# CHICAGO TRANSIT AUTHORITY
# CHICAGO, ILLINOIS

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
Years Ended December 31, 2012 and 2011

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**Crowe Horwath LLP**
Independent Member Crowe Horwath International

# INDEPENDENT AUDITORS' REPORT

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

## Report on the Financial Statements

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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the CTA's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of the CTA, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, in June 2011, the GASB issued GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Statement 63 is effective for the CTA's fiscal year ending December 31, 2012. The CTA has implemented this statement retroactively as of their fiscal year ended December 31, 2011. 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. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by 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 audits 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.

*Supplementary Information*

Our audits were 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, 2012 and 2011, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary schedules of expenses and revenues – budget and actual are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 accompanying supplementary schedules of expenses and revenues – budget and actual are fairly stated, in all material respects, in relation to the financial statements as a whole.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards,* we have also issued our report dated May 9, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CTA's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath

Chicago, Illinois
May 9, 2013

## 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, 2012 and 2011. 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 2012

- *Net position totaled $585,286,000 at December 31, 2012.*
- *Net position decreased $198,477,000 in 2012, which compares to a decrease of $239,873,000 in 2011.*
- *Total net capital assets were $3,792,311,000 at December 31, 2012, an increase of 0.86% over the balance at December 31, 2011 of $3,760,045,000.*

## Financial Highlights for 2011

- *Net position totaled $783,763,000 at December 31, 2011.*
- *Net position 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.*

## 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) statement of net position, (2) statement of revenues, expenses, and changes in net position, (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.

### *Statement of Net Position*

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

(Continued)

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

- *Net Investment in Capital Assets—This component of net position consists of all capital assets, net of accumulated depreciation, 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—This component of net position consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws, and regulations, etc.*
- *Unrestricted—This component consists of net position that does not meet the definition of net investment in capital assets, or a restricted component of net position.*

***Statement of Revenues, Expenses, and Changes in Net Position***

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

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## Financial Analysis of the CTA's Business-Type Activities

### *Statement of Net Position*

The following table reflects a condensed summary of assets, liabilities, and net position of the CTA as of December 31, 2012, 2011, and 2010:

**Table 1**
Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position
December 31, 2012, 2011, and 2010
(In thousands of dollars)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 678,900 | $ 620,593 | $ 598,374 |
| Capital Assets, net | 3,792,311 | 3,760,045 | 3,919,828 |
| Noncurrent assets | 2,515,328 | 2,779,976 | 2,364,646 |
| Total assets | 6,986,539 | 7,160,614 | 6,882,848 |
| Total deferred outflows of resources | - | 1,384 | - |
| Total assets and deferred outflows of resouces | $ 6,986,539 | $ 7,161,998 | $ 6,882,848 |
| Liabilities: | | | |
| Current liabilities | $ 630,516 | $ 569,774 | $ 498,260 |
| Long-term liabilities | 5,770,565 | 5,808,461 | 5,358,794 |
| Total liabilities | 6,401,081 | 6,378,235 | 5,857,054 |
| Total deferred inflows of resources | 172 | - | 2,158 |
| Net position | | | |
| Net investment in capital assets | 2,383,121 | 2,631,353 | 2,800,054 |
| Restricted: | | | |
| Payment of leasehold obligations | 43,920 | 31,164 | 39,485 |
| Debt service | 75,333 | 83,585 | 58,192 |
| Unrestricted (deficit) | (1,917,088) | (1,962,339) | (1,874,095) |
| Total net position | 585,286 | 783,763 | 1,023,636 |
| Total liabilities, deferred inflows and net position | $ 6,986,539 | $ 7,161,998 | $ 6,882,848 |

*Year Ended December 31, 2012*

Current assets increased by 9.40% to $678,900,000. The change in current assets is primarily due to an increase in grant receivables.

Capital assets (net) increased by 0.86% to $3,792,311,000 due to an increase in vehicle purchases. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 9.52% to $2,515,328,000 primarily due to use of bond proceeds to fund various capital projects.

Current liabilities increased 10.66% to $630,516,000 primarily due to an increase in the accounts payable and accrued expenses related to increased capital project activity.

(Continued)

Long-term liabilities decreased 0.65% to $5,770,565,000. The slight decrease in primarily due to a decrease in bonds payable.

Net investment in capital assets 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 position 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 position, represents assets available for operations, decreased 2.31% over the prior year.

*Year Ended December 31, 2011*

Current assets increased by 3.71% to $620,593,000. 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 14.35% to $569,774,000 primarily due to an increase in the current portion of bonds payable.

Long-term liabilities increased 8.52% to $5,816,608,000. The change in long-term liabilities is primarily due to an increase in bonds payable related to new debt issued in 2011

Net investment in capital assets 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 position 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 position, represents assets available for operations, increased 4.71% over the prior year.

(Continued)

*Statement of Revenues, Expenses, and Changes in Net Position*

The following table reflects a condensed summary of the revenues, expenses, and changes in net position (in thousands) for the years ended December 31, 2012, 2011, and 2010:

**Table 2**
Condensed Summary of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2012, 2011, and 2010
(In thousands of dollars)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating revenues | $ 596,499 | $ 570,891 | $ 548,311 |
| Operating expenses: | | | |
| Operating expenses | 1,292,918 | 1,215,871 | 1,165,499 |
| Depreciation | 379,510 | 404,193 | 429,827 |
| Total operating expenses | 1,672,428 | 1,620,064 | 1,595,326 |
| Operating loss | (1,075,929) | (1,049,173) | (1,047,015) |
| Nonoperating revenues: | | | |
| Public funding from the RTA | 645,524 | 701,920 | 701,615 |
| Interest revenue from leasing transactions | 116,039 | 114,068 | 113,539 |
| Other nonoperating revenues | 62,163 | 47,280 | 54,000 |
| Total nonoperating revenues | 823,726 | 863,268 | 869,154 |
| Nonoperating expenses | (312,676) | (292,323) | (310,348) |
| Change in net position before capital contributions | (564,879) | (478,228) | (488,209) |
| Capital contributions | 366,402 | 238,355 | 164,432 |
| Change in net position | (198,477) | (239,873) | (323,777) |
| Total net position, beginning of year | 783,763 | 1,023,636 | 1,347,413 |
| Total net position, end of year | $ 585,286 | $ 783,763 | $ 1,023,636 |

*Year Ended December 31, 2012*

Total operating revenues increased by $25,608,000, or 4.49% primarily due to increases in farebox and pass revenue.

Farebox and pass revenue increased 3.97% over the prior year primarily due to higher ridership. CTA's ridership increased by 2.6% or 13.6 million rides. CTA's average fare of $1.01 was $0.02 higher than 2011.

In 2012, CTA provided approximately 57.0 million free rides, a decrease of 1.6 million or 2.8% over 2011. 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.

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Total operating expenses increased $52,364,000, or 3.23%. The increase is primarily driven by higher labor expense. Labor expense increased $47,746,000 or 5.18% due to an increase in base wages and related fringe benefits. Materials expense increased $17,518,000 due to an increase in the reserve for obsolescence. Fuel expense increased $5,635,000 due to price increases. Electric power was $3,079,000 less than the prior year.

*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. Materials expense decreased $12,158,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. Fuel expense increased $5,210,000 due to price increases. Electric power was on par with the prior year.

(Continued)

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

**Table 3**
Operating Revenues and Expenses
Years ended December 31, 2012, 2011, and 2010
(In thousands of dollars)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating Revenues: | | | |
| Farebox revenue | $ 272,195 | $ 266,875 | $ 261,987 |
| Pass revenue | 276,604 | 260,978 | 247,192 |
| Total farebox and pass revenue | 548,799 | 527,853 | 509,179 |
| Advertising and concessions | 25,675 | 21,459 | 22,609 |
| Other revenue | 22,025 | 21,579 | 16,523 |
| Total operating revenues | $ 596,499 | $ 570,891 | $ 548,311 |
| Operating Expenses: | | | |
| Labor and fringe benefits | $ 969,637 | $ 921,891 | $ 864,039 |
| Materials and supplies | 85,437 | 67,919 | 80,077 |
| Fuel | 62,908 | 57,273 | 52,063 |
| Electric power | 25,020 | 28,099 | 28,208 |
| Purchase of security services | 37,468 | 36,815 | 33,319 |
| Other | 95,000 | 83,706 | 82,971 |
| Operating expense before provisions | 1,275,470 | 1,195,703 | 1,140,677 |
| Provision for injuries and damages | 17,448 | 20,168 | 24,822 |
| Provision for depreciation | 379,510 | 404,193 | 429,827 |
| Total operating expenses | $ 1,672,428 | $ 1,620,064 | $ 1,595,326 |

Capital Asset and Debt Administration

***Capital Assets***

The CTA invested $9,391,480,000 (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, 2012. Net of accumulated depreciation, the CTA's capital assets at December 31, 2012 totaled $3,792,311,000. This amount represents a net increase (including additions and disposals, net of depreciation) of $32,266,000, or 0.86%, over the December 31, 2011 balance primarily due to an increase in vehicle purchases.

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 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.

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***Debt Administration***

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

At December 31, 2012, the CTA had $1,777,681,000 in capital lease obligations outstanding, a slight increase from December 31, 2011. The bonds payable liability decreased $62,390,000 over the prior year. There were no new bond issuances during 2012.

At December 31, 2011, the CTA had $1,763,423,000 in capital lease obligations outstanding, a slight increase from December 31, 2010. The bonds payable liability increased $492,836,000 over the prior year due to two new bond issuances during 2011.

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

**2013 Budget and Economic Factors**

On December 18th, 2012, the CTA Board adopted an annual operating budget for fiscal year 2013. After adoption, the budget was submitted to and approved by the RTA on January 16th, 2013. The 2013 budget is balanced at $1.35 billion, with no service reductions and no transfers of capital funds along with a modest increase in pass prices while freezing the base fare. The budget is 7.2% higher than the revised 2012 budget, to include a $26.5 million increase in POB Interest Expense and a $20.6 million increase in Labor. The one-time use of $75 million from the debt service reserve fund in 2012 also resulted in an effective increase in the 2013 budget.

The CTA used three approaches to close the deficit projected for 2013: (1) Management efficiencies and better management of resources such as parts and supplies, renegotiating power contracts, fuel hedging, reducing absenteeism, and reducing worker's compensation expenses; (2) A negotiated agreement with labor partners to bend the cost curve bend by reforming health care policy, eliminating antiquated work rules, and otherwise modernizing the labor agreement (90% of CTA's employees are bargained for and labor expense is 70% of CTA's budget); and (3) An increase in the price of pass products along with other adjustments to the fare structure. Together, these actions helped address a projected deficit of $165 million in 2013 and restore a structural balance to the operating budget.

In 2013, the CTA plans to hire at a pace more rapid than any time in recent years. During the first half of 2013, the CTA will continue on the path to hire nearly 400 part time Bus Operators in support of the Red Line South reconstruction project and additional service needs. An additional 700 Customer Service Assistants will be hired and trained in 2013 to transition away from the dependence on a $26 million security services expense to staff rail stations. In addition to negotiated labor efficiencies, new programs and commitments were made to improve manpower inefficiencies. The CTA restarted the Bus Servicer Apprentice program to improve the quality of buses put on the street, at a lower cost. In 2013 nearly 300 temporary Flagmen will be hired in support of capital improvement initiatives and to reduce the reliance on overtime for Rail Operations.

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System-generated revenue is projected to be $701 million in 2013, representing an 11.5% increase over the 2012 amended budget. The increase in system-generated revenue is driven by the increase in the cost of passes and other fare adjustments along with an uptick in advertising revenue. The CTA estimates total annual ridership to be 529.6 million, representing a 1.2% decrease over the 2012 amended budget, or 6.2 million riders. Several major capital construction projects are occurring in 2013, including the reconstruction of the south portion of CTA's busiest rail line (Red Line) which will lead to a 5-month partial closure and the replacement of major bridges and other ongoing track and station work. Ridership is projected to grow in 2014 as customers continue to find public transit an affordable alternative given the increasing costs of parking and driving. An improving economy is expected to bring more commuters into the city during peak hours, while off-peak ridership will also see growth as the cost of comparable transportation increases.

The modest economic recovery is expected to drive public funding from sales tax receipts. In 2013 public funding available through the RTA is projected to be $653 million, an increase of $18.8 million (3.0 percent) over the 2012 actual.

**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.

(Continued)

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, 567 W. Lake Street, Chicago, IL 60661.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statement of Net Position
December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 124,090 | $ 119,467 |
| Cash and cash equivalents restricted for damage reserve | 121,395 | 107,920 |
| Investments | 1,000 | 3,020 |
| Total cash, cash equivalents, and investments | 246,485 | 230,407 |
| Grants receivable: | | |
| Due from the RTA | 246,638 | 228,966 |
| Capital improvement projects from federal and state sources | 33 | 5,098 |
| Unbilled work in progress | 92,536 | 64,107 |
| Other | 809 | 1,131 |
| Total grants receivable | 340,016 | 299,302 |
| Accounts receivable, net | 40,772 | 26,881 |
| Materials and supplies, net | 46,056 | 58,501 |
| Prepaid expenses and other assets | 5,399 | 5,502 |
| Derivative instrument asset | 172 | - |
| Total current assets | 678,900 | 620,593 |
| Noncurrent assets: | | |
| Other noncurrent assets: | | |
| Restricted assets for repayment of leasing commitments | 1,659,597 | 1,630,380 |
| Bond proceeds held by trustee | 804,205 | 1,073,392 |
| Assets held by trustee for supplemental retirement plans | 381 | 325 |
| Net pension asset - supplemental retirement plans | 18,716 | 19,343 |
| Net pension asset - employee's retirement plan | - | 21,904 |
| Bond issue costs | 32,429 | 34,632 |
| Total other noncurrent assets | 2,515,328 | 2,779,976 |
| Capital assets: | | |
| Capital assets not being depreciated | 624,753 | 558,029 |
| Capital assets being depreciated | 8,766,727 | 8,537,784 |
| Less accumulated depreciation | (5,599,169) | (5,335,768) |
| Total capital assets being depreciated, net | 3,167,558 | 3,202,016 |
| Total capital assets, net | 3,792,311 | 3,760,045 |
| Total noncurrent assets | 6,307,639 | 6,540,021 |
| Total assets | 6,986,539 | 7,160,614 |
| Deferred outflows of resources | | |
| Accumulated decrease in fair value of hedging derivatives | - | 1,384 |
| Total deferred outflows of resources | - | 1,384 |
| Total assets and deferred outflows of resources | $ 6,986,539 | $ 7,161,998 |

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statement of Net Position
December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 144,256 | $ 90,746 |
| Accrued payroll, vacation pay, and related liabilities | 102,081 | 98,489 |
| Accrued interest payable | 21,107 | 21,451 |
| Advances, deposits, and other | 8,440 | 9,392 |
| Deferred passenger revenue | 53,179 | 48,725 |
| Other deferred revenue | 2,164 | 4,707 |
| Deferred operating assistance | 33,138 | 31,166 |
| Derivative instrument liability | - | 1,384 |
| Current portion of long-term liabilities | 266,151 | 263,714 |
| Total current liabilities | 630,516 | 569,774 |
| Long-term liabilities: | | |
| Self-insurance claims, less current portion | 170,482 | 149,693 |
| Capital lease obligations, less current portion | 1,698,983 | 1,689,727 |
| Bonds payable, less current portion | 3,747,692 | 3,828,532 |
| Certificates of participation payable, less current portion | 49,987 | 55,885 |
| Net pension obligation - supplemental retirement plans | 38,277 | 15,757 |
| Net other postemployment benefits obligation | 3,934 | 3,687 |
| Other long-term liabilities | 61,210 | 65,180 |
| Total long-term liabilities | 5,770,565 | 5,808,461 |
| Total liabilities | 6,401,081 | 6,378,235 |
| Deferred inflows of resources | | |
| Accumulated increase in fair value of hedging derivative | 172 | - |
| Total deferred inflows of resources | 172 | - |
| Net position: | | |
| Net investment in capital assets | 2,383,120 | 2,631,353 |
| Restricted: | | |
| Payment of leasehold obligations | 43,920 | 31,164 |
| Debt service | 75,333 | 83,585 |
| Unrestricted (deficit) | (1,917,087) | (1,962,339) |
| Total net position | 585,286 | 783,763 |
| Total liabilities, deferred inflows of resources, and net position | $ 6,986,539 | $ 7,161,998 |

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Operating revenues: | | |
| Fare box revenue | $ 272,195 | $ 266,875 |
| Pass revenue | 276,604 | 260,978 |
| Total fare box and pass revenue | 548,799 | 527,853 |
| Advertising and concessions | 25,675 | 21,459 |
| Other revenue | 22,025 | 21,579 |
| Total operating revenues | 596,499 | 570,891 |
| Operating expenses: | | |
| Labor and fringe benefits | 969,637 | 921,891 |
| Materials and supplies | 85,437 | 67,919 |
| Fuel | 62,908 | 57,273 |
| Electric power | 25,020 | 28,099 |
| Purchase of security services | 37,468 | 36,815 |
| Maintenance and repairs, utilities, rent, and other | 95,000 | 83,706 |
| | 1,275,470 | 1,195,703 |
| Provisions for injuries and damages | 17,448 | 20,168 |
| Provision for depreciation | 379,510 | 404,193 |
| Total operating expenses | 1,672,428 | 1,620,064 |
| Operating expenses in excess of operating revenues | (1,075,929) | (1,049,173) |
| Nonoperating revenues (expenses): | | |
| Public funding from the RTA | 645,524 | 701,920 |
| Reduced-fare subsidies | 27,780 | 26,026 |
| Operating grant revenue | 15,890 | 9,823 |
| Contributions from local government agencies | 5,000 | 5,000 |
| Investment income | 9,091 | 2,169 |
| Gain on sale of assets | 140 | - |
| Recognition of leasing transaction proceeds | 4,262 | 4,262 |
| Interest expense on bonds | (194,237) | (175,309) |
| Interest revenue from leasing transactions | 116,039 | 114,068 |
| Interest expense on leasing transactions | (118,439) | (117,014) |
| Total nonoperating revenues, net | 511,050 | 570,945 |
| Change in net position before capital contributions | (564,879) | (478,228) |
| Capital contributions | 366,402 | 238,355 |
| Change in net position | (198,477) | (239,873) |
| Total net position – beginning of year | 783,763 | 1,023,636 |
| Total net position – end of year | $ 585,286 | $ 783,763 |

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from fares | $ 553,253 | $ 533,799 |
| Payments to employees | (918,316) | (882,931) |
| Payments to suppliers | (308,538) | (295,476) |
| Other receipts | 30,314 | 40,489 |
| Net cash flows provided by (used in) operating activities | (643,287) | (604,119) |
| Cash flows from noncapital financing activities: | | |
| Public funding from the RTA | 629,824 | 669,440 |
| Reduced-fare subsidies | 27,780 | 26,026 |
| Operating grant revenue | 15,890 | 9,823 |
| Contributions from local governmental agencies | 5,000 | 5,000 |
| Net cash flows provided by (used in) noncapital financing activities | 678,494 | 710,289 |
| Cash flows from capital and related financing activities: | | |
| Interest income from assets restricted for payment of leasehold obligations | 116,039 | 114,068 |
| Interest expense on bonds | (200,506) | (164,967) |
| Decrease in restricted assets for repayment of leasing commitments | (29,217) | (26,045) |
| Repayment of lease obligations | (104,485) | (105,463) |
| Proceeds from issuance of bonds | - | 528,057 |
| Repayment of bonds payable | (62,093) | (48,945) |
| Repayment of other long-term liabilities | (3,971) | (3,679) |
| Bond issuance costs paid | 2,203 | (6,337) |
| Payments for acquisition and construction of capital assets | (358,681) | (240,149) |
| Capital grants | 343,360 | 233,977 |
| Net cash flows provided by (used in) capital and related financing activities | (297,351) | 280,517 |
| Cash flows from investing activities: | | |
| Purchases of unrestricted investments | (1,000) | (3,020) |
| Proceeds from maturity of unrestricted investments | 3,020 | 26,999 |
| Restricted cash and investment accounts: | | |
| Purchases and withdrawals | (317,337) | (959,094) |
| Proceeds from maturities and deposits | 586,468 | 559,706 |
| Investment revenue | 9,091 | 2,169 |
| Net cash flows provided by (used in) investing activities | 280,242 | (373,240) |
| Net increase (decrease) in cash and cash equivalents | 18,098 | 13,447 |
| Cash and cash equivalents – beginning of year | 227,387 | 213,940 |
| Cash and cash equivalents – end of year | $ 245,485 | $ 227,387 |

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities: | | |
| Operating expenses in excess of operating revenues | $ (1,075,929) | $ (1,049,173) |
| Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities: | | |
| Depreciation | 379,510 | 404,193 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (13,891) | (3,108) |
| Materials and supplies | 12,445 | 5,021 |
| Prepaid expenses and other assets | 103 | 381 |
| Net pension asset | 22,531 | 16,440 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 555 | (11,978) |
| Accrued payroll, vacation pay, and related liabilities | 3,592 | (3,475) |
| Self-insurance reserves | 4,071 | 30,774 |
| Deferred passenger revenue | 4,454 | 5,946 |
| Other deferred revenue | (2,543) | 678 |
| Advances, deposits, and other | (952) | (119) |
| Accrued pension costs and OPEB | 22,767 | 301 |
| Net cash flows used in operating activities | $ (643,287) | $ (604,119) |
| 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 | 112,570 | 110,901 |
| Retirement of fully depreciated capital assets | 55,365 | 58,225 |
| Purchases of capital assets in accounts payable at year-end | 71,119 | 18,164 |

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Position
Open Supplemental Retirement Plan
December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Assets: | | |
| Contributions from employees | $ 397 | $ 236 |
| Investments at fair value: | | |
| Short-term investments | 1,558 | 1,840 |
| Government agencies | 8,197 | 8,127 |
| Equity mutual funds | 7,001 | 7,495 |
| Common stock | 19,995 | 16,631 |
| Total investments at fair value | 36,751 | 34,093 |
| Securities lending collateral | 15,962 | 15,203 |
| Total assets | 53,110 | 49,532 |
| Liabilities: | | |
| Accounts payable and other liabilities | 108 | 79 |
| Securities lending collateral obligation | 15,962 | 15,203 |
| Total liabilities | 16,070 | 15,282 |
| Net position of held in trust pension benefits | $ 37,040 | $ 34,250 |

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Position
Open Supplemental Retirement Plan
Years ended December 31, 2012 and 2011
(In thousands of dollars)

| | 2012 | 2011 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employee | $ 45 | $ 238 |
| Employer | 2,267 | 2,210 |
| Total contributions | 2,312 | 2,448 |
| Investment income: | | |
| Net increase (decrease) in fair value of investments | 3,284 | (529) |
| Investment income | 1,594 | 1,034 |
| Total investment income | 4,878 | 505 |
| Total additions | 7,190 | 2,953 |
| Deductions: | | |
| Benefits paid to participants or beneficiaries | 4,093 | 3,929 |
| Trust fees | 307 | 311 |
| Total deductions | 4,400 | 4,240 |
| Net increase (decrease) | 2,790 | (1,287) |
| Net position of held in trust pension benefits: | | |
| Beginning of year | 34,250 | 35,537 |
| End of year | $ 37,040 | $ 34,250 |

## NOTE 1 - ORGANIZATION

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

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

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

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

2) Fiscal dependency on the primary government.

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

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

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.

(Continued)

**NOTE 1 - ORGANIZATION** (Continued)

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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.

(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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.

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

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

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

*Bond proceeds held by trustee*: In 2004, 2006, 2008, 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.

(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

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 $6,931,900 and $6,792,000 during the years ended December 31, 2012 and 2011, 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.

(Continued)

**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 statements of net position.

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 Position: Net position is displayed in three components as follows:

*Net Investment in Capital Assets* – 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 component of net position consists of legally restricted assets 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 component of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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.

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.

(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 position or change in net position.

Implementation of New Accounting Standards: In December 2009, GASB released Statement No. 57 “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. This Statement is effective for accounting periods beginning after June 15, 2011. The Statements amends Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” to permit an agent employer with fewer than 100 total plan members to use the alternative method for the valuation regardless of the number of total plan members in the agent multiple-employer OEPB plan. The implementation of this Statement did not have a material impact on the CTA.

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 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 implementation of this Statement did not have a material impact on the CTA.

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 implementation of this Statement did not have a material impact on the CTA.

(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 implementation of this Statement did not have a material impact on the CTA.

New Pronouncements: 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.

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 December 15, 2012. Management has determined that implementation of this Statement will result in Bond Issuance Costs equaling approximately $32,000,000 to be written off. The write off of these costs will decrease net position.

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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In June 2012, the GASB issued Statement 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This Statement is effective for the CTA's financial periods beginning October 1, 2013. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the CTA's financial periods beginning October 1, 2014. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

In January 2013, the GASB issued Statement 69, Government Combinations and Disposals of Government Operations. The objective of this Statement is to improve accounting and financial reporting for U.S. state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The new standard provides guidance for:

- Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;
- Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations;
- Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and
- Reporting the disposal of government operations that have been transferred or sold.

This Statement is effective for the CTA's financial periods beginning October 1, 2014. 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 2012 and 2011, 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;
- 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.

(Continued)

**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 2012, an amendment to the budget was approved by the CTA Board. During 2011, an amendment to the budget was approved by the CTA Board.

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

| | | 2012 | 2011 |
|---|---|---|---|
| 1983 Legislation | Illinois state sales tax allocation | $ 311,746 | $ 296,033 |
| 1983 Legislation | RTA discretionary funding and other | 168,700 | 128,251 |
| 2008 Legislation | Illinois state sales tax allocation & PTF | 125,795 | 124,902 |
| 2008 Legislation | Real estate transfer tax | 39,283 | 34,734 |
| Total budgeted public funding | | 645,524 | 583,920 |
| RTA provision | Capital - preventative maintenance | - | 118,000 |
| Final public funding | | $ 645,524 | $ 701,920 |

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 2012 and is projected to be repaid interest free in 2013.

Reduced-fare subsidies received from the State of Illinois were $27,780,000 and $26,026,000 during the years ended December 31, 2012 and 2011, 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 statements of net position of the business-type activities as follows as of December 31, 2012 and 2011 (in thousands of dollars):

| | 2012 | 2011 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 124,090 | $ 119,467 |
| Restricted for injury and damage reserve | 121,395 | 107,920 |
| Investments | 1,000 | 3,020 |
| Noncurrent assets: | | |
| Bond proceeds held by trustee | 804,205 | 1,073,392 |
| Held by trustee for supplemental retirement plan | 381 | 325 |
| Total | $ 1,051,071 | $ 1,304,124 |

(Continued)

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

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2012 and 2011 (in thousands of dollars):

| | 2012 | 2011 |
|---|---|---|
| Investments: | | |
| Certificates of deposit | $ 4,020 | $ 4,020 |
| Money market mutual funds | 116,483 | 118,682 |
| U.S. government agencies | 488,481 | 565,860 |
| U.S. Treasury bills | 54,780 | 295,386 |
| Commercial paper | 366,036 | 302,766 |
| Total Investments | 1,029,800 | 1,286,714 |
| Deposits with financial institutions | 21,271 | 17,410 |
| Total deposits and investments | $ 1,051,071 | $ 1,304,124 |

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.

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).

(Continued)

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

8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America. As of December 31, 2012 and 2011, the CTA's bank balances were fully insured or collateralized.

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

| 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, 2012, 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 | $ 116,483 | $ 116,483 | $ - | $ - |
| U.S. government agencies | 488,481 | 203,450 | 285,031 | - |
| U.S. treasury bills | 54,780 | 54,780 | - | - |
| Commercial paper | 366,036 | 366,036 | - | - |
| Total | $ 1,025,780 | $ 740,749 | $ 285,031 | $ - |

(Continued)

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

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

| | Fair value | Investment maturities (by years) Less than 1 | 1-5 | 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 |

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, 2012, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

| | Fair value | Credit ratings A1P1 or AAA | A2P2 or AA | A3P3 or A | Not rated |
|---|---|---|---|---|---|
| Money market mutual funds | $ 116,483 | $ - | $ - | $ - | $ 116,483 |
| U.S. government agencies | 488,481 | 488,481 | - | - | - |
| U.S. treasury bills | 54,780 | 54,780 | - | - | - |
| Commercial paper | 366,036 | 366,036 | - | - | - |
| Total | $ 1,025,780 | $ 909,297 | $ - | $ - | $ 116,483 |

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):

| | Fair value | Credit ratings 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 |

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.

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

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.

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, 2012, 68.8% of the investment in commercial paper is invested with U.S. Bank.

As of December 31, 2012, the CTA had investments in the Federal Home Loan Mortgage Corporation (FHLMC) (19.8%) and U.S. Bank (12.2%) that exceeded 5 percent of the total investment balance. 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.

**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, 2012 and 2011 (in thousands of dollars):

| | 2012 | 2011 |
|---|---|---|
| Investments, at fair value: | | |
| Short-term investments | $ 1,558 | $ 1,840 |
| U.S. government agency commingled funds | 8,197 | 8,127 |
| Equity mutual funds | 7,001 | 7,495 |
| Common stock | 19,995 | 16,631 |
| Total | $ 36,751 | $ 34,093 |

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, 2012, 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 | $ 1,558 | $ 1,558 | $ - |
| U.S. government agency commingled funds | 8,197 | 8,197 | - |
| Total | $ 9,755 | $ 9,755 | $ - |

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 | $ - |

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, 2012, 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 | $ 1,558 | $ - | $ 1,558 |
| U.S. government agency commingled funds | 8,197 | 8,197 | - |
| Total | $ 9,755 | $ 8,197 | $ 1,558 |

(Continued)

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

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 |

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 $3,395,000 and $2,355,000 as of December 31, 2012 and 2011, 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 $15,787,000 and $14,838,000 as of December 31, 2012 and 2011, respectively. The fair value of the associated collateral received was approximately $15,962,000 and $15,203,000 as of December 31, 2012 and 2011, 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 statements of net position.

(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 $234,285,000 and $258,777,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2012 and 2011, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, FEMA, IEMA, or CTA bonds. Commitments of approximately $834,951,000 and $480,686,000 have been entered into for these state and local capital grants as of December 31, 2012 and 2011, respectively. Changes in capital assets for the year ended December 31, 2012 are as follows (in thousands of dollars):

| | Balance at January 1, 2012 | Increase | Decrease | Balance at December 31, 2012 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 119,171 | $ 280 | $ - | $ 119,451 |
| Construction in process | 438,858 | 432,414 | (365,970) | 505,302 |
| Total capital assets not being depreciated | 558,029 | 432,694 | (365,970) | 624,753 |
| Capital assets being depreciated: | | | | |
| Land improvements | 26,740 | 2,398 | - | 29,138 |
| Buildings | 2,313,421 | 48,965 | (97) | 2,362,289 |
| Transportation vehicles | 2,441,540 | 251,302 | (133,980) | 2,558,862 |
| Elevated structure track | 1,928,722 | 34,398 | (44) | 1,963,076 |
| Signal and communication | 1,233,222 | 11,216 | (1,501) | 1,242,937 |
| Other equipment | 594,139 | 17,691 | (1,405) | 610,425 |
| Total capital assets being depreciated | 8,537,784 | 365,970 | (137,027) | 8,766,727 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 21,056 | 1,701 | - | 22,757 |
| Buildings | 1,050,969 | 81,183 | (97) | 1,132,055 |
| Transportation vehicles | 1,830,879 | 132,881 | (113,060) | 1,850,700 |
| Elevated structure track | 1,159,003 | 76,881 | (45) | 1,235,839 |
| Signal and communication | 741,957 | 62,784 | (1,501) | 803,240 |
| Other equipment | 531,904 | 24,080 | (1,406) | 554,578 |
| Total accumulated depreciation | 5,335,768 | 379,510 | (116,109) | 5,599,169 |
| Total capital assets being depreciated, net | 3,202,016 | (13,540) | (20,918) | 3,167,558 |
| Total capital assets, net | $ 3,760,045 | $ 419,154 | $ (386,888) | $ 3,792,311 |

(Continued)

**NOTE 6 - CAPITAL ASSETS** (Continued)

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 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2012 are as follows (in thousands of dollars):

| | Balance at January 1, 2012 | Additions | Reductions | Balance at December 31, 2012 | Amount due beyond one year | Amount due within one year |
|---|---|---|---|---|---|---|
| Self insurance claims (note 13) | $ 253,001 | $ 218,960 | $ (214,890) | $ 257,071 | $ 170,482 | $ 86,589 |
| Capital lease obligations: | | | | | | |
| Capital lease obligations (note 8) | 1,763,423 | 112,570 | (98,312) | 1,777,681 | 1,678,933 | 98,748 |
| Premium on capital lease obligation | 5,952 | - | (457) | 5,495 | 5,495 | - |
| Deferred loss on cap. lease ref. (note 8) | (1,522) | - | 153 | (1,369) | (1,369) | - |
| Deferred rev. – leasing trans. (note 8) | 20,186 | - | (4,262) | 15,924 | 15,924 | - |
| Total capital lease obligations | 1,788,039 | 112,570 | (102,878) | 1,797,731 | 1,698,983 | 98,748 |
| Bonds payable: | | | | | | |
| Bonds payable (note 9) | 3,832,135 | - | (56,465) | 3,775,670 | 3,700,755 | 74,915 |
| Premium on bonds payable | 59,487 | - | (6,303) | 53,184 | 53,184 | - |
| Deferred gain (loss) on bond ref. (note 9) | (6,625) | - | 378 | (6,247) | (6,247) | - |
| Total bonds payable | 3,884,997 | - | (62,390) | 3,822,607 | 3,747,692 | 74,915 |
| Certificates of Participation (note 10) | 61,514 | - | (5,628) | 55,886 | 49,987 | 5,899 |
| Net pension obligation (note 11) | 15,757 | 22,520 | - | 38,277 | 38,277 | - |
| Net OPEB obligation (note 12) | 3,687 | 247 | - | 3,934 | 3,934 | - |
| Other long-term liabilities: | | | | | | |
| RTA working cash borrowing (note 4) | 56,147 | - | - | 56,147 | 56,147 | - |
| Other | 9,033 | - | (3,970) | 5,063 | 5,063 | - |
| Total other long-term liabilities | 65,180 | - | (3,970) | 61,210 | 61,210 | - |
| Total | $ 6,072,175 | $ 354,297 | $ (389,756) | $ 6,036,716 | $ 5,770,565 | $ 266,151 |

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 |

(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 $82,287,928 and $91,642,408 at December 31, 2012 and 2011, 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 $85,017,000 is reflected in the accompanying December 31, 2012 statement of net position 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 $1,368,000 is recorded as a component of long-term debt in the accompanying statements of net position.

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 statements of net position. The present value of the future payments to be made by the CTA under the lease of approximately $79,190,000 is reflected in the accompanying December 31, 2012 statement of net position as a capital lease obligation.

Capital Lease – Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $3,802,089 and $7,507,000 at December 31, 2012 and 2011, 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 $16,186,000 is reflected in the accompanying December 31, 2012 statement of net position as a capital lease obligation.

(Continued)

**NOTE 8 - CAPITAL LEASE OBLIGATIONS** (Continued)

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 $3,848,010 and $10,104,000 at December 31, 2012 and 2011, 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 $133,392,000 is reflected in the accompanying December 31, 2012 statement of net position 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 $5,296,186 and $6,086,000 at December 31, 2012 and 2011, 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 $103,348,000 is reflected in the accompanying December 31, 2012 statement of net position 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 $199,622,391 and $213,460,000 at December 31, 2012 and 2011, 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 $161,450,000 is reflected in the accompanying December 31, 2012 statement of net position as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $39,965,441 and $42,551,000 at December 31, 2012 and 2011, 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 $46,650,000 is reflected in the accompanying December 31, 2012 statement of net position as a capital lease obligation.

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

(Continued)

**NOTE 8 - CAPITAL LEASE OBLIGATIONS** (Continued)

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of $42,972,585 and $45,982,000 at December 31, 2012 and 2011, 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 $46,491,000 is reflected in the accompanying December 31, 2012 statement of net position 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 $46,642,600 and $55,976,348 at December 31, 2012 and 2011, respectively. At December 31, 2012, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,105,957,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2012 are as follows (in thousands of dollars):

| 2012 | Beginning balance | Additions* | Principal paid | Ending balance | Interest paid | Due in one year |
|---|---|---|---|---|---|---|
| 2003 (Buses) | $ 16,026 | $ 571 | $ (411) | $ 16,186 | $ 571 | $ - |
| 2002 (Buses) | 126,993 | 6,399 | - | 133,392 | 6,398 | - |
| 2002 (QTE) | 97,178 | 6,170 | - | 103,348 | 6,170 | - |
| 1998 (Green) | 172,370 | 11,792 | (22,712) | 161,450 | 11,792 | 23,051 |
| 1997 (Garages) | 43,388 | 3,262 | - | 46,650 | 3,262 | - |
| 1996 (Skokie/Racine) | 43,308 | 3,183 | - | 46,491 | 3,183 | - |
| 1995 (Pickle) | 1,088,462 | 81,193 | (63,698) | 1,105,957 | 81,193 | 63,698 |
| Total lease/leasebacks | 1,587,725 | 112,570 | (86,821) | 1,613,474 | 112,569 | 86,749 |
| 2006 PBC lease | 81,305 | - | (2,115) | 79,190 | 6,186 | 2,204 |
| 2008 Bus Lease | 94,393 | - | (9,376) | 85,017 | 4,060 | 9,795 |
| Total capital lease obligation | $ 1,763,423 | $ 112,570 | $ (98,312) | $ 1,777,681 | $ 122,815 | $ 98,748 |

* Additions include accretion of interest.

(Continued)

**NOTE 8 - CAPITAL LEASE OBLIGATIONS** (Continued)

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.

Future Minimum Lease Payments: As of December 31, 2012 future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

| | |
|---|---|
| 2013 | $ 98,748 |
| 2014 | 250,303 |
| 2015 | 93,624 |
| 2016 | 1,230,594 |
| 2017 | 44,153 |
| 2018 – 2022 | 355,036 |
| 2023 – 2027 | 207,635 |
| 2028 – 2032 | 25,825 |
| 2033 – 2034 | 6,031 |
| Total minimum lease payments | 2,311,949 |
| Less interest | 534,268 |
| | $ 1,777,681 |

**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.

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

| | Principal | Interest | Total |
|---|---|---|---|
| 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 | $ 102,320 | $ 10,622 | $ 112,942 |

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.

(Continued)

**NOTE 9 - BONDS PAYABLE** (Continued)

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 |
|---|---|---|---|
| 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 | $ 187,200 | $ 54,985 | $ 242,185 |

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

(Continued)

**NOTE 9 - BONDS PAYABLE** (Continued)

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 |
| 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 | $ 131,310 | $ 53,232 | $ 100,000 | $ 60,911 | $ 231,310 | $ 114,143 |

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.

(Continued)

**NOTE 9 - BONDS PAYABLE** (Continued)

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

| | Principal | Interest | Total |
|---|---|---|---|
| 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 | $ 153,860 | $ 66,620 | $ 220,480 |

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.

(Continued)

**NOTE 9 - BONDS PAYABLE** (Continued)

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.

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

| | Principal | Interest | Total |
|---|---|---|---|
| 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 | $ 1,926,835 | $ 2,457,247 | $ 4,384,082 |

<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.

(Continued)

**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 |
| 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 | $ 11,533 | $ 505,355 | $ 641,585 | $ 550,000 | $ 653,118 |

(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 Statements of Net Position. 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 had a zero balance as of December 31, 2012 and 2011.

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, 2012 and 2011 was $0 and $91,294, respectively. Amortization of the deferred amount on the refunding was $91,294 and $273,883 for the years ended December 31, 2012 and 2011, 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 |
| 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 | $ 47,963 | $ 26,820 | $ 20,131 | $ 90,715 | $ 68,094 |

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 Statements of Net Position. 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, 2012 and 2011 was $48,470,000 and $48,945,000, 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 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, 2012 and 2011 was $6,247,000 and $6,716,000, respectively. Amortization of the deferred amount on the refunding was $469,000 and $78,000 for the year ended December 31, 2012 and 2011, respectively.

**NOTE 9 - BONDS PAYABLE** (Continued)

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

| | Principal | Interest | Total |
|---|---|---|---|
| 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 | $ 38,033 | $ 94,558 |

2011 Sales Tax Receipts Revenue Bonds: 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 |
|---|---|---|---|
| 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 | 14,428 | 39,083 |
| 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 | 5,566 | 39,106 |
| 2039 | 35,305 | 3,805 | 39,110 |
| 2040 | 37,165 | 1,951 | 39,116 |
| | $ 476,905 | $ 504,415 | $ 981,318 |

(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 |
|---|---|---|---|
| 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 | 84,645 | 212,708 | 297,353 |
| 2018-2022 | 540,495 | 984,167 | 1,524,662 |
| 2023-2027 | 691,075 | 808,342 | 1,499,417 |
| 2028-2032 | 656,645 | 602,143 | 1,258,788 |
| 2033-2037 | 834,815 | 379,641 | 1,214,456 |
| 2038-2040 | 646,685 | 85,702 | 732,387 |
| | $ 3,775,670 | $ 3,967,271 | $ 7,742,941 |

**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, 2012, is $55,886,000. Principal and interest paid in 2012 was approximately $8,470,000.

As of December 31, 2012, debt service requirements to maturity are as follows (in thousands of dollars):

| | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 5,899 | $ 2,572 | $ 8,471 |
| 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 |
| | $ 55,886 | $ 11,876 | $ 67,762 |

(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, 2012 and 2011 was $541,354,000 and $528,288,000, 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.

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.

(Continued)

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (Continued)

For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities increased from $55.90 million at January 1, 2012, to $54.7 million at January 1, 2013. The key factors causing the decrease in actuarial liabilities include: expected growth, favorable investment experience and retirement experience gains.

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, 2012 are as follows:

| | **Open** | **Closed** | **Board** |
|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 121 | 396 | 20 |
| Terminated employees entitled to but not yet receiving benefits | 10 | 8 | 6 |
| Active plan members | 19 | - | 5 |
| Total | 150 | 404 | 31 |

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 |

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2012 and 2011 was $2,282,000 and $2,486,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $150,000 and $175,000 for the fiscal years ended December 31, 2012 and 2011, respectively.

<u>Funding Policy and Annual Pension Cost</u>: 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.

(Continued)

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (Continued)

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 | 11.30% | Actuarial | Pay-Go Funding | Pay-Go Funding |
| Plan members | 8.650% | None | None | 8.650% |
| Annual pension cost (APC) | $107,586 | $2,894 | $2,811 | $327 |
| Actual 2012 contributions: | | | | |
| CTA | $62,678 | $2,267 | $3,299 | $323 |
| Plan members | $48,032 | $0 | $0 | $12 |
| Actuarial valuation date | January 1, 2012 | January 1, 2013 | January 1, 2013 | January 1, 2013 |
| 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 | 17 years - Closed | 9 years - Closed | 30 years - Open |
| Asset valuation method | Fair market value | Fair market value | Fair market value | Fair market value |
| Actuarial assumptions: | | | | |
| Investment rate of return | 8.50% | 7.0% | 4.5% | 4.5% |
| Projected salary increases | 1.5% | 3.5% | N/A | N/A |
| Includes inflation at | 1.5% - 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.

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2012 (in thousands of dollars):

| | Employees' Plan | Supplemental Retirement Plans | | |
|---|---|---|---|---|
| | Pension | Open | Closed | Board |
| Annual Required Contribution | $ 107,569 | $ 2,267 | $ 4,116 | $ 348 |
| Interest on NPO | (1,862) | (1,354) | 720 | 68 |
| Adjustment to ARC | 1,879 | 1,981 | (2,025) | (89) |
| Annual pension cost | 107,586 | 2,894 | 2,811 | 327 |
| Contributions made | 62,678 | 2,267 | 3,299 | 323 |
| Increase (decrease) in NPO | 44,908 | 627 | (488) | 4 |
| NPO - December 31, 2011 | (21,904) | (19,343) | 14,394 | 1,363 |
| NPO - December 31, 2012 | $ 23,004 | $ (18,716) | $ 13,906 | $ 1,367 |

(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 |

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, 2012 | $ 107,586 | $ 62,678 | 58.3% | $ 23,003 |
| | December 31, 2011 | 76,165 | 60,235 | 79.1 | (21,904) |
| | December 31, 2010 | 63,452 | 57,274 | 90.3 | (37,834) |
| Open Supplemental Plan | December 31, 2012 | $ 2,894 | $ 2,267 | 78.3% | $ (18,716) |
| | December 31, 2011 | 2,720 | 2,210 | 81.3 | (19,343) |
| | December 31, 2010 | 3,048 | 2,600 | 85.3 | (19,853) |
| Closed Supplemental Plan | December 31, 2012 | $ 2,811 | $ 3,299 | 117.4% | $ 13,905 |
| | December 31, 2011 | 2,904 | 3,447 | 118.7 | 14,394 |
| | December 31, 2010 | 2,803 | 3,259 | 116.3 | 14,937 |
| Board Supplemental Plan | December 31, 2012 | $ 327 | $ 323 | 98.8% | $ 1,367 |
| | December 31, 2011 | 354 | 323 | 91.2 | 1,363 |
| | December 31, 2010 | 347 | 329 | 94.8 | 1,332 |

(Continued)

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (Continued)

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 | 1/1/2012 | $ 1,662,196 | $ 2,808,184 | 1,145,988 | 59.2% | $ 541,354 | 211.7% |
| Open Supplemental Plan | 1/1/2013 | 37,040 | 54,716 | 17,676 | 67.7% | 2,282 | 774.6% |
| Closed Supplemental Plan | 1/1/2013 | - | 28,963 | 28,963 | 0.0% | N/A | N/A |
| Board Supplemental Plan | 1/1/2013 | 70 | 4,778 | 4,708 | 1.5% | 150 | 3138.7% |

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

**NOTE 12 - 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.

(Continued)

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS** (Continued)

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.

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, 2012 (dollar amounts in thousands):

| | **Supplemental & Board Plans** |
|---|---|
| Annual required contribution | $ 1,080 |
| Interest on net OPEB obligation | 166 |
| Adjustment to ARC | (295) |
| Annual OPEB cost | 951 |
| Contributions made | 704 |
| Increase (decrease) in net OPEB obligation | 247 |
| Net OPEB obligation – December 31, 2011 | 3,687 |
| Net OPEB obligation – December 31, 2012 | $ 3,934 |

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 |

(Continued)

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS** (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 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 |
|---|---|---|---|---|
| 2012 | $ 951 | $ 704 | 74.0% | $ 3,934 |
| 2011 | 1,520 | 707 | 46.6% | 3,687 |
| 2010 | 1,738 | 530 | 30.5% | 2,874 |

Funded Status and Funding Progress - OPEB

<u>Supplemental and Board Plans – Retiree Healthcare Benefits</u>:

As of January 1, 2013, the plan was not funded. The actuarial accrued liability for benefits was $13,168,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $13,168,000. The covered payroll (annual payroll of active employees covered by the plan) was $752,000, and the ratio of the UAAL to the covered payroll was 1751 percent.

As of January 1, 2012, the plan was not funded. The actuarial accrued liability for benefits was $13,138,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $13,138,000. The covered payroll (annual payroll of active employees covered by the plan) was $887,000, and the ratio of the UAAL to the covered payroll was 1481 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, 2011, and January 1, 2012, 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 5.0% ultimate. The Supplemental Plan UAAL is being amortized as a level dollar over an 17 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, 2012 to May 8, 2013. 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 2012 and 2011, no CTA claim existed that is expected to exceed the $15,000,000 self-insured retention under this insurance policy.

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for 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 years 2012 or 2011.

(Continued)

**NOTE 13 - RISK MANAGEMENT** (Continued)

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 2.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 4.5% and 2.0%, 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, 2011 | $ 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 |
| Funded* | 24,000 | 138,368 | 70,364 | 232,732 |
| Funding (excess)/deficiency per actuarial requirement | (6,552) | - | (7,220) | (13,772) |
| Payments* | (15,808) | (147,640) | (51,442) | (214,890) |
| Balance at December 31, 2012 | $ 79,895 | $ 15,728 | $ 161,448 | $ 257,071 |

*Group insurance amounts include funding and reimbursement for retiree healthcare

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

**NOTE 14 - 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.

(Continued)

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

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 18.9 million and 18.7 million gallons of diesel fuel to operate revenue vehicles during 2012 and 2011, 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, 2012, 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 1/1/2012 | Fair Value 12/31/2012 | Change in Fair Value | Terms (Per Gallon) Receive | Pay |
|---|---|---|---|---|---|---|---|
| **Counterparty: J.P. Morgan Chase** | | | | | | | |
| 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 |
| 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 |

(Continued)

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

**Commodity Swaps**

| **Notional Amount (Gallons)** | **Effective Date** | **Maturity Date** | **Fair Value 1/1/2012** | **Fair Value 12/31/2012** | **Change in Fair Value** | **Terms (Per Gallon) Receive** | **Terms (Per Gallon) Pay** |
|---|---|---|---|---|---|---|---|
| **Counterparty: J.P. Morgan Chase** | | | | | | | |
| 378,000 | 10/01/12 | 12/31/12 | $ (18,654) | $ - | $ 18,654 | Variable | 2.9200 |
| 378,000 | 01/01/13 | 03/31/13 | - | 53,537 | 53,537 | Variable | 2.9675 |
| 84,000 | 01/01/13 | 03/31/13 | - | (53,965) | (53,965) | Variable | 3.2290 |
| 126,000 | 01/01/13 | 03/31/13 | - | (44,490) | (44,490) | Variable | 3.1325 |
| 84,000 | 01/01/13 | 03/31/13 | - | (5,356) | (5,356) | Variable | 3.0360 |
| 84,000 | 01/01/13 | 03/31/13 | - | 33,935 | 33,935 | Variable | 2.8800 |
| 126,000 | 01/01/13 | 03/31/13 | - | 101,904 | 101,904 | Variable | 2.7450 |
| 210,000 | 01/01/13 | 03/31/13 | - | (6,463) | (6,463) | Variable | 3.0250 |
| 168,000 | 01/01/13 | 03/31/13 | - | (59,320) | (59,320) | Variable | 3.1325 |
| 210,000 | 01/01/13 | 03/31/13 | - | 11,168 | 11,168 | Variable | 2.9970 |
| 252,000 | 04/01/13 | 06/30/13 | - | 37,019 | 37,019 | Variable | 2.9620 |
| 168,000 | 04/01/13 | 06/30/13 | - | (23,385) | (23,385) | Variable | 3.0575 |
| 126,000 | 04/01/13 | 06/30/13 | - | 67,392 | 67,392 | Variable | 2.8325 |
| 84,000 | 04/01/13 | 06/30/13 | - | 63,173 | 63,173 | Variable | 2.7600 |
| 126,000 | 04/01/13 | 06/30/13 | - | (1,496) | (1,496) | Variable | 3.0150 |
| 168,000 | 04/01/13 | 06/30/13 | - | (43,517) | (43,517) | Variable | 3.0975 |
| 168,000 | 04/01/13 | 06/30/13 | - | 21,660 | 21,660 | Variable | 2.9680 |
| 252,000 | 07/01/13 | 09/30/13 | - | 31,932 | 31,932 | Variable | 2.9515 |
| 168,000 | 07/01/13 | 09/30/13 | - | (38,301) | (38,301) | Variable | 3.0700 |
| 252,000 | 10/01/13 | 12/13/13 | - | 27,006 | 27,006 | Variable | 2.9485 |
| Total | | | $ (1,383,819) | $ 172,432 | $ 1,556,251 | | |

(Continued)

**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 | 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 | 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) | | |

The fair value of the hedging derivative instruments is included on the Statement of Net Position 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 Statement of net position until the derivative is settled then recognized as part of Fuel in the Statement of Revenues, Expenses and Changes in Net Position. The valuation of market changes for contracts entered into and settled resulted in a net (decrease)/increase of $612,607 and ($6,121,697) to the cost of fuel during the fiscal years ended December 31, 2012 and 2011, respectively.

(Continued)

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

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.

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 Revenues, Expenses and Changes in Net Position. 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, 2012 were:

| **Counterparty** | **Moody's** | **Fitch** | **Standard & Poor's** |
|---|---|---|---|
| J.P. Morgan Chase | A2 | A+ | A |

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 |

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 2012 or 2011.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

<u>Litigation</u>: 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.

(Continued)

**NOTE 15 - COMMITMENTS AND CONTINGENCIES** (Continued)

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 $82,100 as of December 31, 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.

# REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Pension
Schedules of Funding Progress (Unaudited)
Year Ended December 31, 2012
(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: | | | | | | |
| 1/1/2012 | $ 1,662,196 | $ 2,808,184 | $ 1,145,988 | 59.2% | $ 541,354 | 211.7% |
| 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 |
| 1/1/2005 | 1,313,087 | 2,291,162 | 978,075 | 57.3 | 544,442 | 179.6 |
| 1/1/2004 | 1,491,574 | 2,189,666 | 698,092 | 68.1 | 486,626 | 143.5 |
| 1/1/2003 | 1,671,055 | 2,085,724 | 414,669 | 80.1 | 480,740 | 86.3 |
| 1/1/2002 | 1,688,873 | 2,044,330 | 355,457 | 82.6 | 459,343 | 77.4 |
| 1/1/2001 | 1,634,254 | 2,058,999 | 424,745 | 79.4 | 431,703 | 98.4 |
| Open Supplemental Plan: | | | | | | |
| 1/1/2013 | $ 37,040 | $ 54,716 | $ 17,676 | 67.7% | $ 2,282 | 774.6% |
| 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 |
| 1/1/2006 | 17,001 | 10,064 | (6,937) | 168.9 | 14,871 | -46.6 |
| 1/1/2005 | * | * | * | * | * | * |
| 1/1/2004 | * | * | * | * | * | * |
| 1/1/2003 | * | * | * | * | * | * |
| 1/1/2002 | * | * | * | * | * | * |
| Closed Supplemental Plan: | | | | | | |
| 1/1/2013 | $ - | $ 28,963 | $ 28,963 | -% | $ - | -% |
| 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 | - | - | - |
| 1/1/2006 | - | 34,835 | 34,835 | - | - | - |
| 1/1/2005 | 408 | 45,959 | 45,551 | 0.9 | 15,953 | 285.5 |
| 1/1/2004 | 301 | 46,820 | 46,519 | 0.6 | 17,590 | 264.5 |
| 1/1/2003 | 265 | 48,372 | 48,107 | 0.5 | 18,685 | 257.5 |
| 1/1/2002 | 204 | 47,762 | 47,558 | 0.4 | 17,502 | 271.7 |
| Board Supplemental Plan: | | | | | | |
| 1/1/2013 | $ 70 | $ 4,778 | $ 4,708 | 1.5% | $ 150 | 3138.7% |
| 1/1/2012 | 57 | 4,693 | 4,636 | 1.2 | 175 | 2469.1 |
| 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 |
| 1/1/2006 | 47 | 3,270 | 3,223 | 1.4 | 175 | 1841.7 |
| 1/1/2005 | 42 | 3,001 | 2,959 | 1.4 | 175 | 1690.9 |
| 1/1/2004 | 55 | 2,579 | 2,524 | 2.1 | 175 | 1442.3 |
| 1/1/2003 | 55 | 2,369 | 2,314 | 2.3 | 200 | 1157.0 |
| 1/1/2002 | 56 | 2,127 | 2,071 | 2.6 | 200 | 1035.5 |

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

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information – Other Postemployment Benefits
Schedules of Funding Progress (Unaudited)
Year Ended December 31, 2012
(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: | | | | | | |
| 1/1/2013 | $ - | $ 13,168 | $ 13,168 | -% | $ 752 | 1751.1% |
| 1/1/2012 | - | 13,138 | 13,138 | - | 887 | 1,481.2 |
| 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 |

(In thousands of dollars)

Employees’ Plan – Pension

| Year ended | Annual required contribution | Percentage contributed |
|---|---|---|
| 12/31/12 | $ 107,569 | 58.3% |
| 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 |
| 12/31/05 | 133,816 | 14.8 |
| 12/31/04 | 104,881 | 19.2 |
| 12/31/03 | 64,627 | 30.0 |
| 12/31/02 | 33,973 | 57.5 |
| 12/31/01 | 58,317 | 41.3 |

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
Year Ended December 31, 2012
(In thousands of dollars)

Open Supplemental Plan

| Year ended | Annual required contribution | Percentage contributed |
|---|---|---|
| 12/31/12 | $ 2,267 | 100.0% |
| 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 |
|---|---|---|
| 12/31/12 | $ 4,116 | 80.2% |
| 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 |
|---|---|---|
| 12/31/12 | $ 348 | 92.8% |
| 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 |

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
Year Ended December 31, 2012
(In thousands of dollars)

Supplemental and Board Plans - Healthcare

| Year ended | Annual required contribution | Percentage contributed |
|---|---|---|
| 12/31/12 | $ 1,080 | 65.2% |
| 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, 2012
(In thousands of dollars)

| | Original budget | Final budget | Actual – budgetary basis | Variance favorable (unfavorable) |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Labor and fringe benefits | $ 883,075 | $ 919,075 | $ 921,884 | $ (2,809) |
| Materials and supplies | 71,493 | 68,493 | 85,437 | (16,944) |
| Fuel | 66,707 | 65,631 | 62,908 | 2,723 |
| Electric power | 24,977 | 22,867 | 25,020 | (2,153) |
| Purchase of security services | 36,803 | 36,803 | 37,468 | (665) |
| Other | 126,036 | 126,036 | 134,789 | (8,753) |
| Provision for injuries and damages | 31,200 | 24,000 | 24,000 | - |
| Total operating expenses | 1,240,291 | 1,262,905 | 1,291,506 | (28,601) |
| System-generated revenues: | | | | |
| Fares and passes | 540,000 | 545,000 | 548,799 | 3,799 |
| Reduced-fare subsidies | 28,000 | 28,000 | 27,780 | (220) |
| Advertising and concessions | 22,802 | 22,802 | 25,675 | 2,873 |
| Investment income | 867 | 867 | 674 | (193) |
| Contributions from local governmental units | 5,000 | 5,000 | 5,000 | - |
| Other revenue | 27,013 | 27,013 | 38,054 | 11,041 |
| Total system-generated revenues | 623,682 | 628,682 | 645,982 | 17,300 |
| Operating expenses in excess of system-generated revenues | 616,609 | 634,223 | 645,524 | (11,301) |
| Public funding from the RTA: | | | | |
| Operating assistance | 616,609 | 634,223 | 645,524 | 11,301 |
| Preventative Maintenance | - | - | - | - |
| | 616,609 | 634,223 | 645,524 | 11,301 |
| Change in net assets – budgetary basis | $ - | $ - | - | $ - |
| Reconciliation of budgetary basis to GAAP basis: | | | | |
| Provision for depreciation | | | (374,458) | |
| Pension expense in excess of pension contributions | | | (110,133) | |
| Supplemental Retirement | | | - | |
| Incentive Retirement | | | 417 | |
| Workers Compensation | | | (3,016) | |
| Revenue from leasing transactions | | | 4,262 | |
| Provision for injuries and damages | | | 6,552 | |
| Interest expense on bond transactions | | | (94,520) | |
| Interest revenue on bond transactions | | | 8,417 | |
| Interest income from sale/leaseback | | | 116,039 | |
| Interest expense from sale/leaseback | | | (118,439) | |
| Capital contributions | | | 366,402 | |
| Change in net assets – GAAP basis | | | $ (198,477) | |
| CTA recovery ratio: | | | | |
| Total operating expenses | | | $ 1,291,506 | |
| Less mandated security costs | | | (37,468) | |
| Less Pension Obligation Bond debt service | | | (141,387) | |
| Plus City of Chicago in-kind services | | | 22,000 | |
| Total operating expenses for recovery ratio calculation (B) | | | $ 1,134,651 | |
| Total system-generated revenues | | | $ 645,982 | |
| Plus Senior Free Rides | | | 21,507 | |
| Plus City of Chicago in-kind services | | | 22,000 | |
| Total system-generated revenues for recovery ratio calculation (A) | | | $ 689,489 | |
| Recovery ratio (A/B) | | | 60.77% | |

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% | |