

In the opinion of Katten Muchin Rosenman LLP and Charity & Associates, P.C., Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Series 2011 Bonds will not be includable in gross income for federal income tax purposes. The interest on the Series 2011 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2011 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” herein.

\$56,525,000



**CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS,
REFUNDING SERIES 2011
(FEDERAL TRANSIT ADMINISTRATION
SECTION 5307 URBANIZED AREA
FORMULA FUNDS)**

Dated: Date of Issuance

Due: June 1, as shown on the inside front cover

The Chicago Transit Authority (the “Authority”) Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Series 2011 Bonds”), are being issued pursuant to the Trust Indenture dated as of November 1, 2004, between the Authority and Amalgamated Bank of Chicago, as trustee, as heretofore supplemented and as further supplemented by a Fourth Supplemental Indenture dated as of November 1, 2011, between the Authority and Amalgamated Bank of Chicago, as trustee (the “5307 Indenture”).

The Series 2011 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of Series 2011 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Series 2011 Bonds will not receive bonds representing their beneficial ownership in the Series 2011 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The Series 2011 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

Interest on the Series 2011 Bonds, which is payable on June 1 and December 1 of each year, commencing June 1, 2012, and principal of the Series 2011 Bonds, are payable to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the Series 2011 Bonds through their respective DTC Participants or DTC Indirect Participants. The Series 2011 Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE SERIES 2011 BONDS – Optional Redemption.”

The Series 2011 Bonds are limited obligations of the Authority. The Series 2011 Bonds are secured under the 5307 Indenture by a pledge of the Authority’s share of Federal Transit Administration Section 5307 Urbanized Area Formula funds (the “5307 Grant Receipts”) on a parity with the Authority’s currently outstanding 5307 Bonds described herein. The Series 2011 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than the 5307 Grant Receipts) are not pledged or available for the payment of the Series 2011 Bonds or the interest thereon. The Authority has no taxing power.

The scheduled payments of principal of and interest on the Series 2011 5307 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2011 Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The maturities, amounts, interest rates and yields of the Series 2011 Bonds are set forth on the inside front cover.

The Series 2011 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Katten Muchin Rosenman LLP, Chicago, Illinois, and Charity & Associates, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Schiff Hardin LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Underwriters’ Counsel, and for the Authority by its General Counsel. The Series 2011 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about November 4, 2011.

Wells Fargo Securities

Morgan Stanley

Backstrom McCarley Berry & Co. BAIRD Jefferies & Company Loop Capital Markets Ramirez & Co., Inc.

\$56,525,000
CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS, REFUNDING SERIES 2011
(FEDERAL TRANSIT ADMINISTRATION SECTION 5307
URBANIZED AREA FORMULA FUNDS)

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP®*
2022	\$ 6,595,000	5.000%	4.20%	106.250%**	167723EW1
2023	6,920,000	5.250	4.33	107.145**	167723EX9
2024	7,285,000	5.250	4.46	106.098**	167723EY7
2025	1,540,000	4.500	4.58	99.194	167723EZ4
2025	6,125,000	5.250	4.58	105.142**	167723FC4
2026	8,060,000	5.250	4.68	104.354**	167723FA8
2029	20,000,000	4.875	4.96	99.006	167723FB6

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services LLC, managed on behalf of the American Bankers Association by Standard & Poor's Rating Services, a business unit of Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Series 2011 Bonds and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2011 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2011 Bonds.

** Price shown to first call date.

Chicago Transit Authority System Map



CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

Terry Peterson, Chairman
John Bouman
Jacquelyne Grimshaw
Kathryn McClain
Charles E. Robinson
Alejandro Silva

OFFICERS

Forrest Claypool, President
Karen L. Walker, Chief Financial Officer and Treasurer
Karen Seimetz, General Counsel
Gregory Longhini, Assistant Secretary

CO-BOND COUNSEL

Katten Muchin Rosenman LLP
Charity & Associates, P.C.
Chicago, Illinois

FINANCIAL ADVISORS

A.C. Advisory, Inc.
Public Financial Management, Inc.
Chicago, Illinois

VERIFICATION AGENT

Robert Thomas CPA, LLC
Shawnee Mission, Kansas

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the Series 2011 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2011 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside front cover page of this Official Statement, and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement does not constitute an offer to sell the Series 2011 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the Series 2011 Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2011 Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The information set forth herein has been obtained from the Authority and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Underwriters. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. No representation, warranty or guarantee is made by the Financial Advisors as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Authority, the Underwriters or the Financial Advisors.

Assured Guaranty Municipal Corp. (“AGM” or the “2011 Bond Insurer”) makes no representation regarding the Series 2011 Bonds or the advisability of investing in the Series 2011 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX E — SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Grant Receipts received, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of 5307 Grant Receipts received include, among others, receipt of anticipated amounts under the FTA’s Urbanized Area Formula Program (49 U.S.C. 5307), periodic reauthorization of such program, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions “SECURITY FOR THE SERIES 2011 BONDS” and “FEDERAL TRANSIT PROGRAM” and such statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

The Series 2011 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

OVERVIEW

This Overview does not constitute a part of the Official Statement for the issuance and sale by the Chicago Transit Authority of its \$56,525,000 Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Series 2011 Bonds”), and does not purport to be complete. This Overview is for informational purposes only and is subject to more complete discussion contained in the Official Statement. Capitalized terms used and not defined in this Overview are defined in the Official Statement.

Issuer	Chicago Transit Authority (the “Authority” or the “CTA”) operates the nation’s second largest public transportation system (the “Transportation System”), providing mass transit services within a 356 square mile area including the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.9 million. The Authority carries over 80 percent of the public transit riders in the six-county northeastern Illinois region, including the Counties of Cook, DuPage, Kane, Lake, McHenry and Will. Transit services provided by the Authority are part of the regional public mass transportation service system in northeastern Illinois provided through the independent operations of the Authority, Metra (suburban rail) and Pace (suburban bus) (CTA, Metra and Pace are referred to collectively as the “Service Boards”). For a detailed description of the Authority and its operations, see “THE AUTHORITY” in the Official Statement.
Series 2011 Bonds	\$56,525,000 Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds).
Ratings	Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”) have assigned their municipal bond ratings of “A1” and “A”, respectively, to the Series 2011 Bonds. In addition, based on the issuance of the 2011 Bond Insurance Policy by AGM at the time of delivery of the Series 2011 Bonds, the Series 2011 Bonds are expected to be assigned the rating of “Aa3” (negative outlook) by Moody’s and “AA+” (Credit Watch negative) by S&P. See “RATINGS” in the Official Statement.
Plan of Finance	The proceeds from the sale of the Series 2011 Bonds will be used to (i) to refund a portion of certain Outstanding Prior 5307 Bonds (as hereinafter defined), and (ii) pay costs in connection with the issuance of the Series 2011 Bonds. See “PLAN OF FINANCE” in the Official Statement.
Regional Transportation Authority	The Regional Transportation Authority (the “RTA”) oversees public transportation in northeastern Illinois. The RTA provides funding, planning and fiscal oversight for the Service Boards in part through the imposition of sales taxes throughout the northeastern Illinois region. The Regional Transportation Authority Act vests responsibility for operating budget and financial oversight of the Service Boards in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards. See “THE AUTHORITY—The RTA” in the Official Statement.
Source of Payment and Security for the Series 2011 Bonds	The Series 2011 Bonds are payable solely from and secured solely by (i) 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund established under the 5307 Indenture), including investment earnings thereon. See “SECURITY FOR THE SERIES 2011 BONDS” in the Official Statement.
5307 Grant Receipts	The sole source of 5307 Grant Receipts available to the Authority to pay principal of and interest on the Series 2011 Bonds is its annual share of Section 5307 Formula Funds. See “FEDERAL TRANSIT PROGRAM” in the Official Statement for descriptions of the Section 5307 Program and the methods by which the amount of Section 5307 Formula Funds available to the Authority on an annual basis are determined.

Additional Bonds	The issuance of one or more Series of Additional Bonds is authorized pursuant to the 5307 Indenture for the purpose of paying the cost of construction of one or more Eligible Projects under the 5307 Indenture or refunding any Subordinated Indebtedness thereunder issued for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account established under the 5307 Indenture. Such Additional Bonds may be issued only upon the delivery to the 5307 Trustee of a certificate of the Authority determining that the average Annual Apportionment Amount (as defined in APPENDIX A to the Official Statement) for the three completed Federal Fiscal Years immediately preceding the date of issuance of such Series of Additional Bonds is not less than 150 percent of the Maximum Annual Debt Service Requirement determined as of the time immediately following the issuance of such Series of Additional Bonds. See “SECURITY FOR THE SERIES 2011 BONDS — Additional Bonds” in the Official Statement.
Bond Insurance	The scheduled payments of principal of and interest on the Series 2011 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2011 Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE” in the Official Statement.
Limited Obligation	The Series 2011 Bonds are limited obligations of the Authority payable solely from and secured solely by (i) 5037 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the related Rebate Fund), including investment earnings thereon. The Series 2011 Bonds are not a general obligation of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Series 2011 Bonds or the interest thereon. The 5307 Indenture creates no liens upon any physical properties of the Authority. The Act provides that the Series 2011 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2011 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.
Interest Payment Dates	Interest on the Series 2011 Bonds will be payable on June 1 and December 1 of each year, commencing June 1, 2012, until maturity or earlier redemption. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months at the rates set forth on the inside front cover of the Official Statement.
Redemption	The Series 2011 Bonds are subject to optional redemption. See “DESCRIPTION OF THE SERIES 2011 BONDS—Redemption” in the Official Statement.
Trustee	Amalgamated Bank of Chicago, Chicago, Illinois, will serve as Trustee and Paying Agent.
Book-Entry Form and Denominations	The Series 2011 Bonds will be issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple thereof.
Tax Matters	In the opinion of Katten Muchin Rosenman LLP and Charity & Associates, P.C., Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Series 2011 Bonds will not be includable in gross income for federal income tax purposes. The interest on the Series 2011 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2011 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” in the Official Statement.

**Delivery and
Clearance**

The Series 2011 Bonds are expected to be available for delivery at DTC in New York, New York, on or about November 4, 2011.

Legal Matters

Certain legal matters will be passed upon for the parties to the financing by their respective counsel as set forth on the cover page to the Official Statement.

**Additional
Information**

Additional information may be obtained upon request to Karen L. Walker, Chief Financial Officer and Treasurer, Chicago Transit Authority, 567 West Lake Street, Chicago, Illinois 60661; phone: (312) 681-3400.

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OFFICIAL STATEMENT



\$56,525,000
CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS,
REFUNDING SERIES 2011
(FEDERAL TRANSIT ADMINISTRATION
SECTION 5307 URBANIZED AREA FORMULA FUNDS)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and appendices hereto (the “Official Statement”), is to set forth certain information concerning the issuance by the Chicago Transit Authority (the “Authority” or the “CTA”) of \$56,525,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Series 2011 Bonds”). The Series 2011 Bonds, together with the 2004 Bonds, the 2006 Bonds, the 2008 Bonds and the 2010 Bonds (all as defined herein), and any Series of Additional Bonds that may be issued in the future under the 5307 Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the “5307 Bonds.”

The Series 2011 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605/1 *et seq.*) (the “Act”) and the Local Government Debt Reform Act (30 ILCS 350/1 *et seq.*). The Series 2011 Bonds are authorized by an ordinance adopted by the Chicago Transit Board, the Authority’s governing body (the “CTA Board”), on October 13, 2011.

The Series 2011 Bonds are being issued under and secured by the Trust Indenture dated as of November 1, 2004 (the “5307 Master Trust Indenture”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “5307 Trustee”), as heretofore supplemented and as further supplemented by the Fourth Supplemental Indenture dated as of November 1, 2011 (“Fourth Supplemental Indenture”), between the Authority and the 5307 Trustee. The 5307 Master Trust Indenture, as heretofore supplemented and as further supplemented by the Fourth Supplemental Indenture, is herein referred to as the “5307 Indenture.”

A portion of the funding that the Authority receives for the support of urban mass transportation capital improvement projects that it undertakes is in the form of federal grant funding from the Federal Transit Administration of the United States Department of Transportation (the “FTA”). Under the FTA’s Urbanized Area Formula Program, 49 U.S.C. Section 5307 (“Section 5307 Program”), funds are made available to urbanized areas to finance capital, operating and planning assistance for mass transportation (“Section 5307 Formula Funds”). See “FEDERAL TRANSIT PROGRAM.” The Authority has agreed to deposit all Section 5307 Formula Funds received by the Authority (the “5307 Grant Receipts”) in the Grant

Receipts Deposit Fund established under the 5307 Indenture. The 5307 Indenture provides for the withdrawal of amounts from the Grant Receipts Deposit Fund for deposit with the 5307 Trustee for the purpose of paying debt service on the 5307 Bonds. See “SECURITY FOR THE SERIES 2011 BONDS – Flow of Funds – Grant Receipts.”

The proceeds from the sale of the Series 2011 Bonds will be used to (i) to refund a portion of certain Outstanding Prior 5307 Bonds (the “Refunded Bonds”), and (ii) pay costs in connection with the issuance of the Series 2011 Bonds. See “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS.”

The Refunded Bonds were issued to provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of its capital plan in anticipation of the receipt of the 5307 Grant Receipts. See “THE AUTHORITY – Capital Plan” for a further explanation of how the Authority’s capital plan is developed.

The Authority

The Authority is a political subdivision, body politic and municipal corporation of the State of Illinois created by the Act. The Authority began operating in 1947. Currently, the Authority operates the nation’s second largest public transportation system, which serves the City of Chicago and 40 surrounding suburbs.

The Series 2011 Bonds

The Series 2011 Bonds are being issued pursuant to the Fourth Supplemental Indenture and will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside front cover page of this Official Statement.

Interest on the Series 2011 Bonds will be payable on June 1 and December 1 of each year, commencing June 1, 2012.

The Series 2011 Bonds are issuable as fully registered bonds and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2011 Bonds. Purchases of beneficial ownership interests in the Series 2011 Bonds will be made only in book-entry form in denominations of \$5,000 or any integral multiple thereof.

The Series 2011 Bonds are subject to redemption prior to their maturity at the option of the Authority as described herein under “DESCRIPTION OF THE SERIES 2011 BONDS – Optional Redemption.”

Security for the Series 2011 Bonds

The 5307 Bonds, including the Series 2011 Bonds, are limited obligations of the Authority payable from and secured solely by (i) the 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts under the 5307 Indenture (except the Rebate Fund), including investment earnings thereon. See “SECURITY FOR THE SERIES 2011 BONDS.” The sole

source of 5307 Grant Receipts is the Authority's annual share of Section 5307 Formula Funds. See "FEDERAL TRANSIT PROGRAM – Program Operations."

The Series 2011 Bonds are being issued as Refunding Bonds and Parity Obligations (as such terms are defined in the 5307 Indenture) under the 5307 Indenture on a parity with the Authority's Capital Grant Receipts Revenue Bonds, Series 2004A (Federal Transit Administration Section 5307 Formula Funds), currently outstanding in the principal amount of \$78,515,000 (the "2004A Bonds"), its Capital Grant Receipts Revenue Bonds, Series 2004B (Federal Transit Administration Section 5307 Formula Funds), currently outstanding in the principal amount of \$52,100,000 (the "2004B Bonds" and, together with the Series 2004A 5307 Bonds, the "2004 Bonds"), its Capital Grant Receipts Revenue Bonds, Series 2006A (Federal Transit Administration Section 5307 Formula Funds), currently outstanding in the principal amount of \$240,440,000 (the "2006 Bonds"), its Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), currently outstanding in the principal amount of \$100,000,000 (the "2008 Bonds"), and its Capital Grant Receipts Revenue Bonds, Refunding Series 2010 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), currently outstanding in the principal amount of \$63,895,000 (the "2010 Bonds," which, together with the 2004 Bonds, the 2006 Bonds and the Series 2008 Bonds, as such Bonds may be Outstanding, are referred to in this Official Statement as the "Outstanding Prior 5307 Bonds"), and with certain other obligations that may be issued by the Authority as described herein. See "SECURITY FOR THE SERIES 2011 BONDS – Parity Obligations."

Limited Obligations of the Authority

The Series 2011 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than as described herein) are not pledged for the payment of the Series 2011 Bonds or the interest thereon. The 5307 Indenture creates no liens upon any physical properties of the Authority. The Act provides that the Series 2011 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2011 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Recent Developments

The authorization for the current Federal-Aid Highway Program and the authorization for the collection of a majority of the federal motor fuel taxes and other taxes that make up the primary source of revenue for highway and transit spending expire on March 31, 2012. Since its scheduled termination on September 30, 2009, the authorization for the current Federal-Aid Highway Program has been extended six times through March 31, 2012, with the latest extension, the "Surface and Air Transportation Programs Extension Act of 2011," signed into law on September 16, 2011. As of the date of this Official Statement, the Authority has no assurance that the current authorizations will be extended or that new authorizations will be approved in the near term. Moreover, in recent years total spending on the federal share of transportation projects has exceeded funding available from the Federal-Aid Highway Program. Shortfalls have been made up from transfers from the federal General Fund, but there can be no

assurance that adequate funding will remain available to pay debt service on the Outstanding Prior 5307 Bonds and the Series 2011 Bonds.

Bond Insurance

The scheduled payments of principal of and interest on the Series 2011 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2011 Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE.”

Certain References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Definitions of Certain Terms” or, if not defined therein, in the 5307 Indenture.

PLAN OF FINANCE

The proceeds from the sale of the Series 2011 Bonds will be used to (i) refund a portion of certain Outstanding Prior 5307 Bonds, as set forth in the tables below (the “Refunded Bonds”), to their maturity or earlier redemption date specified below, and (ii) pay costs in connection with the issuance of the Series 2011 Bonds.

5307 Refunded Bonds

<u>Series Designation</u>	<u>Maturity Date (June 1)</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date</u>
2004B	2016	\$ 4,750,000	
2006A	2012	475,000	
2006A	2016	11,465,000	
2006A	2017	9,350,000	December 1, 2016
2006A	2018	8,770,000	December 1, 2016
2006A	2019	6,285,000	December 1, 2016
2006A	2020	7,850,000	December 1, 2016

To provide for the refunding of the Refunded Bonds, a portion of the proceeds of the Series 2011 Bonds will be used, together with other available funds, to purchase Government Obligations, the principal of which, together with interest to be earned thereon and any initial cash balance, shall be sufficient to pay all of (i) the interest on each Refunded Bond that will become due and payable to its maturity date or earlier redemption date; and (ii) the principal of each Refunded Bond on its maturity date or the redemption price of 100% of the principal amount thereof upon earlier redemption (the “Defeasance Payment Requirements”). The Government Obligations and initial cash balance for the Refunded Bonds will be held in an escrow account established pursuant to an escrow agreement (the “Escrow Agreement”) with the

5307 Trustee, as escrow agent, for the Refunded Bonds. The principal of, redemption premium (if any) and interest on the Refunded Bonds shall be payable from the escrow account administered for the benefit of the Authority and the holders of the outstanding Refunded Bonds. Neither the maturing principal of the Government Obligations purchased to refund the Refunded Bonds nor the interest earned thereon will serve as security or be available for the payment of the principal of or interest on the Series 2011 Bonds. Pursuant to the requirements of the 5307 Indenture, the Government Obligations and the initial cash balances on deposit in the escrow account will be sufficient, without reinvestment, to pay the Defeasance Payment Requirements of the Refunded Bonds as the same shall become due and payable. The mathematical computations of the adequacy of the cash flows from the Government Obligations together with the initial cash deposit to satisfy the Defeasance Payment Requirements of the Refunded Bonds as described above will be verified at the time of the delivery of the Series 2011 Bonds by Robert Thomas CPA, LLC, independent certified public accountants. See "CERTAIN VERIFICATIONS."

The Refunded Bonds were issued to provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of its capital plan in anticipation of the receipt of the 5307 Grant Receipts. Grant Receipts not otherwise used for the payment of the Refunded Bonds may be used for other purposes.

SOURCES AND USES OF FUNDS

Sources of Funds

Par Amount	\$56,525,000.00
Net Original Issue Premium	1,805,528.30
Funds released from 5307 Indenture	<u>1,184,193.75</u>
Total Sources of Funds	\$59,514,722.05

Uses of Funds

Deposit to Escrow Account	\$58,719,055.75
Costs of Issuance ¹	<u>795,666.30</u>
Total Uses of Funds	\$59,514,722.05

¹ Includes Underwriters' Discount and Bond Insurance Premium.

DESCRIPTION OF THE SERIES 2011 BONDS

General

The Series 2011 Bonds will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside front cover of this Official Statement. Interest on the Series 2011 Bonds shall be payable on June 1 and December 1 of each year, commencing June 1, 2012. Interest on the Series 2011 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The Series 2011 Bonds will be delivered in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2011 Bonds. Ownership interests in the Series 2011 Bonds may be purchased by or through a DTC Participant (as described below) in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See APPENDIX B – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Optional Redemption

The Series 2011 Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part on any date on or after June 1, 2021, and if in part, in such principal amounts and from such maturities as selected by the Authority, and by lot for Series 2011 Bonds of the same maturity and interest rate as provided in the 5307 Indenture, at a Redemption Price equal to the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Notice of Redemption

Upon receipt of notice from the Authority of its election or direction to redeem Series 2011 Bonds, the 5307 Trustee will give notice of the redemption of such Series 2011 Bonds. The 5307 Trustee will mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 20 days before the date fixed for redemption, to the Owners of the Series 2011 Bonds to be redeemed at their addresses as shown on the registration books of the Authority. If the 5307 Trustee mails notices of redemption as provided by the 5307 Indenture, notice shall be conclusively presumed to have been given to all Owners.

If, on the date fixed for redemption, moneys for the redemption of the Series 2011 Bonds to be redeemed, together with interest to such date, shall be held by the applicable Trustee and if notice of redemption shall have been given, then, from and after the date fixed for redemption, interest on the Series 2011 Bonds or portions thereof of such maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the date fixed for redemption, such Series 2011 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. However, with respect to an optional redemption of the Series 2011 Bonds, unless moneys sufficient to pay the principal of, redemption premium, if any, and interest on the Series 2011 Bonds to be redeemed shall have been received by the applicable Trustee

prior to the giving of the notice of redemption, such notice may, at the option of the Authority, state that said redemption shall be conditional upon the receipt of such moneys by such Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such Series 2011 Bonds and such Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Series 2011 Bonds will not be redeemed.

Book-Entry Only System

As noted above, DTC will act as securities depository for the Series 2011 Bonds. See APPENDIX B – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Payments of interest on and principal of the Series 2011 Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Series 2011 Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the Authority and the applicable Trustee with respect to interest on and principal of the Series 2011 Bonds to the extent of the sum or sums so paid.

The Authority and each Trustee cannot and do not give any assurances that DTC Participants or DTC Indirect Participants will distribute to the beneficial owners (i) payments of interest and principal with respect to the Series 2011 Bonds, (ii) confirmation of ownership interests in the Series 2011 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as Owner of the Series 2011 Bonds, or that they will do so on a timely basis.

Transfers and Exchanges of Series 2011 Bonds Upon Abandonment of Book-Entry-Only System

The Owners of the Series 2011 Bonds have no right to the appointment or retention of a securities depository for the Series 2011 Bonds. DTC may resign as securities depository under the conditions provided in the Letter of Representations from the Authority to DTC. In the event of any such resignation, the Authority shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository, and transfer or cause the transfer of one or more separate Series 2011 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of Series 2011 Bond certificates and transfer or cause the transfer of one or more Series 2011 Bond certificates to DTC Participants having Series 2011 Bonds credited to their DTC accounts. In such event, the Series 2011 Bonds will no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC Participants receiving Series 2011 Bonds shall designate, in accordance with the provisions of the 5307 Indenture.

SECURITY FOR THE SERIES 2011 BONDS

The Series 2011 Bonds (and all other Parity Obligations) issued under the 5307 Indenture are limited obligations of the Authority issued pursuant to the Act and the Local Government Debt Reform Act.

The 5307 Bonds are payable solely from and secured solely by (i) 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund established under the 5307 Indenture), including investment earnings thereon.

The Series 2011 Bonds are not general obligations of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Series 2011 Bonds or the interest thereon. The 5307 Indenture creates no liens upon any physical properties of the Authority. The Act provides that the Series 2011 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Series 2011 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Grant Receipts

The sole source of 5307 Grant Receipts available to the Authority to pay principal of and interest on the 5307 Bonds is its annual share of Section 5307 Formula Funds.

See “FEDERAL TRANSIT PROGRAM” for descriptions of the Section 5307 Program and the methods by which the amount of Section 5307 Formula Funds available to the Authority on an annual basis are determined.

Pledge of Security

Certain defined terms referenced in this section shall apply to the 5307 Indenture. See APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE.” Reference is hereby made to the 5307 Indenture for a complete statement of the provisions thereof.

The 5307 Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the 5307 Bonds and the payment of permitted obligations meeting the definition of Parity Obligations under the 5307 Indenture, in accordance with their terms and the provisions of the 5307 Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the 5307 Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the 5307 Indenture, (i) the 5307 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the 5307 Indenture (except the Rebate Fund), including investment earnings thereon, subject however to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund and the General Fund established under the 5307 Indenture as permitted under the 5307 Indenture (see “– Funds and Accounts” and “– Flow of Funds – Grant Receipts” below), and (iii) any and all other moneys and securities furnished from time to time to the 5307 Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the 5307 Trustee under the terms of the 5307 Indenture; *provided* that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the 5307 Indenture. See APPENDIX A – “SUMMARY OF CERTAIN

PROVISIONS OF THE 5307 INDENTURE – Hedging Transactions.” Pursuant to Section 13 of the Local Government Debt Reform Act, the 5307 Grant Receipts and the other moneys and securities pledged by the 5307 Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Parity Obligations

The Series 2011 Bonds are secured, as described under this caption, on a parity with the Outstanding Prior 5307 Bonds. Furthermore, the 5307 Indenture permits one or more Series of Bonds (“Additional Bonds”) to be issued on a parity with the Series 2011 Bonds issued thereunder and any other Outstanding 5307 Bonds and Parity Obligations under the 5307 Indenture, for the purpose of paying the costs of construction of Eligible Projects or refunding any Subordinated Indebtedness issued under the 5307 Indenture for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds, and to make deposits to any Fund, Account or Sub-Account under the 5307 Indenture. The 5307 Indenture also permits the issuance of one or more Series of Bonds (“Refunding Bonds”) on a parity with the Series 2011 Bonds issued thereunder and any other Outstanding 5307 Bonds and Parity Obligations under the 5307 Indenture, to refund or advance refund any or all Outstanding 5307 Bonds of one or more Series or any Outstanding Section 207 Obligations under the 5307 Indenture (as described in the next paragraph), to pay costs and expenses incident to the issuance of such Refunding Bonds, and to make deposits to any Fund, Account or Sub-Account under the 5307 Indenture. See “– Additional Bonds” and “– Refunding Bonds” below.

The 5307 Indenture permits the issuance of obligations, on a parity with the Series 2011 Bonds issued thereunder and any other Outstanding 5307 Bonds and Parity Obligations under the 5307 Indenture, incurred by the Authority for the making of periodic payments (but not termination payments, which can only be secured on a subordinate basis) to any one or more Swap Providers (a “Section 206 Obligation”). Pursuant to the 5307 Indenture, the Authority may also incur obligations, that may be secured on a parity with the Series 2011 Bonds issued thereunder and any other Outstanding 5307 Bonds and Parity Obligations under the 5307 Indenture, to reimburse amounts payable under reimbursement agreements or other evidences of indebtedness between the Authority and a Credit Bank (a “Section 207 Obligation”). Section 206 Obligations and Section 207 Obligations under the 5307 Indenture are referred to in this Official Statement, together with the 5307 Bonds issued under the 5307 Indenture, as “Parity Obligations.”

Funds and Accounts

Establishment of Funds and Accounts. Pursuant to the 5307 Indenture, the Authority establishes (i) the Grant Receipts Deposit Fund, which is held by the Authority; and (ii) the Debt Service Fund, the Construction Fund and the General Fund, each of which is held in trust by the 5307 Trustee. Subject to use and application in accordance with the 5307 Indenture, moneys and investments held in the Grant Receipts Deposit Fund, the Debt Service Fund, the Construction Fund and the General Fund are pledged as security for the payment of debt service on the 5307 Bonds and other Parity Obligations issued thereunder. The 5307 Indenture also establishes a

Rebate Fund which is not pledged to the payment of the 5307 Bonds or other Parity Obligations issued thereunder. The 5307 Indenture establishes three separate accounts in the Debt Service Fund, known as the “Interest Account,” the “Principal Account” and the “Variable Rate Stabilization Account.” See the subheadings “Variable Rate Stabilization Account” and “General Fund” below for additional information regarding these funds and accounts. For a description of the priority of payments made from the Debt Service Fund, see APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Debt Service Fund.” The 5307 Indenture establishes the “2011 Project Account” in the Construction Fund.

Variable Rate Stabilization Account. The Variable Rate Stabilization Account established under the 5307 Indenture is required to be funded in an amount equal to the Variable Rate Stabilization Account Requirement, which is calculated as 3.5 percent of the sum of (a) the principal amount of certain Outstanding Variable Rate Bonds and (b) the notional amount of all Qualified Swap Agreements relating to Bonds that are not Variable Rate Bonds that, as of the date of computation, require the Authority to pay interest based upon a variable interest rate or to make swap payments based upon a variable rate index, as calculated under the 5307 Indenture. In the future, if the Authority issues Variable Rate Bonds or enters into Qualified Swap Agreements of the types described above pursuant to the 5307 Indenture, Grant Receipts pledged under the 5307 Indenture may be applied to meet the requirement. See “– Flow of Funds – Grant Receipts” below and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Deposit and Application of Grant Receipts.” For a description of the application of amounts on deposit in the Variable Rate Stabilization Account, see APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Debt Service Fund.”

General Fund. A General Fund is established under the 5307 Indenture. Moneys in each General Fund shall be promptly withdrawn by the 5307 Trustee and paid over to the Authority free from the lien of the 5307 Indenture; *provided* that no such withdrawal from the General Fund may occur unless, at the time of such withdrawal, (i) no deficiency shall exist with respect to the required deposits to the Interest Account and the Principal Account of the Debt Service Fund established under the 5307 Indenture; (ii) the sum then held in the Variable Rate Stabilization Account established under the 5307 Indenture shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred under the 5307 Indenture and remain unremedied. The Authority may establish (i) one or more Debt Service Reserve Accounts within each General Fund for the purpose of providing additional security for the payment of one or more Series of Bonds and (ii) one or more Subordinated Indebtedness Accounts within each General Fund for the purpose of securing the payment of Subordinated Indebtedness. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – General Fund.”

Flow of Funds – 5307 Grant Receipts

The 5307 Indenture requires that all 5307 Grant Receipts received by the Authority shall be promptly deposited into the Grant Receipts Deposit Fund established thereunder. On the first Business Day of each Bond Year and (if required) on any subsequent Business Day during the Bond Year, the Authority is required to withdraw from the Grant Receipts Deposit Fund established under the 5307 Indenture and to pay over to the 5307 Trustee thereunder an amount

sufficient to enable the 5307 Trustee to make payments into the following several Funds and Accounts established under the 5307 Indenture:

First: Into the Interest Account of the Debt Service Fund, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the sum of the Interest Requirements for all Outstanding 5307 Bonds and Section 207 Obligations under the 5307 Indenture for each remaining Interest Period that ends in the current Bond Year;

Second: Into the Principal Account of the Debt Service Fund to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding 5307 Bonds and Section 207 Obligations under the 5307 Indenture for the current Bond Year;

Third: Into the Variable Rate Stabilization Account of the Debt Service Fund, to the extent, if any, needed to increase the amount in the Variable Rate Stabilization Account to the Variable Rate Stabilization Account Requirement;

Fourth: Into the Rebate Fund, the amount specified in a certificate of the Authority filed with the 5307 Trustee pursuant to the 5307 Indenture; and

Fifth: Into the General Fund, the amount specified in a certificate of an Authorized Officer of the Authority filed with the 5307 Trustee under the 5307 Indenture.

See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Deposit and Application of Grant Receipts.”

Moneys held in the Grant Receipts Deposit Fund established under the 5307 Indenture may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects (as defined under the 5307 Indenture). If, however, after the first Business Day of any Bond Year a deficiency then exists in the deposits required to be made to the Grant Receipts Deposit Fund as described above, no withdrawals may be made unless the Authority has obligated a sum sufficient for the payment to the 5307 Trustee of the amounts required by the 5307 Indenture as set forth above from appropriations applicable from the current or prior federal fiscal years (each a “Federal Fiscal Year” or “FFY”). The 5307 Indenture also requires that if, as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the 5307 Trustee as described above from current Federal Fiscal Year appropriations have not been obtained, then the Authority must take all necessary actions to reprogram available Section 5307 Formula Funds appropriated in prior Federal Fiscal Years to the extent required to make such payments. See “FEDERAL TRANSIT PROGRAM – Program Operations – *Program Implementation*,” and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority.”

Additional Bonds

The issuance of one or more Series of Additional Bonds is authorized pursuant to the 5307 Indenture for the purpose of paying the cost of construction of one or more Eligible Projects or refunding any Subordinated Indebtedness thereunder issued for such purposes, to pay

costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account established under the 5307 Indenture. Such Additional Bonds may be issued only upon the delivery of a certificate of the Authority determining that the average Annual Apportionment Amount (as defined in APPENDIX A) for the three completed Federal Fiscal Years immediately preceding the date of issuance of such Series of Additional Bonds is not less than 150 percent of the Maximum Annual Debt Service Requirement determined as of the time immediately following the issuance of such Series of Additional Bonds.

In applying the foregoing test, if any of the 5307 Bonds Outstanding under the 5307 Indenture immediately following the issuance of such Additional Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in the 5307 Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Additional Bonds for Construction Purposes.”

The Authority may, subject to receipt of all necessary CTA Board approvals and as permitted by the 5307 Indenture, issue Additional Bonds at future dates to finance capital needs as they may be identified in its capital plan from time to time and to the extent that they are also eligible under the Section 5307 Program. See “THE AUTHORITY – Capital Plan” for a further explanation of how the Authority’s capital plan is developed.

Refunding Bonds

The 5307 Indenture authorizes the issuance of one or more Series of Refunding Bonds to refund or advance refund any or all Outstanding 5307 Bonds of one or more Series under the 5307 Indenture, and any or all Outstanding Section 207 Obligations under the 5307 Indenture, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account established thereunder. Such Refunding Bonds may be issued only upon the receipt by the 5307 Trustee of either (a) the certificate of the Authority described above under “– Additional Bonds,” as applied to the Refunding Bonds or (b) a certificate of the Authority stating that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as of the time immediately prior to the issuance of such Series of Refunding Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Section 207 Obligations Outstanding under the 5307 Indenture, after the issuance of such Refunding Bonds and the redemption or provision for payment of the 5307 Bonds and Section 207 Obligations to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the 5307 Bonds and Section 207 Obligations Outstanding under the 5307 Indenture, including the 5307 Bonds and Section 207 Obligations to be refunded, immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests, if any of the 5307 Bonds Outstanding under the 5307 Indenture immediately prior to or after the issuance of the Refunding Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in the 5307 Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Refunding Bonds.”

Subordinate Obligations

No provision of the 5307 Indenture limits the ability of the Authority to issue bonds or other obligations payable from 5307 Grant Receipts on a basis junior and subordinate to the payment of principal of, premium, if any, and interest on the 5307 Bonds issued thereunder. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Subordinated Indebtedness.”

Investments

All amounts held under either Indenture are invested at the direction of the Authority in Investment Securities, as defined in APPENDIX A, subject to certain limitations contained therein. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Investment of Certain Moneys.”

FEDERAL TRANSIT PROGRAM

General

The FTA's Urbanized Area Formula Program and the FTA's Fixed Guideway Modernization Program, 49 U.S.C. Section 5309 ("Section 5309 Program"), under which, respectively, Section 5307 Formula Funds and funds for the modernization of existing rail systems ("Section 5309 Formula Funds") are disbursed to qualified recipients, is part of the Federal Transit Program (the "Federal Transit Program") created by Congress in support of public transit in the United States. As codified under Title 49 of the U.S. Code, one of the purposes of the Federal Transit Program is to provide funds for, and assist in financing, urban mass transportation capital improvement projects such as the Authority's Capital Improvement Plan. See APPENDIX C – "FEDERAL TRANSIT PROGRAM" for a more detailed history of the origins of the Federal Transit Program and its authorizing legislation.

The various purposes and administrative authority of the Federal Transit Program have been periodically modified and reauthorized by Congress. Under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"), Congress authorized a total of \$286.4 billion for the federal surface transportation programs in FFYs 2005 through September 30, 2009. On September 30, 2009, SAFETEA-LU expired without enactment of a new six-year reauthorization program. In order to avoid a halt in the Federal-Aid Highway Program, Congress has enacted successive short term interim authorizations: the first extended SAFETEA-LU's FFY 2009 funding levels through the end of October 2009, the second, enacted in late October 2009, extended FFY 2009 funding levels through December 18, 2009, and the third extended FFY 2009 funding levels through February 28, 2010. On March 18, 2010, the President signed the Hiring Incentives to Restore Employment Act (the "HIRE Act"). The HIRE Act included an extension of surface transportation programs through December 31, 2010, restored SAFETEA-LU rescission, and established tax incentives for job creation. The fifth extension continued through September 30, 2011. On September 16, 2011, the President signed the Surface and Air Transportation Extension Act of 2011 (the "FAA/Surface Transportation Extension Act"). The FAA/Surface Transportation Extension Act includes a sixth extension of the surface transportation program through March 31, 2012.

SAFETEA-LU retained the most significant change to the Federal Transit Program enacted in the Transportation Equity Act for the 21st Century ("TEA-21"), the predecessor act to SAFETEA-LU. This change was the "guarantee" of certain fixed levels of funding for transit. These so-called "firewalls" were constructed around transit funding to prevent such funding from being used for any other purpose. Prior to the enactment of TEA-21, funding for surface transportation programs (highway and transit) was only one item among many on a list of discretionary priorities for federal spending in the budget. Under TEA-21 and SAFETEA-LU, transit funding was "guaranteed" at a fixed amount throughout the SAFETEA-LU authorization period and was used only to support transit programs. Congress, through the annual budget process, may choose to raise the total funding level for transit programs by allocating part of another federal program's budget to transit but, because of the established "firewall" around the Federal Transit Program, it may not use any of the "guaranteed" transit amount for any other federal program.

SAFETEA-LU retained the budgetary provisions of TEA-21 and provided approximately \$45 billion in “guaranteed” funding for transit projects nationally over its five year authorization period. No assurance can be given that the legislation and regulations relating to “guaranteed” funding will not change in the future.

It should be noted that the terms and conditions of participation in the Federal Transit Program as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the Federal Transit Program will not be changed in the future in a manner that may adversely affect the ability of the Authority to receive adequate funds to pay the debt service on the Series 2011 Bonds.

SAFETEA-LU Federal Transit Program*
“Guaranteed” Funding Levels
(Shown in billions of dollars)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Highway Trust Fund	\$6.690	\$6.980	\$7.260	\$7.870	\$8.360	\$ 8.343
FTA General Fund	<u>0.955</u>	<u>1.643</u>	<u>1.712</u>	<u>1.858</u>	<u>1.977</u>	<u>2.388</u>
Total	\$7.645	\$8.623	\$8.972	\$9.728	\$10.337	\$10.731

*References are to Federal Fiscal Years.
Source: Federal Transit Administration.

The “guaranteed” funding level assumed that approximately 82.2 percent of total transit allocations was funded from the Mass Transit Account (the “MTA”) of the Highway Trust Fund (“HTF”), with the remaining percentage funded through the General Fund of the FTA.

Funding of Federal Transit Program

The FTA administers payments under the Federal Transit Program through approved grants paid from the MTA and from the General Fund of the FTA. The following table shows historical annual HTF receipts deposited into the MTA for the period FFY 1999 to FFY 2010.

**Total Annual Receipts – Mass Transit Account
(\$000)**

<u>FFY</u>	<u>Receipts</u>	<u>FFY</u>	<u>Receipts</u>
1999	\$5,477,927	2005	\$4,933,731
2000	4,625,403	2006	4,857,663
2001	4,553,110	2007	5,053,719
2002	4,621,110	2008	5,042,831
2003	4,762,277	2009	4,809,258
2004	4,925,771	2010	4,816,211*

Source: Federal Transit Administration.

* Does not reflect a \$4.8 billion transfer from General Fund to Mass Transit Account in FFY 2010, which increased the annual receipts significantly compared to prior years.

See APPENDIX C – “FEDERAL TRANSIT PROGRAM – Funding of Federal Transit Program” for a more detailed description of the structure of funding for the Federal Transit Program.

Section 5307 Program

General. The Section 5307 Program is a formula grant program for standard metropolitan statistical areas with populations greater than 50,000 (each an “urbanized area”) providing capital, operating or planning assistance for mass transportation. Section 5307 Formula Funds for operating assistance are available only to urbanized areas with populations below 200,000. Because its population is greater than 200,000, the Authority does not qualify for grants for operating assistance under the Section 5307 Program, but is eligible for grants related to capital and planning assistance. Funds are apportioned to urbanized areas utilizing a formula based on population, population density, and other factors associated with transit service and ridership.

Annual Apportionment of Funds. Once appropriated by Congress, FTA funds are allocated for transit purposes in several ways as specified in the authorizing legislation. Within ten days of the President’s signing of appropriation legislation, FTA publishes a notice in the Federal Register (the “Notice”) listing, along with other information, the amount apportioned to each urbanized area in the case of Section 5307 Formula Funds. The Authority receives a portion of the funds that are apportioned to the Chicago, Illinois/Northwestern Indiana Urbanized Area (the “Local Urbanized Area”).

Designated Recipient. For grant purposes and to assure coordination of funds in each urbanized area, Section 5307 requires the Governor of each state to designate a recipient or recipients (each a “designated recipient”) to receive and dispense Section 5307 Formula Funds. The Authority is a designated recipient of Section 5307 Formula Funds. For an urbanized region with more than one designated recipient, such as the Local Urbanized Area, the amounts available under the Federal Transit Program, as published in the Notice, must be further allocated among the region’s designated recipients by the Metropolitan Planning Organization or Organizations (each a “MPO”) for the urbanized area. For the Local Urbanized Area, this

allocation process is carried out by the Chicago Metropolitan Agency for Planning (“CMAP”) and the Regional Transportation Authority (the “RTA”).

Amount of Apportioned Section 5307 Formula Funds. The amount of Section 5307 Formula Funds apportioned to each urbanized area is determined based on a formula comprised of two components. The first component is a Congressionally-mandated formula based on population and population density in urbanized areas. For urbanized areas over 200,000 in population, such as the Authority, funds flow directly to the designated recipient.

The second component determining the amount of Section 5307 Formula Funds is operating and service-related data compiled in strict accordance with requirements set forth in the legislatively-mandated National Transit Database (“NTD”). This summary of nation-wide transit data is compiled annually by FTA from operator-supplied, FTA-validated, individual reports containing extensive information about each transit property and the transit service it provides. Assuming no new transit service is added or dropped during the year, the yearly data submitted to FTA remains relatively constant and, consequently, the annual apportionment likewise remains relatively constant.

Grant Application and Section 5307 Formula Fund Obligation. Once the Notice is published listing actual amounts of Section 5307 Formula Funds available to each urbanized area and, in the case of designated recipients such as the Authority, the relevant MPO has made its allocations, eligible public bodies may submit grant applications to the FTA. Following FTA approval of an application, FTA obligates federal funds for specific eligible projects and reserves those funds under the various grant programs of the Federal Transit Program, including the Section 5307 Program. Once obligated and reserved for the approved projects, such funds are available to the designated recipient until expended.

Lapsing of Apportioned Section 5307 Formula Funds. Section 5307 Formula Funds apportioned to an urbanized area must be requested by the designated recipient in the area and obligated by FTA within three years following the year of apportionment. If such funds are not obligated within this time frame, the apportionment to the urbanized area lapses and the funds revert to FTA which reapportions them the following year. As stated above, however, once Section 5307 Formula Funds are obligated by FTA to a designated recipient, the funds remain available until spent by the designated recipient. Historically, the Authority has taken all steps necessary to apply for all apportioned and available funds in a FFY.

Program Implementation. Program implementation includes a wide range of activities which occur after the federal grant approval, largely on the part of the designated recipient, to undertake the project for which grant funds were made available and to seek draw downs from such grant funds for eligible costs. Once projects are in the implementation phase – where the FTA has approved project budgets and plans – but before actual implementation, projects and their corresponding sources of funding may be reprogrammed. Reprogramming involves the amendment of previously approved capital project plans and budgets to allow for the expenditure of apportioned and allocated Federal Transit Program formula funds on other eligible and approved projects. The Authority has agreed in the 5307 Indenture to take all the necessary steps to reprogram available Section 5307 Formula Funds appropriated in prior Federal Fiscal Years to

the extent there are insufficient 5307 Grant Receipts to pay debt service on the 5307 Bonds. See “SECURITY FOR THE SERIES 2011 BONDS – Flow of Funds – Grant Receipts.”

For a more complete description of the Section 5307 Program and its several elements, see APPENDIX C – “FEDERAL TRANSIT PROGRAM” – Program Operations.”

Section 5309 Program

The Section 5309 Program is a formula grant program providing capital assistance for the modernization of existing rail systems. Information in this Official Statement concerning the Section 5309 Program is included solely to describe a source of funding utilized by the Authority for its capital needs. The Authority’s share of Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula funds (the “5309 Grant Receipts”) under the Section 5309 Program are not pledged to the repayment of any 5307 Bonds including the Series 2011 Bonds. Funds under the Section 5309 Program are allocated by a statutory formula to urbanized areas with rail systems that have been in operation for at least seven years. The Authority has issued debt obligations in the aggregate principal amount of \$325,845,000 secured by the 5309 Grant Receipts. For a more complete description of the Section 5309 Program and its several elements, see APPENDIX C – “FEDERAL TRANSIT PROGRAM – Program Operations.”

Timing of Receipt of Federal Transit Program Funding Apportionment

The flow of FTA funds under Section 5307 to the Authority and the resulting ability to pay debt service on the 5307 Bonds will depend on several factors, most notably, the amount of funding provided to the Authority by the federal government under the Federal Transit Program and the Authority’s ability, pursuant to the grant application process, to use such funding. The apportioned amount of formula funding under the Federal Transit Program sets the upper limit on the federal government’s commitment to pay, through draw downs, its share of eligible expenditures on approved projects. Although the annual apportionment is not a direct representation of the amount of funding a designated recipient such as the Authority will receive under the applicable Federal Transit Program in a given year (due to the long-term nature of the construction and/or acquisition of capital projects), the apportionment level will determine over time the amount of funding that a designated recipient may receive.

While the Authority believes that sufficient Section 5307 Formula Funds will be received to pay debt service on the 5307 Bonds to their maturity, various factors beyond the control of the Authority may affect such receipts, including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations, and other possible changes in the Federal Transit Program that cannot now be anticipated.

Authority Participation in Section 5307 Program and Section 5309 Program

General. The financing of, or the reimbursement for prior expenditures related to, the capital plan is eligible for payment from the 5307 Grant Receipts and Section 5309 Grant Receipts, respectively, made available to the Authority under the Section 5307 Program and the Section 5309 Program, respectively. The Section 5307 Program is the sole source of 5307 Grant Receipts. The Authority may finance additional projects, not currently approved by the

Authority and RTA Boards and included in the list of projects comprising the capital plan, with the proceeds of the Outstanding 5307 Bonds to the extent that such additional projects are approved by the Authority and RTA Boards for inclusion in the Authority's capital plan and meet the eligibility requirements of the 5307 Indenture and the Section 5307 Program, with respect to the Section 5307 Program funds. In addition, the Authority may pay for the costs of projects meeting the eligibility requirements of the Section 5307 Program directly from 5307 Grant Receipts not pledged under the 5307 Indenture. The Authority has covenanted in the 5307 Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the Section 5307 Program in order to be eligible to receive Grant Receipts for the payment of the 5307 Bonds and to facilitate the prompt receipt by the Authority of 5307 Grant Receipts. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority."

Matching Funds Requirement. The Federal Transit Program, of which the Section 5307 Program and the Section 5309 Program are a part, requires the recipients of funds under said programs to provide a matching non-federal share for a portion of the total costs of projects eligible for reimbursement. The Section 5307 Program and the Section 5309 Program provide for funding of up to 80 percent of the net project cost for eligible capital projects. The remainder of the net project costs are required to be funded from non-federal sources and, with certain exceptions, sources other than revenues derived from providing mass transit. Federal legislation permits states to apply amounts equal to toll revenue that has been used for the construction or improvement of public highway facilities as a credit toward the non-federal matching requirement for transit projects. The Federal Highway Administration has allocated \$696 million in transportation development credits (formerly referred to as toll revenue credits) to the State of Illinois that can be used to meet the non-federal matching requirements of Federal Transit Program funds available to transit providers in Illinois. If fully leveraged, this allocation represents the non-federal matching requirement for approximately \$3 billion in Federal Transit Program funds.

The Illinois Department of Transportation ("IDOT"), as administrator of the transportation development credits allocated to the State, approves the use of such credits for the purpose of fulfilling the non-federal matching requirement at the time grant applications are made to the FTA. IDOT and the FTA have approved the use of transportation development credits to meet the non-federal matching requirements with respect to the projects funded by Outstanding Bonds. Use of "soft-dollar" toll credits to meet the federal matching requirement under the Section 5307 Program will enable the Authority to use 5307 Grant Receipts for 100 percent of the debt service on the Series 2011 Bonds. **The use of transportation development credits does not constitute a pledge of funds by the State. No assurance can be given that the State will continue to approve the use of transportation development credits for the purpose of meeting the non-federal matching requirement; that credits for toll revenue expended on public highway facilities will continue to be recognized for this purpose under the Federal Transit Program; or that the matching requirements will continue to be at the levels of the current Section 5307 Program as authorized under SAFETEA-LU.**

MPO Allocation. Section 5307 Formula Funds and Section 5309 Formula Funds are apportioned by the FTA to the Local Urbanized Area. Funds apportioned to the Local Urbanized

Area are currently allocated between Indiana and Illinois by CMAP, the MPO with jurisdiction over the Local Urbanized Area, and the RTA. Currently, 95 percent of the Local Urbanized Area's apportionment is allocated to Illinois, to be further allocated by the RTA, and 5 percent to Indiana. **There can be no assurance that the future allocations of Section 5307 Formula Funds and Section 5309 Formula Funds will be the same as they are currently. Section 5307 Grant Receipts are the sole security for repayment of the Series 2011 Bonds. 5309 Grant Receipts do not secure repayment of the Series 2011 Bonds.**

The Chicago, Illinois share of the Section 5307 Formula Funds and the Section 5309 Formula Funds is further divided, as determined by the RTA, between the Service Boards based upon an allocation policy that generally divides the annual apportionment between the three Service Boards as follows: 58 percent to the Authority, 34 percent to the Commuter Rail Division of the RTA ("Metra") and 8 percent to the Suburban Bus Division of the RTA ("Pace"). See "THE AUTHORITY – The RTA." This allocation policy has been deviated from on an exceptional basis as shown in the tables on the following page under the column "Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority." The only deviation of the Section 5307 Formula Funds since FFY 1999, when the Illinois percent of the Apportionment for capital purposes stabilized at approximately 95 percent, as shown under the column "Illinois Percent of Apportionment for Capital Purposes" in the following 5307 table, occurred in FFY 2006 and is explained in footnote one to that table. **No assurance can be given that this allocation policy will not change in the future and that, if the allocation policy were to change, that such change would maintain the Authority's current percentage of the Section 5307 Formula Funds.**

The table on the following page sets forth, for the FFYs 1989 through 2010, the allocation of Section 5307 Formula Funds to the Local Urbanized Area (such allocation referred to in the tables as the "Apportionment"), and the portion of the Apportionment designated for reallocation by the RTA. The table also shows the Section 5307 Formula Funds allocated by the RTA to the Authority in these years. Please note that, prior to FFY 1998, a portion of the total Apportionment of Section 5307 Formula Funds was allocated to operating assistance rather than to capital purposes. Operating assistance, as a use of Section 5307 Formula Funds, was phased out gradually over several years, which had the effect of increasing the amount and percentage of the total apportionment that went to capital purposes (second column of the 5307 table).

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**Section 5307 Formula Funds Apportioned to
Chicago, Illinois – Northwestern Indiana Urbanized Area
Allocated to Illinois for further Allocation by RTA**

FFY	Chicago, Illinois – Northwestern Indiana Urbanized Area Apportionment	Illinois Share of Apportionment for Capital Purposes	Percent of Apportionment Representing Illinois Share of Apportionment for Capital Purposes	Additional Apportionment Allocated from Small Urbanized Areas to the Illinois Share	Amount of Apportionment Available for Allocation by RTA	Authority’s Share of RTA’s Allocation of Apportionment	Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority
1989	\$127,216,030	\$71,605,448	56.3%	\$ -	\$ -	\$39,779,442	55.6%
1990	129,537,325	74,565,100	57.6	-	-	42,359,009	56.8
1991	137,406,291	78,809,952	57.4	-	-	50,734,241	64.4
1992	135,294,920	79,835,897	59.0	-	-	45,416,143	56.9
1993	114,384,364	60,731,370	53.1	-	-	39,943,872	65.8
1994	158,569,976	102,756,433	64.8	-	-	62,391,453	60.7
1995	157,922,848	107,365,991	68.0	-	-	66,595,890	62.0
1996	127,782,235	97,425,146	76.2	-	-	53,949,288	55.4
1997	131,887,681	102,321,493	77.6	-	-	61,918,213	60.5
1998	152,230,242	138,704,840	91.1	-	-	79,916,844	57.6
1999	167,113,625	157,966,749	94.5	-	-	95,448,016	60.4
2000	178,741,915	169,753,163	95.0	-	-	102,610,363	60.4
2001	184,873,615	175,625,150	95.0	-	-	106,201,321	60.5
2002	202,416,015	191,012,720	94.4	-	-	115,798,354	60.6
2003	207,630,956	197,895,728	95.3	-	-	115,633,961	58.4
2004	206,199,235	196,777,085	95.4	-	-	116,345,988	59.1
2005	219,681,170	207,598,706	94.5	-	-	122,314,262	58.9
2006	206,185,774	196,964,492	95.5	-	-	103,368,905 ¹	52.5
2007	217,980,206	208,231,440	95.5	-	-	122,545,497	58.9
2008	236,394,434	225,822,125	95.5	-	-	133,087,409	58.9
2009	247,951,415	237,073,826	95.6	-	-	139,760,381	59.0
2010	246,458,013	235,907,242	95.7	-	-	139,100,007	59.0

Sources: FFYs 1989 – 2010 CTA.

¹ In FFY 2006 the RTA requested that the Authority, in its grant application to the FTA, request \$11.8 million less in Section 5307 Formula Funds than the amount that the RTA would have typically approved as the Authority’s request from the Local Urbanized Area apportionment. The \$11.8 million in Section 5307 Formula Funds was instead requested as part of Pace’s grant application. In return, the RTA distributed \$11.8 million in RTA discretionary capital funds to the Authority. These RTA discretionary capital funds were not deposited under the 5307 Indenture in the Grant Receipts Deposit Fund but were used by the Authority to finance Section 5307 eligible projects that would have otherwise been funded with Section 5307 Formula Funds. Without this exchange, the Authority’s allocation of Section 5307 Formula Funds in FFY 2006 would have been \$115.2 million.

The Authority does not receive Section 5307 Formula Funds from the FTA until moneys are expended for costs permitted by the underlying grants. Historically, the Authority does not expend the full amount of its Annual Apportionment Amount in the year the grants are awarded and the Section 5307 Formula Funds are obligated. The amount of Annual Apportionment Amounts from prior Federal Fiscal Years not expended varies throughout the year and from year to year. In 2010, 2009, 2008, 2007, 2006 and 2005, the average amount of unexpended Annual Apportionment Amounts of 5307 Formula Funds from prior Federal Fiscal Years was \$142,809,572, \$131,977,655, \$133,690,548, \$165,692,264, \$219,971,249 and \$252,432,226, respectively. See “SECURITY FOR THE SERIES 2011 BONDS – Flow of Funds – Grant Receipts” and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority” for a description of the use of such unexpended Annual Apportionment Amounts in the event that grant approvals required to provide sufficient Grant Receipts to pay debt service on the 5307 Bonds have not been obtained.

Other Federal Funds

On February 17, 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act (“ARRA”) of 2009, a \$787 billion stimulus package to counter further recessionary effects and job losses. The stimulus package included substantial surface transportation investments that allowed MPOs to continue repairing and maintaining assets by funding ready-to-go projects. In 2009, the Authority received \$191.3 million of stimulus funds, which it applied to Eligible Projects under the Section 5307 Program and \$48.9 million of stimulus funds which it applied to Eligible Projects under the Section 5309 Program. The stimulus funds do not constitute 5307 Grant Receipts pledged under the 5307 Indenture as security for the Series 2011 Bonds. The Authority does not anticipate additional distribution of stimulus funds in future years. In 2010, the Authority did not receive any ARRA funding.

DEBT SERVICE REQUIREMENTS FOR THE 5307 BONDS

The following table sets forth the debt service requirements for the 5307 Bonds:

PERIOD ENDING JUNE 1	OUTSTANDING PRIOR 5307 BONDS*	SERIES 2011 BONDS PRINCIPAL	SERIES 2011 BONDS INTEREST	TOTAL NET DEBT SERVICE
2012	\$58,482,656		\$1,647,102	\$60,129,758
2013	57,790,550		2,864,525	60,655,075
2014	57,794,600		2,864,525	60,659,125
2015	57,791,387		2,864,525	60,655,913
2016	41,577,925		2,864,525	44,442,450
2017	40,964,250		2,864,525	43,828,775
2018	42,008,250		2,864,525	44,872,775
2019	44,933,250		2,864,525	47,797,775
2020	43,679,500		2,864,525	46,544,025
2021	51,925,250		2,864,525	54,789,775
2022	26,449,750	\$6,595,000	2,864,525	35,909,275
2023	26,454,488	6,920,000	2,534,775	35,909,263
2024	26,454,350	7,285,000	2,171,475	35,910,825
2025	26,451,975	7,665,000	1,789,013	35,905,988
2026	26,449,738	8,060,000	1,398,150	35,907,888
2027	34,364,750		975,000	35,339,750
2028	34,361,250		975,000	35,336,250
2029		20,000,000	975,000	20,975,000
Total	\$761,317,913	\$56,525,000	\$41,110,764	\$795,569,683

* Net of debt service for Refunded Bonds.

THE AUTHORITY

General

The Metropolitan Transportation Authority Act authorized the creation of the Authority in 1945 as a political subdivision, body politic, and municipal corporation of the State. The Authority began operating on October 1, 1947, after it acquired the properties of the Chicago Rapid Transit Company and the Chicago Surface Lines. On October 1, 1952, the Authority became the sole operator of Chicago transit when it purchased the Chicago Motor Coach system. The Authority was formed primarily for the purpose of operating and maintaining a public transportation system in the metropolitan area of Cook County.

Operations

The Authority is the nation's second largest public transit system. The Authority operates public mass transit service, including bus and rail service, in the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.9 million. The Authority carries over 80% percent of the public transit riders in the six-county Northeastern Illinois region, comprised of the Counties of Cook, DuPage, Kane, Lake, McHenry and Will (the "Northeastern Illinois Transit Region" or the "Region"). The transit services provided by the Authority are part of the regional public mass transportation service system in the Region provided through the independent operations of the Authority, Metra (suburban rail) and Pace (suburban bus). The Authority, Metra and Pace are referred to collectively as the "Service Boards."

The Authority has approximately 1,800 buses that operate over 140 routes. Authority buses provide about 1.0 million passenger trips each weekday. The buses serve approximately 12,000 posted bus stops. The Authority's 1,200 rapid transit cars operate over eight routes. Authority trains provide approximately 700,000 passenger trips each weekday. These trains serve 143 stations.

Funding

On November 10, 2010, the CTA Board adopted the President's 2011 Budget Recommendations (the "President's 2011 Budget Recommendations"). The President's 2011 Budget Recommendations include, among other things, the President's 2011 Proposed Operating Budget, 2012– 2013 proposed Operating Financial Plan and 2011 – 2015 Capital Improvement Plan and Program. The Authority's Operating Budget for Fiscal Year 2011 (ending December 31, 2011) and its operating financial plan for Fiscal Years 2012 and 2013 were considered and approved by the CTA Board and approved by the RTA, as described below under "– RTA Financial Oversight."

The Authority's current operating budget for 2011 is approximately \$1.337 billion. Approximately 39.14% percent of the operating budget is funded from fare revenues. Another 5.86% percent of the operating budget is funded from contributions from local governments, reduced fare subsidies and other revenue sources (including investment income and advertising and concession revenues). An additional 8.46% percent is funded from transfers from FTA grant funds made available to the Authority under the Section 5307 Program and the Section 5309

Program. The balance of the operating budget of approximately 46.53% percent or \$622.5 million is funded from public funding available through the RTA and other sources.

Approved operating budgets, including the Authority's operating budget for fiscal year 2011, may be obtained upon request of the Authority and from the Authority's web site, www.transitchicago.com/business/financebudget.aspx.

The Authority's capital budget for 2011 (amended as of August 2011) is approximately \$652.5 million. The capital budget is funded from a combination of Federal, State, and local dedicated funds and grants and the proceeds of bonds. The Authority's five-year capital budget for 2011 – 2015 is \$3.18 billion. See "Capital Plan" below.

Administration

The governing and administrative body of the Authority is the CTA Board consisting of seven members. Three CTA Board members are appointed by the Governor of the State, with the advice and consent of the Illinois Senate, subject to approval by the Mayor of the City. One of the members appointed by the Governor must be a resident of the metropolitan area outside the City. Four members are appointed by the Mayor with the advice and consent of the City Council, subject to approval by the Governor. The CTA Board elects one of its members as chairman for a maximum term of three years. Each member serves for a seven-year term and until his or her successor has been appointed and qualified; *provided* that, in the case of an appointment to fill a vacancy, the appointed member serves during the remainder of the vacated term and until his or her successor has been appointed and qualified.

There are currently six members of the CTA Board and one vacancy. The current members of the CTA Board are as follows:

Terry Peterson, Chairman of the Board, was appointed to the CTA Board by Mayor Richard M. Daley in 2009. His current terms as Chairman run through 2012 and as a member through 2013. Mr. Peterson is Vice President of Governmental Affairs at Rush University Medical Center in which he leads and implements federal, state and local government relations initiatives. Formerly, he was CEO of the Chicago Housing Authority and prior to that he was Alderman of the City of Chicago's 17th Ward.

John Bouman was appointed a temporary member of the CTA Board by Governor Pat Quinn in November 2009 and was appointed a permanent member in May 2010, for a term continuing until September 1, 2011. Though his term has expired, Mr. Bouman will remain on the CTA Board until his successor is appointed. Mr. Bouman is the President and Director of Advocacy for the Sargent Shriver National Center on Poverty Law. He also previously worked for many years at the Legal Assistance Foundation of Chicago.

Jacquelyne Grimshaw was appointed a member of the CTA Board in October 2009 by Governor Pat Quinn for a term expiring September 1, 2014. She is currently the Vice President for Policy for the Center for Neighborhood Technology. Formerly she was the Director of the City of Chicago Mayor's Office of Intergovernmental Affairs and Deputy Treasurer for Economic Development for the former City of Chicago Treasurer Miriam Santos.

Kathryn McClain was appointed to the CTA Board by Governor Pat Quinn in November 2009 for a term continuing until September 1, 2016. She is Chicago City Director of the William J. Clinton Foundation. She previously served as a Senior Policy Advisor in the Office of the Illinois Lieutenant Governor.

Reverend Charles E. Robinson has been pastor of Holy Starlight M.B. Church in the Lawndale community since 1987. Reverend Robinson was initially appointed to the CTA Board by Mayor Richard M. Daley in 2002 and reappointed by the Mayor in 2010 for a term expiring in September 2014. Reverend Robinson has served as Chairman of the Community Bank of Lawndale's Advisory Board, President of the North Lawndale Ministers' Council, and Vice President of the Westside Baptist Ministers' Conference.

Alejandro Silva, Chairman of the Committee on Finance, Audit and Budget, was initially appointed to the CTA Board by Mayor Richard M. Daley in March 2004 and reappointed by the Mayor in February 2009 for a term expiring on September 1, 2015. Mr. Silva is the chairman of the Evans Food Group, Ltd., an international food production company with facilities in North America and Europe. A native of Mexico, Mr. Silva is active in numerous business and civic organizations, such as the Mexican American Chamber of Commerce and the Chicago Council on Foreign Relations.

The current officers of the Authority are as follows:

Forrest Claypool has been President of the Chicago Transit Authority since May 2011. Before that, he served as president of Rise Health. Mr. Claypool has considerable experience in government, serving two terms as a Commissioner on the Cook County Board, Superintendent/CEO of the Chicago Park District, two-time Chief of Staff for Mayor Richard M. Daley, Deputy State Treasurer, and Deputy Commissioner on the Cook County Board of Appeals. He received his Bachelor's Degree in Journalism from Southern Illinois University and law degree from the University of Illinois College of Law, where he served as Editor-in-Chief of the law review.

Karen G. Seimetz has been the General Counsel of the Chicago Transit Authority since December 2010 and oversees and manages the day-to-day operations of its Law Department involving litigation, transactions, procurement, real estate, ethics and labor and employment-related disputes. Prior to joining the Authority, she spent 14 years in the Law Department at the City of Chicago and, before coming to the Authority, was the Department's First Assistant Corporation Counsel. She began her legal career at the law firm of Phelan, Pope and John, a firm specializing in complex litigation, where she became a partner.

Karen L. Walker, Chief Financial Officer and Treasurer, joined the Authority in March 2009. As Chief Financial Officer and Treasurer, Ms. Walker is responsible for overseeing the financial management of the nation's second largest transit agency. As Chief Financial Officer and Treasurer, Ms. Walker oversees and manages the operations of the Authority's Finance Department including accounting, audit, budget, capital development and treasury functions. She served as the Director of Financial Services for the Illinois Finance Authority prior to joining the Authority. Ms. Walker is a CPA and has over 25 years of experience in accounting,

finance and government. Her prior experience includes twelve years as a public finance investment banker with Banc of America Securities and A.G. Edwards.

Gregory Longhini is the Assistant Board Secretary of the CTA Board. Mr. Longhini joined the Authority in 1998. Previously, Mr. Longhini had been a Deputy Commissioner of the Chicago Department of Planning and Development and a Senior Research Associate with the American Planning Association.

Divisions

The Authority is comprised of four major divisions: transit operations, facilities maintenance and construction, power and way maintenance and construction, and operations support. As of September 15, 2011, the Authority had approximately 10,301 employees.

Labor Relations

As of September 15, 2011, the Authority had labor agreements with seventeen different unions. The Amalgamated Transit Union Locals 241 and 308 (the “ATU Locals”) represent approximately 7,880 of the Authority’s unionized employees. The collective bargaining agreement with the ATU Locals for years 2007 through 2011 has been decided by an interest arbitrator and its execution has been approved by the CTA Board. Fourteen other unions represent another 1,314 craft union employees. Of these unions, the Authority has agreements with its craft unions (11 separate trade unions) for years 2007 through 2011. The Authority has four separate contracts with IBEW Local 134, which represents certain of the Authority’s electricians along with the controllers, yardmasters and roadmasters. The CTA Board has authorized management to execute collective bargaining agreements with those units consistent with the terms of tentative agreements. The Authority also has agreements with the Operating Engineers Local 399, the United Steelworkers Local 9777, and the IAM/Mechanics Local 701 for 2007 through 2011.

Ironworkers Local 1 covers approximately 46 employees. The Authority does not negotiate a separate bargaining agreement with them but participates in the area-wide agreement negotiated for a three-year term beginning June 1, 2009.

Capital Plan

The Authority prepares a capital plan each year which is comprised of capital projects the Authority intends to undertake within a five-year period to renovate and improve the physical infrastructure of its system, subject to available funding. Generally, available funding as used in the capital plan is based on available funding for the current year of the plan and on projected funding receipts for the four out-years of the plan. Sources of funding available to the Authority for its capital projects include: Section 5307 Formula Funds, Section 5309 Formula Funds, other federal funds (see “FEDERAL TRANSIT PROGRAM”), bond proceeds, funding from the State of Illinois Department of Transportation, and funding from the RTA. A capital plan may be revised from time to time, depending on changing circumstances, to add or delete specific capital projects. The Authority does not have any near-term plans to issue additional bonds following the issuance of the Series 2011 Bonds and the Authority’s Sales Tax Receipts Revenue Bonds, Series 2011, described below under “– Debt Obligations.”

The Authority's 2011-2015 \$3.18 billion Capital Improvement Program (the "Capital Plan") includes funds to purchase replacement buses and railcars and to complete the major rehabilitation of the Brown Line. Other projects will upgrade and renew the Authority's rail right-of-way, upgrade maintenance facilities, and implement vehicle overhauls for the Authority's bus and rail fleets.

Debt Obligations

As of December 31, 2010, the Authority had approximately \$3.348 billion aggregate principal amount of outstanding bonded indebtedness and approximately \$253.6 million of outstanding capitalized lease obligations. The capitalized lease obligations consist of (i) \$83,340,000 of obligations under a lease agreement between the Authority and the Public Building Commission of Chicago incurred in connection with the acquisition and construction of the Authority's headquarters and (ii) \$170,268,000 of lease obligations incurred in connection with the financing of a portion of the Authority's bus fleet.

Obligations Secured by a Parity Pledge of 5307 Grant Receipts. Of the outstanding bonded indebtedness referenced above, approximately \$534,950,000 aggregate principal amount of Outstanding Prior 5307 Bonds is secured by a parity pledge of 5307 Grant Receipts. See "DEBT SERVICE REQUIREMENTS FOR THE 5307 BONDS" above, for a summary of the annual debt service for the Outstanding Prior 5307 Bonds and the Series 2011 Bonds.

Obligations Not Subject to a Pledge of 5307 Grant Receipts. Of the outstanding bond indebtedness referenced above, \$325,845,000 aggregate principal amount of outstanding bonds is secured by a pledge of 5309 Grant Receipts. As of December 31, 2010, in addition to the capitalized lease obligations described above, the Authority had issued (i) approximately \$1,936,855,000 in aggregate principal amount of its Sales and Transfer Tax Receipts Revenue Bonds, Series 2008A (Pension Funding), and its Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding), and (ii) \$550,000,000 of its outstanding Sales Tax Receipts Revenue Bonds financing the purchase of rail cars to replace existing cars and other capital projects approved by the CTA Board by ordinance. On or about the date of issuance of the Series 2011 Bonds, the Authority expects to issue approximately \$476,905,000 in aggregate principal amount of its Sales Tax Receipts Revenue Bonds, Series 2011, which are being issued for the purpose of financing the purchase of rail cars to replace existing cars and other capital projects approved by the Chicago Transit Board by ordinance.

CTA Ridership Trends

Total Authority ridership for 2010 was 516.8 million, constituting an approximately 0.8 percent decline from the 2009 total. The Authority projects that ridership will increase to approximately 521.7 million in 2011. See "2011 Operating Budget" below. The following table provides a breakdown of CTA ridership trends since 2005 (including rail-to-rail transfers).

YEARLY RIDERSHIP - UNLINKED PASSENGER TRIPS*

(In Millions)

CTA	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u> ***	<u>2009</u>	<u>2010</u>	<u>2011</u> ****
Bus	305.6	299.6	309.3	328.2	318.7	306.0	306.7
Rail	<u>186.8</u>	<u>195.2</u>	<u>190.2</u>	<u>198.1</u>	<u>202.6</u>	<u>210.8</u>	<u>215.0</u>
Total CTA**	492.4	494.8	499.5	526.3	521.2	516.8	521.7
Change	3.68%	0.49%	0.95%	5.37%	-0.99%	-0.80%	0.90%

* Each boarding of a transit vehicle by a passenger is counted as an unlinked passenger trip. A single journey by one passenger, consisting of one or more trips (boardings), is referred to as a linked trip. Bus includes paratransit trips up to July 1, 2006.

** Effective July 1, 2006, the responsibility for providing paratransit service within the Authority's service area was transferred to Pace.

*** In 2008, the Illinois General Assembly and the Chicago City Council passed requirements that the Authority provide free bus and rail service to certain qualifying groups. On March 17, 2008 the "Seniors Ride Free" program began. On May 1, 2008, the Authority began to implement a military free ride program; this program was fully implemented on August 4, 2008. Beginning October 24, 2008, the Authority also began providing free rides to eligible persons with disabilities through the "Circuit Breaker Permit Ride Free" program. On September 1, 2011, the "Seniors Ride Free" program ended.

**** Budgeted.

Financial Information

The Series 2011 Bonds are not general obligations of the Authority and the assets and revenues of the Authority (other than the 5307 Grant Receipts) are not pledged for the payment of the Series 2011 Bonds or the interest thereon. Solely for informational purposes, the Authority has included its audited financial statements for its fiscal years 2010 and 2009 attached hereto as APPENDIX D.

2011 Operating Budget

On November 10, 2010, the CTA Board approved the Operating Budget for Fiscal Year 2011 and 2012-2013 Financial Plan. RTA's Board subsequently approved the operating budget as submitted on December 16, 2010. The Authority's Operating Budget for Fiscal Year 2011 is balanced, as required, at \$1.337 billion. The operating budget includes \$539.5 million in public funding and \$523.7 million in fare and pass revenues.

Pension and Other Post-Employment Benefit Obligations

The Authority maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the "Retirement Plan") is governed by Illinois state statute (40 ILCS 5/22-101). On August 6, 2008, the Authority issued its Pension and Retirement Debt Obligations, and deposited \$1.1 billion of the proceeds into the pension trust and \$528.8 million of the proceeds into the healthcare trust. The Authority no longer has any responsibility for funding retiree

healthcare benefits. As of January 1, 2011, the Authority's funded ratio for the Retirement Plan was 70.1 percent. Since January 1, 2010, the Authority has not been overdue on any portion of the required contributions to the Retirement Plan. Information relating to the Retirement Plan is contained on pages 57 through 63 of the Authority's audited financial statements for Fiscal Years 2010 and 2009 attached to this Official Statement as APPENDIX D.

The RTA

The RTA was created by the Regional Transportation Authority Act (70 ILCS 3615/1 *et seq.*) (the "RTA Act") in 1974. The RTA provides funding, planning and fiscal oversight for regional bus and rail operations in northeastern Illinois. The regional bus and rail systems are operated by three "Service Boards" – the Authority; Metra and Pace.

Pursuant to P.A. 95-708, effective as of April 1, 2008, the governing body of the RTA is its Board of Directors which consists of sixteen persons. Five directors are appointed by the Mayor of the City of Chicago with the advice and consent of the City Council. Four directors are appointed by the commissioners of the Cook County Board elected from districts in which a majority of the electors reside outside the City of Chicago. One director is appointed by the President of the Cook County Board, with the advice and consent of the commissioners of the Cook County Board, selected from districts in which a majority of electors reside outside the City of Chicago. One director each is appointed by the Chairman or Chief Executive of the County Boards of DuPage, Kane, Lake, McHenry and Will Counties (the "collar counties"), with the advice and consent of the respective County Boards. The Chairman of the Board of the RTA is appointed by eleven members of the Board with at least two votes from each subregion of Chicago, Suburban Cook County and the collar counties. The Chairman and each director serve five-year terms and until his or her successor has been appointed and qualified.

RTA Financial Oversight

The RTA Act vests responsibility for operating budget financial oversight for each Service Board in the RTA. Responsibility for operations and day-to-day management of rail and bus service rests with the Service Boards. The RTA's financial oversight responsibility is implemented principally through the operating budget process, in which each Service Board, including the Authority, submits an annual budget and two-year financial plan for approval by the RTA. The RTA Act sets criteria which proposed budgets and financial plans must meet in order for the RTA Board to adopt a consolidated budget and financial plan.

The RTA Board, by the affirmative vote of twelve of its directors, determines whether the results of operations are substantially in accordance with the adopted budget and certifies such to the Governor, the Mayor of the City of Chicago and the Auditor General of the State. If a Service Board is found not to be substantially in compliance with its budget, the RTA may direct that Service Board to submit a revised budget meeting the mandated criteria. If a Service Board's budget does not meet the criteria, the RTA may not release any funds, other than 75 percent of a Service Board's statutory share of sales tax and Public Transportation Fund revenues, to the Service Board. The RTA has never withheld funds from the Authority as the result of a non-compliant budget submission.

The RTA Act also requires the RTA to prepare and adopt each year a five-year capital program. The Authority submits its five-year capital plan to the RTA for inclusion as a component of the RTA's five-year capital program. The Service Boards are prohibited from undertaking any capital project in excess of \$250,000, unless the project has been incorporated in the five-year capital program.

BOND INSURANCE

The following information has been provided by Assured Guaranty Municipal Corp. (the “2011 Bond Insurer” or “AGM”) for use in this Official Statement. Reference is made to APPENDIX E for the specimen of the 2011 Bond Insurance Policy. The Authority does not make any representation regarding the information contained under this heading.

Bond Insurance Policy

Concurrently with the issuance of the Series 2011 Bonds, AGM will issue a Municipal Bond Insurance Policy (the “2011 Bond Insurance Policy”) for the Series 2011 Bonds. The 2011 Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Series 2011 Bonds when due as set forth in the form of the 2011 Bond Insurance Policy included as Appendix E to this Official Statement.

The 2011 Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM’s financial strength is rated “AA+” (CreditWatch negative) by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On September 27, 2011, S&P published a Research Update in which it placed AGM’s “AA+” (negative outlook) financial strength rating on CreditWatch negative, meaning that S&P may downgrade AGM’s financial strength rating in the near future. According to S&P, the CreditWatch placement is due to significant concentration risk in AGM’s insured portfolio that is

not consistent with S&P's new bond insurance rating criteria. However, based on discussions with AGM management, S&P further reported that AGM intends to take action to mitigate these concentration risks, and that it is likely such actions, if taken, would support financial strength ratings in the "AA" category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

On August 25, 2011, S&P published *Bond Insurance Rating Methodology and Assumptions*, a criteria article that follows S&P's *Request for Comment: Bond Insurance Criteria*, published January 24, 2011. The criteria described in the article update and supersede S&P's previous criteria for rating bond insurers. S&P noted that the impact of new bond insurance rating criteria could result in financial strength ratings on investment-grade bond insurers (such as AGM) being lowered by one or more rating categories. The article states that the criteria are effective immediately and that S&P expects any rating changes as a result of the new methodology and assumptions would occur after its review of third quarter 2011 financial statements, but no later than November 30, 2011. However, as noted above, a rating agency may place a company's financial strength rating on credit watch for a downgrade at any time. For the complete text of S&P's comments, both publications are available at www.standardandpoors.com.

AGM and its affiliates are currently reviewing S&P's revised bond insurance rating criteria. The final criteria contain a number of changes from the proposals submitted in January 2011 for comment from market participants, including a new Largest Obligors Test that was not included in the January 2011 *Request for Comment*. This test appears to have the effect of significantly reducing AGM and its affiliates' allowed single risk limits and limiting their financial strength rating level.

On August 8, 2011, S&P published a Research Update in which it affirmed the "AA+" financial strength rating of AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that S&P or Moody's may take with respect to AGM.

Capitalization of AGM

At June 30, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,050,613,849 and its total net unearned premium reserve was approximately \$2,254,726,646, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2010 and for the quarterly periods ended March 31, 2011 and June 30, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at

<http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

On October 18, 2011, AGL filed a Current Report on Form 8-K with the Securities and Exchange Commission (the “SEC”) stating that it is restating its financial results for the years ended December 31, 2009 and 2010, and each of the previously issued quarters of 2010 and 2011. The estimated cumulative impact of the restatement on the shareholders’ equity of AGL and its subsidiaries, including AGM, through the second quarter of 2011 is a reduction of less than 1%, from \$3.95 billion to \$3.91 billion, and on the net income of AGL and its subsidiaries, including AGM, over the entire affected period is a reduction of approximately \$36.1 million. The restatement has no effect on AGM’s claims-paying resources or on its regulatory or rating agency capital. The restated financial results referred to above are reported in accordance with accounting principles generally accepted in the United States of America.

Portions of the Current Report on Form 8-K dated October 18, 2011 filed by AGL with the SEC on October 18, 2011 that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the document referred to above and before the termination of the offering of the Series 2011 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Series 2011 Bonds or the advisability of investing in the Series 2011 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

RIGHTS OF BOND INSURERS

Certain of the Authority's Outstanding 5307 Bonds are secured by one or more Bond Insurance Policies (as defined in APPENDIX A). Payment when due of the principal of and interest on the Series 2011 Bonds will be insured by the 2011 Bond Insurance Policy issued by AGM, as described above.

So long as any Bond Insurance Policy is in full force and effect and the Bond Insurer (as defined in APPENDIX A) for such Bond Insurance Policy has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the owner of the 5307 Bonds insured thereunder for purposes of consenting to any supplements or amendments to the 5307 Indenture as may be required under the 5307 Indenture pursuant to which such Bonds were issued. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Supplemental Indentures Effective upon Consent of Owners." Upon the occurrence and continuance of an Event of Default (as defined in APPENDIX A), a Bond Insurer will be treated as the owner of the 5307 Bonds upon which such Bond Insurer is obligated for the purposes of calculating whether or not the owners of the requisite percentage of Bonds have consented to certain actions for the enforcement of rights and remedies granted to the Owners of the 5307 Bonds or to the applicable Trustee for their benefit (except for certain rights related to the enforcement of tax covenants under the 5307 Indenture). See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Rights of Credit Bank or Bond Insurer."

CERTAIN INVESTMENT CONSIDERATIONS

Attention should be given to the investment considerations described below, which, among others, could affect the ability of the Authority to pay principal of and interest on the Series 2011 Bonds, and which could also affect the marketability of, or the market price for, the Series 2011 Bonds to an extent that cannot be determined.

The purchase of the Series 2011 Bonds involves certain investment considerations that are discussed throughout this Official Statement. Certain of these investment considerations are set forth in this section for convenience and are not intended to be a comprehensive compilation of all possible investment considerations nor a substitute for an independent evaluation of the information presented in the Official Statement. **Each prospective purchaser of any Series 2011 Bonds should read this Official Statement in its entirety and consult such prospective purchaser's own investment and/or legal advisor for a more complete explanation of the matters that should be considered when purchasing investments such as the Series 2011 Bonds.**

Uncertainties in Federal Funding

There can be no assurance that sufficient 5307 Grant Receipts will be received by the Authority to pay the debt service on the Outstanding 5307 Bonds. The amount of 5307 Grant Receipts available for allocation to the Authority for payment of debt service on the Outstanding 5307 Bonds is subject to annual appropriation by Congress and to approval on an annual basis by the FTA.

On September 30, 2009, SAFETEA-LU expired without enactment of a new six-year reauthorization program. In order to avoid a halt in the Federal-Aid Highway Program, Congress has enacted successive short-term interim authorizations: the first extended SAFETEA-LU's FFY 2009 funding levels through the end of October 2009, the second, enacted in late October 2009, extended FFY 2009 funding levels through December 18, 2009, and the third extended FFY 2009 funding levels through February 28, 2010. On March 18, 2010, the President signed the HIRE Act. The HIRE Act included an extension of surface transportation programs through December 31, 2010, restored SAFETEA-LU rescission, and established tax incentives for job creation. The fifth extension continued through September 30, 2011. On September 16, 2011, the President signed the FAA/Surface Transportation Extension Act, which included a sixth extension of the surface transportation program through March 31, 2012.

The federal executive branch, the House of Representatives Transportation and Infrastructure Committee (the "House Committee") and the United States Senate Environment and Public Works Committee (the "Senate Committee") have all developed proposals for reauthorization of a transportation program. While differing significantly, each proposal continues the provision of funds from the Highway Trust Fund on a formula basis for allocation to the states. The federal executive branch incorporated a reauthorization blueprint in its 2012 budget proposal.

The federal executive branch blueprint proposes \$50 billion of upfront investment in transportation, a \$30 billion infrastructure bank commitment and aggregate spending over a six year period of \$556 billion. The House Committee proposal (July 2011) calls for a six year transportation program totaling \$230 billion, an average decrease of 32% from SAFETEA-LU. The Senate Committee released an outline of a proposal (July 2011) that calls for a 2 year reauthorization totaling \$109 billion; maintaining the current funding level and requiring approximately \$12 billion of funds from sources other than the Highway Trust Fund. There can be no assurances that any of these proposals will be implemented and the ultimate decision regarding reauthorization of SAFETEA-LU will require agreement between both branches of the federal government. Extension or reauthorization could be at lower amounts and for shorter periods than have previously occurred.

As described under "FEDERAL TRANSIT PROGRAM – Authority Participation in Section 5307 Program and Section 5309 Program – *MPO Allocation*," the RTA determines the allocation between the three Service Boards of the Section 5307 Formula Funds annually available to Illinois from the Local Urbanized Area. While this allocation has been performed in accordance with a policy put in place by the RTA, no assurance can be given that this policy (i) will not be deviated from on an exception basis, (ii) will not change in the future, or (iii) would maintain, if changed, the proportionate share the Authority receives under the current policy.

In addition to factors beyond the Authority's control that may effect the amount of 5307 Grant Receipts available to the Authority for payment of debt service on the Outstanding 5307 Bonds (including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations and other possible changes in the Federal Transit Program, and exercise by the RTA of its authority to allocate Section 5307 Formula Funds among the Service Boards), the calculation of the annual apportionment under the Federal

Transit Program from which the 5307 Grant Receipts are paid is based on a formula that takes into account, among other factors, transit properties, the transit services provided and the degree such services are utilized. Actions that the Authority may take as a result of its budgetary decisions, such as decreases in the amounts devoted to capital purposes, service cuts or fare increases, may have a negative impact on these components of the formula used to calculate the annual apportionment resulting in a decrease in the amount of federal transit funds available to the Authority for 5307 Grant Receipts.

If sufficient federal transit funds are not available for any of the reasons stated under this subcaption, sufficient 5307 Grant Receipts will not be received to pay the debt service on the Outstanding 5307 Bonds. See “FEDERAL TRANSIT PROGRAM.”

Certain Covenants with Respect to Section 5307 Program

Failure to maintain general eligibility for the receipt of federal funds or failure to maintain the eligibility of components of the Eligible Projects or of the projects financed with the Outstanding 5307 Bonds for reimbursement under the Section 5307 Program could prevent the Authority from receiving 5307 Grant Receipts sufficient to pay debt service on the Outstanding 5307 Bonds. The Authority has covenanted in the 5307 Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the Section 5307 Program in order to be eligible to receive 5307 Grant Receipts for the payment of the 5307 Bonds and to facilitate the prompt receipt by the Authority of such 5307 Grant Receipts.

Limited Obligations

The 5307 Bonds (and all Parity Obligations) are limited obligations of the Authority payable solely from and secured solely by (i) 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund), including investment earnings thereon. The 5307 Bonds are not a general obligation of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the 5307 Bonds or the interest thereon. The 5307 Indenture creates no liens upon any physical properties of the Authority. The Act provides that the 5307 Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any 5307 Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Limitations on Remedies of Bondholders

The remedies available upon an event of default under the 5307 Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Series 2011 Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The 5307 Indenture does not contain a provision allowing for the acceleration of the 5307 Bonds in the event of a default in the payment of principal of and interest on the 5307 Bonds when due. In the event of a default under the 5307 Indenture, each Bondholder will have the right to exercise the remedies provided in the 5307 Indenture, subject to the rights of the Bond Insurer. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Events of Default and Remedies.”

LEGAL MATTERS

Legal matters incident to the issuance of the Series 2011 Bonds are subject to the approving opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and Charity & Associates, P.C., Chicago, Illinois, Co-Bond Counsel. The proposed form of the opinions to be delivered by Co-Bond Counsel is attached hereto as APPENDIX F. Approval of certain other legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by Schiff Hardin LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois, Co-Underwriters’ Counsel.

TAX MATTERS

Summary of Co-Bond Counsel Opinion

Katten Muchin Rosenman LLP and Charity & Associates, P.C., Co-Bond Counsel, are of the opinion that under existing law, interest on the Series 2011 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Co-Bond Counsel are of the opinion that interest on the Series 2011 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the Series 2011 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the Series 2011 Bonds is, however, taken into account as earnings and profits of a corporation when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Interest on the Series 2011 Bonds is not exempt from Illinois income taxes.

Exclusion from Gross Income: Requirements

The Code contains certain requirements that must be satisfied from and after the date of issuance of the Series 2011 Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2011 Bonds. These requirements relate to the use and investment of the proceeds of the Series 2011 Bonds, the payment of certain amounts to the United States, the security and source of payment of the Series 2011 Bonds and the use of the property financed with the proceeds of the Series 2011 Bonds. The Authority covenants in the 5307 Indenture to comply with these requirements. Among these specific requirements are the following:

(a) *Investment Restrictions.* Except during certain “temporary periods,” proceeds of the Series 2011 Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a “minor portion”) may generally not be invested in investments having a yield that is materially higher than the yield on the Series 2011 Bonds.

(b) *Rebate of Permissible Arbitrage Earnings.* Earnings from the investment of the “gross proceeds” of the Series 2011 Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Series 2011 Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term “gross proceeds” includes the original proceeds of the Series 2011 Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Series 2011 Bonds.

(c) *Restrictions on Ownership and Use.* The Code includes restrictions on the ownership and use of the facilities financed with the proceeds of the Series 2011 Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the Series 2011 Bonds.

Covenants to Comply

The Authority covenants in the 5307 Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Series 2011 Bonds.

Risk of Non-Compliance

In the event that the Authority fails to comply with the requirements of the Code, interest on the Series 2011 Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the 5307 Indenture does not require acceleration of payment of principal of or interest on the Series 2011 Bonds or payment of any additional interest or penalties to the owners of the Series 2011 Bonds.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the Series 2011 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Series 2011 Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE SERIES 2011 BONDS.

(a) *Cost of Carry.* Owners of the Series 2011 Bonds will generally be denied a deduction for otherwise deductible interest on any debt that is treated for federal income tax purposes as incurred or continued to purchase or carry the Series 2011 Bonds. Financial institutions are denied a deduction for their otherwise allowable

interest expense in an amount determined by reference to their adjusted basis in the Series 2011 Bonds.

- (b) *Corporate Owners.* Interest on the Series 2011 Bonds is taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Series 2011 Bonds is taken into account in computing the corporate alternative minimum tax, the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.
- (c) *Individual Owners.* Receipt of interest on the Series 2011 Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.
- (d) *Certain Blue Cross or Blue Shield Organizations.* Receipt of interest on the Series 2011 Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.
- (e) *Property or Casualty Insurance Companies.* Receipt of interest on the Series 2011 Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.
- (f) *Foreign Personal Holding Company Income.* A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Series 2011 Bonds held by such a company is properly allocable to the shareholder.

Series 2011 Bonds Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of each maturity of the Series 2011 Bonds is sold to the public (the “Offering Price”) and the principal amount payable at maturity of such Series 2011 Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Series 2011 Bond, the difference between the two is known as “*bond premium*,” if the Offering Price is lower than the maturity value of a Series 2011 Bond, the difference between the two is known as “*original issue discount*.”

Bond premium and original issue discount are amortized over the term of a Series 2011 Bond on the basis of the owner’s yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is subtracted from the owner’s tax basis in the Series 2011 Bond. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Series 2011 Bond for federal income tax purposes, to the same extent and with the same limitations as current interest, and is added to the owner’s tax basis in the Series 2011 Bond. A Series 2011 Bond’s adjusted tax basis is used to determine whether, and to what extent, the owner realizes

taxable gain or loss upon the disposition of the Series 2011 Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Series 2011 Bond).

Owners who purchase Series 2011 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Series 2011 Bonds. In addition, owners of Series 2011 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2011 Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Change of Law

The opinions of Co-Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Series 2011 Bonds were issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Series 2011 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Series 2011 Bonds. Such potential new provisions of law may include the provisions of the American Jobs Act of 2011 or other similar legislation that, if enacted into law, would limit the value of the exclusion from gross income of interest on the Series 2011 Bonds for high-income taxpayers. Prospective purchasers should consult their own tax and investment advisors concerning the tax and investment consequences of a purchase of the Series 2011 Bonds.

MATERIAL LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority in any way affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the Series 2011 Bonds, the application of the proceeds thereof in accordance with the 5307 Indenture, or the collection or application of 5307 Grant Receipts or other moneys to be pledged to pay the principal of and interest on the Series 2011 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Series 2011 Bonds, the 5307 Indenture of any other agreement entered into in connection therewith, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Authority or its authority with respect to the Series 2011 Bonds, or the 5307 Indenture or any other agreement entered into in connection therewith.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") have assigned their municipal bond ratings of "A1" and "A", respectively, to the Series 2011 Bonds. In addition, based on the issuance of the 2011 Bond Insurance Policy by AGM at the time of delivery of the Series 2011

Bonds, the Series 2011 Bonds are expected to be assigned the rating of “Aa3” (negative outlook) by Moody’s and “AA+” (Credit Watch negative) by S&P. See “BOND INSURANCE.” Previously, the Authority received ratings on capital grant bonds from a third rating agency. No other ratings other than those described in this paragraph have been sought in connection with the issuance of the Series 2011 Bonds. There is no assurance that any credit ratings given to the Series 2011 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies, if, in their judgment, circumstances so warrant. The Authority does not undertake any responsibility to oppose any downward revision or withdrawal of rating. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2011 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

FINANCIAL ADVISORS

A.C. Advisory, Inc., Chicago, Illinois, and Public Financial Management, Inc., Chicago Illinois, serve as Financial Advisors to the Authority with respect to the sale of the Series 2011 Bonds. The Financial Advisors have not conducted a detailed investigation of the affairs of the Authority to determine the completeness or accuracy of this Official Statement. Because of their limited participation, the Financial Advisors have not independently verified any of the data contained herein and have no responsibility for the accuracy or completeness thereof.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities Exchange Commission (the “Rule”), the Authority will enter into a Continuing Disclosure Undertaking for the benefit of the Bondholders (as defined in such agreement) from time to time of the Series 2011 Bonds. The form of the Continuing Disclosure Undertaking, including the nature of the information that the Authority has agreed to supply on an annual basis, is attached to this Official Statement as APPENDIX G. See “APPENDIX G – FORM OF CONTINUING DISCLOSURE UNDERTAKING.” In March of 2010, the Authority made certain filings with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System to address previous incomplete filings and to fulfill previous continuing disclosure undertaking filing obligations that had not yet been satisfied. As of the date hereof, the Authority is in compliance with the continuing disclosure obligations related to its outstanding bonds.

UNDERWRITING

The Series 2011 Bonds are being purchased by the Underwriters listed on the cover hereof (the “Underwriters”), subject to certain conditions set forth in bond purchase agreements relating to the Series 2011 Bonds (the “Bond Purchase Agreement”).

Pursuant to the Bond Purchase Agreement, the Underwriters have agreed to purchase the Series 2011 Bonds at a purchase price of \$58,075,192.70 (representing the principal amount of the Series 2011 Bonds, less an Underwriters’ discount of \$255,335.60, plus net original issue premium of \$1,805,528.30). The initial public offering prices of the Series 2011 Bonds may be

changed from time to time by the Underwriters after the Series 2011 Bonds have been released for sale. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2011 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, including, among others, the approval of certain legal matters by the Underwriters' counsel.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association ("WFBNA"), the senior underwriter of the Series 2011 Bonds, has entered into an agreement (the "Wells Fargo Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Series 2011 Bonds. Pursuant to the Wells Fargo Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2011 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2011 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisory network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2011 Bonds.

Loop Capital Markets LLC, one of the underwriters of the Series 2011 Bonds, has entered into an agreement (the "Loop Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Loop Distribution Agreement, Loop Capital Markets LLC will share a portion of its underwriting compensation with respect to the Series 2011 Bonds with UBS Financial Services Inc.

Backstrom McCarley Berry & Co., LLC ("BMCB"), one of the underwriters of the Series 2011 Bonds, has entered into a non-exclusive agreement with Stern Brothers & Co. for the retail distribution of certain securities offerings. Pursuant to this agreement, Stern Brothers & Co. will purchase Series 2011 Bonds from BMCB at the original issue price less a negotiated portion of the selling concession applicable to any Series 2011 Bonds that Stern Brothers & Co. sells.

CERTAIN VERIFICATIONS

Robert Thomas CPA, LLC (the "Verifier"), independent certified public accountants, upon delivery of the Series 2011 Bonds, will deliver a report stating that the firm has reviewed the mathematical accuracy of certain computations based on certain assumptions relating to (i) the sufficiency of the principal and interest received from the investment in the Governmental Obligations, together with any initial cash balance, to meet the timely payment of the applicable principal or redemption price of, and interest on the Refunded Bonds, as described under "PLAN

OF FINANCE,” and (ii) the actuarial yields on the Series 2011 Bonds and the Government Obligations; such computations with respect to such yields to be used to support the conclusion of Co-Bond Counsel that the Series 2011 Bonds are not “arbitrage bonds” under Section 148 of the Code. The Verifier will express no opinion on the attainability of any assumptions or the tax-exempt status of the Series 2011 Bonds.

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MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers, holders or beneficial owners of any of the Series 2011 Bonds. All of the summaries of the Series 2011 Bonds, the 5307 Indenture, applicable legislation, and other agreements and documents in this Official Statement are made subject to the provisions of the Series 2011 Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

CHICAGO TRANSIT AUTHORITY

By: /s/ Karen L. Walker

Its: Chief Financial Officer and Treasurer

APPENDIX A

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following sets forth definitions of certain terms used in the Indenture and certain provisions of the Indenture. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the Indenture for a complete statement of the provisions thereof.

Definitions of Certain Terms

The following are definitions of certain terms used in the Indenture.

“*Accountant*” means an independent certified public accountant or a firm of independent certified public accountants (who may be the accountants who regularly audit the books and accounts of the Authority) who are selected and paid by the Authority.

“*Accreted Amount*” means, with respect to any Capital Appreciation Bonds, the amount set forth in the Supplemental Indenture or Indenture authorizing such Bonds as the amount representing the initial public offering price thereof, plus the amount of interest that has accreted on such Bonds, compounded periodically, to the date of calculation, determined by reference to accretion tables contained in each such Bond or contained or referred to in any Supplemental Indenture authorizing the issuance of such Bonds. The Accreted Amounts for such Bonds as of any date not stated in such tables shall be calculated by adding to the Accreted Amount for such Bonds as of the date stated in such tables immediately preceding the date of computation a portion of the difference between the Accreted Amount for such preceding date and the Accreted Amount for such Bonds as of the date shown on such tables immediately succeeding the date of calculation, apportioned on the assumption that interest accretes during any period in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months.

“*Act*” means the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605, as the same may be amended and supplemented from time to time.

“*Additional Bonds*” means Bonds authenticated and delivered pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes**” in this Appendix A.

“*Additional Project*” means any Eligible Project that the Authority determines to finance in whole or in part by the issuance of Additional Bonds.

“*Annual Apportionment Amount*” means, with respect to any Federal Fiscal Year, the amount of FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds that the Authority is entitled to receive from the FTA pursuant to appropriations designated for that Federal Fiscal Year.

“*Annual Debt Service Requirement*” means, with respect to any Bond Year, the aggregate of the Interest Requirement and the Principal Requirement for such Bond Year.

“*Authority*” means the Chicago Transit Authority, duly organized and existing under the Act.

“*Authorized Denominations*” means \$5,000 or any integral multiple thereof, or, in the case of Additional Bonds or Refunding Bonds, such other denominations as may be specified in the Supplemental Indenture authorizing the issuance thereof.

“*Authorized Officer*” means the Chairman of the Board, President or Treasurer of the Authority or any other officer or employee of the Authority authorized to perform specific acts or duties under the Indenture by ordinance duly adopted by the Authority.

“*Average Annual Debt Service Requirement*” means, as of any date of calculation, the mathematical mean of the Annual Debt Service Requirements for all Outstanding Parity Obligations.

“*Board*” means the Chicago Transit Board.

“*Bond*” or “*Bonds*” means any bond or bonds, including the 2004 Bonds, the 2006 Bonds, the 2008 Bonds, the 2010 Bonds and the Series 2011 Bonds), Additional Bonds and Refunding Bonds, authenticated and delivered under the Indenture, other than Subordinated Indebtedness.

“*Bond Financed Projects*” means capital improvements to the Transportation System, each constituting an Eligible Project, financed with the proceeds of the Refunded Bonds described under “PLAN OF FINANCE.”

“*Bond Year*” means the 12-month period commencing on October 2 of a year, and ending on October 1 of the next succeeding year.

“*Bond Insurance Policy*” means any municipal bond insurance policy insuring and guaranteeing the payment of the principal of and interest on a Series of Bonds or certain maturities thereof as may be provided in the Supplemental Indenture authorizing such Series or as otherwise may be designated by the Authority. See “RIGHTS OF BOND INSURERS.”

“*Bond Insurer*” means any person authorized under law to issue a Bond Insurance Policy, which includes the issuers of the Bond Insurance Policies for the Outstanding 5307 Bonds.

“*Business Day*” means any day which is not a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of any Fiduciary is located are authorized or required by law or executive order to close (and such Fiduciary is in fact closed).

“*Capital Appreciation and Income Bond*” means any Bond as to which accruing interest is not paid prior to the Interest Commencement Date specified therefor and is

compounded periodically on certain designated dates prior to the Interest Commencement Date specified therefor, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation and Income Bond.

“*Capital Appreciation Bond*” means any Bond the interest on which (i) shall be compounded periodically on certain designated dates, (ii) shall be payable only at maturity or redemption prior to maturity and (iii) shall be determined by subtracting from the Accreted Amount the initial public offering price thereof, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond. The term “Capital Appreciation Bond” as used throughout the Indenture also includes any Capital Appreciation and Income Bond prior to the Interest Commencement Date specified therefor.

“*Code*” or “*Code and Regulations*” means the Internal Revenue Code of 1986, and the regulations promulgated or proposed pursuant thereto as the same may be in effect from time to time.

“*Construction Fund*” means the Construction Fund established under the Indenture.

“*Counsel’s Opinion*” means an opinion signed by an attorney or firm of attorneys of recognized standing in the area of law to which the opinion relates, who may be counsel to the Authority (including the General Counsel of the Authority).

“*Credit Bank*” means, as to any particular Series of Bonds, the person (other than a Bond Insurer) providing a Credit Facility.

“*Credit Facility*” means, as to any particular Series of Bonds, a letter of credit, a line of credit, a guaranty, a standby bond purchase agreement or other credit or liquidity enhancement facility, other than a Bond Insurance Policy.

“*Current Funds*” means moneys which are immediately available in the hands of the payee at the place of payment.

“*Current Interest Bond*” means any Bond the interest on which is payable on the Interest Payment Dates provided therefor in the Supplemental Indenture authorizing such Bond. The term “Current Interest Bond” also includes any Capital Appreciation and Income Bond from and after the Interest Commencement Date specified therefor.

“*Debt Service Fund*” means the Debt Service Fund established under the Indenture.

“*Debt Service Reserve Account*” means any debt service reserve account established within the General Fund pursuant to a Supplemental Indenture or the Indenture.

“*Defeasance Obligations*” means Government Obligations that are not subject to redemption or prepayment other than at the option of the holder thereof.

“*Eligible Project*” means a capital improvement to the Transportation System the financing costs of which may be paid by the Authority from Grant Receipts.

“*Event of Default*” means any event so designated and specified in the Indenture.

“*Federal Fiscal Year*” means the annual period commencing on October 1 of a calendar year and ending September 30 of the next calendar year.

“*Fiduciary*” or “*Fiduciaries*” means the Trustee, the Registrar, and the Paying Agents under the Indenture and any depository of moneys and securities held under the Indenture, or any or all of them, as may be appropriate.

“*5307 Grant Receipts*” means all amounts received by the Authority from its share of FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds.

“*5307 Indenture*” means the 5307 Master Indenture, as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture, and as from time to time supplemented and amended.

“*5307 Master Indenture*” means the Trust Indenture dated as of November 1, 2004, between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee.

“*5307 Trustee*” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the 5307 Indenture.

“*First Supplemental Indenture*” means the First Supplemental Indenture dated as of November 1, 2006, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

“*Fiscal Year*” means the period January 1 through December 31 of the same year.

“*Fourth Supplemental Indenture*” means the Fourth Supplemental Indenture dated as of November 1, 2011, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

“*FTA*” means the Federal Transit Administration of the United States Department of Transportation of the United States of America.

“*General Fund*” means the General Fund established under the Indenture.

“*Government Obligations*” means any direct obligations of the United States of America and any obligations guaranteed as to the timely payment of principal and interest by the United States of America or any agency or instrumentality of the United States of America, when such obligations are backed by the full faith and credit of the United States of America.

“*Grant Receipts*” means the 5307 Grant Receipts.

“*Grant Receipts Deposit Fund*” means the Grant Receipts Deposit Fund established under the Indenture.

“*Indenture*” means the 5307 Indenture as from time to time amended and supplemented.

“*Insured Bond*” means any Bond with respect to which the payment of principal and interest is guaranteed under a Bond Insurance Policy.

“*Interest Account*” means the account of that name in the Debt Service Fund established under the Indenture.

“*Interest Commencement Date*” means, with respect to any Capital Appreciation and Income Bond, the date specified in the Supplemental Indenture authorizing the issuance of such Bond (which date must be prior to the maturity date for such Capital Appreciation and Income Bond) after which interest accruing on such Capital Appreciation and Income Bond shall be payable periodically, with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

“*Interest Payment Date*” means any Payment Date on which interest on any Parity Obligation is payable.

“*Interest Period*” means the period from the date of any Parity Obligation to and including the day immediately preceding the first Interest Payment Date and thereafter shall mean each period from and including an Interest Payment Date to and including the day immediately preceding the next Interest Payment Date.

“*Interest Requirement*” for any Bond Year or any Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding and each Section 207 Obligation then Outstanding, means the total of the sums that would be deemed to accrue on such Bonds or Section 207 Obligations during such Bond Year or Interest Period if the interest on the Bonds or Section 207 Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts, and employing the methods of calculation set forth (i) in the Indenture as described in this Appendix A under the headings “Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates” and “Summary of Certain Provisions of the 5307 Indenture - Hedging Transactions” in the case of a Qualified Swap Agreement and (ii) as described in this Appendix A under the headings “Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates” and “Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds” in the cases of Optional Tender Bonds and Variable Rate Bonds; *provided* that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the proceeds of Bonds allocable to the payment of such interest as provided in the Indenture or a Supplemental Indenture or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the Authority shall otherwise provide in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to

retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement.

“*Investment Securities*” means any of the following securities or investments authorized by law as permitted investments of Authority funds at the time of purchase thereof:

- (i) Government Obligations;
- (ii) obligations of any of the following federal agencies, which obligations are fully guaranteed by the full faith and credit of the United States of America:
 - Export-Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Federal Financing Bank
- (iii) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - obligations of the Resolution Funding Corporation (REFCORP)
 - senior debt obligations of the Federal Home Loan Bank System (FHLB)
 - senior debt obligations of other government sponsored agencies approved by each Bond Insurer
- (iv) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s Investors Service and “A-1” by Standard & Poor’s and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (v) commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s Investors Service and “A-1+” by Standard & Poor’s and which matures not more than 270 calendar days after the date of purchase;
- (vi) investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s and rated “Aaa” by Moody’s Investors Service;
- (vii) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency,

instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s Investors Service and Standard & Poor’s or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vii) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(viii) municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of “A2/A” or higher by both Moody’s Investors Service and Standard & Poor’s;

(ix) investment agreements approved in writing by each Bond Insurer (supported by appropriate opinions of counsel); and

(x) other forms of investments (including repurchase agreements) approved in writing by each Bond Insurer.

“*Maximum Annual Debt Service Requirement*” means, as of any date of calculation, the largest Annual Debt Service Requirement occurring in the then current and any succeeding Bond Year.

“*Optional Tender Bonds*” means any Bonds with respect to which the Owners thereof have the option to tender to the Authority, to any Fiduciary or to any agent thereof, all or a portion of such Bonds for payment or purchase.

“*Outstanding*,” when used with reference to Parity Obligations, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture, all Section 206 Obligations incurred under Qualified Swap Agreements and all Section 207 Obligations incurred under Credit Facilities except:

(i) Any Parity Obligations canceled by the Trustee or the Person entitled to payment of any Section 206 Obligation or Section 207 Obligation, as the case may be, at or prior to such date or theretofore delivered to the Trustee or the Authority, as the case may be, for cancellation;

(ii) Parity Obligations (or portions of Parity Obligations) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the Indenture and set aside

for such payment or redemption (whether at or prior to the maturity or redemption date), *provided* that if such Parity Obligations (or portions of Parity Obligations) are to be redeemed, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture as a result of transfer, exchange or redemption or in replacement of Bonds mutilated, destroyed, stolen or lost;

(iv) Parity Obligations deemed to have been paid as a result of defeasance in accordance with the Indenture; and

(v) Optional Tender Bonds deemed to have been purchased in accordance with the provisions of the Supplemental Indenture authorizing their issuance in lieu of which other Bonds have been authenticated and delivered under such Supplemental Indenture.

“*Owner*” means any person who shall be the registered owner of any Bond or Bonds.

“*Parity Obligation*” means any Bond, any Section 206 Obligation and any Section 207 Obligation.

“*Paying Agent*” means with respect to any Bonds, any bank, national banking association or trust company designated by ordinance of the Board or by an Authorized Officer as paying agent for the Bonds of any Series, and any successor or successors appointed by an Authorized Officer under the Indenture and with respect to a Qualified Swap Agreement, the Swap Provider.

“*Payment Date*” means any date on which the principal of (including any Sinking Fund Installment) or interest on any Series of Bonds is payable in accordance with its terms and the terms of the Indenture or the Supplemental Indenture creating such Series or, in the case of Section 207 Obligations or amounts that are payable under any Qualified Swap Agreement, in accordance with the terms of the instrument creating such Section 207 Obligation or such Qualified Swap Agreement.

“*Person*” means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability corporation, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

“*Principal*” or “*principal*” means (i) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in the Indenture in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an event of default, in which case “*principal*” means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted

Amount and the initial public offering price being deemed interest) but when used in connection with determining whether the Owners of the requisite principal amount of Bonds then Outstanding have given any request, demand, authorization, direction, notice, consent or waiver or with respect to the Redemption Price of any Capital Appreciation Bond, “*principal amount*” means the Accreted Amount (ii) with respect to the principal amount of any Current Interest Bond, the principal amount of such Bond payable in satisfaction of a Sinking Fund Installment, if applicable, or at maturity or (iii) with respect to a Section 207 Obligation, the principal amount payable on each repayment date.

“*Principal Account*” means the account of that name in the Debt Service Fund established under the Indenture.

“*Principal Payment Date*” means any Payment Date upon which the principal of any Parity Obligation is stated to mature or upon which the principal of any Term Bond is subject to redemption in satisfaction of a Sinking Fund Installment.

“*Principal Requirement*” for any Bond Year, as applied to the Bonds of any Series or any Section 207 Obligation, means, the last day of the Bond Year (the “Applicable Principal Payment Date”) an amount calculated beginning

(vi) on the preceding Principal Payment Date, if any, that occurs one year or less before each Applicable Principal Payment Date, or

(vii) one year prior to each Applicable Principal Payment Date if there is no prior Principal Payment Date or if the preceding Principal Payment Date is more than one year prior to the Applicable Principal Payment Date;

which amount shall equal the sums that would be deemed to accrue on such Bonds or Section 207 Obligations during such Bond Year of

(viii) the principal of the Current Interest Bonds of such Series or Section 207 Obligations scheduled to mature or have a required Sinking Fund Installment on or prior to the Applicable Principal Payment Date, and

(ix) the Accreted Amount of the Capital Appreciation Bonds of such Series, scheduled to become due or have a required Sinking Fund Installment on or prior to the Applicable Principal Payment Date,

determined by employing the methods of calculation set forth in the Indenture and summarized in this Appendix A under the heading “Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds” in the case of Optional Tender Bonds and Variable Rate Bonds, were each deemed to accrue daily during such year in equal amounts to but not including the Applicable Principal Payment Date; *provided* that an amount of principal shall be excluded from the determination of Principal Requirement to the extent that such amount is to be paid from the proceeds of Bonds allocable to the payment of such principal as provided in the Supplemental Indenture authorizing the issuance of such Bonds or other available moneys or from the investment (but not reinvestment) earnings thereon if such proceeds or other moneys

shall have been invested in Investment Securities and to the extent such earnings may be determined precisely.

“Project Account” means any project account within the Construction Fund established under either Indenture, including the account established in connection with the issuance of the Series 2011 Bonds to pay costs of issuance, and any additional project account established in connection with the issuance of a Series of Additional Bonds.

“Purchase Price” means the purchase price established in any Supplemental Indenture authorizing Optional Tender Bonds as the purchase price to be paid for such Bonds upon an optional or mandatory tender of all or a portion of such Bonds.

“Qualified Swap Agreement” means an agreement between the Authority and a Swap Provider under which the Authority agrees to pay the Swap Provider an amount calculated at an agreed-upon rate and/or index based upon a notional amount and the Swap Provider agrees to pay the Authority or the Authority agrees to pay the Swap Provider for a specified period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where (a) each Rating Service (if such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor) has assigned to the unsecured obligations of the Swap Provider, or of the person who guarantees the obligation of the Swap Provider to make its payments to the Authority, as of the date the swap agreement is entered into, a rating that is equal to or higher than “A” and (b) the Authority has notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor) in writing at least 15 days prior to executing and delivering the swap agreement of its intention to enter into the swap agreement.

“Rating Services” means each and every one of the nationally recognized rating services that shall have assigned ratings to any Bonds Outstanding as requested by or on behalf of the Authority, and which ratings are then currently in effect.

“Rebate Fund” means the Rebate Fund established under the Indenture.

“Redemption Price” means, with respect to any Bond, the Principal thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

“Refunding Bonds” means Bonds issued pursuant to the provisions of the Indenture summarized under the heading “Summary of Certain Provisions of the 5307 Indenture - Refunding Bonds” in this Appendix A.

“Registrar” means any bank, national banking association or trust company appointed by an Authorized Officer under the Indenture and designated as registrar for the Bonds of any Series, and its successor or successors.

“RTA” means the Regional Transportation Authority, a political subdivision of the State of Illinois organized and existing under the Regional Transportation Authority Act, 70 Illinois Compiled Statutes 3615.

“*Second Supplemental Indenture*” means the Second Supplemental Indenture dated as of April 1, 2008, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the provisions of the Indenture summarized in the first paragraph under the heading “Summary of Certain Provisions of the 5307 Indenture – Hedging Transactions” in this Appendix A.

“*Section 207 Obligations*” means any obligations incurred by the Authority to reimburse the issuer or issuers of one or more Credit Facilities securing one or more Series of Bonds as described in the provisions of Section 207 of the Indenture summarized under the heading “Summary of Certain Provisions of the 5307 Indenture – Credit Facilities to Secure Bonds; Section 207 Obligations” in this Appendix A, including any fees or other amounts payable to the issuer of any such Credit Facilities, whether such obligations are set forth in one or more reimbursement agreements entered into between the Authority and the Credit Bank, or in one or more notes or other evidences of indebtedness executed and delivered by the Authority pursuant thereto, or any combination thereof.

“*Serial Bonds*” means the Bonds of a Series which shall be stated to mature in annual installments.

“*Series*” means all of the Bonds designated as a series and authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

“*Series 2011 Bonds*” means the \$56,525,000 original principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), of the Authority authorized by the 2011 Bond Ordinance and the 5307 Indenture.

“*2004A Bonds*” means the \$150,000,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2004A (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2004B Bonds*” means the \$100,000,000 original principal amount of Capital Grant Receipts Revenue Bonds, Series 2004B (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2004 Bonds*” means collectively, the 2004A Bonds and the 2004B Bonds.

“*2006 Bonds*” means the \$275,000,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2006A (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2008 Bonds*” means the \$100,000,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2010 Bonds*” means the \$63,895,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Refunding Series 2010 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), of the Authority authorized by the 5307 Indenture.

“*2011 Bond Insurer*” means Assured Guaranty Municipal Corp., a New York-domiciled insurance company, or any successor or assign.

“*2011 Bond Ordinance*” means Ordinance Number 011-118 adopted by the Board on October 13, 2011.

“*2011 Bond Insurance Policy*” means the municipal bond insurance policy issued by the 2011 Bond Insurer insuring the payment of the principal of and interest on the Series 2011 Bonds.

“*2011 Project Account*” means the account by that name in the Construction Fund established under the Indenture.

“*Sinking Fund Installment*” means with respect to any Series of Additional Bonds or Refunding Bonds, each principal amount of Bonds scheduled to be redeemed through sinking fund redemption provisions by the application of amounts on deposit in the Principal Account, established pursuant to the Indenture.

“*SLG’s*” means United States Treasury Certificates of Indebtedness, Notes and Bonds State and Local Government Series.

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the Indenture. See “Summary of Certain Provisions of the 5307 Indenture – Subordinated Indebtedness.”

“*Subordinated Indebtedness Account*” means any subordinate indebtedness account established within the General Fund pursuant to a Supplemental Indenture.

“*Supplemental Indenture*” means any Supplemental Indenture authorized pursuant to the Indenture.

“*Swap Provider*” means any counterparty with whom the Authority enters into a Qualified Swap Agreement.

“*Term Bonds*” means the Bonds of a Series other than Serial Bonds which shall be stated to mature on one or more dates through the payment of Sinking Fund Installments.

“*Third Supplemental Indenture*” means the Third Supplemental Indenture dated as of May 1, 2010, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

“*Transportation System*” means the Transportation System of the Authority, as defined in the Act.

“*Trust Estate*” means the Grant Receipts and all other property pledged to the Trustee pursuant to the Indenture.

“*Trustee*” means the 5307 Trustee.

“*Variable Rate Bonds*” means any Bonds the interest rate on which is not established at the time of issuance thereof at a single numerical rate for the entire term thereof.

“*Variable Rate Stabilization Account*” means the account by that name in the Debt Service Fund.

“*Variable Rate Stabilization Account Requirement*” means, as of any date of computation, the higher of (1) the amount determined by the Authority in a certificate of an Authorized Officer filed with the Trustee or (2) an amount equal to 3.5 percent of the sum of (a) the principal amount of all Outstanding Variable Rate Bonds, exclusive of (i) the principal amount of Outstanding Variable Rate Bonds that bear interest at a fixed rate to maturity and (ii) the principal amount of Outstanding Variable Rate Bonds with respect to which the Authority has entered into a Qualified Swap Agreement which, as of such date of computation and for at least the period of one year following such date of computation, requires the Authority to pay a fixed interest rate, and (b) the notional amount of all Qualified Swap Agreements, relating to Bonds that are not Variable Rate Bonds, that as of such date require the Authority to pay interest based upon a variable interest rate or to make swap payments based upon a variable rate index.

SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE

The following summary sets for certain provisions of the 5307 Indenture. The defined terms contained herein are to be read solely in reference to the 5307 Indenture. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the 5307 Indenture for a complete statement of the provisions thereof.

Pledge Effected by the Indenture; Limited Obligations

Pursuant to the Indenture, (i) the 5307 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the Indenture (except the Rebate Fund), subject, however, to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund as permitted under the provisions of the Indenture summarized in this APPENDIX A under the heading “Summary of Certain Provisions of the 5307 Indenture – Covenants of the Authority - FTA Funds” below and from the General Fund as permitted under the provisions of the Indenture summarized in this APPENDIX A under the heading “Summary of Certain Provisions of the 5307 Indenture - General Fund” below, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture are pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds and the payment of Section 206 Obligations and Section 207 Obligations and a lien is granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture,

provided that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350/13, the 5307 Grant Receipts and the other moneys and securities pledged by the Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The Parity Obligations are limited obligations of the Authority payable solely from the 5307 Grant Receipts pledged for their payment in accordance with the Indenture. The Parity Obligations are not, and shall not be or become, an indebtedness or obligation of the State of Illinois, the Regional Transportation Authority or any political subdivision of the State (other than the Authority) or of any municipality within the State nor shall any Parity Obligation be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

No lien upon any physical properties of the Authority is created by the Indenture.

Variable Interest Rates

In determining the Interest Requirement for the purpose of determining Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement under the provisions of the Indenture as summarized under the headings “Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes” and “Summary of Certain Provisions of the 5307 Indenture – Refunding Bonds” below and for the purpose of determining the amount to be deposited into the Interest Account pursuant to the Indenture, as summarized under the heading “Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts” below, interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Section 207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the Bond Market Association Municipal Swap Index¹, (d) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus fifty basis points, and (e) the interest rate set forth in a certificate of an Authorized Officer filed with the Trustee.

¹ Now known as the Securities Industry and Financial Markets Association (“SIFMA”) Municipal Swap Index.

Optional Tender Bonds and Variable Rate Bonds

If any of the Outstanding Bonds constitute Optional Tender Bonds, then in determining the Interest Requirement and the Principal Requirement of a Series of Bonds, the options of the Owners of such Bonds to tender the same for payment prior to their stated Principal Payment Date shall be ignored. If any of the Bonds constitute Variable Rate Bonds, the interest rate used in determining the Interest Requirement for such Variable Rate Bonds shall be the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates” above, or, if and so long as a Qualified Swap Agreement is in effect that provides for a fixed interest rate, the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “Summary of Certain Provisions of the 5307 Indenture - Hedging Transactions.” The conversion of Variable Rate Bonds to bear interest at a different variable rate or a fixed rate or rates, in accordance with their terms, shall not constitute a new issuance of Bonds under the provisions of the Indenture, as summarized under the headings “Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes” and “Summary of Certain Provisions of the 5307 Indenture – Refunding Bonds.” In determining the Interest Requirement or the Principal Requirement of any Section 207 Obligation, such Section 207 Obligation shall be deemed to be Outstanding only to the extent that, on the date of computation, there are unpaid drawings or advances under the terms of the Credit Facility that created the Section 207 Obligation.

Funds and Accounts

The Authority under the Indenture establishes the Grant Receipts Deposit Fund, which shall be a special fund of the Authority held by the Authority as part of the Trust Estate, and the Construction Fund, the General Fund and the Debt Service Fund, each of which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in the Grant Receipts Deposit Fund, the Construction Fund, the Debt Service Fund and the General Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and is subject to the lien of the Indenture. The Authority also establishes under the Indenture a Rebate Fund, which is not pledged to payment of the Bonds. The Interest Account, the Principal Account and the Variable Rate Stabilization Account are established as special accounts within the Debt Service Fund and the 2011 Project Account is established as a special account within the Construction Fund.

The Trustee shall withdraw from the appropriate Project Account in the Construction Fund and deposit into the Rebate Fund the amount specified by the Authority. The Trustee shall also withdraw moneys from the appropriate Project Account in the Construction Fund to pay costs of issuance of the Bonds in accordance with the directions of the Authority. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in the Indenture.

Deposit and Application of 5307 Grant Receipts

All 5307 Grant Receipts received by the Authority shall be deposited promptly into the Grant Receipts Deposit Fund. On the first Business Day of each Bond Year, and (if required) on any subsequent Business Day during the Bond Year the Authority shall withdraw from the Grant Receipts Deposit Fund and pay over to the Trustee an amount sufficient to enable the Trustee to make payments into the following several Funds and Accounts, but as to each such Fund or Account only within the limitation indicated below with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

FIRST: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the sum of the Interest Requirements for all Outstanding Bonds and Section 207 Obligations for each remaining Interest Period that ends in the current Bond Year.

SECOND: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding Bonds and Section 207 Obligations for the current Bond Year.

THIRD: Into the Variable Rate Stabilization Account, to the extent, if any, needed to increase the amount in the Variable Rate Stabilization Account to the Variable Rate Stabilization Account Requirement.

FOURTH: Into the Rebate Fund, the amount specified in the certificate of an Authorized Officer filed with the Trustee pursuant to the Indenture.

FIFTH: Into the General Fund, the amount specified in a certificate of an Authorized Officer filed with the Trustee.

Debt Service Fund

The Trustee shall pay to the respective Paying Agents or to any Swap Provider, as applicable, in Current Funds (i) out of any capitalized interest account established with respect to any Series of Bonds on or before each Interest Payment Date specified in the Supplemental Indenture authorizing such Series, the applicable amount set forth in such Supplemental Indenture; (ii) out of the Interest Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds and Section 207 Obligations, the amount required for the interest payable on such date (including net payments required to be made by the Authority to a Swap Provider under a Qualified Swap Agreement) and not provided for pursuant to clause (i) above; (iii) out of the Variable Rate Stabilization Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds and Section 207 Obligations, the amount required for the interest payable on such date (including net payments required to be made by the Authority to a Swap Provider under a Qualified Swap

Agreement) and not provided for pursuant to clause (i), or clause (ii) clause above; (iv) out of the Principal Account on or before each Principal Payment Date, an amount equal to the principal amount of the Outstanding Bonds and Section 207 Obligations, if any, which mature on such date; and (v) out of the Principal Account on or before each Principal Payment Date occasioned by redemption of Outstanding Bonds from Sinking Fund Installments, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed. Such amounts shall be paid to the Owners of the Outstanding Bonds by the Paying Agents for the aforesaid purposes on the due dates thereof. The Trustee shall also pay out of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment) the accrued interest included in the purchase price of Outstanding Bonds purchased for retirement.

Amounts in the Principal Account available for the payment of Sinking Fund Installments shall be applied to the purchase or redemption of Bonds as provided below.

(1) Amounts deposited to the credit of the Principal Account to be used in satisfaction of any Sinking Fund Installment may, and if so directed by the Authority shall, be applied by the Trustee, on or prior to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established. That portion of the purchase price attributable to accrued interest shall be paid from the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment). All such purchases of Outstanding Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Authority shall determine. The principal amount of any Bonds so purchased shall be deemed to constitute part of the Principal Account until the Principal Payment Date on which such Sinking Fund Installment is due, for the purpose of calculating the amount on deposit in such Account.

(2) At any time up to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Authority may purchase with any available funds Outstanding Bonds for which such Sinking Fund Installment was established and surrender such Bonds to the Trustee at any time up to said date.

(3) After giving effect to the Outstanding Bonds purchased by the Trustee and Outstanding Bonds surrendered by the Authority as described in paragraphs (1) and (2) above, which shall be credited against the Sinking Fund Installment at the applicable sinking fund Redemption Price thereof, and as soon as practicable after the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Trustee shall proceed to call for redemption on such Principal Payment Date Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the unsatisfied portion of such Sinking Fund Installment. The Trustee shall pay out of the Principal Account to the appropriate Paying Agents, on or before the day preceding such redemption date, the Redemption Price required for the redemption of the Outstanding

Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(4) If the principal amount of Outstanding Bonds retired through application of amounts in satisfaction of any Sinking Fund Installment shall exceed such Sinking Fund Installment, or in the event of the purchase or redemption from moneys other than from the Principal Account of Outstanding Bonds of any Series and maturity for which Sinking Fund Installments have been established, such excess or the principal amount of Outstanding Bonds so purchased or redeemed, as the case may be, shall be credited toward future scheduled Sinking Fund Installments either (i) in the order of their due dates or (ii) in such order as the Authority establishes in a certificate delivered to the Trustee not more than 45 days after the payment in excess of such Sinking Fund Installment.

Moneys held in the Accounts of the Debt Service Fund shall be invested as provided in the Indenture. See “Summary of Certain Provisions of the 5307 Indenture - Investment of Certain Moneys” below in this APPENDIX A. Investment income earned as a result of such investment shall be retained in said Accounts.

The amount, if any, deposited in the Interest Account from the proceeds of Bonds shall be set aside in such Account and applied to the payment of the interest on the Bonds with respect to which such proceeds were deposited in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Bonds.

If on any date, the amount held in the Variable Rate Stabilization Account exceeds the Variable Rate Stabilization Account Requirement, the Trustee, at the direction of the Authority, is required to transfer such excess to the General Fund.

General Fund

The Authority may establish within the General Fund one or more Debt Service Reserve Accounts for the purpose of providing additional security for the payment of one or more Series of Bonds. The Authority may provide for the application of moneys in the General Fund to maintain such Debt Service Reserve Account and for the use of moneys held in such Debt Service Reserve Account.

The Authority may establish one or more Subordinated Indebtedness Accounts within the General Fund for the purpose of securing the payment of Subordinated Indebtedness; *provided* that in no event shall the administration of any such Account limit the application of moneys in the General Fund (including any Account therein) for the payment of interest or Principal due on Outstanding Bonds and Section 207 Obligations (or any other net amounts payable by the Authority from the Interest Account to a Swap Provider under a Qualified Swap Agreement).

If on any Interest Payment Date or Principal Payment Date the aggregate amount to the credit of the Debt Service Fund is less than the amount required to pay interest or Principal due on the Outstanding Bonds and Section 207 Obligations (and any other net amounts payable by the Authority from the Interest Account to a Swap Provider under a Qualified Swap

Agreement), the Trustee is required to apply amounts from the General Fund (including any amount then held in a Debt Service Reserve Account or a Subordinated Indebtedness Account) to the extent necessary to cure such deficiency, in the following order of priority: first, to the credit of the Interest Account and then to the credit of the Principal Account; *provided* that any withdrawal from a Debt Service Reserve Account shall be limited by the terms and conditions governing withdrawals from such Account.

Subject to any provisions limiting withdrawals from Debt Service Reserve Accounts and Subordinated Indebtedness Accounts, at the direction of the Authority, moneys held in the General Fund may be withdrawn from the General Fund and (i) transferred to any other Fund, Account or Sub-Account maintained under the Indenture or any Supplemental Indenture; (ii) used to purchase, pay, redeem or defease Outstanding Bonds; or (iii) used for any other purpose permitted by the Indenture.

Subject to the following paragraph, moneys in the General Fund shall be withdrawn promptly by the Trustee and paid over to the Authority free from the lien of the Indenture.

Any withdrawal of amounts held in a Debt Service Reserve Account or a Subordinated Indebtedness Account pursuant to the above paragraph shall be limited by the terms of administration of such Account. No withdrawal from the General Fund pursuant to the above paragraph shall be made unless, at the time of such withdrawal, (i) no deficiency exists with respect to the required deposits to the Interest Account and the Principal Account pursuant to the provisions of the Indenture summarized under the heading "Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts" above; (ii) the sum then held in the Variable Rate Stabilization Account shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred and remain unremedied.

Investment of Certain Moneys

Moneys held in the Debt Service Fund and its Accounts, the General Fund and its Accounts, the Rebate Fund and the Construction Fund and its Accounts shall be invested and reinvested by the Trustee at the oral direction of the Authority to the fullest extent practicable in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such Funds or Accounts. In the event that no such directions are received by the Trustee, such amounts shall be invested in money market funds described in subparagraph (vi) of the definition of Investment Securities, pending receipt of investment directions. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries. Moneys held in any separate, segregated account of the Construction Fund held by the Authority in any depository of moneys and securities held under the Indenture may be invested and reinvested by the Authority in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such accounts.

Investment Securities in any Fund, Account or Sub-Account created under the provisions of the Indenture shall be deemed at all times to be part of such Fund, Account or Sub-

Account and any profit realized from the liquidation of such investment shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall be charged to such Fund, Account or Sub-Account.

Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture shall be made by the Trustee as often as may be necessary to determine the amounts held therein, except that valuations of Government Obligations held in the Debt Service Fund and its Accounts shall be made at least once each year on such dates as shall be determined by the Trustee.

The value of Investment Securities shall mean the fair market value thereof, *provided* that all SLG's shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America/Merrill Lynch or Citibank.

Additional Bonds for Construction Purposes

One or more Series of Additional Bonds may be authorized and delivered upon original issuance for the purpose of paying the Cost of Construction of one or more Eligible Projects or refunding any Subordinated Indebtedness issued for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account under the Indenture. The Additional Bonds of any such Series shall be authenticated and delivered by the Trustee only upon receipt by it of a certificate of an Authorized Officer:

(1) Setting forth the average Annual Apportionment Amount for the three completed Federal Fiscal Years immediately preceding the date of issuance of such Series of Additional Bonds; and

(2) Determining that the average Annual Apportionment Amount determined pursuant to clause (1) above is not less than 150 percent of the Maximum Annual Debt Service Requirement determined as of the time immediately following the issuance of such Series of Additional Bonds.

In applying the foregoing test, if any of the Bonds Outstanding immediately following the issuance of the Additional Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions set forth and summarized under the headings "Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates" and "Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds" shall be applied in determining the Annual Debt Service Requirements of such Bonds.

The proceeds, including accrued interest, of Additional Bonds of each Series shall be applied upon their delivery as follows:

(a) there shall be deposited in any Fund, Account or Sub-Account under the Indenture the amount, if any, required by the Supplemental Indenture providing for the issuance of such Bonds; and

(b) the remaining balance shall be deposited in the Project Account established in the Construction Fund for the Additional Project specified in such Supplemental Indenture.

Such Additional Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Variable Rate Bonds, Optional Tender Bonds (provided the Authority delivers to the Trustee upon the authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the Purchase Price of any such Bonds), Serial Bonds or Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for their issuance.

Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund or advance refund any or all Outstanding Bonds of one or more Series, and any or all Outstanding Section 207 Obligations, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account under the Indenture.

Refunding Bonds of a Series to refund or advance refund Outstanding Bonds or Section 207 Obligations shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to certain other documents, securities and moneys required by the Indenture) of:

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture and summarized under the heading "Summary of Certain Provisions of the 5307 Indenture - Defeasance" so that the Bonds and Section 207 Obligations to be refunded or advance refunded will be paid or deemed to be paid pursuant to the provisions of the Indenture summarized under the heading "Summary of Certain Provisions of the 5307 Indenture - Defeasance."

(2) Either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Bonds and Section 207 Obligations to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee or any of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds or the Persons entitled to payment of the Section 207 Obligations, as the case may be, to be refunded or advance refunded, or (ii) Defeasance Obligations in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the defeasance provisions of the Indenture.

(3) Either (a) the certificate of an Authorized Officer required under the Indenture in connection with the issuance of Additional Bonds as described under

“Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes,” as applied to the Refunding Bonds to be issued pursuant to the provisions of the Indenture summarized under this heading, or (b) a certificate of an Authorized Officer evidencing that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as of the time immediately prior to the issuance of such Series of Refunding Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Section 207 Obligations Outstanding, after the issuance of such Refunding Bonds and the redemption of provision for payment of the Bonds and Section 207 Obligations to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Section 207 Obligations Outstanding, including the Bonds and Section 207 Obligations to be refunded, immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests set forth in the previous paragraph, if any of the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions of the Indenture summarized under the headings “Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates” and “Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied upon their delivery as follows:

- (1) there shall be deposited in any other Fund, Account or Sub-Account under the Indenture the amount, if any, required by the Supplemental Indenture authorizing such Series, including, but not limited to, an amount to be applied to the payment of costs and expenses incident to the issuance of such Refunding Bonds;
- (2) the amount of such proceeds needed for the refunding of the Bonds to be refunded and for the payment of expenses incidental to such refunding shall be used for such purposes; and
- (3) any balance of such proceeds shall be applied in accordance with the written instructions of the Authority, signed by an Authorized Officer and filed with the Trustee.

Refunding Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Variable Rate Bonds, Optional Tender Bonds (provided the Authority delivers upon authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the Purchase Price of any such Bonds), Serial Bonds and Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for the issuance thereof.

Hedging Transactions

If the Authority shall enter into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, or requiring the Authority to pay a variable interest rate on a notional amount, and the Authority has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for Bonds of a particular maturity or maturities in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of the Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement:

(1) for purposes of any calculation of Interest Requirements, the interest rate on the Bonds of such maturity or maturities shall be determined as if such Bonds bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Authority under such Qualified Swap Agreement;

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such Qualified Swap Agreement from 5307 Grant Receipts shall be made from amounts on deposit to the credit of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment); and

(3) any net payments received by the Authority from the Swap Provider pursuant to such Qualified Swap Agreement shall be deposited to the credit of the Interest Account.

If the Authority shall enter into a swap agreement of the type generally described in the preceding paragraph that does not satisfy the requirements for qualification as a Qualified Swap Agreement, then:

(1) the interest rate adjustments or assumptions referred to in subparagraph (1) of the preceding paragraph shall not be made;

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such swap agreement shall be made either (i) from sources other than 5307 Grant Receipts or (ii) if made from 5307 Grant Receipts, such payments, and any lien on 5307 Grant Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on 5307 Grant Receipts created by the Indenture as security for the payment of Parity Obligations; and

(3) any net payments received by the Authority from the Swap Provider pursuant to such swap agreement may be treated as 5307 Grant Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as 5307 Grant Receipts are to be deposited. See “Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts.”

With respect to a Qualified Swap Agreement described in the first paragraph under this heading or a swap agreement described in the preceding paragraph, any termination

payment required to be made by the Authority to the Swap Provider shall be made either (i) from sources other than 5307 Grant Receipts, or (ii) if made from 5307 Grant Receipts, such termination payment and any lien on 5307 Grant Receipts securing such termination payment, shall be junior and subordinate to the pledge of and lien on 5307 Grant Receipts created by the Indenture as security for the payment of Parity Obligations.

Credit Facilities to Secure Bonds; Section 207 Obligations

The Authority reserves the right to provide one or more Credit Facilities, or a combination thereof, to secure the payment of the principal of, premium, if any, and interest on one or more Series of Bonds, or in the event Owners of such Bonds have the right to require purchase thereof, to secure the payment of the purchase price of such Bonds upon the demand of the Owner thereof. In connection with any such Credit Facility, the Authority may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made under such Credit Facility, and the method by which the Authority will reimburse the Credit Bank that issued such Credit Facility for such drawings together with interest thereon at such rate or rates and otherwise make payments as may be agreed upon by the Authority and such Credit Bank.

At the election of the Authority expressed in a certificate of an Authorized Officer filed with the Trustee, any such obligation of the Authority to reimburse or otherwise make payments to the Credit Bank shall constitute a Parity Obligation under the Indenture (a “Section 207 Obligation”) to the same extent as any Series of Bonds, and any and all amounts payable by the Authority to reimburse such Credit Bank, together with interest thereon, shall for purposes of the Indenture be deemed to constitute the payment of principal of, premium, if any, and interest on Parity Obligations.

Each Section 207 Obligation shall be repayable over a period of not less than five years. The principal amount of all Section 207 Obligations incurred under a Credit Facility reimbursement agreement and payable in any period of 365 consecutive days shall not exceed 15 percent of the principal amount of all such Section 207 Obligations then Outstanding under such Credit Facility reimbursement agreement.

Subordinated Indebtedness

Nothing in the Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority (to the extent now or hereafter permitted by law) from (i) issuing bonds, certificates or other evidences of indebtedness or contractual obligations payable as to principal and interest from 5307 Grant Receipts, or (ii) incurring contractual obligations that are payable from 5307 Grant Receipts, but only if such indebtedness or contractual obligation is junior and subordinate in all respects to any and all Parity Obligations issued and Outstanding under the Indenture.

Covenants of the Authority

Pledge of 5307 Grant Receipts. The Authority covenants that the 5307 Grant Receipts and other moneys, securities and funds so pledged, and subject to the lien of the Indenture, are and will be free and clear of any other pledge, lien, charge or encumbrance

thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created by the Indenture, and all action on the part of the Authority to that end has been and will be duly and validly taken. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the 5307 Grant Receipts and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands.

Indebtedness and Liens. The Authority shall not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Parity Obligations, Qualified Swap Agreements and Subordinated Indebtedness, which are secured by a pledge of or lien on the 5307 Grant Receipts or the moneys, securities or funds held or set aside by the Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the 5307 Grant Receipts or such moneys, securities or funds; *provided* that nothing contained in the Indenture shall prevent the Authority from issuing or incurring (i) evidences of indebtedness payable from or secured by amounts that may be withdrawn from the General Fund free from the lien of the Indenture as provided by the provisions of the Indenture summarized under the heading “Summary of Certain Provisions of the 5307 Indenture - General Fund” above or (ii) evidences of indebtedness payable from, or secured by the pledge of, 5307 Grant Receipts to be derived on and after such date as the pledge of 5307 Grant Receipts provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Construction of Project. The Authority shall forthwith proceed to complete the construction of the Bond Financed Projects as Eligible Projects in conformity with all requirements of all governmental authorities having jurisdiction thereover, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by the Authority.

Payment of Lawful Charges. The Authority shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the 5307 Grant Receipts; *provided* that this covenant shall not require the Authority to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Accounts and Reports. The Authority shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the 5307 Grant Receipts and the Funds, Accounts and Sub-Accounts established by the Indenture and any Supplemental Indenture, and which, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than 25 percent in principal amount of Outstanding Bonds or their representatives duly authorized in writing. The Authority further covenants that it will keep an accurate record of the 5307 Grant Receipts received and of the payment thereof to the Trustee.

Not later than June 1 of each year the Authority will cause an independent audit to be made of its books and accounts for the preceding Fiscal Year, including its books and accounts relating to the 5307 Grant Receipts. Promptly thereafter reports of each such annual audit, signed by an Accountant, shall be mailed by the Authority to the Trustee and the Trustee shall make such reports available for inspection by the Owners of the Bonds.

Tax Covenants. The Authority shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Series 2011 Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the Series 2011 Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Series 2011 Bond to constitute a “private activity bond” within the meaning of Section 141 of the Code. The Authority shall not permit any of the proceeds of the Series 2011 Bonds or other moneys to be invested in any manner that would cause any Series 2011 Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Authority shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

Capital Improvement Program. The Authority shall include the construction of the Bond Financed Projects (and the payment of the Outstanding Parity Obligations from 5307 Grant Receipts) in each five year capital improvement program that the Authority prepares and submits to the RTA in accordance with the Regional Transportation Authority Act.

FTA Funds. (a) The Authority shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5307 in order to be eligible to receive 5307 Grant Receipts for the payment of Parity Obligations and to facilitate the prompt receipt by the Authority of 5307 Grant Receipts.

(b) Within 10 days of the date that any FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds appropriated with respect to a Federal Fiscal Year become available for disbursement to the Authority for payment obligations then due, the Authority shall take all reasonable actions as shall be necessary or desirable to facilitate the prompt payment of such Section 5307 Urbanized Area Formula funds to the Authority. All of such moneys constituting 5307 Grant Receipts, when received by the Authority, shall be deposited promptly into the Grant Receipts Deposit Fund.

(c) For each Federal Fiscal Year, the Authority shall apply for the appropriation of FTA Section 5307 Urbanized Area Formula funds on a priority basis for the payment of a sum sufficient to fund all of the payments to the Trustee required to be made under the provisions of the Indenture summarized in this APPENDIX A under the heading “Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts” above to the end of the next Bond Year, and shall cause such FTA Section 5307 Urbanized Area Formula funds to be obligated for such purposes on the earliest possible date in each Federal Fiscal Year.

(d) If as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the Trustee as described under this heading in subsection (c) above from the current Federal Fiscal Year appropriations have not been obtained, then the Authority shall reprogram available FTA Section 5307 Urbanized Area Formula funds appropriated in prior Federal Fiscal Years to the extent required to make such payments.

(e) Moneys held in the Grant Receipts Deposit Fund may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects; *provided* that after the first Business Day of any Bond Year if any deficiency then exists in the deposits required to be made by the Trustee pursuant to the provisions of the Indenture summarized in this APPENDIX A under the heading “Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts” above, no such withdrawal shall be made unless the Authority shall have obligated from appropriations applicable from the current or prior Federal Fiscal Years a sum sufficient for the payments to the Trustee required to be made pursuant to the Indenture summarized in this APPENDIX A under the heading “Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts” in the current Bond Year.

Events of Default and Remedies

Each of the following events is declared an “*Event of Default*” under the Indenture:

(1) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Parity Obligation when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(2) if a default shall occur in the due and punctual payment of interest on any Parity Obligation, when and as such interest shall become due and payable;

(3) if a default shall occur in the performance or observance by the Authority of any other of the covenants, agreements or conditions in the Indenture or in the Parity Obligations contained, and such default shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or after written notice thereof to the Authority and to the Trustee by (a) the Owners of not less than a majority in principal amount of the Outstanding Bonds or (b) the Person entitled to payment under any other Outstanding Parity Obligation; or

(4) if the Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Authority in any Fund, Account or Sub-Account pursuant to the terms of the Indenture, and (ii) all 5307 Grant Receipts as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and 5307 Grant Receipts and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to the provisions summarized under this heading;

(2) to the payment of the principal of, Redemption Price of and interest on the Parity Obligations then due, as follows:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Parity Obligations in the order of the maturity of such installments, together with accrued and unpaid interest on the Parity Obligations theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Parity Obligations which shall have become due, whether at maturity or by call for redemption in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Parity Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Parity Obligations, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Authority under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Parity Obligations held by or for the account of the Authority have been paid, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Parity Obligations shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Authority all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Authority, the Trustee, the Credit Banks, Swap Providers, Bond Insurers and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Authority by the Trustee nor such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

In the preceding three paragraphs, interest on Parity Obligations includes net payments to a Swap Provider under a Qualified Swap Agreement, as provided in the Indenture.

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted therein, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Parity Obligations or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name. All actions against the Authority under the Indenture shall be brought in a state or federal court located in the County of Cook, Illinois.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation, to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee, any Credit Bank, Swap Provider or Bond Insurer or the Owners is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Restriction on Owners' Action

No Owner of any Bond shall have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of Illinois or to institute such suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture relating to extension of payment of the Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Rights of Credit Bank or Bond Insurer

Subject to the provisions of any applicable Supplemental Indenture, any Credit Bank or any Bond Insurer shall be treated as the Owner of Bonds upon which such Credit Bank or Bond Insurer is obligated pursuant to a Credit Facility or Bond Insurance Policy, as applicable, for the purposes of calculating whether or not the Owners of the requisite percentage of Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Bonds pursuant to the provisions of the Indenture relating to events of default and remedies upon an event of default; *provided* that (a) the Owners of the Bonds shall retain the right to exercise all rights under such provisions related to the enforcement of the tax covenants of the Authority contained in the Indenture, and (b) such Credit Bank or Bond Insurer shall cease to be so regarded as Owner of such Bonds in the event such Credit Bank or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

Notwithstanding anything contained in the Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, until the Authority has reimbursed a Credit Bank for amounts paid under a Credit Facility to pay the interest on or the principal of any Bonds on any Interest Payment Date or Principal Payment Date or to the extent any Bond Insurer has exercised its rights as subrogee for the particular Bonds of which it has insured payment,

such Bonds shall be deemed to be Outstanding and such Credit Bank or Bond Insurer shall succeed to the rights and interests of the Owners to the extent of the amounts paid under the Credit Facility or as specified in respect of the applicable Bond Insurance Policy until such amount has been reimbursed.

Supplemental Indentures Not Requiring Consent of Owners

The Authority and the Trustee may without the consent of, or notice to, any of the Owners or any Credit Bank, Bond Insurer and Swap Provider, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (1) to authorize Additional Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with the Indenture;
- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Parity Obligations, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the Authority;
- (4) to impose other limitations or restrictions upon the Authority;
- (5) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the 5307 Grant Receipts or any other moneys, securities or funds;
- (7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with the Indenture as then in effect;
- (8) to cure any ambiguity, omission or defect in the Indenture;
- (9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (10) to provide for the appointment of any successor Fiduciary; and
- (11) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

Except for Supplemental Indentures described under the preceding heading, any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in the Indenture (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon or impair the exclusion from federal income taxation of interest on any Bond without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. A Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by any such modification or amendment, and its determination shall be binding and conclusive on the Authority and all Owners of the Bonds. Any amendment or modification of the Indenture that adversely affects or diminishes the rights of any Credit Bank or Swap Provider with respect to the payment of any Section 206 Obligation or any Section 207 Obligation or the security provided by the Indenture with respect to the payment of any Section 206 Obligation or Section 207 Obligation shall not take effect unless such amendment or modification is consented to by such Credit Bank or Swap Provider (or in the event of an assignment of such Section 206 Obligation or Section 207 Obligation, the Person entitled to payment of such Section 206 Obligation or Section 207 Obligation).

Subject to the provisions of the Indenture summarized below under “Summary of Certain Provisions of the 5307 Indenture - Termination of Rights of Bond Insurers,” the rights of the Owner of an Insured Bond to consent to any amendment or modification of the Indenture are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose. Upon the authorization of a Supplemental Indenture making an amendment or modification to the Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in the Indenture provided. Such Supplemental Indenture shall not be effective unless and until, and

shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Authority, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter provided under this heading. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however*, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter described is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the provisions described under this heading and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient, the Trustee shall make and deliver to the Authority a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds thereunder may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given.

Required Consent of Bond Insurer to Supplemental Indentures

Any provision of the Indenture expressly recognizing or granting rights in or to a Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer without the prior written consent of such Bond Insurer.

The consent of the Bond Insurer shall be required in addition to the consent of the Owners of the Bonds, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture; (ii) removal of the Trustee or any Paying Agent and selection and appointment of any successor Trustee or Paying Agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of the Owners of the Bonds.

Defeasance

If the Authority shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then

the pledge of any 5307 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall thereupon be discharged and satisfied and (ii) to the applicable Credit Banks and Swap Providers (or their assignees) all payments due upon the instruments creating Section 206 Obligations and Section 207 Obligations, then the pledge of any 5307 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and obligations of the Authority to the Credit Banks, the Swap Providers and any of their assignees with respect to payment of Section 206 Obligations and Section 207 Obligations shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Authority, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Authority for any year or part thereof requested, and shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption or for the payment of Section 206 Obligations and Section 207 Obligations. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if the Authority shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (ii) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (iii) either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (iv) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the provisions of the Indenture summarized under this heading and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds. The Defeasance Obligations and moneys deposited with the Trustee pursuant to the provisions of the Indenture summarized under this heading shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the

payment of such principal or Redemption Price of, or interest on, said Bonds unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so held shall be sufficient to provide fully for the payment of the principal of or Redemption Price and interest on such Bonds, at maturity or upon redemption, as the case may be.

Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid pursuant to the Indenture, if so directed by the Authority, shall be applied by the Trustee to the purchase of such Bonds in accordance with this paragraph. Bonds for which a redemption date has been established may be purchased on or prior to the forty-fifth day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to the Indenture, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to this paragraph if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid pursuant to the Indenture.

The Authority may purchase with any available funds any Bonds deemed to be paid pursuant to the Indenture in accordance with this paragraph. Bonds for which a redemption date has been established may be purchased by the Authority on or prior to the forty-fifth day preceding the redemption date. On or prior to the forty-fifth day preceding the redemption date the Authority shall give notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to the Authority on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay to the Authority the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

Termination of Rights of Bond Insurers

All rights of any Bond Insurer under the Indenture, or any Supplemental Indenture shall cease and terminate if: (i) such Bond Insurer has failed to make any payment under its Bond Insurance Policy; (ii) such Bond Insurance Policy shall cease to be valid and binding on such Bond Insurer or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by such Bond Insurer, or such Bond Insurer is denying further liability or obligation under such Bond Insurance Policy; (iii) a petition has been filed and is pending against such Bond Insurer under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, and has not been dismissed within sixty days after such filing; (iv) such Bond Insurer has filed a petition, which is still pending, in voluntary bankruptcy or is seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, or has consented to the filing of any petition against it under any such law; or (v) a receiver has been appointed for such Bond Insurer under the insurance laws of any jurisdiction.

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APPENDIX B

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following information concerning DTC has been furnished by DTC for use in this Official Statement. Neither the Authority nor the Underwriters are responsible for its accuracy or completeness.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2011 Bonds. The Series 2011 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2011 Bond will be issued for each maturity of the Series 2011 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2011 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC Nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2011 Bond documents. For example, Beneficial Owners of Series 2011 Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Authority or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend

payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2011 Bonds purchased or tendered, through its Participant, to the tender agent, and shall effect delivery of such Series 2011 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2011 Bonds, on DTC's records, to the tender agent. The requirement for physical delivery of Series 2011 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2011 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2011 Bonds to the tender agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2011 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2011 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2011 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2011 BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2011 BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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APPENDIX C

FEDERAL TRANSIT PROGRAM

General

The Federal Transit Program (the “Federal Transit Program”) in support of public transit in the United States had its origin in 1955 when Congress authorized the Administrator of the Housing and Home Finance Agency to make loans to public bodies to assist in financing urban mass transportation capital improvement projects. This authority was later transferred to the United States Department of Housing and Urban Development and then expanded in 1964 with the passage of the Urban Mass Transportation Act (the “UMT Act”). In 1968, the Secretary of the Department of Transportation (the “Secretary of Transportation”) was given the authority to administer the UMT Act and the Urban Mass Transportation Administration (the “UMTA”) was created within the United States Department of Transportation. The UMT Act was reauthorized in 1970, 1974, 1978, 1982, 1987, 1991, 1998 and most recently in 2005. Reauthorization in each of these years represents Congress’ approval to expend federal revenues on federal transportation programs.

In 1991, Congress passed the Intermodal Surface Transportation Efficiency Act (“ISTEA”) which made important changes to the UMTA, most notably, changing the name of the UMTA to the FTA. In 1994, the UMT Act was codified under Title 49 of the U.S. Code.

The most recent reauthorization legislation, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”) was signed into law in 2005 and extended authorization of the Federal Transit Program through Federal Fiscal Year (“FFY”) 2009. On September 30, 2009, SAFETEA-LU expired without enactment of a new six-year reauthorization program. In order to avoid a halt in the Federal-Aid Highway Program, Congress has enacted successive short term interim authorizations: the first extended SAFETEA-LU’s FFY 2009 funding levels through the end of October 2009, the second, enacted in late October 2009, extended FFY 2009 funding levels through December 18, 2009, the third extended FFY 2009 funding levels through February 28, 2010. On March 18, 2010, the President signed the Hiring Incentives to Restore Employment Act (the “HIRE Act”). The HIRE Act included an extension of surface transportation programs through December 31, 2010, restored SAFETEA-LU rescission, and established tax incentives for job creation. The fifth extension continued through September 30, 2011. On September 16, 2011, the President signed the Surface and Air Transportation Extension Act of 2011 (the “FAA/Surface Transportation Extension Act”). The FAA/Surface Transportation Extension Act includes a sixth extension of the surface transportation program through March 31, 2012.

Components of the Federal Transit Program authorized by SAFETEA-LU include the Urbanized Area Formula Program (the “Section 5307 Program”), 49 U.S.C. Section 5307, under which funds (“Section 5307 Formula Funds”) are made available to standard metropolitan statistical areas with populations greater than 50,000 population (each an “urbanized area”) to finance capital, operating and planning assistance for mass transportation and the Fixed Guideway Modernization Program (the “Section 5309 Program”), 49 U.S.C, Section 5309, under

which funds (“Section 5309 Formula Funds”) are made available for the modernization of existing rail systems.

SAFETEA-LU retained the “guarantee” of certain fixed levels of funding for transit that was contained in the previous authorization. These so-called “firewalls” were constructed around the transit funding to prevent such funding from being used for any other purpose. Originally, funding for surface transportation programs (highway and transit) was only one item among many on a list of discretionary priorities for federal spending in the budget. This was changed so that transit funding was “guaranteed” at a fixed amount throughout an authorization period and could be used only to support transit programs. Congress, through the annual budget process, may choose to raise the total funding level for transit programs by allocating part of another federal program’s budget to transit but, because of the established “firewall” around the Federal Transit Program, it may not use any of the “guaranteed” transit amount for any other federal program.

Under the Federal Transit Program, both contract and budget authority are required before revenues may be committed and spent. The authority is provided through a two-step process. The authorizing legislation provides contract authority, describes the purposes for the Federal Transit Program, and sets a proposed level of spending in advance of appropriations. Appropriations legislation provides the budget authority or legal ability to spend federal revenues.

The second step of the federal funding process occurs when revenues are appropriated and obligated for a specific purpose. FTA funds are allocated for transit purposes in several ways as specified in the authorizing legislation. Within ten days of the President’s signing of appropriation legislation, FTA publishes a notice in the Federal Register (the “Notice”) listing the amount apportioned for the several purposes of the Federal Transit Program, including amounts apportioned (i) to each urbanized area (in the case of Section 5307 Formula Funds), (ii) to certain areas which operate existing rail service (in the case of 5309 Formula Funds), and (iii) to each state (in the case of certain elderly/disabled and non-urbanized area programs). FTA also lists in the Notice specific Congressionally-mandated projects which have been allocated discretionary funds under 49 U.S.C. 5309 (including grants pursuant to full funding grant agreements) in the legislation itself.

Following submission of an application for funds by a public body and FTA approval of such application, FTA obligates federal funds for specific eligible projects and reserves those funds until expended by the grant recipient. This is the process through which FTA makes appropriated funds available to grant recipients under the various components of the Federal Transit Program.

The third step, program implementation, includes a wide range of activities which occur after FTA grant approval, largely on the part of the grant recipient, to undertake the project for which grant funds were made available and to seek federal reimbursement from such grant funds for eligible costs.

Funding of Federal Transit Program

The FTA administers payments under the Federal Transit Program through approved grants paid from the Mass Transit Account (the “MTA”), an account within the Highway Trust Fund (“HTF”). The “guaranteed” funding level provisions of SAFETEA-LU discussed above, assumed that approximately 80 percent of transit spending would derive from the MTA and the remaining percentage would derive from the General Fund of the U.S. Treasury. Using revenues in the MTA and the General Fund, the FTA makes grants to recipients for expenditures related to approved transit projects. The FTA distributes these revenues based on formulae, specific criteria and directives prescribed by federal law (see, for example, the description of the Section 5307 Program below).

The HTF is funded by collection of federally-imposed motor vehicle user fees, primarily fuel taxes, and is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the costs of transportation projects, including transit and highway projects. The HTF presently contains the Highway Account and the MTA. The MTA receives approximately 16 percent of federal gasoline tax revenues and 12 percent of federal diesel fuel tax revenues collected nationwide, with the remaining share of such revenues deposited in the Highway Account. The 18.4 cents per gallon of federal gasoline excise taxes are the largest revenue source for the HTF. Of this amount, 15.45 cents per gallon go to the Highway Account, while the remaining 2.95 cents per gallon go to the MTA.

Collections of HTF taxes (“HTF collections”) must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized for prescribed periods of time. The HTF has been reauthorized several times. Most recently, SAFETEA-LU authorized HTF collections through FFY 2011, thereby extending these collections two Federal Fiscal Years beyond the effective expiration of SAFETEA-LU.

Program Operations

General. The Section 5307 Program is a formula grant program for urbanized areas providing capital, operating (Section 5307 Formula Funds for operations are available only to urbanized areas with populations below 200,000; the Authority therefore does not qualify for funds related to operating assistance), and planning assistance for mass transportation. The Section 5307 Program was initiated by the Surface Transportation Act of 1982 and became FTA’s primary transit assistance program in FFY 1984. Funds are apportioned to urbanized areas utilizing a formula based on population, population density, and other factors associated with transit service and ridership.

The Section 5309 Program is a formula grant program providing capital assistance for the modernization of existing rail systems. Funds are allocated by a statutory formula to urbanized areas with rail systems that have been in operation for at least seven years.

Annual Apportionment of Funds. Funds are allocated for transit purposes specified in the authorizing legislation in several ways. Within ten days of the President’s signing of appropriation legislation, FTA publishes the Notice in the Federal Register listing, along with other information, the amount apportioned to each urbanized area (in the case of Section 5307

Formula Funds), and to certain areas which operate existing rail service (in the case of Section 5309 Formula Funds). Also included in the Notice are any changes to program implementation guidelines which will govern the grant application/award cycle and/or implementation of the Section 5307 Program or the Section 5309 Program after the grant awards have been made. The Authority receives a portion of the funds that are apportioned to the Chicago, Illinois/Northwestern Indiana Urbanized Area (the “Local Urbanized Area”).

Designated Recipient. For block grant purposes and to assure coordination of funds in each urbanized area, Section 5307 requires the Governor of each state to designate a recipient or recipients (each a “designated recipient”) to receive and dispense the Section 5307 Formula Funds. The Authority is a designated recipient of Section 5307 Formula Funds. The Authority is also a designated recipient of Section 5309 Formula Funds. For an urbanized region with more than one designated recipient, such as the Local Urbanized Area, the amounts available under the Federal Transit Program, as published in the FTA Notice, must be further allocated among the region’s designated recipients by the Metropolitan Planning Organization or Organizations (each a “MPO”) for the urbanized area. For the Local Urbanized Area, this process is completed by the Chicago Metropolitan Agency for Planning (“CMAP”) and the RTA.

Amount of Apportioned Funds. The amount of Section 5307 Formula Funds apportioned to each urbanized area is determined based on a formula comprised of the following two components. The first component is a Congressionally-mandated formula based on population and population density in urbanized areas. Different formulas apply to urbanized areas with populations of 200,000 or more and urbanized areas with populations less than 200,000. For urbanized areas over 200,000 in population, such as the Authority, funds flow directly to the designated recipient.

The second component determining the amount of Section 5307 Formula Funds is operating and service-related data compiled in strict accordance with requirements set forth in the legislatively-mandated National Transit Database (“NTD”). This summary of nation-wide transit data is compiled annually by FTA from operator-supplied, FTA-validated, individual reports containing extensive information about each transit property and the transit service it provides. Assuming no new transit service is added or dropped during the year, the yearly data submitted to FTA remains relatively constant and, consequently, the annual apportionment likewise remains relatively constant.

The formula for allocating Section 5309 Formula Funds contains seven tiers. The apportionment of funding under the first four tiers is based on amounts specified in law and NTD data used to apportion funds in FFY 1997. Funding under the last three tiers is apportioned based on the latest available data on route miles and revenue vehicle miles on segments at least seven years old, as reported to the NTD.

Grant Application Process. Once the Notice is published listing actual amounts of Section 5307 Formula Funds and Section 5309 Formula Funds available to each urbanized area and, in the case of designated recipients such as the Authority, the relevant MPO has made its allocation, eligible public bodies are able to electronically submit grant applications to the FTA. A typical grant application for Section 5307 Formula Funds and Section 5309 Formula Funds is made up of a “program of projects,” a line-item budget, and project implementation information.

The program of projects consists of a list of individual projects (i.e., lease/purchase of buses, construction of a facility, overhaul of locomotives, etc.) with brief descriptions of the work to be accomplished for each of the individual projects for which money is requested. During the application review process, the FTA confirms that required planning, environmental, and other necessary legal requirements have been satisfactorily fulfilled. Since 1995, the FTA has allowed grant applicants to self-certify compliance with many of the statutory requirements.

Obligation of Funds. When FTA has determined that all legal requirements have been met for the approval of a grant application, it obligates the requested funds in its main computer under a grant number unique to each designated recipient, thus reserving the funds for the approved projects. Funds are available to the designated recipient until expended.

Lapsing of Apportioned Funds. Funds apportioned to an urbanized area must be requested by the designated recipient in the area and obligated by FTA within three years following the year of apportionment. If such funds are not obligated within this time frame, the apportionment to the urbanized area lapses and the funds revert to FTA which reapportions them the following year. As stated above, however, once funds are obligated by FTA to a designated recipient, the funds remain available until spent by the designated recipient.

Program Implementation. Program implementation occurs after funds have been obligated by FTA to designated recipients in specific urbanized areas. Once funds have been authorized and obligated, designated recipients must have developed transit plans and programs which comply with applicable laws and regulations. This process has five stages: (1) Budgeting; (2) Planning; (3) Programming; (4) Grant Approval; and (5) Project Implementation, Fiscal Management and FTA Reimbursement.

Budgeting. Budgetary information about availability of capital funding is crucial to the development of transit capital programs. Projected state, federal and other funding levels are used to budget transportation needs. Transit operators must estimate the availability of short and long-term state, federal and other funding in order to plan their transit programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming.

Planning. The long-range planning process provides a comprehensive perspective of anticipated project needs statewide. Explicitly listed among the transit elements of such a transportation system is the replacement of overage vehicles, such as buses, rail cars and locomotives, at the end of their useful lives. Such plans are reviewed by the FTA and, where applicable, other state or federal agencies.

Current federal law requires that individual urbanized area Transportation Improvement Programs (each a "TIP") be developed from long-range plans and provide a detailed outline of projects that are proposed for implementation in the urbanized area within a five-year timeframe. The TIP, which includes both highway and transit projects, is developed by CMAP. The Authority's five-year capital plan, as approved by the Authority and RTA Boards, is one of the components to the TIP developed by CMAP. See "THE AUTHORITY – Capital Plan" in the Official Statement. CMAP is designated by the Governor of Illinois and northeastern Illinois

local officials as the region's MPO. CMAP consists of an executive committee, City of Chicago, Cook County and collar county appointees and agency representatives.

Specific transit projects are not eligible for federal reimbursement unless they are included in the TIP in a level of detail which includes the estimated project cost and the amount of federal revenues proposed to be obligated during each Federal Fiscal Year. Although not required by federal law, non-federal funds are also included in CMAP's TIP in order to give a complete picture of transportation initiatives for the five year period.

Programming. Programming is the annual process through which individual projects are selected and scheduled for implementation in a given year. A variety of projects are typically included in the list approved by the CTA Board, including rehabilitation of rail stations and bus maintenance facilities, scheduled vehicle replacements, annual lease payments, cyclical railroad track, bridge, signal and communication system improvements, construction of park/ride lots, computer enhancements, and many more. For those projects which are programmed to use federal funds, the approved project list forms the basis of the Authority's grant application to FTA.

Approved project lists may be amended through a process called reprogramming. Through reprogramming, the Authority may use Section 5307 Formula Funds or Section 5309 Formula Funds that have been obligated to the project or projects that are the subject of an approved grant application to provide reimbursement for projects that are the subject of a different approved grant application. Such reprogramming must be approved by the FTA.

Grant Approval. The FTA has implemented electronic grant making. Applicants input all necessary information into the FTA's computer system to which they are networked. The information is reviewed and approved by the FTA on-line. An "offer" of financial assistance, the federal commitment to reimburse the designated recipient for the federal share of eligible project costs, is extended on-line. In taking this action, FTA reserves the obligated amount in the MTA and "debits" the urbanized area apportionment. These funds cannot be used for any other purpose or by any other designated recipient.

Project Implementation, Fiscal Management and FTA Reimbursements. Once budgeting, planning, programming and the FTA approval have taken place, projects move into the implementation phase. During this phase, work to accomplish the project is undertaken, either by contractors or the designated recipient's own forces, invoices are submitted, reimbursement is requested and received from FTA and payments are made.

FTA reimbursement funds flow directly from the U.S. Treasury to the designated recipient's bank account via electronic transfer. This FTA reimbursement to the designated recipient liquidates its obligation for the federal share of the costs incurred to that point. The designated recipient is allowed to requisition funds if it has actually received an invoice for eligible expenses, if it expects to receive such an invoice within 30 days, or if a recurring payment is due within 30 days. The designated recipient is expected to time the request for funds, however, so that federal funds are not held in the designated recipient's bank account for more than three days.

Once it has approved a project and obligated funds for the work, the FTA does not normally insert itself into the implementation phase. Designated recipients are required to make purchases and perform construction in accordance with all applicable federal and state statutes, rules and regulations. Quarterly written reports and periodic on-site review meetings, designed to keep the FTA informed of progress and any problems, occur as work proceeds.

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APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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CHICAGO TRANSIT AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2010 and 2009
(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

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, 2010 and 2009, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 in the Notes to Financial Statements, the CTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Reporting for Derivative Instruments*, effective January 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 72 through 76 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended December 31, 2010 and 2009 were made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedules of expenses and revenues – budget and actual for the years ended December 31, 2010 and 2009 on pages 77 and 78 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Crowe Horwath LLP

Chicago, Illinois
May 5, 2011

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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, 2010 and 2009. 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 2010

- *Net assets totaled \$1,023,636,000 at December 31, 2010.*
- *Net assets decreased \$323,777,000 in 2010, which compares to a decrease of \$120,094,000 in 2009.*
- *Total net capital assets were \$3,919,828,000 at December 31, 2010, a decrease of 5.76% over the balance at December 31, 2009 of \$4,159,447,000.*

Financial Highlights for 2009

- *Net assets totaled \$1,347,413,000 at December 31, 2009.*
- *Net assets decreased \$120,094,000 in 2009, which compares to an increase of \$55,249,000 in 2008.*
- *Total net capital assets were \$4,159,447,000 at December 31, 2009, an increase of 3.50% over the balance at December 31, 2008 of \$4,018,650,000.*

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) balance sheet, (2) statement of revenues, expenses, and changes in net assets, (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.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Balance Sheet

The balance sheet reports all financial and capital resources for the CTA (excluding fiduciary activities). The statement is presented in the format where assets equal liabilities plus net assets, 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 balance sheet is to show a picture of the liquidity and health of the organization as of the end of the year.

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

- *Net Assets Invested in Capital Assets, Net of Related Debt*—This component of net assets consists of all capital assets, 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 Net Assets*—This component of net assets consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws, and regulations, etc.
- *Unrestricted Net Assets*—This component consists of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets 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 assets is the change in net assets. 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.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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.

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2010, 2009, and 2008:

Table 1
Summary of Assets, Liabilities, and Net Assets
December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 598,374	\$ 554,510	\$ 544,585
Capital Assets, net	3,919,828	4,159,447	4,018,650
Noncurrent assets	<u>2,364,646</u>	<u>1,928,852</u>	<u>2,289,199</u>
Total assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>	<u>\$ 6,852,434</u>
Liabilities:			
Current liabilities	\$ 500,418	\$ 549,538	\$ 604,035
Long-term liabilities	<u>5,358,794</u>	<u>4,745,858</u>	<u>4,780,892</u>
Total liabilities	<u>5,859,212</u>	<u>5,295,396</u>	<u>5,384,927</u>
Net assets:			
Invested in capital assets, net of related debt	2,800,054	3,054,994	3,065,848
Restricted for payment of leasehold obligations	39,485	35,917	40,940
Restricted for debt service	58,192	44,802	40,034
Unrestricted (unrestricted)	<u>(1,874,095)</u>	<u>(1,788,300)</u>	<u>(1,679,315)</u>
Total net assets	<u>1,023,636</u>	<u>1,347,413</u>	<u>1,467,507</u>
Total liabilities and net assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>	<u>\$ 6,852,434</u>

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Year Ended December 31, 2010

Current assets increased by 7.91% to \$598,374,000. The change in current assets is primarily due to an increase in cash and investments, partially offset by a decrease in material and supplies.

Capital assets (net) decreased by 5.76% to \$3,919,828,000 due to an increase in accumulated depreciation. 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 increased by 22.59% to \$2,364,646,000 primarily due to increased debt activity which resulted in an increase in bond proceeds held by trustee at year end.

Current liabilities decreased 8.94% to \$500,418,000 primarily due to a decrease in accounts payable and accrued expenses. Additionally, the current portion of bonds payable decreased due to the issuance of the 2010 series refunding bonds.

Long-term liabilities increased 12.92% to \$5,358,794,000. The change in long-term liabilities is primarily due to an increase in bonds payable related to new debt issued in 2010.

Net assets invested in capital assets, net of related debt 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 asset balances restricted for other purposes include amounts restricted for three 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 assets, which represent assets available for operations, increased 4.80% over the prior year.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Year Ended December 31, 2009

Current assets increased by 1.82% to \$554,510,000. The change in current assets is primarily due to an increase in cash and investments, partially offset by a decrease in receivables and materials and supplies.

Capital assets (net) increased by 3.50% to \$4,159,447,000 due to the CTA's investment in capital improvement 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 15.74% to \$1,928,852,000 primarily due to a decrease in bond proceeds held by trustee. During 2009, bond proceeds were used to finance capital improvements. Additionally, proceeds from the pension obligation bonds were used during 2009 to fund debt service requirements.

Current liabilities decreased 9.02% to \$549,538,000 primarily due to a decrease in accounts payable and accrued expenses.

Long-term liabilities decreased 0.73% to \$4,745,858,000. The change in long-term liabilities is primarily due to a decrease in capital lease and bond payable obligations, offset by an increase in other long-term liabilities. The increase in other long-term liabilities reflects the loan payable to RTA for \$56.1 million.

Net assets invested in capital assets, net of related debt 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 asset balances restricted for other purposes include amounts restricted for three 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 assets, which represent assets available for operations, increased 6.49% over the prior year.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2010, 2009, and 2008:

Table 2

Condensed Summary of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 548,311	\$ 564,514	\$ 510,776
Operating expenses:			
Operating expenses	1,165,499	1,251,197	1,194,390
Depreciation	429,827	398,288	403,248
Total operating expenses	<u>1,595,326</u>	<u>1,649,485</u>	<u>1,597,638</u>
Operating loss	(1,047,015)	(1,084,971)	(1,086,862)
Nonoperating revenues:			
Public funding from the RTA	701,615	626,349	641,832
Interest revenue from leasing transactions	113,539	105,692	118,962
Other nonoperating revenues	54,000	42,093	51,592
Total nonoperating revenues	869,154	774,134	812,386
Nonoperating expenses	<u>(310,348)</u>	<u>(273,087)</u>	<u>(188,795)</u>
Change in net assets before capital contributions	(488,209)	(583,924)	(463,271)
Capital contributions	<u>164,432</u>	<u>463,830</u>	<u>518,520</u>
Change in net assets	(323,777)	(120,094)	55,249
Total net assets, beginning of year	<u>1,347,413</u>	<u>1,467,507</u>	<u>1,412,258</u>
Total net assets, end of year	<u>\$ 1,023,636</u>	<u>\$ 1,347,413</u>	<u>\$ 1,467,507</u>

Year Ended December 31, 2010

Total operating revenues decreased by \$16,203,000, or 2.87% primarily due to decreases in advertising and other revenues. Advertising revenue decreased \$7,606,000 over the prior year due to the 2009 receipt of a termination settlement associated with the outsourced contract. Other revenue decreased \$12,063,000 over the prior year due to one-time revenue generated in 2009.

Farebox and pass revenue increased slightly over the prior year. CTA's average fare increased from \$0.970 in 2009 to \$0.990 in 2010, an increase of approximately 2.06%. The increase in average fare was offset by a 0.8% decline in ridership from 2009 to 2010. CTA's ridership continues to be negatively impacted by the national recession and increased unemployment.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

In 2010, CTA provided approximately 76.0 million free rides, an increase of 1.9 million or 2.61% over 2009. 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.

Total operating expenses decreased \$54,159,000, or 3.28%. The decrease is primarily driven by lower labor, fuel, and power expense. Labor expense decreased \$39,887,000 or 4.41% due to service reductions implemented in February 2010. CTA's workforce was reduced by approximately 10%, or more than 1,000 employees, in order to balance its 2010 budget. Fuel expense decreased \$48,476,000 due to favorable results from the fuel hedging program. In 2010, the average fuel price decreased \$1.84 to \$2.71 per gallon. Electric power decreased \$9,437,000 due to a negotiated electric supply contract that went into effect in January 2010. Materials expense decreased \$7,823,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. The provision for injuries and damages increased by \$9,425,000 due to increased settlements over the prior year.

Year Ended December 31, 2009

Total operating revenues increased by \$53,738,000, or 10.52% primarily due to increases in farebox and pass revenue. Farebox and pass revenue increased approximately \$34,614,000 or 7.35% over the prior year primarily due to a fare increase that was implemented January 1, 2009. CTA's average fare increased from \$0.895 in 2008 to \$0.970 in 2009, an increase of approximately 8.4%. The increase in average fare was offset by a 1.0% decline in ridership from 2008 to 2009. CTA's ridership was negatively impacted by the national recession and increased unemployment.

In 2009, CTA provided approximately 74.1 million free rides, an increase of 18.0 million or 32.0% over 2008. 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.

Total operating expenses increased \$51,847,000, or 3.25%. The increase is primarily driven by higher labor expense. Labor expense increased \$50,288,000 or 5.89% due to higher wages for union staff, as well as higher workers compensation, health insurance and pension costs. Materials expense decreased \$12,668,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. Fuel expense increased \$8,705,000 due to unfavorable results from the fuel hedging program. In 2009, the average fuel price increased \$0.73 to \$4.55 per gallon. Electric power increased \$2,203,000 due to faster speeds on the rail system from the reduction of slow zones. The provision for injuries and damages increased by \$7,679,000 due to increased settlements over the prior year.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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

Table 3
Operating Revenues and Expenses
Years ended December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Farebox revenue	\$ 261,987	\$ 266,987	\$ 250,994
Pass revenue	247,192	238,726	220,105
Total farebox and pass revenue	<u>509,179</u>	<u>505,713</u>	<u>471,099</u>
Advertising and concessions	22,609	30,215	27,661
Other revenue	16,523	28,586	12,016
Total operating revenues	<u>\$ 548,311</u>	<u>\$ 564,514</u>	<u>\$ 510,776</u>
Operating Expenses:			
Labor and fringe benefits	\$ 864,039	\$ 903,926	\$ 853,638
Materials and supplies	80,077	87,900	100,568
Fuel	52,063	100,539	91,834
Electric power	28,208	37,645	35,442
Purchase of security services	33,319	32,300	32,382
Other	82,971	73,490	72,808
Operating expense before provisions	1,140,677	1,235,800	1,186,672
Provision for injuries and damages	24,822	15,397	7,718
Provision for depreciation	429,827	398,288	403,248
Total operating expenses	<u>\$ 1,595,326</u>	<u>\$ 1,649,485</u>	<u>\$ 1,597,638</u>

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Capital Asset and Debt Administration

Capital Assets

The CTA invested \$8,909,628,000 (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, 2010. Net of accumulated depreciation, the CTA's capital assets at December 31, 2010 totaled \$3,919,828,000 (see Table 4). This amount represents a net decrease (including additions and disposals, net of depreciation) of \$239,619,000, or 5.76%, over the December 31, 2009 balance.

The CTA invested \$8,756,986,000 (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, 2009. Net of accumulated depreciation, the CTA's capital assets at December 31, 2009 totaled \$4,159,447,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of \$140,797,000, or 3.50%, over the December 31, 2008 balance.

Table 4
Capital Assets by Funding Source
December 31, 2010, 2009, and 2008
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Funding source:			
Federal (FTA)	\$ 5,939,524	\$ 5,848,838	\$ 5,404,290
State (principally IDOT)	601,619	605,111	601,976
RTA	1,874,878	1,822,519	1,803,146
CTA (generally prior to 1973)	124,854	124,854	124,854
Other	368,753	355,664	347,245
Total capital assets	<u>8,909,628</u>	<u>8,756,986</u>	<u>8,281,511</u>
Accumulated depreciation	<u>4,989,800</u>	<u>4,597,539</u>	<u>4,262,861</u>
Total capital assets, net	<u><u>\$ 3,919,828</u></u>	<u><u>\$ 4,159,447</u></u>	<u><u>\$ 4,018,650</u></u>

The year-over-year decrease in capital assets resulted primarily from reduced construction activity, an increase in funding used for preventative maintenance and payment of debt service obligations. Additional information on the capital assets can be found in note 6 of the audited financial statements.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

Debt Administration

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

At December 31, 2010, the CTA had \$1,751,559,000 in capital lease obligations outstanding, a slight increase from December 31, 2009. The bonds payable liability increased \$553,465,000 over the prior year due to two new bond issuances during 2010.

At December 31, 2009, the CTA had \$1,750,162,000 in capital lease obligations outstanding, a 1.7% decrease from December 31, 2008. The bonds payable liability decreased \$28,715,000 over the prior year.

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

2011 Budget and Economic Factors

On November 10, 2010, the CTA Board adopted an annual operating budget for fiscal year 2011. After adoption, the budget was submitted to and approved by the RTA on December 16, 2010. The 2011 budget is balanced at \$1,337,756,000, with no fare increase and no service reductions, representing a 5.2% increase over the 2010 budget.

The economy continues to challenge revenues in the face of increasing expenses. The main drivers of these expenses are increases due to contractual labor agreements for ATU and Craft Coalition employees, adding \$24 million to the budget; increases in healthcare, pension and other benefits totaling approximately \$74 million; and an increase in required payments of the pension obligation bond interest of \$30 million. To combat these increased expenses, management efficiencies were instituted to minimize costs wherever possible. These efficiencies include such measures as hiring control, requiring non-union employees to take six unpaid holidays and up to 12 unpaid furlough days, position elimination and continued use of our fuel and power hedging program.

System-generated revenue in 2011 is projected to be \$612.3 million, which is an increase versus the 2010 budget of 1.9%, or \$11.5 million. The CTA is projecting a corresponding increase in ridership due to holding fares steady, continued growth trends in rail ridership and a conservative projection that regional employment will modestly improve. With the continuation of mandated free rides for seniors, people with disabilities under the state's Circuit Breaker program, active military personnel and disabled veterans, the CTA estimates that it will provide 51 million free rides in 2011. This lost revenue continues to affect the bottom line to the Authority.

The CTA has been provided with a public funding mark for 2011 of \$529.3 million, an increase over the 2010 budget of 6.4%. These marks from the RTA are based on sales tax, Public Transportation Funds (PTF), and the City of Chicago's real estate transfer tax. These revenue sources are dependent on consumer spending and the real estate market. Experts predict that

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

2011 will continue to be a difficult year in both areas, as well as for the broader economy as a whole. Consumer confidence remains low while unemployment remains high. Economists are not expecting much of a recovery in the job market in 2011, if any recovery will be seen at all.

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.

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,

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009

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 Comptroller, P.O. Box 7565, Chicago, IL 60680-7565.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 111,579	\$ 59,542
Cash and cash equivalents restricted for damage reserve	102,361	85,090
Investments	<u>26,999</u>	<u>1,007</u>
Total cash, cash equivalents, and investments	<u>240,939</u>	<u>145,639</u>
Grants receivable:		
Due from the RTA	196,141	205,633
Capital improvement projects from federal and state sources	39	33
Unbilled work in progress	63,991	85,000
Other	<u>1,928</u>	<u>70</u>
Total grants receivable	<u>262,099</u>	<u>290,736</u>
Accounts receivable, net	23,773	19,443
Materials and supplies, net	63,522	92,805
Prepaid expenses and other assets	5,883	5,887
Derivative instrument	<u>2,158</u>	<u>-</u>
Total current assets	<u>598,374</u>	<u>554,510</u>
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	1,604,335	1,588,822
Bond proceeds held by trustee	674,100	250,334
Assets held by trustee for supplemental retirement plans	229	216
Net pension asset - supplemental retirement plans	19,853	20,301
Net pension asset - employee's retirement plan	37,834	44,012
Bond issue costs	<u>28,295</u>	<u>25,167</u>
Total other noncurrent assets	<u>2,364,646</u>	<u>1,928,852</u>
Capital assets:		
Capital assets not being depreciated	<u>535,062</u>	<u>679,791</u>
Capital assets being depreciated	8,374,566	8,077,195
Less accumulated depreciation	<u>(4,989,800)</u>	<u>(4,597,539)</u>
Total capital assets being depreciated, net	<u>3,384,766</u>	<u>3,479,656</u>
Total capital assets, net	<u>3,919,828</u>	<u>4,159,447</u>
Total noncurrent assets	<u>6,284,474</u>	<u>6,088,299</u>
Total assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 98,463	\$ 129,198
Accrued payroll, vacation pay, and related liabilities	101,964	90,717
Accrued interest payable	19,460	13,081
Advances, deposits, and other	9,511	10,032
Deferred passenger revenue	42,779	38,095
Other deferred revenue	4,029	2,507
Deferred operating assistance	30,821	30,583
Deferred inflow - derivatives	2,158	-
Current portion of long-term liabilities	<u>191,233</u>	<u>235,325</u>
Total current liabilities	<u>500,418</u>	<u>549,538</u>
Long-term liabilities:		
Self-insurance claims, less current portion	135,401	124,609
Capital lease obligations, less current portion	1,681,715	1,675,361
Bonds payable, less current portion	3,392,161	2,800,037
Certificates of participation payable, less current portion	61,515	66,887
Net pension obligation - supplemental retirement plans	16,269	16,707
Net other postemployment benefits obligation	2,874	1,666
Other long-term liabilities	<u>68,859</u>	<u>60,591</u>
Total long-term liabilities	<u>5,358,794</u>	<u>4,745,858</u>
Total liabilities	<u>5,859,212</u>	<u>5,295,396</u>
Net assets:		
Invested in capital assets, net of related debt	2,800,054	3,054,994
Restricted for payment of leasehold obligations	39,485	35,917
Restricted for debt service	58,192	44,802
Unrestricted (deficit)	<u>(1,874,095)</u>	<u>(1,788,300)</u>
Total net assets	<u>1,023,636</u>	<u>1,347,413</u>
Total liabilities and net assets	<u>\$ 6,882,848</u>	<u>\$ 6,642,809</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Fare box revenue	\$ 261,987	\$ 266,987
Pass revenue	<u>247,192</u>	<u>238,726</u>
Total fare box and pass revenue	<u>509,179</u>	<u>505,713</u>
Advertising and concessions	22,609	30,215
Other revenue	<u>16,523</u>	<u>28,586</u>
Total operating revenues	<u>548,311</u>	<u>564,514</u>
Operating expenses:		
Labor and fringe benefits	864,039	903,926
Materials and supplies	80,077	87,900
Fuel	52,063	100,539
Electric power	28,208	37,645
Purchase of security services	33,319	32,300
Maintenance and repairs, utilities, rent, and other	<u>82,971</u>	<u>73,490</u>
	1,140,677	1,235,800
Provisions for injuries and damages	24,822	15,397
Provision for depreciation	<u>429,827</u>	<u>398,288</u>
Total operating expenses	<u>1,595,326</u>	<u>1,649,485</u>
Operating expenses in excess of operating revenues	<u>(1,047,015)</u>	<u>(1,084,971)</u>
Nonoperating revenues (expenses):		
Public funding from the RTA	701,615	626,349
Reduced-fare subsidies	28,245	28,239
Operating grant revenue	9,330	2,521
Contributions from local government agencies	5,000	5,000
Investment income	4,619	1,971
Gain on sale of assets	2,544	100
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(191,568)	(155,745)
Interest revenue from leasing transactions	113,539	105,692
Interest expense on leasing transactions	<u>(118,780)</u>	<u>(117,342)</u>
Total nonoperating revenues, net	<u>558,806</u>	<u>501,047</u>
Change in net assets before capital contributions	<u>(488,209)</u>	<u>(583,924)</u>
Capital contributions	<u>164,432</u>	<u>463,830</u>
Change in net assets	<u>(323,777)</u>	<u>(120,094)</u>
Total net assets – beginning of year	<u>1,347,413</u>	<u>1,467,507</u>
Total net assets – end of year	<u>\$ 1,023,636</u>	<u>\$ 1,347,413</u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from fares	\$ 513,863	\$ 510,191
Payments to employees	(823,106)	(846,702)
Payments to suppliers	(300,593)	(376,187)
Other receipts	<u>35,803</u>	<u>65,991</u>
Net cash flows provided by (used in) operating activities	<u>(574,033)</u>	<u>(646,707)</u>
Cash flows from noncapital financing activities:		
Public funding from the RTA	711,345	684,916
Reduced-fare subsidies	28,245	28,239
Operating grant revenue	9,330	2,521
Contributions from local governmental agencies	<u>5,000</u>	<u>5,000</u>
Net cash flows provided by (used in) noncapital financing activities	<u>753,920</u>	<u>720,676</u>
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	113,539	105,692
Interest expense on bonds	(184,407)	(163,693)
Decrease in restricted assets for repayment of leasing commitments	(15,513)	24,613
Repayment of lease obligations	(117,383)	(147,039)
Proceeds from issuance of bonds	551,500	-
Proceeds from other long-term liabilities	8,525	57,002
Repayment of bonds payable	(5,127)	(33,609)
Repayment of other long-term liabilities	(257)	(274)
Bond issuance costs paid	(6,076)	-
Payments for acquisition and construction of capital assets	(196,348)	(586,812)
Proceeds from the sale of property and equipment	2,544	100
Capital grants	<u>183,576</u>	<u>458,807</u>
Net cash flows provided by (used in) capital and related financing activities	<u>334,573</u>	<u>(285,213)</u>
Cash flows from investing activities:		
Purchases of unrestricted investments	(26,999)	(1,007)
Proceeds from maturity of unrestricted investments	1,007	1,000
Restricted cash and investment accounts:		
Purchases and withdrawals	(909,091)	(249,533)
Proceeds from maturities and deposits	485,312	535,879
Investment revenue	<u>4,619</u>	<u>1,971</u>
Net cash flows provided by (used in) investing activities	<u>(445,152)</u>	<u>288,310</u>
Net increase (decrease) in cash and cash equivalents	69,308	77,066
Cash and cash equivalents – beginning of year	<u>144,632</u>	<u>67,566</u>
Cash and cash equivalents – end of year	<u>\$ 213,940</u>	<u>\$ 144,632</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Operating expenses in excess of operating revenues	\$ (1,047,015)	\$ (1,084,971)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	429,827	398,288
(Increase) decrease in assets:		
Accounts receivable	(4,330)	10,319
Materials and supplies	29,283	10,114
Prepaid expenses and other assets	4	(1,461)
Net pension asset	6,626	47,639
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(24,913)	(30,427)
Accrued payroll, vacation pay, and related liabilities	11,247	(4,739)
Self-insurance reserves	18,783	6,578
Deferred passenger revenue	4,684	4,478
Other deferred revenue	1,522	296
Advances, deposits, and other	(521)	(3,425)
Accrued pension costs and OPEB	770	604
Net cash flows used in operating activities	<u>\$ (574,033)</u>	<u>\$ (646,707)</u>
Noncash investing and financing activities:		
Recognition of leasing proceeds	\$ 4,262	\$ 4,262
Decrease in deferred revenue – leasing transactions	(4,262)	(4,262)
Accretion of interest on lease/leaseback obligations	109,970	108,310
Retirement of fully depreciated capital assets	38,955	65,073

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Assets:		
Contributions from employees	\$ 166	\$ 188
Investments at fair value:		
Short-term investments	6,160	5,861
Government agencies	14,319	4,590
Common stock	14,980	21,782
Total investments at fair value	<u>35,459</u>	<u>32,233</u>
Securities lending collateral	<u>11,031</u>	<u>8,503</u>
Total assets	<u>46,656</u>	<u>40,924</u>
Liabilities:		
Accounts payable and other liabilities	88	77
Securities lending collateral obligation	<u>11,031</u>	<u>8,503</u>
Total liabilities	<u>11,119</u>	<u>8,580</u>
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 72)	<u>\$ 35,537</u>	<u>\$ 32,344</u>

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	<u>2010</u>	<u>2009</u>
Additions:		
Contributions:		
Employee	\$ 572	\$ 2,011
Employer	<u>2,600</u>	<u>7,410</u>
Total contributions	<u>3,172</u>	<u>9,421</u>
Investment income:		
Net increase (decrease) in fair value of investments	2,302	2,499
Investment income	<u>782</u>	<u>187</u>
Total investment income	<u>3,084</u>	<u>2,686</u>
Total additions	<u>6,256</u>	<u>12,107</u>
Deductions:		
Benefits paid to participants or beneficiaries	2,833	1,696
Trust fees	<u>230</u>	<u>273</u>
Total deductions	<u>3,063</u>	<u>1,969</u>
Net increase	3,193	10,138
Net assets held in trust for pension benefits:		
Beginning of year	<u>32,344</u>	<u>22,206</u>
End of year	<u>\$ 35,537</u>	<u>\$ 32,344</u>

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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.

Financial Reporting Entity: 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 - ORGANIZATION (Continued)

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.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 balance sheet.

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.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the CTA applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and 2010, 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. Project, debt service reserve, and capitalized interest accounts are maintained associated with these issuances.

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.

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.

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

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$8,982,000 and \$18,397,000 during the years ended December 31, 2010 and 2009, 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:

	<u>Years</u>
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	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.

For the year ended December 31, 2010, the CTA implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. Implementation of this statement did not have a material affect on the CTA therefore prior periods were not required to be restated. 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)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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 balance sheets.

Bond Premiums and Issuance Cost: Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the bonds outstanding method.

Net Assets: Equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – 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 consists of net assets that are legally restricted 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 consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 assets or change in net assets.

Implementation of New Accounting Standards: For the year ended December 31, 2010, the CTA implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. For additional information, see the *Capital Assets* policy within note 2 above. Implementation of this statement did not have a material affect on the CTA.

For the year ended December 31, 2010, the CTA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governmental entities. Please refer to note 14 for information regarding the impact of this Statement on CTA's financial statements.

New Pronouncements: In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (the "transferor") engages a company or another government (the "operator") to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor's behalf. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

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*

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

In December 2010, GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

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 2010 and 2009, 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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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 deferred 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.

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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

The funding “marks” represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2009, the RTA amended the funding marks and directed the CTA to amend the budget. During 2010, no budget amendments were made.

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

	2010	2009
1983 Legislation Illinois state sales tax allocation	\$ 261,616	\$ 257,749
1983 Legislation RTA discretionary funding and other	97,648	89,086
2008 Legislation Illinois state sales tax allocation & PTF	115,575	118,409
2008 Legislation Real estate transfer tax	22,500	20,000
Other RTA working cash borrowing	-	56,147
Subtotal	497,339	541,391
RTA provision Capital - preventative maintenance	173,000	128,574
Total budgeted funding	670,339	669,965
Other Actual receipts in excess of budget	31,276	15,331
Final public funding	\$ 701,615	\$ 685,296

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 is shown as a long term liability in the financial statements. The borrowing was extended in 2011 and is projected to be repaid interest free in 2013.

Reduced-fare subsidies received from the State of Illinois were \$28,245,000 and \$28,239,000 during the years ended December 31, 2010 and 2009, respectively, for discounted services provided to the elderly, disabled, or student riders.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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 balance sheets of the business-type activities as follows as of December 31, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 111,579	\$ 59,542
Restricted for injury and damage reserve	102,361	85,090
Investments	26,999	1,007
Noncurrent assets:		
Bond proceeds held by trustee	674,100	250,334
Held by trustee for supplemental retirement plan	229	216
Total	<u>\$ 915,268</u>	<u>\$ 396,189</u>

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Investments:		
Certificates of deposit	\$ 4,020	\$ 4,029
Money market mutual funds	53,631	220,467
U.S. government agencies	292,225	79,019
U.S. Treasury bills	338,283	20,811
Commercial paper	213,180	56,947
Total Investments	<u>901,339</u>	<u>381,273</u>
Deposits with financial institutions	<u>13,929</u>	<u>14,916</u>
Total deposits and investments	<u>\$ 915,268</u>	<u>\$ 396,189</u>

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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.
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.

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, 2010 and 2009, the CTA's bank balances were fully insured or collateralized.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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	180 days
U.S. Government obligations	3 years
Federal National Mortgage Assn.	3 years
Mutual funds	n.a.
Investment pool	n.a.

As of December 31, 2010, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment maturities (by years)	
		Less than 1	1-5
Money market mutual funds	\$ 53,631	\$ 53,631	\$ -
U.S. government agencies	292,225	292,225	-
U.S. treasury bills	338,293	338,293	-
Commercial paper	213,180	213,180	-
Total	\$ 897,329	\$ 897,329	\$ -

As of December 31, 2009, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment maturities (by years)	
		Less than 1	1-5
Money market mutual funds	\$ 220,467	\$ 220,467	\$ -
U.S. government agencies	79,019	79,019	-
U.S. treasury bills	20,811	20,811	-
Commercial paper	56,947	56,947	-
Total	\$ 377,244	\$ 377,244	\$ -

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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, 2010, the CTA 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			
		A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	\$ 53,631	\$ -	\$ -	\$ -	\$ 53,631
U.S. government agencies	292,225	248,596	-	-	43,629
U.S. treasury bills	338,293	338,293	-	-	-
Commercial paper	213,180	213,180	-	-	-
Total	<u>\$ 897,329</u>	<u>\$800,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,260</u>

As of December 31, 2009, the CTA 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			
		A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	\$ 220,467	\$ -	\$ -	\$ -	\$ 220,467
U.S. government agencies	79,019	14,013	-	-	65,006
U.S. treasury bills	20,811	20,811	-	-	-
Commercial paper	56,947	56,947	-	-	-
Total	<u>\$ 377,244</u>	<u>\$ 91,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,473</u>

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010 and 2009

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

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.

As of December 31, 2010, the CTA did not have any investments in a single issuer that exceeded 5 percent of the total investment balance. As of December 31, 2009, more than 5 percent of the CTA's investments are in Giro Balanced Funding Corporation commercial paper, Three Pillars Funding, LLC commercial paper, and the Federal Home Loan Bank. These investments are 7.40%, 5.97% and 16.79%, respectively, of the CTA's total investments.

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, 2010 and 2009 (in thousands of dollars):

	2010	2009
Investments, at fair value:		
Short-term investments	\$ 6,160	\$ 5,861
Government agency commingled funds	14,319	4,590
Common stock	14,980	21,782
Total	\$ 35,459	\$ 32,233

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

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	55.00%
U.S. small cap equities	10.00
Non-U.S. equities	10.00
U.S. fixed income	25.00
	100.00%

As of December 31, 2010, 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	\$ 6,160	\$ 6,160	\$ -
U.S. government agency commingled funds	14,319	14,319	-
Total	\$ 20,479	\$ 20,479	\$ -

As of December 31, 2009, the maturities for the Plan's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment Maturities (in years)	
		Less than 1	1 - 5
Short-term investment funds	\$ 5,861	\$ 5,861	\$ -
U.S. government agency commingled funds	4,590	4,590	-
Total	\$ 10,451	\$ 10,451	\$ -

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, 2010, 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	\$ 6,160	\$ -	\$ 6,160
U.S. government agency commingled funds	14,319	14,319	-
Total	\$ 20,479	\$ 14,319	\$ 6,160

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

As of December 31, 2009, 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	\$ 5,861	\$ -	\$ 5,861
U.S. government agency commingled funds	4,590	4,590	-
Total	\$ 10,451	\$ 4,590	\$ 5,861

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 \$2,315,000 and \$1,668,000 as of December 31, 2010 and 2009, 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 \$10,758,000 and \$8,250,000 as of December 31, 2010 and 2009, respectively. The fair value of the associated collateral received was approximately \$11,031,000 and \$8,503,000 as of December 31, 2010 and 2009, respectively.

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 \$202,470,000 and \$255,008,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2010 and 2009, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately \$283,531,000 and \$125,620,000 have been entered into for these state and local capital grants as of December 31, 2010 and 2009, respectively.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 6 - CAPITAL ASSETS (Continued)

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Funding source:		
Federal (FTA)	\$ 5,939,524	\$ 5,848,838
State (principally IDOT)	601,619	605,111
RTA	1,874,878	1,822,519
CTA (generally prior to 1973)	124,854	124,854
Other	368,753	355,664
Total	<u>\$ 8,909,628</u>	<u>\$ 8,756,986</u>

Changes in capital assets for the year ended December 31, 2010 are as follows (in thousands of dollars):

	<u>Balance at January 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2010</u>
Capital assets not being depreciated:				
Land	\$ 118,512	\$ 1,595	\$ (1,387)	\$ 118,720
Construction in process	561,279	188,615	(333,552)	416,342
Total capital assets not being depreciated	<u>679,791</u>	<u>190,210</u>	<u>(334,939)</u>	<u>535,062</u>
Capital assets being depreciated:				
Land improvements	24,304	1,047	-	25,351
Buildings	2,199,614	92,748	(3,537)	2,288,825
Transportation vehicles	2,397,236	40,248	(30,964)	2,406,520
Elevated structure track	1,760,764	108,300	(24)	1,869,040
Signal and communication	1,120,303	73,410	(882)	1,192,831
Other equipment	574,974	19,186	(2,161)	591,999
Total capital assets being depreciated	<u>8,077,195</u>	<u>334,939</u>	<u>(37,568)</u>	<u>8,374,566</u>
Less accumulated depreciation for:				
Land improvements	17,319	1,929	-	19,248
Buildings	889,359	84,243	(3,537)	970,065
Transportation vehicles	1,615,504	153,069	(30,961)	1,737,612
Elevated structure track	987,745	91,261	(24)	1,078,982
Signal and communication	617,589	60,883	(882)	677,590
Other equipment	470,023	38,442	(2,162)	506,303
Total accumulated depreciation	<u>4,597,539</u>	<u>429,827</u>	<u>(37,566)</u>	<u>4,989,800</u>
Total capital assets being depreciated, net	<u>3,479,656</u>	<u>(94,888)</u>	<u>(2)</u>	<u>3,384,766</u>
Total capital assets, net	<u>\$ 4,159,447</u>	<u>\$ 95,322</u>	<u>\$ (334,941)</u>	<u>\$ 3,919,828</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2009 are as follows (in thousands of dollars):

	<u>Balance at January 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2009</u>
Capital assets not being depreciated:				
Land	\$ 119,938	\$ 48	\$ (1,474)	\$ 118,512
Construction in process	904,892	540,547	(884,160)	561,279
Total capital assets not being depreciated	<u>1,024,830</u>	<u>540,595</u>	<u>(885,634)</u>	<u>679,791</u>
Capital assets being depreciated:				
Land improvements	22,280	2,024	-	24,304
Buildings	1,911,175	290,233	(1,794)	2,199,614
Transportation vehicles	2,184,702	266,011	(53,477)	2,397,236
Elevated structure track	1,570,949	190,099	(284)	1,760,764
Signal and communication	1,012,639	108,391	(727)	1,120,303
Other equipment	554,936	27,369	(7,331)	574,974
Total capital assets being depreciated	<u>7,256,681</u>	<u>884,127</u>	<u>(63,613)</u>	<u>8,077,195</u>
Less accumulated depreciation for:				
Land improvements	15,045	2,274	-	17,319
Buildings	810,779	80,374	(1,794)	889,359
Transportation vehicles	1,515,658	153,323	(53,477)	1,615,504
Elevated structure track	924,573	63,456	(284)	987,745
Signal and communication	559,757	58,559	(727)	617,589
Other equipment	437,049	40,302	(7,328)	470,023
Total accumulated depreciation	<u>4,262,861</u>	<u>398,288</u>	<u>(63,610)</u>	<u>4,597,539</u>
Total capital assets being depreciated, net	<u>2,993,820</u>	<u>485,839</u>	<u>(3)</u>	<u>3,479,656</u>
Total capital assets, net	<u>\$ 4,018,650</u>	<u>\$ 1,026,434</u>	<u>\$ (885,637)</u>	<u>\$ 4,159,447</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2010 are as follows (in thousands of dollars):

	Balance at January 1, 2010	Additions	Reductions	Balance at December 31, 2010	Amount due beyond one year	Amount due within one year
Self insurance claims (note 13)	\$ 203,444	\$ 226,465	\$ (207,682)	\$ 222,227	\$ 135,401	\$ 86,826
Capital lease obligations:						
Capital lease obligations (note 8)	1,750,162	109,970	(108,573)	1,751,559	1,652,524	99,035
Premium on capital lease obligation	6,904	-	(481)	6,423	6,423	-
Deferred loss on cap. lease ref. (note 8)	(1,843)	-	162	(1,681)	(1,681)	-
Deferred rev. – leasing trans. (note 8)	28,711	-	(4,262)	24,449	24,449	-
Total capital lease obligations	<u>1,783,934</u>	<u>109,970</u>	<u>(113,154)</u>	<u>1,780,750</u>	<u>1,681,715</u>	<u>99,035</u>
Bonds payable:						
Bonds payable (note 9)	2,794,550	640,715	(87,615)	3,347,650	3,347,650	-
Premium on bonds payable	48,277	7,043	(11,174)	44,146	44,146	-
Deferred gain on bond refunding (note 9)	-	548	(183)	365	365	-
Total bonds payable	<u>2,842,827</u>	<u>648,306</u>	<u>(98,972)</u>	<u>3,392,161</u>	<u>3,392,161</u>	<u>-</u>
Certificates of Participation (note 10)	72,014	-	(5,127)	66,887	61,515	5,372
Net pension obligation (note 11)	16,707	-	(438)	16,269	16,269	-
Net OPEB obligation (note 12)	1,666	1,208	-	2,874	2,874	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	56,147	-	-	56,147	56,147	-
Other	4,444	8,525	(257)	12,712	12,712	-
Total other long-term liabilities	<u>60,591</u>	<u>8,525</u>	<u>(257)</u>	<u>68,859</u>	<u>68,859</u>	<u>-</u>
Total	<u>\$ 4,981,183</u>	<u>\$ 994,474</u>	<u>\$ (425,630)</u>	<u>\$ 5,550,027</u>	<u>\$ 5,358,794</u>	<u>\$ 191,233</u>

Changes in long-term obligations for the year ended December 31, 2009 are as follows (in thousands of dollars):

	Balance at January 1, 2009	Additions	Reductions	Balance at December 31, 2009	Amount due beyond one year	Amount due within one year
Self insurance claims (note 13)	\$ 196,866	\$ 253,756	\$ (247,178)	\$ 203,444	\$ 124,609	\$ 78,835
Capital lease obligations:						
Capital lease obligations (note 8)	1,779,859	108,310	(138,007)	1,750,162	1,641,589	108,573
Premium on capital lease obligation	7,396	-	(492)	6,904	6,904	-
Deferred loss on cap. lease ref. (note 8)	(2,009)	-	166	(1,843)	(1,843)	-
Deferred rev. – leasing trans. (note 8)	32,973	-	(4,262)	28,711	28,711	-
Total capital lease obligations	<u>1,818,219</u>	<u>108,310</u>	<u>(142,595)</u>	<u>1,783,934</u>	<u>1,675,361</u>	<u>108,573</u>
Bonds payable:						
Bonds payable (note 9)	2,823,265	-	(28,715)	2,794,550	2,751,760	42,790
Premium on bonds payable	54,146	-	(5,869)	48,277	48,277	-
Total bonds payable	<u>2,877,411</u>	<u>-</u>	<u>(34,584)</u>	<u>2,842,827</u>	<u>2,800,037</u>	<u>42,790</u>
Certificates of Participation (note 10)	76,908	-	(4,894)	72,014	66,887	5,127
Net pension obligation (note 11)	17,335	-	(628)	16,707	16,707	-
Net OPEB obligation (note 12)	434	1,232	-	1,666	1,666	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	-	56,147	-	56,147	56,147	-
Other	3,863	855	(274)	4,444	4,444	-
Total other long-term liabilities	<u>3,863</u>	<u>57,002</u>	<u>(274)</u>	<u>60,591</u>	<u>60,591</u>	<u>-</u>
Total	<u>\$ 4,991,036</u>	<u>\$ 420,300</u>	<u>\$ (430,153)</u>	<u>\$ 4,981,183</u>	<u>\$ 4,745,858</u>	<u>\$ 235,325</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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 at an estimated aggregate cost of \$120,522,624. The terms of the 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, beginning on December 1, 2008. The present value of the future payments to be made by the CTA under the lease of approximately \$103,371,000 is reflected in the accompanying December 31, 2010 balance sheet 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 \$1,681,000 is recorded as a component of long-term debt in the accompanying balance sheets.

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. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately \$83,340,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 \$11,214,000 at December 31, 2010. 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 \$16,686,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

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 \$16,383,000 at December 31, 2010. 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. The present value of the future payments to be made by the CTA under the lease of approximately \$121,631,000 is reflected in the accompanying December 31, 2010 balance sheet 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 \$7,147,000 at December 31, 2010. 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. The present value of the future payments to be made by the CTA under the lease of approximately \$91,377,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

During 1998, the CTA entered into a lease and leaseback agreement (the 1998 Agreement) with a third party pertaining to a rail line (green line), with a book value of \$223,719,000 at December 31, 2010. The 1998 Agreement, which provides certain cash and tax benefits to the third party, 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). The present value of the future payments to be made by the CTA under the lease of approximately \$182,215,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 \$45,897,000 at December 31, 2010. 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 \$40,354,000 is reflected in the accompanying December 31, 2010 balance sheet 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 defer recognition of the proceeds over the remaining lease term.

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 \$47,828,000 at December 31, 2010. 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 \$40,343,000 is reflected in the accompanying December 31, 2010 balance sheet 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 defer 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 totaling \$487,100,000 at cost for a period of nineteen years beginning on the date of the respective transaction. At December 31, 2010, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling \$1,072,242,000. 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2010 are as follows (in thousands of dollars):

<u>2010</u>	<u>Beginning balance</u>	<u>Additions*</u>	<u>Principal paid</u>	<u>Ending balance</u>	<u>Interest paid</u>	<u>Due in one year</u>
2003 (Buses)	\$ 16,112	\$ 574	\$ -	\$ 16,686	\$ 574	\$ 1,255
2002 (Buses)	117,236	5,909	(1,514)	121,631	5,909	767
2002 (QTE)	85,922	5,455	-	91,377	5,455	-
1998 (Green)	201,316	13,712	(32,813)	182,215	13,712	22,304
1997 (Garages)	37,531	2,823	-	40,354	2,823	-
1996 (Skokie/Racine)	37,581	2,762	-	40,343	2,762	-
1995 (Pickle)	1,057,205	78,735	(63,698)	1,072,242	78,735	63,698
Total lease/leasebacks	<u>1,552,903</u>	<u>109,970</u>	<u>(98,025)</u>	<u>1,564,848</u>	<u>109,970</u>	<u>88,024</u>
2006 PBC lease	85,295	-	(1,955)	83,340	4,233	2,035
2008 Bus Lease	111,964	-	(8,593)	103,371	4,844	8,976
Total capital lease obligation	<u>\$ 1,750,162</u>	<u>\$ 109,970</u>	<u>\$ (108,573)</u>	<u>\$ 1,751,559</u>	<u>\$ 119,047</u>	<u>\$ 99,035</u>

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2009 are as follows (in thousands of dollars):

<u>2009</u>	<u>Beginning balance</u>	<u>Additions*</u>	<u>Principal paid</u>	<u>Ending balance</u>	<u>Interest paid</u>	<u>Due in one year</u>
2003 (Buses)	\$ 15,557	\$ 555	\$ -	\$ 16,112	\$ 555	\$ -
2002 (Buses)	111,611	5,625	-	117,236	5,625	1,514
2002 (QTE)	80,793	5,129	-	85,922	5,129	-
1998 (Green)	251,355	14,164	(64,203)	201,316	14,164	32,813
1997 (Garages)	34,906	2,625	-	37,531	2,625	-
1996 (Skokie/Racine)	35,008	2,573	-	37,581	2,573	-
1995 (Pickle)	1,043,264	77,639	(63,698)	1,057,205	77,639	63,698
Total lease/leasebacks	<u>1,572,494</u>	<u>108,310</u>	<u>(127,901)</u>	<u>1,552,903</u>	<u>108,310</u>	<u>98,025</u>
2006 PBC lease	87,175	-	(1,880)	85,295	4,310	1,955
2008 Bus Lease	120,190	-	(8,226)	111,964	5,210	8,593
Total capital lease obligation	<u>\$ 1,779,859</u>	<u>\$ 108,310</u>	<u>\$ (138,007)</u>	<u>\$ 1,750,162</u>	<u>\$ 117,830</u>	<u>\$ 108,573</u>

* Additions include accretion of interest.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Future Minimum Lease Payments: As of December 31, 2010, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2011	\$	107,650
2012		106,444
2013		186,066
2014		177,709
2015		100,156
2016 – 2020		1,623,350
2021 – 2025		241,684
2026 – 2030		30,939
2031 – 2035		<u>18,564</u>
Total minimum lease payments		2,592,562
Less interest		<u>841,003</u>
		<u><u>\$ 1,751,559</u></u>

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 6,786	\$ 6,786
2012	23,545	6,173	29,718
2013	24,780	4,905	29,685
2014	26,085	3,602	29,687
2015	27,385	2,232	29,617
2016	28,820	757	29,577
Total	<u>\$ 130,615</u>	<u>\$ 24,455</u>	<u>\$ 155,070</u>

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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 12,024	\$ 12,024
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	<u>\$ 240,440</u>	<u>\$ 95,789</u>	<u>\$ 336,229</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

2008 Series (5309 Fixed Guideway Modernization Program) and 2008A Series (5307 Urbanized Area Formula Program) Capital Grant Receipts Revenue Bonds: 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.

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

	<u>2008 (5309)</u>		<u>2008A (5307)</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 6,959	\$ -	\$ 5,250	\$ -	\$ 12,209
2012	6,460	6,813	-	5,250	6,460	12,063
2013	6,750	6,515	-	5,250	6,750	11,765
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	5,250	28,395	8,007
2023	10,935	2,197	18,955	4,305	29,890	6,502
2024	11,510	1,608	19,950	3,310	31,460	4,918
2025	12,115	987	20,995	2,262	33,110	3,249
2026	12,750	335	22,095	1,160	34,845	1,495
Total	<u>\$ 137,770</u>	<u>\$ 67,004</u>	<u>\$ 100,000</u>	<u>\$ 74,037</u>	<u>\$ 237,770</u>	<u>\$ 141,041</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 8,649	\$ 8,649
2012	7,395	8,464	15,859
2013	7,765	8,085	15,850
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	<u>\$ 161,255</u>	<u>\$ 83,733</u>	<u>\$ 244,988</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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 post employment 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 to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009.

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.8%. 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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 131,367	\$ 131,367
2012	10,020	131,367	141,387
2013	25,720	130,854	156,574
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	<u>\$ 1,936,855</u>	<u>\$ 2,719,981</u>	<u>\$ 4,656,836</u>

2010A Sales Tax Receipts Revenue Bonds and Taxable Series 2010B Sales Tax Receipts Revenue Bonds (Build America Bonds): 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.

The Series 2010A and 2010B bonds bear interest ranging from 4.0% to 5.62%. Scheduled interest on the 2010 bonds will be 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>2010A</u>		<u>2010B</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 2,179	\$ -	\$ 30,798	\$ -	\$ 32,977
2012	-	2,179	-	30,798	-	32,977
2013	-	2,179	-	30,798	-	32,977
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
	<u>\$ 44,645</u>	<u>\$ 15,891</u>	<u>\$ 505,355</u>	<u>\$ 703,181</u>	<u>\$ 550,000</u>	<u>\$ 719,072</u>

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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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 Statement of Net Assets. 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 balance of the defeased debt as of December 31, 2010 was \$44,825,000.

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 ending balance for the year ended December 31, 2010 was \$365,177. Amortization of the deferred amount on the refunding was \$182,589 for the year ended December 31, 2010.

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

	<u>2010 5307</u>		<u>2010 5309</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 3,301	\$ -	\$ 1,386	\$ -	\$ 4,687
2012	-	3,195	-	1,341	-	4,536
2013	-	3,195	-	1,341	-	4,536
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	3,195	13,085	1,341	44,255	4,536
2028	32,725	1,636	13,735	687	46,460	2,323
	<u>\$ 63,895</u>	<u>\$ 56,057</u>	<u>\$ 26,820</u>	<u>\$ 23,529</u>	<u>\$ 90,715</u>	<u>\$ 79,586</u>

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 9 - BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 208,699	\$ 208,699
2012	56,940	207,421	264,361
2013	74,915	204,582	279,497
2014	78,730	200,763	279,493
2015	88,680	196,431	285,111
2016-2020	503,275	907,740	1,411,015
2021-2025	542,650	760,306	1,302,956
2026-2030	560,745	587,649	1,148,394
2031-2035	595,005	411,656	1,006,661
2036-2040	846,710	178,410	1,025,120
	<u>\$ 3,347,650</u>	<u>\$ 3,863,657</u>	<u>\$ 7,211,307</u>

NOTE 10 – CERTIFICATES OF PARTICIPATION

In August 2008, the Bank of New York Mellon issued Certificates of Participation (COP) totaling \$78,430,000 on behalf of the CTA with an interest rate of 4.725%. 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 with the Bank of New York Mellon. 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 to the Bank of New York Mellon which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. The total principal and interest remaining to be paid on the COPs as of December 31, 2010, is \$84,702,000. Principal and interest paid in 2010 was approximately \$8,470,000. As of December 31, 2010, debt service requirements to maturity are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,372	\$ 3,098	\$ 8,470
2012	5,629	2,841	8,470
2013	5,898	2,572	8,470
2014	6,180	2,290	8,470
2015	6,476	1,994	8,470
2016	6,786	1,684	8,470
2017	7,110	1,360	8,470
2018	7,450	1,020	8,470
2019	7,807	663	8,470
2020	8,179	293	8,472
	<u>\$ 66,887</u>	<u>\$ 17,815</u>	<u>\$ 84,702</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

Employees' Plan: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by Illinois state statute (40 ILCS 5/22-101).

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees hired prior to September 5, 2001, who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, but prior to January 18, 2008, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. Employees hired 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. The 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, 2010 and 2009 was \$567,173,000 and \$578,521,000, respectively. The Employees' Plan issues a separate stand-alone financial report and 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 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.

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CHICAGO TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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. Approximately 70 members have elected to participate in the VTP.

For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities increased from \$51.35 million at January 1, 2010, to \$55.71 million at January 1, 2011. The key factors causing the increase in actuarial liabilities include: expected growth, and demographic losses including members retiring earlier than expected.

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, 2010 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	104	419	20
Terminated employees entitled to but not yet receiving benefits	11	8	5
Active plan members	36	-	7
Total	<u>151</u>	<u>427</u>	<u>32</u>

Participants in the supplemental retirement plans at December 31, 2009 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	80	424	20
Terminated employees entitled to but not yet receiving benefits	11	8	5
Active plan members	60	-	7
Total	<u>151</u>	<u>432</u>	<u>32</u>

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2010 and 2009 was \$4,259,000 and \$7,265,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was \$200,000 for the fiscal years ended December 31, 2010 and 2009.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy and Annual Pension Cost: 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):

	<u>Employees' Plan Pension</u>	<u>Open Supplemental</u>	<u>Closed Supplemental</u>	<u>Board Plan</u>
Contribution rates:				
CTA	10.69%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	8.345%	None	None	None
Annual pension cost (APC)	\$63,452	\$3,049	\$2,803	\$347
Actual 2010 contributions:				
CTA	\$57,274	\$2,600	\$3,259	\$329
Plan members	\$45,026	\$0	\$0	\$12
Actuarial valuation date	January 1, 2010	January 1, 2010	January 1, 2010	January 1, 2010
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	19 years - Closed	11 years - Closed	30 years - Open
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	8.75%	7.0%	6.0%	6.0%
Projected salary increases	1.50 - 5.0%	5.5%	N/A	0%
Includes inflation at	1.50 - 4.0%	0%	N/A	N/A

The short-term salary increase and inflation assumptions for the Employees' Plan were updated to reflect the current economic environment, current furlough 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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2010 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	\$ 63,451	\$ 2,577	\$ 3,770	\$ 360
Interest on NPO	(3,851)	(1,422)	924	79
Adjustment to ARC	3,852	1,893	(1,891)	(92)
Annual pension cost	63,452	3,048	2,803	347
Contributions made	57,274	2,600	3,259	329
Increase (decrease) in NPO	6,178	448	(456)	18
NPO – December 31, 2009	(44,012)	(20,301)	15,393	1,314
NPO – December 31, 2010	<u>\$ (37,834)</u>	<u>\$ (19,853)</u>	<u>\$ 14,937</u>	<u>\$ 1,332</u>

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2009 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	\$ 88,422	\$ 2,410	\$ 3,635	\$ 288
Interest on NPO	(8,433)	(1,246)	962	78
Adjustment to ARC	8,436	1,521	(1,852)	(92)
Annual pension cost	88,425	2,685	2,745	274
Contributions made	36,061	7,410	3,381	266
Increase (decrease) in NPO	52,364	(4,725)	(636)	8
NPO – December 31, 2008	(96,376)	(15,576)	16,029	1,306
NPO – December 31, 2009	<u>\$ (44,012)</u>	<u>\$ (20,301)</u>	<u>\$ 15,393</u>	<u>\$ 1,314</u>

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>Year ended</u>	<u>Annual pension cost (APC)</u>	<u>Actual contributions</u>	<u>Percentage of APC contributed</u>	<u>Net pension (asset)/ obligation</u>
Employees' Plan Pension	December 31, 2010	\$ 63,452	\$ 57,274	90.3%	\$ (37,834)
	December 31, 2009	88,425	36,061	40.8	(44,012)
	December 31, 2008	178,941	1,165,909	651.6	(96,376)
Open Supplemental Plan	December 31, 2010	\$ 3,048	\$ 2,600	85.3%	\$ (19,853)
	December 31, 2009	2,685	7,410	276.0	(20,301)
	December 31, 2008	271	8,000	2,952.0	(15,576)
Closed Supplemental Plan	December 31, 2010	\$ 2,803	\$ 3,259	116.3%	\$ 14,937
	December 31, 2009	2,745	3,381	123.2	15,393
	December 31, 2008	2,772	3,459	124.8	16,029
Board Supplemental Plan	December 31, 2010	\$ 347	\$ 329	94.8%	\$ 1,332
	December 31, 2009	274	266	97.1	1,314
	December 31, 2008	268	263	98.1	1,306

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan – Pension as of January 1, 2010, and the three supplemental plans as of January 1, 2011, the most recent actuarial valuation dates (in thousands of dollars):

	<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>Percentage of covered payroll ((b-a)/c)</u>
Employees' Plan - Pension	1/1/2010	\$ 1,936,849	\$ 2,588,462	\$ 651,613	74.8%	\$ 567,173	114.9%
Open Supplemental Plan	1/1/2011	35,626	55,705	20,079	64.0%	4,259	471.4%
Closed Supplemental Plan	1/1/2011	-	32,045	32,045	0.0%	N/A	N/A
Board Supplemental Plan	1/1/2011	47	4,773	4,726	1.0%	200	2363.0%

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - 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 retiree 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.

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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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - 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, 2010 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	\$ 1,785
Interest on net OPEB obligation	75
Adjustment to ARC	<u>(122)</u>
Annual OPEB cost	1,738
Contributions made	530
Increase (decrease) in net OPEB obligation	1,208
Net OPEB obligation – December 31, 2009	1,666
Net OPEB obligation – December 31, 2010	<u><u>\$ 2,874</u></u>

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, 2009 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	\$ 1,645
Interest on net OPEB obligation	19
Adjustment to ARC	<u>(29)</u>
Annual OPEB cost	1,635
Contributions made	404
Increase (decrease) in net OPEB obligation	1,231
Net OPEB obligation – December 31, 2008	435
Net OPEB obligation – December 31, 2009	<u><u>\$ 1,666</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows (dollar amounts in thousands):

Supplemental and Board Plan:

<u>Fiscal Year Ended</u>	<u>OPEB Cost</u>	<u>Percent OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,738	30.5%	\$ 2,874
2009	1,635	24.6%	1,666
2008	505	57.9%	435

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

As of January 1, 2010 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$18,967,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,967,000. The covered payroll (annual payroll of active employees covered by the plan) was \$3,580,000, and the ratio of the UAAL to the covered payroll was 529.8 percent.

As of January 1, 2009, the plan was not funded. The actuarial accrued liability for benefits was \$16,830,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,830,000. The covered payroll (annual payroll of active employees covered by the plan) was \$4,420,000, and the ratio of the UAAL to the covered payroll was 380.8 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, 2009, and January 1, 2010, 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, reduced by 0.75 percent per year until an ultimate rate of 5.0 percent is reached. Both rates included a 3.5 percent inflation assumption. The Supplemental Plan UAAL is being amortized as a level dollar over a 19 year closed period beginning January 1, 2009. The Board Plan UAAL is amortized as a level dollar open 30-year amortization.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

<u>Plan year</u>	<u>Trend rate</u>
2012	8.25%
2013	7.75%
2014	7.25%
2015	6.75%
2016	6.25%
2017	5.75%
2018	5.25%
2019 and after	5.00%

NOTE 13 - 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 and retirees.

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

The CTA is also self-insured for general liability, property and casualty, 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, 2010 to May 8, 2011. 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 2010 and 2009, no CTA claim existed that is expected to exceed the \$15,000,000 self insured retention under this insurance policy.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 13 - 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. In 2010, CTA received a loan of \$8,500,000 from the Joint Self-Insurance Fund to pay an injury and damage claim. No borrowings were made from the Fund in fiscal year 2009.

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 4.0% and 3.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 6.0% and 3.0%, respectively.

Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	<u>Injury and damage</u>	<u>Group health and dental</u>	<u>Workers' compensation</u>	<u>Total</u>
Balance at January 1, 2009	\$ 83,825	\$ 18,500	\$ 94,541	\$ 196,866
Funded*	20,000	169,234	36,174	225,408
Funding (excess)/deficiency per actuarial requirement	(4,604)	-	32,952	28,348
Payments*	<u>(22,539)</u>	<u>(172,134)</u>	<u>(52,505)</u>	<u>(247,178)</u>
Balance at December 31, 2009	76,682	15,600	111,162	203,444
Funded*	43,000	122,899	55,700	221,599
Funding (excess)/deficiency per actuarial requirement	(18,178)	-	23,044	4,866
Payments*	<u>(28,329)</u>	<u>(123,499)</u>	<u>(55,854)</u>	<u>(207,682)</u>
Balance at December 31, 2010	<u>\$ 73,175</u>	<u>\$ 15,000</u>	<u>\$ 134,052</u>	<u>\$ 222,227</u>

*Group insurance amounts include funding and reimbursement for retiree healthcare

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NOTE 13 - RISK MANAGEMENT (Continued)

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 14 - 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

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

In 2010, the CTA used 19.2 million gallons of diesel fuel to operate revenue vehicles. 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. At December 31, 2010, 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 1/1/2010	Fair Value 12/31/2010	Change in Fair Value	Terms (Per Gallon)	
						Receive	Pay
Counterparty: J.P. Morgan Chase							
630,000	01/01/10	03/31/10	\$ 31,964	\$ -	\$ (31,964)	Variable	\$ 2.0705
2,520,000	01/01/10	12/31/10	(2,618,515)	-	2,618,515	Variable	3.2225
630,000	01/01/10	03/31/10	159,778	-	(159,778)	Variable	1.8675
504,000	04/01/10	06/30/10	118,761	-	(118,761)	Variable	1.9050
378,000	04/01/10	06/30/10	10,189	-	(10,189)	Variable	2.1140
504,000	04/01/10	06/30/10	75,987	-	(75,987)	Variable	1.9900
378,000	07/01/10	09/30/10	91,204	-	(91,204)	Variable	1.9525
504,000	07/01/10	09/30/10	(10,773)	-	10,773	Variable	2.2160
378,000	07/01/10	09/30/10	8,122	-	(8,122)	Variable	2.1730
126,000	10/01/10	12/31/10	30,443	-	(30,443)	Variable	2.0225
378,000	10/01/10	12/31/10	(5,805)	-	5,805	Variable	2.2810
378,000	10/01/10	12/31/10	5,280	-	(5,280)	Variable	2.2515
378,000	01/01/11	03/31/11	-	59,531	59,531	Variable	2.3875
378,000	01/01/11	03/31/11	-	116,192	116,192	Variable	2.2375
504,000	01/01/11	03/31/11	-	192,696	192,696	Variable	2.1625
756,000	01/01/11	03/31/11	-	141,726	141,726	Variable	2.3575
504,000	01/01/11	03/31/11	-	117,148	117,148	Variable	2.3125
252,000	01/01/11	03/31/11	-	32,762	32,762	Variable	2.4150
252,000	01/01/11	03/31/11	-	53,538	53,538	Variable	2.3325
504,000	04/01/11	06/30/11	-	152,087	152,087	Variable	2.2440
504,000	04/01/11	06/30/11	-	96,737	96,737	Variable	2.3540
504,000	04/01/11	06/30/11	-	133,469	133,469	Variable	2.2810
504,000	04/01/11	06/30/11	-	111,329	111,329	Variable	2.3250
378,000	07/01/11	09/30/11	-	109,513	109,513	Variable	2.2880
378,000	07/01/11	09/30/11	-	70,121	70,121	Variable	2.3925
378,000	07/01/11	09/30/11	-	95,566	95,566	Variable	2.3250
378,000	07/01/11	09/30/11	-	82,372	82,372	Variable	2.3600
378,000	10/01/11	12/31/11	-	103,725	103,725	Variable	2.3425
378,000	10/01/11	12/31/11	-	64,202	64,202	Variable	2.4475
378,000	10/01/11	12/31/11	-	87,728	87,728	Variable	2.3850
378,000	10/01/11	12/31/11	-	76,435	76,435	Variable	2.4150

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Commodity Swaps								
Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2010	Fair Value 12/31/2010	Change in Fair Value	Terms (Per Gallon)		
						Receive	Pay	
Counterparty: Bank of America Merrill Lynch								
756,000	01/04/10	03/31/10	\$ 40,628	\$ -	\$ (40,628)	Variable	\$ 2.0675	
630,000	01/04/10	03/31/10	140,151	-	(140,151)	Variable	1.8987	
630,000	01/04/10	03/31/10	3,946	-	(3,946)	Variable	2.1150	
504,000	04/01/10	06/30/10	22,640	-	(22,640)	Variable	2.0960	
630,000	04/01/10	06/30/10	128,366	-	(128,366)	Variable	1.9369	
378,000	04/01/10	06/30/10	(1,260)	-	1,260	Variable	2.1435	
378,000	07/01/10	09/30/10	24,324	-	(24,324)	Variable	2.1300	
378,000	07/01/10	09/30/10	76,433	-	(76,433)	Variable	1.9917	
378,000	07/01/10	09/30/10	48,815	-	(48,815)	Variable	2.0650	
252,000	10/01/10	12/31/10	18,303	-	(18,303)	Variable	2.1925	
126,000	10/01/10	12/31/10	25,863	-	(25,863)	Variable	2.0591	
378,000	10/01/10	12/31/10	44,366	-	(44,366)	Variable	2.1475	
378,000	10/01/10	03/31/11	-	137,918	137,918	Variable	2.1800	
378,000	01/03/11	03/31/11	-	122,820	122,820	Variable	2.2200	
Total			<u>\$ (1,530,791)</u>	<u>\$ 2,157,615</u>	<u>\$ 3,688,406</u>			

The recording of the change in fair value of the hedging derivative instruments is included on the Balance Sheet as a Deferred Inflow measured at fair market value based on quoted market prices. Related gains and/or losses are deferred on the Balance Sheet until the derivative is settled then recognized as part of Fuel in the Statement of Revenues, Expenses and Changes in Net Assets. The valuation of market changes for contracts entered into and settled resulted in a net increase of \$2,128,879 to the cost of fuel during the fiscal year ended December 31, 2010. Prior year net assets are not restated for the implementation of GASB 53 because the effect on net assets for those prior years is not material.

The CTA follows the recently issued 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.

(Continued)

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

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 Changes of Revenues, Expenses and in Net Assets. 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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The credit ratings for each of CTA's counterparties at December 31, 2010 were:

<u>Counterparty</u>	<u>Moody's</u>	<u>Fitch</u>	<u>Standard & Poor's</u>
J.P. Morgan Chase	Aa3	AA-	A+
Bank of America Merrill Lynch	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 2010 or 2009.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 15 - 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 position.

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 \$92,750,000 as of December 31, 2010.

Operating Leases: As of December 31, 2010, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2011	\$ 353
2012	<u>242</u>
Total minimum lease payments	<u><u>\$ 595</u></u>

Lease Transactions:

During 1998, the CTA entered into a lease and leaseback agreement with three investors pertaining to a property, railway tracks and train stations on the Green Line. The CTA's payments associated with this agreement were guaranteed by American International Group Inc. (AIG).

During 2008, AIG's credit rating was cut amid the U.S. mortgage meltdown and global economic crisis. The rating cut provided the third party investors with the option to require CTA to replace the Payment Undertaker Guarantor. One of the three investors chose to unwind the transaction. One investor entered into a forbearance agreement that allowed CTA to continue to use AIG as long as the rating does not fall below BB by Standard & Poor's and B1 by Moody's. CTA is still in negotiations with one of the investors regarding the replacement of AIG.

In 2002 and 2003, CTA entered into a lease and leaseback agreement 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. FSA's credit rating was downgraded during the 2008 financial crisis. This downgrading allows the private investors the option to require CTA to replace the guarantor. CTA has negotiated with the private investors and they have agreed to forbear from enforcing the provision of the agreements that require replacement of the guarantor.

(Continued)

NOTE 16 – SUBSEQUENT EVENTS

Senior Free Ride Legislation

In February 2011, Illinois Governor Pat Quinn signed legislation to amend the Seniors Ride Free Program which would subject the participants of the program to a means test. Currently, the program allows all seniors living in the region to ride free on CTA, Metra, and Pace regardless of income. Under the new program, seniors who do not qualify to ride free will pay a reduced fare. The RTA has up to 180 days to implement the means tested program.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
December 31, 2010
(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:						
1/1/2010	\$ 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
Open Supplemental Plan:						
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
Closed Supplemental Plan:						
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	-	-	-
Board Supplemental Plan:						
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

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Postemployment Benefits
Schedules of Funding Progress (Unaudited)
December 31, 2010
(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:						
1/1/2011	\$ -	\$ 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)
December 31, 2010
(In thousands of dollars)

Employees' Plan – Pension		
Year ended	Annual required contribution	Percentage contributed
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

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2010
(In thousands of dollars)

Supplemental and Board Plans - Healthcare		
Year ended	Annual required contribution	Percentage contributed
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

CHICAGO TRANSIT AUTHORITY
 Supplemental Plans
 Required Supplementary Information –
 Schedules of Employer Contributions (Unaudited)
 December 31, 2010
 (In thousands of dollars)

Open Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
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	-	-
12/31/05	1,545	1,016.5

Closed Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
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
12/31/05	2,439	144.4

Board Supplemental Plan		
Year ended	Annual required contribution	Percentage contributed
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
12/31/05	261	109.7

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2010
(In thousands of dollars)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 852,081	\$ 852,081	\$ 835,142	\$ 16,939
Materials and supplies	77,724	77,724	80,077	(2,353)
Fuel	63,879	63,879	52,063	11,816
Electric power	38,176	38,176	28,208	9,968
Purchase of security services	33,181	33,181	33,319	(138)
Other	178,004	178,004	167,240	10,764
Provision for injuries and damages	<u>28,000</u>	<u>28,000</u>	<u>43,000</u>	<u>(15,000)</u>
Total operating expenses	<u>1,271,045</u>	<u>1,271,045</u>	<u>1,239,049</u>	<u>31,996</u>
System-generated revenues:				
Fares and passes	521,417	521,417	509,179	(12,238)
Reduced-fare subsidies	32,200	32,200	28,245	(3,955)
Advertising and concessions	22,876	22,876	22,609	(267)
Investment income	1,832	1,832	627	(1,205)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	<u>17,381</u>	<u>17,381</u>	<u>28,397</u>	<u>11,016</u>
Total system-generated revenues	<u>600,706</u>	<u>600,706</u>	<u>594,057</u>	<u>(6,649)</u>
Operating expenses in excess of system-generated revenues	670,339	670,339	644,992	25,347
Public funding from the RTA:				
Operating assistance	580,339	580,339	497,685	(82,654)
Public funding in excess of budget marks	-	-	31,276	31,276
Preventative Maintenance	<u>90,000</u>	<u>90,000</u>	<u>172,654</u>	<u>82,654</u>
	<u>670,339</u>	<u>670,339</u>	<u>701,615</u>	<u>31,276</u>
Change in net assets – budgetary basis	<u>\$ -</u>	<u>\$ -</u>	56,623	<u>\$ 56,623</u>
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(424,764)	
Pension expense in excess of pension contributions			(7,387)	
Supplemental Retirement			1,129	
Incentive Retirement			405	
Workers Compensation			(23,044)	
Revenue from leasing transactions			4,262	
Provision for injuries and damages			18,178	
Interest expense on bond transactions			(112,362)	
Interest revenue on bond transactions			3,992	
Interest income from sale/leaseback			113,539	
Interest expense from sale/leaseback			(118,780)	
Capital contributions			<u>164,432</u>	
Change in net assets – GAAP basis			<u>\$ (323,777)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,239,049	
Less mandated security costs			(33,319)	
Less Pension Obligation Bond debt service			(108,378)	
Plus City of Chicago in-kind services			<u>22,000</u>	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,119,352</u>	
Total system-generated revenues				
Plus Senior Free Rides			23,794	
Plus City of Chicago in-kind services			<u>22,000</u>	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 639,851</u>	
Recovery ratio (A/B)				57.16%

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2009
(In thousands of dollars)

	Original <u>budget</u>	Final <u>budget</u>	Actual – budgetary <u>basis</u>	Variance favorable <u>(unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 887,723	\$ 871,757	\$ 856,468	\$ 15,289
Materials and supplies	94,763	92,326	87,900	4,426
Fuel	102,852	98,163	100,539	(2,376)
Electric power	39,944	40,077	37,645	2,432
Purchase of security services	33,441	32,204	32,300	(96)
Other	132,790	117,407	131,348	(13,941)
Provision for injuries and damages	30,000	20,000	15,397	4,603
Total operating expenses	<u>1,321,513</u>	<u>1,271,934</u>	<u>1,261,597</u>	<u>10,337</u>
System-generated revenues:				
Fares and passes	516,313	529,705	505,713	(23,992)
Reduced-fare subsidies	16,100	16,100	28,239	12,139
Advertising and concessions	40,500	30,549	30,215	(334)
Investment income	6,300	2,000	1,258	(742)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	14,000	18,615	31,207	12,592
Total system-generated revenues	<u>598,213</u>	<u>601,969</u>	<u>601,632</u>	<u>(337)</u>
Operating expenses in excess of system-generated revenues	723,300	669,965	659,965	10,000
Public funding from the RTA:				
Operating assistance	723,300	541,391	541,391	-
Public funding in excess of budget marks	-	-	15,331	15,331
Preventative Maintenance	-	128,574	128,574	-
	<u>723,300</u>	<u>669,965</u>	<u>685,296</u>	<u>15,331</u>
Change in net assets – budgetary basis	<u>\$ -</u>	<u>\$ -</u>	25,331	<u>\$ 25,331</u>
Reconciliation of budgetary basis to GAAP basis:				
Prior Year Positive Balance - Lease proceeds			(2,800)	
RTA working cash notes payable			(56,147)	
Provision for depreciation			(394,357)	
Pension expense in excess of pension contributions			(53,596)	
Supplemental Retirement			5,747	
Incentive Retirement			391	
Revenue from leasing transactions			4,262	
Interest expense on bond transactions			(101,818)	
Interest revenue on bond transactions			713	
Interest income from sale/leaseback			105,692	
Interest expense from sale/leaseback			(117,342)	
Capital contributions			463,830	
Change in net assets – GAAP basis			<u>\$ (120,094)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,261,597	
Less mandated security costs			(32,300)	
Less Pension Obligation Bond debt service			(43,990)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,207,307</u>	
Total system-generated revenues			\$ 601,632	
Plus Senior Free Rides			36,100	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 659,732</u>	
Recovery ratio (A/B)				54.64%

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

APPENDIX F

PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

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November 4, 2011

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$56,525,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Bonds”) of the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Authority”) duly organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”). The Bonds are authorized and issued under and pursuant to the Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 011-118 adopted by the Chicago Transit Board on October 13, 2011 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of November 1, 2004 (the “Indenture”) by and between the Authority and Amalgamated Bank of Chicago, as trustee (the “Trustee”), as supplemented by the Fourth Supplemental Indenture dated as of November 1, 2011 (the “Fourth Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are a Series of Refunding Bonds and Parity Obligations under the Indenture.

The Bonds are dated November 4, 2011 and bear interest from their date payable on June 1, 2012 and semiannually thereafter on each June 1 and December 1. The Bonds mature on June 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such principal amount:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2022	\$ 6,595,000	5.000%
2023	6,920,000	5.250
2024	7,285,000	5.250
2025	1,540,000	4.500
2025	6,125,000	5.250
2026	8,060,000	5.250
2029	20,000,000	4.875

The Bonds are subject to redemption prior to maturity at the option of the Authority, in such principal amounts and from such maturities as the Authority shall determine and by lot for Bonds of the same maturity and interest rate, on June 1, 2021 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Bonds are payable from the Authority's share of Section 5307 Urbanized Area Formula funds ("Section 5307 Funds") to be received by the Authority from the United States of America, acting through the Department of Transportation, Federal Transit Administration (the "Grant Receipts") pursuant to 49 United States Code Section 5307. The payment of Section 5307 Funds is not a contractual obligation of the United States of America and the eligibility of the Authority to receive Section 5307 Funds for the payment of the Bonds is subject to the Authority's continuing compliance with the provisions of 49 United States Code Section 5307 and applicable regulations of the Federal Transit Administration. We express no opinion as to the rights or remedies of the Authority with respect to the payment of Section 5307 Funds.

Pursuant to the Indenture the Authority has previously issued bonds (the "Outstanding Bonds") that are Parity Obligations and are currently outstanding. The Bonds, the Outstanding Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture shall be entitled equally to the benefits and security of the Indenture, including the pledge of Grant Receipts and other moneys and securities herein mentioned.

The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

Based upon our examination of said record of proceedings, we are of the opinion that:

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the Fourth Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the Fourth Supplemental Indenture in those respects.

2. The Indenture and the Fourth Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.

3. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority, are entitled to the benefits and security of the Indenture and the Fourth Supplemental Indenture, and are enforceable in accordance with their terms.

4. The Bonds are payable solely from Grant Receipts and other moneys and securities pledged therefor under the Indenture and the Fourth Supplemental Indenture. The Indenture and the Fourth Supplemental Indenture create a valid pledge of the Grant Receipts and other moneys and securities held thereunder for the benefit and security of the Bonds, subject to application thereof in the manner provided in the Indenture and the Fourth Supplemental Indenture.

5. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"),

interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. Interest on the Bonds does not constitute an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exemption from Federal income taxes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use and tax ownership of the property financed with the proceeds of the Bonds. The Authority has covenanted in the Fourth Supplemental Indenture to comply with these requirements.

With respect to the exclusion from gross income for Federal income tax purposes of interest on the Bonds, we have relied on the verification report of Robert Thomas CPA, LLC, certified public accountants, regarding the computation of the arbitrage yield on the Bonds and of certain investments made with the proceeds of the Bonds.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Fourth Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully yours,

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APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (B)(5) OF RULE 15C2-12

This Continuing Disclosure Undertaking (the “Agreement”) is executed and delivered by the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Issuer”), in connection with the issuance by the Issuer of \$56,525,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Refunding Series 2011 (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Series 2011 Bonds”). The Series 2011 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605) and the Local Government Debt Reform Act (30 ILCS 350). The Series 2011 Bonds are authorized by an ordinance adopted by the Chicago Transit Board of the Issuer on October 13, 2011. The Series 2011 Bonds are being issued pursuant to the Trust Indenture dated as of November 1, 2004 (the “5307 Master Trust Indenture”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “Trustee”), as heretofore supplemented and as further supplemented by the Fourth Supplemental Indenture, dated as of November 1, 2011 (the “Fourth Supplemental Indenture,” and together with the 5307 Master Trust Indenture as heretofore supplemented, the “5307 Indenture”) between the Authority and the Trustee.

In consideration of the issuance of the Series 2011 Bonds by the Issuer and the purchase of such Series 2011 Bonds by the beneficial owners thereof, the Issuer covenants and agrees as follows:

1. **PURPOSE OF THIS AGREEMENT.** This Agreement is executed and delivered by the Issuer as of the date set forth below, for the benefit of the beneficial owners of the Series 2011 Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The Issuer represents that it will be the only obligated person with respect to the Series 2011 Bonds at the time the Series 2011 Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after the issuance of the Series 2011 Bonds.

2. **DEFINITIONS.** The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data described in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the Issuer prepared pursuant to the standards and as described in *Exhibit I*.

Bondholder means any registered owner of any of the Series 2011 Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Series 2011 Bonds (including persons holding Series 2011 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Series 2011 Bonds for federal income tax purposes.

Commission means the Securities and Exchange Commission.

Dissemination Agent shall mean any dissemination agent designated in writing by the Issuer and that has filed with the Trustee a written acceptance of such designation.

EMMA means the MSRB through its Electronic Municipal Market Access system for municipal securities disclosure or through any other electronic format or system prescribed by the MSRB for purposes of the Rule.

Event means one of the sixteen events with respect to the Series 2011 Bonds set forth in *Exhibit II*.

Exchange Act means the Securities Exchange Act of 1934, as amended.

MSRB means the Municipal Securities Rulemaking Board.

Participating Underwriters means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Series 2011 Bonds.

Rule means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

Significant Event means the occurrence of any of Events 1 through 10 and the occurrences of any of Events 11 through 16 that is material, as materiality is interpreted under the Exchange Act.

Significant Events Disclosure means dissemination of a notice of a Significant Event as set forth in Section 5.

State means the State of Illinois.

Undertaking means the obligations of the Issuer pursuant to Sections 4 and 5.

3. CUSIP NUMBERS/FINAL OFFICIAL STATEMENT. The CUSIP numbers of the Series 2011 Bonds are as set forth in *Exhibit III* hereto.

4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. The Issuer hereby covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (in the form and by the dates set forth in *Exhibit I*) to EMMA, if any. The Issuer is required to deliver such information in such manner and by such time so that such entities receive the information by the dates specified in *Exhibit I*.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Issuer will provide a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to EMMA) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. EVENTS NOTIFICATION; SIGNIFICANT EVENTS DISCLOSURE. Subject to Section 9 of this Agreement, the Issuer covenants that it will disseminate Significant Events Disclosure to the MSRB within ten (10) business days after the occurrence of the event giving rise to the requirement to file. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series 2011 Bonds or defeasance of any Series 2011 Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the Bondholders pursuant to the 5307 Indenture.

6. DUTY TO UPDATE MSRB OR OTHER ENTITIES. The Issuer shall determine, in the manner it deems appropriate, the names and addresses of the MSRB each time it is required to file information with the MSRB. If the Commission or the MSRB or other regulatory authority approves or requires that Annual Financial Information and Audited Financial Statements or Significant Events Disclosure be filed with a “central post office”, governmental agency or similar entity in addition to or in lieu of the MSRB, the Issuer will, if required, file Annual Financial Information and Audited Financial Statements or Significant Events Disclosure, as applicable, with such “central post office”, governmental agency or similar entity without the need to amend or supplement this Agreement.

7. CONSEQUENCES OF FAILURE OF THE ISSUER TO PROVIDE INFORMATION. The Issuer shall give notice in a timely manner to EMMA of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due hereunder.

In the event of a failure of the Issuer to comply with any provision of this Agreement, the beneficial owner of any Series 2011 Bond may seek mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Agreement. Any such action to enforce any provision of this Agreement shall be commenced in the Circuit Court of Cook County, Illinois. A default under this Agreement shall not be deemed an Event of Default under the 5307 Indenture, and the sole remedy under this Agreement in the event of any failure of the Issuer to comply with this Agreement shall be an action to compel performance.

8. AMENDMENTS; WAIVER. Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or type of business conducted;

(b) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Series 2011 Bonds, as determined either by parties unaffiliated with the Issuer (such as the Trustee or nationally recognized bond counsel), or by an approving vote of Bondholders pursuant to the terms of the 5307 Indenture at the time of the amendment.

9. TERMINATION OF UNDERTAKING. The Undertaking of the Issuer shall be terminated hereunder with respect to the Series 2011 Bonds if the Issuer shall no longer have any legal liability for any obligation on or relating to repayment of such series of the Series 2011 Bonds under the 5307 Indenture. If this Section is applicable, the Issuer shall give notice in a timely manner to EMMA.

10. FILINGS. In the event that the Commissioner or the MSRB or other regulatory authority shall approve or require Significant Events Disclosure to be made to a central post office, governmental agency or similar entity other than EMMA or in lieu of EMMA, the Issuer shall, if required, make such dissemination to such central post office, governmental agency or similar entity without the necessity of amending this Agreement.

11. ADDITIONAL INFORMATION. Nothing in this Agreement shall be deemed to prevent the Issuer from providing any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Significant Event, in addition to that which is required by this Agreement. If the Issuer chooses to include any information from any document or notice of occurrence of a Significant Event in addition to that which is specifically required by this Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future disclosure or notice of occurrence of a Significant Event.

12. BENEFICIARIES. This Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, and the beneficial owners of the Series 2011 Bonds, and shall create no rights in any other person or entity.

13. RECORDKEEPING. The Issuer shall maintain records of all Annual Financial Information Disclosure and Significant Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

14. DISSEMINATION AGENT. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

15. ASSIGNMENT. The Issuer shall not transfer its obligations under the 5307 Indenture unless the transferee agrees to assume all obligations of the Issuer under this Agreement or to execute an Undertaking under the Rule.

16. GOVERNING LAW. This Agreement shall be governed by the laws of the State.

CHICAGO TRANSIT AUTHORITY

By _____
Name: _____
Title: _____

Date: _____, 2011

Exhibit I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“*Annual Financial Information*” means financial information as set forth below. All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to EMMA or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement shall have been submitted by the Issuer to EMMA. The Issuer shall clearly identify each such item of information included by reference.

1. Annual Financial Information:

(a) Annual Financial Information means the information detailing the Issuer’s annual receipt of 5307 Grant Receipts (as defined in the 5307 Indenture) appearing in the table entitled “Section 5307 Formula Funds Apportioned to Chicago, Illinois – Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA” under the captions “FEDERAL TRANSIT PROGRAM – Authority Participation in Section 5307 Program” in the Official Statement with respect to the Series 2011 Bonds.

(b) Annual Financial Information will be provided to EMMA not more than 210 days after the end of each Fiscal Year (as defined in the 5307 Indenture). Audited Financial Statements are expected to be filed as part of the Annual Financial Information on the schedule described in this Part 1. If Audited Financial Statements are not available to be filed as part of the Annual Financial Information at the time the Annual Financial Information is required to be filed, the Annual Financial Information shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Series 2011 Bonds, and the Audited Financial Statements shall be filed in the same manner as the Annual Financial Information promptly after they become available.

2. Audited Financial Statements:

(a) Audited Financial Statements means:

Annual audited financial statements of the Issuer prepared in accordance with the requirements of the 5307 Indenture.

(b) Audited Financial Statements shall be provided to EMMA as described in Part 1(b) above.

Exhibit II

EVENTS FOR WHICH SIGNIFICANT EVENTS DISCLOSURE IS REQUIRED

Upon the occurrence of any of the following Events with respect to the Series 2011 Bonds, the Issuer shall report the Event to the MSRB:

- 1) principal and interest payment delinquencies;
- 2) unscheduled draws on debt service reserves reflecting financial difficulties;
- 3) unscheduled draws on credit enhancements reflecting financial difficulties;
- 4) substitution of credit or liquidity providers or their failure to perform;
- 5) adverse tax opinions or events affecting the tax-exempt status of the Series 2011 Bonds;
- 6) defeasances;
- 7) rating changes;
- 8) the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Series 2011 Bonds, or other material events affecting the tax status of the Series 2011 Bonds;
- 9) tender offers; and
- 10) bankruptcy, insolvency, receivership or similar event of the obligated person.

Upon the occurrence of any of the following Events with respect to the Series 2011 Bonds, if material, the Issuer shall report the Event to the MSRB:

- 11) non-payment related defaults;
- 12) modifications to rights of Owners of the Series 2011 Bonds;
- 13) bond calls;
- 14) release, substitution, or sale of property securing repayment of the Series 2011 Bonds;
- 15) the consummation of a merger, consolidation, or acquisition, or certain asset sales, involving the obligated person, or entry into or termination of a definitive agreement relating to the foregoing; and
- 16) appointment of a successor or additional trustee or a change in name of the trustee.

If notices are required to be filed, filing shall be made within ten (10) business days after the occurrence of the event giving rise to the requirement to file.

Exhibit III

CUSIP NUMBERS

Series 2011 Bonds Maturing June 1	Interest Rate	CUSIP[®]
2022	5.000%	167723EW1
2023	5.250	167723EX9
2024	5.250	167723EY7
2025	4.500	167723EZ4
2025	5.250	167723FC4
2026	5.250	167723FA8
2029	4.875	167723FB6

[®] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services LLC, managed on behalf of the American Bankers Association by Standard & Poor's, a subsidiary of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Series 2011 Bonds and the Issuer does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2011 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2011 Bonds.

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