CHICAGO TRANSIT AUTHORITY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2008 and 2007

CONTENTS

Crowe Horwath LLP
Member Horwath international

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2008 and 2007, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued a report dated April 28, 2009 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 69 through 73 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended December 31, 2008 and 2007 were made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedules of expenses and revenues - budget and actual for the years ended December 31, 2008 and 2007 on pages 74 and 75 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole for the years ended December 31, 2008 and 2007.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
April 28, 2009

Introduction

The following discussion and analysis of the financial performance and activity of the Chicago Transit Authority (CTA) provide an introduction and understanding of the basic financial statements of the CTA for the fiscal years ended December 31, 2008 and 2007. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2008

- *Net assets totaled $1,467,507,000 at December 31, 2008.*
- *Net assets increased $55,249,000 in 2008, which compares to a decrease of $331,265,000 in 2007.*
- *Total net capital assets were $4,018,650,000 at December 31, 2008, an increase of 16.63% over the balance at December 31, 2007 of $3,445,706,000.*

Financial Highlights for 2007

- *Net assets totaled $1,412,258,000 at December 31, 2007.*
- *Net assets decreased $331,265,000 in 2007, which compares to a decrease of $103,559,000 in 2006.*
- *Total net capital assets were $3,445,706,000 at December 31, 2007, an increase of 7.61% over the balance at December 31, 2006 of $3,202,171,000.*

The Financial Statements

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

Overview of the Financial Statements for Business-Type Activities

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

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Balance Sheet

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

Statement of Cash Flows

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

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Notes to Financial Statements

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

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2008, 2007, and 2006:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2008, 2007, and 2006

(In thousands of dollars)

	2008	2007	2006
Assets:			
Current assets	$ 544,585	$ 625,685	$ 524,974
Capital Assets, net	4,018,650	3,445,705	3,202,170
Noncurrent assets	2,289,199	1,827,183	2,100,128
Total assets	$ 6,852,434	$ 5,898,573	$ 5,827,272
Liabilities:			
Current liabilities	$ 604,035	$ 710,765	$ 501,238
Long-term liabilities	4,780,892	3,775,550	3,582,511
Total liabilities	5,384,927	4,486,315	4,083,749
Net assets:			
Invested in capital assets, net of related debt	3,086,337	2,912,748	2,933,473
Restricted for payment of leasehold obligations	40,940	37,992	33,017
Restricted for debt service	32,373	32,233	31,379
Unrestricted (unrestricted)	(1,692,143)	(1,570,715)	(1,254,346)
Total net assets	1,467,507	1,412,258	1,743,523
Total liabilities and net assets	$ 6,852,434	$ 5,898,573	$ 5,827,272

(Continued)

Year Ended December 31, 2008

Current assets decreased by 16.17% to $544,585,000. The change in current assets is primarily due to the decrease in cash and investments.

Capital assets (net) increased by 16.63% to $4,018,650,000 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.

Other non-current assets increased by 25.29% to $2,289,199,000 primarily due to increased debt activity which resulted in an increase in bond proceeds at year end.

Current liabilities decreased 15.02% to $604,035,000 primarily due to a decrease in the current portion of capital lease obligations.

Long-term liabilities increased 26.63% to $4,780,892,000 due primarily to an increase in bonds payable. In 2008, CTA issued $1,936,855,000 Sales and Transfer Tax Receipts Revenue Bonds to fund pension and retiree healthcare.

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

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The 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, decreased 7.73% over the prior year.

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Year Ended December 31, 2007

Current assets increased by 19.18% to $625,685,000. The change in current assets is primarily due to the increase in cash and investments.

Capital assets (net) increased by 7.61% to $3,445,706,000 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.

Other non-current assets decreased by 13.0% to $1,827,183,000 due to the utilization of bond proceeds during 2007.

Current liabilities increased 41.8% to $710,765,000 primarily due to an increase in accounts payable, advances, and the current portion of capital lease obligations.

Long-term liabilities increased 5.39% to $3,775,550,000 due primarily to an increase in net pension obligation.

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

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The 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, decreased 25.22% over the prior year, primarily due to unfunded pension and postemployment healthcare expense (i.e. increase in the net pension obligation) of $305,126,000.

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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, 2008, 2007, and 2006:

Table 2

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

Years ended December 31, 2008, 2007, and 2006

(In thousands of dollars)

	2008	2007	2006
Operating revenues	$ 510,776	$ 493,350	$ 493,023
Operating expenses:			
Operating expenses	1,194,390	1,412,842	1,344,133
Depreciation	403,248	387,738	376,910
Total operating expenses	1,597,638	1,800,580	1,721,043
Operating loss	(1,086,862)	(1,307,230)	(1,228,020)
Nonoperating revenues/expenses, net	623,591	600,051	602,421
Capital contributions	518,520	375,914	522,040
Change in net assets	55,249	(331,265)	(103,559)
Total net assets, beginning of year	1,412,258	1,743,523	1,847,082
Total net assets, end of year	$ 1,467,507	$ 1,412,258	$ 1,743,523

Year Ended December 31, 2008

Total operating revenues increased by $17,426,000, or 3.53% primarily due to an increase in farebox and pass revenue. Farebox and pass revenue increased approximately $13,800,000 or 3.0% over the prior year primarily due to an increase in ridership of 26.8 million rides or 5.4%. CTA's average fare decreased from $0.915 in 2007 to $0.895 in 2008. The decline in the average fare is due to riders continuing to transition from a per ride fare to an unlimited pass and due to the implementation of several free ride programs in 2008.

The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. CTA's free rides increased by 23.1 million trips over the prior year due to these new programs.

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Total operating expenses decreased $202,942,000, or 11.27%. The decrease is primarily driven by lower labor expense. Labor expense decreased $258,651,000 or 23.3% due to the issuance of $1.9 billion in pension obligation bonds to fund the retirement plan and post-employment healthcare. Materials expense increased $16,390,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Fuel expense increased $20,653,000 due to a higher average cost per gallon due to market driven forces. In 2008, the average fuel price increased $1.00 to $3.82 per gallon. Electric power increased $7,301,000 due to higher contract rates. Other expense increased $3,343,000 due to higher utilities and facilities maintenances costs. The provision for injuries and damages decreased by $8,506,000 due to cost containment initiatives implemented by the CTA such as surveillance cameras and aggressive case management practices.

Year Ended December 31, 2007

Total operating revenues increased by $327,000, or 0.07% due to a one-time utility settlement received in 2007. Farebox revenue decreased over the prior year by approximately $5,000,000 or 1.1% despite an increase in ridership of approximately 4.7 million rides or 1.0%. The fare structure implemented on January 1, 2006 resulted in many riders transitioning from a per ride fare to an unlimited pass thereby driving the average fare down from $0.934 in 2006 to $0.915 in 2007.

Total operating expenses increased $79,537,000, or 4.62%. The increase is primarily driven by higher labor, materials, electric power, and fuel expense. Labor expense increased due to higher healthcare, pension, and workers' compensation expenses. Materials expense increased $1,028,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Electric power increased $5,873,000 due to the end of the decade long rate freeze in Illinois. Fuel expense increased $13,711,000 due to a higher average cost per gallon due to market driven forces. In 2007, the average fuel price increased $0.50 to $2.82 per gallon. Other expense increased due to higher utilities, rent and facilities maintenances costs. The provision for injuries and damages decreased by $10,000,000 due to cost containment initiatives implemented by the CTA such as surveillance cameras and aggressive case management practices.

At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, there is no paratransit expense for 2007.

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

Table 3

Operating Expenses

Years ended December 31, 2008, 2007, and 2006

(In thousands of dollars)

	2008	2007	2006
Labor and fringe benefits	$ 853,638	$ 1,112,290	$ 1,047,445
Materials and supplies	100,568	84,178	83,150
Fuel	91,834	71,181	57,470
Electric power	35,442	28,141	22,268
Purchase of security services	32,382	31,363	30,831
Purchase of paratransit	-	-	28,415
Maintenance and repairs, utilities, rent, and other	72,808	69,465	48,288
Operating expense before provisions	1,186,672	1,396,618	1,317,867
Provision for injuries and damages	7,718	16,224	26,266
Provision for depreciation	403,248	387,738	376,910
Total operating expenses	$ 1,597,638	$ 1,800,580	$ 1,721,043

Capital Asset and Debt Administration

Capital Assets

The CTA invested $8,281,512,000 (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, 2008. Net of accumulated depreciation, the CTA's capital assets at December 31, 2008 totaled $4,018,650,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $572,944,000, or 16.6%, over the December 31, 2007 balance of $3,445,706,000.

The CTA invested $7,463,364,000 (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, 2007. Net of accumulated depreciation, the CTA's capital assets at December 31, 2007 totaled $3,445,706,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $243,535,000, or 7.6%, over the December 31, 2006 balance of $3,202,171,000.

Table 4
Capital Assets by Funding Source
December 31, 2008, 2007, and 2006
(In thousands of dollars)

	2008	2007	2006
Funding source:			
Federal (FTA)	$ 5,404,290	$ 4,766,864	$ 4,296,228
State (principally IDOT)	601,976	570,408	557,261
RTA	1,803,146	1,736,990	1,670,859
CTA (generally prior to 1973)	124,854	124,854	126,573
Other	347,245	264,248	257,882
Total capital assets	8,281,511	7,463,364	6,908,803
Accumulated depreciation	4,262,861	4,017,658	3,706,632
Total capital assets, net	$ 4,018,650	$ 3,445,706	$ 3,202,171

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of railcars and buses, and the infrastructure improvement projects identified in the 2008 portion of the Five-Year Capital Plan. Additional information on the capital assets can be found in footnote 6 of the audited financial statements.

Debt Administration

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

At December 31, 2008, the CTA had $1,779,859,000 in capital lease obligations outstanding, a 2% increase from December 31, 2007 primarily due to a new bus lease. The net pension obligation and the other post-employment healthcare liability decreased by $890,592,000 and $659,729,000, respectively from the prior year due to the issuance of the 2008 Sales and Transfer Tax Receipts Revenue Bonds. These bonds were issued for the purpose of funding the retirement plan and the healthcare trust and are the primary cause for the increase in bonds payable of $2,334,380,000. The bonds payable liability also increased due to the issuance of approximately $425,000,000 of 2008 Capital Grant Receipts Revenue Bonds. In 2008, the CTA also issued Certificates of Participation (COPs) of $78,430,000 to finance the acquisition of new buses.

At December 31, 2007, the CTA had $1,750,421,000 in capital lease obligations outstanding, a 0.5% increase from December 31, 2006. The net pension obligation at December 31, 2007 was $908,609,000, a 21.5% increase from December 31, 2006. The increase in net pension obligation is primarily due to contributions that are less than the actuarially determined amount. The

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other postemployment healthcare benefit liability (OPEB) at December 31, 2007 was $659,729,000 a 28.0% increase from December 31, 2006. The increase in OPEB at December 31, 2007 is due to the rising cost of healthcare.

Additional information on the debt activity can be found in footnote 8 and 9 of the audited financial statements.

Economic Factors and Next Year's Budget

The CTA Board adopted a 2009 Annual Operating Budget on November 13, 2008 that includes an increase in the price of fares and passes, an overall headcount reduction, but no change in current service levels. The budget was then submitted to the RTA and approved on December 18, 2009. The 2009 Operating Budget provides for total expenses of $1,321,533, a 9.25% increase over the 2008 Amended Budget. The increase is due to higher base labor, healthcare, pension, material, fuel and power costs and debt service on the pension obligation bonds and bus lease.

The CTA has been provided with public funding marks from the RTA that total $723.3 Million for 2009, these marks are based on revenue from sales tax and from the City of Chicago's real estate transfer tax. The current fiscal forecast indicates that the nation and the region are facing a dire economic outlook. The unemployment rates for the City of Chicago ended 2008 at 6.4%, which is a 1.5% increase over the average for 2007. National unemployment ended 2008 at an average of 5.8%, which is a 1.2% increase over the average for 2007. Higher unemployment rates have an adverse effect on sales tax revenue, a major funding source for the CTA. These are of the same challenges that the CTA was facing in 2008, and is likely to endure in 2009. The RTA has acknowledged these issues and has reduced the public funding mark for 2009. CTA's 2009 Operating Budget will be amended to reflect the revised level of public funding that is available. The CTA is currently reviewing all options to close the funding gap in the 2009 Operating Budget.

In 2009, system- generated revenue is projected to be $598.2 Million representing a $50.1 Million (9.1%) increase over the 2008 amended budget and a $45.7 Million (8.3%) increase over 2008 actual revenue. The growth in estimated system-generated revenue for 2009 is primarily due to the fare increase, but the anticipated increase is also driven by the revenue from the sale of excess property, increased advertising and other new revenue generating initiatives for 2009. Free ride policies (Seniors, required by the State Legislature and disabled veterans and military personnel, required by the Chicago City Council) are estimated to reduce system generated revenue by $35.8 Million in 2009.

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New Legislation

On January 18, 2008, Public Act 95-708 became law. This legislation provides funding for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each of the six counties, 2) a $1.50 per $500 of transfer price increase in the City of Chicago's Real Property Transfer Tax, 3) an additional 5% state match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25% state match on the new sales tax and real estate transfer tax. The proceeds from the increase in the RTA sales tax will be used to fund some existing programs such as ADA paratransit services, as well as some new initiatives such as the Suburban Community Mobility Fund and the Innovation, Coordination and Enhancement Fund. The balance of these additional proceeds along with the 5% state match on: existing, additional sales tax and real estate transfer tax; and the state 25% match on the new sales tax will be divided among the CTA (48%), Metra (39%) and Pace (13%) according to the statutory formula. On February 6, 2008, the Chicago City Council authorized an increase in the Real Property Transfer Tax in the amount of $1.50 per $500 of transfer price, the proceeds of which (after deducting costs associated with collection) will be entirely directed to the CTA. Additionally the state 25% match on the real estate transfer tax will be entirely directed to CTA as well. After financing debt service for pension and retiree healthcare in the amount of approximately $124 million annually, and taking into consideration the potential fluctuations in the Real Property Transfer Tax, the combination of these two revenue sources were expected to yield approximately $104 million annually for CTA operations in the short-term, with a potential for growth as the economy rebounds. However, since the enactment of the new taxes, the economy has slipped into a recession. Revenue collections came in substantially lower than projected. Revenues from the real estate transfer tax were projected at $63.0 million in 2008; actual receipts were $30.2 million. Sales tax receipts from both the new and old legislation were $25.9 million lower than projected. Looking forward to 2009, expected funding is $155.0 million lower than projected.

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

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions have been increased from 6% to 12%, and employee contributions have been increased from 3% to 6%. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result

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in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue $1.349 billion in pension obligation bonds to fund the Retirement Plan. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

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

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

Contacting the CTA's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the CTA's finances and to demonstrate the CTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chicago Transit Authority's Finance Division, P.O. Box 7565, Chicago, IL 60680-7565.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2008 and 2007
(In thousands of dollars)

Assets	2008	2007
Current assets:		
Cash and cash equivalents	$ 61,672	$ 151,104
Cash and cash equivalents restricted for damage reserve	5,894	109,057
Investments	1,000	900
Total cash, cash equivalents, and investments	68,566	261,061
Grants receivable:		
Due from the RTA	258,832	87,809
Capital improvement projects from federal and state sources	21,115	4,974
Unbilled work in progress	58,459	158,725
Other	506	1,485
Total grants receivable	338,912	252,993
Accounts receivable, net	29,762	28,080
Materials and supplies, net	102,919	78,412
Prepaid expenses and other assets	4,426	5,139
Total current assets	544,585	625,685
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	1,613,435	1,699,448
Bond proceeds held by trustee	536,690	112,557
Assets held by trustee for supplemental retirement plan	206	138
Net pension asset supplemental retirement plan	15,576	7,847
Net pension asset employee's retirement plan	96,376	-
Bond issue costs	26,916	7,192
Total other noncurrent assets	2,289,199	1,827,182
Capital assets:		
Capital assets not being depreciated:		
Land	119,938	119,257
Construction in process	904,892	666,046
Total capital assets not being depreciated	1,024,830	785,303
Capital assets being depreciated:		
Land improvements	22,280	20,954
Buildings	1,911,175	1,734,898
Transportation vehicles	2,184,702	2,068,102
Elevated structures, tracks, tunnels, and power system	1,570,949	1,462,301
Signals	1,012,639	864,781
Other equipment	554,936	527,025
Less accumulated depreciation	(4,262,861)	(4,017,658)
Total capital assets being depreciated, net	2,993,820	2,660,403
Total capital assets, net	4,018,650	3,445,706
Total noncurrent assets	6,307,849	5,272,888
Total assets	$ 6,852,434	$ 5,898,573

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CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
Liabilities and Net Assets		
Current liabilities:		
Account payable and accrued expenses	$ 207,026	$ 172,190
Accrued payroll, vacation pay, and related liabilities	95,456	99,626
Accrued interest payable	16,909	3,480
Advances, deposits, and other	2,508	49,552
Advances from RTA	10,949	20,302
Deferred passenger revenue	33,617	29,273
Other deferred revenue	2,211	2,705
Deferred operating assistance	25,215	24,602
Current portion of self-insurance claims	76,848	74,795
Current portion of capital lease obligations	99,688	206,765
Current portion of bonds payable	28,715	27,475
Current portion of certificates of participation	4,893	-
Total current liabilities	604,035	710,765
Long-term liabilities:		
Self-insurance claims, less current portion	120,018	117,955
Capital lease obligations, less current portion	1,680,171	1,543,656
Premium on capital lease obligation	5,387	5,721
Deferred revenue – leasing transactions	32,973	37,235
Bonds payable	2,794,550	461,410
Premium on bonds payable	54,146	36,902
Certificates of participation	72,015	-
Accrued pension costs (net pension obligation)	17,335	908,609
Other Post-Employment Healthcare Liability	434	659,729
Other long-term liabilities	3,863	4,333
Total long-term liabilities	4,780,892	3,775,550
Total liabilities	5,384,927	4,486,315
Net assets:		
Invested in capital assets, net of related debt	3,086,337	2,912,748
Restricted for payment of leasehold obligations	40,940	37,992
Restricted for debt service	32,373	32,233
Unrestricted (deficit)	(1,692,143)	(1,570,715)
Total net assets	1,467,507	1,412,258
Total liabilities and net assets	$ 6,852,434	$ 5,898,573

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
Operating revenues:		
Fare box revenue	$ 250,994	$ 253,987
Pass revenue	220,105	203,313
Total fare box and pass revenue	471,099	457,300
Advertising and concessions	27,661	23,164
Other revenue	12,016	12,886
Total operating revenues	510,776	493,350
Operating expenses:		
Labor and fringe benefits	853,638	1,112,290
Materials and supplies	100,568	84,178
Fuel	91,834	71,181
Electric power	35,442	28,141
Purchase of security services	32,382	31,363
Maintenance and repairs, utilities, rent, and other	72,808	69,465
	1,186,672	1,396,618
Provisions for injuries and damages	7,718	16,224
Provision for depreciation	403,248	387,738
Total operating expenses	1,597,638	1,800,580
Operating expenses in excess of operating revenues	(1,086,862)	(1,307,230)
Nonoperating revenues (expenses):		
Public funding from the RTA	641,832	548,249
Reduced-fare subsidies	31,855	33,308
Operating grant revenue	795	3,740
Contributions from local government agencies	5,000	5,000
Investment income	9,330	16,207
Gain on sale of assets	350	27
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(72,028)	(15,718)
Interest revenue from leasing transactions	118,962	120,795
Interest expense on leasing transactions	(116,767)	(115,819)
Total nonoperating revenues, net	623,591	600,051
Change in net assets before capital contributions	(463,271)	(707,179)
Capital contributions	518,520	375,914
Change in net assets	55,249	(331,265)
Total net assets – beginning of year	1,412,258	1,743,523
Total net assets – end of year	$ 1,467,507	$ 1,412,258

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Cash received from fares	$ 475,443	$ 457,283
Payments to employees	(2,498,635)	(780,884)
Payments to suppliers	(315,122)	(270,497)
Other receipts	(18,896)	87,095
Net cash flows provided by (used in) operating activities	(2,357,210)	(507,003)
Cash flows from noncapital financing activities:		
Public funding from the RTA	471,422	591,161
Reduced-fare subsidies	31,855	48,423
Operating grant revenue	795	3,740
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by (used in) noncapital financing activities	509,072	648,324
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	118,962	120,795
Interest expense on bonds	(62,519)	(19,130)
Decrease in restricted assets for repayment of leasing commitments	86,013	(15,943)
Repayment of lease obligations	(207,852)	(107,226)
Proceeds from capital leases	120,523	-
Proceeds from issuance of bonds	2,441,725	-
Proceeds from other long-term liabilities	(470)	(246)
Repayment of bonds payable	(28,997)	(18,410)
Payments for acquisition and construction of capital assets	(1,000,845)	(613,772)
Proceeds from the sale of property and equipment	350	1,075
Capital grants	603,624	323,430
Net cash flows provided by (used in) capital and related financing activities	2,070,514	(329,427)
Cash flows from investing activities:		
Purchases of unrestricted investments	(1,000)	(900)
Proceeds from maturity of unrestricted investments	900	10,914
Restricted cash and investment accounts:		
Purchases and withdrawals	(1,267,749)	(11,077,990)
Proceeds from maturities and deposits	843,548	11,365,919
Investment revenue	9,330	16,207
Net cash flows provided by (used in) investing activities	(414,971)	314,150
Net increase (decrease) in cash and cash equivalents	(192,595)	126,044
Cash and cash equivalents – beginning of year	260,161	134,117
Cash and cash equivalents – end of year	$ 67,566	$ 260,161

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:		
Operating expenses in excess of operating revenue	$ (1,086,862)	$ (1,307,230)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:		
Depreciation	403,248	387,738
(Increase) decrease in assets:		
Accounts receivable	(1,682)	9,113
Materials and supplies	(24,507)	(896)
Prepaid expenses and other assets	713	(13)
Net pension asset	(104,105)	242
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	59,155	29,581
Accrued payroll, vacation pay, and related liabilities	(4,170)	701
Self-insurance reserves	4,116	26,907
Deferred passenger revenue	4,344	(17)
Other deferred revenue	(494)	1,713
Advances, deposits, and other	(56,397)	40,219
Accrued pension costs and OPEB	(1,550,569)	304,939
Net cash flows used in operating activities	$ (2,357,210)	$ (507,003)
Noncash investing and financing activities:		
Recognition of leasing proceeds	$ 4,262	$ 4,262
Decrease in deferred revenue – leasing transactions	(4,262)	(4,262)
Accretion of interest on lease/leaseback obligations	116,767	115,819
Retirement of fully depreciated capital assets	158,265	76,962

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
Assets:		
Contributions from employees	$ 30	$ 23
Investments at fair value:		
Short-term investments	4,011	808
Government agencies	4,620	5,653
Common stock	8,590	13,024
Total investments at fair value	17,221	19,485
Receivables	5,000	3
Securities lending collateral	1,697	11,679
Total assets	23,948	31,190
Liabilities:		
Accounts payable and other liabilities	45	55
Securities lending collateral obligation	1,697	11,679
Total liabilities	1,742	11,734
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 50)	$ 22,206	$ 19,456

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2008 and 2007
(In thousands of dollars)

	2008	2007
Additions:		
Contributions:		
Employee	$ 394	$ 141
Employer	8,000	-
Total contributions	8,394	141
Investment income:		
Net increase (decrease) in fair value of investments	(5,867)	369
Investment income	1,005	563
Total investment income	(4,862)	932
Total additions	3,532	1,073
Deductions:		
Benefits paid to participants or beneficiaries	606	386
Trust fees	176	168
Total deductions	782	554
Net increase	2,750	519
Net assets held in trust for pension benefits:		
Beginning of year	19,456	18,937
End of year	$ 22,206	$ 19,456

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION

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

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

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

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

2) Fiscal dependency on the primary government.

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

The CTA participates in the Employees' Retirement Plan, which is a single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Plan is governed by 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 from the CTA. This fund is administered by its own oversight committee, of which the CTA appoints half the members, over which the CTA has no direct authority and assumes no fiduciary responsibility. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

(Continued)

NOTE 1 - ORGANIZATION (Continued)

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Bond proceeds held by trustee: In 2004, 2006 and 2008, 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 2006, the PBC issued refunding revenue bonds to refund all outstanding Series 2003 bonds.

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

Capital Assets: All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000, (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $13,813,000 and $9,565,000 during the years ended December 31, 2008 and 2007, 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.

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

<u>Compensated Absences</u>: 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Estimates: The preparation of financial statements in conformity with U.S. 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: Certain amounts from the prior year have been reclassified to conform to the current year presentation.

New Pronouncements: In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. Statement 51 is effective for the Authority's fiscal year ending December 31, 2010. The Authority is currently evaluating the impact of adopting Statement No. 51.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments in their financial statements. Statement 53 is effective for the Authority's fiscal year ending December 31, 2010. The Authority is currently evaluating the impact of adopting Statement No. 53.

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2008 and 2007, these amounts include provision for injuries and damage in excess of (or under) 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.

(Continued)

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

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

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.

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

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

(Continued)

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

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2008 and 2007, the RTA amended the funding marks and directed the CTA to amend the budget.

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

		2008	2007
1983 Legislation	Illinois state sales tax allocation	$ 303,341	$ 295,098
1983 Legislation	RTA discretionary funding and other	198,059	169,251
2008 Legislation	Illinois state sales tax allocation & PTF	57,432	N/A
2008 Legislation	Real Estate Transfer Tax	63,000	N/A
Subtotal funding per 1983 and 2008 legislation		621,832	464,349
RTA provision	Capital - preventative maintenance	20,000	83,900
RTA provision	Prior year positive balance	20,000	-
Total Funding		$ 661,832	$ 548,249

Reduced-fare subsidies received from the State of Illinois were $31,855,000 and $33,308,000 during the years ended December 31, 2008 and 2007, respectively, for discounted services provided to the elderly, disabled, or student riders.

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

<u>Cash, Cash Equivalents, and Investments of the Business-type Activities</u>: Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2008 and 2007 (in thousands):

	2008	2007
Current assets:		
Cash and cash equivalents	$ 61,672	$ 151,104
Restricted for injury and damage reserve	5,894	109,057
Investments	1,000	900
Noncurrent assets:		
Bond proceeds held by trustee	536,690	112,557
Cash for supplemental retirement plan	206	138
Total	$ 605,462	$ 373,756

(Continued)

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

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2008 and 2007 (in thousands):

	2008	2007
Investments:		
Certificates of deposit	$ 4,029	$ 4,020
Guaranteed investment contracts	-	44,508
Money market mutual funds	211,313	47,062
Repurchase agreements	23,900	95,935
U.S. government agencies	250,221	93,035
U.S. Treasury bills	90,801	-
Commercial paper	19,816	79,896
Total investments	600,080	364,456
Deposits with financial institutions	5,382	9,300
Total deposits and investments	$ 605,462	$ 373,756

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

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

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).

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

4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding $500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the U.S. government. As of December 31, 2008, the CTA's bank balances were fully insured or collateralized. As of December 31, 2007, the CTA's bank balances of $16,085,000 were subject to custodial credit risk as they were neither insured nor collateralized.

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

(Continued)

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

Instrument type	Term of investment
U.S. treasuries	3 years
Repurchase agreements	330 days
Certificates of deposit	365 days
Commercial paper	180 days
U.S. Government obligations	3 years
Federal National Mortgage Assn.	3 years
Mutual funds	n.a.
Investment pool	n.a.

As of December 31, 2008, the maturities for the CTA's fixed-income investments are as follows (in thousands):

		Investment maturities (by years)	
	Fair value	Less than 1	1-5
Money market mutual funds	$ 211,313	$ 211,313	$ -
Repurchase agreements	23,900	23,900	-
U.S. government agencies	250,221	250,221	-
U.S. treasury bills	90,801	90,801	-
Commercial paper	19,816	19,816	-
Total	$ 596,051	$ 596,051	$ -

As of December 31, 2007, the maturities for the CTA's fixed-income investments are as follows (in thousands):

		Investment maturities (by years)	
	Fair value	Less than 1	1-5
Guaranteed investment contracts	$ 44,508	$ 44,508	$ -
Money market mutual funds	47,062	47,062	-
Repurchase agreements	99,935	99,935	-
U.S. government agencies	93,035	93,035	-
Commercial paper	79,896	79,896	-
Total	$ 364,436	$ 364,436	$ -

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2008, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

(Continued)

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

		Credit ratings			
	Fair value	**A1P1 or AAA**	**A2P2 or AA**	**A3P3 or A**	**Not rated**
Money market mutual funds	$211,313	$ -	$ -	$ -	$211,313
Repurchase agreements	23,900	23,900	-	-	-
U.S. government agencies	250,221	13,026	-	-	237,195
U.S. treasury bills	90,801	90,801	-	-	-
Commercial paper	19,816	19,816	-	-	-
Total	$596,051	$147,543	$ -	$ -	$448,508

As of December 31, 2007, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

		Credit ratings			
	Fair value	**A1P1 or AAA**	**A2P2 or AA**	**A3P3 or A**	**Not rated**
Guaranteed investment contracts	$ 44,508	$ -	$ -	$ -	$ 44,508
Money market mutual funds	47,062	-	-	-	47,062
Repurchase agreements	95,935	79,000	-	-	16,935
U.S. government agencies	93,035	86,381	-	-	6,654
Commercial paper	79,896	-	-	79,896	-
Total	$360,436	$165,381	$ -	$ 79,896	$115,159

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

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

(Continued)

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

Cash, Cash Equivalents, and Investments of the Fiduciary Activities: Cash, cash equivalents, and investments are reported in the Fiduciary Fund as follows as of December 31, 2008 and 2007 (in thousands):

	2008	2007
Investments, at fair value:		
Short-term investments	$ 4,011	$ 808
Government agency commingled funds	4,620	5,653
Common stock	8,590	13,024
Total	$ 17,221	$ 19,485

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

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

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

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

Asset class	Allocation
U.S. large cap equities	55.00%
U.S. small cap equities	10.00
Non-U.S. equities	10.00
U.S. fixed income	25.00
	100.00%

As of December 31, 2008, the maturities for the Plan's fixed-income investments are as follows (in thousands):

		Investment Maturities (in years)	
	Fair value	Less Than 1	1 - 5
Short-term investment funds	$ 4,011	$ 4,011	$ -
U.S. government agency commingled funds	4,620	4,620	-
Total	$ 8,631	$ 8,631	$ -

As of December 31, 2007, the maturities for the Plan's fixed-income investments are as follows (in thousands):

		Investment Maturities (in years)	
	Fair value	Less Than 1	1 - 5
Short-term investment funds	$ 808	$ 808	$ -
U.S. government agency commingled funds	5,653	5,653	-
Total	$ 6,461	$ 6,461	$ -

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

As of December 31, 2008, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

		Credit ratings	
	Fair value	Government Secured	Not Rated
Short-term investment funds	$ 4,011	$ -	$ 4,011
U.S. government agency commingled funds	4,620	4,620	-
Total	$ 8,631	$ 4,620	$ 4,011

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

As of December 31, 2007, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

	Fair value	Credit ratings: Government Secured	Credit ratings: Not Rated
Short-term investment funds	$ 808	$ -	$ 808
U.S. government agency commingled funds	5,653	5,653	-
Total	$ 6,461	$ 5,653	$ 808

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $1,136,000 and $1,184,000 as of December 31, 2008 and 2007, respectively.

Securities Lending: The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they are denominated in different currencies. The fair value of the securities loaned was approximately $1,693,000 and $11,392,000 as of December 31, 2008 and 2007, respectively. The fair value of the associated collateral received was approximately $1,697,000 and $11,679,000 as of December 31, 2008 and 2007, respectively.

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately $263,708,000 and $469,782,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2008 and 2007, respectively.

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $120,809,000 and $245,801,000 have been entered into for these state and local capital grants as of December 31, 2008 and 2007, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2008 and 2007 (in thousands of dollars):

	2008	2007
Funding source:		
Federal (FTA)	$ 5,404,290	$ 4,766,864
State (principally IDOT)	601,976	570,408
RTA	1,803,146	1,736,990
CTA (generally prior to 1973)	124,854	124,854
Other	347,245	264,248
Total	$ 8,281,511	$ 7,463,364

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2008 are as follows (in thousands of dollars):

	Balance at January 1, 2008	Increase	Decrease	Balance at December 31, 2008
Capital assets not being depreciated:				
Land	$ 119,257	$ 689	$ (8)	$ 119,938
Construction in process	666,046	1,079,165	(840,319)	904,892
Total capital assets not being depreciated	785,303	1,079,854	(840,327)	1,024,830
Capital assets being depreciated:				
Land improvements	20,954	1,326	-	22,280
Buildings	1,734,898	177,235	(958)	1,911,175
Vehicles	2,068,102	252,327	(135,727)	2,184,702
Elevated structure track	1,462,301	108,893	(245)	1,570,949
Signal and communication	864,781	151,884	(4,026)	1,012,639
Other equipment	527,025	51,582	(23,671)	554,936
Total capital assets being depreciated	6,678,061	743,247	(164,627)	7,256,681
Less accumulated depreciation for:				
Land improvements	13,264	1,781	-	15,045
Buildings	735,373	76,364	(958)	810,779
Vehicles	1,476,248	175,089	(135,679)	1,515,658
Elevated structure track	859,878	64,940	(245)	924,573
Signal and communication	513,134	50,650	(4,027)	559,757
Other equipment	419,761	34,424	(17,136)	437,049
Total accumulated depreciation	4,017,658	403,248	(158,045)	4,262,861
Total capital assets being depreciated, net	2,660,403	339,999	(6,582)	2,993,820
Total capital assets, net	$ 3,445,706	$ 1,419,853	$ (846,909)	$ 4,018,650

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2007 are as follows (in thousands of dollars):

	Balance at January 1, 2007	Increase	Decrease	Balance at December 31, 2007
Capital assets not being depreciated:				
Land	$ 119,419	$ 490	$ (652)	$ 119,257
Construction in process	694,234	1,014,077	(1,042,265)	666,046
Total capital assets not being depreciated	813,653	1,014,567	(1,042,917)	785,303
Capital assets being depreciated:				
Land improvements	19,141	1,813	-	20,954
Buildings	1,549,652	185,792	(546)	1,734,898
Vehicles	1,971,486	152,502	(55,886)	2,068,102
Elevated structure track	1,349,446	112,956	(101)	1,462,301
Signal and communication	724,628	152,319	(12,166)	864,781
Other equipment	480,797	55,289	(9,061)	527,025
Total capital assets being depreciated	6,095,150	660,671	(77,760)	6,678,061
Less accumulated depreciation for:				
Land improvements	11,523	1,741	-	13,264
Buildings	665,637	70,282	(546)	735,373
Vehicles	1,343,332	188,802	(55,886)	1,476,248
Elevated structure track	806,260	53,719	(101)	859,878
Signal and communication	486,910	38,389	(12,165)	513,134
Other equipment	392,970	34,798	(8,007)	419,761
Total accumulated depreciation	3,706,632	387,731	(76,705)	4,017,658
Total capital assets being depreciated, net	2,388,518	272,940	(1,055)	2,660,403
Total capital assets, net	$3,202,171	$ 1,287,507	$(1,043,972)	$ 3,445,706

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2008 are as follows (in thousands of dollars):

	Balance at January 1, 2008	Additions	Reductions	Balance at December 31, 2008	Amount due within one year
Self insurance claims (note 13)	$ 192,750	$ 260,829	$ (256,713)	$ 196,866	$ 76,848
Capital lease obligations (note 8)	1,750,421	236,538	(207,100)	1,779,859	99,688
Premium on capital lease obligation	5,721	-	(334)	5,387	-
Deferred revenue – leasing transactions (note 8)	37,235	-	(4,262)	32,973	-
Bonds payable (note 9)	488,885	2,361,855	(27,475)	2,823,265	28,715
Certificates of Participation (note 10)	-	78,430	(1,522)	76,908	4,893
Premium on bonds payable	36,902	22,398	(5,154)	54,146	-
Accrued pension costs (note 11):					
Employees Retirement Plan	890,592	-	(890,592)	-	-
Supplemental Retirement Plans	18,017	-	(682)	17,335	-
Other Postemployment healthcare (note 12	659,729	212	(659,507)	434	-
Other	4,333	-	(470)	3,863	-
Total	$ 4,084,585	$ 2,960,262	$ (2,053,811)	$ 4,991,036	$ 210,144

Changes in long-term obligations for the year ended December 31, 2007 are as follows (in thousands of dollars):

	Balance at January 1, 2007	Additions	Reductions	Balance at December 31, 2007	Amount due within one year
Self insurance claims (note 13)	$ 165,843	$ 265,066	$ (238,159)	$ 192,750	$ 74,795
Capital lease obligations (note 8)	1,741,828	115,819	(107,226)	1,750,421	206,765
Premium on capital lease obligation	6,062	-	(341)	5,721	-
Deferred revenue – leasing transactions (note 8)	41,497	-	(4,262)	37,235	-
Bonds payable (note 9)	507,295	-	(18,410)	488,885	27,475
Premium on bonds payable	41,060	-	(4,158)	36,902	-
Accrued pension costs (note 11):					
Employees Retirement Plan	729,163	161,429	-	890,592	-
Supplemental Retirement Plans	18,857	-	(840)	18,017	-
Other Postemployment healthcare (note 12)	515,374	144,355	-	659,729	-
Other	4,579	-	(246)	4,333	-
Total	$ 3,771,558	$ 686,669	$ (373,642)	$ 4,084,585	$ 309,035

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment at an estimated aggregate cost of $120,522,624. The terms of the agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year, beginning on December 1, 2008. The present value of the future payments to be made by the CTA under the lease of approximately $120,189,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

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

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

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

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately $87,175,000 is reflected in the accompanying December 31, 2008 balance sheet 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 $17,581,000 at December 31, 2008. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $15,557,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

During 2002, CTA entered into two lease and leaseback agreements with a third party pertaining to certain buses (lots 1 and 2), with a book value of $30,169,000 at December 31, 2008. Under the bus lease agreements, which provide certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $111,611,000 is reflected in the accompanying December 31, 2008 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 $12,758,000 at December 31, 2008. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $80,793,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 $240,605,000 at December 31, 2008. The 1998 Agreement, which provides certain cash and tax benefits to the third party, also provides for a trust established by the CTA to lease the rail line to an equity investor trust (the 1998 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1998 Lease). The present value of the future payments to be made by the CTA under the lease of approximately $251,355,000 is reflected in the accompanying December 31, 2008 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 $47,577,000 at December 31, 2008. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately $34,906,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

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

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of $51,407,000 at December 31, 2008. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). The present value of the future payments to be made by the CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately $35,008,000 is reflected in the accompanying December 31, 2008 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.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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, 2008, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,043,264,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2008 are as follows (in thousands of dollars):

2008	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 15,022	$ 535	$ -	$ 15,557	$ 535	$ -
2002 (Buses)	106,255	5,356	-	111,611	5,356	-
2002 (QTE)	173,733	10,154	(103,094)	80,793	10,154	-
1998 (Green)	271,031	18,508	(38,184)	251,355	18,508	25,885
1997 (Garages)	32,464	2,442	-	34,906	2,442	-
1996 (Skokie/Racine)	32,611	2,397	-	35,008	2,397	-
1995 (Pickle)	1,030,340	76,622	(63,698)	1,043,264	75,680	63,698
Total lease/leasebacks	1,661,456	116,014	(204,976)	1,572,494	115,072	89,583
2006 PBC lease	88,965	-	(1,790)	87,175	4,384	1,880
2008 Bus Lease	-	120,523	(333)	120,190	1,631	8,225
Total capital lease obligation	$ 1,750,421	$ 236,537	$ (207,099)	$ 1,779,859	$ 121,087	$ 99,688

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2007 are as follows (in thousands of dollars):

2007	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 23,555	$ 840	$ (9,373)	$ 15,022	$ 840	$ -
2002 (Buses)	101,157	5,098	-	106,255	5,098	-
2002 (QTE)	169,877	10,784	(6,928)	173,733	10,784	103,094
1998 (Green)	276,971	18,912	(24,852)	271,031	18,912	38,183
1997 (Garages)	30,194	2,270	-	32,464	2,270	-
1996 (Skokie/Racine)	30,377	2,234	-	32,611	2,233	-
1995 (Pickle)	1,018,357	75,681	(63,698)	1,030,340	75,680	63,698
Total lease/leasebacks	1,650,488	115,819	(104,851)	1,661,456	115,817	204,975
2006 PBC lease	91,340	-	(2,375)	88,965	3,794	1,790
Total capital lease obligation	$ 1,741,828	$ 115,819	$ (107,226)	$ 1,750,421	$ 119,611	$ 206,765

* Additions include accretion of interest.

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Future Minimum Lease Payments: As of December 31, 2008, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2009	$ 109,209
2010	122,647
2011	112,647
2012	111,440
2013	191,063
2014 – 2018	1,750,021
2019 – 2023	311,950
2024 – 2028	139,834
2029 – 2033	30,942
Total minimum lease payments	2,879,753
Less interest	1,099,895
	$ 1,779,858

NOTE 9 - BONDS PAYABLE

2004 Series Capital Grant Receipts Revenue Bonds: 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 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.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
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	$ 194,550	$ 43,093	$ 237,643

2006 Series Capital Grant Receipts Revenue Bonds: On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of $275,000,000, along with a premium of $19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project."

The Series 2006 bonds bear interest ranging from 4.0% to 5.0%. Scheduled interest on the 2006 bonds will be funded through June 1, 2007 with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2008 through June 1, 2021.

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

	Principal	Interest	Total
2009	$ 8,465	$ 12,898	$ 21,363
2010	8,800	12,559	21,359
2011	9,155	12,207	21,362
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	$ 266,860	$ 121,429	$ 388,289

NOTE 9 - BONDS PAYABLE (Continued)

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

The Series 2008 (5309) and 2008A (5307) bonds bear interest ranging from 3.5% to 5.25%. Scheduled interest on the 2008 bonds was funded through December 1, 2008 with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2009 through June 1, 2026.

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

	2008 (5309) Principal	2008 (5309) Interest	2008A (5307) Principal	2008A (5307) Interest	Total Principal	Total Interest
2009	$ -	$ 7,432	$ -	$ 5,250	$ -	$ 12,682
2010	5,990	7,304	-	5,250	5,990	12,554
2011	6,240	7,068	-	5,250	6,240	12,318
2012	6,460	6,813	-	5,250	6,460	12,063
2013	6,750	6,515	-	5,250	6,750	11,765
2014	7,060	6,207	-	5,250	7,060	11,457
2015	7,365	5,887	-	5,250	7,365	11,137
2016	7,700	5,529	-	5,250	7,700	10,779
2017	8,085	5,134	-	5,250	8,085	10,384
2018	8,490	4,720	-	5,250	8,490	9,970
2019	8,910	4,274	-	5,250	8,910	9,524
2020	9,380	3,794	-	5,250	9,380	9,044
2021	9,870	3,288	-	5,250	9,870	8,538
2022	10,390	2,757	18,005	5,250	28,395	8,007
2023	10,935	2,197	18,955	4,305	29,890	6,502
2024	11,510	1,608	19,950	3,310	31,460	4,918
2025	12,115	987	20,995	2,262	33,110	3,249
2026	12,750	335	22,095	1,160	34,845	1,495
Total	$ 150,000	$ 81,849	$ 100,000	$ 84,537	$ 250,000	$ 166,386

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

2008A (5309) Series Capital Grant Receipts Revenue Bonds: On November 20, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of $175,000,000, along with a premium of $3,760,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2008 Project."

The Series 2008A (5309) bonds bear interest ranging from 5.0% to 6.0%. Scheduled interest on the 2008A (5309) bonds was funded through December 1, 2008 with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2009 through June 1, 2026.

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

	Principal	Interest	Total
2009	$ -	$ 9,466	$ 9,466
2010	6,705	9,169	15,874
2011	7,040	8,825	15,865
2012	7,395	8,464	15,859
2013	7,765	8,085	15,850
2014	8,150	7,688	15,838
2015	8,560	7,270	15,830
2016	8,990	6,831	15,821
2017	9,440	6,358	15,798
2018	9,935	5,837	15,772
2019	10,480	5,276	15,756
2020	11,055	4,711	15,766
2021	11,610	4,145	15,755
2022	12,190	3,550	15,740
2023	12,800	2,909	15,709
2024	13,470	2,169	15,639
2025	14,280	1,337	15,617
2026	15,135	454	15,589
Total	$ 175,000	$ 102,544	$ 277,544

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

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

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue $1.9 billion in pension obligation bonds to fund the pension and retiree health care. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009.

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.8%. Scheduled interest on the 2008A and 2008B bonds will be funded through June 1, 2009 and June 1, 2010, respectively, with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2012 through June 1, 2040.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2009	$ -	$ 131,367	$ 131,367
2010	-	131,367	131,367
2011	-	131,367	131,367
2012	10,020	131,367	141,387
2013	25,720	130,854	156,574
2014	27,040	129,538	156,578
2015	28,740	127,834	156,574
2016	30,550	126,024	156,574
2017	32,475	124,099	156,574
2018	34,520	122,053	156,573
2019	36,695	119,878	156,573
2020	39,010	117,566	156,576
2021	41,465	115,109	156,574
2022	44,080	112,496	156,576
2023	47,120	109,455	156,575
2024	50,370	106,205	156,575
2025	53,845	102,730	156,575
2026	57,560	99,015	156,575
2027	61,530	95,044	156,574
2028	65,775	90,799	156,574
2029	70,310	86,261	156,571
2030	75,165	81,410	156,575
2031	80,350	76,225	156,575
2032	85,895	70,681	156,576
2033	91,820	64,755	156,575
2034	98,150	58,421	156,571
2035	104,925	51,649	156,574
2036	112,165	44,411	156,576
2037	119,905	36,672	156,577
2038	128,170	28,400	156,570
2039	137,015	19,558	156,573
2040	146,470	10,105	156,575
Total	$ 1,936,855	$ 2,982,715	$ 4,919,570

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2009	$ 28,715	$ 175,976	$ 204,691
2010	42,790	174,142	216,932
2011	44,825	172,085	216,910
2012	56,940	169,908	226,848
2013	74,915	167,069	241,984
2014 - 2018	422,005	772,281	1,194,286
2019 - 2023	471,355	648,743	1,120,098
2024 - 2028	431,380	507,415	938,795
2029 - 2033	403,540	379,332	782,872
2034 - 2038	563,315	219,553	782,868
2039 - 2040	283,485	29,663	313,148
Total	$ 2,823,265	$ 3,416,167	$ 6,239,432

NOTE 10 – CERTIFICATES OF PARTICIPATION

In August 2008, the Bank of New York Mellon issued Certificates of Participation (COP) totaling $78,430,000 on behalf of the CTA with an interest rate of 4.725%. The COPs will be used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement with the Bank of New York Mellon. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments to the Bank of New York Mellon which are then remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. The total principal and interest remaining to be paid on the COPs is $101,642,000. Principal and interest paid for the current fiscal year was approximately $2,706,000. As of December 31, 2008, debt service requirements to maturity are as follows:

NOTE 10 – CERTIFICATES OF PARTICIPATION (Continued)

	Principal	Interest	Total
2009	$ 4,893	$ 3,577	$ 8,470
2010	5,128	3,342	8,470
2011	5,373	3,097	8,470
2012	5,629	2,841	8,470
2013	5,898	2,572	8,470
2014	6,180	2,290	8,470
2015	6,476	1,994	8,470
2016	6,786	1,684	8,470
2017	7,110	1,360	8,470
2018	7,450	1,020	8,470
2019	7,806	664	8,470
2020	8,179	293	8,472
	$ 76,908	$ 24,734	$ 101,642

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

Employees' Plan: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement.

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees hired prior to September 5, 2001, who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, but prior to January 18, 2008, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. Employees hired after January 18, 2008, are eligible for unreduced pension benefits after attaining age 64 with at least 25 years of service, and reduced pension benefits after attaining age 55 with at least 10 years of service. Employees retiring after January 18, 2008, are eligible for retiree healthcare benefits, after attaining age 55 with at least 10 years of service. The minimum age and service requirements do not apply to members on a disability allowance. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009. The retiree health care trust is described in note 12. The covered payroll for the Employees' Plan for the fiscal years

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

ended December 31, 2008 and 2007 was $578,163,000 and $562,567,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

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

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

During fiscal year 2008, a Voluntary Termination Program ("VTP") was adopted which allowed certain active members eligible for Supplemental Plan benefits under the qualified trust to purchase up to five years of "air-time" and the first year of eligibility service if not included in the determination of pension benefits. Members purchase "air-time" and the first year of eligibility service at a rate of six percent of pay. Members were required to make the election within a certain window of time and agree to terminate employment at a date accepted by the Board. Approximately 70 members have elected to participate in the VTP. For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities at January 1, 2009, increased from $15.97 million at January 1, 2008, to $36.52 million at January 1, 2009. The adoption of the VTP increased actuarial liabilities by approximately $19.4 million as of January 1, 2009.

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Participants in the supplemental retirement plans at December 31, 2008 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	49	438	18
Terminated employees entitled to but not yet receiving benefits	16	-	4
Active plan members	94	-	7
Total	159	438	29

Participants in the supplemental retirement plans at December 31, 2007 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	27	455	18
Terminated employees entitled to but not yet receiving benefits	12	-	3
Active plan members	116	-	7
Total	155	455	28

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2008 and 2007 was $11,691,000 and $13,551,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $200,000 for the fiscal years ended December 31, 2008 and 2007.

Funding Policy and Annual Pension Cost: Contribution requirements of the Employees' Plan are governed by collective bargaining agreements. Contributions for the supplemental plans are actuarially determined but may be amended by the board of trustees of the Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

	Employees' Plan Pension	**Open Supplemental**	**Closed Supplemental**	**Board Plan**
Contribution rates:				
CTA**	9.7%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members**	4.9	None	None	None
Annual pension cost (APC)	$178,941	$271	$2,772	$269
Actual 2008 contributions:				
CTA*	$1,165,909	$8,000	$3,460	$263
Plan members	$27,704	$34	$0	$6
Actuarial valuation date	January 1, 2008	January 1, 2008	January 1, 2008	January 1, 2008
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years	30 years	13 years	30 years
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	8.75%	8.0%	6.0%	6.0%
Projected salary increases	5.5	5.5	N/A	–
Includes inflation at	3.5	3.5	3.5	3.5

* includes extraordinary contribution of $1,110,500,000 representing bond proceeds deposited per P.A. 95-708

** Employee pension plan employer contributions are allocated between the pension and retiree healthcare account

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

	Medical and Prescription Trend Rate
Plan year:	
2009	10%
2010	9%
2011	8%
2012	7%
2013	6%
2014	5%
2015 and after	5%

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2008 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	$ 178,965	$ 230	$ 3,599	$ 282
Interest on NPO	77,927	(627)	1,002	78
Adjustment to ARC	(77,951)	668	(1,829)	(92)
Annual pension cost	178,941	271	2,772	268
Contributions made	55,409	8,000	3,459	263
Extraordinary contribution	1,110,500	-	-	-
Increase (decrease) in NPO	(986,968)	(7,729)	(687)	5
NPO – December 31, 2007	890,592	(7,847)	16,716	1,301
NPO – December 31, 2008	$ (96,376)	$ (15,576)	$ 16,029	$ 1,306

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2007 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	$ 185,944	$ 200	$ 3,450	$ 288
Interest on NPO	65,625	(647)	1,053	78
Adjustment to ARC	(65,114)	689	(1,829)	(92)
Annual pension cost	186,455	242	2,674	274
Contributions made	25,026	-	3,504	284
Increase (decrease) in NPO	161,429	242	(830)	(10)
NPO – December 31, 2006	729,163	(8,089)	17,546	1,311
NPO – December 31, 2007	$ 890,592	$ (7,847)	$ 16,716	$ 1,301

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

	Year ended	Annual pension cost (APC)	Actual contributions	Percentage of APC contributed	Net pension obligation
Employees' Plan Pension	December 31, 2008	$ 178,941	$ 1,165,909	651.6%	$ (96,376)
	December 31, 2007	186,455	25,026	13.4	890,592
	December 31, 2006	156,020	23,850	15.3	729,163
Open Supplemental Plan	December 31, 2008	$ 271	$ 8,000	2,952.0%	$ (15,576)
	December 31, 2007	242	-	0.0	(7,847)
	December 31, 2006	42	-	0.0	(8,089)
Closed Supplemental Plan	December 31, 2008	$ 2,772	$ 3,460	124.8%	$ 16,029
	December 31, 2007	2,674	3,504	131.0	16,716
	December 31, 2006	2,748	3,467	126.2	17,546
Board Supplemental Plan	December 31, 2008	$ 269	$ 263	97.8%	$ 1,306
	December 31, 2007	274	284	103.6	1,301
	December 31, 2006	262	292	111.5	1,311

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan – Pension as of 1/1/08, and the three supplemental plans as of 1/1/09, the most recent actuarial valuation dates (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	1/1/2008	$ 941,864	$ 2,531,440	$ 1,589,576	37.2%	$ 578,163	274.9%
Open Supplemental Plan	1/1/2009	22,434	36,519	14,085	61.4%	11,691	120.5%
Closed Supplemental Plan	1/1/2009	-	31,459	31,459	0.0%	-	N/A
Board Supplemental Plan	1/1/2009	45	3,257	3,212	1.4%	200	1606.0%

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

NOTE 12 - POSTEMPLOYMENT HEALTHCARE

Plan Descriptions - OPEB

Employees' Plan – Retiree Healthcare Benefits: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Retirement Plan for CTA employees (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement and is described in detail at Note 11.

The Employees' Plan provides death, disability, and health benefits to participants. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the pension plan. Members are eligible for health benefits if they are in receipt of retirement or disability benefits from the Plan. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans – Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan. Members of the Supplemental Plan with bridged service or service purchased through the Voluntary Termination Program are eligible for Supplemental Healthcare benefits if they retiree under the Supplemental Plan and do not immediately qualify for healthcare benefits under the CTA Retiree Healthcare Trust. Supplemental Healthcare Plan benefits are similar to those provided under the Base Healthcare Plan in effect as of December 31, 2008. Supplemental Healthcare Plan benefits are administered through the CTA's healthcare program covering active members. Supplemental healthcare benefits cease when the member becomes eligible for healthcare coverage under the newly established Retiree Health Care Trust. Certain members not eligible for benefits under the Retiree Health Care Trust will continue to receive benefits through the CTA's healthcare program covering active members.

The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan. In general, employees with less than 10 years of CTA service will receive healthcare benefits from the supplemental plan only. Employees with more than 10 years of CTA service are eligible for retiree healthcare benefits from the Employees Plan.

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

(Continued)

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

Funding Policy - OPEB

Employees' Plan – Retiree Healthcare Benefits: The contribution levels are set by the collective bargaining agreement. The collective bargaining agreement in effect during 2007 required contributions of six percent and three percent of payroll from the employer and employees, respectively which covers both pension and healthcare benefits. In 2008 the required contributions were twelve percent and six percent of payroll from the employer and employees per the statutory plan change implemented January 18, 2008 per Public Act 95-708. The employer and employee contributions are allocated between pension and healthcare by the plan. The allocation is based on the annual required contribution for pension and healthcare benefits for the fiscal year and is limited by Section 401 (h) of the Internal Revenue Code. For the fiscal year 2008 contribution, approximately 2.3 percent of payroll for the CTA and 1.1 percent of payroll for the employees were allocated to healthcare benefits.

Supplemental Plan – Retiree Healthcare Benefits: Funding for the Supplemental and Board Retiree Healthcare Plans are on a pay-as-you-go basis. Active employees are not required to make contributions to the supplemental healthcare plan.

Annual OPEB Cost and Net OPEB Obligation. The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2008 (dollar amounts in thousands):

	Employees' Plan Healthcare	**Supplemental**	**Total**
Annual required contribution	$ 17,524	$ 508	$ 18,032
Interest on net OPEB obligation	32,975	11	32,986
Adjustment to ARC	(659,507)	(14)	(659,521)
Annual OPEB expense	(609,008)	505	(608,503)
Contributions made	(13,031)	(292)	(13,323)
Statutory plan change	(37,468)	-	(37,468)
Increase (decrease) in net OPEB obligation	(659,507)	213	(659,294)
Net OPEB obligation – December 31, 2007	659,507	222	659,729
Net OPEB obligation – December 31, 2008	$ -	$ 435	$ 435

(Continued)

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2007 (dollar amounts in thousands):

	Employees' Plan Healthcare	Supplemental	Total
Annual required contribution	$ 159,021	$ 556	$ 159,577
Interest on net OPEB obligation	25,769	-	25,769
Adjustment to ARC	(31,929)	-	(31,929)
Annual OPEB expense	152,861	556	153,417
Contributions made	(8,728)	(334)	(9,062)
Increase (decrease) in net OPEB obligation	144,133	222	144,355
Net OPEB obligation – December 31, 2006	515,374	-	515,374
Net OPEB obligation – December 31, 2007	$ 659,507	$ 222	$ 659,729

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and the two preceding years were as follows (dollar amounts in thousands):

Employees Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2008	$ (609,008)	-2.1%	$ -
2007	152,861	5.7	659,507
2006	121,481	9.6	515,374

Supplemental Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2008	$ 505	57.9%	$ 434
2007	556	60.2	222
2006	-	-	-

(Continued)

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

Funded Status and Funding Progress - OPEB

Employee's Plan – Retiree Healthcare Benefits:

As of January 1, 2008 the most recent actuarial valuation date, the plan was 65.9 percent funded. The actuarial accrued liability for benefits was $68,826,000, and the actuarial value of assets was $45,373,000, resulting in an unfunded actuarial accrued liability (UAAL) of $23,453,000. The covered payroll (annual payroll of active employees covered by the plan) was $578,163,000, and the ratio of the UAAL to the covered payroll was 4.1 percent. This is a significant decrease from the prior year liability because PA 95-708 removed responsibility for paying for healthcare benefits from the Retirement Plan. The liabilities above reflect one-year of net healthcare benefits expected to be paid in Plan year 2008.

As of January 1, 2007, the plan was 3.3 percent funded. The actuarial accrued liability for benefits was $1,765,884,000, and the actuarial value of assets was $58,856,000, resulting in an unfunded actuarial accrued liability (UAAL) of $1,707,028,000. The covered payroll (annual payroll of active employees covered by the plan) was $562,567,000, and the ratio of the UAAL to the covered payroll was 303.4 percent.

Supplemental and Board Plans – Retiree Healthcare Benefits

As of January 1, 2009 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $16,830,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $16,830,000. The covered payroll (annual payroll of active employees covered by the plan) was $4,420,000, and the ratio of the UAAL to the covered payroll was 380.8 percent.

As of January 1, 2008, the plan was not funded. The actuarial accrued liability for benefits was $6,287,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $6,287,000. The covered payroll (annual payroll of active employees covered by the plan) was $2,771,000, and the ratio of the UAAL to the covered payroll was 226.9 percent.

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

(Continued)

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the actuarial valuation as of January 1, 2008, and January 1, 2009, the projected unit credit cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 10 percent, reduced by one percent per year until an ultimate rate of 5 percent is reached. Both rates included a 3.5 percent inflation assumption. The actuarial value of assets for the Employees' healthcare plan was marked to the market value of the retiree healthcare account as of January 1, 2008. The UAAL is being amortized as a level percentage of projected payroll over one year for the Employee's healthcare plan and over an open 30-year period for the supplemental healthcare plan.

NOTE 13 - RISK MANAGEMENT

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

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

NOTE 13 - RISK MANAGEMENT (Continued)

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

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. On November 8, 2005, a new policy was established through May 7, 2009 that covered injury and damage claims up to $35,000,000 per occurrence and $70,000,000 in the aggregate, with a $15,000,000 deductible. In 2008 and 2007, no CTA claim existed that is expected to exceed the $15,000,000 self insured retention 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. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2008 or 2007 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 6.0% and 3.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 6.0% and 3.0%, respectively.

(Continued)

NOTE 13 - RISK MANAGEMENT (Continued)

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

	Injury and damage	Group health and dental	Workers' compensation	Total
Balance at December 31, 2006	$ 92,172	$ 14,723	$ 58,948	$ 165,843
Funded*	25,000	190,084	37,158	252,242
Funding (excess) per actuarial requirement	(8,776)	-	21,600	12,824
Payments*	(14,840)	(187,250)	(36,069)	(238,159)
Balance at December 31, 2007	93,556	17,557	81,637	192,750
Funded*	14,000	195,833	39,086	248,919
Funding (excess)/deficiency per actuarial requirement	(6,281)	-	18,191	11,910
Payments*	(17,450)	(194,890)	(44,373)	(256,713)
Balance at December 31, 2008	$ 83,825	$ 18,500	$ 94,541	$ 196,866

*Group insurance amounts include funding and reimbursement for retiree healthcare

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

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

Objective of the Derivative: The CTA negotiated a commodity swap agreement with two financial institutions to protect against market fluctuations in the price of diesel fuel.

Terms: The CTA entered into commodity swap agreements for NYMEX No. 2 heating oil as shown below. 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.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

2008 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
5/1/2008	3/31/2009	210,000	2,310,000	$ (1,560,937)
6/1/2008	6/30/2009	420,000	5,460,000	(7,216,401)
7/1/2008	12/31/2008	238,000	1,428,000	(538,765)
4/1/2009	12/31/2009	420,000	3,780,000	(8,830,001)
5/1/2009	12/31/2009	476,000	4,284,000	(10,946,355)
1/1/2010	12/31/2010	210,000	2,520,000	(3,686,020)
5/1/2008	3/31/2009	271,091	2,982,000	(1,701,496)
5/1/2008	3/31/2009	271,091	2,982,000	(2,030,048)
6/1/2008	4/30/2009	210,000	2,310,000	(1,896,660)
6/1/2008	4/30/2009	439,091	4,830,000	(4,559,300)
4/1/2009	12/31/2009	434,000	3,906,000	(8,588,485)
5/1/2009	12/31/2009	535,500	4,284,000	(10,513,134)
				$ (62,067,602)

2007 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
1/1/2007	12/31/2007	380,000	4,560,000	$ 181,184
1/1/2007	12/31/2007	380,000	4,560,000	126,844
1/1/2007	12/31/2007	190,000	2,280,000	72,067
1/1/2007	12/31/2007	190,000	2,280,000	83,562
1/1/2007	12/31/2007	190,000	2,280,000	72,067
1/1/2007	12/31/2007	190,000	2,280,000	83,562
1/1/2007	12/31/2007	190,000	2,280,000	116,622
1/1/2007	12/31/2007	190,000	2,280,000	116,622
				$ 852,530

(Continued)

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Fair Value: As of December 31, 2008 and 2007, the commodity swaps had a fair value of ($62,067,602) and $852,530, respectively, 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, 2007, the swap counterparty's long-term deposit ratings were Aa3 and A2 per Moody's Investors Service and A+ and A 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 is posted with a third-party custodian.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation: The CTA has been named as a defendant in various other legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial position.

Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was $102,370,000 as of December 31, 2008.

Operating Leases: As of December 31, 2008, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2009	$ 332,941
2010	342,930
2011	353,217
2012	241,978
Total minimum lease payments	$ 1,271,066

NOTE 16 - SUBSEQUENT EVENTS

Green Line Lease

During 1998, the CTA entered into a lease and leaseback agreement with three equity investors pertaining to the railway tracks, train stations and adjacent property on the Green Line. The CTA's payments associated with this agreement were guaranteed by American International Group Inc (AIG).

NOTE 16 - SUBSEQUENT EVENTS (Continued)

During 2008, AIG's credit rating was reduced amid the U.S. global economic crisis. Although each equity investor had the right to demand that the CTA replace AIG as guarantor, one of the investors decided to simply exercise the option to terminate the Green Line transaction with CTA. CTA entered negotiations with this investor to unwind the transaction at the current market value in the equity defeasance account. These negotiations were finalized in 2009 and final payment was made and a termination agreement was executed. The restricted lease assets and associated lease liability related to this transaction were removed from CTA's financial statements upon termination and payment in 2009.

CTA is in negotiations with the remaining two equity investors to determine whether to unwind the transaction or restructure the agreements with a new guarantor.

Pension Obligation Bond Interest Rate Swap

During 2008, CTA issued nearly $2 billion in Sales and Transfer Tax Receipts Revenue Bonds for the purpose of funding the pension and retiree healthcare. These bonds were initially executed as fixed rate bonds with a relatively high interest rate. In April 2009, CTA executed a basis swap transaction that has a net effect of changing the interest rate characteristics of the debt for a portion of the bonds from a fixed rate to a variable interest rate. The transaction was structured such that CTA will receive upfront cash payments in 2009 and 2010. Beginning in 2011 CTA will pay a percentage of a tax-exempt index (SIFMA) and receive a taxable index (LIBOR) plus a fixed payment annually over 20 years based on the notional amount of the transaction of $567,130,000. CTA has the right to terminate this basis swap transaction at any time.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
December 31, 2008
(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:						
1/1/2008	$ 941,864	$ 2,531,440	$ 1,589,576	37.2%	$ 578,163	274.9%
1/1/2007	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
1/1/2004	1,491,574	2,189,666	698,092	68.1	486,626	143.5
1/1/2003	1,671,055	2,085,724	414,669	80.1	480,740	86.3
1/1/2002	1,688,873	2,044,330	355,457	82.6	459,343	77.4
1/1/2001	1,634,254	2,058,999	424,745	79.4	431,703	98.4
Open Supplemental Plan:						
1/1/2009	$ 22,434	$ 36,519	$ 14,085	61.4%	$ 11,691	120.5%
1/1/2008	19,457	15,974	(3,483)	121.8	13,551	-25.7
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
1/1/2005	*	*	*	*	*	*
1/1/2004	*	*	*	*	*	*
1/1/2003	*	*	*	*	*	*
1/1/2002	*	*	*	*	*	*
Closed Supplemental Plan:						
1/1/2009	$ -	$ 31,459	$ 31,459	-%	$ -	-%
1/1/2008	-	32,887	32,887	-	-	-
1/1/2007	-	33,104	33,104	-	-	-
1/1/2006	-	34,835	34,835	-	-	-
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
1/1/2004	301	46,820	46,519	0.6	17,590	264.5
1/1/2003	265	48,372	48,107	0.5	18,685	257.5
1/1/2002	204	47,762	47,558	0.4	17,502	271.7
Board Supplemental Plan:						
1/1/2009	$ 45	$ 3,257	$ 3,212	1.4%	$ 200	1606.0%
1/1/2008	56	3,193	3,137	1.8	200	1568.5
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7
1/1/2005	42	3,001	2,959	1.4	175	1690.9
1/1/2004	55	2,579	2,524	2.1	175	1442.3
1/1/2003	55	2,369	2,314	2.3	200	1157.0
1/1/2002	56	2,127	2,071	2.6	200	1035.5

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

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Post Employment Healthcare
Schedules of Funding Progress (Unaudited)
December 31, 2008
(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 – Healthcare:						
1/1/2008	$ 45,373	$ 68,826	$ 23,453	65.9%	$ 578,163	4.1%
1/1/2007	58,856	1,765,884	1,707,028	3.3	562,567	303.4
1/1/2006	54,386	1,129,278	1,074,892	4.8	547,532	196.3
1/1/2005	69,177	1,219,457	1,150,280	5.7	544,442	211.3
1/1/2004	89,472	1,068,961	979,489	8.4	486,626	201.3
1/1/2003	55,882	940,873	884,991	5.9	480,740	184.1
1/1/2002	175,854	767,864	592,010	22.9	459,343	128.9
1/1/2001	193,841	299,857	106,016	64.6	431,703	24.6
Supplemental Plan - Healthcare:						
1/1/2009	$ -	$ 16,830	$ 16,830	0.0%	$ 4,420	380.8%
1/1/2008	-	6,287	6,287	—	2,771	226.9
1/1/2007	-	6,796	6,796	—	3,332	204.0

(In thousands of dollars)

Employees' Plan – Pension

Year ended	Annual required contribution	Percentage contributed
12/31/08	$ 178,966	651.5%
12/31/07	185,944	13.5
12/31/06	153,204	15.6
12/31/05	133,816	14.8
12/31/04	104,881	19.2
12/31/03	64,627	30.0
12/31/02	33,973	57.5
12/31/01	58,317	41.3

CHICAGO TRANSIT AUTHORITY
Other Post Employment Healthcare
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2008
(In thousands of dollars)

Employees' Plan – Healthcare

Year ended	Annual required contribution	Percentage contributed
12/31/08	$ 17,524	74.4%
12/31/07	159,021	5.5
12/31/06	119,568	9.8
12/31/05	128,653	8.3
12/31/04	111,659	9.3
12/31/03	97,936	10.1
12/31/02	41,841	22.0
12/31/01	11,488	27.3

Supplemental Plans - Healthcare

Year ended	Annual required contribution	Percentage contributed
12/31/08	$ 508	57.6%
12/31/07	556	60.2

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2008
(In thousands of dollars)

Open Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/08	$ 230	3475.0%
12/31/07	200	—
12/31/06	-	N/A
12/31/05	1,545	1,016.5
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*

Closed Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/08	$ 3,599	96.1%
12/31/07	3,450	101.6
12/31/06	3,474	99.8
12/31/05	2,439	144.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*

Board Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/08	$ 282	93.3%
12/31/07	288	98.8
12/31/06	275	106.0
12/31/05	261	109.7
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*

Total Supplemental Plans

Year ended	Annual required contribution	Percentage contributed
12/31/04	$ 4,368	84.0%
12/31/03	4,690	65.3
12/31/02	4,543	108.6

*Prior to 2005, all supplemental plans were combined for reporting purposes.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2008
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 751,451	$ 876,350	$ 873,636	$ 2,714
Materials and supplies	72,911	92,430	100,568	(8,138)
Fuel	49,267	89,919	91,834	(1,915)
Electric power	29,797	35,331	35,442	(111)
Purchase of security services	33,600	33,600	32,382	1,218
Other	68,310	68,010	72,807	(4,797)
Provision for injuries and damages	28,000	14,000	7,718	6,282
Total operating expenses	1,033,336	1,209,640	1,214,387	(4,747)
System-generated revenues:				
Fares and passes	470,376	463,467	471,099	7,632
Reduced-fare subsidies	32,271	32,000	31,855	(145)
Advertising and concessions	27,381	28,000	27,661	(339)
Investment income	11,736	6,340	3,779	(2,561)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	14,744	13,001	13,161	160
Total system-generated revenues	561,508	547,808	552,555	4,747
Operating expenses in excess of system-generated revenues	471,828	661,832	661,832	-
Public funding from the RTA:				
Operating assistance	471,828	641,832	641,832	-
Prior Year Positive Balance	-	20,000	20,000	-
	471,828	661,832	661,832	-
Change in net assets – budgetary basis	$ -	$ -	-	$ -
Reconciliation of budgetary basis to GAAP basis:				
Prior year positive balance - lease proceeds			(20,000)	
Provision for depreciation			(403,248)	
Pension expense in excess of pension contributions			24,606	
Supplemental Retirement			8,179	
Incentive Retirement			403	
Workers Compensation			(13,191)	
Revenue from leasing transactions			4,262	
Interest expense on bond transactions			(72,028)	
Interest revenue on bond transactions			4,385	
Interest on lease proceeds			1,166	
Interest income from sale/leaseback			118,962	
Interest expense from sale/leaseback			(116,767)	
Capital contributions			518,520	
Change in net assets – GAAP basis			$ 55,249	
CTA recovery ratio:				
Total operating expenses			$ 1,214,387	
Less mandated security costs			(32,382)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,204,005	
Total system-generated revenues			$ 552,555	
Plus Senior Free Rides			17,500	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 592,055	
Recovery ratio (A/B)			49.17%	

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2007
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 850,332	$ 818,724	$ 784,841	$ 33,883
Materials and supplies	77,894	77,894	84,178	(6,284)
Fuel	61,233	61,233	71,181	(9,948)
Electric power	28,057	28,057	28,141	(84)
Purchase of security services	35,334	35,334	31,363	3,971
Purchase of paratransit services	-	-	-	-
Other	55,301	54,751	69,465	(14,714)
Provision for injuries and damages	25,000	25,000	25,000	-
Total operating expenses	1,133,151	1,100,993	1,094,169	6,824
System-generated revenues:				
Fares and passes	468,334	468,334	457,300	(11,034)
Reduced-fare subsidies	32,000	32,000	33,308	1,308
Advertising and concessions	24,990	24,990	23,164	(1,826)
Investment income	12,120	12,120	10,495	(1,625)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	10,250	10,300	16,653	6,353
Total system-generated revenues	552,694	552,744	545,920	(6,824)
Operating expenses in excess of system-generated revenues	580,457	548,249	548,249	-
Public funding from the RTA:				
Operating assistance	580,457	548,249	548,249	-
Change in net assets – budgetary basis	$ -	$ -	-	$ -
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(387,738)	
Pension expense in excess of pension contributions			(306,406)	
Supplemental Retirement			49	
Incentive Retirement			507	
Workers Compensation			(21,599)	
Provision for injury and damage claims			8,776	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			5,712	
Interest expense on bond transactions			(15,718)	
Interest income from sale/leaseback			120,795	
Interest expense from sale/leaseback			(115,819)	
Capital contributions			375,914	
Change in net assets – GAAP basis			$ (331,265)	
CTA recovery ratio:				
Total operating expenses			$ 1,094,169	
Less mandated security costs			(31,363)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,084,806	
Total system-generated revenues			$ 545,920	
Plus FTA funds			8,000	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 575,920	
Recovery ratio (A/B)			53.09%	

See accompanying independent auditors' report.