CHICAGO TRANSIT AUTHORITY

Financial Statements and Supplementary Information

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY

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

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois:

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2006 and 2005, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2007 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG

The management's discussion and analysis on pages 3 through 11 and the schedules of funding progress and employer contributions on pages 53 through 55 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended December 31, 2006 and 2005 were made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedules of expenses and revenues – budget and actual for the years ended December 31, 2006 and 2005 on pages 56 and 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the years ended December 31, 2006 and 2005.

KPMG LLP

Chicago, Illinois
April 30, 2007

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, 2006 and 2005. 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 2006

- Net assets totaled $1,743,523,000 at December 31, 2006.
- Net assets decreased $103,559,000 in 2006, which compares to a decrease of $153,572,000 in 2005.
- Total net capital assets were $3,202,171,000 at December 31, 2006, an increase of 7.54% over the balance at December 31, 2005 of $2,977,603,000.

Financial Highlights for 2005

- Net assets totaled $1,847,082,000 at December 31, 2005.
- Net assets decreased $153,572,000 in 2005, which compares to a decrease of $38,733,000 in 2004.
- Total net capital assets were $2,977,603,000 at December 31, 2005, an increase of 0.02% over the balance at December 31, 2004 of $2,977,017,000.

The Financial Statements

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

Overview of the Financial Statements for Business-Type Activities

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

Balance Sheet

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and 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 commitments and contingencies. The reader is encouraged to review the notes in conjunction with management's discussion and analysis and the financial statements.

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2006, 2005, and 2004:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2006, 2005, and 2004

(In thousands of dollars)

		2006	2005	2004
Assets:				
Current assets	$	418,591	407,698	331,278
Restricted assets		2,190,409	2,052,990	2,078,122
Other assets		16,101	16,390	39,948
Capital assets, net		3,202,171	2,977,603	2,977,017
Total assets	$	5,827,272	5,454,681	5,426,365
Liabilities:				
Current liabilities	$	501,238	429,054	437,741
Long-term liabilities		3,582,511	3,178,545	2,987,970
Total liabilities		4,083,749	3,607,599	3,425,711
Net assets:				
Invested in capital assets, net of related debt		2,933,473	2,767,809	2,753,262
Restricted for payment of leasehold obligations		33,017	24,211	23,525
Restricted for debt service		31,379	32,840	39,225
Restricted by RTA for operations and capital improvements		5,818	7,460	20,890
Unrestricted (deficit)		(1,260,164)	(985,238)	(836,248)
Total net assets		1,743,523	1,847,082	2,000,654
Total liabilities and net assets	$	5,827,272	5,454,681	5,426,365

Year Ended December 31, 2006

Current assets increased by 2.67% to $418,591,000. The change in current assets is primarily due to the increase in grants receivable which is offset by a decrease in cash, investments, and inventory.

Restricted assets increased by 6.69% to $2,190,409,000 due to the receipt of bond proceeds that were not yet expended at year-end. During 2006, CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of $275,000,000, along with a premium of $19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance the costs of capital improvements to the transportation system referred to as the "2006 Project." At December 31, 2006, approximately $291,000,000 of the proceeds from this bond were unspent.

Other assets decreased by 1.76% to $16,101,000 primarily due to the amortization of bond issue costs and decrease in the net pension asset.

Capital assets (net) increased by 7.54% to $3,202,171,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities increased 16.82% to $501,238,000 primarily due to an increase in accounts payable and accrued expenses.

Long-term liabilities increased 12.71% to $3,582,511,000 due primarily to an increase in net pension obligation and the issuance of Capital Grant Receipts Revenue Bonds in 2006.

Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. This category increased 5.99% from the prior year primarily due to capital assets, acquisitions during the year that were funded by capital grants of $522,040,000, offset by depreciation expense of $376,910,000.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 27.90% over the prior year, primarily due to unfunded pension expense (i.e., increase in the net pension obligation) of $241,202,000.

Year Ended December 31, 2005

Current assets increased by 23.1% to $407,698,000. The change in current assets is primarily due to the increase in cash and investments and grants receivable.

Restricted assets decreased by 1.2% due to the use of bond proceeds.

Other assets decreased by 59.0% to $16,390,000 primarily due to a decrease in cash and investments held by trustee for the supplemental retirement plan. In 2005, a qualified plan was established and, therefore, a transfer of assets was made to the new plan.

(Continued)

Capital assets (net) increased by 0.02% to $2,977,603,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities decreased 2.0%. Long-term liabilities increased 6.4% due to an increase in net pension obligation.

Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. This category increased 0.5% from the prior year primarily due to capital assets, acquisitions during the year that were funded by capital grants of $398,654,000, offset by depreciation expense of $360,559,000.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 17.8% over the prior year, primarily due to unfunded pension expense (i.e., increase in the net pension obligation) of $235,584,000.

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Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2006, 2005, and 2004:

Table 2

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

Years ended December 31, 2006, 2005, and 2004

(In thousands of dollars)

		2006	**2005**	**2004**
Operating revenues	$	493,023	448,411	432,619
Operating expenses:				
Operating expenses		1,344,133	1,216,217	1,125,934
Depreciation		376,910	360,559	349,162
Total operating expenses		1,721,043	1,576,776	1,475,096
Operating loss		(1,228,020)	(1,128,365)	(1,042,477)
Nonoperating revenues/expenses, net		602,421	576,139	513,342
Capital contributions		522,040	398,654	490,402
Change in net assets		(103,559)	(153,572)	(38,733)
Total net assets, beginning of year		1,847,082	2,000,654	2,039,387
Total net assets, end of year	$	1,743,523	1,847,082	2,000,654

Year Ended December 31, 2006

Operating revenues increased by $44,612,000, or 9.95%. The revenue increase is primarily due to higher ridership and a higher average fare. The higher average fare is due to the new fare structure which eliminated cash transfers and increased cash and rail transit card fares. Additionally, systemwide ridership increased by 0.5% in 2006.

Total operating expenses increased $144,267,000, or 9.15%. The increase is primarily driven by higher labor, materials, and fuel expense.

Labor expense increased due to higher wages, pension, and workers' compensation expenses. Materials expense increased $11,784,000 due to increasing commodity prices, higher mileage, and the aging life of the fleet. Fuel expense increased $11,682,000 due to a higher average cost per gallon due to market-driven forces. In 2006, the average fuel price increased $0.45 to $2.32 per gallon.

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At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, paratransit expense declined by $24,800,000, or 46%, over the prior year.

Year Ended December 31, 2005

Operating revenues increased by $15,792,000, or 3.7%. The revenue increase is primarily due to higher fare revenue from an increase in ridership in 2005. In 2005, systemwide ridership increased by 3.6%.

Total operating expenses increased $101,680,000, or 6.9%. The increases are primarily driven by higher labor and fuel expenses.

Labor expense increased due to higher health insurance, pension, and workers' compensation expenses. Fuel expense increased $15,695,000 due to a higher average cost per gallon.

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

Table 3

Operating Expenses

Years ended December 31, 2006, 2005, and 2004

(In thousands of dollars)

		2006	2005	2004
Labor and fringe benefits	$	1,047,445	914,034	867,829
Materials and supplies		83,150	71,366	61,387
Fuel		57,470	45,788	30,093
Electric power		22,268	22,909	21,640
Purchase of security services		30,831	31,221	27,555
Purchase of paratransit		28,415	53,257	48,999
Maintenance and repairs, utilities, rent, and other		48,288	51,069	46,577
Operating expense before provisions		1,317,867	1,189,644	1,104,080
Provision for injuries and damages		26,266	26,573	21,854
Provision for depreciation		376,910	360,559	349,162
Total operating expenses	$	1,721,043	1,576,776	1,475,096

Capital Asset and Debt Administration

Capital Assets

The CTA invested $6,908,803,000 (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, 2006.

Net of accumulated depreciation, the CTA's capital assets at December 31, 2006 totaled $3,202,171,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $224,568,000, or 7.54%, over the December 31, 2005 balance of $2,977,603,000.

Table 4

Capital Assets by Funding Source
December 31, 2006, 2005 and 2004
(In thousands of dollars)

		2006	2005	2004
Funding source:				
Federal (FTA)	$	4,296,228	3,912,142	3,758,513
State (principally IDOT)		557,261	527,502	514,200
RTA		1,670,859	1,556,002	1,463,883
CTA (generally prior to 1973)		126,573	126,573	126,573
Other		257,882	243,921	254,819
Total capital assets		6,908,803	6,366,140	6,117,988
Accumulated depreciation		3,706,632	3,388,537	3,140,971
Total capital assets, net	$	3,202,171	2,977,603	2,977,017

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of railcars and buses, and the infrastructure improvement projects identified in the 2006 portion of the Five-Year Capital Plan.

Debt Administration

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

At December 31, 2006, the CTA had $1,741,828,000 in capital lease obligations outstanding, a 0.3% increase from December 31, 2005. The net pension obligation at December 31, 2006 was $1,263,399,000, a 23.6% increase from December 31, 2005. The increase in net pension obligation is primarily because the CTA contributes to the employee pension plans based on the requirements of union contracts rather than an actuarially determined amount. The increase in net pension obligation is also due to the rising cost of post-employment healthcare.

At December 31, 2005, the CTA had $1,736,677,000 in capital lease obligations outstanding, a 0.8% increase from December 31, 2004. The net pension obligation at December 31, 2005 was $1,022,192,000, a 27.9% increase from December 31, 2004. The increase in net pension obligation is primarily because the CTA contributes to the employee pension plans based on the requirements of union contracts rather than an actuarially determined amount. The increase in net pension obligation is also due to the rising cost of post-employment healthcare.

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

Economic Factors and Next Year's Budget

The CTA adopted the 2007 Annual Budget on November 14, 2006. This budget was then submitted to the RTA and approved by the RTA on December 14, 2006. This budget provides for operating expenses of $1,133,151,000. The operating budget increase of 9.3% over the 2006 Annual Budget is primarily due to higher healthcare, pension, fuel, and power costs. Comparatively, the U.S. City Average Annual Consumer Price Index (CPI) grew by 3.2% for 2006. The primary economic indicators impacting ridership and operating funds are area employment and retail sales. CTA's public funding is primarily based on sales tax. The 2006 annual unemployment rate for the City of Chicago ended the year at 4.3%, compared to 6.2% at the end of 2005. National unemployment also ended the year at 4.3%. Employment in the Chicago metropolitan region was 3,944,721 at the end of 2006. This represents an increase of 190,229 jobs since the end of 2005.

CTA's labor contracts expired on December 31, 2006. Any wage increases or other benefit changes differing substantially from the assumptions used in the 2007 budget will cause an increase in CTA's funding needs.

Budgeted system-generated revenues for 2007 are higher than the 2006 Annual Budget by $40,065,000, or 7.8%. This projected increase over 2006 budgeted operating revenues is due to a fare adjustment in 2006 that resulted in 8.4% higher fare revenue than budgeted. CTA's revenue projections for 2007 reflect the higher average fare seen in 2006 and also higher ridership.

The 2007 budget includes $110,000,000 of new transit funding. If this new funding is not approved by the legislators, CTA will have to fill the budget funding gap through service cuts and fare increases.

New Legislation

On May 4, 2006, the Illinois General Assembly approved a bill requiring CTA, beginning in 2009, to achieve a funded ratio of 90% for its employee pension plan by 2058. To meet the proposed funding level of 90%, it is estimated, based on the current actuarial assumptions and the number of employees, that CTA and employees would have to contribute $232 million annually to the pension plan. This would be an increase in contributions of approximately $187 million annually over the current annual employer and employee combined contributions of approximately $45 million. To meet this new required obligation as well as address the funding needed to meet normal operating needs, the CTA would require additional annual funding beginning in 2009. Without additional funding and/or legislative authority to the region, CTA may be forced to implement service cuts and fare increases in order to meet this new pension contribution obligation.

Contacting the CTA's Financial Management

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

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Balance Sheets

December 31, 2006 and 2005

(In thousands of dollars)

Assets		**2006**	**2005**
Current assets:			
Cash and cash equivalents	$	27,736	45,696
Investments		10,914	28,211
Total cash, cash equivalents, and investments		38,650	73,907
Grants receivable:			
Due from the RTA		144,507	120,740
Capital improvement projects from federal and state sources		8,912	11,370
Unbilled work in progress		106,686	85,849
Other		1	172
Total grants receivable		260,106	218,131
Accounts receivable, net		37,193	27,188
Materials and supplies, net		77,516	83,608
Prepaid expenses and other assets		5,126	4,864
Total current assets		418,591	407,698
Restricted cash and investments:			
Bond proceeds held by trustee		400,523	298,720
Restricted by RTA		23,201	32,478
Restricted for injury and damage reserve		83,180	72,024
Restricted assets for repayment of leasing commitments		1,683,505	1,649,768
Total restricted assets		2,190,409	2,052,990
Other assets:			
Cash and investments held by trustee for supplemental retirement plan		96	84
Bond issue costs		7,916	8,175
Net pension asset		8,089	8,131
Total other assets		16,101	16,390
Capital assets:			
Capital assets not being depreciated:			
Land		119,419	104,102
Construction in process		694,234	378,141
Total capital assets not being depreciated		813,653	482,243
Capital assets being depreciated:			
Land improvements		19,141	12,757
Buildings		1,549,652	1,532,399
Transportation vehicles		1,971,486	1,855,931
Elevated structures, tracks, tunnels, and power system		1,349,446	1,314,934
Signals		724,628	712,681
Other equipment		480,797	455,195
Less accumulated depreciation		(3,706,632)	(3,388,537)
Total capital assets being depreciated, net		2,388,518	2,495,360
Total capital assets, net		3,202,171	2,977,603
Total assets	$	5,827,272	5,454,681

(Continued)

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Balance Sheets

December 31, 2006 and 2005

(In thousands of dollars)

Liabilities and Net Assets	**2006**	**2005**
Current liabilities:		
Accounts payable and accrued expenses	$ 123,719	79,041
Accrued payroll, vacation pay, and related liabilities	98,925	87,875
Accrued interest payable	3,458	3,357
Advances, deposits, and other	9,333	10,725
Advances from RTA	23,201	32,478
Deferred passenger revenue	29,290	23,188
Other deferred revenue	992	785
Deferred operating assistance	23,273	22,645
Current portion of self-insurance claims	63,411	62,432
Current portion of capital lease obligations	107,226	88,823
Current portion of bonds payable	18,410	17,705
Total current liabilities	501,238	429,054
Long-term liabilities:		
Self-insurance claims, less current portion	102,432	106,526
Capital lease obligations, less current portion	1,634,602	1,647,854
Premium on capital lease obligation	6,062	6,687
Deferred revenue – leasing transactions	41,497	45,759
Bonds payable	488,885	318,330
Premium on bonds payable	41,060	26,007
Accrued pension costs (net pension obligation)	1,263,394	1,022,192
Other long-term liabilities	4,579	5,190
Total long-term liabilities	3,582,511	3,178,545
Total liabilities	4,083,749	3,607,599
Net assets:		
Invested in capital assets, net of related debt	2,933,473	2,767,809
Restricted for payment of leasehold obligations	33,017	24,211
Restricted for debt service	31,379	32,840
Restricted by RTA for future operations and capital improvements	5,818	7,460
Unrestricted (deficit)	(1,260,164)	(985,238)
Total net assets	1,743,523	1,847,082
Total liabilities and net assets	$ 5,827,272	5,454,681

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

(In thousands of dollars)

	2006	2005
Operating revenues:		
Fare box revenue	$ 276,408	303,868
Pass revenue	185,809	113,556
Total fare box and pass revenue	462,217	417,424
Advertising and concessions	24,402	23,963
Other revenue	6,404	7,024
Total operating revenues	493,023	448,411
Operating expenses:		
Labor and fringe benefits	1,047,445	914,034
Materials and supplies	83,150	71,366
Fuel	57,470	45,788
Electric power	22,268	22,909
Purchase of security services	30,831	31,221
Purchase of paratransit	28,415	53,257
Maintenance and repairs, utilities, rent, and other	48,288	51,069
	1,317,867	1,189,644
Provisions for injuries and damages	26,266	26,573
Provision for depreciation	376,910	360,559
Total operating expenses	1,721,043	1,576,776
Operating expenses in excess of operating revenues	(1,228,020)	(1,128,365)
Nonoperating revenues (expenses):		
Public funding from the RTA	524,056	495,885
Reduced-fare subsidies	29,604	31,961
Operating grant revenue	13,143	26,823
Contributions from local government agencies	5,000	5,000
Investment income	36,079	19,705
Gain on sale of assets	28	8,177
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(14,557)	(20,360)
Interest revenue from leasing transactions	118,559	117,247
Interest expense on leasing transactions	(113,753)	(112,561)
Total nonoperating revenues, net	602,421	576,139
Change in net assets before capital contributions	(625,599)	(552,226)
Capital contributions	522,040	398,654
Change in net assets	(103,559)	(153,572)
Total net assets – beginning of year	1,847,082	2,000,654
Total net assets – end of year	$ 1,743,523	1,847,082

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In thousands of dollars)

		2006	2005
Cash flows from operating activities:			
Cash received from fares	$	468,319	420,575
Payments to employees		(798,078)	(685,772)
Payments to suppliers		(293,570)	(302,103)
Other receipts		19,616	20,325
Net cash flows used in operating activities		(603,713)	(546,975)
Cash flows from noncapital financing activities:			
Public funding from the RTA		500,776	488,836
Reduced-fare subsidies		29,745	31,219
Operating grant revenue		13,143	26,823
Contributions from local governmental agencies		5,000	5,000
Net cash flows provided by noncapital financing activities		548,664	551,878
Cash flows from capital and related financing activities:			
Interest income from assets restricted for payment of leasehold obligations		118,559	117,247
Interest expense on bonds		(19,220)	(23,549)
Decrease in restricted assets for repayment of leasing commitments		(33,737)	(21,464)
Repayment of lease/leaseback obligations		(84,822)	(95,783)
Proceeds from capital leases		98,016	—
Payment for capital lease obligations		(4,000)	(3,900)
Payment to escrow agent for refunded capital lease obligations		(116,599)	—
Proceeds from issuance of bonds		291,377	—
Proceeds from (repayment of) other long-term liabilities		(611)	178
Repayment of bonds payable		(103,740)	(39,400)
Payments for acquisition and construction of capital assets		(553,908)	(358,473)
Proceeds from the sale of property and equipment		1,537	9,253
Capital grants		503,832	377,597
Net cash flows provided by (used in) capital and related financing activities		96,684	(38,294)
Cash flows from investing activities:			
Purchases of unrestricted investments		(10,914)	(28,211)
Proceeds from maturity of unrestricted investments		28,211	59,416
Restricted cash and investment accounts:			
Purchases and withdrawals		(5,854,660)	(1,475,288)
Proceeds from maturities and deposits		5,741,689	1,502,380
Investment revenue		36,079	19,705
Net cash flows provided by (used in) investing activities		(59,595)	78,002
Net increase (decrease) in cash and cash equivalents		(17,960)	44,611
Cash and cash equivalents – beginning of year		45,696	1,085
Cash and cash equivalents – end of year	$	27,736	45,696

(Continued)

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In thousands of dollars)

		2006	2005
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:			
Operating expenses in excess of operating revenue	$	(1,228,020)	(1,128,365)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:			
Depreciation		376,910	360,559
(Increase) decrease in assets:			
Accounts receivable		(10,005)	(10,689)
Materials and supplies		6,092	2,370
Prepaid expenses and other assets		(262)	83
Net pension asset		42	(8,131)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(2,524)	(3,298)
Accrued payroll, vacation pay, and related liabilities		11,050	5,872
Self-insurance reserves		(3,115)	8,616
Deferred passenger revenue		6,102	3,151
Other deferred revenue		207	(416)
Advances, deposits, and other		(1,392)	443
Accrued pension costs		241,202	222,830
Net cash flows used in operating activities	$	(603,713)	(546,975)
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		113,753	112,561
Retirement of fully depreciated capital assets		59,066	113,188

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Fiduciary Activities

Statements of Fiduciary Net Assets

Open Supplemental Retirement Plan

December 31, 2006 and 2005

(In thousands of dollars)

		2006	2005
Assets:			
Contributions from employees	$	3	27
Investments at fair value:			
Short-term investments		813	395
Common stock		1,780	1,633
Equity commingled funds		10,840	9,446
Government agencies commingled funds		5,571	5,621
Total investments at fair value		19,004	17,095
Securities lending collateral		2,127	419
Total assets		21,134	17,541
Liabilities:			
Accounts payable and other liabilities		70	77
Securities lending collateral obligation		2,127	419
Total liabilities		2,197	496
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 53)	$	18,937	17,045

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Fiduciary Activities

Statements of Changes in Fiduciary Net Assets

Open Supplemental Retirement Plan

Years ended December 31, 2006 and 2005

(In thousands of dollars)

		2006	2005
Additions:			
Contributions:			
Employer	$	—	15,786
Employee		269	479
Total contributions		269	16,265
Investment income:			
Investment income		534	295
Net increase in fair value of investments		1,460	602
Total investment income		1,994	897
Total additions		2,263	17,162
Deductions:			
Benefits paid to participants or beneficiaries		250	44
Trust fees		121	73
Total deductions		371	117
Net increase		1,892	17,045
Net assets held in trust for pension benefits:			
Beginning of year		17,045	—
End of year	$	18,937	17,045

See accompanying notes to financial statements.

(1) Organization

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

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

Financial Reporting Entity

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

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

2) Fiscal dependency on the primary government.

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

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

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 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the balance sheet.

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the CTA applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on

(Continued)

or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

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

(b) 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.

(c) 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.

(d) Restricted Assets

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

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.

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.

The CTA has an agreement with the RTA to provide advance funding of capital projects. Funds received as an advance are restricted for future capital projects, subject to RTA approval.

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

(e) Materials and Supplies

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

(f) Capital Assets

All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than $5,000, (2) have a unit cost of $5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was $2,510,000 and $537,000 during the years ended December 31, 2006 and 2005, respectively.

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

	Years
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	12
Rail	25
Signals	10-20
Other equipment	3-10

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

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

(g) Self-Insurance

The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 11. A liability for each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

(h) Compensated Absences

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

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

(i) Bond Premiums, Issuance Costs, and Deferred Amounts on Refundings

Bond premiums, issuance costs, and deferred amounts on refundings are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method.

(j) Net Assets

Equity is displayed in three components as follows:

> ***Invested in Capital Assets, Net of Related Debt*** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> ***Restricted*** – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the CTA's policy to use restricted resources first, and then unrestricted resources when they are needed.
>
> ***Unrestricted*** – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(k) Retirement Plan

The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense recorded by the CTA includes a provision for current service costs and the amortization of past service cost over a period of approximately 40 years.

(l) Fare Box and Pass Revenues

Fare box and pass revenues are recorded as revenue at the time services are performed.

(m) Classification of Revenues and Expenses

The CTA classifies its revenues and expenses as either operating or nonoperating in the statement of revenues, expenses, and changes in net assets.

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.

Operating expenses include the costs of operating the mass transit system, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

(n) Estimates

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

(o) Reclassifications

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

(p) Recent Pronouncements

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the CTA will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired CTA employees in future years. The CTA is also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. The CTA is currently evaluating the impact of adopting Statement No. 45. The CTA will implement Statement No. 45 beginning with the year ended December 31, 2007.

(3) Budget and Budgetary Basis of Accounting

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the exclusion of certain income and expenses. For 2006 and 2005, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

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

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

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

- That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices, and complies with such other RTA requirements as the RTA Board of Directors may establish.

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

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

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

During 2006, the RTA board added $27 million in funding to the 2006 "marks" for CTA for the funding of ADA paratransit services and for other costs and services. The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. The 2006 funding "marks" also include $41.2 million of capital funding for operations.

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

		2006	2005
Illinois state sales tax allocation	$	284,636	276,308
Public Transportation Fund/RTA discretionary funding/other		239,420	219,577
Total	$	524,056	495,885

Reduced-fare subsidies received from the State of Illinois were $29,604,000 and $31,961,000 during the years ended December 31, 2006 and 2005, respectively, for discounted services provided to the elderly, disabled, or student riders.

(5) Cash, Cash Equivalents, and Investments

(a) Cash, Cash Equivalents, and Investments of the Business-type Activities

Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2006 and 2005 (in thousands):

		2006	2005
Current assets:			
Cash and cash equivalents	$	27,736	45,696
Investments		10,914	28,211
Restricted cash and investments:			
Bond proceeds held by trustee		400,523	298,720
Restricted by RTA		23,201	32,478
Restricted for injury and damage reserve		83,180	72,024
Other assets:			
Cash and investments for supplemental retirement plan		96	84
Total	$	545,650	477,213

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2006 and 2005(in thousands):

		2006	2005
Investments:			
Certificates of deposit	$	4,020	4,020
Guaranteed investment contracts		291,377	—
Money market mutual funds		34,864	48,100
Repurchase agreements		126,485	321,558
U.S. government agencies		49,589	50,089
U.S. Treasury bills		10,015	9,943
Commercial paper		39,972	45,422
Total investments		556,322	479,132
Deposits with financial institutions		(10,672)	(1,919)
Total deposits and investments	$	545,650	477,213

Investment Policy

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

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

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding $500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase;

and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.

5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the U.S. Government. As of December 31, 2006 and 2005, the CTA's bank balances of $258,000 and $1,415,000, respectively, were subject to custodial credit risk as they were neither insured nor collateralized.

Interest Rate Risk

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

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, 2006, the maturities for the CTA's fixed-income investments are as follows (in thousands):

	Fair value	Investment maturities (by years) Less than 1	1-5
Guaranteed investment contracts	$ 291,377	291,377	—
Money market mutual funds	34,864	34,864	—
Repurchase agreements	126,485	126,485	—
U.S. government agencies	49,589	45,600	3,989
U.S. Treasury bills	10,015	10,015	—
Commercial paper	39,972	39,972	—
Total	$ 552,302	548,313	3,989

As of December 31, 2005, the maturities for the Plan's fixed income investments are as follows (in thousands):

	Fair value	Investment maturities (by years) Less than 1	1-5
Money market mutual funds	$ 48,100	48,100	—
Repurchase agreements	321,558	321,558	—
U.S. government agencies	50,089	48,842	1,247
U.S. Treasury bills	9,943	9,943	—
Commercial paper	45,422	45,422	—
Total	$ 475,112	473,865	1,247

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The CTA's policy does not limit the amounts that it may invest in any one issuer. The CTA is considered to have a concentration of credit risk if its investment in any one single issuer is greater than 5% of the total fixed-income investments. Investments which comprise more than 5% of the CTA's total fixed-income investments as of December 31, 2006 are as follows:

Investment	Fair value
Federal Home Loan Bank	$ 40,220
Guaranted Investment Contract–FSA Capital Management Services LLC	291,377

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, 2006, the CTA had the following fixed-income investments which are rated by both Moody's and Standard & Poor's (in thousands):

	Fair value	Credit ratings AAA	AA	A	Not rated
Guaranteed investment contracts	$ 291,377	—	—	—	291,377
Money market mutual funds	34,864	—	—	—	34,864
Repurchase agreements	126,485	53,000	—	—	73,485
U.S. government agencies	49,589	49,589	—	—	—
U.S. Treasury bills	10,015	10,015	—	—	—
Commercial paper	39,972	—	—	39,972	—
Total investments	$ 552,302	112,604	—	39,972	399,726

As of December 31, 2005, the Plan had the following fixed-income investments which are rated by both Moody's & Standard & Poor's (in thousands):

	Fair value	Credit ratings AAA	AA	A	Not rated
Money market mutual funds	$ 48,100	26,140	3,657	—	18,303
Repurchase agreements	321,558	77,000	244,558	—	—
U.S. government agencies	50,089	50,089	—	—	—
U.S. Treasury bills	9,943	9,943	—	—	—
Commercial paper	45,422	—	—	45,422	—
Total investments	$ 475,112	163,172	248,215	45,422	18,303

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

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, 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.

(b) 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, 2006 and 2005 (in thousands):

		2006	2005
Investments, at fair value:			
Short-term investments	$	813	395
Common stock		1,780	1,633
Equity commingled funds		10,840	9,446
Government agencies commingled funds		5,571	5,621
Total	$	19,004	17,095

Investment Policy

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

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

Interest Rate Risk

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

Asset class	Allocation
U.S. large cap equities	50.00%
U.S. small cap equities	10.00
Non-U.S. equities	5.00
U.S. fixed income	35.00
	100.00%

As of December 31, 2006, 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	$	813	813	—
U.S. government agencies commingled funds		5,571	—	5,571
Total	$	6,384	813	5,571

As of December 31, 2005, 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	$	395	395	—
U.S. government agencies commingled funds		5,621	—	5,621
Total	$	6,016	395	5,621

(Continued)

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, 2006, the Plan had the following fixed-income investments which are rated by both Moody's and Standard & Poor's (in thousands):

			Credit ratings	
		Fair value	AAA	AA
Short-term investment funds	$	813	813	—
U.S. government commingled bond funds		5,571	—	5,571
Total	$	6,384	813	5,571

As of December 31, 2005, the Plan had the following fixed-income investments which are rated by both Moody's and Standard & Poor's (in thousands):

			Credit ratings	
		Fair value	AAA	AA
Short-term investment funds	$	395	395	—
U.S. government commingled bond funds		5,621	—	5,621
Total	$	6,016	395	5,621

Custodial Credit Risk – Investments

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $1,105,000 and $898,000 as of December 31, 2006 and 2005, 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 U.S. 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 $2,095,000 and $408,000 as of December 31, 2006 and

2005, respectively. The fair value of the associated collateral received was approximately $2,127,000 and $419,000 as of December 31, 2006 and 2005, respectively.

(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 $474,283,000 and $471,985,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2006 and 2005, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $220,062,000 and $243,806,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2006 and 2005, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2006 and 2005 (in thousands of dollars):

		2006	2005
Funding source:			
Federal (FTA)	$	4,296,228	3,912,142
State (principally IDOT)		557,261	527,502
RTA		1,670,859	1,556,002
CTA (generally prior to 1973)		126,573	126,573
Other		257,882	243,921
Total	$	6,908,803	6,366,140

Changes in capital assets for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Increase	Decrease	Balance at December 31, 2006
Capital assets not being depreciated:				
Land	$ 104,102	15,613	(296)	119,419
Construction in process	378,141	924,757	(608,664)	694,234
Total capital assets not being depreciated	482,243	940,370	(608,960)	813,653
Capital assets being depreciated:				
Land improvements	12,757	6,384	—	19,141
Buildings	1,532,399	21,404	(4,151)	1,549,652
Vehicles	1,855,931	156,058	(40,503)	1,971,486
Elevated structure track	1,314,934	35,710	(1,198)	1,349,446
Signal and communication	712,681	16,584	(4,637)	724,628
Other equipment	455,195	35,663	(10,061)	480,797
Total capital assets being depreciated	5,883,897	271,803	(60,550)	6,095,150
Less accumulated depreciation for:				
Land improvements	10,098	1,783	(358)	11,523
Buildings	606,629	62,111	(3,103)	665,637
Vehicles	1,212,490	171,328	(40,486)	1,343,332
Elevated structure track	744,387	62,854	(981)	806,260
Signal and communication	456,549	34,983	(4,622)	486,910
Other equipment	358,384	43,851	(9,265)	392,970
Total accumulated depreciation	3,388,537	376,910	(58,815)	3,706,632
Total capital assets being depreciated, net	2,495,360	(105,107)	(1,735)	2,388,518
Total capital assets, net	$ 2,977,603	835,263	(610,695)	3,202,171

Changes in capital assets for the year ended December 31, 2005 are as follows (in thousands of dollars):

	Balance at January 1, 2005	Increase	Decrease	Balance at December 31, 2005
Capital assets not being depreciated:				
Land	$ 92,761	11,341	—	104,102
Construction in process	213,525	361,341	(196,725)	378,141
Total capital assets not being depreciated	306,286	372,682	(196,725)	482,243
Capital assets being depreciated:				
Land improvements	10,231	2,687	(161)	12,757
Buildings	1,498,124	38,731	(4,456)	1,532,399
Vehicles	1,890,679	49,338	(84,086)	1,855,931
Elevated structure track	1,292,633	23,350	(1,049)	1,314,934
Signal and communication	676,826	39,095	(3,240)	712,681
Other equipment	443,209	33,063	(21,077)	455,195
Total capital assets being depreciated	5,811,702	186,264	(114,069)	5,883,897
Less accumulated depreciation for:				
Land improvements	8,805	1,454	(161)	10,098
Buildings	552,053	60,498	(5,922)	606,629
Vehicles	1,146,271	149,619	(83,400)	1,212,490
Elevated structure track	678,139	66,917	(669)	744,387
Signal and communication	423,797	35,958	(3,206)	456,549
Other equipment	331,906	46,113	(19,635)	358,384
Total accumulated depreciation	3,140,971	360,559	(112,993)	3,388,537
Total capital assets being depreciated, net	2,670,731	(174,295)	(1,076)	2,495,360
Total capital assets, net	$ 2,977,017	198,387	(197,801)	2,977,603

(7) Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Additions	Reductions	Balance at December 31, 2006	Amount due within one year
Self-insurance claims (note 11)	$ 168,958	255,522	(258,637)	165,843	63,411
Capital lease obligations (note 8)	1,736,677	205,093	(199,942)	1,741,828	107,226
Premium on capital lease obligation	6,687	6,062	(6,687)	6,062	—
Deferred revenue – leasing transactions (note 8)	45,759	—	(4,262)	41,497	—
Bonds payable (note 9)	336,035	275,000	(103,740)	507,295	18,410
Premium on bonds payable	26,007	19,652	(4,599)	41,060	—
Accrued pension costs (note 10):					
Employees' Retirement Plan	1,002,586	241,951	—	1,244,537	—
Supplemental Retirement Plans	19,606	—	(749)	18,857	—
Other	5,190	—	(611)	4,579	—
Total	$ 3,347,505	1,003,280	(579,227)	3,771,558	189,047

Changes in long-term obligations for the year ended December 31, 2005 are as follows (in thousands of dollars):

	Balance at January 1, 2005	Additions	Reductions	Balance at December 31, 2005	Amount due within one year
Self-insurance claims (note 11)	$ 160,342	241,586	(232,970)	168,958	62,432
Capital lease obligations (note 8)	1,723,799	112,561	(99,683)	1,736,677	88,823
Premium on capital lease obligation	7,365	—	(678)	6,687	—
Deferred revenue – leasing transactions (note 8)	50,022	—	(4,263)	45,759	—
Bonds payable (note 9)	375,435	—	(39,400)	336,035	17,705
Premium on bonds payable	30,307	—	(4,300)	26,007	—
Accrued pension costs (note 10):					
Employees' Retirement Plan	767,002	235,584	—	1,002,586	—
Supplemental Retirement Plans	32,360	—	(12,754)	19,606	—
Other	5,011	179	—	5,190	—
Total	$ 3,151,643	589,910	(394,048)	3,347,505	168,960

(8) Capital Lease Obligations

(a) 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 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 and including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased debt service payments over the next 27 years by approximately $388,000, resulting in an economic gain of approximately $20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of $2,395,000. This amount is recorded as a component of long-term debt in the accompanying balance sheets.

The new bonds are payable from and secured by the lease entered into between the PBC and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately $91,340,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

(b) Capital Lease – Lease and Leaseback Transactions

In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $25,778,000 at December 31, 2006. 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 $23,555,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 2002, CTA entered into two lease and leaseback agreements with a third party pertaining to certain buses (lots 1 and 2), with a book value of $42,125,000 at December 31, 2006. 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 $101,157,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 2002, CTA entered into a lease and leaseback agreement with a third party pertaining to certain qualified technological equipment (QTE), with a book value of $28,613,000 at

December 31, 2006. 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 $169,877,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 1998, the CTA entered into a lease and leaseback agreement (the 1998 Agreement) with a third party pertaining to a rail line (green line), with a book value of $273,023,000 at December 31, 2006. 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 $276,971,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $54,232,000 at December 31, 2006. 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 $30,194,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

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

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of $57,524,000 at December 31, 2006. 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 $30,377,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

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

During 1995, the CTA entered into sale/leaseback agreements (the 1995 Agreements) with third parties. The 1995 Agreements provided for the CTA to sell and lease back certain rail equipment totaling $487,100,000 at cost for a period of 19 years beginning on the date of the respective transactions. At December 31, 2006, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,018,356,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

(c) Change in Capital Lease Obligations

Changes in capital leases for the year ended December 31, 2006 are as follows (in thousands of dollars):

		Balance at January 1, 2006	Additions*	Principal paid	Balance at December 31, 2006	Interest paid	Due in one year
2003 (Buses)	$	24,058	859	(1,362)	23,555	859	9,373
2002 (Buses)		96,302	4,855	—	101,157	4,855	—
2002 (QTE)		166,251	10,554	(6,928)	169,877	10,554	6,928
1998 (Green)		271,319	18,487	(12,835)	276,971	18,487	24,852
1997 (Garages)		28,081	2,113	—	30,194	2,113	—
1996 (Skokie/Racine)		28,299	2,078	—	30,377	2,078	—
1995 (Pickle)		1,007,247	74,807	(63,697)	1,018,357	74,807	63,698
Total lease/leasebacks		1,621,557	113,753	(84,822)	1,650,488	113,753	104,851
2003 PBC lease		115,120	—	(115,120)	—	5,848	—
2006 PBC lease		—	91,340	—	91,340	—	2,375
Total PBC leases		115,120	91,340	(115,120)	91,340	5,848	2,375
Total capital lease obligation	$	1,736,677	205,093	(199,942)	1,741,828	119,601	107,226

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2005 are as follows (in thousands of dollars):

	Balance at January 1, 2005	Additions*	Principal paid	Balance at December 31, 2005	Interest paid	Due in one year
2003 (Buses)	$ 24,480	873	(1,295)	24,058	843	1,362
2002 (Buses)	91,682	4,620	—	96,302	4,620	—
2002 (QTE)	162,841	10,338	(6,928)	166,251	10,338	6,928
1998 (Green)	276,350	18,832	(23,863)	271,319	18,832	12,835
1997 (Garages)	26,118	1,963	—	28,081	2,350	—
1996 (Skokie/Racine)	26,361	1,938	—	28,299	1,938	—
1995 (Pickle)	996,947	73,997	(63,697)	1,007,247	73,997	63,698
Total lease/ leasebacks	1,604,779	112,561	(95,783)	1,621,557	112,918	84,823
PBC lease	119,020	—	(3,900)	115,120	6,045	4,000
Total capital lease obligations	$ 1,723,799	112,561	(99,683)	1,736,677	118,963	88,823

* Additions include accretion of interest.

(d) *Future Minimum Lease Payments*

As of December 31, 2006, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2007	$ 111,020
2008	211,149
2009	95,772
2010	109,211
2011	99,210
2012 – 2016	1,761,746
2017 – 2021	374,295
2022 – 2026	241,679
2027 – 2031	30,940
2032 – 2033	12,374
Total minimum lease payments	3,047,396
Less interest	1,305,568
	$ 1,741,828

(9) Bonds Payable

(a) *2003 Series Capital Grant Receipts Revenue Bonds*

On March 12, 2003, the CTA issued Capital Grant Receipts Revenue Bonds, Douglas Branch Project, in the amount of $207,200,000, along with a premium of $9,857,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance a portion of the costs of the extensive rehabilitation of eight rail stations and five miles of track, as well as the installation of signal and communications equipment, the traction power system, and various infrastructure improvements that together constitute the Douglas Branch Reconstruction Project.

The Series 2003 bonds outstanding as of December 31, 2005, totaling $86,035,000, bear interest ranging from 4.25% to 5.0%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially on June 1, 2005 through June 1, 2008.

During 2006, the CTA redeemed all the outstanding Series 2003 bonds prior to maturity.

(b) 2004 Series Capital Grant Receipts Revenue Bonds

On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, “2004 Project,” in the amount of $250,000,000, along with a premium of $26,713,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the “2004 Project.”

The Series 2004 bonds bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2006 through June 1, 2016.

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

		Principal	Interest	Total
2007	$	18,410	11,462	29,872
2008		19,335	10,543	29,878
2009		20,250	9,563	29,813
2010		21,295	8,493	29,788
2011		22,390	7,368	29,758
2012		23,545	6,173	29,718
2013		24,780	4,905	29,685
2014		26,085	3,602	29,687
2015		27,385	2,232	29,617
2016		28,820	757	29,577
Total	$	232,295	65,098	297,393

(c) 2006 Series Capital Grant Receipts Revenue Bonds

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

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

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

	Principal	Interest	Total
2007	$ —	7,199	7,199
2008	8,140	13,223	21,363
2009	8,465	12,898	21,363
2010	8,800	12,559	21,359
2011	9,155	12,207	21,362
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	$ 275,000	141,851	416,851

(10) Defined Benefit Pension Plans

(a) Plan Descriptions

Employees' Plan

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

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. The Employees' Plan also provides death, disability, and hospitalization benefits, except that employees hired after September 5, 2001 will not be eligible for retiree health benefits. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2006 and 2005 was $592,500,000 and $506,311,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans

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

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

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

Participants in the supplemental retirement plans at December 31, 2006 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	15	464	17
Terminated employees entitled to but not yet receiving benefits	9	—	5
Active plan members	129	—	7
Total	153	464	29

Participants in the supplemental retirement plans at December 31, 2005 are as follows:

	Open	Closed	Board
Retirees and beneficiaries currently receiving benefits	5	475	15
Terminated employees entitled to but not yet receiving benefits	—	7	7
Active plan members	141	—	6
Total	146	482	28

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2006 and 2005 was $14,840,000 and $14,871,000, respectively. The covered payroll for the Board Supplemental Retirement Plan for the fiscal years ended December 31, 2006 and 2005 was $200,000 and $175,000, respectively.

(b) Funding Policy and Annual Pension Cost

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

	Employees' Plan – Pension & Healthcare	Open Supplemental	Closed Supplemental	Board Plan
Contribution rates:				
CTA	6.0%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	3.0	None	None	None
Annual pension cost (APC)	$ 277,501	42	2,748	262
Actual 2006 contributions:				
CTA	$ 35,550	—	3,467	292
Plan members	17,775	269	—	6
Actuarial valuation date	January 1, 2006	January 1, 2006	January 1, 2006	January 1, 2006
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	40 years	30 years	15 years	30 years
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	9.0%	8.0%	6.0%	6.0%
Projected salary increases	5.5	5.5	—	—
Includes inflation at	3.0	3.5	—	—

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

	Medical Trend Rate	Prescription Trend Rate
Plan year:		
2007	9%	11%
2008	8%	10%
2009	7%	9%
2010	6%	8%
2011	6%	7%
2012 and after	6%	6%

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

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2006 (in thousands of dollars):

	Employees' Plan		Supplemental Retirement Plans		
	Pension	Healthcare	Open	Closed	Board
Annual required contribution (ARC)	$ 183,001	89,772	—	3,474	276
Interest on NPO	67,979	22,254	(650)	1,096	80
Adjustment to ARC	(64,417)	(21,088)	692	(1,822)	(94)
Annual pension cost	186,563	90,938	42	2,748	262
Contributions made	23,850	11,700	—	3,467	292
Increase (decrease) in NPO	162,713	79,238	42	(719)	(30)
NPO – December 31, 2005	755,323	247,263	(8,131)	18,265	1,341
NPO – December 31, 2006	$ 918,036	326,501	(8,089)	17,546	1,311

(Continued)

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2005 (in thousands of dollars):

	Employees' Plan		Supplemental Retirement Plans		
	Pension	**Healthcare**	**Open**	**Closed**	**Board**
Annual required contribution	$ 170,443	92,026	1,623	2,439	266
Interest on NPO	54,166	14,864	366	1,173	83
Adjustment to ARC	(51,328)	(14,085)	(429)	(1,376)	(97)
Annual pension cost	173,281	92,805	1,560	2,236	252
Contributions made	19,807	10,695	15,786	3,521	292
Increase (decrease) in NPO	153,474	82,110	(14,226)	(1,285)	(40)
NPO – December 31, 2004	601,849	165,153	—	25,645	1,381
Transfer to new plan	—	—	6,095	(6,095)	—
NPO – December 31, 2005	$ 755,323	247,263	(8,131)	18,265	1,341

(c) Three-Year Trend Information

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

	Year ended	**Annual pension cost (APC)**	**Actual contributions**	**Percentage of APC contributed**	**Net pension obligation**
Employees' Plan – Pension	December 31, 2006 $	186,563	23,850	12.8% $	918,036
	December 31, 2005	173,281	19,807	11.4	755,323
	December 31, 2004	145,378	20,107	13.8	601,849
Employees' Plan – Healthcare	December 31, 2006 $	90,938	11,700	12.9% $	326,501
	December 31, 2005	92,805	10,651	11.5	247,263
	December 31, 2004	73,889	10,382	14.1	165,153
Open Supplemental Plan	December 31, 2006 $	42	—	0.0% $	(8,089)
	December 31, 2005	1,560	15,786	1,011.9	(8,504)
	December 31, 2004	*	*	*	*
Closed Supplemental Plan	December 31, 2006 $	2,748	3,467	126.2% $	17,546
	December 31, 2005	2,236	3,521	157.5	18,265
	December 31, 2004	*	*	*	*
Board Supplemental Plan	December 31, 2006 $	262	292	111.5% $	1,311
	December 31, 2005	252	291	115.5	1,341
	December 31, 2004	*	*	*	*
Total supplemental plans	December 31, 2004 $	4,092	3,688	90.1% $	27,026

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

(11) Risk Management

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

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

The CTA is also self-insured for general liability, property and casualty, 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 currently maintained by the CTA. On November 8, 2005, a new policy was established through May 7, 2008 that covered injury and damage claims up to $35,000,000 per occurrence and $70,000,000 in the aggregate, with a $15,000,000 deductible. On November 15, 2003, CTA's insurance covered injury and damage claims up to $35,000,000 per occurrence and in the aggregate, with a $15,000,000 deductible. This policy was extended on November 15, 2004 for a one-year period. In 2006 and 2005, no CTA claim existed that would have been submitted under these insurance policies.

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for any damages paid plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2006 or 2005 to pay injury and damage claims.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 5.0% and 5.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 3.0% and 5.0%, 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 December 31, 2004	$	91,435	13,000	55,907	160,342
Cash funded		31,500	173,118	36,968	241,586
Funding excess per actuarial requirement		(4,927)	—	—	(4,927)
Payments		(25,649)	(172,133)	(30,261)	(228,043)
Balance at December 31, 2005		92,359	13,985	62,614	168,958
Cash funded		45,266	178,695	31,561	255,522
Funding excess per actuarial requirement		(18,999)	—	—	(18,999)
Payments		(26,454)	(177,957)	(35,227)	(239,638)
Balance at December 31, 2006	$	92,172	14,723	58,948	165,843

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

(12) Derivative Financial Instruments

(a) Objective of the Derivative

The CTA negotiated commodity swap agreements with financial institutions to protect against market fluctuations in the price of diesel fuel.

(b) Terms

The CTA entered into commodity swap agreements for NYMEX No. 2 heating oil as shown below. Payment between the swap parties is calculated as the average of the daily settlement price per gallon for the first nearby month of the NYMEX No. 2 heating oil futures contract.

2006 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)		Fair value
11/1/2006	12/31/2006	712,500	1,425,000	$	(306,446)
11/1/2006	12/31/2006	475,000	950,000		(221,398)
11/1/2006	12/31/2006	712,500	1,425,000		(307,159)
1/1/2007	12/31/2007	380,000	4,560,000		(1,422,584)
1/1/2007	12/31/2007	380,000	4,560,000		(2,057,914)
1/1/2007	12/31/2007	190,000	2,280,000		(927,882)
1/1/2007	12/31/2007	190,000	2,280,000		(793,485)
1/1/2007	12/31/2007	190,000	2,280,000		(927,882)
1/1/2007	12/31/2007	190,000	2,280,000		(793,485)
1/1/2007	12/31/2007	190,000	2,280,000		(406,955)
1/1/2007	12/31/2007	190,000	38,974		(406,955)
				$	(8,572,145)

2005 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)		Fair value
1/1/2005	12/31/2005	285,000	3,420,000	$	146,006
2/1/2005	1/31/2006	285,000	3,420,000		286,997
3/1/2005	2/28/2006	285,000	3,420,000		231,585
4/1/2005	3/31/2006	285,000	3,420,000		150,720
5/1/2005	4/30/2006	285,000	3,420,000		436,109
11/1/2005	10/31/2006	Variable	4,560,000		(480,021)
11/1/2005	10/31/2006	Variable	12,255,000		(163,419)
				$	607,977

(c) Fair Value

As of December 31, 2006 and 2005, the commodity swaps had a fair value of ($8,572,146) and $607,977, respectively, estimated by discounting forward market prices available from exchange trading.

(d) Credit Risk

The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2006, the swap counterparty's long-term deposit ratings were Aaa and Aaa per Moody's Investors Service and AA and AA+ by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below Aa2/AA, the fair value of the swap will be fully collateralized by the counterparty with cash, U.S. Treasury, or U.S. agency securities. Collateral is posted with a third-party custodian.

(13) Commitments and Contingencies

(a) Litigation

In April 2003, the CTA was named as a co-defendant in a lawsuit that alleges the Retirement Allowance Committee for the Employees' Retirement Plan breached its fiduciary duties by approving payments from plan assets to reimburse the CTA for actual healthcare costs paid on behalf of the Plan for retired members from 1995 to present. The combined amount currently alleged totals over $60 million. Based on information currently available, management believes there has been no breach of fiduciary duties, breach of contract, or any other alleged illegality and that payments were properly made for the reimbursement of actual healthcare costs paid by CTA on behalf of retired plan members. Accordingly, no liability has been recorded in the financial statements as of December 31, 2006. However, the ultimate outcome of this claim cannot be determined at this time.

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

(b) Defeased Debt

On May 1, 1998, the CTA defeased the capital lease agreement with the Public Building Commission of Chicago (the PBC) for the 901 W. Division facility. The CTA placed approximately $13,600,000 into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease. The outstanding balance of the defeased debt was $1,425,000 as of December 31, 2006.

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 $111,120,000 as of December 31, 2006.

(c) Operating Leases

As of December 31, 2006, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2007	$	281
Total minimum lease payments	$	281

(d) Pension Funding (unaudited)

On May 4, 2006, the Illinois General Assembly approved a bill requiring CTA, beginning in 2009, to achieve a funded ratio of 90% for its employee pension plan by 2058. To meet the proposed funding level of 90%, it is estimated, based on the current actuarial assumptions and the number of employees, that CTA and employees would have to contribute $232 million annually to the pension plan. This would be an increase in contributions of approximately $187 million annually over the current annual employer and employee combined contributions of approximately $45.0 million. To meet this new required obligation as well as address the funding needed to meet normal operating needs, the CTA would require additional annual funding beginning in 2009. Without additional funding and/or legislative authority to the region, CTA may be forced to implement service cuts and fare increases in order to meet this new pension contribution obligation.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)

December 31, 2006

(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2006	$ 810,336	2,354,125	1,543,789	34.4%	$ 547,532	282.0%
1/1/2005	902,117	2,291,162	1,389,045	39.4	544,442	255.1
1/1/2004	1,062,399	2,189,666	1,127,267	48.5	486,626	231.6
1/1/2003	1,190,087	2,085,724	895,637	57.1	480,740	186.3
1/1/2002	1,355,567	2,044,330	688,763	66.3	459,343	149.9
1/1/2001	1,595,609	2,058,999	463,390	77.5	431,703	107.3
Employees' Plan – Healthcare:						
1/1/2006	$ 388,719	1,129,278	740,559	34.4%	$ 547,532	135.3%
1/1/2005	480,147	1,219,457	739,310	39.4	544,442	135.8
1/1/2004	518,647	1,068,961	550,314	48.5	486,626	113.1
1/1/2003	536,850	940,873	404,023	57.1	480,740	84.0
1/1/2002	509,160	767,864	258,704	66.3	459,343	56.3
1/1/2001	232,486	299,857	67,371	77.5	431,703	15.6
Open Supplemental Plan:						
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:						
1/1/2007	$ —	33,104	33,104	—	$ —	N/A
1/1/2006	—	34,835	34,835	—	—	N/A
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:						
1/1/2007	$ 50	3,312	3,262	1.5%	$ 200	1,631.0%
1/1/2006	47	3,270	3,223	1.4	175	1,841.7
1/1/2005	42	3,001	2,959	1.4	175	1,690.9
1/1/2004	55	2,579	2,524	2.1	175	1,442.3
1/1/2003	55	2,369	2,314	2.3	200	1,157.0
1/1/2002	56	2,127	2,071	2.6	200	1,035.5

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

See accompanying independent auditors' report.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY

Employees' Plan

Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)

December 31, 2006

(In thousands of dollars)

Employees' Plan – Pension

Year ended		Annual required contribution	Percentage contributed
12/31/06	$	183,001	13.0%
12/31/05		170,443	11.6
12/31/04		143,130	14.1
12/31/03		107,492	18.2
12/31/02		51,536	38.4
12/31/01		61,757	39.0

Employees' Plan – Healthcare

Year ended		Annual required contribution	Percentage contributed
12/31/06	$	89,772	13.0%
12/31/05		92,026	11.6
12/31/04		73,410	14.1
12/31/03		55,072	18.2
12/31/02		24,278	38.3
12/31/01		8,047	39.0

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Supplemental Plans

Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)

December 31, 2006

(In thousands of dollars)

Open Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/06	$ —	N/A
12/31/05	1,623	972.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Closed Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/06	$ 2,021	93.1%
12/31/05	2,439	144.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Board Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/06	$ 275	106.0%
12/31/05	266	109.5
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Total Supplemental Plans

Year ended	Annual required contribution	Percentage contributed
12/31/06	$ 3,750	100.3%
12/31/05	4,328	452.8
12/31/04	4,368	86.0
12/31/03	4,690	65.3
12/31/02	4,543	108.6
12/31/01	3,817	96.0

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

See accompanying independent auditors’ report.

CHICAGO TRANSIT AUTHORITY

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

Year ended December 31, 2006

(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 748,922	748,922	760,751	(11,829)
Materials and supplies	67,088	67,088	83,150	(16,062)
Fuel	48,000	48,000	57,470	(9,470)
Electric power	24,526	24,526	22,268	2,258
Purchase of security services	35,335	35,335	30,831	4,504
Purchase of paratransit services	29,582	29,582	28,415	1,167
Other	50,232	50,232	48,288	1,944
Provision for injuries and damages	33,000	33,000	45,266	(12,266)
Total operating expenses	1,036,685	1,036,685	1,076,439	(39,754)
System-generated revenues:				
Fares and passes	426,522	426,522	462,218	35,696
Reduced-fare subsidies	30,590	30,590	29,604	(986)
Advertising and concessions	24,800	24,800	24,402	(398)
Investment income	4,944	4,944	11,608	6,664
Contributions from local governmental units	5,000	5,000	5,000	—
Other revenue	20,773	20,773	19,574	(1,199)
Total system-generated revenues	512,629	512,629	552,406	39,777
Operating expenses in excess of system-generated revenues	524,056	524,056	524,033	23
Public funding from the RTA:				
Operating assistance	524,056	524,056	524,056	—
Change in net assets – budgetary basis	$ —	—	23	23
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(376,910)	
Pension expense in excess of pension contributions			(286,694)	
Provision for injury and damage claims			19,000	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			24,471	
Interest expense on bond transactions			(14,557)	
Interest income from sale/leaseback			118,559	
Interest expense from sale/leaseback			(113,753)	
Capital contributions			522,040	
Change in net assets – GAAP basis			$ (103,559)	
CTA recovery ratio:				
Total operating expenses			$ 1,076,439	
Less mandated security costs			(30,831)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,067,608	
Total system-generated revenues			$ 552,406	
Plus FTA funds			8,000	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 582,406	
Recovery ratio (A/B)			54.55%	

See accompanying independent auditors’ report.

CHICAGO TRANSIT AUTHORITY

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

Year ended December 31, 2005

(In thousands of dollars)

		Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:					
Labor and fringe benefits	$	718,537	718,537	714,336	4,201
Materials and supplies		65,334	65,334	71,366	(6,032)
Fuel		33,837	33,837	45,788	(11,951)
Electric power		24,526	24,526	22,909	1,617
Purchase of security services		34,777	34,777	31,221	3,556
Purchase of paratransit services		52,473	52,473	53,257	(784)
Other		47,646	47,646	51,069	(3,423)
Provision for injuries and damages		19,000	19,000	31,500	(12,500)
Total operating expenses		996,130	996,130	1,021,446	(25,316)
System-generated revenues:					
Fares and passes		406,948	406,948	417,424	10,476
Reduced-fare subsidies		30,590	30,590	31,961	1,371
Advertising and concessions		24,313	24,313	23,963	(350)
Investment income		2,949	2,949	5,432	2,483
Contributions from local governmental units		5,000	5,000	5,000	—
Other revenue		30,445	30,445	42,024	11,579
Total system-generated revenues		500,245	500,245	525,804	25,559
Operating expenses in excess of system-generated revenues		495,885	495,885	495,642	243
Public funding from the RTA:					
Operating assistance		495,885	495,885	495,885	—
Change in net assets – budgetary basis	$	—	—	243	243
Reconciliation of budgetary basis to GAAP basis:					
Provision for depreciation				(360,559)	
Supplemental retirement				6,261	
Incentive retirement				651	
Pension expense in excess of pension contributions				(206,610)	
Provision for injury and damage claims				4,927	
Revenue from leasing transactions				4,262	
Interest revenue on bond transactions				14,273	
Interest expense on bond transactions				(20,360)	
Interest income from sale/leaseback				117,247	
Interest expense from sale/leaseback				(112,561)	
Capital contributions				398,654	
Change in net assets – GAAP basis			$	(153,572)	
CTA recovery ratio:					
Total operating expenses			$	1,021,446	
Less mandated security costs				(31,221)	
Plus City of Chicago in-kind services				21,000	
Total operating expenses for recovery ratio calculation (B)			$	1,011,225	
Total system-generated revenues			$	525,804	
Plus City of Chicago in-kind services				21,000	
Total system-generated revenues for recovery ratio calculation (A)			$	546,804	
Recovery ratio (A/B)				54.07%	

See accompanying independent auditors' report.