



2011 Report
**To Our Customers
& Community**



EDITOR:
Heather Redfern

CONTRIBUTING WRITERS:
Andrew Busch | Barbara Siegel

PHOTO & ARTWORK CREDITS:
Andrew Busch | Bill DeBoer | Kate Lynch | Jack McElwee
Michael Shepard | Bobby Snyder | VISA Viewpoints Blog | Steve Weinik
City of Philadelphia Mural Arts Program - Cops & Kids Project

Copyright SEPTA 2011.

Table of Contents

2 MANAGEMENT LETTER

4 SEPTA BOARD MEMBERS

6 IT'S A BEAUTIFUL RIDE

10 DRIVEN TO COMMUNITY SERVICE

14 KEEPING THE PUBLIC SAFE THROUGH EDUCATIONAL OUTREACH

16 SEPTA HEROES IN ACTION

18 GOING BEYOND GREEN

22 COME ALONG FOR THE RIDE

26 HEADING TOWARD THE FUTURE

30 SPURRING THE REGION'S ECONOMY



Management Letter

During Fiscal Year 2011, SEPTA continued to demonstrate a dedication to our loyal customers by improving service and the overall travel experience. We believe the investments made to rebuild aging infrastructure, acquire new vehicles and introduce rider-focused programs yielded significant and tangible results, most notably through ridership growth and enhanced customer satisfaction. Last fiscal year, ridership reached its highest level in 22 years with more than 334 million trips made on bus, trolley, subway, paratransit and Regional Rail services.

At the heart of our efforts to emphasize courtesy, cleanliness, communication and convenience is a commitment, at every level of the organization, to improve customer service. The results of the November 2010 Customer Satisfaction Survey saw a dramatic increase in the overall customer

satisfaction rating for individuals using SEPTA – rising from 7.2 (in 2008) to 7.9 based on a scale from 1 to 10. This improvement reflects that customers recognize and appreciate that we are working to make SEPTA a customer-centric business.

Customers have come to expect that SEPTA will provide the same information and communication conveniences they rely on in other aspects of their lives. Such technology has become an important tool in our customer service portfolio. During Fiscal Year 2011, the Authority introduced a new website, with trip planning and real-time service status features including Next To Arrive, TrainView, TransitView, Twitter and Google Transit. Developed for smart phone and computer use, customers can now access travel information and service news when they are home, at the office or standing on a SEPTA platform. In an effort to speak to a

diverse customer base, the Authority worked to find new communications tools that match information access preferences by expanding into Social Media. In addition, SEPTA-produced videos are posted on YouTube and iTunes.

Rebuilding our aging infrastructure and maintaining a state-of-good-repair continues to be a top priority and Federal stimulus funding provided the opportunity to advance important capital investment in transit and Regional Rail facilities. By adopting a unique approach to the aggressive time schedule imposed by the American Recovery and Reinvestment Act (ARRA) and employing strategic planning, preparation and mobilization, the Authority's contractors were among the first in the nation to begin work. Our approach has become a national model demonstrating effective program management while successfully meeting ARRA's

goal of creating new construction and manufacturing employment opportunities.

The Authority also approved financing for the acquisition of 120 new Silverliner V rail cars, rehabilitation of the 100-year-old Wayne Junction Station and procurement of New Payment Technology during Fiscal Year 2011. With the arrival of the first production rail cars, SEPTA began the process of retiring the oldest commuter rail cars operating in revenue service in North America and replacing them with state-of-the-art vehicles designed to enhance our customers' travel experience. With the recent award of the contract for the Authority's New Payment Technology project, we look forward to a much-anticipated transformation of the antiquated fare collection systems and processes currently in place. The new technology will greatly enhance the convenience of fare payment, and bring new value to SEPTA services.

The Authority's great strides and accomplishments are due to the hard work and dedication of our more than 9,000 employees. In addition to their day-to-day responsibilities for providing outstanding service to our customers, our employees are dedicated to the community we serve. We are proud of their great public service spirit and we support their willingness to volunteer their time and energy to major community initiatives such as the Philadelphia Spring Clean-

Up, the SEPTA/Philabundance Food Drive, the United Way Book and Yule Toy drives and the Cops and Kids program.

Fiscal sustainability is critical to our long-term success and we cannot lose sight of major funding challenges. The Federal Transportation Funding Authorization (SAFETEA-LU) has been operating under multiple extensions, with the most recent extension through March 31, 2012. Moreover, the reduction in State Act 44 capital subsidies beginning in Fiscal Year 2010, due to the federal rejection to toll Interstate 80, has reduced SEPTA's capital budget resources by more than \$100 million. With several federal and state reports and studies documenting the Authority's state-of-good-repair needs in the billions of dollars, the reduced levels of capital resources limits our current program to addressing only the most basic of infrastructure necessities.

Quality public transportation is critical to the economic vitality and future of southeastern Pennsylvania and the Commonwealth. With the increased number of trips being made on SEPTA, we are encouraged that more individuals are responding to the positive changes the Authority has advanced in recent years. With a continued focus on rider enhancements together with planned vehicle and infrastructure improvements, we are dedicated to providing the highest quality of service to our customers.



Pasquale T. Deon, Sr.
CHAIRMAN



Joseph M. Casey
GENERAL MANAGER

SEPTA Board Members



Back Row: (L to R) Christopher H. Franklin, Kenneth Lawrence Jr. (appointed FY12), Kevin L. Johnson, P.E., Honorable Charles H. Martin, Michael J. O'Donoghue, Esq. **Front Row:** (L to R) Rina Cutler, Thomas E. Babcock, Pasquale T. Deon, Sr., James C. Schwartzman, Esq., Thomas Jay Ellis, Esq. **Not Pictured:** Joseph E. Brion, Esq., Beverly Coleman, Honorable Stewart J. Greenleaf, Daniel J. Kubik, Denise J. Smyler, Esq., and Herman M. Wooden

Chairman
Pasquale T. Deon, Sr.

Vice Chairman
James C. Schwartzman, Esquire

SEPTA Board – Fiscal Year 2011

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

Philadelphia
Beverly Coleman
Rina Cutler

Governor's Appointee
Denise J. Smyler, Esquire

Senate Majority Leader Appointee
Honorable Stewart J. Greenleaf

Senate Minority Leader Appointee
James C. Schwartzman, Esquire

House Majority Leader Appointee
Christopher H. Franklin

House Minority Leader Appointee
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

Created by the State Legislature in 1964, the Southeastern Pennsylvania Transportation Authority was formed to plan, develop and coordinate a regional transportation system for Bucks, Chester, Delaware, Montgomery and Philadelphia counties. It has the right to acquire, construct, operate, lease and otherwise function in public transport in these five counties.

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

It's a Beautiful Ride

Riding SEPTA allows passengers to read, catch up on work and enjoy vibrant works of art.

Sit back and enjoy the view!



Germantown's Past Meets the Present at Wister Station

Germantown's history is on track at Wister Station, thanks to a bright, 1,800-square-foot mural created by City Year's ARAMARK Volunteer Management Team, working with SEPTA and the Wister Neighborhood Advisory Council. Over a nine-month period, all 225 Greater Philadelphia City Year corps members, as well as staff, spent 3,000 hours planning, painting and installing the mural.

This is City Year's second SEPTA masterpiece—in 2008 corps members painted a mural at Millbourne Station on the Market-Frankford Line.



All Aboard for Love

Philadelphia is known for the magnificent murals that adorn walls and buildings across the City. The best place to view the Mural Arts Program’s “Love Letters” project is aboard the Market-Frankford Line, from 46th to 63rd Streets. Created by artist Stephen Powell, the 50 murals collectively tell of one man’s devotion to his beloved.

In February, the Mural Arts Program celebrates Valentine’s Day by holding a special Love Train Tour of Love Letters on the “El”, followed by a reception. Among the guests are contest winners who write their own love letters, detailing how they found their mates on SEPTA. In 2011, Love Train guests were witnesses to the wedding of Kristy Plourde and Tom Golden, a couple married on the train by Philadelphia Mayor Michael A. Nutter.



Paying Homage to the Past

Some of SEPTA’s Regional Rail stations date to the late 19th and early 20th centuries, designed by prominent architects such as Frank Furness and W. Bleddyn Powell. The iconic stations at Allen Lane, Clifton-Aldan, Folcroft, Morton, North Wales and Queen Lane have become part of their communities’ identities—their buildings, overpasses and shelters undeniable landmarks. That’s why, when SEPTA began projects to modernize the facilities’ technology and passenger amenities, we took great care to restore the stations to the glory days of yesteryear.

For the homage we paid to the stations’ histories, SEPTA Capital Construction and project contractors earned a 2011 Preservation Achievement Award from the Preservation Alliance for Greater Philadelphia.



Putting Local Artists in the Spotlight

Our Art in Transit Program gives local artists the opportunity to apply for public art commissions. If chosen, their work is permanently installed at our renovated stations and bus loops. The pieces—ranging from art integrated into the infrastructure, projected from the walls or embedded in the floor—are seen by thousands of commuters every day.

Driven to Community Service

SEPTA cares about our neighbors. Our employees volunteer thousands of hours at community centers, hospitals, places of worship and for charitable organizations across our service area. This passion for community service drives SEPTA every day.



SEPTA Ambassadors Lead the Way

During major events around town, you can count on friendly SEPTA employee Ambassadors to point visitors in the right direction and answer customers' questions. Our Ambassadors also collect thousands of books and canned goods during our book and food drives. In the spring, they bring their family members and friends out for the Mayor's Clean-Up.



GROUP PEP RALLY

COLLECTING
TONS OF FOOD

SEPTA and Philabundance: Stopping Hunger at Your Station

With approximately one million of our neighbors coping with hunger every day, it is possible that the person sitting next to you on a bus, train or trolley has difficulty putting food on their table. To combat hunger in our region, SEPTA organizes the annual "Stop Hunger at Your Station" food drive to benefit Philabundance and its agencies.

"SEPTA is a phenomenal partner to Philabundance and in the fight against hunger. Over the last three years, SEPTA has organized the Stop Hunger At Your Station food drive, which has collected nearly 47 tons of food for Philabundance to date. That is 94,000 meals over the last three years for people in need in the Delaware Valley. Stop Hunger At Your Station brings high visibility and awareness to the issue of hunger which is so critical in fixing the problem. The enthusiasm and commitment of SEPTA employees is the driving force behind such a successful and well-run food drive."

—Bill Clark, Philabundance Executive Director

SEPTA and the United Way: A New Chapter on Battling Illiteracy

Our riders and employees know that curling up with a good book can be a wonderful way to relax after a long day. For a child, being able to "get lost" in a story is not only fun, but vital for increasing their literacy and academic success.

During one week in October 2010, SEPTA and the United Way of Southeastern Pennsylvania collected more than 45,000 new and gently-read books for distribution to community centers, homeless shelters, daycare centers and schools.



UNITED WAY BOOK DRIVE



DONATED TOYS

OUR OWN SEPTA "ELVES"

Yule Toy Drive: Spreading the Joy of the Season

For the past 30 years, SEPTA employees have made the holidays brighter for deserving children across our region through the month-long Yule Toy Drive. Last year, staff filled bright red drums with approximately 4,000 toys—making it one of the largest Yule Toy Drives in our history.

Once toys were collected, SEPTA employee "elves" sorted gifts and filled one of our buses to the roof with bags of toys that were distributed to 10 organizations. General Manager Joseph Casey, Transport Workers Union Local 234 President John Johnson and several employees filled in for Santa Claus by delivering the toys.

Keeping the Public Safe through Educational Outreach

The well-being of our customers is always our top priority. Safety starts before our vehicles leave the stations. Our Police and System Safety & Risk Management Departments regularly present educational programs, teaching riders of all ages how they can stay safe on our vehicles, at our stations and when near our rail tracks.

Of Cops and Kids

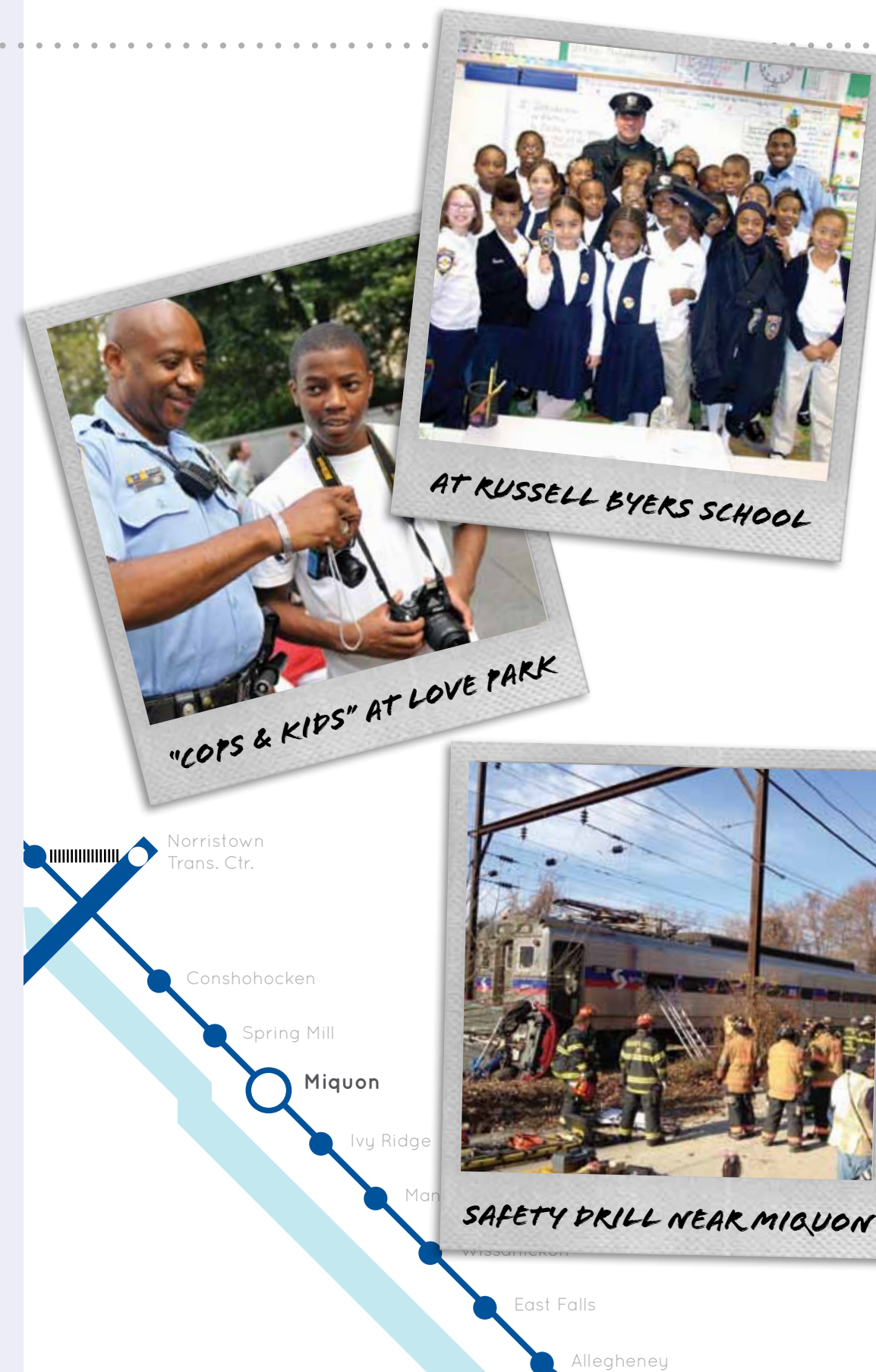
Everyone identifies SEPTA Police by their official uniform. These officers in crisp blues, hat and a badge keep the riding public safe. But beyond this, our youngest of citizens identify our men and women in blue as offering comfort, trust and goodwill.

SEPTA Police engage in several programs to brighten the future of young people. In the innovative "Cops and Kids" program, our officers participate in interactive workshops with students enrolled in the Philadelphia Mural Arts Program. Every August, members of our police force participate in National Night Out activities. In October, officers threw a Halloween Party for homeless children living in a shelter along our Broad Street Line.

An Ounce of Prevention...

For some, the term "safety blitz" conjures images of a football game. Not at SEPTA. Here, Safety Blitzes are passenger education programs conducted at our railroad, rail transit and bus stations by the System Safety Department. Last year, System Safety "blitzed" over 30 locations, offering safety tips to more than 5,200 passengers.

System Safety & Risk Management also participated in community health and safety fairs and made Operation Lifesaver rail safety presentations to audiences ranging from kindergarten to eighth grade students, hearing and visually impaired adults, driver's education students, emergency responders and professional drivers.



SEPTA Heroes In Action

Our employees are always ready to help our neighbors, even if it means taking heroic measures.

Sergeant Donn Wagner: "Outstanding Police Performance in Philadelphia County"

On September 4, 2010, SEPTA Transit Police Sergeant Donn Wagner, a 20-year veteran of the Authority's force, stopped a sexual assault in progress in West Kensington.

The Citizens Crime Commission, an organization that better the quality of life in the Delaware Valley by improving safety and security initiatives, recognized Sergeant Wagner's actions by presenting him with the 2010 Citizens Crime Commission award for Outstanding Police Performance in Philadelphia County.

"Sergeant Wagner came across a felony and took action. He put his life on the line, as he does every day on duty," said Citizens Crime Commission Vice President Santo M. Montecalvo. "His heroics prevented a violent crime from taking place. It was our honor to give Sergeant Wagner the award for most outstanding police performance."



SERGEANT WAGNER & SANTO MONTECALVO



WALTER RIVERA



HONORED HEROES

Steve Boon, John Solecki and Joe Benedict: In the Right Place at the Right Time

On the morning of June 22, 2011, Walter Rivera was involved in a fiery motorcycle crash at 2nd Street and Wyoming Avenue in Philadelphia's Feltonville neighborhood. The accident occurred outside of SEPTA's Berridge Shop, where Revenue Services staff members Steve Boon, John Solecki and Joe Benedict were working. Without hesitation, the three employees rushed to the accident scene and, along with an anonymous Good Samaritan, pulled the unconscious Rivera from under the burning bike.

Miraculously, Rivera suffered only broken bones and burns and is recovering.

Going Beyond Green

A full bus is six times more efficient, and a full train is 15 times more efficient than the average car. Public transit produces 95 percent less carbon monoxide per passenger mile than private vehicles. The minute you step aboard a SEPTA vehicle, you are helping us in our mission to create a more sustainable community.

While you might be familiar with our green efforts on the roads and rails, especially with our fleet of hybrid buses, there are many more ways SEPTA is making our community greener.



Fox Chase Station: “LEED-ing” the Way

The recently renovated Fox Chase Station made history when it became the nation’s first Leadership in Energy and Environmental Design (LEED) Silver Certified train station, honored by the U.S. Green Building Council (USGBC).

To earn the honor, many eco-friendly processes were implemented throughout the station’s planning, design and building phases including recycling or reusing 96 percent of construction waste materials and using low-pollutant emitting building materials, such as adhesives, sealants, paint and coatings, in construction. The completed station has energy efficient heating, ventilation, air conditioning and lighting systems, while the high-efficiency plumbing fixtures and faucets reduce potable water use by approximately 100,000 gallons per year. The facility also features receptacles for recycling papers, cans and bottles. Moreover, it sports 15 parking spots designated specifically for energy-efficient vehicles, such as hybrids.

Fresh Foods: From Farm to Table via SEPTA

Helping our neighbors get healthy by providing better access to fresh foods and vegetables is a priority for SEPTA.

We are working with the City of Philadelphia and The Food Trust to bring farmers markets to the city. We host two Food Trust farmers' markets at Frankford Transportation Center and Olney Transportation Center. All of the Food Trusts' 25 markets are located near our train, trolley and bus stops.

We also leased land next to our 46th Street Market-Frankford Line Station to The Enterprise Center for the Walnut Hill Community Farm, a youth cooperative that farms the land and sells the produce at that station and at our headquarters. To get our employees eating better, we sponsored the Community Supported Agriculture (CSA) "Farm to SEPTA" program at 1234 Market Street. This partnership allowed our employees to purchase bi-weekly shares from the Walnut Hill Farm.

1234 Market Street: Getting a "STAR" for Energy Efficiency

Our headquarters in Center City Philadelphia received the "ENERGY STAR" label for energy efficiency from the U.S. Environmental Protection Agency, a distinction earned by only the top 25 percent of all energy-efficient buildings nationwide. Installing energy-efficient chillers, new electronic controls and lighting, water-saving toilets and a reflective cool roof made 1234 Market Street one of only 12 buildings in Philadelphia to earn the ENERGY STAR label in 2010, ranking in the 91st percentile nationwide.

Wayside Energy Storage: A Different Type of Recycling

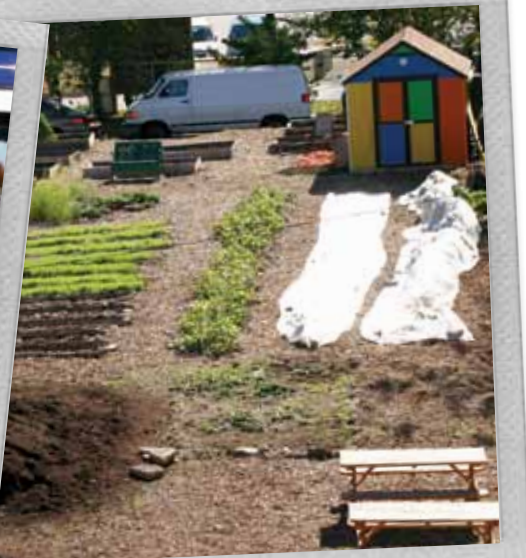
What happens to all of the energy that is created when a train pulls into a station? In the past, most of that energy was wasted—vanishing into the air. A pilot project with SEPTA and Viridity Energy, Inc., is exploring capturing the energy that is created when a Market-Frankford Line train stops, storing that energy in a battery at a substation and then reusing the energy to power the elevated trains as they go. Currently, the energy created during a train's regenerative braking process can only be used by a nearby accelerating train. The project will save SEPTA thousands of dollars in energy costs and reduce the amount of energy we need from the power grid. SEPTA recently received a grant to extend the pilot project to a second substation.



JOE CASEY BUYS
FRESH FRUIT



GARDEN PLOTS AT
WALNUT HILL



FARM AT WALNUT HILL

60th

56th

52nd

46th

40th

34th

30th

15th

13th



ENERGY-STORAGE
IN THE MAKING



LOOKING DOWN ON THE
MARKET-FRANKFORD LINE



ENERGY STAR

Come Along For the Ride

From state-of-the art computer programs that inform you when your bus is coming to new stations where passengers can comfortably wait for their trains, SEPTA is always working on the next best thing to better serve our riders.



The Bus and Trolley are on the Way

Waiting for the bus or trolley got easier when SEPTA launched new Web- and text-based features that give real-time travel updates for bus and trolley riders.

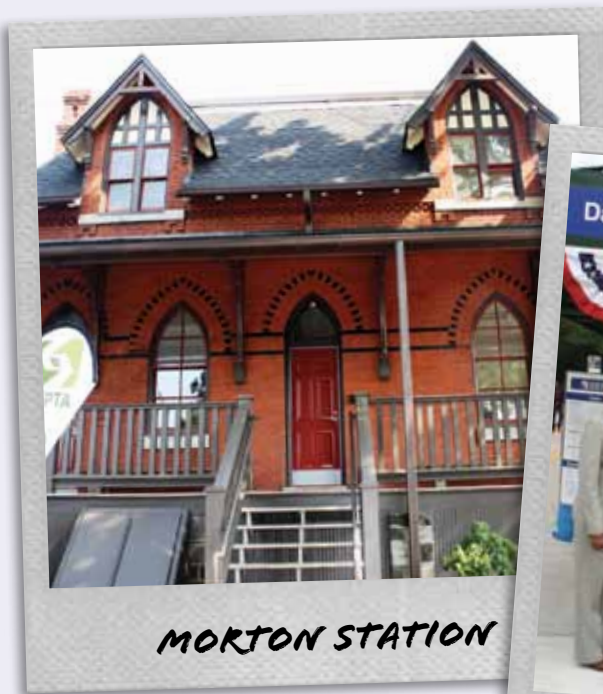
One new online tool, TransitView, allows riders to get real-time bus and trolley information. By using a smartphone or other Web-enabled device, riders can pull up maps for any route and see the locations of buses or trolleys in service. The information is provided by GPS technology and is now available for trip-planning purposes.

Another new resource, SMS Schedules, extends stop-specific trip information to any rider with a text-message enabled cell phone. Riders simply text "SEPTA" and the bus stop identification number to receive a text response showing the next four scheduled trips from their stop. Riders can also get stop-specific information for up to 10 trips through Schedules To Go, which is available on SEPTA's Website.

Renovated and New Stations: A Great Place to Start Your Journey

Having a safe, comfortable and convenient place to wait for a bus or a train is a great way to start your SEPTA trip. Over the last year, the Authority has celebrated renovations at our Cheltenham/Ogontz Bus Loop, Darby Transportation Center and North Wales, Allen Lane, Fox Chase, Morton and Langhorne Regional Rail stations.

The improvement projects are part of our commitment to providing safer, more customer-friendly transit hubs and stations with state-of-the-art amenities for the thousands of riders that pass through these bustling locations every day.



MORTON STATION



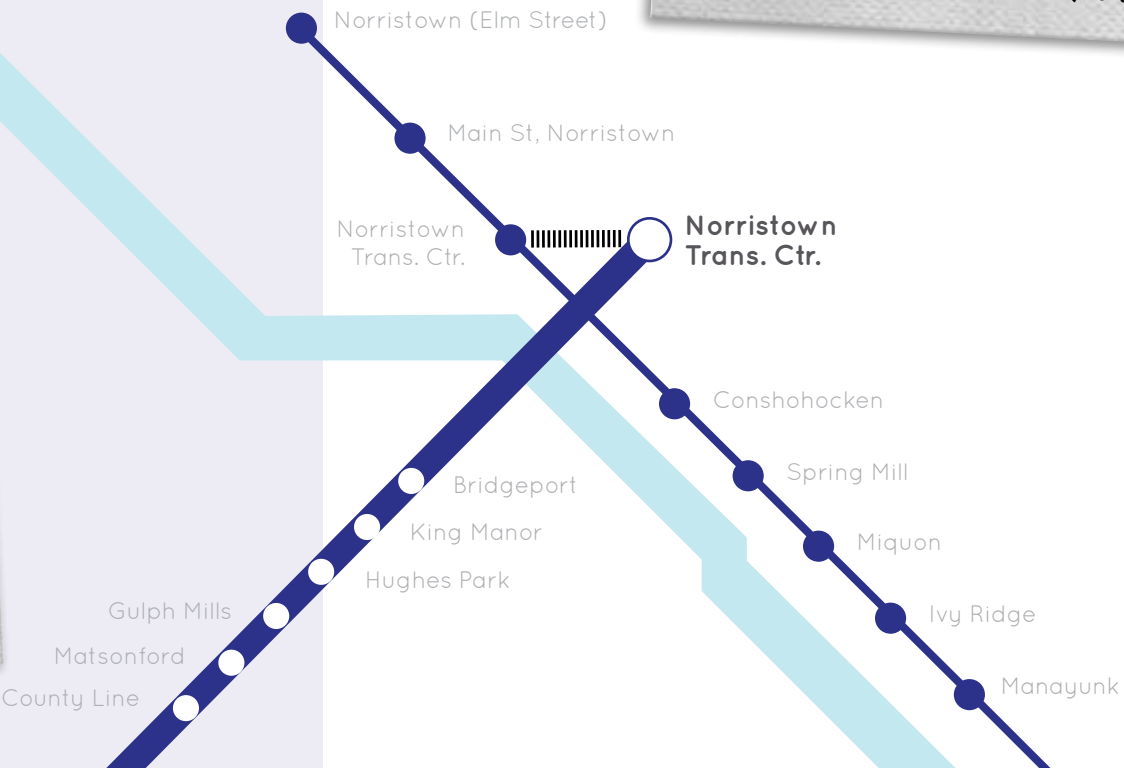
DARBY TRANSPORTATION CENTER



RIBBON CUTTING CEREMONY AT NTC

Bieber Bus at NTC: From Norristown to California and Points In-Between

Montgomery County passengers can start their East Coast and cross-country journeys at SEPTA's Norristown Transportation Center (NTC) thanks to a partnership formed with Bieber Tourways, Inc, a private, nationwide coach operator. The Bieber terminal is located in the lower level of NTC's 522-space garage and takes passengers —many who have transferred from our Norristown High Speed Line, Manayunk/Norristown Regional Rail Line and eight bus routes—to major cities, college towns and many points throughout the country.



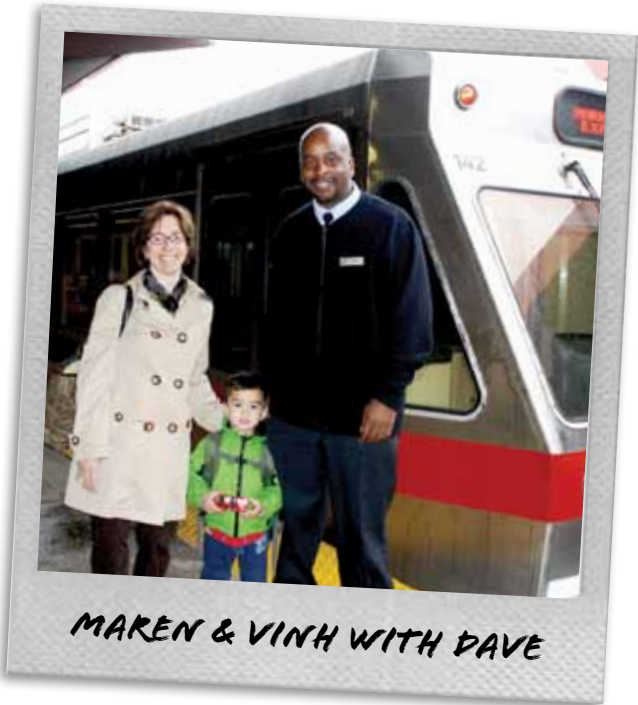
We Love Hugs

Feedback from our customers is helpful in letting us know what we are doing right and where we need to make improvements. We especially like to hear when an employee has gone the extra mile to make a passenger's trip more enjoyable.

"After a hiatus of a few years, I recently resumed commuting to work on the Norristown High Speed Line [NHSL] and the Market-Frankford Line, but this time accompanied by my three-year-old son, who goes to a nearby pre-school. We inevitably have a small toy with us for the trip. This morning, as we boarded the NHSL, Dave [Lucas] stopped us and asked if we lost a car yesterday. I wasn't sure, but he described the toy car, and sure enough, it was a favorite toy that we hadn't realized we didn't have with us on the rest of our journey yesterday.

"I don't know the circumstances under which Dave found the toy car yesterday, but it was extremely thoughtful of him to have given some thought to who might have lost it and to have kept it set aside on the train for us. (How lucky were we that we happened to be on his car two days in a row?!) My son gave Dave a big hug as we got off the train, but I thought it would be more appropriate for me to send this commendation!"

-Maren Reichert



MAREN & VINH WITH DAVE

Heading Toward the Future

SEPTA is a system in constant motion on the road and rails and behind-the-scenes. Our team is always working on projects to improve the services we provide to our customers.

New Payment Technologies: The “Smart” (Card) Way to Travel

Soon SEPTA tokens, magnetic passes and paper transfers will be retired to the “Transit Hall of Fame,” making way for a smart card automated electronic fare system. The New Payment Technology initiative will result in a system-wide, fully modernized fare payment and collection system. Passengers will pay fares using contactless payment devices. Payment devices include, but are not limited to, credit and debit cards, pre-paid SEPTA cards, smart phones and other devices equipped with contactless payment devices. Customers will make transactions with a simple tap of their contactless payment device against readers at train station turnstiles and fareboxes on buses and trolleys. The smart card system should be in place within three years.



CONTACTLESS PAYMENT USING
A SMART PHONE



SILVERLINER
INTERIOR SH



SILVERLINER V AT ITS DEBUT

The Silverliner V: A Smoother, More Comfortable Ride Coming Down the Tracks

What's that sleek, shiny train coming down the tracks? The new Silverliner Vs have been rolling along our Regional Rail since fall 2010, with more trains added to the fleet each month. By 2012, all 120 of the new trains will be in service.

Some customers have been lucky enough to ride the Silverliner V during their daily commutes. A Fox Chase Line rider wrote: "As I was waiting for the train this morning I thought that maybe I was still dreaming or it was a mirage because I saw a brand new train approaching...You cannot imagine how excited I was. It was an extremely pleasurable ride, one that I hope will be repeated often. Thanks for starting my day off on such a positive note."



FTA CHECK



FTA ADMINISTRATOR ROGOFF & COMMUNITY MEMBERS



WORKER INSTALLS THE MURAL OF 13TH STREET STATION



RAMP-EQUIPPED BUS MOCK-UP

Suburban Station

Market East Station

Wayne Junction Station: Long-Awaited Improvements Begin

Wayne Junction Station is one of our busiest stations, serving more than 190,500 customers annually via six Regional Rail lines, one trackless trolley route and two bus routes. Wayne Junction, which dates to the late 19th century, is also long overdue for repairs.

Thanks to a \$3.98 million competitive livability grant, and an additional \$4 million from the Federal Transit Administration for engineering and \$23 million in Capital Grant Receipts Bonds, Series 2011, renovations to Wayne Junction Station, including new elevators, improved passenger amenities and reconstructed and repaired platforms, will soon be a reality.

Accessible Travel Center: Giving Customers with Disabilities the Freedom to Ride

Located in Suburban Station, our Accessible Travel Center will help passengers with disabilities learn how to safely, effectively and independently navigate the SEPTA system. In addition to its large training area, classroom and interview space, the Center will feature a mock-up of the front one-third of a ramp-equipped bus and a simulated station platform for practicing safe bus and train boarding.

Hunting Park

Erie

Allegheny

North Philadelphia

Susquehanna-Dauphin

Cecil B. Moore

Girard

Fairmount

Spring Garden

Race-Vine

City Hall

Walnut-Locust

Lombard-South

Ellsworth-Federal

Tasker-Morris

Girard and Spring Garden Stations: Major Renovations Coming to a Close

The Broad Street Line's Girard and Spring Garden Stations are two of the line's original stops. After more than 80 years in service, the bustling stations received a much-needed, \$25 million overhaul, funded by the American Recovery and Reinvestment Act (ARRA) of 2009. The project will make both stations fully accessible under the federal Americans with Disabilities Act (ADA).

Not only will the project result in improvements such as new tiling and artwork, elevators connecting the street, mezzanine and platforms, and concrete restoration, the station renovations created 300 jobs.



WORKING



CONSTRUCTION CONTINUES



NEW ELEVATOR INSTALLATION



A WORKER PREPS THE FLOOR FOR TILING

Spurring the Region's Economy

One of the best ways SEPTA assists our community is by contributing to the regional economy. We take employees to and from their workplaces, provide transportation for students to get to schools where they learn to become productive members of the workforce, and service shopping centers and malls where we purchase goods, further stimulating our region's economy.



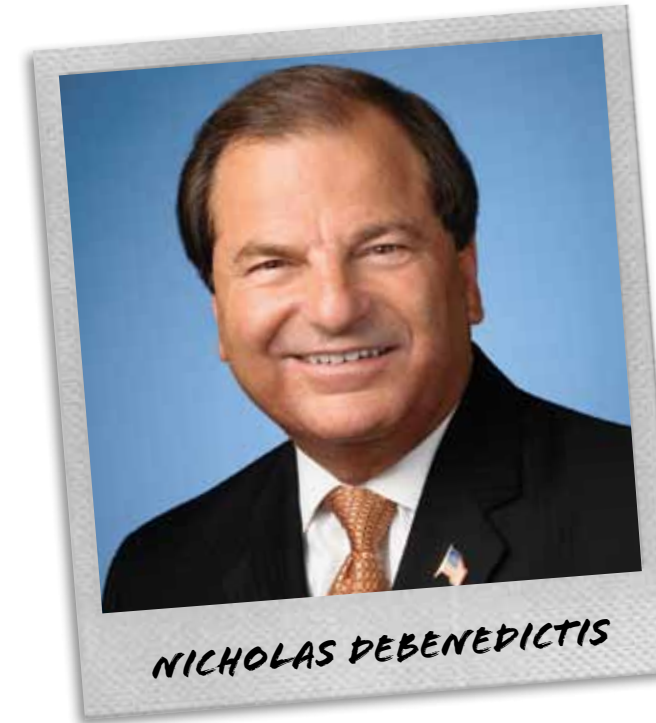
Commuter's Choice: A Win for Employees and their Employers

According to Center City District, 70 percent of downtown Philadelphia workers use public transportation to get to and from their jobs. More than 1,500 area employers participate in the Commuter's Choice program, providing transit discounts for their employees. Commuter's Choice, which includes SEPTA's ComPass Program, The Delaware Valley Regional Planning Commission's TransitChek Program and two third-party benefits administrators WiredCommute and WageWorks, generated over \$53 million dollars in transit fare sales in fiscal year 2011.



Kimberly Evans
Vice President of Human
Resources, Thomas Jefferson
University Hospital

“Our people are the most valuable resource in enabling Jefferson Health System to give outstanding medical care to thousands in the region. SEPTA’s extensive and round-the-clock service helps us employ, retain, and educate our talented staff and students. In these difficult economic times, the SEPTA Commuter’s Choice program lets us provide our people with a substantial discount on transportation. It is an employer benefit that ultimately benefits us all.”



Nicholas DeBenedictis
Chairman, President and Chief
Executive Officer, Aqua America, Inc.

“SEPTA is a valuable asset to the region economically and environmentally. It enables businesses to attract a large and reliable workforce to our region, enhancing our economic competitiveness while helping the environment by reducing the number of cars on our roadways. You don’t have to look far to find myriad benefits to sustaining a healthy public transportation option for southeastern Pennsylvania.”

5 Counties of Job-Creation

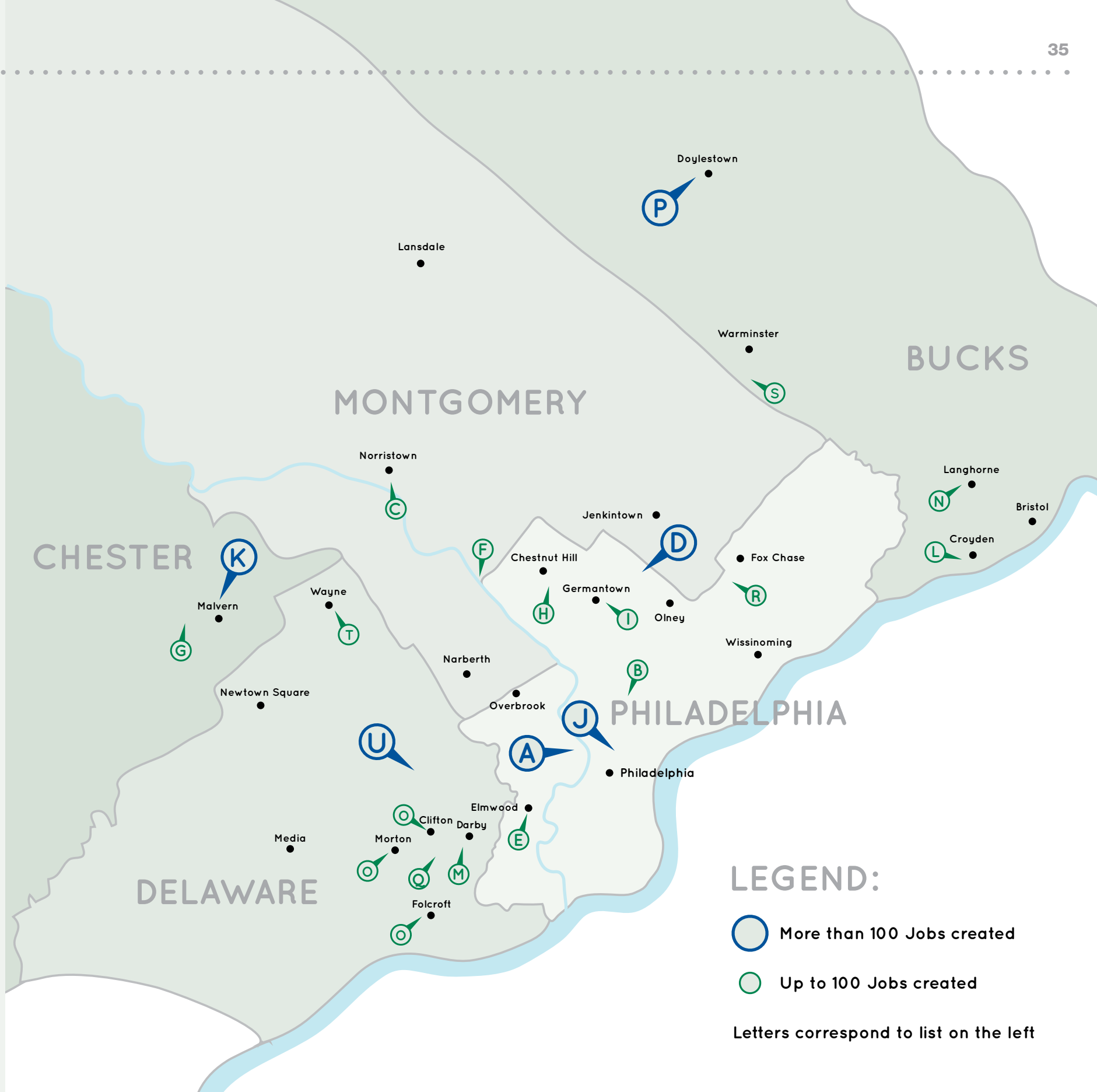
During FY11, an estimated 5,027 jobs were created from our Engineering, Maintenance & Construction Division’s capital construction projects. This total is based on the Federal Highway Administration (FHWA) formula that estimates that 27,800 jobs are created/retained per each \$1 billion spent on infrastructure.

The estimated jobs are further broken down as follows:

- “Direct” on site jobs
- “Indirect” jobs in supporting industries, such as those that supply materials, fabrication, goods and services to enable the direct spending
- “Induced” effects on the re-spending of worker income on consumer goods and services, including food, clothing, shelter, recreation and personal services

Of the estimated 5,027 jobs in FY11, there were 1,724 direct, 784 indirect and 2,519 induced jobs. This list is a sample of the total estimated jobs created in our service region.

- A.** 30th Street and Fairmount Substation – Philadelphia County **316 jobs**
- B.** Broad Street Line Allegheny Station ADA Improvements – Philadelphia County **65 jobs**
- C.** Norristown Substation Overhaul – Montgomery County **48 jobs**
- D.** Cheltenham and Ogontz Bus Loop – Montgomery County **111 jobs**
- E.** Elmwood Shop Fire Supression System – Philadelphia County **20 jobs**
- F.** Manayunk/Norristown Line Automatic Train Control – Philadelphia and Montgomery Counties **15 jobs**
- G.** Frazer Yard Catenary Poles Replacement – Chester County **82 jobs**
- H.** Chestnut Hill West Line Stations Improvements – Philadelphia County **56 jobs**
- I.** Chestnut Hill East Line Stations Improvements – Philadelphia County **57 jobs**
- J.** Broad Street Line Girard and Spring Garden Stations – Philadelphia County **300 jobs**
- K.** Malvern Station Improvements: Construction – Chester County **200 jobs**
- L.** Croydon Station Rehabilitation – Bucks County **70 jobs**
- M.** Darby Transit Center Renovation and Expansion – Delaware County **18 jobs**
- N.** Langhorne Station Building – Bucks County **37 jobs**
- O.** Morton, Folcroft and Clifton Station Rehab – Delaware County **45 jobs**
- P.** Lansdale/Doylestown Line Re-Signalization – Montgomery and Bucks Counties **196 jobs**
- Q.** Primos Station Reconstruction – Delaware County **45 jobs**
- R.** Ryers Station Reconstruction – Philadelphia County **92 jobs**
- S.** Warminster Line Re-Signalization – Montgomery and Bucks Counties **37 jobs**
- T.** Wayne Station Improvements – Delaware County **56 jobs**
- U.** Media-Sharon Hill Line Grade Crossing Warning Device Improvements, Track Renewal and Brush Cutting – Delaware County **309 jobs**



SEPTA by the Numbers

Our buses, trains and trolleys canvass 2,200 square miles, transporting one million of our neighbors in Bucks, Chester, Delaware, Montgomery and Philadelphia counties, Trenton and West Trenton, New Jersey, and Newark and Wilmington, Delaware.

The nation's sixth-largest public transportation system, and the largest in Pennsylvania, SEPTA offers a variety of options for getting to work, school, shopping, sporting events and more throughout our service area.

334 MILLION
TRIPS
IN FY 2011

1 INTERURBAN
HIGH SPEED
LINE

117 FIXED BUS
ROUTES

3 TRACKLESS
TROLLEY ROUTES

8 TROLLEY
LINES

13 REGIONAL
RAIL LINES

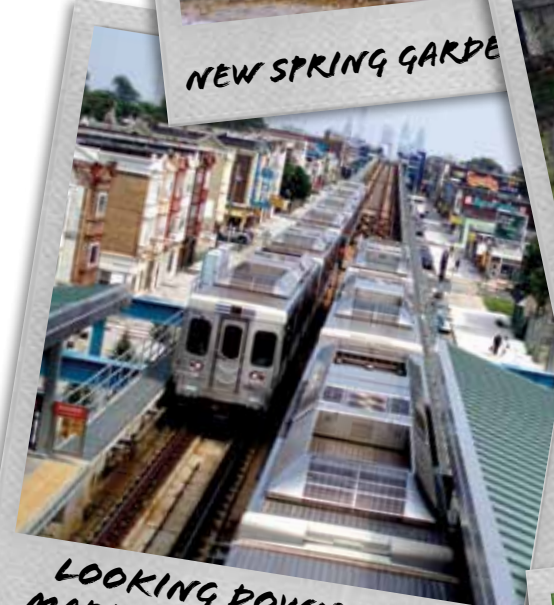
2 SUBWAY/
SUBWAY-
ELEVATED
LINES



NEW SPRING GARDEN



ART IN TRANSIT AT
SPRING GARDEN



LOOKING DOWN ON THE
MARKET-FRANKFORD LINE



CLEANING UP THE STREET



SILVERLINER
AN INSIDE LOOK



COPS, KIDS & MURAL ARTS



NEW ALLEN LANE STATION



Fiscal Year 2011
Annual Financial Report



Copyright SEPTA 2011.

Table of Contents

2 FINANCIAL AND
STATISTICAL HIGHLIGHTS

5 INDEPENDENT AUDITORS'
REPORT

6 MANAGEMENT'S
DISCUSSION
AND ANALYSIS

12 BALANCE SHEETS

14 STATEMENTS OF
REVENUES, EXPENSES,
AND CHANGES IN NET
ASSETS

15 STATEMENTS OF
CASH FLOWS

16 NOTES TO FINANCIAL
STATEMENTS

FINANCIAL HIGHLIGHTS

For the Years Ended June 30
(Millions of dollars)

	2011	2010**	2009**	2008	2007	2006	2005	2004	2003	2002
OPERATING REVENUES										
Passenger	\$ 439.4	\$ 396.0	\$ 404.8	\$ 392.5	\$ 344.4	\$ 329.9	\$ 326.9	\$ 323.3	\$ 319.2	\$ 315.4
Other income	30.7	29.7	31.2	29.9	26.7	25.6	21.5	26.1	26.5	24.9
Total operating revenues	<u>470.1</u>	<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>
OPERATING EXPENSES										
Operating expenses,										
excluding depreciation *	1,260.1	1,212.2	1,168.3	1,100.3	943.5	893.6	881.7	825.0	799.0	770.8
Depreciation	<u>320.5</u>	<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>
Total operating expenses	<u>1,580.6</u>	<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>
NONOPERATING REVENUES (EXPENSES)										
Subsidies *										
Federal	60.8	39.5	32.2	32.6	99.6	126.4	83.7	56.2	30.2	30.7
State	551.1	580.7	537.2	489.9	313.3	256.3	293.9	270.1	276.0	262.4
Local	81.7	82.2	75.8	68.3	74.5	72.1	71.9	67.6	68.8	68.5
Senior citizen	18.7	18.7	19.0	19.8	65.8	67.7	68.9	69.5	68.3	67.4
Asset maintenance	<u>—</u>	<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>
Total subsidies	<u>712.3</u>	<u>721.1</u>	<u>664.2</u>	<u>610.6</u>	<u>607.4</u>	<u>575.4</u>	<u>572.6</u>	<u>517.0</u>	<u>495.0</u>	<u>472.4</u>
Investment income	10.5	(4.3)	(14.7)	9.4	6.8	3.2	2.9	1.5	2.7	4.3
Interest expense	<u>(16.0)</u>	<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>
Total nonoperating										
revenues (expenses)	706.8	691.9	628.5	599.5	594.4	557.6	553.7	496.2	474.8	452.8
CAPITAL GRANTS										
	<u>360.4</u>	<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>
INCREASE (DECREASE) IN NET ASSETS										
	<u>\$ (43.3)</u>	<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>
OTHER										
Working capital surplus										
(deficiency)	<u>\$ (69.2)</u>	<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>

* 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.

STATISTICAL HIGHLIGHTS

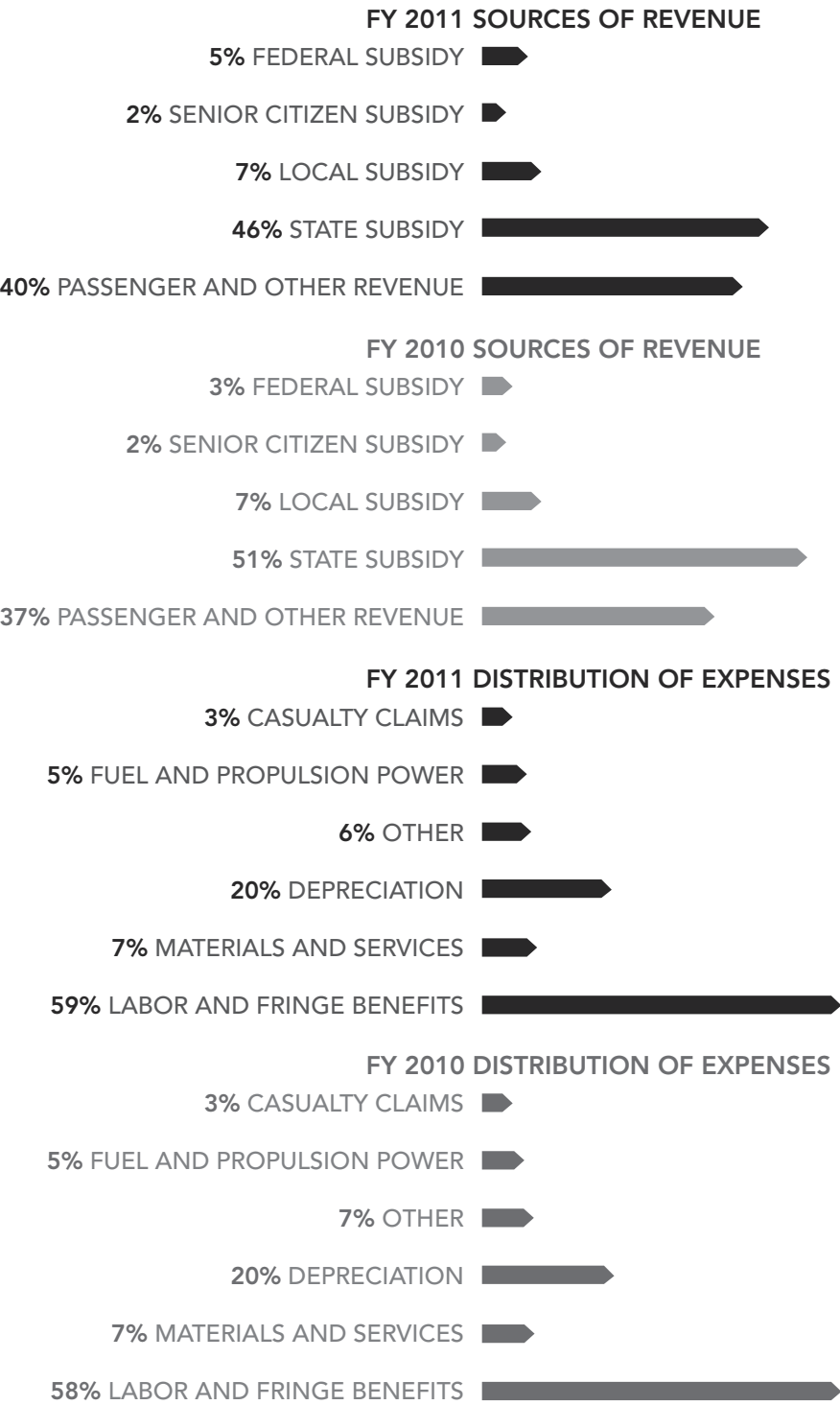
For the Years Ended June 30

	2011	2010**	2009**	2008	2007	2006	2005	2004	2003	2002
Passenger Trips (linked, in millions)										
Transit	211.6	200.0	206.1	200.9	190.3	183.9	186.2	185.5	181.0	175.4
Regional Rail	<u>35.4</u>	<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>
Total	<u>247.0</u>	<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>
Average Weekday Passenger Trips (unlinked, in thousands)										
Transit	991	966	979	963	930	920	920	930	934	920
Regional Rail	<u>123</u>	<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>
Total	<u>1,114</u>	<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>
Financial Statistics (per passenger trip)										
Operating revenues	\$ 1.90	\$ 1.81	\$ 1.81	\$ 1.79	\$ 1.67	\$ 1.66	\$ 1.62	\$ 1.63	\$ 1.65	\$ 1.67
Operating expenses*	6.40	6.45	6.04	5.82	5.44	5.32	5.21	4.86	4.75	4.73
Subsidies	2.88	3.07	2.75	2.58	2.74	2.69	2.67	2.42	2.37	2.32
Investment income										
(interest expense), net	(0.02)	(0.12)	(0.15)	(0.05)	(0.06)	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)
Capital grants	<u>1.46</u>	<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>
Increase (decrease) in net assets	<u>\$ (0.18)</u>	<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>

* 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.

SOURCES OF REVENUE & DISTRIBUTION OF EXPENSES
FY 2011 vs. FY 2010



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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 11 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
November 23, 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with the Authority’s financial statements which immediately follows this section.

FINANCIAL HIGHLIGHTS

Passenger revenues increased 11.0% from \$396.0 million to \$439.4 million due to a fare increase effective July 1, 2010 and an increase in ridership of 5.2% that was partially impacted by a six-day transit work stoppage in November 2009, the increased price of gasoline which encouraged greater use of transit, along with a growing Center City population, and various service improvements. Other income increased 3.4% from \$29.7 million to \$30.7 million primarily due to higher revenue from real estate leases.

Operating expenses increased 4.4% from \$1,514.5 million to \$1,580.5 million primarily due to cost increases in wages, fringe benefits, depreciation, propulsion power and fuel costs.

Total subsidies, from Federal, State and local sources, decreased 1.2% from \$721.1 million to \$712.3 million primarily due to a decrease in State and local matching subsidies needed to support operations for the year.

Total assets increased 0.7% from \$4,237.5 million to \$4,267.2 million primarily due to capital asset acquisitions. Total liabilities increased 5.4% from \$1,363.6 million to \$1,436.6 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 decreased 1.5% from \$2,873.8 million to \$2,830.6 million primarily due to a reduction in 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, 2011 decreased \$43.3 million, or 1.5%, compared to June 30, 2010. Total assets increased \$29.7 million or 0.7% to \$4,267.2 million and total liabilities increased \$73.0 million or 5.4% to \$1,436.6 million.

Net Assets (thousands of dollars)			
	As of June 30		Increase (decrease)
	2011	2010	
Current assets	\$ 462,552	\$ 483,980	(4.4%)
Restricted funds	29,448	40,685	(27.6%)
Capital assets	3,747,560	3,681,712	1.8%
Other assets	<u>27,640</u>	<u>31,122</u>	<u>(11.2%)</u>
Total assets	<u>4,267,200</u>	<u>4,237,499</u>	<u>0.7%</u>
Current liabilities	531,775	514,853	3.3%
Public liability, property damage and workers’ compensation claims	124,569	121,544	2.5%
Long-term debt	332,501	366,545	(9.3%)
Long-term capitalized lease obligation	15,272	14,512	5.2%
Deferred capital grant revenue	7,578	18,632	(59.3%)
Other postemployment benefits	415,790	306,390	35.7%
Other liabilities	<u>9,149</u>	<u>21,174</u>	<u>(56.8%)</u>
Total liabilities	<u>1,436,634</u>	<u>1,363,650</u>	<u>5.4%</u>
Net assets:			
Invested in capital assets, net of related debt	3,417,464	3,358,911	1.7%
Restricted	4,153	3,922	5.9%
Unrestricted	<u>(591,051)</u>	<u>(488,984)</u>	<u>20.9%</u>
Total net assets	<u>\$2,830,566</u>	<u>\$2,873,849</u>	<u>(1.5%)</u>
Total liabilities and net assets	<u>\$4,267,200</u>	<u>\$4,237,499</u>	<u>0.7%</u>

The \$21.4 million decrease in current assets is primarily related to a decrease in net receivables of \$94.9 million offset by increases in unrestricted cash of \$39.3 million, restricted funds of \$23.2 million and prepaid expenses of \$11.1 million.

The net receivable decrease of \$94.9 million was primarily due to a reduction in federal operating receivables of \$6.3 million, federal capital grant receivables of \$66.3 million, and state capital grant receivables of \$20.1 million. The unrestricted cash increase of \$39.3 million resulted from the collection and reduction in net receivables as compared to June 30, 2010. The prepaid expense increase of \$11.1 million was primarily due to the unamortized portion of healthcare premiums of

\$10.1 million that were prepaid during Fiscal Year 2011 to obtain a discount.

Restricted funds consist of amounts restricted by either government requirements or by contractual agreement between the Authority and external parties. The restricted funds increase in current assets includes \$20.5 million related to the Act 44 state service stabilization fund, plus local match and interest, and a \$2.7 million increase 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 \$11.2 million decrease in noncurrent restricted funds includes the use of \$1.5 million of restricted railcar lease proceeds to fund the state share of

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

selected capital projects in lieu of receiving traditional state funds. The remaining decrease in restricted funds includes a net decrease of \$10.4 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 majority of which were adopted by resolution of the Authority’s Board to cover a portion of the public liability and property damage and workers’ compensation claims for which the Authority is self-insured. These Board designated amounts totaled \$48.3 million as of June 30, 2011 and \$47.3 million as of June 30, 2010. 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 \$5.7 million as of June 30, 2011 and was \$16.3 million as of June 30, 2010. The Authority used \$9.5 million of the swaption proceeds in Fiscal Year 2011 towards the termination of a Swap agreement in connection with the Authority’s outstanding 1999 Series Revenue Bonds which were refunded in October 2010. In order to ensure the Board designated unrestricted amounts above were funded, the Authority had notified the State in both Fiscal Years 2011 and 2010 of its intent to unrestrict a portion of its Act 44 restricted receipts due to expected delays in the receipt of capital funds. The amount unrestricted by the Authority totaled \$20 million in Fiscal Year 2011 and \$58 million in Fiscal Year 2010.

Total capital assets increased \$386.4 million, less \$50.9 million of retirements, and accumulated depreciation increased \$320.5 million, less \$50.8 million of retirements, resulting in a net capital asset increase of \$65.8 million. Major expenditures during the year were incurred for various transit and regional rail infrastructures improvements, new regional rail cars and buses, and the vehicle overhaul program.

The decrease in other assets of \$3.5 million includes a \$2.9 million favorable change in market value of the Authority’s swap in connection with its 2007 series bond issuance.

Total liabilities increased \$73.0 million primarily due to the recognition of a liability increase in other postemployment benefit obligations of \$109.4 million, public liability, property damage and workers’ compensation claims of \$9.1 million, and accrued expenses of \$8.7 million. The increased claims liability reflects higher claim settlement and litigation costs. The accrued expense liability increase was due to higher accruals for pension and wage costs. Offsetting the liability increases were reductions in long-term debt of \$30.1 million, deferred capital grant revenue of \$11.1 million, and other liabilities of \$12.0 million. The long-term debt decrease was primarily due to the termination of a Swap agreement in connection with its 1999 Series

Revenue Bonds which had a negative fair market value of \$32.0 million as of June 30, 2010. The deferred capital grant revenue decrease reflects prior years State Act 3 and Act 26 receipts that were used in the current fiscal year to fund capital expenditures and certain lease reimbursements. The other liabilities decrease was due to the use of \$9.5 million in unamortized swaption proceeds towards termination of a Swap agreement and the use of railcar vehicle lease proceeds received in previous years to fund the state share of selected capital projects.

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 \$102.1 million to a deficit amount of \$591.1 million primarily due to the current year recognition of \$109.4 million of additional other postemployment benefit costs that were accrued. 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. In March 2010, the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to begin tolling Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA’s annual capital budget was cut by 25 percent, or \$110 million, beginning in Fiscal Year 2011. Without approved sources of funding to replace this funding gap, SEPTA must continue to program State funding for capital projects at the reduced Fiscal Year 2011 level and the funding shortfall could have negative consequences on the operating budget beginning in Fiscal Year 2014. In April 2011, the Transportation Funding Advisory Commission (“TFAC”) was established by Executive Order at the direction of the Pennsylvania Governor.

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The purpose of the Commission was to develop a comprehensive strategic proposal for addressing the transportation funding needs of Pennsylvania. On August 1, 2011, the TFAC submitted its final report. The report outlines several modernization proposals and a recommended funding package to address transportation needs, both

highway and transit, throughout the Commonwealth. The Authority is prepared to work with the Governor and members of the General Assembly to address the funding shortfall facing transportation in the Commonwealth.

Changes in Net Assets. Net assets for the fiscal year ended June 30, 2011 decreased \$43.3 million to \$2,830.6 million. The decrease in net assets as compared to the increase in Fiscal Year 2010 is described below. Total operating revenues increased 10.4% to \$470.1 million and total operating expenses increased 4.4% to \$1,580.5 million.

Changes in Net Assets (thousands of dollars)			
	2011	For the Years ended June 30, 2010	Increase (decrease)
Operating revenues			
Passenger	\$ 439,408	\$ 395,966	11.0%
Other income	<u>30,703</u>	<u>29,689</u>	<u>3.4%</u>
Total operating revenues	<u>470,111</u>	<u>425,655</u>	<u>10.4%</u>
Operating expenses			
Operating expenses excluding depreciation	1,260,039	1,212,163	3.9%
Depreciation	<u>320,504</u>	<u>302,297</u>	<u>6.0%</u>
Total operating expenses	<u>1,580,543</u>	<u>1,514,460</u>	<u>4.4%</u>
Operating loss	<u>(1,110,432)</u>	<u>(1,088,805)</u>	<u>2.0%</u>
Nonoperating revenues (expenses)			
Subsidies	712,267	721,095	(1.2%)
Nonoperating expenses – net	<u>(5,528)</u>	<u>(29,195)</u>	<u>(81.1%)</u>
Total nonoperating revenues (expenses)	<u>706,739</u>	<u>691,900</u>	<u>2.1%</u>
Capital grants	<u>360,410</u>	<u>438,404</u>	<u>(17.8%)</u>
Increase (decrease) in net assets	(43,283)	41,499	(204.3%)
Total net assets, beginning of year	<u>2,873,849</u>	<u>2,832,350</u>	<u>1.5%</u>
Total net assets, end of year	<u>\$2,830,566</u>	<u>\$2,873,849</u>	<u>(1.5%)</u>

Passenger revenues increased 11.0% due to a fare increase effective July 1, 2010 and a 5.2% increase in ridership that was partially impacted by a six-day transit work stoppage in November 2009, increased price of gasoline impacting the cost of driving, growing Center City population and various service improvements. Other income increased 3.4% primarily due to higher revenue from real estate leases. Subsidies decreased by 1.2% due to higher than expected passenger revenue that resulted from the ridership increase. The \$8.8 million decrease in subsidies was primarily related to a reduction in state subsidies of \$29.5 million and \$0.6 million in local matching funds. Partially offsetting this decrease was an increase of \$21.3 million in federal subsidies due to the use of \$26.3 million in federal funds for lease reimbursement requirements that had been funded by the state in Fiscal Year 2010. Other nonoperating expenses, which consist of an interest expense decrease of \$8.9 million net of an investment income increase of \$14.8

million, changed by 81.1%. The interest expense decrease reflects a \$6.8 million reduction in interest expense due to the termination of the Swap agreement in connection with the Authority's outstanding 1999 Series Revenue Bonds which were refunded in October 2010 at lower interest rates. The reduction in interest rates on the refunded bond issuance and a lower outstanding principal debt balance resulted in the remaining decrease of \$2.1 million in interest expense. The investment income increase resulted from a \$5.6 million investment gain recognized on the termination of the Swap agreement in October 2010 and an \$8.2 million favorable change in the market value of the Swaps as compared to Fiscal Year 2010. Capital grants decreased 17.8% primarily due to a reduction in capital project work performed as a result of lower capital funds (including Federal Stimulus) being made available by both the federal and state governments.

Transportation, maintenance, and administrative expenses increased \$42.8 million, or 4.0%, primarily due to increases in labor and fringe benefits along with higher fuel and electric propulsion power costs. Labor expenses increased \$8.0 million, or 1.7% due to wage increases. Fringe benefit expenses increased \$28.6 million, or 5.7%, due to higher costs for health care, pensions, and other postemployment benefits. Fuel and propulsion power costs increased \$4.5 million, or 6.4%, primarily due to higher rates, net of the fuel hedge amounts received, and an increase in power used. Through its fuel hedge contracts that commenced in Fiscal Year 2011, the Authority was able to offset \$4.5 million, or a significant portion, of the fuel cost increases experienced during the fiscal year.

Purchased transportation expenses increased 7.1% primarily due to higher carrier costs in the current year, due in part, to increased wage and fuel costs.

Public liability and property damage claims expense increased 0.7% primarily due to higher claim settlement costs offset by a decrease in the corporate claims liability reserve.

Rent and other expenses increased 4.2% primarily due to increases in collateral cost for a rail car lease and the amortized cost of issuance related to debt.

Depreciation increased 6.0% primarily due to the replacement of fully depreciated transit revenue vehicles with new vehicles, and various transit and regional rail infrastructure improvements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$7,618.7 million. Net of accumulated depreciation of \$3,871.1 million, net capital assets totaled \$3,747.6 million. This amount represents a net increase, including additions and disposals net of depreciation, of \$65.8 million or 1.8% over June 30, 2010.

As of June 30, 2011, the Authority has commitments for various unexpended construction and design contracts of approximately \$45 million and commitments for unexpended revenue vehicle purchases primarily for regional rail cars and electric-diesel buses of approximately \$205 million. The Authority's capital budget for Fiscal Year 2012 includes capital asset additions in the amount of \$230.1 million. A significant portion of the additions is scheduled for the normal replacement and overhaul of transit revenue vehicles, and various infrastructure improvement capital programs, including the Regional Rail Signal System Modernization Project.

Debt Administration. As of June 30, 2011, the Authority's long-term debt was \$314.5 million, excluding the swap derivative liability of \$23.1 million and \$15.6 million for unamortized premium and amounts deferred in connection with defeased debt (or \$353.2 million in total).

The long-term debt decreased \$12.2 million due to regularly scheduled debt service payments of \$20.4 million net of the \$8.2 million increase in long-term debt due to the October 2010 issuance of Revenue Refunding Bonds, Series of 2010 that were used to refund the 1999 series Special Revenue Bonds, terminate the Swap agreement, and fund certain expenses incurred with the issuance of the 2010 bonds.

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)		
	2011	For the Years ended June 30, 2010	Increase (decrease)
Transportation	\$ 630,296	\$ 603,848	4.4%
Purchased transportation	51,634	48,205	7.1%
Maintenance	372,558	356,090	4.6%
Administrative	123,414	123,495	(0.1%)
Public liability and property damage claims	51,554	51,181	0.7%
Rent and other	30,583	29,344	4.2%
Depreciation	<u>320,504</u>	<u>302,297</u>	<u>6.0%</u>
Total operating expenses	<u>\$1,580,543</u>	<u>\$1,514,460</u>	<u>4.4%</u>

BALANCE SHEETS
JUNE 30, 2011 AND 2010
(THOUSANDS OF DOLLARS)

ASSETS	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS</u>		
Unrestricted funds (Note 2)		
Cash and cash equivalents	\$ 57,700	\$ 18,411
Investments	54,613	55,355
Restricted funds (Note 2)		
Cash and cash equivalents	90,669	73,009
Investments	34,388	28,826
Receivables		
Operating subsidies	2,995	9,628
Capital grants (Note 3)	131,014	220,155
Other	11,006	10,120
Material and supplies	65,563	64,994
Prepaid expenses	<u>14,604</u>	<u>3,482</u>
Total current assets	<u>462,552</u>	<u>483,980</u>
<u>NONCURRENT ASSETS</u>		
Restricted funds (Note 2)		
Cash and cash equivalents	12,146	18,383
Investments	17,302	22,302
Capital assets, net (Notes 3, 4, 5 & 6)	3,747,560	3,681,712
Other	27,640	31,122
Total noncurrent assets	<u>3,804,648</u>	<u>3,753,519</u>
TOTAL ASSETS	<u><u>\$ 4,267,200</u></u>	<u><u>\$ 4,237,499</u></u>

See accompanying notes to Financial Statements.

BALANCE SHEETS
JUNE 30, 2011 AND 2010
(THOUSANDS OF DOLLARS)

LIABILITIES AND NET ASSETS	<u>2011</u>	<u>2010</u>
<u>CURRENT LIABILITIES</u>		
Current maturities of		
Long-term debt (Note 5)	\$ 20,685	\$ 16,700
Accounts payable - trade	80,452	79,092
Accrued expenses (Note 7)	164,953	156,295
Current portion of public liability, property damage and workers' compensation claims (Note 11)	79,679	73,556
Deferred revenue	<u>186,006</u>	<u>189,210</u>
Total current liabilities	<u>531,775</u>	<u>514,853</u>
<u>NONCURRENT LIABILITIES</u>		
Public liability, property damage and workers' compensation claims (Note 11)	124,569	121,544
Long-term debt (Note 5)	332,501	366,545
Long-term capitalized lease obligation (Note 6)	15,272	14,512
Deferred capital grant revenue (Note 3)	7,578	18,632
Other postemployment benefits (Note 8)	415,790	306,390
Other liabilities (Notes 6 and 12)	9,149	21,174
Commitments and contingencies (Notes 5, 6, 10, 11 and 12)		
Total noncurrent liabilities	<u>904,859</u>	<u>848,797</u>
Total liabilities	<u>1,436,634</u>	<u>1,363,650</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	3,417,464	3,358,911
Restricted	4,153	3,922
Unrestricted	<u>(591,051)</u>	<u>(488,984)</u>
Total net assets	<u>2,830,566</u>	<u>2,873,849</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,267,200</u></u>	<u><u>\$ 4,237,499</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, 2011 AND 2010
(THOUSANDS OF DOLLARS)

	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES</u>		
Passenger	\$ 439,408	\$ 395,966
Other income	<u>30,703</u>	<u>29,689</u>
Total operating revenues	<u>470,111</u>	<u>425,655</u>
<u>OPERATING EXPENSES</u>		
Transportation	630,296	603,848
Purchased transportation	51,634	48,205
Maintenance	372,558	356,090
Administrative	123,414	123,495
Public liability and property damage claims (Note 11)	51,554	51,181
Rent and other	30,583	29,344
Depreciation	<u>320,504</u>	<u>302,297</u>
Total operating expenses	<u>1,580,543</u>	<u>1,514,460</u>
Operating loss	<u>(1,110,432)</u>	<u>(1,088,805)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Subsidies		
Federal	60,801	39,494
State	551,140	580,689
Local	81,651	82,211
Senior citizen	<u>18,675</u>	<u>18,701</u>
Total	712,267	721,095
Investment income (loss)	10,502	(4,323)
Interest expense (Note 5)	<u>(16,030)</u>	<u>(24,872)</u>
Total nonoperating revenues (expenses)	<u>706,739</u>	<u>691,900</u>
Loss before capital grants	(403,693)	(396,905)
<u>CAPITAL GRANTS</u>	<u>360,410</u>	<u>438,404</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(43,283)	41,499
<u>TOTAL NET ASSETS</u>		
Beginning	<u>2,873,849</u>	<u>2,832,350</u>
Ending	<u>\$ 2,830,566</u>	<u>\$ 2,873,849</u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(THOUSANDS OF DOLLARS)

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Passenger receipts	\$ 439,063	\$ 398,970
Other receipts	32,052	27,790
Payments for wages and employee benefits	(820,584)	(772,712)
Payments for fuel and propulsion	(76,355)	(69,524)
Payments for public liability & property damage claims	(44,583)	(43,087)
Payments for other operating expenses	<u>(198,589)</u>	<u>(203,779)</u>
Net cash used in operating activities	<u>(668,996)</u>	<u>(662,342)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Receipts of operating subsidies	<u>712,332</u>	<u>700,837</u>
Net cash provided by noncapital financing activities	<u>712,332</u>	<u>700,837</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital grants received	448,057	403,010
(Decrease) in deferred capital grant revenue	(10,684)	(3,865)
Acquisition of operating property and construction in progress	(383,797)	(436,944)
Proceeds from issuance of debt	245,220	-
Refunding of long-term debt and payment to terminate swap	(250,161)	-
Increase in long-term capitalized lease obligation	760	128
Repayment/reduction of long-term debt	(20,415)	(15,885)
Interest paid	<u>(24,012)</u>	<u>(24,578)</u>
Net cash provided by (used in) capital and related financing activities	<u>4,968</u>	<u>(78,134)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from sale of investments	92,750	190,173
Receipt of interest	1,809	1,465
Purchase of investments	<u>(92,151)</u>	<u>(200,833)</u>
Net cash provided by (used in) investing activities	<u>2,408</u>	<u>(9,195)</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	50,712	(48,834)
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	109,803	158,637
End of year	<u>\$ 160,515</u>	<u>\$ 109,803</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Unrestricted	\$ 57,700	\$ 18,411
Restricted	102,815	91,392
Total	<u>\$ 160,515</u>	<u>\$ 109,803</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>		
Operating loss	\$ (1,110,432)	\$ (1,088,805)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	320,504	302,297
(Increase) in receivables	(1,186)	(2,251)
(Increase) in materials & supplies	(569)	(1,092)
(Increase) decrease in prepaid expenses	(14,791)	8,362
Increase (decrease) in accounts payable – trade	2,722	(6,201)
Increase in accrued expenses and other liabilities net of other assets	16,208	11,953
Increase in public liability and property damage claims	9,148	6,503
Increase in other postemployment benefits	109,400	106,892
Total adjustments	<u>441,436</u>	<u>426,463</u>
Net cash used in operating activities	<u>\$ (668,996)</u>	<u>\$ (662,342)</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 85 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 647 thousand passenger trips per day. The Regional

Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 123 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 46 interurban trolley, light rail and bus routes, as well as demand response services, providing approximately 55 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 2011 and 2010 are summarized as follows:

	2011	2010
Federal subsidies:		
Preventive maintenance reimbursements	\$ 34,525	\$ 39,494
Leasehold reimbursements	26,276	0
State and local subsidies:		
Act 44 operating subsidies	592,741	591,631
Act 26/3/44 leasehold/debt service reimbursements	40,050	71,269
Senior citizen subsidies	<u>18,675</u>	<u>18,701</u>
Total subsidies	<u>\$ 712,267</u>	<u>\$ 721,095</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 2011, Congress extended SAFETEA-LU several times through Federal continuing resolutions which allowed for federal funding to continue through September 30, 2011. Federal subsidies provide for the reimbursement of vehicle, fixed guideway and structure preventive maintenance and certain capital lease expenses. In Fiscal Year 2011, the Authority began using federal subsidies for capital asset lease payments which were funded through the use of state subsidies in Fiscal Year 2010. 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND NATURE OF AUTHORITY (CONTINUED)

(“PTTF”) in the State Treasury and completely restructures the way public transportation is funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997 has been repealed and replaced with the PTTF dedicated fund. The PTTF provides State funding, in conjunction with required local governmental matching funds, from the five-county SEPTA region for five programs namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives.

State funding represents the largest single source of subsidy revenue and the City is the largest single provider of local subsidies. Senior Citizen subsidies are primarily funded by the State and beginning in Fiscal Year 2008 only includes subsidies related to the State Shared Ride program. It is the Authority’s policy to record all subsidies on a basis consistent with the time period specified in the governmental grant for federal and state subsidies. Local government subsidies were recorded based upon the matching funding requirements of Act 44, Act 26, and Act 3.

ACCOUNTING AND FINANCIAL REPORTING

The Authority follows Governmental Accounting Standards Board Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments” (GASB Statement No. 34), which requires a Management’s Discussion and Analysis to provide an analytical overview and discussion of financial activities. Additionally, GASB Statement No. 34 requires net assets to be classified as: invested in capital assets net of related debt, restricted and unrestricted. The cash flow statement is prepared using the direct method.

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

The Authority has elected an alternative which exempts the Authority from adherence to the Financial Accounting Standards

Board Statements and Interpretations and other related opinions and bulletins issued after November 30, 1989.

OTHER POSTEMPLOYMENT BENEFITS

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

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

RENEWAL AND REPLACEMENT

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

INVESTMENTS

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

MATERIALS AND SUPPLIES

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

CAPITAL ASSETS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSIONS

The Authority maintains five 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:

	2011	2010
Cash on hand	\$ 3,430	\$ 3,192
Cash in bank	74,767	1,628
Money market funds	107,018	128,074
Commercial paper	–	4,157
Outstanding checks	(24,700)	(27,248)
Total cash and cash equivalents	160,515	109,803
Less current portion – unrestricted	57,700	18,411
Less current portion – restricted	90,669	73,009
Total noncurrent portion – restricted	\$ 12,146	\$ 18,383

The components of investments as of June 30 are:

	2011	2010
U.S. Government and agencies	\$ 67,259	\$ 71,973
Commercial paper	–	28,793
Mutual funds	39,044	5,717
Total investments	106,303	106,483
Less current portion – unrestricted	54,613	55,355
Less current portion – restricted	34,388	28,826
Total noncurrent portion – restricted	\$ 17,302	\$ 22,302

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:

	2011	2010
Restricted:		
State dedicated funding provided by Act 26, including local match	\$ 944	\$ 6,670
State funding provided by Act 3, including local match	5,826	10,554
State dedicated funding provided by Act 44, including local match	89,155	68,689
Debt service funds:		
Revenue Refunding Bonds, Series of 2010	22,545	–
Special Revenue Bonds, Series of 2007	13,357	12,816
Special Revenue Bonds, Series of 1999A and 1999B	–	20,330
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	728	1,984
Light rail cars	1,601	1,836
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	15,033	14,557
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>4,153</u>	<u>3,921</u>
Total	<u>\$ 154,505</u>	<u>\$ 142,520</u>

As of June 30, 2011, 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, 2011, the Authority's investments in the bonds of U.S. agencies were rated AAA by Standard & Poor's. 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, Western Asset Institutional Government Money Market Fund and Dreyfus Government Cash Management, money market and mutual funds. These investments are 20.52%, 34.26% and 12.12% respectively, of the Authority's total investments.

For a deposit, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2011, \$74,517 of the Authority's cash in the bank of \$74,767 was fully collateralized with securities held by the pledging

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

financial institution, or by its trust department or agent, but not in the Authority's name.

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

to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2011, \$146,018 of the Authority's cash equivalent and investment balance of \$213,277 was exposed to custodial credit risk as follows:

Money market funds	\$ 106,986
Mutual funds	<u>39,032</u>
Total	<u>\$ 146,018</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	\$ 67,259	0.163
Money market funds	106,986	0.003
Mutual funds	<u>39,032</u>	0.003
	213,277	
Cash on hand	74,767	
Accrued interest	<u>50</u>	
Total fair value including accrued interest	<u>\$288,094</u>	
Portfolio effective duration		0.040

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

\$4.1 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$288.1 million with an effective duration of 0.040 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 \$7.3 billion from inception to June 30, 2011 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2011, the Authority had incurred costs of approximately \$7.0 billion against these grants of which \$360.4 million and \$438.4 million were incurred in Fiscal Years 2011 and 2010, 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, 2011.

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 2011 and 2010 are as follows:

	<u>Beginning Balance</u>	<u>Funding Additions</u>	<u>Investment Earnings/(Loss)</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2011	\$ 18,632	\$ –	\$ (329)	\$ 10,725	\$ 7,578
2010	\$ 22,184	\$ –	\$ 151	\$ 3,703	\$ 18,632

4. CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Capital Assets					
Revenue vehicles	\$ 1,909,139	\$ 130,417	\$ 69,221	\$ 47,493	\$ 2,061,284
Transit facilities, rail stations & depots	2,326,885	119,964	4,127	–	2,450,976
Track, roadway & signals	2,325,281	72,704	2,945	–	2,400,930
Intangibles	27,763	262	–	–	28,025
Other	<u>481,516</u>	<u>1,573</u>	<u>24,026</u>	<u>3,384</u>	<u>503,731</u>
Total	7,070,584	324,920	100,319	50,877	7,444,946
 Capital leases – revenue vehicles	 41,327	 –	 –	 –	 41,327
 Construction in progress	 <u>171,314</u>	 <u>61,459</u>	 <u>(100,319)</u>	 <u>–</u>	 <u>132,454</u>
Total	<u>7,283,225</u>	<u>386,379</u>	<u>–</u>	<u>50,877</u>	<u>7,618,727</u>
 Accumulated depreciation					
Property and equipment	3,576,188	319,020	–	50,850	3,844,358
Capital leases	<u>25,325</u>	<u>1,484</u>	<u>–</u>	<u>–</u>	<u>26,809</u>
Total	<u>3,601,513</u>	<u>320,504</u>	<u>–</u>	<u>50,850</u>	<u>3,871,167</u>
 Capital assets, net	<u>\$ 3,681,712</u>	<u>\$ 65,875</u>	<u>\$ –</u>	<u>\$ 27</u>	<u>\$ 3,747,560</u>

	<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	<u>6,881,432</u>	<u>433,799</u>	<u>–</u>	<u>32,006</u>	<u>7,283,225</u>
 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	<u>3,330,873</u>	<u>302,297</u>	<u>–</u>	<u>31,657</u>	<u>3,601,513</u>
 Capital assets, net	<u>\$ 3,550,559</u>	<u>\$ 131,502</u>	<u>\$ –</u>	<u>\$ 349</u>	<u>\$ 3,681,712</u>

4. CAPITAL ASSETS (CONTINUED)

Capital assets are acquired with capital grants, renewal and replacement and other operating funds. Capital assets are stated at cost and depreciation is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are generally 12 to 30 years for revenue vehicles, 30 years for structures, track and roadway, and 4 to 10 years for intangibles, signals and other equipment. Vehicle overhaul costs are capitalized and depreciated as capital assets over the extended useful lives of the vehicles estimated at 4 or 5 years. 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, 2011, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2011, the Authority has commitments for various unexpended construction contracts of approximately \$45 million and commitments for unexpended vehicle purchases for regional rail cars and buses of approximately \$205 million.

5. LONG-TERM DEBT AND SWAPS

Long-term debt as of June 30, 2011 and 2010 consists of the following:

	June 30, 2010	Additions	Market Value Change	Payments/ Reductions	June 30, 2011	Due Within One Year
Long-Term Debt:						
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 2% to 5%	\$ –	\$ 222,475	\$ –	\$ 13,340	\$ 209,135	\$ 13,260
Variable Rate Revenue Refunding Bonds, Series of 2007, due in varying amounts through 2022	112,450	–	–	7,075	105,375	7,425
Special Revenue Bonds, Series of 1999A and 1999B, due in varying amounts through 2029, with annual interest from 4.75% to 5.25%	<u>214,280</u>	<u>–</u>	<u>–</u>	<u>214,280</u>	<u>–</u>	<u>–</u>
	326,730	222,475	–	234,695	314,510	<u>\$ 20,685</u>
Unamortized bond premium, net of discount	884	22,745	–	2,627	21,002	
Less amounts deferred in connection with refunded debt	<u>(4,813)</u>	<u>(1,358)</u>	<u>–</u>	<u>(755)</u>	<u>(5,416)</u>	
Subtotal Long-Term Debt	322,801	243,862	–	236,567	330,096	
Swaps:						
Series of 2007 Swap	22,173	–	(2,947)	–	19,226	
Series of 1999A & 1999B Swap	31,980	–	3,901	35,881	–	
Series of 2010 Basis Swap (formerly Series of 1999A & 1999B)	<u>6,291</u>	<u>–</u>	<u>(2,427)</u>	<u>–</u>	<u>3,864</u>	
Subtotal Swaps	<u>60,444</u>	<u>–</u>	<u>(1,473)</u>	<u>35,881</u>	<u>23,090</u>	
Total Long-Term Debt, including Swaps	<u>\$ 383,245</u>	<u>\$ 243,862</u>	<u>\$ (1,473)</u>	<u>\$ 272,448</u>	<u>\$ 353,186</u>	

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

	June 30, 2009	Additions	Market Value Change	Payments/ Reductions	June 30, 2010	Due Within One Year
Long-Term Debt:						
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%	<u>223,440</u>	<u>–</u>	<u>–</u>	<u>9,160</u>	<u>214,280</u>	<u>9,625</u>
	342,615	–	–	15,885	326,730	<u>\$ 16,700</u>
Unamortized bond premium, net of discount	1,019	–	–	135	884	
Less amounts deferred in connection with refunded debt	<u>(5,614)</u>	<u>–</u>	<u>–</u>	<u>(801)</u>	<u>(4,813)</u>	
Subtotal Long-Term Debt	338,020	–	–	15,219	322,801	
Swaps:						
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	<u>8,240</u>	<u>–</u>	<u>(1,949)</u>	<u>–</u>	<u>6,291</u>	
Subtotal Swaps	<u>52,449</u>	<u>–</u>	<u>7,995</u>	<u>–</u>	<u>60,444</u>	
Total Long-Term Debt, including Swaps	<u>\$ 390,469</u>	<u>\$ –</u>	<u>\$ 7,995</u>	<u>\$ 15,219</u>	<u>\$ 383,245</u>	

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 were used to finance a portion of the Market-Frankford Subway-

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

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

In March 2007, the Authority issued \$131.7 million of Variable Rate Revenue Refunding Bonds, Series of 2007 (“2007 Bonds”),

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Debt maturities	\$ 20,685	\$ 19,780	\$ 20,625	\$ 21,555	\$ 22,370
Debt related interest	10,164	9,742	9,153	8,658	8,194
Hedging derivative, net	<u>4,829</u>	<u>4,490</u>	<u>4,134</u>	<u>3,762</u>	<u>3,369</u>
Net Cash Flows	\$ 35,678	\$ 34,012	\$ 33,912	\$ 33,975	\$ 33,933

	<u>2017 – 2021</u>	<u>2022 – 2026</u>	<u>2027 – 2028</u>
Debt maturities	\$120,825	\$ 64,915	\$ 23,755
Debt related interest	30,441	14,161	1,755
Hedging derivative, net	<u>10,220</u>	<u>560</u>	<u>–</u>
Net Cash Flows	\$161,486	\$ 79,636	\$ 25,510

The above amounts assume that current interest rates on the 2007 variable rate refunding bonds, which was 0.84% as of June 30, 2011, and the current reference rates on its related hedging

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 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 was determined on a weekly basis by the remarketing agent, PNC Capital Markets LLC. On October 5, 2010, in conjunction with the issuance of the 2010 Bonds, the Authority converted the interest rate mode of its 2007 Bonds from a weekly mode to a daily mode by the remarketing agent, PNC Capital Markets LLC.

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

At June 30, 2011, the aggregate debt service requirements of the Authority’s debt and net payments on its related effective hedging derivative instrument are as follows:

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

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

SWAPS:

The Authority entered into three swaption contracts with two separate counterparties, Merrill Lynch Capital Services, Inc. (currently Bank of America, NA) 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 pay-fixed, receive-variable interest rate swap. The final option, which related to the Special Revenue Bonds, Series of 1999A and 1999B, was exercised on March 1, 2009 and had 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. Effective October 1, 2010 the Authority issued Revenue Refunding Bonds, Series of 2010, which along with \$9.5 million of swaption proceed funds were used to refund its outstanding 1999 series Special Revenue Bonds and fund the termination of the swap agreement that commenced March 1, 2009. An investment gain of \$5.6 million was recognized in Fiscal Year 2011 upon termination of the swap. During Fiscal Year 2005, the Authority had terminated the swaption contract exercisable March 1, 2005. Effective March 1, 2007, the swaption with the notional amount of \$131.3 million, associated with the Special Revenue Bonds, Series of 1997, was exercised, the associated bonds were called, and Variable Rate Revenue Refunding

Bonds, Series of 2007, were issued. Concurrently, the Authority entered into a pay-fixed, receive-variable interest rate swap with a current notional amount of \$105.4 million as of June 30, 2011. 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. In connection with the issuance of the 2010 bonds and the refunding of the 1999 bonds, the basis swap was amended on substantially the same terms and is now associated with the 2010 bonds.

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

As of June 30, 2011, the Authority had the following derivative instruments outstanding:

		<u>Notional Amount</u>	<u>Fair Value Classification</u>	<u>Amount</u>	<u>Changes in Fair Value Classification</u>	<u>Amount</u>
<u>Business-type activities:</u>						
<i>Cash flow hedge:</i>						
A.	Pay-fixed interest rate swap	\$ 105,375	Debt	\$ (19,226)	Deferred outflow (other assets)	\$ 2,947
<i>Fair value hedge:</i>						
B.	Pay-variable interest rate swap	\$ 195,460	Debt	\$ (3,865)	Investment Income	\$ 2,427

DERIVATIVE INSTRUMENT TYPES

Hedge effectiveness: As of June 30, 2011 and 2010, the derivative instrument B associated with the 2010 (formerly 1999) series bonds did not meet the criteria for effectiveness. Accordingly, the accumulated changes in fair value were reported within the investment income (loss) classification as \$2,427 at June 30, 2011 and \$1,949 at June 30, 2010. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2011 was evaluated to be effective using the regression analysis method. This

method measures the statistical relationship between changes in the fair value or cash flows of the potential hedging derivative and the hedgeable item. For the potential hedging derivative instrument evaluated using regression analysis to be considered effective, the analysis must meet the following 3-criteria: an R-squared of at least 0.80, an F-statistic that indicates statistical significance at the 95 percent confidence interval, and a regression coefficient for the slope between -1.25 and -0.80.

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

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, 2011 and the counterparty credit rating of Bank of America, NA is as follows:

Instrument	Derivative Type	Counterparty Credit Rating	Objective	Notional Amount	Effective Date	Termination Date	Terms
A	Pay-fixed interest rate swap	Aa3/AA–/AA–	Hedge changes in cash flows on the 2007 variable rate refunding Bonds	\$105,375	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR;pay 4.706% fixed

FAIR VALUE

As of June 30, 2011, the swaps had a negative fair value totaling \$23.1 million, estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

ROLLOVER RISK

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

CREDIT RISK

As of June 30, 2011, 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, 2011, the swap counterparty for the 2010 series bonds was Bank of America, NA which had a counterparty rating previously indicated in the terms for instrument A as rated by Moody's Investors Services, Standard & Poor's and Fitch, respectively. The counterparty to the basis swap was also Bank of America, NA. 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 and the swap associated with the Revenue Refunding Bonds, Series of 2010 issued October 1, 2010. 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 its bonds. The actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the issued bonds versus the variable payment received on the swap.

INTEREST RATE RISK

As of June 30, 2011, the Authority had ineffective derivative investment with the following maturity:

Investment Type	Fair Value	Investment Maturity More Than 10 Years
Derivative Instrument B	\$ (3,865)	\$ (3,865)

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 \$15.3 million as of June 30, 2011, 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 allow the Authority to buy out the equity investor's remaining rights under the agreement, thereby terminating the entire transaction.

6. LEASES (CONTINUED)

The above cross border and lease/leaseback transactions, including changes for Fiscal Years 2011 and 2010, are included, as are unamortized swaption proceeds, in the following liabilities:

<u>Other Liabilities</u>	<u>Beginning Balance</u>	<u>Reductions *</u>	<u>Investment Earnings</u>	<u>Ending Balance</u>
2011	\$ 21,174	\$ (12,138)	\$ 113	\$ 9,149
2010	\$ 24,573	\$ (3,497)	\$ 98	\$ 21,174

* Includes reductions of lease/leaseback agreement and swaption proceeds. The Fiscal Year 2011 decrease includes the use of \$9.5 million in unamortized swaption proceeds towards termination of a swap agreement.

OPERATING LEASES

The Authority leases equipment and utility vehicles, with leases expiring at various dates. Rental expense for these operating leases was \$2.4 million and \$2.2 million for Fiscal Years 2011 and 2010, respectively.

7. PENSION PLANS

PLAN DESCRIPTION

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

A bargaining unit employee (except for transit police) may retire with an unreduced pension benefit at age 62 with completion of 5

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

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, 2010, 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	1,305	9	2,685	249	24	4,272
Terminated plan members entitled to but not yet receiving benefits	529	51	838	117	27	1,562
Active plan members	<u>1,769</u>	<u>208</u>	<u>5,152</u>	<u>534</u>	<u>228</u>	<u>7,891</u>
Total	<u>3,603</u>	<u>268</u>	<u>8,675</u>	<u>900</u>	<u>279</u>	<u>13,725</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 2011 are as follows:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>
Contribution rates:					
SEPTA	25.98%	10.30%	19.57%	15.42%	9.61%
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 2011 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	\$32,462	\$ 1,190	\$48,635	\$ 3,811	\$ 911	\$87,009
Contributions made	<u>31,213</u>	<u>1,031</u>	<u>43,320</u>	<u>3,319</u>	<u>709</u>	<u>79,592</u>
Increase in accrued pension liability	1,249	159	5,315	492	202	7,417
Accrued pension liability, beginning of year	<u>31,058</u>	<u>1,028</u>	<u>43,036</u>	<u>3,300</u>	<u>706</u>	<u>79,128</u>
Accrued pension liability, end of year	<u>\$32,307</u>	<u>\$ 1,187</u>	<u>\$48,351</u>	<u>\$ 3,792</u>	<u>\$ 908</u>	<u>\$86,545</u>
Actuarial valuation date	7/1/10	7/1/10	7/1/10	7/1/10	7/1/10	
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 ¹	8.00%	8.00%	8.00%	8.00%	8.00%	
Salary increases ³	3.50%	²	²	²	²	
Cost-of-living adjustments	None	None	None	None	None	

¹ Interest is gross of investment-related expenses.
² Salary scale rates vary by years of service.
³ Reflects underlying inflation assumption of 2.75%.

7. PENSION PLANS (CONTINUED)

		<u>Analysis of Pension Funding</u>	
	<u>YEAR ENDED</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>
SAM	6/30/11	\$32,462	100.0%
SAM	6/30/10	\$31,213	100.0%
SAM	6/30/09	\$25,284	100.0%
SAM	6/30/08	\$28,819	100.0%
SAM	6/30/07	\$25,245	100.0%
SAM	6/30/06	\$22,971	100.0%
Transit Police	6/30/11	1,190	100.0%
Transit Police	6/30/10	1,031	100.0%
Transit Police	6/30/09	733	100.0%
Transit Police	6/30/08	779	100.0%
Transit Police	6/30/07	683	100.0%
Transit Police	6/30/06	680	100.0%
City Transit	6/30/11	48,635	100.0%
City Transit	6/30/10	43,320	100.0%
City Transit	6/30/09	38,534	100.0%
City Transit	6/30/08	35,690	100.0%
City Transit	6/30/07	33,091	100.0%
City Transit	6/30/06	29,898	100.0%
Red Arrow	6/30/11	3,811	100.0%
Red Arrow	6/30/10	3,319	100.0%
Red Arrow	6/30/09	2,908	100.0%
Red Arrow	6/30/08	2,620	100.0%
Red Arrow	6/30/07	2,429	100.0%
Red Arrow	6/30/06	2,135	100.0%
Frontier	6/30/11	<u>911</u>	<u>100.0%</u>
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>
TOTAL	6/30/11	<u>\$87,009</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>

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	7/1/10	\$357,290	\$552,099	\$194,809	64.7%	\$124,931	155.9%
SAM	7/1/09	\$341,869	\$529,415	\$187,546	64.6%	\$122,325	153.3%
SAM	7/1/08	\$376,919	\$499,524	\$122,605	75.5%	\$118,656	103.3%
SAM	7/1/07	\$355,391	\$498,208	\$142,817	71.3%	\$118,832	120.2%
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%
Transit Police	7/1/10	17,172	21,393	4,221	80.3%	11,546	36.6%
Transit Police	7/1/09	15,386	18,872	3,486	81.5%	10,523	33.1%
Transit Police	7/1/08	15,908	16,367	459	97.2%	10,430	4.4%
Transit Police	7/1/07	14,303	15,089	786	94.8%	9,983	7.9%
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%
City Transit	7/1/10	382,757	736,230	353,473	52.0%	248,484	142.3%
City Transit	7/1/09	365,702	684,997	319,295	53.4%	242,762	131.5%
City Transit	7/1/08	397,906	661,740	263,834	60.1%	232,168	113.6%
City Transit	7/1/07	379,856	620,111	240,255	61.3%	260,569	92.2%
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%
Red Arrow	7/1/10	30,762	56,928	26,166	54.0%	24,709	105.9%
Red Arrow	7/1/09	29,452	52,552	23,100	56.0%	23,447	98.5%
Red Arrow	7/1/08	31,582	50,200	18,618	62.9%	22,278	83.6%
Red Arrow	7/1/07	29,836	46,495	16,659	64.2%	26,704	62.4%
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%
Frontier	7/1/10	10,089	13,385	3,296	75.4%	9,484	34.8%
Frontier	7/1/09	9,054	11,529	2,475	78.5%	8,984	27.5%
Frontier	7/1/08	9,307	10,619	1,312	87.6%	8,267	15.9%
Frontier	7/1/07	8,492	9,647	1,155	88.0%	9,386	12.3%
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%
TOTAL	7/1/10	\$798,070	\$1,380,035	\$581,965	57.8%	\$419,154	138.8%
TOTAL	7/1/09	\$761,463	\$1,297,365	\$535,902	58.7%	\$408,041	131.3%
TOTAL	7/1/08	\$831,622	\$1,238,450	\$406,828	67.2%	\$391,799	103.8%
TOTAL	7/1/07	\$787,878	\$1,189,550	\$401,672	66.2%	\$425,474	94.4%
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%

7. PENSION PLANS (CONTINUED)

The actuarial value of assets is adjusted to reflect the timing of the payment of the employer contribution receivable and recognizes investment earnings that are greater than or less than those expected by the assumed rate of return over a 3 year period. 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 2011 and the actuarial accrued liability as of July 1, 2010 were affected by changes to pension provisions modifying the formula for determining plan benefits. The annual pension costs for the Union Plans increased by \$4.6 million due to the change. The increase to the actuarial accrued liability for the Union plans was \$32.9 million.

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

The annual pension cost for Fiscal Year 2008 and the actuarial accrued liability as of July 1, 2007 were affected by a change in the mortality assumption projected for future mortality improvements

using a generational approach. The annual pension costs for the Union Plans and the SAM Plan each increased by \$4.0 million due to the mortality change. The actuarial accrued liability for the Union Plans and the SAM Plan increased \$27.8 million and \$30.3 million, respectively, due to the change.

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 the 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 the 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 the 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 the 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, 2011

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2011 Total</u>
Assets:						
Receivables						
Employer contributions	\$ 32,462	\$ 1,190	\$ 48,635	\$ 3,811	\$ 911	\$ 87,009
Plan member contributions	149	76	871	87	34	1,217
Interest and dividends	1,484	78	1,540	124	45	3,271
Sales pending settlement	<u>504</u>	<u>27</u>	<u>525</u>	<u>42</u>	<u>16</u>	<u>1,114</u>
Total receivables	<u>34,599</u>	<u>1,371</u>	<u>51,571</u>	<u>4,064</u>	<u>1,006</u>	<u>92,611</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	27,118	1,429	28,172	2,269	840	59,828
U.S. Government obligations	17,708	933	18,397	1,482	549	39,069
Corporate and other government obligations	59,054	3,110	61,352	4,942	1,830	130,288
Preferred stocks	300	16	312	25	9	662
Common stocks	235,720	12,418	244,887	19,724	7,302	520,051
Private equity	25,894	1,364	26,902	2,166	803	57,129
Real estate	<u>11,234</u>	<u>592</u>	<u>11,672</u>	<u>940</u>	<u>348</u>	<u>24,786</u>
Total investments	<u>377,028</u>	<u>19,862</u>	<u>391,694</u>	<u>31,548</u>	<u>11,681</u>	<u>831,813</u>
Total assets	411,627	21,233	443,265	35,612	12,687	924,424
Liabilities:						
Purchases pending settlement	<u>1,581</u>	<u>83</u>	<u>1,643</u>	<u>132</u>	<u>49</u>	<u>3,488</u>
Net assets held in trust for pension benefits	<u>\$ 410,046</u>	<u>\$ 21,150</u>	<u>\$ 441,622</u>	<u>\$ 35,480</u>	<u>\$ 12,638</u>	<u>\$ 920,936</u>

7. PENSION PLANS (CONTINUED)

STATEMENTS OF PLAN NET ASSETS
as of June 30, 2010

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2010 Total</u>
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>51</u>	<u>1,081</u>	<u>88</u>	<u>30</u>	<u>2,290</u>
Net assets held in trust for pension benefits	<u>\$ 328,097</u>	<u>\$ 15,784</u>	<u>\$ 352,040</u>	<u>\$ 28,307</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, 2011

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2011 Total
Additions						
Contributions						
Employer	\$ 32,462	\$ 1,190	\$ 48,635	\$ 3,811	\$ 911	\$ 87,009
Plan member	<u>1,003</u>	<u>471</u>	<u>5,080</u>	<u>506</u>	<u>197</u>	<u>7,257</u>
Total contributions	<u>33,465</u>	<u>1,661</u>	<u>53,715</u>	<u>4,317</u>	<u>1,108</u>	<u>94,266</u>
Investment income (loss)						
Net realized gain	21,664	1,121	22,507	1,816	660	47,768
Net increase in fair value of investments	46,189	2,334	47,938	3,878	1,381	101,720
Interest	5,150	265	5,350	432	157	11,354
Dividends	<u>4,136</u>	<u>213</u>	<u>4,296</u>	<u>347</u>	<u>126</u>	<u>9,118</u>
Total investment income	77,139	3,933	80,091	6,473	2,324	169,960
Less investment expense	<u>1,542</u>	<u>79</u>	<u>1,601</u>	<u>130</u>	<u>47</u>	<u>3,399</u>
Net investment income (loss)	<u>75,597</u>	<u>3,854</u>	<u>78,490</u>	<u>6,343</u>	<u>2,277</u>	<u>166,561</u>
Total additions (loss)	<u>109,062</u>	<u>5,515</u>	<u>132,205</u>	<u>10,660</u>	<u>3,385</u>	<u>260,827</u>
Deductions						
Benefits	27,421	233	41,994	3,426	47	73,121
Asset transfer for transferred employees	(477)	(93)	445	46	79	–
Administrative expense	<u>169</u>	<u>9</u>	<u>184</u>	<u>15</u>	<u>5</u>	<u>382</u>
Total deductions	<u>27,113</u>	<u>149</u>	<u>42,623</u>	<u>3,487</u>	<u>131</u>	<u>73,503</u>
Net increase (decrease)	81,949	5,366	89,582	7,173	3,254	187,324
Net assets held in trust for pension benefits						
Beginning of year	<u>328,097</u>	<u>15,784</u>	<u>352,040</u>	<u>28,307</u>	<u>9,384</u>	<u>733,612</u>
End of year	<u>\$ 410,046</u>	<u>\$21,150</u>	<u>\$441,622</u>	<u>\$35,480</u>	<u>\$12,638</u>	<u>\$920,936</u>

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

	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2010 Total
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	6,455	316	6,672	541	185	14,169
Net increase 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	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>6</u>	<u>150</u>	<u>13</u>	<u>4</u>	<u>322</u>
Total deductions	<u>24,671</u>	<u>332</u>	<u>39,750</u>	<u>3,213</u>	<u>325</u>	<u>68,291</u>
Net increase (decrease)	43,291	2,815	45,234	3,579	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>\$15,784</u>	<u>\$352,040</u>	<u>\$28,307</u>	<u>\$9,384</u>	<u>\$733,612</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 2011 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	\$ 38,397	\$ 1,868	\$ 98,723	\$ 8,890	\$147,878
Interest on net OPEB obligation	3,023	178	8,215	840	12,256
Adjustment to annual required contribution	<u>(4,287)</u>	<u>(252)</u>	<u>(11,648)</u>	<u>(1,191)</u>	<u>(17,378)</u>
Annual OPEB cost (expense)	37,133	1,794	95,290	8,539	142,756
Contributions made	<u>10,798</u>	<u>31</u>	<u>20,695</u>	<u>1,832</u>	<u>33,356</u>
Increase in net OPEB obligation	26,335	1,763	74,595	6,707	109,400
Net OPEB obligation, beginning of year	<u>75,576</u>	<u>4,438</u>	<u>205,365</u>	<u>21,011</u>	<u>306,390</u>
Net OPEB obligation, end of year	<u>\$ 101,911</u>	<u>\$ 6,201</u>	<u>\$279,960</u>	<u>\$ 27,718</u>	<u>\$415,790</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 2011, 2010 and 2009 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	6/30/11	\$ 37,133	29.1%	\$101,911
SAM	6/30/10	\$ 36,163	28.6%	\$ 75,576
SAM	6/30/09	\$ 34,406	27.4%	\$ 49,755
Transit Police	6/30/11	1,794	1.7%	6,201
Transit Police	6/30/10	1,686	1.0%	4,438
Transit Police	6/30/09	1,462	3.0%	2,769
Non-Railroad Union Groups	6/30/11	95,290	21.7%	279,960
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
Railroad Union Groups	6/30/11	<u>8,539</u>	21.5%	<u>27,718</u>
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>
Total	6/30/11	<u>\$142,756</u>	23.4%	<u>\$415,790</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>

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 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 \$330 thousand and \$332 thousand for Fiscal Years 2011 and 2010,

respectively. The total amount of all contributions made by employee and employer generally cannot exceed \$16.5 thousand annually per individual.

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

10. COMMITMENTS AND CONTINGENCIES

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

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, 2011, the maximum amount the Authority would have been required to post to its counterparties is \$23.1 million. Because the Authority’s unenhanced debt obligations were rated “A1” by Moody’s, “AA-” by S&P, and “AA” by Fitch at June 30, 2011, 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, 2011. 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 3% for Fiscal Year 2011 and 4% for Fiscal Year 2010, 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 2011 increased \$0.4 million. The related liability as of June 30, 2011 increased \$6.9 million, which includes a \$1.8 million increase from the decrease in the discount rate as well as the impact of higher claim settlement and litigation costs. The expense for pollution remediation activities at various SEPTA locations where underground storage tanks were previously removed and replaced was \$0.3 and \$0.4 million in expense for Fiscal Year 2010 and 2011, respectively. The Pennsylvania Department of Environmental Protection (PADEP)

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

The Authority is self-insured for workers’ compensation claims for its employees. The Authority provides a liability for the self-insured amount based on an actuarial valuation that uses the present value of the estimated ultimate cost of settling claims, discounted at 3% for Fiscal Year 2011 and 4% for Fiscal Year 2010, utilizing a case-by-case review of all claims, adjusted for estimates of future adverse claims development, as of June 30. The decrease in the discount rate in Fiscal Year 2011 resulted in an increase to the liability of \$2.3 million.

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

Total claims liabilities, including changes for Fiscal Years 2011 and 2010, are as follows:

	Public Liability and Property Damage	Workers’ Compensation	Totals
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	143,037	52,063	195,100
Claims expense	51,554	18,721	70,275
Pollution remediation expense	439	–	439
Payment of claims	(44,583)	(16,467)	(61,050)
Payments for pollution remediation	<u>(516)</u>	<u>–</u>	<u>(516)</u>
Balance at June 30, 2011	<u>\$ 149,931</u>	<u>\$ 54,317</u>	<u>\$ 204,248</u>
Balance at June 30, 2011, due within one year	<u>\$ 67,980</u>	<u>\$ 11,699</u>	<u>\$ 79,679</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. The economic recession had resulted in limited growth in Statewide Sales Tax Revenue in Fiscal Year 2011. This funding source is a key component of the Trust Fund. Further compounding the problem, in March 2010 the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal

Highway Administration to toll Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA’s annual capital budget was cut by 25 percent, or \$110 million, beginning in Fiscal Year 2011. Without approved sources of funding to replace this funding gap, SEPTA must continue to utilize State funding for capital projects at the reduced Fiscal Year 2011 level and the funding shortfall could have negative consequences on the operating budget beginning in Fiscal Year 2014. In April 2011, the Transportation Funding Advisory Commission (“TFAC”) was established by Executive Order at the direction of the Pennsylvania Governor. The purpose of the Commission was to develop a comprehensive strategic proposal, to be completed in July 2011, for addressing the transportation funding needs of Pennsylvania. The Authority is prepared to work with the Governor and members of the General Assembly to address the funding shortfall facing transportation in the Commonwealth.

13. SUBSEQUENT EVENT

On August 16, 2011 the Authority issued \$201.6 million of Capital Grant Receipts Bonds, Series 2011 (“2011 Bonds”), due in varying amounts through 2029 with annual interest rates ranging between 3.0% and 5.0%. The proceeds from the sale of the 2011 Bonds will be used to finance the acquisition of 116 Silverliner V

Regional Railcars, finance the rehabilitation of the Wayne Junction Intermodal Facility, fund a deposit to the Debt Service Reserve Fund, and fund certain costs and expenses incurred in connection with the issuance and sale of the 2011 Bonds.