



# ANNUAL REPORT



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## LETTER FROM MANAGEMENT



Saying Fiscal Year (FY) 2016 was eventful is an understatement. SEPTA kicked-off the year marking its 16th consecutive year of operating with a balanced budget and with record ridership on Regional Rail. System-wide, total annual trips were up by approximately 40 million since 2006; with Regional Rail ridership increasing by more than 50 percent over the last 17 years, from 24.8 million in 1998 to last year's 37.4 million.

This year marked a change in leadership for the Authority. SEPTA General Manager Joseph M. Casey, who led the Authority since 2008, retired in September. Deputy General Manager Jeffrey D. Knuettel, P.E. was appointed to oversee SEPTA's 9,300 employees and operation of the 6th largest transportation agency in the country as the Authority's new General Manager.

SEPTA's "Rebuilding for the Future" capital program, funded through Pennsylvania Act 89, continued to tackle the Authority's \$5 billion backlog of state of good repair. Projects included the Trolley Tunnel Blitz, 40th Street Market Frankford Line Station, 69th Street Transportation Center West Terminal, 61st and Pine Bus Loop, and the Crum Creek Viaduct.

FY2016 also brought the completion of the reconstruction of historic Wayne Junction Station; the separation of SEPTA's busiest bus route into two separate, shorter routes; the opening of a new Regional Rail Station on the Lansdale/Doylestown Line, SEPTA's first in nearly 20 years; and the launch of SEPTA Key, SEPTA's new fare payment system, which will fundamentally transform the way customers interact with the system by modernizing and integrating access to all transit services across the region.

SEPTA's sustainability program, SEP-TAINABLE, continued to thrive in FY2016. For the fourth time, SEPTA's headquarters building at 1234 Market Street in Center City Philadelphia earned the U.S. Environmental Protection Agency's ENERGY STAR certification. We also moved forward on an energy retrofit of five SEPTA facilities and railcar fleets with high-efficiency technologies. We also announced an 8.75-megawatt energy storage project which captures and reuses the energy created by braking subway cars which earned SEPTA the Governor's Award for Environmental Excellence.

This year was highlighted by a historic moment for Philadelphia as the City welcomed Pope Francis and the thousands of people attending the World Meeting of Families. SEPTA played an integral part in the events that attracted people to our region from around the world. Every SEPTA employee played an important role in our team effort to ready the system for the Papal Visit. We received many commendations from those who rode SEPTA over the weekend expressing their appreciation for how well our stations were organized and managed. This memorable event truly showcased the tremendous effort and character that make SEPTA employees so exceptional.

This Annual Report for FY2016 (July 1, 2015 through June 30, 2016) details this remarkable year of progress and pride for the Authority and provides a glimpse into new initiatives already underway in FY2017 to address ongoing challenges so that SEPTA continually meets the evolving travel needs of southeastern Pennsylvanians. It is now our pleasure to share this Annual Report for Fiscal Year 2016 with you.



PASQUALE T. DEON, SR., BOARD CHAIRMAN



JEFFREY D. KNUETTEL, P.E., GENERAL MANAGER



# SEPTA BOARD & OFFICERS

## BOARD MEMBERS

### Chairman

Pasquale T. Deon, Sr.

### Vice-Chairman

Thomas E. Babcock

### Bucks County

Pasquale T. Deon, Sr.  
Honorable Charles H. Martin

### Montgomery County

Kenneth Lawrence, Jr.  
Robert D. Fox, Esquire

### Governor's Appointee

Honorable Dwight Evans

### Senate Minority Leader Appointee

William J. Leonard, Esquire

### Chester County

Kevin L. Johnson, P.E.  
William M. McSwain, Esquire

### City of Philadelphia

Beverly Coleman  
Clarena I.W. Tolson

### Senate Majority Leader Appointee

Honorable Stewart J. Greenleaf, Esquire

### House Minority Leader Appointee

John I. Kane

### Delaware County

Thomas E. Babcock  
Daniel J. Kubik

### House Majority Leader Appointee

Honorable Michael A. Vereb

## SEPTA OFFICERS

### General Manager

Jeffrey D. Knueppel, P.E.

Deputy General Manager/Treasurer  
Richard G. Burnfield

Controller to the Board  
Stephen A. Jobs

General Counsel  
Gino J. Benedetti, Esquire

Secretary to the Board  
Carol R. Looby





SEPTA invited Senator Robert P. Casey, Jr., and Representatives Pat Meehan, Ryan Costello, media and other officials to its Frazer Maintenance Facility for a demonstration and update on the Authority's Positive Train Control (PTC) implementation progress.



July 1, 2015

Those who attended saw on-board and track-side communication equipment. SEPTA officials also showcased the technology in action as a train car traveled along a working test track.

PTC is the next generation of signal safety equipment designed to reduce the chance of human error and automatically prevent train-to-train collisions and over speed derailments.



Buses were used in place of trolleys along SEPTA Routes 101 & 102 (Media-Sharon Hill Line) to allow work along the routes.

SEPTA replaced Route 102 rails and concrete roadway and repaved the parking lanes on both sides of the street along Woodlawn Avenue and Springfield Road between North Street and West Madison Avenue in Collingdale, Aldan and Clifton Heights. SEPTA also installed rubber rail boots around the new rails to lessen vibration and noise.



July 15, 2015

The last time the trolley track and roadway were replaced in this area was 1983. The work was completed in 10 phases over a 12-week period, with rolling street closures along the construction zones.



SEPTA headquarters (1234 Market Street) earned the EPA ENERGY STAR certification for 2015.

The designation recognizes that the building is among the top 25% in similar commercial buildings nationwide for energy efficiency and meets strict performance levels set by the Environmental Protection Agency (EPA).



July 31, 2015

The building previously earned ENERGY STAR designation in 2010, 2011, and 2012. During severe weather events, SEPTA enacts special measures to reduce the building's overall energy usage.

This certification is part of SEPTA's initiative to drive sustainable decision making throughout the organization and build a more sustainable region.



The SEPTA Trolley Tunnel closed for 2 weeks for the Trolley Tunnel Blitz. Routes 10, 11, 13, 34 and 36 did not operate in the Center City tunnel due to power, track and station improvement projects.



July 31, 2015

SEPTA replaced almost 7,500 feet of track on the westbound side of the tunnel between 22nd Street Station and the 40th Street Portal.

During this 16-day tunnel closure, SEPTA's crews built on last year's maintenance and construction tasks to improve safety and service reliability.



SEPTA marks a major milestone in the transit industry by accepting delivery of the 700th hybrid-electric bus. SEPTA now operates one of the largest "green" mass transit fleets in the nation.

This addition reinforced SEPTA's commitment to operating an efficient, modern fleet for passengers, as well as a cleaner environment and sustainable practices.



August 17, 2015

Not only has SEPTA improved its fuel efficiency while reducing greenhouse gas emissions, the consumption of diesel fuel decreased fleet-wide from 17.1 million gallons in FY07, down to 14.9 million gallons in FY14.



SEPTA General Manager Mr. Joseph M. Casey, who led the Authority since 2008, announced his retirement after 34 years of distinguished service.



August 19, 2015

During his tenure, Mr. Casey successfully established balanced operating budgets, streamlined expenses and reduced costs, containing overall budget growth even in the face of skyrocketing healthcare and fuel costs. He adopted a comprehensive Sustainability Program and created a dedicated Customer Service division focused on SEPTA's *Four Cs*; Cleanliness, Convenience, Courtesy and Communication.

Mr. Casey worked with SEPTA Chairman Pasquale T. Deon, Sr., the SEPTA Board, elected officials, and stakeholders to secure a long-term funding source to address SEPTA's critical infrastructure improvements. These combined efforts resulted in Act 89.

Mr. Casey retired on September 30.



The West Trenton Separation Project clears the way for SEPTA to fully implement Positive Train Control (PTC).

Separation of the 6 mile section of track shared by SEPTA and CSX Transportation between Woodbourne and West Trenton stations helped to alleviate rush hour train congestion in this area.



August 25, 2015

Both SEPTA and CSX have experienced sustained growth along this section of track. SEPTA West Trenton ridership has increased by more than 60% over the last decade.



The 31st SEPTA Bus Rodeo saw Bus Operator and Mechanical staff compete to be crowned Grand Champions of the SEPTA Bus Rodeo.



September 16, 2015

The technical portion the Rodeo includes timed trials of diagnosing and repairing HVAC systems to bus brakes and doors. Mechanical teams were also scored in a written test.

Bus Operators competed in individual competitions that included bus inspection, customer service, and a slalom driving course.

The winners represented SEPTA at the International Bus Rodeo in May.



SEPTA announced the selection of Jeffrey D. Kneuppel, P.E. as next General Manager.

Mr. Kneuppel joined SEPTA in 1988 as a Structural Engineer; his projects focused on the repair of aging elevated transit structures, bridges and tunnels. He quickly rose within the organization and after several advancements, was promoted to Chief Engineer at the age of 36. He was AGM of EM&C before assuming the responsibility of Deputy GM. Under Kneuppel's direction, SEPTA completed 32 transit infrastructure improvement projects as part of its \$191 million Stimulus program.



September 17, 2015

Mr. Kneuppel plans to continue working with his team to advance the Rebuilding the Future program designed to tackle the backlog of state of good repair, facility improvement, and fleet upgrade projects.





For the 2nd consecutive year, SEPTA partnered with Miller Lite to provide free rides on the Broad Street Line for the EAGLES Home Opener.



SEPTEMBER 20, 2015

For the 8 hour period, SEPTA recorded 46,046 total rides on the Broad Street Line, 17,546 of which entered at AT&T Station. This set a new Eagles game day record. The free rides were available from 1:00 p.m. to 9:00 p.m.

Unfortunately, the game didn't go as well for the home team as it did for SEPTA. The Eagles lost to the Dallas Cowboys 20-10.



For the 16th consecutive year, SEPTA joined the Philadelphia Fire Department in kicking off Fire Prevention Month and unveiling the fire safety car cards that will appear in 2,500 SEPTA buses, trains, trolleys and stations.

Philadelphia Fire Commissioner Derrick J.V. Sawyer and SEPTA AGM of System Safety Scott Sauer installed the first card on a bus during a ceremony held at Ladder 2. The SEPTA fire prevention car cards feature new safety tips each year.



OCTOBER 8, 2015

The 2015 theme was designed to educate the public about safe cooking practices. The Fire Prevention Month car card program is just one example of how SEPTA and the Philadelphia Fire Department partner throughout the year.



Trackless Trolley Route 66 adjusted where riders board and disembark vehicles at more than 25 stops along Frankford Avenue.

The changes were part of an effort to improve pedestrian safety and transit efficiency on Frankford Avenue. In all, 7 stops were relocated to the farside of the intersection and 20 were consolidated.



OCTOBER 11, 2015

The adjustments were initiated by a partnership between the City of Philadelphia and SEPTA that aims to improve transit and increase pedestrian safety throughout the city. Frankford Avenue is 1 of 6 corridors in the city that currently have Transit Signal Priority (TSP) technology, which allows transit vehicles to communicate with traffic signals.

With more than 10,000 riders each weekday, Route 66 is one of SEPTA's busiest.

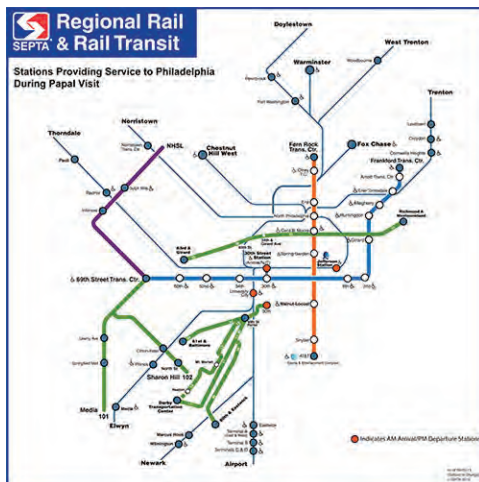


## THE PAPAL VISIT TO PHILADELPHIA, SEPTEMBER 26 AND 27, 2015

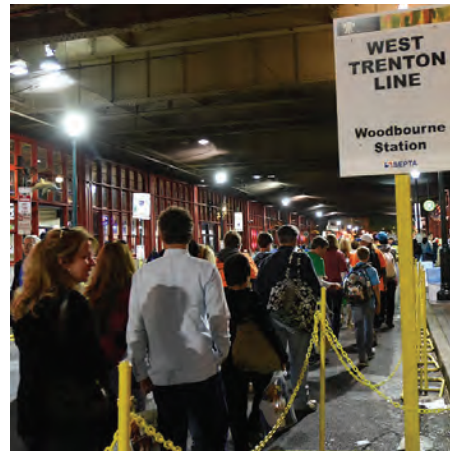


SEPTA welcomed the world to Philadelphia during Pope Francis' historic visit. Months of planning with city, county and municipal officials, first responders and the business community made for a coordinated and efficient transportation operation, aiding not only those attending events but also local residents.

Tens of thousands of visitors and residents relied on SEPTA to travel to and from Philadelphia during this extraordinary event.



SEPTA doubled capacity during the Papal Visit by modifying Regional Rail operations in an effort to accommodate travel demand. Over 63,000 visitors utilized Rail to get into the city, while the Broad Street Line saw 55,000 riding from the Stadium Complex to Walnut-Locust Station. After the big events (like Sunday afternoon Mass), SEPTA had all crowds cleared in under 2.5 hours post-event.



Only 18 outlying Regional Rail stations were in operation, all other stations closed for the weekend. This allowed SEPTA to run express inbound-only service in the morning and outbound-only service afterwards. The Airport Line ran a modified schedule to move visitors to and from Philadelphia International Airport.



One Day Regional Rail and Transit Passes for the Papal Visit were available through an online lottery, and later at SEPTA Sales Offices, designed to accommodate heavy demand on Rail during the Papal Visit.



SEPTA limited the number of passes available and encourages pre-purchasing to keep crowd numbers consistent with the capacity available on the system. No other fare instruments were accepted.

SEPTA played an integral part in getting visitors from over 150 countries to the Benjamin Franklin Parkway and Independence Hall for the Papal festivities. The weekend brought endless commendations from those who rode the system, expressing the warm acts of caring, kindness, and appreciation for how well SEPTA stations were organized and managed.





SEPTA announced the promotion of Richard Burnfield to the position of Deputy General Manager. Mr. Burnfield will also continue to serve as the Authority's Treasurer, a position he has held for the last 7 years. He will report directly to the GM.



OCTOBER 14, 2015

Under Mr. Burnfield's leadership, SEPTA achieved balanced budgets for 16 consecutive years - often in the face of uncertain funding support. With a focus on business innovation, he introduced initiatives including the largest station naming rights program in the US, and an award winning Sustainability Program.

Mr. Burnfield will oversee financial efficiency, resource management, business partnership and employee development, labor relations, communications and IT.



SEPTA's 7th annual "Stop Hunger at Your Station" food drive benefiting local food banks served by Philabundance ran from October 19 - October 30.

Donation bins were available at 43 stations. SEPTA's wrapped Philabundance bus made an appearance at SEPTA Regional Rail stations and Transportation Centers to collect donations.

More than 14,000 pounds of food were collected. Monetary gifts of almost \$7,900 were donated, equating to 15,000 meals.



OCTOBER 19, 2015

Since 2009, SEPTA customers and employees donated over 123,500 lbs of food. Monetary contributions, surpassing \$45,000, have equated to an additional 214,400 over the drive's history.



SEPTA's Board approved sustainability projects that will reduce energy consumption and improve resilience - at no cost to the Authority.

The 1<sup>st</sup> project is an energy retrofit of 5 facilities and railcar fleets with high-efficiency technologies.



OCTOBER 22, 2015

These will be financed through energy savings guaranteed to SEPTA under the Pennsylvania Guaranteed Energy Savings Act. The projects reflect a continued commitment to the "budget neutral" implementation of SEPTA's award-winning Sustainability Program.



SEPTA broke ground on ADA accessibility improvements at the 40th Street Market-Frankford Line Station. The project included the installation of 2 elevators on the northwest and southeast corners of 40th and Market Streets.

In addition to the new elevators, the project includes 4 new head houses, new lighting, gates, and enhanced signage. Repairs included structural and concrete repairs, upgrades to the station's mechanical and electrical systems, as well as improvements to employee facilities.



November 2, 2015

In addition to SEPTA GM Jeff Knueppel, attendees included Senior Vice President of Government and Community Relations at Drexel University Brian Keech, Senator Vincent Hughes, Rep. Vanessa Lowery Brown, Councilwoman Jannie Blackwell, and State Rep. James Roebuck, Jr.



FTA Acting Administrator Therese McMillan, Chairman Pasquale T. Deon, Sr., federal, state and local officials, and community members celebrated the completion of the reconstruction project at Wayne Junction Station.

A \$4 million FTA Livability Grant awarded in 2011 was a catalyst for SEPTA to advance the initiative.



November 12, 2015

Although it required significant construction, the station remained open while work was underway to maintain regular service for customers. Wayne Junction serves as a multi-modal transfer point between six of SEPTA's Regional Rail lines, as well as three major transit routes - the Route 75 Trackless Trolley, and Bus Routes 23 and 53. The station serves over 321,000 riders annually.

The project received the Grand Jury Award from the Preservation Alliance for Greater Philadelphia.



SEPTA announced the promotion of Scott A. Sauer to the position of AGM of System Safety. Mr. Sauer has served as SEPTA's Chief Officer of System Safety since 2013. During his 25 years at SEPTA, Mr. Sauer served as a trolley, bus and Market-Frankford Line Operator, in addition to his time as a Transportation Manager.

In addition to SEPTA responsibilities, Mr. Sauer is active in Operation Lifesaver, and has been an authorized OLI volunteer since 2006, serving on the board of directors of the organization's PA chapter and for the OLI national organization.



November 13, 2015

During his 10 years as a member of SEPTA System Safety, Mr. Sauer worked to expand safety education programs. He also spearheaded SEPTA's annual Safety Awareness Day.





Riders along SEPTA's Lansdale/Doylestown Regional Rail Line received a new stop, 9th Street Station in Lansdale. This was the Authority's first new railroad station in nearly 20 years.

The new station, located at 141 West 9<sup>th</sup> Street is a partnership between SEPTA, Lansdale Borough, Lansdale Parking Authority and Stoltz Real Estate Partners, working together to enhance Regional Rail service access for those who live and work in Montgomery County.



November 16, 2015

In addition to SEPTA GM Jeff Knueppel, ceremony attendees included Councilman Jason Van Dame, Vice President of Lansdale Council Mary Fuller, Congressman Brandon Boyle, and Montgomery County Commissioner Josh Shapiro.

All trains operating between Lansdale and Doylestown Stations service 9th Street Station.



What do you do with 25 turkeys, 100 pounds of sweet potatoes and 70 pounds of green beans? Invite hundreds of friends to a pre-Thanksgiving Thanksgiving dinner at Jefferson Station!



November 22, 2015

SEPTA, Philadelphia Corporation for Aging and Reading Terminal Market made sure that 300 older Philadelphians had a holiday celebration with friends, food and festivities at Jefferson Station.

This was the 4<sup>th</sup> time SEPTA hosted the dinner at the station and the 16<sup>th</sup> year PCA had invited guests from senior centers across the city to a holiday feast donated by many Reading Terminal Market vendors and arranged by Marion D'Ambrosio, a Reading Terminal merchant.



By splitting its busiest bus route, SEPTA reduced delays for over 21,000 daily riders on Route 23.

Route 23 continues running between Chestnut Hill and Center City. Southbound service now ends at Walnut Street. Northbound trips began on 11th Street between Market and Filbert Streets.

Route 45 operates between Broad and Oregon and 11th and Noble Streets. The new route begins and ends on Noble Street near 12th.



November 29, 2015

No service reductions were made to either route. The schedules have been enhanced to offer additional off-peak trips in the afternoon and evenings. During rush hour, buses arrive at stops on each route every 6 minutes. OWL service was also enhanced on the Route 23 schedule.



New SEPTA Regional Rail Line schedules designed to enhance service reliability on the Airport Line went into effect.

The Airport Line was previously linked to the Authority's West Trenton and Warminster Regional Rail Lines, two very long service lines. In order to enhance the customer experience, the lines were separated to improve On Time Performance.



DECEMBER 13, 2015

The Airport Line separated the Warminster and West Trenton on weekdays. By splitting from the branched lines, SEPTA increased service reliability and improved schedule times for Regional Rail customers.



Several SEPTA Trolley Cars, Broad Street Line and Market-Frankford Line were decked out in their holiday finest - tinsel, lights, bows and bells - to put commuters in the seasonal spirit.

SEPTA Buses from each depot were also decked out in their holiday best. The buses and trolleys participated in SEPTA's annual vehicle decorating competition at Callowhill Depot. Callowhill Depot won the competition.



DECEMBER 16, 2015

Operators used hundreds of lights, yards of garland and tons of ornaments, all to make the season brighter for their passengers.

For suburban riders, a decorated trolley on Routes 101 and 102 (Media/Sharon Hill Line) and the Norristown High Speed Line were also in service.



As they have for the past 35 years, SEPTA staff assisted Saint Nick and donated 10,000 dolls, action figures, games and bikes for several local organizations.



DECEMBER 21, 2015

During the month between Thanksgiving and Christmas, employees from all SEPTA Districts, Depots, Shops and Headquarters dropped toys in bright red bins and collected thousands of dollars to purchase items for children of all ages.

To get the presents to the children, the Authority used festively decorated buses to transport presents to the recipient organizations.





SEPTA Transit Police received a tool to strengthen their relationship with the public and provide valuable investigative evidence - body cameras.

The department-wide launch followed a pilot test that began in July 2014, with 15 officers field-testing cameras from several different manufacturers. The SEPTA Board approved the purchase of cameras in July 2015. The program, including equipment costs and training, was approximately \$400,000.

SEPTA created a policy on camera use, including when cameras must be operated, and providing verbal notice of recording to individuals involved.



JANUARY 1, 2015

This initiative enhances SEPTA's overall video coverage of the transit system, which currently includes over 18,000 surveillance cameras at stations and on Trains, Buses and Trolleys.



SEPTA Buses returned to West Terminal boarding at 69th Street Transportation Center. The routes were relocated for the West Terminal Reconstruction and Modernization Project.

Renovations included reconstruction of pedestrian ramps and the South Platform, enhancing safety and security efforts by installing cameras, and implementing green roofs, energy efficient LED lighting and architectural elements.



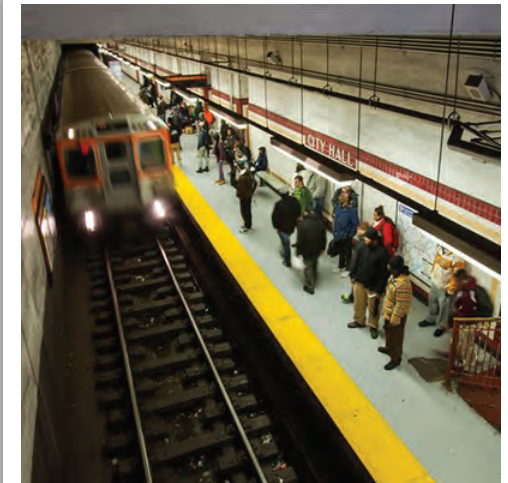
JANUARY 4, 2015

The \$19.6 million project was funded through the FTA Bus and Bus Facility Livability Grant Program and Pennsylvania Act 89.

The new West Terminal ribbon cutting ceremony took place January 29. In addition to SEPTA GM Jeff Knueppel, attendees included Senator Tom McGarrigle, SEPTA Vice Chairman Thomas E. Babcock, Delaware County Council Chairman Mario J. Civera, Jr., Rep. Bob Brady, Upper Darby Mayor, Thomas N. Micozzi, and Rep. Margo Davidson.



A battery storage network, which captures and reuses the energy created by braking subway cars, helped SEPTA reduce operating costs, ensure energy resiliency, and support the stability of the energy grid.



JANUARY 21, 2016

The new network brings the agency's total battery storage capacity to more than 10 MW. The project, which is among the first commercially deployed battery storage systems in a transit operation, requires no upfront capital investment from SEPTA and will be financed through a 20-year battery services agreement with Constellation.

Constellation, a subsidiary of Exelon Corporation, will fund, own, and operate the 8.75 megawatt battery storage network, deployed at seven SEPTA substations. The network was designed to use stored energy to power trains as they accelerate from stations and can provide emergency generation for trains in the event of a power outage.



SEPTA uses new tools to combat winter weather's snowy and icy conditions. This equipment will play a key role in the Authority's efforts to minimize disruptions to customers resulting from winter weather events.

The new equipment included heavy duty snow removers and rail-mounted blowers that clear tracks and clear off buses and other vehicles.



JANUARY 24, 2016

SEPTA also conducted a pilot program for brining surfaces (i.e. Bus and Trolley loops and parking lots), to prevent snow and ice from building up.

For this effort, SEPTA has a brine maker with a 5,000-gallon storage tank and several brine applicators. The equipment was put to good use when Winter Storm Jonas dropped 22.4 inches of snow on the region in January. The early 2016 storm was a historic blizzard that crippled the Mid-Atlantic and Northeast.



SEPTA Bus Route 53 launched service on a 2.5 mile extension in North Philadelphia, enhancing transit availability to the neighborhoods of Feltonville, Juniata Park and Hunting Park.

The extension operates along East Hunting Park Avenue and adds direct service to a growing array of business and cultural services along the corridor.

The extension also enhances area travel options by providing transfers to-and-from Bus Routes 4, 47, 57 and 89, and new Broad Street Line connections.



MARCH 4, 2016

The total of 22 new stops (the majority placed at signalized intersections), reduces the potential for pedestrian and vehicle conflicts.

SEPTA, Philadelphia City Councilwoman Maria Quinones Sanchez, and community leaders commemorated the extension on March 4.



On April 4, Kris Jenkins of Villanova sunk the game-winning 3-point shot at the buzzer to seal the final score 77-74, defeating the #1 seed in the nation, University of North Carolina.

While the Greater Philadelphia Region celebrated the Villanova Men's Basketball Team's victory in the NCAA championship, so did SEPTA.



April 8, 2016

Extra capacity was added to SEPTA's Norristown High Speed Line, Market-Frankford Line and Broad Street Line for fans heading to the parade.

SEPTA Ambassadors were on hand at Center City and Villanova-area stations to assist travelers before and after the parade.





SEPTA launched Positive Train Control (PTC) on Regional Rail on the Warminster Line. This achievement took months of preparation and testing.

PTC enhances safety by regulating train separation, avoiding collisions at track crossovers, enforcing line speed (including temporary speed restrictions), protecting rail worker safety zones, regulating out of service grade crossings, and preventing a train from running over a mainline switch set in the wrong position.



April 18, 2016

Within the first two days of operation, SEPTA saw the benefits of PTC when a truck struck the grade crossing gate at Old York Road. PTC protected the out of service grade crossing equipment.

The Fox Chase Regional Rail Line would begin service under PTC in May of 2016. The Lansdale/Doylestown Line received PTC in June 2016.



SEPTA's successful efforts to reduce power consumption was recognized with the Governor's Award for Environmental Excellence for its Wayside Energy Initiative at the Griscom Substation on the Market-Frankford Line.

The Griscom Project followed the successful launch of the program at Letterly Substation, which also powers the Market-Frankford Line.



April 28, 2016

The award was presented to SEPTA during the April SEPTA Board meeting. Carol F. McCabe, Chairwoman of the Board of Directors of the PA Environmental Council presented the award to Chairman Deon and the SEPTA Board.

SEPTA was also honored with a Philadelphia City Council Citation, recognizing this achievement in support of environmental sustainability.



Best way to the Broad Street Run starting line? SEPTA of course!



May 1, 2016

SEPTA ran extra subway service on the Broad Street Line before the race. Special northbound trips ran every 10 minutes from AT&T Station 4:45-8:30 a.m. SEPTA offered FREE Broad Street Line rides before and after the race to registered runners.

All participants needed to do was display their official race bib with their competitor number to ride for free.

In total, 74,084 Broad Street Line entries were recorded for the day.



SEPTA made "Take Safety Along When You Ride" the focus of its fourth annual "Make the Safe Choice" Safety Awareness Day.

During the morning rush hour, 400 SEPTA employees distributed educational materials and answered safety questions at more than 100 SEPTA Stations, Loops and Transportation Centers. Safety messages were also displayed in the Authority's stations and on its vehicles.



May 4, 2016

SEPTA emphasized bus safety as the featured mode for Safety Awareness Day 2016. As part of its Safety Awareness Day activities, SEPTA offered tips for bikers.

SEPTA's system-wide Safety Awareness Day is part of the Authority's efforts to create a culture of safety and get everyone to commit to being alert while on or near SEPTA property.



SEPTA gathered with local elected officials, including Board member Dwight Evans, state Rep. Joanna E. McClinton, and Councilwoman Jannie Blackwell, as well as neighborhood leaders, to break ground on overhaul of a transit hub in West Philadelphia.

The 61st and Pine Bus Loop Improvement Project, a \$1.8 million capital program initiative, will result in the full reconstruction of this key facility, with safety enhancements, added accessibility and a variety of other upgrades.



May 23, 2016

The 61st and Pine Bus Loop project is part of the overall Rebuilding the SEPTA System Capital Improvement Plan. SEPTA is embarking on upgrades throughout the system thanks to Pennsylvania Act 89.



SEPTA announced a partnership with ride-sharing service Uber that is aimed at increasing access to the transit system in the suburban counties.



The partnership launched as a pilot, running from Memorial Day weekend through Labor Day. Uber rides were discounted by 40% to-and-from 11 suburban Regional Rail stations in Bucks, Chester, Delaware and Montgomery Counties, with a maximum discount of \$10 per ride.

The stations selected for inclusion in this pilot program were among SEPTA's busiest, with high ridership and limited availability of parking spaces.

The pilot is part of a study SEPTA is conducting on how ride-sharing services could impact services.





The SEPTA Board approved the purchase of 525 diesel-electric hybrid buses in another major step in the Authority's ongoing effort to build one of the cleanest bus fleets in the nation.



May 26, 2016

The Board approved a \$411.8 million, five-year contract with New Flyer of America Inc. for the 40-foot, low-floor buses during its monthly meeting for May. SEPTA also has an option to purchase up to 25 additional buses.

The new vehicles allow SEPTA to continue the retirement of the oldest vehicles in its fleet with new, energy-efficient hybrids.

More than half of SEPTA's current bus fleet are diesel-electric hybrids. At the conclusion of the new contract with New Flyer, hybrids will comprise approximately 95% of the fleet.



The SEPTA Board approved Operating and Capital Budgets for the upcoming fiscal year. The SEPTA Board's approval follows a series of public meetings on the budget proposals in the spring.

The Operating Budget provides day-to-day funding for expenses such as labor, fuel and power. The \$1.4 billion budget is an increase of approximately 3% from FY16, and requires no fare increase for riders.



May 26, 2016

The Fiscal Year 2017 Capital Budget and 12-Year Capital Program advances initiatives to renew critical infrastructure, replace aging portions of fleet and expand capacity for growing ridership.

The \$548.63 million spending plan for FY 2017 advances SEPTA's Rebuilding the System initiative.



SEPTA began a track renewal project on a portion of its Route 15 trolley line on Girard Avenue.

Locations included the intersection at 58th Street to west of the intersection at 60th Street; Poplar Street from west of Ringgold Street to 25th Street; and from just east of 9th Street to the east curb line at Broad Street.



June 5, 2016

SEPTA will replace approximately 9,800 track feet and repave the track area. The new track will result in reduced sound and vibration by incasing the new rail an insulated rubber boot.

The new and improved track components will make for a smoother ride. The project will start at 60th Street and progress east over the summer.





Through June 20, SEPTA collected donations of canned goods in marked barrels at 43 designated stations throughout the transit

This was SEPTA's eighth annual "Stop Hunger at Your Station" food drive benefiting Philabundance, the Greater Philadelphia region's largest hunger-relief organization.



June 6, 2016

SEPTA collected almost 15,500 pounds of food, equating to 15,500 meals for Philabundance and its member agencies.

Monetary gifts of \$9,000 received during the food drive mean an additional 18,000 meals for residents served by Philabundance and its member agencies.



SEPTA welcomed its first customers to the future of fare payment with the launch of the SEPTA Key "Early Adopter" program.

Up to 10,000 riders were able to get a SEPTA Key card with their purchase of a Weekly or Monthly TransPass or One Day Convenience Pass.

This allowed SEPTA to share the initiative with the public while continuing work toward system-wide implementation.



June 13, 2016

For the Early Adopter program, SEPTA Key cards were available at fare kiosks located at 12 stations on the Market-Frankford and Broad Street Lines, and the SEPTA Sales Office at 1234 Market Street.

When fully implemented, all riders will be able to use SEPTA Key cards (or other contactless payment) to ride seamlessly on the system.



Just in time for July 4th, SEPTA renamed the station at the doorstep of Independence National Historical Park and neighboring cultural and historical attractions.

The new 5th Street/Independence Hall Station was unveiled during a ceremony with elected officials, dignitaries and community members, including Major Jim Kenney, Councilman Mark Squilla, and National Park Superintendent Cynthia MacLeod.

The station is a main destination point on the Market-Frankford Line, serving over 3,300 riders daily.



June 30, 2016

It also provides connections with Bus Routes 17, 33, 38, 44 and 48, the City of Philadelphia's Indego Bike Share Program and a network of pedestrian pathways leading to and through Independence National Historical Park.



# THINGS TO COME: FISCAL YEAR 2017



CRUM CREEK VIADUCT



LANSDALE GARAGE



NFL DRAFT



SEPTA TRAVEL CENTER AT PENN



CENTER CITY CONCOURSE



SEPTA KEY



DEMOCRATIC NATIONAL CONVENTION



POSITIVE TRAIN CONTROL

**Southeastern Pennsylvania Transportation Authority**  
Financial Highlights  
For the Years Ended June 30  
(Millions of dollars)

	2016	2015	2014	2013	2012	2011	2010**	2009**	2008	2007
<b>OPERATING REVENUES</b>										
Passenger	\$ 471.8	\$ 477.7	\$ 473.0	\$ 443.0	\$ 446.8	\$ 439.4	\$ 396.0	\$ 404.8	\$ 392.5	\$ 344.4
Shared ride subsidies	17.1	18.5	17.2	17.4	18.0	18.7	18.7	19.0	19.8	65.8
Route guarantees	3.2	3.2	3.0	3.3	3.4	3.2	3.0	3.0	3.6	8.1
Other	36.1	33.9	32.7	32.5	30.8	30.7	29.7	31.2	29.9	26.7
Total operating revenues	<u>528.2</u>	<u>533.3</u>	<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>
<b>OPERATING EXPENSES</b>										
Operating expenses, excluding depreciation *	1,368.7	1,305.0	1,320.1	1,297.4	1,292.0	1,260.0	1,211.9	1,167.9	1,100.2	943.5
Depreciation	<u>360.2</u>	<u>336.2</u>	<u>329.5</u>	<u>330.9</u>	<u>330.4</u>	<u>320.5</u>	<u>302.3</u>	<u>289.5</u>	<u>275.5</u>	<u>264.6</u>
Total operating expenses	<u>1,728.9</u>	<u>1,641.2</u>	<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>
<b>NONOPERATING REVENUES (EXPENSES)</b>										
Operating grants & assistance *										
Federal	77.5	67.1	68.3	72.9	68.9	60.8	39.5	32.2	32.6	99.6
State	625.1	601.6	591.5	587.2	582.0	551.1	580.7	537.2	489.9	367.5
Local	86.5	84.4	83.6	83.1	82.3	78.5	79.2	72.8	64.7	66.4
Total operating grants & assistance	<u>789.1</u>	<u>753.1</u>	<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>
Other nonoperating revenues (expenses)										
Investment income	1.6	4.0	2.3	1.0	2.3	10.4	(4.3)	(14.7)	9.4	6.8
Interest expense	(17.9)	(18.3)	(18.8)	(19.4)	(18.8)	(16.0)	(24.9)	(21.0)	(20.5)	(19.8)
Other	-	-	-	(2.8)	-	-	(0.3)	(0.4)	(0.1)	-
Total other nonoperating revenues (expenses)	<u>(16.3)</u>	<u>(14.3)</u>	<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>
Total nonoperating revenues (expenses)	<u>772.8</u>	<u>738.8</u>	<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>
<b>CAPITAL GRANTS</b>	<u>513.5</u>	<u>406.8</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>
Increase (decrease) in net position	<u>\$ 85.6</u>	<u>\$ 37.7</u>	<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>
<b>OTHER</b>										
Working capital surplus (deficiency)	<u>\$ (66.0)</u>	<u>\$ (9.4)</u>	<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>

**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 (GASB) Statement No. 45. Beginning in Fiscal Year 2008, the source of subsidies also changed with the passage of Act 44 legislation. The former state system for funding transit including asset maintenance subsidies received under Act 3 and Act 26 was repealed and certain senior citizen subsidies received directly from the state lottery fund were eliminated and replaced with the new PTTF fund. For further discussion see Note 1 of the financial statements. Operating expenses for Fiscal Years 2013 and 2012 were restated to reflect the adoption in 2014 of GASB 65 pertaining to reporting debt issuance costs as an expense in the period incurred. Fiscal Year 2015 includes adoption of GASB 68 and 71 which measure and recognize pension liabilities, deferred outflows and inflows of resources and expenses.

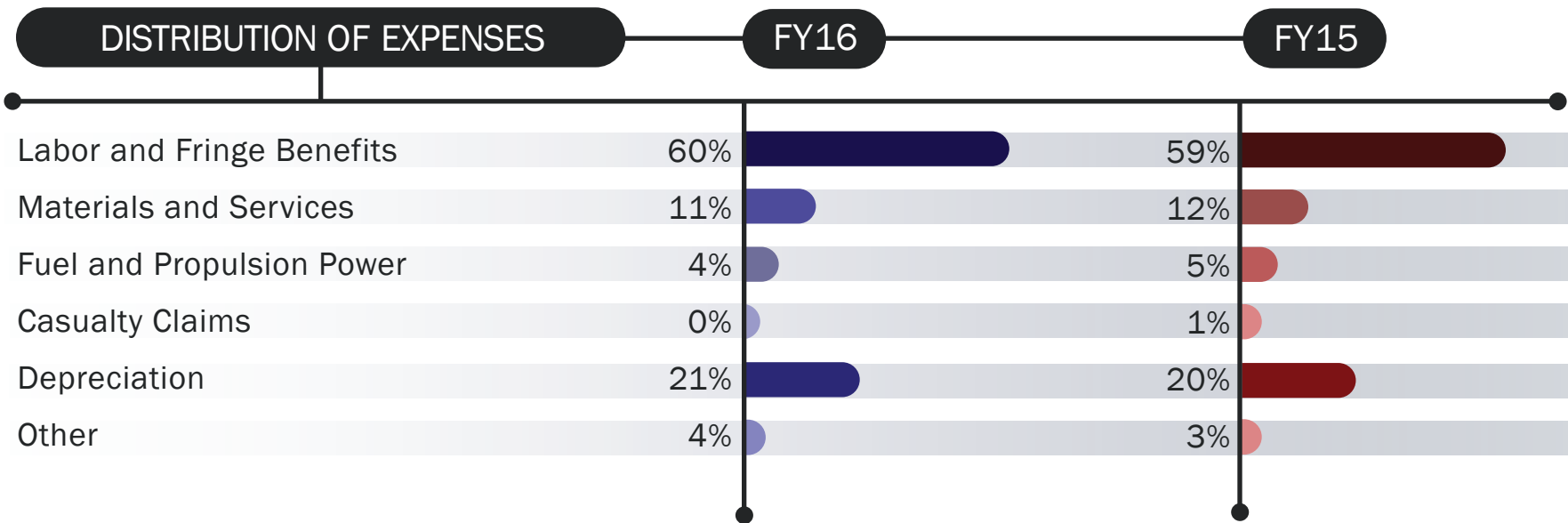
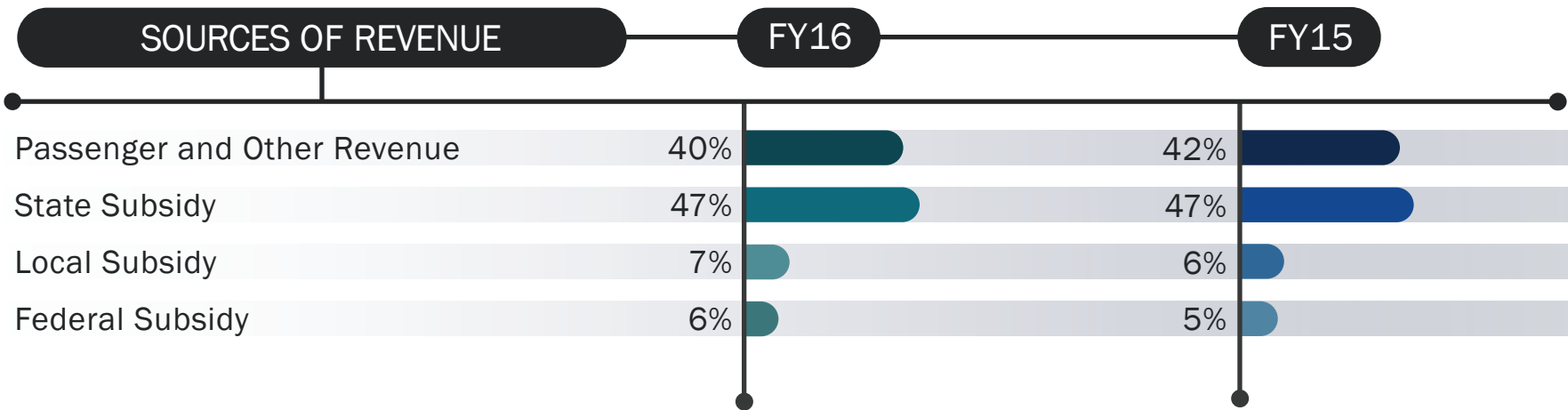
\*\* Fiscal Year 2010 reflects the adoption of GASB Statement Nos. 51 and 53 related to the accounting for intangible assets and derivative instruments, respectively. Certain Fiscal Year 2009 amounts were restated accordingly.

**Southeastern Pennsylvania Transportation Authority**  
 Statistical Highlights  
 For the Years Ended June 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Passenger Trips (linked, in millions)</b>										
Transit	203.4	206.2	206.3	212.2	214.0	211.6	200.0	206.1	200.9	190.3
Regional Rail	37.7	37.4	36.7	36.0	35.3	35.4	34.9	35.4	35.4	31.7
Total	<u>241.1</u>	<u>243.6</u>	<u>243.0</u>	<u>248.2</u>	<u>249.3</u>	<u>247.0</u>	<u>234.9</u>	<u>241.5</u>	<u>236.3</u>	<u>222.0</u>
<b>Average Weekday Passenger Trips (unlinked, in thousands)</b>										
Transit	955	974	975	1,011	1,007	991	966	979	963	930
Regional Rail	130	130	127	126	122	123	122	124	124	111
Total	<u>1,085</u>	<u>1,104</u>	<u>1,102</u>	<u>1,137</u>	<u>1,129</u>	<u>1,114</u>	<u>1,088</u>	<u>1,103</u>	<u>1,087</u>	<u>1,041</u>
<b>Financial Statistics (per passenger trip)</b>										
Operating revenues	\$ 2.19	\$ 2.19	\$ 2.17	\$ 2.00	\$ 2.00	\$ 1.98	\$ 1.90	\$ 1.90	\$ 1.89	\$ 2.01
Operating expenses *	7.16	6.74	6.79	6.56	6.51	6.40	6.45	6.04	5.82	5.44
Operating grants & assistance	3.27	3.09	3.06	2.99	2.95	2.80	2.98	2.66	2.48	2.40
Other nonoperating revenues (expenses), net	(0.07)	(0.06)	(0.07)	(0.09)	(0.07)	(0.02)	(0.12)	(0.15)	(0.05)	(0.06)
Capital grants	2.13	1.67	1.03	0.87	0.98	1.46	1.87	1.89	1.87	1.57
Increase (decrease) in net position	<u>\$ 0.36</u>	<u>\$ 0.15</u>	<u>\$ (0.60)</u>	<u>\$ (0.79)</u>	<u>\$ (0.65)</u>	<u>\$ (0.18)</u>	<u>\$ 0.18</u>	<u>\$ 0.26</u>	<u>\$ 0.37</u>	<u>\$ 0.48</u>

**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 (GASB) Statement No. 45. Operating expenses for Fiscal Years 2013 and 2012 were restated to reflect the adoption in 2014, of GASB 65 pertaining to reporting debt issuance costs as an expense in the period incurred. Fiscal Year 2015 includes adoption of GASB 68 and 71 which measure and recognize pension liabilities, deferred outflows and inflows of resources and expenses.





SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

Financial Statements  
June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

**SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
YEARS ENDED JUNE 30, 2016 AND 2015**

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# *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, 2016 and 2015, 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.

### **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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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# Zelenkofske Axelrod LLC

## **Adoption of Governmental Accounting Standards Board Pronouncements**

As described in Note 1 to the financial statements, in 2016 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board Statement No. 72, "*Fair Value Measurement and Application*". 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, Schedule of Changes in the Net Pension Liability and Related Ratios, and Schedule of Employer Pension Contributions – Last 10 Years on pages 3 through 9, page 54, and pages 55 through 56, respectively, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Statements of Plan Net Position and the Statements of Changes in Plan Net Position on pages 58 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statements of Plan Net Position and the Statements of Changes in Plan Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Plan Net Position and the Statements of Changes in Plan Net Position are fairly stated, in all material respects, in relation to the basic financial statements as a whole

*Zelenkofske Axelrod LLC*

ZELENKOFSCHE AXELROD LLC

## **SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY**

### **Management's Discussion and Analysis**

**For the Fiscal Years Ended June 30, 2016 and 2015**

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, 2016 and 2015. In Fiscal year 2016, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application" which is applicable primarily to investments made by state and local governments. GASB 72 defines fair value and describes how fair value should be measured. The beginning net position for Fiscal Year 2015 was restated to recognize the Authority's net pension liability as of June 30, 2014 in order to recognize the adoption of Governmental Accounting Standards Board Statement No. 68 and 71, which established standards for measuring and recognizing pension liabilities, deferred outflows and inflows of resources, and expenses. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which immediately follows this section.

#### **2016 FINANCIAL HIGHLIGHTS**

Passenger revenues decreased 1.2% from \$477.7 million to \$471.8 million primarily due to a 1.3% decrease in city transit ridership. Other operating revenue increased 1.6% from \$55.5 million to \$56.4 million due to higher advertising revenue.

Operating expenses increased 5.3% from \$1,641.2 million to \$1,728.9 million primarily due to higher wage, fringe benefits, lease and rentals and depreciation costs, offset by decreases in casualty and liability expenses and fuel and lubricants costs.

Total government subsidies needed to support operations increased 4.8% from \$753.1 million to \$789.1 million.

Total assets increased 5.0% from \$4,331.1 million to \$4,545.5 million primarily due to an increase in capital assets. Related to GASB Statement Nos. 68 and 71 for pensions, there were increases in deferred outflows from pension contributions of \$34.4 million and net pension liabilities of \$96.8 million as well as a decrease in deferred inflows of \$54.4 million.

#### **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, 2016 increased \$85.6 million compared to June 30, 2015. The total net position as of June 30, 2015 increased \$37.7 million compared to June 30 of the prior fiscal year. At June 30, 2016, total assets increased \$214.5 million or 5.0% to \$4,545.5 million and total liabilities increased \$215.7 million or 8.1% to \$2,886.8 million. At June 30, 2015, total assets had increased 3.2% and total liabilities had increased 41.2%.

Net Position (thousands of dollars)			
	2016	2015	2014
Current assets	\$ 518,110	\$ 489,970	\$ 449,093
Restricted funds	74,990	71,376	114,144
Capital assets	3,947,607	3,764,261	3,629,450
Other assets	4,834	5,472	5,147
Total assets	4,545,541	4,331,079	4,197,834
Deferred outflows of resources	137,084	104,676	17,138
Total assets and deferred outflows	<u>\$ 4,682,625</u>	<u>\$ 4,435,755</u>	<u>\$ 4,214,972</u>
Current liabilities	\$ 584,093	\$ 499,345	\$ 519,866
Public liability, property damage and workers' compensation claims	110,887	128,766	151,677
Long-term debt	464,214	488,677	491,321
Long-term capitalized lease obligation	16,607	16,407	15,699
Net pension liability	843,312	746,508	-
Other postemployment benefits	860,697	779,605	696,427
Other liabilities	6,961	11,789	16,520
Total liabilities	2,886,771	2,671,097	1,891,510
Deferred inflows of resources from pensions	19,307	73,696	-
Net position:			
Net investment in capital assets	3,475,338	3,299,509	3,175,011
Restricted	4,753	4,721	4,383
Unrestricted (deficit)	(1,703,544)	(1,613,268)	(855,932)
Total net position	<u>1,776,547</u>	<u>1,690,962</u>	<u>2,323,462</u>
Total liabilities, deferred inflows and net position	<u>\$ 4,682,625</u>	<u>\$ 4,435,755</u>	<u>\$ 4,214,972</u>

The \$28.1 million increase in current assets includes increases in restricted funds of \$73.8 million, unrestricted funds of \$2.9 million and material & supplies of \$5.2 million, offset by decreases in net receivables of \$52.8 million and prepaid expenses of \$1.0 million. The restricted funds increase is due to a higher Act 44 state and locally matched service stabilization funds balance that resulted from the favorable casualty and liability expense decrease. The additional funds will be used to support operations in Fiscal Year 2017. The net receivable decrease of \$52.8 million is due to delays in the receipt of federal, state, and local capital grants in Fiscal Year 2015, a decrease in those receivables of \$44.6 million along with a decrease in other receivables of \$8.2 million primarily due to a reduction in the Philadelphia School District outstanding receivable balance for student passes from Fiscal Year 2012. Material and supplies increased \$5.2 million due to the additional materials needed to maintain the new bus and rail fleets and to support various infrastructure operating maintenance and capital improvement programs. The unrestricted funds increase of \$2.9 million was primarily due to the decrease in receivables and public liability offset by an increase in accounts payable. Prepaid expenses were \$1.0 million lower than the prior year primarily related to the elimination of prepaid Amtrak Access Rights offset by higher prepayments for IT hardware maintenance and medical insurance.

The \$40.9 million increase in current assets as of June 30, 2015 from the previous year was primarily due to the delay in timing of the receipt of federal, state and local capital grants beyond June 30, 2015.

## **FINANCIAL ANALYSIS OF THE AUTHORITY** (Continued)

The \$3.6 million increase in noncurrent restricted funds as of June 30, 2016 is primarily due to a \$13.2 million in additional borrowings related to the New Payment Technology project; \$12.2 million increase in new borrowings related to ESCO# 1; and the use of \$17.9 million of proceeds from the issuance of the 2011 Capital Grants Receipts Bonds to acquire the new Silverliner V Railcars and rehabilitate the Wayne Junction Intermodal facility, and \$3.6 million decrease in the Haunch Repair Fund.

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, property damage and workers' compensation claims for which the Authority is self-insured. These Board designated amounts totaled \$51.2 million as of June 30, 2016, \$50.0 million as of June 30, 2015 and \$48.9 million as of June 30, 2014. 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 \$1.9 million as of June 30, 2016 and was \$2.5 million as of June 30, 2015.

For Fiscal Year ending June 30, 2016, total capital assets increased \$543.5 million, less \$60.5 million of retirements, and accumulated depreciation increased \$360.2 million, less \$60.5 million of retirements, resulting in a net capital asset increase of \$183.3 million. At June 30, 2015, net capital assets had increased \$134.8 million over the prior year. Major expenditures during both Fiscal Years 2016 and 2015 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 \$.6 million in Fiscal Year 2016 is due to the Authority's basis swap having a \$.3 million decrease in fair value as of June 30, 2016, along with decreased amortized costs in connection with the Authority's outstanding debt of \$.3 million, which also accounted for the increase in other assets in Fiscal Year 2015.

Total liabilities at June 30, 2016 increased \$215.7 million primarily due to the net pension liability increase of \$96.8 million with the adoption of GASB Statement No. 68 as well as the increased recognition in other postemployment benefit obligations of \$81.1 million, accounts payable of \$19.2 million, accrued expenses of \$7.7 million, long-term debt of \$13.0 million and unearned revenues of \$42.2 million. The accounts payable increase is primarily related to higher capital accruals and an increase in capital asset invoices processed near the end of June 30, 2016. The long-term debt increase reflects additional loan borrowings during the year of \$18.2 million to fund the ESCO #1 A & B and \$30.6 million to fund the New Payment Technology project. Offsetting the June 30, 2016 debt increase were debt service payments of \$31.1 million, a favorable decrease in the fair value of the Authority's swaps of \$1.4 million, and amortized bond premium costs of \$3.3 million. The unearned revenue increase is due to the increase in the Act 44 state and locally matched service stabilization restricted cash and investments balance which will be used to support operations in Fiscal Year 2017. The accrued expense increase reflects higher accrued wages as of June 30, 2016 as compared to the prior year. Offsetting the June 30, 2016 liability increases were reductions in the public liability, property damage and workers' compensation claims liability of \$39.7 million and other liabilities of \$4.8 million. The 18.7% decrease in the claims liability is due to a decrease in the number of outstanding claims and the costs expected to settle those claims. The other liability decrease reflects the use of restricted vehicle lease proceeds and other capital project funds to acquire or improve capital assets.

At June 30, 2015, total liabilities increased \$779.6 million primarily due to the net pension liability increase of \$746.5 million with the adoption of GASB Statement No. 68, as well as the increased recognition in other postemployment benefit obligations of \$83.2 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 \$90.3 million and \$757.3 million in Fiscal Years 2016 and 2015, respectively, to a total deficit amount of \$1,703.5 million at June 30, 2016. The Fiscal Year 2015 unrestricted net position deficit increase reflects the beginning of year net position restatement from the prior year report of \$670.2 million for pensions with the implementation of GASB Statement Nos. 68 and 71 as well as the recognition of the accrued other postemployment benefit obligation increase of \$83.2 million in Fiscal Year 2015. 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, the net pension liability and public liability, property damage, and worker's

## **FINANCIAL ANALYSIS OF THE AUTHORITY** (Continued)

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 Years 2016 and 2017, the capital budget increased to \$534.5 million and \$548.6 million, respectively. The increase was due to the Pennsylvania General Assembly passage of transportation funding legislation, Act 89 of 2013, which was signed into law by the Governor 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.

**Changes in Net Position.** Net position for the Fiscal Year ended June 30, 2016 increased \$85.6 million to \$1,776.5 million. The increase in net position as compared to Fiscal Years 2015 and 2014 is described below. For Fiscal Year 2016, total operating revenues decreased .9% and total operating expenses increased 5.3%. In Fiscal Year 2015, total operating revenues increased 1.4% and total operating expenses had decreased .5%.

	Changes in Net Position (thousands of dollars)		
	For the Years ended June 30,		
	2016	2015	2014
Operating revenues			
Passenger	\$ 471,811	\$ 477,737	\$ 473,012
Other income	56,381	55,506	52,870
Total operating revenues	<u>528,192</u>	<u>533,243</u>	<u>525,882</u>
Operating expenses			
Operating expenses excluding depreciation	1,368,659	1,304,990	1,320,057
Depreciation	360,219	336,185	329,546
Total operating expenses	<u>1,728,878</u>	<u>1,641,175</u>	<u>1,649,603</u>
Loss from operations	<u>(1,200,686)</u>	<u>(1,107,932)</u>	<u>(1,123,721)</u>
Nonoperating revenues (expenses)			
Subsidies	789,081	753,102	743,361
Nonoperating expenses - net	(16,322)	(14,322)	(16,448)
Total nonoperating revenues (expenses)	<u>772,759</u>	<u>738,780</u>	<u>726,913</u>
Capital grant funding	<u>513,512</u>	<u>406,821</u>	<u>249,792</u>
Increase (decrease) in net position	85,585	37,669	(147,016)
Net position, beginning of year, before restatement	1,690,962	2,323,462	2,470,478
Cumulative effect of change in accounting principle (Note 13)	-	(670,169)	-
Net position, beginning, as restated	<u>1,690,962</u>	<u>1,653,293</u>	<u>2,470,478</u>
Net position, ending	<u>\$ 1,776,547</u>	<u>\$ 1,690,962</u>	<u>\$ 2,323,462</u>

## **FINANCIAL ANALYSIS OF THE AUTHORITY** (Continued)

In Fiscal Year 2016, passenger revenue decreased 1.2% primarily due to a 1.3% decrease in city transit ridership. In Fiscal Year 2015, passenger revenue increased 1.0% due primarily to increased regional rail ridership. Other income increased 1.6% in Fiscal Year 2016 due to higher advertising and real estate revenues.

Subsidies increased 4.8% in Fiscal Year 2016 to cover part of the operating expense increase. In Fiscal 2015, subsidies increased \$9.7 million to meet the budgeted expense increase.

Other non-operating expenses, which increased by \$2.0 million in Fiscal Year 2016, include an interest expense decrease of \$.4 million and an investment income decrease of \$2.4 million. The interest expense decrease is primarily related to the reduction in regularly scheduled debt service payments. The investment income decrease in Fiscal Year 2016 was due to an unfavorable change in the market value of investments as compared to Fiscal Year 2015. In Fiscal Year 2015, other non-operating expenses decreased \$2.1 million including lower interest on debt of \$.4 million and an investment income increase of \$1.7 million related to a favorable market value change of investments.

Capital grant funding increased \$106.7 million in Fiscal Year 2016 and was comprised of a decrease in federal funding of \$33.3 million, offset by increases in state and local funding of \$135.5 million and \$4.5 million, respectively. Capital grant funding increased \$157.0 million in Fiscal Year 2015 primarily due to an increase in capital project work performed. The capital grant funding increase reflects an increase in capital project work performed, due in part, to an increase in capital funding made available with the passage of Act 89 of 2013 by the Pennsylvania General Assembly.

### Operating Expenses (thousands of dollars)

	For the Years ended June 30,		
	2016	2015	2014
Salaries and wages	\$ 528,670	\$ 508,830	\$ 485,277
Fringe benefits	435,327	394,308	393,098
Other postemployment benefits	81,093	83,178	85,593
Services	61,759	64,734	60,392
Fuel & lubricants	35,131	44,858	46,729
Tires & tubes	3,609	2,668	2,318
Other material & supplies	65,865	59,900	55,943
Utilities	48,667	47,611	52,691
Casualty & liability	6,485	11,742	53,029
Taxes	1,679	1,798	2,066
Purchased transportation	47,929	48,410	47,353
Leases and rentals	45,606	32,118	31,511
Miscellaneous	6,839	4,835	4,057
Depreciation	360,219	336,185	329,546
Total operating expenses	<u>\$ 1,728,878</u>	<u>\$ 1,641,175</u>	<u>\$ 1,649,603</u>

Salaries and wages increased \$19.8 million, or 3.9%, in Fiscal Year 2016 and 4.9% in Fiscal Year 2015 primarily due to contractual and budgeted increases. Fringe Benefit expenses increased \$41.0 million, or 10.4% in Fiscal Year 2016 primarily due to an increase in prescription drug, pension and other healthcare costs. The fringe benefit expense increases were offset by a reduction in current year railroad employee claim payouts under the Federal Employers Liability Act ("FELA"). In Fiscal Year 2015, fringe benefits increased \$1.2 million, or .3% due to higher FELA payouts and an increase in prescription drugs and other healthcare costs.

Other postemployment benefit expenses decreased \$2.1 million, or 2.5%, in Fiscal Year 2016 primarily due to higher contributions in the current year and a decrease in the duration of medical benefits provided to its management employees electing the HMO option at retirement on or after January 1, 2016. In Fiscal Year 2015, expenses decreased \$2.4 million, or 2.8% primarily due to higher contributions and the decrease in the duration of medical benefits to its management employees.



## **FINANCIAL ANALYSIS OF THE AUTHORITY** (Continued)

Services decreased 4.6% in Fiscal Year 2016 primarily related to lower legal costs offset by higher contract service costs. The expense increase in Fiscal Year 2015 was primarily due to higher legal and other costs incurred to defend claims as well as higher contract service costs and commissions related to new real estate income generating leases.

Fuel and lubricants decreased 21.7% and 4.0% in Fiscal Years 2016 and 2015, respectively, primarily due to the fluctuation in fuel prices in both fiscal years.

Tires and tubes expenses increased 35.3% and 15.1% in Fiscal Years 2016 and 2015, respectively.

Other material and supplies increased 10.0% and 7.1% in Fiscal Years 2016 and 2015, respectively, due to higher building and other infrastructure maintenance material costs.

Utilities increased 2.2% and taxes decreased 6.6% in Fiscal Year 2016, primarily due to higher propulsion power and telephone costs offset by lower electric propulsion power taxes. In Fiscal year 2015, both utilities and taxes decreased 9.6% and 13.0%, respectively.

Casualty and liability expenses decreased \$5.3 million and \$41.3 million in Fiscal Year 2016 and 2015, respectively, due to lower claim payouts and a reduction to the claims liability reserve due to a decrease in the number of outstanding claims and the costs expected to settle those claims.

Purchased transportation expenses decreased 1.0% in Fiscal Years 2016 primarily due to a decrease in ridership related to a change in PennDOT's reimbursement policy beyond the 3-mile Philadelphia County buffer, while costs had increased 2.2% in Fiscal Year 2015, due to higher carrier costs to provide demand response services.

Lease and rental expenses increased 42.0% and 1.9% in Fiscal Years 2016 and 2015, respectively, primarily due to an increase in rental costs for towers, service vehicles and technology equipment. The Fiscal Year 2015 expense increase was also impacted by new mobile wireless units and related software leases to support demand response services provided.

Miscellaneous expenses were \$2.0 million and \$.8 million higher in Fiscal Years 2016 and 2015, respectively, due to an increase in advertising costs and bad debt reserves for outstanding receivables.

Depreciation expenses increased 7.2% and 2.0% in Fiscal Years 2016 and 2015, respectively, primarily due to the change in capital assets in both fiscal years which was being impacted by the change in available capital grant funds.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2016, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$9,282.2 million. Net of accumulated depreciation of \$5,334.6 million, net capital assets totaled \$3,947.6 million. This amount represents a net increase, including additions and disposals net of depreciation, of \$183.3 million or 4.9% from June 30, 2015.

As of June 30, 2016, the Authority has commitments for various unexpended construction and design contracts of approximately \$390 million and commitments for unexpended revenue vehicle purchases of approximately \$573 million primarily for electric-diesel buses, regional rail cars and paratransit vehicles. The Authority's capital budget for Fiscal Year 2016 includes capital asset additions in the amount of \$448.9 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, and the new payment technology project.

**Debt Administration.** As of June 30, 2016, the Authority's long-term debt, including current maturities, was \$502.3 million. This amount excludes the swap derivative liability of \$9.8 million and \$20.8 million in unamortized premiums (or \$532.9 million in total). Long-term debt increased \$30.6 million from borrowings on a loan to fund costs incurred on the New Payment Technology project and \$18.2 million for the ESCO #1 project costs. Offsetting the long-term debt increase were regularly scheduled debt service payments of \$31.1 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, Southeastern Pennsylvania Transportation Authority, 1234 Market Street, 8<sup>th</sup> Floor Philadelphia, PA 19107-3780.

**SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2016 AND 2015**  
**(THOUSANDS OF DOLLARS)**

<b>ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>CURRENT ASSETS</u></b>			<b><u>CURRENT LIABILITIES</u></b>		
Unrestricted funds (Note 2)			Current maturities of		
Cash and cash equivalents	\$ 26,167	\$ 24,382	Long-term debt (Note 5)	\$ 68,643	\$ 31,180
Investments	43,992	42,873			
Restricted funds (Note 2)			Accounts payable - trade	146,098	126,920
Cash and cash equivalents	153,654	93,647			
Investments	32,711	18,893	Accrued expenses	89,330	81,620
Receivables					
Operating subsidies	7,121	34,186	Current portion of public liability,		
Capital grants (Note 3)	137,971	155,537	property damage and workers'		
Other	20,748	28,943	compensation claims (Note 11)	62,165	83,987
Material and supplies	81,448	76,212			
Prepaid expenses	14,298	15,297	Unearned revenue	217,857	175,638
Total current assets	<u>518,110</u>	<u>489,970</u>	Total current liabilities	<u>584,093</u>	<u>499,345</u>
<b><u>NONCURRENT ASSETS</u></b>			<b><u>NONCURRENT LIABILITIES</u></b>		
Restricted funds (Note 2)			Public liability, property damage and		
Cash and cash equivalents	50,025	31,871	workers' compensation claims (Note 11)	110,887	128,766
Investments	24,965	39,505	Long-term debt (Note 5)	464,214	488,677
			Long-term capitalized lease obligation (Note 6)	16,607	16,407
Capital assets, net (Notes 3, 4, 5 & 6)	3,947,607	3,764,261	Net pension liability (Note 7)	843,312	746,508
			Other postemployment benefits (Note 8)	860,697	779,605
Other	4,834	5,472	Other liabilities (Note 6)	6,961	11,789
Total noncurrent assets	<u>4,027,431</u>	<u>3,841,109</u>	Total noncurrent liabilities	<u>2,302,678</u>	<u>2,171,752</u>
Total assets	<u>4,545,541</u>	<u>4,331,079</u>	Total liabilities	<u>2,886,771</u>	<u>2,671,097</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Accumulated decrease in fair value of hedging derivative	9,770	11,184	Deferred inflows of resources from pensions (Note 7)	19,307	73,696
(Note 5)			Total liabilities and deferred inflows of resources	<u>2,906,078</u>	<u>2,744,793</u>
Deferred charge on refundings	2,264	2,797			
Deferred outflow of resources from pensions (Note 7)	125,050	90,695	<b><u>NET POSITION</u></b>		
			Net investment in capital assets	3,475,338	3,299,509
			Restricted	4,753	4,721
			Unrestricted (deficit)	(1,703,544)	(1,613,268)
			Total net position	<u>1,776,547</u>	<u>1,690,962</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 4,682,625</u>	<u>\$ 4,435,755</u>	<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 4,682,625</u>	<u>\$ 4,435,755</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, 2016 AND 2015**  
**(THOUSANDS OF DOLLARS)**

	<u>2016</u>	<u>2015</u>
<b><u>OPERATING REVENUE:</u></b>		
Passenger Fare	\$ 471,811	\$ 477,737
Route Guarantees	3,223	3,193
State Shared Ride Program	15,630	16,842
Area Agency on Aging	1,509	1,607
Other contract revenue	73	306
Advertising	15,721	14,391
Miscellaneous income	20,225	19,167
Total revenue available from operations	<u>528,192</u>	<u>533,243</u>
<b><u>OPERATING EXPENSES:</u></b>		
Salaries and wages	528,670	508,830
Fringe benefits	435,327	394,308
Other postemployment benefits	81,093	83,178
Services	61,759	64,734
Fuel & lubricants	35,131	44,858
Tires & tubes	3,609	2,668
Other materials & supplies	65,865	59,900
Utilities	48,667	47,611
Casualty & liability	6,485	11,742
Taxes	1,679	1,798
Purchased transportation	47,929	48,410
Leases and rentals	45,606	32,118
Miscellaneous	6,839	4,835
Depreciation	360,219	336,185
Total operating expenses	<u>1,728,878</u>	<u>1,641,175</u>
Loss from operations	<u>(1,200,686)</u>	<u>(1,107,932)</u>
<b><u>NON-OPERATING REVENUES/(EXPENSES):</u></b>		
Capital funds used for operating assistance and planning grants:		
Federal government	77,469	67,102
Commonwealth of Pennsylvania	43,943	41,415
Local governments	1,497	1,418
Operating grants:		
Commonwealth of Pennsylvania Act 44 Funds	581,121	560,172
Local Governments Act 44 Matching Funds	85,051	82,995
Total government subsidies for operations	<u>789,081</u>	<u>753,102</u>
Other Private/Public Sources		
Investment income	1,585	3,971
Gain/(Loss) on disposal of capital assets	-	(15)
Interest expense (Note 5)	(17,907)	(18,278)
Total nonoperating revenues (expenses)	<u>772,759</u>	<u>738,780</u>
Loss before capital grant funding	<u>(427,927)</u>	<u>(369,152)</u>
<b><u>CAPITAL GRANT FUNDING:</u></b>		
Federal	195,986	229,329
State	308,510	173,021
Local	9,016	4,471
Total capital grant funding	<u>513,512</u>	<u>406,821</u>
<b><u>INCREASE (DECREASE) IN NET POSITION</u></b>	<u>85,585</u>	<u>37,669</u>
Net position, beginning of year, before restatement	1,690,962	2,323,462
Cumulative effect of change in accounting principle (Note 13)	-	(670,169)
Net position, beginning, as restated	<u>1,690,962</u>	<u>1,653,293</u>
Net position, ending	<u><u>\$ 1,776,547</u></u>	<u><u>\$ 1,690,962</u></u>

See accompanying notes to Financial Statements.

**SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**(THOUSANDS OF DOLLARS)**

	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Passenger receipts	\$ 480,804	\$ 485,698
Other receipts	59,662	56,291
Payments for salaries, wages and fringe benefits	(941,665)	(930,013)
Payments for fuel, utilities and taxes	(84,411)	(95,686)
Payments for casualty and liability claims	(40,270)	(30,090)
Payments for other operating expenses	(232,662)	(219,762)
Net cash used in operating activities	<u>(758,542)</u>	<u>(733,562)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>		
Receipts of operating subsidies	855,660	777,776
Net cash provided by noncapital financing activities	<u>855,660</u>	<u>777,776</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Capital grants received	525,956	355,933
Acquisition of operating property and construction in progress	(541,888)	(434,965)
Proceeds from issuance of debt	48,847	35,707
Increase in long-term capitalized lease obligation	200	708
Repayment of long-term debt	(31,180)	(30,005)
Interest paid	(20,963)	(21,837)
Net cash used in capital and related financing activities	<u>(19,028)</u>	<u>(94,459)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from sale of investments	87,543	134,863
Receipt of interest	1,627	1,665
Purchase of investments	(87,314)	(96,975)
Net cash provided by investing activities	<u>1,856</u>	<u>39,553</u>
<b><u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u></b>	79,946	(10,692)
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	149,900	160,592
End of year	<u>\$ 229,846</u>	<u>\$ 149,900</u>
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Unrestricted	\$ 26,167	\$ 24,382
Restricted	203,679	125,518
Total	<u>\$ 229,846</u>	<u>\$ 149,900</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (1,200,686)	\$ (1,107,932)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	360,219	336,185
Decrease in receivables	9,965	7,779
(Increase) in materials & supplies	(5,236)	(9,383)
Decrease (increase) in prepaid expenses	999	(830)
Increase in accounts payable - trade	16,951	6,086
Increase (decrease) in accrued expenses and other liabilities net of other assets	9,795	(83,323)
Increase in net pension liability and pension deferred inflows/outflows	8,060	59,340
(Decrease) in public liability and property damage claims	(39,701)	(24,662)
Increase in other postemployment benefits	81,092	83,178
Total adjustments	<u>442,144</u>	<u>374,370</u>
Net cash used in operating activities	<u>\$ (758,542)</u>	<u>\$ (733,562)</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, 2016 AND 2015**

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 617 thousand passenger trips per day. The Regional Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 130 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 45 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 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Federal subsidies:		
Preventive maintenance reimbursement	\$ 36,200	\$ 36,200
Leasehold/debt service/other reimbursements	41,269	30,902
State and local subsidies:		
Act 44 operating subsidies	666,172	643,167
Act 44 leasehold/debt service reimbursements	45,440	42,833
Total subsidies	<u>\$ 789,081</u>	<u>\$ 753,102</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. Through several extensions passed by Congress and signed by the President, MAP-21 continued to be authorized until December 4, 2015. On December 4, 2015, the President signed into law the Fixing America's Surface Transportation Act, or "FAST Act." The FAST Act authorizes funding for federal transit, rail and highway programs in Federal Fiscal Years 2016 through 2020. It is the first law enacted in over ten years that provides long-term funding certainty for surface transportation infrastructure planning and investment. The FAST Act builds on and modifies previous surface transportation laws, including the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21). Federal subsidies provide reimbursement for bus and rail transit capital projects, preventive maintenance, debt service and certain capital lease expenses.

Since Fiscal Year 2008, State funding had 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-

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Nature of Authority (Continued)

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.

Act 44 of 2007, as amended by Act 89 of 2013, is a comprehensive transportation funding bill for the Commonwealth of Pennsylvania. For the Authority, the transportation funding bill 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 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 (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", which requires a Management's Discussion and Analysis to provide an analytical overview and discussion of financial activities. In Fiscal Year 2015, the Authority adopted the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." GASB Statement No. 68 established financial reporting standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses for pensions. GASB Statement No. 71 addressed an issue regarding the application of the transition provisions related to pension contributions made to defined benefit pension plans after the measurement date of the beginning net pension liability. The statements resulted in the Authority restating the beginning net position for Fiscal Year 2015 to recognize the Authority's net pension liability and deferred outflows of resources for contributions made subsequent to the measurement date as of July 1, 2014.

In Fiscal year 2016, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application" which is applicable primarily to investments made by state and local governments. The scope of GASB 72 defines fair value and describes how fair value should be measured. Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

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. The cash flow statement is prepared using the direct method.

1. Summary of Significant Accounting Policies (Continued)

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

A previous agreement with the City required 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.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources or expense until then. The Authority has three items that qualify for reporting in this category within its Statements of Net Position. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources or revenue until that time. The Authority has one item, concerning a deferred pension gain, which qualifies for reporting in this category.

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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The pension plans are more fully described in Note 7.

Other Postemployment Benefits

During Fiscal Year 2008, the Authority adopted GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". 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.



1. Summary of Significant Accounting Policies (Continued)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. The Authority is also self-insured for medical coverage and prescription drug benefits it provides to most employees and certain retirees through third-party administrators. As of January 1, 2015, the Authority elected to self-insure, through two third-party administrators, the dental coverage it provides to most employees. 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.

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>2016</u>	<u>2015</u>
Cash on hand	\$ 3,586	\$ 3,085
Cash in bank	28,600	28,853
Money market funds	211,285	130,317
U.S. Government and agencies	-	2,891
Outstanding checks	(13,625)	(15,246)
Total cash and cash equivalents	<u>229,846</u>	<u>149,900</u>
Less current portion - unrestricted	26,167	24,382
Less current portion - restricted	<u>153,654</u>	<u>93,647</u>
Total noncurrent portion - restricted	<u>\$ 50,025</u>	<u>\$ 31,871</u>

The components of investments as of June 30 are:

	<u>2016</u>	<u>2015</u>
U.S. Government and agencies	\$ 63,907	\$ 85,085
Certificates of Deposit	735	1,949
Commercial paper	16,900	8,189
Mutual funds	<u>20,126</u>	<u>6,048</u>
Total investments	<u>101,668</u>	<u>101,271</u>
Less current portion - unrestricted	43,992	42,873
Less current portion - restricted	<u>32,711</u>	<u>18,893</u>
Total noncurrent portion - restricted	<u>\$ 24,965</u>	<u>\$ 39,505</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

Fair Value Measurements

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	6/30/2016			
<b>Investments by fair value level</b>				
Debt securities				
U.S. Government and agencies	\$ 63,907	\$ -	\$ 63,907	\$ -
Certificates of Deposit	735	-	735	-
Commercial paper - discounted	16,900	-	16,900	-
Mutual funds	20,126	-	20,126	-
Total debt securities	101,668	-	101,668	-
Investments by fair value level	<u>\$ 101,668</u>	<u>\$ -</u>	<u>\$ 101,668</u>	<u>\$ -</u>
	6/30/2015			
<b>Investments by fair value level</b>				
Debt securities				
U.S. Government and agencies	\$ 85,085	\$ -	\$ 85,085	\$ -
Certificates of Deposit	1,949	-	1,949	-
Commercial paper - discounted	8,189	-	8,189	-
Mutual funds	6,048	-	6,048	-
Total debt securities	101,271	-	101,271	-
Investments by fair value level	<u>\$ 101,271</u>	<u>\$ -</u>	<u>\$ 101,271</u>	<u>\$ -</u>

For fiscal years ending June 30, 2016 and 2015, SEPTA categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. U.S Government agencies, classified as Level 2, were valued using a matrix pricing technique. Certificates of deposit, commercial paper and mutual funds also classified as Level 2 were valued using quoted market prices of similar assets.

For fiscal years ending June 30, 2016 and 2015, SEPTA categorizes its money market funds classified as cash and cash equivalents in the Statements of Net Position as Level 2 using quoted market prices of similar assets.

## (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>2016</u>	<u>2015</u>
Restricted:		
State dedicated funding provided by Act 44, including local match	\$ 133,643	\$ 60,697
State Funding provided for Sub-recipients	700	167
State Senior Citizen, Free Transit Funding Provided for Sub-recipients	9	5
Debt Service Funds:		
Capital Grant Receipts Bonds, Series of 2011	26,177	25,938
Revenue Refunding Bonds, Series of 2010	20,932	20,938
Special Revenue Bonds, Series of 2007	13,487	13,534
Capital Project Funds:		
Silverliner V railcar and Wayne Junction Intermodal Facility Fund (Unspent proceeds - Capital Grant Receipts Bonds, Series 2011)	1,802	19,706
City Hall Dilworth Plaza Fund	-	674
Market-Frankford Elevated Haunch Repair Fund	5,019	8,637
New Payment Technology Fund	25,944	12,729
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	16,611	16,170
US Marshall Service	52	-
ESCO#1 Leasing Escrow	12,226	-
Security deposits and other	4,753	4,721
Total	<u>\$ 261,355</u>	<u>\$ 183,916</u>

2. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2016, allowable investments of the Authority were specified by Act 3 of 1994 ("Act 3") and Act 10 of 2016 ("Act 10"). 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 Act 10, and mutual funds which invest in the foregoing items. Act 3 and/or Act 10 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, 2016, 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 and Act 10, 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 government securities held by Morgan Stanley Government Institutional Money Market Fund, Federal Home Loan Bank and Morgan Stanley Treasury Fund. These cash equivalents and investments are 46.57%, 16.87%, and 10.03%, 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, 2016, \$28,350 of the Authority's cash in the bank of \$28,600 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, 2016, \$231,411 of the Authority's cash equivalent and investment balance of \$312,953 was exposed to custodial credit risk as follows:

Money market funds	\$ 211,285
Mutual funds	<u>20,126</u>
Total	<u>\$ 231,411</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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates and is a measure of the cash-weighted average term to maturity of the investment. The higher the duration, the greater the changes in fair value when interest rates change. The Authority measures interest rate risk using effective duration expressed in years. Effective duration takes into consideration the changes in expected cash flows for securities with embedded options or redemption features, when the prevailing interest rates change. As of June 30, 2016 the Authority had the following investments in its portfolio:

Investment type:	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. Government and agencies	\$ 63,907	1.334
Certificates of deposit	735	1.616
Commercial paper	16,900	0.614
Money market funds	211,285	0.003
Mutual funds	20,126	0.003
	<u>312,953</u>	
Cash in bank	28,600	
Total fair value including accrued interest	<u>\$ 341,553</u>	
Portfolio effective duration		0.27

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 \$28 thousand with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$341.6 million with an effective duration of 0.27 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 \$9.0 billion from inception to June 30, 2016 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2016, the Authority had incurred costs of approximately \$8.7 billion against these grants of which \$513.5 million and \$406.8 million were incurred in Fiscal Years 2016 and 2015, 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, 2016.

## (AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. Capital Assets

Capital assets are summarized as follows:

	June 30, 2015	Additions	Reclassifications	Retirements	June 30, 2016
Capital Assets					
Revenue vehicles	\$ 2,580,161	\$ 170,473	\$ 30,042	\$ 60,454	\$ 2,720,222
Transit facilities, rail, stations & depots	2,768,611	139,854	27,785	-	2,936,250
Track, roadway & signals	2,623,747	149,035	1,575	-	2,774,357
Intangibles	34,733	-	-	-	34,733
Other	605,075	8,335	28,345	-	641,755
Total	8,612,327	467,697	87,747	60,454	9,107,317
Construction in progress	186,781	75,868	(87,747)	-	174,902
Total	8,799,108	543,565	-	60,454	9,282,219
Accumulated depreciation					
Property and equipment	5,034,847	360,219	-	60,454	5,334,612
Total	5,034,847	360,219	-	60,454	5,334,612
Capital assets, net	<u>\$ 3,764,261</u>	<u>\$ 183,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,947,607</u>
	June 30, 2014	Additions	Reclassifications	Retirements	June 30, 2015
Capital Assets					
Revenue vehicles	\$ 2,446,860	\$ 124,010	\$ 35,611	\$ 26,320	\$ 2,580,161
Transit facilities, rail, stations & depots	2,659,050	109,561	-	-	2,768,611
Track, roadway & signals	2,560,530	63,217	-	-	2,623,747
Intangibles	34,310	423	-	-	34,733
Other	564,629	76,931	19,253	55,738	605,075
Total	8,265,379	374,142	54,864	82,058	8,612,327
Construction in progress	144,776	96,869	(54,864)	-	186,781
Total	8,410,155	471,011	-	82,058	8,799,108
Accumulated depreciation					
Property and equipment	4,780,705	336,185	-	82,043	5,034,847
Total	4,780,705	336,185	-	82,043	5,034,847
Capital assets, net	<u>\$ 3,629,450</u>	<u>\$ 134,826</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 3,764,261</u>

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, 2016, construction in process principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2016, the Authority has commitments for various unexpended construction contracts of approximately \$390 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$573 million.

## (AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps

Long-term debt as of June 30, 2016 and 2015 consists of the following:

	June 30, 2015	Additions	Market Value Change	Payments/ Reductions	June 30, 2016	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 3.125% to 5%	\$ 169,930	\$ -	\$ -	\$ 8,810	\$ 161,120	\$ 9,225
New Payment Technology Loan with annual interest rate of 1.75%	82,847	30,611	-	-	113,458	35,000
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3.70% to 5%	158,390	-	-	13,345	145,045	13,890
Variable Rate Revenue Refunding Bonds, Series of 2007, with interest based on 67% of 1-month LIBOR plus 1.05% through 2022	73,475	-	-	9,025	64,450	9,475
Energy Saving Company (ESCO) "A" due 2016 to 2033 @ 3.168%	-	14,052	-	-	14,052	726
Energy Saving Company (ESCO) "B" due 2016 to 2026 @ 2.37%	-	4,184	-	-	4,184	327
	<u>484,642</u>	<u>48,847</u>	<u>-</u>	<u>31,180</u>	<u>502,309</u>	<u>\$ 68,643</u>
Unamortized bond premium, net of discount	<u>24,031</u>	<u>-</u>	<u>-</u>	<u>3,253</u>	<u>20,778</u>	
Subtotal Long-Term Debt	<u>508,673</u>	<u>48,847</u>	<u>-</u>	<u>34,433</u>	<u>523,087</u>	
<u>Swaps:</u>						
Series of 2007 Swap	<u>11,184</u>	<u>-</u>	<u>(1,414)</u>	<u>-</u>	<u>9,770</u>	
Subtotal Swaps	<u>11,184</u>	<u>-</u>	<u>(1,414)</u>	<u>-</u>	<u>9,770</u>	
Total Long-Term Debt, including Swaps	<u>\$ 519,857</u>	<u>\$ 48,847</u>	<u>\$ (1,414)</u>	<u>\$ 34,433</u>	<u>\$ 532,857</u>	
	June 30, 2014	Additions	Market Value Change	Payments/ Reductions	June 30, 2015	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 3.125% to 5%	\$ 178,380	\$ -	\$ -	\$ 8,450	\$ 169,930	\$ 8,810
New Payment Technology Loan with annual interest rate of 1.75%	47,140	35,707	-	-	82,847	-
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	171,345	-	-	12,955	158,390	13,345
Variable Rate Revenue Refunding Bonds, Series of 2007, with interest based on 67% of 1-month LIBOR plus 1.05% through 2022	82,075	-	-	8,600	73,475	9,025
	<u>478,940</u>	<u>35,707</u>	<u>-</u>	<u>30,005</u>	<u>484,642</u>	<u>\$ 31,180</u>
Unamortized bond premium, net of discount	<u>27,459</u>	<u>-</u>	<u>-</u>	<u>3,428</u>	<u>24,031</u>	
Subtotal Long-Term Debt	<u>506,399</u>	<u>35,707</u>	<u>-</u>	<u>33,433</u>	<u>508,673</u>	
<u>Swaps:</u>						
Series of 2007 Swap	<u>13,757</u>	<u>-</u>	<u>(2,573)</u>	<u>-</u>	<u>11,184</u>	
Series of 2010 Basis Swap (formerly Series of 1999A/1999B)	<u>1,170</u>	<u>-</u>	<u>(1,170)</u>	<u>-</u>	<u>-</u>	
Subtotal Swaps	<u>14,927</u>	<u>-</u>	<u>(3,743)</u>	<u>-</u>	<u>11,184</u>	
Total Long-Term Debt, including Swaps	<u>\$ 521,326</u>	<u>\$ 35,707</u>	<u>\$ (3,743)</u>	<u>\$ 33,433</u>	<u>\$ 519,857</u>	

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 was to 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 had an unrecorded contingent liability, which was discharged under the new lease agreement effective July 1, 2014, 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 had 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 remained 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.

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. Project expenditures incurred to generate the new sources of revenue are permitted to be recovered in full so any unreimbursed project expenditures shall be carried forward to future years until fully recovered. For the Fiscal Year ending June 30, 2016, the Authority has calculated and determined that no additional rent is due to the City under the Lease 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



5. Long-Term Debt and Swaps (Continued)

Long-Term Debt: (Continued)

accrued amounts payable on the Swap Agreements through the date of termination and fund certain costs and expenses incurred in connection with the issuance of the 2010 Bonds. Excluding the additional debt issued associated with termination of the swap, the net refunding transaction decreased the Authority's debt service payments by \$34.5 million and resulted in an economic gain of \$23.4 million. This amount represents the difference between the present value of the debt service on the old and new bonds. The Basis Swap in connection with the 1999 Bonds was amended so that it is now associated with the 2010 Bonds.

In March 2007, the Authority issued \$131.7 million of Variable Rate Revenue Refunding Bonds, Series of 2007 ("2007 Bonds"), due in varying amounts through 2022. The net proceeds of the 2007 Bonds were used to retire the Authority's outstanding Special Revenue Bonds, Series of 1997 ("1997 Bonds") due in varying amounts through 2022, with annual interest from 4.00% to 5.75% and pay the premium for a debt service reserve fund insurance policy. The net proceeds of the 1997 Bonds were used to reimburse the Authority for a portion of the costs of certain capital projects; refund certain leases entered into by the Authority for a building and related equipment; pay the costs of certain capital projects and pay the premium for a debt service reserve fund insurance policy. 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 now ranging from 3.125% 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 five year period to fund the construction and other related costs of the NPT project. The Authority drew down \$35.7 million in Fiscal Year 2015 and \$30.6 million in Fiscal Year 2016. The outstanding balance on the loan as of June 30, 2016 is \$113.5 million.

In November 2015, the Authority partnered with Constellation NewEnergy Inc., a GESA energy saving company (ESCO) to complete an \$18.3 million energy saving project, pursuant to the Pennsylvania Guaranteed Energy Saving Act (GESA). To finance the project, the Authority entered into a master equipment lease/purchase agreement with Banc of America Public Capital Corporation. The project includes the replacement of onboard lighting with high efficiency LED technology for the majority of SEPTA's regional rail fleets, and rail transit fleets of the Norristown High Speed Line and the Broad Street Subway and other energy savings improvements. The equipment to be installed will serve to reduce the Authority's energy consumption and the resultant operating savings are guaranteed by the ESCO to equal or exceed the debt service payments throughout the term of the agreement. PennDOT has agreed for the Authority to use Section 1513 operating funds to pay for the capital lease rental payments in lieu of using those same dollars to pay for higher utility expenses.

## (AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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

The lease consists of two tranches of debt. The first tranche has a principal amount of \$4.2 million and a final maturity of June 1, 2026; the second tranche has a principal amount of \$14.0 million and a final maturity of June 1, 2033.

On January 1, 2016, the Authority entered into an agreement with DVRC SEPTA II, LP (Delaware Valley Regional Center, LLC) for a construction loan for an amount not to exceed \$300 million to fund design, development, construction and purchase of materials, equipment and machinery necessary to complete the Elwyn-Wawa Rail Service Restoration, to rehabilitate 15<sup>th</sup> Street and City Hall Stations, to complete the Substation Rehabilitation Program, and to expand Frazer Yard including the acquisition of Locomotives and Multi-Level Regional Rail Cars. As of June 30, 2016 the Authority has not drawn down on the loan.

At June 30, 2016, the aggregate debt service requirements of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Debt maturities	\$ 68,643	\$ 35,158	\$ 111,785	\$ 42,069	\$ 32,899
Debt related interest	18,476	16,462	15,190	12,409	10,957
Hedging derivative, net	2,847	2,431	1,993	1,533	1,052
Net Cash Flows	<u>\$ 89,966</u>	<u>\$ 54,051</u>	<u>\$ 128,968</u>	<u>\$ 56,011</u>	<u>\$ 44,908</u>

	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2033</u>	<u>Total</u>
Debt maturities	\$ 135,421	\$ 74,429	\$ 1,905	\$ 502,309
Debt related interest	37,116	7,111	76	117,797
Hedging derivative, net	546	-	-	10,402
Net Cash Flows	<u>\$ 173,083</u>	<u>\$ 81,540</u>	<u>\$ 1,981</u>	<u>\$ 630,508</u>

The above amounts assume that current interest rates on the 2007 Variable Rate Refunding Bonds, which was 1.358% as of June 30, 2016 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 \$64.5 million as of June 30, 2016.

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

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

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 \$137.2 million as of June 30, 2016.

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, 2016, the Authority had the following derivative instruments outstanding:

		Notional <u>Amount</u>	Fair Value <u>Classification</u>	<u>Amount</u>	Changes in Fair Value <u>Classification</u>	<u>Amount</u>
Business-type activities:						
<i>Cash flow hedge:</i>						
A.	Pay-fixed interest rate swap	\$ 64,450	Debt	\$ (9,770)	Deferred Outflow	\$ 1,414
<i>Fair value hedge:</i>						
B.	Pay-variable interest rate swap	\$ 137,170	Other Assets	\$ 351	Investment Income	\$ (307)

Derivative Instrument Types

*Hedge effectiveness:* As of June 30, 2016 and 2015, 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 (\$307) thousand at June 30, 2016 and \$1.8 million at June 30, 2015. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2016 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, 2016 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	A1/A/A+	Hedge changes in cash flows on the 2007 Variable Rate Refunding Bonds	\$ 64,450	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, 2016, the swap associated with 2007 series bonds had a negative fair value of \$9.8 million and the basis swap associated with the 2010 series bonds had a positive fair value of \$.4 million. The fair value was 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, 2016, the Authority was exposed to credit risk, or the risk of economic loss due to a counterparty default, on its outstanding swap for instrument B, in the amount of the derivatives' fair value of \$.4 million. As of June 30, 2016, 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, 2016, the Authority had an ineffective derivative investment with the following maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity More Than 10 Years</u>
Derivative Instrument B	\$351	\$351

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 and Other Liabilities

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 \$16.6 million as of June 30, 2016, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, has 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.

Operating Leases

The Authority leases track, equipment, facilities, utility vehicles and certain software for its demand response services with leases expiring at various dates. Lease and rental expenses totaled \$45.6 million and \$32.1 million for Fiscal Years 2016 and 2015, respectively.

Other Liabilities

In Fiscal Year 2012, the Authority received two settlements of \$8.0 million and \$6.3 million related to work performed in previous years on the Market-Frankford Elevated Project. The Authority has received insurance refunds and proceeds from certain scrap sales of \$2.4 million and \$2.7 million in Fiscal Years 2015 and 2014, respectively. 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 \$11.4 million toward the repair of the Market-Frankford Elevated haunch failures. As of June 30, 2016 Dilworth Plaza was completed and the \$8.0 million was fully expended.

In Fiscal Year 2016, the Authority entered into the Federal Equitable Sharing Agreement with the Department of Justice. Under this Equitable Sharing Program the Authority received \$54 thousand. Per the agreement, the funds must be used for law enforcement purposes only.

Available proceeds included in other liabilities as of June 30, 2016, include \$5.0 million for the repair of the Market-Frankford Elevated haunch failures, \$1.9 million unamortized swaption proceeds, and \$52 thousand from the Equitable Sharing Program.

<u>Other Liabilities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Investment Earnings</u>	<u>Ending Balance</u>
2016	\$ 11,789	\$ 54	\$ (4,890)	\$ 8	\$ 6,961
2015	\$ 16,520	\$ 2,436	\$ (7,170)	\$ 3	\$ 11,789

7. Pension Plans

General Information about the Pension Plans

Plan Descriptions

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, and the plans are administered by the Authority's Human Resources Department. Regional rail union employees are covered under pension provisions of the Railroad Retirement Act. Administrative costs of all pension plans are financed through the plans' investment earnings. The Authority does not issue separate financial reports for the Plans. The Authority's five single-employer pension plans are as follows:

Retirement Plan for Supervisory, Administrative and Management Employees (SAM)

This plan covers all regular full-time non-bargaining employees immediately upon date of hire. Effective July 1, 1994 career part-time, job-sharer or co-op (until September 1, 2007) employees are covered provided they work 1,040 hours per year (975 hours prior to January 1, 1995 for career part-time and job-sharer employees).

Retirement Plan for Transit Police (TP)

This plan covers full-time employees who are members of the transit police bargaining unit. Employees become members of this plan on the first day of the month following the date they have become a full-time employee.

Retirement Plan for City Transit Division (CTD)

This plan covers full-time City Transit employees who are members of the TWU Local 234 or IBT Local 500. Employees become members of this plan on the July 1 following completion of six months of employment.

Retirement Plan for the Suburban Transit Division (STD)

This plan covers full-time employees of the Suburban Transit Division (previously referred to as Red Arrow Division) who are members of the TWU Local 234 or UTU Local 1594. Employees become members of this plan on the July 1 following completion of six months of employment.

Retirement Plan for the Frontier Division (FD)

This plan covers full-time employees of the Frontier Division who are members of the TWU Local 234. Employees become members of this plan on the July 1 following employment.

7. Pension Plans (Continued)

Benefits Provided

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, STD and FD - are based on the respective union bargaining agreement in effect at the time of retirement.

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 at least 5 years of credited service or age 55 with 30 years of credited service, if hired prior to August 1, 2015. For a SAM employee hired after August 1, 2015, a SAM employee may retire at the age of 65 and completion of at least 10 years of credited service or the age of 60 and completion of at least 30 years of credited service. A bargaining unit employee's normal retirement benefit is based upon the following: 1.8% of average annual compensation for each year of credited service up to 10 years; plus 2% of average annual compensation for each year of credited service in excess of 10 years up to 20 years; plus 2.2% of average annual compensation for each year of credited service in excess of 20 years up to 30 years; plus 1.8% of average annual compensation for each year of credited service in excess of 30 years. For the City Transit, Suburban Transit, and Frontier plans, the average annual compensation is the greater of the three-year average of the employee's annual salary rate on the day before retirement and the same date for the two prior years or the employee's compensation during the highest 3 years among the last 6 years of employment prior to retirement divided by 3. This average annual compensation cannot exceed \$50,000 for these plans. The average annual compensation for the Transit Police Plan is the greater of the average of compensation earned during the 3 years preceding retirement or termination or the average of the annual rate of basic compensation for the 3 years preceding retirement or termination. A City Transit, Suburban Transit, and Frontier plans employee may retire early upon completion of 25 years of continuous service. The normal retirement benefit is reduced by 4% for each year that the early retirement date precedes age 62.

Effective for retirements on or after July 1, 2015, a SAM employee's normal benefit is 1.8% of average annual compensation for each year of credited service up to 10 years; plus 2.0% of average annual compensation for each year of credited service in excess of 10 years up to 20 years; plus 2.2% of average annual compensation for each year of credited service in excess of 20 years up to 30 years; plus 1.8% of average annual compensation for each year of credited service in excess of 30 years. For SAM employees hired on or after August 1, 2015 the basic plan benefit is 1.6% of average annual compensation for each year of credited service. There is an enhanced plan benefit that amounts to 1.8% of average annual compensation for each year of credited service up to 10 years plus, 2.0% of average annual compensation for each year of credited service in excess of 10 years up to 20 years; plus, 2.2% of average annual compensation for each year of credited service in excess of 20 years up to 30 years; plus, 1.8% of average annual compensation for each year of credited service in excess of 30 years. For SAM employees, for the new formula benefit accrued after December 31, 2015 in determining the grandfathered benefit, a three year average of the employee's annual salary rate on the day before retirement date and the same date for the two years prior. Any increases received within 90 days of termination are excluded. For service, accrued as of December 31, 2015 in determining the grandfathered benefit, the employee's compensation during the last 36 months of employment prior to retirement (or December 31, 2015 if earlier) divided by three. For members of SAM as of December 31, 2015 (excluding members who were hired prior to December 31, 2015, but transfer into SAM after December 31, 2015), the minimum benefit is based on the prior benefit formula (1.8% of average annual compensation for each year of credited service in excess of 30 years plus 1% of average annual compensation per year of credited service in excess of 30 years) determined as of December 31, 2015 (or date of termination if earlier) plus the new formula for service accrued after December 31, 2015 reflecting the revised definition of average annual compensation. A SAM employee may retire early either at age 55 with completion of 10 years of credited service or upon completion of 25 years of credited service. The normal retirement benefit is reduced by 4% for each year that the early retirement date precedes age 62 for employees hired before August 1, 2015. For SAM employees hired after August 1, 2015, the normal retirement benefit is reduced by 4% for each year

7. Pension Plans (Continued)

Benefits Provided (Continued)

that the early retirement date precedes age 65. A transit police employee's retirement benefit is based on 53.5% of average annual compensation, plus an additional annual benefit of \$1,200 if at least one year of service is accrued in excess of 25 years.

Death benefits for an active SAM participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on the later of date of death or age 55 with a 50% contingent annuity. This benefit is payable at the employee's age of 55 or date of death if later, reduced if payment commences prior to normal retirement date.

Transit Police employees are entitled to receive disability benefits for total and permanent disability if they are under the age of 50. The disability benefit equals the normal retirement benefit assuming level compensation and continued vesting and benefit service until the age of 50. The disability benefit is payable at age 50. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This amount is payable at the spouse's attainment of age 65. If the employee was eligible for normal retirement at death, the amount is payable immediately. Active employees who die in the line of duty and leave a surviving spouse receive the benefit that would have been paid to the participant had he or she attained his normal retirement age at the time of his or her death. This benefit is payable immediately to the surviving spouse with no reduction for early commencement.

City Transit employees can receive disability pension benefits for total and permanent disability if they have completed 15 years of continuous service. The disability pension benefit equals \$500 per month payable immediately for life. A City Transit employee can receive disability severance benefits for total and permanent disability if he or she has completed at least one year of continuous service. The disability severance benefit equals a lump sum payment of \$100 for each year of continuous service. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This benefit is payable at the spouse's attainment of age 65 or on a reduced basis if paid between the ages of 55 and 64. Alternatively, if the employee was eligible for normal retirement at death, the amount is payable immediately, at the normal benefit or reduced benefit if at early retirement.

A Suburban Transit employee can receive disability benefits for total and permanent disability. The disability benefits are equal to a monthly benefit of \$8 or \$10 for TWU Local 234 or UTU Local 1594, respectively, for each year of continuous service if the employee has completed at least 5 years of continuous service. The disability benefit equals \$500 per month payable immediately for life if the employee has completed at least 15 years of continuous service. A UTU Local 1594 employee who has completed at least 15 years of continuous service has the option to choose a lump sum payment equal to \$25 for each year of continuous service for total and permanent disability. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This benefit is payable at the spouse's attainment of age 65 or on a reduced basis if paid between the ages of 55 and 64. Alternatively, if the employee was eligible for normal retirement at death, the amount is payable immediately, at the normal benefit or reduced benefit if at early retirement.

Frontier Division employees can receive disability pension benefits for total and permanent disability if he or she has completed 15 years of continuous service. The disability pension benefit equals \$500 per month payable immediately for life. A Frontier Division employee can receive disability severance benefits for total and permanent disability if he or she has completed at least one year of continuous service. The disability severance benefit equals a lump sum payment of \$100 for each year of continuous service. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This benefit is payable at the spouse's attainment of age 65 or on



7. Pension Plans (Continued)Benefits Provided (Continued)

a reduced basis if paid between the ages of 55 and 64. Alternatively, if the employee was eligible for normal retirement at death, the amount is payable immediately, at the normal benefit or reduced benefit if at early retirement. All employees vest after five years of continuous service. A plan member who leaves employment may withdraw his or her contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At July 1, 2014, the date of the actuarial valuation that was used to determine the Authority's total pension liability as of June 30, 2015, the following employees were covered by the benefit terms:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	1,593	14	3,000	230	32	4,869
Inactive employees entitled to but not yet receiving benefits	439	48	731	109	29	1,356
Active employees	1,728	209	5,048	526	229	7,740
Total	<u>3,760</u>	<u>271</u>	<u>8,779</u>	<u>865</u>	<u>290</u>	<u>13,965</u>

At July 1, 2013, the date of the actuarial valuation that was used to determine the Authority's total pension liability as of June 30, 2014, the following employees were covered by the benefit terms:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	1,493	10	2,917	232	30	4,682
Inactive employees entitled to but not yet receiving benefits	458	48	749	110	31	1,396
Active employees	1,734	223	5,045	510	222	7,734
Total	<u>3,685</u>	<u>281</u>	<u>8,711</u>	<u>852</u>	<u>283</u>	<u>13,812</u>

Contributions

The Authority's Board establishes and may amend the employer contribution requirements. While there is no statutory or regulatory contribution requirement, the Authority's policy provides employer contributions for all plans based on actuarially determined rates recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Authority may amend the contribution requirements of SAM Plan members. The contribution requirements for all other plans are based on the respective union agreements in effect during the period of employment.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Contributions (Continued)

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2016 are as follows:

Contribution rates:	<u>SAM</u>	Transit <u>Police</u>	City <u>Transit</u>	Suburban <u>Transit</u>	<u>Frontier</u>
SEPTA	28.53%	13.09%	16.53%	13.46%	6.47%
Plan members	*	3.85%	3.50%	3.50%	3.50%
SEPTA Contributions	\$ 37,334	\$ 1,737	\$ 46,282	\$ 3,888	\$ 757

\* For members hired prior to August 1, 2015, 0.9% of pay up to Social Security covered compensation plus 1.1% of pay in excess of Social Security covered compensation from July 1, 2015 through December 1, 2015 and 2.5% of the annual salary rate thereafter.

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2015 are as follows:

Contribution rates:	<u>SAM</u>	Transit <u>Police</u>	City <u>Transit</u>	Suburban <u>Transit</u>	<u>Frontier</u>
SEPTA	27.27%	12.45%	17.22%	13.72%	6.76%
Plan members	*	3.85%	3.50%	3.50%	3.50%
SEPTA Contributions	\$ 37,122	\$ 1,708	\$ 47,017	\$ 3,860	\$ 779

\* 0.9% of pay up to Social Security covered compensation plus 1.1% of pay in excess of Social Security covered compensation.

Net Pension Liability

The Authority's Fiscal Year 2016 net pension liability was measured as of June 30, 2015 ("measurement date"). The total pension liability was determined by the use of update procedures to rollforward the pension plan's actuarial valuation dated July 1, 2014 to the measurement date. The Authority's Fiscal Year 2015 net pension liability was measured as of June 30, 2014. The total pension liability was determined by the use of update procedures to rollforward the pension plan's actuarial valuation dated July 1, 2013 to the measurement date.

Actuarial Assumptions

The Fiscal Year 2016 total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>SAM</u>	Transit <u>Police</u>	City <u>Transit</u>	Suburban <u>Transit</u>	<u>Frontier</u>
Investment rate of return <sup>1</sup>	7.00%	7.00%	7.00%	7.00%	7.00%
Salary increases, including inflation	3.25%	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%

7. Pension Plans (Continued)Actuarial Assumptions (Continued)<sup>1</sup> Interest is net of investment-related expenses.<sup>2</sup> Salary scale rates vary by years of service, for actuarial valuation purposes .5% plus inflation

Mortality rates for all of the plans were based on the RP-2000 Employee Mortality Table for Males and Females for Preretirement, the RP-2000 Healthy Annuitant Mortality Table for Males and Females for beneficiaries, and the RP-2000 Disabled Annuitant Mortality Table for Males and Females for disabled beneficiaries, as appropriate, with adjustments for mortality improvements based on Scale AA. The mortality rates for the Transit Police Plan, City Transit Plan, Suburban Transit Plan, and the Frontier Plan include Blue Collar adjustments for Preretirement. No Blue Collar adjustments were made for beneficiaries.

The actuarial assumptions that determined the pension liability as of June 30, 2016 were based upon the results of an actuarial experience study for the period ending from January 1, 2007 through December 31, 2013.

Effective in 2015 and based upon the results of an experience study for the period January 1, 2007 through December 31, 2013, termination rates and rates of retirement for members between the ages of 62 and 64 were reduced. In addition, the assumed rate of inflation and the rate of return on investment were both reduced by .25%.

The Fiscal Year 2015 total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>
Investment rate of return <sup>1</sup>	7.25%	7.25%	7.25%	7.25%	7.25%
Salary increases, including inflation	3.50%	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%

<sup>1</sup> Interest is net of investment-related expenses.<sup>2</sup> Salary scale rates vary by years of service, for actuarial valuation purposes .5% plus inflation

Mortality rates for all of the plans were based on the RP-2000 Employee Mortality Table for Males and Females for Preretirement, the RP-2000 Healthy Annuitant Mortality Table for Males and Females for beneficiaries, and the RP-2000 Disabled Annuitant Mortality Table for Males and Females for disabled beneficiaries, as appropriate, with adjustments for mortality improvements based on Scale AA. The mortality rates for the Transit Police Plan, City Transit Plan, Suburban Transit Plan, and the Frontier Plan include Blue Collar adjustments for Preretirement. No Blue Collar adjustments were made for beneficiaries.

The actuarial assumptions that determined the pension liability as of June 30, 2015 were based upon the results of an actuarial experience study for the period ending June 30, 2007 but reflecting subsequent changes in interest rate assumptions.

7. Pension Plans (Continued)Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables: (Note that the target allocation and long-term expected real rate of return percentages are the same for all five plans.)

**Allocations for June 30, 2016:**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	2.00%	0.54%
Core Fixed Income	11.00%	2.12%
High Yield Bonds	4.00%	4.57%
Non-US Fixed Income	4.00%	0.85%
Emerging Market Bonds	4.00%	5.14%
Large Cap US Equities	21.00%	5.33%
Small Cap US Equities	12.00%	6.38%
Developed Foreign Equities	18.00%	6.68%
Private Equity	5.00%	9.15%
Hedge Funds / Absolute Return	5.00%	2.43%
Real Estate (Property)	3.00%	3.97%
Real Estate (REITS)	3.00%	5.39%
Commodities	4.00%	3.58%
Timber	4.00%	4.09%
Total	<u>100.00%</u>	

Cash	2.00%	0.50%
Core Fixed Income	11.00%	2.09%
High Yield Bonds	4.00%	4.00%
Non-US Fixed Income	8.00%	1.36%
Large Cap US Equities	21.00%	5.61%
Small Cap US Equities	12.00%	7.36%
Developed Foreign Equities	18.00%	6.02%
Private Equity	5.00%	9.15%
Hedge Funds / Absolute Return	5.00%	3.12%
Real Estate (Property)	7.00%	4.43%
Real Estate (REITS)	3.00%	5.56%
Commodities	4.00%	3.58%
Total	<u>100.00%</u>	

7. Pension Plans (Continued)Discount Rate

The discount rate used to measure the total pension liability for the five plans was 7.00 percent for June 30, 2016 and 7.25 percent for June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that SEPTA contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Fiscal Year 2016 Net Pension LiabilitySAM Plan

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances as of beginning of year	\$ 773,571	\$ 498,199	\$ 275,372
Changes for the year:			
Service cost	10,313	-	10,313
Interest	55,466	-	55,466
Effect of plan changes	27,068	-	27,068
Effect of economic/demographic gains or (losses)	16,583	-	16,583
Effect of assumptions changes or inputs	9,047	-	9,047
Contributions - employer	-	37,122	(37,122)
Contributions - employee	-	1,141	(1,141)
Net investment income	-	12,129	(12,129)
Benefit payments	(38,340)	(38,340)	-
Administrative expense	-	(172)	172
Other changes	-	522	(522)
Net changes	80,137	12,402	67,735
Balances as of end of year	\$ 853,708	\$ 510,601	\$ 343,107

## (AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)Changes in the Fiscal Year 2015 Net Pension LiabilitySAM Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 746,385	\$ 426,151	\$ 320,234
Changes for the year:			
Service cost	9,995	-	9,995
Interest	53,586	-	53,586
Effect of economic/demographic gains or (losses)	-	-	-
Contributions - employer	-	35,353	(35,353)
Contributions - employee	-	1,076	(1,076)
Net investment income	-	70,296	(70,296)
Benefit payments	(35,153)	(35,153)	-
Administrative expense	-	(100)	100
Other changes	(1,242)	576	(1,818)
Net changes	27,186	72,048	(44,862)
Balances as of end of year	\$ 773,571	\$ 498,199	\$ 275,372

Changes in the Fiscal Year 2016 Net Pension LiabilityTransit Police Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 39,853	\$ 31,172	\$ 8,681
Changes for the year:			
Service cost	1,231	-	1,231
Interest	2,956	-	2,956
Effect of economic/demographic gains or (losses)	(508)	-	(508)
Effect of assumption changes or inputs	380	-	380
Contributions - employer	-	1,708	(1,708)
Contributions - employee	-	618	(618)
Net investment income	-	784	(784)
Benefit payments	(643)	(643)	-
Administrative expense	-	(11)	11
Other changes	-	(196)	196
Net changes	3,416	2,260	1,156
Balances as of end of year	\$ 43,269	\$ 33,432	\$ 9,837



## (AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)Changes in the Fiscal Year 2015 Net Pension LiabilityTransit Police Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 36,321	\$ 25,344	\$ 10,977
Changes for the year:			
Service cost	1,245	-	1,245
Interest	2,710	-	2,710
Effect of economic/demographic gains or (losses)	-	-	-
Contributions - employer	-	1,389	(1,389)
Contributions - employee	-	557	(557)
Net investment income	-	4,268	(4,268)
Benefit payments	(379)	(379)	-
Administrative expense	-	(7)	7
Other changes	(44)	-	(44)
Net changes	3,532	5,828	(2,296)
Balances as of end of year	\$ 39,853	\$ 31,172	\$ 8,681

Changes in the Fiscal Year 2016 Net Pension LiabilityCity Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 959,156	\$ 533,671	\$ 425,485
Changes for the year:			
Service cost	16,578	-	16,578
Interest	68,844	-	68,844
Effect of plan changes	1,260	-	1,260
Effect of economic/demographic gains or (losses)	(6,149)	-	(6,149)
Effect of assumptions changes or inputs	14,847	-	14,847
Contributions - employer	-	47,321	(47,321)
Contributions - employee	-	9,719	(9,719)
Net investment income	-	13,034	(13,034)
Benefit payments	(53,243)	(53,243)	-
Administrative expense	-	(209)	209
Other changes	-	145	(145)
Net changes	42,137	16,767	25,370
Balances as of end of year	\$ 1,001,293	\$ 550,438	\$ 450,855

## (AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)Changes in the Fiscal Year 2015 Net Pension LiabilityCity Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 928,285	\$ 452,727	\$ 475,558
Changes for the year:			
Service cost	16,365	-	16,365
Interest	66,692	-	66,692
Effect of economic/demographic gains or (losses)	-	-	-
Contributions - employer	-	47,588	(47,588)
Contributions - employee	-	9,431	(9,431)
Net investment income	-	74,777	(74,777)
Benefit payments	(50,412)	(50,412)	-
Administrative expense	-	(132)	132
Other changes	(1,774)	(308)	(1,466)
Net changes	30,871	80,944	(50,073)
Balances as of end of year	\$ 959,156	\$ 533,671	\$ 425,485

Changes in the Fiscal Year 2016 Net Pension LiabilitySuburban Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 78,309	\$ 44,081	\$ 34,228
Changes for the year:			
Service cost	1,714	-	1,714
Interest	5,653	-	5,653
Effect of plan changes	92	-	92
Effect of economic/demographic gains or (losses)	(1,044)	-	(1,044)
Effect of assumptions changes or inputs	1,383	-	1,383
Contributions - employer	-	3,877	(3,877)
Contributions - employee	-	984	(984)
Net investment income	-	1,081	(1,081)
Benefit payments	(4,179)	(4,179)	-
Administrative expense	-	(19)	19
Other changes	-	(356)	356
Net changes	3,619	1,388	2,231
Balances as of end of year	\$ 81,928	\$ 45,469	\$ 36,459

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2015 Net Pension Liability

Suburban Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 74,847	\$ 37,078	\$ 37,769
Changes for the year:			
Service cost	1,657	-	1,657
Interest	5,409	-	5,409
Effect of economic/demographic gains or (losses)	-	-	-
Contributions - employer	-	3,805	(3,805)
Contributions - employee	-	948	(948)
Net investment income	-	6,157	(6,157)
Benefit payments	(3,845)	(3,845)	-
Administrative expense	-	(11)	11
Other changes	241	(51)	292
Net changes	3,462	7,003	(3,541)
Balances as of end of year	\$ 78,309	\$ 44,081	\$ 34,228

Changes in the Fiscal Year 2016 Net Pension Liability

Frontier Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 21,183	\$ 18,441	\$ 2,742
Changes for the year:			
Service cost	808	-	808
Interest	1,592	-	1,592
Effect of plan changes	42	-	42
Effect of economic/demographic gains or (losses)	(673)	-	(673)
Effect of assumptions changes and inputs	82	-	82
Contributions - employer	-	796	(796)
Contributions - employee	-	401	(401)
Net investment income	-	467	(467)
Benefit payments	(58)	(58)	-
Administrative expense	-	(10)	10
Other changes	-	(115)	115
Net changes	1,793	1,481	312
Balances as of end of year	\$ 22,976	\$ 19,922	\$ 3,054

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2015 Net Pension Liability

Frontier Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 19,558	\$ 14,962	\$ 4,596
Changes for the year:			
Service cost	769	-	769
Interest	1,472	-	1,472
Effect of economic/demographic gains or (losses)	-	-	-
Contributions - employer	-	809	(809)
Contributions - employee	-	391	(391)
Net investment income	-	2,552	(2,552)
Benefit payments	(53)	(53)	-
Administrative expense	-	(3)	3
Other changes	(563)	(217)	(346)
Net changes	1,625	3,479	(1,854)
Balances as of end of year	\$ 21,183	\$ 18,441	\$ 2,742

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the SEPTA Pension Plans for the year ended June 30, 2016, calculated using the discount rate of 7.00 percent, as well as what SEPTA's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate:

	1% Decrease	Current	1% Increase
SAM	\$437,910	\$343,107	\$261,959
Transit Police	16,145	9,837	4,566
City Transit	560,187	450,855	357,299
Suburban Transit	46,118	36,459	28,244
Frontier	5,970	3,054	582
Total	\$1,066,330	\$843,312	\$652,650

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Continued)

The following presents the net pension liability of the SEPTA Pension Plans for the year ended June 30, 2015, calculated using the discount rate of 7.25 percent, as well as what SEPTA's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate:

	1% Decrease	Current	1% Increase
SAM	\$360,159	\$275,372	\$202,666
Transit Police	14,731	8,681	3,631
City Transit	528,680	425,485	337,048
Suburban Transit	43,313	34,228	26,490
Frontier	5,413	2,742	480
Total	<u>\$952,296</u>	<u>\$746,508</u>	<u>\$570,315</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, SEPTA recognized pension expense of \$98,398 (\$57,722 for the SAM Plan, \$1,079 for the Transit Police Plan, \$36,040 for the City Transit Plan, \$3,096 for the Suburban Transit Plan, and \$461 for the Frontier Plan). At June 30, 2016, SEPTA reported deferred outflows of resources and deferred inflows of resources related to the five pension plans from the following sources:

Deferred Outflows of Resources

	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Differences between expected and actual experience	\$ 13,142	\$ -	\$ -	\$ 178	\$ -	\$ 13,320
Changes in assumptions	7,171	342	12,926	1,219	74	21,732
Contributions made subsequent to measurement date	37,334	1,737	46,282	3,888	757	89,998
Total	<u>\$ 57,647</u>	<u>\$ 2,079</u>	<u>\$ 59,208</u>	<u>\$ 5,285</u>	<u>\$ 831</u>	<u>\$125,050</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Inflows of Resources</u>					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Differences between expected and actual experience	\$ (689)	\$ (489)	\$ (6,638)	\$ (922)	\$ (1,060)	\$ (9,798)
Net difference between projected and actual earnings on pension plan investments	(4,403)	(203)	(4,408)	(361)	(134)	(9,509)
Total	<u>\$ (5,092)</u>	<u>\$ (692)</u>	<u>\$ (11,046)</u>	<u>\$ (1,283)</u>	<u>\$ (1,194)</u>	<u>\$ (19,307)</u>

For the year ended June 30, 2015, SEPTA recognized pension expense of \$59,804 (\$23,503 for the SAM Plan, \$1,032 for the Transit Police Plan, \$32,123 for the City Transit Plan, \$2,754 for the Suburban Transit Plan, and \$392 for the Frontier Plan). At June 30, 2015, SEPTA reported deferred outflows of resources and deferred inflows of resources related to the five pension plans from the following sources:

	<u>Deferred Outflows of Resources</u>					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ 209	\$ -	\$ 209
Contributions made subsequent to measurement date	37,122	1,708	47,017	3,860	779	90,486
Total	<u>\$ 37,122</u>	<u>\$ 1,708</u>	<u>\$ 47,017</u>	<u>\$ 4,069</u>	<u>\$ 779</u>	<u>\$ 90,695</u>

	<u>Deferred Inflows of Resources</u>					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Differences between expected and actual experience	\$ (965)	\$ (39)	\$ (1,529)	\$ -	\$ (506)	\$ (3,039)
Net difference between projected and actual earnings on pension plan investments	(31,471)	(1,900)	(33,388)	(2,751)	(1,147)	(70,657)
Total	<u>\$ (32,436)</u>	<u>\$ (1,939)</u>	<u>\$ (34,917)</u>	<u>\$ (2,751)</u>	<u>\$ (1,653)</u>	<u>\$ (73,696)</u>



7. Pension Plans (Continued)Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The amounts reported as deferred outflows of resources for each of the five plans resulting from employer contributions subsequent to the measurement date as of June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
Year ended June 30:						
2017	\$ 1,973	\$ (187)	\$ (2,308)	\$ (191)	\$ (217)	\$ (930)
2018	1,973	(187)	(2,308)	(191)	(217)	(930)
2019	2,114	(188)	(2,308)	(192)	(216)	(790)
2020	9,161	288	6,039	496	70	16,054
2021	-	(18)	880	71	(111)	822
Thereafter	-	(58)	1,885	121	(429)	1,519

8. Other Postemployment BenefitsPlan 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 medical, 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 (HMO) plan coverage is provided for fifty months. There was a plan change adopted June 25, 2015 for SAM employees electing the HMO plan coverage and retiring on or after January 1, 2016 decreasing the duration of the medical benefits provided from 50 months to 36 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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Funding Policy and Related Information

For SAM employees, contribution requirements are established and may be amended in accordance with recognized Authority policy. Contribution requirements for bargaining unit employees are based on the respective union agreements in effect at the time of retirement. Contributions are made by the Authority on a pay-as-you-go basis. The Authority's OPEB cost for each plan is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The Authority's OPEB cost and change in net OPEB obligation for Fiscal Year 2016 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	\$ 37,915	\$ 1,794	\$ 93,894	\$ 9,141	\$ 142,744
Interest on net OPEB obligation	6,517	448	18,462	1,860	27,287
Adjustment to annual required contribution	(10,123)	(696)	(28,680)	(2,890)	(42,389)
Annual OPEB cost (expense)	34,309	1,546	83,676	8,111	127,642
Contributions made	16,168	409	26,983	2,990	46,550
Increase in net OPEB obligation	18,141	1,137	56,693	5,121	81,092
Net OPEB obligation, beginning of year	186,188	12,794	527,475	53,148	779,605
Net OPEB obligation, end of year	<u>\$ 204,329</u>	<u>\$ 13,931</u>	<u>\$ 584,168</u>	<u>\$ 58,269</u>	<u>\$ 860,697</u>

The increase in the liability and ARC are primarily due to a decrease in the discount rate from 3.75% to 3.5%, and was partially offset by changes in demographic assumptions and changes in healthcare related assumptions. The decrease in the discount rate increased the actuarial liability and ARC by approximately \$58.7 million and \$3.6 million, respectively. Changes in demographic assumptions decreased the actuarial liability and ARC by approximately \$22.9 million and \$3.0 million, respectively.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for Fiscal Years 2016, 2015 and 2014 for each of the plans are as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
SAM	6/30/16	\$ 34,309	47.1%	\$ 204,329
SAM	6/30/15	\$ 31,573	44.8%	\$ 186,188
SAM	6/30/14	\$ 31,826	39.0%	\$ 168,746
Transit Police	6/30/16	1,546	26.5%	13,931
Transit Police	6/30/15	1,795	7.5%	12,794
Transit Police	6/30/14	1,762	6.2%	11,134
Non-Railroad Union Groups	6/30/16	83,676	32.2%	584,168
Non-Railroad Union Groups	6/30/15	84,816	32.4%	527,475
Non-Railroad Union Groups	6/30/14	82,089	29.8%	470,142
Railroad Union Groups	6/30/16	8,111	36.9%	58,269
Railroad Union Groups	6/30/15	9,230	26.9%	53,148
Railroad Union Groups	6/30/14	8,922	22.8%	46,405
Total	6/30/16	<u>\$ 127,642</u>	36.5%	<u>\$ 860,697</u>
Total	6/30/15	<u>\$ 127,414</u>	34.7%	<u>\$ 779,605</u>
Total	6/30/14	<u>\$ 124,599</u>	31.3%	<u>\$ 696,427</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	7/1/15	7/1/15	7/1/15	7/1/15
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	3.50%	3.50%	3.50%	3.50%
Projected salary increases for life insurance	3.25%	-	-	-
Healthcare inflation rate (Includes potential excise tax due to Healthcare Reform)				
Medical pre - 65	5.90%	5.90%	5.90%	5.90%
	Initial	Initial	Initial	Initial
	4.3%-6.4%	4.3%-6.4%	4.3%-6.4%	4.3%-6.4%
	Ultimate	Ultimate	Ultimate	Ultimate
Medical post - 65	3.00%	3.00%	3.00%	3.00%
	Initial	Initial	Initial	Initial
	4.4%-7.4%	4.4%-7.4%	4.4%-7.4%	4.4%-7.4%
	Ultimate	Ultimate	Ultimate	Ultimate
Prescription drug	11.20%	11.20%	11.20%	11.20%
	Initial	Initial	Initial	Initial
	4.2%-9.9%	4.2%-9.9%	4.2%-9.9%	4.2%-9.9%
	Ultimate	Ultimate	Ultimate	Ultimate

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Schedule of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SAM	7/01/15	\$ -	\$ 467,835	\$ 467,835	0.0%	\$ 140,835	332.2%
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%
Transit Police	7/01/15	-	16,059	16,059	0.0%	11,671	137.6%
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%
Non-Railroad Union Groups	7/01/15	-	993,067	993,067	0.0%	332,626	298.6%
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%
Railroad Union Groups	7/01/15	-	80,533	80,533	0.0%	84,366	95.5%
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%
Total	7/01/15	\$ -	\$ 1,557,494	\$ 1,557,494	0.0%	\$ 569,498	273.5%
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%

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, 2017.

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 \$18.0 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 \$396 thousand and \$375 thousand for Fiscal Years 2016 and 2015, 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, 2016, the Authority was not required to post collateral for any fuel derivative agreements. At June 30, 2016, the fuel derivative instruments had a net negative market position of \$2.0 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, 2016, the maximum amount the Authority would have been required to post to its counterparties is \$9.4 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, 2016, 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-Insurance

Public Liability, Property Damage and Workers' Compensation Claims

The Authority is self-insured for claims arising from public liability and property damage. The Authority also maintains a self-funded insurance trust for excess amounts of \$5 million to \$20 million as of June 30, 2016. 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 2016 decreased \$5.3 million and the related liability decreased \$33.8 million. The expense decrease reflects a decrease in the number of outstanding claims and costs expected to settle those claims. The expense for pollution remediation activities at various SEPTA locations where underground storage tanks were previously removed and replaced was \$755 thousand and \$897 thousand for Fiscal Year 2015 and 2016, 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.



(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

11. Self-Insurance (Continued)

Total claims liabilities, including changes for Fiscal Years 2016 and 2015, are as follows:

	Public Liability and <u>Property Damage</u>	Worker's <u>Compensation</u>	<u>Totals</u>
Balance at June 30, 2014	\$ 195,435	\$ 41,980	\$ 237,415
Claims expense	11,742	12,828	24,570
Pollution remediation expense	755	-	755
Payment of claims	(30,090)	(19,011)	(49,101)
Payments for pollution remediation	(886)	-	(886)
Balance at June 30, 2015	176,956	35,797	212,753
Claims expense	6,485	12,834	19,319
Pollution remediation expense	897	-	897
Payment of claims	(40,270)	(18,680)	(58,950)
Payments for pollution remediation	(967)	-	(967)
Balance at June 30, 2016	\$ 143,101	\$ 29,951	\$ 173,052
Balance at June 30, 2016 due within one year	\$ 53,988	\$ 8,177	\$ 62,165

Employee Health Benefits

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 2016 as follows:

	<u>Medical Liability</u>
Balance at June 30, 2014	\$ 18,996
Claims expense	123,934
Payment of claims	(121,748)
Balance at June 30, 2015	21,182
Claims expense	133,762
Payment of claims	(130,855)
Balance at June 30, 2016	\$ 24,089
Balance at June 30, 2016 due within one year	\$ 24,089

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 2016 and 2015 was \$66.3 million and \$64.8 million, respectively. In addition, the Authority is self-insured in providing dental coverage for most employees. Two third-parties administer the group dental coverage for the Authority. The annual dental expense for Fiscal Year 2016 and 2015 was \$5.8 million and \$6.3 million, respectively.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

12. Dependency on Governmental Funding

The Authority is 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, these funding sources combined with cost controls, increased ridership and passenger fare increases have been adequate to maintain a balanced budget. 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 could be significant. Although the Authority had anticipated that the PTTF would provide a reliable and growing source of funds to meet future budgetary needs, when Act 44 was enacted in 2007, this anticipated growth was not realized. 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 reduced by 25 percent, or \$110 million, beginning in Fiscal Year 2011. The reduced capital outlay continued into Fiscal Year 2014 with a total capital budget of \$308.0 million. In Fiscal Years 2016 and 2017, the capital budget was increased to \$534.5 million and \$548.6 million, respectively. The increase was due to the Pennsylvania General Assembly passage of transportation funding legislation, Act 89 of 2013, which was signed into law by the Governor 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 2015, the Authority adopted the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." It was not practical to determine the Fiscal Year 2015 beginning balance amounts of all deferred inflows of resources and all deferred outflows of resources related to pensions, except for contributions made subsequent to the measurement date. The Authority recorded the cumulative effect of applying these statements as a restatement of beginning net position as of July 1, 2014. The effect on beginning balances for Fiscal Year 2015 is as follows:

<u>Description</u>	June 30, 2014		
	as Previously		July 1, 2014
	<u>Reported</u>	<u>Restatement</u>	<u>as Restated</u>
Deferred outflows of resources from pensions (GASB 71)	\$ -	\$ 88,943	\$ 88,943
Net pension liability (GASB 68)	-	(759,112)	(759,112)
Net position	\$ 2,323,462	\$ (670,169)	\$ 1,653,293

14. Subsequent Events

On July 1, 2016, SEPTA's railroad vehicle maintenance personnel identified a defect with one of the Authority's Silverliner V Regional Rail cars. For safety purposes, the entire fleet of 120 Silverliner V rail cars, representing one-third of the Authority's rail fleet, was then taken out of service. This action caused a significant reduction to SEPTA's passenger capacity for weekday travel starting on July 5, 2016. The inspections of the Silverliner V rail cars, which were delivered to SEPTA between 2010 and 2013, indicated that there was a problem with cracking in the main suspension systems. SEPTA immediately began working with Hyundai Rotem, the rail car manufacturer, to identify the cause and to repair the defects with the failed suspension components, which were covered under the manufacturer's warranty. In the interim, the Authority leased rail cars and locomotives from other transit agencies to partially compensate for the 120 rail cars that had been removed from service. By October 3, 2016, a substantial number of Silverliner V cars had been repaired and placed back in operation, and the Authority resumed regular weekday service.

On November 7, 2016, the Authority and TWU Local 234 announced a tentative five-year contract that brought 4,700-plus employees back to work and ended a six-day strike that shut down the City Transit Division. Service in the City Transit Division had been shut down since the start of the TWU Local 234 strike at 12:01 a.m. Tuesday, November 1, 2016. The SEPTA Board of Directors approved the contract on November 17, 2016 and on November 18, 2016 the Union ratified the contract. The Authority subsequently reached a tentative contract agreement on November 28, 2016 with SMART/UTU 1594 which was scheduled for a ratification vote by the union membership on December 4, 2016 and for SEPTA Board approval on December 15, 2016.

In addition, on November 30, 2016, the Authority entered into a Master Equipment Lease/ Purchase Agreement (the "Agreement") with PNC Equipment Finance, LLC. The total amount financed is \$35.9 million, due in varying amounts through March 30, 2034 with an annual nominal interest rate of 2.83%. The equipment to be leased/ purchased will include the installation of various energy conservation measures through a third party agreement which will serve to reduce the Authority's energy consumption and operating expenses. The measures to be taken include the construction of a Combined Heat and Power Plant ("CHP") that will provide electricity to the Wayne Junction substation and Midvale bus maintenance facility, the installation of interior and exterior LED lighting upgrades to certain Authority owned buildings, and other work to conserve energy.

### **Required Supplementary Information**

- Schedule of Changes in the Net Pension Liability and Related Ratios
- Schedule of Employer Pension Contributions – Last 10 Years

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS  
(AMOUNTS IN THOUSANDS OF DOLLARS)

	2016						2015					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
<b>Total pension liability</b>												
Service Cost	\$ 10,313	\$ 1,231	\$ 16,578	\$ 1,714	\$ 808	\$ 30,644	\$ 9,995	\$ 1,245	\$ 16,365	\$ 1,657	\$ 769	\$ 30,031
Interest	55,466	2,956	68,844	5,653	1,592	134,511	53,586	2,710	66,692	5,409	1,472	129,869
Changes of benefit terms	27,068	-	1,260	92	42	28,462	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-	-	-
Effect of economic/demographic gains or losses	16,583	(508)	(6,149)	(1,044)	(673)	8,209	(1,242)	(44)	(1,774)	241	(563)	(3,382)
Changes of assumptions	9,047	380	14,847	1,383	82	25,739	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(38,340)	(643)	(53,243)	(4,179)	(58)	(96,463)	(35,153)	(379)	(50,412)	(3,845)	(53)	(89,842)
<b>Net change in total pension liability</b>	80,137	3,416	42,137	3,619	1,793	131,102	27,186	3,532	30,871	3,462	1,625	66,676
<b>Total pension liability - beginning</b>	773,571	39,853	959,156	78,309	21,183	1,872,072	746,385	36,321	928,285	74,847	19,558	1,805,396
<b>Total pension liability - ending (a)</b>	<u>\$ 853,708</u>	<u>\$ 43,269</u>	<u>\$ 1,001,293</u>	<u>\$ 81,928</u>	<u>\$ 22,976</u>	<u>\$ 2,003,174</u>	<u>\$ 773,571</u>	<u>\$ 39,853</u>	<u>\$ 959,156</u>	<u>\$ 78,309</u>	<u>\$ 21,183</u>	<u>\$ 1,872,072</u>
<b>Plan fiduciary net position</b>												
Contributions - employer	\$ 37,122	\$ 1,708	\$ 47,321	\$ 3,877	\$ 796	\$ 90,824	\$ 35,353	\$ 1,389	\$ 47,588	\$ 3,805	\$ 809	\$ 88,944
Contributions - employee	1,141	618	9,719	984	401	12,863	1,076	557	9,431	948	391	12,403
Net investment income	12,129	784	13,034	1,081	467	27,495	70,296	4,268	74,777	6,157	2,552	158,050
Benefit payments, including refunds of employee contributions	(38,340)	(643)	(53,243)	(4,179)	(58)	(96,463)	(35,153)	(379)	(50,412)	(3,845)	(53)	(89,842)
Administrative expense	(172)	(11)	(209)	(19)	(10)	(421)	(100)	(7)	(132)	(11)	(3)	(253)
Other	522	(196)	145	(356)	(115)	-	576	-	(308)	(51)	(217)	-
<b>Net change in plan fiduciary position</b>	12,402	2,260	16,767	1,388	1,481	34,298	72,048	5,828	80,944	7,003	3,479	169,302
<b>Plan fiduciary net position - beginning</b>	498,199	31,172	533,671	44,081	18,441	1,125,564	426,151	25,344	452,727	37,078	14,962	956,262
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 510,601</u>	<u>\$ 33,432</u>	<u>\$ 550,438</u>	<u>\$ 45,469</u>	<u>\$ 19,922</u>	<u>\$ 1,159,862</u>	<u>\$ 498,199</u>	<u>\$ 31,172</u>	<u>\$ 533,671</u>	<u>\$ 44,081</u>	<u>\$ 18,441</u>	<u>\$ 1,125,564</u>
<b>Authority's net pension liability - ending (a) - (b)</b>	<u>\$ 343,107</u>	<u>\$ 9,837</u>	<u>\$ 450,855</u>	<u>\$ 36,459</u>	<u>\$ 3,054</u>	<u>\$ 843,312</u>	<u>\$ 275,372</u>	<u>\$ 8,681</u>	<u>\$ 425,485</u>	<u>\$ 34,228</u>	<u>\$ 2,742</u>	<u>\$ 746,508</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	59.81%	77.27%	54.97%	55.50%	86.71%		64.40%	78.22%	55.64%	56.29%	87.06%	
<b>Covered - employee payroll</b>	\$ 136,146	\$ 13,717	\$ 273,009	\$ 28,141	\$ 11,522		\$ 133,250	\$ 13,605	\$ 264,860	\$ 26,750	\$ 10,756	
<b>Authority net pension liability as a percentage of covered - employee payroll</b>	252.01%	71.71%	165.14%	129.56%	26.51%		206.66%	63.81%	160.65%	127.96%	25.49%	

**Note to Schedule**

The Authority adopted GASB 68 on a prospective basis in Fiscal Year 2015; therefore only two years are presented in the above schedule. The Authority's FY 2016 and 2015 total pension liability was measured as of 6/30/15 and 6/30/14, respectively.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
PENSION PLAN TRUST FUNDS  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS - LAST 10 YEARS  
(AMOUNTS IN THOUSANDS OF DOLLARS)

<b><u>SAM</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Actuarially determined employer contributions	\$ 37,334	\$ 37,122	\$ 35,353	\$ 34,550	\$ 32,462	\$ 31,213	\$ 25,284	\$ 28,819	\$ 25,245	\$ 22,971
Contributions in relation to the actuarially determined employer contribution	37,334	37,122	35,353	34,550	32,462	31,213	25,284	28,819	25,245	22,971
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 130,848	\$ 136,146	\$ 133,250	\$ 130,846	\$ 128,215	\$ 124,931	\$ 122,325	\$ 118,656	\$ 118,832	\$ 116,268
Employer contributions as a percentage of covered - employee payroll	28.53%	27.27%	26.53%	26.41%	25.32%	24.98%	20.67%	24.29%	21.24%	19.76%
<b><u>TRANSIT POLICE</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Actuarially determined employer contributions	\$ 1,737	\$ 1,652	\$ 1,444	\$ 1,389	\$ 1,190	\$ 1,031	\$ 733	\$ 779	\$ 683	\$ 680
Contributions in relation to the actuarially determined employer contribution	1,737	1,652	1,388	1,389	1,190	1,031	733	779	683	680
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 13,268	\$ 13,717	\$ 13,606	\$ 13,513	\$ 12,553	\$ 11,546	\$ 10,523	\$ 10,430	\$ 9,983	\$ 9,886
Employer contributions as a percentage of covered - employee payroll	13.09%	12.04%	10.20%	10.28%	9.48%	8.93%	6.97%	7.47%	6.84%	6.88%
<b><u>CITY TRANSIT</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Actuarially determined employer contributions	\$ 46,282	\$ 47,017	\$ 47,588	\$ 49,218	\$ 48,635	\$ 43,320	\$ 38,534	\$ 35,690	\$ 33,091	\$ 29,898
Contributions in relation to the actuarially determined employer contribution	46,282	47,017	47,588	49,218	48,635	43,320	38,534	35,690	33,091	29,898
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 279,978	\$ 273,009	\$ 264,860	\$ 256,667	\$ 251,418	\$ 248,484	\$ 242,762	\$ 232,168	\$ 260,569	\$ 247,744
Employer contributions as a percentage of covered - employee payroll	16.53%	17.22%	17.97%	19.18%	19.34%	17.43%	15.87%	15.37%	12.70%	12.07%

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
PENSION PLAN TRUST FUNDS  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS - LAST 10 YEARS (CONTINUED)  
(AMOUNTS IN THOUSANDS OF DOLLARS)

<b><u>SUBURBAN TRANSIT</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Actuarially determined employer contributions	\$ 3,888	\$ 3,860	\$ 3,805	\$ 3,953	\$ 3,811	\$ 3,319	\$ 2,908	\$ 2,620	\$ 2,429	\$ 2,135
Contributions in relation to the actuarially determined employer contribution	3,888	3,860	3,805	3,953	3,811	3,319	2,908	2,620	2,429	2,135
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 28,882	\$ 28,141	\$ 26,750	\$ 26,065	\$ 25,155	\$ 24,709	\$ 23,447	\$ 22,278	\$ 26,704	\$ 24,813
Employer contributions as a percentage of covered - employee payroll	13.46%	13.72%	14.22%	15.17%	15.15%	13.43%	12.40%	11.76%	9.10%	8.60%
<b><u>FRONTIER</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Actuarially determined employer contributions	\$ 757	\$ 779	\$ 809	\$ 921	\$ 911	\$ 709	\$ 586	\$ 556	\$ 493	\$ 411
Contributions in relation to the actuarially determined employer contribution	757	779	809	921	911	709	586	556	493	411
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 11,699	\$ 11,522	\$ 10,756	\$ 10,239	\$ 9,903	\$ 9,484	\$ 8,984	\$ 8,267	\$ 9,386	\$ 8,863
Employer contributions as a percentage of covered - employee payroll	6.47%	6.76%	7.52%	9.00%	9.20%	7.48%	6.52%	6.73%	5.25%	4.64%

**Notes to Schedule**

Valuation date: July 1, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Market value less unrecognized gains/losses over a 5-year period
Inflation	2.50%
Salary increases	SAM - 3.25%
Investment rate of return	Transit Police, City Transit, Suburban Transit and Frontier - Salary scale rates vary by years of service for actuarial valuation purposes .5% plus inflation
Retirement age	7.00%, net of pension plan investment expense
	SAM - For Plan members hired prior to August 1, 2015 that have attained age 62 with 5 years service or age 55 with 30 years of service. If hired after August 1, 2015, Plan members that have attained age 65 with 10 years service or age 60 with 30 years of service.
	Transit Police - Plan members that have attained age 50 with 25 years of service
	City Transit, Suburban Transit and Frontier - Plan members that have attained 62 with 5 years of service or 30 years of service with no age restriction
Mortality	Mortality rates for all plans were based on the RP-2000 Annuitant Tables for Males and Females with adjustments for mortality improvements based on Scale AA. The mortality rates for the Transit Police, City Transit, Suburban Transit and Frontier Plans include blue collar adjustments for Preretirement.

**Other Information**

Effective in 2014 the Entry Age Funding Normal Method was used to determine the actuarially determined calculated contribution. Prior to 2014, the Projected Unit Credit Method was used. Effective in 2015 and based upon the results of an experience study for the period January 1, 2007 through December 31, 2013, termination rates and rates of retirement for members between the ages of 62 and 64 were reduced. In addition, the assumed rate of inflation and the rate of return on investment were both reduced by .25%.



## **Other Supplementary Information**

Pension Trust Funds:

- Statements of Plan Net Position
- Statements of Changes in Plan Net Position

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PENSION PLAN TRUST FUNDS  
STATEMENT OF PLAN NET POSITION  
(THOUSANDS OF DOLLARS)

	as of June 30, 2016					
	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Plan</u>	<u>Suburban Transit Plan</u>	<u>Frontier Plan</u>	<u>Total</u>
Assets:						
Receivables						
Plan member contributions	\$ 384	\$ 46	\$ 972	\$ 102	\$ 40	\$ 1,544
Interest and dividends	1,039	70	1,121	95	42	2,367
Sales pending settlement	19,902	1,333	21,504	1,804	807	45,350
Total receivables	<u>21,325</u>	<u>1,449</u>	<u>23,597</u>	<u>2,001</u>	<u>889</u>	<u>49,261</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	16,796	1,123	18,147	1,523	681	38,270
U.S. Government obligations	29,434	1,968	31,803	2,670	1,194	67,069
Corporate and other government obligations	115,915	7,749	125,246	10,513	4,699	264,122
Preferred stocks	-	-	-	-	-	-
Common stocks	258,652	17,125	279,441	23,568	10,579	589,365
Private equity	43,285	2,895	46,768	3,926	1,755	98,629
Real estate	25,102	1,679	27,122	2,277	1,018	57,198
Total Investments	<u>489,184</u>	<u>32,539</u>	<u>528,527</u>	<u>44,477</u>	<u>19,926</u>	<u>1,114,653</u>
Total assets	510,509	33,988	552,124	46,478	20,815	1,163,914
Liabilities:						
Purchases pending settlement	<u>11,721</u>	<u>783</u>	<u>12,663</u>	<u>1,062</u>	<u>475</u>	<u>26,704</u>
Net position restricted for pensions	<u>\$ 498,788</u>	<u>\$ 33,205</u>	<u>\$ 539,461</u>	<u>\$ 45,416</u>	<u>\$ 20,340</u>	<u>\$ 1,137,210</u>

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STATEMENT OF PLAN NET POSITION  
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	as of June 30, 2015					
	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Plan</u>	<u>Suburban Transit Plan</u>	<u>Frontier Plan</u>	<u>Total</u>
Assets:						
Receivables						
Plan member contributions	\$ 87	\$ 46	\$ 774	\$ 76	\$ 31	\$ 1,014
Interest and dividends	1,096	72	1,180	98	43	2,489
Sales pending settlement	14,085	923	15,166	1,252	548	31,974
Total receivables	<u>15,268</u>	<u>1,041</u>	<u>17,120</u>	<u>1,426</u>	<u>622</u>	<u>35,477</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	19,487	1,274	20,981	1,733	759	44,234
U.S. Government obligations	25,150	1,645	27,078	2,236	980	57,089
Corporate and other government obligations	82,927	5,423	89,287	7,374	3,231	188,242
Preferred stocks	-	-	-	-	-	-
Common stocks	299,669	19,596	322,648	26,644	11,676	680,233
Private equity	60,306	3,943	64,930	5,362	2,350	136,891
Real estate	21,729	1,421	23,395	1,932	847	49,324
Total Investments	<u>509,268</u>	<u>33,302</u>	<u>548,319</u>	<u>45,281</u>	<u>19,843</u>	<u>1,156,013</u>
Total assets	524,536	34,343	565,439	46,707	20,465	1,191,490
Liabilities:						
Purchases pending settlement	<u>13,935</u>	<u>911</u>	<u>15,001</u>	<u>1,238</u>	<u>543</u>	<u>31,628</u>
Net position restricted for pensions	<u>\$ 510,601</u>	<u>\$ 33,432</u>	<u>\$ 550,438</u>	<u>\$ 45,469</u>	<u>\$ 19,922</u>	<u>\$ 1,159,862</u>

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STATEMENT OF CHANGES IN PLAN NET POSITION  
(THOUSANDS OF DOLLARS)

	for the Year Ended June 30, 2016					
	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Plan</u>	<u>Suburban Transit Plan</u>	<u>Frontier Plan</u>	<u>Total</u>
Additions						
Contributions						
Employer (ADC)	\$ 37,334	\$ 1,737	\$ 46,282	\$ 3,888	\$ 757	\$ 89,998
Plan member	2,133	568	9,338	951	374	13,364
Other	34	-	606	17	16	673
Total contributions	<u>39,501</u>	<u>2,305</u>	<u>56,226</u>	<u>4,856</u>	<u>1,147</u>	<u>104,035</u>
Investment income (loss)						
Net realized gain	3,675	244	3,968	333	149	8,369
Net (decrease) in fair value of investments	(19,821)	(1,286)	(21,287)	(1,763)	(772)	(44,929)
Interest	4,020	267	4,343	362	162	9,154
Dividends	<u>4,456</u>	<u>297</u>	<u>4,816</u>	<u>402</u>	<u>180</u>	<u>10,151</u>
Total investment (loss)	<u>(7,670)</u>	<u>(478)</u>	<u>(8,160)</u>	<u>(666)</u>	<u>(281)</u>	<u>(17,255)</u>
Less investment expense	<u>1,595</u>	<u>106</u>	<u>1,723</u>	<u>143</u>	<u>64</u>	<u>3,631</u>
Net investment (loss)	<u>(9,265)</u>	<u>(584)</u>	<u>(9,883)</u>	<u>(809)</u>	<u>(345)</u>	<u>(20,886)</u>
Total additions	30,236	1,721	46,343	4,047	802	83,149
Deductions						
Benefits	43,579	1,323	56,122	4,244	35	105,303
Asset transfer for transferred employees	(1,736)	610	949	(164)	341	-
Administrative expense	<u>206</u>	<u>15</u>	<u>249</u>	<u>20</u>	<u>8</u>	<u>498</u>
Total deductions	<u>42,049</u>	<u>1,948</u>	<u>57,320</u>	<u>4,100</u>	<u>384</u>	<u>105,801</u>
Net increase (decrease)	(11,813)	(227)	(10,977)	(53)	418	(22,652)
Net position restricted for pensions						
Beginning of year	510,601	33,432	550,438	45,469	19,922	1,159,862
End of year	<u>\$ 498,788</u>	<u>\$ 33,205</u>	<u>\$ 539,461</u>	<u>\$ 45,416</u>	<u>\$ 20,340</u>	<u>\$ 1,137,210</u>

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(THOUSANDS OF DOLLARS)

	for the Year Ended June 30, 2015					
	<u>SAM Plan</u>	<u>Transit Police Plan</u>	<u>City Transit Plan</u>	<u>Suburban Transit Plan</u>	<u>Frontier Plan</u>	<u>Total</u>
Additions						
Contributions						
Employer (ADC)	\$ 37,122	\$ 1,708	\$ 47,017	\$ 3,860	\$ 779	\$ 90,486
Plan member	1,141	618	9,719	984	401	12,863
Other	-	-	304	17	17	338
Total contributions	<u>38,263</u>	<u>2,326</u>	<u>57,040</u>	<u>4,861</u>	<u>1,197</u>	<u>103,687</u>
Investment income (loss)						
Net realized gain	20,049	1,294	21,542	1,786	771	45,442
Net (decrease) in fair value of investments	(15,040)	(967)	(16,158)	(1,340)	(576)	(34,081)
Interest	3,704	237	3,976	330	141	8,388
Dividends	<u>5,010</u>	<u>322</u>	<u>5,384</u>	<u>447</u>	<u>192</u>	<u>11,355</u>
Total investment gain	13,723	886	14,744	1,223	528	31,104
Less investment expense	<u>1,594</u>	<u>102</u>	<u>1,710</u>	<u>142</u>	<u>61</u>	<u>3,609</u>
Net investment income	<u>12,129</u>	<u>784</u>	<u>13,034</u>	<u>1,081</u>	<u>467</u>	<u>27,495</u>
Total additions	50,392	3,110	70,074	5,942	1,664	131,182
Deductions						
Benefits	38,340	643	53,243	4,179	58	96,463
Asset transfer for transferred employees	(522)	196	(145)	356	115	-
Administrative expense	<u>172</u>	<u>11</u>	<u>209</u>	<u>19</u>	<u>10</u>	<u>421</u>
Total deductions	<u>37,990</u>	<u>850</u>	<u>53,307</u>	<u>4,554</u>	<u>183</u>	<u>96,884</u>
Net increase	12,402	2,260	16,767	1,388	1,481	34,298
Net position restricted for pensions						
Beginning of year	<u>498,199</u>	<u>31,172</u>	<u>533,671</u>	<u>44,081</u>	<u>18,441</u>	<u>1,125,564</u>
End of year	<u>\$ 510,601</u>	<u>\$ 33,432</u>	<u>\$ 550,438</u>	<u>\$ 45,469</u>	<u>\$ 19,922</u>	<u>\$ 1,159,862</u>