



FY 2012 Annual Report

**YEAR OF EXCELLENCE**

A vertical spiral notebook with a dark grey spine and silver-colored rings. The notebook is open to a page with horizontal grey lines. The text is written on the right-hand page.

### ON THE COVER

On April 9, 2012 SEPTA launched a successful campaign aimed at acquiring young riders through peer-to-peer testimonials. The campaign turned SEPTA into a verb, such as “ISEPTA to the mall”...“ISEPTA to the Phillies.” We reached this group by identifying what they like to do. We sponsored a series of concert “block parties,” advertised in movie theaters, and ran commercials and banner ads on Pandora. All messaging was designed to drive traffic to a new, interactive web site where riders were encouraged to submit their own SEPTA videos for a chance to win prizes, including transit passes, concert tickets, and a trip to Las Vegas courtesy of Clear Channel Radio. Our young riders tell each other that they “SEPTA Philly” because it is easy, affordable, clean, eco-friendly, and more. Overall, “ISEPTA Philly” proves to be a way to learn more about riding, as well as for us to get valuable feedback.

Click here to learn more at <http://www.iseptaphilly.com/>

TABLE OF CONTENTS

2	MANAGEMENT LETTER	14	NOVEMBER	26	MAY	44	MANAGEMENT'S DISCUSSION AND ANALYSIS
4	SEPTA BOARD MEMBERS	16	DECEMBER	28	JUNE	50	STATEMENTS OF NET ASSETS
6	JULY	18	JANUARY	30	TOWARD THE FUTURE	52	STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
8	AUGUST	20	FEBRUARY	34	ECONOMIC DEVELOPMENT	53	STATEMENTS OF CASH FLOWS
10	SEPTEMBER	22	MARCH	40	FINANCIAL AND STATISTICAL HIGHLIGHTS	54	NOTES TO FINANCIAL STATEMENTS
12	OCTOBER	24	APRIL	43	INDEPENDENT AUDITORS' REPORT		

MANAGEMENT LETTER

In Fiscal Year 2012, the Southeastern Pennsylvania Transportation Authority recorded the Authority's highest ridership in more than 23 years. Our riders took 339.3 million trips on buses, subways, regional rail trains, trolleys, and Customized Community Transportation service. This ridership level is an increase of 5.3 million riders, or 1.6% over Fiscal Year 2011. Passenger revenue rose as consumers selected SEPTA as their transportation of choice. Moreover, in the last six years annual ridership has grown by more than 14% or 42.7 million trips.

Despite a capital budget funding level of \$300 million which is at a 15 year low, SEPTA continued to strategically make investments in our transportation system. SEPTA invested in signal system improvements, Centralized Train Control Systems, and bus/trolley GPS systems to enhance on-time performance, quality of service, and communicate service status. The Authority's State-of-the-Art

Control Center monitors real time operational data, publishes Travel Alerts to the SEPTA website, Twitter and ReadyNotify-PA. In renewing its bus and rail fleet, SEPTA continued to take delivery of new vehicles including the Silverliner V rail cars with final assembly of those vehicles taking place in Philadelphia provided by parts from suppliers throughout the Commonwealth.

Public transit is a "green" business and SEPTA has adopted a comprehensive program that commits the organization to advance economic, social, and environmental sustainability goals and objectives. Several "green" technologies were pursued during the year and the Authority was awarded grants for its Wayside Energy Storage program, Vulnerability and Risk Assessment study and an ultra-low emitting locomotive engine along with grants to continue the expansion of its hybrid bus fleet. Such initiatives have generated annual operating budget savings of \$5.6 million through recycling, innovative energy storage and

use of high-efficiency vehicles. As a national leader, APTA honored SEPTA with the Gold Recognition Level in sustainability commitment. SEPTA is the fourth agency in North America to receive such recognition and the first on the East Coast.

In Fiscal Year 2012, a major step was taken in modernizing our fare collection system by awarding a contract to ACS Transport Solutions Group (recently acquired by the Xerox Corporation) for equipment and services. Development of the new fare collection system is underway with the system set to roll out beginning in 2014.

Our ongoing commitment to customer service resulted in emphasis on technologies that place information at our riders' fingertips. Real-time tools include TrainView, Next to Arrive, TransitView, and SMS Transit Schedules. On our website, riders can get quick responses with Google Transit, Customer Service's On-Line Chat, and Dynamic Website Language

Translation. We also are using Facebook and Twitter. The Authority continued to maintain the fiscal discipline it is known for, balancing the operating budget for the 13th consecutive year. SEPTA is dedicated to controlling costs and increasing efficiencies while improving customer service and maintaining an aging infrastructure. Beyond relying on farebox revenue, the Authority aggressively pursues innovative sources of income such as income from website, billboard, and exterior train advertising.

These many accomplishments resulted in SEPTA receiving the 2012 "Outstanding Public Transportation System Achievement Award" from the American Public Transportation Association (APTA) for our efforts to enhance service, efficiencies, and overall effectiveness. Naming SEPTA the best large transportation system in North America, APTA called our achievements "models for the rest of the public-transit industry."

Although the Authority is proud of the progress made in improving service to our customers, the declining condition of our aged infrastructure and lack of funding to address those needs is a critical concern. In 2011, the Pennsylvania Transportation Funding Advisory Commission reported statewide transportation needs of \$3.5 billion and, without action, those costs continue to rise at a rate of \$1 million dollars a day reaching a current level of \$4.5 billion. It is critical that Governor and General Assembly reach a legislative agreement this year which provides a dedicated, predictable and growing transportation funding program.

As the Authority carries more than 76% of all transit riders in the Commonwealth and spends hundreds of millions of dollars in contracts benefiting businesses throughout the state, the economic competitiveness of the region and Commonwealth depend on a strong and balanced transportation network of highway, bridges, and transit.



Pasquale T. Deon, Sr.  
CHAIRMAN



Joseph M. Casey  
GENERAL MANAGER



SEPTA BOARD MEMBERS



**Back Row:** (L to R) Christopher H. Franklin, Kenneth Lawrence Jr., 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:** Beverly Coleman, Honorable Stewart J. Greenleaf, Esq., John I. Kane, Daniel J. Kubik, and Cuyler H. Walker, Esq.

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

**Vice Chairman**  
Thomas E. Babcock

SEPTA Board: Fiscal Year 2012

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

**Governor's Appointee**  
Thomas Jay Ellis, Esquire

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

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

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

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

**Montgomery County**  
Kenneth Lawrence, Jr.  
Michael J. O'Donoghue, Esquire

**House Majority Leader Appointee**  
Christopher H. Franklin

**Philadelphia**  
Beverly Coleman  
Rina Cutler

**House Minority Leader Appointee**  
John I. Kane

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

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

SEPTA Officers

**General Manager**  
Joseph M. Casey, CPA

**Chief Financial Officer/ Treasurer**  
Richard G. Burnfield

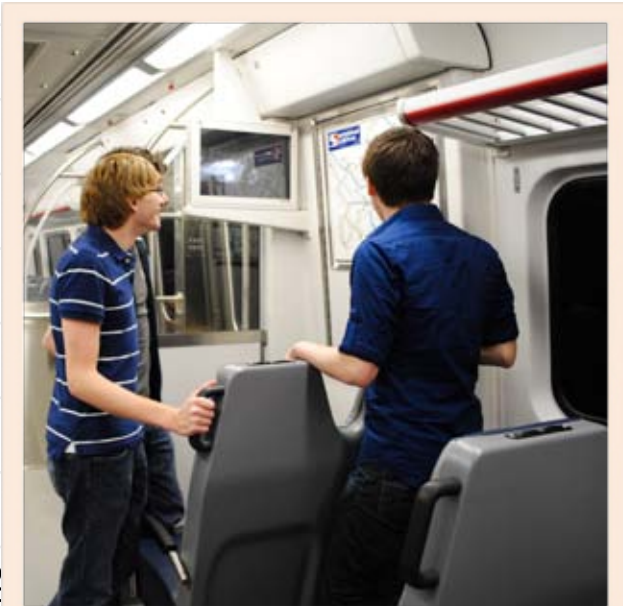
**General Counsel**  
James B. Jordan, Esquire

**Controller to the Board**  
Stephen A. Jobs, CPA

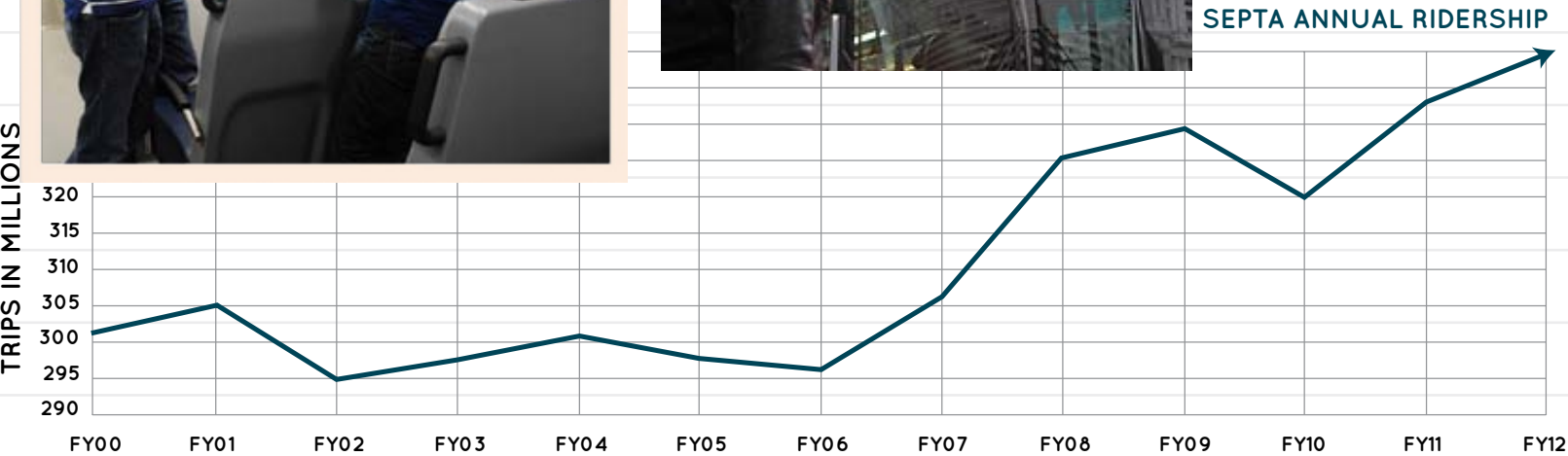
**Secretary to the Board**  
Elizabeth M. Grant

# RIDERSHIP THROUGH THE ROOF

We took riders on 339.3 million trips on buses, trains, subways, trolleys, and Customized Community Transportation vehicles in FY 2012. This marked the **highest ridership since 1989**. While riders realize that SEPTA is the way to beat high gas costs, we gave them even more reasons to ride with improvements everywhere. This includes renewed stations, larger parking lots, and modern vehicles. And we made customer service even better with new technologies.



July 1, 2011:  
Riders in the region



# MOVING FORWARD WHILE HONORING THE PAST



July 17, 2011:  
Ambler Station plaque unveiling with Todd Stephens, Pennsylvania State Representative (right) and a Mary Ambler look-alike (left).

SEPTA and neighbors of **historic Ambler Station** on the Lansdale/Doylestown Regional Rail Line joined together to celebrate the rebuilt station and honor the heroism of its namesake, Mary Ambler. Legendary Mary used her nursing skills to save lives during a train accident 150 years ago. Today, Mary would be proud of the new building, high-level platforms, and shelters that now stand at Ambler Station.



The installation of new platforms.



# FOX CHASE STATION SCORES SILVER

**Fox Chase is the nation's first LEED Silver certified train station.** LEED stands for Leadership in Energy and Environmental Design. Situated on the Fox Chase Regional Rail Line, the station was certified by the U.S. Green Building Council.

SEPTA went Silver by employing eco-friendly methods from start to finish. This includes recycling construction waste materials such as drywall; using low-pollutant building materials; and purchasing energy from a local green-energy supplier. For riders, Fox Chase Station offers recycling receptacles and 15 parking spots reserved for energy-efficient vehicles, like hybrids.



**August 1, 2011:**  
*The \$1.1 million project was funded by the Stimulus American Recovery and Reinvestment Act (ARRA).*

# RIDERS ON THE STORM

Preparing for Hurricane Irene took the efforts of all SEPTA employees. Although we do not have the “annual Florida-type experience,” SEPTA pulled together to do what was most important: safeguard riders. It was all-hands-on deck: from those manning the front-line throughout all five counties, to Control Center personnel at 1234 Market Street, to track crews that worked endless hours. The potentially hazardous weather conditions predicted forced us to make the unprecedented decision to temporarily suspend service during the height of the storm and the hours immediately after. Said General Manager Joe Casey: “We did this to safeguard our customers, employees, infrastructure, and vehicles and to ensure that we could get service running again, as soon as it was possible.”



**August 27, 2011:**  
*Although trees took wires down, SEPTA took the unprecedented step of halting service to prevent stranding passengers. Crews worked tirelessly to bring the rails back to life.*



## STATION GETS A REGAL MAKEOVER

On Sept. 7, 2011 the ribbon was cut to reveal the renewed beauty of the 125-year-old Queen Lane Station. SEPTA has created a \$4.1 million dollar award-winning renovation that meticulously blends the best of the old with new amenities. This included restoration of the existing exterior, a new pedestrian bridge, and passenger shelters. Queen Lane sits on the Chestnut Hill West Regional Rail Line.



**September 7, 2011:**  
*New Queen Lane exteriors.*



**(Left to right):** Donna Reed Miller, Philadelphia City Councilperson; Chaka Fattah, U.S. Congressman; Joe Casey, SEPTA General Manager; and Rosita Youngblood, Pennsylvania State Representative.

## MAKING FRUITFUL CONNECTIONS

The new **Food Trust Farmers Market at busy Frankford Transportation Center (FTC)** is one of several taking root at our stations. We are helping to bring regional farm food into urban areas in collaboration with the City and The Food Trust. This is just one more way SEPTA is lending a hand to the communities it serves. After the opening ceremony, the elected officials made the market's first purchases of the day, buying apples and peaches. As Nutter said, "Nothing beats a good peach."



**September 13, 2011:**  
*Mayor Michael A. Nutter affirmed his commitment to a healthy Philly at the grand opening of the FTC Food Trust Farmers Market.*



## SURVEILLANCE VIDEO HOLDS KEY EVIDENCE

SEPTA and the Philadelphia District Attorney's Office launched a campaign to **stop fraudulent injury claims** by highlighting the growing role surveillance video is playing in exposing defrauders. The campaign included two public service announcements by District Attorney Seth Williams, warning about the penalty of filing false claims and noting how surveillance cameras on SEPTA vehicles can be used as evidence. "A picture is truly worth a thousand words in these cases," said District Attorney Seth Williams.



**October 13, 2011:**  
SEPTA and the Philadelphia District Attorney's Office held a press conference about the successful use of surveillance cameras.

## MODERN, WITH OLD-STYLE GRANDEUR

SEPTA received the distinguished **Brunel Award** for the reconstruction of Regional Rail stations at Fort Washington, Ambler, and North Wales. **The international award recognizes the best railway projects in the world.** These stations stood out for successfully blending modern customer amenities, while remaining consistent to the building's historical legacy. Said Deputy General Manager Jeffrey D. Knueppel, "I am extremely proud of the design and construction efforts that enabled us to win this prestigious international award. The final product at each of these stations is first rate and now we can truly say world class."

## ALL ABOARD IN CROYDON

Over the course of two years, we have **transformed Regional Rail service in Croydon** on the Trenton Line to meet the needs of the modern rider and the surrounding community. In place of a single shelter stands a station with radiant-heated shelters, full-level platforms, new parking lots, and other amenities. It is fully-compliant with the Americans with Disabilities Act. "The end result is a beautiful, technologically-advanced station that is safe for our passengers and for residents who live and drive by the station," said SEPTA Board Chairman Pasquale T. Deon, Sr.



**October 28, 2011:**  
Federal Transit Administration Administrator Peter M. Rogoff and SEPTA Board Chairman Pasquale T. Deon, Sr., at the beautiful new Croydon Station.



**October 14, 2011:**  
Joe Casey accepts Brunel Award in Washington D.C.

# NPT IS ON THE WAY WITH CONTRACT AWARD

On November 17, 2011 SEPTA awarded a contract to ACS Transport Solutions Group to install a new contactless fare payment system. **This system, currently referred to as New Payment Technologies (NPT), will replace tokens, tickets, and paper transfers with a streamlined system.** It will enable riders to simply wave their payment device of choice—cards, key fob, or smartphone—to travel on any SEPTA vehicle. Also, pre-paid SEPTA cards with contactless technology will be available. The simplicity of NPT appeals to riders. Benefits include auto reloading and easy recovery if their payment option is lost or stolen. NPT is divided into three phases. Work is expected to be completed within three years.



For more information about the New Payment Technologies [click here](#).

# DIRECT ACCESS TO SANTA

Our riders don't need to park miles from the mall on Black Friday. Continuing a 21-year tradition, they simply jumped aboard SEPTA's **Santa Express**. In specially-decorated trains and subway cars, SEPTA made like reindeer whisking throngs into Center City's largest mall, The Gallery at Market East. There, the festivities went into overdrive as riders—mostly children and parents—joined Santa, Mrs. Claus, and the elves for a parade to Santa's big, comfy chair. A group of spirited SEPTA employees volunteer as early as August to prepare for the day-after-Thanksgiving activities.



**November 25, 2011:**  
*Santa and Mrs. Claus greeted children along the Market-Frankford Line.*



## “GOTTA HAVE IT” SAYS PEPSI MAX ABOUT SEPTA

Pepsi MAX evoked Pepsi’s 1992 slogan “Gotta Have It” during the Winter Classic at Citizens Bank Park. Only this time, it was SEPTA that everyone had to have. Pepsi MAX sponsored **free rides all day on the Broad Street Line** so hockey fans didn’t have to wrestle their way into parking lots. Going over and above, SEPTA added eight extra Sports Express trips.



**January 2, 2012:**  
*SEPTA got them there!  
The NHL Winter Classic, held  
at Citizens Bank Park.*

## ’TIS THE SEASON FOR GIVING

**Dec. 22, 2011:**  
*Employee Maxine Dobbins was among  
those who helped sort, package, and  
deliver toys.*



**December 13, 2011:**  
*“Holly Trolley” operators made the season bright! Operators  
used their own decorations and trimmed their trolleys on  
their own time, all to make the season brighter for riders. In  
addition, holiday tunes were heard throughout the cars.*



**December 15, 2011:**  
*Showing our gratitude. The season of giving  
had extra special meaning as we teamed  
up with the Philadelphia Sports Congress to  
collect items for care packages for U.S. troops  
around the world. Riders signed cards for the  
troops before boarding.*





## IT'S A SLAM DUNK

Of all the tough decisions for Temple Coach Fran Dunphy to make as he readied his Owls for a match-up against fifth-ranked Duke, getting his team from North Philadelphia to the game in South Philadelphia wasn't one of them. **The Owls boarded the Broad Street Line** at Cecil B. Moore Station for a smooth, quick ride to the Sports Complex at AT&T Station. Why take SEPTA? "These are our roots," Dunphy said. "Temple people ride the subway..." The team arrived refreshed, knocking off Duke, 78-73.



January 4, 2012

## A TICKET TO LONGEVITY

At 101-years old, Margaret "Peg" Bringhurst relies on Regional Rail to take her and her daughter to Reading Terminal Market. Thanks to SEPTA's **Seniors Ride Free** Program, she can ride the bus for free and take regional rail for \$1. About 80,000 seniors take SEPTA daily. We are proud of our key role in providing transportation to senior citizens. Peg, believed to be our oldest rider, proves that age doesn't have to stop anyone. And in honor of her spirit, General Manager Joe Casey personally presented Peg with her free-ride card.







January 17, 2012:  
Joe Casey with "Peg" Bringhurst, SEPTA's  
Oldest Senior Rider.

## REAL-TIME UPDATES UNVEILED

**System Status** is a new website tool that pinpoints buses, trains, subways, and trolleys in real-time with the click of a mouse or touch of a screen. In one neat snapshot, you can see if service is running according to schedule or if there is any alteration. Riders simply click the System Status "EYE" in the bottom left-hand corner of every page for a picture of their ride's location and the level of service available.

January 23, 2012

At the top of the status page are four icons:

-  Line Suspended
-  Service Alert
-  Detour
-  Service Advisory

## OUR NEW HOT WHEELS AT THE AUTO SHOW

While carmakers float fast cars at the Auto Show, SEPTA is always the quickest way to get there. This year, our service came with an invitation to "test drive" one of our **new Silverliner V** regional rail cars to the Show. With an emphasis on great looks and a smooth, high-tech ride, we focused car lovers on our rails. A Silverliner V banner, brochure, and chocolates had show-goers revved up at SEPTA's show booth to learn more.



January 27, 2012:  
Show-goers enjoyed a sweet ride and chocolates.



## FREEDOM TO RIDE!

Many people take navigating the SEPTA system for granted. But getting on and off vehicles, transferring from one mode to another, or even waiting at a station can be daunting for the first time, especially when using a wheelchair or relying on a companion animal. So SEPTA and riders from the Advisory Committee for Accessible Transportation (SAC) collaborated and created the nation's first multimodal training center. The new **Accessible Travel Center** teaches riders with disabilities how to navigate buses, trains, subways, and trolleys without the disruptions of a real-life ride.

The Center houses a mock-up of the front of a bus, complete with fare box, wheelchair berths, and stop announcements. For other modes, we replicated subway and regional rail platforms to let riders, aides, and companion animals practice safe boarding. The Center was in-part funded by a \$140,000 Federal Transportation Authority New Freedom Grant.

The event also celebrated the **30th anniversary of paratransit service, known as CCT Connect**. SEPTA has invested several billion dollars to make vehicles, facilities, and services accessible to everyone. With the exception of trolleys, all modes are now accessible, as are nearly 100 stations. Further, our elevator maintenance and repair program—critical for wheelchair users—has set a national standard for excellence.



**February 2, 2012:**

*From Left to Right: SEPTA's Joe Casey, SAC's Denise Brown, FTA's Reginald Lovelace, SEPTA's Warren Montague, SAC's Patricia Russell, SAC's Thaddeus Robinson, SAC's Rod Powell, and SEPTA's Cynthia Lister at ribbon cutting.*

## LOVE TRAIN HEATS UP

It was romance on the rails over Valentine's Day Weekend. The winners of SEPTA's Love Stories contest took a fanciful ride aboard SEPTA's **third annual Love Train**. Their heartwarming stories of finding love while riding SEPTA earned 14 couples the trip. A decked out Market-Frankford Line train whisked them on a tour of the Mural Arts Program's "Love Letters" in West Philadelphia. This series of rooftop murals reads like love notes and is best seen from the El. It is attracting love-struck visitors from throughout the world.



**February 12, 2012:**  
*Rooftop mural seen from the Love Train.*

*Group photo of Love Stories contest winners.*



# POLICE GARNER “GOLD”

For vigilant anti-terrorism efforts, SEPTA is one of 17 rail and mass transit organizations nationwide to earn a 2011 “Gold Standard” rating from the Transportation Security Administration (TSA). The Gold Standard is the **TSA’s highest rating** for security programs. Our police force protects on many levels, including 268 patrol officers who protect riders by bike, car, foot, or mobile cart within our 2,200 square-mile service area. Providing an added level of protection against high-risk situations, such as armed hijacking and terrorism, are specially-trained officers in our Canine (K-9) Unit and the Special Operations Response Team (S.O.R.T). And ensuring greater protection is the Criminal Investigations Section that works with other law enforcement departments including the FBI.



*March 1, 2012:  
Congratulating our Police Force  
for security enhancement was TSA  
Administrator John S. Pistole.*

# SAYING ALOHA TO RIDERS

SEPTA helped riders celebrate the horticultural beauty of Hawaii with **discounted tickets and our traditional great service to the Philadelphia International Flower Show**. We sold unlimited one-day travel on all trains, trolleys, and buses with SEPTA’s Independence Pass. We also sold discounted Flower Show tickets. The largest indoor flower show in the U.S. blooms annually at the Pennsylvania Convention Center. In 2012, approximately 270,000 visitors attended, with many riding SEPTA’s convenient service there.



*March 6, 2012:  
Employee Kelly Torok of the Transit Gift Store at  
headquarters kept in the spirit by creating a window display.*





## PHANATIC RAZZES RIDERS, BREAKS ETIQUETTE RULES



**April 11 , 2012:**  
*Phanatic squeezes through turnstile.*

The Phillie Phanatic broke a few SEPTA etiquette rules on a Phillies Express subway bound for Opening Night. The lovable green mascot with the extendable tongue entertained riders during the 11-minute trip from Center City to the ballpark at AT&T Station. The Phanatic engaged in the usual belly shaking, tongue-flicking antics. **We hope he'll ride again soon.** And the Phillies beat the Marlins 7 to 1!

## BEST IN THE BIZ

Our Customer Service Agents have been recognized as tops by the call center experts at SQM Group, Inc.

**April 27 , 2012:**



## REVEALING THE SCIENCE BEHIND SEPTA

Children and their parents lined up for a peek inside our diesel-electric hybrid bus to learn how it lessens our carbon footprint and other scientific facts at the Philadelphia Science Festival. **One of the most popular attractions among the science-minded,** the bus also offered visitors the chance to endlessly blast the horn. Engineers from Vehicle Equipment and Maintenance were on-hand with factoids, including how a new Silverliner V train “tells” the maintenance engineer it has a problem.



**April 20, 2012:**  
*Our diesel-electric hybrid bus was popular among both the science and science-fiction minded visitors.*

## LIGHTS, CAMERA, SEPTA!

In the action flick *SAFE*, the Broad Street Line stands in for New York City's subway and plays a pivotal role in the movie. **SAFE isn't our only recent on-camera cameo. Philadelphia-area native Bradley Cooper filmed a sequence of *Limitless* here.** In addition, our trolleys have played themselves in *It's Always Sunny in Philadelphia*. And taking the spotlight was Operator Garry Mason, who appeared in a Dunkin' Donuts TV commercial. The film industry seeks out SEPTA for its stations, vehicles, and an easy-to-work-with staff.



*Filming a scene from the movie SAFE, which hit theaters April 27, 2012, using a green screen at SEPTA's Fern Rock car shop.*



## PART OF PROGRESS: PARKSIDE LOOP

SEPTA relocated and built a state-of-the-art bus loop to serve residents and businesses in bustling Parkside. Nearly 1,100 riders use the Loop daily for service on three bus routes. **SEPTA designed the Loop to better serve Parkside with efficient service, pedestrian safety, and easy traffic flow in mind.** The \$2.2 million facility is fully accessible under the Americans with Disabilities Act, and includes an open-air bus shelter made of recycled materials, energy-efficient lighting, a modern storm water management system, and landscaping.



**May 16, 2012:**  
*Ribbon Cutting at the new state-of-the-art loop.*



*Curtis Jones, Jr., Philadelphia City Councilman; Vincent Hughes, Pennsylvania State Senator; Bonnie Bowser representing Chaka Fattah, U.S. Congressman; Joe Casey, SEPTA General Manager; Brigid Hynes-Cherin, Federal Transit Administration, Regional Administrator-Region III; Marjorie Ogilvie, Business Association of West Parkside President; and Miller Parker, Business Association of West Parkside Treasurer.*

## ELEGANT AND ACCESSIBLE

**Seeming to connect earth and sky, the new Ryers Station has incorporated accessibility and modern amenities for riders in Burholme.**

The federally-funded \$7.9 million renovation stands on the Fox Chase Regional Rail Line. It also is a connection point for three bus routes. About 700 trips take place here each weekday. SEPTA made Ryers Station more accessible with a new 240-foot high level platform, stairway, and an Americans with Disabilities ramp. SEPTA also installed cameras and emergency call boxes for more security.



**May 23, 2012:**  
*Ryers Station got a new look.*



*A Regional Rail train at Ryers Station.*



## DRIVING HUNGER AWAY

SEPTA's specially-wrapped Philabundance Bus stopped at stations throughout the Greater Philadelphia region from **June 4 through June 14, 2012** for our "Stop Hunger at Your Station" food drive. **The bus brought in 19 tons of food—up from the 17.8 tons collected the previous year—and provided more than 37,900 meals.** Since 2009, our generous riders and employees have helped Philabundance stock its shelves.

*Employees care! Operator Wesley Gregg Jr. and Supervisor Michelle Norman guided the Philabundance bus.*



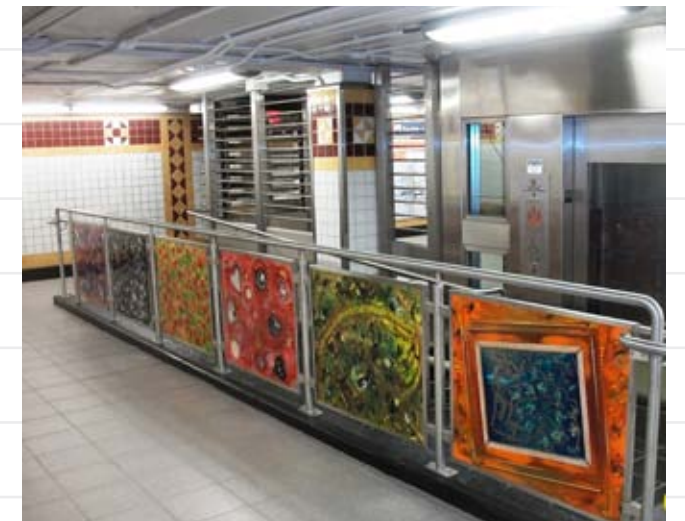
*For the past two years, Bus Operator Dee Montague has collected money from her colleagues at Frontier District to purchase food for the Philabundance Food Drive. For her dedication, she was selected to throw out a first pitch before a Phillies game on "Phans Pheeding Phamilies Day" on August 5.*



## FINALE FOR STIMULUS

**The Spring Garden and Girard Stations ribbon cutting marked the successful conclusion of our Stimulus efforts.** SEPTA completed 32 construction projects under the American Recovery and Reinvestment Act (ARRA), known as Stimulus. The \$30 million revitalization of these two Broad Street Line stations, our largest stimulus initiative, was so successful it was named one of the **Top 100 ARRA projects.** This was the first major overhaul for both circa-1920s stations. Today, nearly 10,000 daily riders enjoy a full slate of modern amenities. This includes new stairs, turnstiles, floor tiles, and energy-efficient lighting. And with the installation of elevators, both are fully accessible under the Americans with Disabilities Act. The overhaul was complimented by original artwork as part of the Art In Transit Program. Construction provided a boost to the local economy, creating and supporting 507 jobs. And long-term economic benefits are expected, with development in nearby communities aided by what are now state-of-the-art transit hubs.

*For information about all of SEPTA's projects completed under the Stimulus program, [click here](#).*



**June 25, 2012:**  
*Artist Robert Woodward's vibrant "Looking Glass" Art In Transit artwork installed along the wheelchair ramp.*



*Artist Margery Amdur's Art in Transit piece, "Six Places in Motion," on the platform of Spring Garden Station.*



# SEPTA HAILED AS THE BEST

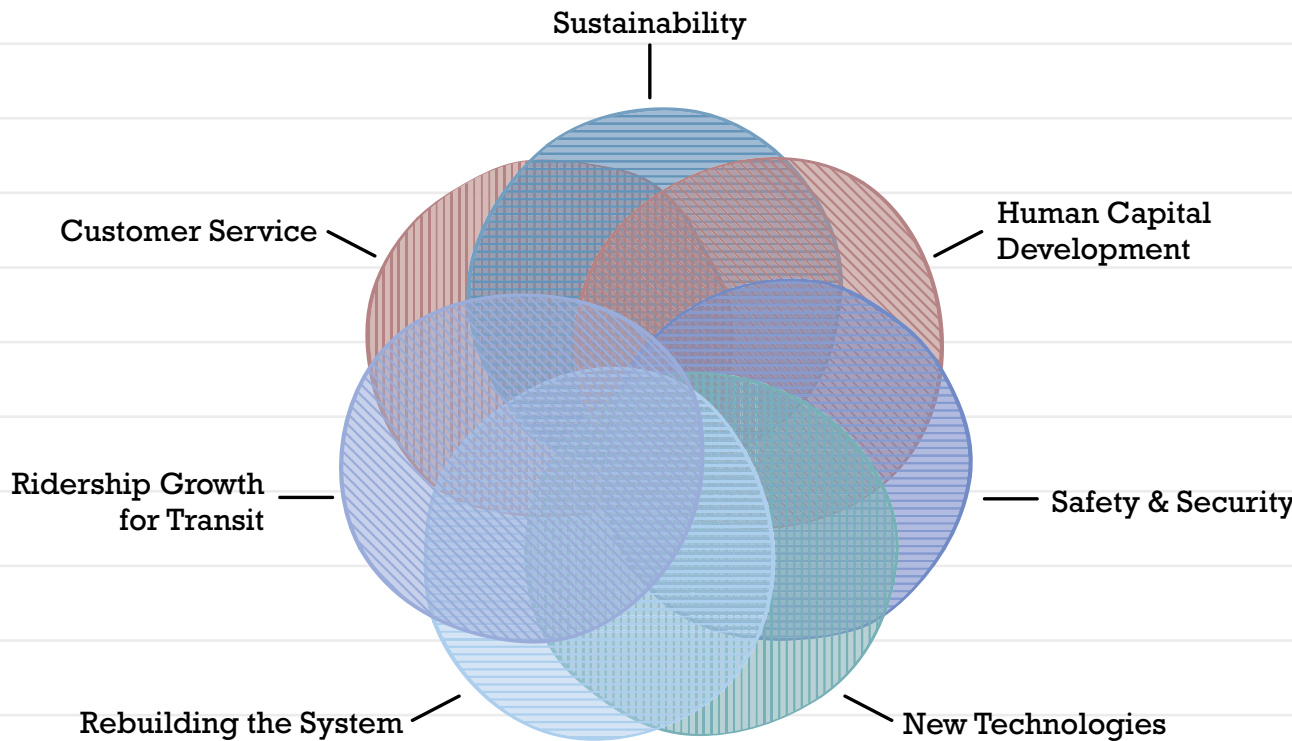
SEPTA has been honored with the **2012 “Outstanding Public Transportation System Achievement Award” for efforts to enhance service, efficiencies, and overall effectiveness.** The American Public Transportation Association (APTA) cited the consolidated control center, environmentally-friendly construction programs, large fleet of hybrid buses, and sound financial management. APTA, which has more than 1,500 member organizations, awards the honor annually to agencies that demonstrate leadership and help advance public transportation. We are being singled out in a category that includes dozens of North America’s major transit operators. Said General Manager Joe Casey, “I am so proud of the members of the SEPTA team, who are committed to serving our customers, and fulfilling our mission to improve the environment, facilitate economic growth, and sustain the quality of life in our region. This recognition is a testament to their dedication, enthusiasm, and innovative spirit.”



*Receiving the award: General Manager Joe Casey (center) and Board Vice Chairman and Delaware County Representative Thomas E. Babcock. Presenting the award is Richard J. Simonetta (left) Senior Manager of the Burns Group.*

# STRATEGY FOR SUCCESS

The Five-Year Strategic Business Plan lets SEPTA measure progress toward strategic objectives and serves as a tool in directing the activities of the organization. **The results of this year’s plan showed just how important our employees are to our success.** Commendations for front-line employees, perhaps the best measure of customer satisfaction, have risen more than 45 percent over last year, and have nearly doubled since reporting began in 2009. Also, new-hire turnover for front-line employees has declined by 66 percent since 2009. On the infrastructure front, we continue to push the envelope on achieving key deadlines to upgrade and improve reliability. SEPTA is also finding new ways to incorporate economical and environmentally-friendly technologies. High-profile examples include centralized alerts, an advisories web page, and an aggressive recycling program.



For a copy of our Five-Year Strategic Business Plan, please [click here](#).



# TAKING SUSTAINABILITY'S TOP SPOT

The American Public Transportation Association (APTA) has awarded SEPTA with a “Gold” level recognition under its Sustainability Commitment. **APTA cited our wayside energy storage project and aggressive hybrid bus campaign as examples of a cutting-edge approach to sustainability.** SEPTA is only the fourth public transit system to achieve the award. (For coverage of award, [click here.](#))



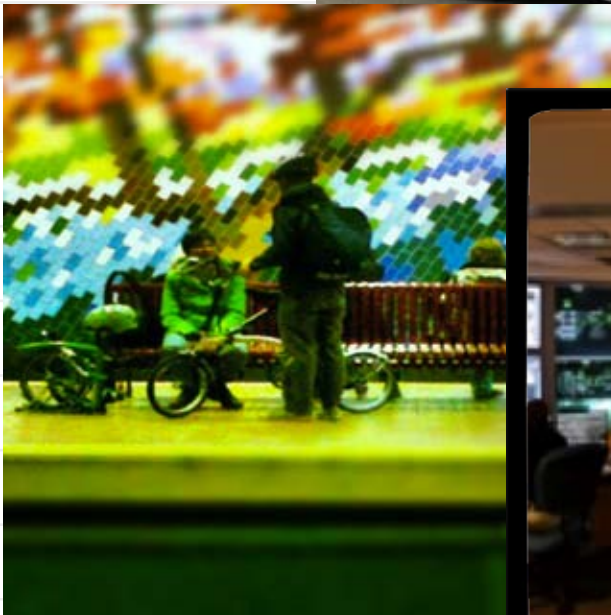
For sustainability details [click here.](#)



*More hybrid buses hit the road.*



*The ultra-modern Silverliner V.*



*Bikes on SEPTA. It's a green thing.*



*Our Control Center moves millions.*



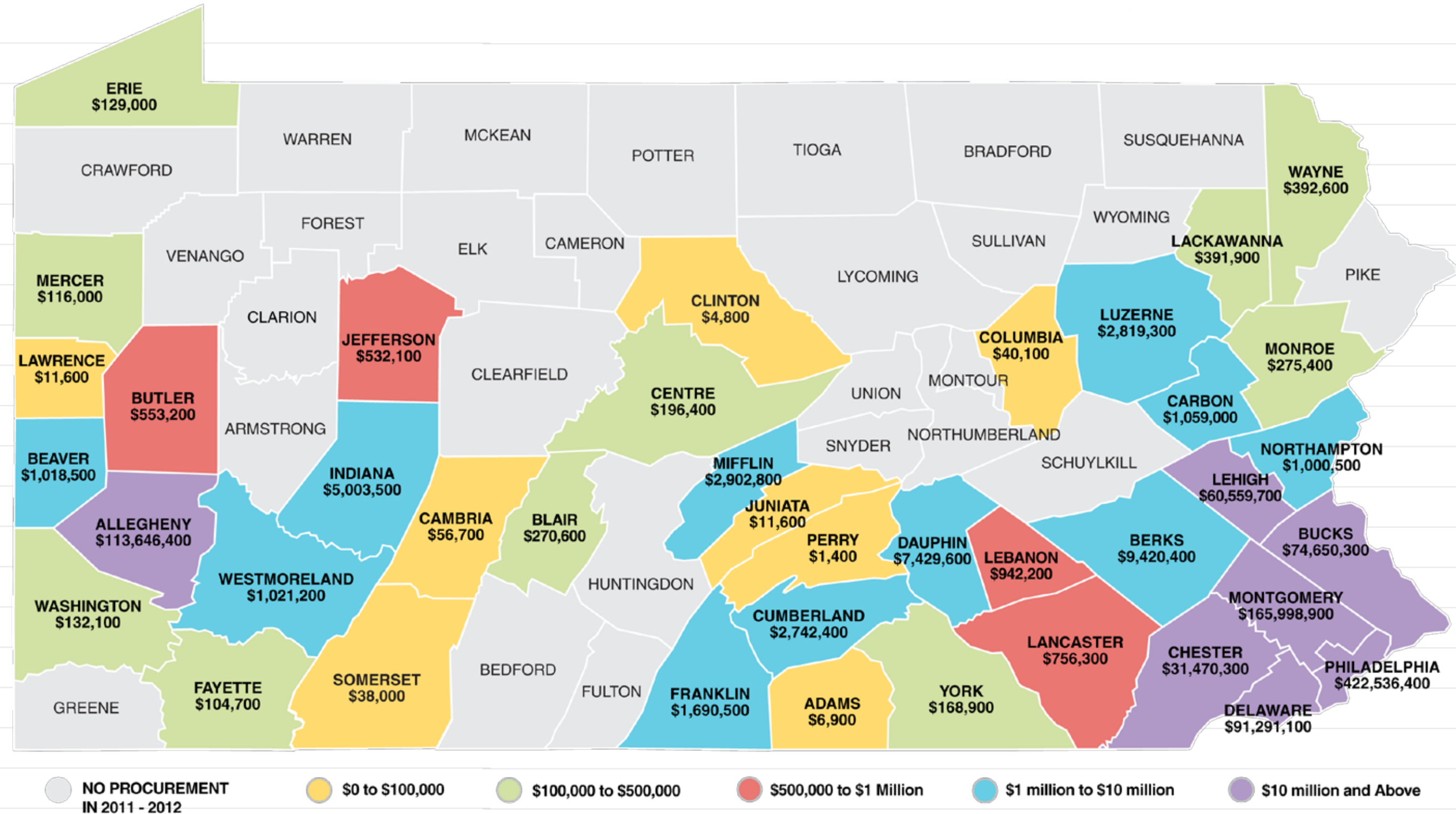
*Regional Rail's Power Group replaced wire at night so your trains run in the morning.*



# SEPTA DRIVES THE ECONOMY OF PENNSYLVANIA

## 2009-2012 PROCUREMENT BY COUNTY

STATEWIDE TOTAL =  
\$1,001,393,300





# FY 2012 GRANT HIGHLIGHTS

A number of projects were awarded funding, which enabled SEPTA to spur ridership growth and enhance customer satisfaction. These investments have let us rebuild aging infrastructure, acquire new vehicles, and become more sustainable.

## Bus Purchase Program

- \$37 million in three grants during FY 2012
  - \$17 million in Federal Highway Administration Flex Congestion Mitigation and Air Quality funding
  - \$15 million in competitive Federal Transit Administration State of Good Repair funding
  - \$5 million in competitive Federal Transit Administration Clean Fuels funding
- To support the purchase of 40-foot and 60-foot hybrid diesel/electric buses to replace the existing diesel buses, which have exceeded their useful life.

## Positive Train Control

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

## Wayne Junction Substation

- In partnership with the City of Philadelphia and the Pennsylvania Department of Transportation (PennDOT), SEPTA was awarded TIGER (Transportation Investment Generating Economic Recovery) funding in the amount of \$12.87 million (\$25.74 million total cost) for the renovation of the 80-year-old Wayne Junction Substation.
- This facility provides power to six high-ridership SEPTA regional rail lines. The project involves replacing outdated breakers, all potential and current transformers, cut-out switches, and relays and control equipment in the traction substation.

## 33rd & Dauphin Bus Facility Rehabilitation

- \$5 million in competitive Federal Transit Administration Livability Initiative funding (\$6.25 million total cost).
- The bus loop was constructed in 1901 for use by trolleys, and is currently in need of rehabilitation and reconfiguration to safely and efficiently support bus operations.
- The loop facility is served directly by bus routes 7, 39, and 54, and served indirectly by bus routes 32 and 61. During rush hour, buses arrive at the loop approximately every 2 1/2 minutes. It is estimated that the loop serves 1,500 passenger trips per day.
- The scope of work includes restoration of the historic masonry building; accessibility improvements, such as new curb cuts and raised boarding platforms; safety measures to control pedestrian movements, such as walkway markings; construction of a new curbside bus-berthing area; redesign of bus lanes under the canopy; re-paving the site and sidewalks; installation of bike racks, streetscape improvements, and landscaping; and installation of an underground storm-water management system.

# Economic Development

## 69th Street Transportation Center West Terminal Rehabilitation

- SEPTA was awarded \$5 million in competitive Federal Transit Administration Livability Initiative funding (\$6.25 million total cost).
- Rehabilitation of the west terminal of the 69th Street Transportation Center in Upper Darby Township, Delaware County. This multi-modal facility serves as the transit gateway connecting Philadelphia to Delaware County and the surrounding suburbs of Chester and Montgomery Counties. Over 16 million people pass through the terminal annually via four distinct transit modes.

## Energy Wayside Storage

- \$1.44 million in competitive Federal Transit Administration Transit Investment in Greenhouse Gas and Energy Reduction (TIGGER) funding (\$1.8 million total cost).
- The grant will fund the purchase of a battery storage device, which will be integrated with SEPTA's propulsion system at Griscom Substation on the Market-Frankford Line to allow the capture, storage, and reuse of regenerated energy created by braking trains along the line. In addition to reducing electricity consumption from propulsion power demand, the storage device is anticipated to reduce energy consumption by 16 percent.

## Dual GenSet Locomotive Engine

- \$1.28 million in Federal Highway Administration Congestion Mitigation and Air Quality funding awarded (\$1.6 million total cost).
- This technology is cleaner, quieter, and more energy-efficient than standard diesel locomotives.
- GenSet locomotives use two small generators instead of one large diesel generator allowing for more efficient power consumption of fuel at lower rates.
- The locomotive selected for the GenSet engine leads a work train that operates throughout SEPTA's five-county service area.



*Working on the Railroad: stimulus rebuilding of Malvern Train Station resulted in a new pedestrian tunnel, canopies, accessible ramps, and 46 additional parking spaces. It also resulted in jobs.*



*Renovations at the Cheltenham & Ogontz Bus Loop now benefit more than 5,000 daily riders. They can now enjoy a safer, customer friendly transit hub at the center of a bustling community.*

*Diesel-Electric Hybrid buses keep the region rolling cleanly and cost-effectively.*





FINANCIAL HIGHLIGHTS

For the Years Ended June 30  
(Millions of dollars)

	2012	2011	2010**	2009**	2008	2007	2006	2005	2004	2003
<b><u>OPERATING REVENUES</u></b>										
Passenger	\$ 446.8	\$ 439.4	\$ 396.0	\$ 404.8	\$ 392.5	\$ 344.4	\$ 329.9	\$ 326.9	\$ 323.3	\$ 319.2
Other income	<u>30.9</u>	<u>30.7</u>	<u>29.7</u>	<u>31.2</u>	<u>29.9</u>	<u>26.7</u>	<u>25.6</u>	<u>21.5</u>	<u>26.1</u>	<u>26.5</u>
Total operating revenues	<u>477.7</u>	<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>
<b><u>OPERATING EXPENSES</u></b>										
Operating expenses, excluding depreciation *	1,290.7	1,260.1	1,212.2	1,168.3	1,100.3	943.5	893.6	881.7	825.0	799.0
Depreciation	<u>330.4</u>	<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>
Total operating expenses	<u>1,621.1</u>	<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>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>										
Subsidies *										
Federal	68.9	60.8	39.5	32.2	32.6	99.6	126.4	83.7	56.2	30.2
State	582.0	551.1	580.7	537.2	489.9	313.3	256.3	293.9	270.1	276.0
Local	85.6	81.7	82.2	75.8	68.3	74.5	72.1	71.9	67.6	68.8
Senior citizen	18.0	18.7	18.7	19.0	19.8	65.8	67.7	68.9	69.5	68.3
Asset maintenance	<u>—</u>	<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>
Total subsidies	754.5	712.3	721.1	664.2	610.6	607.4	575.4	572.6	517.0	495.0
Investment income	2.3	10.5	(4.3)	(14.7)	9.4	6.8	3.2	2.9	1.5	2.7
Interest expense	<u>(18.8)</u>	<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>
Total nonoperating revenues (expenses)	738.0	706.8	691.9	628.5	599.5	594.4	557.6	553.7	496.2	474.8
<b><u>CAPITAL GRANTS</u></b>	<u>244.3</u>	<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>
<b>Increase (decrease) in net assets</b>	<u>\$ (161.1)</u>	<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>
<b><u>OTHER</u></b>										
Working capital surplus (deficiency)	<u>\$ (41.9)</u>	<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>

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

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

STATISTICAL HIGHLIGHTS

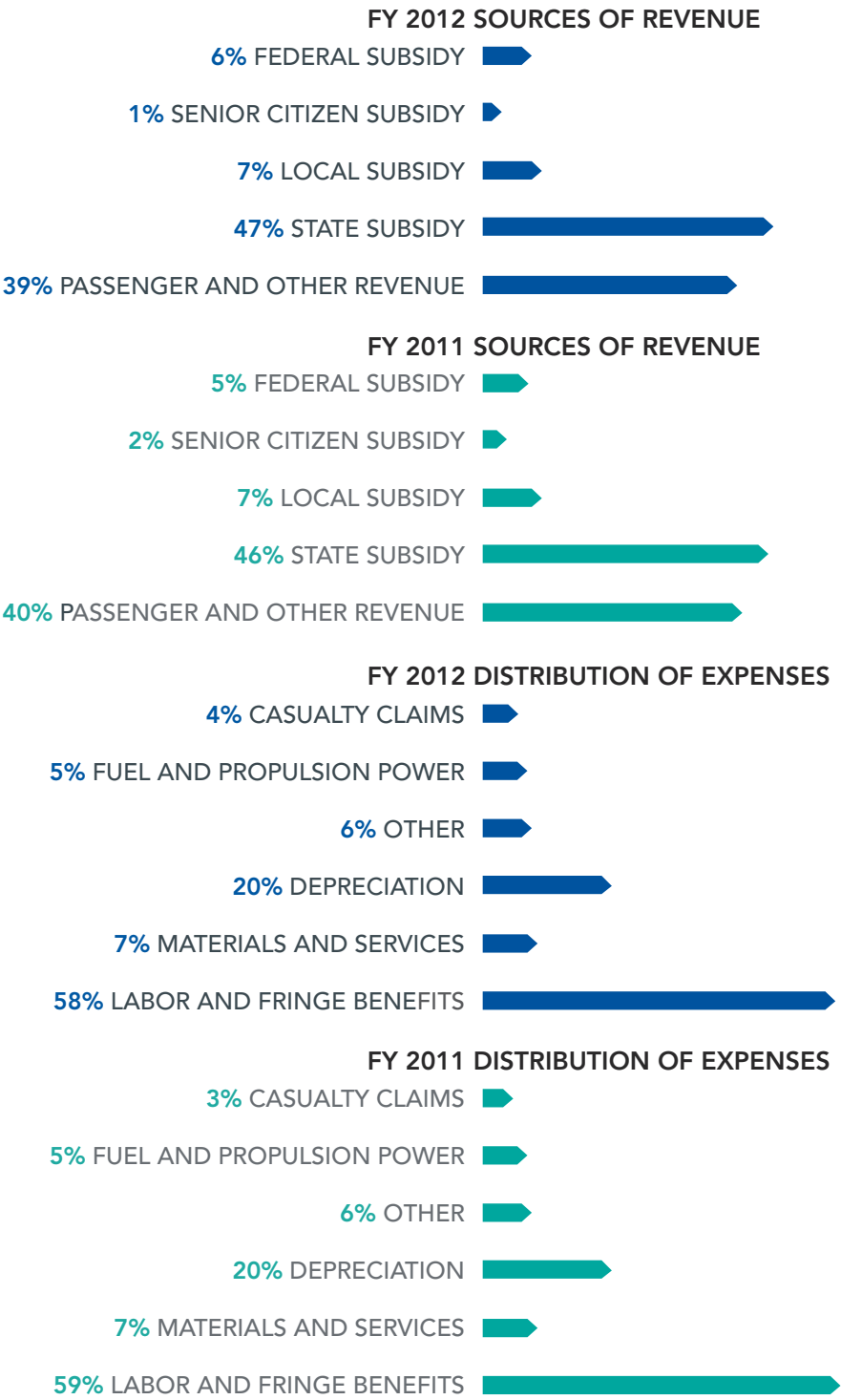
For the Years Ended June 30

	2012	2011	2010**	2009**	2008	2007	2006	2005	2004	2003
<b><u>Passenger Trips (linked, in millions)</u></b>										
Transit	214.0	211.6	200.0	206.1	200.9	190.3	183.9	186.2	185.5	181.0
Regional Rail	<u>35.3</u>	<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>
Total	<u>249.3</u>	<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>
<b><u>Average Weekday Passenger Trips (unlinked, in thousands)</u></b>										
Transit	1,007	991	966	979	963	930	920	920	930	934
Regional Rail	<u>122</u>	<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>
Total	<u>1,129</u>	<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>
<b><u>Financial Statistics (per passenger trip)</u></b>										
Operating revenues	\$ 1.91	\$ 1.90	\$ 1.81	\$ 1.81	\$ 1.79	\$ 1.67	\$ 1.66	\$ 1.62	\$ 1.63	\$ 1.65
Operating expenses*	6.50	6.40	6.45	6.04	5.82	5.44	5.32	5.21	4.86	4.75
Subsidies	3.03	2.88	3.07	2.75	2.58	2.74	2.69	2.67	2.42	2.37
Investment income (interest expense), net	(0.07)	(0.02)	(0.12)	(0.15)	(0.05)	(0.06)	(0.08)	(0.09)	(0.10)	(0.10)
Capital grants	<u>0.98</u>	<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>
Increase (decrease) in net assets	<u>\$ (0.65)</u>	<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>

\* 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 2012 vs. FY 2011



**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, 2012 and 2011, 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, 2012 and 2011, 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 44 through 49 be presented to supplement the basic financial statements. Such information, although not 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 the 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 30, 2012



MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Years Ended June 30, 2012 and 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 years that ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the Authority’s financial statements which immediately follows this section.

2012 FINANCIAL HIGHLIGHTS

Passenger revenues increased 1.7% from \$439.4 million to \$446.8 million due to a .9% increase in ridership that was partially impacted by the high price of gasoline which encouraged greater use of transit, along with an increase in the use of cash fare payments by passengers as the price gap narrowed between pre-purchased fare instruments and cash fares. Other income increased .4% from \$30.7 million to \$30.8 million primarily due to higher advertising revenue.

Operating expenses increased 2.6% from \$1,580.5 million to \$1,621.1 million primarily due to cost increases in wages, fringe benefits, depreciation, claims and fuel.

Total subsidies, from Federal, State and local sources, increased 5.9% from \$712.3 million to \$754.5 million primarily due to an increase in Federal, State and local matching subsidies needed to support operations and debt service requirements for the year.

Total assets increased 2.6% from \$4,267.2 million to \$4,379.3 primarily due to restricted unspent debt proceeds that are being used to acquire the new Silverliner V Regional Railcars and to rehabilitate the Wayne Junction Intermodal facility. Total liabilities increased 19.0% from \$1,436.6 million to \$1,709.8 million primarily due to the increased recognition of other postemployment benefit obligations and the issuance of \$201.6 million in Capital Grant Receipts Bonds, Series 2011 to finance the new railcars and rehabilitate the Wayne Junction facility. Net assets decreased 5.7% from \$2,830.6 million to \$2,669.5 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 Statements of Net Assets, 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, 2012 and 2011 decreased \$161.1 million and \$43.3 million, respectively, compared to June 30 of the prior fiscal year. At June 30, 2012, total assets increased \$112.1 million or 2.6% to \$4,379.3 million and total liabilities increased \$273.1 million or 19.0% to \$1,709.8 million. At June 30, 2011, total assets and total liabilities increased 0.7% and 5.4%, respectively.

Net Assets (thousands of dollars)			
		As of June 30,	
	2012	2011	2010
Current assets	\$ 465,038	\$ 462,552	\$ 483,980
Restricted funds	166,048	29,448	40,685
Capital assets	3,716,830	3,747,560	3,681,712
Other assets	<u>31,347</u>	<u>27,640</u>	<u>31,122</u>
Total assets	<u>4,379,263</u>	<u>4,267,200</u>	<u>4,237,499</u>
Current liabilities	506,883	531,775	514,853
Public liability, property damage and workers’ compensation claims	133,923	124,569	121,544
Long-term debt	518,771	332,501	366,545
Long-term capitalized lease obligation	15,434	15,272	14,512
Deferred capital grant revenue	–	7,578	18,632
Other postemployment benefits	512,201	415,790	306,390
Other liabilities	<u>22,571</u>	<u>9,149</u>	<u>21,174</u>
Total liabilities	<u>1,709,783</u>	<u>1,436,634</u>	<u>1,363,650</u>
Net assets:			
Invested in capital assets, net of related debt	3,314,318	3,417,464	3,358,911
Restricted	12,726	4,153	3,922
Unrestricted	<u>(657,564)</u>	<u>(591,051)</u>	<u>(488,984)</u>
Total net assets	<u>\$2,669,480</u>	<u>\$2,830,566</u>	<u>\$2,873,849</u>
Total liabilities and net assets	<u>\$4,379,263</u>	<u>\$4,267,200</u>	<u>\$4,237,499</u>

The \$2.5 million increase in current assets for the Fiscal Year ending June 30, 2012 includes increases in net receivables of \$23.4 million, restricted funds of \$7.6 million, material and supplies of \$1.9 million, and prepaid expenses of \$1.6 million offset by a decrease in unrestricted cash and investments of \$32.0 million. The net receivable increase of \$23.4 million was primarily due to an agreement with the Philadelphia School District to defer collection on student passes purchased during the year which amounted to \$35.3 million at June 30, 2012 included in other receivables. Offsetting this increase at June 30, 2012 was a reduction in federal and state capital grant receivables of \$14.2 million.

The \$21.4 million decrease in current assets as of June 30, 2011 from the previous year was primarily due to a reduction in federal and state capital grant receivables.

Restricted funds consist of amounts restricted by either government requirements or by contractual agreement between the Authority and external parties. The restricted funds increase of \$7.6 million in current assets at June 30, 2012 includes a net increase of \$15.4 million in debt service fund requirements resulting from the issuance of the Capital Grant Receipts Bonds in 2011 and a \$7.8 million decrease related to the Act 44 state service stabilization fund that includes local match and interest. These restricted funds will be used and recognized as operating subsidy in support of operations for the next fiscal year. The \$136.6 million increase at June 30, 2012 in noncurrent restricted funds is primarily due to \$119.8 million in unspent debt proceeds and \$8.6 million for a required debt service reserve fund resulting from the issuance of the 2011 Capital Grants Receipts Bonds that are being used to acquire the new Silverliner V

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Regional Railcars and to rehabilitate the Wayne Junction Intermodal facility. In addition to restricted funds, the Authority maintains various unrestricted designated funds, a majority of which were adopted by resolution of the Authority's Board to cover a portion of the public liability and property damage and workers' compensation claims for which the Authority is self-insured. These Board designated amounts totaled \$48.7 million as of June 30, 2012, \$48.3 million as of June 30, 2011 and \$47.3 million at 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 remaining swaption fund balance was \$4.8 million as of June 30, 2012 and was \$5.7 million as of June 30, 2011. In order to ensure the Board designated unrestricted amounts above were funded in Fiscal Year 2011, the Authority notified the State of its intent to unrestrict \$20 million of its Act 44 restricted receipts due to expected delays in the receipt of capital funds which accounted for the higher unrestricted fund balance in the prior year.

For Fiscal Year ending June 30, 2012, total capital assets increased \$300.0 million, less \$14.1 million of retirements, and accumulated depreciation increased \$330.4 million, less \$13.8 million of retirements, resulting in a net capital asset decrease of \$30.7 million. At June 30, 2011, net capital assets had increased \$65.8 million over the prior year. Major expenditures during both Fiscal Years 2012 and 2011 were incurred for various transit and regional rail infrastructures improvements, new regional rail cars and buses, and the vehicle overhaul program.

The increase in other assets at June 30, 2012 of \$3.7 million includes a \$2.7 million unfavorable change in the market value of the Authority's swap in connection with its 2007 series bond issuance and \$1.6 million of costs incurred in Fiscal Year 2012 related to the issuance of the Capital Grants Receipts Bonds and another loan to fund its New Payment Technology project. Offsetting the increases were approximately \$.6 million in amortized costs in connection with all of the Authority's outstanding debt.

Total liabilities at June 30, 2012 increased \$273.1 million primarily due to an increase in long-term debt of \$193.1 million, recognition of the other postemployment benefit obligation increase of \$96.4 million, public liability, property damage and workers' compensation claims of \$19.3 million, and other liabilities of \$13.4 million. The long-term debt increase was primarily related to the issuance of \$201.6 million in Capital Grants Receipt Bonds, Series 2011 at a premium of \$17.5 million to finance the acquisition of the 116 Silverliner V Regional Railcars and the rehabilitation of the Wayne Junction Intermodal Facility plus a partial loan of \$4.1 million to fund the New Payment Technology project. The change in the market value of the Authority's swaps increased unfavorably by \$.9 million. Offsetting the debt increases, were debt service principal payments of \$28.0 million and amortized costs of \$3.0 million related to bond premium and refunding. The increased claims liability reflects higher claim settlement costs particularly with railroad employee injury claims filed under the Federal Employees Liability Act ("FELA") as well as an increase in litigation expenses. The other liability increase reflects restricted claim settlement proceeds received of \$14.3 million designated for certain capital projects. Offsetting the June 30, 2012 liability increases were reductions in accounts payable of \$26 million, deferred revenue of \$14.3 million, and deferred capital grant revenue of \$7.6 million. The

accounts payable decrease was primarily related to a decrease in capital project related payables, due in part, to the issuance of long-term debt to finance the new Silverliner V railcars. The deferred revenue decrease was primarily related to less unearned state operating subsidies available that were received under Act 44. The deferred capital grant revenue decrease was due to the complete use of prior year state and local Act 3 and Act 26 available restricted funds to pay for certain capital expenditures and debt service.

At June 30, 2011, total liabilities had increased 5.4% from \$1,363.6 million to \$1,436.6 million primarily due to the recognition of the other postemployment benefit obligation increase of \$109.4 million.

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 \$66.5 million and \$102.1 million in Fiscal Years 2012 and 2011, respectively, to a total deficit amount of \$657.6 million at June 30, 2012 primarily due to the recognition of the accrued other postemployment benefit obligation increase in each of those fiscal years. 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 2010 level and the funding shortfall will 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 for addressing the transportation funding needs of Pennsylvania. On August 1, 2011, the TFAC submitted

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

its final report. The report outlines several modernization proposals and a recommended funding package to address transportation needs for both highway and transit, throughout the Commonwealth. When the Commonwealth issued its budget for Fiscal Year 2013, the Governor indicated the transportation funding issue was too significant to include in

the budget and that it would have to be addressed separately at a future date. The Authority is prepared to work with the Governor and members of the General Assembly to find a long-term solution to address the funding shortfall facing transportation in the Commonwealth.

**Changes in Net Assets.** Net assets for the Fiscal Year ended June 30, 2012 decreased \$161.1 million to \$2,669.5 million. The decrease in net assets as compared to Fiscal Years 2011 and 2010 is described below. For Fiscal Years 2012 and 2011, total operating revenues increased 1.6% and 10.4% and total operating expenses increased 2.6% and 4.4%, respectively.

Changes in Net Assets (thousands of dollars)			
	For the Years ended June 30,		
	2012	2011	2010
Operating revenues			
Passenger	\$ 446,827	\$ 439,408	\$ 395,966
Other income	<u>30,831</u>	<u>30,703</u>	<u>29,689</u>
Total operating revenues	<u>477,658</u>	<u>470,111</u>	<u>425,655</u>
Operating expenses			
Operating expenses excluding depreciation	1,290,721	1,260,039	1,212,163
Depreciation	<u>330,364</u>	<u>320,504</u>	<u>302,297</u>
Total operating expenses	<u>1,621,085</u>	<u>1,580,543</u>	<u>1,514,460</u>
Operating loss	<u>(1,143,427)</u>	<u>(1,110,432)</u>	<u>(1,088,805)</u>
Nonoperating revenues (expenses)			
Subsidies	754,544	712,267	721,095
Nonoperating expenses – net	<u>(16,496)</u>	<u>(5,528)</u>	<u>(29,195)</u>
Total nonoperating revenues (expenses)	<u>738,048</u>	<u>706,739</u>	<u>691,900</u>
Capital grants	<u>244,293</u>	<u>360,410</u>	<u>438,404</u>
Increase (Decrease) in net assets	(161,086)	(43,283)	41,499
Total net assets, beginning of year	<u>2,830,566</u>	<u>2,873,849</u>	<u>2,832,350</u>
Total net assets, end of year	<u>\$2,669,480</u>	<u>\$2,830,566</u>	<u>\$2,873,849</u>



In Fiscal Year 2012, passenger revenues increased 1.7% due to a .9% increase in ridership that was partially impacted by the high price of gasoline affecting the cost of driving, along with an increase in the use of cash fare payments by passengers as the price gap narrowed between pre-purchased fare instruments and cash fares. In Fiscal Year 2011, passenger revenues increased 11.0% primarily due to a fare increase that went into effect July 1, 2010 and a 5.2% increase in ridership. Other income increased .4% in Fiscal Year 2012 primarily due to higher advertising revenue.

Subsidies increased by 5.9% in Fiscal Year 2012 to meet the budgeted expense increase of 3.8% due to higher labor, fringe benefits, fuel costs and the funds needed to meet the \$15.7 million new debt service requirements for the acquisition of the new railcars and the rehabilitation of the Wayne Junction Intermodal Facility. In Fiscal Year 2011, subsidies decreased 1.2% due to higher than expected passenger revenue that resulted from the ridership increase.

Other nonoperating expenses, which increased by \$11 million in Fiscal Year 2012, includes an interest expense increase of \$2.8 million and an investment income decrease of \$8.2 million. The interest expense increase reflects \$6.9 million of costs in connection with the new Capital

Grant Receipts Bonds issued in August 2011 offset by a reduction in interest expense that resulted from the termination of the Swap agreement related to the 1999 Series Revenue Bonds which were refunded in October 2010 at lower interest rates. The investment income decrease in Fiscal Year 2012 was primarily due to a \$5.6 million investment gain recognized in FY 2011 for a Swap agreement terminated in October 2010 along with a \$.6 million less favorable change in the market value of its remaining outstanding Swap as compared to FY 2011 and lower investment returns on its other investments.

In Fiscal Year 2011, other nonoperating expenses consisted of an interest expense decrease of \$8.9 million net of an investment income increase of \$14.8 million which were impacted by the termination of the Swap agreement in connection with the debt refunding of the 1999 Series Revenue Bonds in October 2010 and a favorable change in the market value of the Swaps as compared to Fiscal Year 2010.

Capital grants decreased in both Fiscal Years 2012 and 2011 primarily due to a reduction in capital project work performed as a result of lower capital funds being made available by both the federal and state governments.

Operating Expenses  
(thousands of dollars)

For the Years ended June 30,

	2012	2011	2010
Transportation	\$ 647,955	\$ 630,296	\$ 603,848
Purchased transportation	49,524	51,634	48,205
Maintenance	372,598	372,558	356,090
Administrative	124,115	123,414	123,495
Public liability and property damage claims	66,266	51,554	51,181
Rent and other	30,263	30,583	29,344
Depreciation	<u>330,364</u>	<u>320,504</u>	<u>302,297</u>
Total operating expenses	<u>\$1,621,085</u>	<u>\$1,580,543</u>	<u>\$1,514,460</u>

Transportation, maintenance, and administration expenses increased \$18.4 million in Fiscal Year 2012, or 1.6%, primarily due to increases in labor and fringe benefits. These costs also accounted for a majority of the Fiscal Year 2011 increase of 4.0% in the same category of expenses. In Fiscal Year 2012, labor expenses increased \$9.4 million, or 1.9%, due to wage increases. Fringe benefit expenses increased \$6.2 million, or 1.2%, due to higher costs for health care, pensions, and railroad employee injury claims filed under Federal Employees Liability Act ("FELA") which was partially offset by lower other postemployment benefit expenses.

Purchased transportation expenses decreased \$2.1 million in Fiscal Year 2012, or 4.1%, primarily due to lower carrier costs in the current year partially impacted by a 2.1% decrease in carrier ridership.

Public liability and property damage claims expenses increased \$14.7 million in Fiscal Year 2012, or 28.5%, primarily due to higher claim settlement costs and claim liability reserve increases, particularly in the areas of corporate and FELA claims.

Rent and other expenses decreased 1.0% primarily due to decreases in collateral cost for a rail car lease and the amortized cost of issuance related to debt.

Depreciation increased 3.1% in Fiscal Year 2012 and 6.0% in Fiscal Year 2011 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, 2012, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$7,904.6 million. Net of accumulated depreciation of \$4,187.8 million, net capital assets totaled \$3,716.8 million. This amount represents a net decrease, including additions and disposals net of depreciation, of \$30.7 million or .8% below June 30, 2011.

As of June 30, 2012, the Authority has commitments for various unexpended construction and design contracts of approximately \$281 million and commitments for unexpended revenue vehicle purchases primarily for regional rail cars and electric-diesel buses of approximately \$272 million. The Authority's capital budget for Fiscal Year 2013 includes capital asset additions in the amount of \$223.1 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, 2012, the Authority's long-term debt, including current maturities, was \$492.2 million. This amount excludes the swap derivative liability of \$24.0 million and \$30.1 million for unamortized premium and amounts deferred in connection with defeased debt (or \$546.3 million in total). The long-term debt increased \$177.7 million due to the \$201.6 million net issuance of Capital Grant Receipts Bonds, Series 2011 in August 2011 to finance the acquisition of the new Silverliner V railcars and the rehabilitation of the Wayne Junction Intermodal Facility plus a partial loan of \$4.1 million to fund costs incurred on the New Payment Technology project. Offsetting the long-term debt increase were regularly scheduled debt service payments of \$28 million.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

STATEMENTS OF NET ASSETS		
JUNE 30, 2012 AND 2011		
(THOUSANDS OF DOLLARS)		
ASSETS	2012	2011
<b>CURRENT ASSETS</b>		
Unrestricted funds (Note 2)		
Cash and cash equivalents	\$ 21,436	\$ 57,700
Investments	58,841	54,613
Restricted funds (Note 2)		
Cash and cash equivalents	62,013	90,669
Investments	70,603	34,388
Receivables		
Operating subsidies	2,043	2,995
Capital grants (Note 3)	117,088	131,014
Other	49,289	11,006
Material and supplies	67,499	65,563
Prepaid expenses	16,226	14,604
Total current assets	465,038	462,552
<b>NONCURRENT ASSETS</b>		
Restricted funds (Note 2)		
Cash and cash equivalents	31,125	12,146
Investments	134,923	17,302
Capital assets, net (Notes 3, 4, 5 & 6)	3,716,830	3,747,560
Other	31,347	27,640
Total noncurrent assets	3,914,225	3,804,648
<b>TOTAL ASSETS</b>	<u>\$ 4,379,263</u>	<u>\$ 4,267,200</u>

See accompanying notes to Financial Statements.

STATEMENTS OF NET ASSETS		
JUNE 30, 2012 AND 2011		
(THOUSANDS OF DOLLARS)		
LIABILITIES AND NET ASSETS	2012	2011
<b>CURRENT LIABILITIES</b>		
Current maturities of		
Long-term debt (Note 5)	\$ 27,555	\$ 20,685
Accounts payable - trade	54,448	80,452
Accrued expenses (Note 7)	163,552	164,953
Current portion of public liability, property damage and workers' compensation claims (Note 11)	89,627	79,679
Deferred revenue	171,701	186,006
Total current liabilities	506,883	531,775
<b>NONCURRENT LIABILITIES</b>		
Public liability, property damage and workers' compensation claims (Note 11)	133,923	124,569
Long-term debt (Note 5)	518,771	332,501
Long-term capitalized lease obligation (Note 6)	15,434	15,272
Deferred capital grant revenue (Note 3)	-	7,578
Other postemployment benefits (Note 8)	512,201	415,790
Other liabilities (Note 6)	22,571	9,149
Commitments and contingencies (Notes 5, 6, 10, 11 and 12)		
Total noncurrent liabilities	1,202,900	904,859
Total liabilities	1,709,783	1,436,634
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,314,318	3,417,464
Restricted	12,726	4,153
Unrestricted (deficit)	(657,564)	(591,051)
Total net assets	2,669,480	2,830,566
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,379,263</u>	<u>\$ 4,267,200</u>

See accompanying notes to Financial Statements.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011  
(THOUSANDS OF DOLLARS)

	2012	2011
<b>OPERATING REVENUES</b>		
Passenger	\$ 446,827	\$ 439,408
Other income	30,831	30,703
Total operating revenues	477,658	470,111
<b>OPERATING EXPENSES</b>		
Transportation	647,955	630,296
Purchased transportation	49,524	51,634
Maintenance	372,598	372,558
Administrative	124,115	123,414
Public liability and property damage claims (Note 11)	66,266	51,554
Rent and other	30,263	30,583
Depreciation	330,364	320,504
Total operating expenses	1,621,085	1,580,543
Operating loss	(1,143,427)	(1,110,432)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Subsidies		
Federal	68,957	60,801
State	581,975	551,140
Local	85,655	81,651
Senior citizen	17,957	18,675
Total	754,544	712,267
Investment income	2,311	10,502
Interest expense (Note 5)	(18,807)	(16,030)
Total nonoperating revenues (expenses)	738,048	706,739
Loss before capital grants	(405,379)	(403,693)
<b>CAPITAL GRANTS</b>	244,293	360,410
<b>DECREASE IN NET ASSETS</b>	(161,086)	(43,283)
<b>TOTAL NET ASSETS</b>		
Beginning	2,830,566	2,873,849
Ending	\$ 2,669,480	\$ 2,830,566

See accompanying notes to Financial Statements.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011  
(THOUSANDS OF DOLLARS)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Passenger receipts	\$ 412,492	\$ 439,063
Other receipts	27,804	32,052
Payments for wages and employee benefits	(859,164)	(820,584)
Payments for fuel and propulsion	(76,594)	(76,355)
Payments for public liability & property damage claims	(46,583)	(44,583)
Payments for other operating expenses	(193,932)	(198,589)
Net cash (used in) operating activities	(735,977)	(668,996)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Receipts of operating subsidies	741,917	712,332
Net cash provided by noncapital financing activities	741,917	712,332
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants received	258,282	448,057
Increase (decrease) in deferred capital grant revenue and other liabilities	6,454	(10,684)
Acquisition of operating property and construction in progress	(332,216)	(383,797)
Proceeds from issuance of debt	223,219	245,220
Refunding of long-term debt and payment to terminate swap	-	(250,161)
Increase in long-term capitalized lease obligation	162	760
Repayment/reduction of long-term debt	(28,040)	(20,415)
Interest paid	(22,156)	(24,012)
Net cash provided by capital and related financing activities	105,705	4,968
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	229,034	92,750
Receipt of interest	740	1,809
Purchase of investments	(387,360)	(92,151)
Net cash (used in) provided by investing activities	(157,586)	2,408
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(45,941)	50,712
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	160,515	109,803
End of year	\$ 114,574	\$ 160,515
<b>CASH AND CASH EQUIVALENTS</b>		
Unrestricted	\$ 21,436	\$ 57,700
Restricted	93,138	102,815
Total	\$ 114,574	\$ 160,515
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (1,143,427)	\$ (1,110,432)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	330,364	320,504
(Increase) in receivables	(37,745)	(1,186)
(Increase) in materials & supplies	(1,936)	(569)
(Increase) in prepaid expenses	(1,622)	(14,791)
Increase in accounts payable – trade	3,519	2,722
(Decrease) increase in accrued expenses and other liabilities net of other assets	(843)	16,208
Increase in public liability and property damage claims	19,302	9,148
Increase in other postemployment benefits	96,411	109,400
Total adjustments	407,450	441,436
Net cash (used in) operating activities	\$ (735,977)	\$ (668,996)

See accompanying notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS  
(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)  
June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND NATURE OF AUTHORITY

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

The City Transit Division serves the City of Philadelphia (“City”) with a network of 86 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 651 thousand passenger trips per day. The Regional Rail Division serves all five

counties with a network of 13 commuter rail lines, providing approximately 122 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 47 interurban trolley, light rail and bus routes, as well as demand response services, providing approximately 58 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 2012 and 2011 are summarized as follows:

	2012	2011
Federal subsidies:		
Preventive maintenance reimbursements	\$ 34,847	\$ 34,525
Leasehold/debt service reimbursements	34,110	26,276
State and local subsidies:		
Act 44 operating subsidies	622,481	592,741
Act 26/3/44 leasehold/debt service reimbursements	45,149	40,050
Senior citizen subsidies	17,957	18,675
Total subsidies	<u>\$ 754,544</u>	<u>\$ 712,267</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 2012, Congress extended SAFETEA-LU several times through Federal continuing resolutions. On July 6, 2012, the President signed “Moving Ahead for Progress in the 21st Century (MAP-21)” into law. This legislation included language that extended SAFETEA-LU, federal funding through September 30, 2012, thus continuing the availability of funding. 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. In Fiscal Year 2012, federal subsidies continue to be used for capital asset lease payments and to fund certain debt service requirements for debt that was issued to acquire capital assets. 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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND NATURE OF AUTHORITY (CONTINUED)

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

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

ACCOUNTING AND FINANCIAL REPORTING

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

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

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

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

OTHER POSTEMPLOYMENT BENEFITS

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

USE OF ESTIMATES

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

RENEWAL AND REPLACEMENT

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

INVESTMENTS

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

MATERIALS AND SUPPLIES

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

CAPITAL ASSETS

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

PENSIONS

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



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

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:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 1,774	\$ 3,430
Cash in bank	29,211	74,767
Money market funds	93,164	107,018
Outstanding checks	<u>( 9,575)</u>	<u>( 24,700)</u>
Total cash and cash equivalents	114,574	160,515
Less current portion – unrestricted	21,436	57,700
Less current portion – restricted	<u>62,013</u>	<u>90,669</u>
Total noncurrent portion – restricted	<u>\$ 31,125</u>	<u>\$ 12,146</u>

The components of investments as of June 30 are:

	<u>2012</u>	<u>2011</u>
U.S. Government and agencies	\$ 155,469	\$ 67,259
Certificates of Deposit	3,913	–
Commercial paper	40,993	–
Municipal Securities	9,842	–
Mutual funds	<u>54,150</u>	<u>39,044</u>
Total investments	264,367	106,303
Less current portion – unrestricted	58,841	54,613
Less current portion – restricted	<u>70,603</u>	<u>34,388</u>
Total noncurrent portion – restricted	<u>\$ 134,923</u>	<u>\$ 17,302</u>

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The Authority has set aside cash, cash equivalents and investments primarily to provide for the payment of a portion of its future obligations. These include amounts restricted primarily for: State dedicated funds in accordance with Act 26, Act 3, Act 44 and contractual agreements between the Authority and external parties. The amounts restricted, as of June 30, are as follows:

	2012	2011
Restricted:		
State dedicated funding provided by Act 26, including local match	\$ —	\$ 944
State funding provided by Act 3, including local match	—	5,826
State dedicated funding provided by Act 44, including local match	81,344	89,155
Debt Service Funds:		
Capital Grant Receipts Bonds, Series of 2011	25,626	—
Revenue Refunding Bonds, Series of 2010	20,932	22,545
Special Revenue Bonds, Series of 2007	13,286	13,357
Capital Project Funds:		
Silverliner V railcar and Wayne Junction Intermodal Facility Fund (Unspent proceeds – Capital Grant Receipts Bonds, Series 2011)	120,106	—
City Hall Dilworth Plaza Fund	8,000	—
Market-Frankford Elevated Haunch Repair Fund	6,250	—
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	675	728
Light rail cars	1,718	1,601
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	15,411	15,033
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>4,153</u>
Total	<u>\$ 298,664</u>	<u>\$ 154,505</u>

As of June 30, 2012, 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, 2012, the Authority's investments in money market funds, mutual funds and bonds of U.S. agencies were rated Aaa by Moody's Investor Service. Moody's rated 25% of municipal securities as Aaa,

another 25% were rated Aa and 50% were rated as MIG1. They also rated 59% of corporate securities as Aaa and 41% as P1. The Authority's general investment policy is to apply the prudent-person rule while adhering to the investment restrictions as prescribed in Act 3, the Authority's enabling legislation: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The Authority places no limit on the amount the Authority may invest in any one issuer. More than five percent of the Authority's cash equivalents and investments are in the money market and mutual funds held by Western Asset Institutional Government Money Market Fund, Federal Home Bank, and Federated Prime Obligations Fund-1. These investments are 25.34%, 20.22% and 6.35%, respectively, of the Authority's total investments.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

For a deposit, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2012, \$28,961 of the Authority's cash in the bank of \$29,211 was fully collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

Money market funds	\$ 93,164
Mutual funds	<u>54,150</u>
Total	<u>\$ 147,314</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:	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. agencies	\$155,469	0.574
Certificates of deposit	3,913	0.733
Commerical paper	40,993	0.301
Municipal securities	9,842	0.426
Money market funds	93,164	0.003
Mutual funds	<u>54,150</u>	0.003
	357,531	
Cash in bank	<u>29,211</u>	
Total fair value including accrued interest	<u>\$386,742</u>	
Portfolio effective duration		0.282

Through its investment policy, the Authority manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its operating cash investments to less than six months, and its entire invested portfolio to less than one year. The Authority's operating cash invested at fiscal year-end was \$5 thousand with an effective duration

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, 2012, \$147,314 of the Authority's cash equivalent and investment balance of \$357,531 was exposed to custodial credit risk as follows:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates and is a measure of the cash-weighted average term to maturity of the investment. The higher the duration, the greater the changes in fair value when interest rates change. The Authority measures interest rate risk using effective duration expressed in years. Effective duration takes into consideration the changes in expected cash flows for securities with embedded options or redemption features, when the prevailing interest rates change. As of June 30, 2012 the Authority had the following investments in its portfolio:

of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$386.7 million with an effective duration of 0.282 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 \$7.6 billion from inception to June 30, 2012 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2012, the Authority had incurred costs of approximately \$7.3 billion against these grants of which \$244.3 million and \$360.4 million were incurred in Fiscal Years 2012 and 2011, 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, 2012.

DEFERRED CAPITAL GRANT REVENUE

Deferred capital grant revenue relates principally to unexpended State dedicated funding received pursuant to Act 26 and Act 3. As of June 30, 2011, the Authority had a deferred capital grant revenue balance of \$7.6 million. This amount represents a decrease, including a disbursement and an investment loss, of \$11.1 million from June 30, 2010. During Fiscal Year 2012, the State dedicated Act 26 and Act 3 restricted funds, including investment earnings, were fully used to pay for certain capital expenditures and debt service.

4. CAPITAL ASSETS

Capital assets are summarized as follows:

	June 30, 2011	Additions	Reclassifications	Retirements	June 30, 2012
Capital Assets					
Revenue vehicles	\$ 2,061,284	\$ 156,062	\$ 54,547	\$ 13,731	\$ 2,258,162
Transit facilities, rail stations & depots	2,450,976	75,817	24,411	–	2,551,204
Track, roadway & signals	2,400,930	33,588	3,897	–	2,438,415
Intangibles	28,025	156	–	–	28,181
Other	503,731	21,785	(3,406)	383	521,727
Total	7,444,946	287,408	79,449	14,114	7,797,689
Capital leases – revenue vehicles	41,327	–	–	–	41,327
Construction in progress	132,454	12,520	(79,449)	–	65,525
Total	7,618,727	299,928	–	14,114	7,904,541
Accumulated depreciation					
Property and equipment	3,844,358	328,882	–	13,820	4,159,420
Capital leases	26,809	1,482	–	–	28,291
Total	3,871,167	330,364	–	13,820	4,187,711
Capital assets, net	\$ 3,747,560	\$ (30,436)	\$ –	\$ 294	\$ 3,716,830

	June 30, 2010	Additions	Reclassifications	Retirements	June 30, 2011
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	481,516	1,573	24,026	3,384	503,731
Total	7,070,584	324,920	100,319	50,877	7,444,946
Capital leases – revenue vehicles	41,327	–	–	–	41,327
Construction in progress	171,314	61,459	(100,319)	–	132,454
Total	7,283,225	386,379	–	50,877	7,618,727
Accumulated depreciation					
Property and equipment	3,576,188	319,020	–	50,850	3,844,358
Capital leases	25,325	1,484	–	–	26,809
Total	3,601,513	320,504	–	50,850	3,871,167
Capital assets, net	\$ 3,681,712	\$ 65,875	\$ –	\$ 27	\$ 3,747,560

4. CAPITAL ASSETS (CONTINUED)

Capital assets are acquired with capital grants, renewal and replacement and other operating funds. Capital assets are stated at costs 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, 2012, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.  
As of June 30, 2012, the Authority has commitments for various unexpended construction contracts of approximately \$281 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$272 million.

5. LONG-TERM DEBT AND SWAPS

Long-term debt as of June 30, 2012 and 2011 consists of the following:

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

5. LONG-TERM DEBT AND SWAPS (CONTINUED)

	June 30, 2010	Additions	Market Value Change	Payments/ Reductions	June 30, 2011	Due Within One Year
<u>Long-Term Debt:</u>						
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%	214,280	–	–	214,280	–	–
	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	(4,813)	(1,358)	–	(755)	(5,416)	
Subtotal Long-Term Debt	322,801	243,862	–	236,567	330,096	
<u>Swaps:</u>						
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)	6,291	–	(2,427)	–	3,864	
Subtotal Swaps	60,444	–	(1,473)	35,881	23,090	
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>	

LONG-TERM DEBT:

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

It is and has been the Authority's position that the lease and leaseback agreements did not expire on December 31, 2005, but that, in accordance

with their terms, the agreements continue in full force and effect, *inter alia*, while cumulative additional rent and debt service on the Authority's bonds remain outstanding. In October 2005, the Authority and the City entered into a standstill agreement by which they agreed that the lease and leaseback agreements would remain in full force and effect during the term of the standstill agreement without waiver, admission or prejudice to the parties' respective positions. The standstill agreement, initially in effect until December 31, 2007, was subsequently extended for two additional one-year terms which expired December 31, 2009. In December 2009, the standstill agreement was amended to continue on a month-to-month basis unless terminated by either party or upon completion of a master agreement.

In February 1999, the Authority issued \$262.0 million of Special Revenue Bonds, Series of 1999A ("1999A Bonds") and 1999B ("1999B Refunding Bonds"), due in varying amounts through 2029, with annual interest from 3.25% to 5.25%. The net proceeds of the 1999A Bonds were used to finance a portion of the Market-Frankford Subway-Elevated line vehicle acquisition program; refinance a bridge loan for payment of a portion of the vehicle acquisition program; reimburse the Authority for a portion of the costs of certain capital projects and pay a portion of the premium for a debt service reserve fund insurance policy. The net proceeds of the 1999B Refunding Bonds were used to refund \$73.2 million of the 1995A Bonds, and pay a portion of the premium for a debt service reserve fund insurance policy. In October 2010, the Authority terminated the 1999 Series Bonds and issued \$222.5 million of Revenue Refunding Bonds, Series of 2010 ("2010 Bonds"), due in varying amounts through



5. LONG-TERM DEBT AND SWAPS (CONTINUED)

LONG-TERM DEBT AND SWAPS (CONTINUED)

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"), due in varying amounts through 2022. The net proceeds of the 2007 Bonds were used to retire the Authority's outstanding Special Revenue Bonds, Series of 1997 ("1997 Bonds") due in varying amounts through 2022, with annual interest from 4.00% to 5.75% and pay the premium for a debt service reserve fund insurance policy. The net proceeds of the 1997 Bonds were used to reimburse the Authority for a portion of the costs of certain capital projects; refund certain leases entered into by the Authority for a building and related equipment; pay the costs of certain capital projects and pay the premium for a debt service reserve fund insurance policy. 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

At June 30, 2012, the aggregate debt service requirements of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

	2013	2014	2015	2016	2017
Debt maturities	\$ 27,555	\$ 28,730	\$ 30,005	\$ 31,180	\$ 36,673
Debt related interest	19,331	18,405	17,555	16,722	15,663
Hedging derivative, net	4,456	4,103	3,734	3,344	2,934
Net Cash Flows	\$ 51,342	\$ 51,238	\$ 51,294	\$ 51,246	\$ 55,270

	2018 – 2022	2023 – 2027	2028 – 2029
Debt maturities	\$172,130	\$ 122,575	\$ 43,320
Debt related interest	59,756	29,680	2,944
Hedging derivative, net	7,770	–	–
Net Cash Flows	\$239,656	\$ 152,255	\$ 46,264

The above amounts assume that current interest rates on the 2007 variable rate refunding bonds, which was 0.95% as of June 30, 2012 plus a fixed remarketing fee, and the current reference rates on its related

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.

In August 2011, the Authority issued \$201.6 million of Capital Grant Receipts Bonds, Series 2011 ("2011 Bonds"), due in varying amounts through 2029 with annual interest rates ranging from 3.0% to 5.0%. The net proceeds from the sale of the 2011 Capital Grant Receipts Bonds 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 in connection with the issuance and sale of the 2011 Bonds.

In March 2012, the Authority entered into an agreement with PIDC (Philadelphia Industrial Development Corporation) Regional Center for a construction-like loan for an amount not to exceed \$175 million to fund the New Payment Technology (NPT) Project. The NPT Project will modernize SEPTA's current fare payment system. There are three loan tranches with terms ranging between five and six years with an interest rate for each loan tranche of 1.75% payable semi-annually on the outstanding loan balance. The first tranche of \$35 million will be available as of March 29, 2012 and will have a term of 5 years. The second tranche for \$75 million will be made available as of February 1, 2013 and will have a term of 5.5 years. The third tranche for \$65 million will be made available July 1, 2013 and will have a term of 6 years. The drawdown of the loan is expected to take place over a two and one half year loan period to fund the construction and other related costs of the NPT project. The outstanding balance on the loan as of June 30, 2012 is \$4.1 million.

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

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 1995, 1997 and 1999, 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 1999 Special Revenue Bonds 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 the enactment of Act 44 by the state legislature. 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 \$131.7 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 \$98.0 million as of June 30, 2012. 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 1999 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, 2012, the Authority had the following derivative instruments outstanding:

		Notional Amount	Fair Value Classification	Amount	Changes in Fair Value Classification	Amount
<b>Business-type activities:</b>						
<i>Cash flow hedge:</i>						
A.	Pay-fixed interest rate swap	\$ 97,950	Debt	\$ (21,930)	Deferred outflow (other assets)	\$ (2,704)
<i>Fair value hedge:</i>						
B.	Pay-variable interest rate swap	\$ 184,840	Debt	\$ (2,105)	Investment Income	\$ 1,759

DERIVATIVE INSTRUMENT TYPES

*Hedge effectiveness:* As of June 30, 2012 and 2011, 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 \$1,759 at June 30, 2012 and \$2,427 at June 30, 2011. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2012 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, 2012 and the counterparty credit rating of Bank of America, NA is as follows:

Instrument	Derivative Type	Counterparty Credit Rating	Objective	Notional Amount	Effective Date	Termination Date	Terms
A	Pay-fixed interest rate swap	A3/A/A	Hedge changes in cash flows on the 2007 variable rate refunding Bonds	\$ 97,950	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR;pay 4.706% fixed

FAIR VALUE

As of June 30, 2012, the swaps had a negative fair value totaling \$24.0 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, 2012, 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, 2012, 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, 2012, the Authority had an ineffective derivative investment with the following maturity:

Investment Type	Fair Value	Investment Maturity More Than 10 Years
Derivative Instrument B	\$(2,105)	\$(2,105)

TERMINATION RISK

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

6. LEASES

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

LEASE/LEASEBACK AGREEMENTS

During Fiscal Year 2002, the Authority entered into a head lease agreement to lease for approximately 28 years 219 rail cars, that are currently in service on the Market-Frankford subway-elevated line, and simultaneously lease the vehicles back. The Authority received prepayments under the head lease of \$336.1 million, of which it paid \$269.9 million to two debt payment undertakers to defease rents payable under the debt portion of the agreement, \$41.6 million to the equity payment undertaker to defease rents payable under the equity portion of the agreement, and \$3.2 million in transaction expenses. The rental obligations under the lease/leaseback, except for \$15.4 million as of June 30, 2012, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, have been excluded from the Authority’s financial statements. The proceeds, net of expenses, from the transaction of \$21.4 million are being used, starting in Fiscal Year 2007, as reimbursement of state share on capital grants, which use has been approved by the Federal Transit Administration. The leaseback includes a purchase option, which upon exercise, will be funded in installments from funds used to defease the debt during the period from January 2, 2030 through December 15, 2030, that will allow the Authority to buy out the equity investor’s remaining rights under the agreement, thereby terminating the entire transaction. In December 2008, the Authority terminated its lease debt and equity payment undertaking agreements with the payment undertaker and received \$89.9 million upon termination. Of this amount, the Authority deposited \$75.2 million with a trustee and U.S. Treasury Securities were purchased to defease the remaining lease payments under the Equity Payment Undertaking Agreement (EPUA). The securities purchased are scheduled to mature in amounts and on dates

required to make the lease payments. The remaining \$14.7 million was restricted and invested to satisfy payments due under the Supplemental Payment Undertaking Agreement (SPUA). In July 2009, SEPTA paid an additional \$6.5 million to Wachovia Bank (now Wells Fargo) for a waiver of certain requirements in connection with its railcar lease.

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

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



6. LEASES (CONTINUED)

Available proceeds, including changes for Fiscal Years 2012 and 2011, from the above lease/leaseback transactions, the cross border lease that terminated in 2010, the Market Frankford Elevated settlements, and unamortized swaption proceeds are included in the following liabilities:

Other Liabilities	Beginning Balance	Additions	Reductions *	Investment Earnings	Ending Balance
2012	\$ 9,149	\$ 14,250	\$ ( 851)	\$ 23	\$ 22,571
2011	\$ 21,174	\$ –	\$ ( 12,138)	\$ 113	\$ 9,149

\* 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 \$2.6 million and \$2.4 million for Fiscal Years 2012 and 2011, respectively.

7. PENSION PLANS

PLAN DESCRIPTION

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

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

7. PENSION PLANS (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

The SEPTA Board has the authority to establish and amend benefit provisions to each of the pension plans; however, the plans for Transit Police and certain Bargaining Employees – CTD, RAD and FD are based on the respective union bargaining agreement in effect at the time of retirement. Membership of each plan consisted of the following at July 1, 2011, the date of the latest actuarial valuation:

	SAM	TRANSIT POLICE	CITY TRANSIT	RED ARROW	FRONTIER	TOTAL
Retirees and beneficiaries receiving benefits	1,364	11	2,745	235	28	4,383
Terminated plan members entitled to but not yet receiving benefits	500	53	798	115	30	1,496
Active plan members	1,762	222	5,071	519	225	7,799
Total	3,626	286	8,614	869	283	13,678

FUNDING POLICY

The Authority establishes and may amend the employer contribution requirements. The Authority's policy provides employer contributions for all plans sufficient to satisfy the actuarially determined annual required contributions generally in either the current or subsequent fiscal year. The Authority may amend the contribution requirements of SAM Plan members. The contribution requirements for the bargaining union plans

are based on the respective union agreements in effect during the period of employment. During Fiscal Year 2012 the CTD, RAD, and FD plan member contribution rate increased from 2 to 2.5%. Administrative costs of all pension plans are financed through the plans' investment earnings.

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2012 are as follows:

	SAM	TRANSIT POLICE	CITY TRANSIT	RED ARROW	FRONTIER
Contribution rates:					
SEPTA	26.95%	11.06%	19.58%	15.72%	9.30%
Plan members	*	3.85%	2.50%	2.50%	2.50%

\* 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 2012 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	\$34,550	\$ 1,389	\$49,218	\$ 3,953	\$ 921	\$90,031
Contributions made	<u>32,462</u>	<u>1,190</u>	<u>48,635</u>	<u>3,811</u>	<u>911</u>	<u>87,009</u>
Increase in accrued pension liability	2,088	199	583	142	10	3,022
Accrued pension liability, beginning 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>
Accrued pension liability, end of year	<u>\$34,395</u>	<u>\$ 1,386</u>	<u>\$48,934</u>	<u>\$ 3,934</u>	<u>\$ 918</u>	<u>\$89,567</u>
Actuarial valuation date	7/1/11	7/1/11	7/1/11	7/1/11	7/1/11	
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed	Level dollar, closed	Level dollar, closed	
Amortization period <sup>4</sup>	29 years	29 years	29 years	29 years	29 years	
Asset valuation method	Actuarial value	Actuarial value	Actuarial value	Actuarial value	Actuarial value	
Actuarial assumptions:						
Investment rate of return <sup>1</sup>	7.75%	7.75%	7.75%	7.75%	7.75%	
Salary increases <sup>3</sup>	3.50%	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	
Cost-of-living adjustments	None	None	None	None	None	

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

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

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

<sup>4</sup> Amortization period has been decreased by 1 year.

7. PENSION PLANS (CONTINUED)

	YEAR ENDED	Analysis of Pension Funding	
		ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED
SAM	6/30/12	\$34,550	100.0%
SAM	6/30/11	\$32,462	100.0%
SAM	6/30/10	\$31,213	100.0%
SAM	6/30/09	\$25,284	100 0%
SAM	6/30/08	\$28,819	100.0%
SAM	6/30/07	\$25,245	100.0%
Transit Police	6/30/12	1,389	100.0%
Transit Police	6/30/11	1,190	100.0%
Transit Police	6/30/10	1,031	100.0%
Transit Police	6/30/09	733	100.0%
Transit Police	6/30/08	779	100.0%
Transit Police	6/30/07	683	100.0%
City Transit	6/30/12	49,218	100.0%
City Transit	6/30/11	48,635	100.0%
City Transit	6/30/10	43,320	100.0%
City Transit	6/30/09	38,534	100.0%
City Transit	6/30/08	35,690	100.0%
City Transit	6/30/07	33,091	100.0%
Red Arrow	6/30/12	3,953	100.0%
Red Arrow	6/30/11	3,811	100.0%
Red Arrow	6/30/10	3,319	100.0%
Red Arrow	6/30/09	2,908	100.0%
Red Arrow	6/30/08	2,620	100.0%
Red Arrow	6/30/07	2,429	100.0%
Frontier	6/30/12	<u>921</u>	<u>100.0%</u>
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>
TOTAL	6/30/12	<u>\$90,031</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>

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	7/1/11	\$395,190	\$601,014	\$205,824	65.8%	\$128,215	160.5%
SAM	7/1/10	\$357,290	\$552,099	\$194,809	64.7%	\$124,931	155.9%
SAM	7/1/09	\$341,869	\$529,415	\$187,546	64.6%	\$122,325	153.3%
SAM	7/1/08	\$376,919	\$499,524	\$122,605	75.5%	\$118,656	103.3%
SAM	7/1/07	\$355,391	\$498,208	\$142,817	71.3%	\$118,832	120.2%
SAM	7/1/06	\$319,509	\$444,031	\$124,522	72.0%	\$116,268	107.1%
Transit Police	7/1/11	20,209	25,000	4,791	80.8%	12,553	38.2%
Transit Police	7/1/10	17,172	21,393	4,221	80.3%	11,546	36.6%
Transit Police	7/1/09	15,386	18,872	3,486	81.5%	10,523	33.1%
Transit Police	7/1/08	15,908	16,367	459	97.2%	10,430	4.4%
Transit Police	7/1/07	14,303	15,089	786	94.8%	9,983	7.9%
Transit Police	7/1/06	12,034	13,103	1,069	91.8%	9,886	10.8%
City Transit	7/1/11	426,221	785,762	359,541	54.2%	251,418	143.0%
City Transit	7/1/10	382,757	736,230	353,473	52.0%	248,484	142.3%
City Transit	7/1/09	365,702	684,997	319,295	53.4%	242,762	131.5%
City Transit	7/1/08	397,906	661,740	263,834	60.1%	232,168	113.6%
City Transit	7/1/07	379,856	620,111	240,255	61.3%	260,569	92.2%
City Transit	7/1/06	344,644	573,726	229,082	60.1%	247,744	92.5%
Red Arrow	7/1/11	34,336	61,497	27,161	55.8%	25,155	108.0%
Red Arrow	7/1/10	30,762	56,928	26,166	54.0%	24,709	105.9%
Red Arrow	7/1/09	29,452	52,552	23,100	56.0%	23,447	98.5%
Red Arrow	7/1/08	31,582	50,200	18,618	62.9%	22,278	83.6%
Red Arrow	7/1/07	29,836	46,495	16,659	64.2%	26,704	62.4%
Red Arrow	7/1/06	26,643	42,963	16,320	62.0%	24,813	65.8%
Frontier	7/1/11	12,072	15,178	3,106	79.5%	9,903	31.4%
Frontier	7/1/10	10,089	13,385	3,296	75.4%	9,484	34.8%
Frontier	7/1/09	9,054	11,529	2,475	78.5%	8,984	27.5%
Frontier	7/1/08	9,307	10,619	1,312	87.6%	8,267	15.9%
Frontier	7/1/07	8,492	9,647	1,155	88.0%	9,386	12.3%
Frontier	7/1/06	7,138	8,271	1,133	86.3%	8,863	12.8%
TOTAL	7/1/11	\$888,028	\$1,488,451	\$600,423	59.7%	\$427,244	140.5%
TOTAL	7/1/10	\$798,070	\$1,380,035	\$581,965	57.8%	\$419,154	138.8%
TOTAL	7/1/09	\$761,463	\$1,297,365	\$535,902	58.7%	\$408,041	131.3%
TOTAL	7/1/08	\$831,622	\$1,238,450	\$406,828	67.2%	\$391,799	103.8%
TOTAL	7/1/07	\$787,878	\$1,189,550	\$401,672	66.2%	\$425,474	94.4%
TOTAL	7/1/06	\$709,968	\$1,082,094	\$372,126	65.6%	\$407,574	91.3%

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 three 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 2012 was affected by the reduction of the amortization period by 1 year from 30 years to 29 years and a lowering of the investment return assumption from 8.0% to 7.75% per year. The annual pension costs for the Union Plans and the SAM Plan increased by \$2.5 million and \$1.7 million, respectively, due to the changes. The change in the investment rate of return resulted in an increase to the actuarial accrued liability for the Union Plans of \$23.6 million and the SAM Plan of \$16.0 million.

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

The annual pension cost for Fiscal Year 2009 was affected by changes in actuarial assumptions on salary growth, withdrawal and retirement in accordance with an Experience Study conducted in 2008. The annual

pension costs for the Union Plans increased \$2.1 million while the cost for the SAM Plan decreased \$4.2 million. Additionally, a new agreement was ratified with the Transit Police Union on June 26, 2008, which included two changes in the plan provisions. These changes increased the annual pension cost for the Fiscal Year ending June 30, 2009 by \$122 thousand.

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

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.

7. PENSION PLANS (CONTINUED)

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

7. PENSION PLANS (CONTINUED)

STATEMENTS OF PLAN NET ASSETS as of June 30, 2011						
	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2011 Total
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 CHANGES IN PLAN NET ASSETS for the Year Ended June 30, 2012						
	SAM Plan	Transit Police Plan	City Transit Division Plan	Red Arrow Division Plan	Frontier Division Plan	2012 Total
Additions						
Contributions						
Employer	\$ 34,550	\$ 1,389	\$ 49,218	\$ 3,953	\$ 921	\$ 90,031
Plan member	<u>1,058</u>	<u>522</u>	<u>5,730</u>	<u>568</u>	<u>225</u>	<u>8,103</u>
Total contributions	<u>35,608</u>	<u>1,911</u>	<u>54,948</u>	<u>4,521</u>	<u>1,146</u>	<u>98,134</u>
Investment income (loss)						
Net realized gain	10,962	598	11,437	926	355	24,278
Net (decrease) in fair value of investments	(21,441)	(1,146)	(22,279)	(1,801)	(675)	(47,342)
Interest	3,929	213	4,096	332	127	8,697
Dividends	<u>4,157</u>	<u>227</u>	<u>4,340</u>	<u>352</u>	<u>135</u>	<u>9,211</u>
Total investment loss	(2,393)	(108)	(2,406)	(191)	(58)	(5,156)
Less investment expense	<u>1,461</u>	<u>80</u>	<u>1,525</u>	<u>123</u>	<u>47</u>	<u>3,236</u>
Net investment loss	<u>(3,854)</u>	<u>(188)</u>	<u>(3,931)</u>	<u>(314)</u>	<u>(105)</u>	<u>(8,392)</u>
Total additions	<u>31,754</u>	<u>1,723</u>	<u>51,017</u>	<u>4,207</u>	<u>1,041</u>	<u>89,742</u>
Deductions						
Benefits	29,281	239	45,306	3,476	46	78,348
Asset transfer for transferred employees	(318)	53	307	(85)	43	—
Administrative expense	<u>123</u>	<u>8</u>	<u>158</u>	<u>12</u>	<u>4</u>	<u>305</u>
Total deductions	<u>29,086</u>	<u>300</u>	<u>45,771</u>	<u>3,403</u>	<u>93</u>	<u>78,653</u>
Net increase	2,668	1,423	5,246	804	948	11,089
Net assets held in trust for pension benefits						
Beginning 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>
End of year	<u>\$412,714</u>	<u>\$22,573</u>	<u>\$446,868</u>	<u>\$36,284</u>	<u>\$13,586</u>	<u>\$932,025</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	<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	<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	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)

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.

8. OTHER POSTEMPLOYMENT BENEFITS

PLAN DESCRIPTION

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

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

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

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

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.

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 2012 are as follows:

	<u>SAM</u>	<u>Transit Police</u>	<u>Non-Railroad Union Groups</u>	<u>Railroad Union Groups</u>	<u>Total</u>
Annual required contribution	\$ 36,805	\$ 1,760	\$ 93,324	\$ 8,677	\$140,566
Interest on net OPEB obligation	4,076	249	11,198	1,109	16,632
Adjustment to annual required contribution	<u>(5,893)</u>	<u>(359)</u>	<u>(16,190)</u>	<u>(1,603)</u>	<u>(24,045)</u>
Annual OPEB cost (expense)	34,988	1,650	88,332	8,183	133,153
Contributions made	<u>11,376</u>	<u>45</u>	<u>22,941</u>	<u>2,380</u>	<u>36,742</u>
Increase in net OPEB obligation	23,612	1,605	65,391	5,803	96,411
Net OPEB obligation, beginning of year	<u>101,911</u>	<u>6,201</u>	<u>279,960</u>	<u>27,718</u>	<u>415,790</u>
Net OPEB obligation, end of year	<u>\$125,523</u>	<u>\$ 7,806</u>	<u>\$345,351</u>	<u>\$ 33,521</u>	<u>\$512,201</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 2012, 2011 and 2010 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	6/30/12	\$ 34,988	32.5%	\$125,523
SAM	6/30/11	\$ 37,133	29.1%	\$101,911
SAM	6/30/10	\$ 36,163	28.6%	\$ 75,576
Transit Police	6/30/12	1,650	2.7%	7,806
Transit Police	6/30/11	1,794	1.7%	6,201
Transit Police	6/30/10	1,686	1.0%	4,438
Non-Railroad Union Groups	6/30/12	88,332	26.0%	345,351
Non-Railroad Union Groups	6/30/11	95,290	21.7%	279,960
Non-Railroad Union Groups	6/30/10	92,165	20.9%	205,365
Railroad Union Groups	6/30/12	<u>8,183</u>	<u>29.1%</u>	<u>33,521</u>
Railroad Union Groups	6/30/11	<u>8,539</u>	<u>21.5%</u>	<u>27,718</u>
Railroad Union Groups	6/30/10	<u>8,105</u>	<u>20.2%</u>	<u>21,011</u>
Total	6/30/12	<u>\$133,153</u>	<u>27.6%</u>	<u>\$512,201</u>
Total	6/30/11	<u>\$142,756</u>	<u>23.4%</u>	<u>\$415,790</u>
Total	6/30/10	<u>\$138,119</u>	<u>22.6%</u>	<u>\$306,390</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	7/01/11	7/01/11	7/01/11	7/01/11
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open	Level dollar, open
Amortization period	30 years	30 years	30 years	30 years
Actuarial assumptions:				
Investment rate of return	4%	4%	4%	4%
Projected salary increases for life insurance	3.50%	—	—	—
Healthcare inflation rate	6.6% – 6.8%	6.6% – 6.8%	6.6% – 6.8%	6.6% – 6.8%
	Initial	Initial	Initial	Initial
	5.3% – 5.4% Ultimate	5.3% – 5.4% Ultimate	5.3% – 5.4% Ultimate	5.3% – 5.4% 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	7/01/11	\$ —	\$ 418,748	\$ 418,748	0.0%	\$117,759	355.6%
SAM	7/01/09	\$ —	\$ 417,244	\$ 417,244	0.0%	\$114,982	362.9%
SAM	7/01/07	\$ —	\$ 373,043	\$ 373,043	0.0%	\$108,401	344.1%
Transit Police	7/01/11	—	13,767	13,767	0.0%	10,898	126.3%
Transit Police	7/01/09	—	13,191	13,191	0.0%	9,429	139.9%
Transit Police	7/01/07	—	9,676	9,676	0.0%	9,167	105.6%
Non-Railroad Union Groups	7/01/11	—	921,352	921,352	0.0%	285,585	322.6%
Non-Railroad Union Groups	7/01/09	—	915,857	915,857	0.0%	280,424	326.6%
Non-Railroad Union Groups	7/01/07	—	801,605	801,605	0.0%	259,216	309.2%
Railroad Union Groups	7/01/11	<u>—</u>	<u>72,882</u>	<u>72,882</u>	<u>0.0%</u>	<u>72,151</u>	<u>101.0%</u>
Railroad Union Groups	7/01/09	<u>—</u>	<u>69,505</u>	<u>69,505</u>	<u>0.0%</u>	<u>69,415</u>	<u>100.1%</u>
Railroad Union Groups	7/01/07	<u>—</u>	<u>76,757</u>	<u>76,757</u>	<u>0.0%</u>	<u>64,994</u>	<u>118.1%</u>
Total	7/01/11	<u>\$ —</u>	<u>\$1,426,749</u>	<u>\$1,426,749</u>	<u>0.0%</u>	<u>\$486,393</u>	<u>293.3%</u>
Total	7/01/09	<u>\$ —</u>	<u>\$1,415,797</u>	<u>\$1,415,797</u>	<u>0.0%</u>	<u>\$474,250</u>	<u>298.5%</u>
Total	7/01/07	<u>\$ —</u>	<u>\$1,261,081</u>	<u>\$1,261,081</u>	<u>0.0%</u>	<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, 2013.

9. DEFERRED COMPENSATION

The Authority offers an employee savings/deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits employees to defer includible compensation, as defined in the Internal Revenue Code, in an amount generally not to exceed \$17.0 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 \$343 thousand and \$330 thousand for Fiscal Years 2012

and 2011, respectively. The total amount of all contributions made by employee and employer generally cannot exceed \$17.0 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

To obtain budget certainty and control volatility in fuel prices, the Authority entered into financial derivative agreements for its fuel purchases. The Authority has collateral posting requirements related to these instruments tied to its credit rating and dollar level of exposure to the counterparty. During the year ended June 30, 2012, the Authority was not required to post collateral for any fuel derivative agreements. The Authority is also a counterparty in two swap agreements as noted in the swap section of Note 5. These swap agreements require the Authority to post collateral if the long-term unenhanced rating of the Authority's Bonds is withdrawn, suspended or falls below (1) Baa3 as determined by Moody's

Investors Service ("Moody's"), (2) BBB- as determined by Standard & Poor's Ratings Service ("S&P") or (3) BBB- as determined by Fitch Ratings ("Fitch"). If the Authority failed to post the collateral when required, the counterparty may terminate the hedging derivative instrument. If the collateral posting requirement had been triggered at June 30, 2012, the maximum amount the Authority would have been required to post to its counterparties is \$24.0 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, 2012, 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, 2012. The Authority provides a liability for the self-insured portion based on the present value of the estimated ultimate cost of settling claims, discounted at 2.5% for Fiscal Year 2012 and 3.0% for Fiscal Year 2011, 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 2012 increased \$14.7 million. The related liability as of June 30, 2012 increased \$19.7 million, which includes a \$1.0 million increase from lowering 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 \$0.4 and \$0.5 million in expense for Fiscal Year 2011 and 2012, respectively. The Pennsylvania Department of Environmental Protection (PADEP) Act 2, "Underground Storage Tank

Program", involves follow-up testing, site characterization and remediation action plans as mandated by PADEP. The liability was developed by the Authority's engineers specializing in environmental remediation which is similar to situations at other sites with which the Authority has experience. The estimate is subject to change due to price increases, changes in technology, or other factors. The Authority has also recognized within capital grants the expected reimbursement of such costs. The Authority is self-insured for workers' compensation claims for its employees. The Authority provides a liability for the self-insured amount based on an actuarial valuation that uses the present value of the estimated ultimate cost of settling claims, discounted at 2.5% for Fiscal Year 2012 and 3.0% for Fiscal Year 2011, 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 2012 resulted in an increase to the liability of \$1.2 million.

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

Total claims liabilities, including changes for Fiscal Years 2012 and 2011, are as follows:

	Public Liability and Property Damage	Workers' Compensation	Totals
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	(516)	–	(516)
Balance at June 30, 2011	149,931	54,317	204,248
Claims expense	66,266	17,794	84,060
Pollution remediation expense	508	–	508
Payment of claims	(46,583)	(18,235)	(64,818)
Payments for pollution remediation	(448)	–	(448)
Balance at June 30, 2012	\$ 169,674	\$ 53,876	\$ 223,550
Balance at June 30, 2012, due within one year	\$ 77,019	\$ 12,608	\$ 89,627

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 the growth of these funds. The economic recession had resulted in limited growth in Statewide Sales Tax Revenue. This funding source is a key component of the Trust Fund. Further compounding the problem, in March 2010 the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to toll Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA's annual capital budget was cut by 25 percent, or \$110 million, beginning in Fiscal

Year 2011. Without approved sources of funding to replace this funding gap, SEPTA must continue to utilize State funding for capital projects at the reduced Fiscal Year 2010 level and the funding shortfall will have negative consequences on 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 for addressing the transportation funding needs of Pennsylvania. On August 1, 2011, the TFAC submitted its final report. The report outlines several modernization proposals and a recommended funding package to address transportation needs for both highway and transit, throughout the Commonwealth. When the Commonwealth issued its budget for Fiscal Year 2013, the Governor indicated the transportation funding issue was too significant to include in the budget and that it would have to be addressed separately at a future date. The Authority is prepared to work with the Governor and members of the General Assembly to find a long-term solution to address the funding shortfall facing transportation in the Commonwealth.





**EDITOR:**

Barbara Siegel

**CONTRIBUTING WRITERS:**

Andrew Busch | Heather Redfern | Kristin Geiger

**PHOTO AND ARTWORK CREDITS:**

Bill Deboer | Kate Mellet | Andrew Busch | Heather Redfern | Kristin Geiger  
Milagros Rivera-Archer | Cheryl Jones | Margery Amdur | City of Philadelphia Mural Arts Program

[www.septa.org](http://www.septa.org)  
Copyright SEPTA 2012