Chicago Transit Authority

Financial Statements for the
Years Ended December 31, 2003 and 2002 and
Supplementary Information and
Independent Auditors' Report

CHICAGO TRANSIT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying statements of net assets of the Chicago Transit Authority (the "CTA"), an Illinois municipal corporation, as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows, for the years then ended, which collectively comprise the CTA's basic financial statements. These basic 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audits provide 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, 2003 and 2002, and the results of its operations and its cash flows for the years 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 April 19, 2004 on our consideration of the CTA's internal control structure over financial reporting and tests of the CTA's compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit, performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information; Management's Discussion and Analysis on pages 3 through 12, and the Schedules of Funding Progress and Employer Contributions on pages 41 and 42, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended December 31, 2003 and 2002 were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information listed as Supplementary Schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the CTA. This information is the responsibility of the CTA's management. Such additional information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to those basic financial statements taken as a whole.

PTW & Co.

PTW & Co.

Chicago, Illinois
April 19, 2004
(Except for note 14, as to
which the date is May 4, 2005)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2003 AND 2002

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 year that ended December 31, 2003, with selective comparison to the financial performance for the fiscal year ended December 31, 2002. Please read it in conjunction with the CTA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Net assets totaled $2,039,387,000 and $2,128,794,000 at December 31, 2003 and 2002, respectively.
- Net assets decreased $89,407,000 in 2003, which compares unfavorably to the 2002 increase in net assets of $14,894,000. The change over the prior year is primarily due to an increase in the net pension obligation of the employee's retirement plan.
- 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

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements with corresponding note disclosures and other supplementary information.

The financial statements provide both long-term and short-term information about the CTA's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The CTA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. 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, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the CTA are included in the Statements of Net Assets.

The Statements of Net Assets presents information on all of the CTA's assets and liabilities, with the difference between the two reported as net assets. The net asset balance is one way to measure the CTA's financial position.

FINANCIAL ANALYSIS OF THE CTA

Net Assets

Net assets represent the difference between total assets and total liabilities. As shown in Table 1, the CTA's total net assets at December 31, 2003 were $2,039,387 and decreased 4.2% over December 31, 2002. Total assets increased by 8.2% to $5,155,190,000, while total liabilities increased by 18.2% to $3,115,803,000.

Table 1
Chicago Transit Authority's Condensed Statements of Net Assets
(in thousands of dollars)

	2003	2002	Total Percentage Change 2002-2003
Assets			
Current Assets	$ 313,477	$ 293,385	6.8%
Restricted Assets	1,986,510	1,763,475	12.6%
Other Assets	39,113	30,664	27.6%
Capital Assets, Net	2,816,090	2,677,884	5.2%
Total Assets	$ 5,155,190	$ 4,765,408	8.2%
Liabilities			
Current Liabilities	$ 531,478	$ 490,789	8.3%
Long-term Liabilities	2,584,325	2,145,825	20.4%
Total Liabilities	3,115,803	2,636,614	18.2%
Net Assets			
Invested in Capital Assets, Net of Related Leasehold Debt	2,599,650	2,677,884	-2.9%
Restricted for Payment of Obligation Under Leasehold Agreement	17,950	15,576	15.2%
Restricted for debt service	48,736	-	
Restricted by Grantor	20,704	24,325	-14.9%
Unrestricted	(647,653)	(588,991)	-10.0%
Total Net Assets	2,039,387	2,128,794	-4.2%
Total Liabilities and Net Assets	$ 5,155,190	$ 4,765,408	8.2%

Current assets increased by 6.8% to $313,477,000. The change in current assets is primarily due to the change 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 capitalization of construction costs of a 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 Federal Transit Administration (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 8.3% primarily due to an increase in capital lease obligations. Long-term liabilities increased 20.4% 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 leasehold 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 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 debt service on bonds payable. The third restriction is the net receivable due from grantor agencies.

Unrestricted net assets, which represent assets available for operations, decreased 10.0% over the prior year.

Changes in Net Assets

The decrease in net assets at December 31, 2003 was $89,407,000 and compared unfavorably to the $14,894,000 increase for the period ended December 31, 2002 (See Table 2). This decrease in net assets resulted from lower revenues and higher expenses.

The CTA's total operating revenues, which includes revenues from farebox, advertising and concessions, and other sources decreased by 4.1% to $395,252,000 in 2003, while total operating expenses increased by 7.3% to $1,389,831,000 in 2003 (See Tables 2 and 3).

Table 2
Chicago Transit Authority
Condensed Statements of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

	2003	2002	Total Percentage Change 2002-2003
Operating Revenues	$ 395,252	$ 412,362	-4.1%
Operating Expenses			
Operating Expenses	1,022,295	964,450	6.0%
Depreciation	367,536	331,340	10.9%
Total Operating Expenses	1,389,831	1,295,790	7.3%
Operating Income Loss	(994,579)	(883,428)	-12.6%
Nonoperating Revenues/Expenses	905,172	898,322	0.8%
Change in Net Assets	(89,407)	14,894	-700.3%
Total Net Assets, Beginning of Year	2,128,794	2,113,900	0.7%
Total Net Assets, End of Year	$ 2,039,387	$ 2,128,794	-4.2%

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.

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
Chicago Transit Authority's Operating Expenses
(in thousands of dollars)

	2003	2002	Total Percentage Change 2002-2003
Labor and Fringe Benefits	$ 798,042	$ 707,594	12.8%
Materials and Supplies	59,188	67,931	-12.9%
Fuel	24,477	20,098	21.8%
Electric Power	21,058	21,062	0.0%
Purchase of security services	24,780	24,719	0.2%
Purchase of paratransit	42,350	36,309	16.6%
Other	39,472	46,957	-15.9%
Operating Expenses Before Provisions	1,009,367	924,670	9.2%
Provision for Injuries & Damages	12,928	39,780	-67.5%
Provision for Depreciation	367,536	331,340	10.9%
Total Operating Expenses	$ 1,389,831	$ 1,295,790	7.3%

Analysis of Significant Budget Variations

The CTA is required by law to have a balanced budget and meet the recovery ratio set by the RTA. The recovery ratio measures the amount of operating expenses the CTA has to fund from revenues it generates. The recovery ratio that the CTA was required to meet was 52.90% for 2003. Table 4 shows that the CTA finished the year with a recovery ratio of 51.49% which was 1.41 percentage points below the required recovery ratio due to lower than expected revenues.

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2003 AND 2002

TABLE 4
SCHEDULE OF EXPENSES AND REVENUES -BUDGET AND ACTUAL
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	2003			2002		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
OPERATING EXPENSES:						
Labor and fringe benefits	686,912	667,860	19,052	667,597	663,577	4,020
Materials and supplies	67,466	59,188	8,278	66,949	67,931	(982)
Fuel	22,375	24,477	(2,102)	23,000	20,098	2,902
Electric power	21,296	21,058	238	22,700	21,062	1,638
Purchase of security services	24,813	24,780	33	23,661	24,719	(1,058)
Purchase of paratransit services	37,214	42,350	(5,136)	33,590	36,309	(2,719)
Other	46,922	39,472	7,450	54,291	46,957	7,334
Provision for injuries and damages	17,568	17,568	-	23,000	39,000	(16,000)
Total operating expenses	924,566	896,753	27,813	914,788	919,653	(4,865)
SYSTEM-GENERATED REVENUES:						
Fares and passes	376,132	367,906	(8,226)	388,889	383,859	(5,030)
Reduced fare subsidies	32,300	33,161	861	32,300	30,197	(2,103)
Advertising and concessions	24,598	21,846	(2,752)	30,280	21,340	(8,940)
Investment income	4,864	3,025	(1,839)	10,670	6,451	(4,219)
Contributions from local governmental units	5,000	5,000	-	5,000	5,000	-
Other revenue	28,184	12,329	(15,855)	6,017	31,408	25,391
Total system-generated revenues	471,078	443,267	(27,811)	473,156	478,255	5,099
Operating expenses in excess of system-generated revenues	453,488	453,486	2	441,632	441,398	234
PUBLIC FUNDING FROM THE RTA:						
Operating assistance	453,488	453,488	-	441,632	441,632	-
NET REVENUE - Budgetary basis	$ -	$ 2	$ 2	$ -	$ 234	$ 234

	2003	2002
CTA RECOVERY RATIO:		
Total operating expenses	$ 896,753	$ 919,653
Less mandated security costs	4,974	4,530
Less provision for base year security cost	10,200	10,200
Plus City of Chicago in-kind services	22,000	22,000
Total operating expenses for recovery ratio calculation (B)	$ 903,579	$ 926,923
Total system-generated revenues	$ 443,267	$ 478,255
Plus City of Chicago in-kind services	22,000	22,000
Total system-generated revenues for recovery ratio calculation (A)	$ 465,267	$ 500,255
Recovery Ratio (A/B)	51.49%	53.97%

EXPENSES

Labor expense was $19,052,000 less than budget. The variance in labor expense is related to the implementation of cost containments and operational efficiencies. In late 2003, the CTA reached a collective bargaining agreement with the Amalgamated Transit Union, Local 241, which primarily represents bus operators. The agreement provides for a $3.00 per hour increase in wages over the life of the contract and an increase in employee health care contributions. For CTA, the agreement offers work rule changes that will allow for more cost-efficient operations and the elimination of post-employment health care benefits for new employees.

Materials expense was $8,278,000 or 12.3% less than budget. The favorable variance is due primarily to lower material requirements in the bus and facilities divisions related to the capital program and enhanced cost controls.

Fuel expense for revenue equipment was $2,102,000 more than budget due to increased consumption and a higher average price per gallon. In 2003, CTA began using Ultra Low Sulfur Diesel (ULSD) fuel to meet EPA requirements of achieving clean air goals. The incremental per gallon cost of ULSD fuel of $0.08 was funded by a FTA Congestion Mitigation and Air Quality improvement grant. For 2003, the fuel purchase price averaged $1.05 per gallon, after reimbursement for the CMAQ grant, and was $0.05 more than budget. The 2003 actual consumption was 0.8 million gallons, or 3.8% more than budget.

Electric Power expense for the rail system was $238,000 less than the budget. This is a result of lower tax expense and lower consumption.

Security expense was on par with the 2003 budget amount.

Paratransit is a program that provides curb-to-curb transportation service for people who are unable to use conventional fixed route bus or rail services. The 2003 actual paratransit expense exceeded the budget by $5,136,000 primarily due to providing more trips than budgeted, as required by the Americans with Disabilities (ADA) Act.

Other includes rents, maintenance and repair, utilities, advertising, commissions, consulting, insurance, overhead allocated to capital jobs, and other general expenses. The 2003 actual expense was below budget by $7,450,000, primarily due to lower advertising and consulting expenses, as well as additional overhead allocated to capital jobs.

The Provisions for Injuries and Damages represents the expense for claims and litigation for injuries and damages that occur on CTA property or with CTA vehicles. The 2003 actual expense was on par with budget.

REVENUES

System-Generated revenues were $27,811,000 unfavorable to the budget. Public funding required from operations was budgeted at $453,488,000. Actual funding required for operations for 2003 was $2,000 less than budget, resulting in a small funding surplus.

Revenues from fares were unfavorable compared to the budget by $8,226,000. The lower than expected fare revenue for 2003 was due to lower than expected ridership. Actual fare revenue was $15,953,000 or 4.2% less than the 2002 actual.

The Reduced Fare Revenue is the State of Illinois reimbursement to the CTA for providing discounted fares to the disabled, elderly and student customers. The 2003 actual Reduced Fare Reimbursements exceeded budget by $861,000.

Contributions from Local Governments of $5,000,000 were on par with budget. The RTA Act requires the City of Chicago and County of Cook to contribute $3,000,000 and $2,000,000, respectively on an annual basis to the operations of the CTA.

Revenues from Advertising, Charter and Concessions were less than budget by $2,752,000 due to reduced revenues from the vehicle and platform advertising contracts.

Investment Income was $1,839,000 less than budget. This was due primarily to lower investment rates.

Other revenues, on the budgetary basis, were $15,855,000 less than budget due new revenues anticipated in the budget that were not realized.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The CTA invested $5,651,756,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal & communication equipment as well as other equipment as of December 31, 2003. Net of accumulated depreciation, the CTA's net capital assets at December 31, 2003 totaled $2,816,090,000. (See Table 5) This amount represents a net increase (including additions and disposals, net of depreciation) of $138,206,000 or 5.2% over the December 31, 2002 balance of $2,677,884,000.

Table 5
Chicago Transit Authority's Capital Assets by Funding Source
(net of depreciation, in thousands of dollars)

Funding Source	2003	2002	Total Percentage Change 2002-2003
Federal (FTA)	$ 3,506,162	$ 3,212,000	9.2%
State (principally IDOT)	498,540	481,373	3.6%
RTA	1,266,691	1,097,530	15.4%
CTA (generally prior to 1973)	126,573	126,573	0.0%
Other	253,790	246,991	2.8%
Total Capital Assets	5,651,756	5,164,467	9.4%
Accumulated Depreciation	2,835,666	2,486,583	14.0%
Total Capital Assets, Net	$ 2,816,090	$ 2,677,884	5.2%

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 2003 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 2003 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, 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 $578,223,000, a 30.6% 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 2004 Annual Budget on November 10, 2003. This budget was then submitted to the RTA and approved by the RTA on December 12, 2003. This budget provides for operating expenses of $935,428,000. The operating budget increase of 1.2% over the 2003 Annual Budget is primarily due to wage rate increases, health insurance and worker's compensation cost escalations due to inflation and an increase in paratransit expense due to providing more services. 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 2003 annual unemployment rate for the City of Chicago ended the year at 8.2% which compared unfavorably to the national average of 6.0%. Employment in the Chicago metropolitan region was 3,930,000 at the end of 2003. This represents a loss of 150,000 jobs since 2001. This slow down was evident in sales tax collections for the region which finished the year at $654,988,000, below the budget by $18,141,000, but $7,304,000 above 2002 actual.

Projected operating revenues for 2004 are expected to increase from the 2003 Annual Budget by $22,719,000 or 4.8%. This increase over 2003 operating revenues is expected as a result of a fare increase and use of federal grant money for a portion of paratransit costs.

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 3555, Chicago, IL 60654-0555.

CHICAGO TRANSIT AUTHORITY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 23,400	$ 43,058
Investments	30,660	30,847
Total cash, cash equivalents and investments	54,060	73,905
Grants receivable:		
Due from the RTA	100,666	101,821
Capital improvement projects from federal and state sources	3,070	18,020
Unbilled work in progress	50,717	5,234
Other	177	206
Total grants receivable	154,630	125,281
Accounts receivable	29,386	25,543
Materials and supplies	70,137	63,651
Prepaid expenses and other assets	5,264	5,005
Total current assets	313,477	293,385
RESTRICTED ASSETS:		
Assets restricted for repayment of leasing commitments	1,677,902	1,644,414
Assets held by trustee	166,584	-
Assets restricted by RTA	84,119	73,063
Assets restricted for injury and damage reserve	57,905	45,998
Total restricted assets	1,986,510	1,763,475
OTHER ASSETS:		
Cash and investments held by trustee for supplemental retirement plan	30,750	30,664
Bond Issue Costs	8,363	-
Total other assets	39,113	30,664
CAPITAL ASSETS:		
Capital assets, not being depreciated:		
Land	66,505	61,921
Construction in process	156,456	55,863
Total capital assets, not being depreciated	222,961	117,784
Depreciable capital assets:		
Land Improvements	10,231	10,231
Buildings	1,368,174	1,225,500
Transportation vehicles	1,430,555	1,372,746
Leased rail equipment	366,159	366,159
Elevated structures, tracks, tunnels and power system	1,218,537	1,139,838
Signals	639,673	577,463
Other equipment	395,466	354,746
Less accumulated depreciation	(2,835,666)	(2,486,583)
Total depreciable capital assets, net	2,593,129	2,560,100
Total capital assets, net	2,816,090	2,677,884
TOTAL ASSETS	$ 5,155,190	$ 4,765,408

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	2003	2002
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 65,382	$ 74,557
Current portion of self-insurance reserves	80,763	85,494
Accrued payroll, vacation pay and related liabilities	98,228	128,885
Accrued interest payable	4,621	-
Advances, deposits and other	4,959	667
Advances from RTA	84,119	73,062
Current portion of supplemental retirement plan	1,700	1,700
Current portion of capital lease obligation	170,871	107,008
Deferred passenger revenue	19,814	19,308
Other deferred revenue	1,021	108
Total current liabilities	531,478	490,789
LONG-TERM LIABILITIES:		
Self-insurance reserves, less current portion	83,399	85,139
Supplemental retirement plan, less current portion	33,286	34,005
Capital lease obligation, less current portion	1,608,101	1,521,829
Premium on capital lease obligation	8,067	-
Accrued pension costs	578,223	442,884
Deferred revenue - leasing transactions	54,284	58,546
Bonds payable	207,200	-
Premium on bonds payable	8,364	-
Other long-term liabilities	3,401	3,422
Total long-term liabilities	2,584,325	2,145,825
Total liabilities	3,115,803	2,636,614
NET ASSETS		
Invested in capital assets, net of related debt	2,599,650	2,677,884
Restricted for payment of obligations under leasehold obligations	17,950	15,576
Restricted for debt service	48,736	-
Restricted by grantors	20,704	24,325
Unrestricted	(647,653)	(588,991)
Total net assets	2,039,387	2,128,794
TOTAL LIABILITIES AND NET ASSETS	$ 5,155,190	$ 4,765,408

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	2003	2002
OPERATING REVENUES:		
Fare box revenue	$ 294,021	$ 311,800
Pass revenue	73,885	72,059
Total fare box and pass revenue	367,906	383,859
Advertising and concessions	21,846	21,340
Other revenue	5,500	7,163
Total operating revenues	395,252	412,362
OPERATING EXPENSES:		
Labor and fringe benefits	798,042	707,594
Materials and supplies	59,188	67,931
Fuel	24,477	20,098
Electric power	21,058	21,062
Maintenance and repairs, utilities, rent and other	106,602	107,985
	1,009,367	924,670
Provisions for injuries and damages	12,928	39,780
Provision for depreciation	367,536	331,340
Total operating expenses	1,389,831	1,295,790
Operating expenses in excess of operating revenues	(994,579)	(883,428)
NONOPERATING REVENUE (EXPENSE):		
Public funding from the RTA	453,488	441,632
Reduced fare subsidies	33,161	30,197
Operating grant revenue	2,097	-
Contributions from local government agencies	5,000	5,000
Investment income	3,025	6,451
Gain (loss) on sale of assets	4,504	2,111
Recognition of leasing transaction proceeds	4,489	26,396
Interest revenue from leasing transactions	118,437	105,908
Interest expense on leasing transactions	(116,064)	(105,501)
Capital contributions	397,035	386,128
Total nonoperating revenue (expense)	905,172	898,322
Change in net assets	(89,407)	14,894
TOTAL NET ASSETS - BEGINNING OF YEAR	2,128,794	2,113,900
TOTAL NET ASSETS - END OF YEAR	$ 2,039,387	$ 2,128,794

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	$ 368,412	$ 374,448
Payments to employees	(688,105)	(647,603)
Payments to suppliers	(252,377)	(239,620)
Other receipts	27,448	14,289
Net cash flows used in operating activities	(544,622)	(498,486)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Public funding from the RTA	442,601	433,006
Reduced fare subsidies	33,372	29,945
Operating grant revenue	2,097	-
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by noncapital financing activities	483,070	467,951
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Interest income from assets restricted for payment of leasehold obligations	118,437	105,908
Interest expense on leasehold obligations	(116,064)	(105,501)
Payments for leasing commitments from restricted assets	(33,488)	(264,958)
Proceeds from capital lease obligations	150,135	264,551
Proceeds from leasing transactions	227	22,133
Proceeds from sale of bonds	207,200	-
Premium on issuance of debt	17,924	-
Accrued interest payable	4,621	-
Bond issue costs	(8,942)	-
Payments for acquisition and construction of capital assets	(505,743)	(485,981)
Proceeds from the sale of property and equipment	4,504	2,111
Capital grants	389,418	466,603
Net cash flows provided by capital financing activities	228,229	4,866
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(30,660)	(30,847)
Proceeds from maturity of investments	30,847	18,017
Net change in other restricted cash and investments	(177,640)	(73,063)
Net payments for injury and damage reserve	(11,907)	(1,416)
Investment revenue	3,025	6,451
Net cash flows used in investing activities	(186,335)	(80,858)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,658)	(106,527)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	43,058	149,585
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 23,400	$ 43,058

The accompanying notes to the financial statements are an integral part of this statement.

CHICAGO TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in thousands of dollars)

	2003	2002
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating expenses in excess of operating revenue	$ (994,579)	$ (883,428)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash from operating activities:		
Depreciation	367,536	331,340
(Increase) decrease in assets:		
Accounts receivable	(3,843)	(10,104)
Materials and supplies	(6,486)	1,333
Prepaid expenses and other assets	(259)	(50)
Supplemental retirement plan assets	(86)	(1,748)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(9,175)	14,190
Accrued payroll, vacation pay and related liabilities	(30,657)	5,142
Self-insurance reserves	(6,471)	12,199
Deferred passenger revenue	506	(9,411)
Other deferred revenue	913	-
Advances, deposits and other	3,377	(2,310)
Accrued pension costs	135,339	47,573
Other long-term liabilities and supplemental retirement plan	(737)	(3,212)
Net cash flows used in operating activities	$ (544,622)	$ (498,486)
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	16,536	133,916

The accompanying notes to the financial statements are an integral part of this statement.

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 - Based on the application of Governmental Accounting Standards Board ("GASB") Statement No. 14, entitled "The Financial Reporting Entity," funds held in a separate non-trusted account for the Supplemental Retirement Plans are included in the reporting entity. However, the fund established for the Employees' Retirement Plan has been determined not to be part of the reporting entity. This fund is a legal entity separate and distinct 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. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

Based upon the criteria set forth in GASB Statement No. 14, 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 proforma statements with the RTA as statutorily required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Accounting* -** The operations of the CTA are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the Statement of Net Assets. 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 non-operating revenues and expenses.

GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The CTA applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

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

Reclassifications – Several reclassifications have been made to the prior year balances to conform to the current year presentation. Such reclassifications were made for comparative purposes only, and do not restate the prior year financial statements.

***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.

***Investments* -** Investments, including the supplemental retirement plan assets, are stated at fair value in accordance with GASB Statement No. 31.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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, the CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from the sale were placed in a trust account restricted for financing the costs of extensive infrastructure improvements that constitute the Douglas Branch Reconstruction Project.

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.

***Use of Restricted Assets* –** When applying resources the CTA first uses restricted assets for the purpose for which they were restricted, then unrestricted assets as needed.

***Materials and Supplies* -** Materials and supplies inventories are stated at the lower of cost or market value. The CTA uses the average cost method to determine the cost of such inventories.

***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. 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	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.

Self-insurance **-** The CTA provides for the present value of the self-insurance programs for public liability and property damage, workers' compensation and health benefit claims as more fully described in Note 6. The RTA, as authorized under the Joint Self-Insurance Fund (the "Fund") described in Note 6, provides excess liability insurance to protect the self-insurance programs currently maintained by the CTA. Claims are recorded in the year of occurrence. The public liability and property damage program is administered by the CTA. The health benefit and workers' compensation programs are administered primarily by a third-party administrator for a service fee.

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.

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 workers' compensation claims is adjusted for a current trend rate of 2.0% for 2002 and prior and 3% annual trend for 2003 and a discount factor of 5.0%.

In 1997, the CTA adopted GASB Statement No. 30, "Risk Financing Omnibus," which provides guidance for calculating the liability for self-insurance programs. GASB Statement No. 30 requires the liability for self-insurance programs to be based on the estimated cost of settling the claims. Estimated claims should include specific incremental claim adjustment expenses, which are incurred solely because of the claims. Estimated recoveries on unsettled claims should also be evaluated in terms of their estimated realizable value and deducted from the liability.

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 either do not accumulate or they do not vest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Retirement Plan - The CTA has a retirement plan for all non-temporary, 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.

Cash and Cash Equivalents – For presentation in the statement of cash flows, cash and cash equivalents include unrestricted deposits and other investments with maturities, when purchased, of three months or less.

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 2003 and 2002, 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.

3. BUDGET AND BUDGETARY BASIS OF ACCOUNTING (Continued)

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. 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.

Deposits **-** The carrying amounts of the CTA's cash and deposits (including certificates of deposit) were $10,433,000 and ($4,495,000) at December 31, 2003 and 2002, respectively. The bank balances of the CTA’s cash and deposits (including certificates of deposit) were $26,723,000 and $12,962,000 at December 31, 2003 and 2002, respectively. Approximately $11,796,000 of the 2003 and $29,000 of the 2002 bank balance was not collateralized. The remaining 2003 and 2002 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.

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 $1,677,902,000 and $1,644,414,000 as of 2003 and 2002, respectively, to be used for future payments related to certain leasing transactions.

Assets held by trustee

In 2003, the CTA issued Capital Grant Receipt Revenue Bonds and Public Building Commission Revenue Bonds. The proceeds from the sales were placed in a trust accounts restricted for financing the costs of the respective projects. The assets held by trustee totaled $166,584,000 as of December 31, 2003.

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 $73,063,000 and $84,119,000 as of December 31, 2003 and 2002, respectively.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Assets Restricted for Injury and Damage Reserve - The CTA maintained restricted cash and investment balances of $57,905,000 and $45,998,000 at December 31, 2003 and 2002, 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.

Investments - The CTA's investments are categorized to give an indication of the level of 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.

Cash Equivalents and Investments at December 31, 2003 and 2002 consisted of the following (in thousands of dollars):

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. Government issues	$ 86,258	$ 86,258	$ 97,509	$ 97,509
Repurchase agreements	49,000	49,000	44,100	44,100
Commercial paper	69,584	69,584	69,211	69,211
Mutual funds	11,559	11,559	17,305	17,305
Total	$ 216,401	$ 216,401	$ 228,125	$ 228,125

Collateralization of Cash Equivalents and Investments at December 31, 2003 is as follows (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

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Collateralization of Cash Equivalents and Investments at December 31, 2002 is as follows (in thousands of dollars):

	Category 1	Category 2	Category 3	Carrying Amount
Repurchase Agreements	$ 44,100	$ -	$ -	$ 44,100
Commercial Paper	-	69,211	-	69,211
U.S. Government Securities	-	97,509	-	97,509
Total Categorized Investments	$ 44,100	$ 166,720	$ -	210,820
Mutual Funds (Not subject to risk categorization)				17,305
Total Investments				$ 228,125

The CTA reported all investments at fair value in the balance sheets and market gains in the statements of revenues, expenses and changes in net assets for fiscal years 2003 and 2002.

A reconciliation of the balance sheets to amounts presented in Note 4 is as follows (in thousands of dollars):

	2003	2002
Cash and cash equivalents	$ 23,400	$ 43,058
Investments	30,660	30,847
Cash and investments held by trustee for supplemental retirement plan	30,750	30,664
Assets restricted for repayment of leasing obligations	1,677,902	1,644,414
Assets held by trustee	166,584	-
Assets restricted by RTA	84,119	73,063
Assets restricted for injury and damage reserve	57,905	45,998
Total	$ 2,071,320	$ 1,868,044
Cash and Deposits	2003	2002
Cash	$ (79,706)	$ (83,684)
Certificates of Deposit	6,020	6,126
Assets restricted by RTA	84,119	73,063
Total cash and deposits	10,433	(4,495)
Cash Equivalents and Investments		
U.S. Government issues	86,258	97,509
Repurchase agreements	49,000	44,100
Commercial paper	69,584	69,211
Mutual funds	11,559	17,305
Assets held by trustee	166,584	-
Assets held in trust for lease repayment	1,677,902	1,644,414
Total cash equivalents and investments	2,060,887	1,872,539
Total	$ 2,071,320	$ 1,868,044

5. 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):

	2003	2002
Illinois state sales tax allocation	$ 265,129	$ 274,172
Public Transportation Fund/RTA discretionary funding	188,359	167,460
Total	$ 453,488	$ 441,632

Reduced fare subsidies received from the State of Illinois were $33,161,000 and $30,197,000 for 2003 and 2002, respectively, for discounted services provided to the elderly, disabled, or student riders.

6. INJURY AND DAMAGE, GROUP HEALTH AND WORKERS' COMPENSATION SELF-INSURANCE PROGRAMS

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 4 regarding cash and investment amounts maintained in this account.

6. INJURY AND DAMAGE, GROUP HEALTH AND WORKERS' COMPENSATION SELF-INSURANCE PROGRAMS (Continued)

Changes in the self-insurance accounts were as follows (in thousands of dollars):

	Injury and Damage	Group Health	Workers' Compensation	Total
Balance at December 31, 2001	$ 97,467	$ 29,967	$ 31,000	$ 158,434
Cash Funded	39,000	76,569	31,698	147,267
Funding deficiency per actuarial requirement	780	-	-	780
Payments	(35,004)	(75,629)	(25,215)	(135,848)
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

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. 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 2003 and 2002, 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 1.6% and 2.2% per annum for the years ended December 31, 2003 and 2002, 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 2003 or 2002 to pay injury and damage claims.

7. 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 and the RTA. Commitments of approximately $660,726,000 and $657,800,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2003 and 2002, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA or IDOT. Commitments of approximately $381,595,000 and $312,400,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2003 and 2002, respectively.

Funding sources for transportation property and equipment of the CTA are as follows (in thousands of dollars):

	2003	2002
Funding source:		
Federal (FTA)	$ 3,506,162	$ 3,212,000
State (principally IDOT)	498,540	481,373
RTA	1,266,691	1,097,530
CTA (generally prior to 1973)	126,573	126,573
Other	253,790	246,991
Total	$ 5,651,756	$ 5,164,467

7. CAPITAL ASSETS (Continued)

The following schedules summarize the capital assets of the CTA as of December 31, 2003 and 2002 (in thousands of dollars):

2003	Beginning Balance	Increase	Decrease	Ending Balance
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	1,372,746	66,396	(8,587)	1,430,555
El Structure Track	1,139,838	78,699	-	1,218,537
Signal & Communication	577,463	62,210	-	639,673
Leased Rail Equipment	366,159	-	-	366,159
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	884,290	267,752	(17,205)	1,134,837
El Structure Track	525,906	82,466	(47)	608,325
Signal & Communication	355,172	40,770	(737)	395,205
Leased Rail Equipment	18,416	-	-	18,416
Other Equipment	270,654	42,318	(132,197)	180,775
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

7. CAPITAL ASSETS (Continued)

2002	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, not being depreciated:				
Land	$ 57,395	$ 5,141	$ (615)	$ 61,921
Construction in process	9,547	736,623	(690,307)	55,863
Total Capital Assets, not being depreciated	66,942	741,764	(690,922)	117,784
Capital Assets being depreciated:				
Land Improvements	8,035	2,196	-	10,231
Buildings	1,125,522	101,854	(1,876)	1,225,500
Vehicles	1,229,228	179,171	(35,653)	1,372,746
El Structure Track	1,072,390	67,448	-	1,139,838
Signal & Communication	530,711	46,761	(9)	577,463
Leased Rail Equipment	366,159	-	-	366,159
Other Equipment	414,328	37,250	(96,832)	354,746
Total capital assets being depreciated	4,746,373	434,680	(134,370)	5,046,683
Less accumulated depreciation for:				
Land Improvements	6,317	1,187	(217)	7,287
Buildings	375,121	51,517	(1,780)	424,858
Vehicles	769,819	149,918	(35,447)	884,290
El Structure Track	465,698	60,208	-	525,906
Signal & Communication	326,496	28,685	(9)	355,172
Leased Rail Equipment	18,416	-	-	18,416
Other Equipment	328,206	38,910	(96,462)	270,654
Total Accumulated depreciation	2,290,073	330,425	(133,915)	2,486,583
Total capital assets being depreciated, net	2,456,300	104,255	(455)	2,560,100
Total capital assets, net	$ 2,523,242	$ 846,019	$ (691,377)	$ 2,677,884

8. CAPITAL LEASE OBLIGATIONS

Capital Lease – Public Building Commission

In 2003, CTA issued Public Building Commission of Chicago ("PBC") Building Revenue Bonds 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 Commission 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 is considered a general obligation of the CTA payable from any lawfully available funds.

The CTA is required to make the payments of $8,718,000 for 2004, $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, 2003 statement of net assets as a capital lease obligation.

Capital Lease – Lease and leaseback transactions

In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $15,438,000 at December 31, 2003. 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 $23,000 for 2004, $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 $23,660,000 is reflected in the accompanying December 31, 2003 statement of net assets 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 $79,220,000 at December 31, 2003. 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, the CTA is required to make the payments of $46,431,000 for 2004. 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 $131,486,000 is reflected in the accompanying December 31, 2003 statement of net assets as a capital lease obligation.

8. CAPITAL LEASE OBLIGATIONS (Continued)

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 $47,710,000 at December 31, 2003. 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 $158,386,000 is reflected in the accompanying December 31, 2003 statement of net assets 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 $354,101,000 at December 31, 2003. 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 $35,191,000 for 2004, $23,864,000 for 2005, $12,835,000 for 2006, $24,853,000 for 2007 and $38,184,000 for 2008. The remaining payments from 2009 through 2018 range from $3,508,000 to $154,508,000 and total $376,318,000. The present value of the future payments to be made by CTA under the lease of approximately $291,630,000 is reflected in the accompanying December 31, 2003 statement of net assets 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 $58,135,000 at December 31, 2003. 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. Under the Leases, the CTA is required to make a rental payment of $12,146,000 in 2004. 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 $35,587,000 is reflected in the accompanying December 31, 2003 statement of net assets as a capital lease obligation.

8. CAPITAL LEASE OBLIGATIONS (Continued)

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

During 1996, the CTA entered into similar lease and leaseback agreements (the "1996 Agreements") with a third party pertaining to certain of its facilities, with a book value of $64,211,000 at December 31, 2003. 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").

Under the 1996 Lease, the CTA is required to make a rental payment of $7,781,000 in the year 2004. 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 $31,804,000 is reflected in the accompanying December 31, 2003 statement of net assets 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, 2003, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $987,399,000. 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.

8. CAPITAL LEASE OBLIGATIONS (Continued)

The following schedules summarize the change in capital leases outstanding as of December 31, 2003 and 2002 (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

2002	Beginning Balance	Additions*	Principal Paid	Ending Balance	Interest Paid	Due in One Year
2002 (Buses)	$ -	$ 125,908	$ -	$ 125,908	$ 6,041	$ 767
2002 (QTE)	-	148,931	-	148,931	-	-
1998 (Green)	300,863	20,531	(23,016)	298,378	20,531	27,113
1997 (Garages)	53,767	4,043	(10,362)	47,448	4,043	15,430
1996 (Skokie/Racine)	39,314	2,892	(12,581)	29,625	2,892	-
1995 (Pickle)	970,342	71,994	(63,789)	978,547	71,994	63,698
Total capital lease obligations	$ 1,364,286	$ 374,299	$ (109,748)	$ 1,628,837	$ 105,501	$ 107,008

* Additions include accretion of interest

9. BONDS PAYABLE

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, 2003 totaling $207,200,000 bear interest ranging from 3.8% 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.

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

Year Ending December 31	Principal	Interest	Total
2004	$ -	$ 8,994	$ 8,994
2005	38,490	8,237	46,727
2006	52,475	6,430	58,905
2007	58,700	3,913	62,613
2008	57,535	1,223	58,758
Total	$ 207,200	$ 28,797	$ 235,997

10. LONG TERM LIABILITES

Long term liability activity for the years ended December 31, 2003 and 2002 was as follows (in thousands of dollars):

2003	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long Term Portion
Self Insurance Claims (Note 6)	$ 170,633	$ 211,391	$ (217,862)	$ 164,162	$ 80,763	$ 83,399
Supplemental Retire. Plan (Note 11)	35,705	1,248	(1,967)	34,986	1,700	33,286
Capital Lease Obligation (Note 8)	1,628,837	257,143	(107,008)	1,778,972	170,871	1,608,101
Accrued Pension Costs (Note 11)	442,884	162,228	(26,889)	578,223	-	578,223
Def. Rev. - Leasing Trans. (Note 8)	58,546	-	(4,262)	54,284	-	54,284
Bonds Payable (Note 9)	-	207,200	-	207,200	-	207,200
Premium on Bonds Pay. (Note 9)	-	9,857	(1,493)	8,364	-	8,364
Other	3,422	-	(21)	3,401	-	3,401
Total	$ 2,340,027	$ 849,067	$ (359,502)	$ 2,829,592	$ 253,334	$ 2,576,258

10. LONG TERM LIABILITES (Continued)

2002	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long Term Portion
Self Insurance Claims (Note 6)	$ 158,434	$ 148,047	$ (135,848)	$ 170,633	$ 85,494	$ 85,139
Supplemental Retire. Plan (Note 11)	35,854	1,782	(1,931)	35,705	1,700	34,005
Capital Lease Obligation (Note 8)	1,364,286	374,299	(109,748)	1,628,837	107,008	1,521,829
Accrued Pension Costs (Note 11)	395,311	75,942	(28,369)	442,884	-	442,884
Def. Rev. - Leasing Trans. (Note 8)	62,808	-	(4,262)	58,546	-	58,546
Other	6,484	-	(3,062)	3,422	-	3,422
Total	$ 2,023,177	$ 600,070	$ (283,220)	$ 2,340,027	$ 194,202	$ 2,145,825

11. DEFINED BENEFIT PENSION PLANS

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, non-trusted 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, 2003 and 2002, Supplemental Retirement Plan assets include cash and investments of $30,750,000 and $30,664,000, respectively.

Substantially all non-temporary, 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 stand-alone financial report and is available upon request.

The covered payroll for the Employees' Plan for the fiscal year ended December 31, 2003 and 2002 was $490,500,000 and $480,740,000 respectively. The covered payroll for the Supplemental Plan for the fiscal year ended December 31, 2003 and 2002 was $17,765,000 and $18,885,000, respectively. The CTA's total covered payroll for the fiscal year ended December 31, 2003 and 2002 was $508,265,000 and $499,625,000, respectively.

11. DEFINED BENEFIT PENSION PLANS (Continued)

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.

***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	Supplemental Plan
Contribution rates:		
CTA	6.0%	Actuarially determined
Plan members	3.0%	Actuarially determined
Annual pension cost (APC)	$ 179,493	$ 4,428
Actual 2003 contributions:		
CTA	$ 29,436	$ 3,060
Plan members	14,718	356
Actuarial valuation date	January 1, 2003	January 1, 2004
Actuarial cost method	Entry Age Normal Cost	Projected Unit Credit
Remaining amortization period	40	30
Asset valuation method	5-year smoothed market	Fair market value
Actuarial assumptions:		
Investment rate of return	9.0%	6.0%
Projected salary increases	5.5%	5.5%

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, 2003 (in thousands of dollars):

	Employees' Plan	Supplemental Plan
NPO - December 31, 2002	$ 442,884	$ 25,254
Annual required contribution (ARC)	177,404	4,690
Interest on NPO	39,860	1,515
Adjustment to ARC	(37,771)	(1,777)
Annual pension cost	179,493	4,428
NPO before contributions	622,377	29,682
Contributions	(44,154)	(3,060)
NPO - December 31, 2003	$ 578,223	$ 26,622

11. DEFINED BENEFIT PENSION PLANS (Continued)

A reconciliation of the statement of net assets at December 31, 2003 to amounts presented above (in thousands of dollars):

	Employees' Plan	Supplemental Plan
NPO– December 31, 2003	$ 578,223	$ 26,622
Additional pension accruals	-	8,364
Total	578,223	34,986
Less current portion	-	(1,700)
Long term portion	$ 578,223	$ 33,286

Funding Progress - The following summarizes the funding progress for the Plans (in thousands of dollars):

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Employees' Plan	1/1/03	$ 1,726,937	$ 3,026,597	$ 1,299,660	57.1%	$ 480,740	270.3%
	1/1/02	1,864,727	2,812,194	947,467	66.3%	459,343	206.3%
	1/1/01	1,828,095	2,358,856	530,761	77.5%	431,703	122.9%
Supplemental Plan	1/1/04	$ 356	$ 33,366	$ 33,010	0.9%	$ 17,765	185.8%
	1/1/03	320	34,070	33,750	0.9%	18,885	178.7%
	1/1/02	303	43,730	43,427	0.7%	15,402	282.0%

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	12/31/03	$ 179,493	$ 44,154	24.6%	$ 578,223
	12/31/02	90,869	43,295	47.6%	442,884
	12/31/01	69,834	27,219	39.0%	395,311
Supplemental Plan	12/31/03	$ 4,091	$ 3,060	74.8%	$ 26,622
	12/31/02	4,274	4,934	115.4%	25,254
	12/31/01	3,547	3,664	103.3%	25,914

11. DEFINED BENEFIT PENSION PLANS (Continued)

Early Retirement Program - In 1992, the CTA offered an Incentive Retirement Program (the "1992 Program") to all nonunion employees otherwise eligible to retire under existing CTA retirement plan provisions. The 1992 Program was intended to be a voluntary early retirement incentive plan under the meaning of Section 623(f)(2)(B)(ii) of the Age Discrimination in Employment Act of 1967, as amended. The 1992 Program offered increased benefit payouts and elimination of early retirement penalties and is funded, as incentive payments are required.

In January 1997, the CTA agreed to a new agreement with certain of its unions. As part of the provisions of the new agreement, the CTA offered a new Incentive Retirement Program (the "1997 Program") to all eligible union employees with 25 years or more of service on or before December 31, 1999. Employees eligible for the 1997 Program had until June 30, 1997 to elect the early retirement option. All costs related to the 1997 Program will be funded by the Employees' Plan.

12. DERIVATIVE FINANCIAL INSTRUMENT

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.

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.

Fair value:

As of December 31, 2003, the commodity swap had a fair value of $902,126, estimated by discounting forward market prices available from exchange trading.

Credit risk:

The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2003, 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

The CTA has been named as a defendant in various 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.

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, 2003 and 2002 was $3,700,000 and $3,100,000 respectively.

As described in Note 8, the CTA entered into lease financing agreements with a third party in 1996, 1997, 1998, 2002 and 2003; and sale/leaseback agreements with third parties during 1995. The CTA also leases office facilities under various lease agreements. In November 2003, CTA notified the lessor of its headquarters' facility of its intent to vacate a substantial portion of the leased space by November 30, 2004. As of December 31, 2003, all leases provide for future minimum rental payments, in the aggregate, as follows (in thousands of dollars):

	Operating	Capital
2004	$ 3,613	$ 179,590
2005	281	105,728
2006	281	94,670
2007	281	114,742
2008	-	214,897
2009 – 2013	-	624,164
2014 – 2018	-	1,699,116
2019 – 2023	-	287,044
2024 – 2026	-	108,897
Total minimum lease payments	$ 4,456	3,428,848
Less interest		1,649,876
Present value of minimum lease payments		$ 1,778,972

A reconciliation of the balance sheet to amount presented above (in thousands of dollars):

Capital lease obligation, less current portion	$ 1,608,101
Current portion of capital lease obligation	170,871
Total	$ 1,778,972

14. RESTATEMENT

The financial statements for the fiscal year ended December 31, 2003 have been reissued as of May 4, 2005 to recognize revenue in accordance with GASB 33 for (1) the positive budget variance and (2) a full funding grant agreement; and (3) to reclassify net assets in accordance with GASB 34. Additionally, assets and liabilities related to the 2003 Public Building Commission bond issue were reclassified per new audit interpretation. The net effect of these adjustments was a decrease in net assets of $80,142,000 and $96,510,000 in 2003 and 2002, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2003
(in thousands of dollars)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Employees' Plan	1/1/03	$ 1,726,937	$ 3,026,597	$ 1,299,660	57.1%	$ 480,740	270.3%
	1/1/02	1,864,727	2,812,194	947,467	66.3%	459,343	206.3%
	1/1/01	1,828,095	2,358,856	530,761	77.5%	431,703	122.9%
	1/1/00	1,722,215	2,156,279	434,064	79.9%	424,518	102.2%
	1/1/99	1,576,924	2,054,953	478,029	76.7%	407,406	117.3%
	1/1/98	1,470,510	1,994,422	523,912	73.7%	457,717	114.5%
Supplemental Plan	1/1/04	$ 356	$ 33,366	$ 33,010	0.9%	$ 17,765	185.8%
	1/1/03	320	34,070	33,750	0.9%	18,885	178.7%
	1/1/02	303	43,730	43,427	0.7%	15,402	282.0%
	1/1/01	244	41,735	41,491	0.6%	14,639	283.4%
	1/1/00	472	32,113	31,641	1.5%	14,049	225.2%
	1/1/99	363	28,832	28,469	1.3%	16,358	174.0%

CHICAGO TRANSIT AUTHORITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2003
(in thousands of dollars)

	Year Ended	Annual Pension Cost (APC)	Employer Contributions	Percentage of APC Contributed	Net Pension Obligation
Employees' Plan	12/31/03	$ 179,493	$ 29,436	16.4%	$ 578,223
	12/31/02	90,869	28,858	31.8%	442,884
	12/31/01	69,834	27,219	39.0%	395,311
	12/31/00	57,051	25,885	45.3%	353,742
	12/31/99	60,164	25,588	42.5%	322,576
	12/31/98	68,277	26,095	38.2%	288,000
Supplemental Plan	12/31/03	$ 4,091	$ 3,060	74.8%	$ 26,622
	12/31/02	4,274	4,934	115.4%	25,254
	12/31/01	3,547	3,664	103.3%	25,914
	12/31/00	3,301	3,664	111.0%	26,032
	12/31/99	3,507	3,762	107.3%	26,394
	12/31/98	3,337	3,107	93.1%	26,649

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
SCHEDULE OF EXPENSES AND REVENUES - BUDGET AND ACTUAL - BUDGETARY BASIS FOR THE 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 revenue 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%	

CHICAGO TRANSIT AUTHORITY
SCHEDULE OF EXPENSES AND REVENUES - BUDGET AND ACTUAL - BUDGETARY BASIS FOR THE YEAR ENDED DECEMBER 31, 2002
(in thousands of dollars)

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance Favorable (Unfavorable)
OPERATING EXPENSES:				
Labor and fringe benefits	$ 667,597	$ 667,597	$ 663,577	$ 4,020
Materials and supplies	66,949	66,949	67,931	(982)
Fuel	23,000	23,000	20,098	2,902
Electric power	22,700	22,700	21,062	1,638
Purchase of security services	23,661	23,661	24,719	(1,058)
Purchase of paratransit services	33,590	33,590	36,309	(2,719)
Other	54,291	54,291	46,957	7,334
Provision for injuries and damages	23,000	23,000	39,000	(16,000)
Total operating expenses	914,788	914,788	919,653	(4,865)
SYSTEM-GENERATED REVENUES:				
Fares and passes	388,889	388,889	383,859	(5,030)
Reduced fare subsidies	32,300	32,300	30,197	(2,103)
Advertising and concessions	30,280	30,280	21,340	(8,940)
Investment income	10,670	10,670	6,451	(4,219)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	6,017	6,017	31,408	25,391
Total system-generated revenues	473,156	473,156	478,255	5,099
Operating expenses in excess of system-generated revenues	441,632	441,632	441,398	234
PUBLIC FUNDING FROM THE RTA:				
Operating assistance	441,632	441,632	441,632	-
CHANGE IN NET ASSETS - Budgetary basis	$ -	$ -	$ 234	$ 234
RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS:				
Provision for depreciation			$ (331,340)	
Pension expense in excess of pension contributions			(44,017)	
Provision for injury and damage claims			(780)	
Revenue from leasing transactions			4,262	
Interest income from sale/leaseback			105,908	
Interest expense from sale/leaseback			(105,501)	
Capital contributions			386,128	
Change in Net Assets - GAAP basis			$ 14,894	
CTA RECOVERY RATIO:				
Total operating expenses			$ 919,653	
Less mandated security costs			4,530	
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)			$ 926,923	
Total system-generated revenues			$ 478,255	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 500,255	
Recovery Ratio (A/B)			53.97%	