



# DRIVEN to ACHIEVE

FISCAL YEAR 2010 ANNUAL REPORT





National Geographic host Sean Riley teamed up with SEPTA for a behind-the-scenes look at how the nation’s sixth largest transportation agency provides one million rides a day. The one-hour episode “Philly Mega Transit” featured Riley and SEPTA crews as they tackle essential and often risky work. This included replacing an 80-year-old high-voltage train wire, accompanying the “money train” for its daily pickup, and working with our SWAT officers to thwart terrorism. “My impression is there are a lot of hard-working people who make that system possible, and they are for the most part unsung heroes,” said Riley of the experience.

02	Operations Statistics	36	Financial and Statistical Highlights
03	Businesses We Serve	39	Independent Auditors’ Report
04	Management Letter	40	Management’s Discussion and Analysis
06	SEPTA Board Members	46	Balance Sheets
08	Investment	48	Statements of Revenues, Expenses, and Changes in Net Assets
18	Response	49	Statements of Cash Flows
32	Future	50	Notes to Financial Statements





# Operations of the Southeastern Pennsylvania Transportation Authority


SEPTA is the nation’s sixth-largest public transportation system and largest system in the Commonwealth of Pennsylvania. It is an instrumentality of the Commonwealth of Pennsylvania, created by the State Legislature in 1964.


SEPTA’s service area covers about 2,200 square miles, including the counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia. SEPTA regional rail extends to Trenton and West Trenton, New Jersey and Newark, Delaware.


Giving customers options:


 117 Bus Routes

 8 Trolley Lines

 3 Trackless Trolley Routes

 2 Subway/Elevated Lines

 1 Interurban High-Speed Line

 13 Regional Railroad Lines\*

- Shared Ride service in the City of Philadelphia
- ADA Paratransit service throughout five counties
- Small bus circulator and shuttle services connecting regular operations to business, health and educational centers, as well as to parking.

SEPTA provides Philadelphia and neighboring counties with regional and national travel via Amtrak rail service at 30th Street Station, Philadelphia International Airport, and direct connections with NJ Transit rail service and the Port Authority Transit Corporation (PATCO) High Speed Line to New Jersey.

## Some of the Businesses SEPTA Serves

Our region is home to some of the nation’s premier universities, medical institutions, tourist sites, and businesses. SEPTA plays a vital role in providing these businesses and institutions with access to skilled labor. Some of the employers we serve include:

Amerisource BergenComcast

Drexel UniversityVanguardPREIT

FMC CorporationLincoln National

Hahnemann University Hospital

IKON Office SolutionsLockheed Martin

SunGard Data SystemsUnisys

Thomas Jefferson University

University of PennsylvaniaPep Boys

\* Lines were renamed in July 2010 for a total of 13 lines

In Fiscal Year 2010, SEPTA made great progress in rebuilding the region's transportation infrastructure, creating much-needed jobs and improving service to our loyal customers.

The Authority continued to use the Five-Year Strategic Business Plan to guide our decision making in the seven key areas of customer service, sustainability, ridership growth, safety and security, new technologies, rebuilding the system and human capital development. While making progress in these strategic areas, the Authority continued to give priority to fiscal discipline during these tough economic times. Enduring a six-day strike by the Transport Workers Union, SEPTA negotiated a fair settlement for all of our stakeholders. The contract recognizes the fiscal realities that employers and entities providing subsidies are facing in the short and long term. The five year labor contract provides stability for SEPTA, allowing us to focus on providing the highest quality of service to our customers, and investing in our infrastructure and vehicles to guarantee its success.

We progressed in the following strategic areas:

## Customer Service

This continues to be a primary focus area for the Authority. Improvements in communication technologies for the SEPTA website now make it possible to deliver real-time service information. Sophisticated trip planning software enables passengers to accurately plan their trips through a variety of applications. Passenger Etiquette and the QuietRide Cars, two programs aimed at improving the travel environment and promoting good riding manners, have been enthusiastically embraced by customers. The success of SEPTA's QuietRide program is a model for other U.S. commuter rail operators.

## Rebuilding the System

With the added boost of funds from the American Recovery and Reinvestment Act of 2009, SEPTA invested more than \$400 million during Fiscal Year 2010 to rebuild existing infrastructure

and acquire new vehicles. During the year SEPTA and its contractors worked on 32 projects funded by the Economic Stimulus program, with seven projects completed by the end of Fiscal Year 2010. Projects ranged from the rebuilding of subway stations on the Broad Street Subway, acquisition of diesel-electric hybrid buses, renovation of track and stations throughout the Regional Rail network and major rebuilding of track, electric traction catenary, grade crossings and stations on the Media-Sharon Hill trolley lines. We were also busy rebuilding bridges, rail yards, power substations, and railroad signal systems. With contractors—large and small—working on projects throughout the year, SEPTA was able to create and sustain construction jobs during the economic recession. Without this SEPTA construction work, many laborers would have been without jobs resulting in higher unemployment rates in this region.

## Safety and Security

SEPTA progressed in areas of passenger security with the decision to increase the visibility of uniformed SEPTA Police officers throughout the system. Felony crime declined 4% on subway lines.

## Ridership Growth

Last year SEPTA provided 321 million annual unlinked trips, with work commutes accounting for 70% of all rides. Lingering unemployment, a six-day work stoppage by the Transport Workers Union, and record breaking snowstorms negatively impacted ridership. Although ridership declined 3% from Fiscal Year 2009 due to these events, we are encouraged by the strong ridership growth of 5% during the fourth quarter of the fiscal year.

## Sustainability

Although the acquisition of hybrid buses is one of SEPTA's most visible commitments to the environment, SEPTA zeroed

in on a range of sustainability goals. Besides achieving efficiencies in our fleets, we went on to reduce waste in stations and buildings. Aggressive pursuit and implementation of green technology saved fuel and conserved electricity and water. Specifically, SEPTA helped reduce vehicle emissions and congestion by diverting 604 million vehicle miles traveled off roadways. By taking SEPTA, riders conserved a combined 33.5 million gallons of fuel.

Fiscal sustainability is critical to the long-term success of SEPTA. With uncertainty of federal transportation reauthorization and the federal decision that prevented the tolling of Interstate 80, federal and state funding for transportation programs are at risk. As such, SEPTA must continue to effectively manage costs and pursue alternative means of revenue. During the fiscal year, SEPTA entered into a groundbreaking agreement with AT&T for naming rights. Under the contract, AT&T will pay SEPTA \$3 million to rename the Pattison Avenue Station on the Broad Street Subway, adjacent to Philadelphia's sports complex. This agreement represents the largest naming rights contract in the U.S. transit industry.

We are proud of the positive developments of the last year, and the vital service we continue to provide to our customers. SEPTA contributes to the economic success of our region and the Commonwealth. Despite the funding challenges that are ahead of us, we remain committed to our role of moving people and the economy forward.

Last year SEPTA provided 321 million annual unlinked trips, with work commutes accounting for 70% of all rides.



Pasquale T. Deon, Sr.  
CHAIRMAN



Joseph M. Casey  
GENERAL MANAGER

**Chairman**  
Pasquale T. Deon, Sr.

**Vice Chairman**  
James C. Schwartzman, Esquire

SEPTA Board

**Philadelphia**  
Beverly Coleman  
Rina Cutler

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

**Chester County**  
Joseph E. Brion, Esquire  
Kevin L. Johnson, P.E.

**Delaware County**  
Thomas E. Babcock  
Daniel J. Kubik

**Montgomery County**  
Thomas Jay Ellis, Esquire  
Michael J. O'Donoghue, Esquire

**Governor Appointee**  
Denise J. Smyler, Esquire

**Senate Majority  
Leader Appointee**  
Honorable Stewart J. Greenleaf,  
Esquire

**Senate Minority  
Leader Appointee**  
James C. Schwartzman, Esquire

**House Majority  
Leader Appointee**  
Frank G. McCartney

**House Minority  
Leader Appointee**  
Herman M. Wooden

SEPTA Officers

**General Manager**  
Joseph M. Casey, 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



Pasquale T. Deon, Sr.



James C. Schwartzman,  
Esquire



Denise J. Smyler, Esquire



Honorable Stewart J.  
Greenleaf, Esquire



Frank G. McCartney



Herman M. Wooden



Beverly Coleman



Rina Cutler



Thomas E. Babcock



Joseph E. Brion, Esquire



Thomas Jay Ellis, Esquire



Kevin L. Johnson, P.E.



Daniel J. Kubik



Honorable Charles H. Martin



Michael J. O'Donoghue,  
Esquire

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 2011.



# Investment

Keeping Competitive | Innovation Drives Revenue

SEPTA is a driving economic force in Pennsylvania. We play a leading role in transportation and serve as a catalyst for economic growth in the Philadelphia region. We are proud to keep the region moving and, in doing so, help people and businesses overcome the challenges facing the economy. Investment in SEPTA is an investment in the region.



Behind the Wheel: SEPTA buses keep Southeastern Pennsylvania going.



# Keeping Competitive

Our system provides 321 million rides annually. We get people to jobs, providing companies such as Comcast, Vanguard, and Lockheed Martin access to a skilled labor pool. Our vehicles reduce congestion, improve air quality, and boost energy independence by taking cars off the road. In addition to bringing people to jobs, we employ a workforce that is 9,200 strong.



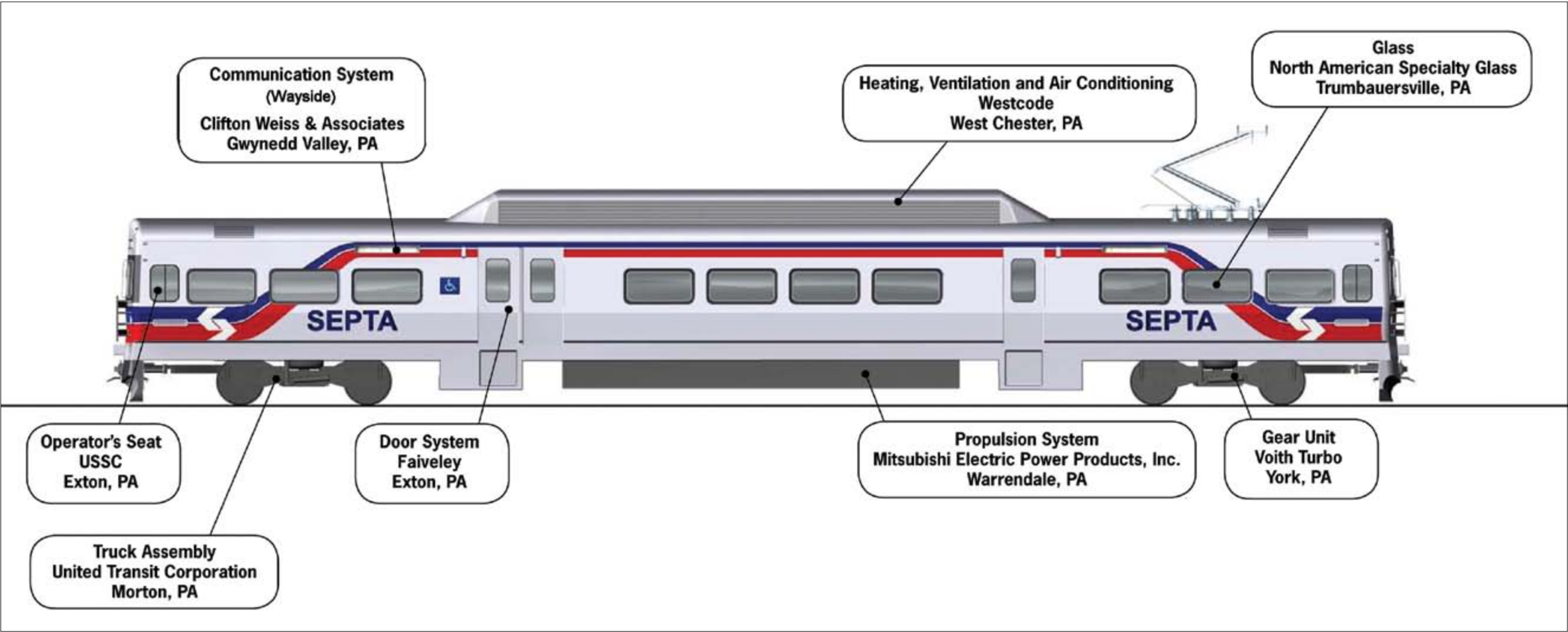
From City Hall to the four surrounding counties, SEPTA gets Pennsylvanians to jobs.

# Spurring Jobs Statewide

Maintaining SEPTA’s extensive infrastructure means jobs, both direct and indirect. Construction workers, steel workers, and engineers are just some of the thousands of jobs created or maintained through contracts with SEPTA.



Good Vibrations: Miles of steel from ArcelorMittal in Dauphin County were used on our trolley lines.



Regional companies are supplying parts for 120 new Regional Rail cars, which are being assembled in Philadelphia.

84% of All SEPTA Contracts  
Went to Keystone Companies

SEPTA served as an economic shot in the arm, as nearly \$722 million flowed to hundreds of companies in industries such as construction, engineering, and software supply. From Carnegie to Allentown, Brookville to Camp Hill – SEPTA bought steel, seats, and more from Keystone companies. In fact, Pennsylvania businesses won or worked on more than 84% percent of all SEPTA contracts in FY 2010. This sparked a chain reaction generating billions of dollars in business sales and hundreds of millions of dollars in tax revenue. Return on investment was as high as 6 to 1.





It's a winner: The Philly Phanatic and SEPTA cheer the AT&T station naming.

## \$3 Million: To Be Generated from AT&T Station Renaming

Philly's sports and entertainment subway station at Pattison Avenue was renamed AT&T Station in a groundbreaking five-year contract with the telecommunications powerhouse. In addition, the station underwent upgrades such as the installation of digital displays.

## Over \$11 Million: Ad Revenue Climbs

We enabled advertisers to reach audiences in new places by installing TV screens on many station platforms. New Silverliner V rail cars also will display digital ads.

## Nearly \$2 Million: Sales Shine in Copper, Metal, and Other Used Assets

Business Services' Asset Recovery unit, dedicated to the responsible and profitable stewardship of resources, successfully sold retired vehicles, used equipment, and materials such as scrap steel and iron, copper, wire, and cable. By strategic and innovative selling of products that have reached the end of SEPTA use, the activity recovered nearly \$2 million.



## About \$40 million: “Commuter’s Choice” Popular with Business

Nearly one-thousand businesses participated in Commuter’s Choice, through which employers can provide transit discounts for their workers. Commuter’s Choice is a valuable service to area workers, while generating \$40 million in pass sales for SEPTA.



News reports described Commuter’s Choice as a win-win for businesses and their employees.

## Nearly \$1 million: Sales of the One-Day Pass Zoomed

Sales of SEPTA’s unlimited one-day travel Independence Pass grew in FY 2010, with usage particularly high among tourists, resulting in sales of \$955,000.



The Independence Pass makes it easier for tourists to travel to prominent Philadelphia destinations, such as Independence Hall and the Liberty Bell.



# Response

What's Moving Us | Modernizing Infrastructure  
Service Improvements | Sustainability & Green Efforts | Volunteerism

We kept the region moving while driving the economy. SEPTA's work meant jobs as we rebuilt the system. We transformed the fleet to fuel-efficient vehicles, rebuilt and expanded stations and tracks, stepped up security, enabled mobility during snowstorms, provided more access, and gave back through volunteerism. Throughout, we relied on our Strategic Business Plan to keep SEPTA fiscally responsible and responsive to the public and the environment.



Station rehabilitation at Queen Lane on the Chestnut Hill West Regional Rail line.



# Saying “Bye Bye” to Guzzlers

The CCT Connect Paratransit Department for riders with disabilities and Philadelphia seniors invested in 31 ambulatory and 32 wheelchair lift-equipped minibuses. These Ford minibuses are technologically advanced and use an ethanol-blend and unleaded gasoline for exceptional fuel economy. Bus features include the OrbStar mobile data computer for constant two-way communication with central operations.



Fuel-sippers: CCT Connect put more energy-savers on the road.

# Hybrids Harness the Energy of Braking

SEPTA put 120 more electric-diesel hybrid buses on the roads in FY 2010. Sporting an aerodynamic look, the hybrid needs about one-third less fuel than a regular bus. It does so by harnessing the energy of braking. When brakes are applied, the power, normally dissipated, is now redirected to charge the rooftop-energy storage system. The hybrid also needs less maintenance. Everyone feels good about hybrids: riders enjoy helping their world get greener and bus operators give a green light for smooth handling. By the end of 2011, one-in-three SEPTA buses will be hybrid.



New hybrid bus on display at 1234 Market Street.





Silverliner V: Silver is the greener way to travel.



A smooth ride and video streaming will greet Regional Rail's growing ridership.



Interior of the new Silverliner V.

# Silverliner V: A Better Rail Car Just Around the Bend

Regional Rail ramped up for a new generation of riding comfort and quality. Three Silverliner V rail cars made headway by passing all pilot tests and going into service. Ultimately, a total of 120 Silverliner V cars will replace those from the 1960s, bringing the total rail fleet to 400. Not only is this great news for SEPTA's growing train ridership, but it also has a positive economic impact on the region. The rail cars are being assembled in a South Philadelphia factory and many components — including doors, propulsion, and communications systems — are being made by local companies.

The Silverliner V is being built with riders in mind. It features a smoother ride, wider aisles, bigger windows, and real-time trip information streaming on video screens. And Silver becomes Green as it saves energy by regenerating electricity during braking.





The Ambler Station platform is extended on the Lansdale/Doylestown Regional Rail Line.



A pedestrian bridge is replaced at Allen Lane on the Chestnut Hill West Regional Rail Line.

# Strengthening the Infrastructure Pays Off

The road to prosperity requires a strong infrastructure. In FY 2010, SEPTA took important steps to upgrade critical areas of our aging infrastructure. We made excellent progress in all five counties modernizing stations, tracks, bridges, signals, power systems, and rail yards. These much-needed projects will improve service and drive growth for years to come with:

- Faster commuting times
- Proximity to businesses large and small
- Modern, safe stations
- Reduced energy dependence
- New technology implementation
- Beautifications that increase surrounding property value
- Better access for people with disabilities
- Creation and maintenance of jobs

Among the largest projects undertaken in FY 2010 was the upgrade of century-old trolley lines. Improvements on Route 101 Media and Route 102 Sharon Hill trolleys included installing miles of continuous welded rails with steel from supplier ArcelorMittal in Steelton, Dauphin County. Another feat of engineering was the replacement of five aging regional rail bridges. These new superstructures now safely carry thousands a day.

SEPTA also completed many station renovations and expansions. Examples include the North Philadelphia Transportation Center, the Market-Frankford Line’s 63rd Street Station, North Wales Station, and Exton Station Parking Lot expansion.

In addition, we restored the Queen Lane and Allen Lane train stations to their turn-of-the-century glory. Historic Wayne Station also was rejuvenated, while Darby Transportation Center received a new shelter and bus turnaround area. At Croydon, work has continued to construct a modern station. And on the Broad Street Line, we are modernizing subway stations at Spring Garden and Girard, the first major renovations since original construction in the 1920s.

And that’s not all. Behind the scenes, SEPTA rebuilt rail yards, power substations, signal systems, and bridges.



# Customer Service Designs an All- Around Better Ride

Technological advancements coupled with efforts to create a better riding experience were enthusiastically embraced. Enhancements to SEPTA's website let us share real-time service information with riders. Sophisticated software now allows riders to plan their trips online through a variety of applications. To improve the rider experience, SEPTA expanded Passenger Etiquette and the QuietRide Car programs to improve the travel environment and promote good manners. And we listened. SEPTA surveyed thousands of riders and made adjustments based on their feedback. Further, a Youth Advisory Council was created to give a voice to riders aged 14 to 22. It is the first of its kind among transit authorities across the nation.



On the fast track: Technology, courtesy, and creation of transit's first youth advisory council were key Customer Service improvements.

# Increased Security Protects Riders, Deters Threats

Crime declined 4% on subway lines from FY 2009. And the Smart Stations program to modernize electronic and other systems continued to improve the safety, security, and communications inside stations. New technologies include expanded use of closed circuit TV surveillance and modern fire detection systems. Also, the Transit Security Grant Program provided funding to help SEPTA fight terrorism and better respond to disasters.



A Safer Subway: Uniformed SEPTA Police protect riders.

# Access Means Freedom to Ride

SEPTA continued improving access for riders with disabilities through fleet enhancements, station construction, and more. All buses are fully accessible to wheelchairs, as are nearly 100 regional rail and transit stations.

# Extra Service to Events Uniquely Philly



SEPTA provided an inexpensive, hassle-free alternative to driving that helped thousands beat the gridlock on the way to their favorite performances, games, and events throughout the year. SEPTA provided extra service for some of the year’s largest events in the region, including:

- Sold out Phillies games
- Flyers Stanley Cup Finals
- The Philadelphia Flower Show, the largest indoor flower show in the world
- TD Bank International Cycling Championship in Manayunk
- Race for the Cure to end breast cancer
- Broad Street Run

# 25 Years of Rail-to-Air Link

Even as other American cities are just now realizing the importance of train service to airports, SEPTA and the City of Philadelphia marked a quarter century of service. The Airport line now carries 7,500 riders daily.



Storms were ferocious. We operated with concerns for public safety in mind.

# Mobility During Paralyzing Blizzards

As winter storms battered the region, SEPTA employees worked around-the-clock to provide service and keep the region moving. New technology such as GPS navigation, real-time Web communications, and precise weather forecasting allowed us to more closely monitor storm progression and make informed decisions to respond to changing weather conditions.





More than a step in the right direction. Transit makes life better in so many ways.

# Sustainability Shapes Us

SEPTA's Sustainability Program will help shape our future. By proactively mitigating environmental impacts, building a versatile workforce, and ensuring fiscal stability, SEPTA will become more competitive and serve as an attractive mobility alternative.

A more competitive transit system means improved environmental stewardship, creation of livable communities, and increased economic prosperity. By becoming more sustainable now, SEPTA will be prepared for and help create a more environmentally, socially, and economically sustainable future.



Bloomin' awesome. One rider uses nearly 50% less oil than a private commuter.

# SEPTA is Bright Green

We continued our initiative to educate and encourage the region to “Go Green, Go SEPTA.” We used advertising, outreach events, and partnerships to create awareness about how public transportation is “one-stop shopping” for the environment. SEPTA helps develop healthy lifestyles for people by conserving energy, cutting greenhouse emissions, and reducing dependence on oil.

# Volunteer Spirit Revs Up

SEPTA employees volunteered in record numbers to help those hardest hit in tough times. We built bonds with the communities we serve by participating in the Philabundance Food Drive, Philly's Annual Spring Cleanup, and more.



Volunteers collected nearly 20 tons of canned goods to feed children and families. Stations served as drop-off points for donations.



# Future

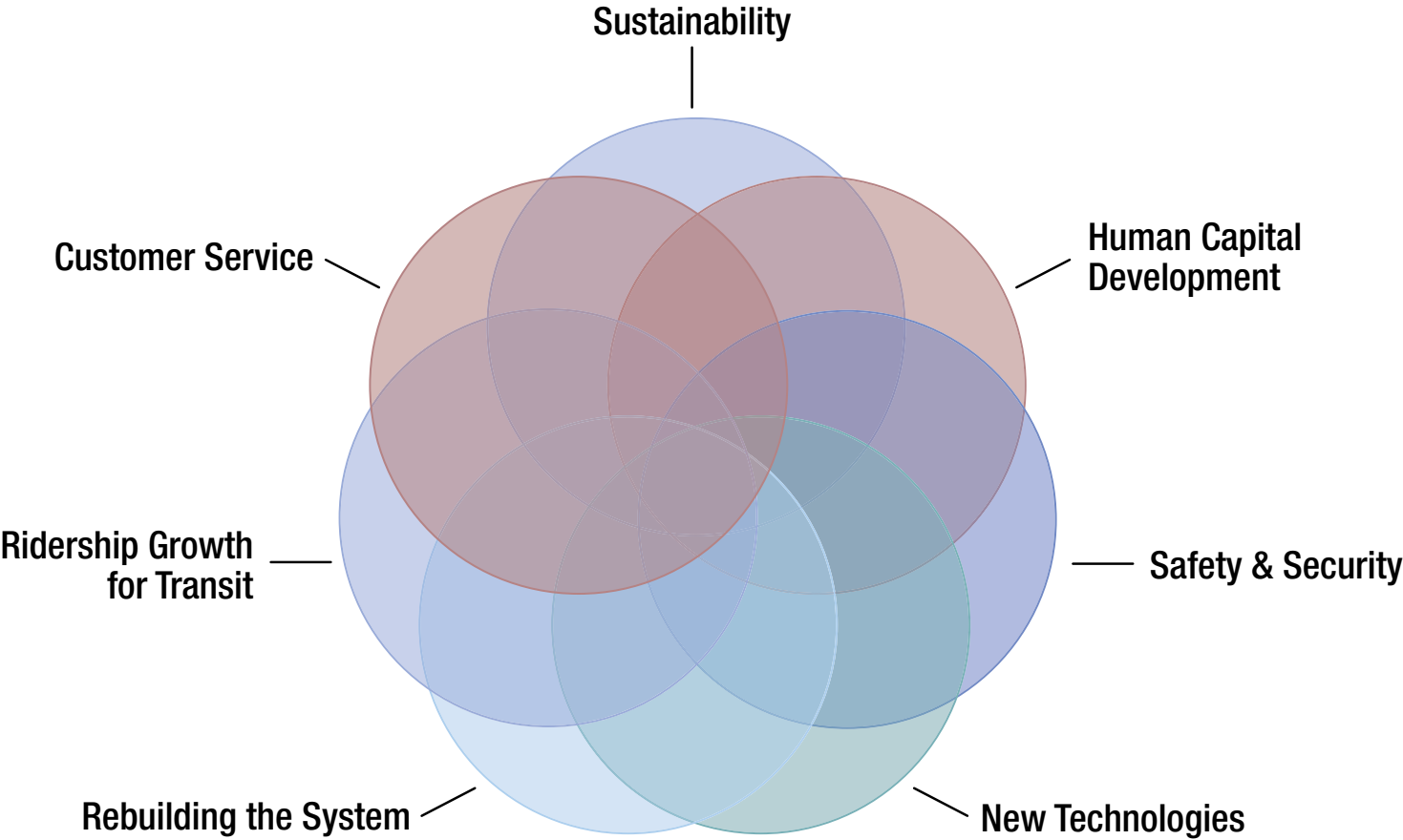
For the future, we remain intensely focused on pursuing new technologies. Under development is a “Smart Card” electronic fare-collection system that will be efficient, convenient, and attract more riders. In addition, free wireless internet access is being made available to riders in various stations.

Systemwide, SEPTA is making improvements to better serve riders. The Silverliner V is poised to usher in the next generation of Regional Rail travel. Ongoing renovations at the busy 110-year-old Wayne Junction Rail Station will also help make rail travel faster and more convenient than ever before. And SEPTA’s “Transit First” initiative is underway to speed up and streamline SEPTA’s infrastructure and services. This effort will reduce costs while improving overall service quality.



Faster, cleaner, and more modern than ever: Good transportation is vital to progress.





# Seven-Point Strategic Business Plan Equals Success

Management decision-making is guided by SEPTA's Strategic Business Plan (FY 2010-2014). This sets forth our vision, mission statement, strategic objectives and performance metrics through seven key strategic objectives:

- Customer Service
- Sustainability
- Ridership Growth for Transit
- Safety & Security
- New Technologies
- Rebuilding the System
- Human Capital Development

As a result, the region is experiencing a new SEPTA; one which is responsive to the needs of riders and a partner in attracting business and improving quality of life. This focus showed returns in many ways: through investment in infrastructure and resulting job growth; enhanced integrated mobility; and reduced energy dependence. With adequate funding, SEPTA can continue to drive prosperity and quality of life for years to come.



FINANCIAL HIGHLIGHTS

For the Years Ended June 30  
(Millions of dollars)

	2010**	2009**	2008	2007	2006	2005	2004	2003	2002	2001
<b>OPERATING REVENUES</b>										
Passenger	\$ 396.0	\$ 404.8	\$ 392.5	\$ 344.4	\$ 329.9	\$ 326.9	\$ 323.3	\$ 319.2	\$ 315.4	\$ 289.3
Other income	29.7	31.2	29.9	26.7	25.6	21.5	26.1	26.5	24.9	24.6
Total operating revenues	<u>425.7</u>	<u>436.0</u>	<u>422.4</u>	<u>371.1</u>	<u>355.5</u>	<u>348.4</u>	<u>349.4</u>	<u>345.7</u>	<u>340.3</u>	<u>313.9</u>
<b>OPERATING EXPENSES</b>										
Operating expenses,										
excluding depreciation *	1,212.2	1,168.3	1,100.3	943.5	893.6	881.7	825.0	799.0	770.8	748.6
Depreciation	<u>302.3</u>	<u>289.5</u>	<u>275.5</u>	<u>264.6</u>	<u>246.1</u>	<u>237.0</u>	<u>213.6</u>	<u>193.7</u>	<u>195.3</u>	<u>179.8</u>
Total operating expenses	<u>1,514.5</u>	<u>1,457.8</u>	<u>1,375.8</u>	<u>1,208.1</u>	<u>1,139.7</u>	<u>1,118.7</u>	<u>1,038.6</u>	<u>992.7</u>	<u>966.1</u>	<u>928.4</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>										
Subsidies *										
Federal	39.5	32.2	32.6	99.6	126.4	83.7	56.2	30.2	30.7	32.0
State	580.7	537.2	489.9	313.3	256.3	293.9	270.1	276.0	262.4	263.4
Local	82.2	75.8	68.3	74.5	72.1	71.9	67.6	68.8	68.5	66.8
Senior citizen	18.7	19.0	19.8	65.8	67.7	68.9	69.5	68.3	67.4	60.5
Asset maintenance	<u>—</u>	<u>—</u>	<u>—</u>	<u>54.2</u>	<u>52.9</u>	<u>54.2</u>	<u>53.6</u>	<u>51.7</u>	<u>43.4</u>	<u>41.7</u>
Total subsidies	721.1	664.2	610.6	607.4	575.4	572.6	517.0	495.0	472.4	464.4
Investment income	(4.3)	(14.7)	9.4	6.8	3.2	2.9	1.5	2.7	4.3	9.7
Interest expense	<u>(24.9)</u>	<u>(21.0)</u>	<u>(20.5)</u>	<u>(19.8)</u>	<u>(21.0)</u>	<u>(21.8)</u>	<u>(22.3)</u>	<u>(22.9)</u>	<u>(23.9)</u>	<u>(24.8)</u>
Total nonoperating										
revenues (expenses)	691.9	628.5	599.5	594.4	557.6	553.7	496.2	474.8	452.8	449.3
<b>CAPITAL GRANTS</b>										
	<u>438.4</u>	<u>457.1</u>	<u>441.1</u>	<u>349.2</u>	<u>343.8</u>	<u>316.3</u>	<u>332.9</u>	<u>337.4</u>	<u>335.4</u>	<u>263.8</u>
<b>Increase in net assets</b>										
	<u>\$ 41.5</u>	<u>\$ 63.8</u>	<u>\$ 87.2</u>	<u>\$ 106.6</u>	<u>\$ 117.2</u>	<u>\$ 99.7</u>	<u>\$ 139.9</u>	<u>\$ 165.2</u>	<u>\$ 162.4</u>	<u>\$ 98.6</u>
<b>OTHER</b>										
Working capital surplus										
(deficiency)	<u>\$ (30.9)</u>	<u>\$ (28.6)</u>	<u>\$ (50.0)</u>	<u>\$ (34.5)</u>	<u>\$ (18.9)</u>	<u>\$ (42.7)</u>	<u>\$ (48.5)</u>	<u>\$ (37.1)</u>	<u>\$ (55.8)</u>	<u>\$ (45.2)</u>

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

\*\* Fiscal Year 2010 reflects the adoption of Governmental Accounting Standards Board Statement Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively. Certain Fiscal Year 2009 amounts were restated accordingly and amounts prior to Fiscal Year 2009 were not restated above but are further disclosed in Note 1 of the financial statements.

STATISTICAL HIGHLIGHTS

For the Years Ended June 30

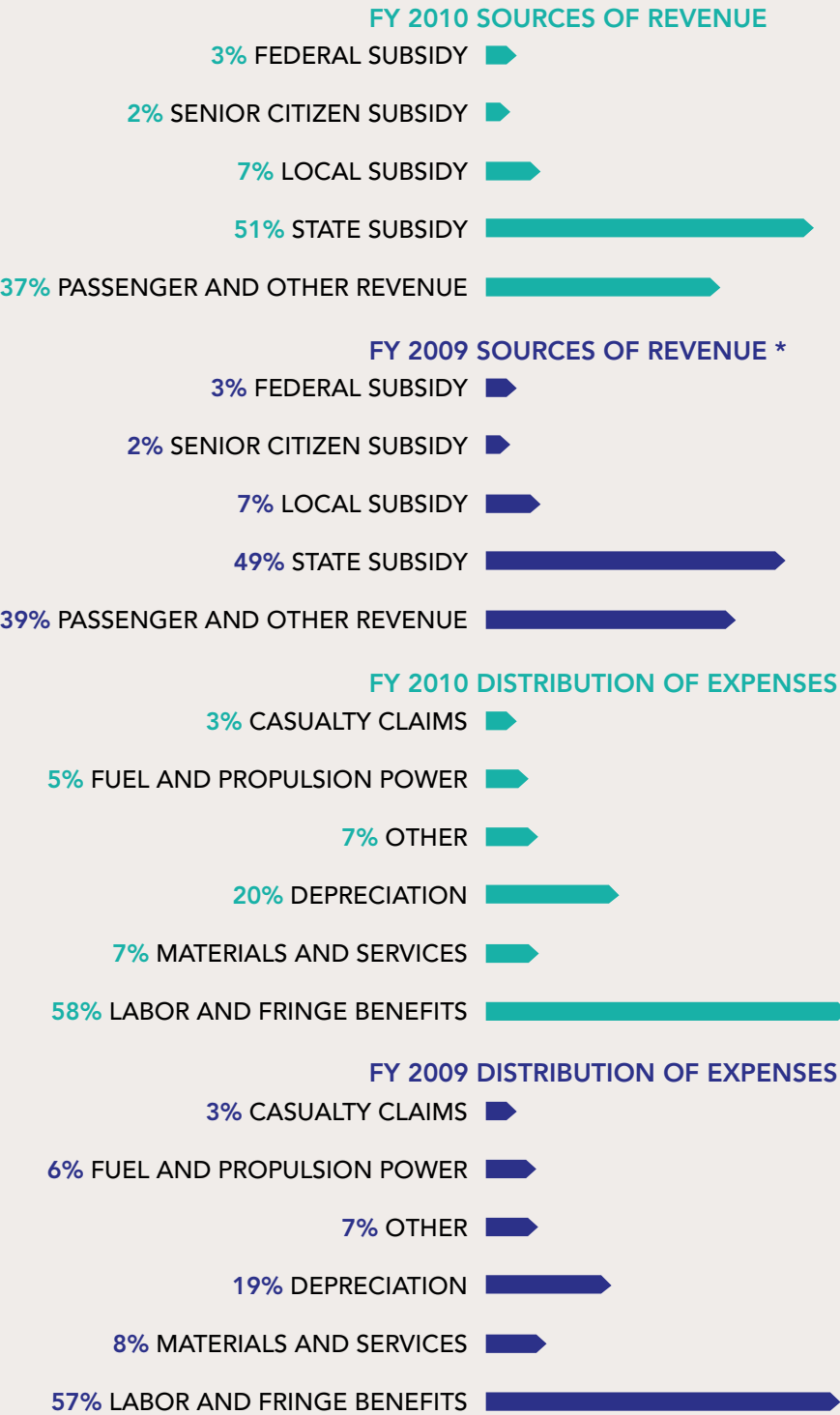
	2010**	2009**	2008	2007	2006	2005	2004	2003	2002	2001
<b>Passenger Trips <i>(linked, in millions)</i></b>										
Transit	200.0	206.1	200.9	190.3	183.9	186.2	185.5	181.0	175.4	180.5
Regional Rail	<u>34.9</u>	<u>35.4</u>	<u>35.4</u>	<u>31.7</u>	<u>30.4</u>	<u>28.6</u>	<u>28.3</u>	<u>28.1</u>	<u>28.7</u>	<u>29.4</u>
Total	<u>234.9</u>	<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>
<b>Average Weekday Passenger Trips <i>(unlinked, in thousands)</i></b>										
Transit	966	979	963	930	920	920	930	934	920	945
Regional Rail	<u>122</u>	<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>
Total	<u>1,088</u>	<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>
<b>Financial Statistics <i>(per passenger trip)</i></b>										
Operating revenues	\$ 1.81	\$ 1.81	\$ 1.79	\$ 1.67	\$ 1.66	\$ 1.62	\$ 1.63	\$ 1.65	\$ 1.67	\$ 1.49
Operating expenses*	6.45	6.04	5.82	5.44	5.32	5.21	4.86	4.75	4.73	4.42
Subsidies	3.07	2.75	2.58	2.74	2.69	2.67	2.42	2.37	2.32	2.21
Investment income										
(interest expense), net	(0.12)	(0.15)	(0.05)	(0.06)	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)	(0.07)
Capital grants	<u>1.87</u>	<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>1.62</u>	<u>1.64</u>	<u>1.26</u>
Increase in net assets	<u>\$ 0.18</u>	<u>\$ 0.26</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>

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

\*\* Fiscal Year 2010 reflects the adoption of Governmental Accounting Standards Board Statement Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively. Certain Fiscal Year 2009 amounts were restated accordingly and amounts prior to Fiscal Year 2009 were not restated above but are further disclosed in Note 1 of the financial statements.



SOURCES OF REVENUE & DISTRIBUTION OF EXPENSES  
FY 2010 vs. FY 2009



\* Fiscal Year 2009 Revenue percentages were restated due to the adoption of Governmental Accounting Standards Board Statement No. 53 related to the accounting for derivative instruments.

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, 2010 and 2009, 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, 2010 and 2009, 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 2010 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board's Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" and Governmental Accounting Standards Board's Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments".

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 40 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Zelenkofske Axelrod LLC  
ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania  
December 8, 2010



MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended June 30, 2010

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, 2010. Please read it in conjunction with the Authority’s financial statements which follow this section. Also, certain Fiscal Year 2009 amounts in the financial statements have been restated due to the current year adoption of Governmental Accounting Standards Board Statement (GASB) Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively.

FINANCIAL HIGHLIGHTS

Passenger revenues decreased 2.2% from \$404.8 million to \$396.0 million due to a decrease in ridership that was impacted by a six-day transit work stoppage in November 2009, several major winter snowstorms, and poor economic conditions. Other income decreased 5.0% from \$31.2 million to \$29.7 million primarily due to a decrease in income from the sale of scrap rail.

Operating expenses increased 3.9% from \$1,457.8 million to \$1,514.5 million primarily due to cost increases in wages, fringe benefits, claims, and material and service costs, which were partially offset by lower fuel costs.

Total subsidies, from Federal, State and local sources, increased 8.6% from \$664.2 million to \$721.1 million primarily due to an increase in State and local matching subsidies needed to support operations for the year.

Total assets increased 3.2% from \$4,104.6 million to \$4,237.5 million primarily due to capital asset acquisitions. Total liabilities increased 7.2% from \$1,272.2 million to \$1,363.7 million primarily due to the increased recognition of other postemployment benefit obligations under 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 1.5% from \$2,832.4 million to \$2,873.8 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 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, 2010 increased \$41.5 million, or 1.5%, compared to June 30, 2009. Total assets increased \$132.9 million or 3.2% to \$4,237.5 million and total liabilities increased \$91.4 million or 7.2% to \$1,363.7 million.

Net Assets			
(thousands of dollars)			
	As of June 30		Increase
	2010	2009	(decrease)
Current assets	\$ 483,980	\$ 488,447	(0.9%)
Restricted funds	40,685	42,500	(4.3%)
Capital assets	3,681,712	3,550,559	3.7%
Other assets	<u>31,122</u>	<u>23,089</u>	<u>34.8%</u>
Total assets	<u>4,237,499</u>	<u>4,104,595</u>	<u>3.2%</u>
Current liabilities	514,853	517,031	(0.4%)
Public liability, property damage and workers’ compensation claims	121,544	119,991	1.3%
Long-term debt	366,545	374,584	(2.1%)
Long-term capitalized lease obligation	14,512	14,384	0.9%
Deferred capital grant revenue	18,632	22,184	(16.0%)
Other postemployment benefits	306,390	199,498	53.6%
Other liabilities	<u>21,174</u>	<u>24,573</u>	<u>(13.8%)</u>
Total liabilities	<u>1,363,650</u>	<u>1,272,245</u>	<u>7.2%</u>
Net assets:			
Invested in capital assets, net of related debt	3,358,911	3,212,539	4.6%
Restricted	3,922	3,986	(1.6%)
Unrestricted	<u>(488,984)</u>	<u>(384,175)</u>	<u>27.3%</u>
Total net assets	<u>\$2,873,849</u>	<u>\$2,832,350</u>	<u>1.5%</u>
Total liabilities and net assets	<u>\$4,237,499</u>	<u>\$4,104,595</u>	<u>3.2%</u>

The \$4.5 million decrease in current assets is primarily related to a decrease in restricted funds on hand of \$33.7 million and prepaid expenses of \$8.4 million offset by increases in net receivables of \$38.7 million.

Restricted funds consist of amounts restricted by either government requirements or by contractual agreement between the Authority and external parties. The restricted funds decrease in current assets includes \$33.3 million related to the Act 44 state service stabilization fund, plus local match and interest, and \$0.4 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

\$1.8 million decrease in noncurrent restricted funds includes the use of \$1.4 million of restricted railcar lease proceeds to fund the state share of selected capital projects in lieu of receiving traditional state funds. The remaining decrease in restricted funds includes a net decrease of \$0.5 million in available state funding provided by Act 3 and Act 26 in prior years that was used to fund capital expenditure 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. In addition to these restricted funds, the Authority maintains various unrestricted designated funds, a

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

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 \$47.3 million as of June 30, 2010 and \$46.6 million as of June 30, 2009. The Authority also maintains an unrestricted designated fund, derived from swaption proceeds received in March 2003, which is being amortized over the remaining life of the related outstanding bonds issued. The swaption fund balance was \$16.3 million as of June 30, 2010 and was \$18.2 million as of June 30, 2009. In order to fund the Board designated unrestricted amounts above, the Authority had notified the State in both Fiscal Years 2010 and 2009 of its intent to unrestrict a portion of its Act 44 restricted receipts due to delays in the receipt of capital funding, primarily Federal funding in Fiscal Year 2010. The amount unrestricted by the Authority totaled \$58 million in Fiscal Year 2010 and \$40.5 million in Fiscal Year 2009. The net receivables increase of \$38.7 million primarily consisted of \$71.3 million in federal grant receivables offset by a decrease in state capital grant receivables of \$33.6 million.

Total capital assets increased \$433.8 million, less \$32.0 million of retirements, and accumulated depreciation increased \$302.3 million, less \$31.7 million of retirements, resulting in a net capital asset increase of \$131.2 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 \$8.0 million reflects an increase of \$6.2 million related to a \$6.5 million indemnity fee paid to Wachovia Bank (now Wells Fargo) in Fiscal Year 2010 for a waiver of certain requirements in connection with its railcar lease. The fee is being amortized over the remaining life of the railcar lease. The remaining increase in other assets also includes \$2.2 million for the change in market value of the Authority's swap in connection with its 2007 series bond issuance. In Fiscal Year 2010, the Authority implemented Governmental Accounting Standards Board Statement No. 53 (GASB 53) "Accounting and Financial Reporting for Derivative Instruments". The impact of this new statement resulted in the prior year restatement and recognition of a deferred outflow asset for the above swap having a balance at June 30, 2010 and 2009 of \$22.2 million and \$20.0 million, respectively, along with a related increase in long-term debt.

Total liabilities increased \$91.4 million primarily due to the recognition of a liability increase in other postemployment benefit obligations of \$106.9 million and accrued expenses of \$13.7 million. The accrued expense increase was primarily related to higher accruals for pension and wage costs. Offsetting the liability increases were decreases in deferred revenue of \$11.4 million, accounts payable of \$10.2 million, and long-term debt of \$7.2 million. The deferred revenue decrease includes a \$13.7 million reduction in available unearned state operating subsidies received under Act 44. The accounts payable decrease reflects lower capital project and other outstanding invoice payable costs and the long-term debt decrease was due to bond principal payments, net of

unamortized discounts, deferred defeasance amounts, and the change in the market value of the swaps recognized under GASB 53. In addition to the impact of GASB 53 on long-term debt for the 2007 swap referred to above, long-term debt was also impacted by the market value of the swaps in connection with the 1999 bond issuance. The impact of this new standard resulted in the recognition of an additional liability as of June 30, 2010 and 2009 of \$38.3 million and \$32.5 million, respectively, related to the 1999 bond swap along with a related decrease to net assets.

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 \$104.8 million to a deficit amount of \$489.0 million primarily due to the current year recognition of \$106.9 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 2008, the Authority began receiving State funding pursuant to Act 44 which was enacted by the State legislature in July 2007 and signed into law by the Governor on July 18, 2007. This legislation established a Public Transportation Trust Fund ("PTTF") in the State Treasury and completely restructured the way public transportation was funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997 was repealed and replaced with the PTTF dedicated fund. The PTTF provides State funding, in conjunction with required local matching funds, for five programs, namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives. Although the Authority had anticipated that the PTTF would provide for a reliable and growing source of funds to meet future budgetary needs, there is now growing uncertainty concerning these funds beyond Fiscal Year 2010. Due to the recent decline in the state sales tax receipts and as the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to toll Interstate 80, payment into the PTTF has declined, which resulted in a significant reduction in the Authority's capital budget commencing in Fiscal Year 2011 and could have negative consequences on the operating budget beginning in Fiscal Year 2013.

**Changes in Net Assets.** Net assets for the fiscal year ended June 30, 2010 increased \$41.5 million to \$2,873.8 million. The increase in net assets is 35.0% less than the increase for Fiscal Year 2009 as described below. Total operating revenues decreased 2.4% to \$425.7 million and total operating expenses increased 3.9% to \$1,514.5 million.

Changes in Net Assets (thousands of dollars)			
	2010	For the Years ended June 30, 2009	Increase (decrease)
Operating revenues			
Passenger	\$ 395,966	\$ 404,837	(2.2%)
Other income	29,689	31,240	(5.0%)
Total operating revenues	425,655	436,077	(2.4%)
Operating expenses			
Operating expenses excluding depreciation	1,212,163	1,168,357	3.7%
Depreciation	302,297	289,481	4.4%
Total operating expenses	1,514,460	1,457,838	3.9%
Operating loss	(1,088,805)	(1,021,761)	6.6%
Nonoperating revenues (expenses)			
Subsidies	721,095	664,148	8.6%
Nonoperating expenses - net	(29,195)	(35,724)	(18.3%)
Total nonoperating revenues (expenses)	691,900	628,424	10.1%
Capital contributions			
Capital grants	438,404	457,149	(4.1%)
Total capital contributions	438,404	457,149	(4.1%)
Increase in net assets	41,499	63,812	(35.0%)
Total net assets, beginning of year	2,832,350	2,768,538	2.3%
Total net assets, end of year	\$2,873,849	\$2,832,350	1.5%

Passenger revenues decreased 2.2% due to a decrease in ridership that was impacted by a six-day transit work stoppage in November 2009, several major winter snowstorms and poor economic conditions. Other income decreased 5.0% primarily due to lower income from the sale of scrap rail.

Subsidies increased by 8.6% due primarily to the budgeted expense increase and the unexpected passenger revenue shortfall. The \$56.9 million increase in subsidies was primarily funded by \$43.5 million of additional state subsidies and \$6.4 million of matching local subsidies. Federal subsidies increased \$7.3 million primarily due to an additional



\$7 million subsidy that was committed by the Pennsylvania Governor to provide funds to help settle the six-day transit work stoppage in November 2009. Senior citizen subsidies, which decreased \$249 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 \$3.9 million net of an investment loss decrease of \$10.4

million, changed by 18.3%. This change was primarily due to the investment loss recognized on the swaps under GASB 53 which had decreased by \$10.5 million. Interest expense increased \$3.9 million primarily due to higher interest expense in connection with the swap contract exercised March 1, 2009, which is associated with the Special Revenue Bonds, Series of 1999.

asset additions in the amount of \$223.7 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 Regional Rail Signal System Modernization Program.

**Debt Administration.** As of June 30, 2010, the Authority’s long-term debt was \$326.7 million, excluding the swap derivative liability of \$60.4 million and reductions of \$3.9 million for unamortized discount and amounts deferred in connection with defeased debt (or \$383.2 million net of these amounts). The long-term debt decreased by \$15.9 million from June 30, 2009 due to regularly scheduled debt service payments of \$9.2 million on the Special Revenue Bonds, Series of 1999 and \$6.7 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.

Operating Expenses (thousands of dollars)			
	2010	For the Years ended June 30, 2009	Increase (decrease)
Transportation	\$ 603,848	\$ 592,986	1.8%
Purchased transportation	48,205	49,889	(3.4%)
Maintenance	356,090	338,719	5.1%
Administrative	123,495	116,148	6.3%
Public liability and property damage claims	51,181	40,615	26.0%
Rent and other	29,344	30,000	(2.2%)
Depreciation	<u>302,297</u>	<u>289,481</u>	<u>4.4%</u>
Total operating expenses	<u>\$1,514,460</u>	<u>\$1,457,838</u>	<u>3.9%</u>

Transportation, maintenance, and administrative expenses increased \$35.6 million, or 3.4%, primarily due to increases in labor and fringe benefits, offset by lower fuel costs. Labor expenses increased \$17.1 million, or 3.7%, due to wage increases. Fringe benefit expenses increased \$36.6 million, or 7.9%, primarily due to higher costs for pensions, medical, employer payroll taxes, Federal Employers Liability Act payouts and other postemployment benefit costs. Lower vehicle fuel costs of \$15.8 million helped to offset the above increase in labor and fringe benefits.

Purchased transportation expenses decreased 3.4% primarily due to lower carrier costs in the current year, due in part, to a decrease in the cost of fuel.

Public liability and property damage claims expense increased 26.0% primarily due to higher claim settlement costs and an increase in the corporate claim liability reserve.

Rent and other expenses decreased 2.2% primarily due to a decrease in the early retirement of fixed assets.

Depreciation increased 4.4% 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, 2010, the Authority’s investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$7,283.2 million. Net of accumulated depreciation of \$3,601.5 million, net capital assets totaled \$3,681.7 million. This amount represents a net increase, including additions and disposals net of depreciation, of \$131.2 million or 3.7% over June 30, 2009.

As of June 30, 2010, the Authority has commitments for various unexpended construction and design contracts of approximately \$128 million and commitments for unexpended revenue vehicle purchases primarily for regional rail cars and buses of approximately \$305 million. The Authority’s capital budget for Fiscal Year 2011 includes capital

BALANCE SHEETS  
JUNE 30, 2010 AND 2009  
(THOUSANDS OF DOLLARS)

ASSETS	<u>2010</u>	<u>2009</u>
<b><u>CURRENT ASSETS</u></b>		
Unrestricted funds (Note 2)		
Cash and cash equivalents	\$ 18,411	\$ 29,448
Investments	55,355	46,503
Restricted funds (Note 2)		
Cash and cash equivalents	73,009	102,597
Investments	28,826	32,952
Receivables		
Operating subsidies	9,628	4,579
Capital grants (Note 3)	220,155	188,258
Other	10,120	8,364
Material and supplies	64,994	63,902
Prepaid expenses	<u>3,482</u>	<u>11,844</u>
Total current assets	<u>483,980</u>	<u>488,447</u>
<b><u>NONCURRENT ASSETS</u></b>		
Restricted funds (Note 2)		
Cash and cash equivalents	18,383	26,592
Investments	22,302	15,908
Capital assets, net (Notes 3, 4, 5 & 6)	3,681,712	3,550,559
Other	31,122	23,089
Total noncurrent assets	<u>3,753,519</u>	<u>3,616,148</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,237,499</u></u>	<u><u>\$ 4,104,595</u></u>

See accompanying notes to Financial Statements.

BALANCE SHEETS  
JUNE 30, 2010 AND 2009  
(THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	<u>2010</u>	<u>2009</u>
<b><u>CURRENT LIABILITIES</u></b>		
Current maturities of		
Long-term debt (Note 5)	\$ 16,700	\$ 15,885
Accounts payable - trade	79,092	89,249
Accrued expenses (Note 7)	156,295	142,639
Current portion of public liability, property damage and workers' compensation claims (Note 11)	73,556	68,606
Deferred revenue	<u>189,210</u>	<u>200,652</u>
Total current liabilities	<u>514,853</u>	<u>517,031</u>
<b><u>NONCURRENT LIABILITIES</u></b>		
Public liability, property damage and workers' compensation claims (Note 11)	121,544	119,991
Long-term debt (Note 5)	366,545	374,584
Long-term capitalized lease obligation (Note 6)	14,512	14,384
Deferred capital grant revenue (Note 3)	18,632	22,184
Other postemployment benefits (Note 8)	306,390	199,498
Other liabilities (Notes 6 and 12)	21,174	24,573
Commitments and contingencies (Notes 5, 6, 10, 11 and 12)		
Total noncurrent liabilities	<u>848,797</u>	<u>755,214</u>
Total liabilities	<u>1,363,650</u>	<u>1,272,245</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	3,358,911	3,160,090
Restricted	3,922	3,986
Unrestricted	<u>(488,984)</u>	<u>(331,726)</u>
Total net assets	<u>2,873,849</u>	<u>2,832,350</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 4,237,499</u></u>	<u><u>\$ 4,104,595</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, 2010 AND 2009  
(THOUSANDS OF DOLLARS)

	<u>2010</u>	<u>2009</u>
<b><u>OPERATING REVENUES</u></b>		
Passenger	\$ 395,966	\$ 404,837
Other income	<u>29,689</u>	<u>31,240</u>
Total operating revenues	<u>425,655</u>	<u>436,077</u>
<b><u>OPERATING EXPENSES</u></b>		
Transportation	603,848	592,986
Purchased transportation	48,205	49,889
Maintenance	356,090	338,719
Administrative	123,495	116,148
Public liability and property damage claims (Note 11)	51,181	40,615
Rent and other	29,344	30,000
Depreciation	<u>302,297</u>	<u>289,481</u>
Total operating expenses	<u>1,514,460</u>	<u>1,457,838</u>
Operating loss	<u>(1,088,805)</u>	<u>(1,021,761)</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Subsidies		
Federal	39,494	32,200
State	580,689	537,211
Local	82,211	75,787
Senior citizen	<u>18,701</u>	<u>18,950</u>
Total	721,095	664,148
Investment income (loss)	(4,323)	(14,743)
Interest expense (Note 5)	<u>(24,872)</u>	<u>(20,981)</u>
Total nonoperating revenues (expenses)	<u>691,900</u>	<u>628,424</u>
Loss before capital grants	(396,905)	(393,337)
<b><u>CAPITAL GRANTS</u></b>		
Capital grants	<u>438,404</u>	<u>457,149</u>
Total capital grants	<u>438,404</u>	<u>457,149</u>
<b><u>INCREASE IN NET ASSETS</u></b>	41,499	63,812
<b><u>TOTAL NET ASSETS</u></b>		
Beginning, as restated (Note 13)	<u>2,832,350</u>	<u>2,768,538</u>
Ending	<u>\$ 2,873,849</u>	<u>\$ 2,832,350</u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009  
(THOUSANDS OF DOLLARS)

	<u>2010</u>	<u>2009</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Passenger receipts	\$ 398,970	\$ 403,510
Other receipts	27,790	27,748
Payments for wages and employee benefits	(772,712)	(736,235)
Payments for fuel and propulsion	(69,524)	(86,626)
Payments for public liability & property damage claims	(43,087)	(39,346)
Payments for other operating expenses	<u>(203,779)</u>	<u>(199,041)</u>
Net cash used in operating activities	<u>(662,342)</u>	<u>(629,990)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>		
Receipts of operating subsidies	<u>700,837</u>	<u>731,985</u>
Net cash provided by noncapital financing activities	<u>700,837</u>	<u>731,985</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Capital grants received	403,010	422,970
(Decrease) in deferred capital grant revenue	(3,865)	(37,996)
Acquisition of operating property and construction in progress	(436,944)	(471,690)
Increase (decrease) in long-term capitalized lease obligation	128	2,573
Repayment/reduction of long-term debt	(15,885)	(15,140)
Interest paid	<u>(24,578)</u>	<u>(18,651)</u>
Net cash used in capital and related financing activities	<u>(78,134)</u>	<u>(117,934)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from sale of investments	190,173	255,349
Receipt of interest	1,465	3,060
Purchase of investments	<u>(200,833)</u>	<u>(235,642)</u>
Net cash (used in) provided by investing activities	<u>(9,195)</u>	<u>22,767</u>
<b><u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u></b>	(48,834)	6,828
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	158,637	151,809
End of year	<u>\$ 109,803</u>	<u>\$ 158,637</u>
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Unrestricted	\$ 18,411	\$ 29,448
Restricted	<u>91,392</u>	<u>129,189</u>
Total	<u>\$ 109,803</u>	<u>\$ 158,637</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (1,088,805)	\$ (1,021,761)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	302,297	289,481
(Increase) in other receivables	(2,251)	(3,127)
(Increase) in materials & supplies	(1,092)	(4,098)
Decrease (increase) in prepaid expenses	8,362	77
(Decrease) increase in accounts payable – trade	(6,201)	1,544
Increase in accrued expenses and other liabilities net of other assets	11,953	321
Increase in public liability and property damage claims	6,503	5,687
Increase in other postemployment benefits	<u>106,892</u>	<u>101,886</u>
Total adjustments	<u>426,463</u>	<u>391,771</u>
Net cash used in operating activities	<u>\$ (662,342)</u>	<u>\$ (629,990)</u>

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 84 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 621 thousand passenger trips per day. The Regional

Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 122 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 2010 and 2009 are summarized as follows:

	2010	2009
Federal subsidies:		
Preventive maintenance reimbursements	\$ 39,494	\$ 32,200
State and local subsidies:		
Act 44 operating subsidies	591,631	547,140
Act 26/3/44 leasehold/debt service reimbursements	71,269	65,858
Senior citizen subsidies	18,701	18,950
Total subsidies	<u>\$ 721,095</u>	<u>\$ 664,148</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. In Fiscal Year 2010, Congress extended SAFETEA-LU several times through Federal continuing resolutions which allowed for federal funding to continue. The last extension passed in March 2010 extended SAFETEA-LU funding through December 31, 2010. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND NATURE OF AUTHORITY (CONTINUED)

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. SeniorCitizen 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 2010, the Authority adopted the requirements of GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”. The Authority also adopted the requirements of GASB Statement No. 53, “Accounting and Financial Reporting for

Derivative Instruments”. The adoption of GASB Statement No. 51 resulted in a restatement, increasing the June 30, 2008 net Asset balance by \$250 thousand. GASB Statement No. 53 resulted in a restatement decreasing the June 30, 2008 and 2009 Net Assets by \$16.1 million and \$16.3 million respectively.

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.

RECLASSIFICATIONS

Certain amounts in the 2009 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2010 financial statements.

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. 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.

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:

	2010	2009
Cash on hand	\$ 3,192	\$ 2,794
Cash in bank	1,628	4,528
Money market funds	128,074	184,650
Commercial paper	4,157	–
Outstanding checks	( 27,248)	( 33,335)
Total cash and cash equivalents	109,803	158,637
Less current portion – unrestricted	18,411	29,448
Less current portion – restricted	73,009	102,597
Total noncurrent portion – restricted	\$ 18,383	\$ 26,592

The components of investments as of June 30 are:

	2010	2009
U.S. Government and agencies	\$ 71,973	\$ 56,538
Commercial paper	28,793	32,952
Mutual funds	5,717	5,873
Total investments	106,483	95,363
Less current portion – unrestricted	55,355	46,503
Less current portion – restricted	28,826	32,952
Total noncurrent portion – restricted	\$ 22,302	\$ 15,908

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:

	2010	2009
Restricted:		
State dedicated funding provided by Act 26, including local match	\$ 6,670	\$ 1,752
State funding provided by Act 3, including local match	10,554	15,980
State dedicated funding provided by Act 44, including local match	68,689	102,001
Debt service funds:		
Special Revenue Bonds, Series of 2007	12,816	13,214
Special Revenue Bonds, Series of 1999A and 1999B	20,330	20,334
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	1,984	2,716
Light rail cars	1,836	2,519
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	14,557	14,384
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>3,921</u>	<u>3,986</u>
Total	<u>\$ 142,520</u>	<u>\$ 178,049</u>

As of June 30, 2010, 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, 2010, 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 A-1+ and A-1 by Standard & Poor's, and P-1 by Moody's Investor Service. The money market 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, Federal National Mortgage Association, Black Rock Liquidity Funds – Fed Fund, Western Asset Institutional Government Money Market Fund, money market and mutual funds, as well as Ford Credit Auto Receivables Owner Trust and Natexis Banques Populaires commercial paper. These investments are 19.43%, 6.94%, 5.06%, 45.27%, 6.90% and 6.90% respectively, of the Authority's total investments.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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, 2010, \$1,378 of the Authority's cash in bank of \$1,628 was collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

Money market funds	\$ 128,017
Mutual funds	<u>5,687</u>
Total	<u>\$ 133,704</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.

Investment type	Fair Value	Effective Duration
U.S. agencies	\$ 71,973	0.250
Commercial paper	32,950	0.467
Money market funds	128,017	0.003
Mutual funds	<u>5,687</u>	0.003
	238,627	
Accrued interest	<u>87</u>	
Total fair value including accrued interest	<u>\$238,714</u>	
Portfolio effective duration		0.142

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

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, 2010, \$133,704 of the Authority's cash equivalent and investment balance of \$238,714 was exposed to custodial credit risk as follows:

Money market funds	\$ 128,017
Mutual funds	<u>5,687</u>
Total	<u>\$ 133,704</u>

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, 2010 the Authority had the following investments in its portfolio:

Investment type	Fair Value	Effective Duration
U.S. agencies	\$ 71,973	0.250
Commercial paper	32,950	0.467
Money market funds	128,017	0.003
Mutual funds	<u>5,687</u>	0.003
	238,627	
Accrued interest	<u>87</u>	
Total fair value including accrued interest	<u>\$238,714</u>	
Portfolio effective duration		0.142

\$37.4 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$238.7 million with an effective duration of 0.142 years.

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



3. CAPITAL CONTRIBUTIONS AND GRANTS

CAPITAL CONTRIBUTIONS AND GRANTS RECEIVED

Under the Federal Transit Act, as amended, the United States Department of Transportation (“U.S. DOT”), the State and the local governments have approved capital grants aggregating approximately \$7.1 billion from inception to June 30, 2010 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2010, the Authority had incurred costs of approximately \$6.7 billion against these grants of which \$438.4 million and \$457.1 million were incurred in Fiscal Years 2010 and 2009, 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, 2010.

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 2010 and 2009 are as follows:

	<u>Beginning Balance</u>	<u>Funding Additions</u>	<u>Investment Earnings</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2010	\$ 22,184	\$ –	\$ 151	\$ 3,703	\$ 18,632
2009	\$ 60,349	\$ –	\$ 558	\$ 38,723	\$ 22,184

4. CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Retirements</u>	<u>June 30, 2010</u>
Capital Assets					
Revenue vehicles	\$ 1,780,699	\$ 137,912	\$ 22,534	\$ 32,006	\$ 1,909,139
Transit facilities, rail stations & depots	2,177,040	148,041	1,804	–	2,326,885
Track, roadway & signals	2,239,152	44,342	41,787	–	2,325,281
Intangibles	25,756	2,007	–	–	27,763
Other	<u>468,739</u>	<u>12,650</u>	<u>127</u>	<u>–</u>	<u>481,516</u>
Total	6,691,386	344,952	66,252	32,006	7,070,584
Capital leases – revenue vehicles	41,327	–	–	–	41,327
Construction in progress	<u>148,719</u>	<u>88,847</u>	<u>(66,252)</u>	<u>–</u>	<u>171,314</u>
Total	6,881,432	433,799	–	32,006	7,283,225
Accumulated depreciation					
Property and equipment	3,307,032	300,813	–	31,657	3,576,188
Capital leases	<u>23,841</u>	<u>1,484</u>	<u>–</u>	<u>–</u>	<u>25,325</u>
Total	3,330,873	302,297	–	31,657	3,601,513
Capital assets, net	<u>\$ 3,550,559</u>	<u>\$ 131,502</u>	<u>\$ –</u>	<u>\$ 349</u>	<u>\$ 3,681,712</u>

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Retirements</u>	<u>June 30, 2009</u>
Capital Assets					
Revenue vehicles	\$ 1,686,816	\$ 98,773	\$ 8,405	\$ 13,295	\$ 1,780,699
Transit facilities, rail stations & depots	2,060,174	96,262	29,227	8,623	2,177,040
Track, roadway & signals	2,134,605	60,339	49,425	5,217	2,239,152
Intangibles	24,796	960	–	–	25,756
Other	<u>421,347</u>	<u>44,984</u>	<u>4,578</u>	<u>2,170</u>	<u>468,739</u>
Total	6,327,738	301,318	91,635	29,305	6,691,386
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	6,471,163	439,574	–	29,305	6,881,432
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	3,068,473	289,481	–	27,081	3,330,873
Capital assets, net	<u>\$ 3,402,690</u>	<u>\$ 150,093</u>	<u>\$ –</u>	<u>\$ 2,224</u>	<u>\$ 3,550,559</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 intangibles, signals and other equipment. Vehicle overhaul costs are capitalized and depreciated as capital assets over the extended useful lives of the vehicles estimated at 4 or 5 years. Amortization of capital leases is included in depreciation

expense. Capital assets which are inexhaustible and intangible assets with indefinite useful lives are not subject to depreciation.

As of June 30, 2010, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2010, the Authority has commitments for various unexpended construction contracts of approximately \$128 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$305 million.

5. LONG-TERM DEBT AND SWAPS

Long-term debt as of June 30, 2010 and 2009 consists of the following:

	June 30, 2009	Market Value Change	Payments/ Reductions	June 30, 2010	Due Within One Year
<u>Long-Term Debt:</u>					
Variable Rate Revenue Refunding Bonds, Series of 2007, due in varying amounts through 2022	\$ 119,175	\$ –	\$ 6,725	\$ 112,450	\$ 7,075
Special Revenue Bonds, Series of 1999A and 1999B, due in varying amounts through 2029, with annual interest from 4.75% to 5.25%	223,440	–	9,160	214,280	9,625
	342,615	–	15,885	326,730	<u>\$ 16,700</u>
Less unamortized bond premium, net of discount	1,019	–	135	884	
Less amounts deferred in connection with refunded debt	(5,614)	–	(801)	(4,813)	
Subtotal Long-Term Debt	338,020	–	15,219	322,801	
<u>Swaps:</u>					
Series of 2007 Swap	19,993	2,180	–	22,173	
Series of 1999A & 1999B Swap	24,216	7,764	–	31,980	
Series of 1999A & 1999B Basis Swap	8,240	(1,949)	–	6,291	
Subtotal Swaps	52,449	7,995	–	60,444	
Total Long-Term Debt, including Swaps	<u>\$ 390,469</u>	<u>\$ 7,995</u>	<u>\$ 15,219</u>	<u>\$ 383,245</u>	

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

	June 30, 2008	Market Value Change	Payments/ Reductions	June 30, 2009	Due Within One Year
<u>Long-Term Debt:</u>					
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)	
Subtotal Long-Term Debt	352,451	–	14,431	338,020	
<u>Swaps:</u>					
Series of 2007 Swap	15,220	4,773	–	19,993	
Series of 1999A & 1999B Swap	10,810	13,406	–	24,216	
Series of 1999A & 1999B Basis Swap	5,297	2,943	–	8,240	
Subtotal Swaps	31,327	21,122	–	52,449	
Total Long-Term Debt, including Swaps	<u>\$ 383,778</u>	<u>\$ 21,122</u>	<u>\$ 14,431</u>	<u>\$ 390,469</u>	

LONG-TERM DEBT:

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

approximately \$24.7 million. These leases were to expire when the Authority would make the last payment of fixed rent or cumulative additional rent, or December 31, 2005, whichever would be later.

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

In February 1999, the Authority issued \$262.0 million of Special Revenue Bonds, Series of 1999A ("1999A Bonds") and 1999B ("1999B Refunding Bonds"), due in varying amounts through 2029, with annual interest from 3.25% to 5.25%. The net proceeds of the 1999A Bonds



5. LONG-TERM DEBT AND SWAPS (CONTINUED)

LONG-TERM DEBT: (CONTINUED)

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 amount through 2022, with annual interest from 4.00% to 5.75% and pay the premium for a debt service reserve fund insurance

	2011	2012	2013	2014	2015
Debt maturities	\$ 16,700	\$ 17,545	\$ 18,425	\$ 19,310	\$ 20,405
Debt related interest	11,887	11,317	10,704	10,060	9,383
Hedging derivative, net	5,034	4,718	4,387	4,039	3,676
Net Cash Flows	\$ 33,621	\$ 33,580	\$ 33,516	\$ 33,409	\$ 33,464

	2016 – 2020	2021 – 2025	2026 – 2029
Debt maturities	\$118,850	\$ 69,910	\$ 45,585
Debt related interest	35,475	17,925	5,539
Hedging derivative, net	12,224	1,617	–
Net Cash Flows	\$166,549	\$ 89,452	\$ 51,124

The above amounts assume that current interest rates on the 2007 variable rate refunding bonds and the current reference rates on its related hedging (effective) derivative instrument will remain

SWAPS:

The Authority entered into three swaption contracts with two separate counterparties, Merrill Lynch Capital Services, Inc. (currently Bank of America) and Citibank, NA, 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

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. 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.

At June 30, 2010, the aggregate debt service requirements of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

the same for their term. As rates vary, interest payments on the variable rate refunding bonds and receipts on the hedging derivative instrument will vary.

pay-fixed, receive-variable interest rate swap. The final option, which related to the current outstanding Special Revenue Bonds, Series of 1999A and 1999B, was exercised on March 1, 2009 and has a termination date of March 1, 2028. The Authority was unable to issue variable-rate refunding bonds on March 1, 2009, as planned, due to an inability to secure adequate letters of credit. See Subsequent Event note. 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

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

SWAPS: (CONTINUED)

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 \$112.5 million as of June 30, 2010. The swap was initially associated with the Series of 1997 bonds and, after the refunding, is associated with the 2007 bonds.

On December 29, 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 (London Interbank Offered Rate) to the SIFMA (Securities Industry and Financial Markets Association) 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. The termination date for the basis swap is March 1, 2028.

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.

As of June 30, 2010, the Authority had the following derivative investments outstanding:

		Fair Value		Changes in Fair Value	
	Notional Amount	Classification	Amount	Classification	Amount
<b>Business-type activities:</b>					
<i>Cash flow hedge:</i>					
A. Pay-fixed interest rate swap	\$ 112,450	Debt	\$ (22,173)	Deferred outflow (other assets)	\$ (2,180)
<i>Investment hedge:</i>					
B. Pay-fixed interest rate swap	\$ 205,600	Debt	\$ (31,980)	Investment Loss	\$ (7,764)
<i>Fair value hedge:</i>					
C. Pay-variable interest rate swap	\$ 205,600	Debt	\$ (6,291)	Investment Loss	\$ 1,949

DERIVATIVE INSTRUMENT TYPES

*Hedge effectiveness:* As of June 30, 2010 and 2009, the derivative instruments B and C associated with the 1999 series bonds did not meet the criteria for effectiveness. Accordingly, the accumulated changes in fair value were reported within the investment loss classification as \$(16,349) at June 30, 2009 and \$(5,815) at June 30, 2010. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2010 was evaluated to be effective using the dollar-offset method. This method evaluates

effectiveness by comparing the changes in expected cash flow or fair values of the potential hedging derivative instrument with the changes in expected cash flows of fair values of the hedgeable item. If the changes of either the hedgeable item or the potential hedging derivative instrument are divided by the other and the result is within a range of 80 to 125 percent in absolute terms, these changes substantially offset and the potential hedging derivative instrument is effective.

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

SWAPS: (CONTINUED)

HEDGING DERIVATIVE INSTRUMENT – OBJECTIVE AND TERMS:

The objectives and terms of the Authority's cash flow hedging derivative instrument outstanding at June 30, 2010 and the counterparty credit rating of Merrill Lynch Capital Services, Inc. is as follows:

Instrument	Derivative Type	Counterparty Credit Rating	Objective	Notional Amount	Effective Date	Termination Date	Terms
A	Pay-fixed interest rate swap	A2/A/A+	Hedge changes in cash flows on the 2007 variable rate refunding Bonds	\$112,450	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR;pay 4.706% fixed

FAIR VALUE

As of June 30, 2010, the swaps had a negative fair value totaling \$60.4 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, 2010, the Authority was not exposed to credit risk, or the risk of economic loss due to a counterparty default on its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive the Authority would be exposed to credit risk in the amount of the derivatives' fair value. As of June 30, 2010, the swap counterparties for the 1999 series bonds were Merrill Lynch Capital Services Inc. (50%) and Citibank, NA (50%). The Merrill Lynch Capital Services Inc. had a counterparty rating previously indicated in the terms for instrument A as rated by Moody's Investors Services, Standard & Poor's and Fitch, respectively. Citibank, NA was rated A+ by Standard & Poor's and A1 by Moody's Investors Services, Inc.. The counterparty to the basis swap was also Merrill Lynch Capital Services

Inc.. 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 interest rate the Authority pays 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 bonds versus the variable payment received on the swap.

INTEREST RATE RISK

As of June 30, 2010, the Authority had ineffective derivative investments with the following maturities:

Investment Type	Fair Value	Investment Maturity More Than 10 Years
Derivative Instrument B and C	\$ (38,271)	\$ (38,271)

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

SWAPS: (CONTINUED)

TERMINATION RISK

The Authority or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed

rate. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

6. LEASES

Leased property consists primarily of transit properties and equipment. Leased transit properties which are related to long-term debt obligations are described in Note 5. The leased properties, described within this note, are 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. In January, 2010, SEPTA terminated its lease and purchased the N-5 high speed line cars using funds previously deposited in the irrevocable trust.

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 \$14.5 million as of June 30, 2010, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, have been excluded from the Authority's financial statements. The proceeds, net of expenses, from the transaction of \$21.4 million are being used, starting in Fiscal Year 2007, as reimbursement of state share on capital grants, which use has been approved by the Federal Transit Administration. The leaseback includes a purchase option, which upon exercise, will be funded in installments from funds used

to defease the debt during the period from January 2, 2030 through December 15, 2030, that will allow the Authority to buy out the equity investor's remaining rights under the agreement, thereby terminating the entire transaction. In December 2008, the Authority terminated its lease debt and equity payment undertaking agreements with the payment undertaker and received \$89.9 million upon termination. Of this amount, the Authority deposited \$75.2 million with a trustee and U.S. Treasury Securities were purchased to defease the remaining lease payments under the Equity Payment Undertaking Agreement (EPUA). The securities purchased are scheduled to mature in amounts and on dates required to make the lease payments. The remaining \$14.7 million was restricted and invested to satisfy payments due under the Supplemental Payment Undertaking Agreement (SPUA). In July 2009, SEPTA paid an additional \$6.5 million to Wachovia Bank (now Wells Fargo) for a waiver of certain requirements in connection with its railcar lease.

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



6. LEASES (CONTINUED)

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 2010 and 2009, are included, as are unamortized swaption proceeds, in the following liabilities:

	Beginning		Investment	Ending
<u>Other Liabilities</u>	<u>Balance</u>	<u>Reductions *</u>	<u>Earnings</u>	<u>Balance</u>
2010	\$ 24,573	\$ ( 3,497)	\$ 98	\$ 21,174
2009	\$ 31,750	\$ ( 7,460)	\$ 283	\$ 24,573

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

OPERATING LEASES

The Authority leases equipment and utility vehicles, with leases expiring at various dates through 2010. Rental expense for these operating leases was \$2.2 million and \$2.3 million for Fiscal Years 2010 and 2009, 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.

7. PENSION PLANS (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

Membership of each plan consisted of the following at July 1, 2009, 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	1,214	5	2,587	239	21	4,066
Terminated plan members entitled to but not yet receiving benefits	585	54	935	117	30	1,721
Active plan members	<u>1,724</u>	<u>194</u>	<u>5,052</u>	<u>501</u>	<u>214</u>	<u>7,685</u>
Total	<u>3,523</u>	<u>253</u>	<u>8,574</u>	<u>857</u>	<u>265</u>	<u>13,472</u>

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 2010 are as follows:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>
Contribution rates:					
SEPTA	25.52%	9.80%	17.84%	14.15%	7.89%
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.

7. PENSION PLANS (CONTINUED)

ANNUAL PENSION COST AND RELATED INFORMATION

The Authority's annual pension cost and related information for Fiscal Year 2010 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	\$31,213	\$ 1,031	\$43,320	\$ 3,319	\$ 709	\$79,592
Contributions made	<u>25,284</u>	<u>733</u>	<u>38,534</u>	<u>2,908</u>	<u>586</u>	<u>68,045</u>
Increase (decrease) in accrued pension liability	5,929	298	4,786	411	123	11,547
Accrued pension liability, beginning of year	<u>25,128</u>	<u>729</u>	<u>38,250</u>	<u>2,890</u>	<u>584</u>	<u>67,581</u>
Accrued pension liability, end of year	<u>\$31,057</u>	<u>\$ 1,027</u>	<u>\$43,036</u>	<u>\$ 3,301</u>	<u>\$ 707</u>	<u>\$79,128</u>
Actuarial valuation date	7/1/09	7/1/09	7/1/09	7/1/09	7/1/09	
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%.

7. PENSION PLANS (CONTINUED)

	Analysis of Pension Funding	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED
	YEAR ENDED		
SAM	6/30/10	\$31,213	100.0%
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%
Transit Police	6/30/10	1,031	100.0%
Transit Police	6/30/09	733	100.0%
Transit Police	6/30/08	779	100.0%
Transit Police	6/30/07	683	100.0%
Transit Police	6/30/06	680	100.0%
Transit Police	6/30/05	474	100.0%
City Transit	6/30/10	43,320	100.0%
City Transit	6/30/09	38,534	100.0%
City Transit	6/30/08	35,690	100.0%
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%
Red Arrow	6/30/10	3,319	100.0%
Red Arrow	6/30/09	2,908	100.0%
Red Arrow	6/30/08	2,620	100.0%
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%
Frontier	6/30/10	<u>709</u>	<u>100.0%</u>
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>
TOTAL	6/30/10	<u>\$79,592</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>

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



7. PENSION PLANS (CONTINUED)

Schedules of Funding Progress

	Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) – Level Dollar	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	Date	(a)	(b)	(b - a)	(a / b)	(c)	( (b - a) / c)
SAM	7/1/09	\$341,869	\$529,415	\$187,546	64.6%	\$122,325	153.3%
SAM	7/1/08	\$376,919	\$499,524	\$122,605	75.5%	\$118,656	103.3%
SAM	7/1/07	\$355,391	\$498,208	\$142,817	71.3%	\$118,832	120.2%
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%
Transit Police	7/1/09	15,386	18,872	3,486	81.5%	10,523	33.1%
Transit Police	7/1/08	15,908	16,367	459	97.2%	10,430	4.4%
Transit Police	7/1/07	14,303	15,089	786	94.8%	9,983	7.9%
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%
City Transit	7/1/09	365,702	684,997	319,295	53.4%	242,762	131.5%
City Transit	7/1/08	397,906	661,740	263,834	60.1%	232,168	113.6%
City Transit	7/1/07	379,856	620,111	240,255	61.3%	260,569	92.2%
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%
Red Arrow	7/1/09	29,452	52,552	23,100	56.0%	23,447	98.5%
Red Arrow	7/1/08	31,582	50,200	18,618	62.9%	22,278	83.6%
Red Arrow	7/1/07	29,836	46,495	16,659	64.2%	26,704	62.4%
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%
Frontier	7/1/09	9,054	11,529	2,475	78.5%	8,984	27.5%
Frontier	7/1/08	9,307	10,619	1,312	87.6%	8,267	15.9%
Frontier	7/1/07	8,492	9,647	1,155	88.0%	9,386	12.3%
Frontier	7/1/06	7,138	8,271	1,133	86.3%	8,863	12.8%
Frontier	7/1/05	6,163	7,064	901	87.2%	8,426	10.7%
Frontier	7/1/04	5,357	5,990	633	89.4%	8,148	7.8%
TOTAL	7/1/09	\$761,463	\$1,297,365	\$535,902	58.7%	\$408,041	131.3%
TOTAL	7/1/08	\$831,622	\$1,238,450	\$406,828	67.2%	\$391,799	103.8%
TOTAL	7/1/07	\$787,878	\$1,189,550	\$401,672	66.2%	\$425,474	94.4%
TOTAL	7/1/06	\$709,968	\$1,082,094	\$372,126	65.6%	\$407,574	91.3%
TOTAL	7/1/05	\$660,053	\$ 997,039	\$336,986	66.2%	\$405,698	83.1%
TOTAL	7/1/04	\$620,156	\$ 902,691	\$282,535	68.7%	\$400,395	70.6%

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 was affected by changes in actuarial assumptions on salary growth, withdrawal and retirement in accordance with an Experience Study conducted in 2008. The annual pension costs for the Union Plans increased \$2.1 million while the cost for 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.

7. PENSION PLANS (CONTINUED)

STATEMENTS OF PLAN NET ASSETS as of June 30, 2010						
	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2010 Total
Assets:						
Receivables						
Employer contributions	\$ 31,213	\$ 1,031	\$ 43,320	\$ 3,319	\$ 709	\$ 79,592
Plan member contributions	74	34	380	38	14	540
Interest and dividends	1,441	71	1,496	121	42	3,171
Sales pending settlement	<u>971</u>	<u>48</u>	<u>1,010</u>	<u>82</u>	<u>28</u>	<u>2,139</u>
Total receivables	<u>33,699</u>	<u>1,184</u>	<u>46,206</u>	<u>3,560</u>	<u>793</u>	<u>85,442</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	19,340	959	20,091	1,626	564	42,580
U.S. Government obligations	15,527	770	16,130	1,305	453	34,185
Corporate and other government obligations	55,633	2,759	57,796	4,677	1,623	122,488
Preferred stocks	486	24	505	41	14	1,070
Common stocks	177,379	8,796	184,267	14,911	5,176	390,529
Private equity	17,519	869	18,200	1,472	512	38,572
Real estate	<u>9,554</u>	<u>474</u>	<u>9,926</u>	<u>803</u>	<u>279</u>	<u>21,036</u>
Total investments	<u>295,438</u>	<u>14,651</u>	<u>306,915</u>	<u>24,835</u>	<u>8,621</u>	<u>650,460</u>
Total assets	329,137	15,835	353,121	28,395	9,414	735,902
Liabilities:						
Purchases pending settlement	<u>1,040</u>	<u>52</u>	<u>1,081</u>	<u>87</u>	<u>30</u>	<u>2,290</u>
Net assets held in trust for pension benefits	<u>\$ 328,097</u>	<u>\$ 15,783</u>	<u>\$ 352,040</u>	<u>\$ 28,308</u>	<u>\$ 9,384</u>	<u>\$ 733,612</u>

7. PENSION PLANS (CONTINUED)

STATEMENTS OF PLAN NET ASSETS as of June 30, 2009						
	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2009 Total
Assets:						
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>



**7. PENSION PLANS (CONTINUED)**STATEMENTS OF CHANGES IN PLAN NET ASSETS  
for the Year Ended June 30, 2010

	SAM <u>Plan</u>	Transit Police <u>Plan</u>	City Transit Division <u>Plan</u>	Red Arrow Division <u>Plan</u>	Frontier Division <u>Plan</u>	2010 <u>Total</u>
Additions						
Contributions						
Employer	\$ 31,213	\$ 1,031	\$ 43,320	\$ 3,319	\$ 709	\$ 79,592
Plan member	<u>997</u>	<u>425</u>	<u>4,865</u>	<u>477</u>	<u>186</u>	<u>6,950</u>
Total contributions	<u>32,210</u>	<u>1,456</u>	<u>48,185</u>	<u>3,796</u>	<u>895</u>	<u>86,542</u>
Investment income (loss)						
Net realized gain (loss)	6,455	316	6,672	541	185	14,169
Net increase (decrease) in fair value of investments	22,928	1,067	23,547	1,921	632	50,095
Interest	4,634	225	4,787	388	133	10,167
Dividends	<u>3,225</u>	<u>155</u>	<u>3,332</u>	<u>271</u>	<u>92</u>	<u>7,075</u>
Total investment income (loss)	37,242	1,763	38,338	3,121	1,042	81,506
Less investment expense	<u>1,490</u>	<u>72</u>	<u>1,539</u>	<u>125</u>	<u>42</u>	<u>3,268</u>
Net investment income (loss)	<u>35,752</u>	<u>1,691</u>	<u>36,799</u>	<u>2,996</u>	<u>1,000</u>	<u>78,238</u>
Total additions (loss)	<u>67,962</u>	<u>3,147</u>	<u>84,984</u>	<u>6,792</u>	<u>1,895</u>	<u>164,780</u>
Deductions						
Benefits	25,701	191	38,907	3,121	49	67,969
Asset transfer for transferred employees	(1,179)	135	693	79	272	–
Administrative expense	<u>149</u>	<u>7</u>	<u>150</u>	<u>12</u>	<u>4</u>	<u>322</u>
Total deductions	<u>24,671</u>	<u>333</u>	<u>39,750</u>	<u>3,212</u>	<u>325</u>	<u>68,291</u>
Net increase (decrease)	43,291	2,814	45,234	3,580	1,570	96,489
Net assets held in trust for pension benefits						
Beginning 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>
End of year	<u>\$328,097</u>	<u>\$15,783</u>	<u>\$352,040</u>	<u>\$28,308</u>	<u>\$9,384</u>	<u>\$733,612</u>

**7. PENSION PLANS (CONTINUED)**STATEMENTS OF CHANGES IN PLAN NET ASSETS  
for the Year Ended June 30, 2009

	SAM <u>Plan</u>	Transit Police <u>Plan</u>	City Transit Division <u>Plan</u>	Red Arrow Division <u>Plan</u>	Frontier Division <u>Plan</u>	2009 <u>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)

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 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.

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The Authority’s OPEB cost and change in net OPEB obligation for Fiscal Year 2010 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	\$ 36,995	\$ 1,732	\$ 94,379	\$ 8,348	\$141,454
Interest on net OPEB obligation	1,990	111	5,297	582	7,980
Adjustment to annual required contribution	<u>2,822</u>	<u>157</u>	<u>7,511</u>	<u>825</u>	<u>11,315</u>
Annual OPEB cost (expense)	36,163	1,686	92,165	8,105	138,119
Contributions made	<u>10,342</u>	<u>17</u>	<u>19,228</u>	<u>1,640</u>	<u>31,227</u>
Increase in net OPEB obligation	25,821	1,669	72,937	6,465	106,892
Net OPEB obligation, beginning of year	<u>49,755</u>	<u>2,769</u>	<u>132,428</u>	<u>14,546</u>	<u>199,498</u>
Net OPEB obligation, end of year	<u>\$ 75,576</u>	<u>\$ 4,438</u>	<u>\$205,365</u>	<u>\$ 21,011</u>	<u>\$306,390</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 2010, 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	6/30/10	\$ 36,163	28.6%	\$ 75,576
SAM	6/30/09	\$ 34,406	27.4%	\$ 49,755
SAM	6/30/08	\$ 33,316	25.6%	\$ 24,777
Transit Police	6/30/10	1,686	1.0%	4,438
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	6/30/10	92,165	20.9%	205,365
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	6/30/10	<u>8,105</u>	20.2%	<u>21,011</u>
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	6/30/10	<u>\$138,119</u>	22.6%	<u>\$306,390</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. 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	7/01/09	7/01/09	7/01/09	7/01/09
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open	Level dollar, open
Amortization period	30 years	30 years	30 years	30 years
Actuarial assumptions:				
Investment rate of return	4%	4%	4%	4%
Projected salary increases for life insurance	3.50%	–	–	–
Healthcare inflation rate	6.8 - 8.5%	6.8 - 8.5%	6.8 - 8.5%	6.8 - 8.5%
	Initial 5.3% Ultimate	Initial 5.3% Ultimate	Initial 5.3% Ultimate	Initial 5.3% Ultimate

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

<u>Schedule of Funding Progress</u>							
	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ( (b - a) / c)</u>
SAM	7/01/09	\$ –	\$ 417,244	\$ 417,244	0.0%	\$114,982	362.9%
SAM	7/01/07	\$ –	\$ 373,043	\$ 373,043	0.0%	\$108,401	344.1%
Transit Police	7/01/09	–	13,191	13,191	0.0%	9,429	139.9%
Transit Police	7/01/07	–	9,676	9,676	0.0%	9,167	105.6%
Non-Railroad Union Groups	7/01/09	–	915,857	915,857	0.0%	280,424	326.6%
Non-Railroad Union Groups	7/01/07	–	801,605	801,605	0.0%	259,216	309.2%
Railroad Union Groups	7/01/09	<u>–</u>	<u>69,505</u>	<u>69,505</u>	0.0%	<u>69,415</u>	<u>100.1%</u>
Railroad Union Groups	7/01/07	<u>–</u>	<u>76,757</u>	<u>76,757</u>	0.0%	<u>64,994</u>	<u>118.1%</u>
Total	7/01/09	<u>\$ –</u>	<u>\$1,415,797</u>	<u>\$1,415,797</u>	0.0%	<u>\$474,250</u>	<u>298.5%</u>
Total	7/01/07	<u>\$ –</u>	<u>\$1,261,081</u>	<u>\$1,261,081</u>	0.0%	<u>\$441,778</u>	<u>285.5%</u>

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, consequently only two years of information are presented. The next scheduled valuation will be as of July 1, 2011.

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 \$332 thousand and \$338 thousand for Fiscal Years 2010 and 2009,

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 (CONTINUED)

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

DERIVATIVE INSTRUMENTS

The Authority is a party to contracts for various derivative instruments, as disclosed below and in the swap section of Note 5.

Generally, the swap agreements require the Authority to post collateral if the long-term unenhanced rating of the Authority’s Bonds is withdrawn, suspended or falls below (1) Baa3 as determined by Moody’s Investors Service (“Moody’s”), (2) BBB- as determined by Standard & Poor’s Ratings Service (“S&P”) or (3) BBB- as determined by Fitch Ratings (“Fitch”). If the Authority failed to post the collateral

when required, the counterparty may terminate the hedging derivative instrument. If the collateral posting requirement had been triggered at June 30, 2010, the maximum amount the Authority would have been required to post to its counterparties is \$60.4 million. Because the Authority’s unenhanced debt obligations were rated “A2” by Moody’s, “A” by S&P, and “A+” by Fitch at June 30, 2010, no collateral has been required or posted. The Authority’s obligation to make payments under the swap agreements is limited to available money under the applicable indentures pursuant to Section 1310 of the Public Transportation Assistance Law. The payment obligation is not a general obligation of the Authority, and is not secured by any lien on other assets of the Authority.

11. 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, 2010. 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 2010 increased \$10.6 million and the related liability as of June 30, 2010 increased approximately \$8.1 million primarily due to higher claim settlement costs and an increase in the liability for corporate claims. The Authority adopted GASB Statement No. 49 on a prospective basis in Fiscal Year 2009. This resulted in the recognition of \$3.2 and \$0.3 million in expense for Fiscal Year 2009 and 2010, respectively, 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.

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 2010 and 2009, are as follows:

	Public Liability and Property Damage	Workers’ Compensation	Totals
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
Payment of claims	(39,346)	(15,311)	(54,657)
Payments for pollution remediation	<u>(476)</u>	<u>–</u>	<u>(476)</u>
Balance at June 30, 2009	134,977	53,620	188,597
Claims expense	51,181	14,141	65,322
Pollution remediation expense	335	–	335
Payment of claims	(42,947)	(15,698)	(58,645)
Payments for pollution remediation	<u>(509)</u>	<u>–</u>	<u>(509)</u>
Balance at June 30, 2010	<u>\$ 143,037</u>	<u>\$ 52,063</u>	<u>\$ 195,100</u>
Balance at June 30, 2010, due within one year	<u>\$ 61,025</u>	<u>\$ 12,531</u>	<u>\$ 73,556</u>

12. DEPENDENCY ON GOVERNMENTAL FUNDING

The Authority is particularly dependent on its external governmental funding sources keeping pace with additional future costs due to normal inflationary increases, infrastructure repairs, revenue fleet replacements, technological advances and changing regulatory requirements. Historically, funding sources, coupled with cost reductions and passenger fare increases have been adequate; however, should the external funding sources, which comprise over half the Authority’s operating budget and essentially all of its capital budget not keep pace with future cost levels, the affect on future operations would be substantial. Although the Authority

had anticipated that the PTTF would provide for a reliable and growing source of funds to meet future budgetary needs, there is now growing uncertainty concerning these funds beyond Fiscal Year 2010. Due to the recent decline in the state sales tax receipts and as the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to toll Interstate 80, payment into the PTTF has declined, which resulted in a significant reduction in the Authority’s capital budget commencing in Fiscal Year 2011 and could have negative consequences on the operating budget beginning in Fiscal Year 2013.

13. NET ASSET RESTATEMENT

As of July 1, 2010 and 2009, net assets as previously reported were restated as follows:

	2010	2009
Beginning balance, Net Assets as previously reported	\$2,864,556	\$2,784,395
FY 2008 and prior impact of GASB 53 and 51 adjustments	(15,857)	(15,857)
FY 2009 impact of GASB 53 adjustments	<u>(16,349)</u>	<u>–</u>
Beginning balance, Net Assets as restated	<u>\$2,832,350</u>	<u>\$2,768,538</u>



13. NET ASSET RESTATEMENT (CONTINUED)

In Fiscal Year 2010, the Authority adopted the requirements for GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets” and GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”. GASB Statement No. 51, requires reporting certain intangible assets as capital assets. The adoption of GASB 51 resulted in a restatement, increasing the June 30, 2008 Net Asset balance by \$0.25 million. GASB Statement

No. 53, requires the recognition of the change in fair value of certain ineffective derivative instruments to be reported on the Statement of Revenues, Expenses and Changes in Net Assets under investment loss. GASB 53 resulted in a restatement decreasing the July 1, 2010 and 2009 Net Asset balances by \$16.3 million and \$16.1 million, respectively.

14. SUBSEQUENT EVENT

In October 2010, the Authority issued \$222.5 million of Revenue Refunding Bonds, Series of 2010 (“2010 Bonds”), due in varying amounts through 2028 with annual interest rates between 2.0% and 5.0%. The proceeds of the 2010 Bonds along with other funds of the Authority were used to currently refund the Authority’s outstanding Special Revenue Bonds, Series of 1999A and 1999B,

fund termination payments in connection with the Swap Agreements relating to the 1999 Bonds, fund accrued amounts payable on the Swap Agreements through the date of termination, and fund certain costs and expenses incurred in connection with the issuance of the 2010 Bonds. The Basis Swap in connection with the 1999 Bonds was amended so that it is now associated with the 2010 Bonds.



**PHOTO & ARTWORK CREDITS:**

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**FRONT COVER CAPTION:**

SEPTA invested \$38.6 million in primarily federal Stimulus dollars for major renovations to tracks and historic stations on its Route 101 Media and Route 102 Sharon Hill trolley lines. This includes Huey Avenue Station (pictured) in Delaware County, PA. Today, riders enjoy state-of-the-art 21st century transportation that preserves yesteryear's beauty. SEPTA transit improvements are an investment in a stronger future.