CHICAGO TRANSIT AUTHORITY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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Crowe Horwath LLP
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Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the CTA's 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 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, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 76 through 80 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CTA's financial statements. The accompanying supplementary schedules of expenses and revenues – budget and actual for the years ended December 31, 2011 and 2010 on pages 81 and 82 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedules of expenses and revenues – budget and actual have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenses and revenues – budget and actual are fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
May 18, 2012

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, 2011 and 2010. 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 2011

- *Net assets totaled $783,763,000 at December 31, 2011.*
- *Net assets decreased $239,873,000 in 2011, which compares to a decrease of $323,777,000 in 2010.*
- *Total net capital assets were $3,760,045,000 at December 31, 2011, a decrease of 4.08% over the balance at December 31, 2010 of $3,919,828,000.*

Financial Highlights for 2010

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

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.

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.

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, 2011, 2010, and 2009:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2011, 2010, and 2009

(In thousands of dollars)

	2011	2010	2009
Assets:			
Current assets	$ 621,977	$ 598,374	$ 554,510
Capital Assets, net	3,760,045	3,919,828	4,159,447
Noncurrent assets	2,779,976	2,364,646	1,928,852
Total assets	$ 7,161,998	$ 6,882,848	$ 6,642,809
Liabilities:			
Current liabilities	$ 569,774	$ 500,418	$ 549,538
Long-term liabilities	5,808,461	5,358,794	4,745,858
Total liabilities	6,378,235	5,859,212	5,295,396
Net assets:			
Invested in capital assets, net of related debt	2,631,353	2,800,054	3,054,994
Restricted for payment of leasehold obligations	31,164	39,485	35,917
Restricted for debt service	83,585	58,192	44,802
Unrestricted (deficit)	(1,962,339)	(1,874,095)	(1,788,300)
Total net assets	783,763	1,023,636	1,347,413
Total liabilities and net assets	$ 7,161,998	$ 6,882,848	$ 6,642,809

Year Ended December 31, 2011

Current assets increased by 3.94% to $621,977,000. The change in current assets is due to an increase in accounts and grant receivables.

Capital assets (net) decreased by 4.08% to $3,760,045,000 due to an increase in accumulated depreciation. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets increased by 17.56% to $2,779,976,000 primarily due to increased debt activity which resulted in an increase in bond proceeds held by trustee at year end.

Current liabilities increased 13.86% to $569,774,000 primarily due to an increase in the current portion of bonds payable.

Long-term liabilities increased 8.39% to $5,808,461,000. The change in long-term liabilities is primarily due to an increase in bonds payable related to new debt issued in 2011.

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 two distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments.

The deficit in unrestricted net assets, which represent assets available for operations, increased 4.71% over the prior year.

Year Ended December 31, 2010

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

Capital assets (net) decreased by 5.76% to $3,919,828,000 due to an increase in accumulated depreciation. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets increased by 22.59% to $2,364,646,000 primarily due to increased debt activity which resulted in an increase in bond proceeds held by trustee at year end.

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

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

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

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

The deficit in unrestricted net assets, which represent assets available for operations, increased 4.80% over the prior year.

Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2011, 2010, and 2009:

Table 2

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

Years ended December 31, 2011, 2010, and 2009

(In thousands of dollars)

	2011	2010	2009
Operating revenues	$ 570,891	$ 548,311	$ 564,514
Operating expenses:			
Operating expenses	1,215,871	1,165,499	1,251,197
Depreciation	404,193	429,827	398,288
Total operating expenses	1,620,064	1,595,326	1,649,485
Operating loss	(1,049,173)	(1,047,015)	(1,084,971)
Nonoperating revenues:			
Public funding from the RTA	701,920	701,615	626,349
Interest revenue from leasing transactions	114,068	113,539	105,692
Other nonoperating revenues	47,280	54,000	42,093
Total nonoperating revenues	863,268	869,154	774,134
Nonoperating expenses	(292,323)	(310,348)	(273,087)
Change in net assets before capital contributions	(478,228)	(488,209)	(583,924)
Capital contributions	238,355	164,432	463,830
Change in net assets	(239,873)	(323,777)	(120,094)
Total net assets, beginning of year	1,023,636	1,347,413	1,467,507
Total net assets, end of year	$ 783,763	$ 1,023,636	$ 1,347,413

Year Ended December 31, 2011

Total operating revenues increased by $22,580,000, or 4.12% primarily due to increases in farebox and pass revenue.

Farebox and pass revenue increased 3.67% over the prior year primarily due to higher ridership. CTA's ridership increased by 2.9% or 15.1 million rides. CTA's average fare remained on par with 2010 at $0.990.

In 2011, CTA provided approximately 71.5 million free rides, a decrease of 4.5 million or 5.94% over 2010. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. In 2011, the free ride program was modified to subject the participants to a means test. Under the new program seniors who do not qualify to ride free pay a reduced fare.

Total operating expenses increased $24,738,000, or 1.55%. The increase is primarily driven by higher labor expense. Labor expense increased $57,852,000 or 6.70% due to an increase in base wages and related fringe benefits. Fuel expense increased $5,210,000 due to price increases. Electric power was on par with the prior year. Materials expense decreased $12,158,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. The provision for injuries and damages decreased by $4,654,000 due to decreased settlements over the prior year.

Year Ended December 31, 2010

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

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

In 2010, CTA provided approximately 76.0 million free rides, an increase of 1.9 million or 2.61% over 2009. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program.

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

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

Table 3

Operating Revenues and Expenses

Years ended December 31, 2011, 2010, and 2009

(In thousands of dollars)

	2011	2010	2009
Operating Revenues:			
Farebox revenue	$ 266,875	$ 261,987	$ 266,987
Pass revenue	260,978	247,192	238,726
Total farebox and pass revenue	527,853	509,179	505,713
Advertising and concessions	21,459	22,609	30,215
Other revenue	21,579	16,523	28,586
Total operating revenues	$ 570,891	$ 548,311	$ 564,514
Operating Expenses:			
Labor and fringe benefits	$ 921,891	$ 864,039	$ 903,926
Materials and supplies	67,919	80,077	87,900
Fuel	57,273	52,063	100,539
Electric power	28,099	28,208	37,645
Purchase of security services	36,815	33,319	32,300
Other	83,706	82,971	73,490
Operating expense before provisions	1,195,703	1,140,677	1,235,800
Provision for injuries and damages	20,168	24,822	15,397
Provision for depreciation	404,193	429,827	398,288
Total operating expenses	$ 1,620,064	$ 1,595,326	$ 1,649,485

Capital Asset and Debt Administration

Capital Assets

The CTA invested $9,095,813,000 (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, 2011. Net of accumulated depreciation, the CTA's capital assets at December 31, 2011 totaled $3,760,045,000. This amount represents a net decrease (including additions and disposals, net of depreciation) of $159,783,000, or 4.08%, over the December 31, 2010 balance.

The CTA invested $8,909,628,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2010. Net of accumulated depreciation, the CTA's capital assets at December 31, 2010 totaled $3,919,828,000. This amount represents a net decrease (including additions and disposals, net of depreciation) of $239,619,000, or 5.76%, over the December 31, 2009 balance.

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

Debt Administration

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

At December 31, 2011, the CTA had $1,763,423,000 in capital lease obligations outstanding, a slight increase from December 31, 2011. The bonds payable liability increased $492,836,000 over the prior year due to two new bond issuances during 2011.

At December 31, 2010, the CTA had $1,751,559,000 in capital lease obligations outstanding, a slight increase from December 31, 2010. The bonds payable liability increased $549,334,000 over the prior year due to two new bond issuances during 2010.

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

2012 Budget and Economic Factors

On November 15, 2011, the CTA Board adopted an annual operating budget for fiscal year 2012. After adoption, the budget was submitted to and approved by the RTA on December 15, 2011. The 2012 budget is balanced at $1.24 billion, with no fare increase or service reduction.

This budget is 5.1% lower than the revised 2011 budget and assumes $80 million in labor reform and work rule changes.

Looking ahead to 2012, CTA embraced a wide range of solutions to make up for the difference between public funding and revenues, and what it costs the agency to maintain service. The most significant change must come from union work rule changes.

Nearly 90% of the CTA workforce is unionized and this accounts for 70 percent of our costs annually. Combined with dramatically escalating pension and health care mandates, and the highest cost-adjusted rail and bus operator salaries in the nation, the union labor costs and expensive work rules have become unsustainable. Union workforce labor costs have far outpaced our counterparts in other metropolitan areas, and tightly restricted work rules in union contracts have prevented CTA from making any significant cost reductions and efficiencies for its largest labor force.

Because of the severity of the agency's financial situation, a full and thorough assessment of management and operations was the first order of business. By reorganizing and streamlining, the agency was able to realize immediate savings with no adverse effect on the current level and quality of service provided to customers.

In July of 2011, the CTA eliminated 51 non-union positions, including 26 manager-level positions. The CTA is saving approximately $7.6 million in salaries and benefits—a 10% reduction in senior management. Additional savings of $900,000 in labor and benefit costs are being achieved by delaying hiring for open positions that have been deemed necessary. A reduction in materials, utilities and contractual services expenses are further reducing costs for 2011, with a result of $15 million in annual savings from CTA's operating budget.

These reductions were followed in early October by the elimination of additional positions in 2012, for a total of 200 fewer positions. The elimination of unnecessary and duplicative positions will save the CTA approximately $22 million annually and the sick and vacation leave policy changes will save the agency an estimated $15 million over the next six years. Roughly two-thirds of the cuts will come from filled positions. As part of these cuts, a number of senior-level positions have been eliminated, including vice-presidents, general managers and directors.

System-generated revenue is projected to be $623.7 million, representing a 3.8% increase over the 2011 revised budget. The increase in system-generated revenue is primarily due to the increase in farebox revenue. The CTA estimates 2012 systemwide ridership to be 529.2 million, an increase of 4.8 million (0.9 percent) over the 2011 year-end forecast. With budgeted fares expected to remain constant in 2012, ridership is projected to grow as consumers continue to find transit an affordable alternative to the increasing costs of parking and driving. While the weak economy dampens some trip-taking, in the off-peak and particularly on weekends, the CTA expects some continuing growth as many commuters still find the city an attractive place for shopping, visiting, and recreation.

A modest economic recovery felt in 2011 is expected to continue into 2012, resulting in an increase in public funding from sales tax receipts. In 2012, public funding available through

RTA is projected to be $616.6 million, an increase of $42.5 million (7.4 percent) over the 2011 forecast.

The 2012 budget does not include two revenue sources reflected in the 2011 budget: the transfer of $48.2 million in capital funds for preventive maintenance, as well as $83 million from the 2009 fare agreement with the state to forestall fare increases through 2011. In total, this accounts for $131.2 million that was available in 2011 essentially disappearing from the 2012 operating budget.

Legislation

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

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

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

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

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

Contacting the CTA's Financial Management

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

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2011 and 2010
(In thousands of dollars)

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 119,467	$ 111,579
Cash and cash equivalents restricted for damage reserve	107,920	102,361
Investments	3,020	26,999
Total cash, cash equivalents, and investments	230,407	240,939
Grants receivable:		
Due from the RTA	228,966	196,141
Capital improvement projects from federal and state sources	5,098	39
Unbilled work in progress	64,107	63,991
Other	1,131	1,928
Total grants receivable	299,302	262,099
Accounts receivable, net	26,881	23,773
Materials and supplies, net	58,501	63,522
Prepaid expenses and other assets	5,502	5,883
Derivative instrument asset	-	2,158
Deferred outflow - derivative	1,384	-
Total current assets	621,977	598,374
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	1,630,380	1,604,335
Bond proceeds held by trustee	1,073,392	674,100
Assets held by trustee for supplemental retirement plans	325	229
Net pension asset - supplemental retirement plans	19,343	19,853
Net pension asset - employee's retirement plan	21,904	37,834
Bond issue costs	34,632	28,295
Total other noncurrent assets	2,779,976	2,364,646
Capital assets:		
Capital assets not being depreciated	558,029	535,062
Capital assets being depreciated	8,537,784	8,374,566
Less accumulated depreciation	(5,335,768)	(4,989,800)
Total capital assets being depreciated, net	3,202,016	3,384,766
Total capital assets, net	3,760,045	3,919,828
Total noncurrent assets	6,540,021	6,284,474
Total assets	$ 7,161,998	$ 6,882,848

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2011 and 2010
(In thousands of dollars)

	2011	2010
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 90,746	$ 98,463
Accrued payroll, vacation pay, and related liabilities	98,489	101,964
Accrued interest payable	21,451	19,460
Advances, deposits, and other	9,392	9,511
Deferred passenger revenue	48,725	42,779
Other deferred revenue	4,707	4,029
Deferred operating assistance	31,166	30,821
Derivative instrument liability	1,384	-
Deferred inflow - derivatives	-	2,158
Current portion of long-term liabilities	263,714	191,233
Total current liabilities	569,774	500,418
Long-term liabilities:		
Self-insurance claims, less current portion	149,693	135,401
Capital lease obligations, less current portion	1,689,727	1,681,715
Bonds payable, less current portion	3,828,532	3,392,161
Certificates of participation payable, less current portion	55,885	61,515
Net pension obligation - supplemental retirement plans	15,757	16,269
Net other postemployment benefits obligation	3,687	2,874
Other long-term liabilities	65,180	68,859
Total long-term liabilities	5,808,461	5,358,794
Total liabilities	6,378,235	5,859,212
Net assets:		
Invested in capital assets, net of related debt	2,631,353	2,800,054
Restricted for payment of leasehold obligations	31,164	39,485
Restricted for debt service	83,585	58,192
Unrestricted (deficit)	(1,962,339)	(1,874,095)
Total net assets	783,763	1,023,636
Total liabilities and net assets	$ 7,161,998	$ 6,882,848

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, 2011 and 2010
(In thousands of dollars)

	2011	2010
Operating revenues:		
Fare box revenue	$ 266,875	$ 261,987
Pass revenue	260,978	247,192
Total fare box and pass revenue	527,853	509,179
Advertising and concessions	21,459	22,609
Other revenue	21,579	16,523
Total operating revenues	570,891	548,311
Operating expenses:		
Labor and fringe benefits	921,891	864,039
Materials and supplies	67,919	80,077
Fuel	57,273	52,063
Electric power	28,099	28,208
Purchase of security services	36,815	33,319
Maintenance and repairs, utilities, rent, and other	83,706	82,971
	1,195,703	1,140,677
Provisions for injuries and damages	20,168	24,822
Provision for depreciation	404,193	429,827
Total operating expenses	1,620,064	1,595,326
Operating expenses in excess of operating revenues	(1,049,173)	(1,047,015)
Nonoperating revenues (expenses):		
Public funding from the RTA	701,920	701,615
Reduced-fare subsidies	26,026	28,245
Operating grant revenue	9,823	9,330
Contributions from local government agencies	5,000	5,000
Investment income	2,169	4,619
Gain on sale of assets	-	2,544
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(175,309)	(191,568)
Interest revenue from leasing transactions	114,068	113,539
Interest expense on leasing transactions	(117,014)	(118,780)
Total nonoperating revenues, net	570,945	558,806
Change in net assets before capital contributions	(478,228)	(488,209)
Capital contributions	238,355	164,432
Change in net assets	(239,873)	(323,777)
Total net assets – beginning of year	1,023,636	1,347,413
Total net assets – end of year	$ 783,763	$ 1,023,636

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2011 and 2010
(In thousands of dollars)

	2011	2010
Cash flows from operating activities:		
Cash received from fares	$ 533,799	$ 513,863
Payments to employees	(882,931)	(823,106)
Payments to suppliers	(295,476)	(300,593)
Other receipts	40,489	35,803
Net cash flows provided by (used in) operating activities	(604,119)	(574,033)
Cash flows from noncapital financing activities:		
Public funding from the RTA	669,440	711,345
Reduced-fare subsidies	26,026	28,245
Operating grant revenue	9,823	9,330
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by (used in) noncapital financing activities	710,289	753,920
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	114,068	113,539
Interest expense on bonds	(164,967)	(184,407)
Decrease in restricted assets for repayment of leasing commitments	(26,045)	(15,513)
Repayment of lease obligations	(105,463)	(117,383)
Proceeds from issuance of bonds	528,057	551,500
Proceeds from other long-term liabilities	-	8,525
Repayment of bonds payable	(48,945)	(5,127)
Repayment of other long-term liabilities	(3,679)	(257)
Bond issuance costs paid	(6,337)	(6,076)
Payments for acquisition and construction of capital assets	(240,149)	(196,348)
Proceeds from the sale of property and equipment	-	2,544
Capital grants	233,977	183,576
Net cash flows provided by (used in) capital and related financing activities	280,517	334,573
Cash flows from investing activities:		
Purchases of unrestricted investments	(3,020)	(26,999)
Proceeds from maturity of unrestricted investments	26,999	1,007
Restricted cash and investment accounts:		
Purchases and withdrawals	(959,094)	(909,091)
Proceeds from maturities and deposits	559,706	485,312
Investment revenue	2,169	4,619
Net cash flows provided by (used in) investing activities	(373,240)	(445,152)
Net increase (decrease) in cash and cash equivalents	13,447	69,308
Cash and cash equivalents – beginning of year	213,940	144,632
Cash and cash equivalents – end of year	$ 227,387	$ 213,940

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2011 and 2010
(In thousands of dollars)

	2011	2010
Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Operating expenses in excess of operating revenues	$ (1,049,173)	$ (1,047,015)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	404,193	429,827
(Increase) decrease in assets:		
Accounts receivable	(3,108)	(4,330)
Materials and supplies	5,021	29,283
Prepaid expenses and other assets	381	4
Net pension asset	16,440	6,626
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(11,978)	(24,913)
Accrued payroll, vacation pay, and related liabilities	(3,475)	11,247
Self-insurance reserves	30,774	18,783
Deferred passenger revenue	5,946	4,684
Other deferred revenue	678	1,522
Advances, deposits, and other	(119)	(521)
Accrued pension costs and OPEB	301	770
Net cash flows used in operating activities	$ (604,119)	$ (574,033)
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	110,901	109,970
Retirement of fully depreciated capital assets	58,225	38,955

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2011 and 2010
(In thousands of dollars)

	2011	2010
Assets:		
Contributions from employees	$ 236	$ 166
Investments at fair value:		
Short-term investments	1,840	6,160
Government agencies	8,127	14,319
Equity mutual funds	7,495	-
Common stock	16,631	14,980
Total investments at fair value	34,093	35,459
Securities lending collateral	15,203	11,031
Total assets	49,532	46,656
Liabilities:		
Accounts payable and other liabilities	79	88
Securities lending collateral obligation	15,203	11,031
Total liabilities	15,282	11,119
Net assets held in trust for pension benefits	$ 34,250	$ 35,537

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, 2011 and 2010
(In thousands of dollars)

	2011	2010
Additions:		
Contributions:		
Employee	$ 238	$ 572
Employer	2,210	2,600
Total contributions	2,448	3,172
Investment income:		
Net increase (decrease) in fair value of investments	(529)	2,302
Investment income	1,034	782
Total investment income	505	3,084
Total additions	2,953	6,256
Deductions:		
Benefits paid to participants or beneficiaries	3,929	2,833
Trust fees	311	230
Total deductions	4,240	3,063
Net increase (decrease)	(1,287)	3,193
Net assets held in trust for pension benefits:		
Beginning of year	35,537	32,344
End of year	$ 34,250	$ 35,537

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION

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

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

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

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

2) Fiscal dependency on the primary government.

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

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

(Continued)

NOTE 1 - ORGANIZATION (Continued)

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

<u>Cash and Cash Equivalents restricted for damage reserve</u>: 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.

<u>Investments</u>: 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.

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

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

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

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

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.

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $6,792,000 and $8,982,000 during the years ended December 31, 2011 and 2010, 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
Signal and communication	10-20
Other equipment	3-10

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

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

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

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Implementation of New Accounting Standards: For the year ended December 31, 2011, CTA did not implement any new accounting standards.

New Pronouncements: In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (the "transferor") engages a company or another government (the "operator") to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor's behalf. This Statement is effective for the CTA's financial periods beginning after December 31, 2011. The CTA has not engaged in transferor-operator service concession arrangements, therefore implementation of this statement will have no impact.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity - Omnibus -- An Amendment of GASB Statements No. 14 and No. 34*. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. This Statement is intended to improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). In addition, this Statement amends the criteria for blending - reporting component units as if they were part of the primary government - in certain circumstances. This Statement is effective for the CTA's financial periods beginning after June 15, 2012. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for the CTA's financial periods beginning after December 15, 2011. The CTA plans to implement this codification for the year ending December 31, 2012.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments,* and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. This Statement is effective for the CTA's financial periods beginning after December 15, 2011. The CTA plans to implement the new reporting requirements for the year ending December 31, 2012.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53). This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. The conditions specified in this Statement are:

- Collectability of swap payments is considered to be probable;
- Replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in GASB 64; and
- The counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event.

When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. This Statement is effective for the CTA's financial periods beginning after June 15, 2011. The CTA plans to implement the new reporting requirements for the year ending December 31, 2012, if applicable.

In March 2012, the GASB issued GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for the CTA's financial periods beginning after

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

December 15, 2012. The CTA plans to implement the new reporting requirements for the year ending December 31, 2012.

In March 2012, the GASB issued GASB Statement 66, *Technical Corrections – 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for the CTA's financial periods beginning after December 15, 2012. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with GAAP, except for the exclusion of certain income and expenses. For 2011 and 2010, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, actuarial adjustments, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

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

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

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

- That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;

(Continued)

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

- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices and complies with such other RTA requirements as the RTA Board of Directors may establish.

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

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

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

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2011, an amendment to the budget was approved by the CTA Board. During 2010, no budget amendments were made.

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

		2011	2010
1983 Legislation	Illinois state sales tax allocation	$ 296,033	$ 281,020
1983 Legislation	RTA discretionary funding and other	128,251	97,994
2008 Legislation	Illinois state sales tax allocation & PTF	124,902	117,509
2008 Legislation	Real estate transfer tax	34,734	32,438
Total budgeted public funding		583,920	528,961
RTA provision	Capital - preventative maintenance	118,000	172,654
Final public funding		$ 701,920	$ 701,615

During 2009, the RTA authorized a working cash borrowing in order to address the cash flow needs of the service boards. CTA received approximately $56,147,000 as a result of this borrowing which is shown as a long term liability in the financial statements. The borrowing was extended in 2011 and is projected to be repaid interest free in 2013.

(Continued)

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

Reduced-fare subsidies received from the State of Illinois were $26,026,000 and $28,245,000 during the years ended December 31, 2011 and 2010, respectively, for discounted services provided to the elderly, disabled, or student riders.

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2011 and 2010 (in thousands of dollars):

	2011	2010
Current assets:		
Cash and cash equivalents	$ 119,467	$ 111,579
Restricted for injury and damage reserve	107,920	102,361
Investments	3,020	26,999
Noncurrent assets:		
Bond proceeds held by trustee	1,073,392	674,100
Held by trustee for supplemental retirement plan	325	229
Total	$ 1,304,124	$ 915,268

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2011 and 2010 (in thousands of dollars):

	2011	2010
Investments:		
Certificates of deposit	$ 4,020	$ 4,020
Money market mutual funds	118,682	53,631
U.S. government agencies	565,860	292,225
U.S. Treasury bills	295,386	338,283
Commercial paper	302,766	213,180
Total Investments	1,286,714	901,339
Deposits with financial institutions	17,410	13,929
Total deposits and investments	$ 1,304,124	$ 915,268

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

(Continued)

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

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

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding $500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase; and (b) such purchases do not exceed 10% of the corporation’s outstanding obligations.
5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers’ Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

<u>Custodial Credit Risk</u>: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA’s deposits may not be returned. The CTA’s investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America. As of December 31, 2011 and 2010, the CTA’s bank balances were fully insured or collateralized.

(Continued)

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

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

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

As of December 31, 2011, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

		Investment maturities (by years)		
	Fair value	Less than 1	1-5	5+
Money market mutual funds	$ 118,682	$ 118,682	$ -	$ -
U.S. government agencies	565,860	101,990	428,758	35,112
U.S. treasury bills	295,386	295,386	-	-
Commercial paper	302,766	302,766	-	-
Total	$ 1,282,694	$ 818,824	$ 428,758	$ 35,112

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

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

(Continued)

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

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2011, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

		Credit ratings			
	Fair value	A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	$ 118,682	$ -	$ -	$ -	$ 118,682
U.S. government agencies	565,860	565,860	-	-	-
U.S. treasury bills	295,386	295,386	-	-	-
Commercial paper	302,766	288,719	-	-	14,047
Total	$ 1,282,694	$ 1,149,965	$ -	$ -	$ 132,729

As of December 31, 2010, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

		Credit ratings			
	Fair value	A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	$ 53,631	$ -	$ -	$ -	$ 53,631
U.S. government agencies	292,225	248,596	-	-	43,629
U.S. treasury bills	338,293	338,293	-	-	-
Commercial paper	213,180	213,180	-	-	-
Total	$ 897,329	$ 800,069	$ -	$ -	$ 97,260

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

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

(Continued)

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

Concentration of Credit Risk: Except for investments in certificates of deposits and commercial paper, the CTA does not restrict the amount which may be invested in authorized investments of a single issuer or financial institution. No more than 30 percent of the maximum portfolio percentage amount allowed for investment in certificates of deposit may be invested in certificates of deposit of a single issuer of such certificates. No more than 50 percent of the maximum portfolio percentage amount allowed for investment in commercial paper may be invested in commercial paper of a single issuer of such commercial paper. However, as of December 31, 2011, 72.3% of the investment in commercial paper is invested with U.S. Bank.

As of December 31, 2011, the CTA had investments in the Federal Home Loan Mortgage Corporation (FHLMC) (34.2%) and U.S. Bank (17.0%) that exceeded 5 percent of the total investment balance. As of December 31, 2010, the CTA did not have any investments in a single issuer that exceeded 5 percent of the total investment balance.

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, 2011 and 2010 (in thousands of dollars):

	2011	2010
Investments, at fair value:		
Short-term investments	$ 1,840	$ 6,160
U.S. government agency commingled funds	8,127	14,319
Equity mutual funds	7,495	-
Common stock	16,631	14,980
Total	$ 34,093	$ 35,459

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

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

(Continued)

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

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

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

As of December 31, 2011, 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	$ 1,840	$ 1,840	$ -
U.S. government agency commingled funds	8,127	8,127	-
Total	$ 9,967	$ 9,967	$ -

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

		Investment Maturities (in years)	
	Fair value	Less than 1	1 - 5
Short-term investment funds	$ 6,160	$ 6,160	$ -
U.S. government agency commingled funds	14,319	14,319	-
Total	$ 20,479	$ 20,479	$ -

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, 2011, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

		Credit ratings	
	Fair value	Government Secured	Not Rated
Short-term investment funds	$ 1,840	$ -	$ 1,840
U.S. government agency commingled funds	8,127	8,127	-
Total	$ 9,967	$ 8,127	$ 1,840

(Continued)

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

As of December 31, 2010, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

			Credit ratings	
	Fair value		Government Secured	Not Rated
Short-term investment funds	$ 6,160		$ -	$ 6,160
U.S. government agency commingled funds	14,319		14,319	-
Total	$ 20,479		$ 14,319	$ 6,160

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $2,355,000 and $2,315,000 as of December 31, 2011 and 2010, 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 $14,838,000 and $10,758,000 as of December 31, 2011 and 2010, respectively. The fair value of the associated collateral received was approximately $15,203,000 and $11,031,000 as of December 31, 2011 and 2010, respectively.

Restricted Assets for Repayment of Leasing Commitments

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

(Continued)

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately $258,777,000 and $202,470,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2011 and 2010, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $480,686,000 and $283,531,000 have been entered into for these state and local capital grants as of December 31, 2011 and 2010, respectively. Changes in capital assets for the year ended December 31, 2011 are as follows (in thousands of dollars):

	Balance at January 1, 2011	**Increase**	**Decrease**	**Balance at December 31, 2011**
Capital assets not being depreciated:				
Land	$ 118,720	$ 451	$ -	$ 119,171
Construction in process	416,342	243,959	(221,443)	438,858
Total capital assets not being depreciated	535,062	244,410	(221,443)	558,029
Capital assets being depreciated:				
Land improvements	25,351	1,389	-	26,740
Buildings	2,288,825	25,045	(449)	2,313,421
Transportation vehicles	2,406,520	84,029	(49,009)	2,441,540
Elevated structure track	1,869,040	59,718	(36)	1,928,722
Signal and communication	1,192,831	41,613	(1,222)	1,233,222
Other equipment	591,999	9,649	(7,509)	594,139
Total capital assets being depreciated	8,374,566	221,443	(58,225)	8,537,784
Less accumulated depreciation for:				
Land improvements	19,248	1,808	-	21,056
Buildings	970,065	81,353	(449)	1,050,969
Transportation vehicles	1,737,612	142,276	(49,009)	1,830,879
Elevated structure track	1,078,982	80,057	(36)	1,159,003
Signal and communication	677,590	65,589	(1,222)	741,957
Other equipment	506,303	33,110	(7,509)	531,904
Total accumulated depreciation	4,989,800	404,193	(58,225)	5,335,768
Total capital assets being depreciated, net	3,384,766	(182,750)	-	3,202,016
Total capital assets, net	$ 3,919,828	$ 61,660	$ (221,443)	$ 3,760,045

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

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

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

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2011 are as follows (in thousands of dollars):

	Balance at January 1, 2011	Additions	Reductions	Balance at December 31, 2011	Amount due beyond one year	Amount due within one year
Self insurance claims (note 13)	$ 222,227	$ 220,358	$ (189,584)	$ 253,001	$ 149,693	$ 103,308
Capital lease obligations:						
Capital lease obligations (note 8)	1,751,559	110,901	(99,037)	1,763,423	1,665,111	98,312
Premium on capital lease obligation	6,423	-	(471)	5,952	5,952	-
Deferred loss on cap. lease ref. (note 8)	(1,681)	-	159	(1,522)	(1,522)	-
Deferred rev. – leasing trans. (note 8)	24,449	-	(4,263)	20,186	20,186	-
Total capital lease obligations	1,780,750	110,901	(103,612)	1,788,039	1,689,727	98,312
Bonds payable:						
Bonds payable (note 9)	3,347,650	533,430	(48,945)	3,832,135	3,775,670	56,465
Premium on bonds payable	44,146	23,196	(7,855)	59,487	59,487	-
Deferred gain (loss) on bond ref. (note 9)	365	(6,794)	(196)	(6,625)	(6,625)	-
Total bonds payable	3,392,161	549,832	(56,996)	3,884,997	3,828,532	56,465
Certificates of Participation (note 10)	66,887	-	(5,373)	61,514	55,885	5,629
Net pension obligation (note 11)	16,269	-	(512)	15,757	15,757	-
Net OPEB obligation (note 12)	2,874	813	-	3,687	3,687	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	56,147	-	-	56,147	56,147	-
Other	12,712	-	(3,679)	9,033	9,033	-
Total other long-term liabilities	68,859	-	(3,679)	65,180	65,180	-
Total	$ 5,550,027	$ 881,904	$ (359,756)	$ 6,072,175	$ 5,808,461	$ 263,714

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

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

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment with a book value of $55,976,348 and $67,127,908 at December 31, 2011 and 2010, respectively. 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 $94,393,000 is reflected in the accompanying December 31, 2011 balance sheet as a capital lease obligation.

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

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

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased annual debt service payments over 27 years by approximately $388,000, resulting in an economic gain of approximately $20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of $2,395,000. The remaining unamortized portion of $1,522,000 is recorded as a component of long-term debt in the accompanying balance sheets.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately $81,305,000 is reflected in the accompanying December 31, 2011 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease – Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $7,507,000 and $11,214,000 at December 31, 2011 and 2010, respectively. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $16,026,000 is reflected in the accompanying December 31, 2011 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 $10,104,000 and $16,383,000 at December 31, 2011 and 2010, respectively. Under the bus lease agreements, which provide certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $126,993,000 is reflected in the accompanying December 31, 2011 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 $6,086,000 and $7,147,000 at December 31, 2011 and 2010, respectively. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $97,178,000 is reflected in the accompanying December 31, 2011 balance sheet as a capital lease obligation.

During 1998, the CTA entered into a lease and leaseback agreement (the 1998 Agreement) with a third party pertaining to a rail line (green line), with a book value of $213,460,000 and $223,719,000 at December 31, 2011 and 2010, respectively. 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 $172,370,000 is reflected in the accompanying December 31, 2011 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $42,551,000 and $45,897,000 at December 31, 2011 and 2010, respectively. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately $43,338,000 is reflected in the accompanying December 31, 2011 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 $45,982,000 and $47,828,000 at December 31, 2011 and 2010, respectively. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). The present value of the future payments to be made by the CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately $43,308,000 is reflected in the accompanying December 31, 2011 balance sheet as a capital lease obligation.

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

During 1995, the CTA entered into sale/leaseback agreements (the 1995 Agreements) with third parties. The 1995 Agreements provided for the CTA to sell and lease back certain rail equipment with a book value of $91,642,408 and $101,654,925 at December 31, 2011 and 2010, respectively. At December 31, 2011, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,088,462,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2011 are as follows (in thousands of dollars):

2011	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 16,686	$ 595	$ (1,255)	$ 16,026	$ 595	$ 412
2002 (Buses)	121,631	6,129	(767)	126,993	6,129	-
2002 (QTE)	91,377	5,801	-	97,178	5,801	-
1998 (Green)	182,215	12,459	(22,304)	172,370	12,458	22,712
1997 (Garages)	40,354	3,034	-	43,388	3,036	-
1996 (Skokie/Racine)	40,343	2,965	-	43,308	2,965	-
1995 (Pickle)	1,072,242	79,918	(63,698)	1,088,462	79,918	63,698
Total lease/leasebacks	1,564,848	110,901	(88,024)	1,587,725	110,902	86,822
2006 PBC lease	83,340	-	(2,035)	81,305	6,189	2,115
2008 Bus Lease	103,371	-	(8,978)	94,393	4,460	9,375
Total capital lease obligation	$ 1,751,559	$ 110,901	$ (99,037)	$ 1,763,423	$ 121,551	$ 98,312

* Additions include accretion of interest.

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

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

* Additions include accretion of interest.

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Future Minimum Lease Payments: As of December 31, 2011, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2012	$ 98,312
2013	178,440
2014	170,612
2015	93,624
2016	1,230,595
2017 – 2021	372,832
2022 – 2026	229,590
2027 – 2031	24,505
2032 – 2034	11,750
Total minimum lease payments	2,410,260
Less interest	646,837
	$ 1,763,423

NOTE 9 - BONDS PAYABLE

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

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

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

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

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2012	$ 23,545	$ 5,924	$ 29,469
2013	24,780	4,655	29,435
2014	26,085	3,353	29,438
2015	27,385	1,982	29,367
2016	24,070	632	24,702
Total	$ 125,865	$ 16,546	$ 142,411

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

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

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

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

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

	Principal	Interest	Total
2012	$ 9,045	$ 9,541	$ 18,586
2013	9,900	9,112	19,012
2014	10,395	8,605	19,000
2015	10,915	8,072	18,987
2016	-	7,800	7,800
2017	24,720	7,181	31,901
2018	27,000	5,888	32,888
2019	31,275	4,432	35,707
2020	31,585	2,860	34,445
2021	41,410	1,035	42,445
Total	$ 196,245	$ 64,526	$ 260,771

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

	2008 (5309)		2008A (5307)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	4,777	28,395	7,534
2023	10,935	2,197	18,955	3,807	29,890	6,004
2024	11,510	1,608	19,950	2,786	31,460	4,394
2025	12,115	987	20,995	1,711	33,110	2,698
2026	12,750	335	22,095	580	34,845	915
Total	$ 137,770	$ 60,045	$ 100,000	$ 66,161	$ 237,770	$ 126,206

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

	Principal	Interest	Total
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	$ 161,255	$ 75,084	$ 236,339

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
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	$ 2,588,614	$ 4,525,469

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

NOTE 9 - BONDS PAYABLE (Continued)

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

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

	2010A		2010B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ -	$ 2,179	$ -	$ 30,798	$ -	$ 32,977
2013	-	2,179	-	30,798	-	32,977
2014	-	2,179	-	30,798	-	32,977
2015	5,715	2,179	-	30,798	5,715	32,977
2016	7,675	1,905	-	30,798	7,675	32,703
2017	9,925	1,521	-	30,798	9,925	32,319
2018	10,415	1,034	-	30,798	10,415	31,832
2019	10,915	536	-	30,798	10,915	31,334
2020	-	-	11,510	30,798	11,510	30,798
2021	-	-	12,095	30,214	12,095	30,214
2022	-	-	12,720	29,583	12,720	29,583
2023	-	-	13,405	28,900	13,405	28,900
2024	-	-	14,135	28,167	14,135	28,167
2025	-	-	14,930	27,372	14,930	27,372
2026	-	-	15,855	26,447	15,855	26,447
2027	-	-	16,835	25,464	16,835	25,464
2028	-	-	17,880	24,420	17,880	24,420
2029	-	-	18,985	23,311	18,985	23,311
2030	-	-	20,155	22,134	20,155	22,134
2031	-	-	21,400	20,885	21,400	20,885
2032	-	-	22,725	19,558	22,725	19,558
2033	-	-	24,135	18,149	24,135	18,149
2034	-	-	31,820	16,653	31,820	16,653
2035	-	-	33,785	14,680	33,785	14,680
2036	-	-	35,875	12,585	35,875	12,585
2037	-	-	38,090	10,361	38,090	10,361
2038	-	-	40,455	7,999	40,455	7,999
2039	-	-	42,955	5,491	42,955	5,491
2040	-	-	45,610	2,828	45,610	2,828
	$ 44,645	$ 13,712	$ 505,355	$ 672,383	$ 550,000	$ 686,095

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

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

Net proceeds of $45,778,000 were deposited into an irrevocable trust with an escrow agent to provide for 2011 debt service payments on the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds. As a result, a portion of the 5307 (Series 2004A, 2004B and 2006A) and 5309 (Series 2008 and 2008A) bonds then outstanding are considered to be defeased and the 2011 liability has been removed from the Statement of Net Assets. The CTA refunded the various bonds using the proceeds from the 2010 Series bonds which increased its total debt service payments over the next 19 years by $78,527,992 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of $3,099,253. The balance of the defeased debt as of December 31, 2011 and 2010 was $0 and $44,825,000, respectively.

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2010 of $547,766 was deferred and is being amortized over the 24 months. The deferred amount ending balance for the year ended December 31, 2011 and 2010 was $91,294 and $365,177, respectively. Amortization of the deferred amount on the refunding was $273,883 and $182,589 for the years ended December 31, 2011 and 2010, respectively.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	2010 5307		2010 5309		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ -	$ 3,195	$ -	$ 1,341	$ -	$ 4,536
2013	-	3,195	-	1,341	-	4,536
2014	-	3,195	-	1,341	-	4,536
2015	-	3,195	-	1,341	-	4,536
2016	-	3,195	-	1,341	-	4,536
2017	-	3,195	-	1,341	-	4,536
2018	-	3,195	-	1,341	-	4,536
2019	-	3,195	-	1,341	-	4,536
2020	-	3,195	-	1,341	-	4,536
2021	-	3,195	-	1,341	-	4,536
2022	-	3,195	-	1,341	-	4,536
2023	-	3,195	-	1,341	-	4,536
2024	-	3,195	-	1,341	-	4,536
2025	-	3,195	-	1,341	-	4,536
2026	-	3,195	-	1,341	-	4,536
2027	31,170	2,415	13,085	1,014	44,255	3,429
2028	32,725	818	13,735	343	46,460	1,161
	$ 63,895	$ 51,158	$ 26,820	$ 21,472	$ 90,715	$ 72,630

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

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

Net proceeds of $57,534,862 were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on the 5307 (Series 2004B and 2006A) bonds. As a result, a portion of the 5307 (Series 2004B and 2006A) bonds then outstanding are considered to be defeased and the related liability has been removed from the Statement of Net Assets. The CTA refunded the various bonds using the proceeds from the 2011 Series bonds which increased its total debt service payments over the next 18 years by $34,252,000 and resulted in an economic loss (difference between the present values of the debt service payments on the old and new debt) of $9,214,000. The balance of the defeased debt as of December 31, 2011 was $48,945,000.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

The difference between the reacquisition price and the net carrying amount of the bonds refunded by the Capital Grant Receipts Revenue Bonds, Refunding Series 2011 of $6,794,000 was deferred and is being amortized over 18 years. The deferred amount ending balance for the year ended December 31, 2011 was $6,716,000. Amortization of the deferred amount on the refunding was $78,000 for the year ended December 31, 2011.

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

	Principal	Interest	Total
2012	$ -	$ 3,079	$ 3,079
2013	-	2,865	2,865
2014	-	2,865	2,865
2015	-	2,865	2,865
2016	-	2,865	2,865
2017	-	2,865	2,865
2018	-	2,865	2,865
2019	-	2,865	2,865
2020	-	2,865	2,865
2021	-	2,865	2,865
2022	6,595	2,699	9,294
2023	6,920	2,353	9,273
2024	7,285	1,980	9,265
2025	7,665	1,593	9,258
2026	8,060	1,186	9,246
2027	-	975	975
2028	-	975	975
2029	20,000	487	20,487
Total	$ 56,525	$ 41,112	$ 97,637

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

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

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2012	$ -	$ 26,838	$ 26,838
2013	-	24,965	24,965
2014	-	24,965	24,965
2015	-	24,965	24,965
2016	-	24,965	24,965
2017	-	24,965	24,965
2018	-	24,965	24,965
2019	-	24,965	24,965
2020	-	24,965	24,965
2021	14,090	24,965	39,055
2022	14,800	24,261	39,061
2023	15,540	23,521	39,061
2024	16,360	22,705	39,065
2025	17,220	21,846	39,066
2026	18,120	20,942	39,062
2027	19,075	19,991	39,066
2028	20,080	18,989	39,069
2029	21,135	17,935	39,070
2030	22,250	16,825	39,075
2031	23,425	15,657	39,082
2032	24,655	14,427	39,082
2033	25,950	13,133	39,083
2034	27,315	11,771	39,086
2035	28,755	10,337	39,092
2036	30,265	8,827	39,092
2037	31,860	7,238	39,098
2038	33,540	5,565	39,105
2039	35,305	3,805	39,110
2040	37,165	1,951	39,116
	$ 476,905	$ 531,249	$ 1,008,154

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2012	$ 56,465	$ 234,789	$ 291,254
2013	74,915	229,814	304,729
2014	78,730	225,983	304,713
2015	88,680	221,638	310,318
2016	78,985	217,133	296,118
2017-2021	506,360	1,012,216	1,518,576
2022-2026	668,160	848,099	1,516,259
2027-2031	665,065	642,379	1,307,444
2032-2036	778,235	430,037	1,208,272
2037-2040	836,540	139,973	976,513
	$ 3,832,135	$ 4,202,061	$ 8,034,196

NOTE 10 – CERTIFICATES OF PARTICIPATION

In August 2008, the Bank of New York Mellon issued Certificates of Participation (COP) totaling $78,430,000 on behalf of the CTA with an interest rate of 4.725%. The COPs were used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement with the Bank of New York Mellon. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments to the Bank of New York Mellon which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. The total principal and interest remaining to be paid on the COPs as of December 31, 2011, is $61,514,000. Principal and interest paid in 2011 was approximately $8,470,000.

As of December 31, 2011, debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2012	$ 5,629	$ 2,841	$ 8,470
2013	5,898	2,572	8,470
2014	6,180	2,290	8,470
2015	6,476	1,994	8,470
2016	6,786	1,684	8,470
2017	7,110	1,360	8,470
2018	7,450	1,020	8,470
2019	7,807	663	8,470
2020	8,178	293	8,471
	$ 61,514	$ 14,717	$ 76,231

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

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

Substantially all non-temporary, full-time employees who have completed one year of continuous service ("Service") participate in the Employees' Plan. Benefits are in the form of an annual retirement benefit payable monthly for life, in an amount based upon compensation and Service. An employee who has reached age 65 may retire with unreduced benefits. Employees hired prior to September 5, 2001 may retire at any age with unreduced benefits after completion of 25 years of Service, or at age 55 with reduced benefits after completion of 3 years of Service. For those hired after September 5, 2001, but prior to January 18, 2008, unreduced benefits are payable at age 55 with 25 years of Service, and reduced benefits are payable at age 55 with 3 years of Service. Employees hired on or after January 18, 2008 are eligible for unreduced pension benefits after attaining age 64 with at least 25 years of service, and reduced pension benefits after attaining age 55 with at least 10 years of service. These minimum age and service requirements do not apply to members on a disability allowance. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2011 and 2010 was $528,288,000 and $567,173,000, respectively. The Employees' Plan issues a separate stand-alone financial report which is available at http://www.ctaretirement.org/index.asp.

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

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

During fiscal year 2008, a Voluntary Termination Program ("VTP") was adopted which allowed certain active members eligible for Supplemental Plan benefits under the qualified trust to purchase up to five years of "air-time" and the first year of eligibility service if not included in the determination of pension benefits. Members purchase "air-time" and the first year of eligibility service at a rate of six percent of pay. Members were required to make the election within a certain window of time and agree to terminate employment at a date accepted by the Board. Approximately 70 members have elected to participate in the VTP.

For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities increased from $55.71 million at January 1, 2011, to $55.90 million at January 1, 2012. The key factors causing the increase in actuarial liabilities include: expected growth, and demographic losses including members retiring earlier than expected.

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

Participants in the supplemental retirement plans at December 31, 2011 are as follows:

	Open	**Closed**	**Board**
Retirees and beneficiaries currently receiving benefits	119	407	20
Terminated employees entitled to but not yet receiving benefits	10	8	5
Active plan members	21	-	6
Total	150	415	31

Participants in the supplemental retirement plans at December 31, 2010 are as follows:

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

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2011 and 2010 was $2,486,000 and $4,259,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $175,000 and $200,000 for the fiscal years ended December 31, 2011 and 2010, respectively.

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

	Employees' Plan Pension	Open Supplemental	Closed Supplemental	Board Plan
Contribution rates:				
CTA	10.69%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	8.345%	None	None	8.345%
Annual pension cost (APC)	$76,165	$2,720	$2,904	$354
Actual 2011 contributions:				
CTA	$60,235	$2,210	$3,447	$323
Plan members	$47,022	$0	$0	$12
Actuarial valuation date	January 1, 2011	January 1, 2011	January 1, 2011	January 1, 2011
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years - Open	18 years - Closed	10 years - Closed	30 years - Open
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	8.50%	7.0%	5.0%	5.0%
Projected salary increases	1.50% - 2.75%	5.5%	N/A	0%
Includes inflation at	1.50 - 4.0%	0%	N/A	N/A

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

(Continued)

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, 2011 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	$ 76,136	$ 2,207	$ 4,041	$ 372
Interest on NPO	(3,216)	(1,390)	747	66
Adjustment to ARC	3,245	1,903	(1,884)	(84)
Annual pension cost	76,165	2,720	2,904	354
Contributions made	60,235	2,210	3,447	323
Increase (decrease) in NPO	15,930	510	(543)	31
NPO – December 31, 2010	(37,834)	(19,853)	14,937	1,332
NPO – December 31, 2011	$ (21,904)	$ (19,343)	$ 14,394	$ 1,363

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

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

(Continued)

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 (asset)/ obligation
Employees' Plan Pension	December 31, 2011	$ 76,165	$ 60,235	79.1%	$ (21,904)
	December 31, 2010	63,452	57,274	90.3	(37,834)
	December 31, 2009	88,425	36,061	40.8	(44,012)
Open Supplemental Plan	December 31, 2011	$ 2,720	$ 2,210	81.3%	$ (19,343)
	December 31, 2010	3,048	2,600	85.3	(19,853)
	December 31, 2009	2,685	7,410	276.0	(20,301)
Closed Supplemental Plan	December 31, 2011	$ 2,904	$ 3,447	118.7%	$ 14,394
	December 31, 2010	2,803	3,259	116.3	14,937
	December 31, 2009	2,745	3,381	123.2	15,393
Board Supplemental Plan	December 31, 2011	$ 354	$ 323	91.2%	$ 1,363
	December 31, 2010	347	329	94.8	1,332
	December 31, 2009	274	266	97.1	1,314

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan – Pension as of January 1, 2011, and the three supplemental plans as of January 1, 2012, the most recent actuarial valuation dates (in thousands of dollars):

	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan - Pension	1/1/2011	$ 1,909,967	$ 2,724,191	$ 814,224	70.1%	$ 528,288	154.1%
Open Supplemental Plan	1/1/2012	34,251	55,898	21,647	61.3%	2,486	870.8%
Closed Supplemental Plan	1/1/2012	-	29,979	29,979	0.0%	N/A	N/A
Board Supplemental Plan	1/1/2012	57	4,693	4,636	1.2%	175	2649.1%

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

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions – Other Postemployment Benefits (OPEB)

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

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

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

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

Funding Policy - OPEB

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

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

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2011 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	$ 1,605
Interest on net OPEB obligation	129
Adjustment to ARC	(214)
Annual OPEB cost	1,520
Contributions made	707
Increase (decrease) in net OPEB obligation	813
Net OPEB obligation – December 31, 2010	2,874
Net OPEB obligation – December 31, 2011	$ 3,687

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2010 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	$ 1,785
Interest on net OPEB obligation	75
Adjustment to ARC	(122)
Annual OPEB cost	1,738
Contributions made	530
Increase (decrease) in net OPEB obligation	1,208
Net OPEB obligation – December 31, 2009	1,666
Net OPEB obligation – December 31, 2010	$ 2,874

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows (dollar amounts in thousands):

Supplemental and Board Plan:

Year ended	Annual OPEB cost (AOC)	Actual contributions	Percentage of AOC contributed	Net OPEB obligation
2011	$ 1,516	$ 707	46.6%	$ 3,687
2010	1,738	530	30.5%	2,874
2009	1,635	404	24.6%	1,666

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

As of January 1, 2011, the plan was not funded. The actuarial accrued liability for benefits was $18,400,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $18,400,000. The covered payroll (annual payroll of active employees covered by the plan) was $2,219,000, and the ratio of the UAAL to the covered payroll was 829.2 percent.

As of January 1, 2010, the plan was not funded. The actuarial accrued liability for benefits was $18,967,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $18,967,000. The covered payroll (annual payroll of active employees covered by the plan) was $3,580,000, and the ratio of the UAAL to the covered payroll was 529.8 percent.

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

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

In the actuarial valuation of the Supplemental and Board Plans as of January 1, 2010, and January 1, 2011, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 8.25 percent initial to 10.5% ultimate. The Supplemental Plan UAAL is being amortized as a level dollar over an 18 year closed period. The Board Plan UAAL is amortized as a level dollar open 30-year amortization.

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Plan year	Trend rate
2013	8.25%
2014	7.75%
2015	7.25%
2016	6.75%
2017	6.25%
2018	5.75%
2019	5.25%
2020 and after	5.00%

NOTE 13 - RISK MANAGEMENT

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

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

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

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. There are two insurance policies in effect from May 8, 2011 to May 8, 2012. The first policy provided $35,000,000 in excess of the $15,000,000 self insured retention and $70,000,000 in the aggregate. The second policy provides $50,000,000 in excess of the $50,000,000 self insured retention and $100,000,000 in the aggregate. In 2011 and 2010, no CTA claim existed that is expected to exceed the $15,000,000 self insured retention under this insurance policy.

(Continued)

NOTE 13 - RISK MANAGEMENT (Continued)

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for the principal amount borrowed plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. In 2010, CTA received a loan of $8,500,000 from the Joint Self-Insurance Fund to pay an injury and damage claim. No borrowings were made from the Fund in fiscal year 2011.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 3.5% and 3.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 5.0% and 3.0%, respectively. Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	Injury and damage	**Group health and dental**	**Workers' compensation**	**Total**
Balance at January 1, 2010	$ 76,682	$ 15,600	$ 111,162	$ 203,444
Funded*	43,000	122,899	55,700	221,599
Funding (excess)/deficiency per actuarial requirement	(18,178)	-	23,044	4,866
Payments*	(28,329)	(123,499)	(55,854)	(207,682)
Balance at December 31, 2010	73,175	15,000	134,052	222,227
Funded*	15,000	128,311	64,799	208,110
Funding (excess)/deficiency per actuarial requirement	5,168	-	7,080	12,248
Payments*	(15,088)	(118,311)	(56,185)	(189,584)
Balance at December 31, 2011	$ 78,255	$ 25,000	$ 149,746	$ 253,001

*Group insurance amounts include funding and reimbursement for retiree healthcare

(Continued)

NOTE 13 - RISK MANAGEMENT (Continued)

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

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

The CTA used 18.7 million and 19.2 million gallons of diesel fuel to operate revenue vehicles during 2011 and 2010, respectively. The CTA has entered into heating oil commodity swap contracts to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for CTA buses.

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

At December 31, 2011, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

Commodity Swaps

Notional Amount (Gallons)	**Effective Date**	**Maturity Date**	**Fair Value 1/1/2011**	**Fair Value 12/31/2011**	**Change in Fair Value**	**Terms (Per Gallon) Receive**	**Terms (Per Gallon) Pay**
Counterparty: J.P. Morgan Chase							
378,000	01/01/11	03/31/11	$ 59,531	$ -	$ (59,531)	Variable	2.3875
378,000	01/01/11	03/31/11	116,192	-	(116,192)	Variable	2.2375
504,000	01/01/11	03/31/11	192,696	-	(192,696)	Variable	2.1625
756,000	01/01/11	03/31/11	141,726	-	(141,726)	Variable	2.3575
504,000	01/01/11	03/31/11	117,148	-	(117,148)	Variable	2.3125
252,000	01/01/11	03/31/11	32,762	-	(32,762)	Variable	2.4150
252,000	01/01/11	03/31/11	53,538	-	(53,538)	Variable	2.3325
504,000	04/01/11	06/30/11	152,087	-	(152,087)	Variable	2.2440
504,000	04/01/11	06/30/11	96,737	-	(96,737)	Variable	2.3540
504,000	04/01/11	06/30/11	133,469	-	(133,469)	Variable	2.2810
504,000	04/01/11	06/30/11	111,329	-	(111,329)	Variable	2.3250
378,000	07/01/11	09/30/11	109,513	-	(109,513)	Variable	2.2880
378,000	07/01/11	09/30/11	70,121	-	(70,121)	Variable	2.3925
378,000	07/01/11	09/30/11	95,566	-	(95,566)	Variable	2.3250
378,000	07/01/11	09/30/11	82,372	-	(82,372)	Variable	2.3600
378,000	10/01/11	12/31/11	103,725	-	(103,725)	Variable	2.3425
378,000	10/01/11	12/31/11	64,202	-	(64,202)	Variable	2.4475
378,000	10/01/11	12/31/11	87,728	-	(87,728)	Variable	2.3850
378,000	10/01/11	12/31/11	76,435	-	(76,435)	Variable	2.4150
84,000	01/01/12	01/31/12	-	6,648	6,648	Variable	2.8350
378,000	01/01/12	03/31/12	-	(52,013)	(52,013)	Variable	3.0400
252,000	01/01/12	03/31/12	-	(115,849)	(115,849)	Variable	3.3625
378,000	01/01/12	03/31/12	-	(21,620)	(21,620)	Variable	2.9595
630,000	01/01/12	03/31/12	-	(159,053)	(159,053)	Variable	3.1550
378,000	01/01/12	03/31/12	-	(45,028)	(45,028)	Variable	3.0215
378,000	01/01/12	03/31/12	-	34,825	34,825	Variable	2.8100
252,000	01/01/12	03/31/12	-	(62,363)	(62,363)	Variable	3.1500
630,000	01/01/12	03/31/12	-	(81,339)	(81,339)	Variable	3.0315

(Continued)

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2011	Fair Value 12/31/2011	Change in Fair Value	Terms (Per Gallon) Receive	Terms (Per Gallon) Pay
Counterparty: J.P. Morgan Chase							
378,000	01/01/12	03/31/12	$ -	$ (25,584)	$ (25,584)	Variable	2.9700
630,000	01/01/12	03/31/12	-	(4,884)	(4,884)	Variable	2.9100
168,000	03/01/12	03/31/12	-	12,009	12,009	Variable	2.8150
378,000	04/01/12	06/30/12	-	(43,108)	(43,108)	Variable	2.9650
252,000	04/01/12	06/30/12	-	(12,405)	(12,405)	Variable	2.9000
252,000	04/01/12	06/30/12	-	(114,808)	(114,808)	Variable	3.3075
378,000	04/01/12	06/30/12	-	(80,803)	(80,803)	Variable	3.0650
504,000	04/01/12	06/30/12	-	(135,128)	(135,128)	Variable	3.1195
378,000	04/01/12	06/30/12	-	(50,647)	(50,647)	Variable	2.9850
378,000	04/01/12	06/30/12	-	29,453	29,453	Variable	2.7725
252,000	04/01/12	06/30/12	-	(57,889)	(57,889)	Variable	3.0810
378,000	07/01/12	09/30/12	-	(110,991)	(110,991)	Variable	3.1450
378,000	07/01/12	09/30/12	-	(59,253)	(59,253)	Variable	3.0075
378,000	07/01/12	09/30/12	-	14,122	14,122	Variable	2.8125
378,000	07/01/12	09/30/12	-	(47,964)	(47,964)	Variable	2.9775
252,000	07/01/12	09/30/12	-	(17,552)	(17,552)	Variable	2.9200
378,000	10/01/12	12/31/12	-	(114,427)	(114,427)	Variable	3.1750
378,000	10/01/12	12/31/12	-	(62,785)	(62,785)	Variable	3.0375
378,000	10/01/12	12/31/12	-	13,270	13,270	Variable	2.8350
378,000	10/01/12	12/31/12	-	(18,654)	(18,654)	Variable	2.9200
Counterparty: Bank of America, Merrill Lynch							
378,000	10/01/10	03/31/11	$ 137,918	$ -	$ (137,918)	Variable	2.1800
378,000	01/03/11	03/31/11	122,820	-	(122,820)	Variable	2.2200
Total			$ 2,157,615	$ (1,383,819)	$ (3,541,434)		

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

At December 31, 2010, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2010	Fair Value 12/31/2010	Change in Fair Value	Terms (Per Gallon) Receive	Terms (Per Gallon) Pay
Counterparty: J.P. Morgan Chase							
630,000	01/01/10	03/31/10	$ 31,964	$ -	$ (31,964)	Variable	$ 2.0705
2,520,000	01/01/10	12/31/10	(2,618,515)	-	2,618,515	Variable	3.2225
630,000	01/01/10	03/31/10	159,778	-	(159,778)	Variable	1.8675
504,000	04/01/10	06/30/10	118,761	-	(118,761)	Variable	1.9050
378,000	04/01/10	06/30/10	10,189	-	(10,189)	Variable	2.1140
504,000	04/01/10	06/30/10	75,987	-	(75,987)	Variable	1.9900
378,000	07/01/10	09/30/10	91,204	-	(91,204)	Variable	1.9525
504,000	07/01/10	09/30/10	(10,773)	-	10,773	Variable	2.2160
378,000	07/01/10	09/30/10	8,122	-	(8,122)	Variable	2.1730
126,000	10/01/10	12/31/10	30,443	-	(30,443)	Variable	2.0225
378,000	10/01/10	12/31/10	(5,805)	-	5,805	Variable	2.2810
378,000	10/01/10	12/31/10	5,280	-	(5,280)	Variable	2.2515
378,000	01/01/11	03/31/11	-	59,531	59,531	Variable	2.3875
378,000	01/01/11	03/31/11	-	116,192	116,192	Variable	2.2375
504,000	01/01/11	03/31/11	-	192,696	192,696	Variable	2.1625
756,000	01/01/11	03/31/11	-	141,726	141,726	Variable	2.3575
504,000	01/01/11	03/31/11	-	117,148	117,148	Variable	2.3125
252,000	01/01/11	03/31/11	-	32,762	32,762	Variable	2.4150
252,000	01/01/11	03/31/11	-	53,538	53,538	Variable	2.3325
504,000	04/01/11	06/30/11	-	152,087	152,087	Variable	2.2440
504,000	04/01/11	06/30/11	-	96,737	96,737	Variable	2.3540
504,000	04/01/11	06/30/11	-	133,469	133,469	Variable	2.2810
504,000	04/01/11	06/30/11	-	111,329	111,329	Variable	2.3250
378,000	07/01/11	09/30/11	-	109,513	109,513	Variable	2.2880
378,000	07/01/11	09/30/11	-	70,121	70,121	Variable	2.3925
378,000	07/01/11	09/30/11	-	95,566	95,566	Variable	2.3250
378,000	07/01/11	09/30/11	-	82,372	82,372	Variable	2.3600
378,000	10/01/11	12/31/11	-	103,725	103,725	Variable	2.3425
378,000	10/01/11	12/31/11	-	64,202	64,202	Variable	2.4475
378,000	10/01/11	12/31/11	-	87,728	87,728	Variable	2.3850
378,000	10/01/11	12/31/11	-	76,435	76,435	Variable	2.4150

(Continued)

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Commodity Swaps

Notional Amount (Gallons)	Effective Date	Maturity Date	Fair Value 1/1/2010	Fair Value 12/31/2010	Change in Fair Value	Terms (Per Gallon) Receive	Pay
Counterparty: Bank of America Merrill Lynch							
756,000	01/04/10	03/31/10	$ 40,628	$ -	$ (40,628)	Variable	$ 2.0675
630,000	01/04/10	03/31/10	140,151	-	(140,151)	Variable	1.8987
630,000	01/04/10	03/31/10	3,946	-	(3,946)	Variable	2.1150
504,000	04/01/10	06/30/10	22,640	-	(22,640)	Variable	2.0960
630,000	04/01/10	06/30/10	128,366	-	(128,366)	Variable	1.9369
378,000	04/01/10	06/30/10	(1,260)	-	1,260	Variable	2.1435
378,000	07/01/10	09/30/10	24,324	-	(24,324)	Variable	2.1300
378,000	07/01/10	09/30/10	76,433	-	(76,433)	Variable	1.9917
378,000	07/01/10	09/30/10	48,815	-	(48,815)	Variable	2.0650
252,000	10/01/10	12/31/10	18,303	-	(18,303)	Variable	2.1925
126,000	10/01/10	12/31/10	25,863	-	(25,863)	Variable	2.0591
378,000	10/01/10	12/31/10	44,366	-	(44,366)	Variable	2.1475
378,000	10/01/10	03/31/11	-	137,918	137,918	Variable	2.1800
378,000	01/03/11	03/31/11	-	122,820	122,820	Variable	2.2200
Total			$ (1,530,791)	$ 2,157,615	$ 3,688,406		

The fair value of the hedging derivative instruments is included on the Balance Sheet as a Deferred Inflow (positive) or Deferred Outflow (negative) measured at fair market value based on quoted market prices. Related gains and/or losses are deferred on the Balance Sheet until the derivative is settled then recognized as part of Fuel in the Statement of Revenues, Expenses and Changes in Net Assets. The valuation of market changes for contracts entered into and settled resulted in a net (decrease)/increase of ($6,121,697) and $2,128,879 to the cost of fuel during the fiscal years ended December 31, 2011 and 2010, respectively.

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

(Continued)

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

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

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

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

The following risks are generally associated with commodity swap agreements:

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

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

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

(Continued)

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The credit ratings for each of CTA's counterparties at December 31, 2011 were:

Counterparty	Moody's	Fitch	Standard & Poor's
J.P. Morgan Chase	Aa3	AA-	A

The credit ratings for each of CTA's counterparties at December 31, 2010 were:

Counterparty	Moody's	Fitch	Standard & Poor's
J.P. Morgan Chase	Aa3	AA-	A+
Bank of America Merrill Lynch	A2	A+	A

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

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

Termination Risk – The risk that there will be a mandatory early termination of the commodity swap that would result in the CTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or the CTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. The CTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. The CTA seeks to minimize the risks it carries by actively managing its derivative contracts. This will entail frequent monitoring of market conditions by CTA's Energy Advisor and the swap counterparty for emergent opportunities and risks. No termination event has occurred during 2011 or 2010.

(Continued)

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 statements.

Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was $87,600,000 as of December 31, 2011.

Operating Leases: As of December 31, 2011, future minimum lease payments for operating leases, in the aggregate, total $242,000 and are due in 2012.

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

During 2008, AIG's credit rating was cut amid the U.S. mortgage meltdown and global economic crisis. The rating cut provided the third party investors with the option to require CTA to replace the Payment Undertaker Guarantor. One of the three investors chose to unwind the transaction. One investor entered into a forbearance agreement that allowed CTA to continue to use AIG as long as the rating does not fall below BB by Standard & Poor's and B1 by Moody's. CTA is still in negotiations with one of the investors regarding the replacement of AIG.

In 2002 and 2003, CTA entered into a lease and leaseback agreement with third party investors for buses. CTA entered into an agreement with Financial Security Assurance, Inc. (FSA) to act as the debt payment and strip surety guarantor. FSA's credit rating was downgraded during the 2008 financial crisis. This downgrading allows the private investors the option to require CTA to replace the guarantor. CTA has negotiated with the private investors and they have agreed to forbear from enforcing the provision of the agreements that require replacement of the guarantor.

NOTE 16 - SUBSEQUENT EVENT

On May 9, 2012, the CTA approved the purchase of 67 clean-diesel buses and 33 diesel-electric hybrid buses totaling $80,100,000. The new buses will be delivered beginning later in 2012 through the middle of 2013.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
December 31, 2011
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2011	$ 1,909,967	$ 2,724,191	$ 814,224	70.1%	$ 528,288	154.1%
1/1/2010	1,936,849	2,588,462	651,613	74.8	567,173	114.9
1/1/2009	1,995,953	2,632,356	636,403	75.8	578,521	110.0
1/1/2008	941,864	2,531,440	1,589,576	37.2	571,314	278.2
1/1/2007	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
Open Supplemental Plan:						
1/1/2012	$ 34,251	$ 55,898	$ 21,647	61.3%	$ 2,486	870.8%
1/1/2011	35,626	55,705	20,079	64.0	4,259	471.4
1/1/2010	32,345	51,348	19,002	63.0	7,265	261.6
1/1/2009	22,434	36,519	14,085	61.4	11,691	120.5
1/1/2008	19,457	15,974	(3,483)	121.8	13,551	-25.7
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
Closed Supplemental Plan:						
1/1/2012	$ -	$ 29,979	$ 29,979	-%	$ -	-%
1/1/2011	-	32,045	32,045	-	-	-
1/1/2010	-	30,696	30,696	-	-	-
1/1/2009	-	31,459	31,459	-	-	-
1/1/2008	-	32,887	32,887	-	-	-
1/1/2007	-	33,104	33,104	-	-	-
Board Supplemental Plan:						
1/1/2012	$ 57	$ 4,693	$ 4,636	1.2%	$ 175	2649.1%
1/1/2011	47	4,773	4,726	1.0	200	2363.0
1/1/2010	35	4,246	4,210	0.8	200	2105.1
1/1/2009	45	3,257	3,212	1.4	200	1606.0
1/1/2008	56	3,193	3,137	1.8	200	1568.5
1/1/2007	50	3,312	3,262	1.5	200	1631.0

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Postemployment Benefits
Schedules of Funding Progress (Unaudited)
December 31, 2011
(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Supplemental & Board Plan - Healthcare:						
1/1/2012	$ -	$ 13,138	$ 13,138	-%	$ 887	1481.2%
1/1/2011	-	18,400	18,400	-	2,219	829.2
1/1/2010	-	18,967	18,967	-	3,580	529.8
1/1/2009	-	16,830	16,830	-	4,420	380.8
1/1/2008	-	6,287	6,287	-	2,771	226.9
1/1/2007	-	6,796	6,796	-	3,332	204.0

CHICAGO TRANSIT AUTHORITY
Employees' Plan
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2011
(In thousands of dollars)

Employees' Plan – Pension

Year ended	Annual required contribution	Percentage contributed
12/31/11	$ 76,137	79.1%
12/31/10	63,451	90.3
12/31/09	88,422	40.8
12/31/08	178,966	651.5
12/31/07	185,944	13.5
12/31/06	153,204	15.6

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2011
(In thousands of dollars)

Open Supplemental Plan

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

Closed Supplemental Plan

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

Board Supplemental Plan

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

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2011
(In thousands of dollars)

Supplemental and Board Plans - Healthcare

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

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2011
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 931,179	$ 901,392	$ 893,834	$ 7,558
Materials and supplies	72,762	67,923	67,919	4
Fuel	54,487	58,166	57,273	893
Electric power	30,070	30,236	28,099	2,137
Purchase of security services	34,109	35,988	36,815	(827)
Other	200,149	197,746	193,394	4,352
Provision for injuries and damages	15,000	15,000	15,000	-
Total operating expenses	1,337,756	1,306,451	1,292,334	14,117
System-generated revenues:				
Fares and passes	523,660	523,660	527,853	4,193
Reduced-fare subsidies	28,000	28,000	26,026	(1,974)
Advertising and concessions	18,924	19,436	21,459	2,023
Investment income	850	394	578	184
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	35,817	24,617	31,401	6,784
Total system-generated revenues	612,251	601,107	612,317	11,210
Operating expenses in excess of system-generated revenues	725,505	705,344	680,017	25,327
Public funding from the RTA:				
Operating assistance	612,305	574,144	583,920	9,776
Preventative Maintenance	113,200	131,200	118,000	(13,200)
	725,505	705,344	701,920	(3,424)
Change in net assets – budgetary basis	$ -	$ -	21,903	$ 21,903
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(399,141)	
Pension expense in excess of pension contributions			(16,743)	
Supplemental Retirement			2,478	
Incentive Retirement			365	
Workers Compensation			(14,156)	
Revenue from leasing transactions			4,262	
Provision for injuries and damages			(5,168)	
Interest expense on bond transactions			(70,673)	
Interest revenue on bond transactions			1,591	
Interest income from sale/leaseback			114,068	
Interest expense from sale/leaseback			(117,014)	
Capital contributions			238,355	
Change in net assets – GAAP basis			$ (239,873)	
CTA recovery ratio:				
Total operating expenses			$ 1,292,334	
Less mandated security costs			(36,815)	
Less Pension Obligation Bond debt service			(131,366)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,146,153	
Total system-generated revenues			$ 612,317	
Plus Senior Free Rides			22,424	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 656,741	
Recovery ratio (A/B)			57.30%	

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2010
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 852,081	$ 852,081	$ 835,142	$ 16,939
Materials and supplies	77,724	77,724	80,077	(2,353)
Fuel	63,879	63,879	52,063	11,816
Electric power	38,176	38,176	28,208	9,968
Purchase of security services	33,181	33,181	33,319	(138)
Other	178,004	178,004	167,240	10,764
Provision for injuries and damages	28,000	28,000	43,000	(15,000)
Total operating expenses	1,271,045	1,271,045	1,239,049	31,996
System-generated revenues:				
Fares and passes	521,417	521,417	509,179	(12,238)
Reduced-fare subsidies	32,200	32,200	28,245	(3,955)
Advertising and concessions	22,876	22,876	22,609	(267)
Investment income	1,832	1,832	627	(1,205)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	17,381	17,381	28,397	11,016
Total system-generated revenues	600,706	600,706	594,057	(6,649)
Operating expenses in excess of system-generated revenues	670,339	670,339	644,992	25,347
Public funding from the RTA:				
Operating assistance	580,339	580,339	497,685	(82,654)
Public funding in excess of budget marks	-	-	31,276	31,276
Preventative Maintenance	90,000	90,000	172,654	82,654
	670,339	670,339	701,615	31,276
Change in net assets – budgetary basis	$ -	$ -	56,623	$ 56,623
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(424,764)	
Pension expense in excess of pension contributions			(7,387)	
Supplemental Retirement			1,129	
Incentive Retirement			405	
Workers Compensation			(23,044)	
Revenue from leasing transactions			4,262	
Provision for injuries and damages			18,178	
Interest expense on bond transactions			(112,362)	
Interest revenue on bond transactions			3,992	
Interest income from sale/leaseback			113,539	
Interest expense from sale/leaseback			(118,780)	
Capital contributions			164,432	
Change in net assets – GAAP basis			$ (323,777)	
CTA recovery ratio:				
Total operating expenses			$ 1,239,049	
Less mandated security costs			(33,319)	
Less Pension Obligation Bond debt service			(108,378)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,119,352	
Total system-generated revenues			$ 594,057	
Plus Senior Free Rides			23,794	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 639,851	
Recovery ratio (A/B)			57.16%	