



SEPTA
ANNUAL REPORT
FOR
FISCAL YEAR
2014

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Introduction of newer, more reliable vehicles, such as the Silverliner V on Regional Rail, helped SEPTA to achieve gains in service reliability as measured by on-time performance.

MANAGEMENT LETTER



Pasquale T. Deon Sr., Chairman



Joseph M. Casey, General Manager

Fiscal Year (FY) 2014 was a turning point in the history of transportation in the Commonwealth of Pennsylvania. With the passage of Act 89 in November 2013, Pennsylvania's transportation agencies have – for the very first time – a predictable, bondable, and inflation-indexed funding solution to repair failing highways, bridges, and transit systems across the state. All Pennsylvanians stand to benefit from this landmark piece of legislation. For SEPTA, Act 89 unlocked the potential for a future where SEPTA is the region's preferred choice for transportation. This vision, codified in an ambitious, forward-looking FIVE YEAR STRATEGIC BUSINESS PLAN (www.septa.org/strategic-plan), is grounded in a series of transformative programmatic initiatives that are already underway and saw significant progress in FY2014. Among them:

- The launch of a bold capital program, entitled REBUILDING FOR THE FUTURE (www.septa.org/rebuilding), will tackle a wide-ranging \$5 billion backlog of mission critical capital replacement needs, including bridge replacements, substations overhauls, and vehicle procurements.
- A focus on customer and employee safety and security through awareness campaigns, including MAKE THE SAFE CHOICE and OPERATION LIFESAVER for customers as well as NEVER TOO BUSY FOR SAFETY for employees (www.septa.org/safety), will help to ensure SEPTA continues to be a safe and secure passenger and work environment.
- Continued planning and testing to prepare for a new fare payment system, SEPTA KEY (www.septa.org/key), will fundamentally transform the way customers interact SEPTA's system by modernizing and integrating access to all transit services across the region.
- The continued emergence of an award-winning sustainability program, SEP-TAINABLE (www.septa.org/sustain), will serve as the lens through which SEPTA evaluates its increasingly positive environmental, social, and economic impact on the region.

This Annual Report for FY2014 (July 1, 2013 through June 30, 2014) details a remarkable year of progress in these important programmatic areas – and many others. The report provides an update on progress towards a balanced scorecard of key performance indicators (KPI) established in the Five-Year Strategic Business Plan. It discusses key initiatives that were undertaken during FY2014 to improve performance outcomes in each area, and provides a glimpse into new initiatives already underway in FY2015 to address ongoing challenges and ensure continual improvement.

FY2014 represented the 50th anniversary of SEPTA's service to southeastern Pennsylvania. When SEPTA was created in 1964, its job was to shape the assets of bankrupted private transit companies into an integrated public transit network managed by a single agency with a singular focus on meeting the region's public transportation needs. Half a century later, the fully integrated SEPTA system is a blend of legacy and modern vehicles and infrastructure – now the largest system in Pennsylvania and sixth largest in the United States.

SEPTA is proud of its history but recognizes that the future requires innovation and decisive action to continually meet the travel needs of southeastern Pennsylvanians as they evolve. The passage of Act 89 allows SEPTA to step boldly into this future with the financial stability to pursue ambitious plans to become the region's preferred choice for transportation. SEPTA is committed to realizing this vision, and to ensuring its system and services are an increasingly valuable asset to the region for the next 50 years and beyond. It is now our pleasure to share this Annual Report for Fiscal Year 2014 with you.

SEPTA BOARD



Philadelphia
County
Rina Cutler

Montgomery
County
Leslie S. Richards

Vice Chairman
Thomas E. Babcock

Governor's Appointee
Thomas Jay Ellis, Esquire

Chairman
Pasquale T. Deon Sr.

Delaware County
Daniel J. Kubik

House Minority
Leader Appointee
John I. Kane

Senate Minority Leader
Appointee
James C. Schwartzman,
Esquire

House Majority
Leader Appointee
Christopher H. Franklin

Chester County
Cuyler H. Walker, Esquire

Montgomery County
Kenneth Lawrence, Jr.

Bucks County
Honorable
Charles H. Martin

Chester County
Kevin L. Johnson, P.E.

Senate Majority
Leader Appointee
Honorable Stewart J. Greenleaf
(not shown)

Philadelphia
Beverly Coleman
(not shown)

PASQUALE T "PAT" DEON WINS 2014 APTA OUTSTANDING BOARD MEMBER AWARD

In June 2014, SEPTA Board Chairman Pasquale T. "Pat" Deon Sr. was named the winner of the American Public Transportation Association (APTA) Outstanding Board Member Award for 2014. Mr. Deon, who has served on the SEPTA Board since 1996 and as Chairman since 1999, was credited for his leadership role in the November 2013 passage of Pennsylvania Act 89, a robust transportation funding package that has nearly doubled SEPTA's capital budget. Said APTA President and CEO Michael Melaniphy: "APTA is proud to honor Mr. Deon's contributions to public transportation. His stewardship of SEPTA has been key to delivering the kind of high-quality public transportation customers rely on every day, and his work toward securing capital funding for improvements ensures a bright future ahead."

LESLIE RICHARDS WINS 2013 WTS WOMAN OF THE YEAR AWARD

In November 2013, SEPTA Board Member and Montgomery County Commissioner Leslie Richards was named the Women in Transportation Seminar (WTS) Woman of the Year Award for the Philadelphia Chapter. Richards, who has served on the SEPTA Board since 2012 as a Montgomery County representative, was honored by her peers for her distinguished work in local and county government, and for her efforts towards the advancement of women in leadership positions across the transportation industry.

SAFETY & SECURITY



Data-driven policing and targeted enforcement strategies reduced violent crime rates across the system by 25 percent.

CUSTOMER SAFETY



See Tracks? Think Train! SEPTA Participates in New National Operation Lifesaver Rail Safety Campaign

It's a matchup no person or car will ever win - a hit from an oncoming train. Yet every day, people across the Greater Philadelphia region attempt to beat those odds by making the risky choice of walking along train tracks or driving through grade crossings when the gates are closing or are already down. "No one can outrun or outdrive a train," said Scott Sauer, SEPTA's director of System Safety and a board member for Operation Lifesaver Inc. (OLI), a national organization dedicated to rail safety.

To remind the public that train tracks are not the place for people or cars, SEPTA is partnering with Operation Lifesaver on the organization's new "See Tracks? Think Train!" initiative. This public service campaign, which launched in April 2014, is aimed at reducing the number of pedestrian and driver injuries and fatalities around railroad tracks by highlighting risky behaviors. SEPTA's System Safety officers will feature information from the program in the many Operation Lifesaver rail safety presentations they make across the Authority's service area.

For more information about SEPTA Safety and to download PDFs of safety tips for all SEPTA modes, click [here](#). For information about SEPTA's Operation Lifesaver presentations, and to schedule a presentation, call 215-580-7800. For more information about Operation Lifesaver, click [here](#).

SAFETY INITIATIVES

- "Make the Safe Choice" Campaign
- Data Driven "Hot Spot Policing" Initiatives
- Station Safety Blitzes
- Operation Lifesaver Rail Safety Education
- Grade Crossing & Signal-Related Capital-Intensive Safety

Targeted safety campaigns heightened public awareness of exercising caution at rail stations, grade crossings, and other locations where lack of attentiveness could have serious consequences.



SAFETY IS SEPTA'S TOP PRIORITY



EMPLOYEE SAFETY

SEPTA Meets Rigorous ISO 14001:2004 Standard

SEPTA's Environmental and Sustainability Management System (ESMS) at Berridge Bus Overhaul Facility and Print Shop in North Philadelphia has achieved ISO 14001:2004 certification. The certification is more than two years in the making.

SEPTA managers partnered with front-line engineering, maintenance, and construction staff to review daily shop activities, products, and services to ensure that they are conducted in a manner that provides environmental, health, and safety benefits to SEPTA employees and contractors.

"This certification demonstrates SEPTA's commitment to reducing the environmental impact of our heavy industrial practices," said SEPTA General Manager Joseph M. Casey, who added "the ISO 14001:2004 certification reinforces SEPTA's reputation as one of the nation's leading transit agencies, and possibly makes us contenders for additional grant and funding opportunities for which we would not have otherwise been considered for." In the United States, SEPTA is one of only eight transit agencies to achieve this internationally recognized certification, attained only after undergoing an independent third-party assessment process.

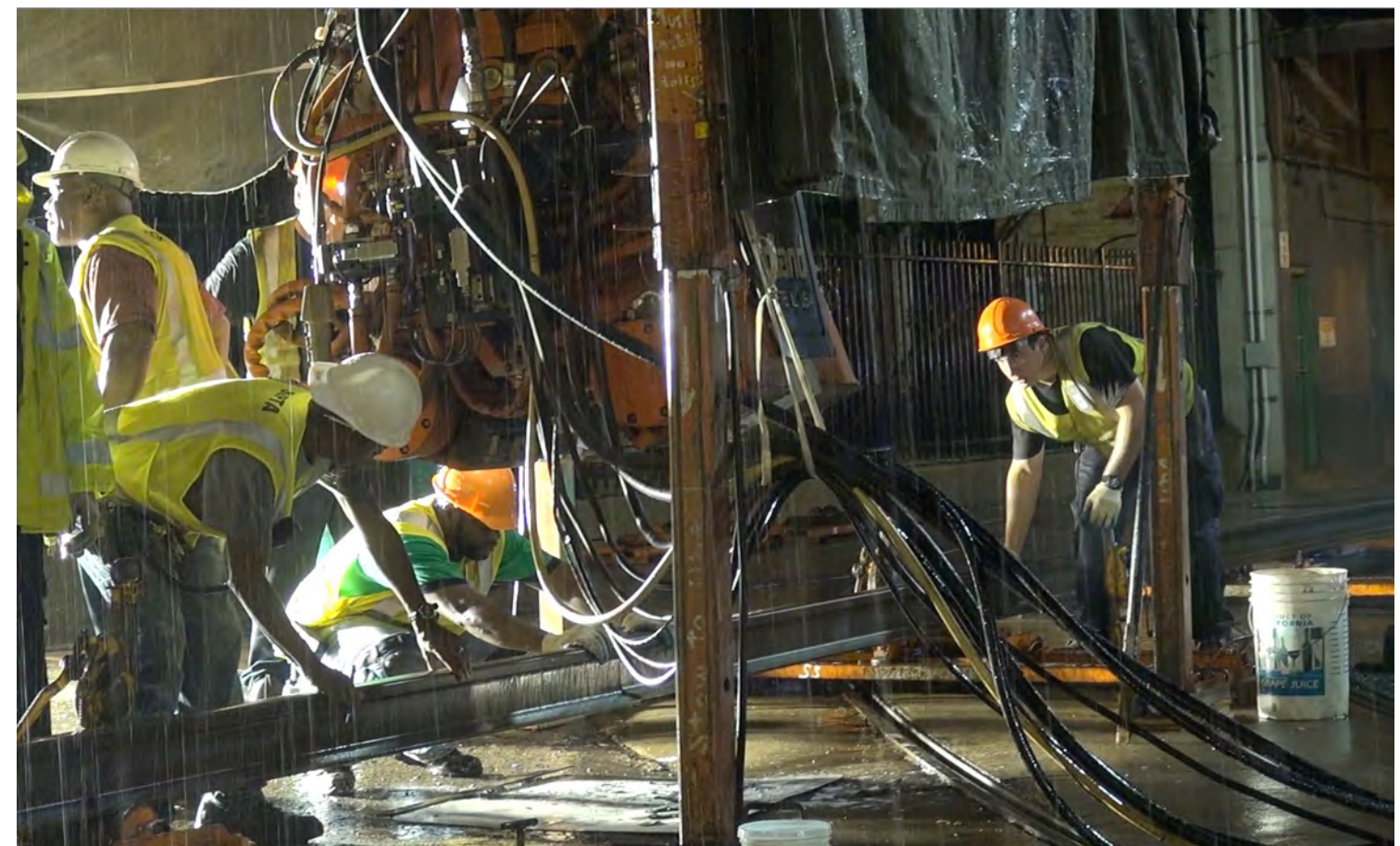
A specific focus was paid to the usage, storage, and disposal of environmentally sensitive materials used during the bus overhaul process. "Our workforce is committed to safe, sustainable practices not only at Berridge, but in every place we operate across the Delaware Valley", said Casey as he unveiled a special decal that will be placed on each vehicle as it completes the overhaul process at the shop. Placed by the bus entry doors, passengers will be able to scan the decal with a mobile device which will allow them to learn more about SEPTA's sustainability programs.

SAFETY INITIATIVES

- "Never Too Busy for Safety" Campaign
- Organization Wide Safety Awareness
- Days Focus on SEPTA Operator Safety
- Stepped Up SEPTA Transit Police Checks



Internal safety campaigns have heightened awareness among SEPTA employees of proper practices and protective equipment that result in a safer work environment.



STATE OF GOOD REPAIR & RELIABILITY



With the passage of Pennsylvania Act 89 in 2013, SEPTA embarked upon a comprehensive infrastructure rehabilitation and vehicle replacement program to rebuild the system for the future.



CAPITAL PROJECT MANAGEMENT

ACT 89 MORE RESOURCES TO INVEST IN INFRASTRUCTURE AND REBUILD THE SYSTEM FOR THE FUTURE

In December, 2013 SEPTA presented a new capital improvement plan for addressing some of the transit system's most pressing needs, including critical infrastructure upgrades and equipment replacement. The plan, called "Catching Up", was detailed during the regularly scheduled SEPTA Board meeting. This comes less than a month after the state approved a new comprehensive transportation funding bill (ACT 89), which will allow SEPTA to significantly bolster its short- and long-term capital improvement program.

The work outlined in the plan addresses issues that were highlighted earlier in the year when SEPTA released its Service Realignment Plan, which laid out a number of measures to significantly shrink the transit system if new funding was not made available for critical, long-needed improvements. Now, the Authority is focused on getting to work on some of its most vital needs to ensure the continuation of safe, reliable service for customers. Timelines for specific projects will be announced following the completion of engineering and design phases.

"These are the type of core infrastructure projects that are essential to the everyday operation of the SEPTA system," said SEPTA General Manager Joseph M. Casey. "The new transportation funding bill is a game-changer for SEPTA, its riders and transportation in the region as a whole."

SEPTA received additional state funding provided under the bill beginning 2014, with the amounts growing gradually until full funding levels are achieved in approximately five years. At that time, SEPTA projects its annual Capital Budget to exceed \$600 million - or more than double the \$300 million annual amount SEPTA has had available for capital improvement projects in each of the last several years.

To read SEPTA's proposed capital improvement plan, "Catching Up", [click here](#).



With Pennsylvania Act 89 in place, SEPTA has ramped up critical bridge, track, station, and substation projects to rebuild core infrastructure across all modes and all five counties of Southeastern Pennsylvania.



VEHICLE RELIABILITY

Vehicle Overhaul Program

SEPTA's Vehicle Overhaul Program (VOH) provides for the systematic replacement or upgrade of systems on SEPTA's rolling stock. Vehicles are scheduled for overhauls during their service lives based on vehicle type.

A vehicle must receive periodic overhauls if it is to optimize performance throughout its useful service life. Prudent fleet management requires a program of preventive maintenance for optimal fleet reliability, service quality, efficient performance, and passenger comfort. Advanced scheduling of vehicle preventive maintenance allows SEPTA to purchase material and produce rebuilt components in an efficient and effective manner. In addition to vehicle overhauls, this program also provides for vehicle campaigns. Campaigns address both critical items and vehicle equipment upgrades and modifications, which are accomplished on a fleet-wide basis. The Vehicle Overhaul Program will allow SEPTA to continue its overhaul of rolling stock, thus ensuring continued safe and reliable service. Highlights of the Fiscal Year 2014 program include the overhaul of 40-foot low-floor New Flyer diesel buses, Broad Street B-IV cars, City and Suburban trolleys, Regional Rail Silverliner IV and Bombardier Push-Pull railcars and locomotives, Market-Frankford M-4 cars, Norristown High Speed Line N-5 cars, and support vehicles and equipment.

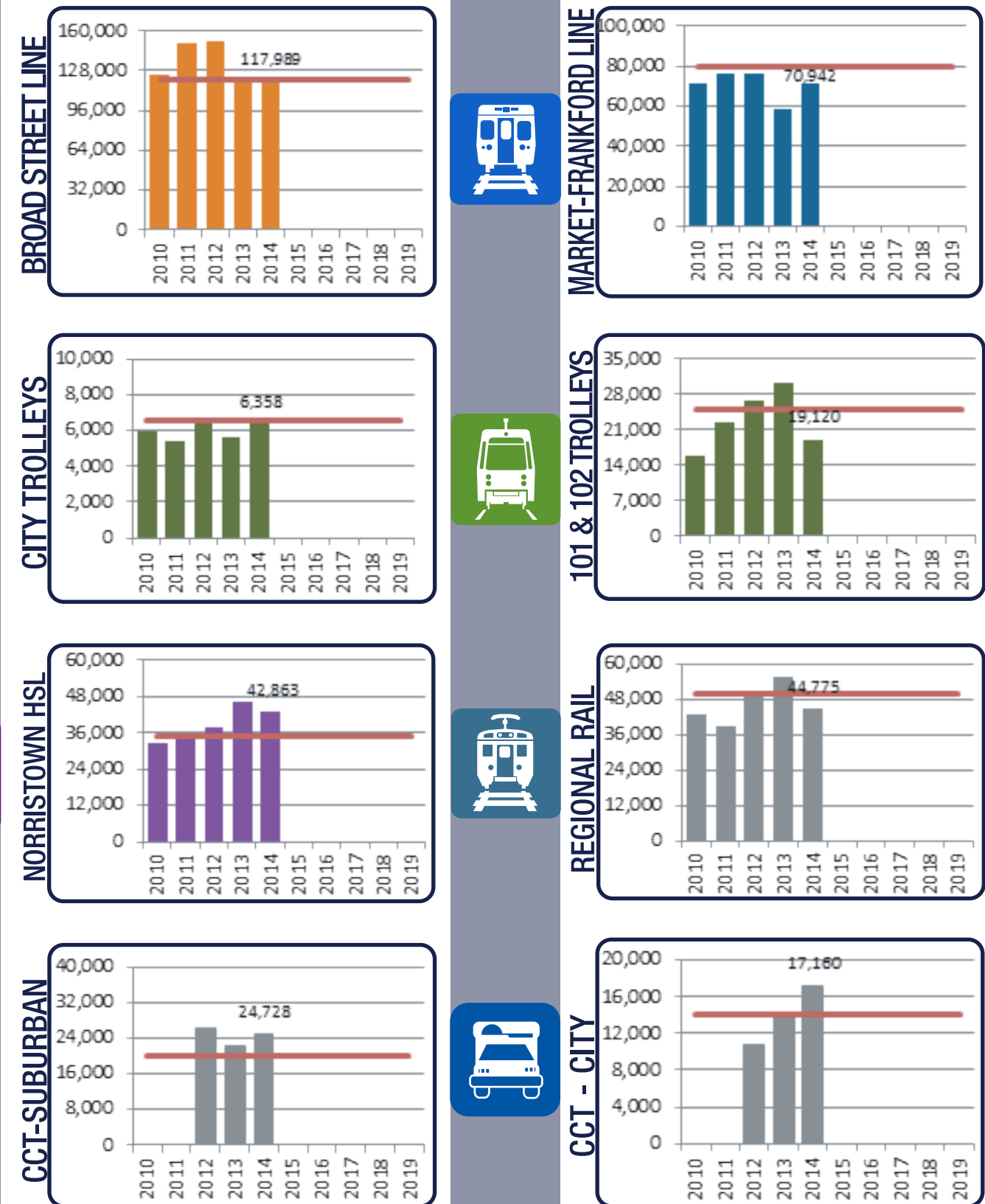
Over the last 15 years, Regional Rail ridership has increased 50 percent, with annual ridership up from 24 million to 36 million trips. SEPTA General Manager Joseph M. Casey credits aggressive efforts in recent years to improve SEPTA's aging infrastructure, as well as customer service-focused initiatives, for helping attract and retain new riders. Regional Rail service has been enhanced with the addition of 120 new Silverliner V rail cars, which replaced vehicles that dated to the mid-1960s.

INITIATIVES

- Comprehensive Vehicle Overhaul (VOH) Program for all Fleets
- Acquisition of New CCT Paratransit Vehicles
- Acquisition of New 40 and 60-foot Hybrid-Electric Buses
- Phased Replacement of Aging Fleets

MEAN DISTANCE BETWEEN FAILURES (IN MILES)

KEY: — GOAL FOR FLEET





SEPTA now has the largest (AT&T Station) and second largest (Jefferson Station) naming rights contracts in the U.S. transit industry, a key source of new revenue.

RIDERSHIP GROWTH



Weekend Overnight Subway Pilot

In June 2014, SEPTA launched a pilot of weekend overnight service on the Broad Street and Market-Frankford Lines. A total of 5,792 riders were counted as they entered the system between midnight and 5:00 a.m. on the first night of subway service. This represents a 35 percent increase over the average of 4,301 riders who used Nite Owl bus service for travel on Sunday mornings.

SEPTA staff reported "a lot of young people" choosing the subway with high ridership counts observed at the 40th, 2nd, Spring Garden, and Girard Stations on the Market-Frankford Line. Ridership on both lines peaked between midnight and 2:00 a.m.. According to Chief Thomas Nestel who joined patrol for the entire overnight period, no crime was reported or observed by SEPTA Police or operational staff on the subway system.

"Based on these initial reports - SEPTA is pleased that pilot operation of weekend service on the Broad Street and Market-Frankford Lines appears to be a popular option for late night travel," said SEPTA General Manager Joseph M. Casey. "We hope that the pilot continues to be convenient not only for existing passengers, but new riders attracted by additional hours of subway operation."

Trains operated every 20 minutes, with arrival times staggered at the City Hall/15th Street Stations by 10 minutes to accommodate transfers. "Signs are posted in each station informing passengers of Nite Owl boarding locations," said Assistant General Manager for Operations, Ronald Hopkins. "We expect that our riders will quickly become familiar with the overnight boarding pattern as the pilot program continues."

Additional information about the weekend overnight service pilot program, including rider tips and schedules is available online at: www.septa.org/service/all-night.html.

RIDERSHIP GROWTH INITIATIVES

- Pilot Testing for New Electronic Fare System, "SEPTA Key"
- Organizational Partnerships through Commuter's Choice Program
- Targeted Outreach with Senior and Disabled Communities
- Partnerships with Sports, Tourism, Cultural, & Educational Institutions
- Piloting 24 Hour Service for Subway/Elevated Lines on Weekend



A continued upward trend in ridership, slowed slightly by extreme weather in FY2014, was highlighted by record-setting passenger trips on Regional Rail, where ridership has grown more than 50 percent in 16 years.

OPERATING EXPENSES



SEPTA To Save Millions in Annual Energy Costs

In October 2013, SEPTA entered into a three-year contract with PPL EnergyPlus (PPL EP), effective December 2013, for the power supply to serve SEPTA's electric generation requirements. The contract includes propulsion power for the Broad Street Line subway, the Market-Frankford Line subway/elevated, the Norristown High Speed Line, the Media and Sharon Hill Trolley lines (Routes 101 and 102), all six of SEPTA's City Transit Division trolley routes, and the portion of SEPTA's Regional Rail serviced by the Wayne Junction Power Substation. These operations require approximately 400,000,000 kilowatt hours (kWh) of electricity per year. With the assistance of SEPTA's energy consultant, SourceOne, SEPTA successfully developed a comprehensive strategy for the competitive purchase and management of utility expenses.

In its most recent electricity procurement, SEPTA achieved savings through a competitive procurement process that began with an initial review and vetting of all licensed electricity suppliers in Pennsylvania. Through this process, SEPTA anticipates a reduction in electricity costs of approximately \$4 million annually. "This collaboration with SourceOne has yielded significant savings for taxpayers, and supports our primary goals in providing the most efficient and cost-effective services to our customers," said Richard Burnfield, SEPTA's Chief Financial Officer. "Leveraging an energy procurement strategy has been a critical part of our efforts to both save money and better serve the communities and the passengers who rely on us for transportation." This recent purchase continues SEPTA's aggressive energy procurement strategy working with SourceOne.

EXPENSE CONTROL INITIATIVES

- Energy Action Plan for Vehicle & Facility Energy Cost Reductions
- Contractual Strategies to Mitigate Risk and Reduce Unit Costs
- Claims Management Strategies that Reduce Financial Exposure
- Transit First Initiatives to Reduce Service Costs on Key Routes



*SEPTA's Capital Program
reduces long-term
operating and maintenance
costs through strategic
infrastructure upgrades*

RESOURCE MANAGEMENT

CARBON FOOTPRINT

Partnering with the Franklin Institute on Climate Education

In 2012, the Franklin Institute received a grant from the National Science Foundation (NSF) as part of a five-year multi-city collaborative to study the prospects for enhancing urban through an informed response to climate change.

SEPTA has been a partner in this effort, now referred to as the Climate Urban Systems Partnership (CUSP), from its inception.

On July 29, 2013, SEPTA and the Franklin Institute unveiled its first joint initiative under CUSP - a mural at the Huntingdon Station in the Kensington section of North Philadelphia. The mural represents an effort to communicate the positive environmental impact of SEPTA's cutting-edge wayside energy storage project, located just blocks away at an electrical substation along the Market-Frankford Line. By capturing, storing, and reusing regenerated energy created by braking trains, the grant-funded storage system will reduce electricity consumption and associated greenhouse gas emissions from the power generated to supply it. In so doing, the system will help to mitigate the known impacts of global climate change in the Philadelphia region, which include more intense heat and heavy rain.

For SEPTA, the project is part of a strategy to reduce energy intensity by 10 percent and associated GHG emissions by 30 percent by 2015 (from baseline year 2009). The collaboration with the Franklin Institute through CUSP is helping to communicate to customers and the general public about SEPTA's ambitious sustainability goals, the wayside energy storage project in particular, and the critical importance of taking proactive steps now to protect our communities from a changing planet.

See the mural design [here](#).



SEPTA

Continued implementation of an Energy Action Plan, including hybrid bus procurements and regenerative braking/wayside energy storage programs on the Market-Frankford and Broad Street Lines, paced cost reductions from utility savings.

KEY INITIATIVES

- Hybrid-Electric Buses (1/2 of the Fleet by 2016)
- Regenerative Braking/Wayside Energy Storage on Subway/Elevated System
- LED Lighting at Facilities and Stations

WASTE DIVERSION



Eagles Player Connor Barwin Tackles Recycling on SEPTA

While in a SEPTA railroad or subway station, customers were surprised to hear a new voice over the PA system - Philadelphia Eagles Player Connor Barwin.

"Hi SEPTA Riders, this is Connor Barwin from the Philadelphia Eagles. I recycle and so should you. Just toss recycling items wherever you see a blue recycling logo on a bin. And remember, please no food. Thanks for supporting SEPTA's sustainability program and keeping Philadelphia green," is the announcement that was heard at SEPTA stations system-wide. Barwin brought attention to the blue-tinted signs and bags that indicate that it's safe to toss recyclable materials inside.

At Frankford Transportation Center, SEPTA is piloting a new recycling/trash combination unit design which, if effective, could become the standard for system-wide implementation. By the end of FY14, each station was equipped with at least one recycling receptacle for passenger use. The more that people make use of these receptacles to dispose of reusable materials reduces the amount of waste that has to be cleaned and collected across the system, which could add up to major savings that could be potentially reinvested in service improvements and system upgrades.

**WASTE DIVERSION AND RECYCLING
ARE FUNDAMENTAL TO SEPTA'S
"TRIPLE BOTTOM LINE"
APPROACH TO SUSTAINABILITY:
ENVIRONMENTAL, SOCIAL, AND ECONOMIC.**

KEY INITIATIVES

- Improve Single Stream Compliance at Stations and Facilities
- Implement Wood Waste Recycling Program
- Improve Bus Window Shield Recycling Program
- Expand Compactor Use to Improve Cost Effectiveness



CUSTOMER EXPERIENCE



Tens of thousands of runners used the Broad Street Line to participate in the annual Broad Street Run in May.

SERVICE RELIABILITY

SEPTA-CSX Separation Project Will Enhance Both Passenger & Freight Services

SEPTA will receive a \$10 million federal grant for a critical project that will improve safety and service on the West Trenton Regional Rail Line. The award will be made through the U.S. Department of Transportation's TIGER V (Transportation Investment Generating Economic Recovery) program, to help fund the SEPTA-CSX Separation Project. This effort, which is a partnership between SEPTA and CSX Transportation, will separate passenger and freight rail operations -- both of which are experiencing sustained growth -- along a six-mile portion of track owned by CSX between the Woodbourne and West Trenton Stations. This shared segment of track carries 57 SEPTA trains each day, serving riders on the West Trenton Line. Ridership on the West Trenton Line has increased by more than 60 percent over the last decade -- to approximately 12,500 passenger trips on an average weekday -- making it one of the most heavily travelled routes in the transit system. The shared track span also provides a key route to moving goods throughout the Greater Philadelphia region, with over 20 freight trains passing through daily. It provides access to the Port of Philadelphia, making it critical to the local economy, and also has an impact nationally in linking CSX's north-south network.

The increased activity in both passenger and freight service, however, has created heavy traffic and delays, particularly during rush hour. By upgrading this six-mile stretch, including construction of a new four-mile track on the main portion for passenger trains, SEPTA and CSX will be able to relieve this congestion, and provide room for future growth. "This project is not only critical to SEPTA and CSX, but to the region as a whole," said SEPTA Board Chairman Pasquale "Pat" T. Deon Sr. The project will also clear the way for SEPTA to fully implement Positive Train Control (PTC).

PERFORMANCE INITIATIVES

- Vehicle Overhaul and Replacements to Ensure Ongoing Improvements in Mechanical Reliability
- Data Driven Evaluation of Schedules on Low-Performing Routes
- Participation in "Transit First" Committee Meetings with the City of Philadelphia to Speed Up Service on Key Routes



A comprehensive vehicle overhaul program (VOH) boosts service reliability across all SEPTA modes and fleets of vehicles.

CUSTOMER SERVICE & COMMUNICATIONS

Innovation & Partnership Lead to New Tech Amenities for Customers

SEPTA customers are now enjoying a pair of high-tech amenities, thanks to a partnership between the Authority and Comcast - and some innovative work by SEPTA's in-house IT talent. During an event at 69th Street Transportation Center in Upper Darby in October 2013, Comcast and SEPTA officials announced the expansion of free WiFi to dozens of additional SEPTA stations. SEPTA also simultaneously launched the official SEPTA App for iPhone, which is now, along with an Android version available for download. The SEPTA App was fully developed by SEPTA's IT professionals, who will also oversee its operation and enhance it for future versions.

The WiFi expansion is focused on bringing this amenity to transit customers who use SEPTA's subway, bus and trolley routes. With Comcast's help, SEPTA is now one of the first transit agencies in the nation to provide WiFi to customers at bus, subway and trolley stations.

The SEPTA App for iPhone and Android - like the WiFi, also available for free - brings the travel information and trip-planning resources already available on SEPTA's Website into one convenient mobile tool. Among the features are real-time travel updates, schedules and fare information. It also gives riders-on-the-go the ability to find nearby stations and routes using GPS coordinates. "This consolidates all of our information for customers into one convenient App," said Michael Zaleski, SEPTA's Director of Emerging and Specialty Technologies. "We're able to manage the information that goes out to ensure accuracy for our customers." SEPTA will continually look for ways to improve the App.

William Zebrowski, SEPTA's Senior Director of Information Technology, said comments from customers will play a big role in future version of the SEPTA App. "We're really going to rely on our customer feedback," Zebrowski said.



Customer information kiosks set up at various locations around the system help customers get where they are going.



23 tons of food were collected at SEPTA passenger stations and employee locations for the annual Philabundance Food Drive.

EMPLOYEE GROWTH

SEPTA's 30th Anniversary Bus Rodeo competition crowned operator Zenon Rinylo and maintenance team the "Midvale Mud Dogs" grand champions, punching their ticket to represent SEPTA at the International Rodeo in Fort Worth, TX in May 2015. SEPTA is two-time defending champions in this industry-wide skills competition.

In the Rail Rodeo competition, operator Larry Ryan and the Wayne/Powelton maintenance team won first prize and will represent SEPTA at the International Rail Rodeo in Salt Lake City, UT in June 2015.



SUCCESSION PLANNING

SEPTA Sets Industry Standard With Succession Planning Program

One of the best things about SEPTA is its long-term employees who know everything about the system. The unfortunate thing is that when those employees walk out the door, all of their knowledge goes with them. With the creation and implementation of a new succession planning program, SEPTA is making sure that institutional knowledge is getting passed down to the next generation and once again setting an industry standard. The new program, officially referred to as Advancing Internal Management (AIM), will serve as a best practice resource for other large transit agencies and strives to ensure continuity of leadership in the event of planned or unplanned turnover in critical leadership positions across the Authority.

Funded in part by a grant from the Federal Transit Administration in collaboration with PennDOT and PennTRAIN, AIM is a multi-year program that identifies SEPTA employees with leadership potential. Utilizing training and mentoring programs, the AIM program prepares these employees for future leadership. The goal is to create a "leadership pool" of qualified candidates with the skills and competencies to be immediately effective. "We are looking to prepare leaders of the future in keeping with SEPTA's standards of excellence," SEPTA General Manager Joseph Casey said. "This was an intense six-month journey for everyone through the selection process. There were 61 applicants and 35 interviews which resulted in 27 candidates to form the first AIM Pool Class of 2014." This first year of the program, considered to be a pilot year, is focused on developing bench strength for 11 key positions grades 43 and above-excluding the General Manager (GM), Deputy General Manager (DGM) and Assistant General Manager (AGM) positions-as determined by the Authority's General Management Team.

The 27-member employee class is comprised of a diverse group of individuals that represent various divisions and positions throughout the Authority. Tracy Innaurato, SEPTA's Director of Training and Development and Senior Training Facilitator Jennifer Barrett spearheaded the new program. Innaurato credits General Manager Joseph Casey for leading the charge to support a program that is geared toward developing the next generation of leaders internally instead of externally. "We're unique in that we have a long tenured employee population," Barrett added. "People grow-up here, they develop." Barrett also mentioned that one of the purposes of the program is to make sure that there is a diverse pool of applicants to be considered for future needs.



FY 2015 PREVIEW



Critical investments in core infrastructure will continue in 2015.



Additional investments in hardening core infrastructure to the effects of extreme weather will also begin in 2015.



SEPTA Key, a transformative fare system modernization program, will be implemented – on transit (bus, trolley, subway/elevated) in 2015, and on Regional Rail in 2016.



FINANCIAL REPORTS



SEPTA has coupled advertising and naming rights contracts with technology upgrades, such as new train status displays at Suburban Station, to improve the customer experience.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
Financial Highlights
For the Years Ended June 30
(Millions of dollars)

	2014	2013	2012	2011	2010**	2009**	2008	2007	2006	2005
<u>OPERATING REVENUES</u>										
Passenger	\$ 473.0	\$ 443.0	\$ 446.8	\$ 439.4	\$ 396.0	\$ 404.8	\$ 392.5	\$ 344.4	\$ 329.9	\$ 326.9
Shared ride subsidies	17.2	17.4	18.0	18.7	18.7	19.0	19.8	65.8	67.7	68.9
Route guarantees	3.0	3.3	3.4	3.2	3.0	3.0	3.6	8.1	2.9	3.5
Other	32.7	32.5	30.8	30.7	29.7	31.2	29.9	26.7	25.6	21.5
Total operating revenues	<u>525.9</u>	<u>496.2</u>	<u>499.0</u>	<u>492.0</u>	<u>447.4</u>	<u>458.0</u>	<u>445.8</u>	<u>445.0</u>	<u>426.1</u>	<u>420.8</u>
<u>OPERATING EXPENSES</u>										
Operating expenses, excluding depreciation *	1,320.1	1,297.4	1,292.0	1,260.0	1,211.9	1,167.9	1,100.2	943.5	893.5	881.3
Depreciation	329.5	330.9	330.4	320.5	302.3	289.5	275.5	264.6	246.1	237.0
Total operating expenses	<u>1,649.6</u>	<u>1,628.3</u>	<u>1,622.4</u>	<u>1,580.5</u>	<u>1,514.2</u>	<u>1,457.4</u>	<u>1,375.7</u>	<u>1,208.1</u>	<u>1,139.6</u>	<u>1,118.3</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>										
Operating grants & assistance *										
Federal	68.3	72.9	68.9	60.8	39.5	32.2	32.6	99.6	126.4	83.7
State	591.5	587.2	582.0	551.1	580.7	537.2	489.9	367.5	309.2	348.1
Local	83.6	83.1	82.3	78.5	79.2	72.8	64.7	66.4	69.2	68.4
Total operating grants & assistance	<u>743.4</u>	<u>743.2</u>	<u>733.2</u>	<u>690.4</u>	<u>699.4</u>	<u>642.2</u>	<u>587.2</u>	<u>533.5</u>	<u>504.8</u>	<u>500.2</u>
Other nonoperating revenues (expenses)										
Investment income	2.3	1.0	2.3	10.4	(4.3)	(14.7)	9.4	6.8	3.2	2.9
Interest expense	(18.8)	(19.4)	(18.8)	(16.0)	(24.9)	(21.0)	(20.5)	(19.8)	(21.0)	(21.8)
Other	-	(2.8)	-	-	(0.3)	(0.4)	(0.1)	-	(0.1)	(0.4)
Total other nonoperating revenues (expenses)	<u>(16.5)</u>	<u>(21.2)</u>	<u>(16.5)</u>	<u>(5.6)</u>	<u>(29.5)</u>	<u>(36.1)</u>	<u>(11.2)</u>	<u>(13.0)</u>	<u>(17.9)</u>	<u>(19.3)</u>
Total nonoperating revenues (expenses)	<u>726.9</u>	<u>722.0</u>	<u>716.7</u>	<u>684.8</u>	<u>669.9</u>	<u>606.1</u>	<u>576.0</u>	<u>520.5</u>	<u>486.9</u>	<u>480.9</u>
<u>CAPITAL GRANT FUNDING</u>										
	<u>249.8</u>	<u>214.7</u>	<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>
Increase (decrease) in net position	<u>\$ (147.0)</u>	<u>\$ (195.4)</u>	<u>\$ (162.4)</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>OTHER</u>										
Working capital surplus (deficiency)	<u>\$ (70.8)</u>	<u>\$ (64.7)</u>	<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>

Reclassifications: Certain amounts prior to Fiscal Year 2013 were reclassified to conform to the Fiscal 2013 presentation.

* 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 PTF fund. For further discussion, see Note 1 of the financial statements. Operating expenses for Fiscal Years 2013 and 2012 were restated to reflect the adoption of Governmental Accounting Standards Board Statement No. 65 pertaining to reporting debt issuance costs as an expense in the period incurred.

** 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.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
Statistical Highlights
For the Years Ended June 30

	2014	2013	2012	2011	2010**	2009**	2008	2007	2006	2005
Passenger Trips (<i>linked, in millions</i>)										
Transit	206.3	212.2	214.0	211.6	200.0	206.1	200.9	190.3	183.9	186.2
Regional Rail	36.7	36.0	35.3	35.4	34.9	35.4	35.4	31.7	30.4	28.6
Total	243.0	248.2	249.3	247.0	234.9	241.5	236.3	222.0	214.3	214.8
Average Weekday Passenger Trips (<i>unlinked, in thousands</i>)										
Transit	975	1,011	1,007	991	966	979	963	930	920	920
Regional Rail	127	126	122	123	122	124	124	111	107	101
Total	1,102	1,137	1,129	1,114	1,088	1,103	1,087	1,041	1,027	1,021
Financial Statistics (<i>per passenger trip</i>)										
Operating revenues	\$ 2.17	\$ 2.00	\$ 2.00	\$ 1.98	\$ 1.90	\$ 1.90	\$ 1.89	\$ 2.01	\$ 1.99	\$ 1.96
Operating expenses *	6.79	6.56	6.51	6.40	6.45	6.04	5.82	5.44	5.32	5.21
Operating grants & assistance	3.06	2.99	2.95	2.80	2.98	2.66	2.48	2.40	2.36	2.33
Other nonoperating revenues (expenses), net	(0.07)	(0.09)	(0.07)	(0.02)	(0.12)	(0.15)	(0.05)	(0.06)	(0.08)	(0.09)
Capital grants	1.03	0.87	0.98	1.46	1.87	1.89	1.87	1.57	1.60	1.47
Increase (decrease) in net position	\$ (0.60)	\$ (0.79)	\$ (0.65)	\$ (0.18)	\$ 0.18	\$ 0.26	\$ 0.37	\$ 0.48	\$ 0.55	\$ 0.46

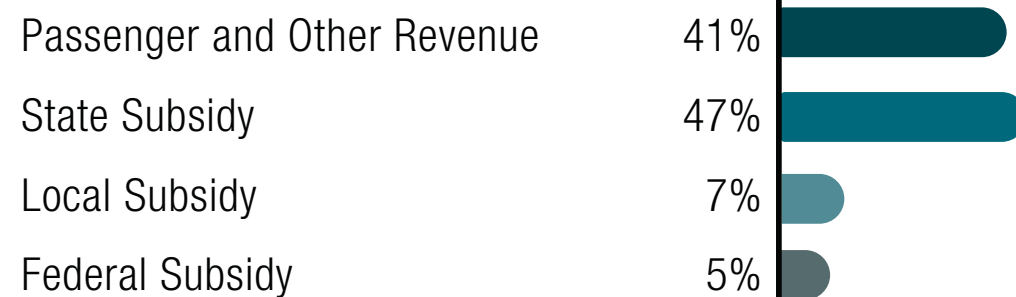
Reclassifications: Certain financial statistic amounts prior to Fiscal Year 2013 were reclassified to conform to the Fiscal 2013 presentation.

* 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." Operating expenses for Fiscal Year 2013 and 2012 were restated to reflect the adoption of Governmental Accounting Standards Board Statement No. 65 pertaining to reporting debt issuance costs as an expense in the period incurred.

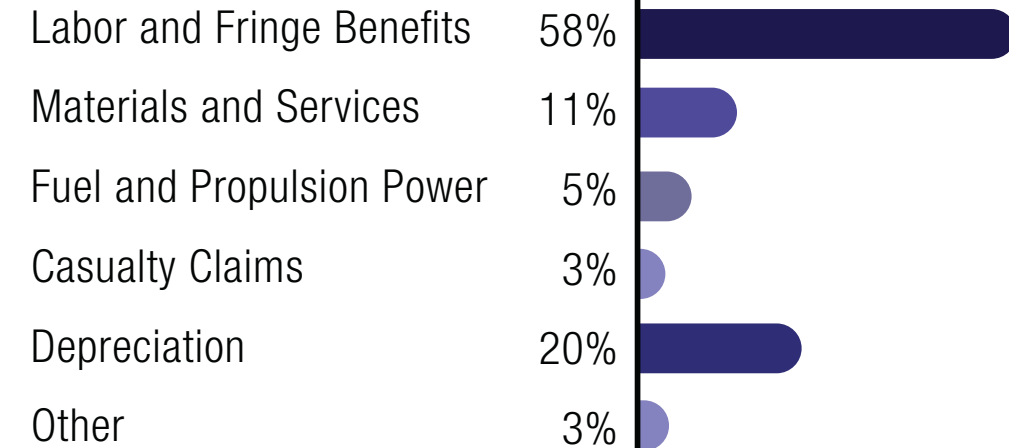
** Fiscal Year 2010 reflects the adoption of Governmental Accounting Standards Board Statement Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively. Certain Fiscal Year 2009 amounts were restated accordingly.

SOURCES OF REVENUE & DISTRIBUTION OF EXPENSES FY 2014 VS FY 2013

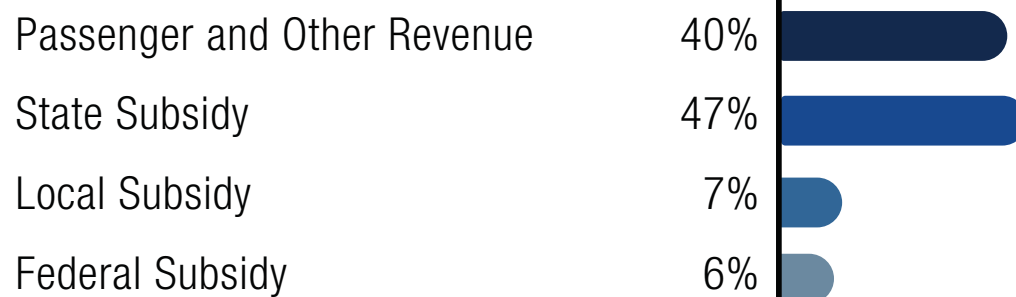
SOURCES OF REVENUE FY 2014



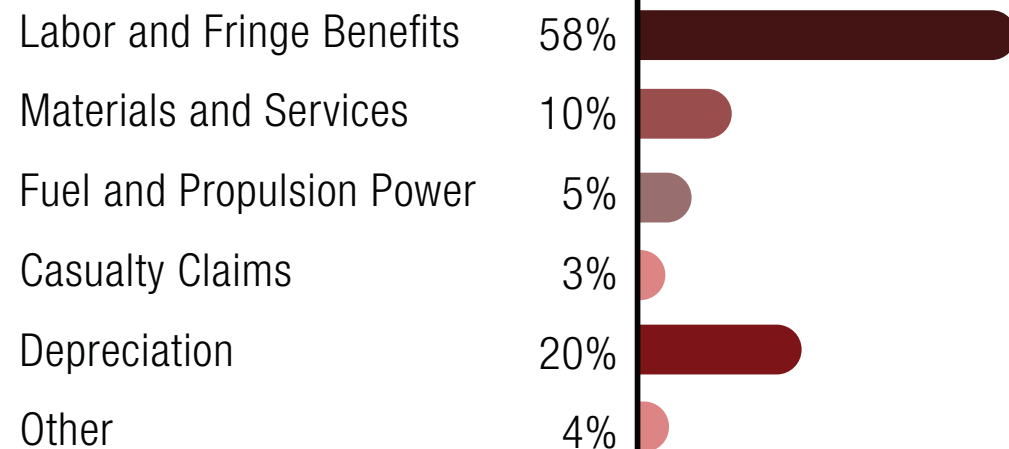
DISTRIBUTION OF EXPENSES FY 2014



FY 2013



FY 2013



Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Members of the Board
Southeastern Pennsylvania Transportation Authority
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (the AUTHORITY), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the AUTHORITY's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Harrisburg

830 Sir Thomas Court, Suite 100
Harrisburg, PA 17109
717.561.9200 Fax 717.561.9202

Philadelphia

2370 York Road, Suite A-5
Jannison, PA 18929
215.918.2277 Fax 215.918.2302

Pittsburgh

3800 McKnight E. Drive, Suite 3805
Pittsburgh, PA 15237
412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AUTHORITY, as of June 30, 2014 and 2013, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Pronouncements

As described in Note 1 to the financial statements, in 2014 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania
November 24, 2014

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and 2013. Certain Fiscal Year 2013 and 2012 amounts have either been restated or reclassified to conform to the Fiscal Year 2014 presentation and to recognize the current year adoption of Governmental Accounting Standards Board Statement (GASB) No. 65 pertaining to debt issuance costs and deferred charge on refundings. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which immediately follows this section.

2014 FINANCIAL HIGHLIGHTS

Passenger revenues increased 6.8% from \$443.0 million to \$473.0 million primarily due to a fare increase effective July 1, 2013 that was partially offset by a 2.1% decrease in ridership impacted by the severe winter weather. Other operating revenue decreased 0.7% from \$53.2 million to \$52.9 million due to slightly lower advertising, route guarantees and other contract revenue.

Operating expenses increased 1.3% from \$1,628.3 million to \$1,649.6 million primarily due to an increase in wages, utilities, claims liability, purchased transportation, snow removal and other services. These cost increases were partially offset by lower other postemployment benefits and lower miscellaneous expenses due to the costs incurred in the prior year to terminate the light rail vehicle leases.

Total government subsidies needed to support operations increased slightly from \$743.2 million to \$743.4 million.

Total assets decreased 1.0% from \$4,240.3 million to \$4,197.8 million primarily due to a decrease in capital assets. Total liabilities increased 5.7% from \$1,790.3 million to \$1,891.5 million primarily due to the increased recognition of other postemployment benefit obligations and a slight increase in current liabilities. Total net position decreased 6.0% from \$2,470.5 million to \$2,323.5 million due to capital grants and nonoperating revenues being lower than the net loss from operations.

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 Position, Statements of Revenues, Expenses and Changes in Net Position, 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 position. Total net position of the Authority as of June 30, 2014 and 2013 decreased \$147.0 million and \$195.4 million, respectively, compared to June 30 of the prior fiscal year. At June 30, 2014, total assets decreased \$42.4 million or 1.0% to \$4,197.8 million and total liabilities increased \$101.2 million or 5.7% to \$1,891.5 million. At June 30, 2013, total assets had decreased 2.6% and total liabilities had increased 4.4%.

	Net Position (thousands of dollars)		
	<u>2014</u>	<u>As of June 30, 2013</u>	<u>2012</u>
Current assets	\$ 449,093	\$ 439,493	\$ 465,038
Restricted funds	114,144	116,291	166,048
Capital assets	3,629,450	3,678,985	3,716,830
Other assets	5,147	5,484	5,825
Total assets	<u>4,197,834</u>	<u>4,240,253</u>	<u>4,353,741</u>
Deferred outflows of resources	17,138	20,494	26,622
Total assets and deferred outflows	<u>4,214,972</u>	<u>4,260,747</u>	<u>4,380,363</u>
Current liabilities	519,866	504,206	506,883
Public liability, property damage and workers' compensation claims	151,677	138,871	133,923
Long-term debt	491,321	500,147	523,463
Long-term capitalized lease obligation	15,699	15,574	15,434
Other postemployment benefits	696,427	610,834	512,201
Other liabilities	16,520	20,637	22,571
Total liabilities	<u>1,891,510</u>	<u>1,790,269</u>	<u>1,714,475</u>
Net position:			
Net investment in capital assets	3,175,011	3,233,546	3,322,891
Restricted	4,383	4,373	4,153
Unrestricted (deficit)	(855,932)	(767,441)	(661,156)
Total net position	<u>2,323,462</u>	<u>2,470,478</u>	<u>2,665,888</u>
Total liabilities and net position	<u>\$ 4,214,972</u>	<u>\$ 4,260,747</u>	<u>\$ 4,380,363</u>

The \$9.6 million increase in current assets includes increases in unrestricted funds of \$15.2 million and net receivables of \$29.8 million offset by decreases in restricted funds of \$33.7 million, prepaid expenses of \$.2 million and material & supplies of \$1.5 million. The unrestricted funds increase is primarily related to a \$16.9 million increase in the accounts payable liability. The net receivable increase and related restricted fund decrease was due to a scheduled June 2014 subsidy payment from the state, which would have been restricted, but was not disbursed to the Authority until early July 2014. The other receivable decrease reflects a reduction in the Philadelphia School District outstanding receivable balance for student passes from Fiscal Year 2012. The material and supplies decrease of \$1.5 million was due to an obsolescence reserve increase for inventory related to a bus fleet expected to be retired in Fiscal Year 2015.

The \$25.5 million decrease in current assets as of June 30, 2013 from the previous year was primarily due to the use of \$25.3 million of Act 44 state and locally matched restricted service stabilization funds to support operations in Fiscal Year 2013.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

The \$2.1 million decrease in noncurrent restricted funds is primarily due to the use of \$14.6 million of proceeds from the issuance of the 2011 Capital Grants Receipts Bonds to acquire the new Silverliner V Regional Railcars and to rehabilitate the Wayne Junction Intermodal facility. The decrease was partially offset by an increase in available renewal and replacement restricted funds. 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 \$48.9 million as of June 30, 2014, \$48.1 million as of June 30, 2013 and \$48.7 million at June 30, 2012. 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 \$3.2 million as of June 30, 2014 and was \$3.9 million as of June 30, 2013.

For Fiscal Year ending June 30, 2014, total capital assets increased \$280.0 million, less \$27.1 million of retirements, and accumulated depreciation increased \$329.5 million, less \$27.1 million of retirements, resulting in a net capital asset decrease of \$49.5 million. At June 30, 2013, net capital assets had decreased \$37.8 million over the prior year. Major expenditures during both Fiscal Years 2014 and 2013 were incurred for various transit and regional rail infrastructure improvements such as the regional rail signal system modernization project, new buses, and the vehicle overhaul program.

The decrease in other assets of \$.3 million in both Fiscal Years 2014 and 2013 is related to amortized costs in connection with the Authority's outstanding debt.

Total liabilities at June 30, 2014 increased \$101.2 million primarily due to the recognition of the other postemployment benefit obligation increase of \$85.6 million, accounts payable of \$16.9 million, accrued expenses of \$1.2 million, and public liability, property damage and workers' compensation claims of \$12.5 million. The accounts payable increase was primarily related to higher capital asset invoices processed near the end of June 30, 2014 as well as an increase in retainage owed on capital invoices. The 0.7% increase in accrued expenses was primarily related to slightly higher employee payroll wage and pension liabilities. The increased claims liability of 5.6% reflects higher costs expected to be paid to litigate and settle outstanding claims. Offsetting the June 30, 2014 liability increases were reductions in long-term debt of \$7.6 million, unearned revenue of \$3.4 million, and other liabilities of \$4.1 million. The long-term debt decrease reflects debt service payments of \$28.7 million, a favorable change in the market value of the Authority's swaps of \$3.2 million, and amortized bond premium costs of \$3.6 million. Offsetting the June 30, 2014 debt decrease were additional loan borrowings during the year of \$27.9 million to fund the New Payment Technology project. The unearned revenue decrease of 2.2% was primarily related to a reduction in the liability for unearned fare instrument sales. The other liability decrease reflects the use of restricted vehicle lease proceeds and other capital projects funds to acquire or improve capital assets.

At June 30, 2013, total liabilities had increased 4.4% from \$1,714.5 million to \$1,790.3 million primarily due to the increased recognition in the obligation for other postemployment benefits of \$98.6 million offset by a reduction in long-term debt of \$22.1 million.

Net investment in capital assets 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 position represents deposits that are not available for general use because of third-party restrictions. Unrestricted net position represents net assets that are available for general use. The unrestricted net position deficit increased \$88.5 million and \$106.3 million in Fiscal Years 2014 and 2013, respectively, to a total deficit amount of \$855.9 million at June 30, 2014 primarily due to the recognition of the accrued other postemployment benefit obligation increase in each of those fiscal years. The deficit in unrestricted net position 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 which continued into Fiscal Year 2014 with a total capital budget of \$308.0 million. In Fiscal Year 2015, the capital budget increased to \$571.8 million. The increase was due to the Pennsylvania General Assembly passage of transportation funding legislation, Act 89 of 2013, which was signed into law by Governor Corbett in November 2013. Act 89 of 2013 provides a dedicated, long-term capital funding source for transportation in Pennsylvania that includes funding for public transportation as well as roads, bridges and multimodal transportation.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Changes in Net Position. Net position for the Fiscal Year ended June 30, 2014 decreased \$147.0 million to \$2,323.5 million. The decrease in net position as compared to Fiscal Years 2013 and 2012 is described below. For Fiscal Year 2014, total operating revenues increased 6% and total operating expenses increased 1.3%. In Fiscal Year 2013, total operating revenues decreased .6% and total operating expenses had increased .4%.

	Changes in Net Position (thousands of dollars)		
	For the Years ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Passenger	\$ 473,012	\$ 443,017	\$ 446,827
Other income	52,870	53,228	52,181
Total operating revenues	<u>525,882</u>	<u>496,245</u>	<u>499,008</u>
Operating expenses			
Operating expenses excluding depreciation	1,320,057	1,297,371	1,292,067
Depreciation	329,546	330,934	330,364
Total operating expenses	<u>1,649,603</u>	<u>1,628,305</u>	<u>1,622,431</u>
Loss from operations	<u>(1,123,721)</u>	<u>(1,132,060)</u>	<u>(1,123,423)</u>
Nonoperating revenues (expenses)			
Subsidies	743,361	743,172	733,194
Nonoperating expenses - net	(16,448)	(21,187)	(16,496)
Total nonoperating revenues (expenses)	<u>726,913</u>	<u>721,985</u>	<u>716,698</u>
Capital grant funding	<u>249,792</u>	<u>214,665</u>	<u>244,293</u>
(Decrease) in net position	<u>(147,016)</u>	<u>(195,410)</u>	<u>(162,432)</u>
Net position, beginning of year, as restated (Note 13)	2,470,478	2,665,888	2,828,320
Net position, end of year	<u>\$ 2,323,462</u>	<u>\$ 2,470,478</u>	<u>\$ 2,665,888</u>

In Fiscal Year 2014, passenger revenue increased 6.8% primarily due to a fare increase effective July 1, 2013 which generated an 8.1% increase in revenue that was partially offset by a slight decrease in ridership that negatively impacted passenger revenue by 1.3%. The ridership decrease was partially impacted by the severe winter weather in Fiscal Year 2014. Other income decreased .7% in Fiscal Year 2014 due to slightly lower route guarantees, advertising, shared ride program, and other contract revenues. These decreases were partially offset by an increase in miscellaneous income due to higher fuel tax rebates received in Fiscal Year 2014 for fuel expenditures incurred by the Authority's purchased transportation service.

Subsidies increased \$.2 million in Fiscal Year 2014 to cover part of the operating expense increase. In Fiscal Year 2013, subsidies increased \$10.0 million, or 1.4%, to meet the budgeted expense increase. The current year subsidy increase was lower than the prior year due to a prospective change commencing in Fiscal Year 2014 to recognize the principal payments on the 2011 series bonds, which amounted to \$8.1 million in the current year, as capital grant funding to comply with certain State reporting requirements.

Other nonoperating expenses, which decreased by \$4.7 million in Fiscal Year 2014, includes a lower loss from the early retirement of capital assets of \$2.8 million, an interest expense decrease of \$.6 million and an investment income increase of \$1.3 million. The early retirement loss on capital assets was higher in the prior year primarily due to an unsuccessful regional railcar microprocessor propulsion upgrade project that was acquired with a research grant. The interest expense decrease is primarily related to the

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

reduction in total outstanding long-term debt of \$7.6 million. The investment income increase in Fiscal Year 2014 was due to a favorable change in the market value of investments as compared to FY 2013.

In Fiscal Year 2013, other nonoperating expenses increased \$4.7 million primarily due to the early retirement of capital assets as noted above, higher interest on new debt and lower investment income related to the market value change of investments.

Capital grant funding increased \$35.1 million which was comprised of increases in federal and state funding of \$28.1 million and \$8.6 million, respectively. These increases were partially offset by a decrease in local funding of \$1.6 million. The capital grant funding increase reflects an increase in capital project work performed and the prospective change to recognize principal payments related to the 2011 series bonds as capital grant funding in Fiscal Year 2014 instead of capital funds used for operating assistance to comply with certain State reporting requirements.

Capital grant funding decreased in Fiscal Year 2013 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,		
	2014	2013	2012
Salaries and wages	\$ 485,277	\$ 466,119	\$ 455,324
Fringe benefits	393,098	393,870	400,466
Other postemployment benefits	85,593	98,633	96,411
Services	60,392	53,912	53,561
Fuel & lubricants	46,729	46,260	42,920
Tires & tubes	2,318	2,809	2,413
Other material & supplies	55,943	55,120	48,152
Utilities	52,691	49,058	49,827
Casualty & liability	53,029	44,511	66,267
Taxes	2,066	1,887	2,044
Purchased transportation	47,353	42,765	40,182
Leases and rentals	31,511	30,315	29,595
Miscellaneous	4,057	12,112	4,905
Depreciation	329,546	330,934	330,364
Total operating expenses	<u>\$ 1,649,603</u>	<u>\$ 1,628,305</u>	<u>\$ 1,622,431</u>

Salaries and wages increased \$19.2 million, or 4.1%, in Fiscal Year 2014 and 2.4% in Fiscal Year 2013 primarily due to contractual and budgeted increases. Fringe benefit expenses decreased \$.8 million, or .2%, in Fiscal Year 2014 primarily due to a reduction in railroad employee claim payouts under the Federal Employees Liability Act ("FELA") and a higher capitalization of fringe benefit costs for Authority labor used to perform capital work. In Fiscal Year 2013, fringe benefits decreased \$6.6 million, or 1.6%, due to a reduction in the workers' compensation liability and FELA payouts.

Other postemployment benefit expenses decreased \$13 million, or 13.2%, in Fiscal Year 2014 primarily due to the Authority converting from a provider premium based healthcare plan in August 2012 to a self-insured plan. Expenses increased 2.3% in Fiscal Year 2013 to reflect the increasing cost of postemployment health and prescription drug benefits.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Services increased 12% and .7% in Fiscal Years 2014 and 2013, respectively, due to higher snow removal and pollution remediation costs. The snow removal costs in Fiscal Year 2014 were much higher due to the severe winter that the region experienced as compared to the prior year.

Fuel and lubricants increased 1.0% and 7.8% in Fiscal Years 2014 and 2013, respectively, due to higher fuel prices.

Tires and tubes expenses decreased 17.5% in Fiscal Year 2014 and increased 16.4% in Fiscal Year 2013 due to a contract change and buy-out of the tires in Fiscal Year 2013.

Other Material and supplies increased 1.5% in Fiscal Year 2014 due to higher building maintenance material costs. In Fiscal Year 2013, other material and supplies increased 14.5% due to higher costs and the removal of obsolete material associated with the retired SL-II and SL-III railcar fleets.

Utilities and taxes increased 7.4% and 9.5% in Fiscal Year 2014 due to higher electricity costs driven by the spike in natural gas rates during the winter months of 2014. In Fiscal Year 2013, utilities and taxes decreased slightly due to lower propulsion power generation costs.

Casualty and liability expenses increased \$8.5 million in Fiscal Year 2014, or 19.1%, primarily due to a claims liability reserve increase. In Fiscal Year 2013, casualty and liability expenses decreased 32.8% due to a reduction in claims paid and a lower claims liability reserve increase.

Purchased transportation expenses increased 10.7% and 6.4% in Fiscal Years 2014 and 2013, respectively, due to higher carrier costs to provide demand response services. The Fiscal Year 2014 increase was also higher due to purchased transportation costs in connection with services for two fixed routes.

Lease and rental expenses increased 3.95% and 2.43% in Fiscal Years 2014 and 2013, respectively, primarily due to an increase in regional rail track lease costs. The Fiscal 2014 expense increase was also impacted by right of way costs due in connection with a lease with the City of Philadelphia.

Miscellaneous expenses decreased \$8.1 million in Fiscal Year 2014 and increased \$7.2 million in Fiscal Year 2013 primarily due to the termination of light rail vehicle leases in Fiscal Year 2013 with three equity investors at a cost of \$7.6 million as a result of the lease insurer's credit rating being downgraded.

Depreciation decreased .4% in Fiscal Year 2014 due to a reduction in net capital assets impacted by the past reduction in available capital grant funds. In Fiscal Year 2013, depreciation increased slightly due to the replacement of the fully depreciated SL-II and SL-III railcars with the new SL-V railcars.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$8,410.2 million. Net of accumulated depreciation of \$4,780.7 million, net capital assets totaled \$3,629.5 million. This amount represents a net decrease, including additions and disposals net of depreciation, of \$49.5 million or 1.3% from June 30, 2013.

As of June 30, 2014, the Authority has commitments for various unexpended construction and design contracts of approximately \$242 million and commitments for unexpended revenue vehicle purchases of approximately \$165 million primarily for electric-diesel buses and regional rail cars. The Authority's capital budget for Fiscal Year 2015 includes capital asset additions in the amount of \$485.3 million. A significant portion of the additions is scheduled for the normal replacement and overhaul of vehicles, and various critical infrastructure improvement capital programs which includes bridges, passenger stations, power substations, and the regional rail signal systems modernization projects.

Debt Administration. As of June 30, 2014, the Authority's long-term debt, including current maturities, was \$478.9 million. This amount excludes the swap derivative liability of \$14.9 million and \$27.5 million in unamortized premiums (or \$521.3 million in total). Long-term debt increased \$27.9 million from borrowings on a loan to fund costs incurred on the New Payment Technology project. Offsetting the long-term debt increase were regularly scheduled debt service payments of \$28.7 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.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013
(THOUSANDS OF DOLLARS)

ASSETS AND DEFERRED OUTFLOWS	<u>2014</u>	<u>2013</u>	LIABILITIES AND NET POSITION	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>			<u>CURRENT LIABILITIES</u>		
Unrestricted funds (Note 2)			Current maturities of		
Cash and cash equivalents	\$ 56,567	\$ 40,150	Long-term debt (Note 5)	\$ 30,005	\$ 28,730
Investments	55,538	56,775			
Restricted funds (Note 2)			Accounts payable - trade	86,395	69,513
Cash and cash equivalents	42,184	81,305			
Investments	30,632	25,186	Accrued expenses (Note 7)	167,246	166,028
Receivables					
Operating subsidies	35,657	1,573	Current portion of public liability,		
Capital grants (Note 3)	108,917	107,612	property damage and workers'		
Other	38,302	43,860	compensation claims (Note 11)	85,738	86,057
Material and supplies	66,829	68,360			
Prepaid expenses	14,467	14,672	Unearned revenue	150,482	153,878
Total current assets	<u>449,093</u>	<u>439,493</u>	Total current liabilities	<u>519,866</u>	<u>504,206</u>
<u>NONCURRENT ASSETS</u>			<u>NONCURRENT LIABILITIES</u>		
Restricted funds (Note 2)			Public liability, property damage and		
Cash and cash equivalents	61,841	51,900	workers' compensation claims (Note 11)	151,677	138,871
Investments	52,303	64,391	Long-term debt (Note 5)	491,321	500,147
			Long-term capitalized lease obligation (Note 6)	15,699	15,574
Capital assets, net (Notes 3, 4, 5 & 6)	3,629,450	3,678,985	Other postemployment benefits (Note 8)	696,427	610,834
Other	5,147	5,484	Other liabilities (Note 6)	16,520	20,637
			Commitments and contingencies (Notes 5,		
Total noncurrent assets	<u>3,748,741</u>	<u>3,800,760</u>	6, 10, 11 and 12)		
Total assets	<u>4,197,834</u>	<u>4,240,253</u>	Total noncurrent liabilities	<u>1,371,644</u>	<u>1,286,063</u>
			Total liabilities	<u>1,891,510</u>	<u>1,790,269</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			<u>NET POSITION</u>		
Accumulated decrease in fair value of hedging derivative	13,757	16,482	Net investment in capital assets	3,175,011	3,233,546
(Note 5)			Restricted	4,383	4,373
Deferred Charge on Refundings	3,381	4,012	Unrestricted (deficit)	(855,932)	(767,441)
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 4,214,972</u>	<u>\$ 4,260,747</u>	Total net position	<u>2,323,462</u>	<u>2,470,478</u>
			TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,214,972</u>	<u>\$ 4,260,747</u>

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(THOUSANDS OF DOLLARS)

	<u>2014</u>	<u>2013</u>
<u>OPERATING REVENUE:</u>		
Passenger Fare	\$ 473,012	\$ 443,017
Route Guarantees	2,947	3,306
State Shared Ride Program	15,553	15,737
Area Agency on Aging	1,572	1,608
Other contract revenue	94	487
Advertising	13,001	13,398
Miscellaneous income	19,703	18,692
Total revenue available from operations	<u>525,882</u>	<u>496,245</u>
<u>OPERATING EXPENSES:</u>		
Salaries and wages	485,277	466,119
Fringe benefits	393,098	393,870
Other postemployment benefits	85,593	98,633
Services	60,392	53,912
Fuel & lubricants	46,729	46,260
Tires & tubes	2,318	2,809
Other materials & supplies	55,943	55,120
Utilities	52,691	49,058
Casualty & liability	53,029	44,511
Taxes	2,066	1,887
Purchased transportation	47,353	42,765
Leases and rentals	31,511	30,315
Miscellaneous	4,057	12,112
Depreciation	329,546	330,934
Total operating expenses	<u>1,649,603</u>	<u>1,628,305</u>
Loss from operations	<u>(1,123,721)</u>	<u>(1,132,060)</u>
<u>NON-OPERATING REVENUES/(EXPENSES):</u>		
Capital funds used for operating assistance and planning grants:		
Federal government	68,314	72,860
Commonwealth of Pennsylvania	41,424	42,922
Local governments	1,409	1,410
Operating grants:		
Commonwealth of Pennsylvania Act 44 Funds	550,074	544,330
Local Governments Act 44 Matching Funds	82,140	81,650
Total government subsidies for operations	<u>743,361</u>	<u>743,172</u>
Other Private/Public Sources		
Investment income	2,307	1,029
Gain/(Loss) on disposal of capital assets	(18)	(2,859)
Interest expense (Note 5)	(18,737)	(19,357)
Total nonoperating revenues (expenses)	<u>726,913</u>	<u>721,985</u>
Loss before capital grant funding	<u>(396,808)</u>	<u>(410,075)</u>
<u>CAPITAL GRANT FUNDING:</u>		
Federal	151,955	123,838
State	92,270	83,707
Local	5,567	7,120
Total capital grant funding	<u>249,792</u>	<u>214,665</u>
<u>DECREASE IN NET POSITION</u>	<u>(147,016)</u>	<u>(195,410)</u>
Net position, beginning, as restated (Note 13)	<u>2,470,478</u>	<u>2,665,888</u>
Net position, ending	<u>\$ 2,323,462</u>	<u>\$ 2,470,478</u>

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(THOUSANDS OF DOLLARS)

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Passenger receipts	\$ 476,194	\$ 454,716
Other receipts	53,435	53,917
Payments for salaries, wages and fringe benefits	(881,849)	(842,995)
Payments for fuel, utilities and taxes	(99,294)	(97,226)
Payments for casualty and liability claims	(35,189)	(35,716)
Payments for other operating expenses	(196,072)	(200,383)
Net cash used in operating activities	<u>(682,775)</u>	<u>(667,687)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Receipts of operating subsidies	<u>709,036</u>	<u>720,880</u>
Net cash provided by noncapital financing activities	<u>709,036</u>	<u>720,880</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital grants received	245,038	223,026
Acquisition of operating property and construction in progress	(270,986)	(299,815)
Proceeds from issuance of debt	27,957	15,100
Increase in long-term capitalized lease obligation	125	140
Repayment of long-term debt	(28,730)	(27,555)
Interest paid	(22,531)	(23,200)
Net cash used in capital and related financing activities	<u>(49,127)</u>	<u>(112,304)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from sale of investments	110,693	284,988
Receipt of interest	1,509	1,336
Purchase of investments	(102,099)	(168,432)
Net cash provided by investing activities	<u>10,103</u>	<u>117,892</u>
<u>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</u>	<u>(12,763)</u>	<u>58,781</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	173,355	114,574
End of year	<u>\$ 160,592</u>	<u>\$ 173,355</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Unrestricted	\$ 56,567	\$ 40,150
Restricted	104,025	133,205
Total	<u>\$ 160,592</u>	<u>\$ 173,355</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>		
Operating loss	\$ (1,123,721)	\$ (1,132,060)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	329,546	330,934
Decrease in receivables	6,369	6,129
Decrease (increase) in materials & supplies	1,531	(861)
Decrease in prepaid expenses	205	1,554
Increase in accounts payable - trade	7,103	18,797
(Decrease)increase in accrued expenses and other liabilities net of other assets and deferred outflows	(1,888)	7,809
Increase in public liability and property damage claims	12,487	1,378
Increase in other postemployment benefits	85,593	98,633
Total adjustments	<u>440,946</u>	<u>464,373</u>
Net cash used in operating activities	<u>\$ (682,775)</u>	<u>\$ (667,687)</u>

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)
JUNE 30, 2014 AND 2013

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 630 thousand passenger trips per day. The Regional Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 127 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 46 interurban trolley, light rail and bus routes, as well as demand response services, providing approximately 57 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 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Federal subsidies:		
Preventive maintenance reimbursements	\$ 37,971	\$ 35,994
Leasehold/debt service reimbursements	30,343	35,674
Emergency Relief - Hurricane Sandy	-	1,192
State and local subsidies:		
Act 44 operating subsidies	632,214	625,980
Act 44 leasehold/debt service reimbursements	<u>42,833</u>	<u>44,332</u>
Total subsidies	<u>\$ 743,361</u>	<u>\$ 743,172</u>

On July 6, 2012, the President signed "Moving Ahead for Progress in the 21st Century (MAP-21)" into law. MAP-21 authorized funding for Fiscal Years 2013 and 2014. Federal subsidies are providing for the reimbursement of vehicle, fixed guideway and structure preventive maintenance, debt service and certain capital lease expenses.

Since Fiscal Year 2008, State funding has been 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 restructured 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 was repealed and replaced with the PTTF dedicated fund. The PTTF provided 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. On November 25, 2013, the Governor signed into law Act 89 of 2013. This law, which amended Act 44 of 2007, became effective January 1, 2014.

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Nature of Authority (Continued)

Act 44 of 2007, as amended by Act 89 of 2013 is a comprehensive transportation funding bill for the Commonwealth of Pennsylvania. For SEPTA, Act 44 of 2007, as amended by Act 89 will provide a predictable, growing source of funds to make critical infrastructure repairs and improvements. Act 44 of 2007, as amended by Act 89 provides state funding in conjunction with required local governmental matching funds from the five-county SEPTA region for operating, the Asset Improvement Program, Programs of Statewide significance, Capital Improvement Program (Fiscal Year 2014 only) and Alternative Energy Capital Investments program.

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 and Act 89.

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. During Fiscal Year 2014, the Authority implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement established financial reporting standards to either properly classify or recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The statement resulted in the Authority restating certain Fiscal Year 2013 amounts pertaining to debt issuance costs and reclassifying amounts in that year related to its deferred charge on refundings. 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 grants.

1. Summary of Significant Accounting Policies (Continued)

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 restricted cash and investments by 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 trustee, single-employer, defined benefit pension plans covering substantially all of its full-time employees, other than regional rail union employees. Regional rail union employees are covered under pension provisions of the Railroad Retirement Act. The pension plans are more fully described in Note 7.

Self-Insurance

The Authority provides for the present value of the self-insurance portion of public liability, property damage, workers' compensation claims, and pollution remediation obligations. As of August 1, 2012, the Authority elected to self-insure, through a third-party administrator, the medical coverage it provides to most employees and certain retirees. The Authority is also self-insured for prescription drug benefits it provides to all employees and certain retirees through a third-party administrator. The Authority's self-insurance is more fully described in Note 11.

Grants and Subsidies

All capital grants, meeting the timing and eligibility requirements of the grant agreement, are recorded as an increase in the Statement of Revenues, Expenses and Changes in Net Position.

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.

Reclassifications

Certain Fiscal 2013 amounts have been reclassified to conform to the Fiscal 2014 presentation and to reflect the adoption of GASB Statement No. 65.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments

The investments in the accompanying financial statements are reported at fair value.

The components of cash and cash equivalents as of June 30 are:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 2,281	\$ 3,253
Cash in bank	56,467	50,649
Money market funds	108,332	134,842
Commercial paper	6,498	-
Outstanding checks	(12,986)	(15,389)
Total cash and cash equivalents	160,592	173,355
Less current portion - unrestricted	56,567	40,150
Less current portion - restricted	42,184	81,305
Total noncurrent portion - restricted	<u>\$ 61,841</u>	<u>\$ 51,900</u>

The components of investments as of June 30 are:

	<u>2014</u>	<u>2013</u>
U.S. Government and agencies	\$ 90,937	\$ 116,781
Certificates of Deposit	5,127	4,121
Commercial paper	36,460	7,488
Municipal Securities	-	2,431
Mutual funds	5,949	15,531
Total investments	138,473	146,352
Less current portion - unrestricted	55,538	56,775
Less current portion - restricted	30,632	25,186
Total noncurrent portion - restricted	<u>\$ 52,303</u>	<u>\$ 64,391</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

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

	<u>2014</u>	<u>2013</u>
Restricted:		
State dedicated funding provided by Act 44, including local match	\$ 21,016	\$ 56,015
Debt Service Funds:		
Capital Grant Receipts Bonds, Series of 2011	25,790	25,492
Revenue Refunding Bonds, Series of 2010	20,934	20,930
Special Revenue Bonds, Series of 2007	13,687	12,397
Capital Project Funds:		
Silverliner V railcar and Wayne Junction Intermodal Facility Fund (Unspent proceeds – Capital Grant Receipts Bonds, Series 2011)	38,454	53,012
City Hall Dilworth Plaza Fund	4,840	8,000
Market-Frankford Elevated Haunch Repair Fund	8,511	6,254
New Payment Technology Fund	1,627	-
Lease/leaseback transaction proceeds to be used for capital or operating needs which require FTA approval:		
Subway-elevated rail cars	-	641
Light rail cars	-	1,517
Renewal & Replacement Fund to be used as City match for specific capital projects	32,333	18,801
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	15,385	15,067
Cross border lease transaction proceeds to be used for capital or operating needs which require FTA approval	-	283
Security deposits and other	<u>4,383</u>	<u>4,373</u>
Total	<u>\$ 186,960</u>	<u>\$ 222,782</u>

2. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2014, 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, 2014, the Authority’s investments in money market funds, mutual funds and bonds of U.S. agencies were rated Aaa by Moody’s Investor Service. They also rated 100% of corporate securities as P-1. 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, mutual funds and commercial paper held by Morgan Stanley Government Institutional Money Market Fund, Federal Home Loan Bank, Goldman Financial Square Money Market and Coca-Cola. These cash equivalents and investments are 24.59%, 21.64% 9.31%, and 8.71%, respectively, of the Authority’s total cash equivalents and investments.

For a deposit, custodial credit risk is the risk that, in the event of a bank failure, the Authority’s deposits may not be returned to it. As of June 30, 2014, \$56,217 of the Authority’s cash in the bank of \$56,467 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.

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, 2014, \$114,281 of the Authority’s cash equivalent and investment balance of \$246,805 was exposed to custodial credit risk as follows:

Money market funds	\$ 108,332
Mutual funds	<u>5,949</u>
Total	<u>\$ 114,281</u>

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of an investment’s sensitivity to changes in interest rates and is a measure of the cash-weighted average term to maturity of the investment. The higher the duration, the greater the changes in fair value when interest

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

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, 2014 the Authority had the following investments in its portfolio:

Investment Type:	<u>Fair Value</u>	<u>Effective Duration</u>
U. S. agencies	\$ 90,937	2.421
Certificates of deposit	5,127	0.853
Commercial paper	36,460	0.565
Money market funds	108,332	0.003
Mutual funds	<u>5,949</u>	0.003
	246,805	
Cash in bank and short-term commercial paper	<u>62,965</u>	
Total fair value including accrued interest	<u>\$309,770</u>	
Portfolio effective duration		0.773

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 \$40.3 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$309.8 million with an effective duration of 0.773 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 \$8.3 billion from inception to June 30, 2014 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2014, the Authority had incurred costs of approximately \$7.7 billion against these grants of which \$249.8 million and \$214.7 million were incurred in Fiscal Years 2014 and 2013, 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, 2014.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. Capital Assets

Capital assets are summarized as follows:

	June 30, 2013	Additions	Reclassifications	Retirements	June 30, 2014
Capital Assets					
Revenue vehicles	\$ 2,384,012	\$ 68,950	\$ 13,473	\$ 19,575	\$ 2,446,860
Transit facilities, rail, stations, & depots	2,595,815	63,235	-	-	2,659,050
Track, roadway & signals	2,518,489	37,618	4,423	-	2,560,530
Intangibles	34,259	51			34,310
Other	540,250	30,488	1,401	7,510	564,629
Total	8,072,825	200,342	19,297	27,085	8,265,379
Construction in progress	84,386	79,687	(19,297)	-	144,776
Total	8,157,211	280,029	-	27,085	8,410,155
Accumulated depreciation					
Property and equipment	4,478,226	329,546	-	27,067	4,780,705
Total	4,478,226	329,546	-	27,067	4,780,705
Capital assets, net	\$ 3,678,985	\$ (49,517)	\$ -	\$ 18	\$ 3,629,450
	June 30, 2012	Additions	Reclassifications	Retirements	June 30, 2013
Capital Assets					
Revenue vehicles	\$ 2,299,489	\$ 42,462	\$ 71,725	\$ 29,664	\$ 2,384,012
Transit facilities, rail stations, & depots	2,551,204	41,909	2,702	-	2,595,815
Track, roadway & signals	2,438,415	74,297	5,777	-	2,518,489
Intangibles	28,181	6,078	-	-	34,259
Other	521,727	15,711	16,426	13,614	540,250
Total	7,839,016	180,457	96,630	43,278	8,072,825
Construction in progress	65,525	115,491	(96,630)	-	84,386
Total	7,904,541	295,948	-	43,278	8,157,211
Accumulated depreciation					
Property and equipment	4,187,711	330,934	-	40,419	4,478,226
Total	4,187,711	330,934	-	40,419	4,478,226
Capital assets, net	\$ 3,716,830	\$ (34,986)	\$ -	\$ 2,859	\$ 3,678,985

Capital assets are acquired with capital grants, renewal and replacement and other operating funds. Capital assets are stated at cost and depreciation is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are generally 12 to 30 years for revenue vehicles, 30 years for structures, track and roadway, and 4 to 10 years for intangibles, signals and other equipment. Vehicle overhaul costs are capitalized and depreciated as capital assets over the extended useful lives of the vehicles estimated at 4 or 5 years. Capital assets which are inexhaustible and intangible assets with indefinite useful lives are not subject to depreciation.

As of June 30, 2014, construction in progress principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2014, the Authority has commitments for various unexpended construction contracts of approximately \$242 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$165 million.

5. Long-Term Debt and Swaps

Long-term debt as of June 30, 2014 and 2013 consists of the following:

	June 30, 2013	Additions	Market Value Change	Payments/ Reductions	June 30, 2014	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%	\$ 186,485	\$ -	\$ -	\$ 8,105	\$ 178,380	\$ 8,450
New Payment Technology Loan with annual interest rate of 1.75%	19,183	27,957	-	-	47,140	-
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	183,870	-	-	12,525	171,345	12,955
Variable Rate Revenue Refunding Bonds, Series of 2007, with interest based on 67% of 1-month LIBOR plus 1.05% through 2022	90,175	-	-	8,100	82,075	8,600
	479,713	27,957	-	28,730	478,940	\$ 30,005
Unamortized bond premium, net of discount	31,047	-	-	3,588	27,459	
Subtotal Long-Term Debt	510,760	27,957	-	32,318	506,399	
<u>Swaps:</u>						
Series of 2007 Swap	16,482	-	(2,725)	-	13,757	
Series of 2010 Basis Swap (formerly Series of 1999A/1999B)	1,635	-	(465)	-	1,170	
Subtotal Swaps	18,117	-	(3,190)	-	14,927	
Total Long-Term Debt, including Swaps	\$ 528,877	\$ 27,957	\$ (3,190)	\$ 32,318	\$ 521,326	

	June 30, 2012	Additions	Market Value Change	Payments/ Reductions	June 30, 2013	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%	\$ 194,260	\$ -	\$ -	\$ 7,775	\$ 186,485	\$ 8,105
New Payment Technology Loan with annual interest rate of 1.75%	4,083	15,100	-	-	19,183	-
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	195,875	-	-	12,005	183,870	12,525
Variable Rate Revenue Refunding Bonds, Series of 2007, with interest based on 67% of 1-month LIBOR plus 1.05% through 2022	97,950	-	-	7,775	90,175	8,100
	492,168	15,100	-	27,555	479,713	\$ 28,730
Unamortized bond premium, net of discount	34,815	-	-	3,768	31,047	
Subtotal Long-Term Debt	526,983	15,100	-	31,323	510,760	
<u>Swaps:</u>						
Series of 2007 Swap	21,930	-	(5,448)	-	16,482	
Series of 2010 Basis Swap (formerly Series of 1999A/1999B)	2,105	-	(470)	-	1,635	
Subtotal Swaps	24,035	-	(5,918)	-	18,117	
Total Long-Term Debt, including Swaps	\$ 551,018	\$ 15,100	\$ (5,918)	\$ 31,323	\$ 528,877	

5. Long-Term Debt and Swaps (Continued)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, 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 2028 with remaining annual interest rates between 3.0% 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

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt: (Continued)

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. 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 based on SIFMA (Securities Industry and Financial Markets Association). On December 20, 2012, the Authority converted the interest rate mode of \$98.0 million of its then outstanding principal amount Variable Rate Revenue Refunding Bonds, Series 2007, from a daily mode to an indexed mode. The interest rate on the bonds are now set monthly at a rate equal to 67% of 1-month LIBOR (London Interbank Offered Rate) plus 105 basis points. The converted indexed Variable Rate Revenue Refunding Bonds, Series 2007, may not be converted from an indexed mode to a different mode.

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 are being 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 was available as of March 29, 2012 and has a term of 5 years. The second tranche for \$75 million was available as of February 1, 2013 and has a term of 5.5 years. The third tranche for \$65 million was available July 1, 2013 and has a term of 6 years. The drawdown of the loan is expected to take place over a four year period to fund the construction and other related costs of the NPT project. The Authority drew down \$15.1 million during Fiscal Year 2013 and \$28 million in Fiscal Year 2014. The outstanding balance on the loan as of June 30, 2014 is \$47.1 million.

5. Long-Term Debt and Swaps (Continued)Long-Term Debt: (Continued)

At June 30, 2014, the aggregate debt service requirements of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Debt maturities	\$ 30,005	\$ 31,180	\$ 67,590	\$ 34,075	\$ 47,810
Debt related interest	18,343	17,491	16,368	14,691	13,472
Hedging derivative, net	<u>3,781</u>	<u>3,386</u>	<u>2,971</u>	<u>2,534</u>	<u>2,077</u>
Net Cash Flows	<u>\$ 52,129</u>	<u>\$ 52,057</u>	<u>\$ 86,929</u>	<u>\$ 51,300</u>	<u>\$ 63,359</u>

	<u>2020 - 2024</u>	<u>2025 - 2029</u>	<u>Total</u>
Debt maturities	\$ 147,870	\$ 120,410	\$ 478,940
Debt related interest	47,249	17,204	144,818
Hedging derivative, net	<u>3,249</u>	<u>-</u>	<u>17,998</u>
Net Cash Flows	<u>\$ 198,368</u>	<u>\$ 137,614</u>	<u>\$ 641,756</u>

The above amounts assume that current interest rates on the 2007 Variable Rate Refunding Bonds, which was 1.157% as of June 30, 2014 and the current reference rates on its related 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.

Swaps:

In March 2003, the Authority entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA, the "Counterparty"), related to its \$131.7 million Special Revenue Bonds, Series 1997, that provided the Authority an up-front payment of \$8.1 million. The swaption provided the Counterparty an option to obligate the Authority to enter into a pay-fixed, receive-variable interest rate swap at a future date. On March 1, 2007 the option associated with the Special Revenue Bonds, Series 1997 was exercised by the Counterparty, the bonds were called, and the Authority then issued Variable Rate Revenue Refunding Bonds, Series 2007. Concurrently, the Authority entered into a pay-fixed receive variable interest rate swap with the Counterparty. On December 20, 2012, the Authority converted the Variable Rate Revenue Bonds, Series 2007 from a daily rate interest mode to an indexed mode. The swap, now associated with the converted indexed Variable Rate Revenue Refunding Bonds, Series 2007, has a March 1, 2022 termination date, and a notional amount of \$82.1 million as of June 30, 2014.

In March 2003, the Authority also entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA) and Salomon Brothers (now Citibank, NA), collectively, the "Counterparties", related to its 1999 Special Revenue Bonds (the "Underlying Swap Agreement"). On December 29, 2005, the Authority restructured the Underlying Swap Agreement associated with its Special Revenue Bonds, Series 1999 with the Counterparties by converting the variable receive rate from 67% of one-month LIBOR, to the SIFMA Index, to reduce the likelihood the swaption would be exercised. To pay for the conversion, the Authority simultaneously entered into an off-market swap with Bank of America, NA (the "Basis Swap Agreement"), whereby the Authority agreed to pay the SIFMA Index rate and receive 67% of 3-month LIBOR plus 13.52 basis points, and an upfront payment equivalent to the Basis Swap Agreement conversion cost. In October 2010, the Authority refunded the Special Revenue Bonds, Series 1999, and issued the Revenue Refunding Bonds, Series 2010. Concurrently, the Underlying Swap Agreement was terminated, and the Basis Swap Agreement was amended on substantially the same terms, but is now associated with the Series 2010 Bonds, with a termination date of March 1, 2028, and a notional amount of \$162.1 million as of June 30, 2014.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

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, 2014, the Authority had the following derivative instruments outstanding:

		Notional		Fair Value		Changes in Fair Value
		Amount	Classification	Amount	Classification	Amount
<u>Business-type activities:</u>						
<i>Cash flow hedge:</i>						
A.	Pay-fixed interest rate swap	\$ 82,075	Debt	\$ (13,757)	Deferred outflow	\$ 2,725
<i>Fair value hedge:</i>						
B.	Pay-variable interest rate swap	\$ 162,100	Debt	\$ (1,170)	Investment Income	\$ 465

Derivative Instrument Types

Hedge effectiveness: As of June 30, 2014 and 2013, the derivative instrument B associated with the 2010 series bonds did not meet the criteria for effectiveness. Accordingly, the accumulated changes in fair value were reported within the investment income classification as \$465 thousand at June 30, 2014 and \$470 thousand at June 30, 2013. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2014 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.

Hedging Derivative Instrument – Objective and Terms:

The objectives and terms of the Authority’s cash flow hedging derivative instrument outstanding at June 30, 2014 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	A2/A/A	Hedge changes in cash flows on the 2007 Variable Rate Refunding Bonds	\$ 82,075	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR; pay 4.706% fixed

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

Fair Value

As of June 30, 2014, the swaps had a negative fair value totaling \$14.9 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, 2014, 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, 2014, the counterparty for both the Authority's swaps 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 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

The Authority has basis risk on the swap related to the Revenue Refunding Bonds, Series of 2010, issued October 1, 2010. This is because the floating rate that the Authority pays and the floating rate that the Authority receives from the basis swap counterparty, will vary with market conditions (basis differential). The basis differential could be either a positive or negative cash flow event, depending upon the relationship between SIFMA and LIBOR, the floating rate indexes underlying the basis swap.

Interest Rate Risk

As of June 30, 2014, the Authority had an ineffective derivative investment with the following maturity:

<u>Investment</u> <u>Type</u>	<u>Fair</u> <u>Value</u>	<u>Investment Maturity</u> <u>More Than 10 Years</u>
Derivative Instrument B	\$(1,170)	\$(1,170)

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 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 \$15.7 million as of June 30, 2014, 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 were used, starting in Fiscal Year 2007, as reimbursement of state share on capital grants, which use had 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 were used, starting in Fiscal Year 2007, as reimbursement of State share on capital grants, which use had been approved by the Federal Transit Administration. Certain payments under the lease transaction were insured by policies put in place at lease inception with Assured Guaranty Municipal ("AGM"). The lease documents contained terms requiring AGM to maintain agreed-upon credit ratings throughout the term of the transaction. During Fiscal Year 2013, AGM's credit rating was downgraded by Moody's below the required threshold, and the Authority was unable to replace AGM with an alternate insurer or negotiate waivers of the rating requirement on favorable economic terms. In June 2013, the Authority terminated the lease transactions with the three equity investors at a cost of \$7.6 million.

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. In Fiscal Year 2014, The Authority received an insurance refund and proceeds from certain scrap sales of \$2.6 million. The Federal Transportation Administration (FTA) has approved the Authority's request to use proceeds of \$8.0 million toward the renovation of Dilworth Plaza and \$8.9 million toward the repair of the Market-Frankford Elevated haunch failures.

6. Leases (Continued)

Available proceeds included in other liabilities as of June 30, 2014, include \$4.8 million for the renovation of Dilworth Plaza, \$8.5 million for the repair of the Market-Frankford Elevated haunch failures, and \$3.2 million unamortized swaption proceeds. The proceeds from the lease/leaseback agreements were used in its entirety during Fiscal Year 2014.

<u>Other Liabilities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Investment Earnings</u>	<u>Ending Balance</u>
2014	\$ 20,637	\$ 2,682	\$ (6,803)	\$ 4	\$ 16,520
2013	\$ 22,571	\$ -	\$ (1,947)	\$ 13	\$ 20,637

Operating Leases

The Authority leases equipment, facilities, utility vehicles and track with leases expiring at various dates. Lease and rental expenses totaled \$31.5 million and \$30.3 million for Fiscal Years 2014 and 2013, 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, 2013, the date of the latest actuarial valuation:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>	<u>TOTAL</u>
Retirees and beneficiaries receiving benefits	1,493	10	2,917	232	30	4,682
Terminated plan members entitled to but not yet receiving benefits	458	48	749	110	31	1,396
Active plan members	<u>1,734</u>	<u>223</u>	<u>5,045</u>	<u>510</u>	<u>222</u>	<u>7,734</u>
Total	<u><u>3,685</u></u>	<u><u>281</u></u>	<u><u>8,711</u></u>	<u><u>852</u></u>	<u><u>283</u></u>	<u><u>13,812</u></u>

Funding Policy

The Authority establishes and may amend the employer contribution requirements. The Authority's policy provides employer contributions for all plans sufficient to satisfy the actuarially determined annual required contributions generally in either the current or subsequent fiscal year. The Authority may amend the contribution requirements of SAM Plan members. The contribution requirements for the bargaining union plans are based on the respective union agreements in effect during the period of employment. Administrative costs of all pension plans are financed through the plans' investment earnings.

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2014 are as follows:

	<u>SAM</u>	<u>TRANSIT POLICE</u>	<u>CITY TRANSIT</u>	<u>RED ARROW</u>	<u>FRONTIER</u>
Contribution rates:					
SEPTA	27.86%	12.14%	17.75%	14.43%	7.24%
Plan members	*	3.85%	3.50%	3.50%	3.50%

* 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 2014 were as follows:

	<u>SAM</u>	TRANSIT <u>POLICE</u>	CITY <u>TRANSIT</u>	RED <u>ARROW</u>	<u>FRONTIER</u>	<u>TOTAL</u>
Annual Pension Cost	\$ 37,122	\$ 1,652	\$ 47,017	\$ 3,860	\$ 779	\$ 90,430
Contributions made	<u>35,353</u>	<u>1,444</u>	<u>47,588</u>	<u>3,805</u>	<u>809</u>	<u>88,999</u>
Increase (decrease) in accrued pension liability	1,769	208	(571)	55	(30)	1,431
Accrued pension liability, beginning of year	<u>35,198</u>	<u>1,441</u>	<u>47,304</u>	<u>3,786</u>	<u>806</u>	<u>88,535</u>
Accrued pension liability, end of year	<u>\$ 36,967</u>	<u>\$ 1,649</u>	<u>\$ 46,733</u>	<u>\$ 3,841</u>	<u>\$ 776</u>	<u>\$ 89,966</u>
Actuarial valuation date	7/1/13	7/1/13	7/1/13	7/1/13	7/1/13	
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 ⁴	27 years	27 years	27 years	27 years	27 years	
Asset valuation method	Actuarial value	Actuarial value	Actuarial value	Actuarial value	Actuarial value	
Actuarial assumptions:						
Investment rate of return ¹	7.25%	7.25%	7.25%	7.25%	7.25%	
Salary increases ³	3.50%	²	²	²	²	
Cost-of-living adjustments	None	None	None	None	None	

¹ Interest is net of investment-related expenses.

² Salary scale rates vary by years of service.

³ Reflects underlying inflation assumption of 2.75%.

⁴ Amortization period has been decreased by 1 year.

7. Pension Plans (Continued)

		Analysis of Pension Funding	
	YEAR	ANNUAL	PERCENTAGE
	<u>ENDED</u>	<u>PENSION</u>	<u>OF APC</u>
		<u>COST (APC)</u>	<u>CONTRIBUTED</u>
SAM	6/30/14	\$ 37,122	100.0%
SAM	6/30/13	\$ 35,353	100.0%
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%
Transit Police	6/30/14	1,652	100.0%
Transit Police	6/30/13	1,444	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%
City Transit	6/30/14	47,017	100.0%
City Transit	6/30/13	47,588	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%
Red Arrow	6/30/14	3,860	100.0%
Red Arrow	6/30/13	3,805	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%
Frontier	6/30/14	<u>779</u>	<u>100.0%</u>
Frontier	6/30/13	<u>809</u>	<u>100.0%</u>
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>
TOTAL	6/30/14	<u>\$ 90,430</u>	<u>100.0%</u>
TOTAL	6/30/13	<u>\$ 88,999</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>

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.

* \$56 thousand of the Transit Police contribution related to the year ended June 30, 2013 was not funded until 7/9/14.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

	Schedules of Funding Progress						
	Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Level Dollar <u>(b)</u>	Unfunded AAL (UAAL) <u>(b - a)</u>	Funded Ratio <u>(a / b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b - a) / c)</u>
SAM	7/1/2013	\$ 458,271	\$ 704,209	\$ 245,938	65.1%	\$ 133,250	184.6%
SAM	7/1/2012	\$ 423,293	\$ 632,186	\$ 208,893	67.0%	\$ 130,846	159.6%
SAM	7/1/2011	\$ 395,190	\$ 601,014	\$ 205,824	65.8%	\$ 128,215	160.5%
SAM	7/1/2010	\$ 357,290	\$ 552,099	\$ 194,809	64.7%	\$ 124,931	155.9%
SAM	7/1/2009	\$ 341,869	\$ 529,415	\$ 187,546	64.6%	\$ 122,325	153.3%
SAM	7/1/2008	\$ 376,919	\$ 499,524	\$ 122,605	75.5%	\$ 118,656	103.3%
Transit Police	7/1/2013	26,527	32,448	5,921	81.8%	13,606	43.5%
Transit Police	7/1/2012	23,049	27,483	4,434	83.9%	13,513	32.8%
Transit Police	7/1/2011	20,209	25,000	4,791	80.8%	12,553	38.2%
Transit Police	7/1/2010	17,172	21,393	4,221	80.3%	11,546	36.6%
Transit Police	7/1/2009	15,386	18,872	3,486	81.5%	10,523	33.1%
Transit Police	7/1/2008	15,908	16,367	459	97.2%	10,430	4.4%
City Transit	7/1/2013	496,364	887,626	391,262	55.9%	264,860	147.7%
City Transit	7/1/2012	457,299	817,103	359,804	56.0%	256,667	140.2%
City Transit	7/1/2011	426,221	785,762	359,541	54.2%	251,418	143.0%
City Transit	7/1/2010	382,757	736,230	353,473	52.0%	248,484	142.3%
City Transit	7/1/2009	365,702	684,997	319,295	53.4%	242,762	131.5%
City Transit	7/1/2008	397,906	661,740	263,834	60.1%	232,168	113.6%
Red Arrow	7/1/2013	40,529	70,724	30,195	57.3%	26,750	112.9%
Red Arrow	7/1/2012	37,049	63,648	26,599	58.2%	26,065	102.0%
Red Arrow	7/1/2011	34,336	61,497	27,161	55.8%	25,155	108.0%
Red Arrow	7/1/2010	30,762	56,928	26,166	54.0%	24,709	105.9%
Red Arrow	7/1/2009	29,452	52,552	23,100	56.0%	23,447	98.5%
Red Arrow	7/1/2008	31,582	50,200	18,618	62.9%	22,278	83.6%
Frontier	7/1/2013	15,425	18,191	2,766	84.8%	10,756	25.7%
Frontier	7/1/2012	13,506	16,004	2,498	84.4%	10,239	24.4%
Frontier	7/1/2011	12,072	15,178	3,106	79.5%	9,903	31.4%
Frontier	7/1/2010	10,089	13,385	3,296	75.4%	9,484	34.8%
Frontier	7/1/2009	9,054	11,529	2,475	78.5%	8,984	27.5%
Frontier	7/1/2008	9,307	10,619	1,312	87.6%	8,267	15.9%
TOTAL	7/1/2013	\$ 1,037,116	\$ 1,713,198	\$ 676,082	60.5%	\$ 449,222	150.5%
TOTAL	7/1/2012	\$ 954,196	\$ 1,556,424	\$ 602,228	61.3%	\$ 437,330	137.7%
TOTAL	7/1/2011	\$ 888,028	\$ 1,488,451	\$ 600,423	59.7%	\$ 427,244	140.5%
TOTAL	7/1/2010	\$ 798,070	\$ 1,380,035	\$ 581,965	57.8%	\$ 419,154	138.8%
TOTAL	7/1/2009	\$ 761,463	\$ 1,297,365	\$ 535,902	58.7%	\$ 408,041	131.3%
TOTAL	7/1/2008	\$ 831,622	\$ 1,238,450	\$ 406,828	67.2%	\$ 391,799	103.8%

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 one-third of investment earnings that are greater than or less than those expected by the assumed rate of return. As a result, the actuarial value of assets differs from the market value of assets and the net position held in trust for pension benefits.

The annual pension cost for Fiscal Year 2014, 2013 and 2012 was affected by the reduction of the 30 year amortization period by 1 year beginning in Fiscal 2012 and now is 27 years. The interest rate assumption was reduced from 7.75% on a gross basis to 7.25% on a net basis. The changes increased the annual pension cost for the Union Plans \$1.9 million and the SAM Plan by \$.9 million. The actuarial accrued liability increased \$52.9 million for the Union Plans and \$36.8 million for the SAM Plan due to the change in the investment rate of return. In Fiscal 2012, the annual pension cost was also affected by the lowering of the investment return assumption from 8.0% to 7.75% per year. The annual pension costs in Fiscal Year 2012 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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF PLAN NET POSITION

as of June 30, 2014

	<u>SAM</u> <u>Plan</u>	<u>Transit</u> <u>Police</u> <u>Plan</u>	<u>City</u> <u>Transit</u> <u>Division</u> <u>Plan</u>	<u>Red</u> <u>Arrow</u> <u>Division</u> <u>Plan</u>	<u>Frontier</u> <u>Division</u> <u>Plan</u>	<u>2014</u> <u>Total</u>
Assets:						
Receivables						
Employer contributions	\$ 37,122	\$ 1,708	\$ 47,017	\$ 3,860	\$ 779	\$ 90,486
Plan member contributions	81	47	750	74	31	983
Interest and dividends	1,114	70	1,191	99	41	2,515
Sales pending settlement	<u>11,662</u>	<u>728</u>	<u>12,477</u>	<u>1,031</u>	<u>431</u>	<u>26,329</u>
Total receivables	<u>49,979</u>	<u>2,553</u>	<u>61,435</u>	<u>5,064</u>	<u>1,282</u>	<u>120,313</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	18,454	1,153	19,744	1,630	683	41,664
U.S. Government obligations	24,494	1,530	26,204	2,164	906	55,298
Corporate and other government obligations	76,491	4,780	81,836	6,758	2,826	172,691
Preferred stocks	498	31	532	44	18	1,123
Common stocks	288,425	18,021	308,579	25,481	10,659	651,165
Private equity	70,894	4,430	75,848	6,263	2,620	160,055
Real estate	<u>18,504</u>	<u>1,156</u>	<u>19,796</u>	<u>1,635</u>	<u>684</u>	<u>41,775</u>
Total investments	<u>497,760</u>	<u>31,101</u>	<u>532,539</u>	<u>43,975</u>	<u>18,396</u>	<u>1,123,771</u>
Total assets	547,739	33,654	593,974	49,039	19,678	1,244,084
Liabilities:						
Purchases pending settlement	<u>12,419</u>	<u>775</u>	<u>13,286</u>	<u>1,097</u>	<u>459</u>	<u>28,036</u>
Net position held in trust for pension benefits	<u>\$ 535,320</u>	<u>\$ 32,879</u>	<u>\$ 580,688</u>	<u>\$ 47,942</u>	<u>\$ 19,219</u>	<u>\$ 1,216,048</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF PLAN NET POSITION

as of June 30, 2013

	<u>SAM</u> <u>Plan</u>	<u>Transit</u> <u>Police</u> <u>Plan</u>	<u>City</u> <u>Transit</u> <u>Division</u> <u>Plan</u>	<u>Red</u> <u>Arrow</u> <u>Division</u> <u>Plan</u>	<u>Frontier</u> <u>Division</u> <u>Plan</u>	<u>2013</u> <u>Total</u>
Assets:						
Receivables						
Employer contributions	\$ 35,353	\$ 1,444	\$ 47,588	\$ 3,805	\$ 809	\$ 88,999
Plan member contributions	196	95	1,611	160	68	2,130
Interest and dividends	1,028	62	1,088	89	36	2,303
Sales pending settlement	<u>720</u>	<u>42</u>	<u>762</u>	<u>62</u>	<u>25</u>	<u>1,611</u>
Total receivables	<u>37,297</u>	<u>1,643</u>	<u>51,049</u>	<u>4,116</u>	<u>938</u>	<u>95,043</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	20,580	1,220	21,796	1,784	720	46,100
U.S. Government obligations	25,409	1,506	26,909	2,202	889	56,915
Corporate and other government obligations	58,741	3,481	62,213	5,091	2,054	131,580
Preferred stocks	46	3	48	4	2	103
Common stocks	239,998	14,226	254,178	20,800	8,391	537,593
Private equity	65,942	3,909	69,839	5,714	2,305	147,709
Real estate	<u>14,411</u>	<u>854</u>	<u>15,262</u>	<u>1,249</u>	<u>504</u>	<u>32,280</u>
Total investments	425,127	25,199	450,245	36,844	14,865	952,280
Total assets	462,424	26,842	501,294	40,960	15,803	1,047,323
Liabilities:						
Purchases pending settlement	<u>922</u>	<u>54</u>	<u>978</u>	<u>78</u>	<u>32</u>	<u>2,064</u>
Net position held in trust for pension benefits	<u>\$ 461,502</u>	<u>\$ 26,788</u>	<u>\$ 500,316</u>	<u>\$ 40,882</u>	<u>\$ 15,771</u>	<u>\$ 1,045,259</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF CHANGES IN PLAN NET POSITION
for the Year Ended June 30, 2014

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2014 Total</u>
Additions						
Contributions						
Employer	\$ 37,122	\$ 1,652	\$ 47,017	\$ 3,860	\$ 779	\$ 90,430
Plan member	<u>1,076</u>	<u>557</u>	<u>9,432</u>	<u>948</u>	<u>391</u>	<u>12,404</u>
Total contributions	<u>38,198</u>	<u>2,209</u>	<u>56,449</u>	<u>4,808</u>	<u>1,170</u>	<u>102,834</u>
Investment income (loss)						
Net realized gain	13,509	826	14,391	1,187	493	30,406
Net increase in fair value of investments	49,840	3,019	52,987	4,363	1,806	112,015
Interest	3,896	237	4,146	342	141	8,762
Dividends	<u>4,636</u>	<u>282</u>	<u>4,935</u>	<u>406</u>	<u>169</u>	<u>10,428</u>
Total investment gain	71,881	4,364	76,459	6,298	2,609	161,611
Less investment expense	<u>1,583</u>	<u>96</u>	<u>1,685</u>	<u>139</u>	<u>57</u>	<u>3,560</u>
Net investment income	<u>70,298</u>	<u>4,268</u>	<u>74,774</u>	<u>6,159</u>	<u>2,552</u>	<u>158,051</u>
Total additions	<u>108,496</u>	<u>6,477</u>	<u>131,223</u>	<u>10,967</u>	<u>3,722</u>	<u>260,885</u>
Deductions						
Benefits	35,154	379	50,411	3,845	53	89,842
Asset transfer for transferred employees	(576)	-	308	51	217	-
Administrative expense	<u>100</u>	<u>7</u>	<u>132</u>	<u>11</u>	<u>4</u>	<u>254</u>
Total deductions	<u>34,678</u>	<u>386</u>	<u>50,851</u>	<u>3,907</u>	<u>274</u>	<u>90,096</u>
Net increase	73,818	6,091	80,372	7,060	3,448	170,789
Net position held in trust for pension benefits						
Beginning of year	<u>461,502</u>	<u>26,788</u>	<u>500,316</u>	<u>40,882</u>	<u>15,771</u>	<u>1,045,259</u>
End of year	<u>\$ 535,320</u>	<u>\$ 32,879</u>	<u>\$ 580,688</u>	<u>\$ 47,942</u>	<u>\$ 19,219</u>	<u>\$ 1,216,048</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

STATEMENTS OF CHANGES IN PLAN NET POSITION
for the Year Ended June 30, 2013

	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Division Plan</u>	<u>Red Arrow Division Plan</u>	<u>Frontier Division Plan</u>	<u>2013 Total</u>
Additions						
Contributions						
Employer	\$ 35,353	\$ 1,444	\$ 47,588	\$ 3,805	\$ 809	\$ 88,999
Plan member	<u>1,023</u>	<u>523</u>	<u>7,928</u>	<u>768</u>	<u>316</u>	<u>10,558</u>
Total contributions	<u>36,376</u>	<u>1,967</u>	<u>55,516</u>	<u>4,573</u>	<u>1,125</u>	<u>99,557</u>
Investment income (loss)						
Net realized gain	14,301	825	15,069	1,230	491	31,916
Net increase in fair value of investments	22,294	1,264	23,403	1,907	757	49,625
Interest	3,714	214	3,912	319	128	8,287
Dividends	<u>4,765</u>	<u>275</u>	<u>5,021</u>	<u>410</u>	<u>164</u>	<u>10,635</u>
Total investment gain	45,074	2,578	47,405	3,866	1,540	100,463
Less investment expense	<u>1,279</u>	<u>73</u>	<u>1,346</u>	<u>110</u>	<u>44</u>	<u>2,852</u>
Net investment income	<u>43,795</u>	<u>2,505</u>	<u>46,059</u>	<u>3,756</u>	<u>1,496</u>	<u>97,611</u>
Total additions	<u>80,171</u>	<u>4,472</u>	<u>101,575</u>	<u>8,329</u>	<u>2,621</u>	<u>197,168</u>
Deductions						
Benefits	32,033	249	47,726	3,622	47	83,677
Asset transfer for transferred employees	(751)	-	268	98	385	-
Administrative expense	<u>101</u>	<u>8</u>	<u>133</u>	<u>11</u>	<u>4</u>	<u>257</u>
Total deductions	<u>31,383</u>	<u>257</u>	<u>48,127</u>	<u>3,731</u>	<u>436</u>	<u>83,934</u>
Net increase	48,788	4,215	53,448	4,598	2,185	113,234
Net position held in trust for pension benefits						
Beginning 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>
End of year	<u>\$ 461,502</u>	<u>\$ 26,788</u>	<u>\$ 500,316</u>	<u>\$ 40,882</u>	<u>\$ 15,771</u>	<u>\$ 1,045,259</u>

7. Pension Plans (Continued)

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

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

Investments

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

8. Other Postemployment Benefits

Plan Description

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

The Authority provides postemployment health, prescription drug and life insurance benefits to substantially all employees, which generally commence on the first day an employee retires. Health insurance benefits are generally provided for three years, except Health Maintenance Organization plan coverage is provided for fifty months. Prescription drug benefits are generally provided over the retiree's lifetime for SAM and Non-Railroad Union Groups, except for employees hired after November 2005 for whom coverage ends at age 65. Prescription drug benefits end at the earlier of three years or age 65 for Railroad Union Groups, and 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.

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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

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.

The Authority's OPEB cost and change in net OPEB obligation for Fiscal Year 2014 are as follows:

	<u>SAM</u>	<u>Transit Police</u>	<u>Non-Railroad Union Groups</u>	<u>Railroad Union Groups</u>	<u>Total</u>
Annual required contribution	\$ 34,602	\$ 1,939	\$ 89,756	\$ 9,656	\$135,953
Interest on net OPEB obligation	5,600	355	15,469	1,482	22,906
Adjustment to annual required contribution	(8,376)	(532)	(23,136)	(2,216)	(34,260)
Annual OPEB cost (expense)	31,826	1,762	82,089	8,922	124,599
Contributions made	12,412	109	24,449	2,036	39,006
Increase in net OPEB obligation	19,414	1,653	57,640	6,886	85,593
Net OPEB obligation, beginning of year	149,332	9,481	412,502	39,519	610,834
Net OPEB obligation, end of year	<u>\$168,746</u>	<u>\$ 11,134</u>	<u>\$470,142</u>	<u>\$ 46,405</u>	<u>\$696,427</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 2014, 2013 and 2012 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	6/30/14	\$ 31,826	39.0%	\$ 168,746
SAM	6/30/13	\$ 35,924	33.7%	\$ 149,332
SAM	6/30/12	\$ 34,988	32.5%	\$ 125,523
Transit Police	6/30/14	1,762	6.2%	11,134
Transit Police	6/30/13	1,757	4.7%	9,481
Transit Police	6/30/12	1,650	2.7%	7,806
Non-Railroad Union Groups	6/30/14	82,089	29.8%	470,142
Non-Railroad Union Groups	6/30/13	91,325	26.5%	412,502
Non-Railroad Union Groups	6/30/12	88,332	26.0%	345,351
Railroad Union Groups	6/30/14	<u>8,922</u>	<u>22.8%</u>	<u>46,405</u>
Railroad Union Groups	6/30/13	<u>8,606</u>	<u>30.3%</u>	<u>39,519</u>
Railroad Union Groups	6/30/12	<u>8,183</u>	<u>29.1%</u>	<u>33,521</u>
Total	6/30/14	<u>\$ 124,599</u>	<u>31.3%</u>	<u>\$ 696,427</u>
Total	6/30/13	<u>\$ 137,612</u>	<u>28.3%</u>	<u>\$ 610,834</u>
Total	6/30/12	<u>\$ 133,153</u>	<u>27.6%</u>	<u>\$ 512,201</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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	7/01/13	7/01/13	7/01/13	7/01/13
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	3.75%	3.75%	3.75%	3.75%
Projected salary increases for life insurance	3.50%	-	-	-
Healthcare inflation rate (Includes potential excise tax due to Healthcare Reform)	4.8% Initial 5.0%-9.2% Ultimate	4.8% Initial 5.0%-9.2% Ultimate	4.8% Initial 5.0%-9.2% Ultimate	4.8% Initial 5.0%-9.2% Ultimate

<u>Schedule of Funding Progress</u>							
	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SAM	7/01/13	\$ -	\$ 404,766	\$ 404,766	0.0%	\$ 122,398	330.7%
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%
Transit Police	7/01/13	-	15,888	15,888	0.0%	12,088	131.4%
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%
Non-Railroad Union Groups	7/01/13	-	899,890	899,890	0.0%	300,582	299.4%
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%
Railroad Union Groups	7/01/13	-	79,967	79,967	0.0%	74,428	107.4%
Railroad Union Groups	7/01/11	-	72,882	72,882	0.0%	72,151	101.0%
Railroad Union Groups	7/01/09	-	69,505	69,505	0.0%	69,415	100.1%
Total	7/01/13	\$ -	\$ 1,400,511	\$ 1,400,511	0.0%	\$ 509,496	274.9%
Total	7/01/11	\$ -	\$ 1,426,749	\$ 1,426,749	0.0%	\$ 486,393	293.3%
Total	7/01/09	\$ -	\$ 1,415,797	\$ 1,415,797	0.0%	\$ 474,250	298.5%

8. Other Postemployment Benefits (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents the actuarial value of plan assets, if any, for comparison to the actuarial accrued liability for benefits. The next scheduled valuation will be as of July 1, 2015.

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 \$17.5 thousand annually on a pre-tax basis. Includible compensation comprises the contributions made by both the employee and employer. Effective January 1, 2000, the Authority began to provide SAM employees with a 10 percent matching contribution, subject to limitations, which amounted to \$350 thousand and \$356 thousand for Fiscal Years 2014 and 2013, respectively.

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 has 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, 2014, the Authority was not required to post collateral for any fuel derivative agreements. At June 30, 2014, the fuel derivative instruments had a net positive market position of \$1.5 million. 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, 2014, the maximum amount the Authority would have been required to post to its counterparties is \$14.9 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, 2014, 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. Self-InsurancePublic 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, 2014. 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%, 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 2014 increased \$8.5 million. The related liability as of June 30, 2014 increased \$17.8 million, which reflects the higher costs expected to be paid to litigate and settle outstanding claims. The expense for pollution remediation activities at various SEPTA locations where underground storage tanks were previously removed and replaced was \$24 thousand and \$653 thousand for Fiscal Year 2013 and 2014, 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%, utilizing a case-by-case review of all claims, adjusted for estimates of future adverse claims development, as of June 30. The Authority also maintains excess workers' compensation insurance coverage with an insurance carrier for employee claims, on a per accident basis, which exceeds a self-insured retention of \$5 million up to a \$10 million liability limit.

Total claims liabilities, including changes for Fiscal Years 2014 and 2013, are as follows:

	Public Liability and Property Damage	Workers' Compensation	Totals
Balance at June 30, 2012	\$ 169,674	\$ 53,876	\$ 223,550
Claims expense	44,511	11,621	56,132
Pollution remediation expense	24	-	24
Payment of claims	(35,716)	(18,071)	(53,787)
Payments for pollution remediation	(991)	-	(991)
Balance at June 30, 2013	177,502	47,426	224,928
Claims expense	53,029	12,098	65,127
Pollution remediation expense	653	-	653
Payment of claims	(35,189)	(17,544)	(52,733)
Payments for pollution remediation	(560)	-	(560)
Balance at June 30, 2014	<u>\$ 195,435</u>	<u>\$ 41,980</u>	<u>\$ 237,415</u>
Balance at June 30, 2014 due within one year	<u>\$ 75,483</u>	<u>\$ 10,255</u>	<u>\$ 85,738</u>

11. Self-Insurance (Continued)

Employee Medical and Prescription Drug

As of August 1, 2012, the Authority became self-insured in providing group medical coverage for most of its employees and certain retirees. A third-party administers the group medical coverage for the Authority. The Authority is liable for all claims up to \$500,000 per individual for any one plan year. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$500,000 per plan year. The liability for unpaid claims, if any, is estimated using the prior period history of actual claims paid.

The total medical claims liability, which is included within Accounts Payable-Trade in the Statements of Net Position, changed in Fiscal Year 2014 as follows:

	Medical <u>Liability</u>
Balance at June 30, 2013	\$ 18,969
Claims expense	118,035
Payment of claims	<u>(118,008)</u>
Balance at June 30, 2014	<u>\$ 18,996</u>
Balance at June 30, 2014 due within one year	<u>\$ 18,996</u>

The Authority is also self-insured for prescription drug benefits through a third-party administrator for all employees and certain retirees. The annual prescription expense for Fiscal Year 2014 and 2013, was \$52.9 million and \$49.6 million, respectively.

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 negative effect on future operations would be significant. Although the Authority had anticipated that the PTTF would provide for a reliable and growing source of funds to meet future budgetary needs, when Act 44 was enacted in 2007, this growth was not realized. 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 which continued into Fiscal Year 2014 with a total capital budget of \$308.0 million. In Fiscal Year 2015, the capital budget was increased to \$571.8 million. The increase was due to the Pennsylvania General Assembly passage of transportation funding legislation, Act 89 of 2013, which was signed into law by Governor Corbett in November 2013. Act 89 of 2013 provides a dedicated, long-term funding source for transportation in Pennsylvania that includes funding for public transportation as well as roads, bridges and multimodal transportation.

13. Net Position Restatement

In Fiscal Year 2014, the Authority adopted the requirements for GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." GASB Statement No. 65, requires reporting debt issuance costs as an expense in the period incurred. The adoption of this statement resulted in a restatement decreasing the Fiscal Year 2013 ending net position balance by \$3.2 million.

	June 30, 2013 Amount as <u>Previously Reported</u>	Adjustment for GASB 65	June 30, 2013 Amount as <u>Restated</u>
<u>Statements of Net Position:</u>			
Other Noncurrent Assets	\$ 8,644	\$ (3,160)	\$ 5,484
Net Position, Ending	2,473,638	(3,160)	2,470,478
<u>Statements of Revenues, Expenses and Changes in Net Position:</u>			
Net Position, Beginning	\$ 2,669,480	\$ (3,592)	\$ 2,665,888
Miscellaneous Expenses	12,544	(432)	12,112
Net Position, Ending	2,473,638	(3,160)	2,470,478

14. Subsequent Event

On July 15, 2014, the City of Philadelphia (City) and the Authority entered into a new City Transit Division Properties Lease Agreement (Lease Agreement) effective as of July 1, 2014. The new Lease Agreement terminated the existing 1968 lease agreement between the City and the Authority. The Lease Agreement provides that the City will lease to the Authority certain City owned transit properties, including the City owned Suburban Station Concourse property and certain rolling stock, to enable the Authority to continue operating the City Transit Division as part of the SEPTA system. The initial term of the Lease Agreement is for thirty years and expires June 30, 2044. The Lease Agreement provides for automatic extensions of 2-additional terms of fifteen years each unless the Authority provides notice to the City not to renew prior to each extended term. Under the Lease Agreement, the Authority made a nominal fixed rent payment to the City and will be responsible for keeping the City owned transit properties in good operating condition, including alterations and replacements. The Authority will also pay to the City additional rent, an amount equal to forty percent of new sources of net revenues less certain Concourse expenditures generated by the City owned transit properties.