CHICAGO TRANSIT AUTHORITY
CHICAGO, ILLINOIS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2013 and 2012

(With Independent Auditor's Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

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Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the CTA'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.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditor's 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 auditor considers 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of the CTA, as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in March 2012, the GASB issued GASB Statement 65, "Items Previously Reported as Assets and Liabilities." The provisions of this Statement are effective for the CTA's fiscal year ended December 31, 2013. The CTA has implemented this Statement retroactively for the year ended December 31, 2012 resulting in restated net position. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the CTA's financial statements. The accompanying supplementary schedules of expenses and revenues – budget and actual for the years ended December 31, 2013 and 2012, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary schedules of expenses and revenues – budget and actual are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary schedules of expenses and revenues – budget and actual are fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our report dated April 30, 2014 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CTA's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
April 30, 2014

Introduction

The following discussion and analysis of the financial performance and activity of the Chicago Transit Authority (CTA) provide an introduction and understanding of the basic financial statements of the CTA for the fiscal years ended December 31, 2013 and 2012. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2013

- *Net position totaled $832,959,000 at December 31, 2013.*
- *Net position increased $280,102,000 in 2013, which compares to a decrease of $196,274,000 in 2012.*
- *Total net capital assets were $4,442,538,000 at December 31, 2013, an increase of 17.15% over the balance at December 31, 2012 of $3,792,311,000.*

Financial Highlights for 2012

- *Net position totaled $552,857,000 at December 31, 2012.*
- *Net position decreased $196,274,000 in 2012, which compares to a decrease of $274,505,000 in 2011.*
- *Total net capital assets were $3,792,311,000 at December 31, 2012, an increase of 0.86% over the balance at December 31, 2011 of $3,760,045,000.*

The Financial Statements

The basic financial statements provide information about the CTA's business-type activities and the Open Supplemental Retirement Fund (fiduciary activities). The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Position

The statement of net position reports all financial and capital resources for the CTA (excluding fiduciary activities). The statement is presented in the format where assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net position is to show a picture of the liquidity and health of the organization as of the end of the year.

(Continued)

The statement of net position (the unrestricted net position) is designed to present the net available liquid (noncapital) assets, net of liabilities, for the entire CTA. Net position is reported in three categories:

- *Net Investment in Capital Assets—This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.*
- *Restricted—This component of net position consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws, and regulations, etc.*
- *Unrestricted—This component consists of net position that does not meet the definition of net investment in capital assets, or a restricted component of net position.*

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position includes operating revenues, such as bus and rail passenger fares, rental fees received from concessionaires, and the fees collected from advertisements on CTA property; operating expenses, such as costs of operating the mass transit system, administrative expenses, and depreciation on capital assets; and nonoperating revenue and expenses, such as grant revenue, investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss and portrays the results of operations of the organization for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the CTA in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

(Continued)

Financial Analysis of the CTA's Business-Type Activities

Statement of Net Position

The following table reflects a condensed summary of assets, liabilities, and net position of the CTA as of December 31, 2013, 2012, and 2011:

Table 1
Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position
December 31, 2013, 2012, and 2011
(In thousands of dollars)

	2013	2012	2011
Assets:			
Current assets	$ 677,410	$ 678,900	$ 620,593
Capital Assets, net	4,442,538	3,792,311	3,760,045
Noncurrent assets	1,942,841	2,482,899	2,745,344
Total assets	7,062,789	6,954,110	7,125,982
Total deferred outflows of resources	10,054	7,615	9,622
Total assets and deferred outflows of resouces	$ 7,072,843	$ 6,961,725	$ 7,135,604
Liabilities:			
Current liabilities	$ 738,733	$ 630,516	$ 569,774
Long-term liabilities	5,500,128	5,778,180	5,816,608
Total liabilities	6,238,861	6,408,696	6,386,382
Total deferred inflows of resources	1,023	172	91
Net position			
Net investment in capital assets	2,711,215	2,383,120	2,631,353
Restricted:			
Payment of leasehold obligations	51,585	43,920	31,164
Debt service	76,203	75,333	83,585
Unrestricted (deficit)	(2,006,044)	(1,949,516)	(1,996,971)
Total net position	832,959	552,857	749,131
Total liabilities, deferred inflows and net position	$ 7,072,843	$ 6,961,725	$ 7,135,604

Year Ended December 31, 2013

Current assets decreased by 0.22% to $677,410,000. The decrease in cash and investments is offset by an increase in receivables with the overall balance of current assets on par with the prior year.

Capital assets (net) increased by 17.15% to $4,442,538,000 due to an increase in vehicle purchases, new fare collection equipment, and two major rail construction projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 21.75% to $1,942,841,000 primarily due to use of bond proceeds to fund various capital projects.

Current liabilities increased 17.16% to $738,733,000 primarily due to an increase in the current portion of capital lease obligations which is based on terms set forth in the lease agreements.

(Continued)

Long-term liabilities decreased 4.81% to $5,500,128,000. The decrease is due to a shift in categorization from long term to short term based on terms set forth in the capital lease agreements and the termination of one lease.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net position balances restricted for other purposes include amounts restricted for two distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net position, represents assets available for operations, decreased 2.90% over the prior year.

Year Ended December 31, 2012

Current assets increased by 9.40% to $678,900,000. The change in current assets is primarily due to an increase in grant receivables.

Capital assets (net) increased by 0.86% to $3,792,311,000 due to an increase in vehicle purchases. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 9.56% to $2,482,899,000 primarily due to use of bond proceeds to fund various capital projects.

Current liabilities increased 10.66% to $630,516,000 primarily due to an increase in the accounts payable and accrued expenses related to increased capital project activity.

Long-term liabilities decreased 0.66% to $5,778,180,000. The slight decrease in primarily due to a decrease in bonds payable.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets.

The net position balances restricted for other purposes include amounts restricted for two distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net position, represents assets available for operations, decreased 2.38% over the prior year.

(Continued)

Statement of Revenues, Expenses, and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position (in thousands) for the years ended December 31, 2013, 2012, and 2011:

Table 2
Condensed Summary of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2013, 2012, and 2011
(In thousands of dollars)

	2013	2012	2011
Operating revenues	$ 624,954	$ 596,499	$ 570,891
Operating expenses:			
Operating expenses	1,280,661	1,292,918	1,215,871
Depreciation	365,560	379,510	404,193
Total operating expenses	1,646,221	1,672,428	1,620,064
Operating loss	(1,021,267)	(1,075,929)	(1,049,173)
Nonoperating revenues:			
Public funding from the RTA	753,308	645,524	701,920
Interest revenue from leasing transactions	111,151	116,039	114,068
Other nonoperating revenues	52,857	62,163	47,280
Total nonoperating revenues	917,316	823,726	863,268
Nonoperating expenses	(289,518)	(310,473)	(298,660)
Change in net position before capital contributions	(393,469)	(562,676)	(484,565)
Capital contributions	673,571	366,402	238,355
Change in net position	280,102	(196,274)	(246,210)
Total net position, beginning of year (as restated)	552,857	749,131	995,341
Total net position, end of year	$ 832,959	$ 552,857	$ 749,131

Year Ended December 31, 2013

Total operating revenues increased by $28,455,000, or 4.77% primarily due to increases in farebox revenue.

In 2013, CTA implemented a new fare policy which increased the price of passes. As a result, some riders transitioned from passes to other fare media options. CTA's ridership decreased by 3.0% or 16.3 million rides, however the combined fare and pass revenue increased due to the new fare policy. CTA's average fare of $1.09 was $0.08 higher than 2012.

In 2013, CTA provided approximately 80.0 million free rides, an increase of 10.9 million or 15.8% over 2012. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under the new program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses decreased $26,207,000, or 1.57%. The decrease is primarily driven by lower materials and security expenses. Materials expense decreased $25,084,000 due to new supply chain management strategies. Security services expense was decreased $13,308,000 primarily due to the reinstatement of the customer service assistants at rail stations which reduced the need for outsourced security service.

Year Ended December 31, 2012

Total operating revenues increased by $25,608,000, or 4.49% primarily due to increases in farebox and pass revenue.

Farebox and pass revenue increased 3.97% over the prior year primarily due to higher ridership. CTA's ridership increased by 2.6% or 13.6 million rides. CTA's average fare of $1.01 was $0.02 higher than 2011.

In 2012, CTA provided approximately 57.0 million free rides, a decrease of 1.6 million or 2.8% over 2011. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under the new program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses increased $52,364,000, or 3.23%. The increase is primarily driven by higher labor expense. Labor expense increased $47,746,000 or 5.18% due to an increase in base wages and related fringe benefits. Materials expense increased $17,518,000 due to an increase in the reserve for obsolescence. Fuel expense increased $5,635,000 due to price increases. Electric power was $3,079,000 less than the prior year.

(Continued)

Table 3, which follows, provides a comparison of amounts for these items:

Table 3
Operating Revenues and Expenses
Years ended December 31, 2013, 2012, and 2011
(In thousands of dollars)

	2013	2012	2011
Operating Revenues:			
Farebox revenue	$ 323,302	$ 272,195	$ 266,875
Pass revenue	250,727	276,604	260,978
Total farebox and pass revenue	574,029	548,799	527,853
Advertising and concessions	25,677	25,675	21,459
Other revenue	25,248	22,025	21,579
Total operating revenues	$ 624,954	$ 596,499	$ 570,891
Operating Expenses:			
Labor and fringe benefits	$ 970,974	$ 969,637	$ 921,891
Materials and supplies	60,353	85,437	67,919
Fuel	61,836	62,908	57,273
Electric power	26,174	25,020	28,099
Purchase of security services	24,160	37,468	36,815
Other	122,993	95,000	83,706
Operating expense before provisions	1,266,490	1,275,470	1,195,703
Provision for injuries and damages	14,171	17,448	20,168
Provision for depreciation	365,560	379,510	404,193
Total operating expenses	$ 1,646,221	$ 1,672,428	$ 1,620,064

Capital Asset and Debt Administration

Capital Assets

The CTA invested $10,325,899,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2013. Net of accumulated depreciation, the CTA's capital assets at December 31, 2013 totaled $4,442,538,000. This amount represents a net increase (including additions and disposals, net of depreciation) of $650,227,000, or 17.15%, over the December 31, 2012 balance primarily due to an increase in vehicle purchases, new fare collection equipment and two major rail construction projects.

The CTA invested $9,391,480,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2012. Net of accumulated depreciation, the CTA's capital assets at December 31, 2012 totaled $3,792,311,000. This amount represents a net increase (including additions and disposals, net of depreciation) of $32,266,000, or 0.86%, over the December 31, 2011 balance primarily due to an increase in vehicle purchases.

Additional information on the capital assets can be found in note 6 of the audited financial statements.

Debt Administration

Long-term debt includes capital lease obligations payable, accrued pension costs, bonds payable and certificates of participation.

At December 31, 2013, the CTA had $1,608,763,000 in capital lease obligations outstanding, a decrease from the prior year due to the early termination of one lease transaction. The bonds payable liability decreased $81,104,000 over the prior year. There were no new bond issuances during 2013.

At December 31, 2012, the CTA had $1,777,681,000 in capital lease obligations outstanding, a slight increase from December 31, 2011. The bonds payable liability decreased $62,390,000 over the prior year. There were no new bond issuances during 2012.

Additional information on the debt activity can be found in notes 7, 8, 9 and 10 of the audited financial statements.

2014 Budget and Economic Factors

On November 13, 2013, the CTA Board adopted an annual operating budget for fiscal year 2014. After adoption, the budget was submitted to and approved by the RTA on November 20, 2013. The 2014 budget is balanced at $1.384 billion, with no service reductions and no transfers of capital funds. The 2014 budget is 2.3% higher than the 2013 budget, with increases in labor expense following the contractual schedule and inflationary increases in materials, energy, and contracts.

The CTA continues into the third year of a four-year, negotiated labor agreement in 2014. This labor agreement provides for modest wage increases, a reformed health care plan, and updated work rules. Together, these changes help bend the labor cost curve and provide stability in labor expenses, which are the bulk of CTA's expenses. Other management efficiencies, such as fuel hedging, supply chain reform, and absenteeism reduction help reduce and contain expenses across the agency. The CTA continues to take delivery of 714 new rail cars replacing rail cars that have been in service for nearly 40 years. In addition, the CTA put 100 new buses into service in 2013, begins taking delivery of a base order of 300 new buses in 2014, and is in the middle of a full mid-life overhaul of over 1,000 existing buses. These vehicle investments help reduce material, fuel, and labor expense.

Several major infrastructure upgrades were completed in 2013, most notably the Red Line South project. For five months of 2013, a 10.2 mile stretch of the Red Line South was closed while the entire ballast, track, and associated infrastructure were replaced. The project finished on-time and on-budget resulting in a time savings of 15 minutes with improved efficiency and quality for the customer. In 2013, this project was accompanied by the replacement of the Wells Street Bridge and an upgrade to the CTA's busiest train junction, serving 700 trains per day and upgrades to CTA's along with numerous improvements to CTA's stations, operating facilities, and track and power infrastructure. In 2014, infrastructure upgrades across the system will continue along with the Your New Blue project designed to reduce travel time and improve stations on the Blue Line, a heavily used and rapidly growing part of the CTA system.

System-generated revenue is projected to be $676 million in 2014, representing a 1.1% increase over the 2013 forecast. The prices of unlimited ride passes and other targeted fares were increased in 2013 and will remain stable in 2014. The UPass unlimited ride pass for post graduate institutions increased the daily price to $1.07 per day from $0.81 per day beginning in August 2013 and continuing for the next five years. In the State of Illinois' FY 2014 budget, the reduced fare reimbursement for the CTA was cut by nearly $14 million. The RTA has provided funding to offset this reduction for the first six months of 2014 until the amount is restored in the state's FY 2015 budget. Additionally, a $0.50 bus fare discount and free rail rides at a transfer station were provided in 2013 during the five-month Red Line South project. The completion of that project is expected to have a positive impact on 2014 revenue.

(Continued)

The economic recovery is expected to continue to increase public funding from sales tax receipts and the Real-Estate Transfer Tax. Final estimates from 2013 show a public funding total of $697.2 million, about $25 million higher than revised estimates. In 2014 public funding available is projected to be $700.7 million (excluding the $8.2 million replacement of the reduced fare reimbursement).

Legislation

On January 18, 2008, Public Act 95-708 became law. This legislation provides funding for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each of the six counties, 2) a $1.50 per $500 of transfer price increase in the City of Chicago's real estate transfer tax, 3) an additional 5% state match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25% state match on the new sales tax and real estate transfer tax. The proceeds from the increase in the RTA sales tax will be used to fund some existing programs such as ADA paratransit services, as well as some new initiatives such as the Suburban Community Mobility Fund and the Innovation, Coordination and Enhancement Fund. The balance of these additional proceeds along with the 5% state match on: existing, additional sales tax and real estate transfer tax; and the state 25% match on the new sales tax will be divided among the CTA (48%), Metra (39%) and Pace (13%) according to the statutory formula. On February 6, 2008, the Chicago City Council authorized an increase in the real estate transfer tax in the amount of $1.50 per $500 of transfer price, the proceeds of which (after deducting costs associated with collection) will be entirely directed to the CTA. Additionally the state 25% match on the real estate transfer tax will be entirely directed to CTA as well.

Pursuant to Public Act 94-839, the CTA was required to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. This legislation also required the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions were more than one month overdue, the RTA would pay the amount of the overdue contributions directly to the trustee of the CTA's retirement system out of moneys otherwise payable by the RTA to the CTA.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust was created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue $1.349 billion in pension obligation bonds to fund the Retirement Plan. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

(Continued)

Public Act 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by Public Act 94-839, Public Act 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3% of their compensation into the new retiree healthcare trust. Second, all employees will be eligible for retiree healthcare, but after January 18, 2008, only those employees who retire at or after the age of 55 with 10 years of continuous service will actually receive the benefit. Third, retiree, dependent and survivor premiums can be raised up to 45% of the premium cost. Finally, the CTA has been given the authorization to issue $640 million in pension obligation bonds to fund the healthcare trust. Subsequent to the 2008 legislation, the Board of Trustees of the Retiree Healthcare Trust amended the eligibility requirements to receive postemployment health benefits. After 2010, employees will be eligible for retiree healthcare at or after the age of 55 with 20 years of continuous service.

The pension and retiree healthcare bonds were issued on August 6, 2008 and $1.1 billion was deposited in the pension trust and $528.8 million was deposited in the healthcare trust.

Contacting the CTA's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the CTA's finances and to demonstrate the CTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chicago Transit Authority's Chief Financial Officer, 567 W. Lake Street, Chicago, IL 60661.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Net Position
December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 95,621	$ 124,090
Cash and cash equivalents restricted for damage reserve	114,622	121,395
Investments	20	1,000
Total cash, cash equivalents, and investments	210,263	246,485
Grants receivable:		
Due from the RTA	276,970	246,638
Capital improvement projects from federal and state sources	33	33
Unbilled work in progress	88,703	92,536
Other	70	809
Total grants receivable	365,776	340,016
Accounts receivable, net	48,881	40,772
Materials and supplies, net	44,387	46,056
Prepaid expenses and other assets	7,080	5,399
Derivative instrument asset	1,023	172
Total current assets	677,410	678,900
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	1,503,684	1,659,597
Bond proceeds held by trustee	420,670	804,205
Assets held by trustee for supplemental retirement plans	441	381
Net pension asset - supplemental retirement plans	18,046	18,716
Total other noncurrent assets	1,942,841	2,482,899
Capital assets:		
Capital assets not being depreciated	1,038,890	624,753
Capital assets being depreciated	9,287,009	8,766,727
Less accumulated depreciation	(5,883,361)	(5,599,169)
Total capital assets being depreciated, net	3,403,648	3,167,558
Total capital assets, net	4,442,538	3,792,311
Total noncurrent assets	6,385,379	6,275,210
Total assets	7,062,789	6,954,110
Deferred outflows of resources		
Deferred loss on refunding	10,054	7,615
Total deferred outflows of resources	10,054	7,615
Total assets and deferred outflows of resources	$ 7,072,843	$ 6,961,725

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Net Position
December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 168,274	$ 144,256
Accrued payroll, vacation pay, and related liabilities	107,051	102,081
Accrued interest payable	20,370	21,107
Advances, deposits, and other	10,997	8,440
Unearned passenger revenue	41,834	53,179
Other unearned revenue	1,471	2,164
Unearned operating assistance	34,525	33,138
Current portion of long-term liabilities	354,211	266,151
Total current liabilities	738,733	630,516
Long-term liabilities:		
Self-insurance claims, less current portion	169,357	170,482
Capital lease obligations, less current portion	1,457,455	1,700,351
Bonds payable, less current portion	3,669,020	3,753,939
Certificates of participation payable, less current portion	43,486	49,987
Net pension obligation - supplemental retirement plans	59,455	38,277
Net other postemployment benefits obligation	4,120	3,934
Other long-term liabilities	97,235	61,210
Total long-term liabilities	5,500,128	5,778,180
Total liabilities	6,238,861	6,408,696
Deferred inflows of resources		
Accumulated increase in fair value of hedging derivative	1,023	172
Total deferred inflows of resources	1,023	172
Net position:		
Net investment in capital assets	2,711,215	2,383,120
Restricted:		
Payment of leasehold obligations	51,585	43,920
Debt service	76,203	75,333
Unrestricted (deficit)	(2,006,044)	(1,949,516)
Total net position	832,959	552,857
Total liabilities, deferred inflows of resources, and net position	$ 7,072,843	$ 6,961,725

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Operating revenues:		
Fare box revenue	$ 323,302	$ 272,195
Pass revenue	250,727	276,604
Total fare box and pass revenue	574,029	548,799
Advertising and concessions	25,677	25,675
Other revenue	25,248	22,025
Total operating revenues	624,954	596,499
Operating expenses:		
Labor and fringe benefits	970,974	969,637
Materials and supplies	60,353	85,437
Fuel	61,836	62,908
Electric power	26,174	25,020
Purchase of security services	24,160	37,468
Maintenance and repairs, utilities, rent, and other	122,993	95,000
	1,266,490	1,275,470
Provisions for injuries and damages	14,171	17,448
Provision for depreciation	365,560	379,510
Total operating expenses	1,646,221	1,672,428
Operating expenses in excess of operating revenues	(1,021,267)	(1,075,929)
Nonoperating revenues (expenses):		
Public funding from the RTA	753,308	645,524
Reduced-fare subsidies	21,948	27,780
Operating grant revenue	17,707	15,890
Contributions from local government agencies	5,000	5,000
Investment income	3,940	9,091
Gain (loss) on sale of assets	(1,009)	140
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(175,817)	(192,034)
Interest revenue from leasing transactions	111,151	116,039
Interest expense on leasing transactions	(112,692)	(118,439)
Total nonoperating revenues, net	627,798	513,253
Change in net position before capital contributions	(393,469)	(562,676)
Capital contributions	673,571	366,402
Change in net position	280,102	(196,274)
Total net position – beginning of year (as restated)	552,857	749,131
Total net position – end of year	$ 832,959	$ 552,857

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Cash flows from operating activities:		
Cash received from fares	$ 562,684	$ 553,253
Payments to employees	(940,755)	(918,316)
Payments to suppliers	(261,264)	(308,538)
Other receipts	44,680	30,314
Net cash flows provided by (used in) operating activities	(594,655)	(643,287)
Cash flows from noncapital financing activities:		
Public funding from the RTA	668,216	629,824
Reduced-fare subsidies	21,948	27,780
Operating grant revenue	17,707	15,890
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by (used in) noncapital financing activities	712,871	678,494
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	111,151	116,039
Interest expense on bonds	(182,593)	(198,303)
Decrease (increase) in restricted assets for repayment of leasing commitments	155,913	(29,217)
Repayment of lease obligations	(284,644)	(104,485)
Repayment of bonds payable	(80,894)	(62,093)
Repayment of other long-term liabilities	(2,058)	(3,971)
Payments for acquisition and construction of capital assets	(942,226)	(358,681)
Proceeds from the sale of property and equipment	5,355	-
Capital grants	678,143	343,360
Net cash flows provided by (used in) capital and related financing activities	(541,853)	(297,351)
Cash flows from investing activities:		
Purchases of unrestricted investments	(20)	(1,000)
Proceeds from maturity of unrestricted investments	1,000	3,020
Restricted cash and investment accounts:		
Purchases and withdrawals	(500,355)	(317,337)
Proceeds from maturities and deposits	883,830	586,468
Investment revenue	3,940	9,091
Net cash flows provided by (used in) investing activities	388,395	280,242
Net increase (decrease) in cash and cash equivalents	(35,242)	18,098
Cash and cash equivalents – beginning of year	245,485	227,387
Cash and cash equivalents – end of year	$ 210,243	$ 245,485

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Operating expenses in excess of operating revenues	$ (1,021,267)	$ (1,075,929)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	365,560	379,510
(Increase) decrease in assets:		
Accounts receivable	(8,109)	(13,891)
Materials and supplies	1,669	12,445
Prepaid expenses and other assets	(1,681)	103
Net pension asset	670	22,531
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	46,583	555
Accrued payroll, vacation pay, and related liabilities	4,970	3,592
Self-insurance reserves	5,067	4,071
Unearned passenger revenue	(11,345)	4,454
Other unearned revenue	(693)	(2,543)
Advances, deposits, and other	2,557	(952)
Accrued pension costs and OPEB	21,364	22,767
Net cash flows used in operating activities	$ (594,655)	$ (643,287)
Noncash investing and financing activities:		
Recognition of leasing proceeds	$ 4,262	$ 4,262
Accretion of interest on lease/leaseback obligations	109,188	112,570
Retirement of fully depreciated capital assets	81,368	55,365
Purchases of capital assets in accounts payable at year-end	48,555	71,119
Purchases of capital assets in other long-term liabilities	102,490	-
Recognition of revenue - RTA liability write-off (Note 4)	56,147	-
RTA assistance not received	276,970	246,638
Capital grant assistance not received		
Unbilled work in progress	88,703	92,536

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Position
Open Supplemental Retirement Plan
December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Assets:		
Contributions from employees	$ 402	$ 397
Investments at fair value:		
Short-term investments	2,011	1,558
Government agencies	8,842	8,197
Equity mutual funds	7,903	7,001
Common stock	24,450	19,995
Total investments at fair value	43,206	36,751
Securities lending collateral	13,059	15,962
Total assets	56,667	53,110
Liabilities:		
Accounts payable and other liabilities	105	108
Securities lending collateral obligation	13,059	15,962
Total liabilities	13,164	16,070
Net position of held in trust pension benefits	$ 43,503	$ 37,040

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Position
Open Supplemental Retirement Plan
Years ended December 31, 2013 and 2012
(In thousands of dollars)

	2013	2012
Additions:		
Contributions:		
Employee	$ 14	$ 45
Employer	1,927	2,267
Total contributions	1,941	2,312
Investment income:		
Net increase (decrease) in fair value of investments	5,927	3,284
Investment income	3,232	1,594
Total investment income	9,159	4,878
Total additions	11,100	7,190
Deductions:		
Benefits paid to participants or beneficiaries	4,315	4,093
Trust fees	322	307
Total deductions	4,637	4,400
Net increase (decrease)	6,463	2,790
Net position of held in trust pension benefits:		
Beginning of year	37,040	34,250
End of year	$ 43,503	$ 37,040

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION

The Chicago Transit Authority (CTA) was formed in 1945 pursuant to the Metropolitan Transportation Authority Act passed by the Illinois Legislature. The CTA was established as an independent governmental agency (an Illinois municipal corporation) "separate and apart from all other government agencies" to consolidate Chicago's public and private mass transit carriers. The City Council of the City of Chicago has granted the CTA the exclusive right to operate a transportation system for the transportation of passengers within the City of Chicago.

The Regional Transportation Authority Act (the Act) provides for the funding of public transportation in the six-county region of Northeastern Illinois. The Act established a regional oversight board, the Regional Transportation Authority (RTA), and designated three service boards (CTA, Commuter Rail Board, and Suburban Bus Board). The Act requires, among other things, that the RTA approve the annual budget of the CTA, that the CTA obtain agreement from local governmental units to provide an annual monetary contribution of at least $5,000,000 for public transportation, and that the CTA (collectively with the other service boards) finance at least 50% of its operating costs, excluding depreciation and certain other items, from system-generated sources on a budgetary basis.

<u>Financial Reporting Entity</u>: As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the application of these criteria, the CTA has no component units and is not a component unit of any other entity.

The CTA participates in the Employees' Retirement Plan, which is a single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Plan is governed by Illinois state statute (40 ILCS 5/22-101). The fund, established to administer the Employees' Retirement Plan, is not a fiduciary fund or a component unit of the CTA. This fund is a legal entity separate and distinct from the CTA. This plan is administered by its own board of trustees comprised of 5 union representatives, 5 representatives appointed by the CTA, and a professional fiduciary appointed by the RTA. The CTA has no direct authority and assumes no fiduciary responsibility with regards to the Employees' Retirement Plan. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

The CTA participates in the Retiree Health Care Trust (RHCT), which provides and administers health care benefits for CTA retirees and their dependents and survivors. The Retiree Health Care Trust was established by Public Acts 94-839 and 95-708. The RHCT is not a fiduciary fund or a component unit of the CTA. This trust is a legal entity separate and distinct from the CTA. This trust is administered by its own board of trustees comprised of three union representatives, three representatives appointed by the CTA and a professional fiduciary appointed by the RTA. The CTA has no direct authority and assumes no fiduciary responsibility with regards to the RHCT. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

(Continued)

NOTE 1 - ORGANIZATION (Continued)

The CTA administers supplemental retirement plans that are separate, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan, (2) closed supplemental plan for members retired or terminated from employment before March 2005, including early retirement incentive, and (3) open supplemental plan for members retiring or terminating after March 2005. The CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

The CTA is not considered a component unit of the RTA because the CTA maintains separate management, exercises control over all operations, and is fiscally independent from the RTA. Because governing authority of the CTA is entrusted to the Chicago Transit Board, comprising four members appointed by the Mayor of the City of Chicago and three members appointed by the Governor of the State of Illinois, the CTA is not financially accountable to the RTA and is not included as a component unit in the RTA's financial statements, but is combined in pro forma statements with the RTA, as statutorily required.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The basic financial statements provide information about the CTA's business-type and fiduciary (Open Supplemental Retirement Plan) activities. Separate statements for each category, business-type and fiduciary, are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations are provided; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the statement of net position.

The principal operating revenues of the CTA are bus and rail passenger fares. The CTA also recognizes as operating revenue the rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Operating expenses for the CTA include the costs of operating the mass transit system, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonexchange transactions, in which the CTA receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the CTA on a reimbursement basis.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements for the fiduciary activities are used to account for the assets held by the CTA in trust for the payment of future retirement benefits under the Open Supplemental Retirement Plan. The assets of the Open Supplemental Retirement Plan cannot be used to support CTA operations.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities when purchased of three months or less.

Cash and Cash Equivalents Restricted for Damage Reserve: The CTA maintained cash and investment balances to fund the annual injury and damage obligations that are required to be designated under provisions of Section 39 of the Metropolitan Transportation Authority Act.

Investments: Investments, including the supplemental retirement plan assets, are reported at fair value based on quoted market prices and valuations provided by external investment managers.

Chapter 30, Paragraph 235/2 of the Illinois Compiled Statutes authorizes the CTA to invest in obligations of the United States Treasury and United States agencies, direct obligations of any bank, repurchase agreements, commercial paper rated within the highest classification set by two standard rating services, or money market mutual funds investing in obligations of the United States Treasury and United States agencies.

Materials and Supplies: Materials and supplies are stated at the lower of average cost or market value and consist principally of maintenance supplies and repair parts.

Other Noncurrent Assets: Other noncurrent assets include (a) cash and claims to cash that are restricted as to withdrawal or use for other than current operations, (b) resources that are designated for expenditure in the acquisition or construction of noncurrent assets, or (c) resources that are segregated for the liquidation of long-term debts.

Restricted assets for repayment of leasing commitments: The CTA entered into various lease/leaseback agreements in fiscal years 1995 through 2003. These agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the related capital assets to an equity investor trust, which would then lease the capital assets back to another trust established by the CTA under a separate lease. The CTA received certain funds as prepayment by the equity investor trust. These funds have been deposited in designated investment accounts sufficient to meet the payments required under the leases and are recorded as assets restricted for repayment of leasing commitments.

Bond proceeds held by trustee: In 2004, 2006, 2008, 2010 and 2011, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance.

In 2008, the CTA issued Sales Tax Revenue Bonds to fund the employee retirement plan and to create a retiree health care trust. In 2010, the CTA issued Sales Tax Revenue Build America Bonds to fund the purchase of rail cars, the scheduled rehabilitation of rail cars, and the purchase and installation of replacements and upgrades for rail system components. In 2011, CTA issued Sales Tax Receipts Revenue Bonds to fund the purchase of rail cars and other projects. Project, debt service reserve, and capitalized interest accounts are maintained associated with these issuances.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA. The proceeds from the sale were placed in trust accounts restricted for financing the costs of acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. In 2006, the PBC issued refunding revenue bonds to refund all outstanding Series 2003 bonds.

Capital Assets: All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000, (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $10,768,000 and $6,931,900 during the years ended December 31, 2013 and 2012, respectively.

The provision for depreciation of transportation property and equipment is calculated under the straight-line method using the respective estimated useful lives of major asset classifications, as follows:

	Years
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	7-12
Rail	25
Signal and communication	10-20
Other equipment	3-10

A full month's depreciation is taken in the month after an asset is placed in service. When property and equipment are disposed, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded.

The transportation system operated by the CTA includes certain facilities owned by others. The CTA has the exclusive right to operate these facilities under the terms of the authorizing legislation and other agreements.

Included with the CTA's *other equipment* capital assets, the CTA has capitalized an intangible asset, computer software. The CTA follows the same capitalization policy and estimated useful life for its intangible asset as it does for its *other equipment* capital assets. The CTA also amortizes the intangible asset utilizing the straight-line method.

Self-insurance: The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 13. A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Compensation for holidays, illness, and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate or vest.

Under GASB Statement No. 16, Accounting for Compensated Absences, applicable salary-related employer obligations are accrued in addition to the compensated absences liability. This amount is recorded as a portion of the accrued payroll, vacation pay, and related liabilities on the statements of net position.

Bond Premiums: Bond premiums are amortized over the life of the bonds using the bonds outstanding method.

Net Position: Net position is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of legally restricted assets by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the CTA's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This component of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Retirement Plan: The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense recorded by the CTA includes a provision for current service costs and the amortization of past service cost over a period of approximately 30 years.

Fare Box and Pass Revenues: Fare box and pass revenues are recorded as revenue at the time services are performed.

Classification of Revenues: The CTA has classified its revenues as either operating or nonoperating. Operating revenues include activities that have the characteristics of exchange transactions, including bus and rail passenger fares, rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts.

Unbilled Work In Progress: Unbilled Work in Progress represents grant expense that has not been billed to the funding agencies as of year-end. This would include contract retentions, accruals and expenditures for which, due to requisitioning restrictions of the agencies or the timing of the expenditures, reimbursement is requested in a subsequent period.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Reclassifications: Certain amounts from the prior year have been reclassified to conform to the current year presentation. The reclassifications had no effect on net position or change in net position.

Implementation of New Accounting Standards: In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity - Omnibus -- An Amendment of GASB Statements No. 14 and No. 34*. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. This Statement is intended to improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). In addition, this Statement amends the criteria for blending - reporting component units as if they were part of the primary government - in certain circumstances. The implementation of this Statement did not have a material impact on the CTA.

In March, 2012, the GASB issued GASB Statement 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for the CTA's fiscal year ended December 31, 2013. This Statement was adopted by the CTA retrospectively for the fiscal year ending December 31, 2012. Based on the implementation of Statement 65 the CTA's 2012 beginning net position was restated by $34,632,000 because bond issuance costs were no longer capitalized. In addition, 2012 expenses decreased by $2,203.

In March 2012, the GASB issued GASB Statement 66, *Technical Corrections – 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The implementation of this Statement did not have a material impact on the CTA.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements:

In June 2012, the GASB issued Statement 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This Statement is effective for the CTA's financial periods beginning after June 15, 2013. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the CTA's financial periods beginning after June 15, 2014. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In January 2013, the GASB issued Statement 69, Government Combinations and Disposals of Government Operations. The objective of this Statement is to improve accounting and financial reporting for U.S. state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The new standard provides guidance for:

- Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;
- Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations;
- Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and
- Reporting the disposal of government operations that have been transferred or sold.

This Statement is effective for the CTA's financial periods beginning December 15, 2013. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In April 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. This Statement (1) requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee; (2) requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities, and (3) specifies the information required to be disclosed by governments that extend nonexchange financial guarantees, and (4) requires new information to be disclosed by governments that receive non-exchange financial guarantees. This Statement is effective for the CTA's financial periods beginning June 15, 2013. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The requirements of this statement should be applied simultaneously with the provisions of Statement 68.

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with GAAP, except for the exclusion of certain income and expenses. For 2013 and 2012, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, actuarial adjustments, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

The Act requires that expenditures for operations and maintenance in excess of budget cannot be made without approval of the Chicago Transit Board. All annual appropriations lapse at fiscal year-end. The RTA, in accordance with the RTA Act, has approved for budgetary basis presentation the CTA's recognition of the amount of the injury and damage reserve and pension contribution, funded by the RTA in the approved annual budget. Provisions in excess of the approved annual budget that are unfunded are excluded from the recovery ratio calculation.

Prior to 2009, the RTA funded the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Under this funding policy favorable variances from budget remain as unearned operating assistance to the CTA, and can be used in future years with RTA approval. At the end of 2009, the RTA changed the funding policy to reflect actual collections rather than the budgeted funding marks. This new policy shifts the risk of shortfalls from actual collections to the respective service boards.

(Continued)

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING (Continued)

The RTA approves the proposed budget based on a number of criteria:

- That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

The RTA monitors the CTA's performance against the budget on a quarterly basis. If, in the judgment of the RTA, this performance is not substantially in accordance with the CTA's budget for such period, the RTA shall so advise the CTA and the CTA must, within the period specified by the RTA, submit a revised budget to bring the CTA into compliance with the budgetary requirements listed above.

NOTE 4 - BUDGETED PUBLIC FUNDING FROM THE REGIONAL TRANSPORTATION AUTHORITY AND THE STATE OF ILLINOIS

Most of the CTA's public funding for operating needs is funneled through the RTA. The RTA allocates funds to the service boards based on a formula included in the 1983 Regional Transportation Authority Act and the 2008 Legislation (P.A. 95-0708) approved by Illinois lawmakers to provide increased operating funds to the Northeastern Illinois Transit System. Other funds are allocated based on the RTA's discretion.

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2013, an amendment to the budget was approved by the CTA Board. During 2012, an amendment to the budget was approved by the CTA Board.

The components of the operating funding from the RTA were as follows (in thousands of dollars):

		2013	2012
1983 Legislation	Illinois state sales tax allocation	$ 327,537	$ 311,746
1983 Legislation	RTA discretionary funding and other	181,009	168,700
2008 Legislation	Illinois state sales tax allocation & PTF	131,706	125,795
2008 Legislation	Real estate transfer tax	56,909	39,283
Final public funding		697,161	645,524
Working cash borrowing		56,147	-
Total public funding		$ 753,308	$ 645,524

During 2009, the RTA authorized a working cash borrowing in order to address the cash flow needs of the service boards. CTA received approximately $56,147,000 as a result of this borrowing, which was shown as a long-term liability in the financial statements. In 2013, an RTA ordinance was passed to waive collection of this amount and recognized as public funding revenue from the RTA on the statements of revenues, expenses, and changes in net position.

Reduced-fare subsidies received from the State of Illinois were $21,948,000 and $27,780,000 during the years ended December 31, 2013 and 2012, respectively, for discounted services provided to the elderly, disabled, or student riders.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents, and Investments of the Business-type Activities

Cash, cash equivalents, and investments are reported in the statements of net position of the business-type activities as follows as of December 31, 2013 and 2012 (in thousands of dollars):

	2013	2012
Current assets:		
Cash and cash equivalents	$ 95,621	$ 124,090
Restricted for injury and damage reserve	114,622	121,395
Investments	20	1,000
Noncurrent assets:		
Bond proceeds held by trustee	420,670	804,205
Held by trustee for supplemental retirement plan	441	381
Total	$ 631,374	$ 1,051,071

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2013 and 2012 (in thousands of dollars):

	2013	2012
Investments:		
Certificates of deposit	$ 20	$ 4,020
Money market mutual funds	39,305	116,483
U.S. government agencies	313,266	488,481
U.S. Treasury bills	71,429	54,780
Commercial paper	180,016	366,036
Total Investments	604,036	1,029,800
Deposits with financial institutions	27,338	21,271
Total deposits and investments	$ 631,374	$ 1,051,071

Investment Policy: CTA investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Chicago Transit Authority Investment Policy (the Investment Policy). The Investment Policy does not apply to the Employees Retirement Plan or the Retiree Healthcare Trust, which are separate legal entities. Additionally, the CTA Investment Policy does not apply to the Supplemental Retirement Plan, which is directed by the Employee Retirement Review Committee.

In accordance with the Act and the Investment Policy, CTA invests in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding $500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation’s outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers’ Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.
10. Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the Authority or held under a custodial agreement at a bank. The bonds shall be rated, at the time of purchase, no lower than ‘A’ category by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions. The maturity of the bonds authorized by this subsection (10) shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the Authority has a put option to tender the bonds within 10 years from the date of purchase. These securities shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within ten years from the date of purchase.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA’s deposits may not be returned. The CTA’s investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America. As of December 31, 2013 and 2012, the CTA’s bank balances were fully insured or collateralized.

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Interest Rate Risk: Interest rate risk is the risk that the fair value of the CTA's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Investment Policy limits the term of investments as follows:

Instrument type	Term of investment
U.S. treasuries	3 years
Repurchase agreements	330 days
Certificates of deposit	365 days
Commercial paper	270 days
U.S. Government agencies	3 years
Government money market funds	n.a.
Federal National Mortgage Assn.	3 years
Municipal bonds (callable)	10 years
Mutual funds	n.a.
Investment pool	n.a.

As of December 31, 2013, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

		Investment maturities (by years)		
	Fair value	Less than 1	1-5	5+
Money market mutual funds	$ 39,305	$ 39,305	$ -	$ -
U.S. government agencies	313,266	287,205	26,061	-
U.S. treasury bills	71,429	71,429	-	-
Commercial paper	180,016	180,016	-	-
Total	$ 604,016	$ 577,955	$ 26,061	$ -

As of December 31, 2012, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

		Investment maturities (by years)		
	Fair value	Less than 1	1-5	5+
Money market mutual funds	$ 116,483	$ 116,483	$ -	$ -
U.S. government agencies	488,481	203,450	285,031	-
U.S. treasury bills	54,780	54,780	-	-
Commercial paper	366,036	366,036	-	-
Total	$ 1,025,780	$ 740,749	$ 285,031	$ -

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2013, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

		Credit ratings			
	Fair value	A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	$ 39,305	$ -	$ -	$ -	$ 39,305
U.S. government agencies	313,266	313,266	-	-	-
U.S. treasury bills	71,429	71,429	-	-	-
Commercial paper	180,016	180,016	-	-	-
Total	$ 604,016	$ 564,711	$ -	$ -	$ 39,305

As of December 31, 2012, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

		Credit ratings			
	Fair value	A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	$ 116,483	$ -	$ -	$ -	$ 116,483
U.S. government agencies	488,481	488,481	-	-	-
U.S. treasury bills	54,780	54,780	-	-	-
Commercial paper	366,036	366,036	-	-	-
Total	$ 1,025,780	$ 909,297	$ -	$ -	$ 116,483

In addition, the Investment Policy requires that whenever funds are deposited in a financial institution in an amount which causes the total amount of the Authority's funds deposited with such institution to exceed the amount which is protected by the FDIC, all deposits which exceed the amount insured be collateralized, at the rate of 102% of such deposit, by: bonds, notes, certificates of indebtedness, Treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America.

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the CTA will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The Investment Policy requires that investment securities be held by an authorized custodial bank pursuant to a written custodial agreement.

Concentration of Credit Risk: Except for investments in certificates of deposits and commercial paper, the CTA does not restrict the amount which may be invested in authorized investments of a single issuer or financial institution. No more than 30 percent of the maximum portfolio percentage amount allowed for investment in certificates of deposit may be invested in certificates of deposit of a single issuer of such certificates. No more than 50 percent of the maximum portfolio percentage amount allowed for investment in commercial paper may be invested in commercial paper of a single issuer of such commercial paper.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2013, the CTA had investments in the Federal Home Loan Mortgage Corporation (FHLMC) (48.9%), Treasury Bills (11.8%) and U.S. Bank (8.7%) that exceeded 5 percent of the total investment balance. As of December 31, 2012, the CTA had investments in the Federal Home Loan Mortgage Corporation (FHLMC) (19.8%) and U.S. Bank (12.2%) that exceeded 5 percent of the total investment balance.

Cash, Cash Equivalents, and Investments of the Fiduciary Activities

Cash, cash equivalents, and investments are reported in the Fiduciary Fund as follows as of December 31, 2013 and 2012 (in thousands of dollars):

	2013	2012
Investments, at fair value:		
Short-term investments	$ 2,011	$ 1,558
U.S. government agency commingled funds	8,842	8,197
Equity mutual funds	7,903	7,001
Common stock	24,450	19,995
Total	$ 43,206	$ 36,751

Investment Policy: The Employee Retirement Review Committee has been appointed as the fiduciary having responsibility for administering the Open Supplemental Retirement Plan, including the responsibility for allocating the assets of the trust fund among the separate accounts, for monitoring the diversification of the investments of the trust fund, for determining the propriety of investments of the trust fund in foreign securities and of maintaining the custody of foreign investments abroad, for assuring that the plan does not violate any provisions of applicable law limiting the acquisition or holding of certain securities or other property, and for the appointment and removal of an investment fiduciary. The Open Supplemental Retirement Plan is a qualified plan that is not subject to the Public Funds Investment Act.

In March 2005 the Employee Retirement Review Committee engaged a registered investment adviser under the Investment Advisers Act of 1940. The investment adviser is authorized to invest and reinvest the assets of the Open Supplemental Retirement Plan and keep the same invested, without distinction between principal and income, in any property, real, personal or mixed or share or part thereof, or part interest thereof, or part interest therein, wherever situated, and whether or not productive of income, including: capital, common and preferred stock, and short-term investments.

Interest Rate Risk: Interest rate risk is the risk that the fair value of the Open Supplemental Retirement Plan investments will decrease as a result of an increase in interest rates. The Employee Retirement Review Committee mitigates exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

Asset class	Allocation
U.S. large cap equities	39.00%
U.S. mid size cap equities	14.00
U.S. small cap equities	12.00
Non-U.S. equities	10.00
U.S. fixed income	25.00
	100.00%

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2013, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years) Less than 1	1 - 5
Short-term investment funds	$ 2,011	$ 2,011	$ -
U.S. government agency commingled funds	8,842	8,842	-
Total	$ 10,853	$ 10,853	$ -

As of December 31, 2012, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	Fair value	Investment Maturities (in years) Less than 1	1 - 5
Short-term investment funds	$ 1,558	$ 1,558	$ -
U.S. government agency commingled funds	8,197	8,197	-
Total	$ 9,755	$ 9,755	$ -

Credit Risk: Credit risk is the risk that the Open Supplemental Retirement Plan will not recover its investments due to the failure of the counterparty to fulfill its obligation.

As of December 31, 2013, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings Government Secured	Not Rated
Short-term investment funds	$ 2,011	$ -	$ 2,011
U.S. government agency commingled funds	8,842	8,842	-
Total	$ 10,853	$ 8,842	$ 2,011

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2012, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

			Credit ratings	
		Fair value	**Government Secured**	**Not Rated**
Short-term investment funds		$ 1,558	$ -	$ 1,558
U.S. government agency commingled funds		8,197	8,197	-
Total		$ 9,755	$ 8,197	$ 1,558

Custodial Credit Risk – Investments: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Open Supplemental Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The investment securities are held in trust pursuant to a written trust agreement.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $4,018,000 and $3,395,000 as of December 31, 2013 and 2012, respectively.

Securities Lending: The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they are denominated in different currencies. The fair value of the securities loaned was approximately $12,777,000 and $15,787,000 as of December 31, 2013 and 2012, respectively. The fair value of the associated collateral received was approximately $13,059,000 and $15,962,000 as of December 31, 2013 and 2012, respectively.

Restricted Assets for Repayment of Leasing Commitments: The CTA has outstanding lease/leaseback obligations. When the CTA entered into these transactions it received advance payments. The CTA deposited a portion of the advance payment with a trustee, who was to purchase direct obligations of the U.S. government and other securities that would mature on the dates and in the amounts required to pay lease payments and the respective purchase option price. These investments are held by the trustee and are invested in U.S. Treasury strips, U.S. government obligations, or guaranteed investment contracts. Because these investments are insured by a third party and are held in U.S. Treasuries and government investment contracts they are not recorded at fair value but are recorded at amortized cost on the statements of net position.

(Continued)

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately $366,296,000 and $234,285,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2013 and 2012, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, FEMA, IEMA, or CTA bonds. Commitments of approximately $682,879,000 and $834,951,000 have been entered into for these state and local capital grants as of December 31, 2013 and 2012, respectively. Changes in capital assets for the year ended December 31, 2013 are as follows (in thousands of dollars):

	Balance at January 1, 2013	Increase	Decrease	Balance at December 31, 2013
Capital assets not being depreciated:				
Land	$ 119,451	$ 763	$ (3,752)	$ 116,462
Construction in process	505,302	919,661	(502,535)	922,428
Total capital assets not being depreciated	624,753	920,424	(506,287)	1,038,890
Capital assets being depreciated:				
Land improvements	29,138	1,156	-	30,294
Buildings	2,362,289	41,880	(14,230)	2,389,939
Transportation vehicles	2,558,862	382,292	(57,175)	2,883,979
Elevated structure track	1,963,076	26,652	-	1,989,728
Signal and communication	1,242,937	24,351	(2,209)	1,265,079
Other equipment	610,425	127,931	(10,366)	727,990
Total capital assets being depreciated	8,766,727	604,262	(83,980)	9,287,009
Less accumulated depreciation for:				
Land improvements	22,757	1,917	-	24,674
Buildings	1,132,055	81,685	(12,197)	1,201,543
Transportation vehicles	1,850,700	130,576	(56,881)	1,924,395
Elevated structure track	1,235,839	70,955	-	1,306,794
Signal and communication	803,240	54,638	(2,209)	855,669
Other equipment	554,578	25,789	(10,081)	570,286
Total accumulated depreciation	5,599,169	365,560	(81,368)	5,883,361
Total capital assets being depreciated, net	3,167,558	238,702	(2,612)	3,403,648
Total capital assets, net	$ 3,792,311	$ 1,159,126	$ (508,899)	$ 4,442,538

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2012 are as follows (in thousands of dollars):

	Balance at January 1, 2012	Increase	Decrease	Balance at December 31, 2012
Capital assets not being depreciated:				
Land	$ 119,171	$ 280	$ -	$ 119,451
Construction in process	438,858	432,414	(365,970)	505,302
Total capital assets not being depreciated	558,029	432,694	(365,970)	624,753
Capital assets being depreciated:				
Land improvements	26,740	2,398	-	29,138
Buildings	2,313,421	48,965	(97)	2,362,289
Transportation vehicles	2,441,540	251,302	(133,980)	2,558,862
Elevated structure track	1,928,722	34,398	(44)	1,963,076
Signal and communication	1,233,222	11,216	(1,501)	1,242,937
Other equipment	594,139	17,691	(1,405)	610,425
Total capital assets being depreciated	8,537,784	365,970	(137,027)	8,766,727
Less accumulated depreciation for:				
Land improvements	21,056	1,701	-	22,757
Buildings	1,050,969	81,183	(97)	1,132,055
Transportation vehicles	1,830,879	132,881	(113,060)	1,850,700
Elevated structure track	1,159,003	76,881	(45)	1,235,839
Signal and communication	741,957	62,784	(1,501)	803,240
Other equipment	531,904	24,080	(1,406)	554,578
Total accumulated depreciation	5,335,768	379,510	(116,109)	5,599,169
Total capital assets being depreciated, net	3,202,016	(13,540)	(20,918)	3,167,558
Total capital assets, net	$ 3,760,045	$ 419,154	$ (386,888)	$ 3,792,311

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2013 are as follows (in thousands of dollars):

	Balance at January 1, 2013	Additions	Reductions	Balance at December 31, 2013	Amount due beyond one year	Amount due within one year
Self insurance claims (note 14)	$ 257,071	$ 212,518	$ (207,451)	$ 262,138	$ 169,357	$ 92,781
Capital lease obligations:						
Capital lease obligations (note 8)	1,777,681	109,188	(278,106)	1,608,763	1,440,744	168,019
Premium on capital lease obligation	5,494	-	(445)	5,049	5,049	-
Unearned rev. – leasing trans. (note 8)	15,924	-	(4,262)	11,662	11,662	-
Total capital lease obligations	1,799,099	109,188	(282,813)	1,625,474	1,457,455	168,019
Bonds payable:						
Bonds payable (note 9)	3,775,670	-	(74,915)	3,700,755	3,622,025	78,730
Premium on bonds payable	53,184	-	(6,189)	46,995	46,995	-
Total bonds payable	3,828,854	-	(81,104)	3,747,750	3,669,020	78,730
Certificates of Participation (note 10)	55,886	-	(5,979)	49,907	43,486	6,421
Net pension obligation (note 12)	38,277	21,178	-	59,455	-	-
Net OPEB obligation (note 13)	3,934	186	-	4,120	-	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	56,147	-	(56,147)	-	-	-
Fare System Purchase Agreement (note 11)	-	102,490	-	102,490	94,230	8,260
Other	5,063	-	(2,058)	3,005	3,005	-
Total other long-term liabilities	61,210	102,490	(58,205)	105,495	97,235	8,260
Total	$ 6,044,331	$ 445,560	$ (635,552)	$ 5,854,339	$ 5,436,553	$ 354,211

Changes in long-term obligations for the year ended December 31, 2012 are as follows (in thousands of dollars):

	Balance at January 1, 2012	Additions	Reductions	Balance at December 31, 2012	Amount due beyond one year	Amount due within one year
Self insurance claims (note 14)	$ 253,001	$ 218,960	$ (214,890)	$ 257,071	$ 170,482	$ 86,589
Capital lease obligations:						
Capital lease obligations (note 8)	1,763,423	112,570	(98,312)	1,777,681	1,678,933	98,748
Premium on capital lease obligation	5,952	-	(458)	5,494	5,494	-
Unearned rev. – leasing trans. (note 8)	20,186	-	(4,262)	15,924	15,924	-
Total capital lease obligations	1,789,561	112,570	(103,032)	1,799,099	1,700,351	98,748
Bonds payable:						
Bonds payable (note 9)	3,832,135	-	(56,465)	3,775,670	3,700,755	74,915
Premium on bonds payable	59,487	-	(6,303)	53,184	53,184	-
Total bonds payable	3,891,622	-	(62,768)	3,828,854	3,753,939	74,915
Certificates of Participation (note 10)	61,514	-	(5,628)	55,886	49,987	5,899
Net pension obligation (note 12)	15,757	22,520	-	38,277	38,277	-
Net OPEB obligation (note 13)	3,687	247	-	3,934	3,934	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	56,147	-	-	56,147	56,147	-
Other	9,033	-	(3,970)	5,063	5,063	-
Total other long-term liabilities	65,180	-	(3,970)	61,210	61,210	-
Total	$ 6,080,322	$ 354,297	$ (390,288)	$ 6,044,331	$ 5,778,180	$ 266,151

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment with a book value of $71,695,790 and $82,287,928 at December 31, 2013 and 2012, respectively. The terms of the 2008 agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year. During 2013, CTA terminated the 2008 agreement and entered into a 2013 lease-purchase agreement with the same term and reduced rental payments. A deferred loss on refunding of $3,207,000 was recorded at the time of the 2013 transaction. The remaining unamortized loss of $3,058,000 is recorded as a deferred outflow of resources. The present value of the future payments to be made by the CTA under the lease of approximately $78,904,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

Capital Lease – Public Building Commission: In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of $119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters.

On October 26, 2006, the Public Building Commission of Chicago (PBC) issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The principal amount of the bonds refunded was $111,120,000.

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased annual debt service payments over 27 years by approximately $388,000, resulting in an economic gain of approximately $20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of $2,395,000. The remaining unamortized portion of $1,218,000 is recorded as a deferred outflow of resources in the accompanying statements of net position.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. The bond premium related to this transaction is presented as such on the statements of net position. The present value of the future payments to be made by the CTA under the lease of approximately $76,985,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

Capital Lease – Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $831,000 and $3,802,089 at December 31, 2013 and 2012, respectively. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $16,763,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

During 2002, CTA entered into two lease and leaseback agreements with a third party pertaining to certain buses (lots 1 and 2), with a book value of $763,000 and $7,651,000 at December 31, 2013 and 2012, respectively. Under the bus lease agreements, which provide certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. During 2012, CTA submitted notice to exercise the purchase option for lots 1 and 2 and accordingly lot 2 terminated in December 2013 and Lot 1 is scheduled to terminate in December 2014. The present value of the future payments to be made by the CTA under the lease of approximately $61,761,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

During 2002, CTA entered into a lease and leaseback agreement with a third party pertaining to certain qualified technological equipment (QTE), with a book value of $4,527,000 and $5,296,186 at December 31, 2012 and 2011, respectively. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. During 2013, CTA exercised the early termination option of this agreement and therefore no capital lease obligation is reflected in the fiscal year ended December 31, 2013.

During 1998, the CTA entered into lease and leaseback agreements with three third party investors pertaining to certain property, railway tracks and train stations on the Green Line, with a book value of $186,630,000 and $199,622,391 at December 31, 2013 and 2012, respectively. The 1998 Agreement, which provides certain cash and tax benefits to the third parties, also provides for a trust established by the CTA to lease the rail line to an equity investor trust (the 1998 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1998 Lease). In 2008, one of the three investors chose to unwind the transaction and the corresponding agreements were terminated. The present value of the future payments to be made by the CTA under the lease of approximately $149,455,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $37,817,000 and $39,965,441 at December 31, 2013 and 2012, respectively. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately $50,158,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

In connection with the 1997 Agreements, the CTA also received proceeds of $11,900,000. The FTA has approved the CTA’s right to the benefit received from these transactions. The CTA has elected to amortize recognition of the proceeds over the remaining lease term.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of $40,948,394 and $42,972,585 at December 31, 2013 and 2012, respectively. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). The present value of the future payments to be made by the CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately $49,908,000 is reflected in the accompanying December 31, 2013 statement of net position as a capital lease obligation.

In connection with the 1996 Agreements, the CTA also received proceeds of $10,900,000 and agreed to make approximately $80,000,000 of improvements to one of the facilities. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to amortize recognition of the proceeds over the remaining lease term.

During 1995, the CTA entered into sale/leaseback agreements (the 1995 Agreements) with third parties. The 1995 Agreements provided for the CTA to sell and lease back certain rail equipment with a book value of $38,302,762 and $46,642,600 at December 31, 2013 and 2012, respectively. At December 31, 2013, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,124,828,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2013 are as follows (in thousands of dollars):

2013	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 16,186	$ 577	$ -	$ 16,763	$ 577	$ -
2002 (Buses)	133,392	8,061	(79,692)	61,761	8,061	61,761
2002 (QTE)	103,348	-	(103,348)	-	-	-
1998 (Green)	161,450	11,055	(23,050)	149,455	11,055	23,072
1997 (Garages)	46,650	3,509	-	50,159	3,509	-
1996 (Skokie/Racine)	46,491	3,417	-	49,908	-	-
1995 (Pickle)	1,105,957	82,569	(63,698)	1,124,828	82,569	69,464
Total lease/leasebacks	1,613,474	109,188	(269,788)	1,452,874	105,771	154,297
2006 PBC lease	79,190	-	(2,205)	76,985	6,189	2,295
2008 Bus Lease	85,017	-	(6,113)	78,904	2,097	11,427
Total capital lease obligation	$ 1,777,681	$ 109,188	$ (278,106)	$ 1,608,763	$ 114,057	$ 168,019

* Additions include accretion of interest.

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Changes in capital leases for the year ended December 31, 2012 are as follows (in thousands of dollars):

2012	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 16,026	$ 571	$ (411)	$ 16,186	$ 571	$ -
2002 (Buses)	126,993	6,399	-	133,392	6,398	-
2002 (QTE)	97,178	6,170	-	103,348	6,170	-
1998 (Green)	172,370	11,792	(22,712)	161,450	11,792	23,051
1997 (Garages)	43,388	3,262	-	46,650	3,262	-
1996 (Skokie/Racine)	43,308	3,183	-	46,491	3,183	-
1995 (Pickle)	1,088,462	81,193	(63,698)	1,105,957	81,193	63,698
Total lease/leasebacks	1,587,725	112,570	(86,821)	1,613,474	112,569	86,749
2006 PBC lease	81,305	-	(2,115)	79,190	6,186	2,204
2008 Bus Lease	94,393	-	(9,376)	85,017	4,060	9,795
Total capital lease obligation	$ 1,763,423	$ 112,570	$ (98,312)	$ 1,777,681	$ 122,815	$ 98,748

* Additions include accretion of interest.

Future Minimum Lease Payments: As of December 31, 2013 future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2014	$ 168,019
2015	94,615
2016	1,231,365
2017	18,363
2018	141,449
2019 – 2023	137,212
2024 – 2028	129,826
2029 – 2033	27,220
Total minimum lease payments	1,948,069
Less interest	339,306
	$ 1,608,763

(Continued)

NOTE 9 - BONDS PAYABLE

2004 Series Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds): On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, "2004 Project," in the amount of $250,000,000, along with a premium of $26,713,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2004 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation.

The Series 2004 bonds bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2016.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2011 refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2012 and June 1, 2016 through June 1, 2020 of the 5307 Series 2006A bonds.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ 26,085	$ 3,353	$ 29,438
2015	27,385	1,982	29,367
2016	24,070	632	24,702
Total	$ 77,540	$ 5,967	$ 83,507

2006A Series Capital Grant Receipts Revenue Bonds (Federal Transit Administration Section 5307 Urbanized Area Formula Funds): On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of $275,000,000, along with a premium of $19,652,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation.

The Series 2006A bonds bear interest ranging from 4.0% to 5.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2021.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The Capital Grant Receipts Revenue Bonds, Refunding Series 2011 refunded the maturity dated June 1, 2016 of the 5307 Series 2004B bonds and the maturities dated June 1, 2012 and June 1, 2016 through June 1, 2020 of the 5307 Series 2006A bonds.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ 10,395	$ 8,605	$ 19,000
2015	10,915	8,072	18,987
2016	-	7,800	7,800
2017	24,720	7,181	31,901
2018	27,000	5,888	32,888
2019	31,275	4,432	35,707
2020	31,585	2,860	34,445
2021	41,410	1,035	42,445
Total	$ 177,300	$ 45,873	$ 223,173

<u>2008 Series (5309 Fixed Guideway Modernization Program) and 2008A Series (5307 Urbanized Area Formula Program) Capital Grant Receipts Revenue Bonds</u>: On April 16, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, “2008 Project,” in the amount of $250,000,000, along with a premium of $18,637,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the “2008 Project.” The Federal Transit Administration’s section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation. The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

The Series 2008 (5309) and 2008A (5307) bonds bear interest ranging from 3.5% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2026.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	2008 (5309)		2008A (5307)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 7,060	$ 6,207	$ -	$ 5,250	$ 7,060	$ 11,457
2015	7,365	5,887	-	5,250	7,365	11,137
2016	7,700	5,529	-	5,250	7,700	10,779
2017	8,085	5,134	-	5,250	8,085	10,384
2018	8,490	4,720	-	5,250	8,490	9,970
2019	8,910	4,274	-	5,250	8,910	9,524
2020	9,380	3,794	-	5,250	9,380	9,044
2021	9,870	3,288	-	5,250	9,870	8,538
2022	10,390	2,757	18,005	4,777	28,395	7,534
2023	10,935	2,197	18,955	3,807	29,890	6,004
2024	11,510	1,608	19,950	2,786	31,460	4,394
2025	12,115	987	20,995	1,711	33,110	2,698
2026	12,750	335	22,095	580	34,845	915
Total	$ 124,560	$ 46,717	$ 100,000	$ 55,661	$ 224,560	$ 102,378

2008A Series (5309 Fixed Guideway Modernization Program) Capital Grant Receipts Revenue Bonds: On November 20, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of $175,000,000, along with a premium of $3,760,000, in anticipation of the receipt of grants from the federal government. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2008 Project." The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

The Series 2008A (5309) bonds bear interest ranging from 5.0% to 6.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially through June 1, 2026.

The Capital Grant Receipts Revenue Bonds, Refunding Series 2010 refunded the maturities dated June 1, 2010 through June 1, 2011 of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ 8,150	$ 7,688	$ 15,838
2015	8,560	7,270	15,830
2016	8,990	6,831	15,821
2017	9,440	6,358	15,798
2018	9,935	5,837	15,772
2019	10,480	5,276	15,756
2020	11,055	4,711	15,766
2021	11,610	4,145	15,755
2022	12,190	3,550	15,740
2023	12,800	2,909	15,709
2024	13,470	2,169	15,639
2025	14,280	1,337	15,617
2026	15,135	454	15,589
Total	$ 146,095	$ 58,535	$ 204,630

2008A Series (Pension Funding) and 2008B Series (Retiree Health Care Funding) Sales and Transfer Tax Receipts Revenue Bonds: On July 30, 2008, the CTA issued Sales and Transfer Tax Receipts Revenue Bonds in the amount of $1,936,855,000 to fund the employee retirement plan and to create a retiree health care trust. The bonds were sold in two tranches, a $1.3 billion Series A to fund the employee's retirement plan and a $640 million Series B to fund a permanent trust that was established to cover other postemployment benefits for retirees' health care. The bonds are secured primarily by a pledge of and lien on the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund deposits. The bonds were issued pursuant to the pension and retiree health care reform requirements set forth in Public Acts 94-839 and 95-705.

Public Act 94-839 required the CTA to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. Additionally, Public Act 94-839 required that the Retirement Plan's pension and retiree health care programs be separated into two distinct trusts by December 31, 2008.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue $1.9 billion in pension obligation bonds to fund the pension and retiree health care. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding. In accordance with Public Act 95-708, all retiree healthcare benefits are now paid from the newly established Retiree Health Care Trust.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.9%. Scheduled interest on the 2008A and 2008B bonds will be funded through June 1, 2009 and June 1, 2010, respectively, with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2012 through June 1, 2040.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ 27,040	$ 129,538	$ 156,578
2015	28,740	127,834	156,574
2016	30,550	126,024	156,574
2017	32,475	124,099	156,574
2018	34,520	122,053	156,573
2019	36,695	119,878	156,573
2020	39,010	117,566	156,576
2021	41,465	115,109	156,574
2022	44,080	112,496	156,576
2023	47,120	109,455	156,575
2024	50,370	106,205	156,575
2025	53,845	102,730	156,575
2026	57,560	99,015	156,575
2027	61,530	95,044	156,574
2028	65,775	90,799	156,574
2029	70,310	86,261	156,571
2030	75,165	81,410	156,575
2031	80,350	76,225	156,575
2032	85,895	70,681	156,576
2033	91,820	64,755	156,575
2034	98,150	58,421	156,571
2035	104,925	51,649	156,574
2036	112,165	44,411	156,576
2037	119,905	36,672	156,577
2038	128,170	28,400	156,570
2039	137,015	19,558	156,573
2040	146,470	10,105	156,575
Total	$ 1,901,115	$ 2,326,393	$ 4,227,508

<u>2010A Sales Tax Receipts Revenue Bonds and Taxable Series 2010B Sales Tax Receipts Revenue Bonds (Build America Bonds)</u>: On March 23, 2010, the CTA issued the Sales Tax Receipts Revenue Bonds, Series 2010A and Taxable Series 2010B Build America Bonds, in the amount of $550,000,000, along with a premium of $5,186,000. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to the purchase of new rail cars, overhaul and rehabilitation of existing rail cars, and the purchase and installation of upgrades for rail system components. The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) Program. This program allows state and local governments to issue taxable bonds for capital projects and to receive a federal subsidy payment from the U.S. Treasury Department for a portion of their borrowing costs.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The Series 2010A and 2010B bonds bear interest ranging from 4.0% to 6.2%. Scheduled interest on the 2010 bonds was funded through December 1, 2010 with proceeds of the 2010 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2015 through June 1, 2040.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	2010A		2010B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ -	$ 2,179	$ -	$ 30,798	$ -	$ 32,977
2015	5,715	2,179	-	30,798	5,715	32,977
2016	7,675	1,905	-	30,798	7,675	32,703
2017	9,925	1,521	-	30,798	9,925	32,319
2018	10,415	1,034	-	30,798	10,415	31,832
2019	10,915	536	-	30,798	10,915	31,334
2020	-	-	11,510	30,798	11,510	30,798
2021	-	-	12,095	30,214	12,095	30,214
2022	-	-	12,720	29,583	12,720	29,583
2023	-	-	13,405	28,900	13,405	28,900
2024	-	-	14,135	28,167	14,135	28,167
2025	-	-	14,930	27,372	14,930	27,372
2026	-	-	15,855	26,447	15,855	26,447
2027	-	-	16,835	25,464	16,835	25,464
2028	-	-	17,880	24,420	17,880	24,420
2029	-	-	18,985	23,311	18,985	23,311
2030	-	-	20,155	22,134	20,155	22,134
2031	-	-	21,400	20,885	21,400	20,885
2032	-	-	22,725	19,558	22,725	19,558
2033	-	-	24,135	18,149	24,135	18,149
2034	-	-	31,820	16,653	31,820	16,653
2035	-	-	33,785	14,680	33,785	14,680
2036	-	-	35,875	12,585	35,875	12,585
2037	-	-	38,090	10,361	38,090	10,361
2038	-	-	40,455	7,999	40,455	7,999
2039	-	-	42,955	5,491	42,955	5,491
2040	-	-	45,610	2,828	45,610	2,828
	$ 44,645	$ 9,354	$ 505,355	$ 610,787	$ 550,000	$ 620,141

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

2010 (5307 Urbanized Area Formula Program & 5309 Fixed Guideway Modernization Program) Refunding Series Capital Grant Receipts Revenue Bonds: On May 6, 2010, the CTA issued the tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program and 5309 Fixed Guideway Modernization Program Funds, in the amount of $90,715,000, along with a premium of $1,876,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to refund a portion of the outstanding 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds.

The Series 2010 bonds bear interest at 5.00%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially on June 1, 2027 and June 1, 2028.

Net proceeds of $45,778,000 were deposited into an irrevocable trust with an escrow agent to provide for 2011 debt service payments on the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds. As a result, a portion of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds then outstanding are considered to be defeased and the 2011 liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2010 Series bonds which increased its total debt service payments over the next 19 years by $78,527,992 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of $3,099,253. The defeased debt had a zero balance as of December 31, 2013 and 2012.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2010 of $547,766 was deferred and is being amortized over the 24 months. The deferred amount had a zero balance as of December 31, 2013 and 2012. Amortization of the deferred amount on the refunding was $0 and $91,294 for the years ended December 31, 2013 and 2012, respectively.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	2010 5307		2010 5309		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ -	$ 3,195	$ -	$ 1,341	$ -	$ 4,536
2015	-	3,195	-	1,341	-	4,536
2016	-	3,195	-	1,341	-	4,536
2017	-	3,195	-	1,341	-	4,536
2018	-	3,195	-	1,341	-	4,536
2019	-	3,195	-	1,341	-	4,536
2020	-	3,195	-	1,341	-	4,536
2021	-	3,195	-	1,341	-	4,536
2022	-	3,195	-	1,341	-	4,536
2023	-	3,195	-	1,341	-	4,536
2024	-	3,195	-	1,341	-	4,536
2025	-	3,195	-	1,341	-	4,536
2026	-	3,195	-	1,341	-	4,536
2027	31,170	2,415	13,085	1,014	44,255	3,429
2028	32,725	818	13,735	343	46,460	1,161
	$ 63,895	$ 44,768	$ 26,820	$ 18,790	$ 90,715	$ 63,558

<u>2011 (5307 Urbanized Area Formula Program) Refunding Series Capital Grant Receipts Revenue Bonds</u>: On October 26, 2011, the CTA issued the tax-exempt Capital Grant Receipts Revenue Bonds backed by the pledge of Federal Transit Administration Section 5307 Urbanized Area Formula Program, in the amount of $56,525,000, along with a premium of $1,805,528, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to refund a portion of the outstanding 5307 (Series 2004B and 2006A) bonds.

The Series 2011 bonds bear interest ranging from 4.5% to 5.25%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially from June 1, 2022 to June 1, 2029.

Net proceeds of $57,534,862 were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on the 5307 (Series 2004B and 2006A) bonds. As a result, a portion of the 5307 (Series 2004B and 2006A) bonds then outstanding are considered to be defeased and the related liability has been removed from the Statements of Net Position. The CTA refunded the various bonds using the proceeds from the 2011 Series bonds which increased its total debt service payments over the next 18 years by $34,252,000 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of $9,214,000. The balance of the defeased debt was $48,470,000 as of December 31, 2013 and 2012.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2011 of $6,794,000 was deferred and is being amortized over 18 years. The deferred amount ending balance for the year ended December 31, 2013 and 2012 was $5,778,000 and $6,247,000, respectively, and recorded as a deferred outflow of resources in the accompanying statements of net position. Amortization of the deferred amount on the refunding was $469,000 and $469,000 for the year ended December 31, 2013 and 2012, respectively.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ -	$ 2,865	$ 2,865
2015	-	2,865	2,865
2016	-	2,865	2,865
2017	-	2,865	2,865
2018	-	2,865	2,865
2019	-	2,865	2,865
2020	-	2,865	2,865
2021	-	2,865	2,865
2022	6,595	2,700	9,295
2023	6,920	2,353	9,273
2024	7,285	1,980	9,265
2025	7,665	1,594	9,259
2026	8,060	1,187	9,247
2027	-	975	975
2028	-	975	975
2029	20,000	488	20,488
Total	$ 56,525	$ 35,172	$ 91,697

<u>2011 Sales Tax Receipts Revenue Bonds</u>: On October 26, 2011, the CTA issued the Sales Tax Receipts Revenue Bonds, Series 2011, in the amount of $476,905,000, along with a premium of $21,392,000. The bonds were issued to pay for, or reimburse the CTA for prior expenditures relating to (i) the purchase of rail cars to replace existing cars and (ii) the finance of any other capital project designated by the CTA Board as part of the 2011 Project.

The Series 2011 bonds bear interest ranging from 5.0% to 5.25%. Scheduled interest on the 2010 bonds will be funded through December 1, 2015 with proceeds of the 2011 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on December 1, 2021 through December 1, 2040.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ -	$ 24,965	$ 24,965
2015	-	24,965	24,965
2016	-	24,965	24,965
2017	-	24,965	24,965
2018	-	24,965	24,965
2019	-	24,965	24,965
2020	-	24,965	24,965
2021	14,090	24,965	39,055
2022	14,800	24,261	39,061
2023	15,540	23,521	39,061
2024	16,360	22,705	39,065
2025	17,220	21,846	39,066
2026	18,120	20,942	39,062
2027	19,075	19,991	39,066
2028	20,080	18,989	39,069
2029	21,135	17,935	39,070
2030	22,250	16,825	39,075
2031	23,425	15,657	39,082
2032	24,655	14,428	39,083
2033	25,950	13,133	39,083
2034	27,315	11,771	39,086
2035	28,755	10,337	39,092
2036	30,265	8,827	39,092
2037	31,860	7,238	39,098
2038	33,540	5,566	39,106
2039	35,305	3,805	39,110
2040	37,165	1,951	39,116
	$ 476,905	$ 479,448	$ 956,353

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The total bond debt service requirements to maturity for all outstanding bonds are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ 78,730	$ 225,984	$ 304,714
2015	88,680	221,638	310,318
2016	78,985	217,135	296,120
2017	84,645	212,707	297,352
2018	90,360	207,946	298,306
2019-2023	575,810	953,900	1,529,710
2024-2028	715,595	767,012	1,482,607
2029-2033	648,355	561,835	1,210,190
2034-2038	895,075	325,570	1,220,645
2039-2040	444,520	43,738	488,258
	$ 3,700,755	$ 3,737,465	$ 7,438,220

NOTE 10 - CERTIFICATES OF PARTICIPATION

In August 2008, Certificates of Participation (COP) totaling $78,430,000 were issued on behalf of the CTA. The COPs were used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. During 2013, CTA amended the original 2008 agreement that amended terms and reduced interest rates. The total principal and interest remaining to be paid on the COPs as of December 31, 2013, is $55,220,000. Principal and interest paid in 2013 was approximately $8,067,000.

As of December 31, 2013, debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2014	$ 6,421	$ 1,329	$ 7,750
2015	6,762	1,150	7,912
2016	6,949	963	7,912
2017	7,142	770	7,912
2018	7,339	572	7,911
2019	7,543	369	7,912
2020	7,751	160	7,911
	$ 49,907	$ 5,313	$ 55,220

(Continued)

NOTE 11 –FARE COLLECTION SYSTEM PURCHASE AGREEMENT

CTA entered into a purchase agreement to finance a fare collection system with a value of $102,900,000. Under the purchase agreement, the CTA will make monthly payments of approximately $1,067,603 over the ten year term to finance the design, acquisition and installation of the open standards fare system. The present value of the future payments to be made by the CTA under the purchase agreement of approximately $102,490,000 is reflected in the accompanying December 31, 2013 statement of net position as a long term liability.

The purchase agreement requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
Year 1	$ 8,260	$ 4,551	$ 12,811
Year 2	8,649	4,162	12,811
Year 3	9,056	3,755	12,811
Year 4	9,483	3,328	12,811
Year 5	9,929	2,882	12,811
Year 6 - 10	57,113	6,942	64,055
	$ 102,490	$ 25,620	$ 128,110

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

Employees' Plan: The CTA participates in a single employer defined benefit pension plan covering substantially all full-time permanent union and non-union employees. The Retirement Plan for Chicago Transit Authority Employees (the Employees' Plan) is governed by Illinois state statute (40 ILCS 5/22-101).

Substantially all non-temporary, full-time employees who have completed one year of continuous service ("Service") participate in the Employees' Plan. Benefits are in the form of an annual retirement benefit payable monthly for life, in an amount based upon compensation and service. An employee who has reached age 65 may retire with unreduced benefits. Employees hired prior to September 5, 2001 may retire at any age with unreduced benefits after completion of 25 years of service, or at age 55 with reduced benefits after completion of 3 years of service. For those hired after September 5, 2001, but prior to January 18, 2008, unreduced benefits are payable at age 55 with 25 years of service, and reduced benefits are payable at age 55 with 3 years of service. Employees hired on or after January 18, 2008 are eligible for unreduced pension benefits after attaining age 64 with at least 25 years of service, and reduced pension benefits after attaining age 55 with at least 10 years of service. These minimum age and service requirements do not apply to members on a disability allowance. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2013 and 2012 was $548,515,000 and $541,354,000, respectively. The Employees' Plan issues a separate stand-alone financial report which is available at http://www.ctaretirement.org/index.asp.

Supplemental Plans: The CTA also maintains separate single-employer, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan (2) closed supplemental plan for members that retired or terminated employment before March 2005, including early retirement incentive, and (3) open supplemental plan for active employees and members retiring after March 2005. CTA received qualification under Section 401(a) of the Internal Revenue Code

(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

Employees of the applicable employment classifications are eligible for retirement benefits based on age and service credit as follows: at age 65; or age 55 with at least 3 years of service credit; or at any age with 25 or more years of service credit. The minimum monthly benefit is equal to one-sixth of one percent of the employee's average annual compensation multiplied by the years of continuous service. Employees are eligible for disability benefits after completion of 10 years of creditable continuous service or 5 years if the disability results from an on the job injury. Death benefits are payable to a designated beneficiary upon death of the retiree. Qualified dependents of the employee are eligible for monthly survivor benefits if the option was selected by the retiree. Any purchased service credit will be included in the determination of retirement benefits.

During fiscal year 2008, a Voluntary Termination Program ("VTP") was adopted which allowed certain active members eligible for Supplemental Plan benefits under the qualified trust to purchase up to five years of "air-time" and the first year of eligibility service if not included in the determination of pension benefits. Members purchase "air-time" and the first year of eligibility service at a rate of six percent of pay. Members were required to make the election within a certain window of time and agree to terminate employment at a date accepted by the Board.

For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities decreased from $54.7 million at January 1, 2013, to $53.3 million at January 1, 2014. The key factors causing the decrease in actuarial liabilities include: expected growth, favorable investment experience and retirement experience gains.

The CTA funds the Open Supplemental Plan per the actuarial annual required contribution, while funding for the Closed and Board Supplemental Retirement Plans are on a pay-as-you-go basis. Employees are not required to make contributions to the supplemental retirement plans except those related to purchase service credit (approved prior governmental service).

Participants in the supplemental retirement plans at December 31, 2013 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	125	378	21
Terminated employees entitled to but not yet receiving benefits	9	8	4
Active plan members	13	-	5
Total	147	386	30

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

Participants in the supplemental retirement plans at December 31, 2012 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	121	396	20
Terminated employees entitled to but not yet receiving benefits	10	8	6
Active plan members	19	-	5
Total	150	404	31

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2013 and 2012 was $1,647,000 and $2,282,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $139,000 and $150,000 for the fiscal years ended December 31, 2013 and 2012, respectively.

<u>Funding Policy and Annual Pension Cost</u>: Prior to 2008, contribution requirements of the Employees' Plan were governed by collective bargaining agreements. After 2008, contribution requirements are governed by Illinois state statute (40 ILCS 5/22-101). Contributions for the supplemental plans are actuarially determined but may be amended by the board of trustees of the Plan.

The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

	Employees' Plan Pension	Open Supplemental	Closed Supplemental	Board Plan
Contribution rates:				
CTA	14.25%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	10.125%	None	None	10.125%
Annual pension cost (APC)	$100,939	$2,597	$2,813	$309
Actual 2013 contributions:				
CTA	$79,431	$1,927	$2,934	$345
Plan members	$56,638	$0	$0	$0
Actuarial valuation date	January 1, 2013	January 1, 2014	January 1, 2014	January 1, 2014
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years - Open	16 years - Closed	8 years - Closed	30 years - Open
Asset valuation method	Fair market value	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	8.50%	7.0%	4.5%	4.5%
Projected salary increases	1.5% for 2013-2014, service graded table with 5% ultimate rate after 5 years of service thereafter	3.5%	N/A	N/A
Includes inflation at	1.5% - 4.0%	0%	N/A	N/A

(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

The short-term salary increase and inflation assumptions for the Employees' Plan were updated to reflect the current economic environment and salary programs in place, and the pay increases embedded into the current collective bargaining agreements. There were no significant assumption changes for the Supplemental and Board plans from the prior year valuation.

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2013 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual Required Contribution	$ 100,956	$ 1,927	$ 4,295	$ 331
Interest on NPO	1,955	(1,310)	626	62
Adjustment to ARC	(1,973)	1,981	(2,108)	(84)
Annual pension cost	100,938	2,598	2,813	309
Contributions made	79,431	1,927	3,114	338
Increase (decrease) in NPO	21,507	671	(301)	(29)
NPO - December 31, 2012	23,004	(18,716)	13,905	1,367
NPO - December 31, 2013	$ 44,511	$ (18,045)	$ 13,604	$ 1,338

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2012 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual Required Contribution	$ 107,569	$ 2,267	$ 4,116	$ 348
Interest on NPO	(1,862)	(1,354)	719	68
Adjustment to ARC	1,879	1,981	(2,025)	(89)
Annual pension cost	107,586	2,894	2,810	327
Contributions made	62,678	2,267	3,299	323
Increase (decrease) in NPO	44,908	627	(489)	4
NPO - December 31, 2011	(21,904)	(19,343)	14,394	1,363
NPO - December 31, 2012	$ 23,004	$ (18,716)	$ 13,905	$ 1,367

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

Three-year Trend Information: The following summarizes fund information for the plans (in thousands of dollars):

	Year ended	**Annual pension cost (APC)**	**Actual contributions**	**Percentage of APC contributed**	**Net pension (asset)/ obligation**
Employees' Plan Pension	December 31, 2013	$ 100,939	$ 79,431	78.7%	$ 44,511
	December 31, 2012	107,586	62,678	58.3	23,003
	December 31, 2011	76,165	60,235	79.1	(21,904)
Open Supplemental Plan	December 31, 2013	$ 2,597	$ 1,927	74.2%	$ (18,046)
	December 31, 2012	2,894	2,267	78.3	(18,716)
	December 31, 2011	2,720	2,210	81.3	(19,343)
Closed Supplemental Plan	December 31, 2013	$ 2,813	$ 3,114	110.7%	$ 13,605
	December 31, 2012	2,811	3,299	117.4	13,906
	December 31, 2011	2,904	3,447	118.7	14,394
Board Supplemental Plan	December 31, 2013	$ 310	$ 338	109.0%	$ 1,339
	December 31, 2012	327	323	98.8	1,367
	December 31, 2011	354	323	91.2	1,363

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan – Pension as of January 1, 2013, and the three supplemental plans as of January 1, 2014, the most recent actuarial valuation dates (in thousands of dollars):

	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)	Percentage of covered payroll ((b-a)/c)
Employees' Plan - Pension	1/1/2013	$ 1,702,788	$ 2,867,335	1,164,547	59.4%	$ 548,515	212.3%
Open Supplemental Plan	1/1/2014	43,503	53,344	9,841	81.6%	1,647	597.5%
Closed Supplemental Plan	1/1/2014	-	27,678	27,678	0.0%	N/A	N/A
Board Supplemental Plan	1/1/2014	75	4,848	4,773	1.5%	139	3433.8%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions – Other Postemployment Benefits (OPEB)

Employees' Plan – Retiree Healthcare Benefits: In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the Retiree Health Care Trust (RHCT). The RHCT was established in May 2008 and began paying for all retiree healthcare benefits in February 2009. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the RHCT. Members are eligible for health benefits based on their age and length of service with CTA. The legislation provides that CTA will have no future responsibility for retiree healthcare costs. The RHCT issues a separate stand-alone financial report which is available at http://www.ctaretirement.org/index.asp.

Supplemental and Board Plans – Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan. Members of the Supplemental Plan with bridged service or service purchased through the Voluntary Termination Program are eligible for Supplemental Healthcare benefits if they retired under the Supplemental Plan and do not immediately qualify for healthcare benefits under the CTA RHCT. Supplemental Healthcare Plan benefits are administered through the CTA's healthcare program covering active members. Supplemental healthcare benefits cease when the member becomes eligible for healthcare coverage under the RHCT. Certain members not eligible for benefits under the RHCT will continue to receive benefits through the CTA's healthcare program covering active members. The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan.

Chicago Transit Board members participate in a separate Board Member Retirement Plan and a Supplemental Plan. Board members with greater than five years of service are eligible for healthcare benefits immediately after termination or retirement.

The Supplemental and Board Plans do not issue separate stand-alone financial reports.

Funding Policy - OPEB

Supplemental and Board Plan – Retiree Healthcare Benefits: Funding for the Supplemental and Board Retiree Healthcare Plans are on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2013 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	$ 1,141
Interest on net OPEB obligation	177
Adjustment to ARC	(322)
Annual OPEB cost	996
Contributions made	810
Increase (decrease) in net OPEB obligation	186
Net OPEB obligation – December 31, 2012	3,934
Net OPEB obligation – December 31, 2013	$ 4,120

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2012 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	$ 1,080
Interest on net OPEB obligation	166
Adjustment to ARC	(295)
Annual OPEB cost	951
Contributions made	704
Increase (decrease) in net OPEB obligation	247
Net OPEB obligation – December 31, 2011	3,687
Net OPEB obligation – December 31, 2012	$ 3,934

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows (dollar amounts in thousands):

Supplemental and Board Plan:

Year ended	Annual OPEB cost (AOC)	Actual contributions	Percentage of AOC contributed	Net OPEB obligation
2013	$ 996	$ 810	81.3%	$ 4,120
2012	951	704	74.0%	3,934
2011	1,520	707	46.6%	3,687

(Continued)

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

As of January 1, 2014, the plan was not funded. The actuarial accrued liability for benefits was $11,869,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $11,869,000. The covered payroll (annual payroll of active employees covered by the plan) was $581,000, and the ratio of the UAAL to the covered payroll was 2,041.8 percent.

As of January 1, 2013, the plan was not funded. The actuarial accrued liability for benefits was $13,168,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $13,168,000. The covered payroll (annual payroll of active employees covered by the plan) was $752,000, and the ratio of the UAAL to the covered payroll was 1,750.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation of the Supplemental and Board Plans as of January 1, 2014, and January 1, 2013, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 8.25 percent initial to 5.0% ultimate. The Supplemental Plan UAAL is being amortized as a level dollar over an 16 year closed period. The Board Plan UAAL is amortized as a level dollar open 30-year amortization.

(Continued)

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The per capita healthcare claim costs and dependent contribution rates were assumed to decrease as follows:

Plan year	Trend rate
2014	8.25%
2015	7.75%
2016	7.25%
2017	6.75%
2018	6.25%
2019	5.75%
2020	5.25%
2021 and after	5.00%

NOTE 14 - RISK MANAGEMENT

The CTA is exposed to various types of risk of loss, including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees.

The CTA provides health insurance benefits to employees through two insured health maintenance organizations and a self-insured comprehensive PPO plan. The CTA provides dental insurance benefits through an insured dental maintenance organization and a self-insured dental indemnity plan. The CTA does not purchase stop-loss insurance for its self-insured comprehensive PPO plan. The CTA provides life insurance benefits for active employees through an insured life insurance program.

CTA purchases property insurance for damage to CTA property including rolling stock. This insurance program is effective July 29, 2013 to July 29, 2014. Property limit of liability is $130,000,000 per occurrence, and is purchased in two layers. The first/primary layer provides a $25,000,000 limit. The excess layer provides the $105,000,000 limit excess and above the primary. The basic policy deductible is $250,000 per each occurrence, with some exceptions as defined more fully in the policy.

The CTA is also self-insured for general liability, workers' compensation, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of the CTA.

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. There are two insurance policies in effect from May 8, 2013 to May 8, 2014. The first policy provided $35,000,000 in excess of the $15,000,000 self-insured retention and $70,000,000 in the aggregate. The second policy provides $50,000,000 in excess of the $50,000,000 self-insured retention and $100,000,000 in the aggregate. In 2013 and 2012, no CTA claim existed that is expected to exceed the $15,000,000 self-insured retention under this insurance policy.

(Continued)

NOTE 14 - RISK MANAGEMENT (Continued)

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for the principal amount borrowed plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. No borrowings were made from the Fund in fiscal years 2013 or 2012.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 3.5% and 2.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 4.5% and 2.0%, respectively. Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	Injury and damage	Group health and dental	Workers' compensation	Total
Balance at January 1, 2011	$ 73,175	$ 15,000	$ 134,052	$ 222,227
Funded*	15,000	128,311	64,799	208,110
Funding (excess)/deficiency per actuarial requirement	5,168	-	7,080	12,248
Payments*	(15,088)	(118,311)	(56,185)	(189,584)
Balance at December 31, 2011	78,255	25,000	149,746	253,001
Funded*	24,000	138,368	70,364	232,732
Funding (excess)/deficiency per actuarial requirement	(6,552)	-	(7,220)	(13,772)
Payments*	(15,808)	(147,640)	(51,442)	(214,890)
Balance at December 31, 2012	79,895	15,728	161,448	257,071
Funded*	5,896	141,888	55,817	203,601
Funding (excess)/deficiency per actuarial requirement	8,275	-	642	8,917
Payments*	(12,319)	(139,316)	(55,816)	(207,451)
Balance at December 31, 2013	$ 81,747	$ 18,300	$ 162,091	$ 262,138

Chapter 70, Paragraph 3605/39 of the Illinois Compiled Statutes requires the CTA to establish an injury and damage reserve in order to provide for the adjustment, defense, and satisfaction of all suits, claims, and causes of action, and the payment and satisfaction of all judgments entered against the CTA for damages caused by injury to or death of any person and for damages to property resulting from the construction, maintenance, and operation of the transportation system. The statute also requires the CTA to separately fund the current year's budgeted provision for the injury and damage reserve. See note 5 regarding cash and investment amounts maintained in this account.

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

Fuel related derivative transactions are executed in accordance with the policies established by CTA's Energy Price Risk Management Policy ("the EPRM Policy"). The primary objective of the EPRM Policy is to identify opportunities to manage effectively the CTA's energy commodity costs to acceptable levels, establish guidelines for reporting and monitoring of energy commodity costs where the CTA uses financial instruments to manage price risks and to establish guidelines for the CTA's purchase of fixed price energy from its physical providers under existing contractual relationships with its providers. The Energy Price Risk Management Committee oversees the execution of the EPRM Policy with the assistance of an Energy Advisor.

The EPRM Policy explicitly prohibits the Authority from entering into contracts for more than its annual volume of energy usage. The EPRM Policy goals are to achieve budget objectives and reduce price volatility. Price risk management transactions are not intended to be speculative in nature. The EPRM Policy shall limit the amount and time period for which energy costs may be hedged through either derivative contracts or fixed price purchase contracts, as detailed below:

- Up to 100% of the volume of energy consumed may be hedged for a period of not to exceed 18 months
- Up to 50% of the volume of energy consumed may be hedged for a period of not to exceed 19-24 months
- 0% of volume of energy consumed may be hedged for a period beyond 24 months

The CTA used 18.8 million and 18.9 million gallons of diesel fuel to operate revenue vehicles during 2013 and 2012, respectively. The CTA has entered into heating oil commodity swap contracts to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for CTA buses.

(Continued)

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

At December 31, 2013, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2013	Fair Value 12/31/2013	Change in Fair Value	Terms (Per Gallon) Receive	Pay
Counterparty: J.P. Morgan Chase							
378,000	01/01/13	03/31/13	$ 53,536	$ -	$ (53,536)	Variable	$ 2.9675
84,000	01/01/13	03/31/13	(53,965)	-	53,965	Variable	3.2290
126,000	01/01/13	03/31/13	(44,490)	-	44,490	Variable	3.1325
84,000	01/01/13	03/31/13	(5,356)	-	5,356	Variable	3.0360
84,000	01/01/13	03/31/13	33,935	-	(33,935)	Variable	2.8800
126,000	01/01/13	03/31/13	101,904	-	(101,904)	Variable	2.7450
210,000	01/01/13	03/31/13	(6,463)	-	6,463	Variable	3.0250
168,000	01/01/13	03/31/13	(59,320)	-	59,320	Variable	3.1325
210,000	01/01/13	03/31/13	11,168	-	(11,168)	Variable	2.9970
252,000	04/01/13	06/30/13	37,019	-	(37,019)	Variable	2.9620
168,000	04/01/13	06/30/13	(23,385)	-	23,385	Variable	3.0575
126,000	04/01/13	06/30/13	67,392	-	(67,392)	Variable	2.8325
84,000	04/01/13	06/30/13	63,173	-	(63,173)	Variable	2.7600
126,000	04/01/13	06/30/13	(1,496)	-	1,496	Variable	3.0150
168,000	04/01/13	06/30/13	(43,517)	-	43,517	Variable	3.0975
168,000	04/01/13	06/30/13	21,660	-	(21,660)	Variable	2.9680
252,000	07/01/13	09/30/13	31,932	-	(31,932)	Variable	2.9515
168,000	07/01/13	09/30/13	(38,301)	-	38,301	Variable	3.0700
252,000	10/01/13	12/13/13	27,006	-	(27,006)	Variable	2.9485
126,000	1/1/2014	1/31/2014	-	17,976	17,976	Variable	2.9225
84,000	1/1/2014	3/31/2014	-	14,022	14,022	Variable	2.9985
126,000	1/1/2014	3/31/2014	-	31,990	31,990	Variable	2.9695
126,000	1/1/2014	3/31/2014	-	96,978	96,978	Variable	2.7975
126,000	1/1/2014	3/31/2014	-	73,363	73,363	Variable	2.8600
168,000	1/1/2014	3/31/2014	-	27,289	27,289	Variable	3.0000
84,000	1/1/2014	3/31/2014	-	(210)	(210)	Variable	3.0550
126,000	1/1/2014	3/31/2014	-	29,157	29,157	Variable	2.9770
126,000	1/1/2014	3/31/2014	-	38,414	38,414	Variable	2.9525
84,000	1/1/2014	3/31/2014	-	35,055	35,055	Variable	2.9150
168,000	4/1/2014	6/30/2014	-	35,526	35,526	Variable	2.9550
126,000	4/1/2014	6/30/2014	-	95,930	95,930	Variable	2.7715
168,000	4/1/2014	6/30/2014	-	94,932	94,932	Variable	2.8370
84,000	4/1/2014	6/30/2014	-	8,324	8,324	Variable	2.9925

(Continued)

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2013	Fair Value 12/31/2013	Change in Fair Value	Terms (Per Gallon) Receive	Pay
Counterparty: J.P. Morgan Chase							
126,000	04/01/14	06/30/14	$ -	$ 37,406	$ 37,406	Variable	$ 2.9265
126,000	4/1/2014	6/30/2014	-	34,197	34,197	Variable	2.9350
84,000	4/1/2014	6/30/2014	-	31,985	31,985	Variable	2.8985
84,000	4/1/2014	6/30/2014	-	30,349	30,349	Variable	2.9050
84,000	7/1/2014	9/30/2014	-	13,364	13,364	Variable	2.9525
126,000	7/1/2014	9/30/2014	-	40,419	40,419	Variable	2.8985
168,000	7/1/2014	9/30/2014	-	48,107	48,107	Variable	2.9100
84,000	7/1/2014	9/30/2014	-	29,964	29,964	Variable	2.9150
84,000	7/1/2014	9/30/2014	-	27,198	27,198	Variable	2.8975
84,000	9/1/2014	12/31/2014	-	12,732	12,732	Variable	2.9350
126,000	9/1/2014	12/31/2014	-	38,887	38,887	Variable	2.8825
168,000	9/1/2014	12/31/2014	-	44,311	44,311	Variable	2.8975
84,000	9/1/2014	12/31/2014	-	27,809	27,809	Variable	2.8750
252,000	9/1/2014	12/31/2014	-	7,963	7,963	Variable	3.0100
Total			$ 172,432	$ 1,023,437	$ 851,005		

(Continued)

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

At December 31, 2012, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2012	Fair Value 12/31/2012	Change in Fair Value	Terms (Per Gallon) Receive	Pay
Counterparty: J.P. Morgan Chase							
84,000	01/01/12	01/31/12	$ 6,648	$ -	$ (6,648)	Variable	$ 2.8350
378,000	01/01/12	03/31/12	(52,013)	-	52,013	Variable	3.0400
252,000	01/01/12	03/31/12	(115,849)	-	115,849	Variable	3.3625
378,000	01/01/12	03/31/12	(21,620)	-	21,620	Variable	2.9595
630,000	01/01/12	03/31/12	(159,053)	-	159,053	Variable	3.1550
378,000	01/01/12	03/31/12	(45,028)	-	45,028	Variable	3.0215
378,000	01/01/12	03/31/12	34,825	-	(34,825)	Variable	2.8100
252,000	01/01/12	03/31/12	(62,363)	-	62,363	Variable	3.1500
630,000	01/01/12	03/31/12	(81,339)	-	81,339	Variable	3.0315
378,000	01/01/12	03/31/12	(25,584)	-	25,584	Variable	2.9700
630,000	01/01/12	03/31/12	(4,884)	-	4,884	Variable	2.9100
168,000	03/01/12	03/31/12	12,009	-	(12,009)	Variable	2.8150
378,000	04/01/12	06/30/12	(43,108)	-	43,108	Variable	2.9650
252,000	04/01/12	06/30/12	(12,405)	-	12,405	Variable	2.9000
252,000	04/01/12	06/30/12	(114,808)	-	114,808	Variable	3.3075
378,000	04/01/12	06/30/12	(80,803)	-	80,803	Variable	3.0650
504,000	04/01/12	06/30/12	(135,128)	-	135,128	Variable	3.1195
378,000	04/01/12	06/30/12	(50,647)	-	50,647	Variable	2.9850
378,000	04/01/12	06/30/12	29,453	-	(29,453)	Variable	2.7725
252,000	04/01/12	06/30/12	(57,889)	-	57,889	Variable	3.0810
378,000	07/01/12	09/30/12	(110,991)	-	110,991	Variable	3.1450
378,000	07/01/12	09/30/12	(59,253)	-	59,253	Variable	3.0075
378,000	07/01/12	09/30/12	14,122	-	(14,122)	Variable	2.8125
378,000	07/01/12	09/30/12	(47,964)	-	47,964	Variable	2.9775
252,000	07/01/12	09/30/12	(17,552)	-	17,552	Variable	2.9200
378,000	10/01/12	12/31/12	(114,427)	-	114,427	Variable	3.1750
378,000	10/01/12	12/31/12	(62,785)	-	62,785	Variable	3.0375
378,000	10/01/12	12/31/12	13,270	-	(13,270)	Variable	2.8350

(Continued)

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2012	Fair Value 12/31/2012	Change in Fair Value	Terms (Per Gallon) Receive	Pay
Counterparty: J.P. Morgan Chase							
378,000	10/01/12	12/31/12	$ (18,654)	$ -	$ 18,654	Variable	$ 2.9200
378,000	01/01/13	03/31/13	-	53,537	53,537	Variable	2.9675
84,000	01/01/13	03/31/13	-	(53,965)	(53,965)	Variable	3.2290
126,000	01/01/13	03/31/13	-	(44,490)	(44,490)	Variable	3.1325
84,000	01/01/13	03/31/13	-	(5,356)	(5,356)	Variable	3.0360
84,000	01/01/13	03/31/13	-	33,935	33,935	Variable	2.8800
126,000	01/01/13	03/31/13	-	101,904	101,904	Variable	2.7450
210,000	01/01/13	03/31/13	-	(6,463)	(6,463)	Variable	3.0250
168,000	01/01/13	03/31/13	-	(59,320)	(59,320)	Variable	3.1325
210,000	01/01/13	03/31/13	-	11,168	11,168	Variable	2.9970
252,000	04/01/13	06/30/13	-	37,019	37,019	Variable	2.9620
168,000	04/01/13	06/30/13	-	(23,385)	(23,385)	Variable	3.0575
126,000	04/01/13	06/30/13	-	67,392	67,392	Variable	2.8325
84,000	04/01/13	06/30/13	-	63,173	63,173	Variable	2.7600
126,000	04/01/13	06/30/13	-	(1,496)	(1,496)	Variable	3.0150
168,000	04/01/13	06/30/13	-	(43,517)	(43,517)	Variable	3.0975
168,000	04/01/13	06/30/13	-	21,660	21,660	Variable	2.9680
252,000	07/01/13	09/30/13	-	31,932	31,932	Variable	2.9515
168,000	07/01/13	09/30/13	-	(38,301)	(38,301)	Variable	3.0700
252,000	10/01/13	12/13/13	-	27,006	27,006	Variable	2.9485
Total			$ (1,383,819)	$ 172,432	$ 1,556,251		

The fair value of the hedging derivative instruments is included on the statement of net position as a Deferred Inflow (positive) or Deferred Outflow (negative) measured at fair market value based on quoted market prices. Related gains and/or losses are deferred on the statement of net position until the derivative is settled then recognized as part of Fuel in the statement of revenues, expenses and changes in net position. The valuation of market changes for contracts entered into and settled resulted in a net (decrease)/increase of ($172,219) and $612,607 to the cost of fuel during the fiscal years ended December 31, 2013 and 2012, respectively.

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The CTA follows GASB 53, Accounting and Financial Reporting for Derivative Instruments. This GASB provides guidance on the recognition, measurement and disclosure of derivative instruments entered into by state and local governments.

For accounting purposes, in order to qualify as a hedge, the relationship between the derivative and the underlying asset must result in a hedge that is “effective” in mitigating risk. If the hedge transaction is considered “ineffective” the valuation of the instrument is considered investment income or loss on the Statements of Revenues, Expenses and Changes in Net Position. GASB 53 outlines five methods for evaluating hedge effectiveness:

- Critical Terms
- Synthetic Instrument
- Dollar Offset
- Regression Analysis
- Other Quantitative Methods

For purposes of performing effectiveness testing, the CTA can use any or all of the evaluation methods and is not limited to using the same method from period to period. Therefore, if the result of any one prescribed evaluation method indicates the hedge is ineffective the CTA may apply another method to verify effectiveness. The CTA’s commodity swaps have been evaluated using the Regression Analysis method and have been determined to be effective.

The following risks are generally associated with commodity swap agreements:

Credit risk – the risk that the counterparty fails to make required payments or otherwise comply with the terms of the swap agreement. This non-performance would usually result from financial difficulty, but could also occur for physical, legal, or business reasons. This risk is mitigated by establishing minimum credit quality criteria, establishing maximum credit limits, requiring collateral on counterparty downgrade.

The CTA will deem a counterparty as qualified if (a) the counterparty has demonstrated experience in successfully executing derivative contracts with other municipal entities, (b) it indicates a willingness to accept one way collateral should the CTA and its advisors so recommend, and (c)(i) its credit rating by one of three nationally recognized rating agencies is in the AA category and A+ or better by either of the remaining two agencies furnishing such ratings or (ii) its payments pursuant to the derivative contract are unconditionally guaranteed by an entity with credit ratings that satisfy the criteria set forth in (c)(i). The CTA will require that if any qualified counterparty is downgraded and no longer deemed qualified, the contract is subject to the termination provisions in the Master Agreement, unless the additional risk can be mitigated by a substitute guarantor or the contract is collateralized.

A counterparty that does not satisfy the aforementioned rating criteria shall be required to post an appropriate level of collateral as determined by the CTA. Collateral, if and as required by the Master Agreement and any credit support annex, shall be maintained with a mutually agreeable third party or trustee and shall be periodically marked to market by the agent or trustee. Collateral, if and as required, shall generally be provided in a manner satisfactory to CTA that its interests are: (a) perfected, (b) not a matter of preference, and (c) not subject to stay in the event of bankruptcy of the derivative contract counterparty. CTA shall not be required to provide collateral as party to a derivative contract unless it is clearly in the best interest of the CTA.

(Continued)

NOTE 15 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The credit ratings for each of CTA's counterparties at December 31, 2013 were:

Counterparty	Moody's	Fitch	Standard & Poor's
J.P. Morgan Chase	A3	A+	A

The credit ratings for each of CTA's counterparties at December 31, 2012 were:

Counterparty	Moody's	Fitch	Standard & Poor's
J.P. Morgan Chase	A2	A+	A

CTA's net credit exposure to any single counterparty (or guarantor thereof) generally should not exceed $50 million. CTA may increase its aggregate position beyond this limit to a particular counterparty if the amount in excess of the limit for that counterparty is fully collateralized. In measuring CTA's aggregate position with a counterparty, a calculation of net offset is permitted in such circumstances as two derivative contracts in which the market values offset one another.

Basis Risk – The risk that there is a mismatch between the variable rate payment received from the swap counterparty and the variable rate paid for diesel fuel purchases. The CTA mitigates this risk by conducting an extensive survey of relevant products and indices, and selecting one that has a strong correlation with the price changes of the cost of diesel fuel. CTA's standard practice is to purchase diesel fuel from oil vendors with pricing determined by industry publications (OPIS pricing). The spot prices published in such publications reflect the weekly delivered price by city and fuel grade. The NYMEX heating oil futures contract has proven to be an effective means of hedging the volatile price of diesel spot prices. Many providers of financial services offer over the counter (OTC) swaps referencing the price of the NYMEX futures heating oil contract.

Termination Risk – The risk that there will be a mandatory early termination of the commodity swap that would result in the CTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or the CTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. The CTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. The CTA seeks to minimize the risks it carries by actively managing its derivative contracts. This will entail frequent monitoring of market conditions by CTA's Energy Advisor and the swap counterparty for emergent opportunities and risks. No termination event has occurred during 2013 or 2012.

(Continued)

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Litigation: The CTA has been named as a defendant in various other legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial statements.
Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was $76,500,000 as of December 31, 2013.

Lease Transactions:

Green Line
During 1998, the CTA entered into lease and leaseback agreements with three third party investors pertaining to certain property, railway tracks and train stations on the Green Line. The CTA's payments associated with these agreements were guaranteed by American International Group Inc. (AIG) as the "Debt Payment Undertaker." During 2008, AIG's credit rating was downgraded amid the U.S. mortgage meltdown and global economic crisis. This rating downgrade provided the third party investors with the option under their respective agreements to require CTA to replace AIG as the Debt Payment Undertaker. One of the three investors chose to unwind the transaction and the corresponding agreements were terminated. Another of the three investors entered into a conditional forbearance agreement that allows CTA to continue to use AIG as long as the rating does not fall below BB by Standard & Poor's and Ba2 by Moody's. The third investor has been granting the CTA short-term extensions regarding the replacement.

Buses
In 2002 and 2003, CTA entered into lease-leaseback agreements with third party investors for buses. CTA entered into an agreement with Financial Security Assurance, Inc. (FSA) to act as the debt payment and strip surety guarantor for these agreements. FSA's credit rating was downgraded during the 2008 financial crisis. This downgrading allows the private investors the option to require CTA to replace FSA as guarantor. CTA has received a series of temporary forbearance letters regarding replacement of FSA for the 2002 bus lease-leaseback. The 2002 bus lease-leaseback included two lots. CTA submitted notice of its exercise of its purchase option for Lot Two on March 5, 2012 and Lot One on June 29, 2012. Lot Two terminated in December 2013 and Lot One is scheduled to terminate in December 2014.

The investor in the 2003 bus lease-leaseback transaction notified CTA that it is considering alternatives to the replacement of the Strip Surety Policy that was provided by FSA. The notice states that it is the objective of the investor to determine if there are reasonable options available that will protect the interests of the investor without being unduly burdensome to CTA and that further notice will be provided following consideration of such alternatives. The notice also provides that the replacement period will not be deemed to commence until such further notice is provided.

(Continued)

NOTE 17 – SUBSEQUENT EVENTS

On April 24, 2014, CTA entered into a definitive loan agreement with the United States Department of Transportation, an agency of the United States of America, acting by and through the Federal Highway Administrator under the TIFIA (Transportation Infrastructure Finance and Innovation Act) loan program.

The principal amount of the TIFIA Loan shall not exceed $79,200,000; provided, that in no event shall the maximum principal amount of the TIFIA Loan disbursed by the TIFIA Lender, together with the amount (excluding any interest that is capitalized) of any other credit assistance provided under the Act, exceed thirty-three percent (33%) of reasonably anticipated Eligible Project Costs and the total federal funding, inclusive of the TIFIA Loan and all federal direct or indirect grants, shall not exceed eighty percent (80%) of reasonably anticipated Eligible Project Costs.

As evidence of CTA's obligation to repay the TIFIA Loan, CTA has issued to the lender a registered farebox receipts revenue bond in the amount of $79.2 million dated April 24, 2014 with a maturity date of December 1, 2050 bearing an interest rate of 3.5%, with a loan amortization schedule.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
Year Ended December 31, 2013
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2013	$ 1,702,788	$ 2,867,335	$ 1,164,547	59.4%	$ 548,515	212.3%
1/1/2012	1,662,196	2,808,184	1,145,988	59.2	541,354	211.7
1/1/2011	1,909,967	2,724,191	814,224	70.1	528,288	154.1
1/1/2010	1,936,849	2,588,462	651,613	74.8	567,173	114.9
1/1/2009	1,995,953	2,632,356	636,403	75.8	578,521	110.0
1/1/2008	941,864	2,531,440	1,589,576	37.2	571,314	278.2
1/1/2007	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
1/1/2004	1,491,574	2,189,666	698,092	68.1	486,626	143.5
Open Supplemental Plan:						
1/1/2014	$ 43,503	$ 53,344	$ 9,841	81.6%	$ 1,647	597.5%
1/1/2013	37,040	54,716	17,676	67.7	2,282	774.6
1/1/2012	34,251	55,898	21,647	61.3	2,486	870.8
1/1/2011	35,626	55,705	20,079	64.0	4,259	471.4
1/1/2010	32,345	51,348	19,002	63.0	7,265	261.6
1/1/2009	22,434	36,519	14,085	61.4	11,691	120.5
1/1/2008	19,457	15,974	(3,483)	121.8	13,551	-25.7
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
1/1/2005	*	*	*	*	*	*
Closed Supplemental Plan:						
1/1/2014	$ -	$ 27,678	$ 27,678	0.0%	$ -	0.0%
1/1/2013	-	28,963	28,963	-	-	-
1/1/2012	-	29,979	29,979	-	-	-
1/1/2011	-	32,045	32,045	-	-	-
1/1/2010	-	30,696	30,696	-	-	-
1/1/2009	-	31,459	31,459	-	-	-
1/1/2008	-	32,887	32,887	-	-	-
1/1/2007	-	33,104	33,104	-	-	-
1/1/2006	-	34,835	34,835	-	-	-
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
Board Supplemental Plan:						
1/1/2014	$ 75	$ 4,848	$ 4,772	1.5%	$ 139	3433.1%
1/1/2013	70	4,778	4,708	1.5	150	3138.7
1/1/2012	57	4,693	4,636	1.2	175	2469.1
1/1/2011	47	4,773	4,726	1.0	200	2363.0
1/1/2010	35	4,246	4,210	0.8	200	2105.1
1/1/2009	45	3,257	3,212	1.4	200	1606.0
1/1/2008	56	3,193	3,137	1.8	200	1568.5
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7
1/1/2005	42	3,001	2,959	1.4	175	1690.9

*During the year ended December 31, 2005, the CTA established a qualified trust for members of the supplement retirement plan retiring after March 2005 (Open Supplemental Retirement Plan). With the establishment of the trust, the old supplemental retirement plan was effectively closed and subsequently only includes employees who retired prior to March 2005.

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Postemployment Benefits
Schedules of Funding Progress (Unaudited)
Year Ended December 31, 2013
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Supplemental & Board Plan - Healthcare:						
1/1/2014	$	$ 11,869	$ 11,869	0.0%	$ 581	2041.8%
1/1/2013	-	13,168	13,168	-	752	1,750.5
1/1/2012	-	13,138	13,138	-	887	1,481.2
1/1/2011	-	18,400	18,400	-	2,219	829.2
1/1/2010	-	18,967	18,967	-	3,580	529.8
1/1/2009	-	16,830	16,830	-	4,420	380.8
1/1/2008	-	6,287	6,287	-	2,771	226.9
1/1/2007	-	6,796	6,796	-	3,332	204.0

CHICAGO TRANSIT AUTHORITY
Employees’ Plan
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
Year Ended December 31, 2013
(In thousands of dollars)

Employees’ Plan – Pension

Year ended	Annual required contribution	Percentage contributed
12/31/13	$ 100,956	78.7%
12/31/12	107,569	58.3%
12/31/11	76,137	79.1
12/31/10	63,451	90.3
12/31/09	88,422	40.8
12/31/08	178,966	651.5
12/31/07	185,944	13.5
12/31/06	153,204	15.6
12/31/05	133,816	14.8
12/31/04	104,881	19.2

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
Year Ended December 31, 2013
(In thousands of dollars)

Open Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/13	$ 1,926	100.0%
12/31/12	2,267	100.0
12/31/11	2,207	100.1
12/31/10	2,577	100.9
12/31/09	2,410	307.4
12/31/08	230	3,475.0
12/31/07	200	-
12/31/06	-	-

Closed Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/13	$ 4,295	72.5%
12/31/12	4,116	80.2
12/31/11	4,041	85.3
12/31/10	3,770	86.4
12/31/09	3,635	93.0
12/31/08	3,599	96.1
12/31/07	3,450	101.6
12/31/06	3,474	99.8

Board Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/13	$ 331	102.0%
12/31/12	348	92.8
12/31/11	372	88.5
12/31/10	360	91.3
12/31/09	288	92.4
12/31/08	282	93.3
12/31/07	288	98.8
12/31/06	275	106.0

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
Year Ended December 31, 2013
(In thousands of dollars)

Supplemental and Board Plans - Healthcare

Year ended	Annual required contribution	Percentage contributed
12/31/13	$ 1,141	71.0%
12/31/12	1,080	65.2
12/31/11	1,606	44.1
12/31/10	1,785	29.7
12/31/09	1,645	24.6
12/31/08	508	57.6
12/31/07	556	60.2

See accompanying independent auditors' report.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2013
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 939,679	$ 939,679	$ 948,272	$ (8,593)
Materials and supplies	57,279	57,279	60,353	(3,074)
Fuel	65,342	65,342	61,836	3,506
Electric power	23,175	23,175	26,174	(2,999)
Purchase of security services	23,246	23,246	24,160	(914)
Other	233,496	233,496	245,329	(11,833)
Provision for injuries and damages	11,792	11,792	-	11,792
Total operating expenses	1,354,009	1,354,009	1,366,124	(12,115)
System-generated revenues:				
Fares and passes	607,209	607,209	574,029	(33,180)
Reduced-fare subsidies	28,322	28,322	21,948	(6,374)
Advertising and concessions	27,851	27,851	25,677	(2,174)
Investment income	629	629	370	(259)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	31,954	31,954	41,939	9,985
Total system-generated revenues	700,965	700,965	668,963	(32,002)
Operating expenses in excess of system-generated revenues	653,044	653,044	697,161	(44,117)
Public funding from the RTA:				
Operating assistance	653,044	653,044	697,161	44,117
	653,044	653,044	697,161	44,117
Change in net assets – budgetary basis	$ -	$ -	-	$ -
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(360,510)	
RTA reversal of working cash notes payable			56,147	
Pension expense in excess of pension contributions			4,026	
Supplemental Retirement			(870)	
Incentive Retirement			505	
Workers Compensation			(642)	
Revenue from leasing transactions			4,262	
Provision for injuries and damages			(14,171)	
Interest expense on bond transactions			(84,245)	
Interest revenue on bond transactions			3,570	
Interest income from sale/leaseback			111,151	
Interest expense from sale/leaseback			(112,692)	
Capital contributions			673,571	
Change in net assets – GAAP basis			$ 280,102	
CTA recovery ratio:				
Total operating expenses			$ 1,366,124	
Less mandated security costs			(24,160)	
Less Pension Obligation Bond debt service			(156,574)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,207,390	
Total system-generated revenues			$ 668,963	
Plus Senior Free Rides			23,418	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 714,381	
Recovery ratio (A/B)			59.17%	

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2012
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 883,075	$ 919,075	$ 921,884	$ (2,809)
Materials and supplies	71,493	68,493	85,437	(16,944)
Fuel	66,707	65,631	62,908	2,723
Electric power	24,977	22,867	25,020	(2,153)
Purchase of security services	36,803	36,803	37,468	(665)
Other	126,036	126,036	134,789	(8,753)
Provision for injuries and damages	31,200	24,000	24,000	-
Total operating expenses	1,240,291	1,262,905	1,291,506	(28,601)
System-generated revenues:				
Fares and passes	540,000	545,000	548,799	3,799
Reduced-fare subsidies	28,000	28,000	27,780	(220)
Advertising and concessions	22,802	22,802	25,675	2,873
Investment income	867	867	674	(193)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	27,013	27,013	38,054	11,041
Total system-generated revenues	623,682	628,682	645,982	17,300
Operating expenses in excess of system-generated revenues	616,609	634,223	645,524	(11,301)
Public funding from the RTA:				
Operating assistance	616,609	634,223	645,524	11,301
	616,609	634,223	645,524	11,301
Change in net assets – budgetary basis	$ -	$ -	-	$ -
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(374,458)	
Pension expense in excess of pension contributions			(110,133)	
Supplemental Retirement			-	
Incentive Retirement			417	
Workers Compensation			(3,016)	
Revenue from leasing transactions			4,262	
Provision for injuries and damages			6,552	
Interest expense on bond transactions			(92,317)	
Interest revenue on bond transactions			8,417	
Interest income from sale/leaseback			116,039	
Interest expense from sale/leaseback			(118,439)	
Capital contributions			366,402	
Change in net assets – GAAP basis			$ (196,274)	
CTA recovery ratio:				
Total operating expenses			$ 1,291,506	
Less mandated security costs			(37,468)	
Less Pension Obligation Bond debt service			(141,387)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,134,651	
Total system-generated revenues			$ 645,982	
Plus Senior Free Rides			21,507	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 689,489	
Recovery ratio (A/B)			60.77%	