</u>	12/29/2005**	3/1/2028
Total		<u>\$340,415</u>		<u>\$345,465</u>		

<u>Associated Revenue Bond Issue (continued)</u>	<u>Description</u>	<u>Swap Pay Rate</u>	<u>Swap Variable Receive Rate</u>	<u>Fair Value</u>	<u>Credit Counterparty*</u>	<u>Counterparty Rating</u>
Series of 2007	Swap	4.706%—Fixed	67% 1—Mo. LIBOR	\$ (19,993)	MLCS	A2/A/A+
Series of 1999A & 1999B	Swap	4.42%—Fixed	SIFMA Index	(24,216)	50% MLCS & CB	A2/A/A+ & A1/A+
Series of 1999A & 1999B	Basis Swap	SIFMA Index —Variable	67% 3—Mo. LIBOR+ 13.52 bps	<u>( 8,240)</u>	MLCS	A2/A/A+
Total				<u>\$ (52,449)</u>		

\* 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, 2009, the swaps had a negative fair value totaling \$52.4 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 or the SIFMA Index.

### CREDIT RISK

As of June 30, 2009, the Authority was not exposed to credit risk, or the risk of economic loss due to a counterparty default on its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive the Authority would be exposed to credit risk in the amount of the derivatives' fair value. 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 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. The swap associated with the Special Revenue Bonds, Series of 1999A and 1999B 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 when issued. 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. 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. Although the Authority anticipates that the Pennsylvania Public Transportation Trust Fund (PTTF), as enabled by Act 44 of 2007, will provide for a reliable and growing source of funds to meet future budgetary needs, there is a growing uncertainty concerning these funds beyond fiscal 2010. Because the Pennsylvania Turnpike Commission has been unable to obtain approval of the Federal Highway Administration to begin tolling Interstate 80, payments to the PTTF could decline, resulting in serious negative consequences to SEPTA's capital budget.



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**FRONT COVER CAPTION:**

A smoother ride comes to the Market-Frankford Subway Elevated Line thanks to newly-installed continuous welded rail.