CHICAGO TRANSIT AUTHORITY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2010 and 2009

CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2010 and 2009, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2010 and 2009, 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.

As discussed in Note 14 in the Notes to Financial Statements, the CTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Reporting for Derivative Instruments*, effective January 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2011 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and the schedules of funding progress and employer contributions on pages 72 through 76 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, 2010 and 2009 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, 2010 and 2009 on pages 77 and 78 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
May 5, 2011

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, 2010 and 2009. 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 2010

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

Financial Highlights for 2009

- *Net assets totaled $1,347,413,000 at December 31, 2009.*
- *Net assets decreased $120,094,000 in 2009, which compares to an increase of $55,249,000 in 2008.*
- *Total net capital assets were $4,159,447,000 at December 31, 2009, an increase of 3.50% over the balance at December 31, 2008 of $4,018,650,000.*

The Financial Statements

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

Overview of the Financial Statements for Business-Type Activities

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

Balance Sheet

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

Statement of Cash Flows

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

Notes to Financial Statements

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

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2010, 2009, and 2008:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2010, 2009, and 2008

(In thousands of dollars)

	2010	2009	2008
Assets:			
Current assets	$ 598,374	$ 554,510	$ 544,585
Capital Assets, net	3,919,828	4,159,447	4,018,650
Noncurrent assets	2,364,646	1,928,852	2,289,199
Total assets	$ 6,882,848	$ 6,642,809	$ 6,852,434
Liabilities:			
Current liabilities	$ 500,418	$ 549,538	$ 604,035
Long-term liabilities	5,358,794	4,745,858	4,780,892
Total liabilities	5,859,212	5,295,396	5,384,927
Net assets:			
Invested in capital assets, net of related debt	2,800,054	3,054,994	3,065,848
Restricted for payment of leasehold obligations	39,485	35,917	40,940
Restricted for debt service	58,192	44,802	40,034
Unrestricted (unrestricted)	(1,874,095)	(1,788,300)	(1,679,315)
Total net assets	1,023,636	1,347,413	1,467,507
Total liabilities and net assets	$ 6,882,848	$ 6,642,809	$ 6,852,434

Year Ended December 31, 2010

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

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

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

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

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

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

The net asset balances restricted for other purposes include amounts restricted for 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 deficit in unrestricted net assets, which represent assets available for operations, increased 4.80% over the prior year.

Year Ended December 31, 2009

Current assets increased by 1.82% to $554,510,000. The change in current assets is primarily due to an increase in cash and investments, partially offset by a decrease in receivables and materials and supplies.

Capital assets (net) increased by 3.50% to $4,159,447,000 due to the CTA's investment in capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Other non-current assets decreased by 15.74% to $1,928,852,000 primarily due to a decrease in bond proceeds held by trustee. During 2009, bond proceeds were used to finance capital improvements. Additionally, proceeds from the pension obligation bonds were used during 2009 to fund debt service requirements.

Current liabilities decreased 9.02% to $549,538,000 primarily due to a decrease in accounts payable and accrued expenses.

Long-term liabilities decreased 0.73% to $4,745,858,000. The change in long-term liabilities is primarily due to a decrease in capital lease and bond payable obligations, offset by an increase in other long-term liabilities. The increase in other long-term liabilities reflects the loan payable to RTA for $56.1 million.

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

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

The deficit in unrestricted net assets, which represent assets available for operations, increased 6.49% over the prior year.

Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2010, 2009, and 2008:

Table 2

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

Years ended December 31, 2010, 2009, and 2008

(In thousands of dollars)

	2010	2009	2008
Operating revenues	$ 548,311	$ 564,514	$ 510,776
Operating expenses:			
Operating expenses	1,165,499	1,251,197	1,194,390
Depreciation	429,827	398,288	403,248
Total operating expenses	1,595,326	1,649,485	1,597,638
Operating loss	(1,047,015)	(1,084,971)	(1,086,862)
Nonoperating revenues:			
Public funding from the RTA	701,615	626,349	641,832
Interest revenue from leasing transactions	113,539	105,692	118,962
Other nonoperating revenues	54,000	42,093	51,592
Total nonoperating revenues	869,154	774,134	812,386
Nonoperating expenses	(310,348)	(273,087)	(188,795)
Change in net assets before capital contributions	(488,209)	(583,924)	(463,271)
Capital contributions	164,432	463,830	518,520
Change in net assets	(323,777)	(120,094)	55,249
Total net assets, beginning of year	1,347,413	1,467,507	1,412,258
Total net assets, end of year	$ 1,023,636	$ 1,347,413	$ 1,467,507

Year Ended December 31, 2010

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

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

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

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

Year Ended December 31, 2009

Total operating revenues increased by $53,738,000, or 10.52% primarily due to increases in farebox and pass revenue. Farebox and pass revenue increased approximately $34,614,000 or 7.35% over the prior year primarily due to a fare increase that was implemented January 1, 2009. CTA's average fare increased from $0.895 in 2008 to $0.970 in 2009, an increase of approximately 8.4%. The increase in average fare was offset by a 1.0% decline in ridership from 2008 to 2009. CTA's ridership was negatively impacted by the national recession and increased unemployment.

In 2009, CTA provided approximately 74.1 million free rides, an increase of 18.0 million or 32.0% over 2008. The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program.

Total operating expenses increased $51,847,000, or 3.25%. The increase is primarily driven by higher labor expense. Labor expense increased $50,288,000 or 5.89% due to higher wages for union staff, as well as higher workers compensation, health insurance and pension costs. Materials expense decreased $12,668,000 due to the replacement of buses well beyond their useful life and rehabilitation of older rail cars. Fuel expense increased $8,705,000 due to unfavorable results from the fuel hedging program. In 2009, the average fuel price increased $0.73 to $4.55 per gallon. Electric power increased $2,203,000 due to faster speeds on the rail system from the reduction of slow zones. The provision for injuries and damages increased by $7,679,000 due to increased settlements over the prior year.

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

Table 3

Operating Revenues and Expenses

Years ended December 31, 2010, 2009, and 2008

(In thousands of dollars)

	2010	**2009**	**2008**
Operating Revenues:			
Farebox revenue	$ 261,987	$ 266,987	$ 250,994
Pass revenue	247,192	238,726	220,105
Total farebox and pass revenue	509,179	505,713	471,099
Advertising and concessions	22,609	30,215	27,661
Other revenue	16,523	28,586	12,016
Total operating revenues	$ 548,311	$ 564,514	$ 510,776
Operating Expenses:			
Labor and fringe benefits	$ 864,039	$ 903,926	$ 853,638
Materials and supplies	80,077	87,900	100,568
Fuel	52,063	100,539	91,834
Electric power	28,208	37,645	35,442
Purchase of security services	33,319	32,300	32,382
Other	82,971	73,490	72,808
Operating expense before provisions	1,140,677	1,235,800	1,186,672
Provision for injuries and damages	24,822	15,397	7,718
Provision for depreciation	429,827	398,288	403,248
Total operating expenses	$ 1,595,326	$ 1,649,485	$ 1,597,638

Capital Asset and Debt Administration

Capital Assets

The CTA invested $8,909,628,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2010. Net of accumulated depreciation, the CTA's capital assets at December 31, 2010 totaled $3,919,828,000 (see Table 4). This amount represents a net decrease (including additions and disposals, net of depreciation) of $239,619,000, or 5.76%, over the December 31, 2009 balance.

The CTA invested $8,756,986,000 (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, 2009. Net of accumulated depreciation, the CTA's capital assets at December 31, 2009 totaled $4,159,447,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of $140,797,000, or 3.50%, over the December 31, 2008 balance.

Table 4
Capital Assets by Funding Source
December 31, 2010, 2009, and 2008
(In thousands of dollars)

	2010	**2009**	**2008**
Funding source:			
Federal (FTA)	$ 5,939,524	$ 5,848,838	$ 5,404,290
State (principally IDOT)	601,619	605,111	601,976
RTA	1,874,878	1,822,519	1,803,146
CTA (generally prior to 1973)	124,854	124,854	124,854
Other	368,753	355,664	347,245
Total capital assets	8,909,628	8,756,986	8,281,511
Accumulated depreciation	4,989,800	4,597,539	4,262,861
Total capital assets, net	$ 3,919,828	$ 4,159,447	$ 4,018,650

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

Debt Administration

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

At December 31, 2010, the CTA had $1,751,559,000 in capital lease obligations outstanding, a slight increase from December 31, 2010. The bonds payable liability increased $553,465,000 over the prior year due to two new bond issuances during 2010.

At December 31, 2009, the CTA had $1,750,162,000 in capital lease obligations outstanding, a 1.7% decrease from December 31, 2008. The bonds payable liability decreased $28,715,000 over the prior year.

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

2011 Budget and Economic Factors

On November 10, 2010, the CTA Board adopted an annual operating budget for fiscal year 2011. After adoption, the budget was submitted to and approved by the RTA on December 16, 2010. The 2011 budget is balanced at $1,337,756,000, with no fare increase and no service reductions, representing a 5.2% increase over the 2010 budget.

The economy continues to challenge revenues in the face of increasing expenses. The main drivers of these expenses are increases due to contractual labor agreements for ATU and Craft Coalition employees, adding $24 million to the budget; increases in healthcare, pension and other benefits totaling approximately $74 million; and an increase in required payments of the pension obligation bond interest of $30 million. To combat these increased expenses, management efficiencies were instituted to minimize costs wherever possible. These efficiencies include such measures as hiring control, requiring non-union employees to take six unpaid holidays and up to 12 unpaid furlough days, position elimination and continued use of our fuel and power hedging program.

System-generated revenue in 2011 is projected to be $612.3 million, which is an increase versus the 2010 budget of 1.9%, or $11.5 million. The CTA is projecting a corresponding increase in ridership due to holding fares steady, continued growth trends in rail ridership and a conservative projection that regional employment will modestly improve. With the continuation of mandated free rides for seniors, people with disabilities under the state's Circuit Breaker program, active military personnel and disabled veterans, the CTA estimates that it will provide 51 million free rides in 2011. This lost revenue continues to affect the bottom line to the Authority.

The CTA has been provided with a public funding mark for 2011 of $529.3 million, an increase over the 2010 budget of 6.4%. These marks from the RTA are based on sales tax, Public Transportation Funds (PTF), and the City of Chicago's real estate transfer tax. These revenue sources are dependent on consumer spending and the real estate market. Experts predict that

2011 will continue to be a difficult year in both areas, as well as for the broader economy as a whole. Consumer confidence remains low while unemployment remains high. Economists are not expecting much of a recovery in the job market in 2011, if any recovery will be seen at all.

Legislation

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

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

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

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

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

Contacting the CTA's Financial Management

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

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 111,579	$ 59,542
Cash and cash equivalents restricted for damage reserve	102,361	85,090
Investments	26,999	1,007
Total cash, cash equivalents, and investments	240,939	145,639
Grants receivable:		
Due from the RTA	196,141	205,633
Capital improvement projects from federal and state sources	39	33
Unbilled work in progress	63,991	85,000
Other	1,928	70
Total grants receivable	262,099	290,736
Accounts receivable, net	23,773	19,443
Materials and supplies, net	63,522	92,805
Prepaid expenses and other assets	5,883	5,887
Derivative instrument	2,158	-
Total current assets	598,374	554,510
Noncurrent assets:		
Other noncurrent assets:		
Restricted assets for repayment of leasing commitments	1,604,335	1,588,822
Bond proceeds held by trustee	674,100	250,334
Assets held by trustee for supplemental retirement plans	229	216
Net pension asset - supplemental retirement plans	19,853	20,301
Net pension asset - employee's retirement plan	37,834	44,012
Bond issue costs	28,295	25,167
Total other noncurrent assets	2,364,646	1,928,852
Capital assets:		
Capital assets not being depreciated	535,062	679,791
Capital assets being depreciated	8,374,566	8,077,195
Less accumulated depreciation	(4,989,800)	(4,597,539)
Total capital assets being depreciated, net	3,384,766	3,479,656
Total capital assets, net	3,919,828	4,159,447
Total noncurrent assets	6,284,474	6,088,299
Total assets	$ 6,882,848	$ 6,642,809

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 98,463	$ 129,198
Accrued payroll, vacation pay, and related liabilities	101,964	90,717
Accrued interest payable	19,460	13,081
Advances, deposits, and other	9,511	10,032
Deferred passenger revenue	42,779	38,095
Other deferred revenue	4,029	2,507
Deferred operating assistance	30,821	30,583
Deferred inflow - derivatives	2,158	-
Current portion of long-term liabilities	191,233	235,325
Total current liabilities	500,418	549,538
Long-term liabilities:		
Self-insurance claims, less current portion	135,401	124,609
Capital lease obligations, less current portion	1,681,715	1,675,361
Bonds payable, less current portion	3,392,161	2,800,037
Certificates of participation payable, less current portion	61,515	66,887
Net pension obligation - supplemental retirement plans	16,269	16,707
Net other postemployment benefits obligation	2,874	1,666
Other long-term liabilities	68,859	60,591
Total long-term liabilities	5,358,794	4,745,858
Total liabilities	5,859,212	5,295,396
Net assets:		
Invested in capital assets, net of related debt	2,800,054	3,054,994
Restricted for payment of leasehold obligations	39,485	35,917
Restricted for debt service	58,192	44,802
Unrestricted (deficit)	(1,874,095)	(1,788,300)
Total net assets	1,023,636	1,347,413
Total liabilities and net assets	$ 6,882,848	$ 6,642,809

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Operating revenues:		
Fare box revenue	$ 261,987	$ 266,987
Pass revenue	247,192	238,726
Total fare box and pass revenue	509,179	505,713
Advertising and concessions	22,609	30,215
Other revenue	16,523	28,586
Total operating revenues	548,311	564,514
Operating expenses:		
Labor and fringe benefits	864,039	903,926
Materials and supplies	80,077	87,900
Fuel	52,063	100,539
Electric power	28,208	37,645
Purchase of security services	33,319	32,300
Maintenance and repairs, utilities, rent, and other	82,971	73,490
	1,140,677	1,235,800
Provisions for injuries and damages	24,822	15,397
Provision for depreciation	429,827	398,288
Total operating expenses	1,595,326	1,649,485
Operating expenses in excess of operating revenues	(1,047,015)	(1,084,971)
Nonoperating revenues (expenses):		
Public funding from the RTA	701,615	626,349
Reduced-fare subsidies	28,245	28,239
Operating grant revenue	9,330	2,521
Contributions from local government agencies	5,000	5,000
Investment income	4,619	1,971
Gain on sale of assets	2,544	100
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(191,568)	(155,745)
Interest revenue from leasing transactions	113,539	105,692
Interest expense on leasing transactions	(118,780)	(117,342)
Total nonoperating revenues, net	558,806	501,047
Change in net assets before capital contributions	(488,209)	(583,924)
Capital contributions	164,432	463,830
Change in net assets	(323,777)	(120,094)
Total net assets – beginning of year	1,347,413	1,467,507
Total net assets – end of year	$ 1,023,636	$ 1,347,413

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Cash flows from operating activities:		
Cash received from fares	$ 513,863	$ 510,191
Payments to employees	(823,106)	(846,702)
Payments to suppliers	(300,593)	(376,187)
Other receipts	35,803	65,991
Net cash flows provided by (used in) operating activities	(574,033)	(646,707)
Cash flows from noncapital financing activities:		
Public funding from the RTA	711,345	684,916
Reduced-fare subsidies	28,245	28,239
Operating grant revenue	9,330	2,521
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by (used in) noncapital financing activities	753,920	720,676
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	113,539	105,692
Interest expense on bonds	(184,407)	(163,693)
Decrease in restricted assets for repayment of leasing commitments	(15,513)	24,613
Repayment of lease obligations	(117,383)	(147,039)
Proceeds from issuance of bonds	551,500	-
Proceeds from other long-term liabilities	8,525	57,002
Repayment of bonds payable	(5,127)	(33,609)
Repayment of other long-term liabilities	(257)	(274)
Bond issuance costs paid	(6,076)	-
Payments for acquisition and construction of capital assets	(196,348)	(586,812)
Proceeds from the sale of property and equipment	2,544	100
Capital grants	183,576	458,807
Net cash flows provided by (used in) capital and related financing activities	334,573	(285,213)
Cash flows from investing activities:		
Purchases of unrestricted investments	(26,999)	(1,007)
Proceeds from maturity of unrestricted investments	1,007	1,000
Restricted cash and investment accounts:		
Purchases and withdrawals	(909,091)	(249,533)
Proceeds from maturities and deposits	485,312	535,879
Investment revenue	4,619	1,971
Net cash flows provided by (used in) investing activities	(445,152)	288,310
Net increase (decrease) in cash and cash equivalents	69,308	77,066
Cash and cash equivalents – beginning of year	144,632	67,566
Cash and cash equivalents – end of year	$ 213,940	$ 144,632

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Reconciliation of operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Operating expenses in excess of operating revenues	$ (1,047,015)	$ (1,084,971)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash flows used in operating activities:		
Depreciation	429,827	398,288
(Increase) decrease in assets:		
Accounts receivable	(4,330)	10,319
Materials and supplies	29,283	10,114
Prepaid expenses and other assets	4	(1,461)
Net pension asset	6,626	47,639
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(24,913)	(30,427)
Accrued payroll, vacation pay, and related liabilities	11,247	(4,739)
Self-insurance reserves	18,783	6,578
Deferred passenger revenue	4,684	4,478
Other deferred revenue	1,522	296
Advances, deposits, and other	(521)	(3,425)
Accrued pension costs and OPEB	770	604
Net cash flows used in operating activities	$ (574,033)	$ (646,707)
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	109,970	108,310
Retirement of fully depreciated capital assets	38,955	65,073

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Assets:		
Contributions from employees	$ 166	$ 188
Investments at fair value:		
Short-term investments	6,160	5,861
Government agencies	14,319	4,590
Common stock	14,980	21,782
Total investments at fair value	35,459	32,233
Securities lending collateral	11,031	8,503
Total assets	46,656	40,924
Liabilities:		
Accounts payable and other liabilities	88	77
Securities lending collateral obligation	11,031	8,503
Total liabilities	11,119	8,580
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 72)	$ 35,537	$ 32,344

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2010 and 2009
(In thousands of dollars)

	2010	2009
Additions:		
Contributions:		
Employee	$ 572	$ 2,011
Employer	2,600	7,410
Total contributions	3,172	9,421
Investment income:		
Net increase (decrease) in fair value of investments	2,302	2,499
Investment income	782	187
Total investment income	3,084	2,686
Total additions	6,256	12,107
Deductions:		
Benefits paid to participants or beneficiaries	2,833	1,696
Trust fees	230	273
Total deductions	3,063	1,969
Net increase	3,193	10,138
Net assets held in trust for pension benefits:		
Beginning of year	32,344	22,206
End of year	$ 35,537	$ 32,344

NOTE 1 - ORGANIZATION

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

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

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

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

2) Fiscal dependency on the primary government.

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

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

(Continued)

NOTE 1 - ORGANIZATION (Continued)

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA. The proceeds from the sale were placed in trust accounts restricted for financing the costs of acquisition of real property and construction of a building, and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters. In 2006, the PBC issued refunding revenue bonds to refund all outstanding Series 2003 bonds.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $8,982,000 and $18,397,000 during the years ended December 31, 2010 and 2009, respectively.

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

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

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

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

For the year ended December 31, 2010, the CTA implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. Implementation of this statement did not have a material affect on the CTA therefore prior periods were not required to be restated. Included with the CTA's *other equipment* capital assets, the CTA has capitalized an intangible asset, computer software. The CTA follows the same capitalization policy and estimated useful life for its intangible asset as it does for its *other equipment* capital assets. The CTA also amortizes the intangible asset utilizing the straight-line method.

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Implementation of New Accounting Standards: For the year ended December 31, 2010, the CTA implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. For additional information, see the *Capital Assets* policy within note 2 above. Implementation of this statement did not have a material affect on the CTA.

For the year ended December 31, 2010, the CTA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governmental entities. Please refer to note 14 for information regarding the impact of this Statement on CTA's financial statements.

New Pronouncements: In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (the "transferor") engages a company or another government (the "operator") to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor's behalf. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity - Omnibus -- An Amendment of GASB Statements No. 14 and No. 34*. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements-and Management's Discussion and Analysis-for State and Local Governments, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. This Statement is intended to improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). In addition, this Statement amends the criteria for blending - reporting component units as if they were part of the primary government - in certain circumstances. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

In December 2010, GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. This Statement is effective for the CTA's financial periods beginning after October 1, 2012.

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with GAAP, except for the exclusion of certain income and expenses. For 2010 and 2009, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, actuarial adjustments, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

(Continued)

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

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

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

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

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

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

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

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

(Continued)

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

The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2009, the RTA amended the funding marks and directed the CTA to amend the budget. During 2010, no budget amendments were made.

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

		2010	2009
1983 Legislation	Illinois state sales tax allocation	$ 261,616	$ 257,749
1983 Legislation	RTA discretionary funding and other	97,648	89,086
2008 Legislation	Illinois state sales tax allocation & PTF	115,575	118,409
2008 Legislation	Real estate transfer tax	22,500	20,000
Other	RTA working cash borrowing	-	56,147
Subtotal		497,339	541,391
RTA provision	Capital - preventative maintenance	173,000	128,574
Total budgeted funding		670,339	669,965
Other	Actual receipts in excess of budget	31,276	15,331
Final public funding		$ 701,615	$ 685,296

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

Reduced-fare subsidies received from the State of Illinois were $28,245,000 and $28,239,000 during the years ended December 31, 2010 and 2009, respectively, for discounted services provided to the elderly, disabled, or student riders.

(Continued)

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Cash Equivalents, and Investments of the Business-type Activities: Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2010 and 2009 (in thousands of dollars):

	2010	2009
Current assets:		
Cash and cash equivalents	$ 111,579	$ 59,542
Restricted for injury and damage reserve	102,361	85,090
Investments	26,999	1,007
Noncurrent assets:		
Bond proceeds held by trustee	674,100	250,334
Held by trustee for supplemental retirement plan	229	216
Total	$ 915,268	$ 396,189

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2010 and 2009 (in thousands of dollars):

	2010	2009
Investments:		
Certificates of deposit	$ 4,020	$ 4,029
Money market mutual funds	53,631	220,467
U.S. government agencies	292,225	79,019
U.S. Treasury bills	338,283	20,811
Commercial paper	213,180	56,947
Total Investments	901,339	381,273
Deposits with financial institutions	13,929	14,916
Total deposits and investments	$ 915,268	$ 396,189

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

(Continued)

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

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

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

<u>Custodial Credit Risk</u>: Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA’s deposits may not be returned. The CTA’s investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures, or other similar obligations of agencies of the United States of America. As of December 31, 2010 and 2009, the CTA’s bank balances were fully insured or collateralized.

(Continued)

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

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

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

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

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

As of December 31, 2009, the maturities for the CTA's fixed-income investments are as follows (in thousands of dollars):

		Investment maturities (by years)	
	Fair value	Less than 1	1-5
Money market mutual funds	$ 220,467	$ 220,467	$ -
U.S. government agencies	79,019	79,019	-
U.S. treasury bills	20,811	20,811	-
Commercial paper	56,947	56,947	-
Total	$ 377,244	$ 377,244	$ -

(Continued)

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

Credit Risk: Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2010, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

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

As of December 31, 2009, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

		Credit ratings			
	Fair value	A1P1 or AAA	A2P2 or AA	A3P3 or A	Not rated
Money market mutual funds	$ 220,467	$ -	$ -	$ -	$ 220,467
U.S. government agencies	79,019	14,013	-	-	65,006
U.S. treasury bills	20,811	20,811	-	-	-
Commercial paper	56,947	56,947	-	-	-
Total	$ 377,244	$ 91,771	$ -	$ -	$ 285,473

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

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

(Continued)

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

Concentration of Credit Risk: Except for investments in certificates of deposits and commercial paper, the CTA does not restrict the amount which may be invested in authorized investments of a single issuer or financial institution. No more than 30 percent of the maximum portfolio percentage amount allowed for investment in certificates of deposit may be invested in certificates of deposit of a single issuer of such certificates. No more than 50 percent of the maximum portfolio percentage amount allowed for investment in commercial paper may be invested in commercial paper of a single issuer of such commercial paper.

As of December 31, 2010, the CTA did not have any investments in a single issuer that exceeded 5 percent of the total investment balance. As of December 31, 2009, more than 5 percent of the CTA's investments are in Giro Balanced Funding Corporation commercial paper, Three Pillars Funding, LLC commercial paper, and the Federal Home Loan Bank. These investments are 7.40%, 5.97% and 16.79%, respectively, of the CTA's total investments.

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, 2010 and 2009 (in thousands of dollars):

	2010	2009
Investments, at fair value:		
Short-term investments	$ 6,160	$ 5,861
Government agency commingled funds	14,319	4,590
Common stock	14,980	21,782
Total	$ 35,459	$ 32,233

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

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

(Continued)

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

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

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

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

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

As of December 31, 2009, the maturities for the Plan's fixed-income investments are as follows (in thousands of dollars):

	Fair value	Investment Maturities (in years) Less than 1	1 - 5
Short-term investment funds	$ 5,861	$ 5,861	$ -
U.S. government agency commingled funds	4,590	4,590	-
Total	$ 10,451	$ 10,451	$ -

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

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

(Continued)

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

As of December 31, 2009, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands of dollars):

	Fair value	Credit ratings: Government Secured	Credit ratings: Not Rated
Short-term investment funds	$ 5,861	$ -	$ 5,861
U.S. government agency commingled funds	4,590	4,590	-
Total	$ 10,451	$ 4,590	$ 5,861

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of $2,315,000 and $1,668,000 as of December 31, 2010 and 2009, respectively.

Securities Lending: The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and US dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they are denominated in different currencies. The fair value of the securities loaned was approximately $10,758,000 and $8,250,000 as of December 31, 2010 and 2009, respectively. The fair value of the associated collateral received was approximately $11,031,000 and $8,503,000 as of December 31, 2010 and 2009, respectively.

NOTE 6 - CAPITAL ASSETS

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately $202,470,000 and $255,008,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2010 and 2009, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately $283,531,000 and $125,620,000 have been entered into for these state and local capital grants as of December 31, 2010 and 2009, respectively.

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2010 and 2009 (in thousands of dollars):

	2010	2009
Funding source:		
Federal (FTA)	$ 5,939,524	$ 5,848,838
State (principally IDOT)	601,619	605,111
RTA	1,874,878	1,822,519
CTA (generally prior to 1973)	124,854	124,854
Other	368,753	355,664
Total	$ 8,909,628	$ 8,756,986

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

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

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2009 are as follows (in thousands of dollars):

	Balance at January 1, 2009	Increase	Decrease	Balance at December 31, 2009
Capital assets not being depreciated:				
Land	$ 119,938	$ 48	$ (1,474)	$ 118,512
Construction in process	904,892	540,547	(884,160)	561,279
Total capital assets not being depreciated	1,024,830	540,595	(885,634)	679,791
Capital assets being depreciated:				
Land improvements	22,280	2,024	-	24,304
Buildings	1,911,175	290,233	(1,794)	2,199,614
Transportation vehicles	2,184,702	266,011	(53,477)	2,397,236
Elevated structure track	1,570,949	190,099	(284)	1,760,764
Signal and communication	1,012,639	108,391	(727)	1,120,303
Other equipment	554,936	27,369	(7,331)	574,974
Total capital assets being depreciated	7,256,681	884,127	(63,613)	8,077,195
Less accumulated depreciation for:				
Land improvements	15,045	2,274	-	17,319
Buildings	810,779	80,374	(1,794)	889,359
Transportation vehicles	1,515,658	153,323	(53,477)	1,615,504
Elevated structure track	924,573	63,456	(284)	987,745
Signal and communication	559,757	58,559	(727)	617,589
Other equipment	437,049	40,302	(7,328)	470,023
Total accumulated depreciation	4,262,861	398,288	(63,610)	4,597,539
Total capital assets being depreciated, net	2,993,820	485,839	(3)	3,479,656
Total capital assets, net	$ 4,018,650	$ 1,026,434	$ (885,637)	$ 4,159,447

(Continued)

NOTE 7 - LONG-TERM OBLIGATIONS

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

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

Changes in long-term obligations for the year ended December 31, 2009 are as follows (in thousands of dollars):

	Balance at January 1, 2009	Additions	Reductions	Balance at December 31, 2009	Amount due beyond one year	Amount due within one year
Self insurance claims (note 13)	$ 196,866	$ 253,756	$ (247,178)	$ 203,444	$ 124,609	$ 78,835
Capital lease obligations:						
Capital lease obligations (note 8)	1,779,859	108,310	(138,007)	1,750,162	1,641,589	108,573
Premium on capital lease obligation	7,396	-	(492)	6,904	6,904	-
Deferred loss on cap. lease ref. (note 8)	(2,009)	-	166	(1,843)	(1,843)	-
Deferred rev. – leasing trans. (note 8)	32,973	-	(4,262)	28,711	28,711	-
Total capital lease obligations	1,818,219	108,310	(142,595)	1,783,934	1,675,361	108,573
Bonds payable:						
Bonds payable (note 9)	2,823,265	-	(28,715)	2,794,550	2,751,760	42,790
Premium on bonds payable	54,146	-	(5,869)	48,277	48,277	-
Total bonds payable	2,877,411	-	(34,584)	2,842,827	2,800,037	42,790
Certificates of Participation (note 10)	76,908	-	(4,894)	72,014	66,887	5,127
Net pension obligation (note 11)	17,335	-	(628)	16,707	16,707	-
Net OPEB obligation (note 12)	434	1,232	-	1,666	1,666	-
Other long-term liabilities:						
RTA working cash borrowing (note 4)	-	56,147	-	56,147	56,147	-
Other	3,863	855	(274)	4,444	4,444	-
Total other long-term liabilities	3,863	57,002	(274)	60,591	60,591	-
Total	$ 4,991,036	$ 420,300	$ (430,153)	$ 4,981,183	$ 4,745,858	$ 235,325

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease – 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment at an estimated aggregate cost of $120,522,624. The terms of the agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year, beginning on December 1, 2008. The present value of the future payments to be made by the CTA under the lease of approximately $103,371,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

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

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

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to an including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased annual debt service payments over 27 years by approximately $388,000, resulting in an economic gain of approximately $20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of $2,395,000. The remaining unamortized portion of $1,681,000 is recorded as a component of long-term debt in the accompanying balance sheets.

The bonds are payable from and secured by the lease entered into between the Commission and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately $83,340,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease – Lease and Leaseback Transactions: In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of $11,214,000 at December 31, 2010. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately $16,686,000 is reflected in the accompanying December 31, 2010 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 $16,383,000 at December 31, 2010. 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 $121,631,000 is reflected in the accompanying December 31, 2010 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 $7,147,000 at December 31, 2010. 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 $91,377,000 is reflected in the accompanying December 31, 2010 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 $223,719,000 at December 31, 2010. 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 $182,215,000 is reflected in the accompanying December 31, 2010 balance sheet as a capital lease obligation.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of $45,897,000 at December 31, 2010. 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 $40,354,000 is reflected in the accompanying December 31, 2010 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 $47,828,000 at December 31, 2010. 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 $40,343,000 is reflected in the accompanying December 31, 2010 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 nineteen years beginning on the date of the respective transaction. At December 31, 2010, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling $1,072,242,000. 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.

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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

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

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2009 are as follows (in thousands of dollars):

2009	Beginning balance	Additions*	Principal paid	Ending balance	Interest paid	Due in one year
2003 (Buses)	$ 15,557	$ 555	$ -	$ 16,112	$ 555	$ -
2002 (Buses)	111,611	5,625	-	117,236	5,625	1,514
2002 (QTE)	80,793	5,129	-	85,922	5,129	-
1998 (Green)	251,355	14,164	(64,203)	201,316	14,164	32,813
1997 (Garages)	34,906	2,625	-	37,531	2,625	-
1996 (Skokie/Racine)	35,008	2,573	-	37,581	2,573	-
1995 (Pickle)	1,043,264	77,639	(63,698)	1,057,205	77,639	63,698
Total lease/leasebacks	1,572,494	108,310	(127,901)	1,552,903	108,310	98,025
2006 PBC lease	87,175	-	(1,880)	85,295	4,310	1,955
2008 Bus Lease	120,190	-	(8,226)	111,964	5,210	8,593
Total capital lease obligation	$ 1,779,859	$ 108,310	$ (138,007)	$ 1,750,162	$ 117,830	$ 108,573

* Additions include accretion of interest.

(Continued)

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Future Minimum Lease Payments: As of December 31, 2010, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2011	$ 107,650
2012	106,444
2013	186,066
2014	177,709
2015	100,156
2016 – 2020	1,623,350
2021 – 2025	241,684
2026 – 2030	30,939
2031 – 2035	18,564
Total minimum lease payments	2,592,562
Less interest	841,003
	$ 1,751,559

NOTE 9 - BONDS PAYABLE

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

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

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

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2011	$ -	$ 6,786	$ 6,786
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	$ 130,615	$ 24,455	$ 155,070

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

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

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

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

	Principal	Interest	Total
2011	$ -	$ 12,024	$ 12,024
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	$ 240,440	$ 95,789	$ 336,229

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

	2008 (5309)		2008A (5307)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ -	$ 6,959	$ -	$ 5,250	$ -	$ 12,209
2012	6,460	6,813	-	5,250	6,460	12,063
2013	6,750	6,515	-	5,250	6,750	11,765
2014	7,060	6,207	-	5,250	7,060	11,457
2015	7,365	5,887	-	5,250	7,365	11,137
2016	7,700	5,529	-	5,250	7,700	10,779
2017	8,085	5,134	-	5,250	8,085	10,384
2018	8,490	4,720	-	5,250	8,490	9,970
2019	8,910	4,274	-	5,250	8,910	9,524
2020	9,380	3,794	-	5,250	9,380	9,044
2021	9,870	3,288	-	5,250	9,870	8,538
2022	10,390	2,757	18,005	5,250	28,395	8,007
2023	10,935	2,197	18,955	4,305	29,890	6,502
2024	11,510	1,608	19,950	3,310	31,460	4,918
2025	12,115	987	20,995	2,262	33,110	3,249
2026	12,750	335	22,095	1,160	34,845	1,495
Total	$ 137,770	$ 67,004	$ 100,000	$ 74,037	$ 237,770	$ 141,041

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

	Principal	Interest	Total
2011	$ -	$ 8,649	$ 8,649
2012	7,395	8,464	15,859
2013	7,765	8,085	15,850
2014	8,150	7,688	15,838
2015	8,560	7,270	15,830
2016	8,990	6,831	15,821
2017	9,440	6,358	15,798
2018	9,935	5,837	15,772
2019	10,480	5,276	15,756
2020	11,055	4,711	15,766
2021	11,610	4,145	15,755
2022	12,190	3,550	15,740
2023	12,800	2,909	15,709
2024	13,470	2,169	15,639
2025	14,280	1,337	15,617
2026	15,135	454	15,589
Total	$ 161,255	$ 83,733	$ 244,988

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2011	$ -	$ 131,367	$ 131,367
2012	10,020	131,367	141,387
2013	25,720	130,854	156,574
2014	27,040	129,538	156,578
2015	28,740	127,834	156,574
2016	30,550	126,024	156,574
2017	32,475	124,099	156,574
2018	34,520	122,053	156,573
2019	36,695	119,878	156,573
2020	39,010	117,566	156,576
2021	41,465	115,109	156,574
2022	44,080	112,496	156,576
2023	47,120	109,455	156,575
2024	50,370	106,205	156,575
2025	53,845	102,730	156,575
2026	57,560	99,015	156,575
2027	61,530	95,044	156,574
2028	65,775	90,799	156,574
2029	70,310	86,261	156,571
2030	75,165	81,410	156,575
2031	80,350	76,225	156,575
2032	85,895	70,681	156,576
2033	91,820	64,755	156,575
2034	98,150	58,421	156,571
2035	104,925	51,649	156,574
2036	112,165	44,411	156,576
2037	119,905	36,672	156,577
2038	128,170	28,400	156,570
2039	137,015	19,558	156,573
2040	146,470	10,105	156,575
Total	$ 1,936,855	$ 2,719,981	$ 4,656,836

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

The Series 2010A and 2010B bonds bear interest ranging from 4.0% to 5.62%. Scheduled interest on the 2010 bonds will be funded through December 1, 2010 with proceeds of the 2010 bonds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2015 through June 1, 2040.

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	2010A		2010B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ -	$ 2,179	$ -	$ 30,798	$ -	$ 32,977
2012	-	2,179	-	30,798	-	32,977
2013	-	2,179	-	30,798	-	32,977
2014	-	2,179	-	30,798	-	32,977
2015	5,715	2,179	-	30,798	5,715	32,977
2016	7,675	1,905	-	30,798	7,675	32,703
2017	9,925	1,521	-	30,798	9,925	32,319
2018	10,415	1,034	-	30,798	10,415	31,832
2019	10,915	536	-	30,798	10,915	31,334
2020	-	-	11,510	30,798	11,510	30,798
2021	-	-	12,095	30,214	12,095	30,214
2022	-	-	12,720	29,583	12,720	29,583
2023	-	-	13,405	28,900	13,405	28,900
2024	-	-	14,135	28,167	14,135	28,167
2025	-	-	14,930	27,372	14,930	27,372
2026	-	-	15,855	26,447	15,855	26,447
2027	-	-	16,835	25,464	16,835	25,464
2028	-	-	17,880	24,420	17,880	24,420
2029	-	-	18,985	23,311	18,985	23,311
2030	-	-	20,155	22,134	20,155	22,134
2031	-	-	21,400	20,885	21,400	20,885
2032	-	-	22,725	19,558	22,725	19,558
2033	-	-	24,135	18,149	24,135	18,149
2034	-	-	31,820	16,653	31,820	16,653
2035	-	-	33,785	14,680	33,785	14,680
2036	-	-	35,875	12,585	35,875	12,585
2037	-	-	38,090	10,361	38,090	10,361
2038	-	-	40,455	7,999	40,455	7,999
2039	-	-	42,955	5,491	42,955	5,491
2040	-	-	45,610	2,828	45,610	2,828
	$ 44,645	$ 15,891	$ 505,355	$ 703,181	$ 550,000	$ 719,072

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

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

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

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

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

	2010 5307		2010 5309		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ -	$ 3,301	$ -	$ 1,386	$ -	$ 4,687
2012	-	3,195	-	1,341	-	4,536
2013	-	3,195	-	1,341	-	4,536
2014	-	3,195	-	1,341	-	4,536
2015	-	3,195	-	1,341	-	4,536
2016	-	3,195	-	1,341	-	4,536
2017	-	3,195	-	1,341	-	4,536
2018	-	3,195	-	1,341	-	4,536
2019	-	3,195	-	1,341	-	4,536
2020	-	3,195	-	1,341	-	4,536
2021	-	3,195	-	1,341	-	4,536
2022	-	3,195	-	1,341	-	4,536
2023	-	3,195	-	1,341	-	4,536
2024	-	3,195	-	1,341	-	4,536
2025	-	3,195	-	1,341	-	4,536
2026	-	3,195	-	1,341	-	4,536
2027	31,170	3,195	13,085	1,341	44,255	4,536
2028	32,725	1,636	13,735	687	46,460	2,323
	$ 63,895	$ 56,057	$ 26,820	$ 23,529	$ 90,715	$ 79,586

(Continued)

NOTE 9 - BONDS PAYABLE (Continued)

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

	Principal	Interest	Total
2011	$ -	$ 208,699	$ 208,699
2012	56,940	207,421	264,361
2013	74,915	204,582	279,497
2014	78,730	200,763	279,493
2015	88,680	196,431	285,111
2016-2020	503,275	907,740	1,411,015
2021-2025	542,650	760,306	1,302,956
2026-2030	560,745	587,649	1,148,394
2031-2035	595,005	411,656	1,006,661
2036-2040	846,710	178,410	1,025,120
	$ 3,347,650	$ 3,863,657	$ 7,211,307

NOTE 10 – CERTIFICATES OF PARTICIPATION

In August 2008, the Bank of New York Mellon issued Certificates of Participation (COP) totaling $78,430,000 on behalf of the CTA with an interest rate of 4.725%. The COPs were used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement with the Bank of New York Mellon. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments to the Bank of New York Mellon which are remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. The total principal and interest remaining to be paid on the COPs as of December 31, 2010, is $84,702,000. Principal and interest paid in 2010 was approximately $8,470,000. As of December 31, 2010, debt service requirements to maturity are as follows (in thousands of dollars):

	Principal	Interest	Total
2011	$ 5,372	$ 3,098	$ 8,470
2012	5,629	2,841	8,470
2013	5,898	2,572	8,470
2014	6,180	2,290	8,470
2015	6,476	1,994	8,470
2016	6,786	1,684	8,470
2017	7,110	1,360	8,470
2018	7,450	1,020	8,470
2019	7,807	663	8,470
2020	8,179	293	8,472
	$ 66,887	$ 17,815	$ 84,702

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Plan Descriptions

Employees' Plan: The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by Illinois state statute (40 ILCS 5/22-101).

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees hired prior to September 5, 2001, who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, but prior to January 18, 2008, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. Employees hired after January 18, 2008, are eligible for unreduced pension benefits after attaining age 64 with at least 25 years of service, and reduced pension benefits after attaining age 55 with at least 10 years of service. The minimum age and service requirements do not apply to members on a disability allowance. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2010 and 2009 was $567,173,000 and $578,521,000, respectively. The Employees' Plan issues a separate stand-alone financial report and which is available at http://www.ctaretirement.org/index.asp.

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

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

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities increased from $51.35 million at January 1, 2010, to $55.71 million at January 1, 2011. The key factors causing the increase in actuarial liabilities include: expected growth, and demographic losses including members retiring earlier than expected.

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

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

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

Participants in the supplemental retirement plans at December 31, 2009 are as follows:

	Open	**Closed**	**Board**
Retirees and beneficiaries currently receiving benefits	80	424	20
Terminated employees entitled to but not yet receiving benefits	11	8	5
Active plan members	60	-	7
Total	151	432	32

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2010 and 2009 was $4,259,000 and $7,265,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was $200,000 for the fiscal years ended December 31, 2010 and 2009.

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy and Annual Pension Cost: Prior to 2008, contribution requirements of the Employees' Plan were governed by collective bargaining agreements. After 2008, contribution requirements are governed by Illinois state statute (40 ILCS 5/22-101). Contributions for the supplemental plans are actuarially determined but may be amended by the board of trustees of the Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

	Employees' Plan Pension	Open Supplemental	Closed Supplemental	Board Plan
Contribution rates:				
CTA	10.69%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	8.345%	None	None	None
Annual pension cost (APC)	$63,452	$3,049	$2,803	$347
Actual 2010 contributions:				
CTA	$57,274	$2,600	$3,259	$329
Plan members	$45,026	$0	$0	$12
Actuarial valuation date	January 1, 2010	January 1, 2010	January 1, 2010	January 1, 2010
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	30 years - Open	19 years - Closed	11 years - Closed	30 years - Open
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	8.75%	7.0%	6.0%	6.0%
Projected salary increases	1.50 - 5.0%	5.5%	N/A	0%
Includes inflation at	1.50 - 4.0%	0%	N/A	N/A

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2009 (in thousands of dollars):

	Employees' Plan	Supplemental Retirement Plans		
	Pension	Open	Closed	Board
Annual required contribution	$ 88,422	$ 2,410	$ 3,635	$ 288
Interest on NPO	(8,433)	(1,246)	962	78
Adjustment to ARC	8,436	1,521	(1,852)	(92)
Annual pension cost	88,425	2,685	2,745	274
Contributions made	36,061	7,410	3,381	266
Increase (decrease) in NPO	52,364	(4,725)	(636)	8
NPO – December 31, 2008	(96,376)	(15,576)	16,029	1,306
NPO – December 31, 2009	$ (44,012)	$ (20,301)	$ 15,393	$ 1,314

(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

	Year ended	Annual pension cost (APC)	Actual contributions	Percentage of APC contributed	Net pension (asset)/ obligation
Employees' Plan Pension	December 31, 2010	$ 63,452	$ 57,274	90.3%	$ (37,834)
	December 31, 2009	88,425	36,061	40.8	(44,012)
	December 31, 2008	178,941	1,165,909	651.6	(96,376)
Open Supplemental Plan	December 31, 2010	$ 3,048	$ 2,600	85.3%	$ (19,853)
	December 31, 2009	2,685	7,410	276.0	(20,301)
	December 31, 2008	271	8,000	2,952.0	(15,576)
Closed Supplemental Plan	December 31, 2010	$ 2,803	$ 3,259	116.3%	$ 14,937
	December 31, 2009	2,745	3,381	123.2	15,393
	December 31, 2008	2,772	3,459	124.8	16,029
Board Supplemental Plan	December 31, 2010	$ 347	$ 329	94.8%	$ 1,332
	December 31, 2009	274	266	97.1	1,314
	December 31, 2008	268	263	98.1	1,306

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan – Pension as of January 1, 2010, and the three supplemental plans as of January 1, 2011, the most recent actuarial valuation dates (in thousands of dollars):

	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan - Pension	1/1/2010	$ 1,936,849	$ 2,588,462	$ 651,613	74.8%	$ 567,173	114.9%
Open Supplemental Plan	1/1/2011	35,626	55,705	20,079	64.0%	4,259	471.4%
Closed Supplemental Plan	1/1/2011	-	32,045	32,045	0.0%	N/A	N/A
Board Supplemental Plan	1/1/2011	47	4,773	4,726	1.0%	200	2363.0%

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

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions – Other Postemployment Benefits (OPEB)

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

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

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

Funding Policy - OPEB

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

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

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2009 (dollar amounts in thousands):

	Supplemental & Board Plans
Annual required contribution	$ 1,645
Interest on net OPEB obligation	19
Adjustment to ARC	(29)
Annual OPEB cost	1,635
Contributions made	404
Increase (decrease) in net OPEB obligation	1,231
Net OPEB obligation – December 31, 2008	435
Net OPEB obligation – December 31, 2009	$ 1,666

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows (dollar amounts in thousands):

Supplemental and Board Plan:

Fiscal Year Ended	OPEB Cost	Percent OPEB Cost Contributed	Net OPEB Obligation
2010	$ 1,738	30.5%	$ 2,874
2009	1,635	24.6%	1,666
2008	505	57.9%	435

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress - OPEB

Supplemental and Board Plans – Retiree Healthcare Benefits:

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

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

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

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

In the actuarial valuation of the Supplemental and Board Plans as of January 1, 2009, and January 1, 2010, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 8.25 percent, reduced by 0.75 percent per year until an ultimate rate of 5.0 percent is reached. Both rates included a 3.5 percent inflation assumption. The Supplemental Plan UAAL is being amortized as a level dollar over a 19 year closed period beginning January 1, 2009. The Board Plan UAAL is amortized as a level dollar open 30-year amortization.

(Continued)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Plan year	Trend rate
2012	8.25%
2013	7.75%
2014	7.25%
2015	6.75%
2016	6.25%
2017	5.75%
2018	5.25%
2019 and after	5.00%

NOTE 13 - RISK MANAGEMENT

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

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

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

The RTA provides excess liability insurance to protect the self-insurance programs for general liability and terrorism currently maintained by the CTA. There are two insurance policies in effect from May 8, 2010 to May 8, 2011. The first policy provided $35,000,000 in excess of the $15,000,000 self insured retention and $70,000,000 in the aggregate. The second policy provides $50,000,000 in excess of the $50,000,000 self insured retention and $100,000,000 in the aggregate. In 2010 and 2009, no CTA claim existed that is expected to exceed the $15,000,000 self insured retention under this insurance policy.

(Continued)

NOTE 13 - RISK MANAGEMENT (Continued)

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of $2,500,000 per occurrence up to a maximum of $47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for the principal amount borrowed plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed $3,500,000 in any one year. In 2010, CTA received a loan of $8,500,000 from the Joint Self-Insurance Fund to pay an injury and damage claim. No borrowings were made from the Fund in fiscal year 2009.

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 4.0% and 3.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 6.0% and 3.0%, respectively.

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

	Injury and damage	Group health and dental	Workers' compensation	Total
Balance at January 1, 2009	$ 83,825	$ 18,500	$ 94,541	$ 196,866
Funded*	20,000	169,234	36,174	225,408
Funding (excess)/deficiency per actuarial requirement	(4,604)	-	32,952	28,348
Payments*	(22,539)	(172,134)	(52,505)	(247,178)
Balance at December 31, 2009	76,682	15,600	111,162	203,444
Funded*	43,000	122,899	55,700	221,599
Funding (excess)/deficiency per actuarial requirement	(18,178)	-	23,044	4,866
Payments*	(28,329)	(123,499)	(55,854)	(207,682)
Balance at December 31, 2010	$ 73,175	$ 15,000	$ 134,052	$ 222,227

*Group insurance amounts include funding and reimbursement for retiree healthcare

(Continued)

NOTE 13 - RISK MANAGEMENT (Continued)

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

NOTE 14 - ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

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

In 2010, the CTA used 19.2 million gallons of diesel fuel to operate revenue vehicles. The CTA has entered into heating oil commodity swap contracts to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for CTA buses. At December 31, 2010, the CTA's outstanding commodity swaps fair value along with the changes in fair values of commodity swaps held during the year then ended are as follows:

Commodity Swaps

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

(Continued)

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

Commodity Swaps

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

The recording of the change in fair value of the hedging derivative instruments is included on the Balance Sheet as a Deferred Inflow measured at fair market value based on quoted market prices. Related gains and/or losses are deferred on the Balance Sheet until the derivative is settled then recognized as part of Fuel in the Statement of Revenues, Expenses and Changes in Net Assets. The valuation of market changes for contracts entered into and settled resulted in a net increase of $2,128,879 to the cost of fuel during the fiscal year ended December 31, 2010. Prior year net assets are not restated for the implementation of GASB 53 because the effect on net assets for those prior years is not material.

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

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

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

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

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

The following risks are generally associated with commodity swap agreements:

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

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

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

(Continued)

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

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

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

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

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

Termination Risk – The risk that there will be a mandatory early termination of the commodity swap that would result in the CTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or the CTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. The CTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. The CTA seeks to minimize the risks it carries by actively managing its derivative contracts. This will entail frequent monitoring of market conditions by CTA's Energy Advisor and the swap counterparty for emergent opportunities and risks. No termination event has occurred during 2010 or 2009.

(Continued)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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

Defeased Debt: On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of $91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was $92,750,000 as of December 31, 2010.

Operating Leases: As of December 31, 2010, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2011	$ 353
2012	242
Total minimum lease payments	$ 595

Lease Transactions:

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

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

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

(Continued)

NOTE 16 – SUBSEQUENT EVENTS

Senior Free Ride Legislation

In February 2011, Illinois Governor Pat Quinn signed legislation to amend the Seniors Ride Free Program which would subject the participants of the program to a means test. Currently, the program allows all seniors living in the region to ride free on CTA, Metra, and Pace regardless of income. Under the new program, seniors who do not qualify to ride free will pay a reduced fare. The RTA has up to 180 days to implement the means tested program.

REQUIRED SUPPLEMENTARY INFORMATION

(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2010	$ 1,936,849	$ 2,588,462	$ 651,613	74.8%	$ 567,173	114.9%
1/1/2009	1,995,953	2,632,356	636,403	75.8	578,521	110.0
1/1/2008	941,864	2,531,440	1,589,576	37.2	571,314	278.2
1/1/2007	1,007,305	2,466,106	1,458,801	40.8	562,567	259.3
1/1/2006	1,144,669	2,354,125	1,209,456	48.6	547,532	220.9
1/1/2005	1,313,087	2,291,162	978,075	57.3	544,442	179.6
Open Supplemental Plan:						
1/1/2011	$ 35,626	$ 55,705	$ 20,079	64.0%	$ 4,259	471.4%
1/1/2010	32,345	51,348	19,002	63.0	7,265	261.6
1/1/2009	22,434	36,519	14,085	61.4	11,691	120.5
1/1/2008	19,457	15,974	(3,483)	121.8	13,551	-25.7
1/1/2007	18,937	15,503	(3,434)	122.2	14,840	-23.1
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	-46.6
Closed Supplemental Plan:						
1/1/2011	$ -	$ 32,045	$ 32,045	-%	$ -	-%
1/1/2010	-	30,696	30,696	-	-	-
1/1/2009	-	31,459	31,459	-	-	-
1/1/2008	-	32,887	32,887	-	-	-
1/1/2007	-	33,104	33,104	-	-	-
1/1/2006	-	34,835	34,835	-	-	-
Board Supplemental Plan:						
1/1/2011	$ 47	$ 4,773	$ 4,726	1.0%	$ 200	2363.0%
1/1/2010	35	4,246	4,210	0.8	200	2105.1
1/1/2009	45	3,257	3,212	1.4	200	1606.0
1/1/2008	56	3,193	3,137	1.8	200	1568.5
1/1/2007	50	3,312	3,262	1.5	200	1631.0
1/1/2006	47	3,270	3,223	1.4	175	1841.7

(In thousands of dollars)

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

(In thousands of dollars)

Employees' Plan – Pension

Year ended	Annual required contribution	Percentage contributed
12/31/10	$ 63,451	90.3%
12/31/09	88,422	40.8
12/31/08	178,966	651.5
12/31/07	185,944	13.5
12/31/06	153,204	15.6
12/31/05	133,816	14.8

CHICAGO TRANSIT AUTHORITY
Other Postemployment Benefits
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2010
(In thousands of dollars)

Supplemental and Board Plans - Healthcare		
Year ended	Annual required contribution	Percentage contributed
12/31/10	$ 1,785	29.7%
12/31/09	1,645	24.6
12/31/08	508	57.6
12/31/07	556	60.2

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2010
(In thousands of dollars)

Open Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/10	$ 2,577	100.9%
12/31/09	2,410	307.4
12/31/08	230	3,475.0
12/31/07	200	-
12/31/06	-	-
12/31/05	1,545	1,016.5

Closed Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/10	$ 3,770	86.4%
12/31/09	3,635	93.0
12/31/08	3,599	96.1
12/31/07	3,450	101.6
12/31/06	3,474	99.8
12/31/05	2,439	144.4

Board Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/10	$ 360	91.3%
12/31/09	288	92.4
12/31/08	282	93.3
12/31/07	288	98.8
12/31/06	275	106.0
12/31/05	261	109.7

See accompanying independent auditors' report.

SUPPLEMENTARY SCHEDULES

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

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

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2009
(In thousands of dollars)

	Original budget	Final budget	Actual – budgetary basis	Variance favorable (unfavorable)
Operating expenses:				
Labor and fringe benefits	$ 887,723	$ 871,757	$ 856,468	$ 15,289
Materials and supplies	94,763	92,326	87,900	4,426
Fuel	102,852	98,163	100,539	(2,376)
Electric power	39,944	40,077	37,645	2,432
Purchase of security services	33,441	32,204	32,300	(96)
Other	132,790	117,407	131,348	(13,941)
Provision for injuries and damages	30,000	20,000	15,397	4,603
Total operating expenses	1,321,513	1,271,934	1,261,597	10,337
System-generated revenues:				
Fares and passes	516,313	529,705	505,713	(23,992)
Reduced-fare subsidies	16,100	16,100	28,239	12,139
Advertising and concessions	40,500	30,549	30,215	(334)
Investment income	6,300	2,000	1,258	(742)
Contributions from local governmental units	5,000	5,000	5,000	-
Other revenue	14,000	18,615	31,207	12,592
Total system-generated revenues	598,213	601,969	601,632	(337)
Operating expenses in excess of system-generated revenues	723,300	669,965	659,965	10,000
Public funding from the RTA:				
Operating assistance	723,300	541,391	541,391	-
Public funding in excess of budget marks	-	-	15,331	15,331
Preventative Maintenance	-	128,574	128,574	-
	723,300	669,965	685,296	15,331
Change in net assets – budgetary basis	$ -	$ -	25,331	$ 25,331
Reconciliation of budgetary basis to GAAP basis:				
Prior Year Positive Balance - Lease proceeds			(2,800)	
RTA working cash notes payable			(56,147)	
Provision for depreciation			(394,357)	
Pension expense in excess of pension contributions			(53,596)	
Supplemental Retirement			5,747	
Incentive Retirement			391	
Revenue from leasing transactions			4,262	
Interest expense on bond transactions			(101,818)	
Interest revenue on bond transactions			713	
Interest income from sale/leaseback			105,692	
Interest expense from sale/leaseback			(117,342)	
Capital contributions			463,830	
Change in net assets – GAAP basis			$ (120,094)	
CTA recovery ratio:				
Total operating expenses			$ 1,261,597	
Less mandated security costs			(32,300)	
Less Pension Obligation Bond debt service			(43,990)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			$ 1,207,307	
Total system-generated revenues			$ 601,632	
Plus Senior Free Rides			36,100	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			$ 659,732	
Recovery ratio (A/B)			54.64%	

See accompanying independent auditors' report.