

**SOUTHEASTERN PENNSYLVANIA  
TRANSPORTATION AUTHORITY**

**Financial Statements  
June 30, 2017 and 2016**

**(With Independent Auditors' Report Thereon)**

**SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY  
YEARS ENDED JUNE 30, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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.

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

As described in Note 1 to the financial statements, in 2017 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". Our opinion is not modified with respect to this matter.

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#### **Harrisburg**

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

#### **Philadelphia**

2370 York Road, Suite A-5  
Jamison, Pa 18929  
215.918.2277 Fax 215.918.2302

#### **Pittsburgh**

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

#### **Greensburg**

210 Tollgate Hill Road  
Greensburg, PA 15601  
724.834.2151 Fax 724.834.5969

# Zelenkofske Axelrod LLC

## **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, pages 55 through 56, and pages 57 through 58, 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 60 through 63 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

Harrisburg, Pennsylvania  
December 20, 2017

## **SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY**

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

**For the Fiscal Years Ended June 30, 2017 and 2016**

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, 2017 and 2016. 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. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which immediately follows this section.

#### **2017 FINANCIAL HIGHLIGHTS**

Passenger revenues decreased 6.2% from \$471.8 million to \$442.7 million primarily due to a 5.9% decrease in city transit ridership due to a six-day work stoppage in November 2016 and an 8.1% decrease in regional rail ridership due to the 120 Silverliner V cars being removed from service for repairs to a defect identified in July 2016. Other operating revenue decreased 2.0% from \$56.4 million to \$55.3 million due to lower advertising revenue and the state shared ride program.

Operating expenses increased 1.8% from \$1,728.9 million to \$1,759.8 million primarily due to higher wage, casualty and liability expenses, lease and rentals, and depreciation costs, partially offset by decreases in fringes, fuel and lubricants costs, and other materials and services.

Total government subsidies needed to support operations increased 8.2% from \$789.1 million to \$853.5 million.

Total assets increased 6.5% from \$4,545.5 million to \$4,841.0 million primarily due to an increase in capital assets. There were increases in deferred outflows from pension contributions of \$74.9 million and net pension liabilities of \$84.2 million as well as a decrease in deferred inflows from pensions of \$2.8 million related to GASB Statement No. 68 and 71.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements consist of: management's discussion and analysis (this section), basic financial statements, notes to the financial statements, required supplementary information, and other supplementary information.

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 additional information regarding 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, 2017 increased \$83.4 million compared to June 30, 2016. At June 30, 2017, total assets increased \$295.4 million or 6.5% to \$4,841.0 million and total liabilities increased \$285.7 million or 9.9% to \$3,172.4 million. At June 30, 2016, total assets had increased 5.0% and total liabilities had increased 8.1%.

	Net Position (thousands of dollars)		
	2017	2016	2015
Current assets	\$ 571,983	\$ 518,110	\$ 489,970
Restricted funds	113,797	74,990	71,376
Capital assets	4,151,052	3,947,607	3,764,261
Other assets	<u>4,156</u>	<u>4,834</u>	<u>5,472</u>
Total assets	4,840,988	4,545,541	4,331,079
Deferred outflows of resources	<u>207,818</u>	<u>137,084</u>	<u>104,676</u>
Total assets and deferred outflows	<u>\$ 5,048,806</u>	<u>\$ 4,682,625</u>	<u>\$ 4,435,755</u>
Current liabilities	\$ 548,530	\$ 584,093	\$ 499,345
Public liability, property damage and workers' compensation claims	106,902	110,887	128,766
Long-term debt	620,630	464,214	488,677
Long-term capitalized lease obligation	23,754	16,607	16,407
Net pension liability	927,494	843,312	746,508
Other postemployment benefits	939,896	860,697	779,605
Other liabilities	<u>5,216</u>	<u>6,961</u>	<u>11,789</u>
Total liabilities	3,172,422	2,886,771	2,671,097
Deferred inflows of resources from pensions	16,485	19,307	73,696
Net position:			
Net investment in capital assets	3,643,710	3,475,338	3,299,509
Restricted	4,749	4,753	4,721
Unrestricted (deficit)	<u>(1,788,560)</u>	<u>(1,703,544)</u>	<u>(1,613,268)</u>
Total net position	<u>1,859,899</u>	<u>1,776,547</u>	<u>1,690,962</u>
Total liabilities, deferred inflows and net position	<u>\$ 5,048,806</u>	<u>\$ 4,682,625</u>	<u>\$ 4,435,755</u>

The \$53.9 million increase in current assets includes increases in restricted funds of \$64.1 million, unrestricted funds of \$8.6 million, material & supplies of \$5.6 million, and prepaid expenses of \$7.2 million, partially offset by decreases in net receivables of \$31.6 million. The restricted funds increase is primarily due to new borrowing to fund capital projects. The net receivable decrease of \$31.6 million is primarily due to delays in the receipt of federal, state, and local capital grants in Fiscal Year 2016, which were collected in Fiscal Year 2017 along with a slight increase in other receivables due to higher receivable amounts from third-party agents. Material and supplies increased \$5.6 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 \$8.6 million was primarily due to the decrease in receivables, offset by lower public liability and accounts payable liabilities. Prepaid expenses were \$7.2 million higher than the prior year primarily related to lower prepayments for Amtrak Access Rights, insurance and self-insured imprest funds.

The \$28.1 million increase in current assets as of June 30, 2016 from the previous year was primarily due to a decrease in receivables for the delay in timing of the receipt of federal, state and local capital grants beyond June 30, 2015 and increases in restricted funds.

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

The \$38.8 million increase in noncurrent restricted funds as of June 30, 2017 is primarily due to a \$25.3 million in additional borrowings related to the New Payment Technology project; \$28.8 million increase in new borrowings related to ESCO# 2; and the use of \$1.8 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 \$1.2 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 \$50.8 million as of June 30, 2017, \$51.2 million as of June 30, 2016 and \$50.0 million as of June 30, 2015. 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 \$1.4 million as of June 30, 2017 and was \$1.9 million as of June 30, 2016.

For Fiscal Year ending June 30, 2017, total capital assets increased \$577.1 million, less \$18.5 million of retirements, and accumulated depreciation increased \$373.6 million, less \$18.5 million of retirements, resulting in a net capital asset increase of \$203.5 million. At June 30, 2016, net capital assets had increased \$183.3 million over the prior year. Major expenditures during both Fiscal Years 2017 and 2016 were incurred for various transit and regional rail infrastructure improvements such as the new payment technology (SEPTA Key), new buses, vehicle overhaul program, and stations, loops and parking improvements.

The decrease in other assets of \$.7 million in Fiscal Year 2017 is due to the Authority's basis swap having a \$.3 million decrease in fair value as of June 30, 2017, along with decreased amortized costs in connection with the Authority's outstanding debt of \$.4 million, which also accounted for the decrease in other assets in Fiscal Year 2016.

Total liabilities at June 30, 2017 increased \$285.7 million primarily due to the increase in long-term debt of \$122.9 million, net pension liability increase of \$84.2 million as well as the increased recognition in other postemployment benefit obligations of \$79.2 million, line of credit of \$30.0 million, capital lease obligation of \$7.1 million, unearned revenues of \$6.9 million, partially offset by a reduction in accounts payable of \$25.9 million, accrued expenses of \$9.5 million and public liability and property damage claims liability of \$7.6 million. The accounts payable decrease 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 \$36.4 million to fund the ESCO #2, \$61.5 million to fund the New Payment Technology project, and \$100 million to fund capital projects. Offsetting the June 30, 2017 debt increase were debt service payments of \$68.6 million, a favorable decrease in the fair value of the Authority's swaps of \$3.4 million, and amortized bond premium costs of \$3.0 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 2018. Accrued expenses decreased \$9.5 million, or 10.6%, partially related to payroll wages and taxes. The line of credit increase reflects a \$30.0 million outstanding balance on the line of credit. Offsetting the June 30, 2017 liability increases were reductions in the public liability, property damage and workers' compensation claims liability of \$7.6 million and other liabilities of \$1.7 million. The 4.4% 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, 2016, total liabilities increased \$215.7 million primarily due to the net pension liability increase of \$96.8 million, as well as the increased recognition in other postemployment benefit obligations of \$81.1 million.

Net investment in capital assets consists of capital assets net of accumulated depreciation, reduced by the amount of long-term debt and liabilities attributable to the acquisition of those assets. Restricted net position represents deposits that are not available for general use because of third-party restrictions. Unrestricted net position represents net assets that are available for general use. The unrestricted net position deficit increased \$85.0 million and \$90.3 million in Fiscal Years 2017 and 2016, respectively, to a total deficit amount of \$1,788.6 million at June 30, 2017. The Fiscal Year 2016 unrestricted net position deficit increase reflects \$96.8 million for net pension liability, as well as the recognition of the accrued other postemployment benefit obligation increase of \$81.1 million in Fiscal Year 2016. 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 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.

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

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 2017 and 2018, the capital budget increased to \$548.6 million and \$727.2 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.

**Changes in Net Position.** Net position for the Fiscal Year ended June 30, 2017 increased \$83.4 million to \$1,859.9 million. The increase in net position as compared to Fiscal Years 2016 and 2015 is described below. For Fiscal Year 2017, total operating revenues decreased 5.7% and total operating expenses increased 1.8%. In Fiscal Year 2016, total operating revenues decreased 0.9% and total operating expenses had increased 5.3%.

	Changes in Net Position (thousands of dollars)		
	For the Years ended June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Passenger	\$ 442,707	\$ 471,811	\$ 477,737
Other income	55,261	56,381	55,506
Total operating revenues	<u>497,968</u>	<u>528,192</u>	<u>533,243</u>
Operating expenses			
Operating expenses excluding depreciation	1,386,159	1,368,659	1,304,990
Depreciation	373,633	360,219	336,185
Total operating expenses	<u>1,759,792</u>	<u>1,728,878</u>	<u>1,641,175</u>
Loss from operations	<u>(1,261,824)</u>	<u>(1,200,686)</u>	<u>(1,107,932)</u>
Nonoperating revenues (expenses)			
Subsidies	853,472	789,081	753,102
Nonoperating expenses - net	<u>(18,674)</u>	<u>(16,322)</u>	<u>(14,322)</u>
Total nonoperating revenues (expenses)	<u>834,798</u>	<u>772,759</u>	<u>738,780</u>
Capital grant funding	<u>510,378</u>	<u>513,512</u>	<u>406,821</u>
Increase (decrease) in net position	83,352	85,585	37,669
Net position, beginning of year, before restatement	1,776,547	1,690,962	2,323,462
Cumulative effect of change in accounting principle	-	-	(670,169)
Net position, beginning, as restated	<u>1,776,547</u>	<u>1,690,962</u>	<u>1,653,293</u>
Net position, ending	<u>\$ 1,859,899</u>	<u>\$ 1,776,547</u>	<u>\$ 1,690,962</u>



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

In Fiscal Year 2017, passenger revenue decreased 6.2% primarily due to a 5.9% decrease in city transit ridership and 8.1% decrease in regional rail ridership. In Fiscal Year 2016, passenger revenue decreased 1.2% due primarily to decreased city transit ridership. Other income decreased 2.0% in Fiscal Year 2017 due to lower advertising, State Shared Ride Program and parking revenues; partially offset by real estate and other contract revenue.

Subsidies increased 8.2% in Fiscal Year 2017 to cover part of the operating expense increase. In Fiscal 2016, subsidies increased \$36.0 million to meet the budgeted expense increase.

Other non-operating expenses, which increased by \$2.4 million in Fiscal Year 2017, includes an interest expense increase of \$0.8 million and an investment income decrease of \$1.6 million. The interest expense increase is primarily related to the additional debt issuance and an increase in regularly scheduled debt service payments. The investment income decrease in Fiscal Year 2017 was due to an unfavorable change in the market value of investments as compared to Fiscal Year 2016. In Fiscal Year 2016, other non-operating expenses increased \$2.0 million including lower interest on debt of \$0.4 million and an investment income decrease of \$2.4 million related to an unfavorable market value change of investments.

Capital grant funding decreased \$3.1 million in Fiscal Year 2017 and was comprised of a decrease in federal funding of \$48.8 million, partially offset by increases in state and local funding of \$44.8 million and \$0.9 million, respectively. Capital grant funding increased \$106.7 million in Fiscal Year 2016 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,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and wages	\$ 536,500	\$ 528,670	\$ 508,830
Fringe benefits	426,386	435,327	394,308
Other postemployment benefits	79,199	81,093	83,178
Services	65,849	61,759	64,734
Fuel & lubricants	24,525	35,131	44,858
Tires & tubes	3,011	3,609	2,668
Other material & supplies	62,671	65,865	59,900
Utilities	46,202	48,667	47,611
Casualty & liability	17,131	6,485	11,742
Taxes	1,636	1,679	1,798
Purchased transportation	54,314	47,929	48,410
Leases and rentals	55,652	45,606	32,118
Miscellaneous	13,083	6,839	4,835
Depreciation	373,633	360,219	336,185
Total operating expenses	<u>\$ 1,759,792</u>	<u>\$ 1,728,878</u>	<u>\$ 1,641,175</u>

Salaries and wages increased \$7.8 million, or 1.5%, in Fiscal Year 2017 and 3.9% in Fiscal Year 2016 primarily due to contractual and planned increases. Fringe Benefit expenses decreased \$8.9 million, or 2.1% in Fiscal Year 2017 primarily due to a decrease in prescription drug, and other healthcare costs. The fringe benefit expense decreases were partially offset by an increase in current year pension costs. In Fiscal Year 2016, fringe benefits increased \$41.0 million, or 10.4% due to an increase in prescription drugs, pension and other healthcare costs partially offset by reductions in railroad employee claim payouts under the Federal Employers Liability Act ("FELA").

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

Other postemployment benefit expenses decreased \$1.9 million, or 2.3%, in Fiscal Year 2017 primarily due to higher employee contributions in the current year and changes in prescription and medical copays for new union and SAM retirees, effective January 1, 2017. In Fiscal Year 2016, expenses decreased \$2.1 million, or 2.5% primarily due to higher contributions and a decrease in the duration of medical benefits provided to management employees electing the HMO option at retirement on or after January 1, 2016.

Services increased 6.6% in Fiscal Year 2017 primarily related to higher contract service costs and software maintenance. The expense decrease in Fiscal Year 2016 was primarily due to lower legal and other costs incurred to defend claims partially offset by higher contract service costs.

Fuel and lubricants decreased 30.2% and 21.7% in Fiscal Years 2017 and 2016, respectively, primarily due to lower fuel prices and increased use of hybrid buses in both fiscal years.

Tires and tubes expenses decreased 16.6% and increased 35.3% in Fiscal Years 2017 and 2016, respectively.

Other material and supplies decreased 4.9% in Fiscal Year 2017 due to lower infrastructure and vehicle maintenance material costs and office supply costs, and increased 10.0% in Fiscal 2016 due to higher infrastructure and vehicle maintenance material costs.

Utilities decreased 5.1% in Fiscal Year 2017, primarily due to lower propulsion power, and telephone costs. In Fiscal Year 2016, utilities increased 2.2%.

Casualty and liability expenses increased \$10.6 million and decreased \$5.3 million in Fiscal Year 2017 and 2016, respectively, due to higher claim payouts in the current year versus lower payouts in the prior year, and reductions in both years to the claims liability reserve due to decreases in the number of outstanding claims and the costs expected to settle those claims.

Purchased transportation expenses increased 13.3% in Fiscal Year 2017 primarily due to an increase in carrier cost to comply with City of Philadelphia Living Wage Ordinance. In Fiscal Year 2016, costs decreased 1.0% primarily due to a decrease in ridership related to a change in PennDOT's reimbursement policy beyond the 3-mile Philadelphia County buffer.

Lease and rental expenses increased 22.0% and 42.0% in Fiscal Years 2017 and 2016, respectively, primarily due to an increase in rental costs for leased revenue vehicles, towers, service vehicles and technology equipment.

Miscellaneous expenses were \$6.2 million and \$2.0 million higher in Fiscal Years 2017 and 2016, respectively, due to an increase in advertising costs and bad debt reserves for outstanding receivables.

Depreciation expenses increased 3.7% and 7.2% in Fiscal Years 2017 and 2016, respectively, primarily due to the change in capital assets in both fiscal years which was being impacted by the increase in available capital grant funds.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2017, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway and signals, was \$9,840.8 million. Net of accumulated depreciation of \$5,689.7 million, net capital assets totaled \$4,151.1 million. This amount represents a net increase, including additions and disposals net of depreciation, of \$203.5 million or 5.2% from June 30, 2016.

As of June 30, 2017, the Authority has commitments for various unexpended construction and design contracts of approximately \$326 million and commitments for unexpended revenue vehicle purchases of approximately \$680 million primarily for electric and hybrid buses, multi-level rail cars and locomotives. The Authority's capital budget for Fiscal Year 2017 includes capital asset additions in the amount of \$624.3 million. A significant portion of the additions is scheduled for the normal replacement and overhaul of vehicles, and various critical infrastructure improvement capital programs which includes maintenance shops and offices, passenger stations, new payment technology project, and other communications, signal systems and technology improvements.

**CAPITAL ASSETS AND DEBT ADMINISTRATION** (Continued)

**Debt Administration.** As of June 30, 2017, the Authority's long-term debt, including current maturities, was \$631.7 million. This amount excludes the swap derivative liability of \$6.4 million and \$17.7 million in unamortized premiums (or \$655.8 million in total). Long-term debt increased \$61.5 million from borrowings on a loan to fund costs incurred on the New Payment Technology project, \$36.4 million for the ESCO #2 project costs, and \$100 million (pursuant to an EB-5 loan) for designated capital projects. Offsetting the long-term debt increase were regularly scheduled debt service payments of \$68.6 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, 2017 AND 2016**  
**(THOUSANDS OF DOLLARS)**

<b>ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>2017</u></b>	<b><u>2016</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	\$ 29,469	\$ 26,167	Long-term debt (Note 5)	\$ 35,158	\$ 68,643
Investments	49,332	43,992			
Restricted funds (Note 2)			Accounts payable - trade	120,202	146,098
Cash and cash equivalents	115,607	153,654			
Investments	134,853	32,711	Accrued expenses	79,861	89,330
Receivables					
Operating subsidies	3,262	7,121	Line of credit	30,000	-
Capital grants (Note 3)	106,019	137,971			
Other	24,878	20,748	Current portion of public liability, property damage and workers' compensation claims (Note 11)	58,534	62,165
Material and supplies	87,055	81,448			
Prepaid expenses	21,508	14,298	Unearned revenue	224,775	217,857
Total current assets	<u>571,983</u>	<u>518,110</u>	Total current liabilities	<u>548,530</u>	<u>584,093</u>
<b><u>NONCURRENT ASSETS</u></b>			<b><u>NONCURRENT LIABILITIES</u></b>		
Restricted funds (Note 2)			Public liability, property damage and workers' compensation claims (Note 11)	106,902	110,887
Cash and cash equivalents	60,835	50,025	Long-term debt (Note 5)	620,630	464,214
Investments	52,962	24,965	Long-term capitalized lease obligation (Note 6)	23,754	16,607
Capital assets, net (Notes 3, 4, 5 & 6)	4,151,052	3,947,607	Net pension liability (Note 7)	927,494	843,312
Other	4,156	4,834	Other postemployment benefits (Note 8)	939,896	860,697
			Other liabilities (Note 6)	5,216	6,961
Total noncurrent assets	<u>4,269,005</u>	<u>4,027,431</u>	Total noncurrent liabilities	<u>2,623,892</u>	<u>2,302,678</u>
Total assets	<u>4,840,988</u>	<u>4,545,541</u>	Total liabilities	<u>3,172,422</u>	<u>2,886,771</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 (Note 5)	6,069	9,770	Deferred inflows of resources from pensions (Note 7)	16,485	19,307
Deferred charge on refundings	1,787	2,264	Total liabilities and deferred inflows of resources	<u>3,188,907</u>	<u>2,906,078</u>
Deferred outflow of resources from pensions (Note 7)	199,962	125,050			
			<b><u>NET POSITION</u></b>		
			Net investment in capital assets	3,643,710	3,475,338
			Restricted	4,749	4,753
			Unrestricted (deficit)	<u>(1,788,560)</u>	<u>(1,703,544)</u>
			Total net position	<u>1,859,899</u>	<u>1,776,547</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 5,048,806</u></b>	<b><u>\$ 4,682,625</u></b>	<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>\$ 5,048,806</u></b>	<b><u>\$ 4,682,625</u></b>

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, 2017 AND 2016**  
**(THOUSANDS OF DOLLARS)**

	<u>2017</u>	<u>2016</u>
<b><u>OPERATING REVENUE:</u></b>		
Passenger Fare	\$ 442,707	\$ 471,811
Route Guarantees	3,632	3,223
State Shared Ride Program	14,511	15,630
Area Agency on Aging	1,310	1,509
Other contract revenue	1,032	73
Advertising	14,231	15,721
Miscellaneous income	20,545	20,225
Total revenue available from operations	497,968	528,192
<b><u>OPERATING EXPENSES:</u></b>		
Salaries and wages	536,500	528,670
Fringe benefits	426,386	435,327
Other postemployment benefits	79,199	81,093
Services	65,849	61,759
Fuel & lubricants	24,525	35,131
Tires & tubes	3,011	3,609
Other materials & supplies	62,671	65,865
Utilities	46,202	48,667
Casualty & liability	17,131	6,485
Taxes	1,636	1,679
Purchased transportation	54,314	47,929
Leases and rentals	55,652	45,606
Miscellaneous	13,083	6,839
Depreciation	373,633	360,219
Total operating expenses	1,759,792	1,728,878
Loss from operations	(1,261,824)	(1,200,686)
<b><u>NON-OPERATING REVENUES/(EXPENSES):</u></b>		
Capital funds used for operating assistance and planning grants:		
Federal government	81,441	77,469
Commonwealth of Pennsylvania	44,668	43,943
Local governments	1,528	1,497
Operating grants:		
Commonwealth of Pennsylvania Act 44 Funds	631,161	581,121
Local Governments Act 44 Matching Funds	94,674	85,051
Total government subsidies for operations	853,472	789,081
Other Private/Public Sources		
Investment income	7	1,585
Interest expense (Note 5)	(18,681)	(17,907)
Total nonoperating revenues (expenses)	834,798	772,759
Loss before capital grant funding	(427,026)	(427,927)
<b><u>CAPITAL GRANT FUNDING:</u></b>		
Federal	147,195	195,986
State	353,256	308,510
Local	9,927	9,016
Total capital grant funding	510,378	513,512
<b><u>INCREASE (DECREASE) IN NET POSITION</u></b>		
Net position, beginning	1,776,547	1,690,962
Net position, ending	\$ 1,859,899	\$ 1,776,547

See accompanying notes to Financial Statements.

**SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**  
**(THOUSANDS OF DOLLARS)**

	<b>2017</b>	<b>2016</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Passenger receipts	\$ 452,564	\$ 480,804
Other receipts	48,608	59,662
Payments for salaries, wages and fringe benefits	(980,303)	(941,665)
Payments for fuel, utilities and taxes	(74,838)	(84,411)
Payments for casualty and liability claims	(21,498)	(40,270)
Payments for other operating expenses	(276,478)	(232,662)
Net cash used in operating activities	<u>(851,945)</u>	<u>(758,542)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>		
Receipts of operating subsidies	858,547	855,660
Net cash provided by noncapital financing activities	<u>858,547</u>	<u>855,660</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Capital grants received	539,461	525,956
Acquisition of operating property and construction in progress	(579,370)	(541,888)
Proceeds from issuance of debt	197,989	48,847
Proceeds from line of credit	55,000	-
Repayment of line of credit	(25,000)	-
Increase in long-term capitalized lease obligation	7,147	200
Repayment of long-term debt	(68,644)	(31,180)
Interest paid	(22,270)	(20,963)
Net cash provided by (used in) capital and related financing activities	<u>104,313</u>	<u>(19,028)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Proceeds from sale of investments	219,532	87,543
Receipt of interest	1,970	1,627
Purchase of investments	(356,352)	(87,314)
Net cash (used in) provided by investing activities	<u>(134,850)</u>	<u>1,856</u>
<b><u>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</u></b>		
	(23,935)	79,946
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	229,846	149,900
End of year	<u>\$ 205,911</u>	<u>\$ 229,846</u>
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Unrestricted	\$ 29,469	\$ 26,167
Restricted	176,442	203,679
Total	<u>\$ 205,911</u>	<u>\$ 229,846</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (1,261,824)	\$ (1,200,686)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	373,633	360,219
(Increase) decrease in other receivables	(6,040)	9,965
(Increase) in materials & supplies	(5,607)	(5,236)
(Increase) decrease in prepaid expenses	(7,210)	999
(Decrease) increase in accounts payable - trade	(22,208)	16,951
(Decrease) increase in accrued expenses and other liabilities net of other assets	(720)	9,795
Increase in net pension liability and pension deferred inflows/outflows	6,448	8,060
(Decrease) in public liability and property damage claims	(7,616)	(39,701)
Increase in other postemployment benefits	79,199	81,092
Total adjustments	409,879	442,144
Net cash (used in) operating activities	<u>\$ (851,945)</u>	<u>\$ (758,542)</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, 2017 AND 2016**

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 88 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 594 thousand passenger trips per day. The Regional Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 120 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 49 interurban trolley, light rail and bus routes, as well as demand response services, providing approximately 55 thousand passenger trips per day.

There are two principal sources of revenue: passenger revenue and governmental subsidies. The subsidies are dependent upon annual appropriations, which are not determinable in advance, from Federal, State and local sources. The subsidies for Fiscal Years 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Federal subsidies:		
Preventive maintenance reimbursement	\$ 36,200	\$ 36,200
Leasehold/debt service/other reimbursements	45,241	41,269
State and local subsidies:		
Act 44 operating subsidies	725,835	666,172
Act 44 leasehold/debt service reimbursements	46,196	45,440
Total subsidies	<u>\$ 853,472</u>	<u>\$ 789,081</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 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.

In Fiscal Year 2017, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) No. 82, "Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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>2017</u>	<u>2016</u>
Cash on hand	\$ 5,183	\$ 3,586
Cash in bank	51,811	28,600
Money market funds	183,497	211,285
Outstanding checks	<u>(34,580)</u>	<u>(13,625)</u>
Total cash and cash equivalents	205,911	229,846
Less current portion - unrestricted	29,469	26,167
Less current portion - restricted	<u>115,607</u>	<u>153,654</u>
Total noncurrent portion - restricted	<u>\$ 60,835</u>	<u>\$ 50,025</u>

The components of investments as of June 30 are:

	<u>2017</u>	<u>2016</u>
U.S. Government and agencies	\$ 72,019	\$ 63,907
Certificates of Deposit	984	735
Commercial paper	51,092	16,900
Mutual funds	<u>113,052</u>	<u>20,126</u>
Total investments	237,147	101,668
Less current portion - unrestricted	49,332	43,992
Less current portion - restricted	<u>134,853</u>	<u>32,711</u>
Total noncurrent portion - restricted	<u>\$ 52,962</u>	<u>\$ 24,965</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

Fair Value Measurements

	<u>6/30/2017</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Investments by fair value level</b>				
Debt securities				
U.S. Government and agencies	\$ 72,019	\$ -	\$ 72,019	\$ -
Certificates of Deposit	984	-	984	-
Commercial paper - discounted	51,092	-	51,092	-
Mutual funds	113,052	-	113,052	-
Total debt securities	<u>237,147</u>	<u>-</u>	<u>237,147</u>	<u>-</u>
Investments by fair value level	<u>\$ 237,147</u>	<u>\$ -</u>	<u>\$ 237,147</u>	<u>\$ -</u>
	<u>6/30/2016</u>			
<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	<u>101,668</u>	<u>-</u>	<u>101,668</u>	<u>-</u>
Investments by fair value level	<u>\$ 101,668</u>	<u>\$ -</u>	<u>\$ 101,668</u>	<u>\$ -</u>

For fiscal years ending June 30, 2017 and 2016, 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, 2017 and 2016 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>2017</u>	<u>2016</u>
Restricted:		
State dedicated funding provided by Act 44, including local match	\$ 137,583	\$ 133,643
State Funding provided for Sub-recipients	371	700
State Senior Citizen, Free Transit Funding Provided for Sub-recipients	6	9
Debt Service Funds:		
Capital Grant Receipts Bonds, Series of 2011	26,364	26,177
Revenue Refunding Bonds, Series of 2010	26,375	20,932
Special Revenue Bonds, Series of 2007	16,612	13,487
Capital Project Funds:		
Silverliner V railcar and Wayne Junction Intermodal Facility Fund (Unspent proceeds - Capital Grant Receipts Bonds, Series 2011)	-	1,802
DVRC EB-5 Loan	49,187	-
Market-Frankford Elevated Haunch Repair Fund	3,809	5,019
New Payment Technology Fund	51,215	25,944
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	16,645	16,611
US Marshall Service	74	52
ESCO#1 Leasing Escrow	2,480	12,226
ESCO#2 Leasing Escrow	28,787	-
Security deposits and other	4,749	4,753
Total	<u>\$ 364,257</u>	<u>\$ 261,355</u>

2. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2017, 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, 2017, 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 Western Asset Institutional Government Money Market Fund, Federal Home Loan Bank and First American Funds – Government Obligations Money Market Fund. These cash equivalents and investments are 51.93%, 12.84%, and 6.72%, 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, 2017, \$51,561 of the Authority’s cash in the bank of \$51,811 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, 2017, \$296,549 of the Authority’s cash equivalent and investment balance of \$420,644 was exposed to custodial credit risk as follows:

Money market funds	\$ 183,497
Mutual funds	<u>113,052</u>
Total	<u>\$ 296,549</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, 2017 the Authority had the following investments in its portfolio:

Investment type:	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. Government and agencies	\$ 72,019	0.310
Certificates of deposit	984	0.003
Commercial paper	51,092	0.060
Money market funds	183,497	0.002
Mutual funds	<u>113,052</u>	0.002
	420,644	
Cash in bank	<u>51,811</u>	
Total fair value including accrued interest	<u>\$ 472,455</u>	
Portfolio effective duration		0.37

Through its investment policy, the Authority manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its operating cash investments to less than six months, and its entire invested portfolio to less than one year. The Authority's operating cash invested at fiscal year-end was \$5.7 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$472.5 million with an effective duration of 0.37 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 \$9.4 billion from inception to June 30, 2017 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2017, the Authority had incurred costs of approximately \$9.2 billion against these grants of which \$510.4 million and \$513.5 million were incurred in Fiscal Years 2017 and 2016, 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, 2017.

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

4. Capital Assets

Capital assets are summarized as follows:

	June 30, <u>2016</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Retirements</u>	June 30, <u>2017</u>
Capital Assets					
Revenue vehicles	\$ 2,720,222	\$ 66,939	\$ 36,300	\$ 12,995	\$ 2,810,466
Transit facilities, rail, stations & depots	2,936,250	188,314	35,072	-	3,159,636
Track, roadway & signals	2,774,357	92,678	28,111	-	2,895,146
Intangibles	34,733	106	-	-	34,839
Other	641,755	29,851	10,428	5,521	676,513
Total	<u>9,107,317</u>	<u>377,888</u>	<u>109,911</u>	<u>18,516</u>	<u>9,576,600</u>
Construction in progress	<u>174,902</u>	<u>199,190</u>	<u>(109,911)</u>	<u>-</u>	<u>264,181</u>
Total	<u>9,282,219</u>	<u>577,078</u>	<u>-</u>	<u>18,516</u>	<u>9,840,781</u>
Accumulated depreciation					
Property and equipment	<u>5,334,612</u>	<u>373,633</u>	<u>-</u>	<u>18,516</u>	<u>5,689,729</u>
Total	<u>5,334,612</u>	<u>373,633</u>	<u>-</u>	<u>18,516</u>	<u>5,689,729</u>
Capital assets, net	<u>\$ 3,947,607</u>	<u>\$ 203,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,151,052</u>
	June 30, <u>2015</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Retirements</u>	June 30, <u>2016</u>
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	<u>8,612,327</u>	<u>467,697</u>	<u>87,747</u>	<u>60,454</u>	<u>9,107,317</u>
Construction in progress	<u>186,781</u>	<u>75,868</u>	<u>(87,747)</u>	<u>-</u>	<u>174,902</u>
Total	<u>8,799,108</u>	<u>543,565</u>	<u>-</u>	<u>60,454</u>	<u>9,282,219</u>
Accumulated depreciation					
Property and equipment	<u>5,034,847</u>	<u>360,219</u>	<u>-</u>	<u>60,454</u>	<u>5,334,612</u>
Total	<u>5,034,847</u>	<u>360,219</u>	<u>-</u>	<u>60,454</u>	<u>5,334,612</u>
Capital assets, net	<u>\$ 3,764,261</u>	<u>\$ 183,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,947,607</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, 2017, construction in process principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2017, the Authority has commitments for various unexpended construction contracts of approximately \$326 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$680 million.

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

5. Long-Term Debt and Swaps

Long-term debt as of June 30, 2017 and 2016 consists of the following:

	June 30, 2016	Additions	Market Value Change	Payments/ Reductions	June 30, 2017	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%	\$ 161,120	\$ -	\$ -	\$ 9,225	\$ 151,895	\$ 9,655
New Payment Technology Loan with annual interest rate of 1.75%	113,458	61,542	-	35,000	140,000	-
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3.7% to 5%	145,045	-	-	13,890	131,155	14,470
Variable Rate Revenue Refunding Bonds, Series of 2007, with interest based on 67% of 1-month LIBOR plus 1.05% through 2022	64,450	-	-	9,475	54,975	9,950
Energy Saving Company (ESCO) "A" due 2016 to 2033 @ 3.168%	14,052	-	-	727	13,325	696
Energy Saving Company (ESCO) "B" due 2016 to 2026 @ 2.37%	4,184	-	-	327	3,857	387
Energy Saving Company (ESCO) #2 due 2017 to 2034 @ 2.83%	-	36,447	-	-	36,447	-
EB5 Loan, due July 1, 2022 @ 2%	-	100,000	-	-	100,000	-
	502,309	197,989	-	68,644	631,654	<u>\$ 35,158</u>
Unamortized bond premium, net of discount	20,778	-	-	3,042	17,736	
Subtotal Long-Term Debt	523,087	197,989	-	71,686	649,390	
<u>Swaps:</u>						
Series of 2007 Swap	9,770	-	(3,701)	-	6,069	
Series of 1999/2009	-	-	329	-	329	
Subtotal Swaps	9,770	-	(3,372)	-	6,398	
Total Long-Term Debt, including Swaps	<u>\$ 532,857</u>	<u>\$ 197,989</u>	<u>\$ (3,372)</u>	<u>\$ 71,686</u>	<u>\$ 655,788</u>	
	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
	484,642	48,847	-	31,180	502,309	<u>\$ 68,643</u>
Unamortized bond premium, net of discount	24,031	-	-	3,253	20,778	
Subtotal Long-Term Debt	508,673	48,847	-	34,433	523,087	
<u>Swaps:</u>						
Series of 2007 Swap	11,184	-	(1,414)	-	9,770	
Subtotal Swaps	11,184	-	(1,414)	-	9,770	
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>	



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, 2017, 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 3.7% 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 Authority drew down \$30.6 million in Fiscal Year 2016 and \$61.6 million in Fiscal Year 2017. The Authority repaid the first tranche principal amount of \$35 million upon maturity on May 30, 2017. The outstanding balance on the loan as of June 30, 2017 is \$140.0 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 EB-5 Loan Agreement with DVRC SEPTA II, LP (Delaware Valley Regional Center, LLC) for an amount not to exceed \$300 million at 2% per annum 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. On April 28, 2017, the Authority borrowed \$100 million. The loan will mature on July 1, 2022.

In November 2016 the Authority entered into a master equipment lease/purchase agreement with PNC Equipment Finance LLC for up to \$37.9 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 also 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. The resultant operating savings are guaranteed by the ESCO to equal or exceed the debt service payments and other yearly costs associated with the projects 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.

At June 30, 2017, the aggregate debt service requirements of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Debt maturities	\$ 35,158	\$ 113,740	\$ 104,997	\$ 34,316	\$ 135,770
Debt related interest	19,747	18,792	15,555	14,015	12,775
Hedging derivative, net	2,194	1,803	1,392	961	509
Net Cash Flows	<u>\$ 57,099</u>	<u>\$ 134,335</u>	<u>\$ 121,944</u>	<u>\$ 49,292</u>	<u>\$ 149,054</u>
	<u>2023-2027</u>	<u>2028-2032</u>	<u>2033</u>	<u>Total</u>	
Debt maturities	\$ 138,910	\$ 62,321	\$ 6,442	\$ 631,654	
Debt related interest	34,952	5,762	219	121,817	
Hedging derivative, net	-	-	-	6,859	
Net Cash Flows	<u>\$ 173,862</u>	<u>\$ 68,083</u>	<u>\$ 6,661</u>	<u>\$ 760,330</u>	

The above amounts assume that current interest rates on the 2007 Variable Rate Refunding Bonds, which was 1.760% as of June 30, 2017 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

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

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 \$55.0 million as of June 30, 2017.

In March 2003, the Authority also entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA) and Salomon Brothers (now Citibank, NA), collectively, the "Counterparties", related to its 1999 Special Revenue Bonds (the "Underlying Swap Agreement"). On December 29, 2005, the Authority restructured the Underlying Swap Agreement associated with its Special Revenue Bonds, Series 1999 with the Counterparties by converting the variable receive rate from 67% of one-month LIBOR, to the SIFMA Index, to reduce the likelihood the swaption would be exercised. To pay for the conversion, the Authority simultaneously entered into an off-market swap with Bank of America, NA (the "Basis Swap Agreement"), whereby the Authority agreed to pay the SIFMA Index rate and receive 67% of 3-month LIBOR plus 13.52 basis points, and an upfront payment equivalent to the Basis Swap Agreement conversion cost. In October 2010, the Authority refunded the Special Revenue Bonds, Series 1999, and issued the Revenue Refunding Bonds, Series 2010. Concurrently, the Underlying Swap Agreement was terminated, and the Basis Swap Agreement was amended on substantially the same terms, but is now associated with the Series 2010 Bonds, with a termination date of March 1, 2028, and a notional amount of \$123.8 million as of June 30, 2017.

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, 2017, the Authority had the following derivative instruments outstanding:

	<u>Notional Amount</u>	<u>Fair Value Classification</u>	<u>Fair Value Amount</u>	<u>Changes in Fair Value Classification</u>	<u>Amount</u>
<i>Business-type activities:</i>					
<i>Cash flow hedge:</i>					
A. Pay-fixed interest rate swap	\$ 54,975	Debt	\$ (6,069)	Deferred Outflow	\$ 3,701
<i>Fair value hedge:</i>					
B. Pay-variable interest rate swap	\$ 123,830	Other Assets	\$ (329)	Investment Income	\$ (680)

Derivative Instrument Types

*Hedge effectiveness:* As of June 30, 2017 and 2016, 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 (\$680) thousand at June 30, 2017 and (\$307) thousand at June 30, 2016. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2017 was evaluated to be effective using the regression analysis method. This method measures the statistical relationship between changes in the fair value or cash flows of the potential hedging derivative and the hedgeable item. For the potential hedging derivative instrument evaluated using regression analysis to be considered effective, the analysis must meet the following 3-criteria: an R-squared of at least 0.80, an F-statistic that indicates statistical significance at the 95 percent confidence interval, and a regression coefficient for the slope between -1.25 and -0.80.

5. Long-Term Debt and Swaps (Continued)Swaps: (Continued)Hedging Derivative Instrument – Objective and Terms:

The objectives and terms of the Authority's cash flow hedging derivative instrument outstanding at June 30, 2017 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	\$54,975	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR; pay 4.706% fixed

Fair Value

As of June 30, 2017, the swap associated with 2007 series bonds had a negative fair value of \$6.1 million and the basis swap associated with the 2010 series bonds had a negative fair value of \$.3 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, 2017, the Authority was not exposed to credit risk, or the risk of economic loss due to counterparty default of its outstanding swaps, because the swaps had negative fair values. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. As of June 30, 2017, 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.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

Interest Rate Risk

As of June 30, 2017, 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	\$ (329)	\$ (329)

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.

Line of Credit

On September 1, 2016, the Authority entered into a \$50 million unsecured revolving line of credit with PNC Bank, with an expiration date of August 31, 2017. Interest on amounts outstanding is due on the first day of each month at the Daily Libor rate plus seventy-five basis points (0.75%), currently at 1.733% for June 30, 2017. There was \$55 million in borrowings on the line, and repayments of \$25 million for the year ended June 30, 2017. The principal outstanding on the line was \$30 million as of June 30, 2017.

There is an Unused Fee due on each anniversary date equal to a rate per annum of twenty-five basis points (0.25%) on the average daily amount of the Unused Revolving Line of Credit. However, an Unused Fee of ten basis points (0.10%) shall be due for such period if the average unused amount is less than 50% of the amount of the revolving line of credit at the beginning of the period. The Unused Fee accrues on the date of the agreement, and shall cease to accrue on the expiration date.

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 \$23.7 million as of June 30, 2017, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, are 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 has been approved by the Federal Transit Administration. The leaseback includes a purchase option, which upon exercise, will be funded in installments from funds used to defease the debt during the period from January 2, 2030 through December 15, 2030, that will allow the Authority to buy out the equity investor's remaining rights under the agreement, thereby terminating the entire transaction. In December 2008, the Authority terminated its lease debt and equity payment undertaking agreements with the payment undertaker and received \$89.9 million upon termination. Of this amount, the Authority deposited \$75.2 million with a trustee and U.S. Treasury Securities were purchased to defease the remaining lease payments under the Equity Payment Undertaking Agreement (EPUA). The securities purchased

6. Leases and Other Liabilities (Continued)Lease/leaseback Agreements (Continued)

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 \$55.7 million and \$45.6 million for Fiscal Years 2017 and 2016, 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, 2017, include \$3.8 million for the repair of the Market-Frankford Elevated haunch failures, \$1.4 million unamortized swaption proceeds, and \$55 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>
2017	\$ 6,961	\$ 2,008	\$ (3,776)	\$ 23	\$ 5,216
2016	\$ 11,789	\$ 54	\$ (4,890)	\$ 8	\$ 6,961

7. Pension PlansGeneral Information about the Pension PlansPlan 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).

7. Pension Plans (Continued)

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.

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. During Fiscal Year 2017, the following modifications were made for certain bargaining employees of the City Transit Division, the Frontier Division, and the Suburban Transit Division. The required contributions for employees was changed from a percentage of compensation to \$50 per week. The calculation of retirement benefits was changed from percentages of compensation or annual wage rates to the sum of \$94 per month for each year of credited service accrued up to November 28, 2016 for TWU; December 15, 2016 for SMART; and February 23, 2017 for IBT employees; and \$100 per month for each year of credited service after those dates. A new benefit option has been added to these plans, permitting members to receive an actuarially equivalent benefit that is payable for the member's life, with a guarantee of at least 10 years of benefit payments. If the member does not receive 10 years of payments before death, the member's beneficiary receives the balance of 10 years of payments. 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



7. Pension Plans (Continued)

Benefits Provided (Continued)

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 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

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

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

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 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 January 1, 2015, the date of the actuarial valuation that was used to determine the Authority's total pension liability as of June 30, 2016, 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	1,691	20	3,068	234	37	5,050
Inactive employees entitled to but not yet receiving benefits	419	53	730	120	28	1,350
Active employees	<u>1,780</u>	<u>197</u>	<u>5,080</u>	<u>531</u>	<u>223</u>	<u>7,811</u>
Total	<u><u>3,890</u></u>	<u><u>270</u></u>	<u><u>8,878</u></u>	<u><u>885</u></u>	<u><u>288</u></u>	<u><u>14,211</u></u>

At January 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	<u>1,728</u>	<u>209</u>	<u>5,048</u>	<u>526</u>	<u>229</u>	<u>7,740</u>
Total	<u><u>3,760</u></u>	<u><u>271</u></u>	<u><u>8,779</u></u>	<u><u>865</u></u>	<u><u>290</u></u>	<u><u>13,965</u></u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

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.

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2017 are as follows:

Contribution rates:	<u>SAM</u>	Transit <u>Police</u>	City <u>Transit</u>	Suburban <u>Transit</u>	<u>Frontier</u>
SEPTA	31.84%	12.35%	15.75%	12.53%	5.32%
Plan members	*	3.85%	3.50%	3.50%	3.50%
SEPTA Contributions	\$42,060	\$1,692	\$45,401	\$3,777	\$631

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.

Net Pension Liability

The Authority's Fiscal Year 2017 net pension liability was measured as of June 30, 2016 ("measurement date"). The total pension liability was determined by the use of update procedures to rollforward the pension plan's actuarial valuation dated January 1, 2015 to the measurement date. The Authority's Fiscal Year 2016 net pension liability was measured as of June 30, 2015. The total pension liability was determined by the use of update procedures to rollforward the pension plan's actuarial valuation dated January 1, 2014 to the measurement date.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Actuarial Assumptions

The Fiscal Year 2017 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>	7.00%	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%

<sup>1</sup> Investment rate of return 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, 2017 were based upon the results of an actuarial experience study for the period from January 1, 2007 through December 31, 2013.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Actuarial Assumptions (Continued)

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>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban 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%

<sup>1</sup> Investment rate of return 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.

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%.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

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.)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Allocations for June 30, 2017:</b>		
Cash	1.50%	0.61%
Core Fixed Income	9.90%	1.99%
High Yield Bonds	4.60%	3.79%
Non-US Fixed Income	5.90%	0.29%
Equity Market	20.10%	4.07%
Small Caps	3.90%	4.30%
Large Growth	6.00%	4.27%
Large Value	5.30%	3.72%
Small Growth	3.00%	4.67%
Non-US Equity	9.20%	4.81%
Foreign Developed Equity	8.50%	4.41%
Emerging Market Bonds	1.60%	4.93%
Private Real Estate Property	5.90%	3.14%
Timber	1.60%	3.15%
Private Equity	3.00%	5.38%
Commodities	2.20%	1.55%
Hedge Funds - MultiStrategy	5.40%	3.77%
Hedge Funds - Distressed	<u>2.40%</u>	3.47%
Total	<u>100.00%</u>	
<b>Allocations for June 30, 2016</b>		
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	<u>4.00%</u>	4.09%
Total	<u>100.00%</u>	

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

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, 2017 and 7.00 percent for June 30, 2016. 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 2017 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	\$ 853,708	\$ 510,601	\$ 343,107
Changes for the year:			
Service cost	12,185	-	12,185
Interest	59,114	-	59,114
Effect of plan changes	4,469	-	4,469
Effect of economic/demographic gains or (losses)	(1,194)	-	(1,194)
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	37,334	(37,334)
Contributions - employee	-	2,134	(2,134)
Net investment income	-	(9,265)	9,265
Benefit payments	(43,546)	(43,546)	-
Administrative expense	-	(206)	206
Other changes	-	1,736	(1,736)
Net changes	31,028	(11,813)	42,841
Balances as of end of year	\$ 884,736	\$ 498,788	\$ 385,948

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

7. Pension Plans (Continued)Changes in the Fiscal Year 2016 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	\$ 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

Changes in the Fiscal Year 2017 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	\$ 43,269	\$ 33,432	\$ 9,837
Changes for the year:			
Service cost	1,248	-	1,248
Interest	3,071	-	3,071
Effect of economic/demographic gains or (losses)	(182)	-	(182)
Effect of assumption changes or inputs	-	-	-
Contributions - employer	-	1,737	(1,737)
Contributions - employee	-	568	(568)
Net investment income	-	(584)	584
Benefit payments	(1,323)	(1,323)	-
Administrative expense	-	(15)	15
Other changes	-	(610)	610
Net changes	2,814	(227)	3,041
Balances as of end of year	\$ 46,083	\$ 33,205	\$ 12,878



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

7. Pension Plans (Continued)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

Changes in the Fiscal Year 2017 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	\$ 1,001,293	\$ 550,438	\$ 450,855
Changes for the year:			
Service cost	17,039	-	17,039
Interest	69,344	-	69,344
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(6,016)	-	(6,016)
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	46,986	(46,986)
Contributions - employee	-	9,249	(9,249)
Net investment income	-	(9,883)	9,883
Benefit payments	(56,122)	(56,122)	-
Administrative expense	-	(258)	258
Other changes	-	(949)	949
Net changes	24,245	(10,977)	35,222
Balances as of end of year	\$ 1,025,538	\$ 539,461	\$ 486,077

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

7. Pension Plans (Continued)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	<u>\$ 1,001,293</u>	<u>\$ 550,438</u>	<u>\$ 450,855</u>

Changes in the Fiscal Year 2017 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	\$ 81,928	\$ 45,469	\$ 36,459
Changes for the year:			
Service cost	1,747	-	1,747
Interest	5,712	-	5,712
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(767)	-	(767)
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	3,920	(3,920)
Contributions - employee	-	937	(937)
Net investment income	-	(809)	809
Benefit payments	(4,244)	(4,244)	-
Administrative expense	-	(21)	21
Other changes	-	164	(164)
Net changes	2,448	(53)	2,501
Balances as of end of year	<u>\$ 84,376</u>	<u>\$ 45,416</u>	<u>\$ 38,960</u>

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

7. Pension Plans (Continued)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	<u>\$ 81,928</u>	<u>\$ 45,469</u>	<u>\$ 36,459</u>

Changes in the Fiscal Year 2017 Net Pension LiabilityFrontier Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 22,976	\$ 19,922	\$ 3,054
Changes for the year:			
Service cost	791	-	791
Interest	1,663	-	1,663
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(1,424)	-	(1,424)
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	770	(770)
Contributions - employee	-	377	(377)
Net investment income	-	(345)	345
Benefit payments	(35)	(35)	-
Administrative expense	-	(8)	8
Other changes	-	(341)	341
Net changes	995	418	577
Balances as of end of year	<u>\$ 23,971</u>	<u>\$ 20,340</u>	<u>\$ 3,631</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

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 or 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

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, 2017, 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	\$482,293	\$385,948	\$303,386
Transit Police	19,321	12,878	7,491
City Transit	596,694	486,077	391,360
Suburban Transit	48,795	38,960	30,594
Frontier	6,640	3,631	1,077
Total	\$1,153,743	\$927,494	\$733,908

## (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, 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	<u>\$1,066,330</u>	<u>\$843,312</u>	<u>\$652,650</u>

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

For the year ended June 30, 2017, SEPTA recognized pension expense of \$100,768 (\$48,911 for the SAM Plan, \$1,795 for the Transit Police Plan, \$45,536 for the City Transit Plan, \$3,860 for the Suburban Transit Plan, and \$666 for the Frontier Plan). At June 30, 2017, 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	\$ 9,703	\$ -	\$ -	\$ 147	\$ -	\$ 9,850
Changes in assumptions	5,293	302	11,005	1,056	66	17,722
Net difference between projected and actual earnings	34,587	2,314	37,434	3,111	1,381	78,827
Contributions made subsequent to measurement date	42,061	1,692	45,401	3,778	631	93,563
Total	<u>\$ 91,644</u>	<u>\$ 4,308</u>	<u>\$ 93,840</u>	<u>\$ 8,092</u>	<u>\$ 2,078</u>	<u>\$199,962</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>					Total
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	
Differences between expected and actual experience	\$ (1,362)	\$ (594)	\$ (10,827)	\$ (1,474)	\$ (2,228)	\$ (16,485)
Net difference between projected and actual earnings on pension plan investments	-	-	-	-	-	-
Total	\$ (1,362)	\$ (594)	\$ (10,827)	\$ (1,474)	\$ (2,228)	\$ (16,485)

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:

	<u>Deferred Outflows of Resources</u>					Total
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	
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	\$ 57,647	\$ 2,079	\$ 59,208	\$ 5,285	\$ 831	\$125,050

	<u>Deferred Inflows of Resources</u>					Total
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	
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	\$ (5,092)	\$ (692)	\$ (11,046)	\$ (1,283)	\$ (1,194)	\$ (19,307)

(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)

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, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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:

Year ended June 30:	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
2018	\$ 10,710	\$ 379	\$ 6,568	\$ 520	\$ -	\$ 18,177
2019	10,851	379	6,568	520	-	18,318
2020	17,897	854	14,914	1,208	286	35,159
2021	8,763	549	9,756	782	105	19,955
2022	-	(38)	276	(29)	(248)	(39)
Thereafter	-	(101)	(470)	(161)	(924)	(1,656)

8. Other Postemployment Benefits

Plan Description

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

The Authority provides postemployment medical, prescription drug and life insurance benefits to substantially all employees, which generally commence on the first day an employee retires. Prior to December 1, 2016, health insurance benefits were generally provided for three years, except Health Maintenance Organization (HMO) plan coverage was 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. Beginning December 1, 2016, with varying effective dates by union, health insurance benefits are generally provided for forty months for bargaining unit employees and for thirty-six months for SAM employees. 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.

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

8. Other Postemployment Benefits (Continued)Plan Description (Continued)

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

Funding Policy and Related Information

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

The Authority's OPEB cost and change in net OPEB obligation for Fiscal Year 2017 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	\$ 37,227	\$ 1,861	\$ 91,297	\$ 9,556	\$ 139,941
Interest on net OPEB obligation	7,152	488	20,446	2,039	30,125
Adjustment to annual required contribution	<u>(11,110)</u>	<u>(758)</u>	<u>(31,762)</u>	<u>(3,168)</u>	<u>(46,798)</u>
Annual OPEB cost (expense)	33,269	1,591	79,981	8,427	123,268
Contributions made	<u>15,543</u>	<u>426</u>	<u>25,405</u>	<u>2,695</u>	<u>44,069</u>
Increase in net OPEB obligation	17,726	1,165	54,576	5,732	79,199
Net OPEB obligation, beginning of year	<u>204,329</u>	<u>13,931</u>	<u>584,168</u>	<u>58,269</u>	<u>860,697</u>
Net OPEB obligation, end of year	<u>\$ 222,055</u>	<u>\$ 15,096</u>	<u>\$ 638,744</u>	<u>\$ 64,001</u>	<u>\$ 939,896</u>

Since the benefits are not funded, an increase in the actuarial accrued liability and the ARC from the prior year is expected. They were partially offset by changes in benefits impacting future retirees contained in the memorandum of Agreements with the various unions. Also, there were changes regarding copays for prescription drugs and medical benefits applying to SAM retirements effective January 1, 2017.



## (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 2017, 2016 and 2015 for each of the plans are as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
SAM	6/30/17	\$ 33,269	46.7%	\$ 222,055
SAM	6/30/16	\$ 34,309	47.1%	\$ 204,329
SAM	6/30/15	\$ 31,573	44.8%	\$ 186,188
Transit Police	6/30/17	1,591	25.7%	15,096
Transit Police	6/30/16	1,546	26.5%	13,931
Transit Police	6/30/15	1,795	7.5%	12,794
Non-Railroad Union Groups	6/30/17	79,981	31.8%	638,744
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
Railroad Union Groups	6/30/17	8,427	32.0%	64,001
Railroad Union Groups	6/30/16	8,111	36.9%	58,269
Railroad Union Groups	6/30/15	9,230	27.0%	53,147
Total	6/30/17	\$ 123,268	35.8%	\$ 939,896
Total	6/30/16	\$ 127,642	36.5%	\$ 860,697
Total	6/30/15	\$ 127,414	34.7%	\$ 779,604

## (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% Initial 4.3%-6.4%	5.90% Initial 4.3%-6.4%	5.90% Initial 4.3%-6.4%	5.90% Initial 4.3%-6.4%
Medical post - 65	3.00% Initial 4.4%-7.4%	3.00% Initial 4.4%-7.4%	3.00% Initial 4.4%-7.4%	3.00% Initial 4.4%-7.4%
Prescription drug	11.20% Initial 4.2%-9.9%	11.20% Initial 4.2%-9.9%	11.20% Initial 4.2%-9.9%	11.20% Initial 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 \$400 thousand and \$396 thousand for Fiscal Years 2017 and 2016, 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, 2017, the Authority was not required to post collateral for any fuel derivative agreements. At June 30, 2017, the fuel derivative instruments had a net negative market position of \$1.6 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 Global 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, 2017, the maximum amount the Authority would have been required to post to its counterparties is \$6.4 million. Because the Authority's unenhanced debt obligations were rated "A1" by Moody's, "AA-" by S&P Global, and "AA" by Fitch at June 30, 2017, 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, 2017. 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 2017 increased \$10.6 million and the related liability decreased \$5.1 million. The expense increase reflects a smaller decrease in the number of outstanding claims and an increase in 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 \$897 thousand and \$83 thousand for Fiscal Year 2016 and 2017, 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 2017 and 2016, are as follows:

	Public Liability and <u>Property Damage</u>	Worker's <u>Compensation</u>	<u>Totals</u>
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	<u>143,101</u>	<u>29,951</u>	<u>173,052</u>
Claims expense	17,131	13,989	31,120
Pollution remediation expense	83	-	83
Payment of claims	(21,497)	(16,526)	(38,023)
Payments for pollution remediation	(796)	-	(796)
Balance at June 30, 2017	<u>\$ 138,022</u>	<u>\$ 27,414</u>	<u>\$ 165,436</u>
Balance at June 30, 2017 due within one year	<u>\$ 50,636</u>	<u>\$ 7,898</u>	<u>\$ 58,534</u>

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 2017 as follows:

	<u>Medical Liability</u>
Balance at June 30, 2015	\$ 21,182
Claims expense	133,762
Payment of claims	(130,855)
Balance at June 30, 2016	<u>24,089</u>
Claims expense	124,165
Payment of claims	(124,107)
Balance at June 30, 2017	<u>\$ 24,147</u>
Balance at June 30, 2017 due within one year	<u>\$ 24,147</u>

The Authority is also self-insured for prescription drug benefits through a third-party administrator for all employees and certain retirees. The annual prescription expense for Fiscal Year 2017 and 2016 was \$62.8 million and \$66.3 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 2017 and 2016 was \$5.6 million and \$5.8 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 2017 and 2018, the capital budget was increased to \$548.6 million and \$727.2 million, respectively. The increases resulted from 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. Subsequent Events

On October 11, 2017, the Authority issued \$59.97 million par amount of Revenue Refunding Bonds, Series 2017 (the "2017 Bonds"). The 2017 Bonds are due in varying amounts with maturity dates of March 1, 2021 through and including March 1, 2028. The 2017 Bonds were issued at a premium and have yields ranging between 1.25% and 2.3%, and bear a 5% annual interest rate. The proceeds from the sale of the 2017 Bonds in the amount of \$71.88 million were used to (a) advance refund a portion of the Authority's Revenue Refunding Bonds, Series of 2010 ("Refunded 2010 Bonds") in the aggregate principal amount of \$65.84 million, and (b) fund certain costs and expenses incurred by the Authority in connection with the issuance and sale of the 2017 Bonds. Concurrently with the issuance of the 2017 Bonds, a portion of the proceeds along with other available moneys of the Authority, were irrevocably deposited into an escrow account pursuant to the terms of an Escrow Agreement and invested in Government Obligations, the maturing principal of and interest on which will be sufficient to pay the interest and principal on the Refunded 2010 Bonds as such payments become due. Upon the deposit of the funds for the advance refunding of the Refunded 2010 Bonds pursuant to the terms of the Escrow Agreement, the Refunded 2010 Bonds were deemed to no longer be outstanding under the Indenture.

On October 19, 2017, the Authority issued \$102.30 million par amount of Capital Grant Receipts Refunding Bonds, Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Program Funds), (the "2017 CGR Bonds"). The 2017 CGR Bonds are due in varying amounts with maturity dates of June 1, 2018, and June 1, 2022 through and including June 1, 2029. The 2017 CGR Bonds were issued with a premium and have yields ranging between 1.20% and 2.51%, and bear a 5% annual interest rate. The proceeds from the sale of the 2017 CGR Bonds in the amount of \$123.07 million, together with other available moneys of the Authority, were used to (a) advance refund a portion of the Authority's Capital Grant Receipts Bonds, Series 2011 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds) (the "2011 Bonds"), in the aggregate principal amount of \$110.45 million, and (b) fund certain costs and expenses incurred by the Authority in connection with the issuance and sale of the 2017 CGR Bonds. Concurrently with the issuance of the 2017 CGR Bonds, a portion of the proceeds of the 2017 CGR Bonds and other moneys of the Authority were irrevocably deposited into an escrow account pursuant to an Escrow Agreement and invested in Government Obligations, the maturing principal of and interest on which will be sufficient to pay the interest and principal on the Refunded 2011 Bonds as such payments become due. Upon the deposit of the funds for the advance refunding of the Refunded 2011 Bonds pursuant to the terms of the Escrow Agreement, the Refunded 2011 Bonds were deemed to no longer be outstanding under the Indenture.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

13. Subsequent Events (Continued)

On November 1, 2017, the Authority borrowed \$90 million pursuant to a \$300 million EB-5 Loan Agreement dated January 1, 2016 with Delaware Valley Regional Center ("DVRC"). The loan bears an interest rate of 2 percent and will mature on November 1, 2022. The total outstanding balance under the DVRC EB-5 Loan Agreement is \$190 million as of November 1, 2017.

## **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)

	2017						2016					
	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	\$ 12,185	\$ 1,248	\$ 17,039	\$ 1,747	\$ 791	\$ 33,010	\$ 10,313	\$ 1,231	\$ 16,578	\$ 1,714	\$ 808	\$ 30,644
Interest	59,114	3,071	69,344	5,712	1,663	138,904	55,466	2,956	68,844	5,653	1,592	134,511
Changes of benefit terms	4,469	-	-	-	-	4,469	27,068	-	1,260	92	42	28,462
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-	-	-
Effect of economic/demographic gains or losses	(1,194)	(182)	(6,016)	(767)	(1,424)	(9,583)	16,583	(508)	(6,149)	(1,044)	(673)	8,209
Changes of assumptions	-	-	-	-	-	-	9,047	380	14,847	1,383	82	25,739
Benefit payments, including refunds of employee contributions	(43,546)	(1,323)	(56,122)	(4,244)	(35)	(105,270)	(38,340)	(643)	(53,243)	(4,179)	(58)	(96,463)
<b>Net change in total pension liability</b>	<b>31,028</b>	<b>2,814</b>	<b>24,245</b>	<b>2,448</b>	<b>995</b>	<b>61,530</b>	<b>80,137</b>	<b>3,416</b>	<b>42,137</b>	<b>3,619</b>	<b>1,793</b>	<b>131,102</b>
<b>Total pension liability - beginning</b>	<b>853,708</b>	<b>43,269</b>	<b>1,001,293</b>	<b>81,928</b>	<b>22,976</b>	<b>2,003,174</b>	<b>773,571</b>	<b>39,853</b>	<b>959,156</b>	<b>78,309</b>	<b>21,183</b>	<b>1,872,072</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 884,736</b>	<b>\$ 46,083</b>	<b>\$ 1,025,538</b>	<b>\$ 84,376</b>	<b>\$ 23,971</b>	<b>\$ 2,064,704</b>	<b>\$ 853,708</b>	<b>\$ 43,269</b>	<b>\$ 1,001,293</b>	<b>\$ 81,928</b>	<b>\$ 22,976</b>	<b>\$ 2,003,174</b>
<b>Plan fiduciary net position</b>												
Contributions - employer	\$ 37,334	\$ 1,737	\$ 46,986	\$ 3,920	\$ 770	\$ 90,747	\$ 37,122	\$ 1,708	\$ 47,321	\$ 3,877	\$ 796	\$ 90,824
Contributions - employee	2,134	568	9,249	937	377	13,265	1,141	618	9,719	984	401	12,863
Net investment income	(9,265)	(584)	(9,883)	(809)	(345)	(20,886)	12,129	784	13,034	1,081	467	27,495
Benefit payments, including refunds of employee contributions	(43,546)	(1,323)	(56,122)	(4,244)	(35)	(105,270)	(38,340)	(643)	(53,243)	(4,179)	(58)	(96,463)
Administrative expense	(206)	(15)	(258)	(21)	(8)	(508)	(172)	(11)	(209)	(19)	(10)	(421)
Other	1,736	(610)	(949)	164	(341)	-	522	(196)	145	(356)	(115)	-
<b>Net change in plan fiduciary position</b>	<b>(11,813)</b>	<b>(227)</b>	<b>(10,977)</b>	<b>(53)</b>	<b>418</b>	<b>(22,652)</b>	<b>12,402</b>	<b>2,260</b>	<b>16,767</b>	<b>1,388</b>	<b>1,481</b>	<b>34,298</b>
<b>Plan fiduciary net position - beginning</b>	<b>510,601</b>	<b>33,432</b>	<b>550,438</b>	<b>45,469</b>	<b>19,922</b>	<b>1,159,862</b>	<b>498,199</b>	<b>31,172</b>	<b>533,671</b>	<b>44,081</b>	<b>18,441</b>	<b>1,125,564</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 498,788</b>	<b>\$ 33,205</b>	<b>\$ 539,461</b>	<b>\$ 45,416</b>	<b>\$ 20,340</b>	<b>\$ 1,137,210</b>	<b>\$ 510,601</b>	<b>\$ 33,432</b>	<b>\$ 550,438</b>	<b>\$ 45,469</b>	<b>\$ 19,922</b>	<b>\$ 1,159,862</b>
<b>Authority's net pension liability - ending (a) - (b)</b>	<b>\$ 385,948</b>	<b>\$ 12,878</b>	<b>\$ 486,077</b>	<b>\$ 38,960</b>	<b>\$ 3,631</b>	<b>\$ 927,494</b>	<b>\$ 343,107</b>	<b>\$ 9,837</b>	<b>\$ 450,855</b>	<b>\$ 36,459</b>	<b>\$ 3,054</b>	<b>\$ 843,312</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	56.38%	72.05%	52.60%	53.83%	84.85%		59.81%	77.27%	54.97%	55.50%	86.71%	
<b>Covered - employee payroll</b>	\$ 130,848	\$ 15,649	\$ 279,978	\$ 28,882	\$ 11,699		\$ 136,146	\$ 13,717	\$ 273,009	\$ 28,141	\$ 11,522	
<b>Authority net pension liability as a percentage of covered - employee payroll</b>	294.96%	82.29%	173.61%	134.89%	31.04%		252.01%	71.71%	165.14%	129.56%	26.51%	

**Note to Schedule**

The Authority adopted GASB 68 on a prospective basis in Fiscal Year 2015; therefore only three years are presented in the schedule. The Authority's FY 2017, 2016, and 2015 total pension liability was measured as of 6/30/16, 6/30/15, and 6/30/14, respectively.

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

	2015					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
<b>Total pension liability</b>						
Service Cost	\$ 9,995	\$ 1,245	\$ 16,365	\$ 1,657	\$ 769	\$ 30,031
Interest	53,586	2,710	66,692	5,409	1,472	129,869
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-
Effect of economic/demographic gains or losses	(1,242)	(44)	(1,774)	241	(563)	(3,382)
Changes of assumptions	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(35,153)	(379)	(50,412)	(3,845)	(53)	(89,842)
<b>Net change in total pension liability</b>	27,186	3,532	30,871	3,462	1,625	66,676
<b>Total pension liability - beginning</b>	746,385	36,321	928,285	74,847	19,558	1,805,396
<b>Total pension liability - ending (a)</b>	<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	\$ 35,353	\$ 1,389	\$ 47,588	\$ 3,805	\$ 809	\$ 88,944
Contributions - employee	1,076	557	9,431	948	391	12,403
Net investment income	70,296	4,268	74,777	6,157	2,552	158,050
Benefit payments, including refunds of employee contributions	(35,153)	(379)	(50,412)	(3,845)	(53)	(89,842)
Administrative expense	(100)	(7)	(132)	(11)	(3)	(253)
Other	576	-	(308)	(51)	(217)	-
<b>Net change in plan fiduciary position</b>	72,048	5,828	80,944	7,003	3,479	169,302
<b>Plan fiduciary net position - beginning</b>	426,151	25,344	452,727	37,078	14,962	956,262
<b>Plan fiduciary net position - ending (b)</b>	<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>\$ 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>	64.40%	78.22%	55.64%	56.29%	87.06%	
<b>Covered - employee payroll</b>	\$ 133,250	\$ 13,605	\$ 264,860	\$ 26,750	\$ 10,756	
<b>Authority net pension liability as a percentage of covered - employee payroll</b>	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 three years are presented in the schedule. The Authority's FY 2017, 2016, and 2015 total pension liability was measured as of 6/30/16, 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>2017</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>
Actuarially determined employer contributions	\$ 42,060	\$ 37,334	\$ 37,122	\$ 35,353	\$ 34,550	\$ 32,462	\$ 31,213	\$ 25,284	\$ 28,819	\$ 25,245
Contributions in relation to the actuarially determined employer contribution	42,060	37,334	37,122	35,353	34,550	32,462	31,213	25,284	28,819	25,245
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	\$ 132,095	\$ 130,848	\$ 136,146	\$ 133,250	\$ 130,846	\$ 128,215	\$ 124,931	\$ 122,325	\$ 118,656	\$ 118,832
Employer contributions as a percentage of covered - employee payroll	31.84%	28.53%	27.27%	26.53%	26.41%	25.32%	24.98%	20.67%	24.29%	21.24%
<b><u>TRANSIT POLICE</u></b>	<b><u>2017</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>
Actuarially determined employer contributions	\$ 1,692	\$ 1,737	\$ 1,652	\$ 1,444	\$ 1,389	\$ 1,190	\$ 1,031	\$ 733	\$ 779	\$ 683
Contributions in relation to the actuarially determined employer contribution	1,692	1,737	1,652	1,388	1,389	1,190	1,031	733	779	683
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 13,695	\$ 13,268	\$ 13,717	\$ 13,606	\$ 13,513	\$ 12,553	\$ 11,546	\$ 10,523	\$ 10,430	\$ 9,983
Employer contributions as a percentage of covered - employee payroll	12.35%	13.09%	12.04%	10.20%	10.28%	9.48%	8.93%	6.97%	7.47%	6.84%
<b><u>CITY TRANSIT</u></b>	<b><u>2017</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>
Actuarially determined employer contributions	\$ 45,401	\$ 46,282	\$ 47,017	\$ 47,588	\$ 49,218	\$ 48,635	\$ 43,320	\$ 38,534	\$ 35,690	\$ 33,091
Contributions in relation to the actuarially determined employer contribution	45,401	46,282	47,017	47,588	49,218	48,635	43,320	38,534	35,690	33,091
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	\$ 288,333	\$ 279,978	\$ 273,009	\$ 264,860	\$ 256,667	\$ 251,418	\$ 248,484	\$ 242,762	\$ 232,168	\$ 260,569
Employer contributions as a percentage of covered - employee payroll	15.75%	16.53%	17.22%	17.97%	19.18%	19.34%	17.43%	15.87%	15.37%	12.70%

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)

<u>SUBURBAN TRANSIT</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined employer contributions	\$ 3,777	\$ 3,888	\$ 3,860	\$ 3,805	\$ 3,953	\$ 3,811	\$ 3,319	\$ 2,908	\$ 2,620	\$ 2,429
Contributions in relation to the actuarially determined employer contribution	3,777	3,888	3,860	3,805	3,953	3,811	3,319	2,908	2,620	2,429
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	\$ 30,149	\$ 28,882	\$ 28,141	\$ 26,750	\$ 26,065	\$ 25,155	\$ 24,709	\$ 23,447	\$ 22,278	\$ 26,704
Employer contributions as a percentage of covered - employee payroll	12.53%	13.46%	13.72%	14.22%	15.17%	15.15%	13.43%	12.40%	11.76%	9.10%
<u>FRONTIER</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined employer contributions	\$ 631	\$ 757	\$ 779	\$ 809	\$ 921	\$ 911	\$ 709	\$ 586	\$ 556	\$ 493
Contributions in relation to the actuarially determined employer contribution	631	757	779	809	921	911	709	586	556	493
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	\$ 11,866	\$ 11,699	\$ 11,522	\$ 10,756	\$ 10,239	\$ 9,903	\$ 9,484	\$ 8,984	\$ 8,267	\$ 9,386
Employer contributions as a percentage of covered - employee payroll	5.32%	6.47%	6.76%	7.52%	9.00%	9.20%	7.48%	6.52%	6.73%	5.25%

**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%
	Transit Police, City Transit, Suburban Transit and Frontier - Salary scale rates vary by years of service for actuarial valuation purposes .5% plus inflation
Investment rate of return	7.00%, net of pension plan investment expense
Retirement age	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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as of June 30, 2017

	SAM <u>Plan</u>	Transit Police <u>Plan</u>	City Transit <u>Plan</u>	Suburban Transit <u>Plan</u>	Frontier <u>Plan</u>	<u>Total</u>
Assets:						
Receivables						
Plan member contributions	\$ 183	\$ 24	\$ 237	\$ 27	\$ 12	\$ 483
Interest and dividends	1,005	68	1,082	92	43	2,290
Sales pending settlement	14,952	1,007	16,132	1,363	628	34,082
Total receivables	<u>16,140</u>	<u>1,099</u>	<u>17,451</u>	<u>1,482</u>	<u>683</u>	<u>36,855</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	17,902	1,204	19,311	1,633	754	40,804
U.S. Government obligations	31,395	2,112	33,867	2,863	1,322	71,559
Corporate and other government obligations	120,231	8,089	129,702	10,965	5,061	274,048
Common stocks	317,151	21,336	342,130	28,925	13,352	722,894
Private equity	43,876	2,952	47,332	4,002	1,847	100,009
Real estate	26,935	1,812	29,057	2,457	1,134	61,395
Natural resources	1,302	88	1,404	119	55	2,968
Total Investments	<u>558,792</u>	<u>37,593</u>	<u>602,803</u>	<u>50,964</u>	<u>23,525</u>	<u>1,273,677</u>
Total assets	574,932	38,692	620,254	52,446	24,208	1,310,532
Liabilities:						
Purchases pending settlement	13,433	903	14,489	1,224	565	30,614
Net position restricted for pensions	<u>\$ 561,499</u>	<u>\$ 37,789</u>	<u>\$ 605,765</u>	<u>\$ 51,222</u>	<u>\$ 23,643</u>	<u>\$ 1,279,918</u>

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as of June 30, 2016

	SAM <u>Plan</u>	Transit Police <u>Plan</u>	City Transit <u>Plan</u>	Suburban Transit <u>Plan</u>	Frontier <u>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
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	11,721	783	12,663	1,062	475	26,704
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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for the Year Ended June 30, 2017

	<u>SAM</u> <u>Plan</u>	Transit Police <u>Plan</u>	City Transit <u>Plan</u>	Suburban Transit <u>Plan</u>	Frontier <u>Plan</u>	<u>Total</u>
Additions						
Contributions						
Employer (ADC)	\$ 42,061	\$ 1,692	\$ 45,401	\$ 3,778	\$ 631	\$ 93,563
Plan member	4,558	1,073	12,805	1,156	396	19,988
Other employer	-	-	368	44	9	421
Total contributions	<u>46,619</u>	<u>2,765</u>	<u>58,574</u>	<u>4,978</u>	<u>1,036</u>	<u>113,972</u>
Investment income (loss)						
Net realized gain	9,037	604	9,769	827	380	20,617
Net (decrease) in fair value of investments	45,823	3,055	49,526	4,190	1,920	104,514
Interest	4,427	295	4,786	405	186	10,099
Dividends	4,521	302	4,888	414	190	10,315
Total investment gain	<u>63,808</u>	<u>4,256</u>	<u>68,969</u>	<u>5,836</u>	<u>2,676</u>	<u>145,545</u>
Less investment expense	1,495	100	1,616	137	63	3,411
Net investment income	<u>62,313</u>	<u>4,156</u>	<u>67,353</u>	<u>5,699</u>	<u>2,613</u>	<u>142,134</u>
Total additions	108,932	6,921	125,927	10,677	3,649	256,106
Deductions						
Benefits	47,359	2,208	58,592	4,677	36	112,872
Asset transfer for transferred employees	(1,360)	114	773	172	301	-
Administrative expense	222	15	258	22	9	526
Total deductions	<u>46,221</u>	<u>2,337</u>	<u>59,623</u>	<u>4,871</u>	<u>346</u>	<u>113,398</u>
Net increase	62,711	4,584	66,304	5,806	3,303	142,708
Net position restricted for pensions						
Beginning 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>
End of year	<u>\$ 561,499</u>	<u>\$ 37,789</u>	<u>\$ 605,765</u>	<u>\$ 51,222</u>	<u>\$ 23,643</u>	<u>\$ 1,279,918</u>



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for the Year Ended June 30, 2016

	SAM <u>Plan</u>	Transit Police <u>Plan</u>	City Transit <u>Plan</u>	Suburban Transit <u>Plan</u>	Frontier <u>Plan</u>	<u>Total</u>
Additions						
Contributions						
Employer (ADC)	\$ 37,334	\$ 1,737	\$ 46,282	\$ 3,888	\$ 757	\$ 89,998
Plan member	2,134	568	9,249	937	377	13,265
Other employer	-	-	704	32	13	749
Total contributions	<u>39,468</u>	<u>2,305</u>	<u>56,235</u>	<u>4,857</u>	<u>1,147</u>	<u>104,012</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	4,456	297	4,816	402	180	10,151
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	1,595	106	1,723	143	64	3,631
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	30,203	1,721	46,352	4,048	802	83,126
Deductions						
Benefits	43,546	1,323	56,122	4,244	35	105,270
Asset transfer for transferred employees	(1,736)	610	949	(164)	341	-
Administrative expense	206	15	258	21	8	508
Total deductions	<u>42,016</u>	<u>1,948</u>	<u>57,329</u>	<u>4,101</u>	<u>384</u>	<u>105,778</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>