CHICAGO TRANSIT AUTHORITY

Financial Statements and Supplementary Information

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois:

We have audited the accompanying basic financial statements of the Chicago Transit Authority (CTA) as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the CTA as of and for the year ended December 31, 2003 were audited by other auditors whose report dated April 19, 2004, except for note 14 in those financial statements, as to which the date is May 4, 2005, expressed an unqualified opinion on those financial statements and included an explanatory paragraph that states the 2003 financial statements were reissued for a change in accounting for grant revenue and capital lease transactions.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the CTA as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 10, 2005 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 10 and the Schedules of Funding Progress and Employer Contributions on pages 45 and 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 audit for the year ended December 31, 2004 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule of expenses and revenues – budget and actual for the year ended December 31, 2004 on page 45 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended December 31, 2004.

The report of the other auditors referred to above, April 19, 2004, except for note 14 in those financial statements, as to which the date is May 4, 2005, stated that the schedule of expenses and revenues – budget and actual for the year ended December 31, 2003 on page 46 was subjected to auditing procedures applied in their audit of the 2003 basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2003, taken as a whole.

KPMG LLP

Chicago, Illinois
May 10, 2005

This section of the Chicago Transit Authority's (CTA) annual financial report presents a discussion and analysis of the CTA's financial performance during the fiscal years ended December 31, 2004 and 2003. Please read it in conjunction with the CTA's financial statements, which follow this section.

Financial Highlights for 2004

- Net assets totaled $2,000,654,000 at December 31, 2004.
- Net assets decreased $38,733,000 in 2004, which compares to a decrease of $89,407,000 in 2003.
- Total net capital assets were $2,977,017,000 at December 31, 2004, an increase of 5.7% over the balance at December 31, 2003 of $2,816,090,000.

Financial Highlights for 2003

- Net assets totaled $2,039,387,000 at December 31, 2003.
- Net assets decreased $89,407,000 in 2003, which compares to an increase of $14,894,000 in 2002.
- Total net capital assets were $2,816,090,000 at December 31, 2003, an increase of 5.2% over the balance at December 31, 2002 of $2,677,884,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the CTA's basic financial statements. The CTA's basic 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 accounting principles generally accepted in the United States of America.

Balance Sheet

The balance sheet reports all financial and capital resources for the CTA. 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.

(Continued)

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 is similar to an income statement in the corporate world. This statement 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.

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

Balance Sheet

The following table reflects a condensed summary of assets liabilities, and net assets of the CTA as of December 31, 2004, 2003, and 2002:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2004, 2003, and 2002

(In thousands of dollars)

		2004	2003	2002
Assets:				
Current assets	$	309,101	313,477	293,385
Restricted assets		2,078,122	1,986,510	1,763,475
Other assets		39,948	39,113	30,664
Capital assets, net		2,977,017	2,816,090	2,677,884
Total assets	$	5,404,188	5,155,190	4,765,408
Liabilities:				
Current liabilities	$	415,564	529,778	490,789
Long-term liabilities		2,987,970	2,586,025	2,145,825
Total liabilities		3,403,534	3,115,803	2,636,614
Net assets:				
Invested in capital assets, net of related debt		2,753,262	2,599,650	2,677,884
Restricted for payment of leasehold obligations		23,525	17,950	15,576
Restricted for debt service		39,225	48,736	—
Restricted by RTA for operations and capital improvements		20,890	20,704	24,325
Unrestricted		(836,248)	(647,653)	(588,991)
Total net assets		2,000,654	2,039,387	2,128,794
Total liabilities and net assets	$	5,404,188	5,155,190	4,765,408

Year Ended December 31, 2004

Current assets decreased by 1.4% to $309,101,000. The change in current assets is primarily due to the decrease in cash and the decrease in receivable from the RTA.

Restricted assets increased by 4.6% due to the receipt of bond proceeds that were not yet expended at year-end.

Other assets increased by 2.1% to $39,948,000 primarily due to an increase in bond issue costs resulting from the issuance of revenue bonds during 2004.

Capital assets (net) increased by 5.7% to $2,977,017,000 due to the CTA's 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.

Current liabilities decreased 21.6% primarily due to a decrease in the current portion of capital lease obligations. Long-term liabilities increased 15.5% due to an increase in net pension obligation and the issuance of Capital Grant Receipts Revenue Bonds in 2004.

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. This category increased 5.9% from the prior year primarily due to capital assets acquisitions during the year that were funded by capital grants of $490,402,000, offset by depreciation expense of $349,162,000.

The net asset balances restricted for other purposes includes 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 third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 29.1% over the prior year.

Year Ended December 31, 2003

Current assets increased by 6.8% to $293,385,000. The change in current assets is primarily due to the increase in cash and investments.

Restricted assets increased by 12.6% due to the receipt of bond proceeds which were not yet expended at year-end and an advance of capital funds from the RTA for the Cermak (Douglas) Branch reconstruction.

Other assets increased by 27.6% to $39,113,000 due primarily to the bond issue costs related to the issuance of revenue bonds for the Cermak (Douglas) Branch reconstruction and for the new headquarters facility leased from the Public Building Commission of Chicago.

Capital assets (net) increased by 5.2% to $2,816,090,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the FTA, IDOT, and the RTA. The CTA was able to significantly expand its capital improvement program through the passage of state legislation referred to as "Illinois FIRST" – a Fund for Infrastructure, Roads, Schools and Transit (a five year public works program). Through the additional funds received from Illinois FIRST, the CTA secured local matching funds necessary to receive additional federal funding. This additional funding is being used for the capital improvement program to help bring the system to a state of good repair.

Current liabilities increased 7.9% primarily due to an increase in capital lease obligations. Long-term liabilities increased 20.5% due to an increase in capital lease obligations and the issuance of Capital Grant Receipts Revenue Bonds in 2003.

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. This category decreased 2.9% from prior year due to the issuance of Capital Grant Receipts Revenue Bonds and the PBC Capital Lease in 2003.

The net asset balances restricted for other purposes includes 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 third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 10.0% over the prior year.

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, 2004, 2003, and 2002:

Table 2

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2004, 2003, and 2002

(In thousands of dollars)

		2004	2003	2002
Operating revenues	$	432,619	395,252	412,362
Operating expenses:				
Operating expenses		1,125,934	1,022,295	964,450
Depreciation		349,162	367,536	331,340
Total operating expenses		1,475,096	1,389,831	1,295,790
Operating loss		(1,042,477)	(994,579)	(883,428)
Nonoperating revenues/expenses, net		513,342	508,137	511,960
Capital contributions		490,402	397,035	386,362
Change in net assets		(38,733)	(89,407)	14,894
Total net assets, beginning of year		2,039,387	2,128,794	2,113,900
Total net assets, end of year	$	2,000,654	2,039,387	2,128,794

Year Ended December 31, 2004

Operating revenues increased by $37,367,000 or 9.5%. In January 2004, CTA implemented a $0.25 fare increase. CTA experienced an increase in ridership and average fares in 2004. Specifically, 2004 system-wide ridership increased by approximately 481,000 trips.

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Total operating expenses increased $85,265,000 or 6.1%. The expense increases are primarily driven by higher labor, fuel, and paratransit expenses, offset by a decrease in depreciation expense.

Labor expense increased due to wage rate increases and higher health insurance, pension, and workers compensation expenses. Fuel expense increased $5,616,000 due to higher consumption and higher average cost per gallon. Increased trips and inflation led to an increase in paratransit expense of $6,649,000, or 15.7%. The increase in depreciation expense is a result of the expanded capital investment program.

Year Ended December 31, 2003

Operating revenues decreased by $17,110,000 or 4.1% due to a reduction in farebox revenue. CTA experienced lower ridership and lower average fares in 2003. Specifically, 2003 system-wide ridership was 13,200,000 trips, or 2.9% lower than 2002. Average fares were approximately $0.01 or 1.3% lower.

Total operating expenses increased $94,041,000 or 7.3%. The expense increases are primarily driven by higher labor, fuel, paratransit, and depreciation expenses.

Labor expense increased due to wage rate increases and higher health insurance and workers compensation expenses. Fuel expense increased $4,379,000 due to higher consumption and higher average cost per gallon, approximately $0.16 more per gallon. Increased trips and inflation led to an increase in paratransit expense of $6,041,000, or 16.6%. The increase in depreciation expense is a result of the expanded capital investment program.

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

Table 3

Operating Expenses

Years ended Decmeber 31, 2004, 2003, and 2002

(In thousands of dollars)

		2004	2003	2002
Labor and fringe benefits	$	867,829	798,042	707,594
Materials and supplies		61,387	59,188	67,931
Fuel		30,093	24,477	20,098
Electric power		21,640	21,058	21,062
Purchase of security services		27,555	24,780	24,719
Purchase of paratransit		48,999	42,350	36,309
Other		46,577	39,472	46,957
Operating expense before provisions		1,104,080	1,009,367	924,670
Provision for injuries and damages		21,854	12,928	39,780
Provision for depreciation		349,162	367,536	331,340
Total operating expenses	$	1,475,096	1,389,831	1,295,790

Capital Asset and Debt Administration

Capital Assets

The CTA invested $6,177,988,000 (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, 2004. Net of accumulated depreciation, the CTA's capital assets at December 31, 2004 totaled $2,977,017,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $160,927,000 or 5.7% over the December 31, 2003 balance of $2,816,090,000.

Table 4

Capital Assets by Funding Source

Decmeber 31, 2004, 2003 and 2002

(In thousands of dollars)

		2004	2003	2002
Funding source:				
Federal (FTA)	$	3,758,513	3,506,162	3,212,000
State (principally IDOT)		514,200	498,540	481,373
RTA		1,463,883	1,266,691	1,097,530
CTA (generally prior to 1973)		126,573	126,573	126,573
Other		254,819	253,790	246,991
Total capital assets		6,117,988	5,651,756	5,164,467
Accumulated depreciation		3,140,971	2,835,666	2,486,583
Total capital assets, net	$	2,977,017	2,816,090	2,677,884

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of rail cars and buses, and the infrastructure improvement projects identified in the 2004 portion of the Five Year Capital Plan.

The CTA's largest current construction project, the Cermak (Douglas) Branch reconstruction of the Blue Line, was ongoing throughout 2004 and is expected to be on budget and schedule with completion in 2005.

Debt Administration

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

At December 31, 2004, the CTA had $1,723,799,000 in capital lease obligations outstanding, a 3% decrease from December 31, 2003. The net pension obligation at December 31, 2004 was $799,362,000, a 30.4% increase from December 31, 2003. The change in net pension obligation is primarily due to an increase in post-employment health care costs and lower investment returns than anticipated. In October 2004, CTA issued Capital Grant Receipts Revenue Bonds to finance various capital improvement projects in the amount of $250,000,000.

At December 31, 2003, the CTA had $1,778,972,000 in capital lease obligations outstanding, a 9.2% increase from December 31, 2002. The increase is attributable to a $119,020,000 capital lease entered into in March 2003, for real property and a facility to be constructed thereon, including certain furniture, fixtures, and equipment with the Public Building Commission of Chicago. The net pension obligation at December 31, 2003 was $613,209,000, a 29.1% increase from December 31, 2002. The change in net pension obligation is primarily due to an increase in post-employment health care costs and lower investment returns than anticipated. In March 2003, CTA issued Capital Grant Receipts Revenue Bonds related to the Douglas Branch Project in the amount of $207,200,000.

More detailed information about the CTA's long-term debt and pension obligation is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

The CTA adopted the 2005 Annual Budget on November 8, 2004. This budget was then submitted to the RTA and approved by the RTA on January 6, 2005. This budget provides for operating expenses of $911,722,000. The operating budget decrease of 2.5% over the 2004 Annual Budget is primarily due to proposed service cuts of approximately one-fifth of the existing bus and rail service. Comparatively, the Consumer Price Index (CPI) growth is estimated at a 2.2% growth rate for 2004. The primary economic indicator impacting ridership and operating funds is employment. The 2004 annual unemployment rate for the City of Chicago ended the year at 7.2% which compared unfavorably to the national average of 5.5%. Employment in the Chicago metropolitan region was 3,766,300 at the end of 2004. This represents a loss of 62,100 jobs since 2000 when unemployment was at 4.7%.

Budgeted revenues for 2005 are lower than the 2004 Annual Budget by $23,707,000 or 4.8%. This decrease over 2004 operating revenues is expected as a result of the reduction in ridership related to the proposed service cuts.

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 Finance Division, P. O. Box 7565, Chicago, IL 60680-7565.

CHICAGO TRANSIT AUTHORITY

Balance Sheets

December 31, 2004 and 2003

(In thousands of dollars)

Assets	**2004**	**2003**
Current assets:		
Cash and cash equivalents	$ 1,085	23,400
Investments	29,182	30,660
Total cash, cash equivalents, and investments	30,267	54,060
Grants receivable:		
Due from the RTA	90,304	100,666
Capital improvement projects from federal and state sources	3,285	3,070
Unbilled work in progress	77,666	50,717
Other	155	177
Total grants receivable	171,410	154,630
Accounts receivable, net	16,499	29,386
Materials and supplies, net	85,978	70,137
Prepaid expenses and other assets	4,947	5,264
Total current assets	309,101	313,477
Restricted cash and investments:		
Restricted for repayment of leasing commitments	1,628,304	1,677,902
Bond proceeds held by trustee	337,967	166,584
Restricted by RTA	51,982	84,119
Restricted for injury and damage reserve	59,869	57,905
Total restricted assets	2,078,122	1,986,510
Other assets:		
Cash and investments held by trustee for supplemental retirement plan	30,318	30,750
Bond issue costs	9,630	8,363
Total other assets	39,948	39,113
Capital assets:		
Capital assets, not being depreciated:		
Land	92,761	66,505
Construction in process	213,525	156,456
Total capital assets, not being depreciated	306,286	222,961
Capital assets being depreciated:		
Land improvements	10,231	10,231
Buildings	1,498,124	1,368,174
Transportation vehicles	1,890,679	1,796,714
Elevated structures, tracks, tunnels, and power system	1,292,633	1,218,537
Signals	676,826	639,673
Other equipment	443,209	395,466
Less accumulated depreciation	(3,140,971)	(2,835,666)
Total depreciable capital assets, net	2,670,731	2,593,129
Total capital assets, net	2,977,017	2,816,090
Total assets	$ 5,404,188	5,155,190

(Continued)

CHICAGO TRANSIT AUTHORITY

Balance Sheets

December 31, 2004 and 2003

(In thousands of dollars)

Liabilities and Net Assets		**2004**	**2003**
Current liabilities:			
Account payable and accrued expenses	$	77,913	65,382
Accrued payroll, vacation pay, and related liabilities		82,003	98,228
Accrued interest payable		3,701	4,621
Advances, deposits, and other		15,054	4,959
Advances from RTA		51,982	84,119
Deferred passenger revenue		20,037	19,814
Other deferred revenue		1,201	1,021
Current portion of self-insurance claims		63,990	80,763
Current portion of capital lease obligations		99,683	170,871
Total current liabilities		415,564	529,778
Long-term liabilities:			
Self-insurance claims, less current portion		96,352	83,399
Capital lease obligations, less current portion		1,624,116	1,608,101
Premium on capital lease obligation		7,365	8,067
Deferred revenue – leasing transactions		50,022	54,284
Bonds payable		375,435	207,200
Premium on bonds payable		30,307	8,364
Accrued pension costs (net pension obligation)		799,362	613,209
Other long-term liabilities		5,011	3,401
Total long-term liabilities		2,987,970	2,586,025
Total liabilities		3,403,534	3,115,803
Net assets:			
Invested in capital assets, net of related debt		2,753,262	2,599,650
Restricted for payment of leasehold obligations		23,525	17,950
Restricted for debt service		39,225	48,736
Restricted by RTA for future operations and capital improvements		20,890	20,704
Unrestricted (deficit)		(836,248)	(647,653)
Total net assets		2,000,654	2,039,387
Total liabilities and net assets	$	5,404,188	5,155,190

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2004 and 2003

(In thousands of dollars)

		2004	2003
Operating revenues:			
Fare box revenue	$	308,221	294,021
Pass revenue		94,547	73,885
Total fare box and pass revenue		402,768	367,906
Advertising and concessions		24,882	21,846
Other revenue		4,969	5,500
Total operating revenues		432,619	395,252
Operating expenses:			
Labor and fringe benefits		867,829	798,042
Materials and supplies		61,387	59,188
Fuel		30,093	24,477
Electric power		21,640	21,058
Purchase of security services		27,555	24,780
Purchase of paratransit		48,999	42,350
Maintenance and repairs, utilities, rent, and other		46,577	39,472
		1,104,080	1,009,367
Provisions for injuries and damages		21,854	12,928
Provision for depreciation		349,162	367,536
Total operating expenses		1,475,096	1,389,831
Operating expenses in excess of operating revenues		(1,042,477)	(994,579)
Nonoperating revenues (expenses):			
Public funding from the RTA		441,630	453,488
Reduced fare subsidies		31,302	33,161
Operating grant revenue		24,530	2,097
Contributions from local government agencies		5,000	5,000
Investment income		3,288	3,025
Gain on sale of assets		389	4,504
Recognition of leasing transaction proceeds		4,262	4,489
Interest expense on bonds		(2,635)	—
Interest revenue from leasing transactions		121,272	118,437
Interest expense on leasing transactions		(115,696)	(116,064)
Total nonoperating revenues, net		513,342	508,137
Change in net assets before capital contributions		(529,135)	(486,442)
Capital contributions		490,402	397,035
Change in net assets		(38,733)	(89,407)
Total net assets – beginning of year		2,039,387	2,128,794
Total net assets – end of year	$	2,000,654	2,039,387

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2004 and 2003

(In thousands of dollars)

	2004	2003
Cash flows from operating activities:		
Cash received from fares	$ 402,991	368,498
Payments to employees	(703,356)	(688,084)
Payments to suppliers	(280,390)	(254,474)
Other receipts	53,013	25,924
Net cash flows used in operating activities	(527,742)	(548,136)
Cash flows from noncapital financing activities:		
Public funding from the RTA	450,121	446,222
Reduced fare subsidies	33,173	33,372
Operating grant revenue	24,530	2,097
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by noncapital financing activities	512,824	486,691
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	121,272	118,437
Interest expense on leasehold obligations	(115,696)	(116,064)
Interest expense on bonds	(3,672)	—
Proceeds restricted for repayment of leasing commitments	49,598	(33,488)
Payment for capital lease obligations	(55,173)	31,115
Proceeds from leasing transactions	—	227
Proceeds from sale of bonds	276,713	217,057
Proceeds other long-term liabilities	1,610	(21)
Redemption of 2003 bonds payable	(81,765)	—
Bond issue costs	(3,462)	(3,820)
Payments for acquisition and construction of capital assets	(492,354)	(479,106)
Proceeds from the sale of property and equipment	421	4,504
Capital grants	463,260	389,418
Net cash flows provided by capital and related financing activities	160,752	128,259
Cash flows from investing activities:		
Purchases of investments	(29,182)	(30,660)
Proceeds from maturity of investments	30,660	30,847
Net change in other restricted cash and investments	(173,347)	(150,754)
Net change in cash and investments for supplemental plan	432	(86)
Net payments for injury and damage reserve	—	(11,907)
Investment revenue	3,288	3,025
Net cash flows used in investing activities	(168,149)	(159,535)
Net decrease in cash and cash equivalents	(22,315)	(92,721)
Cash and cash equivalents – beginning of year	23,400	116,121
Cash and cash equivalents – end of year	$ 1,085	23,400

CHICAGO TRANSIT AUTHORITY

Statements of Cash Flows

Years ended December 31, 2004 and 2003

(In thousands of dollars)

		2004	2003
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:			
Operating expenses in excess of operating revenue	$	(1,042,477)	(994,579)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:			
Depreciation		349,162	367,536
(Increase) decrease in assets:			
Accounts receivable		12,887	(3,843)
Materials and supplies		(15,841)	(6,486)
Prepaid expenses and other assets		317	(259)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(8,396)	(9,175)
Accrued payroll, vacation pay, and related liabilities		(16,225)	(30,657)
Self-insurance reserves		(3,820)	(6,471)
Deferred passenger revenue		223	506
Other deferred revenue		180	913
Advances, deposits, and other		10,095	3,377
Deferred operating assistance		—	(3,621)
Accrued pension costs		188,779	135,339
Other long-term liabilities and supplemental retirement plan		(2,626)	(716)
Net cash flows used in operating activities	$	(527,742)	(548,136)
Noncash investing and financing activities:			
Recognition of leasing proceeds	$	4,262	4,262
Decrease in deferred revenue – leasing transactions		(4,262)	(4,262)
Retirement of fully depreciated capital assets		43,890	16,536

See accompanying notes to financial statements.

(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 accounting principles generally accepted in the United States of America (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. Employees' Plan is governed by the terms of the employees' collective bargaining agreement. 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 entity from the CTA. This fund is administered by its own oversight committee, of which the CTA appoints half the members, and over which the CTA has no direct authority or assumes no fiduciary responsibility. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

The CTA administers the Supplemental Retirement Plans, which are separate, nontrusted defined benefit pension plan for selected individuals. The Supplemental Retirement Plans, which includes the Retirement Plan for Board Members and the Supplemental Retirement Plan for selected Officers, Executives, Supervisory and Professional Employees (the Supplemental Plan), provide benefits in addition to the Employees' Plan to management employees in certain employment classifications and Chicago Transit

(Continued)

Board members. The funds for the Supplemental Retirement Plans are held in a separate nontrusted account and are included in the reporting entity.

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 comprised of 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accounting policies of the CTA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the CTA, which are organized as an enterprise fund, 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. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred. 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*, private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The CTA also has the option of following subsequent private-sector guidance, subject to this same limitation. The CTA has elected not to follow subsequent private-sector guidance as it relates to its operations.

(b) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, demand deposits, and short-tem investments with maturities when purchased of three months or less.

(c) Investments

Investments, including the supplemental retirement plan assets, are reported at fair value based on quoted market prices.

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.

(d) Restricted Assets

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.

In 2003 and 2004, 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 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 2003, the CTA reached an agreement with the RTA to provide advance funding of capital projects. Funds received as an advance are restricted for future capital projects subject to RTA approval.

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.

(e) 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.

(f) Capital Assets

All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000, (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $8,990,000 and $7,537,000 during the years ended December 31, 2004 and 2003, respectively.

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

	Years
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	12
Rail	25
Signals	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.

(g) 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 11. 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.

(h) 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, entitled *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 sheet.

(i) Bond Premiums and Issuance Costs

Bond premiums and issuance costs are deferred and amortized over the life of the bonds on a straight line basis.

(j) 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."

(k) 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 40 years.

(l) Fare Box and Pass Revenues

Fare box revenues are recorded as revenue at the time services are performed. Pass revenues are recorded as revenue at the time of sale.

(m) 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.

(n) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(o) Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

(p) New Accounting Pronouncements

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement will revise the deposit and investment risks disclosed in the notes to the financial statements. The CTA will implement Statement No. 40 beginning with the year ended December 31, 2005.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. The CTA will implement Statement No. 42 beginning with the year ended December 31, 2005. The CTA is currently evaluating the impact of adopting Statement No. 42, but does not believe it will result in a change in the reported value of capital assets as of December 31, 2004 and 2003.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit “other postemployment benefit” (OPEB) plan. Specifically, the CTA will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired CTA employees in future years. The CTA is also required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employer’s contributions to a plan, including the OPEB liability or asset at transition, if any. The CTA is currently evaluating the impact of adopting Statement No. 45, but cannot determine the impact that this standard will have on the financial statements when adopted. The CTA will implement Statement No. 45 beginning with the year ended December 31, 2007.

(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 generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2004 and 2003, these amounts include provision for injuries and damage in excess of budget, depreciation expense, pension expense in excess of pension contributions, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

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

The RTA funds the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Favorable variances from budget remain as deferred operating assistance to the CTA, and can be used in future years with RTA approval.

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.

(4) Budgeted Public Funding from the Regional Transportation Authority and the State of Illinois

As discussed in note 1, the Act established the RTA as a regional oversight board and defined the sources of funding to the RTA. Under the Act, each service board is entitled to a portion of the funds collected by the RTA. The allocation of these funds to each service board is based on various methods as defined in the Act. Sales tax is allocated based upon a statutory formula while discretionary funds are allocated based on RTA's discretion. The components of budgeted operating funding from the RTA were as follows (in thousands of dollars):

		2004	2003
Illinois state sales tax allocation	$	265,106	265,129
Public Transportation Fund/RTA discretionary funding		176,524	188,359
Total	$	441,630	453,488

Reduced fare subsidies received from the State of Illinois were $31,302,000 and $33,161,000 during the years ended December 31, 2004 and 2003, respectively, for discounted services provided to the elderly, disabled, or student riders.

(5) Cash, Cash Equivalents, and Investments

The majority of the CTA's deposits and investments are held by the CTA's custodial bank covered by a master trust agreement. Under this agreement, the custodial bank or its agent holds all instruments in the CTA's name. Deposits and investments of the supplemental retirement plan and assets restricted for repayment of leasing commitments are held separately from those of the CTA's custodial bank.

(a) Deposits

The carrying amounts of the CTA's cash and deposits (including certificates of deposit) were $9,942,000 and $10,433,000 at December 31, 2004 and 2003, respectively. The bank balances of the CTA's cash and deposits (including certificates of deposit) were $21,736,000 and $26,723,000 at December 31, 2004 and 2003, respectively. Approximately $7,996,000 of the 2004 and $11,796,000 of the 2003 bank balance was not collateralized. The remaining 2004 and 2003 bank balances for these cash and deposits were fully insured by the Federal Depository Insurance Corporation or collateralized by securities held in CTA's name by a third party.

(b) Assets Restricted for Repayment of Leasing Commitments

As discussed in note 8, the CTA maintained separate accounts held in trust by fiduciary agents consisting of cash and investments of $1,628,304,000 and $1,677,902,000 as of 2004 and 2003, respectively, to be used for future payments related to certain leasing transactions.

(c) Assets Held by Trustee

Bond proceeds from the 2003 and 2004 issuances were placed in trust accounts restricted for financing the costs of capital improvement projects. The assets held by trustee totaled $337,967,000 and $166,584,000 as of December 31, 2004 and 2003, respectively. The bond proceeds are invested by the trustee and include commercial paper, U.S. Government securities, and mutual funds. The commercial paper and U.S. Government securities are uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the CTA's name.

(d) Assets Restricted by RTA

In March 2003, the CTA reached an agreement with the RTA to provide advance funding of capital projects. Assets restricted by RTA totaled $51,982,000 and $84,119,000 as of December 31, 2004 and 2003, respectively.

(e) Assets Restricted for Injury and Damage Reserve

The CTA maintained restricted cash and investment balances of $59,869,000 and $57,905,000 at December 31, 2004 and 2003, respectively, to fund the annual injury and damage obligations. Management indicates that the CTA will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

(f) Investments

The CTA's investments, which are reported at fair value, are categorized to give an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the CTA or its agent in the CTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the CTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the CTA's name, and uninsured, unregistered investments.

Investments are categorized as follows at December 31, 2004 (in thousands of dollars):

	Category 1	Category 2	Category 3	Carrying amount
Repurchase agreements	$ 34,000	—	—	34,000
Commercial paper	—	43,262	—	43,262
U.S. Government securities	—	79,768	—	79,768
Total categorized investments	$ 34,000	123,030	—	157,030
Mutual funds (not subject to risk categorization)				5,464
Total investments				$ 162,494

Investments are categorized as follows at December 31, 2003 (in thousands of dollars):

	Category 1	Category 2	Category 3	Carrying amount
Repurchase agreements	$ 49,000	—	—	49,000
Commercial paper	15,002	54,582	—	69,584
U.S. Government securities	—	86,258	—	86,258
Total categorized investments	$ 64,002	140,840	—	204,842
Mutual funds (not subject to risk categorization)				11,559
Total investments				$ 216,401

Uncategorized investments are not subject to categorization because they are not securities. The relationship between the CTA and the investment agent is a direct contractual relationship, and a transferable instrument that evidences ownership or creditorship does not support the investments.

A reconciliation of the balance sheets to amounts presented in note 5 is as follows (in thousands of dollars):

		2004	2003
Cash and cash equivalents	$	1,085	23,400
Investments		29,182	30,660
Cash and investments held by trustee for supplemental retirement plan		30,318	30,750
Assets restricted for repayment of leasing obligations		1,628,304	1,677,902
Assets held by trustee		337,967	166,584
Assets restricted by RTA		51,982	84,119
Assets restricted for injury and damage reserve		59,869	57,905
Total	$	2,138,707	2,071,320
Cash and deposits:			
Cash	$	(47,060)	(79,706)
Certificates of deposit		5,020	6,020
Assets restricted by RTA		51,982	84,119
Total cash and deposits		9,942	10,433
Cash equivalents and investments:			
U.S. Government issues		79,768	86,258
Repurchase agreements		34,000	49,000
Commercial paper		43,262	69,584
Mutual funds		5,464	11,559
Assets held by the trustee		337,967	166,584
Assets held in trust for lease repayment		1,628,304	1,677,902
Total cash equivalents and investments		2,128,765	2,060,887
Total	$	2,138,707	2,071,320

(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 and buses 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 $516,367,000 and $660,726,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2004 and 2003, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $258,102,000 and $381,595,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2004 and 2003, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2004 and 2003 (in thousands of dollars):

		2004	2003
Funding source:			
Federal (FTA)	$	3,758,513	3,506,162
State (principally IDOT)		514,200	498,540
RTA		1,463,883	1,266,691
CTA (generally prior to 1973)		126,573	126,573
Other		254,819	253,790
Total	$	6,117,988	5,651,756

Changes in capital assets for the year ended December 31, 2004 are as follows (in thousands of dollars):

		Balance at January 1, 2004	Increase	Decrease	Balance at December 31, 2004
Capital assets, not being depreciated:					
Land	$	66,505	26,325	(69)	92,761
Construction in process		156,456	533,149	(476,080)	213,525
Total capital assets, not being depreciated		222,961	559,474	(476,149)	306,286
Capital assets being depreciated:					
Land improvements		10,231	—	—	10,231
Buildings		1,368,174	133,973	(4,023)	1,498,124
Vehicles		1,796,714	115,957	(21,992)	1,890,679
Elevated structure track		1,218,537	76,189	(2,093)	1,292,633
Signal and communication		639,673	40,454	(3,301)	676,826
Other equipment		395,466	60,154	(12,411)	443,209
Total capital assets being depreciated		5,428,795	426,727	(43,820)	5,811,702
Less accumulated depreciation for:					
Land improvements		7,344	1,461	—	8,805
Buildings		490,764	65,414	(4,125)	552,053
Vehicles		1,038,144	130,078	(21,951)	1,146,271
Elevated structure track		608,325	70,271	(457)	678,139
Signal and communication		395,205	33,767	(5,175)	423,797
Other equipment		295,884	48,171	(12,149)	331,906
Total accumulated depreciation		2,835,666	349,162	(43,857)	3,140,971
Total capital assets being depreciated, net		2,593,129	77,565	37	2,670,731
Total capital assets, net	$	2,816,090	637,039	(476,112)	2,977,017

Changes in capital assets for the year ended December 31, 2003 are as follows (in thousands of dollars):

		Balance at January 1, 2003	Increase	Decrease	Balance at December 31, 2003
Capital assets, not being depreciated:					
Land	$	61,921	4,705	(121)	66,505
Construction in process		55,863	117,171	(16,578)	156,456
Total capital assets, not being depreciated		117,784	121,876	(16,699)	222,961
Capital assets being depreciated:					
Land improvements		10,231	—	—	10,231
Buildings		1,225,500	142,687	(13)	1,368,174
Vehicles		1,738,905	66,396	(8,587)	1,796,714
Elevated structure track		1,139,838	78,699	—	1,218,537
Signal and communication		577,463	62,210	—	639,673
Other equipment		354,746	48,530	(7,810)	395,466
Total capital assets being depreciated		5,046,683	398,522	(16,410)	5,428,795
Less accumulated depreciation for:					
Land improvements		7,287	704	(647)	7,344
Buildings		424,858	65,981	(75)	490,764
Vehicles		784,566	270,783	(17,205)	1,038,144
Elevated structure track		525,906	82,466	(47)	608,325
Signal and communication		355,172	40,770	(737)	395,205
Other equipment		388,794	39,287	(132,197)	295,884
Total accumulated depreciation		2,486,583	499,991	(150,908)	2,835,666
Total capital assets being depreciated, net		2,560,100	(101,469)	134,498	2,593,129
Total capital assets, net	$	2,677,884	20,407	117,799	2,816,090

(Continued)

(7) Long-term Obligations

Changes in long-term obligations for the year ended December 31, 2004 are as follows (in thousands of dollars):

	Balance at January 1, 2004	Additions	Reductions	Balance at December 31, 2004	Amount due within one year
Self insurance claims (note 11)	$ 164,162	215,657	(219,477)	160,342	63,990
Capital lease obligations (note 8)	1,778,972	—	(55,173)	1,723,799	99,683
Premium on capital lease obligation	8,067	—	(702)	7,365	—
Deferred revenue – leasing transactions (note 8)	54,284	—	(4,262)	50,022	—
Bonds payable (note 9)	207,200	250,000	(81,765)	375,435	—
Premium on bonds payable	8,364	26,713	(4,770)	30,307	—
Accrued pension costs (note 10):					
Employees Retirement Plan	578,223	188,779	—	767,002	—
Supplemental Retirement Plan	34,986	—	(2,626)	32,360	—
Other	3,401	1,901	(291)	5,011	—
Total	$ 2,837,659	683,050	(369,066)	3,151,643	163,673

Changes in long-term obligations for the year ended December 31, 2003 are as follows (in thousands of dollars):

	Balance at January 1, 2003	Additions	Reductions	Balance at December 31, 2003	Amount due within one year
Self insurance claims (note 11)	$ 170,633	211,391	(217,862)	164,162	80,763
Capital lease obligations (note 8)	1,628,837	257,143	(107,008)	1,778,972	170,871
Premium on capital lease obligation	—	8,769	(702)	8,067	—
Deferred revenue – leasing transactions (note 8)	58,546	—	(4,262)	54,284	—
Bonds payable (note 9)	—	207,200	—	207,200	—
Premium on bonds payable	—	9,857	(1,493)	8,364	—
Accrued pension costs (note 10):					
Employees Retirement Plan	442,884	135,339	—	578,223	—
Supplemental Retirement Plan	35,705	—	(719)	34,986	—
Other	3,422	—	(21)	3,401	—
Total	$ 2,340,027	829,699	(332,067)	2,837,659	251,634

(8) Capital Lease Obligations

(a) Capital Lease – Public Building Commission

In 2003, Public Building Commission of Chicago (PBC) issued Revenue Bonds for the benefit of 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. The bonds are payable from and secured by the lease entered into between the Commission and the CTA in March 2003 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 sheet.

The CTA is required to make the payments of $9,945,000 for 2005, $9,847,000 for 2006, $9,891,000 for 2007, and $9,922,000 for 2008. The remaining payments from 2009 through 2023 range from $9,713,000 to $9,954,000 and total $147,624,000. The present value of the future payments to be made by CTA under the lease of approximately $119,020,000 is reflected in the accompanying December 31, 2004 balance sheet as a capital lease obligation.

(b) 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 $14,572,000 at December 31, 2004. 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. Under the sublease, the CTA is required to make the payments of $1,294,000 for 2005, $1,362,000 for 2006, and $9,373,000 for 2007. No payments are required for 2008. Three remaining payments are due of $1,255,000 in 2011, $412,000 in 2012, and $25,437,000 in 2016. The present value of the future payments to be made by CTA under the lease of approximately $24,480,000 is reflected in the accompanying December 31, 2004 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 (lot 1 and 2), with a book value of $73,483,000 at December 31, 2004. 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. Under the sublease, no payments are required for 2005 through 2008. The remaining payments from 2009 through 2014 range from $767,000 to $79,692,000 and total $147,524,000. The present value of the future payments to be made by CTA under the lease of approximately $91,682,000 is reflected in the accompanying December 31, 2004 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 $39,308,000 at December 31, 2004. 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. Under the sublease, the CTA is required to make the payments of $6,928,000 for the years 2005, 2006, and 2007. The remaining payments are due in 2008 and 2020 in the amount of $103,094,000 and $159,009,000, respectively. The present value of the future payments to be made by CTA under the lease of approximately $162,841,000 is reflected in the accompanying December 31, 2004 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 $317,905,000 at December 31, 2004, 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). Under the 1998 Lease, the CTA is required to make the payments of $23,864,000 for 2005, $12,835,000 for 2006, $24,853,000 for 2007, $38,184,000 for 2008, and $25,884,000 for 2009. The remaining payments from 2010 through 2018 range from $2,038,000 to $19,999,000 and total $195,920,693. The present value of the future payments to be made by CTA under the lease of approximately $276,350,000 is reflected in the accompanying December 31, 2004 balance sheet as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $57,814,000 at December 31, 2004. 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). 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 Leases require a payment at the end of the initial terms (in the year 2025) of $614,300,000, which is fully defeased from the Equity Trust and the final head-lease payment. The present value of the future payments to be made by CTA under the leases (net of the payment due from the Equity Trust in 2022 and 2023) of approximately $26,118,000 is reflected in the accompanying December 31, 2004 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.

(Continued)

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of $63,167,000 at December 31, 2004. 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). No other lease payments are required until the end of each lease. The 1996 Lease also requires a payment at the end of the initial term (in the year 2024) of $653,500,000, which is fully defeased from the Equity Trust and the final head-lease payment. The present value of the future payments to be made by CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately $26,361,000 is reflected in the accompanying December 31, 2004 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, 2004, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $996,947,000. 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.

(c) Change in Capital Lease Obligations

Changes in capital leases for the year ended December 31, 2004 are as follows (in thousands of dollars):

2004		Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$	23,660	843	(23)	24,480	843	1,295
2002 (Buses)		131,486	6,627	(46,431)	91,682	6,627	—
2002 (QTE)		158,386	10,055	(5,600)	162,841	10,055	6,928
1998 (Green)		291,630	19,911	(35,191)	276,350	19,910	23,863
1997 (Garages)		35,587	2,676	(12,145)	26,118	2,676	—
1996 (Skokie/Racine)		31,804	2,339	(7,782)	26,361	2,339	—
1995(Pickle)		987,399	73,246	(63,698)	996,947	73,246	63,697
Total lease/ leasebacks		1,659,952	115,697	(170,870)	1,604,779	115,696	95,783
PBC lease		119,020	—	—	119,020	—	3,900
Total capital lease obligations	$	1,778,972	115,697	(170,870)	1,723,799	115,696	99,683

Changes in capital leases for the year ended December 31, 2003 are as follows (in thousands of dollars):

2003		Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$	—	23,660	—	23,660	1,601	23
2002 (Buses)		125,908	6,345	(767)	131,486	6,345	46,431
2002 (QTE)		148,931	9,455	—	158,386	9,455	5,600
1998 (Green)		298,378	20,365	(27,113)	291,630	20,366	35,191
1997 (Garages)		47,448	3,569	(15,430)	35,587	3,568	12,146
1996 (Skokie/Racine)		29,625	2,179	—	31,804	2,179	7,782
1995(Pickle)		978,547	72,550	(63,698)	987,399	72,550	63,698
Total lease/ leasebacks		1,628,837	138,123	(107,008)	1,659,952	116,064	170,871
PBC lease		—	119,020	—	119,020	—	—
Total capital lease obligations	$	1,628,837	257,143	(107,008)	1,778,972	116,064	170,871

* Additions include accretion of interest

(d) Future Minimum Lease Payments

As of December 31, 2004, future minimum lease payment payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2005	$	105,728
2006		94,670
2007		114,742
2008		214,897
2009		99,396
2010 – 2014		721,068
2015 – 2019		1,513,083
2020 – 2024		386,076
Total minimum lease payments		3,249,660
Less interest		1,525,861
	$	1,723,799

(9) Bonds Payable

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 pursuant to a full funding grant agreement. 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 Series 2004 bonds outstanding as of December 31, 2004 totaling $250,000,000 bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2006 through June 1, 2016. The premium on the bonds and the bond issue costs are being amortized over the life of the bonds using the straight-line method.

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

	Principal	Interest	Total
2005	$ —	13,367	13,367
2006	17,705	12,276	29,981
2007	18,410	11,462	29,872
2008	19,335	10,543	29,878
2009	20,250	9,563	29,813
2010	21,295	8,493	29,788
2011	22,390	7,368	29,758
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	$ 250,000	90,741	340,741

On March 12, 2003, the CTA issued Capital Grant Receipts Revenue Bonds, Douglas Branch Project, in the amount of $207,200,000, along with a premium of $9,857,000, 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 finance a portion of the costs of the extensive rehabilitation of eight rail stations and five miles of track as well as the installation of signal and communications equipment, the traction power system, and various infrastructure improvements that together constitute the Douglas Branch Reconstruction Project.

The Series 2003 bonds outstanding as of December 31, 2004 totaling $125,435,000 bear interest ranging from 4.0% to 5.0%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2005 through June 1, 2008. The premium on the bonds and the bond issuance costs are being amortized over the life of the bonds using the straight-line method.

On May 27, 2004 the Authority deposited with the Trustee, under the Indenture dated February 1, 2003, the sum of $48,918,049 constituting Full Funding Grant Receipts. The Trustee deposited the full amount to the Redemption Account of the Debt Service Fund. On June 28, 2004 the Authority redeemed $48,915,000 of the following bond principal amounts:

Series	CUSIP number	Maturity	Principal	Interest rate
2003A	167723AA3	June 1, 2005	$ 10,000,000	3.75%
2003A	167723ABI	June 1, 2005	28,490,000	4.00%
2003A	167723AC9	June 1, 2006	10,425,000	4.00%

On September 24, 2004 the Authority deposited with the Trustee, under the Trust Indenture dated February 1, 2003, the sum of $34,737,153 constituting Full Funding Grant Receipts. The Trustee deposited $1,925,325 to the Interest Account and the remaining $32,811,828 of the Full Funding Grant Receipts to the Redemption Account of the Debt Service Fund. On October 25, 2004 the Authority redeemed $32,850,000 of the following bond principal amount:

Series	CUSIP number	Maturity	Principal	Interest rate
2003A	167723AC9	June 1, 2006	$ 32,850,000	4.00%

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

	Principal	Interest	Total
Year ending December 31:			
2005	$ —	5,748	5,748
2006	9,200	5,564	14,764
2007	58,700	3,913	62,613
2008	57,535	1,223	58,758
Total	$ 125,435	16,448	141,883

(10) Defined Benefit Pension Plans

(a) Plan Descriptions

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 the terms of the employees' collective bargaining agreement. The CTA also maintains a separate, nontrusted plan for selected individuals. The Supplemental Retirement Plan, which includes the Retirement Plan for Board Members and the Supplemental Retirement Plan for selected Officers, Executives, Supervisory and Professional Employees (the Supplemental Plan), provides benefits in addition to the Employees' Plan to management employees in certain employment classifications and Chicago Transit Board members. As of December 31, 2004 and 2003, Supplemental Retirement Plan assets include cash and investments of $30,318,000 and $30,750,000, respectively.

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees 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. The Employees' Plan also provides death, disability, and hospitalization benefits. The Employees' Plan issues a separate standalone financial report and is available upon request.

The covered payroll for the Employees' Plan for the fiscal year ended December 31, 2004 and 2003 was $508,811,000 and $490,500,000, respectively. The covered payroll for the Supplemental Plan for the fiscal year ended December 31, 2004 and 2003 was $16,128,000 and $17,765,000, respectively.

The CTA has adopted GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for the plans. GASB Statement No. 27 requires the accrued pension liability be calculated as the cumulative difference, including interest, between the employer's required contributions in accordance with the plans' actuarially required contribution funding requirements and the actual contributions made by the employer for all fiscal years beginning after December 15, 1986 and through the date of transition.

(b) Funding Policy and Annual Pension Cost

Contribution requirements of the Employee plan are governed by collective bargaining agreements. Supplemental plan contributions 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 is as follows (in thousands of dollars):

		Employees' Plan Pension & Healthcare	Supplemental Plan
Contribution rates:			
CTA		6.0%	Actuarially determined
Plan members		3.0%	Actuarially determined
Annual pension cost (APC)	$	234,583	4,092
Actual 2004 contributions:			
CTA	$	30,529	3,308
Plan members		15,264	450
Actuarial valuation date		January 1, 2004	January 1, 2005
Actuarial cost method		Projected unit credit	Projected unit credit
Amortization method		Level dollar	Level dollar
Remaining amortization period		40	30
Asset valuation method		5-years smoothed market	Fair market value
Actuarial assumptions*:			
Investments rate of return		9.0%	6.0%
Projected salary increases		5.5%	5.5%
* Includes inflation at		3.0%	3.5%

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

	Trend rate
Plan year:	
2005	10%
2006	9%
2007	8%
2008	7%
2009 and after	6%

There were no significant assumption changes for either plan from the prior year valuation.

The following represents the significant components of the APC and changes in net pension obligation (NPO) during the year ended December 31, 2004 (in thousands of dollars):

		Employees' Plan		Supplemental
		Pension	Healthcare	Plan
Annual required contribution (ARC)	$	153,253	78,603	4,368
Interest on NPO		42,892	9,148	1,597
Adjustment to ARC		(40,645)	(8,669)	(1,873)
Annual pension cost		155,500	79,082	4,092
Contributions made		30,230	15,573	3,688
Increase in NPO		125,270	63,509	404
NPO – December 31, 2003		476,579	101,644	26,622
NPO – December 31, 2004	$	601,849	165,153	27,026

A reconciliation of the balance sheet at December 31, 2004 to amounts presented above (in thousands of dollars):

		Employees' Plan		Supplemental
		Pension	Healthcare	Plan
NPO – December 31, 2004	$	601,849	165,153	27,026
Additional pension accruals		—	—	5,334
Total	$	601,849	165,153	32,360

The following represents the significant components of the APC and changes in net pension obligation (NPO) during the year ended December 31, 2003 (in thousands of dollars):

		Employees' plan		Supplemental
		Pension	**Healthcare**	**plan**
Annual required contribution (ARC)	$	117,305	60,099	4,690
Interest on NPO		34,798	5,061	1,515
Adjustment to ARC		(32,975)	(4,796)	(1,777)
Annual pension cost		119,128	60,364	4,428
Contributions made		29,196	14,958	3,060
Increase in NPO		89,932	45,406	1,368
NPO – December 31, 2002		386,647	56,238	25,254
NPO – December 31, 2003	$	476,579	101,644	26,622

A reconciliation of the balance sheet at December 31, 2003 to amounts presented above (in thousands of dollars):

		Employees' plan		Supplemental
		Pension	**Healthcare**	**plan**
NPO – December 31, 2003	$	476,579	101,644	26,622
Additional pension accruals		—	—	8,364
Total	$	476,579	101,644	34,986

(c) Three-year Trend Information

The following summarizes fund information for the Plans (in thousands of dollars):

	Year ended		Annual pension cost (APC)	Actual contributions	Percentage of APC contributed		Net pension obligation
Employees' plan	December 31, 2004	$	155,501	30,230	19.4%	$	601,849
Pension	December 31, 2003		119,128	29,196	24.5		476,579
	December 31, 2002		64,758	29,432	45.4		386,647
Employees' plan	December 31, 2004	$	79,082	15,573	19.7%	$	165,153
Healthcare	December 31, 2003		60,364	14,958	24.8		101,644
	December 31, 2002		26,111	13,864	53.1		56,238
Supplemental plan	December 31, 2004	$	4,092	3,688	90.1%	$	27,026
	December 31, 2003		4,428	3,060	69.1		26,622
	December 31, 2002		4,274	4,934	115.4		25,254

(11) 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, worker's 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 currently maintained by the CTA. On November 15, 2003, CTA's insurance coverage changed to cover injury and damage claims up to $35,000,000 per occurrence and in the aggregate, with a $15,000,000 deductible. This policy was extended on November 15, 2004 for a one year period. For the period from November 15, 2002 through November 14, 2003, the insurance covered the CTA for claims up to $25,000,000 and in the aggregate, with a $25,000,000 deductible. Prior to November 15, 2002 the insurance covered claims up to $45,000,000 per occurrence and in the aggregate, with a $5,000,000 deductible. In 2004 and 2003, no CTA claim existed that would have been submitted under this insurance policy.

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 any damages paid plus a floating interest rate that is calculated at 1.76% and 1.6% per annum for the years ended December 31, 2004 and 2003, respectively. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2004 or 2003 to pay injury and damage claims.

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 5.0% and 5.0%, respectively. The estimate for worker's compensation claims is adjusted for a current trend rate and discount factor of 3.0% and 3.0%, respectively.

Changes in the balance of claim liabilities during the past two years are as follows (in thousands of dollars):

		Injury and damage	Group Health and Dental	Worker's compensation	Total
Balance at December 31, 2002	$	102,243	30,907	37,483	170,633
Cash funded		17,568	154,454	39,369	211,391
Funding excess per actuarial requirement		(4,640)	—	—	(4,640)
Payments		(25,371)	(159,619)	(28,232)	(213,222)
Balance at December 31, 2003		89,800	25,742	48,620	164,162
Cash funded		22,000	157,566	36,091	215,657
Funding excess per actuarial requirement		(146)	—		(146)
Payments		(20,219)	(170,308)	(28,804)	(219,331)
Balance at December 31, 2004	$	91,435	13,000	55,907	160,342

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.

(12) Derivative Financial Instruments

(a) Objective of the Derivative

The CTA negotiated a commodity swap agreement with a financial institution to protect against market fluctuations in the price of diesel fuel.

(b) Terms

On November 4, 2003, the CTA entered into a commodity swap agreement effective through October 31, 2004 with monthly payments based on the notional amount of 950,000 gallons of NYMEX No. 2 heating oil. Payment between the swap parties is calculated as the average of the daily settlement price per gallon for the first nearby month of the NYMEX No. 2 heating oil futures contract.

On November 30, 2004, the CTA entered into a commodity swap agreement effective through November 30, 2005 with monthly payments based on the notional amount of per calculation period of 285,000 gallons of NYMEX No. 2 heating oil. Payment between the swap parties is calculated as the average of the daily settlement price per gallon for the first nearby month of the NYMEX No. 2 heating oil futures contract.

(c) Fair Value

As of December 31, 2004, the commodity swap had a fair value of $3,622,372, estimated by discounting forward market prices available from exchange trading.

(d) Credit Risk

The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2004, the swap counterparty's long term deposit rating was Aa1 per Moody's Investors Service and AA- by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below Aa2/AA, the fair value of the swap will be fully collateralized by the counterparty with cash, U.S Treasury, or U.S. Agency securities. Collateral would be posted with a third-party custodian.

(13) Commitments and Contingencies

(a) Litigation

In April 2003, the CTA was named as a co-defendant in a legal claim that alleges the Retirement Allowance Committee for the Employees Retirement Plan breached its fiduciary duties when it approved a $42 million payment in January 2003 and monthly payments thereafter totaling approximately $23 million from Plan assets to reimburse CTA for actual healthcare costs paid on behalf of the Plan for retired members from 1995 to present. Each defendant, including CTA, is being held individually liable for approximately $65 million. Based on information currently available, management believes there has been no breach of fiduciary duties or breach of contract, and that payments were properly made for the reimbursement of actual health care costs paid by CTA on behalf of retired plan members. Accordingly, no liability has been recorded in the financial statements as of December 31, 2004. However, the ultimate outcome of this claim cannot be determined at this time.

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.

(b) Defeased Debt

On May 1, 1998, the CTA defeased the capital lease agreement with the Public Building Commission of Chicago (the PBC) for the 901 W. Division facility. The CTA placed approximately $13,600,000 into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease. The amount of debt considered defeased as of December 31, 2004 and 2003 was $4,255,000 and $3,700,000, respectively.

(c) Operating Leases

As of December 31, 2004, future minimum lease payment payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2005	$	281
2006		281
2007		281
Total minimum lease payments	$	843

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY

Required Supplementary Information –
Schedules of Funding Progress

December 31, 2004

(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)
Employees' Plan – Pension								
1/1/2004	$	1,062,399	2,189,666	1,127,267	48.5%	$	486,626	231.6%
1/1/2003		1,190,087	2,085,724	895,637	57.1		480,740	186.3
1/1/2002		1,355,567	2,044,330	688,763	66.3		459,343	149.9
1/1/2001		1,595,609	2,058,999	463,390	77.5		431,703	107.3
1/1/2000		1,494,585	1,871,391	376,806	79.9		424,518	88.8
1/1/1999		1,363,625	1,777,098	413,473	76.7		407,406	101.5
Employees' Plan – Healthcare								
1/1/2004	$	518,647	1,068,961	550,314	48.5%	$	486,626	113.1%
1/1/2003		536,850	940,873	404,023	57.1		480,740	84.0
1/1/2002		509,160	767,864	258,704	66.3		459,343	56.3
1/1/2001		232,486	299,857	67,371	77.5		431,703	15.6
1/1/2000		227,630	284,888	57,258	79.9		424,518	13.5
1/1/1999		213,299	277,855	64,556	76.8		407,406	15.8
Supplemental Plan:								
1/1/2004	$	450	33,581	33,131	1.3%	$	16,128	205.4%
1/1/2003		356	33,366	33,010	1.1		17,765	185.8
1/1/2002		320	34,070	33,750	0.9		18,885	178.7
1/1/2001		303	43,730	43,427	0.7		15,402	282.0
1/1/2000		244	41,735	41,491	0.6		14,639	283.4
1/1/1999		472	32,113	31,641	1.5		14,049	225.2

See accompanying independent auditors' report and notes to supplementary information.

CHICAGO TRANSIT AUTHORITY

Required Supplementary Information –
Schedules of Employer Contributions

December 31, 2004

(In thousands of dollars)

Employees' Plan – Pension

Year ended	Annual required contribution	Percentage contributed
12/31/04	$ 153,253	19.7%
12/31/03	117,305	24.9
12/31/02	61,419	47.9
12/31/01	73,824	48.9
12/31/00	62,517	54.7
12/31/99	64,653	52.0

Employees' Plan – Healthcare

Year ended	Annual required contribution	Percentage contributed
12/31/04	$ 78,603	19.8%
12/31/03	60,099	24.9
12/31/02	28,933	47.9
12/31/01	9,619	48.9
12/31/00	8,427	54.7
12/31/99	9,111	52.0

Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/04	$ 4,368	86.0%
12/31/03	4,690	65.3
12/31/02	4,543	108.6
12/31/01	3,817	96.0
12/31/00	3,575	102.5
12/31/99	3,586	104.9

See accompanying independent auditors' report and notes to supplementary information.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY

Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis

Year ended December 31, 2004

(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 685,026	685,026	680,081	4,945
Materials and supplies	66,000	66,000	61,387	4,613
Fuel	23,000	23,000	30,093	(7,093)
Electric power	22,000	22,000	21,640	360
Purchase of security services	25,042	25,042	27,555	(2,513)
Purchase of paratransit services	45,113	45,113	48,999	(3,886)
Other	47,245	47,245	46,577	668
Provision for injuries and damages	22,000	22,000	22,000	—
Total operating expenses	935,426	935,426	938,332	(2,906)
System-generated revenues:				
Fares and passes	393,506	393,506	402,768	9,262
Reduced fare subsidies	32,300	32,300	31,302	(998)
Advertising and concessions	24,250	24,250	24,882	632
Investment income	3,000	3,000	3,051	51
Contributions from local governmental units	5,000	5,000	5,000	—
Other revenue	35,740	35,740	29,888	(5,852)
Total system-generated revenues	493,796	493,796	496,891	3,095
Operating expenses in excess of system-generated revenues	441,630	441,630	441,441	189
Public funding from the RTA:				
Operating assistance	441,630	441,630	441,630	—
Change in net assets – budgetary basis	$ —	—	189	189
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(349,162)	
Workers' compensation			(11,195)	
Pension expense in excess of pension contributions			(176,553)	
Provision for injury and damage claims			146	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			237	
Interest expense on bond transactions			(2,635)	
Interest income from sale/leaseback			121,272	
Interest expense from sale/leaseback			(115,696)	
Capital contributions			490,402	
Change in net assets – GAAP basis			$ (38,733)	
CTA recovery ratio:				
Total operating expenses			$ 938,332	
Less mandated security costs			4,695	
Less provision for base year security cost			10,200	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 945,437	
Total system-generated revenues			$ 496,891	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 518,891	
Recovery ratio (A/B)			54.88%	

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis

Year ended December 31, 2003

(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 686,912	686,912	667,860	19,052
Materials and supplies	67,466	67,466	59,188	8,278
Fuel	22,375	22,375	24,477	(2,102)
Electric power	21,296	21,296	21,058	238
Purchase of security services	24,813	24,813	24,780	33
Purchase of paratransit services	37,214	37,214	42,350	(5,136)
Other	46,922	46,922	39,472	7,450
Provision for injuries and damages	17,568	17,568	17,568	—
Total operating expenses	924,566	924,566	896,753	27,813
System-generated revenues:				
Fares and passes	376,132	376,132	367,906	(8,226)
Reduced fare subsidies	32,300	32,300	33,161	861
Advertising and concessions	24,598	24,598	21,846	(2,752)
Investment income	4,864	4,864	3,025	(1,839)
Contributions from local governmental units	5,000	5,000	5,000	—
Other revenue	28,184	28,184	12,329	(15,855)
Total system-generated revenues	471,078	471,078	443,267	(27,811)
Operating expenses in excess of system-generated revenues	453,488	453,488	453,486	2
Public funding from the RTA:				
Operating assistance	453,488	453,488	453,488	—
Change in net assets – budgetary basis	$ —	—	2	2
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(367,536)	
Pension expense in excess of pension contributions			(130,183)	
Provision for injury and damage claims			4,640	
Revenue from leasing transactions			4,262	
Interest income from sale/leaseback			118,437	
Interest expense from sale/leaseback			(116,064)	
Capital contributions			397,035	
Change in net assets – GAAP basis			$ (89,407)	
CTA recovery ratio:				
Total operating expenses			$ 896,753	
Less mandated security costs			4,974	
Less provision for base year security cost			10,200	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 903,579	
Total system-generated revenues			$ 443,267	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 465,267	
Recovery ratio (A/B)			51.49%	

See accompanying independent auditors’ report.